Item No. 18.	Classification: Open	Date: 20 November 2012	Meeting Name: Cabinet
Report title:		Revenue Monitoring Report for Quarter 2, 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 September 2012, and asks Cabinet to agree the budget movements set out in Appendix A.

On the general fund, departments are making good progress against the budgets set them this year. However, 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 gives us the scope to deal with this issue.

For the Housing Revenue Account, there is currently a favourable variance, mainly as a result of a low forecast outturn for community housing services. However, the report also sets out future pressures on this budget that are likely to arise through government's welfare reform and the council's decant programme.

The Collection Fund is projected to break-even this year.

On the Council's Treasury Management activity, no new loans have been taken out over the last quarter.

RECOMMENDATIONS

1. That the cabinet notes:

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

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 that exceed £250k, 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 2012/13, using predictions based on the experience to date and knowledge as at the end of quarter two (September 2012). 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 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.

6. In setting the budget the council continues to strive for a Fairer Future for All in Southwark despite the difficult 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.

7. The council also approved budget decisions including agreed budget reductions of some £28m within general fund for 2012/13. Performance on achieving these savings is closely monitored and details are provided in paragraphs 47 to 50 below.

8. 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

9. 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 month 6 monitor

10. Table 1 below shows the current forecast outturn position for quarter two (as at 30 September 2012) by department. These estimates are therefore 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 2012 by council assembly. Progress for each department is shown in paragraphs 14 to 38 below.

Table 1: General fund forecast outturn position for 2012/13 as at Q2

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 Q1 2012/13 - over / (under) £'000***
Children's services	85,766	(820)	84,946	84,946	0		*0*
Adult social care	107,718	337	108,055	107,280	(775)		*(451)*
Environment and leisure	70,412	1,674	72,086	72,012	(74)		*0*
Housing services	44,065	405	44,470	45,174	704		*634*
Chief executive's department	19,007	1,905	20,912	20,844	(68)		*132*
Finance and corporate resources	41,483	(3,666)	37,817	37,821	4		*4*
Customer services centre	(3,000)	0	(3,000)	0	3,000		*3,000*
Support cost recharges	(59,308)	469	(58,839)	(58,839)	0		*0*
Total general fund services	**306,143**	**304**	**306,447**	**309,238**	**2,791**		***3,319***
Contingency	5,500	0	5,500	0	(5,500)		*(5,500)*
Appropriations to/(from) reserves related to services	1,000	(26)	974	974	0		*0*
Appropriations to/(from) reserves related to dedicated schools grant	0	500	500	500	0		*0*
Appropriations to/(from) reserves for technical accounting purposes	0	(778)	(778)	(778)	0		*0*
Appropriations from reserves – planned use of reserves to underwrite base budget	(4,446)	0	(4,446)	(4,446)	0		*0*
General fund total	**308,197**	**0**	**308,197**	**305,488**	**(2,709)**		***(2,181)***

Note: Explanations of budget movements for quarter 2 which exceed £250k are provided in Appendix A.

11. As reported at quarter one (Q1), 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.

12. 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 September. 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.

13. Table 1 includes net budget movements by department, both for Q1 which were notified in the July monitoring report to cabinet, and for quarter two which are detailed in Appendix A.

Children's services

14. Children's services are continuing to forecast a zero variance to budget at present. This is in the context of the ongoing transformation and restructuring. While there are underlying cost pressures within some services, it is currently forecast that these will be covered by favourable variances elsewhere. Key variances are as follows:
    - £350k cost pressure within the home to school transport service, although the current forecast spend represents a reduction on previous years
    - £350k emerging pressures within specialist services mainly as a result of increases in the children looked after headline rate
    - £500k cost pressures as a result of supporting families that have "no recourse to public funds".

15. There are also additional cost pressures due to delays in implementing savings within early years' services. All other savings are expected to be achieved.

16. The favourable variances are mainly as a result of vacant posts within education services and management actions taken to accelerate the 2013/14 savings programme.

Schools budget

17. Southwark's allocation of the dedicated schools grant (DSG) for 2012/13 is £195m (subject to further academy conversions) of which £167m has been directly allocated to schools. Of the remaining DSG retained centrally, a favourable variance of £500k compared to £1m forecast at Q1. The change is mainly due to an increase in the expected claims for pupils accessing free entitlement to education for three year olds.

Adult social care

18. Adult social care is forecasting a favourable variance of £775k at the end of quarter two, compared to a favourable variance of £451k at Q1. The movement is due a number of factors including better residential care demand management and supported living initiatives as well as revision of spend profile of revenue contribution to Carefirst capital upgrade.

19. This is based on current estimates and demand can fluctuate. Work is underway to indentify 'Invest to Save' projects to utilise any one-off under spends to benefit future years.

20. 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 £10.2m with the latest projections indicating pressures of £500k in Mental Health detailed later in this report. To mitigate against these pressures, management are reviewing compensating savings in a number of areas including continuing the momentum of reablement benefits.

21. 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

22. The department is forecasting a favourable variance of £74k for the year.

23. The service was allocated £500k to fund pressures in the parking income, identified in 2012/13, subject to six months review. At the review it was clear that changes to legal regime and the contractor's performance, combined with a mild winter, has led to a recovery in parking income. It has therefore, been possible to return the £500k to reserves.

24. 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.

25. The department has already implemented most of the savings proposed for 2012/13. The department will continue to focus on a core provision of quality services, smarter procurement and tougher contract management; reducing optional services and using data and intelligence to target services to places or people where they will be more effective. Divisions will continue to seek improvements in business/operational processes in order to achieve cost reductions. These changes will be monitored to ensure service delivery meets expectations at the least.

26. The variance reported is after funding redundancy and reorganisation costs (current best estimates stand at £400k) incurred this year, as a result of restructuring to achieve savings.

Housing and community services

27. Following corporate restructuring and the breakup of the communities, law & governance department, community engagement transferred to housing in July and has been 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 has created some residual budget pressure which will be met from corporate reserves specifically earmarked for this purpose. In addition, registrars and coroners have also transferred to the department under the customer experience division, but are forecast to be budget neutral.

28. Agreement to mutually terminate the contract with Vangent and bring the service in-house from June 2013 represents a very challenging target given the scale of the operation. However, it provides the opportunity to reconfigure and improve customer access and service delivery and drive out substantial savings over the medium term, commencing 2013/14. In the short-term however, costs are likely to exceed any savings arising from improved contract management and operational efficiencies derived by moving towards more cost effective transaction routes and limiting change requests. 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 CRM and infrastructure upgrades are currently being assessed. These costs will be held separately from the routine contract operating account and met from corporate resources.

29. Community Housing Services delivers critical front-line services to homeless and vulnerable residents through the Housing Options and Assessment centre. 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, e.g. estate voids and hostels in the HRA. The forecast shows some budget pressure across the activity as a whole at quarter two, including around £60k of redundancies, which is likely to 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 unaffordable and the cost of PSL provision will no longer be cost neutral. The extent of this is difficult to predict at this stage, but will be considered as part of budget planning for next year.

Chief executive's department

30. As previously reported, the appointment of the chief executive this year and overall re-organisation of the council's management structure has resulted in the services undertaken by the former deputy chief executive's department and regeneration, property and planning being merged to form one department. The department is forecasting a favourable variance against budget of £68k which takes into account an agreed departmental savings target of £1.3m, that is expected to be fully achieved.

31. The chief executive's department now encompasses 4 divisions:

- Human Resources
- Corporate Strategy
- Regeneration & Property
- Planning

32. The regeneration & property division has oversight for some of the major projects in the council, such as Camberwell Library, Aylesbury, Elephant and Castle and Southwark Schools for Future. These projects are funded through a combination of core revenue budgets and specific reserves.

33. The revenue budgets continue to be closely monitored during the year to identify areas of potential savings and also address any emerging additional budget pressures. The revenue monitor also takes into account the 2012/13 base budget divisional savings of £1.3m which are being projected as fully achievable.

Finance and corporate resources

34. Finance and corporate services is currently forecasting a small adverse variance of £4k, compared to the on target forecast at Q1. There is still an adverse variance forecast within finance transaction shared services offset mostly by favourable variances in corporate facilities management and corporate and democratic core, due to premises running costs and corporate subscriptions respectively.

35. Fundamental restructuring continues within the department, 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.

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

Customer services centre savings

37. As stated in paragraph 28 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. As at Q1, the overall projection assumes that the contingency budget of £5.5m will be used if necessary to address other cost pressures identified.

Housing revenue account (HRA)

39. There are a number of potential and known base budget variances and planned reserve movements occurring during 2012/13. The need to spend on landlord responsibilities for the maintenance and improvement of the housing stock is unrelenting and there is constant spending pressure in the system, but robust contract management and control of high volume, high value budgets, such as repairs, engineering and heating continues to deliver better value overall, contributing to the positive outturn forecast shown at quarter two, which is similar to that reported at Q1.

Table 2: HRA forecast outturn position for 2012/13 as at Q2

	Net Expenditure		
	Full Year Budget £'000	Forecast Outturn £'000	Forecast Variance £'000
Area Management	(168,752)	(168,924)	(172)
Maintenance & Compliance	43,807	44,371	564
Major Works	849	841	(8)
Home Ownership	(30,866)	(30,605)	261
Strategic Services (SDF&CS)	121,852	121,590	(262)
Community Housing Services	1,295	361	(934)
Community Engagement	2,123	1,984	(139)
Regeneration Initiatives (CE)	1,292	1,112	(180)
Heating Account	12,198	12,198	0
Revenue Funding of Capital	12,727	12,727	0
Sub total	**(3,475)**	**(4,345)**	**(870)**
Appropriations to /(from) Reserves	3,475	4,345	870
Total HRA	**0**	**0**	**0**

40. Compensation and legal costs in relation to disrepair remains a persistent problem and is extremely resource intensive. Management action is being taken to address this in the short-term, with the aim of eliminating claims arising in the first instance through improvements in the repairs service. To this end, a key priority for the council during the second half of 2012/13 will be managing the risks and opportunities arising from the transition from Morrison's to the interim provider Mears in October 2012 and beyond with the procurement of a long-term repairs contractor.

41. Rent collection performance 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. Looking forward, there is likely to be a detrimental impact on the rental stream arising from impending welfare reforms as benefit caps and universal credit come into play. The extent of this is difficult to predict at this stage, but will be considered as part of budget planning for next year.

42. Capital service charge billing to leaseholders is inextricably linked to the Housing Investment Programme 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 potentially the revenue contribution into the HIP, but expectations at this point are that this will meet or exceed this year's budgeted target of £6.5m.

43. Estimated billing for revenue service charges is £15.5m to date against the £15.8m budget, excluding freeholders and 2011/12 account actualisations scheduled for October 2012. Key work streams of the Leasehold Action Plan are being 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 two is above target at £12.2m (including Major Works loans), against the full-year cash target of £24m.

44. Responsibility for the garage portfolio transferred to home ownership unit last year. Investment in the garage stock has already brought 188 units back into use, with a minimum of another 100 planned by end of March 2013. This is an 'invest to save' opportunity as there remains significant scope to maximise the income potential even further through greater investment.

45. 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 netting to £300k at quarter two, 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.

46. Community housing services comprises a number of services/ activities such as temporary accommodation, housing options, tenancy sustainment and housing adaptations. The primary area of risk for the council is around temporary accommodation; whilst the statutory requirement falls to the general fund, HRA provision through the use of estate voids and hostels 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 decant programme.

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

47. 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 two, there is a projected savings shortfall of £1.5m, as shown in Table 3.

Table 3: Forecast projection of savings agreed for 2012/13 as at Quarter 2

	Budgeted 2012/13 savings £'000	Forecast full year 2012/13 savings at Q2 £'000	Compensating savings forecast full year 2012/13 at Q2 £'000	Variance £'000
Children's Services	(6,174)	(6,174)	0	0
Adult Social Care	(10,295)	(9,746)	(549)	0
Environment and Leisure	(4,990)	(4,990)	0	0
Housing Services	(594)	(594)	0	0
Finance and corporate services	(3,077)	(3,077)	0	0
Chief executive	(1,277)	(1,277)	0	0
Corporate	(2,000)	(500)	0	1,500
Total General Fund	**(28,407)**	**(26,358)**	**(549)**	**1,500**
HRA	(6,397)	(6,397)	0	0
Total Savings	**(34,804)**	**(32,755)**	**(549)**	**1,500**

Note: details of the Council's savings plans can be found in the budget papers agreed by Council on 29[t] February 2012.

48. 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.

49. There is a £549k variance in adult social care, which relates to the risk that savings expected from the service redesign of arrangements with South London & Maudsley Trust (SLaM), reviewing the adult social care role within mental health services in partnership with other Boroughs and considering options as to how this should be managed, will not be delivered.

50. 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

51. 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.

52. 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.

53. 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.

54. 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 two 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.

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

56. The tables in Appendix B summarise the projected movements in reserves. This shows that at quarter two, the forecast is for a net call on general fund reserves of £4.2m, the detail of which is contained in Table 4 below.

Table 4: Detail of reserve movements

Detail of reserves movements	£'000
Appropriations (to)/from reserves related to services	3,788
Appropriations (to)/from revenue reserves related to dedicated schools grant	(500)
Appropriations (to)/from reserves for technical accounting purposes	778
Appropriations from reserves – planned use of reserves to underwrite base budget	4,446
Expected appropriation to reserves of contingency budget	(5,500)
Expected appropriation from reserves of general fund services variance (see Table 1)	2,791
Expected appropriation (to) from reserves for capital purposes	(1,568)
Total	**4,235**

57. The technical movement in reserves relate to a significant contribution to reserves for 160 Tooley Street of £2.3m. This movement is for accounting reasons and relates to the re-profiling of the rents to an average rent over a set period of years taking into account an initial rent free period. For similar reasons there is also a drawdown from reserves for Queens Road of £337k.

58. 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

59. 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 75% are committed. This represents good progress towards restoring balances to a more prudent and sustainable level.

Collection fund / Council tax and business rates collection

60. 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. The council must take into account the estimated surplus or deficit on the collection fund balance when setting the council tax for the following year.

61. At quarter two, the collection fund is on target to break-even at year-end. Unusually, in September there was a reduction the value of both exemptions and discounts awarded. It is not known at this stage whether this is a one-off event, or part of an ongoing trend, and because of this, it has not been reflected in the forecast. If the reductions continue through the year, with other factors being equal, this will likely result in a surplus on the collection fund at year-end. The impact will be assessed more fully at quarter three.

Treasury management

62. The council's treasury management activity relates to both cash and debt balances. Two investment firms manage the council's investments together with an in-house operation, which focuses on meeting day to day cash volatility using money market funds, call accounts and short term deposits. The priority is for capital preservation and exposure to banks and building societies is confined to major high rated entities with a high likelihood of state support in the event it were needed. Exposure to UK Gilts, European Investment Bank (EIB), and the International Bank for Reconstruction & Development (the World Bank) helps strengthen security and liquidity further.

63. In June there was a national problem with RBS/NatWest systems, which impacted on their customer accounts, including those of the council. Although the impact on the council was relatively minimal, it did cause some inconvenience, and presented substantial difficulty for those members of the public affected. The council claimed redress for the losses experienced, and have received some £1,300.

64. The balance on deposit with major banks and building societies and in bonds is set out in table 5 below.

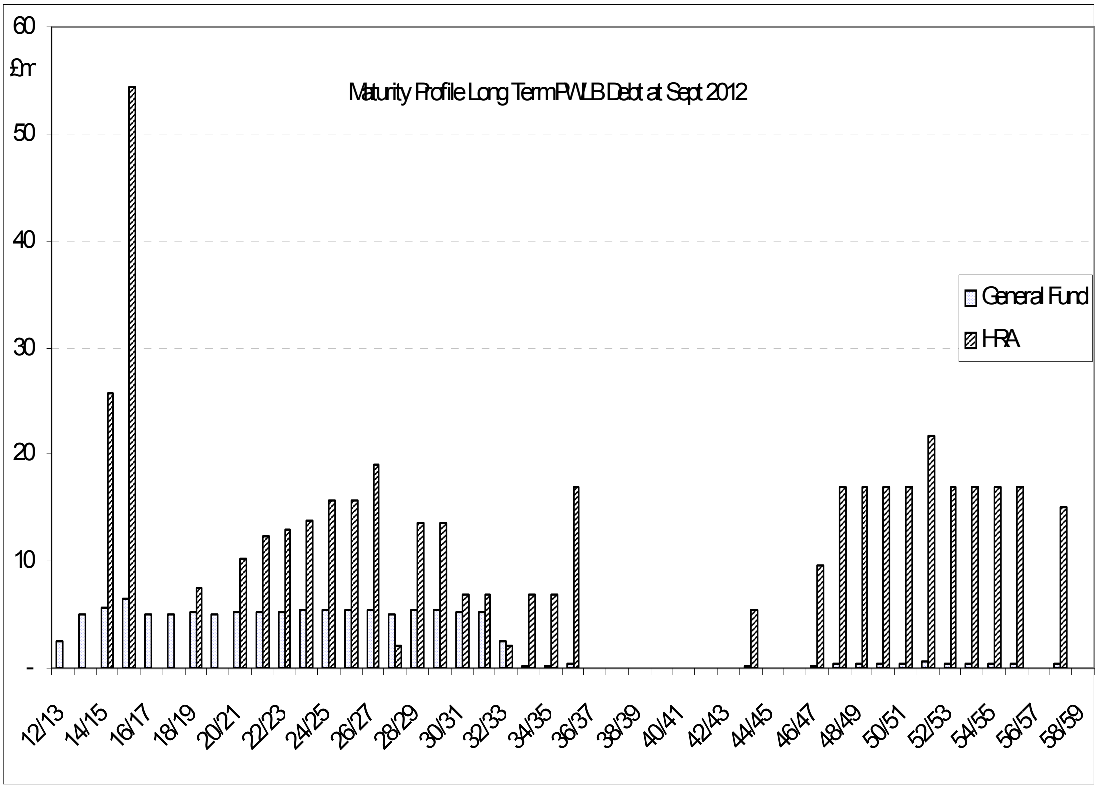
Table 5: Counterparty exposure and ratings list

EXPOSURE - Sep 2012 COUNTERPARTY AND RATINGS									
Exposure £m	FUND				Fitch Ratings				
COUNTERPARTY	Aberdeen	Alliance Bernstein	In-House	£m	Long	Short	Support	Sovereign	Sovereign Rating
COMMONW BK AUSTRALIA	-	-	5.0	5.0	AA-	F1+	1	AUSTRALIA	AAA
ANZ BK CORP	-	-	10.0	10.0	AA-	F1+	1	AUSTRALIA	AAA
FORTIS BK	7.7	-	-	7.7	A	F1	1	BELGIUM	AA
BK OF NOVA SCOTIA	5.0	-	-	5.0	AA-	F1+	1	CANADA	AAA
NORDEA BK FINLAND	9.5	1.0	15.0	25.5	AA-	F1+	1	FINLAND	AAA
SOCGEN	-	1.0	10.0	11.0	A+	F1+	1	FRANCE	AAA
BANQUE NATIONAL DE PARIS	-	1.0	15.0	16.0	A+	F1+	1	FRANCE	AAA
DEUTSCHE BK	5.0	1.0	15.0	21.0	A+	F1+	1	GERMANY	AAA
LANDESBK BADEN WERTMBG	-	1.0	-	1.0	A+	F1+	1	GERMANY	AAA
DZ BANK	8.0	-	-	8.0	A+	F1+	1	GERMANY	AAA
GLOBAL TREAS FUNDS-MMF	-	-	20.9	20.9		AAA		GLOBAL	
ABN AMRO BK	5.0	1.0	-	6.0	A+	F1+	1	NETHERLANDS	AAA
ING BK	5.2	1.0	15.0	21.2	A+	F1+	1	NETHERLANDS	AAA
RABOBANK	-	0.5	-	0.5	AA	F1+	1	NETHERLANDS	AAA
EUROPEAN INV BK	13.6	6.0	-	19.6	AAA	F1+		SUPRANATIONAL	AAA
INT BK RECONST DEVT	3.5	5.8	-	9.3	AAA	F1+		SUPRANATIONAL	AAA
SVENSKA	-	-	15.0	15.0	AA-	F1+	1	SWEDEN	AAA
UBS	3.3	-	15.0	18.3	A	F1	1	SWITZERLAND	AAA
BARCLAYS BK	-	1.0	15.0	16.0	A	F1	1	UK	AAA
LLOYDS TSB/BK SCOTLAND	5.0	0.3	15.0	20.3	A	F1	1	UK	AAA
NATIONWIDE BSOC	4.0	1.0	15.0	20.0	A+	F1	1	UK	AAA
RBS/NATWEST	-	-	35.3	35.3	A	F1	1	UK	AAA
UK TREASURY	0	53.3	0	53.3	AAA	F1+		UK	AAA
BNYM CASH	0.2	0.1	0	0.3	AA-	F1+	1	US	AAA
Total £m	75.0	75.0	216.2	366.2					

65. The sum managed by the investment firms (Aberdeen Asset Managers and AllianceBernstein) was raised back up to £150m in July 2012 after the appointment of the Bank of New York Mellon, London Branch, (BNYM) as independent custodian for the cash, certificate of deposits and bonds held by the managers. BNYM replaced HSBC who provided the service previously. BNYM is a major US incorporated global financial institution and one of largest custodians in the world.

66. Following the government's HRA self-financing reforms in March the HRA will have to meet all the cost of running council houses, including interest on its debts, from its own resources. From 1 April 2012, debt has been disaggregated between the HRA and the General Fund and as detailed in the council assembly report of 4 July 2012 each fund will be responsible paying interest on its own pool.

67. The total debt outstanding with the Public Works Loans Board (PWLB) at the end of September 2012 was £562.5m and no new loans were taken over the quarter. The bulk of the debt, £451m, is attributable to the HRA reflecting past investment in housing, the remainder falls on the General Fund. The maturity profile of the debt is set out below. The average rate on the two funds is currently running at 6.56% HRA and 3.57% General Fund. The difference reflects the debt financing carried out between March 2012 and April 2012 using £100m in General Fund cash, which replaced high coupon loans (9.0% and above) maturing between 2014 and 2015 with low interest loans at 3.20% repayable over 20 years. The average rate of interest on HRA will also fall in the future as maturing debt is replaced or refinanced with new low coupon loans.



68. In 2010 the government increased the PWLB rates from about 0.15% to 1% over gilts (the cost of the government's own borrowing). However following an announcement of a 'certainty rate' arrangement, from November 2012 councils can access borrowing at 0.20% below standard PWLB rates, subject to advance information about borrowing plans. Southwark has submitted information about a potential refinance of up to £105m debt. The submission is subject to acceptance and enables access to lower cost funding, should it be prudent and affordable in view of market volatility. There is no commitment or requirement on the council to drawdown these funds, but access to lower cost borrowing protects the council interest in any future financing, options on which are constantly reviewed.

Community impact statement

69. 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
Revenue Monitoring Report for Quarter 2, 2012/13, including Treasury Management http://moderngov.southwark.gov.uk/documents/s30289/Report%20Revenue%20Outturn%20Report%20201112%20including%20Treasury%20Management.pdf	Council Offices 160 Tooley Street London SE1 2QH	John Braggins 020 7525 7489

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	8 November 2012	
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		9 November 2012