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18 September 2012

S U M M O N S

MEETING: Policy and Organisation Board
DATE: 26 September 2012
TIME: 6.00 pm
PLACE: Committee Room 1, Town Hall, Gosport
Democratic Services contact: Lisa Young

LINDA EDWARDS
BOROUGH SOLICITOR

MEMBERS OF THE BOARD

The Mayor (Councillor Dickson) (ex-officio)
Councillor Hook (Chairman)
Councillor Burgess (Vice-Chairman)

Councillor Beavis	Councillor Langdon
Councillor Carter CR	Councillor Philpott
Councillor Chegwyn	Councillor Ronayne
Councillor Lane	Councillor Wright

FIRE PRECAUTIONS

(To be read from the Chair if members of the public are present)

In the event of the fire alarm sounding, please leave the room immediately. Proceed downstairs by way of the main stairs or as directed by GBC staff, follow any of the emergency exit signs. People with disability or mobility issues please identify yourself to GBC staff who will assist in your evacuation of the building.

IMPORTANT NOTICE:

- If you are in a wheelchair or have difficulty in walking and require access to the Committee Room on the First Floor of the Town Hall for this meeting, assistance can be provided by Town Hall staff on request

If you require any of the services detailed above please ring the Direct Line for the Democratic Services Officer listed on the Summons (first page).

NOTE:

- i. Councillors are requested to note that, if any Councillor who is not a Member of the Board wishes to speak at the Board meeting, then the Borough Solicitor is required to receive not less than 24 hours prior notice in writing or electronically and such notice shall indicate the agenda item or items on which the member wishes to speak.
- ii. Please note that mobile phones should be switched off for the duration of the meeting.

AGENDA

PART A ITEMS

RECOMMENDED
MINUTE FORMAT

1. APOLOGIES FOR NON-ATTENDANCE

2. DECLARATIONS OF INTEREST

All Members present are required to declare, at this point in the meeting or as soon as possible thereafter, any disclosable pecuniary interest in any item(s) being considered at this meeting.

3. MINUTES OF THE MEETINGS OF THE BOARD HELD ON 27 JUNE 2012

4. DEPUTATIONS – STANDING ORDER 3.5

(NOTE: The Board is required to receive a deputation(s) on a matter which is before the meeting of the Board provided that notice of the intended deputation and its object shall have been received by the Borough Solicitor by 12 noon on Monday, 24 September 2012. The total time for deputations in favour and against a proposal shall not exceed 10 minutes).

5. PUBLIC QUESTIONS – STANDING ORDER 3.6

(NOTE: The Board is required to allow a total of 15 minutes for questions from members of the public on matters within the terms of reference of the Board provided that notice of such Question(s) shall have been submitted to the Borough Solicitor by 12 noon on Monday, 24 September 2012).

6. HOUSING STAFFING REVIEW; TECHNICAL AND ASSET MANAGEMENT

PART II

This report considers the implications of the review of the Council's Corporate Property function and the recent review of the current Housing Services Technical Services/Asset Management teams and proposes changes to the organisational structure and staffing levels in the light of the review reports.

Contact Officer:
Corrine
Waterfield
Ext 5372

7. FINAL ACCOUNTS 2011/12

PART II

To present the Statement of Accounts and provide an overview of the outturn position for 2011/12.

Contact Officer:
John Norman
Ext 5361

8. TREASURY MANAGEMENT

PART II

Report to Follow

Contact Officer:
John Norman

9. BUDGET STRATEGY

PART II

To consider the strategy for preparation of the Council's budget for the next financial year in the light of the Medium Term Financial Strategy 2012-2017 approved by the Board in June 2012 and the current national and local financial situation.

Contact Officer:
Julian Bowcher
Ext 5551

10. ANY OTHER ITEMS

which the Chairman determines should be considered, by reason of special circumstances, as a matter of urgency.

AGENDA ITEM NO. 6

Board/Committee:	Policy & Organisation Board
Date of Meeting:	26 September 2012
Title:	Housing Staffing Review; Technical & Asset Management
Author:	Housing Services Manager
Status:	FOR DECISION

Purpose

This report considers the implications of the review of the Council's Corporate Property function and the recent review of the current Housing Services Technical Services/Asset Management teams and proposes changes to the organisational structure and staffing levels in the light of the review reports.

Recommendation

That Policy and Organisation Board approve;

- The creation of a Head of Property Services as set out in paragraph 2.1
- The continuation on a permanent basis of the administrative assistance provided for 27.5 hours per week for the team by a member of staff previously employed in Corporate Services (LCS28) (paragraph 2.4.1)
- Housing Finance Support Officer increase in hours as set out in paragraph 2.4.2

1.0 Background

- 1.1 In January 2012 the Housing Service appointed a consultant to undertake a 'root & branch' review of the Technical and Asset Management teams within the Housing Service in preparation for the impact of Housing Subsidy Reform and in particular the ability to increase capital and revenue funding that was much needed and that would be able to be delivered from the changed funding regime.
- 1.2 The increasing financial resources needed to be directed towards capital & revenue expenditure combined for investment in stock can be seen by comparing past with predicted;

2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
£3.9m	£4.9m	£5.4m	£5.7m*	£6.1m*	£6.1m*
£1.3m/surveyor	£1.6m/surveyor	£1.8m/surveyor	£2m/surveyor	£2.2m/surveyor	£2.2m/surveyor

*estimates based on the objective to eradicate "catch up" repairs backlog in 3 years (based on figures as at March 12)

These proposed expenditure levels will be directed to maintaining the decent homes standard, the agreed (Housing & Community Boards in March 2011 and March 2012 respectively) decent homes plus programmes and the substantial catch up repairs programme. A programme value/surveyor ratio of 1 surveyor to every £1m spend is considered a general 'rule of thumb' guide within the industry. The gap between that ratio and the reality (ranging from £1.3-£1.8m/surveyor) has been covered by the Principal

Surveyor's direct involvement in service delivery to date. It is believed that a failure to respond to this changing financial agenda may threaten the ability of the Housing Service to deliver on current and future programme commitments or at the very least there is a higher risk of misdirected or inappropriate programmes of variable quality.

- 1.3 These observations echo the 'Housing Services Staffing Review' (Tribal Report) back in March 2008:

"The number of staff employed on the repairs aspects of the landlord service, particularly responsive repairs, is low and whilst we are aware that the majority of such work is carried out through partnering arrangements, these [partnering arrangements] nevertheless need effective monitoring and supervision."

- 1.4 The consultant's report on which this report is based does highlight many areas of good practice, high performance and considerable successes within Technical Services/Asset Management teams. It however also highlights considerable staffing resource shortfalls (even at current spend levels) as well as insufficient technical leadership and an absence of capacity to deal with the emerging technical agenda around the asset management stock condition database and future capital/revenue repair programming.
- 1.5 The consultant's report reinforces observations made at the annual contract review and is also reflected in the annual tenant (Star) questionnaire; namely an under-resourced Housing Services asset management team failing to adequately monitor and deliver the programmes in respect of lack of sufficient involvement in the inspection, specification and monitoring regimes.
- 1.6 This report highlights those shortfalls in staffing resource and proposes a re-structure to address 'technical leadership' concerns. The current staffing structure and the proposed structure are identified in Appendix A (i) (ii) & B.

2.0 Report

- 2.1 This report recommends linking the existing Asset Management team (strategic) and the current Technical Services team (operational) under a newly created **Head of Property Services** (Section Head) reporting to the Housing Services Manager. A proposed job description is appended to this report (Appendix C).
- 2.2 The Principal Asset Management Officer and Principal Surveyor would report to that newly created Head of Property Services.
- 2.3 *Asset Management team (strategic)*
It is proposed that the team structure remain largely unchanged under the Principal Asset Management Officer but with the addition of a 2 year fixed term post of Asset Management Surveyor. This post would undertake a survey of the housing stock and process the data over the 2 years.
- 2.3.1
 - **Asset Management Surveyor** (New 2 year fixed Term Post) – would carry out stock condition surveys, option appraisals, data validation.
- 2.4 *Technical Services team (operational)*

The following changes to the establishment are proposed:

- 2.4.1 **Administration Support officer (LCS28)** Following recent reorganisations, essential administrative support for 27.5 hours per week has been provided over the past 18 months by a member of staff previously employed in Corporate Services. Approval is sought to make this arrangement permanent, funded through the HRA.
- 2.4.2 **Housing Finance Support Officer (HS 75)** increase from 18.5 hours as current to 37 hours per week post. An important element of control and financial prudence as well as VfM requires detailed financial monitoring of the 2 contracts (Asset Management & Gas). It is proposed, with the increasing and complex data, that the half a Housing Finance Support Officer post cut in 2009 is restored to release the Head of Finance from routine financial support work for the contracts. It is further proposed that the Housing Finance Support Officer post take on further tasks currently associated with the Administration officer (Asset Management) commensurate with the formers role for example insurance claims, thus enabling that postholder to take on additional duties relating to database input, reporting and responding to requests for information.
- 2.5 In addition to these proposals the Council are working in partnership with Kier to increase their establishment by adding a further two building Surveyors to deliver on capital improvement works; over cladding, roofing, painting & repairs, window and door replacements – works that primarily take place outside a property.
- 2.6 *Corporate Property*
- 2.6.1 Various difficulties have been experienced within the Corporate property function which has been addressed with considerable senior management focus.
- 2.6.2 The Head of Corporate Asset Management has now retired and to ensure the Corporate property function continues in the future to be efficient and effective the two distinct areas of the service, facility management and Corporate Assessment Management have been separated.
- 2.6.3 The facility management function will be moved to Housing under the new Head of Property Services. The Corporate Asset Management function will move from Community and Customer Services to the Legal Democratic and Planning Services working alongside the legal team thus providing the necessary corporate strategic focus for this important function..

3.0 Financial

- 3.1 Anticipated costs of the proposals are as follows:

<i>post</i>	<i>hrs</i>	<i>grade</i>	<i>salary</i>	<i>comment</i>
Head of Property Services	37	11	42,400	(2.1)
Asset Management Surveyor	37	6/7	24,600	(2.3.1)Based on top of Grade 6. Two year fixed
Housing Finance Support Officer	18.5	4	8,580	(2.4.2) increase to 37hrs
Administration Support officer	27.5	4	14,400	(2.4.1)

	£89,980	
Impact after two years	£65,380	Minus 2 Year fixed term asset management surveyor

4.0 Risk Assessment

- 4.1 The staffing proposals set out in this report are a primary control in the mitigation of risks associated with the delivery of the Asset Management strategy and Housing capital investment programme.
- 4.2 The risk to the Asset Management Strategy and housing capital investment programme should these proposals not be accepted are set out below. The likelihood of the event(s) occurring (without additional staffing controls) is shown in brackets.

Professional (Operational);

Over reliance on key officers (medium)
 Inefficient and/or ineffective processes (medium)
 Lack of employee efficiency (high)
 Failure to manage partnering arrangement (high)

Contractual (Operational);

Over reliance on key contractor (medium)
 Failure of key contractor provider to deliver (medium)
 Contractor quality issues (medium)

Financial (Operational);

Failure to prioritise, allocate appropriate budgets and monitor (high)

Economic (Strategic);

Wrong Strategic Priorities (high)
 Decisions based on incomplete or faulty information (high)

- 4.3 The severity of the risks are assessed as follows (if report recommendations are accepted):
- Financial loss (Medium);
 - Negative publicity (Low): (contained within Section/Dept)
 - Failure to deliver investment commitments (Low)

4.4

Likelihood	HIGH	M	H	H
	MEDIUM	L	M <i>Financial</i>	H
	LOW	L	<i>Negative publicity</i> L Delivery failure	M

		LOW	MEDIUM	HIGH
	Severity (with Controls in Place)			

4.5 Should the recommendations in this report be approved, then the overall likelihood of risks materialising (4.1), with controls in place, is assessed as **Low-Medium**

5.0 **Conclusion**

5.1 An independent review assessed the Housing Services preparedness to:

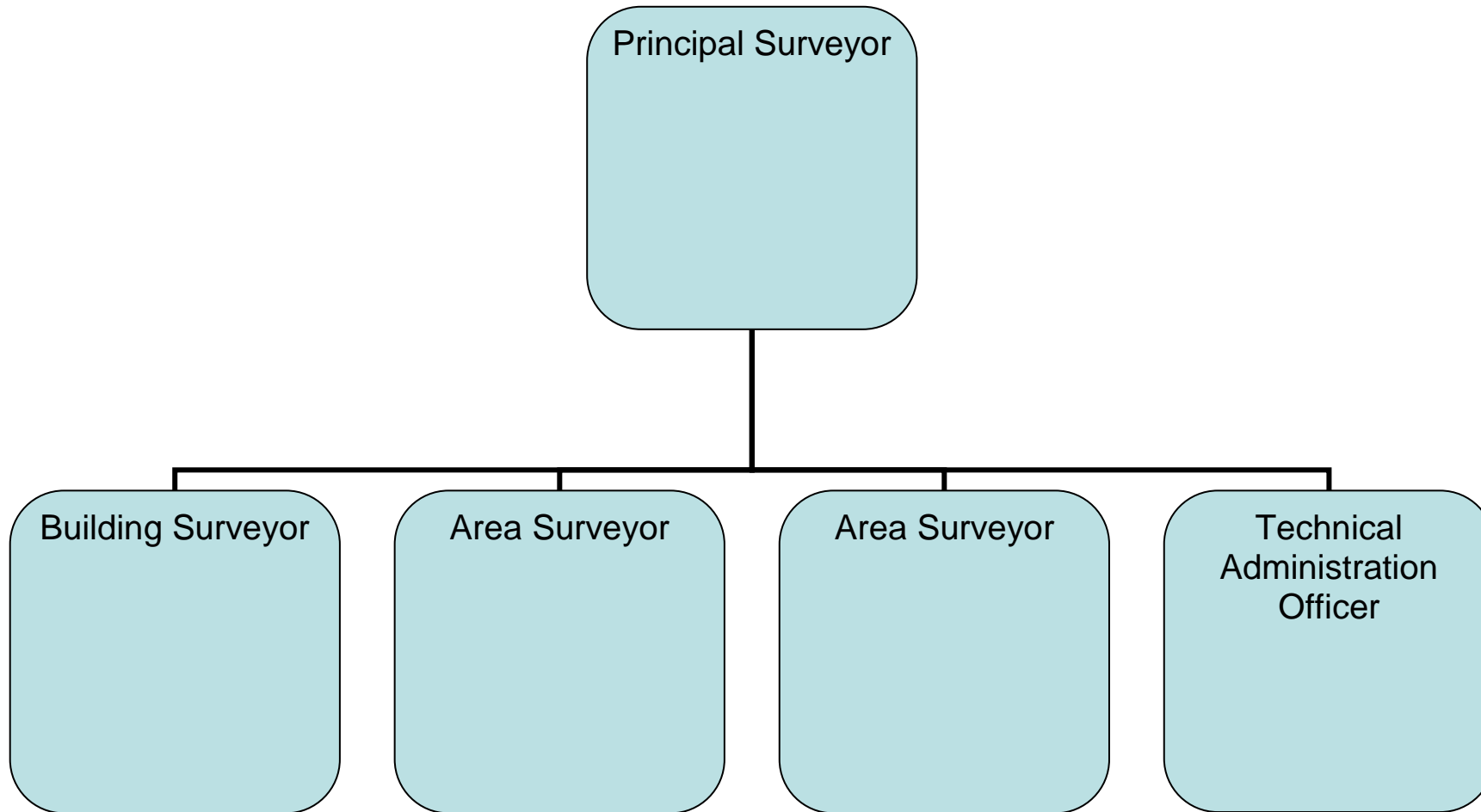
- take on the challenges posed by additional financial resources from 2012/13 onwards
- target investment efficiently
- manage stock condition data effectively
- monitor and control investment programmes.

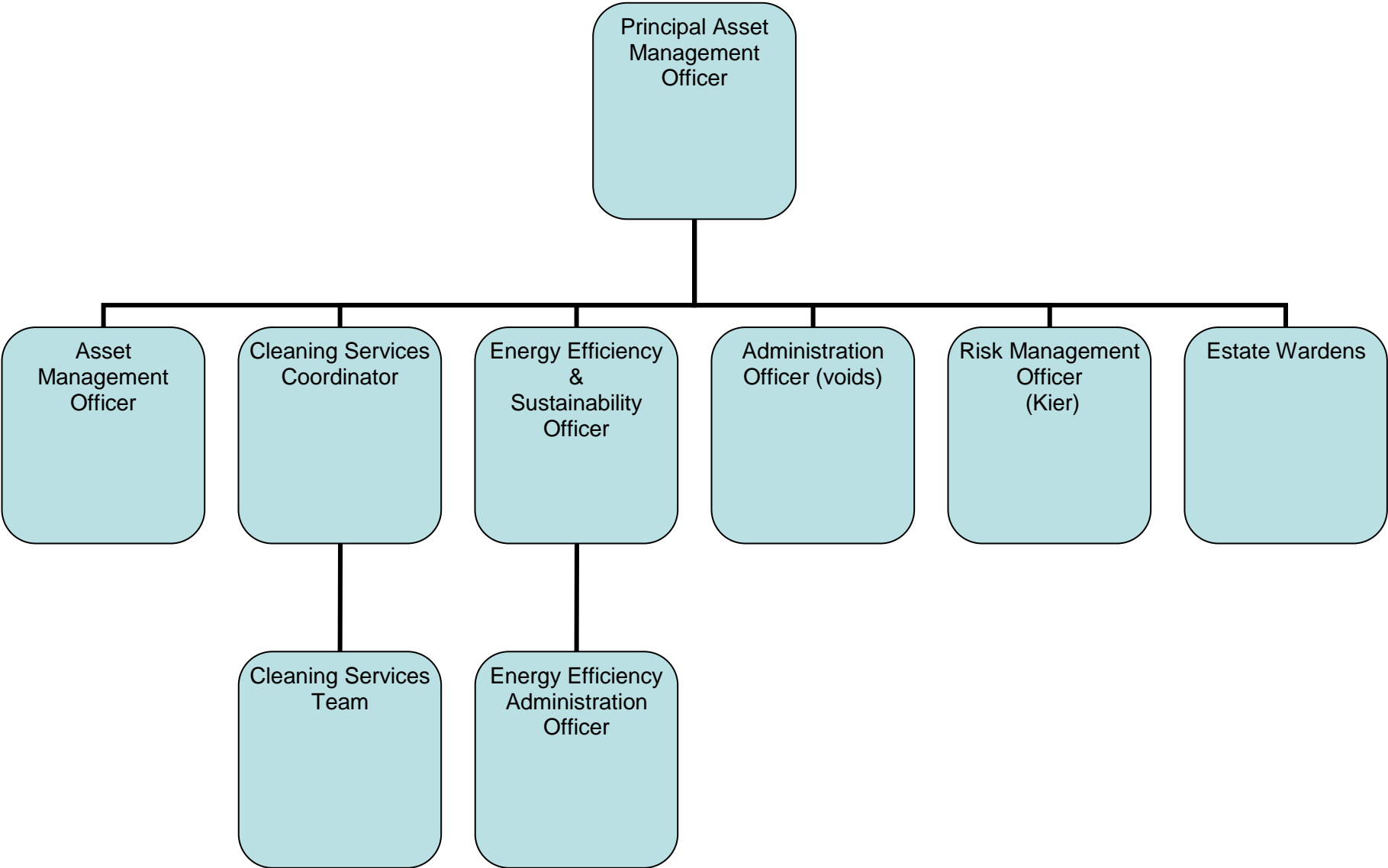
5.2 In order to achieve these basic objectives it is proposed to:

- merge Housing Asset Management & Technical Service teams
- create a new post of Head of Housing Property Services to manage these teams (*N.B. grading will be subject to a JE that could affect costings*)
- increase Asset Management team directly by 1x Asset Management Surveyor; 2 year fixed term
- confirm the permanent transfer of an Administration Support officer for 27.5 hours per week
- increase financial support by extending an existing support role by 18.5 hours per week.

5.3 The Corporate facility management function will now be managed within Housing Services under the Head of Property Services. This will ensure the Building Surveyor functions of the Council are located together, focusing resources and expertise

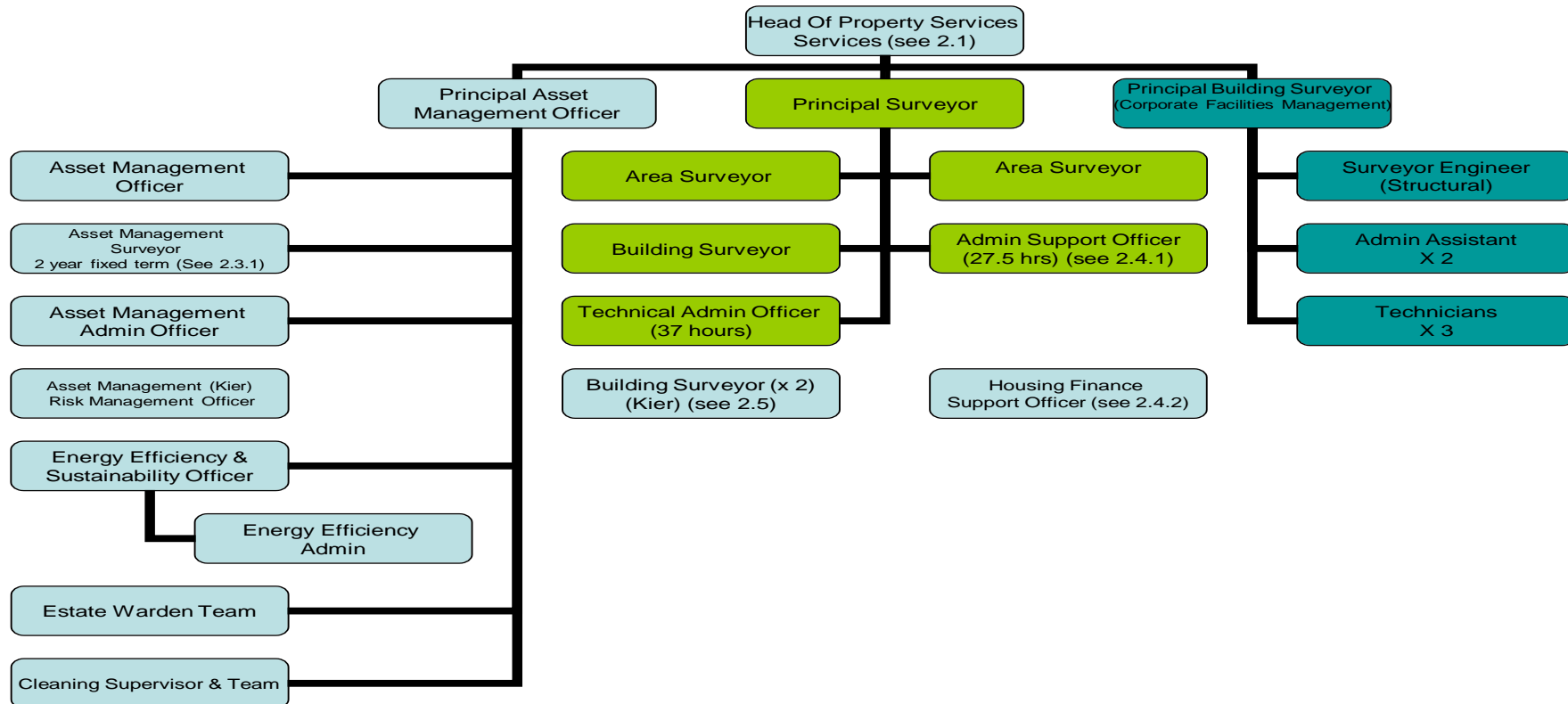
Financial Services comments:	As contained in the report
Legal Services comments:	None
Crime and Disorder:	
Equality and Diversity:	
Service Improvement Plan implications:	
Corporate Plan:	
Risk Assessment:	See 4.0 above
Background papers:	none
Appendices/Enclosures:	
Appendix 'A(i)'	Existing structure chart: Technical
Appendix 'A(ii)'	Existing structure chart: Asset management
Appendix 'B'	Proposed structure
Appendix 'C'	Job Description
Report author/ Lead Officer:	Charles Harman





PROPERTY SERVICES TEAM: PROPOSED

APPENDIX B



GOSPORT BOROUGH COUNCIL

HOUSING SERVICES

JOB DESCRIPTION

POST TITLE:	HEAD OF PROPERTY SERVICES
POST NUMBER:	
GRADE:	<i>Subject to Job Evaluation</i>
LOCATION:	Town Hall, Gosport
RESPONSIBLE TO:	Housing Services Manager
RESPONSIBLE FOR:	Principal Surveyor, Principal Asset Management Officer, Surveying Team, Asset Management Team and Support, Principal Building Surveyor (Corporate Facilities Management).
HOURS OF WORK:	37 hours per week, normally Monday to Friday, and in accordance with the Council's Flexible Working Hours Scheme, with requirement to work outside normal office hours from time to time.
OVERALL OBJECTIVE:	To manage and develop the Council's Planned and Day to Day Repairs services and facilities management of the Council's Corporate Assets
SPECIAL REQUIREMENTS:	<p>Driving licence (casual car user allowance)</p> <p>Attendance at evening meetings will be required.</p> <p>Weekend working may be required from time to time.</p> <p>The post is politically restricted (Local Government and Housing Act 1989 and Local Democracy, Economic Development and Construction Act 2009)</p>

<i>PRINCIPAL ACTIVITIES</i>	
MAINTENANCE AND IMPROVEMENT PROGRAMMES	<p>Develop a maintenance and improvement strategy for the Council's dwellings, taking account of current best practice.</p> <p>Prepare a programme of maintenance and improvement works to the Council's dwellings.</p> <p>Ensure that the Council's stock condition information is regularly updated and that any necessary adjustments to the strategy and the programme are brought</p>

	forward.
CORPORATE FACILITIES MANAGEMENT	Manage the programme of maintenance and improvement works to the Council's corporate assets in accordance with the Corporate Asset Management Strategy. Assist with the compilation of the Corporate Asset Management Strategy.
MANAGE AND DEVELOP STAFF	<p>Manage staff within the Section, including the identification of training requirements; staff appraisals, development and discipline/grievance procedures.</p> <p>To be responsible for the planning, organisation, direction and performance of the Section.</p> <p>Carry out HR recruitment, selection, and appointment to the Section in accordance with Council policies</p>
FINANCIAL MANAGEMENT	<p>Ensure that the programme represents good value for money.</p> <p>Ensure all standing orders and financial regulations are complied with.</p> <p>Manage delegated budgets to ensure full and accurate expenditure.</p> <p>Ensure the production of all necessary financial and performance monitoring data. Maintain adequate budgetary control procedures.</p> <p>Prepare annual expenditure estimates for the entire maintenance and improvement (including responsive repairs). Assist in the preparation of other budgets.</p>
PERFORMANCE MONITORING	<p>Ensure all key performance targets are met and develop systems for improving performance against targets.</p> <p>Ensure all relevant and necessary performance data is produced.</p>
INTER-AGENCY WORKING	<p>Represent the organisation and liaise with outside agencies as required.</p> <p>Develop contacts and links with outside organisations as required.</p>
STRATEGY DEVELOPMENT	Develop strategies to meet emerging priorities and deliver on the necessary submission to Central Government.

GENERAL	<p>Facilitate the production of policies and procedures for ensuring that a high quality, flexible customer and performance orientated service is provided.</p> <p>Ensure full and thorough consultation takes place with customers on all aspects of service delivery.</p> <p>Investigate, assess and implement new or innovative systems to improve service quality.</p> <p>Prepare and present briefing papers, reports, etc. for Housing Management Team, Elected Members and meetings of the Council and other agencies.</p> <p>Maintain and foster good working relations with Elected Members</p> <p>As member of Housing Management Team take an active role in the overall management of the housing service</p> <p>Work closely with other section heads on cross cutting issues and departmental improvements</p>
TENANT AND LEASEHOLDER CONSULTATION	<p>Fully participate in, and develop the Council's strategy of consulting and involving tenants and leaseholders in the management of their homes.</p> <p>Ensure that statutory consultation in relation to maintenance to sold properties is carried out according to the Council's policies.</p>
SERVICE DEVELOPMENT	<p>Evaluate and incorporate where necessary Government initiatives and policy development.</p> <p>Review areas of policy and procedure within the service.</p>
HEALTH & SAFETY	<p>To ensure that the Council's Health and Safety at Work Policy and all appropriate legislation and Regulations relating thereto are enforced and all staff comply with their responsibilities.</p>
EQUAL OPPORTUNITIES	<p>To ensure compliance with the Council's policies and procedures on equal opportunities</p>

The particular duties and responsibilities attached to the post are, of necessity, difficult to define precisely and may vary from time to time without changing the general character of the duties or the level of responsibility of the post.

GOSPORT BOROUGH COUNCIL

BOARD:	POLICY & ORGANISATION BOARD
DATE OF MEETING:	26 SEPTEMBER 2012
TITLE:	FINAL ACCOUNTS 2011/12
AUTHOR:	FINANCIAL SERVICES MANAGER
STATUS:	FOR APPROVAL

SUMMARY OF REPORT AND RECOMMENDATIONS

This report summarises the outturn position for the 2011/12 financial year and recommends the approval of the Statement of Accounts for 2011/12.

Recommendations

1. Approve the Statement of Accounts for 2011/12
2. Approve the accounting policies contained within the Statement of Accounts
3. Note the outturn position contained in the report and Appendices including
 - The capital programme slippage detailed in Appendix D
 - The write offs approved under delegated authority at Appendix E

1.0 PURPOSE OF REPORT

- 1.1 To present the Statement of Accounts and provide an overview of the outturn position for 2011/12.

2.0 REPORT

- 2.1 The Accounts and Audit Regulations 2011 require the annual Statement of Accounts to be formally approved by members after the external audit has taken place with the subsequent publication of the statement taking place by the end of September. Members therefore receive and approve a final Statement that has been amended for any items arising out of the audit.
- 2.2 The audit of the accounts was undertaken on site by the Audit Commission (the Council's external auditors) during July, August and September and formally concludes when the audit opinion is issued prior to publication.

- .
- 2.3 The accounts were available for formal public inspection during July and August and the Council's auditor was available to receive questions from any Gosport local elector. The relevant dates were published in the News and on the Council website.
 - 2.4 Standards and Governance Committee considered the Audit Commission's Annual Governance Report on 13 September. The report noted that, subject to satisfactory completion of the outstanding audit work, the Commission planned to issue an unqualified audit opinion by 30 September after Policy and Organisation Board has formally approved the final financial statements.
 - 2.5 The formal statutory Statement of Accounts for 2011/12 which includes adjustments arising from the external audit has been despatched separately to this report but is for consideration as part of this item. The key points affecting the Council's finances are summarised below and remain unchanged from the summary contained in the Member Information Bulletin no 6 on 6 July 2012.

3.0 OUTTURN 2011/12

- 3.1 A summary of the key outturn figures for the General Fund, Housing Revenue Account and major Reserves is shown at Appendix A.

4.0 GENERAL FUND REVENUE BUDGET

- 4.1 The Council's revenue budget for 2011/12 before transfers to or from reserves was £11,318,430, the actual net expenditure for the year was £10,705,281 giving an under spending of £613,149.
- 4.2 Appendix B summarises the net expenditure or income by Board.
- 4.3 Appendix C sets out a summary of the main variances that comprise the overall £613,149 underspending. Only exceptionally large variances that are the result of capital charges for depreciation, impairment, 'revenue expenditure charged to capital under statute' etc are included for information in this appendix as these variances are offset by transfers within the accounts and consequently have no direct effect on expenditure
- 4.4 The resulting gross under spending has been transferred to the Revenue Financing Reserve (RFR) in line with Council policy.

5.0 GENERAL FUND RESERVES

- 5.1 The General Fund working balance at 31 March 2012 is £890,000 as projected in the Budget Report for 2012/13 and in line with Council

policy.

- 5.2 The Revenue Financing Reserve (RFR) - which is used to fund variations in annual maintenance requirements, uninsurable risks and spend to save initiatives including severance costs – is £665,217 at 31 March 2012. The higher than forecast balance largely reflects the underspending outlined above. The Audit Commission have commented that ‘you are making good progress against your plans to increase the level of your general fund and HRA reserves (and strengthen your financial resilience)’ [Annual Governance Report 2011/12].

6.0 HOUSING REVENUE ACCOUNT

- 6.1 The Housing Revenue Account was forecast to have a revenue surplus of £164,000 for 2011/12 with a revised account balance of £603,370 at 31 March 2012. This was achieved and the HRA balance at 31 March 2012 was £603,200
- 6.2 On 28 March 2012, the Council paid £57.029 million to the government in order to secure self financing of the Council’s housing stock under the HRA reform initiative included in the Localism Act 2011.
- 6.3 The expenditure was financed by loans from the Public Works Loans Board (PWLB) of £57.0 million and a revenue contribution from the HRA of £29,000 and can be seen in Appendix D, Capital Programme.

7.0 CAPITAL PROGRAMME

- 7.1 The revised Capital Programme for 2011/12 was budgeted at £11,211,000. The actual capital spend detailed in Appendix D is £66,600,831 which includes the settlement payment to the Government for HRA self-financing of £57,029,000.
- 7.2 Scheme slippage, to be carried forward into 2012/13 was identified as £1,240,880. The current capital programme review for the 2013/14 budget is focussing on deliverability as well as business need.

8.0 TREASURY MANAGEMENT

- 8.1 The table below summarises the Council’s net borrowing position as included in the balance sheet within the financial statements.

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- 8.2 Additional long term (Public Works Loan Board) borrowing of £57 million was taken during the year to finance the settlement payment to the government for HRA Self Financing as described in 6 above. The Council agreed a flexible loan structure which when combined with the

discounted rates of interest available as part of the government initiative provided a very competitive portfolio

- 8.3 The Board is receiving the Treasury Management Annual Review and progress report separately on the agenda.

9.0 COLLECTION FUND

- 9.1 The balance on the collection fund, representing the difference between estimated and actual council tax income, is shared between the billing authorities of Gosport Borough, Hampshire County Council, Hampshire Police Authority and the Hampshire Fire and Rescue Authority. The collection fund has moved from a deficit position of £394,000 at the beginning of the year to a surplus of £58,000 at the end of the year, broadly in line with expectations.
- 9.2 The rates of Council Tax and Non Domestic Rates collection for 2011/12 were 96.9% and 96.7% respectively (97.1% and 97.5% for 2010/11).

10.0 WRITE OFFS

- 10.1 Under Financial Regulations, the Borough Treasurer has delegated authority to approve write offs up to £10,000. These are summarised on Appendix E for 2011/12 along with figures for the previous year for comparison. The cost of NNDR (business rates) write offs is not borne locally but passed on to the national pool and only approximately 14% of the Council Tax write offs is borne by the Council. In terms of the sums due to be collected the amounts written off represent a fraction of 1% and are in line with budgeted provisions.

11.0 RISK ASSESSMENT

- 11.1 The Council's budget for 2012/13 includes a risk assessment that considers the potential impact on the Council's financial position that certain budget areas may have. Generally, most budget variances correspond with this assessment which is kept under review.

12.0 CONCLUSION

- 12.1 This report summarises the outturn position for 2011/12 and requests members to approve the formal Statement of Accounts for 2011/12.

Financial Implications	As set out in the report
Legal Implications:	The Council is required to approve and publish the Statement of Accounts for 2011/12 by 30 September 2012
Service Improvement Plan	This report and the Statement of Accounts reflect both service improvement plans and the corporate plan.
Corporate Plan:	
Risk Assessment:	Section 11 of the report
Background papers:	Final Accounts working papers
Appendices/Enclosures:	A Outturn 2011/12 – Summary B Outturn 2011/12 – By Board and Service C General Fund Variances D Capital Programme 2011/12 E Write Offs
Report Author/Lead Officer	John Norman

Board	POLICY AND ORGANISATION BOARD
Date of meeting:	26 SEPTEMBER 2012
Title:	TREASURY MANAGEMENT ANNUAL REVIEW 2011/12, PROGRESS REPORT 2012/13, & PRUDENTIAL INDICATORS
Author:	BOROUGH TREASURER
Status:	FOR DECISION

Purpose

The annual treasury report is a requirement of the Council's reporting procedures and covers the treasury activity for 2011/12 together with a review of 2012/13 to date. The report also includes the Prudential Indicators for 2011/12 in accordance with the requirements of the Prudential Code.

Recommendations

The Board note this report and approve the 2011/12 prudential indicators

1.0 INTRODUCTION

- 1.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2011/12. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code). The indicators are contained in the tables throughout this report.
- 1.2 During 2011/12 the minimum reporting requirements were that the full Council should receive the following reports:
 - an annual treasury strategy in advance of the year (Council 02 February 2011)
 - a mid year treasury update report (P&O 28 September 2011)
 - an annual review following the end of the year describing the activity compared to the strategy (this report)
 - this report also provides a mid year treasury update for 2012/13
- 1.3 Recent changes in the regulatory environment place a much greater onus on members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

2.0 THE ECONOMY AND INTEREST RATES

- 2.1 The financial year 2011/12 continued the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk. The original expectation for 2011-12 was that Bank Rate would start gently rising from quarter 4 2011. However, GDP growth in the UK was disappointing during the year under the weight of the UK austerity programme, a lack of rebalancing of the UK economy to exporting and weak growth in our biggest export market - the EU. The EU sovereign debt crisis grew in intensity during the year until February when a second bailout package was eventually agreed for Greece. Weak UK growth resulted in the Monetary Policy Committee increasing quantitative easing by £75bn in October and another £50bn in February. Bank Rate therefore ended the year unchanged at 0.5% while CPI inflation peaked in September at 5.2% but then fell to 3.4% in February, with further falls expected to below 2% over the next two years.
- 2.2 **Investment rates.** Risk premiums were also a constant factor in raising money market deposit rates for periods longer than 1 month. Widespread and multiple downgrades of the ratings of many banks and sovereigns, continued Eurozone concerns, and the significant funding issues still faced by many financial institutions, meant that investors remained cautious of longer-term commitment.

3.0 THE STRATEGY FOR 2011/12

- 3.1 In view of the uncertainties and higher risk levels in the aftermath of the 2008 financial crisis in the money markets, a risk averse policy was to be operated which was substantially within the parameters set by Council. Returns were to be maximised by efficiency rather than risk – primarily by enhanced monitoring of capital projects rather than by exposing the Council to the market.
- 3.2 The strategy confirmed that routine treasury management matters are delegated to the Borough Treasurer whilst adhering to approved performance indicators and limits.
- 3.3 Maturing investments were required to fund the capital programme and the projected need for available cash resources was to be balanced against new capital receipts and the availability of low rates of interest for long term loans through the Public Works Loans Board.

4.0 THE COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2011/12

- 4.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed

Capital Expenditure	2010/11 Actual £'000	2011/12 Revised £'000	2011/12 Actual £'000
<u>General Fund (GF)</u>			
Capital expenditure	4,633	7,368	5,876
Financed in year	(1,726)	(3,252)	(1,435)
Unfinanced capital expenditure	2,907	4,116	4,441
<u>Housing Revenue Account (HRA)</u>			
Capital expenditure	2,329	61,177	60,724
Financed in year	(1,965)	(2,200)	(2,352)
Unfinanced capital expenditure	364	58,977	58,372

5.0 THE COUNCIL'S OVERALL BORROWING NEED

- 5.1 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). This is an indication for the Council's net borrowing position and results from the capital activity of the Council and what resources have been used to pay for the capital spend - it represents unfinanced capital expenditure that has not yet been paid for by revenue or other resources
- 5.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet both the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLb] or the money markets), or utilising temporary cash resources within the Council.
- 5.3 The CFR – the Council's (non HRA) underlying borrowing need - is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the non-Housing Revenue Account (HRA)

borrowing need (there is no statutory requirement to reduce the HRA CFR). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

- 5.4 The Council's 2011/12 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2011/12 on 02 February 2011.
- 5.5 Housing finance reform has abolished the housing subsidy system financed by central government and consequently, all housing debt has been reallocated nationally between housing authorities. The result of this reallocation is that the Council has made a capital payment to the Department of Communities and Local Government of £57.029m. This was financed by additional borrowing of £57.0m (thereby increasing the CFR) and a revenue contribution from the HRA of £29,000. There has been no impact on HRA revenue finances for interest in 2011/12 due to an offsetting payment from central government.
- 5.6 The Council's CFR for the year is shown below, and represents a key prudential indicator.

	2010/11 Actual £'000	2011/12 Revised £'000	2011/12 Actual £'000
CFR - General Fund	8,952	12,680	13,500
CFR - HRA	4,494	63,471	62,866
CFR - Total	13,446	76,151	76,366
Net Borrowing Position	12,787	70,933	73,698

- 5.7 **Net borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2011/12 plus the expected changes to the CFR over 2012/13 and 2013/14 from financing the capital programme. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2011/12.
- 5.8 **The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2011/12 the Council has maintained gross borrowing within its authorised limit.

- 5.9 **The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

	2011/12 Pre Housing Finance reform £'000	2011/12 Post Housing Finance £'000
Authorised limit	24,666	82,000
Maximum gross borrowing position	18,802	74,759
Operational boundary	23,866	81,200
Average gross borrowing position	17,590	n/a

- 5.9.1 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Ratio of financing costs to net revenue stream	2010/11 Actual %	2011/12 Revised %	2011/12 Actual %
General Fund	2.9%	3.3%	4.5%
HRA	1.6%	#	1.5%

As stated in the 'Treasury Management and Prudential Indicators 2012/13' report to Council on 1 February 2012, the Housing indicator was omitted at that stage as it was not then clear what the final calculation would be.

6.0 THE TREASURY POSITION AS AT 31 MARCH 2012

- 6.1 At the beginning and the end of 2011/12 the Council's treasury position was as follows:

	2010/11			2011/12								
	Total			General Fund			HRA			Total		
	31-Mar £'000	Rate	Avg Life yrs	31-Mar £'000	Rate	Avg Life yrs	31-Mar £'000	Rate	Avg Life yrs	31-Mar £'000	Rate	Avg Life yrs
Fixed rate funding:												
PWLB	16,802	3.27%	14.80	10,874	3.40%	14.79	61,725	3.00%	28.54	72,599	3.06%	26.48
Market	0	n/a	n/a	1,506	0.40%	0.01	654	0.40%	0.01	2,160	0.40%	0.01
Variable rate funding:												
-PWLB	0	n/a	n/a	0	n/a	n/a	0	n/a	n/a	0	n/a	n/a
-Market	0	n/a	n/a	0	n/a	n/a	0	n/a	n/a	0	n/a	n/a
Total debt	16,802	3.27%	14.80	12,380	3.03%	12.99	62,379	2.98%	28.24	74,759	2.99%	25.71
CFR	13,446			13,500			62,866			76,366		
Over/ (under) borrowing	3,356			(1,120)			(487)			(1,607)		
Total investments	4,015	1.98%	0.00							1,062	0.79%	0.00
Net debt	12,787									73,698		

6.2 Following Housing Finance Reform, two separate pools are being operated for Council debt and these are set out above. Comparisons are also shown against the HRA and General Fund Capital Financing Requirements (CFRs) described in section 5.

6.3 The maturity structure of the debt portfolio was

The Maturity Structure of the Debt Portfolio	31-Mar-11 Actual %	2011/12 Limits %	31-Mar-12 Actual %
Under 12 months	7%	80%	6%
12 months and within 24 months	13%	80%	3%
24 months and within 5 years	46%	80%	8%
5 years and within 10 years	10%	40%	18%
10 years and above	24%	70%	65%

6.4 The maturity structure of the investment portfolio was

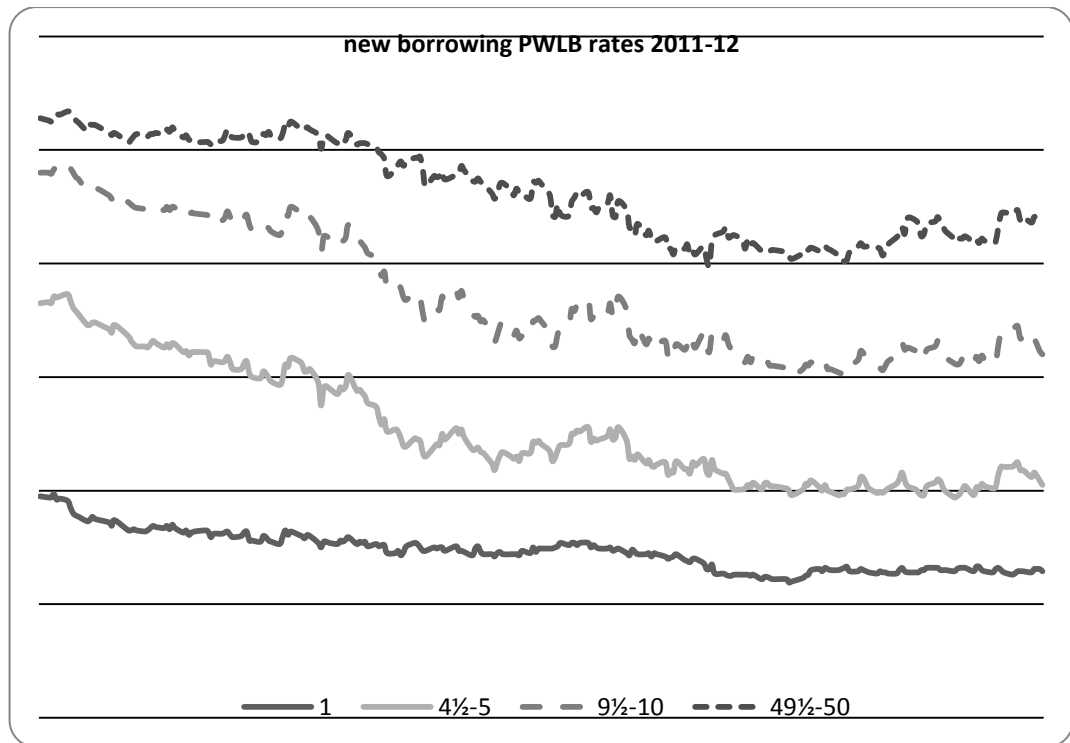
The Maturity Structure of the Investment Portfolio	31-Mar-11 Actual £'000	2011/12 Limits £'000	31-Mar-12 Actual £'000
Longer than 1 year	0	0	0
Under 1 year	4,015	2,000	1,062
Total	4,015	2,000	1,062

6.5 The exposure to fixed and variable rates was

The exposure to fixed and variable rates was as follows	2010/11 Actual £'000	2011/12 Limits £'000	2011/12 Actual £'000
Borrowing			
Fixed rate	16,802	82,000	74,759
Variable rate	0	58,000	0
Investments			
Fixed rate	4,000	10,000	0
Variable rate	15	10,000	1,062

7.0 BORROWING RATES IN 2011/12

7.1 PWLB borrowing rates - the graph below shows how PWLB rates fell to historically very low levels during the year



The time periods illustrated above are in years - ie up to one year, four and a half to five years etc

8.0 BORROWING OUTTURN FOR 2011/12

8.1 The following loans were taken in 2011/12.

Lender	Principal	Type	Interest Rate	Maturity
	£'000			
PWLB	1,000	Fixed interest rate	1.24%	28-Mar-17
PWLB	1,000	Fixed interest rate	1.50%	28-Mar-18
PWLB	2,000	Fixed interest rate	1.76%	28-Mar-19
PWLB	2,000	Fixed interest rate	1.99%	28-Mar-20
PWLB	3,000	Fixed interest rate	2.21%	28-Mar-21
PWLB	3,000	Fixed interest rate	2.40%	28-Mar-22
PWLB	3,000	Fixed interest rate	2.56%	28-Mar-23
PWLB	3,000	Fixed interest rate	2.70%	28-Mar-24
PWLB	3,000	Fixed interest rate	2.82%	28-Mar-25
PWLB	3,000	Fixed interest rate	2.92%	28-Mar-26
PWLB	3,000	Fixed interest rate	3.01%	28-Mar-27
PWLB	3,000	Fixed interest rate	3.08%	28-Mar-28
PWLB	3,000	Fixed interest rate	3.48%	28-Mar-62
PWLB	3,000	Fixed interest rate	3.48%	28-Mar-62
PWLB	3,000	Fixed interest rate	3.48%	28-Mar-62
PWLB	3,000	Fixed interest rate	3.48%	28-Mar-62
PWLB	3,000	Fixed interest rate	3.48%	28-Mar-62
PWLB	3,000	Fixed interest rate	3.48%	28-Mar-62
PWLB	3,000	Fixed interest rate	3.48%	28-Mar-62
PWLB	3,000	Fixed interest rate	3.48%	28-Mar-62
	57,000			
Market	2,000	Fixed interest rate	0.67%	21-Dec-11
Market	2,500	Fixed interest rate	0.45%	29-Mar-12
Market	2,160	Fixed interest rate	0.40%	02-Apr-12
	6,660			
	63,660			

8.2 The additional PWLB debt of £57.0m in respect of Housing Reform was at an average rate of 2.97%.

8.3 The market loans were placed with other Local Authorities for cash flow management purposes one of which was outstanding over the year end.

9.0 INVESTMENT RATES IN 2011/12

- 9.1 The tight monetary conditions following the 2008 financial crisis continued through 2011/12 with little material movement in the shorter term deposit rates. However, one month and longer rates rose significantly in the second half of the year as the Eurozone crisis grew. Bank Rate remained at its historic low of 0.5% throughout the year while market expectations of the imminence of monetary tightening were gradually pushed further and further back during the year to the second half of 2013 at the earliest.

10.0 INVESTMENT OUTTURN 2011/12

- 10.1 The Council did not have any external investments at 31 March 2012.
- 10.2 Short term surplus funds of £1.062m were held in money market funds and deposit accounts at 31 March in line with the Council's investment strategy.

11.0 THE TREASURY POSITION IN 2012/13

- 11.1 At 7 September 2012 the Council's treasury position was as follows

	2012/13								
	General Fund			HRA			Total		
	07-Sep £'000	Rate	Avg Life yrs	07-Sep £'000	Rate	Avg Life yrs	07-Sep £'000	Rate	Avg Life yrs
Fixed rate funding:									
PWLB	12,770	3.12%	14.53	61,725	3.00%	28.10	74,495	3.03%	26.07
Market	0	n/a	n/a	0	n/a	n/a	0	n/a	n/a
Variable rate funding:									
-PWLB	0	n/a	n/a	0	n/a	n/a	0	n/a	n/a
-Market	0	n/a	n/a	0	n/a	n/a	0	n/a	n/a
Total debt	12,770	3.12%	14.53	61,725	3.00%	28.10	74,495	3.03%	26.07
CFR	13,500			62,866			76,366		
Over/ (under) borrowing	(730)			(1,141)			(1,871)		
Total investments							(5,548)	1.16%	0.00
Net debt							68,947		

- 11.2 **Borrowing.** An additional PWLB £2m loan was taken in June for 5 years at 1.67% in line with the Council's policy to take advantage of favourable rates of interest to finance the capital programme. The one annuity PWLB loan has reduced by £104,000 as payments have been made.
One short term loan of £1m for one month was taken and repaid in April/May at an interest rate of 0.45%.
- 11.3 **Investments.** The Council has one short term investment of £2m for 6 months at 1.81% and short term surplus funds of £3.548m held in money market funds and deposit accounts in line with the Council's investment strategy.
- 11.4 **Capital Programme.** As part of the Council's budget process, the capital programme is currently being reviewed. The General Fund financing requirement will be confirmed and the Capital Financing Requirement projections for the General Fund and Housing Revenue Account will be updated.

The annual Treasury Strategy report to Policy and Organisation Board and Council will follow in early February 2013. The Treasury Management strategy will be revised to ensure that the impact of HRA Self Financing is covered and the relationship between the General Fund and HRA is transparent.

12.0 OTHER ISSUES

- 12.1 **Member training** and briefing sessions took place in September 2011 (delivered by officers) and in January 2012 (delivered by Sector). These were well received and it is planned to hold similar sessions in future as the need arises.
- 12.2 **Money Laundering** is now a key issue for all organisations that deal with large amounts of money and although Councils fall outside the scope of the Money Laundering Regulations 2003 they are not immune to the risks surrounding money laundering. The Council has accepted the CIPFA Treasury Management Code of Practice, which includes TMP9. TMP9 states that the Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. The Council has a very restricted list of counter parties for treasury activities who are contacted mainly through the approved brokers. Knowing who is being dealt with reduces the risk of crime. The Head of Internal Audit & Risk Assurance is the Council's Money Laundering Reporting Officer to whom officers may report any suspicious transactions.
- 12.3 **External Service Providers.** The Council uses Sector Treasury Services Limited as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

The company provides a range of services to the Council which include:

- Technical support on treasury matters and capital finance issues,
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing and debt rescheduling

Following a joint procurement exercise with Fareham Borough Council in July 2012, Sector were engaged for a further three years at a reduced annual fee.

13.0 RISK AND PERFORMANCE

13.1 The Council has complied with the relevant statutory and regulatory requirements, which limit the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.

13.2 The Council is aware of the risks of passive management of the treasury portfolio and, with the support of Sector, the Council's advisers, has proactively managed the debt and investments over the year.

Financial implications:	As contained in the report.
Legal implications:	It is a legal requirement that an annual Treasury Management report is considered by the Council.
Service Improvement Plan implications:	This report is required in order that to fulfil statutory requirements associated with the achievement of both service improvement plan and corporate plan targets.
Corporate Plan	
Risk Assessment	As contained in the report
Background papers:	Budget and Final Accounts working papers
Appendices/Enclosures:	
Report Author:	John Norman

GOSPORT BOROUGH COUNCIL

REPORT TO THE:	POLICY & ORGANISATION BOARD
MEETING DATE:	26 SEPTEMBER 2012
TITLE:	BUDGET STRATEGY 2013/14
AUTHOR:	BOROUGH TREASURER
STATUS:	FOR DECISION

PURPOSE OF REPORT

To consider the strategy for preparation of the Council's budget for the next financial year in the light of the Medium Term Financial Strategy 2012-2017 approved by the Board in June 2012 and the current national and local financial situation.

RECOMMENDATION

That the Board note the Council's current financial position and agrees the principles set out in Section 3 that will be used in the preparation of the budget for the 2013/14 financial year.

1.0 BACKGROUND

- 1.1 The Council has to prepare a budget for General Fund services in order to ascertain the amount required to be raised from Council Tax.
- 1.2 The Council's Medium Term Financial Strategy (MTFS) considered by the Board in June indicated that the reductions necessary to the Council's projected General Fund budget to achieve Council Tax increases of 2.5% (below likely capping level) incorporating latest inflation projections were estimated to be approximately £20,000 in 2013/14 with a further £360,000 for the 3 years from 2014/15. The MTFS did however draw attention to the fact that these figures were based on what was considered the best projection at that time and that there was a lot of uncertainty regarding future levels of exchequer support, inflation and interest rates.
 - Indeed a worst case scenario was highlighted whereby ongoing budget cuts of between £245,000 and £360,000 would be required totalling over £1.1M over the next 4 years. If this situation did arise the council would need to consider similar action to that taken 2 years ago

2.0 RISK ASSESSMENT

- 2.1 Risk areas associated with the budget currently remain as outlined in the Council's Budget Book (including a high risk relating to Government Grant). Since the completion of the MTFS the national economic outlook has not significantly improved and while some information relating to the new grant regime has been released it is not possible to estimate with any accuracy the grant that Gosport will receive at this time. For these reasons it is considered essential that a prudent Budget Strategy is adopted.

3.0 BUDGET STRATEGY 2013/14

- 3.1 Budget preparation will initially be in accordance with previous policy i.e. "zero-based" wherever possible and new bids will be minimised. Maintenance proposals will be in accordance with Asset Management Plan requirements.
- 3.2 General inflation is expected to continue above 2% during 2013/14, although it should be noted that pay inflation is expected to be lower.
- 3.3 Capital projects within the Capital Programme will be considered in terms of priority and affordability. The proposed levels of capital expenditure relating to the improvements to Housing Stock will be advised by the HRA Business Plan. The Capital Programme 2012/13 to 2015/16 is attached (Appendix A).
- 3.4 Whilst the Council's policy is that annual Council Tax rises should not exceed 2.5%, the final decision on the Council Tax will be taken next February after budget requirements and final Grant figures are confirmed.

4.0 SAVINGS & EFFICIENCIES

- 4.1 A significant part of the Council's response to the severe budget pressures faced in recent years has been a drive for increased efficiencies and savings.
- 4.2 Gosport has a track record of innovation and partnership working; many examples of joint working already exist and others will continue to be explored as and when opportunities arise. The Council will continue to seek opportunities to deliver services more efficiently through outsourcing, partnership and joint working.
- 4.3 Spend-to-save initiatives are an essential tool in managing future commitments down. Efficiencies sought as part of our strategy will continue to include:

1. Carbon reduction (L)
2. Collaboration/partnership working (M)
3. Improvements in the way that we procure goods & services (M)
4. Staffing reviews linked to succession plans, natural turnover and voluntary redundancies/retirements. (M)
5. Reduction of administration and support service costs (linked to 2, 3, 4, and improved business systems). (M)
6. Rationalisation of asset use e.g. raising capital receipts to offset the impact of new capital investment. (H)

(Risk assessment impact criteria have been used to indicate potential annual savings (H/M/L), where High = over £100,000; Medium = £50 – 100,000; Low = less than £50,000).

5.0 CONCLUSION

- 5.1 Preparation of the General Fund budget for 2013/14 has begun against a backdrop of further pressure on resources, both nationally and locally. There is also an unprecedented level of uncertainty regarding the level of external grants likely to be received by the Council as a result of the major changes in the grant mechanism and the uncertain national economic outlook. This report indicates the key underlying principles that will be adopted in order to prepare a draft budget that results an increase of no more than 2.5% to the Council Tax rates levied for the Borough Council's requirements.

SUPPORTING INFORMATION

Financial Implications:	See Report
Legal Implications:	Set out in the report
Service Improvement Plan implications:	No direct implications
Corporate Plan:	-
Risk Assessment:	See para. 1.4
Background papers:	Medium Term Financial Strategy 2012-17
Appendices/Enclosures:	Appendix A – The Capital Programme 2012/13 –to 2015/16
Report Author/Lead Officer	Julian Bowcher