Item No. 9.	Classification: Open	Date: 7 February 2012	Meeting Name: Cabinet
Report title:		Quarterly Revenue Monitoring Report Quarter 3, 2011/12, 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 SAFTY

This report sets out the council's financial position against its budget as at 31 December 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 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.

Cabinet members should note that there remains an adverse variance of £1.6m against spending budgets. It should also note that this is primarily as a result of not being able to make the required savings from the customer services contract to date. Any overspend at year end will be met from the council's contingency budget. However, cabinet should also note the successful performance of the council's own departments in realising the difficult savings required of them this year.

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 third quarter of 2011/12.

2. That the cabinet notes the forecast performance for the Council Tax and Business Rates collection fund.

3. The cabinet approves the general fund budget movements as shown in Appendix A.

4. The cabinet notes the general fund budget movements 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 2011/12, using predictions based on the experience to date and knowledge as at the end of quarter 3. 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 budget of £323m on 22 February 2011 based on a nil council tax increase which required budget reductions of some £33.8m within the general fund to be made.

7. A further £22.4m was previously agreed within the housing revenue account for 2011/12. Performance on achieving both general fund and housing revenue account savings is closely monitored and details are provided in paragraphs 51 to 57 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 and required a radical approach, but provided the opportunity for transformational change to improve customer access, contract management and harness new technology to deliver services more efficiently but at lower cost. 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.

9. Southwark building services is also undergoing transition as the structure of the workforce is being reconfigured to better meet the needs of the contract and improve productivity, resulting in a number of redundancies. Operational and strategic management of the service has been brought back in-house from September 2011 and now sits within the maintenance & compliance division of the housing services department. These changes are designed to deliver measurable improvement in efficiency, quality and cost savings leading to a turnaround in trading performance moving forward. Full year savings equate to £600k in 2012/13 and a further £800k in 2013/14.

KEY ISSUES FOR CONSIDERATION

General fund budget quarter 3 (Month 9) monitor

10. Table 1 below shows the current forecast outturn position for quarter 3 by department. These estimates are based on nine months experience and take into account 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 2011 by council assembly. Progress for each department is shown in paragraphs 19 to 43 below.

Table 1: General fund forecast outturn position for 2011/12 as at Q3

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 Q2 2011/12 - over / (under) £'000*
Children's services	90,438	642	91,080	91,080	0		*700*
Health and community services	112,913	(462)	112,451	112,451	0		*0*
Environment and leisure	68,660	6,653	75,313	75,408	95		*230*
Housing	42,414	(5,668)	36,746	36,674	(72)		*15*
Regeneration and neighbourhoods	9,803	1,763	11,566	11,611	45		*149*
Deputy chief executive	9,277	(1,053)	8,224	8,224	0		*(75)*
Communities, law and governance	11,510	226	11,736	11,736	0		*0*
Finance and resources & strategic financing	28,703	11,165	39,868	39,928	60		*115*
Customer services centre	0	(1,500)	(1,500)	0	1,500		*1,500*
SCR income	(55,029)	(4,183)	(59,212)	(59,212)	0		*0*
Total general fund before appropriations	**318,689**	**7,583**	**326,272**	**327,900**	**1,628**		***2,634***
Contingency	5,500	(80)	5,420	0	(5,420)		*(5,500)*
Direct revenue funding of capital		1,090	1,090	1,090	0		*0*
Appropriations to/(from) reserves	2,195	(8,593)	(6,398)	(6,398)	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**	**319,229**	**(3,792)**		***(2,866)***

Note: Explanations of the quarter 3 budget movements between departments are provided in Appendix A. The budget movements above reflect those from Q1 to Q3.

11. General fund services have an unfavourable variance of £1.6m which is an improvement to the quarter 2 position of £2.6m reported to cabinet in November 2011.

12. 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.

13. The forecasts reflect the release of £74k of 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.

14. 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 are entitled to the pay and annual leave that they would enjoy if directly employed by Southwark.

15. The financial implications of this directive will be confirmed across all departments and reflected in their future budget plans. The cost pressure arising from the directive for remainder of 2011/12 will be incorporated into the final outturn position reported to Cabinet.

16. Work is continuing to mitigate the projected unfavourable variance of £1.6m. A contingency exists within the budget, and will be used to manage this variance should it crystallise at the end of the year. If performance against budget shows an overall favourable variance at the end of the year, the surplus resources will be used to mitigate the effects of the removal of the council tax freeze grant in 2013/14.

17. Small variances are reported in respect of the housing revenue account and the collection fund.

18. The budget movements during quarter 3 are detailed in Appendix A.

Children's services

19. For 2011/12, a balanced budget is predicted for children's services. This is a significant reduction from Quarter 2, where an adverse variance of £700k was forecast.

20. This year has been one of significant change which has made budget forecasts more difficult to predict, changes include:

- major service reorganisation, incorporating management restructures and the impact on services of the changing education role of the local authority;

- significant grant reductions and robust management responses to reduce associated services and costs;

- the improved recruitment of social workers resulting in significant agency cost reductions and organisations increasingly open to negotiations over contract prices;

- management action taken to accelerate the 2012/13 savings programme resulting in one-off favourable budget variances.

21. There remain pre-existing cost pressures within children's services, as previously reported, however in 2011/12 these have been offset against favourable variances.

22. The most significant favourable variances include a reduction in agency spend of £1.5m resulting from management action taken and £600k favourable variance in the cost of residential placements for looked after children as a result of a more robust approach to commissioning and market management.

23. Therefore, children's services anticipate that they will be able to cover, in part, some of the one-off service redesign redundancy costs.

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 DSG forecast of a favourable variance of £500k is mainly attributable to a reduction in claims for pupils accessing free entitlement to education for three year olds. The Department for Education (DfE) 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. The outcome of a consultation on the future of school funding is awaited. This proposes 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 forecasting a balanced position at year end.

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 and more detail is provided in paragraphs 53 and 54 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 £163k 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 54.

Environment and leisure

28. The department successfully implemented the vast majority of the savings proposed for this financial year, before the 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. However, similar to other authorities, the overall parking PCN issuances are likely to be below target due to improving compliance. Therefore, the cautious forecast for the year is an adverse variance of £95k. Management actions will continue to control all variances and consider alternative options to deliver a balanced budget by the year end. It is assumed that any redundancy and reorganisation costs (currently estimated as £1.8m) incurred this year as a result of restructuring to achieve savings will be funded from the Modernisation Reserve.

Housing general fund (HGF)

29. Responsibility for client services comprising the customer service centre (CSC), concessionary travel / blue badges and complaints transferred from the deputy chief executive (DCE) on creation of the housing services

department in January 2011.

30. As part of the council's budget plan (2011/12 to 2013/14), savings were identified against the CSC, predicated on the basis of a fundamental contract realignment. A strategic review is underway and the council's options to deliver the service improvements required at reduced cost are being assessed. The savings target has been re-profiled and is now being managed corporately.

31. Notwithstanding the wider contract review, the Vangent contract comprises both fixed and variable payment elements and costs are largely driven by volumes/ activity. With improved contract management it is possible to realise savings through operational efficiencies and a reduction in volumes without adversely impacting on service delivery in the interim. In addition, restructuring of the client unit gives rise to a positive variance against the employee budget as a number of vacancies still remain

32. Risks remain around temporary accommodation, particularly bed & breakfast placements and the availability of properties in the private rented sector. Procurement is running at a slower rate than planned due to market conditions, but has to some extent been mitigated with the development of the hostels programme and additional estate void properties within the HRA, such that the outturn position for the general fund is lower than would otherwise be. It remains crucial that the supply side is maximised as it represents a more cost effective alternative to bed & breakfast.

33. The provision of travellers' sites is a general fund activity managed within the area management division. Legislative changes have necessitated a review of the travellers' lettings policy and impacted on lettings during 2011/12. As a result the rent debit will be lower than budget and there is no scope to recover the position over the remainder of the year. Expenditure budgets are relatively small but site running costs have been subject to some volatility in the past and there are one-off costs expected to fall into 2011/12 that cannot be contained within the base budget.

34. Redundancy costs accruing on housing general fund services are currently assumed to be met from within existing service budgets.

Communities, law and governance

35. The overall departmental forecast, following reserve movements, remains on budget. Significant pressures are still present across the services, particularly in Registrars, however they are currently being offset by the probability of underutilising the London Councils funding following the change of scope.

36. The neighbourhood's team has been funded on an interim basis in 2011/12, until the Democracy Commission review process concluded.

Deputy chief executive (including regeneration and neighbourhoods)

37. Regeneration and neighbourhoods part of DCE is showing a small unfavourable variance of £45k after taking into account the expected release of £1.492m reserves. The revenue budgets continue to be monitored closely during the year to ensure mitigating action can be taken to address any emerging budget pressures and enable the department to contain the costs

within the allocated budget targets.

38. The revenue monitor also takes into account the 2011/12 base budget departmental savings of £1.6m which is being projected as fully achievable.

39. The deputy chief executive's department (excluding regeneration and neighbourhoods as above) is forecasting a breakeven position.

40. The communications division is reporting a favourable variance of £66k, which is mainly due to reduced staffing numbers. There is also a favourable variance of £28k being forecast within corporate strategy due to staff vacancies that will not be recruited into in the current financial year. These variances are offset by an unfavourable variance of £97k being reported by the deputy chief executive's office arising from a long-standing budget for savings on consultants. It is expected that this will be returned to the centre during the year, although final agreement on this has not yet been obtained.

Finance & resources / strategic financing

41. Finance and resources is reporting an unfavourable variance of £60k for the year. 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 on February 2011. The savings are expected to be met, however, substitution options will be found where needed to ensure the overall target will be achieved.

42. There is expected to be releases from reserves totalling £2.55m for the year.

Customer services

43. 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 continues to be reflected in the outturn forecast at quarter 3.

Contingency

44. 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 £1.6m it appears that some of the contingency budget may have to be used to address the cost pressures identified.

45. The contingency budget has been reduced by £80k in year. This budget movement represents the maximum funding being set aside in reserves for funding the replacement of and security of council artefacts (for example, a contribution to the Dr Salter replacement statue appeal).

46. The general fund variance at the end of the year is expected to move from the position as currently reported, based on actual experience. If there is a favourable variance at outturn, this will be used to mitigate the effects of the removal of the council tax freeze grant in 2013/14.

Housing revenue account

47. The forecast highlights a number of potential and known risks that are being monitored and addressed. Underlying spending pressures remain, particularly in relation to the council's landlord responsibilities for the maintenance and improvement of the housing stock, but these are being managed within the resources available. The forecast shows a positive variance at this point which will be taken to reserves at year-end.

Table 2: HRA forecast outturn position for 2011/12 as at Q3 M09

	Net Expenditure			
Divisions	**Full Year Budget £'000**	**Forecast Outturn £'000**	**Forecast Variance at Q3 £'000**	*Forecast Variance reported at Q2 £'000*
Community Housing Services	4,536	3,421	**(1,115)**	*(105)*
Strategic Services	122,095	120,283	**(1,812)**	*(166)*
Home Ownership	(34,257)	(31,747)	**2,510**	*130*
Housing Regeneration Initiatives	1,529	1,546	**17**	*18*
Maintenance & Compliance	42,148	42,608	**460**	*207*
Area Management	(153,440)	(153,771)	**(331)**	*177*
Major Works	5,191	5,140	**(51)**	*0*
Heating Account	12,198	12,198	**0**	*0*
HRA Carry Forward	0	(303)	**(303)**	*(303)*
Total	**0**	**(625)**	**(625)**	*(42)*
Movement in HRA Reserves		625	**625**	*42*
HRA Total	**0**	**0**	**0**	*0*

48. The primary movements since quarter 2 arise on major works capital billing, which is forecast to be lower than budget due to programme re-profiling. The value of capital billing is driven by the housing investment programme (HIP) and any departure from the anticipated spend profile impacts on the revenue income assumptions built into the HRA. The latest position following the October billing run shows a shortfall of £2.5m against target, but this is substantially mitigated by a reduction in the revenue contribution to the HIP (-£1.8m) to which it is linked. These movements are reflected on the home ownership and strategic services lines in table 2. This is considered to be the worst case scenario and the position may improve following a further billing run in February 2012, but it is prudent to exclude this from the forecast at this stage.

49. Temporary accommodation in the HRA is designed to be cost neutral and serves to relieve some of the cost pressure on the homelessness budget in the general fund. The availability of estate void properties is greater than forecast, which generates additional rent debit and income. This, together with lower repair costs and early realisation of efficiency savings, comprise the positive budget variance for Community Housing Services division.

50. Other movements within the area management and maintenance & compliance divisions comprise a range of volume driven, demand led budgets, such as repairs and maintenance and heating repairs, which are subject to

some volatility. Budget savings for 2011/12 are predicated on the basis of driving out higher contract value and supply chain efficiencies and rigorous contract management and cost control across housing services.

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

51. 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 3, there is a projected savings shortfall of £1.9m, as shown in Table 3.

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

	Agreed by Council £'000	Total Forecast Savings £'000	Variance at Month 9 £'000	Compensating savings identified £'000
Children's services	(5,763)	(5,346)	417	0
Health and Community Services	(7,745)	(7,419)	334	(334)
Environment and leisure	(7,328)	(7,138)	190	(190)
Housing general fund	(554)	(554)	0	0
Customer services centre	(1,500)	0	1,500	
Finance and resources	(5,904)	(4,532)	1,372	(1,372)
DCE: Regeneration & neighbourhoods	(1,644)	(1,644)	0	0
Deputy Chief Executive	(2,289)	(2,289)	0	0
Communities, Law and Governance	(1,092)	(1,092)	0	0
Total General Fund	**(33,819)**	**(30,014)**	**3,813**	**(1,896)**
Housing Revenue Account	(22,399)	(22,399)	0	0
Total Savings 2011/12	**(56,218)**	**(52,413)**	**3,813**	**(1,896)**

Children's services

52. The majority of children's services savings have either been achieved or are on track to be implemented before the end of this financial year. In cases where a shortfall in the savings targets has arisen due to delays in implementation (e.g. savings in youth services) robust management action has enabled potential unfavourable variances to be offset by the significant favourable variances within the overall children's services budget as outlined in paragraph 22 above.

Health and community services

53. Health and community services are currently forecasting a savings shortfall of £334k, this is a less favourable position than that reported at quarter 2 and is due to less savings being forecast within supporting people and mental health services. 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 are now a prudent estimate of £537k, rather than the £650k budgeted (variance £113k), as SLAM is yet to finalise the savings plan.

- A £136k variance is reported against the target of reducing the supporting people budgets by approximately 30% including efficiencies. This is still an improvement from the variance of £230k reported at quarter 1, but less favourable than that reported at Q2 which was a shortfall of just £12k. There remains the possibility of delays in contract call off because of front loading of savings.

- The variance of £163k on the rationalisation and redesign of council run day centres remains unchanged from that reported at Q2. This is due to delays in sign off by members due to extension of consultation.

- As previously reported, savings around the reshaping of mental health day services have been delayed, a detailed implementation plan is being prepared, but the Q3 forecast variance is now £200k compared to £130k at Q2.

- Reducing unit costs of home and residential care through better spot purchasing and procurement arrangements which will be administered through a central brokerage team has proceeded better than planned, and an extra saving of £283k is projected to be achieved.

54. There is a senior management team driven action plan to mitigate the risks and pressures identified above. This is expected to achieve £334k 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

55. Environment and leisure are forecasting an unfavourable variance on savings of £190k, which is an improved position compared to the £222k reported at quarter 2 and is as a result of 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.

    - There is a £30k shortfall in the £184k ecology grants put forward as savings which cannot be achieved due to the requirement to taper the grants.

Finance and resources

56. As was reported in the previous quarterly monitoring reports, the council is no longer seeking to increase court costs this year. Alternative savings are being

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 2011. The collection rate of council tax is being closely monitored and current indications are that this is increasing.

Customer services

57. As reported at quarter 2, a significant element of the customer services savings is dependent on realigning the Vangent contract, which is not expected to be achieved until the latter part of the current 3 year planning horizon. The monitor continues to show 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 will be addressed corporately.

Housing revenue account

58. 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 (£400k) is incorporated in this quarter 3 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

59. 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.

60. 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.

61. 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.

62. 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 3 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.

63. The 2011/12 budget includes a planned contribution to reserves of some £1.3m. This included £295k 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.

64. The tables in Appendix B summarise the projected movements in reserves.

Collection fund / Council tax and business rates collection

65. 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.

66. The estimated balance on the collection fund for council tax transactions to 31 March 2012 as reported in the council tax base report to Council Assembly on 25 January 2012 is a deficit of £166k, of which Southwark's element is £124k.

67. This is an unfavourable movement compared to that reported at Q2 and is due largely to an increase in the projection for exemptions.

68. However as previously reported there are a number of potential risks in relation to the final level of both discounts and exemptions awarded, which will affect income due from council tax payers and, therefore, the eventual year end position confirmed in the revenue outturn report.

Treasury management

69. 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.

70. Amid turbulent financial conditions, the council continued to take a cautious approach in its lending, placing security as a high priority. Exposure to banks and building societies was confined to major entities with a high likelihood of state support in the event it was needed. Exposure to UK Gilts, European Investment Bank (EIB), and the International Bank for Reconstruction & Development (the World Bank) helped strengthen security further.

71. No borrowing has been taken out so far in 2011/12 and the long term debt has remained at £762m throughout the last three quarters. Government proposals to move to self funding for housing would see Southwark's housing debt reduce by some £195m 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. The debt reduction is lower than the £275m previously indicated by DCLG

modelling and the finance director has written to the Government asking it to reconsider this sum in view of the difficulties this raises for the HRA. 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 Q3 (Month 9)

EXPOSURE - DECEMBER 2011 COUNTERPARTY AND RATINGS						
	Exposure £m	Fitch Ratings				
COUNTERPARTY	£m	Long	Short	Support	Sovereign	Sovereign Rating
NORDEA BK FINLAND	18.5	AA-	F1+	1	FINLAND	AAA
BANQUE NATIONALE de PARIS and PARIBAS	3.6	A+	F1+	1	FRANCE	AAA
CREDIT INDUST ET COMRCL	5.5	A+	F1+	1	FRANCE	AAA
SOCGEN	0.5	A+	F1+	1	FRANCE	AAA
DEUTSCHE BK	21.2	A+	F1+	1	GERMANY	AAA
GLOBAL TREAS FUNDS-MMF	10.7		AAA	0	GLOBAL	Money Fund
ABN AMRO BK	5.0	A+	F1+	1	NETHERLANDS	AAA
ING BK	11.6	A+	F1+	1	NETHERLANDS	AAA
RABOBANK	5.0	AA	F1+	1	NETHERLANDS	AAA
EUROPEAN INV BK	12.0	AAA	F1+	0	SUPRANATIONAL	AAA
INT BK RECONST DEVT	4.3	AAA	F1+	0	SUPRANATIONAL	AAA
SVENSKA	18.2	AA-	F1+	1	SWEDEN	AAA
CREDIT SUISSE	0.6	A	F1	1	SWITZERLAND	AAA
UBS	18.1	A	F1	1	SWITZERLAND	AAA
BARCLAYS BK	24.6	A	F1	1	UK	AAA
HSBC	0.4	AA	F1+	1	UK	AAA
LLOYDS TSB/BK SCOTLAND	15.0	A	F1	1	UK	AAA
NATIONWIDE BSOC	19.5	A+	F1	1	UK	AAA
SANTANDER UK	21.5	A+	F1	1	UK	AAA
UK TREASURY	42.6	AAA	F1+	0	UK	AAA
BK OF NOVA SCOTIA	17.6	AA-	F1+	1	CANADA	AAA
COMMONW BK AUSTRALIA	15.0	AA	F1+	1	AUSTRALIA	AAA
NATIONAL AUSTRALIA	22.0	AA	F1+	1	AUSTRALIA	AAA
Total £m	**313.2**					

72. Developments in financial markets since September were dominated by uncertainty over euro area sovereign debt and the difficulty that some euro governments faced in meeting spending targets, amid expectations of slower growth. Investors demanded higher rates not only from smaller euro states (e.g. Greece and Portugal) but also the much larger economies of Italy and Spain.

73. The funding costs of banks exposed to peripheral euro economies also deteriorated and major European banks (including some in the UK) were downgraded. In recognition of this funding stress, central banks continued to supply liquidity to support banks and measures were announced to strengthen banks' capital base. Further measures to restore market confidence were agreed by euro area Heads of State in December.

74. In January 2012 Standard and Poor's took rating action on several euro area countries including: Italy, Spain and Portugal (downgraded by two notches) and France and Austria (downgraded by one notch). The council has not been lending to Italian banks since Fitch downgraded the country to A+ and has never had exposure to Austrian or Portuguese banks. Exposure to Spain is currently only with Santander UK plc (previously known as Abbey National plc), the UK subsidiary of Spain's largest bank. Santander UK plc has a long term rating of A+ (indicating low credit risk and strong capacity for payment of financial obligations). France remains highly rated after its downgrade from AAA to AA+ and banks to which the council has exposure there also have a long term rating of A+.

75. There was some interest amongst local authorities for sourcing funding though 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 supply cheaper loans to those councils (unlike Southwark) that will have their debt increased as part of HRA reforms. Demand has also been softened as investors seek a higher premium for holding debt in the face of continued turmoil in credit market.

Community impact statement

76. 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, London SE1 2QH	Vernon Smith 020 7525 57355
2011/12 treasury activity		Karsan Varsani 020 7525 54301

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 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	26 January 2012	
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		26 January 2012