

BABERGH DISTRICT COUNCIL

FROM: Director of Corporate Services
and Director of Finance

REPORT NUMBER: **K142**

TO: OVERVIEW AND SCRUTINY
(STEWARDSHIP) COMMITTEE

DATE OF MEETING: 16 November 2010

FINANCE, RISK AND PERFORMANCE MANAGEMENT – QUARTERLY MONITORING REPORT- QUARTER TWO 2010/11

1. PURPOSE OF REPORT

- 1.1 This report provides the committee with a comprehensive and strategic assessment of achievements of the council for the second quarter of 2010/11 across a range of areas including finance, risk and a number of elements of performance.

2. RECOMMENDATIONS

- 2.1 That the key points relating to variances against the 2010/11 Babergh performance indicator basket (National Indicators (NIs), former Best Value Performance Indicators (BVPIs) and Local Performance Indicators (LPIs)) be noted.
- 2.2 That the key areas of variance against the 2009/10 original budget and the projected outturn position for 2010/11 be noted.
- 2.3 That a report be submitted to the next round of Overview and Scrutiny committees if any significant performance variance issues are identified for further review and analysis.
- 2.4 That the half yearly report on Treasury Management activities, as required by the Treasury Management Code of Practice and as set out in Appendix C, is noted. Recommendations 2.1 to 2.3 can be resolved by the Committee, 2.4 will be a recommendation to Council.

3. FINANCIAL IMPLICATIONS

- 3.1 The second quarter's financial monitoring provides a good indication of the potential General Fund financial outturn for the year, the extent to which the planned savings of £1.6m are being achieved and any other cost pressures or income variations that have arisen since the budget was set. More details are provided in Appendix B.
- 3.2 The risks to delivery of budget savings both in the short term and in future years are set out in sections 2 and 6 of the Significant Business Risks Refresh report elsewhere on this agenda.
- 3.3 The overall position at Quarter 2 is that the Council's net spending is within budget after allowing for all the savings that were estimated in setting the 2010/11 budget.

- 3.4 Key income and expenditure areas show a favourable projected variation for the year of £285,000 partly due to pro-active management of staffing and other costs. After allowing for £75,000 of unspecified budget savings that need to be set against this figure, the potential net saving compared to Budget could be in the order of £210,000. There is, however, the potential for new adverse variances in the remaining two quarters including income performance given the continuing uncertain economic conditions.
- 3.5 There are no significant issues in relation to the HRA and there has been very good progress on the Council Housing capital programme with 46% of the year's budget completed, which is 6% higher than last year. See Appendix B for further details.
- 3.6 Key aspects of the General Fund capital programme and borrowing are also detailed in Appendix B and Members will note the significant reduction of £0.8m in estimated capital receipts for the year, which will result in a small increase in temporary borrowing costs and that £2m of new external borrowing was undertaken in quarter 2 at 2.01%. This is an extremely low interest rate, especially given the 1% increase in borrowing rates announced in the Spending Review on the 20th October.

4 RISK MANAGEMENT

- 4.1 This report links to Corporate Business Risk No.7 – Finance, Performance & Risk Management. Key risks are seen as:

Risk Description	Likelihood	Seriousness or Impact	Mitigation Measures
NI, BVPI and LPI performance does not improve compared to previous years and other LAs nationally.	Low	Marginal	Regular monitoring to identify key variations and poor performance.
Inaccurate data.	Low	Marginal	An action plan is in place to ensure there are appropriate arrangements to secure data quality. In addition progress reports on this are considered by this Committee periodically.
Budget savings not achieved or other cost pressures/ income reductions arise.	Low	Marginal	Close and pro-active monitoring of budgets and key risk areas by Heads of Service and finance staff.

5. EQUALITY AND DIVERSITY IMPACT

- 5.1 There are no equality and diversity implications arising from this Finance, Risk and Performance monitoring report.

6. KEY INFORMATION

Format of the report

- 6.1 In order to reduce double-handling and improve the effectiveness of scrutiny function:

- The Overview and Scrutiny (Stewardship) Committee receives a quarterly report setting out the key financial , risk and performance information, areas where performance has deteriorated based on the analysis of a range of performance, risk and financial information and details mitigating action being implemented to improve performance in these areas.
 - Appropriate issues are then referred to the appropriate Overview and Scrutiny Committee where performance has deteriorated, with an update setting out what action has been taken to improve performance, and prognosis for future improvement.
- 6.2 The Finance, Performance Risk reports for 2010/11 have been revised to provide a more streamlined and integrated monitoring report examining key aspects of the council's corporate and strategic financial performance and the outcomes that are being achieved. The report brings together a range of complementary performance, risk and finance information in a single document.
- 6.3 In terms of risk management, there is a comprehensive report on today's agenda that sets out actions and progress on managing the Council's significant/strategic risks. In future, the aim is to incorporate key aspects into this report.

Changes to Local Authority performance reporting arrangements

- 6.4 The Secretary of State for Communities and Local Government announced on 13 October 2010 that he would revoke all designations of local improvement targets under the Local Area Agreement (LAA) and not be requiring preparation of a new agreement for April 2011. In addition that there would not be any future payments under the performance reward grant against the 2008-11 LAA targets.
- 6.5 Linking to the LAA announcement the Minister also indicated his intention to replace the current National Indicator set with a single comprehensive list of all the data local government would be expected to provide for central government. The government's intention is to have this data requirement in place for the start of the next financial year.
- 6.6 Further details regarding the Government data requirements and proposed approach to performance management and monitoring for 2011/12 will be provided to this committee following its publication.

Summary for Quarter 2

- 6.7 The detailed analysis of performance monitoring is contained in appendix A; This includes a review of the strategic PIs, performance monitoring, trend monitoring for the performance indicator basket, analysis of strategic service standards and an assessment of achievement of key delivery plan actions. This analysis of performance is provided for each of the following key strategic priorities:
- Quality Homes local people can afford
 - A greener and cleaner Babergh
 - A safer and healthier Babergh
 - A strong and sustainable Babergh Economy
 - Vibrant places and strong communities

- 6.8 The overall picture of performance and achievement of the strategic priorities at the half year point is very encouraging with very large number of strategic performance indicators and service standard measures either meeting or very close to target. There are only 7 measures which are significantly below target with detailed background information provided in appendix A of this report.
- 6.9 Appendix B provides a detailed analysis of key income and expenditure areas and current/projected variances. It shows the 2010/11 full-year forecast and the reasons for any variations from the original 2010/11 budget. Some expenditure budgets are showing favourable variances due to effective management and expenditure control, improved prices or decreased activity without any impact on service delivery.
- 6.10 Appendix C provides the Half-Year Treasury Management report. In accordance with new requirements contained in the Treasury Management Code of Practice this must be considered by Full Council.

7. NEXT STEPS

- 7.1 The detailed analysis performance in Appendix A highlights the following performance indicators and service standard measures as areas of concern at the end of Quarter Two:
- Planning appeals allowed (BV 204)
 - Private dwellings returned to occupation (BV 64)
 - Percentage major planning applications determined within 13 weeks (NI 157 a)
 - Percentage minor applications determined within 8 weeks (NI 157b)
 - Percentage other applications determined within 8 weeks (NI 157c)
 - Average time to relet local authority housing (BV 212)
 - Percentage of benefits overpayments recovered against percentage deemed recoverable (BV 79 bi)
- 7.2 All other issues have either already been reported further, or it is felt that the variation is not significant enough to require further action other than already Specified within this report
- 7.3 Finance issues will be dealt with through the SFP process and the overall impacts reflected in the SFP Task Group's Budget and savings proposals for future years.

8. APPENDICES

A - Analysis of Performance
B - Financial information
C- Treasury Management

9. BACKGROUND PAPERS REFERRED TO:

None.

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PERFORMANCE ANALYSIS – QUARTER 2 PERFORMANCE

1. Introduction

Babergh DC has made a commitment to meet the targets and service standards contained in the Council's:

- set of strategic performance indicators (national indicators, former BVPIs and local indicators);
- Customer Charter; and
- 2010/11 Delivery Plan.

During 2009/10 separate monitoring reports were produced for the O&S (S) Committee for each of the above. This year, to eliminate duplication of effort, monitoring information has been brought into one quarterly report with a section for each of the Council's priorities.

The Council manages and monitors a total of 72 **strategic performance indicators**. The O&S (S) Committee agreed that a basket of 12 key performance indicators should be reported each quarter and that the remaining indicators be reported on an exception basis.

The Council has 122 **service standards**. Of these, 12 have been selected as key service standards. These are being monitored by divisions and will be included in this report if there are any concerns about service delivery. An exercise will be undertaken to review the number of service standards the Council has.

The Council's **2010/11 Delivery Plan** includes 100 key actions (ignoring targets that are PIs or service standards). These are being monitored by divisions and any key achievements or issues for concern will be included in this report. A more detailed Delivery Plan report will be produced for O&S (S) Committee at the end of 2010/11, which will give full details of the progress made on every action in the plan.

Throughout this report the Council's 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 18 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 September 2010 is given below.

	Green	Amber	Red	No data	Contextual	Comments
Strategic PIs	11	1	2	2	2	Includes 4 KPIs No data required at this point for fuel poverty (NI187a & b)
Strategic Service Standards	3	0	4	0	0	
Key delivery plan actions	25	1	4	0	0	

b) Delivery Plan Progress

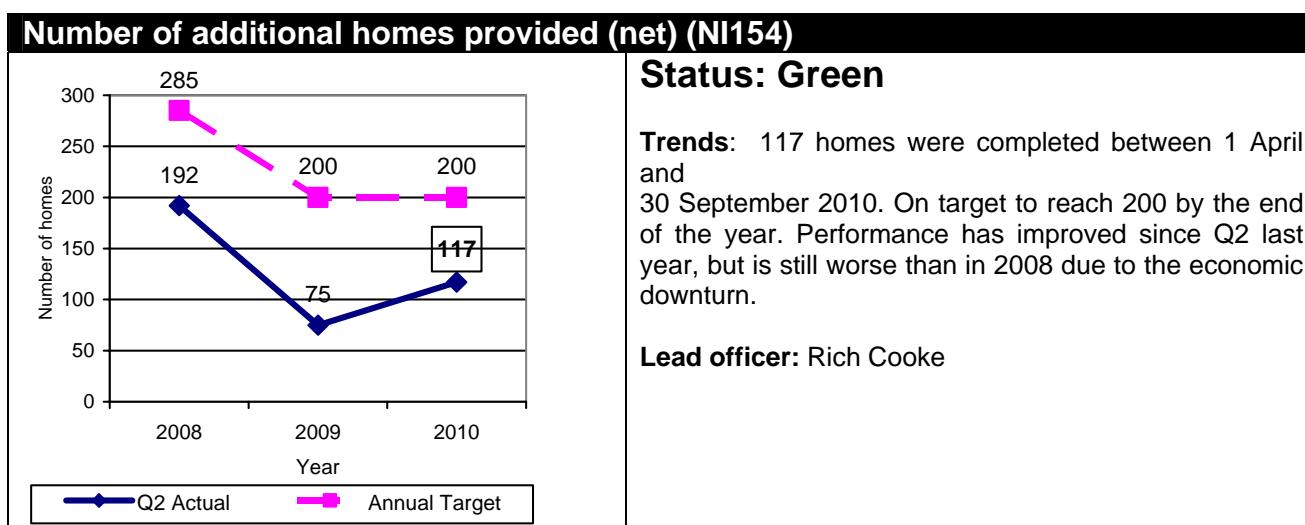
Achievements

- A total of 166 kitchens and 54 bathrooms have been renewed in Babergh's council houses as part of the work to bring them up to the Decent Homes Standard. The annual targets are 250 and 30 respectively. It is anticipated that 200 kitchens will have been renewed by the end of the financial year and the target for bathrooms has already been exceeded (DP Action H25)
- Air source heat pumps have been fitted in 24 council houses (DP Action H26)
- 19 insulation measures and 49 heating measures have been installed by Warm Front in private sector homes (DP Action H27)

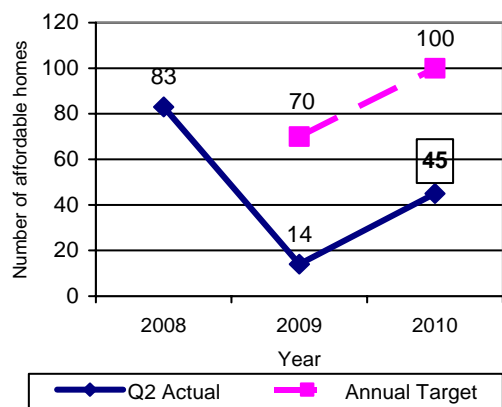
Changes

- The accommodation needs of the Gypsy and Traveller community have been reviewed and the Council is now planning to provide one caravan pitch in the district (DP Action H4, C24)
- As already reported in Q1, the timetable for submitting the LDF Core Strategy has been revised. This work will now be completed in 2012 and not 2011 (DP Action H5, H15 and H18)

c) KPI basket – 3 year trends



Number of affordable homes delivered (gross) (NI155)

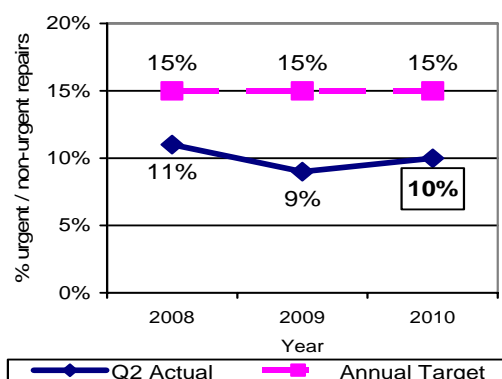


Status: Green

Trends: 45 affordable homes were completed between 1 April and 30 September 2010. On target to reach 100 by the end of the year. Performance has improved since Q2 last year

Lead officer: Ian Tippett

Proportion of urgent to non-urgent repairs - local authority housing (LPI44)



Status: Green

N.B. Lower numbers represent good performance

Trends: Current performance is 10%. This is better than the target and broadly in line with performance over the last 2 years.

Lead officer: Ryan Jones

Number of potential dwellings to be built 2010 – 2031 (LPI 125)

- a) Potential number of dwellings arising from approved planning applications = **891**
- b) Potential number of dwellings arising from remaining Local Plan allocations = **1813**

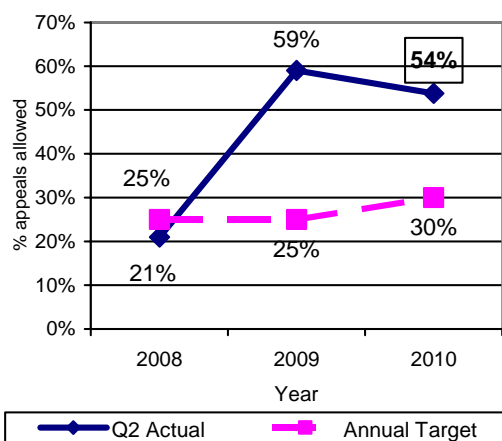
Status: Contextual information

Trends: The total number of potential dwellings expected to be built between 2010 and 2031 = 2704. The figures quoted are as at 30 September 2010.

Lead officer: Rich Cooke

d) Exceptions - Performance Indicators

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



Status: Red

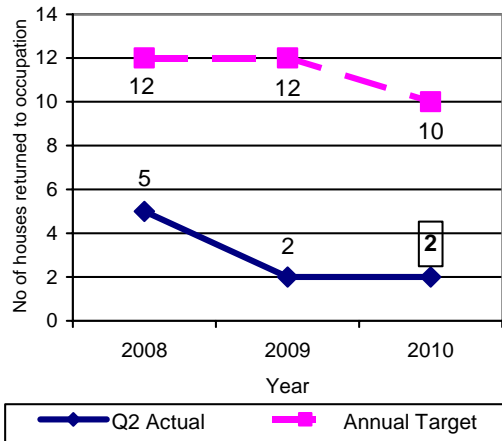
N.B. Lower numbers represent good performance

Trends: Current performance is 54% which is worse than the target. Performance has declined over the past 2 years. The number of appeals are given below:
 2010/11 = 7 allowed out of 13 (with 1 split decision)
 2009/10 = 10 allowed out of 17
 2008/09 = 3 allowed out of 14

Only a small number of cases are determined on appeal. The number of cases upheld when expressed as a percentage can appear misleading. A number of appeals have arisen as a result of refusals against officer recommendation – the impact of this is being monitored. Development Committee receives a detailed report on planning performance each quarter.

Lead officer: Nick Ward

Private dwellings returned to occupation (BV 64)



Status: Red

Trends: 2 long term empty private dwellings have been returned to occupation during the period 1 April to 30 September 2010. It is unlikely that the end of year target of 10 properties will be achieved.

Survey forms were sent to the owners of all long term empty properties in Babergh. The purpose of the survey was to find out why the properties are empty and to find out if the owner is interested in applying for grant funding to improve the condition of the property.

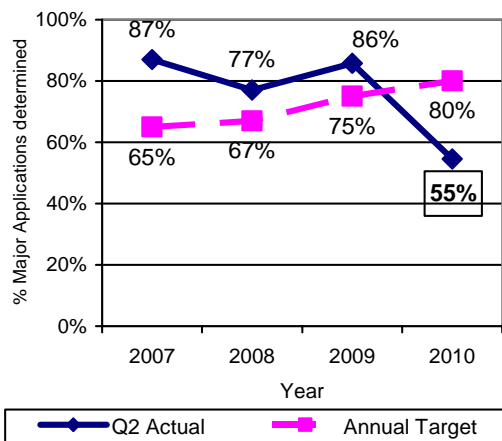
The survey results reveal that many properties are currently for sale and the owner is finding it difficult to find a buyer. Some of the respondents were interested in applying for grant funding to improve the property and these cases are now being assessed to see if they meet the grant criteria:

- Property empty for at least 6 months.
- Property will meet the decent homes standard when the work is finished
- Property will be available for let at the 'affordable rent' level.

Lead officer: John Kilgannon

e) Exceptions - Service Standards

% Major applications determined within 13 weeks (NI157a)



Status: Red

Trends: 54.5% of major applications were determined within 13 weeks during the period 1 April– 30 September 2010.

The number of applications are given below:

- 2010/11 = 6 out of 11 applications
- 2009/10 = 6 out of 7 applications
- 2008/09 = 30 out of 39 applications
- 2007/08 = 13 out of 15 applications

Performance appears worse than last year, although numbers are small. Based on current figures, the % reduces by approx 9% for each application that does not meet the target timescale. The variance from the target therefore represents only 3 applications.

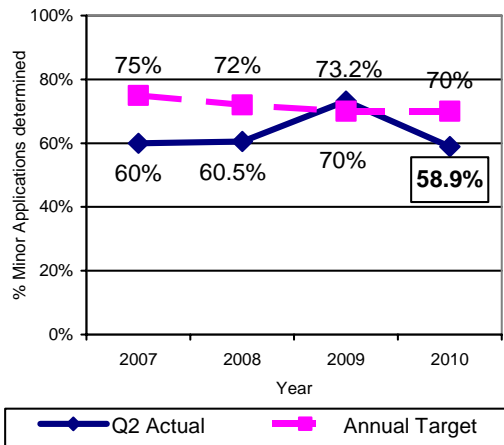
The total number of applications (major, minor and other) has decreased by 3% since last year. (Q2 2009/10 = 690 applications, Q2 2010/11 = 669 applications).

The proposed targets for 2011/12 will at the nationally recommended levels of Major = 60%, Minor = 65%, Other = 80%. These indicators are process measures, so in addition to meeting these targets, the Planning Team will be focusing on providing pre-application advice and making quality decisions. A customer satisfaction survey is also planned. It is anticipated that this proactive style of working will improve customer satisfaction and reduce complaints.

Development Committee receives a detailed report on planning performance each quarter.

Lead officer: Nick Ward

% Minor applications determined within 8 weeks (NI157b)



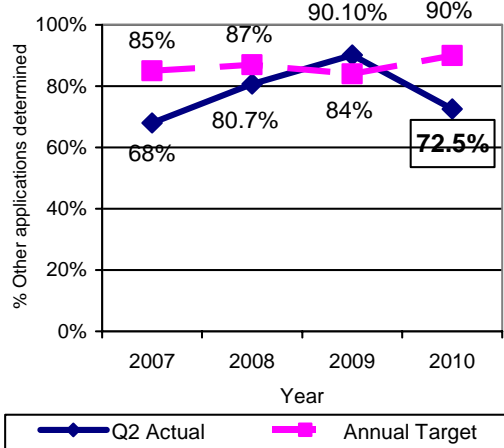
Status: Red

Trends: 58.9% of minor applications were determined within 8 weeks during the period 1 April to 30 September 2010. Performance is worse than last year. Previous years show a trend of increasing performance. The number of applications are given below:
 2010/11 = 86 out of 146 applications
 2009/10 = 101 out of 138 applications
 2008/09 = 98 out of 162 applications
 2007/08 = 56 out of 94 applications

A positive direction of travel has, however, been achieved during the past quarter
 Apr to June 2010 = 57.9%
 July to Sept 2010 = 59.7%

Lead officer: Nick Ward

% Other applications determined within 8 weeks (NI157c)



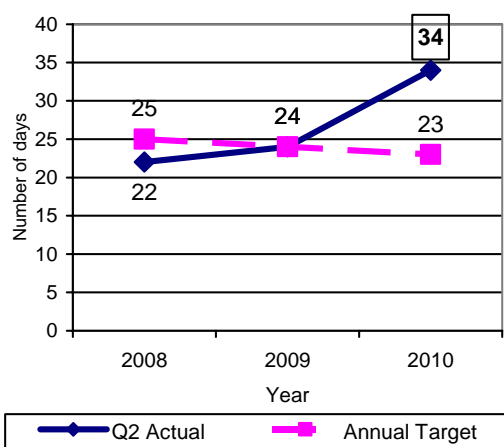
Status: Red

Trends: 72.5% of other applications were determined within 8 weeks during the period 1 April to 30 September 2010. Performance is worse than last year. However there has been an increase in this type of application since last year. Previous years show a trend of increasing performance:
 2010/11 = 371 out of 512 applications
 2009/10 = 372 out of 413 applications
 2008/09 = 440 out of 545 applications
 2007/08 = 199 out of 292 applications

A positive direction of travel has, however, been achieved during the past quarter:
 Other – Apr to June 2010 = 66.9%
 Other – July to Sept 2010 = 77.9%

Lead officer: Nick Ward

Average time to relet local authority housing (BV212)



Status: Red

NB. Lower figures represent good performance

Trends: The average time taken to relet Babergh's council housing is 34 days (as at 30 September 2010), which is worse than the target of 23 days. Performance has got worse over the past two years - the average void period reached 42 days last quarter. Performance has improved over the last 3 months.

Actions to be taken to improve performance:

A dedicated Voids Surveyor and a Tenant Liaison Officer have now been appointed. With these new staff in post, the void period is expected reduce over the coming months.

Lead officer: David Clarke / Ryan Jones

3. A greener and cleaner Babergh

a) Summary of progress

The Council monitors and manages 18 strategic performance indicators, 1 strategic service standard and 13 key actions to deliver this priority. A summary of progress made during the period 1 April – 30 September 2010 is given below.

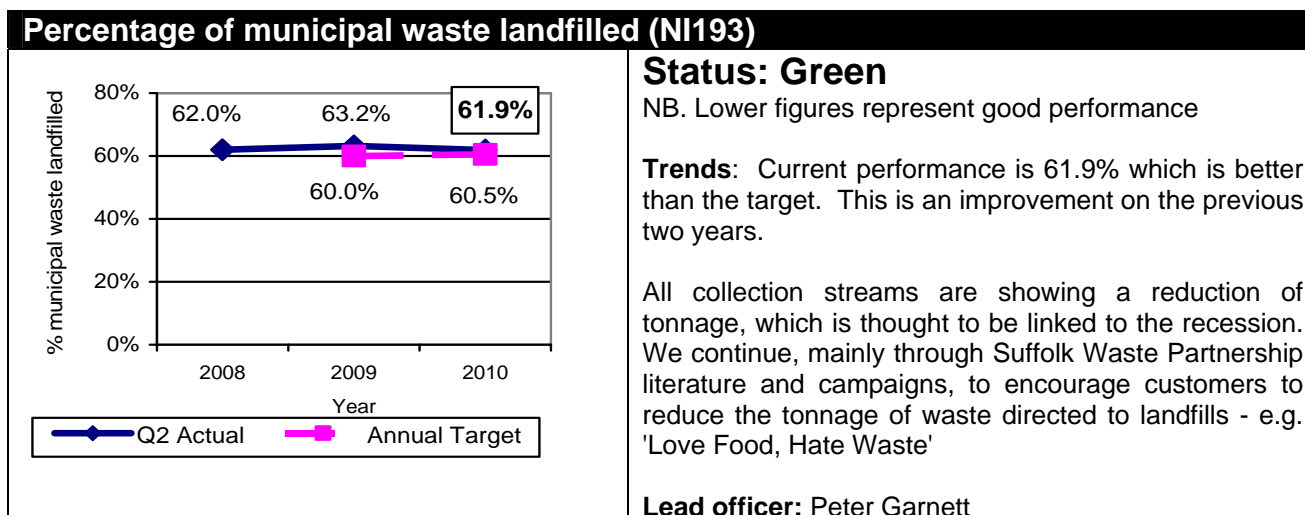
	Green	Amber	Red	No data	Contextual	Comments
Strategic PIs	12	2	0	4	0	Includes 1 KPI (NI193) No data required for BV86 (annual cost of waste collection), NI185, NI186 (carbon reduction), NI194 (air quality)
Strategic Service Standard	1	0	0	0	0	
Key delivery plan actions	13	0	0	0	0	

b) Delivery Plan Progress

Achievements

- Surveys have been completed at 13 sites identified in the Council's Contaminated Land Strategy. The annual target of 25 surveys is expected to be met (DP Action G1)
- The caseload for planning enforcement is being maintained below the target threshold of 220 (there are currently 203 cases being dealt with) (DP Action G3)

c) KPI Basket – 3 year trends



There are no exceptions to report this quarter for the Greener and Cleaner theme.

4. A safer and healthier Babergh

a) Summary of progress

The Council monitors and manages 3 strategic performance indicators and 20 key actions to deliver this priority. A summary of progress made during the period 1 April – 30 September 2010 is given below.

	Green	Amber	Red	No data	Contextual	Comments
Strategic PIs	3	0	0	0	0	Includes 1 KPI (NI115)
Key delivery plan actions	18	2	0	0	0	

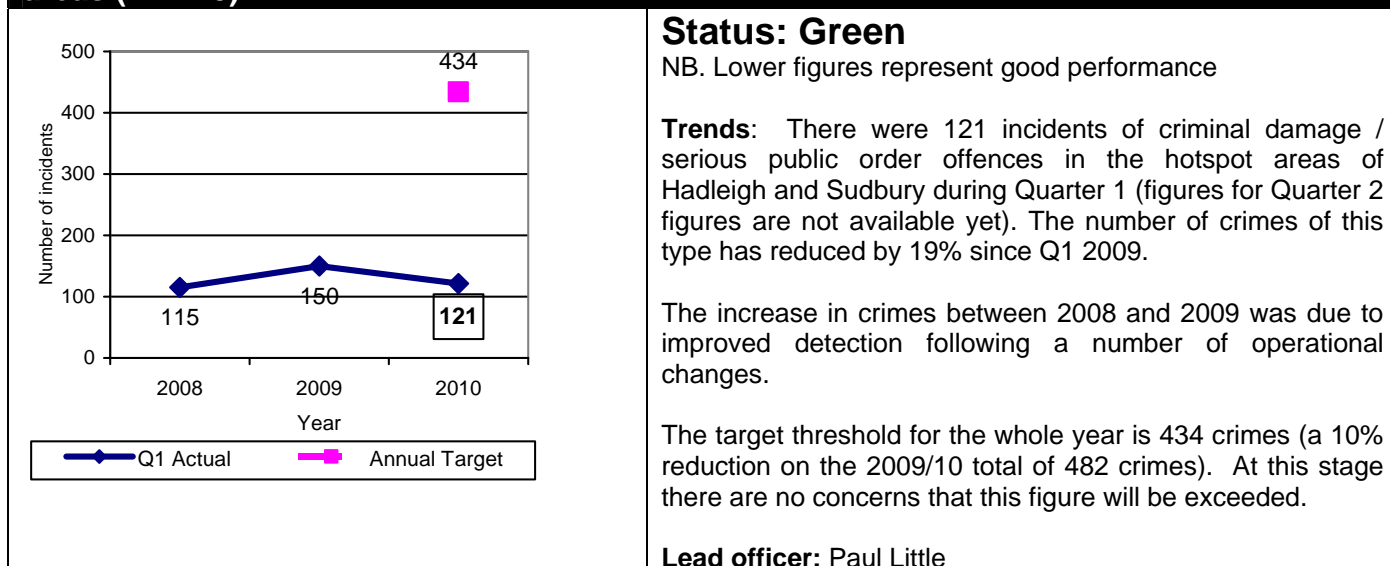
b) Delivery Plan Progress

Achievements

- A brochure promoting Cycle South Suffolk is now available through the Tourist Information Centres. The Council is looking to reprint this and also make it available on line (DP Action S7)
- The Council is liaising with parishes to ensure that S106 funding is used to develop open spaces or recreational areas in locations that need them.

c) KPI Basket

Number of incidents of criminal damage and serious public order offences in hotspot areas (LPI115)



There are no exceptions to report this quarter for the Safer and Healthier theme.

5. A strong and sustainable Babergh economy

a) Summary of progress

The Council monitors and manages 4 strategic performance indicators and 15 key actions to deliver this priority. A summary of progress made during the period 1 April – 30 September 2010 is given below.

	Green	Amber	Red	No data	Contextual	Comments
Strategic PIs	0	0	0	0	4	Includes 2 KPIs (NI117, LPI126).
Key delivery plan actions	15	0	0	0	0	

b) Delivery Plan Progress

Achievements

- The construction of a new barge repair facility and substantial repairs to the Hard at Pin Mill were completed recently. These facilities were formally handed over to the Pin Mill Bay Management Company on 16 September 2010. (DP Action E8)

c) KPI Basket – 3 year trends

16 – 18 year olds not in education, employment or training (NI117)									
<table border="1"> <caption>% 16 - 18 year old NEET in Suffolk</caption> <thead> <tr> <th>Year</th> <th>Annual figure</th> </tr> </thead> <tbody> <tr> <td>2007</td> <td>7.2%</td> </tr> <tr> <td>2008</td> <td>7.9%</td> </tr> <tr> <td>2009</td> <td>7.4%</td> </tr> </tbody> </table>	Year	Annual figure	2007	7.2%	2008	7.9%	2009	7.4%	<p>Status: Contextual information NB. Lower figures represent good performance</p> <p>Comments. The figures shown are for Suffolk as a whole. This figure is reported annually.</p> <p>Lead officer: Ian Tippet</p>
Year	Annual figure								
2007	7.2%								
2008	7.9%								
2009	7.4%								
Number of empty business properties in Babergh (LPI 126)									
<p>362 business properties in Babergh were empty as at 30 September 2010</p>	<p>Status: Contextual information NB. Lower figures represent good performance</p> <p>Comments. The total includes both empty properties for let and empty properties awaiting development.</p> <p>The equivalent figure at 31 March 2009 was 345.</p> <p>Contact: Andrew Wilcock</p>								

There are no exceptions to report this quarter for the strong and sustainable Babergh theme.

6. Vibrant places and strong communities

a) Summary of progress

The Council monitors and manages 21 strategic performance indicators, 2 strategic service standards and 22 key actions to deliver this priority. A summary of progress made during the period 1 April – 30 September 2010 is given below.

	Green	Amber	Red	No data	Contextual	Comments
Strategic PIs	19	1	1	0	0	Includes 1 KPI (NI181)
Strategic Service Standards	1	1	0	0	0	
Key delivery plan actions	18	1	3	0	0	

b) Delivery Plan Progress

Achievements

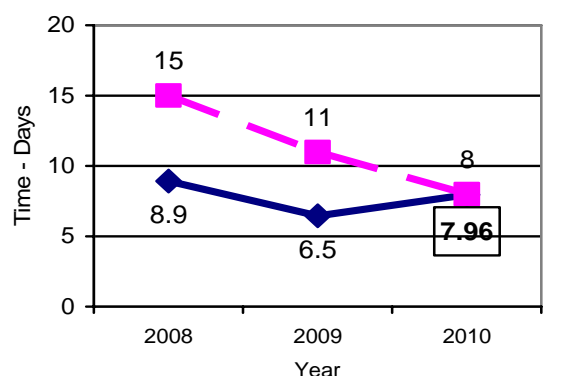
- 12,359 concessionary bus passes have been issued to people who live in rural parishes (DP Action C2)
- 454 travel vouchers have been provided to the elderly living in remote locations and to disabled persons (DP Action C3)
- The Council agreed to the creation of the shared revenues and benefits service with Mid Suffolk DC and Ipswich BC in September. The new service will be established on 1 April 2011 (DP Action C9)

Changes

- The Free Swim Programme ceased at the end of August 2010 after the new government withdrew DCMS funding for the project (DP Action C4)
- The 8 benefits surgeries will not take place this year. Public attendance was very low at the events held last year. The Benefits Team are in the process of setting up a forum with Registered Social Landlords across Suffolk in order to actively encourage them to help their tenants claim benefits (DP Action D7)

c) KPI Basket – 3 year trends

Time taken to process Housing Benefit / Council Tax Benefit new claims and change events (NI181)



Status: Green

NB. Lower figures represent good performance

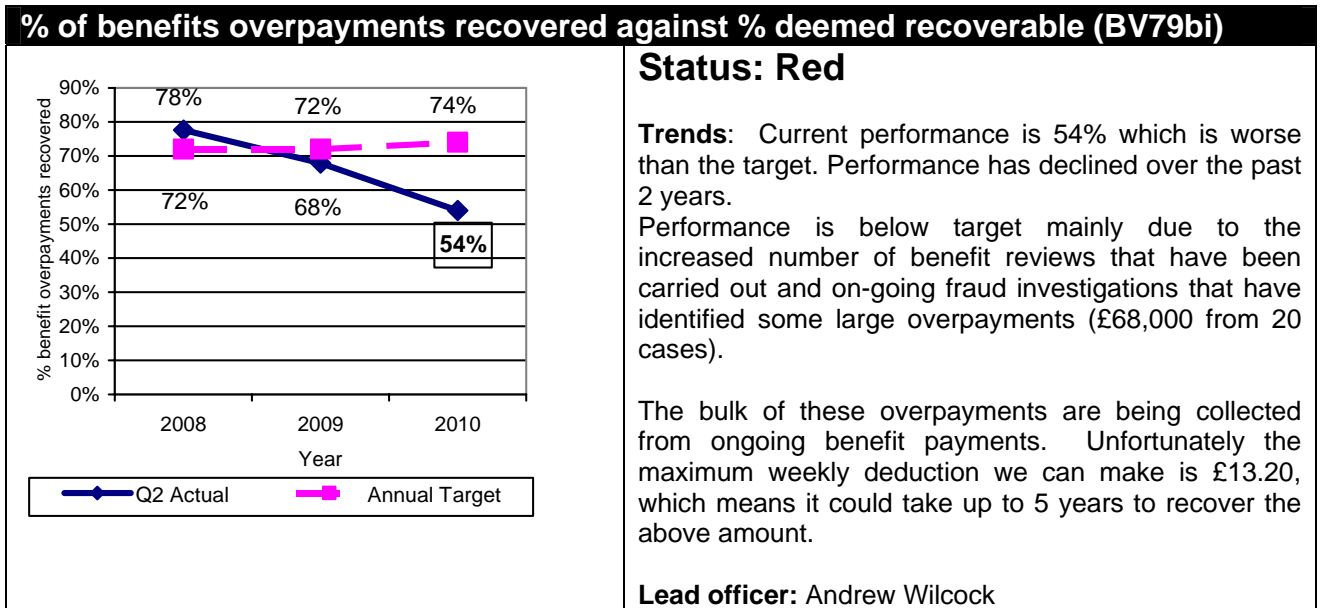
Trends: Current performance is 7.96 days which is better than the target and this is anticipated to remain the case throughout the year.

The current caseload figures are:

- Rent Rebates = 2307 (Council Tenants)
- Rent Allowances = 2227 (Private Tenants)
- Council Tax Benefit = 1993 (Owner Occupiers)
- Total = 6527.

Lead officer: Andrew Wilcock

d) Exceptions - Performance Indicators



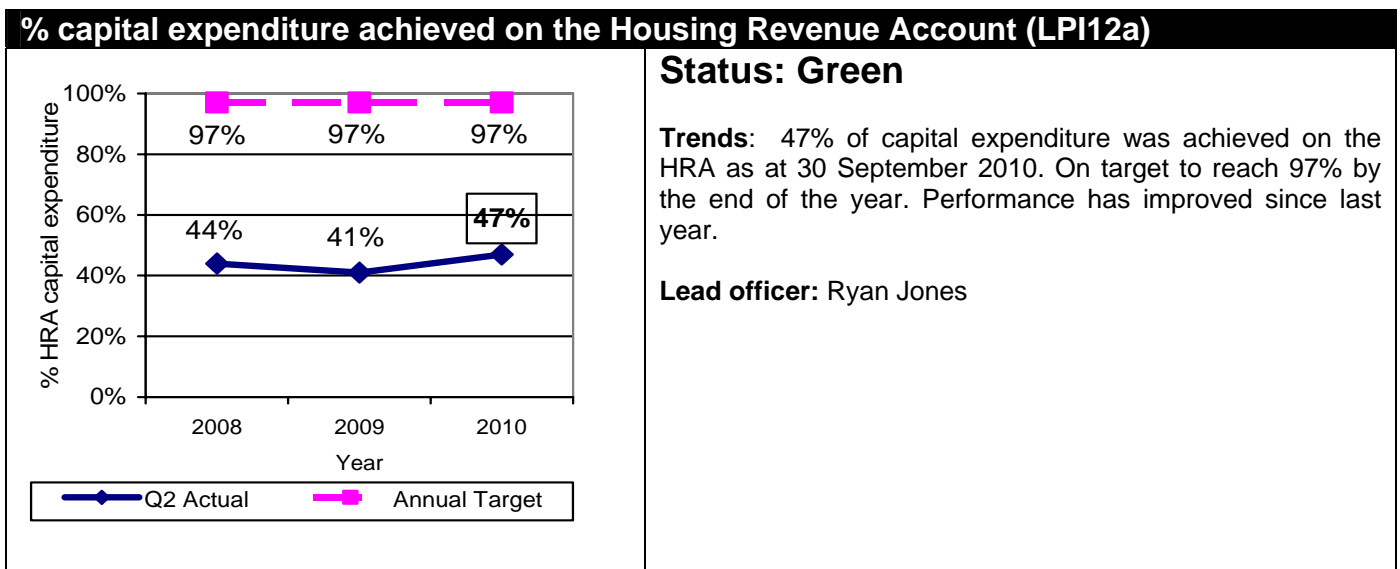
7. How we will deliver

a) Summary of progress

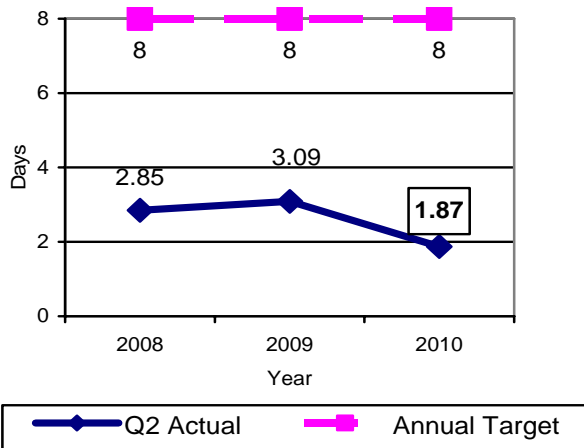
The Council monitors and manages 8 strategic performance indicators and 2 strategic service standards to deliver this priority. A summary of progress made during the period 1 April – 30 September 2010 is given below.

	Green	Amber	Red	No data	Contextual	Comments
Strategic PIs	5	1	0	1	1	Includes 3 KPIs (LPI12a, BV12, NI179) No data for LPI30 and NI179 (annual figures)
Strategic Service Standards	2	0	0	0	0	

b) KPI Basket – 3 year trends



The average number of days sick per member of staff (BV12)



Status: Green

NB. Lower numbers represent good performance

Trends: The average number of days sick per member of staff was 1.87 days during the period 1 April to 30 September 2010. Currently on target to keep the average annual staff sickness duration below 8 days.

The improvement in performance seems to point to the successful implementation of the revised sickness management scheme.

Lead officer: Jeanette Bray

Total net value of ongoing cash-releasing value for money gains made since 1 April 2008 (NI 179)

£1.244m of ongoing cash-releasing value for money gains have impacted since the start of the 2008/09 financial year (as at 31 March 2010)

Status: Green

Achievements: This performance indicator is updated annually. On track to meet the target for 2010/11 by the end of the financial year.

Lead officer: Barry Hunter

There are no exceptions to report this quarter for the how we will deliver theme.

FINANCIAL INFORMATION- QUARTER TWO**General Fund**

- 3.1. Housing and Planning Delivery Grant (£42,000) was stopped for 2010/11 in the emergency budget. Current commitments can be accommodated without adverse variance in 2010/11 but there will be an impact in the 2011/12 budget.
- 3.2. An Additional £150,000 of expenditure on specialist legal fees (in relation to Tesco's) is covered by an earmarked reserve that will now be transferred into the revised budget. This does not impact on the Council's overall position and the money may or may not be spent this year.
- 3.3. The potential refund of personal search fees will not impact on the 2010/11 budget. The Ministry of Justice has stated there should be no overall cost to local authorities in the current financial year, as the loss of income will be met by central government under the new burdens doctrine. This does not cover loss of income for Individual Questions or the potential cost of refunding Personal Search Agents. This means the potential £17K from Personal Search income (half of the annual income of £34,500) is lost, which should be claimed back through the new burdens doctrine. However, up to £72,000 may have to be refunded to Personal Search Agents which is not covered by the new burdens doctrine.
- 3.4. Some categories of income are down on budget due to a reduction in activity or the mix of clients. The main area is planning fees (£68,000 adverse). This downturn is reflected in the Performance Analysis section of this report (NI157a, b and c). Also, the Suffolk County Council contribution for recycling is lower than expected as a result of overall waste tonnages reducing. Lower gate fees offset this – see 4.12 below (£23,000 adverse). Income from Babergh Contact is £20,000 adverse.
- 3.5. Housing benefit overpayment recovery will need to be closely monitored for the remainder of the financial year. An increased value of overpayments is being identified with a potential subsidy loss. Many of these overpayments may only be recovered from ongoing benefit. There is no adjustment to the forecast at this stage.
- 3.6. Some other income areas are now outperforming the budget. These include trade waste (£25,000 favourable) and green waste (£30,000 favourable) resulting from successful promotion of both services. Performance Analysis similarly shows continuing success on reducing landfill tonnage.
- 3.7. Staffing costs are £159,000 favourable. This is after allowing for the £125,000 salaries savings contingency in the budget, which demonstrates the very proactive approach that is being taken on vacancy management, and an allowance for potential redundancy costs of £100,000 relating to SFP savings proposals that are currently being considered.
- 3.8. There was a decrease in the permanent staffing establishment of 8.1 FTE in the first quarter. This is 3% of the permanent staffing establishment. The reduction reflects the voluntary redundancy exercise and the deletion of posts that had been vacant for some time. The Q2 position will be reported to the HR Panel on 23 November.

- 3.9. The pay award was 0.5% compared to 1% included in the 2010/11 budget. The lower award produced an overall saving of £35,000 of which £28,000 is General Fund.
- 3.10. Recruitment costs show a £46,000 favourable variance, and business unit and service training is £51,000 favourable. Managers will need to monitor expenditure carefully to keep within this lower figure.
- 3.11. The contribution to Suffolk County Council for concessionary fares has been reviewed and is currently showing a £62,000 favourable variance. Bus operators have claimed less journeys than expected although demand may change in the last two quarters.
- 3.12. Energy costs are £24,000 favourable. Waste gate fees are £73,000 favourable due to reduced tonnages and the higher value of recyclables. This again links into Performance Analysis similarly shows continuing success on reducing landfill tonnage.
- 3.13. There are small variations on the open spaces and street cleansing contract (£30,000 adverse) and the refuse contract (£15,000 adverse).
- 3.14. The shared legal services arrangement with Mid Suffolk commenced at the end of Q2 with an estimated saving of around £8,000 for the year.
- 3.15. Miscellaneous legal costs relating to fraud prosecution costs are expected to increase by approximately £15,000. More fraud prosecutions are being brought to court and this trend is likely to continue to the end of the year. In addition, one case has incurred costs of approximately £10,000 and, due to unforeseen circumstances, these costs may not be recovered.
- 3.16. Communities and Local Government have discontinued national reporting of efficiency gains under NI179. The figure for 2010/11 will be calculated locally and reported at a later date.

HRA

- 3.17. The Housing Revenue Account shows a modest favourable variance of approximately £20,000, which reflects increased rental income, together with improved voids management and the reduced pay award from 1% to 0.5%. There is an estimated increase in the negative subsidy of £88,000 as a result of the latest claim submission and this will be included in the revised budget. Energy costs are being closely monitored together with the impact on future charges that are made to sheltered scheme residents. Gas and Electricity costs have been renegotiated as from 1st October and will remain at current rates. Oil prices are less certain but the combined energy budget is to be revised with an estimated reduction in budget of £38,000. All budgets are being monitored closely to identify all savings that will be included in the revised budget.

Capital

- 4.16 The overall position on the General Fund programme is summarised in Appendix B. Key aspects are highlighted below:

- Additional budget was allocated and approved in July through Strategy Committee for the enhancements to Hadleigh Swimming Pool. The works were completed and the facility fully operational in quarter 2
- Enhancement of the Kingfisher Leisure Centre is expected to be delayed to quarter 4 which will result in £450k of the £500k budget being spent in 2011/12
- The money allocated for the University Campus has not been requested and it is proposed that the sum of £187k is removed from the capital budget
- The budget of £209k for redevelopment of Sudbury Town Centre bus station has been reduced to £64k due to a reduction of funding available from the Haven Gateway Partnership
- The budget for Pin Mill has been increased to £267k as additional funding of £50k has been obtained from the Haven Gateway Partnership

3.18. In terms of funding, the majority of the capital receipts of £1.1m budgeted for the financing of the capital programme in 2010/11 will be delayed, with only £0.3m now being estimated for this year. This means a £0.8m shortfall for capital financing. The capital programme is currently being revised to meet affordability levels and this is expected to result in savings in certain areas with some expenditure delayed to later years. The original General Fund capital budget for this year of £3m plus carry forwards of £0.7m is expected to reduce by 15%.

3.19. The percentage of capital expenditure achieved on the Housing Revenue Account (BV12a) is on target at 47% of the budget of £3.6m. This is an increase of 6% compared to the same time last year.

Borrowing

3.20. Borrowing has been a key focus during Q2. The Council has budgeted £3m of new borrowing for 2010/11 and £1m for 2011/12. Current borrowing supports the capital programme that has previously been funded through the use of surplus funds. Current borrowing is as follows:

- PWLB 50 year maturity £1,100,000
- EIP 10 years £2,000,000

3.21. Additional borrowing in 2010/11 will cost the Council an extra £30,000 that was not included in the original budget. All revenue costs of the Capital Programme will be closely monitored to ensure affordability within budget constraints.

General fund key variances (- change means increased income)					(all £'000)
	2009-10 Outturn	2010-11 Budget	2010-11 Outturn	Change	Comments
Investments	-70	-55	-44	11	Has increased compared to Q1 by £10,000. £2m borrowed in August has resulted in higher funds on temporary investment.
Land charges	-186	-157	-172	-15	Volume generally has increased. Refund of personal search fees (new regulations) will not impact on 2010/11. Legal test case.

General fund key variances (- change means increased income)					(all £'000)
	2009-10 Outturn	2010-11 Budget	2010-11 Outturn	Change	Comments
Council tax summons costs	-105	-92	-100	-8	Based on year to date
Industrial and starter Units	-55	-52	-57	-5	Expected occupancy levels.
Planning fees	-426	-352	-284	68	More small applications so total fee income lower. However some major applications are expected in the second half of the year which may impact significantly on this position.
Building control fees	-376	-412	-411	1	New fee setting basis is designed to recover all costs. More commercial income is being generated to compensate for lower overall volume
SCC recycling contribution	-628	-689	-666	23	Predicted tonnage
Trade waste	-411	-450	-475	-25	Most income in April, small in-year increase
Green waste	-310	-290	-320	-30	Based on current achievement
Babergh Response	-105	-111	-91	20	Many less clients 2010- 11 and no new joiners. This will change in 2011- 12 under a new joint service contract with MSDC.
Car parks	-46	-218	-208	10	Minor variation. Impact of new charges needs careful monitoring.
Legal Services				-8	Saving from shared service with Mid Suffolk
Total - Key Income Areas	-2,718	-2,878	-2,828	50	

General fund key variances (- change means decreased expenditure)					(all £'000)
	2009-10 Outturn	2010-11 Budget	2010-11 Outturn	Change	Comments
Salaries	7,066	6,737	6,578	-159	Impact of vacancies held. Net of potential redundancy costs of up to £100k re. SFP savings (could be capitalised)
Corporate training	58	37	37	0	Predicting on budget
Recruitment costs	11	62	16	-46	Vacancies management and lower recruitment volume.
Business unit and services training	89	121	70	-51	To be monitored carefully for the rest of the year.
Borrowing costs	41	42	72	30	Additional £1m of borrowing planned for Q4.
Miscellaneous legal expenses	16	15	40	25	Increased fraud cases and additional fraud prosecution costs for one particular case (which are unlikely to be recovered).
Concessionary fares - payment to SCC	724	762	700	-62	Fewer journeys claimed by bus operators.
Discretionary rate relief	95	65	65	0	Based on awards in-year. Expect on budget.
Central grants pot (revenue)	441	350	336	-14	The budget has been refined following a full review of the grants paid
Waste Contract	1,844	1,739	1,754	15	Change for revised budget now inflation set
Open spaces & Street cleansing contract	1,194	1,191	1,221	30	Revised budget is therefore increased.
Waste Gate Fees	514	595	522	-73	The rate charged per ton has decreased because the market prices for recyclables are higher.
Energy Costs	100	114	90	-24	Energy prices are lower than assumed in the original budget.
Net cost of free swimming	55	37	31	-6	Free Swimming finished at the end of August 2010. There is a net saving of £6k.
Total - Key Expenditure Areas	12,248	11,867	11,532	-335	

Capital

Area	Original Budget (incl. c/f's & approved adjustment) £000	Actual Q2 £000	Comments
Contract and Asset Mgt.	1,520	368	Includes expenditure on Pin Mill and car parks. A number of schemes have no expenditure yet and some budgeted expenditure is expected to take place in 2011/12. .
ICT	400	60	Includes expenditure of £29k on infrastructure and £28k on service transformation. Some budgeted expenditure is now expected to take place in 2011/12.
Community Development	852	572	Work on Hadleigh Pool and community grant payments
Natural and Built Env't.	419	11	Little expenditure to date
Private Sector Housing	572	242	Disabled and other grants
Total	3,763	1,253	= 33% achieved - comparable to the second quarter in prior years.
Slippage (to be confirmed for revised budget)			
Kingfisher Leisure	(450)		
ICT	(110)		
Revised Total	3,203	1,253	=39%

HRA				
	2010-11 Budget	2010-11 Outturn	Change	Comments
Income - rents and charges (less voids)	-12,890	-12,925	-35	Favourable outturn expected based on rents charged to date, voids management has added to improved results.
Tenancy changes (void properties)	358	358	0	Potential overspend which will be met by budget virements.
Repair Request from tenants	876	876	0	No problems anticipated at this stage.
Painting and Pre-paint repairs	337	337	0	No problems anticipated at this stage.
Sheltered Scheme Salaries	226	226	0	Small overspend to Q2. On target for final outturn.
Energy Costs	245	207	-38	Gas & electricity costs to remain at current rates from 1st October. The budget is to be revised and reduced by £38,000 and the corresponding impact on income is to be closely monitored.
Other budget savings			-35	Close monitoring of budgets is taking place to identify savings
HR Subsidy			88	Increase in negative Subsidy payable
Total	-10,848	-10,921	-20	

Treasury Management Report – Half Year 2010/11

1. Background

- 1.1 The Treasury Management Strategy for 2010/11 has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2009, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year. The Code also recommends that members are informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing Best Practice in accordance with CIPFA's recommendations.
- 1.2 Treasury management is defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2. Economic Background

- 2.1 The headline issues reported during the first half of the financial year are as follows:
- The UK continued to emerge from recession but the level of activity remained well below pre-crisis levels.
 - The Bank of England's Monetary Policy Committee (MPC) maintained the Bank Rate at 0.5% and Quantitative Easing at £200bn. Inflation continued to decline although the annual CPI to August 2010 still stood at 3.1%.
 - The Bank of England's August Quarterly Inflation Report showed inflation remaining above the 2% target for longer than previously projected. Although the recovery in economic activity was expected to continue, the overall outlook for growth was weaker than presented in the May report.
 - The successful formation of a coalition government dispelled uncertainty surrounding a hung parliament result in May's General Election. The new government's Emergency Budget laid out tough action to address the UK's budget deficit, aiming to eliminate the structural deficit by 2014/15. This is to be achieved through austerity measures – £32bn of spending cuts and £8bn of net tax increases.
- 2.2 The European Central Bank maintained rates at 1%. The major ongoing worries in Europe extended from sovereign weakness in Portugal, Italy, Ireland, Greece and Spain, the exposure of the continent's banking sector to the sovereign and corporate debt of these nations and the risk of contagion extending to other countries. The sovereign ratings of Greece, Ireland, Portugal and Spain were downgraded by the rating agencies.
- 2.2 The results from the EU Bank Stress Tests, co-ordinated by the Committee of European Banking Supervisors, highlighted that only 7 (2 Greek, 1 German and 4 Spanish "caja" banks) of the 91 institutions that made up the scope of the analysis were classed to have failed the adverse scenario tests. The main UK Banks' (Barclays, HSBC, Lloyds and RBS) Tier 1 ratios all remained above 9% under both the 'benchmark scenario' and the 'adverse scenario' stress tests.

3. Debt Management

- 3.1 The new long term borrowing of £2m shown in the table below is a PWLB fixed rate EIP loan that was taken out on 24th August at a rate of 2.01%. The principal is repayable in equal six monthly instalments of £100,000 commencing on 24th February 2011. The loan was taken out on this date to take advantage of the low PWLB interest rates at that time.

Current Borrowing	Balance 01/04/2010 £000s	Debt Maturing £000s	Debt Repaid £000s	New Borrowing £000s	Balance 30/09/2010 £000s	Increase/ Decrease in Borrowing
Short Term Borrowing	1,000	1,750	1,750	750	-	(1,000)
Long Term Borrowing	1,100	-	-	2,000	3,100	2,000
TOTAL BORROWING	2,100	1,750	1,750	2,750	3,100	1,000

- 3.2 Details of the Capital Financing Requirement are shown in Annex 1.

4. Investment Activity

- 4.1 The 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.
- 4.2 Security of capital remains the Council's main investment objective and Officers continue to take a cautious approach to investments by using named counterparties with a minimum rating of A+ or equivalent across all ratings agencies. The limit for overnight investments with the Council's bankers, the Co-operative Bank, is £2m. This limit has been breached during the period and sums in excess of £2m but not exceeding £3m have been invested overnight. New bank accounts are being set up for investment of surplus funds to ensure officers are able to fully comply with the Strategy.

5. Investments

	Balance 01/04/2010 £000s	Investments Made £000s	Investments Repaid £000s	Balance 30/09/2010 £000s	Increase/ (Decrease) in Investments
Short Term Investments	2,837	47,374	42,243	7,968	5,131
Long Term Investments	-	-	-	-	-
TOTAL INVESTMENTS	2,837	47,374	42,243	7,968	5,131

- 5.1 A rolling programme of 1 year deposits is operated where cash flows permit, with new investments restricted to the following:

- the Debt Management Office
- Other Local Authorities
- AAA-rated Stable Net Asset Value Money Market Funds
- Deposits with UK Banks and Building Societies systemically important to the UK banking system and which have minimum long-term ratings of 'A' (UK Banks) or 'A-' (UK Building Societies) or equivalent from Fitch, Moody's and S&P
- Deposits with select non-UK Banks (Australia, Canada, France, Italy, Netherlands, Singapore, Spain, Sweden and the USA). These countries, and the Banks within them, have been selected after analysis and careful monitoring of:
 - Credit Ratings (minimum long-term counterparty rating of AA-)
 - Credit Default Swaps
 - GDP; Net Debt as a Percentage of GDP
 - Sovereign Support Mechanisms / potential support from a well-resourced parent institution

6. Credit Risk

- 6.1 Counterparty credit quality has progressively strengthened through the first half of 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
31/03/2010	5.91	A	5.82	A
30/06/2010	4.97	A+	4.70	A+
30/09/2010	4.65	A+	4.29	AA-

7. Counterparty Update

- The Council has decided not to invest any funds with Santander UK Plc for the foreseeable future.
- No further investments will be made with the Ulster Bank once the current investment matures.

Investments as at 30 September

Investment	Principal £	Term - Days	Interest Rate %	Maturity
Lloyds TSB	1,100,000	92	1.00	19/10/2010
Ulster Bank	1,300,000	184	0.95	04/11/2010
Nationwide	1,000,000	92	0.65	25/11/2010
Barclays Bank	1,000,000	186	0.95	30/11/2010
Lloyds TSB	900,000	91	1.00	15/12/2010
Nationwide	1,000,000	184	0.94	16/02/2011
Barclays Bank	1,000,000	184	1.00	24/02/2011
Co-op PSR	667,780	Overnight	0.09-0.31	
Clydesdale (instant access)	0		0.50	
Total Invested	7,967,780			

- 7.1 The Council's budgeted investment income for the year has been estimated at £55k. The average cash balances representing the Council's reserves, working balances etc, were £7m during the period.
- 7.2 The UK Bank Rate has been maintained at 0.5% since March 2009. Short-term money market rates have remained at very low levels. New deposits for periods up to one year have been made at an average rate of 0.61%.
- 7.3 Following the Comprehensive Spending Review (CSR) announcements on 20 October 2010, Standard and Poor's has updated its outlook for the UK from negative to stable.

8. Compliance with Prudential Indicators

- 8.1 The Council can confirm that it has complied with its Prudential Indicators for 2010/11, which were set in February 2010 as part of the Council's Policy and Budget Framework document (accessed through the following link <http://www.babergh.gov.uk>). Details can be found in Annex 2.

9. Outlook for Q3-Q4

At the time of writing this activity report in September 2010, the outlook for interest rates was as follows:

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
Official Bank Rate										
Upside risk	-	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.75	1.00	1.25	1.50	2.00	2.50	2.75
Downside risk	-	-	-	- 0.25	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50

- The recovery in growth is likely to be slow, uneven and more "Square root" than "V" shaped.
- The path of base rates reflects the fragility of the recovery and the significantly greater fiscal tightening of the emergency budget. With growth and underlying inflation likely to remain subdued, the Bank will stick to its lower for longer stance on policy rates.
- Gilts will remain volatile as the growth versus headline inflation debate escalates.
- The negative outlook (S&P) for the UK will remain until the plans to cut the deficit contained in the CSR have been assessed.

10. Summary

- 10.1 In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary of the treasury management activity during the two quarters of 2010/11. A prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

11. Other Information

- 11. CLG Investment Guidance – The revised guidance came into effect on 1st April 2010. The guidance reiterated the need to focus on security and liquidity, rather than yield. It also recommended that strategies include details of assessing credit risk, reasons for borrowing in advance of need and the use of treasury advisers. The Council has incorporated the changes into its Treasury Strategy, Practices and Procedures.
- 11.2 Reform of Council Housing Finance – The consultation (deadline 6th July) proposed the removal of the subsidy system by offering a one-off reallocation of debt. It has since been confirmed that the reform will go ahead with effect from 2012/13. This is likely to involve around £75m of new external borrowing and Officers will consider the treasury management implications further when the details of the Spending Review announcement are clarified.
- 11.3 Following the chancellor's announcement in the Spending Review on 20th October, HM Treasury has instructed the PWLB to increase the average interest rate on all new loans to an average of 1.00% above the Government's cost of borrowing, with immediate effect. This will impact on the cost of borrowing to fund the Council Housing Reform, as detailed in 11.2.
- 11.4 The PWLB will also publish a monthly list of individual loans it has made to local authorities including the type, amount, term and rate applying to each loan. The first list will be published on 1 November.

Capital Financing Requirement

Estimates of the Council's cumulative maximum external borrowing requirement for 2010/11 to 2012/13 are shown in the table below:

	Actual 31/3/2010 £000s	Estimate 31/3/2011 £000s	Estimate 31/3/2012 £000s	Estimate 31/3/2013 £000s
Capital Financing Requirement (Prudential Indicators – Budget Book)	7,162	8,618	9,755	10,251
Less: Current estimate/Long- term Borrowing	(1,100)	(4,100)	(5,100)	(6,600)
Less: Other Long Term Liabilities	(391)	(219)	(109)	0
Cumulative Maximum External Borrowing Requirement	5,671	4,299	4,546	3,651

The Council has followed a strategy of using surplus funds to finance capital expenditure. Going forward there will be a need for further long term borrowing as these surplus funds reduce.

Balances and Reserves

Estimates of the Council's level of Balances and Reserves for 2010/11 to 2012/13 are as follows:

	31/3/2010 Actual £000s	31/3/2011 Estimate £000s	31/3/2012 Estimate £000s	31/3/2013 Estimate £000s
Balances and Reserves	4,466	4,221	3,389	3,213

Prudential Indicator Compliance

(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 £9.9m for 2010/11.
- 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 2010/11 was set at £5.2m.
- The Director of Finance confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the period to 30/09/10; borrowing at its peak was £3.1m.

(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 £m
Upper Limit for Fixed Rate Exposure	8
Compliance with Limits:	Yes
Upper Limit for Variable Rate Exposure	0
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 30/09/10	% Fixed Rate Borrowing as at 30/09/10	Compliance with Set Limits?
under 12 months	30	0	0	0	Yes
12 months and within 24 months	30	0	0	0	Yes
24 months and within 5 years	30	0	0	0	Yes
5 years and within 10 years	50	0	0	0	Yes
10 years and above	100	0	3,100	100	Yes

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

- This indicator allows the Council to manage the risk inherent in investments longer than 364 days.
- The limit for 2010/11 was set at £3m.
- The Council's policy response since the onset of the credit crunch in 2007 was to keep investment maturities to a maximum of 12 months. No investments were made for a period greater than 364 days during this period.