

BABERGH DISTRICT COUNCIL

From: Directors of Finance and Corporate Services	Report Number: L71
To: Overview and Scrutiny (Stewardship) Committee	Date of meeting: 22 September 2011

FINANCE, RISK AND PERFORMANCE MANAGEMENT – QUARTERLY MONITORING REPORT

1. Purpose of Report

- 1.1 This report provides the Overview and Scrutiny (Stewardship) Committee with an exception-based strategic assessment of the Council's achievements for the first quarter of 2011/12 across a range of areas including finance, risk management and various aspects of performance linked to the 2011/12 Delivery Plan.
- 1.2 In relation to risk it provides Members with an update on managing the significant business risks facing the Council including those relating to the BMI project.

2. Recommendations

- 2.1 That the key points relating to performance exceptions against targets / milestones for the 2011/12 Delivery Plan actions, strategic performance indicators and service standards be noted.
- 2.2 That a report be submitted to the next round of the appropriate Overview and Scrutiny Committee if any significant performance variance issues are identified for further review and analysis.
- 2.3 That the position on managing the Council's significant business risks and the latest position on Management Action Plans as referred to in paragraph 8.13 and summarised in Appendix B are noted.

Subject to any matters referred under recommendation 2.2, the Committee is able to resolve these matters.

3. Financial Implications

- 3.1 There are no direct financial implications as a result of the performance and risk information set out in this report. Officers will take any necessary actions within existing budgets and resources allocated.
- 3.2 For consistency, the financial performance reported in Appendix D has been produced on an exception basis and sets out those key variances to budget that have been identified in the first quarter. The outturn position, based on trends within the first 3 months, is uncertain and greater detail and clearer forecasts will be provided in quarter two.

3.3 Officers have been developing a more robust reporting tool to assist Heads of Service and all budgets remain under close scrutiny.

4. Risk Management

4.1 This report is most closely linked with the Council's Corporate / Significant Business Risk No. 6 – Performance and Cost Management.

4.2 Key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
2011/12 Delivery Plan actions/outcomes and performance targets are not achieved	Significant	High	Continued rigorous challenge and action in dealing with identified variances.
If robust risk management is not in place, this could affect the achievement of the Council's strategic aims and priorities, key projects, the delivery of services and its reputation.	Low	Critical	Risk Management Strategy in place. Further actions continue to be taken as part of the Integration and Management Action Plans. Risks are continually managed and re-assessed.
Consideration not given to changes to the latest risks and opportunities facing the Council.	Low	Critical	Risk refreshes are regularly undertaken and reported to Members.
Budgets and costs are not actively or systematically managed and reduced, and in the worst case, they increase	Significant	High	Close and pro-active monitoring of budgets and key risk areas by Heads of Service and finance staff

5. Consultations

5.1 As this is a monitoring report only, no consultations are required with Unison or other outside bodies.

6. Equality and Diversity Impact

- 6.1 There are no equality and diversity implications arising from this monitoring report but where any negative impacts are identified through the equality analysis procedure, these will be considered as part of the risk management arrangements and reported on as necessary.

7. Shared Service / Partnership Implications

- 7.1 There are no implications for shared services or partnerships arising from this monitoring report.

8. Key Information

Format of this report

- 8.1 In order to provide a focussed approach to monitoring, to reduce double-handling and improve the effectiveness of the overview and scrutiny function:
- The Overview and Scrutiny (Stewardship) Committee has agreed to receive quarterly exception-based reports setting out the key financial, risk and delivery plan areas where performance has deteriorated or falls below the agreed target or milestone for 2011/12. This is based on a comprehensive analysis of all relevant data which, if desired, can be provided to Committee members on request.
 - The quarterly report provides details of mitigating actions being undertaken to improve performance in these areas as well as providing a summary of the Council's overall performance during the quarter.
 - Any significant issues arising, for example where performance has deteriorated and the mitigating actions are not having the desired effect, can be referred by this committee to the appropriate Overview and Scrutiny Committee for further consideration.
 - As agreed at the 14 June 2011 committee meeting, the key aspects of the quarterly risk management report have now been incorporated into this single comprehensive report – see paragraphs 8.12 to 8.14 and Appendices B and C.

Summary of performance for Quarter 1 2011/12

- 8.2 Detailed analysis of the performance exceptions for each of the Strategic Plan themes is set out in Appendix A. This analysis is based on a comprehensive review of achievement against the 2011/12 Delivery Plan actions, strategic performance indicators and service standards as at 30 June 2011. A summary analysis of performance across all of the Council's Strategic Plan priority themes follows.
- 8.3 The overall picture of performance and achievement at the end of Quarter 1 is encouraging – see Table 1. A large number of Delivery Plan actions, strategic performance indicators and service standard measures across all Strategic Plan priority themes are either meeting or exceeding the target or milestone set (green) or very close to it with no concerns about performance at this stage (amber).

- 8.4 In total, around 9% (12 from 140) of the various measures monitored by the Council in 2011/12 have been flagged red – significantly below target with concerns about performance. Full details on these including the current position and what action has been taken or is planned to improve performance are set out in paragraph 8.6.
- 8.5 At the time of printing this report, data was not available for 5 measures – National Indicator 185, Local Performance Indicator 80 and Delivery Plan actions H30, G22 and G23. A verbal update on these can be given during the Committee meeting as required. There is also one contextual indicator, LPI 42, for which the Committee felt it was not appropriate to set a target or milestone. LPI 42 measures the number of formal homelessness presentations, of which there were 28 in Quarter 1 compared to 31 during the same period last year.

Table 1 - Summary of Quarter 1 performance and achievement

	Green	Amber	Red	No data	Contextual	Comments
Strategic PIs	16	8	1	2	1	No data = NI 185 and LPI 80 Contextual = LPI 42
Strategic Service Standards	8	1	2	0	0	
Key delivery plan actions	76	13	9	3	0	No data = H30, G22, G23
Total	100	22	12	5	1	

8.6 The detailed analysis of performance in Appendix A summarised above has highlighted the following 12 Delivery Plan actions, strategic indicators and service standards as red (below target with concerns about performance) at the end of Quarter 1. This section sets out by theme the current position on each measure flagged red and, where applicable, what activity has been undertaken or is planned by officers to improve performance.

8.7 Theme 1 – Quality homes local people can afford

- DP Action H21 – Assist Havebury Housing Partnership with their strategic review of the Private Sector Leasing scheme.

The planned Private Sector Leasing Scheme is no longer viable following the withdrawal of St Edmundsbury BC and Forest Heath DC from the partnership. Discussions are currently underway with a new provider.

- DP Action H22 – Develop new protocols and ICT enhancements to enable private sector homes to be advertised and let through Choice Based Lettings.

The Choice Based Lettings (CBL) steering group has made a decision not to advertise and let private sector properties through the CBL scheme. No further action is planned.

- DP Action H28 – Improve the energy efficiency of private sector properties by working in partnership with Warm Front to deliver 125 insulation and 50 heating measures.

No insulation or heating measures were installed in private sector properties this quarter. This is because Warm Front ceased to take enquiries for 5 months. Also, the eligibility criteria for the scheme have changed. Clients now have to make a financial contribution before work starts if the total cost is above the permissible minimum. As a consequence of these factors, it is anticipated that the annual targets of fitting 125 insulation measures and 50 heating measures will not be met.

- DP Action H36 – Undertake a satisfaction survey of applicants who have applied for housing through the Choice Based Lettings scheme.

There are no plans to carry out a satisfaction survey of Choice Based Lettings Scheme applicants this financial year. However, it should be noted that the last full survey was carried out in October 2010 and was very comprehensive. No further action is planned.

- BVPI 204 – Planning appeals allowed against the authority’s decision to refuse a planning application.

Current performance is 50% (6 appeals allowed out of 12) which is below the desired target. The outcome is an improvement on Quarter 1 last year, but performance has still not reached the levels achieved in 2008. However, it should be noted that within any given quarter, only a very small number of cases are determined on appeal. The number of cases upheld when expressed as a percentage can, therefore, appear misleading. The Development Committee receives a detailed report on planning performance each quarter which analyses appeal decisions.

- Service standard (former BV212) – We will re-let vacated council dwellings within 26 days.

As at 30 June 2011 the average time taken to re-let Babergh’s council housing was 36 days, which is worse than the target of 26 days. Performance has declined since 2008 and reached its worst level at the end of June 2010 when the average void period was 42 days. Since then there has been an improvement in performance.

Vacant posts were carried in the Voids Team as a pilot to reduce staff costs. However this did impact on performance and posts have now been filled with internal staff transfers. As performance is clearly improving, no further action is required at this stage.

8.8 Theme 2 – A cleaner and greener Babergh

- DP Action G2 – Undertake 25 site surveys of land identified within the Council’s Contaminated Land Strategy as ‘High’ or ‘Medium’ risk of being potentially contaminated.

No site surveys took place this quarter on land identified in the Contaminated Land Strategy as 'High' or 'Medium' risk of being potentially contaminated. However work has been done to gain access to sites so they can be inspected during Quarter 2. The original annual target for the year is 25 sites. Given the available resources (the team is currently carrying a vacant post) a more realistic outturn for 2011/12 is 18 sites.

- DP Action G20 – Re-launch 'Sort It' magazine with Mid Suffolk DC to promote environmental issues such as recycling.

There are no plans to re-launch 'Sort-It' magazine during 2011/12 to promote environmental issues such as recycling. However, waste reduction and recycling performance is currently on target so there is no immediate need to remind residents of their responsibilities for managing their waste. No further action is planned.

8.9 Theme 3 – A safer and healthier Babergh

- No measures have been flagged 'red' under this theme.

8.10 Theme 4 – A strong and sustainable Babergh economy

- DP Action E19 – Assemble the land required for the Hamilton Road Quarter development in Sudbury.

Assembling the land required for the Hamilton Road development has now stalled. This is because one land owner will not dispose of their land.

8.11 Theme 5 – Vibrant places and strong communities

- DP Action C1 – Use the results of various research projects to identify the main problems faced by Babergh residents living in rural areas and develop an action plan to start to address these.

The Planning Policy Team is unlikely to have the capacity during 2011/12 to develop an action plan to identify and address the main problems faced by Babergh residents living in rural areas.

- DP Action C8 – Support the provision of the Chelmondiston Internet Café by the parish council, in conjunction with SALC.

It has not been possible to progress plans for an Internet Café at Chelmondiston, due to the lack of suitable accommodation in the village. Furthermore, the funding for this project is no longer available. No further action is planned.

- Service standard (former BV78b) – We will process changes to existing benefit claims within 6 days.

During June 2011 the average time taken to process changes in circumstances to housing benefit and council tax benefit claims was 14.8 days. This is worse than the service standard target, which is 6 days. Performance is significantly worse than in June last year and has been deteriorating since February 2011.

This quarter has been a period of major change for this service. The new Shared Revenues Partnership (SRP) was established in April 2011. Babergh staff moved to their new offices in Ipswich in May 2011 and then had to work through a recruitment process to populate the new staffing structure. It is anticipated that performance will start to improve again as the new teams become established and systems are integrated later this year.

Summary of significant business risks for Quarter 1 2011/12

8.12 The risk ratings, as reported to this Committee on 22nd March 2011, remain the same with the exception of the following:

- Risk 3a – Shared Services – Integration with Mid Suffolk
- Risk 3b – Shared Services – Other Shared Services.

Both of these risks have been shaded back from B2 (Likelihood High, Impact Critical) to C2 (Likelihood Significant, Impact Critical). This reflects the controls and actions management have put in place to mitigate the risks.

8.13 The current Management Action Plans for each risk are provided in the link below:

<http://intranet/refdocs/finnaudit/audit/MonSigBusRisk.pdf>

8.14 Significant developments since the last risk review and examples of some of the specific actions that have been taken to manage some of the key risks are summarised in Appendix B.

9. Appendices

Title	Location
(a) Analysis of performance exceptions at Quarter 1	Attached
(b) Significant business risks – key messages/issues since the last Risk Review	Attached
(c) BMI Risk Management Update	Attached
(d) Financial Information Q1	Attached
(e) Capital Programme Q1	Attached
(f) Treasury Management Performance Q1	Attached

10. Background Documents

10.1 None

Authorship:

Name: Jonathan Seed (Performance)
Debbie Pavier (Performance)
Sue Smith (Finance)
John Snell (Risk)

Tel. 01473 826649
01473 826672
01473 825816
01473 825822

Job Title: Senior Policy and Performance Officer
Policy and Performance Officer
Corporate Finance Manager
Audit Manager

Email: jonathan.seed@babergh.gov.uk
debbie.pavier@babergh.gov.uk
sue.smith@babergh.gov.uk
john.snell@babergh.gov.uk

H:\DOCS\Committee\REPORTS\Overview&Scrutiny\Stewardship\2011\220911-FinanceRiskandPerfManQuartMonitor.doc

PERFORMANCE ANALYSIS – QUARTER 1 PERFORMANCE

1. Introduction

Babergh DC has made a commitment to deliver the actions included in the 2011/12 Delivery Plan and to meet the targets that have been set for the Council's strategic performance indicators and service standards. This analysis summarises the Council's progress in delivering these commitments. Throughout the report progress has been assessed using the following classification:

Green	On or above target.
Amber	Slightly below target, but no concerns about performance
Red	Significantly below target / concerns about performance

2. Quality homes local people can afford

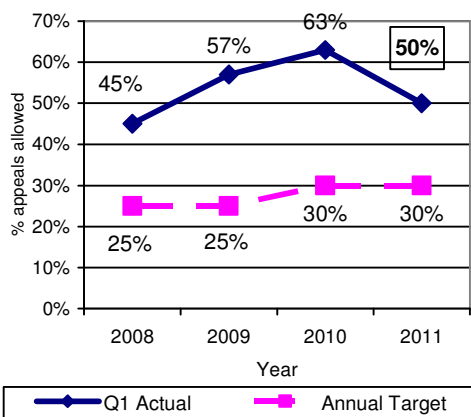
a) Summary of progress

The Council monitors and manages 10 strategic performance indicators, 7 key service standards and 30 key actions to deliver this priority. A summary of progress made during the period 1 April – 30 June 2011 is given below.

	Green	Amber	Red	No data	Contextual	Comments
Strategic Pls	5	3	1	0	1	Red = BV204
Strategic Service Standards	5	1	1	0	0	Red = BV212
Key delivery plan actions	21	4	4	1	0	Red = H21, H22, H28, H36 No data = H30

b) Performance Indicator exceptions

Planning appeals allowed against the authority's decision to refuse a planning application (BV204)



Status: Red

N.B. Lower numbers represent good performance

Trends: Current performance is 50% which is below the desired target. The outcome is better than last year, but still has not reached the levels achieved in 2008.

The number of appeals are given below:

2011/12 = 6 allowed out of 12

2010/11 = 5 allowed out of 8 (with 1 split decision)

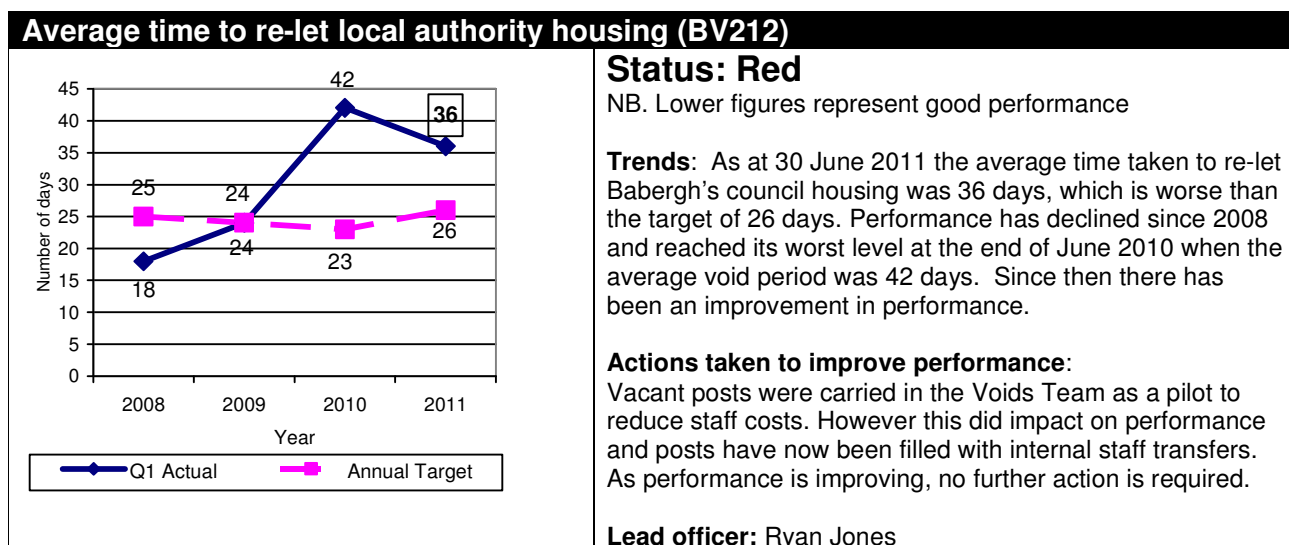
2009/10 = 8 allowed out of 14 (with 1 split decision)

2008/09 = 6 allowed out of 11

Only a small number of cases are determined on appeal. The number of cases upheld when expressed as a percentage can appear misleading. The Development Committee receives a detailed report on planning performance each quarter which analyses appeal decisions.

Lead officer: Nick Ward

c) Service Standard exceptions



d) Delivery Plan exceptions

- The planned Private Sector Leasing Scheme is no longer viable following the withdrawal of St Edmundsbury BC and Forest Heath DC from the partnership. Discussions are currently underway with a new provider (Action H21)
- The Choice Based Lettings (CBL) steering group has decided not to advertise and let private sector properties through the CBL scheme. (Action H22)
- No insulation or heating measures were installed in private sector properties this quarter. This is because Warm Front ceased to take enquiries for 5 months. Also, the eligibility criteria for the scheme have changed. Clients now have to make a financial contribution before work starts if the total cost is above the permissible minimum. It is anticipated that the annual targets of fitting 125 insulation measures and 50 heating measures will not be met. (Action H28)
- There are no plans to carry out a satisfaction survey of Choice Based Lettings Scheme applicants this year. The last full survey was carried out in October 2010 and was very comprehensive. (Action H36)
- The Shared Revenues Partnership has not supplied any data on the number of discretionary housing payments made within 24 hours where the outcome may prevent a household becoming homeless. As numbers are generally very small over a whole year, this is not a significant concern at this stage. (Action H30)

3. A greener and cleaner Babergh

a) Summary of progress

The Council monitors and manages 8 strategic performance indicators and 18 key actions to deliver this priority. A summary of progress made during the period 1 April – 30 June 2011 is given below.

	Green	Amber	Red	No data	Contextual	Comments
Strategic PIs	4	3	0	1	0	
Key delivery plan actions	9	5	2	2	0	Red = G2, G20

b) Performance Indicator exceptions

There are no performance indicator exceptions for the ‘Greener and Cleaner’ theme this quarter.

c) Delivery Plan exceptions

- No site surveys took place this quarter on land identified in the Contaminated Land Strategy as ‘High’ or ‘Medium’ risk of being potentially contaminated and so this action has been flagged ‘red’. However work has been done to gain access to sites so they can be inspected during Quarter 2. The original annual target for the year is 25 sites. Given the available resources (the team is currently carrying a vacant post) a more realistic target for 2011/12 is 18 sites. (Action G2)
- There are no plans to re-launch ‘Sort-It’ magazine during 2011/12 to promote environmental issues such as recycling. However performance in these areas is generally on target so there is no immediate need to remind residents of their responsibilities for waste management (Action G20)
- All high priority planning enforcement cases were assessed within 21 days this quarter. However there are concerns that this deadline will not be met for the whole of 2011/12 and for this reason this action has been flagged ‘amber’. An opportunity exists to integrate the Planning Enforcement teams of BDC and MSDC, which will require allocation of resource within the teams. Whilst efforts will be made to reduce any impact upon performance, there may be a temporary effect during this financial year. (Action G1)
- The planning enforcement caseload remained between 170 and 180 during Quarter 1, thus meeting the target of keeping the number of cases below a threshold of 220. However there are concerns that the number of active cases may exceed 220 later on in the year for the reason given above and a result this action has been flagged ‘amber’. (Action G3)

4. A safer and healthier Babergh

a) Summary of progress

The Council monitors and manages 2 strategic performance indicators and 13 key actions to deliver this priority. A summary of progress made during the period 1 April – 30 June 2011 is given below.

	Green	Amber	Red	No data	Contextual	Comments
Strategic PIs	2	0	0	0	0	
Key delivery plan actions	12	1	0	0	0	

b) Performance Indicator exceptions

There are no performance indicator exceptions for the ‘Safer and Healthier’ theme this quarter.

c) Delivery Plan exceptions

There are no Delivery Plan action exceptions for the 'Safer and Healthier' theme this quarter.

5. A strong and sustainable Babergh economy

a) Summary of progress

The Council monitors and manages 21 key actions to deliver this priority. A summary of progress made during the period 1 April – 30 June 2011 is given below.

	Green	Amber	Red	No data	Contextual	Comments
Key delivery plan actions	19	1	1	0	0	Red = E19

b) Delivery Plan exceptions

- Assembling the land required for the Hamilton Road development has now stalled. This is because one land owner will not dispose of their land. (Action E19)

6. Vibrant places and strong communities

a) Summary of progress

The Council monitors and manages 6 strategic performance indicators, 2 strategic service standards and 19 key actions to deliver this priority. A summary of progress made during the period 1 April – 30 June 2011 is given below.

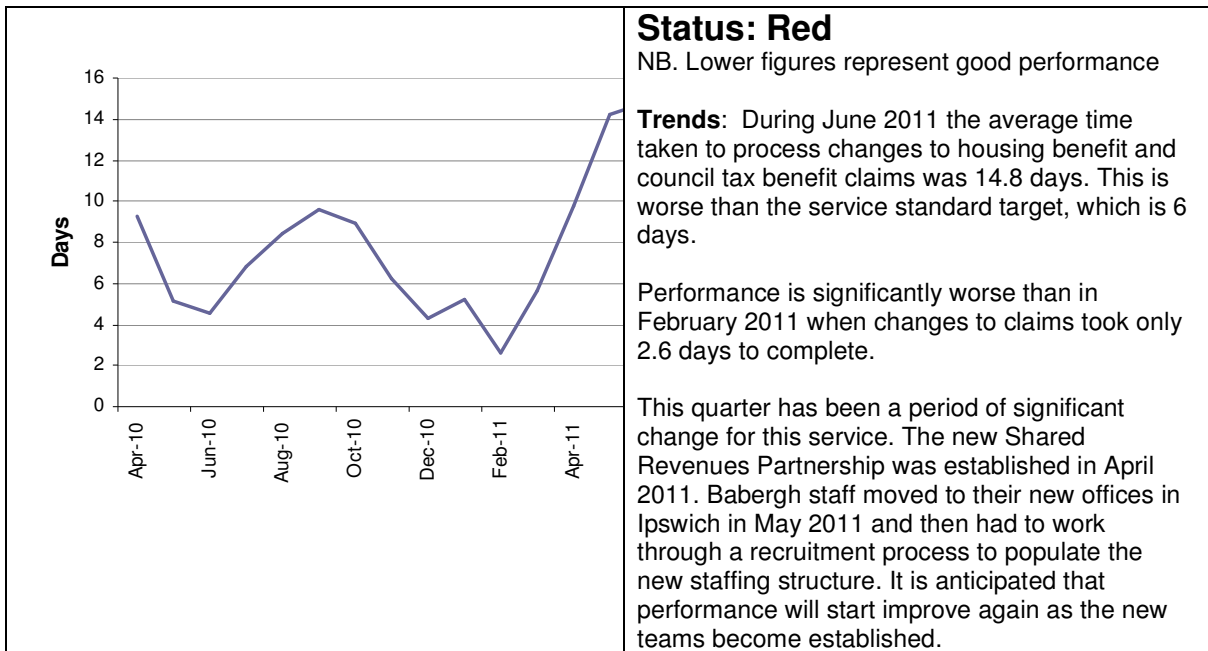
	Green	Amber	Red	No data	Contextual	Comments
Strategic PIs	3	2	0	1	0	No data = LPI 80
Strategic Service Standards	1	0	1	0	0	Red = BV78b
Key delivery plan actions	15	2	2	0	0	Red = C1, C8

b) Performance Indicator exceptions

There are no performance indicator exceptions for the 'Vibrant Places and Strong Communities Theme' this quarter.

c) Service Standard exceptions

Time taken to process change of circumstances (BV78b)



d) Delivery Plan exceptions

- The Planning Policy Team is unlikely to have the capacity during 2011/12 to develop an action plan to identify and address the main problems faced by Babergh residents living in rural areas. (Action C1)
- It has not been possible to progress plans for an Internet Café at Chelmondiston, due to the lack of suitable accommodation in the village. The funding for this project is no longer available (Action C8)

7. How we will deliver

a) Summary of progress

The Council monitors and manages 2 strategic performance indicators and 2 strategic service standards to deliver this priority. A summary of progress made during the period 1 April – 30 June 2011 is given below.

	Green	Amber	Red	No data	Contextual	Comments
Strategic PIs	2	0	0	0	0	
Strategic Service Standards	2	0	0	0	0	

b) Performance Indicator exceptions

There are no performance indicator exceptions for the 'How We Will Deliver' theme this quarter.

c) Service Standard exceptions

There are no service standard exceptions for the 'How We Will Deliver' theme this quarter.

d) Delivery Plan exceptions

There are no Delivery Plan actions exceptions for the 'How We Will Deliver' theme this quarter.

H:\DOCS\Committee\REPORTS\Overview&Scrutiny\Stewardship\2011\220911-Appendix A-PerformanceQuarter1report.doc

Key Messages/Issues since the last Risk Review

Risk	Key Messages/Issues
<p>Risk 1 – Political and Managerial Leadership</p>	<ul style="list-style-type: none"> • Continued focus on this as part of the integration plans and other key challenges facing the Council – through PLG, seminars and briefings. • New joint senior management team to be appointed in October/November.
<p>Risk 2 – Efficiencies and Savings (Rolling 3 Year Time Frame)</p>	<ul style="list-style-type: none"> • An updated assessment of the Medium Term Financial Strategy was reported to Members at the joint ‘Awayday’ with Mid Suffolk in June 2011 and at the July 2011 Member briefing. • The assessment indicated that savings, efficiencies and additional income of up to £1.3m could be needed for 2012/13 with a further £2.2m (subject to Government grant levels) savings required in the following two years. This will require Members to regularly review the Council’s strategic direction and priorities. • An initial assessment on savings and impact of staff and service integration has been completed and reported to JMIB. • Minimum Business Case savings of £800k staff savings between the two Councils are felt to be achievable in 2012/13. • Work on non-staff costs and other savings/income is now being undertaken as part of the Strategic and Financial Planning Process. • The residual risk for 2012/13 remains high as it is still recognised that further work on transformation, not just staff integration, is required to drive out further savings, and key decisions on charging proposals are still required.

Risk	Key Messages/Issues
Risk 3a – Shared Services – Integration with Mid Suffolk	<ul style="list-style-type: none"> • Project risks with risk rating and mitigation measures have been captured within the BMI Implementation Plan and Risk Register. • Monitoring of these risks is done quarterly by the Joint Member Integration Board. • JMIB Members were last updated on key risks in August 2011. Officers have updated the register to reflect the ‘no’ to merger vote with the risk focus now on integration and transformation. See Appendix C, which provides a summary of the actions to mitigate the key programme risks last reported to JMIB.
Risk 3b – Other Shared Services	<ul style="list-style-type: none"> • Through the Strategic & Financial Planning process the Council will continue to consider for 2012/13 any further opportunities for other shared services (i.e. other than Mid Suffolk) on the basis that in all cases a joint approach with Mid Suffolk would be the preferred way forward.
Risk 4 - Capacity	<ul style="list-style-type: none"> • A new communications and engagement strategy has been produced. The aim is to provide guidance for Members, directors, managers and staff, who all have a crucial role in identifying delivering and encouraging two-way communications as we integrate the two Councils. • There is a recognised need to identify and deliver further change management and ‘building resilience’ training. In addition, the Corporate Training & Development Plan needs to be jointly developed with Mid Suffolk for 2012/13.
Risk 5 – Partnerships	<ul style="list-style-type: none"> • The SRP is up and running and key aspects including performance is being monitored by the Joint Committee. • The Strategy Committee will receive a report in October 2011 following a review of the Council’s key partnerships with regard to their role and responsibilities.

Risk	Key Messages/Issues
Risk 6 – Performance and Cost Management	<ul style="list-style-type: none"> • The 2010/11 financial outturn was within budget, and the £1.6m savings, efficiencies and additional income achieved. • The Strategy Committee have set targets for 2011/12. • Performance targets may suffer from 2011/12 onwards as pressure to reduce resources increase. There is a need to continually challenge and action issues around performance and any identified variances. • Staffing and other costs continue to be reduced through the joint vacancy arrangements. There is now a need to focus on integration and transformation work with Mid Suffolk. • Costs and Value for Money in other key areas will be examined through the Strategic and Financial Planning process.
Risk 7 – Localism and Community Engagement	<ul style="list-style-type: none"> • Continued monitoring and interpretation of legislation and guidance on localism and Big Society, including engagement with partners such as Voluntary Community Organisations as appropriate and necessary. • Babergh have launched their Budget Challenge aimed at engaging with organisations, including town and parish councils by sharing information on the challenges the Council face regarding the budgets for 2012/13 and beyond, and looking for their ideas as to how the Council can balance the books.

BMI Risk Update

1. Members were last updated on key risks on the 14 June 2011, based on risks prior to the no vote on merger. Since then officers have updated the BMI Risk Register to reflect this and review risks accordingly now that the focus is on integration and transformation, not merger.
2. The Risk Register is now, therefore, based on the revised programme management arrangements, with risks updated and reviewed for most of the key 'Enabling Capability' work streams including Service Integration.
3. The outcome of the above is summarised below, with an indication given on progress on actions to effectively manage the risks and what are currently considered to be the key risks.
4. Significant developments since the last risk review and examples of some of the specific actions that have been taken to manage some of the key BMI risks are summarised below:
 - Initial Service Integration reports complete, providing assurance that the estimated ongoing annual £800k saving (£400 for each Council) which is included in the draft 2012-13 budget projections is currently seen as sound and achievable. Proposals relating to specific posts across the two councils to next Strategy/Executive meetings
 - Extensive consultation on the Chief Executive's draft staffing structure proposals. All six service groups advised that a similar level of savings from staff integration to that identified in the initial draft structure should be achievable
 - HR strategic advisors appointed in relation to implementing the staffing structures relating to the top management tiers. ICT advisors also being appointed on future strategy and proposals to integrate functions/activities
 - Assessment of approach to those activities provided by CSD (ICT, HR, Finance and Customer Access) being developed to identify barriers and strategic/operational options relating to integration and alignment of activities and future service delivery beyond 2014
 - Communication Strategy developed and being rolled out to all staff across both councils
 - Planning Delivery Group established to manage key interdependencies between the various work streams
 - Peer Reviews to be commissioned, with one in late 2011/12 and the other approximately 18 months later.

5. The following table summarises the key risks that are currently considered to be the most significant to the success of the BMI project:

Significant Current Risks
<p>Organisational and Policy Alignment:</p> <p>T1 – Ensuring the full benefits of service delivery are achieved through, where appropriate, aligning priorities and policies</p>
<p>Service Integration/HR:</p> <p>S2 – Failure to integrate staff including harmonisation of pay and conditions impacting on joint service delivery benefits</p>
<p>Finance/resources:</p> <p>F1 – Inadequate resources/capacity</p> <p>F3 – Critical Member decisions not made in timescales consistent with business case</p> <p>F4 – CSD-related activities (also risk CSD1 – extension of CSD contract and alternative service delivery models)</p> <p>F5 – Higher redundancy/pension costs than envisaged leading to longer payback and potential impact on short-term savings</p> <p>F7 – Timing of integration savings and impact of pay harmonisation and salary protection</p>
<p>ICT/Information Management</p> <p>ICT1/2 – Failure to adequately prepare for ICT delivery options post 2014 (CSD contract)</p> <p>P1 – Failure to establish what and where ICT systems are needed</p>
<p>Contracts</p> <p>CTR1 – Maximising joint procurement opportunities and benefits</p>
<p>Political Engagement</p> <p>PE1/2/3 – Lack of fully established vision for both councils and creation of top management team.</p>
<p>Senior Management Leadership and Culture</p> <p>C1 – Failure to establish shared vision and culture and joint framework/policies</p>

H:\DOCS\Committee\REPORTS\Overview&Scrutiny\Stewardship\2011\220911-Appendix C-BMI Risk Management UpdatetoQuarter1report.doc

GENERAL FUND QUARTER 1

Savings, Efficiencies and Additional Income Review

1. A review has been carried out on the Savings and Efficiencies and additional income that were detailed in the Budget Book. Out of a total expected savings (excluding vacancy management) of £889k, 37% has been fully achieved with a further 52% likely.
2. The balance of 11% equates to a potential shortfall of £98k in the following areas where income/savings have been flagged as unlikely:
 - Building Control and Development Control £40k
 - Income for excess charge notices of £24k
 - Reduced savings on public conveniences of £34k
3. Indexation and inflationary cost pressures could result in savings of £14k for the waste contract and there is likely to be a saving of £15k on the May Council elections.
4. Additional income of £28k has also been highlighted in the form of a repayment of accrued trading surplus from the waste consortium.

Carry Forwards

5. Budgets of around £400k were carried forward from last year of which 70% have been identified as spent or allocated for expenditure in 2011/12. The timing of the remainder is still uncertain although none have been identified as not being required.

Budget Monitoring

6. Salary savings of £31k have been achieved in quarter 1 which is in line with budgeted savings from reduced staffing costs and vacancy management. It is likely that overall savings could exceed those savings allowed for in the budget, depending on the timing of voluntary redundancies, natural wastage and vacancy management.
7. Licensing income and Planning Fee income are both on budget and early indications are that Building Control Fee income could generate an additional £11k for the year.
8. If the current trend continues Land charges income could also increase for the year by £20k.
9. Costs associated with the Waste contract remain under close scrutiny and are expected to be in line with budget.
10. Allowances have been made in the budget for a reduction in income in some areas and this is considered to be adequate provision to cover any risks. Early indications are that prudent budget management is generating some modest savings.

11. The cost of financing the capital programme will see borrowing interest costs increase by £19k against budget. This is due to additional borrowing of £3m taken in July to take advantage of favourable PWLB rates. Investment income could exceed budget by £18k, producing a neutral position overall.
12. It is unlikely that the full budget of £2m for capital receipts will be achieved in 2011/12. Of this total £1m relating to planning applications are unlikely and a further £52k for right to buy sales is doubtful.
13. Capital expenditure is likely to see an underspend with £1m carried forward into 2012/13.

HOUSING REVENUE ACCOUNT QUARTER 1

Budget Monitoring

14. A cost pressure has been identified within the HRA in the region of £60k. This was the subject of a confidential paper to Strategy Committee in July which subsequently authorised Officers to take further action to minimise the cost and resolve service delivery issues. It is proposed that reserves will be used to fund the additional cost.
15. No other cost pressures or major variances to the HRA budget have been identified at this time although tenancy changes and some repair costs are below budget although this is not expected to continue. Close monitoring of income and expenditure budgets such as utilities is continuing.
16. No variances are anticipated for HRA capital expenditure although budgets may be vired across budget headings as high priority schemes are identified.

CAPITAL BUDGET MONITORING QUARTER 1

Capital Expenditure

Contract and Asset Management

1. **Enhancement of Kingfisher Facilities** – this scheme (budget £549k) commenced on 22/08/11. The expected completion date is mid February 2012. No budget slippage is anticipated.
2. **Hadleigh Community Facilities** (budget £2,031k) has an expected commencement date of the beginning of October 2011 and completion date of the end of June 2012. We now estimate that £1m will be spent in 2012/13 rather than 2011/12.
3. **Green Waste Enhancement** (replacement refuse vehicle – budget £135k) – the vehicle is to be ordered in the near future with probable delivery in Qtr 4 2011/12.
4. **Carbon Reduction Programme** (budget £118k) – much of this budget will be spent on the Kingfisher Leisure Centre and Hadleigh Community Facilities when the work is carried out on these schemes. The budget should all be spent in 2011/12.
5. **HRA** – It may be necessary to vire budgets to other schemes where higher priority needs emerge and for PV/solar installations. Overall no overspend or underspend is foreseen at this time.

Private Sector Housing

6. **Private Sector Renewal Grants** (budget £346k) – it is currently anticipated that this budget will be spent during 2011/12 although this will depend on progress on individual schemes.
7. **Affordable Housing** (budget £293k) – this budget is expected to be spent in full in 2011/12.

ICT / Information Management

8. The total budget (including carry forwards) for ICT / Information Management for 2011/12 is £335k. Of this £148k (44%) relates to schemes that arise from the integration between Babergh and Mid Suffolk, for example Shared Services Working (£43k) and Broadband Development (£50k).

It is not clear how much of this will be spent during 2011/12. This will be dependant upon the degree to which staff integration progresses and the subsequent demands on ICT service delivery and the resultant changes in application use, hosting, migrations, etc.

Full utilisation of £177k of the remaining budget is expected in 2011/12.

Capital Receipts

9. **Right to Buy Sales** (net of pooling) (budget £100k) – £52k achieved at the end of Qtr 1. However, tenants are finding it difficult to obtain mortgages which will affect future sales.
10. **East House** (budget £850k) – this is anticipated in 2011/12.
11. **Ransom Strip, Bures** (budget £50k) – this is dependant on planning permission but it should be received in 2011/12
12. **Tesco** (budget £850k) – this will not be received in 2011/12. The planning application from Tesco was refused in July. At this stage it is not clear what future action Tesco will take – whether they will appeal against the decision or submit a revised application. The eventual timing of any capital receipt will depend on Tesco's course of action.
13. **Windfall** (budget £150k) – at this stage seems unlikely to be achieved.

1. Summary

In compliance with the requirements of the CIPFA Code of Practice on Treasury Management (“the Code”) this report provides members with a summary report of the treasury management activity during the first quarter of 2011/12. As indicated in this report none of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

2. The economy and events in Q1

- Inflationary pressures continued to build as oil and other food commodities resumed their surge, the Consumer Price Inflation index rose to 4.5% and the Bank of England’s May Inflation Report downgraded the UK’s economic growth forecast whilst raising the potential inflation near term shocks.
- Official interest rates were maintained at 0.5%. The International Monetary Fund stated that monetary policy was “appropriate” in its latest survey of the UK economy.
- Elsewhere, Greece’s funding woes became acute and the country’s sovereign rating slid further down the non-investment scale. Portugal was downgraded to junk status by Moody’s and the threat of contagion cast a shadow over the Eurozone and its financial institutions. Moody’s also announced a review of over 14 UK institutions in June which the agency expected to take around 3 months to complete.

3. Debt Management Q1

- There was no change in external debt position during the quarter and this is maintained at £3m
- PWLB Borrowing: new borrowing rates for fixed loans increased by approximately 0.87% across all maturities but the PWLB still remains the preferred source of borrowing for Babergh as it offers flexibility and control. Officers and Treasury Advisers are monitoring PWLB rates and will advise if 10 year borrowing dips below 3%. More borrowing could be undertaken later in 2011/12 to take advantage of favourable interest rates.
- Details of the Council’s Capital Financing Requirement are shown with the Prudential Indicators in Annexe 1.

4. Investment Activity Q1 and Compliance

Surplus funds have increased from £3.9m to £6.7m in the first quarter. These have been placed with approved counterparties. The position is as follows:

Deposits	01/04/2011 £000	Interest Rate %	31/06/2011 £000	Interest Rate %
Co-Op PSR account	408	0.28	1,707	0.56
UK Banks				
Barclays Bank	1,000	1.1%	1,000	0.73
Lloyds Bank			2,000	1.25
Other LAs	2,500	0.58%		
Insight MMF			2,000	0.56
Total	3,908		6,707	

The Increase in investments of over £2.8m reflects the annual cash flow cycle whereby Council Tax and other income received exceeds outgoings.

Counterparty Update:

The Council removed Spain from its approved counterparty list for 2011/12.

Arlingclose have advised that new deposits with UK banks and building societies should be restricted to a maximum maturity limit of six months with exceptions applying to Santander UK Plc (three month limit) and Clydesdale (one week limit). The Council has decided not to invest any funds with Santander UK plc or Clydesdale for the foreseeable future.

Two Triple A-rated Money Market Funds were set up in quarter one to provide additional investment opportunities to replace the counterparties that are no longer used.

In terms of compliance with the TM Strategy there were five breaches in April where the Co-Op PSR account exceeded £2m. The two Market Funds set up in quarter one should alleviate the pressure on this account and provide additional counterparties and options for investing.

5. Compliance with Prudential Indicators

The Council can confirm that it has complied with its Prudential Indicators for 2011/12, which were set in February 2011 as part of the Council's Treasury Management Strategy 2011/12 (K190A). This document can be accessed through the following link: <http://www.babergh.gov.uk>. More information on the Prudential Indicators can be found in Annexe 1.

6. Outlook for Q2

At the time of writing this quarterly activity report in June 2011, the outlook is for interest rates to remain low with a possible increase to base rate in the latter half of the year.

The Consumer Price Index (CPI) has remained persistently high, currently at 4.2% (June). Despite the reduction in petrol prices the increase in gas and electricity prices could push inflation close to 5% in 2011. CPI is forecast to remain above the Bank of England's 2% inflation target throughout 2012.

7. Other Information

Reform of Council Housing Finance: In its publication "Implementing self-financing for council housing" issued in February 2011, the CLG set out the rationale, methodology and financial parameters for the initiative. Subject to the Localism Bill receiving Royal Assent and a commencement order being passed, the proposed transfer date is Wednesday 28th March 2012.

CLG and CIPFA have both issued further information on the housing reform transaction. New information will be incorporated into the 30 year business plan and the treasury implications addressed in conjunction with the Council's advisors.

The self-financing model provides an indicative sustainable level of opening housing debt. As the Council's debt level generated by the model is higher than the Subsidy Capital Financing Requirement (SCFR), the Council will be required to pay the CLG the difference between the two, which is approximately around £81m. This will require the Council to fund this amount in the medium term through external borrowing. The Council has the option of borrowing from the PWLB or the market.

The treasury management implications of HRA reform and an appropriate strategy to manage the process are being actively reviewed with the Council's Treasury Advisor including the issues surrounding any early prefunding of the significant settlement payment (primarily the powers to borrow and the cost of carry).

Prudential Indicators**Capital Financing Requirement**

Estimates of the Council's cumulative maximum external borrowing requirement (excluding Housing Reform) for 2011/12 to 2013/14 are shown in the table below:

	31/3/2011 Actual £000s	31/3/2012 Estimate £000s	31/3/2013 Estimate £000s	31/3/2014 Estimate £000s
Capital Financing Requirement	7,905	10,571	11,734	12,184
Less: Existing Profile of Borrowing	(3,000)	(5,650)	(5,150)	(4,650)
Less: Other Long Term Liabilities	(218)	(109)	0	0
Cumulative Maximum External Borrowing Requirement	4,687	4,812	6,584	7,534

- The Council is currently following a strategy of using surplus funds to finance capital expenditure. Going forward there will be a need for further long term borrowing as surplus funds reduce and Arlingclose are monitoring PWLB rates and will advise if 10 year PWLB rates dip below 3%.

Estimates of the Council's level of Balances and Reserves for 2011/12 to 2013/14 are as follows:

	31/3/2011 Actual £000s	31/3/2012 Estimate £000s	31/3/2013 Estimate £000s	31/3/2014 Estimate £000s
Balances and Reserves	5,141	3,198	3,407	3,474

(a) Authorised Limit and Operational Boundary for External Debt

- The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached.
- The Council's Affordable Borrowing Limit was set at £90m for 2011/12 (to allow for additional borrowing for Housing Reform).
- The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit.
- The Operational Boundary for 2011/12 was set at £88m.
- The Director of Finance confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the period to 30th June. Borrowing at its peak was £3m.

(b) Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

- These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.
- The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	Limits for 2010/11 %
Upper Limit for Fixed Rate Exposure	100
Compliance with Limits:	Yes
Upper Limit for Variable Rate Exposure	30
Compliance with Limits:	Yes

(c) Maturity Structure of Fixed Rate Borrowing

- This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Maturity Structure of Fixed Rate Borrowing	Upper Limit %	Lower Limit %	Actual Fixed Rate Borrowing as at 30/06/11 £'000	% Fixed Rate Borrowing as at 30/06/11 £'000	Compliance with Set Limits?
under 12 months	50	0	200	7	Yes
12 months and within 24 months	50	0	200	7	Yes
24 months and within 5 years	50	0	600	20	Yes
5 years and within 10 years	100	0	900	30	Yes
10 years and above	100	0	1,100	36	Yes

(d) Total principal sums invested for periods longer than 364 days

The Council's policy response since the onset of the credit crunch in 2007 has been to keep investment maturities to a maximum of 12 months. No investments were made for a period greater than 364 days during this period and currently the maximum period is 6 months.