CITY OF PLYMOUTH

Subject:	Support Services Extract - Performance and Finance Report (including Capital Programme update)
Committee:	Support Services Overview & Scrutiny Panel
Date:	2 July 2012
Cabinet Member:	Councillor Lowry
CMT Member:	CMT
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Ref:	fin/djn06/12
Key Decision:	No
Part:	I

Executive Summary:

This report is the final monitoring, or outturn, report for 2011/12 and details the final performance and finance monitoring position of the Council as at the end of March 2012.

The primary purpose of this report is to detail how the Council has delivered against its key indicators in terms of performance, and its financial measures using its capital and revenue resources. It is deliberately strategic in focussing on key areas of performance, expenditure, and risk, and includes under each Departmental Business a section detailing key issues.

With effect from 1 January 2012, the Council restructured its Directorates to move from five to three, with a corresponding reduction in Directors. However, for comparison purposes, this report continues to monitor against the "old" five directorate model.

Finance summary – Revenue

The final position for the year for Corporate Support Services, assuming the transfers to and from reserves as proposed in the report are approved, is net spend of £31.864m giving a surplus of £0.850m.

Finance summary - Capital

The 27 February 2012 Council approved a revised Capital Programme for Corporate Support Services for 2011/12 of £7.662m. The final outturn position for 2011/12 is £6.375m which is 83% of the final approved programme, which is within the financial target of 80% capital expenditure achieved within the year.

Corporate Plan 2012-2015:

This quarterly report is fundamentally linked to delivering the priorities within the Council's Corporate Plan. Allocating limited resources to key priorities will maximise the benefits to the residents of Plymouth.

Implications for Medium Term Financial Plan and Resource Implications: Including finance, human, IT and land

The Medium Term Financial Forecast will now be updated to take account of the outturn position as detailed in this report and reported to Cabinet with this report.

Other Implications: e.g. Child Poverty, Community Safety, Health and Safety, Risk Management and Equality, Diversity and Community Cohesion:

In considering the budget variations for the year, Directors will identify any potential risks to delivering the budget in future years. These will be monitored as part of the corporate reporting process.

Recommendations & Reasons for recommended action:

That Cabinet:-

1. note the provisional outturn position as at 31 March 2012

2. Recommend no departmental budget under or over spends be carried forward in 2012/13, other than those previously agreed by Cabinet.

3. note the position on the Treasury Management activities for the year and that a full report on the Council's performance against its borrowing and investment strategies, including the statutory performance indicators will be presented to Audit Committee on 21 June 2012 and Council on 30 July 2012

4. note the position regarding the Icelandic Banks

Alternative options considered and reasons for recommended action:
Actions are recommended in response to specific variances in either performance and / or finances identifed throughout the report.

Background papers:

- Sustainable Community Strategy
- 2012 Plymouth City Council Corporate Plan
- Joint Performance and Finance Report – February 2012

Plymouth City Council
Performance and Finance Monitoring – 2011/12
Quarter 4 Outturn at 31 March 2012

1. Introduction

1.1 This report reviews the Council's Support Services performance for the year ended 31 March 2012 and is written in the context of the Medium Term Financial Strategy (MTFS).

1.2 The Budget report 2012/13 (Appendix A budget robustness) outlined a number of financial risks that the Council potentially faces over the short to medium term. It is therefore appropriate that as part of reporting the final position for 2011/12 further consideration is now given to future levels of the Working Balance and reserves and, as is normal practice at this time of year, the Director for Corporate Services, as the Council's Section 151 Officer, is recommending a number of adjustments to provisions and reserves within the report.

1.3 The financial information being presented today reflects the Council's management structure prior to the new three directorate model. We have continued to report in this way to ensure consistency and easier comparisons with previous reports in the year, plus the budget reports. The new director structures will be reported on with effect from the first quarterly report of 2012/13.

1.4 The outturn figures will now feed into the Council's formal Statement of Accounts, which will include the balance sheet position. The annual accounts this year will again be produced on an International Financial Reporting Basis (IFRS).

1.5 The Accounts and Audit Regulations were revised last year and the Director for Corporate Services, as the Council's Section 151 Officer, is now required to formally approve the accounts by 30 June 2012. The external auditor is required to audit the accounts by 30 September – the statutory deadline for their publication; the Audit Committee will be formally asked to approve the final accounts for the year following completion of the audit

1.6 The performance data in this report presents the latest position on information currently available.

1.7 The Council is also required to produce an end of year report on its treasury management activities for the year, comparing these to the approved borrowing and investment strategies. This report is required to be scutinised by Audit Committee and approved by Full Council. Section D of this report therefore provides Cabinet with an overview of the treasury management activities during the year which will form the basis of the formal strategy review

1.8 This report contains the following sections and Appendices:-

Section 'A' – Executive Summary - Performance

Section 'B' – Executive Summary – Finance

- Revenue
- Capital

Section 'C' – Executive Summary – Human Resources

Section 'D' – Departmental Performance & Finance Report

Section 'E' – Treasury Management

Section 'F' - Concluding Remarks

Appendices:

Appendix A	
Appendix B	
Appendix C	Net spend per service
Appendix D	
Appendix E	Reserves
Appendix F	Provisions

SECTION A - EXECUTIVE SUMMARY PERFORMANCE

2. Performance Management arrangements

2.1 The council monitors 96 level 2 and 3 indicators that contribute towards achieving Plymouth's four priorities of Growth, Aspiration, Inequality and Value for Communities. This year 50% of indicators met target with 59% showing actual improvement between 2010/11 and 2011/12. Critical performance issues are raised in the summary below. More details are provided in section D of this report.

2.2 **Corporate Support**

Improvements to Revenues and Benefits processing times are starting to materialise. The service will continue to reduce processing times and the service is now looking at achieving an overall target of 15 days by August 2012 (compared to 30 days as at the beginning of 2011). For the third year in a row, the actual percentage of income collected for Council Tax has improved and now stands at 96.30%.

Critical performance issues raised in this report will be priorities for action in the new Corporate Plan 2012-15

SECTION B - EXECUTIVE SUMMARY – FINANCE

3. General Fund Revenue Budget

3.1 Council approved a Support Services' net revenue budget of £32.714m for 2011/12 at its meeting on 28 February 2011. Table 1 below provides a summary of the Council's overall revenue expenditure and compares the draft outturn with the latest approved budget.

Table 1End of year revenue outturn *NB Brackets ( ) reflect a favourable variation*

Fund	Latest Approved Budget £000	Final position for the year £000	Budget Variation for year £000	% variation
General Fund	32,714	31,864	(850)	(2.59)%

3.3 The individual Directors reports in section B give more detail of the reasons for the variations on their budget. A more detailed breakdown of the actual spend by service is included at Appendix C

Table 2 End of year revenue outturn by department

Department	Latest Approved Budget £000	Actual 2011/12 £000	Variance prior to adjustments £000	Corporate Health and other adjustments proposed £000	Adjusted Outturn for year £000	Variation to budget £000
Corporate Support	29,566	29,428	(138)	6	29,434	(132)
Chief Executive	2,611	2,636	25	0	2,636	25
Corporate Items	537	(362)	(899)	156	(206)	(743)
Total	**32,714**	**31,702**	**(1,012)**	**162**	**31,864**	**(850)**

4 2011/12 Financial Health Review

4.1 The budget variation targets of no more than 1% overspend or 2% underspend remained in place for 2011/12 with the quarterly monitoring reports continuing to report individual departmental variances. The graphs at Appendix A track the full movement during the year both overall and by each Directorate. This has been supplemented this year by detailed departmental performance scorecards which brought together variations in both budget and performance with the narrative within the scorecards intended to provide a high level overview with a focus on explaining corrective action where required. The scorecards used a simple traffic light system to indicate performance overall. Although reporting has been on a quarterly basis, monthly scorecards were submitted to CMT and Cabinet Planning.

4.2 As part of consideration of the outturn position, and before officially 'closing the accounts', it is necessary to review the Council's overall financial health position, looking not only at the outturn position for the year, but reviewing the adequacy of reserves and provisions in the light of pressures identified over the short to medium term. Decisions made feed into the Council's statutory Statement of Accounts which is subject to external audit. The following transfers to provisions have already been reflected in the outturn figures.

Increase to Bad Debt Provision	£0.325m
Reduction to Insurance Provision	£(0.325m)

These transfers have been met from the Corporate Items budget.

4.3 As an integral part of the financial health review the Director for Corporate Services and Corporate Management Team (CMT) are recommending the following transfers to/from provisions and reserves, which amount to £0.735m:

4.4 Transfer to Bad Debt Provision £0.279m
In the current uncertain economic climate, we have taken a further forensic approach to our review of bad debts, and are recommending that further provision is set aside against aging debts.

4.5 Transfers to/from Reserves

a. Transfer to Plymouth Life Centre Dowry £0.150m

The approved budget for 2012/13 does not include any allocated resource towards the cost of future running repairs to the new Plymouth Life Centre. We need to ensure we put aside monies each year to avoid facing the requirement to fund large sums of money in the future, as the building matures and repairs are needed.

b. Transfer to Pay Settlement Reserve- £0.350m

The Council continues to progress towards settlements of potential equal pay claims following due diligence. An anticipated amount of £1.8million remains the Council's recommended reserve amount for potential liabilities. The transfer to reserves of £0.350m provides a total of £0.7m towards this sum within the council's reserves.

c. Transfer to Schools PFI Reserve £0.200m

In the current economic climate, the investment returns the Council is able to achieve are falling short of the targets required when the PFI scheme was secured. It is therefore prudent that we allocate this notional sum and look to further increases in the coming years.

d. Balance Sheet Offset £(0.244m)

Following a full review of our balance sheet accounts we are able to release the sum of £0.244m as being previous year balances no longer required.

5. Capital Programme

5.1

Table 3 – Capital Outturn 2011/12

		Movement in Period			
Directorates	**Budget Report Feb 12**	**Reprofiling**	**Variations**	**2011/12 Outturn**	**Outturn as % of Budget Report**
	£000	**£000**	**£000**	**£000**	
Corporate Support	7,662	(1,202)	(85)	**6,375**	83%

<u>Table 4 Capital Medium Term Forecast</u>

5.5 The Council has adopted a four year Capital MTFF (current year plus three) aligning it with the number of years over which the revenue MTFF is based. The programme will grow in future years when we receive more certainty around future funding streams.

New Approved Scheme	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	**Total £000**
Design & Implement Modernised Ways of Working (approved at April Council)	1,000	750	750	500	**3,000**
North Prospect Library (approved under delegated powers)	0	75	0	0	**75**
Total	**1,000**	**825**	**750**	**500**	**3,075**

<u>Table 5 - Capital Medium Term Forecast by Directorate</u>

	2012/13 Revised £000	2013/14 Revised £000	2014/15 Revised £000	2015/16 Revised £000	**Total £000**
Corporate Support	8,750	1,271	750	500	**11,271**

SECTION C – EXECUTIVE SUMMARY – HUMAN RESOURCES

6. Human Resources Key Messages

6.1 A major review of terms and conditions took place in 2011/12 and new local terms and conditions, 'the Plymouth Book' were agreed in September 2011. Implementation took place in accordance with an agreed timetable.

6.2 At the end of March 2012, there were 4155 employees (3248.5 FTE) compared to 4713 employees (3671.6 FTE) in March 2011. This is a reduction of 558 employees (423.1 FTE).

6.3 Corporately, a threshold of 5% of the total wage bill has been set, to monitor the use of agency staff. The % fluctuates during the year, but based on the total actual salary spend for 2011/12, 4.88% was spent on agency staff.

6.4 Sickness absence continues with a downward trend towards the council's target of 6 days per FTE. The sickness outturn for 2012/13 is 9.78 days per FTE (excluding schools) compared to 12.92 days per FTE for 2011/12. This is a reduction of 3.14 days per FTE.

6.5 During 2011/12 (April 2011-March 2012), 68 people have been made redundant and left the Authority.

6.6 A total of 160 joined the redeployment register between 01/04/11 and 31/03/12 for the following reasons:-

End of apprenticeship	6
Capability	1
Ill Health	5
Redundancy	130
Other (e.g. disciplinary outcome, end of particular temp contracts)	18
Total	**160**

6.7 54 people were redeployed within 2011/2012 and assistance was give to 1 person to start their own business.

6.8 An additional 34 people are classed as 'no longer at risk', but were provided alternative employment by some other means i.e. funding extended / slotted in to other roles.

6.9 A 'time limited' voluntary release scheme operated during part of 2011/12, and 85 choose to leave the authority.

6.10 At the end of 2011-2012, a 100% completion rate for appraisals had been achieved. 97% of staff had met or exceeded expectations, with only 30% not meeting expectations.

6.11 The Interim Staff Survey results in 2011 showed an increase in staff engagement of 5% to 62%. Every department registered an increase in staff engagement compared to 2010.

6.12 A Senior Management Review took place for the top two layers of management, Directors and Assistant Directors, with implementation in January 2012 and March 2012 respectively.

SECTION D – DEPARTMENTAL PERFORMANCE & FINANCE REPORT

7. Corporate Support

7.1 Revenue Position – 2011/12 Year-end

Latest Approved Budget	Actual Outturn	Corporate Health Adjs	Final Outturn	2011/12	Variance – Adv/(Fav)
£000	**£000**	**£000**	**£000**	**CORPORATE SUPPORT**	**£000**
180	176		176	Departmental Management	(4)
13,939	13,972		13,972	Finance, Assets & Efficiencies	33
3,231	3,191		3,191	HR & Organisational Development	(40)
5,439	5,439		5,439	ICT Information Systems	0
2,072	1,976		1,976	Customer Services	(96)
5,062	4,931		4,931	Democracy & Governance	(131)
(357)	(257)	6	(251)	Budget Savings	106
29,566	**29,428**	**6**	**29,434**	**TOTAL GENERAL FUND**	**(132)**

Responsible Officers: JP Sanders / Tim Howes / Malcolm Coe / Mark Grimley / Neville Cannon

Customer Services
Customer Service performance has been excellent in Q4 as the new structure bedded in quicker than anticipated and individual frontline staff performed well across the range of services we deliver. We have had a record quarter for compliments. Main reception continues to struggle with ever increasing face to face visitors caused by the economic situation. All information measures continue to be a concern, but the initial Information Lead Officer Group (ILOG) meeting has set a platform for a renewed focus on improving corporate performance across these areas.
Libraries continue to outperform the national average and 2012/13 sees a number of new customer focussed initiatives, such as the Our Health pilot where customers get information to help manage their condition.

Democracy and Governance
Close monitoring and review of all budget heads has enabled the forecasts to be met despite the unforeseen budget pressures. An additional benefit has been the ability of the Legal service to increase their fee income through shared working/services. The year-end figures shows an overall underspend of £0.131m against budget.

ICT
The provisional capital outturn for ICT Information Systems is £0.605m which is 80.77% of the latest approved budget of £0.749m.

Availability of the top 14 services has consistently remained above target throughout the year. A bug in the Microsoft software affected performance for March 2012, however relevant fixes have addressed this problem.

HR
An average of 9.78 days per FTE across the Council is the sickness absence outturn for 2011/12. This is an improvement of 2.14 days per employee compared with 2010/11 where the end of year outturn was 12.92 days.

Finance, Assets and Efficiencies
Improvements to Revenues and Benefits processing times are starting to materialise. The backlog of 'change in notification' cases, which stood at 2,600 when the new structure was implemented in November 2011, has now been cleared. We have absorbed a significant increase in service demand bought about by the economic environment and response to a successful benefit take up campaign. The new structure, coupled with a detailed improvement plan for the service, will continue to reduce processing times and we are now looking at achieving an overall target of 15 days by August 2012 (compared to 30 days as at the beginning of 2011 12). The financial target for reducing spend across the service has been achieved and exceeded. The provisional capital outturn for Finance, Assets & Efficiencies is £5.020m which is 83.53% of the latest approved budget of £6.010m.
Core income targets for the year have been narrowly missed. However, for the third year in a row, the actual percentage of income collected for Council Tax has improved.

7.2 Risks and Issues

- Challenge of improving support services whilst managing down spend and meeting delivery plan savings targets;

- Capacity within the department to support the Council's change agenda and challenging financial targets

- Ensuring that expertise is retained throughout the service and redundancy costs are minimised

- Accommodation Strategy – risk of not achieving required revenue long term savings through delays in obtaining a long term solution for the future of the Civic Centre.

- Any delay in the implementation of the new Customer Relationship Management system will delay the move of services into the Customer Service team and subsequent cross cutting delivery plan.

7.3 Medium Term Issues

HR

The Council is replacing its HR and Payroll systems and has entered into contracts for the implementation of these new systems. The proposal is to go live during the middle of 2012/13.

Finance, Efficiencies, Technology and Assets (FETA)

Provision has been made in the revenue budget to meet the costs of the routine maintenance of the Council's operational buildings. Improvement works are charged to the capital budget. The asset management strategy identifies that there is a significant backlog in maintenance obligations. Risks include health and safety issues that may arise during the year and the uncertainties over the future of the Civic Centre.

The national economic climate is having an impact on the local authority. This may result in reduced collection rates for the Authority.

ICT continues working on vital projects such as HR Payroll, new way of working roll-out, the building of the new data centre, the designing and provisioning of services to facilitate the co-location with Health, and the planning for an eventual move out of the Civic Centre.

Within revenues and benefits department, officers are working closely with central government and DWP and other local authorities to ensure as smooth a transition as possible to the new ways of processing benefit claims. This is part of the Government's Welfare Reform initiative, with a proposed implementation date of April 2013.

Democracy & Governance

There are potential pressures for 12/13 and beyond around known and potential elections. For example, if a referendum on executive arrangements for the Council is "Yes" for a Mayor then there has to be a full election within 6 months, with the costs associated with this a pressure to revenue budget.

8. Executive Office

8.1 Revenue Position – 2011/12 Year-end

Latest Approved Budget	Actual Outturn	Corporate Health Adjs	Final Outturn	2011/12	Variance – Adv/(Fav)
£000	**£000**	**£000**	**£000**	**DEVELOPMENT & REGENERATION**	**£000**
479	438		438	Departmental	(41)
1,661	1,720		1,720	Performance & Policy	59
471	478		478	Corporate Communications	7
0	0	0	0	Budget Savings	0
2,611	**2,636**	**0**	**2,636**	**TOTAL GENERAL FUND**	**25**

Responsible Officers: Giles Perrit, Richard Longford

Chief Executive

The final outturn position for the Executive office is a minor over spend of £0.025m detailed above.

9. Corporate Items and Cross Cutting Issues

Revenue budget forecasted out-turn

9.1 **Corporate Items - Revenue Budget Monitoring – underspend (£0.899m), prior to corporate health adjustments**

A summary of the main variations for the year is outlined below:

	£000
Capital Financing - other	(389)
Low paid employees pay award, not used	(200)
Enhanced superannuation	(55)
Support Service recharges	(61)
NNDR Refunds from revaluation	(148)
Contingency	(500)
Additional bad debt provision	325
Insurance provision	(325)
Carbon Reduction Commitment CRC 2011/12	240
Additional Pension contributions	297
Insurance premium savings	(144)
Other variances	61
TOTAL VARIANCE	**(899)**

Further details on the main variations are given below.

(a) Capital Financing Budget – favourable variation (£0.389m)

In accordance with the Code of Practice on Treasury Management the Council is required to formally report on its Treasury Management activities for the year, providing information on the progress and outcomes against the Treasury Management Strategy. This report will be presented to Audit Committee on 21 June 2012. A summary of the treasury management activity for the year, including more detail on the implications for the revenue account, is given in section D of this report.

(b) Low paid pay award – (£0.200m)

Included in the 2011/12 budget was an allowance for "low paid" employees to receive a one-off pay increase of a flat £250. This was following guidance from central government. As we were unsure of the timing of the award, the money was set aside in corporate items rather than being charged to each department. This award was not actioned as advice changed and we maintained our pay freeze across all levels of staff.

(c) Carbon reduction Commitment levy – £0.240m

This was the first year of the government's new levy on carbon reduction. The cost was not included in the budget as it was not clear how and when the charge would first be implemented. The total charge for the city is estimated at £.400m but we have ensured the schools and academies have taken their share at £0.160m. we are working with Salix to progress green schemes to reduce both the council's and the schools' future exposure to the levy.

(d) Additional pension contributions - £0.297m

The Council is subject to a rolling three year valuation of its pension fund. This valuation sets the level of pension contributions required from both employees and the council. At the end of 2011/12 being the first of the three years, the pension administrator has advised us of an in-year funding gap of £0.297m. This is expected to be repeated in the next two years also.

(e) Additional transfer to bad debt provision £0.325m offset by reduction in insurance provision £(0.325m)

Section E – Treasury Management

10. Treasury Management Activity

10.1 The Council is required to formally report on its Treasury Management activities for the year, providing information on the progress and outcomes against the Treasury Management Strategy. This report will be presented to Audit Committee on 27 June 2012. However, Treasury Management activity forms an integral part of the Council's budget and this section summarises the main financial implications for the year.

10.2 The Council's borrowings and investments at the end of March 2012 are shown below. In accordance with the Council's treasury management strategy no long term borrowing was taken in 11/12 with any borrowing requirement met from short-term borrowing and internal balances to reduce credit risk. At 31 March 2012, the Council's investments had reduced from £165.802m to £62.486m and its borrowings from £286.383m to £206.398m. A further £21.89m of deposits had been made on behalf of the Heart of the South West Local Enterprise Partnership (LEP) with Plymouth City Council acting as the accountable body for the Growing Places Fund.

10.3 The Council received investment interest of £2.08m and paid out £9.234m in interest against borrowings during the year as shown in the table below. External interest payments increased as a result of short-term borrowing taken for part of the year as an alternative to using internal balances to meet cashflow requirements. The use of short-term borrowing allowed for increased investment income from cashflow and longer-dated deposits increasing investment income.

Table 7

	2010/11 Budget £000	**2010/11 Outturn £000**	**Variance £000**
External Interest payable	8,872	9,234	362
External Interest receivable	(1,593)	(2,080)	(487)
Net Interest payable for year	**7,279**	**7,154**	**(125)**

Borrowing

10.4 The Council's loans at 31 March 2012 were:

	Principal O/S £000	**Average Rate %**
PWLB (Public Works Loan Board)	61,315	5.4001
Market Loans	130,000	4.4202
Bonds	83	1.1668
Temporary Loans	15,000	0.2900
Total Borrowing @ 31/03/12	**206,398**	**4.4098**
PFI	31,017	
Finance Leases	2,585	
Total Debt 31/03/12	**240,000**	

10.5 The borrowing limits for 2011/12, originally approved by Council in March 2011 were as follows:

- Authorised limits £368m
- Operational Boundary £343m

The revised prudential indicators, as presented to Cabinet on the 7 February 2012 and subsequently approved by Full Council on 27 February 2012, reduced the limits to fall in line with the Council's strategy to reduce debt when credit conditions worsened as was the case during the second half of the year. The approved updated limits were as follows:

- Authorised limits £291m
- Operational Boundary £271m

10.6 The maximum debt outstanding in 2011/12 was £325.959m on 11 April 2011 (including £31.753m for the PFI scheme and £3.263m of Finance Leases). This was within both the authorised limit and the operational boundary. Following the reduction in borrowing limits in February 2012 the maximum debt outstanding reached £241.414m on 20 March 2012. This was again within both the updated authorised limit and operational boundary.

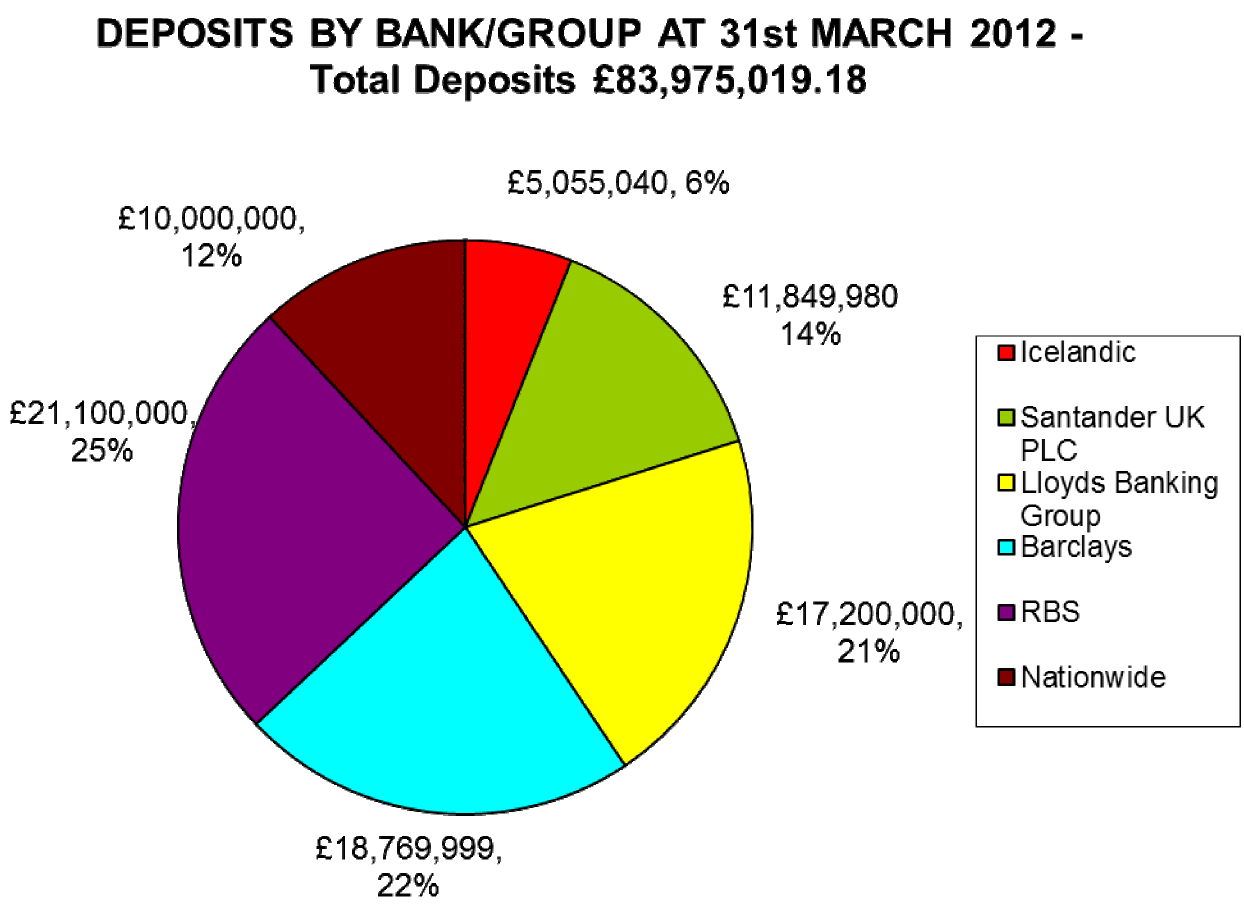
10.7 <u>Overall Debt Performance for the year</u>

The average interest rate on the Council's borrowing has increased over the course of the year from 3.3222% to 4.4098%**.** This rate reflects the position at the end of each financial year (i.e. at 31 March for 2011 and 2012). The increase in rates is due to the repayment of low rate short-term loans using internal balances as credit conditions worsened over the second half of the year. Loan transactions were taken at various times throughout the year at various rates and, taking all transactions in the year, the overall average borrowing rate for 2011/12 was 3.9652% compared with a rate of 3.5476% for 2010/11.

Investments

10.8 At 31 March 2012 the Council's investments stood at £62.586m with a further £21.49m invested on behalf of the Heart of the South West LEP. This has reduced from £165.802m at 31 March 2011due to the repayment of short-term loans and the use of internal balances to cover the capital financing requirement.

10.9 Investments are made short term to cover cash flow and liquidity requirements and longer term to maximise and guarantee future income. There were no longer term deposits taken during February/March with investment limited to the use of call accounts to manage cash flow.



10.10 <u>Overall Investment performance for the year</u>

During 2011/12 the Council invested for a range of periods from overnight to 15 months, dependent on the Council's cash flows, officer's interest rate view and the interest rates on offer, and the economic climate. The Council's treasury management officers work to a benchmark rate of return, the 7 day London Interbank Bid (LIBID) rate – which is the rate which can be achieved on the London interbank market for cash deposits of 7 days and is regarded as the standard benchmark. The 7 day rate is calculated on a daily basis and averaged for the year. Table 10 below compares the average return achieved by the in-house team with the benchmark. An average rate of 1.02978% was achieved for new investments (including investments made on behalf of the LEP) in the year against a budget of 1%.

Table 8

	Average Investment	Benchmark Rate %	Actual Return %
Internally Managed	£127.035m	0.54	1.3647

The table shows that the internal performance exceeded the benchmark for the year, despite the restricted investment counterparty list and tighter limitations placed on deposits in the second half of the year.

10.11 <u>Icelandic Banks Update</u>

The latest position on the recoveries of monies invested in the Icelandic banks is as follows:

10.12 Heritable Bank £3m

The Council received further dividends totaling 17.81p in the £ in 2011/12, made up of principal of £0.534m and interest of £0.027m, bringing total dividends paid to 31st March 2012 to 67.92%.

10.13 Glitnir £6m

In March 2012 the council received £5.033m made up of principal of £4.742m and interest of £0.291m.

10.14 Landsbanki £4m

In February 2012 the Council's receipt amounted to £1.230m made up of principal of £1.165m and interest of £0.065m.

10.15 The Council continues to pursue the recovery of the outstanding monies through the Icelandic Courts in partnership with the LGA.

10.16 The cost of the continuing external legal advice has been met from the Council's internal reserve set up for Icelandic bank issues. A sum of £0.020m has been incurred in 2011/12.

10.17 Impairment of Icelandic bank deposits

In the 09-10 Accounts impairment was calculated based on an estimate of future collections. At this point the impairment of the deposits was calculated as £5,903,956.28. To cover this impairment a capital direction was applied for and agreed to the value of £5.7m. This allowed the Council to capitalise this expenditure and spread the charge to revenue over 20 years. The remaining balance of £203,956.28 was met by a transfer from the internal Icelandic Bank reserve. This reserve had been created to cover Icelandic legal costs and losses on recovery of the Icelandic deposits. Following the receipt of dividends in 2011-12 and 2012-13 this impairment has been recalculated and reduced by £767,371.45 so the impairment is in line with the unrecovered deposits. This reductions means that part of the accounting entries made in 2009-10 can be reversed resulting in a transfer back to the Icelandic bank reserve of £203,956.28 increasing the balance in this reserve to £563,886.77. The remaining adjustment £563,415.17 reduces the Council's borrowing requirement and the annual revenue charge over the next 18 years. Any additional receipts prior to the publication of the 11-12 will result in an amendment to these accounts and a further reduction in the impairment.

REVENUE IMPLICATIONS OF TREASURY MANAGEMENT

10.18 The expenditure arising from the Council's borrowing and lending accrues to the revenue accounts. This includes interest payable and receivable, the minimum revenue provision (for debt repayment), and premiums and discounts written out to revenue from previous debt rescheduling. Some of the interest receivable is passed onto specific accounts where this interest has accrued from the investment of surplus balances for these services. The balance (net cost) is met by the General Fund. Table 11 below shows the income and expenditure arising from these transactions in 2011/12.

10.19 The net cost of capital financing to the General Fund in 2011/12 reduced by £0.388m from the 2011/12 budget due to a reduction in MRP of £0.267m, reduced treasury management costs of £0.190m and other cost increases of £0.039m. The MRP is a statutory charge to revenue based on the Council's capital expenditure financed from borrowing. The reduction in treasury management costs is due to use of low rate short term borrowing as an alternative to the use of internal balances to fund capital expenditure and a reduction in debt management costs. Additional MRP and interest payments resulted from PFI schemes however this was matched by grant funding.

Summary of Capital Financing Costs 2011/12

Table 9

	2011/12 Budget £000	2011/12 Outturn £000	Variance £000
External Interest payments	8,872	9,234	362
Interest payable (PFI)	0	2,773	2,773
External Interest received	(1,593)	(2,080)	(487)
Interest transferred to other accounts	50	140	90
Premiums / Discounts written out to Revenue	(189)	(189)	0
Debt Management Expenses	130	115	(15)
Treasury Management Cost	**7,270**	**9,993**	**2,723**
Minimum Revenue Provision	7,285	7,018	(267)
Minimum Revenue Provision (PFI)	0	737	737
Recharges for unsupported borrowing	(1,588)	(1,512)	76
Recovered from trading Accounts	(3,332)	(3,480)	(148)
PFI Grant	0	(3,510)	(3,510)
Net Cost to General Fund	**9,635**	**9,246**	**(389)**

SECTION F - CONCLUDING REMARKS

11.1 This report represents a review of the Council's Corporate Support Services performance for 2011/12. It is the financial position as at 31 March 2012. It has also considered the financial health of the Council looking at levels of reserves and provisions against the background of the Medium Term Financial Strategy.

11.2 Council continues to be facing a series of challenging issues into the medium term.

11.3 In response to this, the Corporate Management Team is working with the Cabinet to develop a change programme that fundamentally challenges the organisation's culture, structure and approach to service delivery. This change programme will continue to progress and be reported on throughout 2012/13.

11.4 An improved corporate reporting process, focusing on a greater integration of performance and finance information, including partnership performance, is being developed by Officers. A return to quarterly reporting of joint finance and performance information proved successful during 2010/11 and 2011/12. The formal joint reports will continue to be supplemented by monthly scorecards to Corporate and Departmental Management teams demonstrating progress. The emphasis needs to be one of looking forward: updating the MTFS regularly as things change will ensure we are able to proactively plan for the future.

11.5 Our result for 2011/12 shows we have come very close to achieving the very challenging budget. We have been able to maintain our Working Balance at £11.3m representing 5.5% of our 2012/13 net budget spend requirement. This is in line with both our MTFS and Unitary Treasurer comparators.

11.6 As stated in our revised June 2012 Medium Term Financial Strategy (MTFS), following the new political administration taking control in May 2012, we will need to flex our future resource allocations to meet our revised priorities.