

## BABERGH DISTRICT COUNCIL

<b>From: Head of Corporate Organisation and Head of Corporate Resources</b>	<b>Report Number: M53</b>
<b>To: Overview and Scrutiny (Stewardship) Committee</b>	<b>Date of meeting: 17 July 2012</b>

### FINANCE, RISK AND PERFORMANCE MANAGEMENT – 2011/12 YEAR END 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 as at the end of the financial year 2011/12 across a range of areas including finance, risk management and various aspects of performance linked to the Delivery Plan.

#### 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 BMI risks as referred to in paragraphs 8.13 to 8.15 and summarised in Appendices A and B respectively, are noted.
- 2.4 That the position on the Council's progress against budget and the Treasury matters in Appendices C and D be noted.

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

#### 3. Financial Implications

- 3.1 Quarter 4's financial performance monitoring is based on the draft outturn for the year compared with the original budget for the General Fund and against the revised budget for capital reporting and the HRA. Although this is based on the likely financial outturn for the year, there may be further variations once the Statement of Accounts is finalised and audited.
- 3.2 In terms of the overall General Fund revenue budget for the year, the likely outturn position shows a favourable variation against the original budget (including approved carry forwards from the previous year). More details are set out in Sections 2 - 4 of Appendix C.

- 3.3 On the Council Housing (HRA) budget, the likely outturn position shows an overall surplus rather than a deficit. This is mainly due to the timing of capital projects (see below) and further details can be found in Section 5 of Appendix C.
- 3.4 Overall, total capital investment was £5.7m. Further details of both the General Fund and Council Housing capital programme outturn are detailed in Sections 6 and 7 of Appendix C.

#### 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:

<b>Risk Description</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigation Measures</b>
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

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 Strategic Priorities - Babergh (BDC) and Mid Suffolk District Council (MSDC) have developed a set of aligned strategic priorities for the 2012/13 transitional year, along with supporting outcomes and outputs in the form of measurable actions, performance measures and associated risks.
- 7.2 From this work an aligned delivery plan has been agreed for 2012/13 and associated performance management arrangements (corporate balanced scorecard) have been developed. A more substantial project is currently being undertaken to deliver the strategic and financial planning process for 2013/14 onwards.
- 7.3 Risk lead officers from both Babergh and Mid Suffolk continue to progress plans for the integration and refinement of the three risk registers that currently exist (BDC/MSDC/BMI). We are working closely with our colleagues involved in performance to ensure that future arrangements are aligned to ensure the most effective possible outcomes. The Risk Strategies will also be integrated. From April 2012 the intention is to adopt an aligned integrated reporting approach towards risk management.

## **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 is significantly below the agreed target or delivery of the action has been significantly delayed or won't be completed at all during 2011/12. Only commitments classified as 'Red' are designated as performance exceptions for the quarter. This is based on a comprehensive analysis of all relevant data and information submitted by the lead officers.
  - 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.

### **Summary of performance as at Year end 2011/12**

Detailed information on the performance exceptions for each of the Strategic Plan themes is set out in paragraphs 8.7 to 8.11 below. This information is based on a comprehensive review of achievement against the 2011/12 Delivery Plan actions, strategic performance indicators and service standards as at 31 March 2012. A summary analysis of performance across all of the Council's Strategic Plan priority themes follows.

- 8.2 The overall picture of performance and achievement at the end of 2011/12 is good and particularly encouraging given the impact of staffing and budget reductions – see Table 1. 92% of Delivery Plan actions, strategic performance indicators and service standard measures across all priority themes are either meeting or exceeding the target or milestone set (green) or close to it with no significant concerns about performance (amber).
- 8.3 In total, 9% of the various measures where data exists for 2011/12 have been classified **red** – performance significantly below target or delivery significantly delayed 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 paragraphs 8.7 to 8.12 below.
- 8.4 At the time of printing this report, data was not available for 8 measures – strategic indicators BV64, NI185, LPI115, LPI 80, LPI72a and Delivery Plan actions H28, H30 and C14. Data for NI185 is calculated on an annual basis and so this was expected. However, an oral update on the others can be provided during the Committee meeting if the information becomes available. 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 to the council, of which there were 111 compared to 79 during the previous financial year – an increase of 40% in twelve months. This indicator is linked to Delivery Plan Action H31 – see paragraph 8.7 below for further details.

**Table 1 - Summary of 2011/12 year end performance and achievement**

	Green	Amber	Red	No data	Contextual	Comments
Strategic PIs	9	12	1	5	1	Red = LPI12a&b No data = BV64, NI185, LPI115, LPI80, LPI72a Contextual = LPI42
Strategic Service Standards	7	1	3	0	0	Red = NI157b, BV78a, BV212
Key delivery plan actions	72	20	6	3	0	Red = H31, G6, G14, E19, C1,C8 No data = H28, H30, C14
Total	88	33	10	8	1	
% of Total	67%	25%	8%	-	-	

8.5 Detailed analysis of performance has highlighted the following performance exceptions. Exceptions are the 10 Delivery Plan actions, strategic indicators and service standards classified as **red** – below target with concerns about performance. This section sets out by theme the current position on each exception and, where applicable, what activity has been undertaken or is planned by officers to improve performance.

8.6 Theme 1 – Quality homes local people can afford

- **Homelessness levels (Action H31).** The commitment to maintain current levels of homelessness performance so that the overall levels of presentations do not exceed 75, and the number of acceptances does not exceed 40, has been classified Red as the level had already been exceeded by the end of the third quarter. Babergh, in common with Council's generally have experienced unprecedented new levels of homelessness. This trend is being monitored closely by officers and will be reported on to the Housing Panel during 2012/13.

- **We will re-let local authority housing within 26 days (former BV212).** There is no data on what proportion of council dwellings are re-let within the service standard time. However, the *average* re-let time is 30 days which suggests that the standard is frequently being missed. However, the outturn does represent a small improvement compared to last financial year when the average time taken to re-let local authority housing was 32 days. It should also be noted that there are 9 properties that have been ready to let for a considerable time but are proving very difficult to let. If these properties were excluded, the average time reduces to 27 days.
- **We will process minor applications within 8 weeks (NI 157b).** 59% of minor applications have been processed within time this financial year which is below the national and local target level of 65%. This breaks down as 163 out of 275 applications within time. The equivalent figure for the previous year was 61% (171 out of 281 on time). There has, therefore, been a further decline in the determination of cases being processed within the statutory times and performance is now 6 per cent below target.

#### 8.7 Theme 2 – A cleaner and greener Babergh

- **Trade waste recycling (Action G14).** The commitment to recycle 850 tonnes of trade waste is significantly below target and will not be achieved this year. 41 tonnes of trade waste only have been recycled. It has not been possible to progress the recycling trade service within Babergh as quickly as previously anticipated. However, a concerted effort is being made to develop a specific trade recycling service amongst the current trade customers which should lead to improved performance in 2012/13.
- **Ensuring that the Council's land and open spaces are maintained to a high standard (Action G6) –** Overall in 2011/12, 76% of sites have achieved an inspection grading of 'satisfactory' against an annual target of 87%. This was lower than anticipated partly due to the contract manager post being held vacant until June 2011. Since that appointment was made performance has steadily improved (once seasonal variation is accounted for) as demonstrated by the monthly figure for March 2012 of 92% which compares with 79% for March 2011.

#### 8.8 Theme 3 – A safer and healthier Babergh

There are no performance exceptions under this theme for 2011/12.

#### 8.9 Theme 4 – A strong and sustainable Babergh economy

- **Hamilton Road Quarter development in Sudbury (Action E19).** Assembling the land required for the Hamilton Road development stalled during the year due to the refusal of a key landowner to negotiate. There is no further progress to report since quarter 3.

## 8.10 Theme 5 – Vibrant places and strong communities

- **We will make a decision on your entitlement to Housing or Council Tax Benefit within 16 days once we have all the information we need (former BV78b).** There is no data available on what proportion of decisions are made within the service standard time. However, the *average* time taken to make decisions on housing an council tax benefit claims was 31 days based on the March 2012 data which means the standard is not being met . Benefit performance (processing times) fluctuated throughout the year with the data migration down time and the subsequent data cleansing work having a detrimental impact on performance particularly in the last quarter.
- **Rural isolation action plan (Action C1).** Due to the changes to the Core Strategy timetable, Babergh's Planning Policy Team has not had the capacity to research and develop an action plan to identify and address the main problems faced by Babergh residents living in rural areas. Whilst some useful research material is available known issues are substantial in nature and difficult to tackle. This commitment will now be picked up as part of the work to develop an integrated strategic planning process for 2013/14 onwards. It is anticipated that reducing the negative impacts of rural isolation will be a key objective for Babergh and Mid Suffolk Councils.
- **Internet Café (Action C8).** Unfortunately 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 allocated in 2010/11 for this project is no longer available. This action will not be carried forward into 2012/13.

## 8.11 How we will deliver commitments

- **Percentage of capital expenditure achieved on the Housing Revenue Account and General Fund (LPI 12 parts a and b).** On the Housing Revenue account 86% of expenditure has been achieved against an annual target of 97%. Delivery of this target has been affected by a number of factors including delays in awarding the last kitchens contract for council properties (£165k), reduced take up of disabled adaptations (£111k) and deferred major improvement scheme (£44k).
- On the General Fund 64% of expenditure on the capital programme has been achieved against an annual target of 89%. Delivery of this target has been affected by a number of factors which include underspends of £349k for capitalised redundancy costs (budget of £750k) and £525k on Hadleigh Community Facilities (due to the late start of the project). Further details of the variances relating to the capital programme can be found at Section 5 in Appendix C.

### **Summary of Significant Business Risks for Quarter 4 2011/12**

8.12 The risk ratings, as previously reported to this Committee on 20<sup>th</sup> March 2012, remain the same.

8.13 Key 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 A.

## BMI Risk Update

- 8.14 JMIB were presented with a risk update on 12<sup>th</sup> June 2012. Appendix B summarises the key messages and issues that are currently considered to be key to the success of the BMI project.

## Financial Position

- 8.16 Details of the likely financial outturn for Q4 are provided in Appendix C. This highlights key variances in income and expenditure, both revenue and capital, compared to budget.
- 8.17 The likely General Fund revenue budget outturn for 2011/12 shows an overall favourable variance, as does the HRA. Strategy Committee will be recommended to make an additional transfer to General Fund Earmarked Reserves.
- 8.18 Most of the HRA variance relates to the timing of capital expenditure, which will now take place in 2012/13, with nearly a £0.5m carry forward in relation to this - see section 7 of Appendix C.

## 9. Appendices

Title	Location
A Significant business risks at Quarter 4	Attached
B BMI risk update	Attached
C Financial Information Quarter 4	Attached
D Treasury Management Quarter 4	Attached

## 10. Background Documents

- 10.1 The 2011/12 Delivery Plan – this can be accessed at:

[http://www.babergh.gov.uk/NR/rdonlyres/544B92AE-298F-4727-A38B-48156275F9B6/0/FINALDELIVERYPLAN201112\\_11Feb2011\\_.pdf](http://www.babergh.gov.uk/NR/rdonlyres/544B92AE-298F-4727-A38B-48156275F9B6/0/FINALDELIVERYPLAN201112_11Feb2011_.pdf)

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**Significant Business Risks – Key messages/issues since the last risk review**

Risk	Key Messages/Issues
Risk 1 – Political and Managerial Leadership	<ul style="list-style-type: none"> <li>• Member briefings continue and officers are attending group meetings to discuss complex issues to increase understanding.</li> <li>• Following appointment of the corporate managers, the new Integrated Management Team held its first event to develop working relationships and increase the understanding of key issues to be addressed.</li> <li>• A programme for the development of a joint corporate strategic plan and complementary leadership and behavioural change programme has been agreed. A community engagement plan has also been agreed. Events have been held with political leaders and all members to develop the plans and Members leadership role – especially with regard to community engagement.</li> <li>• A review of the Councils' governance arrangements is taking place. This includes consideration of the joint and individual governance and constitutional arrangements in both Councils to determine whether those arrangements are workable.</li> </ul>
<i>Risk 2 – Efficiencies and Savings (Rolling 3 Year Time Frame)</i>	<ul style="list-style-type: none"> <li>• Council Tax and Budget approved for 2012/13. Budget savings of £1.3m including additional income generation proposals identified and agreed.</li> <li>• For 2011/12 we are slightly ahead of schedule on the savings required, and are confident that we are on target to deliver the required savings for 2012/13.</li> <li>• Still a major challenge to deliver total savings of £3.5m over the next 3 years. This will have to be generated by us all developing new ways of working and transforming the way we work with our communities, our partners and with each other.</li> </ul>
Risk 3a – Shared Services – Integration with Mid Suffolk	<ul style="list-style-type: none"> <li>• Project risks with risk rating and mitigation measures have been captured within the BMI Implementation Plan and Risk Register.</li> <li>• Monitoring of these risks is done quarterly by the JMIB. Refer to Appendix B – BMI Risk Update presented to JMIB in June 2012.</li> </ul>

Risk	Key Messages/Issues
	<ul style="list-style-type: none"> <li>• A recent Peer Review has been undertaken. The focus of the review concentrated on the development and delivery of the vision for an integrated organisation. A follow up review to assess the effectiveness of the delivery of the programme will be undertaken in 18-24 months time. Feedback will help inform and develop thinking and plans for further development.</li> </ul>
Risk 3b – Other Shared Services	<ul style="list-style-type: none"> <li>• Officers continuing to consider further opportunities for other shared services/collaboration (i.e. other than Mid Suffolk) on the basis that in all cases a joint approach with Mid Suffolk would always be considered as the preferred way forward.</li> </ul>
Risk 4 - Capacity	<ul style="list-style-type: none"> <li>• 30 of the 34 corporate managers now in place. Work has started on developing the operational delivery teams.</li> <li>• Lunch-time drop-in sessions continue for staff to ask questions on integration/transformation matters. The fortnightly newsletter for staff and members continues, with a supplementary weekly 'Talk Amongst Ourselves' email.</li> <li>• New vacancy management process agreed and implemented.</li> </ul>
Risk 5 – Partnerships	<ul style="list-style-type: none"> <li>• The Overview and Scrutiny (Community Services) Committee to undertake a review of the effectiveness of the new partnership arrangements during 2012.</li> </ul>
Risk 6 – Performance and Cost Management	<ul style="list-style-type: none"> <li>• Both councils have agreed a new strategic reporting process for 2012/13.</li> <li>• Both sets of councillors approved the aligned strategic priorities, supported by a joint Delivery Plan 2012/13.</li> <li>• The Delivery Plan contains a set of objectives and associated outcomes for each of the community focussed priorities that clearly identify what the councils are aiming to achieve during the year.</li> <li>• Overall, the proposed framework will provide councillors with the information they require to ensure that policy decisions are being carried out and communities are being well served.</li> </ul>

Risk	Key Messages/Issues
Risk 7 – Localism and Community Engagement	<ul style="list-style-type: none"> <li>• 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.</li> <li>• A joint bid is underway for support towards a project to improve the way councils engage with their community, improve quality, make a positive difference and promote fresh thinking and customer centric design.</li> <li>• Work is underway to encourage work experience and apprenticeship schemes for young people in Babergh and Mid Suffolk, with the private, public and voluntary sectors.</li> <li>• Subsequently, the joint strategic priorities 2012/13 of both councils now include an objective to 'Improve the employability of our young people and reduce the numbers of those Not in Employment, Education or Training (NEETs) particularly in isolated or income deprived areas'.</li> <li>• The Councils have adopted a new joint Communications and Engagement Strategy which will move the organisations to an approach that will enable all its audiences (externally and internally) to feel informed, knowledgeable, empowered, involved and engaged.</li> <li>• The Comms and PR teams are exploring the potential for joining up the existing residents' publications – Babergh Matters and the Mid Suffolk Messenger. It is thought that a joint publication would ensure that residents are kept up to date on the Council's integration and transformation plans, and other key issues within the districts and also county-wide issues that affect them.</li> </ul>

## **BMI Risk Summary Update – Key Messages and Issues**

Extract from the BMI risk report presented to JMIB in June 2012.

### **1. Key Information**

#### **1.1 Top risks**

1.1.1 Total staff redundancy and capital pension costs resulting from new integrated staffing structure remain uncertain and will depend on the remaining appointments to the structure at tier 4 and 5. At this point in time, it is envisaged however, that the total costs will be in line with the business case. Savings from the integration programme are critical to achieving the overall savings targets facing both councils and these are being carefully monitored, with good progress being made in achieving the levels of savings set out in the business case (over £1.3m in 2012/13). Paper JSC/6/12 to the Joint Scrutiny Committee on the 30 May 2012 sets out further details.

1.1.2 The results of the recent staff survey raised various issues. Senior management have been alerted to these and will address the issues raised, which will also link into the results from the recent Peer Review. The results will also feed into the Organisation and Development Plan.

1.1.3 Key risks relating to location of ICT systems, prediction of ICT costs and options for HR, ICT and Public Access provision all revolve around the end of the CSD contract in 2014 and the Future Back Office Requirements. Whilst BDC and MSDC are working with the other Suffolk Districts, the Boroughs and Suffolk County on future options, there is a significant element of dependency upon the timing and outcome of SCC's preferred option. (An outline business case for 4 options will be presented at its July Cabinet meeting).

#### **1.2 Highlights/successes**

1.2.1 MSDC web pages were successfully migrated to a new platform prior to the withdrawal of One-Suffolk platform and the relevant risk has now been removed from the register.

#### **1.3 Exceptions**

1.3.1 Identification of best location for services is dependent on appointment of tier 4 and 5 officers. In early May Members agreed to retain both HQ buildings for the next 3-5 years. Heads of Service and the Accommodation Working Group will now resolve the best location for each service as tier 4 and 5 are appointed. Andrew Hunkin is also responding to a call in from BDC Overview and Scrutiny Committee resulting from the report to Babergh Strategy Committee ref M25 Proposed approach to Babergh/Mid Suffolk office accommodation.

- 1.3.2 ICT costs exceed estimated costs, and failure to establish specifically where ICT systems will reside such that new applications can be installed and implemented.

Both of these risks relate to the resolution of Future Back Office Requirements (FBOR) and as such are partially dependent upon SCC putting together preferred options for post 2014. Four preferred options will go to the SCC July Cabinet meeting.

Target dates for actions to mitigate these risks have been extended from April 2012 to July 2012 and September 2012 respectively.

- 1.3.3 Meanwhile work continues on the SOCITM (Society of IT Managers) action plan and a report titled Vision of the future councils, which includes service availability went to JMIT on 31 May 2012 and will then feed into the Information Strategy.

#### 1.4 **New risks**

- 1.4.1 One new significant risk has been identified and relates to establishing a management structure that works together. Actions have been agreed to develop an Organisational Development plan and to implement a Professional Development Plan for corporate managers.

## Quarterly Financial Performance – Quarter 4

## 1. Background Information

- 1.1 The Statement of Accounts and Outturn Report, including transfers to reserves will be reported to Strategy Committee in August.
- 1.2 This report provides details of key variations in income and expenditure compared to the original budget for General Fund revenue and for revised budgets for the HRA and both General Fund and HRA capital.
- 1.3 The draft outturn for the year is anticipated to be a favourable variance of around £240k compared to the original budget. Further details on key areas are provided in the table below.

Key General Fund Variances		2011/12	
Description	Original Budget	Outturn	Variation
	£000	£000	£000
Salaries	7,121	6,949	-172
Land Charges Income	-160	-194	-34
Investment Income	-50	-61	-11
Building Control Income	-485	-379	+106
Babergh Response Income	-111	-72	+39
Green Waste Income	-320	-362	-42
Additional cost pressures/reduced income (incl. Long Stay Parking)	-332	-196	+136
SSL Management Fee - Hadleigh Pool & Kingfisher LC	171	196	+25
Waste Contract	1749	1667	-82
Elections	84	63	-21
ICT Supplies & Service Costs	383	356	-27
Babergh Matters & Communications	41	0	-41
Other variations			-116
<b>Favourable variation</b>			<b>-240</b>

## **2. Staff costs/Salaries:**

- 2.1 Salary savings for Q4 indicate that budgeted salary savings have been exceeded, as anticipated in Q3. This is as a result of rigorous monitoring of staffing costs and vacancy management throughout the year.
- 2.2 The total cost of redundancies for Babergh in 2011/12 is in the region of £500k, which is higher than anticipated. This is in line with the latest business case (whereas the original budget was based on the previous business case) and includes a provision as a result of the Tier 4 redundancies. Costs have been shared on a 50/50 basis with Mid Suffolk and the HRA pays a share of these.

## **3. General Fund Income:**

3.1 Higher income than anticipated has arisen in the following areas:

- Land charges Income continues to be higher than expected, mainly due to an increased number of searches and fee income.
- Investment income is slightly higher than expected despite continuing low interest rates in the market. This is due to more surplus funds available for investment due to an overall reduction in expenditure.
- Additional income also included green waste income due to more people subscribing to the service.

3.2 Lower income than anticipated has arisen in the following areas:

- As predicted in quarter 3, Building Control income is lower than budget due to the continuing economic downturn.
- Car Parking - As also previously reported, income from the introduction of long stay charges was less than anticipated, however, Members are asked to note that an allowance was made in the budget for this.
- Babergh Response (community alarms) income is less than budget. No new business is being generated as future service provision is under review.

## **4. General Fund Expenditure:**

4.1 A number of favourable variations in expenditure have arisen and budget carry forwards requested for some of these as the expenditure will now take place in 2012/13. Those over £20k will be approved by strategy Committee in August. Details of the main variances are listed below:

- An additional contribution of £25k was provided to South Suffolk Leisure (SSL) for increased utility costs. SSL have benefited from a contract providing reduced utility costs which has now ended. The subsequent increase in utility costs was greater than anticipated.

- Babergh Matters has not been published this year generating a saving of £41k and this is subject to a carry forward into 2012/13 to support work on community engagement and strategic priorities.
- IT supplies and services showed an overall reduction of £27k, which includes an £18k saving in software licenses.
- The cost of conducting Elections is less than budgeted and the total variance includes a saving on the national AV referendum including the Government's grant towards this.
- Corporate and other training - an underspend of £21k arose, which is also subject to a request to be carried forward to 2011/12 to complete the programme of resilience and other practical skills training.
- Waste Contract - the waste contract was less than the budget, with a saving of £82k arising.
- A variety of other underspends totaling £114k arose which are also the subject of a request for carry forward.

## 5. HRA - Revenue

5.1 The Housing Revenue Account likely outturn indicates a surplus of £285k against a deficit anticipated in the revised budget of £324k, an overall favourable variance of £608k. This is largely due to timing of expenditure on projects in the capital programme of £468k, the funding for which will be carried forward to 2012/13.

5.2 The main variances are shown in the table below:

Description	Revised Budget	Outturn	Variance compared to Revised budget
	£	£	£
Income - Incl. Rents and Charges	-13,492	-13,601	-109
Tenancy Changes	466	452	-14
Repair Requests from Tenants	1,012	1,084	+72
Special Items - Repairs	150	147	-3
Painting and Pre-paint Repairs	297	212	-85
Energy Costs	229	181	-48
HRA Subsidy	5,430	5,396	-34
Capital and other Charges	2,959	2,572	-387
<b>Total Saving</b>			<b>-608</b>

5.3 A higher rental income was achieved than anticipated due, in part, to a lower number of properties empty requiring major void repairs.

- 5.4 The pre-painting repairs budget was underspent as one of the Council's contractors ceased trading during the year and the contract was not started. This work will be completed in 2012/13 and a budget carry forward has been requested.
- 5.5 Repair requests from tenants is a demand led budget and the level of expenditure can be difficult to predict. The increased cost of £72k has been accommodated by moving funds from other repairs budgets.
- 5.6 The net additional £34k payable to the Government for the HRA Subsidy is largely due to an additional payment relating to the previous year.
- 5.7 Despite very close scrutiny of the budgets when compiling the revised budget, energy costs overall were £48k less than anticipated. This is an area of expenditure that will be reviewed further and closely monitored over the coming year.
- 5.8 The variance for capital and other related charges is largely due to the position on the capital budget.
- 5.9 Carry forwards totaling £71k have currently been identified and include the following:
- £32k for painting contracts to be completed in 2012/13
  - £34k for corporate training, legal costs and other repairs and maintenance contracts
  - 5k insurance excess for claims in progress

## 6. General Fund - Capital Programme

- 6.1 The General Fund capital programme is summarised below:

Expenditure Area	2011/12		
	Revised Budget £'000	Outturn £'000	Variation £'000
ICT / Information Management	215	98	-117
Contract & Asset Management	2,227	1,413	-814
Community Development	337	210	-127
Private Sector Housing	552	518	-34
Natural & Built Environment	76	25	-51
Capitalised Redundancy Costs	750	401	-349
ICT Integration Costs	12	5	-7
<b>TOTAL PROGRAMME</b>	<b>4,169</b>	<b>2,670</b>	<b>-1,499</b>

6.2 The final percentage of capital expenditure achieved on the General Fund is 64% of the revised budget (LPI 12b). In addition to the budgeted capital programme, a further £239k was spent on open spaces and play areas which has been funded from S106 contributions.

6.3 The main variances for each expenditure area are shown below:

ICT / Information Management:

- Budget underspend of £171k has arisen mainly due to timing of integration work. The budget will be carried forward to support the adopted integration and ICT strategy.

Contract & Asset Management:

- Hadleigh Community Facilities - £525k less spent due to the later start on the scheme than allowed for in the budget (previously reported).
- Green Waste Vehicle – this was ordered in the final quarter of 2011/12 but will not be delivered until the new financial year when the balance of the budget of £107k will be spent.
- A number of variations on other areas of asset management totaling £182k, including: Kingfisher Leisure Centre planned maintenance and enhancements (50k); Car Parks (54k); Corporate Buildings planned maintenance (£38k); Hadleigh Pool Major Repairs (25k); Carbon Reduction projects (13k).

Community Development:

- Community grants - £127k less paid out than the budget of £337k due to delays in the planning permission stage for applicants. Also some grant recipients have experienced difficulties in raising the necessary match funding but all the allocated funding will be spent during 2012/13 and allocations for this year's funding are underway.

Private Sector Housing:

- A payment of £30k to a housing association towards the cost of an affordable housing project in Thorpe Morieux will be made in 2012/13. The units have now been completed.

Natural & Built Environment:

- Sudbury Town Centre Redevelopment - £43k not spent as it has not been possible to purchase the additional land needed for the scheme to progress. The scheme was funded by the Haven Gateway Partnership.

Capitalised Redundancy Costs:

- Capitalised redundancies related to the additional pension costs as a result of integration and staff reductions - as per the business case. Babergh and Mid Suffolk were granted £750k each to capitalise these costs in 2011/12.

- 6.4 In terms of financing sources available, net capital receipts achieved in 2011/12 totalled only £142k, compared with a budget of £150k. This small shortfall is due to the expected sale of an area of land (proceeds £50k) not being completed in the year but was offset by the income for right to buy sales being higher than anticipated. This has only a marginal impact on the financing of the capital programme in 2011/12.
- 6.5 No new external borrowing was undertaken by the Council to finance the General Fund capital programme.

## 7. HRA - Capital

- 7.1 The overall outturn position on the Housing Revenue Account capital programme compared with the revised budget for the year is summarised below:

Expenditure Area	2011/12		
	Revised Budget £'000	Outturn £'000	Variation £'000
<b>Improvements/Major Repairs</b>			
Heating	1,042	1,027	-15
Kitchens / Bathrooms	651	486	-165
Disabled Adaptations	484	373	-111
Doors and Windows	340	308	--32
Other Planned Maintenance	513	483	-30
<b>Total</b>	<b>3,030</b>	<b>2,677</b>	<b>-353</b>
Major Refurbishments	161	112	-49
Structural Works	19	12	-7
ICT Projects	49	10	-39
Other Programmes	219	179	-40
<b>TOTAL PROGRAMME</b>	<b>3,478</b>	<b>2,990</b>	<b>-488</b>

- 7.2 The percentage of capital expenditure achieved on the HRA is 86% of the revised budget.
- 7.3 Further details on variations are provided below:
- Heating - Heating installations were close to budget with a small carry forward requested. The budget carry forward from 2010/11 of £41k has been spent in the year.
  - Bathrooms and Kitchens – the under spend of £165k arose due to the award of a major contract being delayed. Staff resources were diverted to deliver the two main capital schemes at Kingfisher and Hadleigh Community Facilities.

- Disabled Adaptations - Expenditure was £111k less than budget as the number of referrals from occupational therapists fell for the first time in many years resulting in an underspend.
- Doors and Windows - an underspend of £33k on a revised budget of £340k arose as unit costs were slightly less than anticipated. All the properties planned for replacement in the year were completed.
- Major refurbishments – at Member request, the refurbishment of 4 Lewis Lane (estimated cost £55k) was delayed pending further discussions with Planners.
- ICT projects – the underspend of £39k was due to all available staff resources being focused on the Stock Condition Survey which had its own budget. As a result, a project to set up a new database for certain new regulatory requirements will now be undertaken in 2012/13.

7.4 Overall, £468k of the £488k budget variance will be carried forward to 2012/13.

7.5 Members are reminded that, in March 2012, the Council borrowed £83,647k to finance the Housing Revenue Account Settlement Payment to the Department of Communities and Local Government to release the council from the previous subsidy.

**TREASURY MANAGEMENT REPORT QUARTER 4****1. The Economy and Events in Quarter 4**

- 1.1 At the time of determining the 2011/12 strategy in Feb 2011, there were tentative signs that the UK was emerging from recession with the worst of the financial crisis behind it. Recovery in growth was expected to be slow and uneven as the austerity measures announced in the 2010 Comprehensive Spending Review were implemented in order to bring down the budget deficit and government borrowing and rebalance the economy and public sector finances. Inflation measured by the Consumer Price Index (CPI) had remained stubbornly above 3%. There was also a high degree of uncertainty surrounding Eurozone sovereign debt sustainability.
- 1.2 Inflation: During 2011-12 inflation remained high with CPI (the official measure) and RPI rising in September to 5.2% and 5.6% respectively primarily due to escalating utility prices and the January 2011 increase in VAT to 20%. Inflation eased slowly pushing February 2012's CPI down to 3.4% and RPI to 3.7%. This, however, was not enough to offset low wage growth and, as a result, Britons suffered the biggest drop in disposable income in more than three decades.
- 1.3 Monetary Policy: The policy measures announced in the March 2012 Budget statement were judged to be neutral. The government stuck broadly to its austerity plans as the economy was rebalancing slowly. The opinion of independent Office for Budget Responsibility (OBR) was that the government was on track to meet its fiscal targets; the OBR identified oil price shocks and a further deterioration in Europe as the main risks to the outlook for growth and in meeting the fiscal target.

**2. Treasury Management Strategy**

- 2.1 The Treasury Management Strategy 2012/13 was brought into effect during quarter 4 to allow for the borrowing and investments strategies to operate within the requirements of Housing Reform and the changing economic environment.
- 2.2 The minimum criterion for UK investments was relaxed from A+ to A-, or equivalent across all assigned ratings on the advice of the Council's treasury advisors. This was in response to downgrades in credit ratings below A+ of many institutions considered to be systemically important to the financial system.

**3. Borrowing and Housing Reform**

- 3.1 The Localism Act passed into law in November 2011 which enabled the reform of council housing finance. The Housing Revenue Account subsidy system has now been abolished and replaced with self-financing whereby authorities support repairs, management and maintenance from their own income. As part of this reform the Council paid £83.6m to the Department of Communities and Local Government which was funded by 4 long term loans from the Public Works Loan Board (PWLb).

<b>Capital Financing Requirement</b>	<b>2011/12 Revised £m</b>
Non-HRA	4.1
HRA	89.8
<b>Total</b>	<b>93.9</b>

3.2 The final Settlement Payment Determination was announced in February 2012 and the settlement date for the Self Financing transaction was Wednesday 28th March 2012.

3.3 The Treasury Management Strategy 2012/13 was brought into effect during quarter 4 to ensure the Council was operating within the Authorised Limits and Operational Boundary for External Debt (see table below).

<b>Authorised Limit for External Debt</b>	<b>2011/12 Revised £m</b>
Borrowing	93.9
Other long term liabilities / margin	2.7
<b>Total</b>	<b>96.6</b>

#### **4. Debt and Investment Management Quarter 4**

4.1 The table below includes the additional borrowing to finance Housing Reform. The debt repaid reflects repayment of principal for EIP loans.

	<b>Balance on 01/04/2011 £000</b>	<b>Debt Maturing £000</b>	<b>Debt Repaid £000</b>	<b>New Borrowing £000</b>	<b>Balance on 31/03/2012 £000</b>	<b>Increase/ (Decrease) in Borrowing £000</b>
Short Term Borrowing	-	-	-	-	-	-
Long Term Borrowing	3,000	-	(350)	86,647	89,297	86,297
<b>TOTAL BORROWING</b>	<b>3,000</b>	<b>-</b>	<b>(350)</b>	<b>86,647</b>	<b>89,297</b>	<b>86,297</b>
Average Rate %	2.63%	-		3.28%	3.26%	

4.2 The PWLB remains the main source of borrowing for the Council as it offers flexibility and control.

#### **5. Investment Activity Quarter 4 and Compliance**

5.1 Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

	Balance on 01/04/2011 £000s	Investments Made £000s	Investments Repaid £000s	Balance on 31/03/2012 £000s
Short Term Investments	3,908	171,766	(170,749)	4,925
Long Term Investments	-	-	-	-
<b>TOTAL INVESTMENTS</b>	<b>3,908</b>	<b>171,766</b>	<b>(170,749)</b>	<b>4,925</b>

- 5.2 No investments were made for a period greater than 364 days during this period and currently the maximum period for investments is 3 months.
- 5.3 Security of capital has remained the Council's main investment objective and is maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2012/13.
- 5.4 In terms of compliance with the TM Strategy there were four breaches in the quarter to March 2012 where the Co-Op PSR account balance exceeded £2m due to variations in temporary cashflow.

### Credit Risk

- 5.5 Counterparty credit quality has been maintained throughout the year, as can be demonstrated by the Credit Score Analysis summarised below:

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
30/06/2011	3.84	AA-	3.13	AA
30/09/2011	3.04	AA	4.19	AA-
31/12/2011	2.81	AA	4.27	AA-
31/03/2012	2.84	AA	2.02	AA+

- 5.6 A credit risk score of 5 or lower reflects the Council's current investment approach to focus on security. The highest rating is AAA and currently the Council's minimum criterion is A-, which was bettered (see table: AA- to AA+). The time weighted score reduced by the year end as the majority of investments were held either in AAA rated MMFs or with another local authority but with a longer date to maturity.
- 5.7 The Value Weighted Average reflects the credit quality of the investment according to size of the deposit. The Time Weighted Average reflects the credit quality of investments according to the maturity of the deposit. The score shows an increase from June to December reflecting the greater use of money market funds (MMF) and the Government's deposit facility (DMADF).
- 5.8 These are AAA rated and the MMFs are instant access accounts (treated as overnight deposits) and, along with the DMADF, these are used for short term deposits but the interest rate for the latter is very low. The remainder of investments in December were with lower credit rated institutions.

## **Budgeted Income and Outturn**

- 5.9 The UK Bank Rate has been maintained at 0.5% since March 2009 and not expected to rise until beyond 2014/2015. We anticipate an investment income outturn of £72k for the whole year against a budget of £61k.

## **6. Compliance with Prudential Indicators**

- 6.1 The Council can confirm that it has complied with its Prudential Indicators for 2012/13 which were set in February 2012 with immediate effect as part of the Council's Treasury Management Strategy 2012/13 (L132R as amended). This document can be accessed through the following link: <http://www.babergh.gov.uk>.
- 6.2 The Director of Finance confirms that there have been no breaches of the Authorised Limit and the Operational Boundary during the year; borrowing at its peak was £89.297m.

## **7. Summary**

- 7.1 In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity up to and including the third quarter of 2011/12.
- 7.2 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.