LANCASTER CITY COUNCIL

Promoting City, Coast & Countryside

LATE REPORTS, URGENT BUSINESS and SUPPLEMENTARY INFORMATION

Cabinet

Tuesday, 14 February 2012

The following reports were received too late to be included on the main agenda for this meeting and were marked 'to follow'. They are now enclosed, as follows:

Agenda Item Number	Page	Title	Officer Responsible For Late Report
11	1 - 42	BUDGET & POLICY FRAMEWORK UPDATE - GENERAL FUND REVENUE BUDGET AND CAPITAL PROGRAMME	Nadine Muschamp, Head of Financial Services and Section 151 Officer

Agenda Item Number	Page	Title	Officer Responsible For Late Report
12	43 - 66	TREASURY MANAGEMENT FRAMEWORK 2012/13	Nadine Muschamp, Head of Financial Services and Section 151 Officer

CABINET

Budget and Policy Framework Update –
General Fund Revenue Budget and Capital Programme
14 February 2012

Report of Head of Financial Services

PURPOSE OF REPORT					
To inform Cabinet of the latest position following Council's consideration of the Budget and Policy Framework at its meeting held on 01 February, and to make recommendations back to Council in order to complete the budget setting process for 2012/13.					
Key Decision		**Non-Key Decision**		**Referral**	**X**
Date Included in Forward Plan	February 2012				
This report is public.					

RECOMMENDATIONS OF COUNCILLORS BLAMIRE AND BRYNING:

That Council be recommended to approve:

1) **the General Fund Revenue Budget at £20.190M for 2012/13, resulting in a Council Tax Requirement of £8.363M excluding parish precepts;**

2) **the budget proposals as summarised at Appendix A, subject to any amendments arising in the Cabinet meeting and with the balance of any remaining savings requirement in 2012/13 being met from Revenue Balances;**

3) **the resulting policy on provisions and reserves as included at Appendix B;**

4) **the resulting Capital Programme as set out at Appendix C; and**

5) **the resulting Medium Term Financial Strategy (MTFS) and Prudential Indicators as set out at Appendix D.**

1 **INTRODUCTION**

1.1 Cabinet's initial proposals regarding the Budget and Policy Framework were considered at Budget and Performance Panel on 24 January and at Council on 01 February (minute 96 refers). No specific feedback was received from the Panel. The key points arising from Council are as follows:

- a freeze in 2012/13 City Council tax rates was approved, together with target increases of up to 3.5% for subsequent years;

- Cabinet's draft priority areas and the draft General Fund revenue and capital budget proposals were accepted;

- for Council Housing, budget setting is now approved in full.

1.2 This report builds on those resolutions and on other updated information in order that final recommendations can be made to Budget Council on 29 February.

2 POLICY IMPLICATIONS

2.1 Cabinet has developed its budget proposals to reflect its proposed priorities as far as possible, together with other emerging issues such as the future of Lancaster Indoor Market, as an example. As well as allowing (as far as possible) for such planned changes, budget proposals still reflect the continuation of other services, taking account of income generation expectations and improvements in efficiency.

2.2 A separate report elsewhere on the agenda provides an update on the existing Corporate Plan and associated priorities. To ensure that the Council's plans and budgets are meaningful and deliverable, it is essential that they fit together. If any gaps exist, these should be recognised and plans put in place to resolve them. It is inevitable though that not everything can be addressed at once and also, as the Council's planning arrangements typically cover three to five years, further challenges will arise during that time.

2.3 Cabinet is requested to consider the above points and the separate Corporate Planning report in finalising its budget proposals for 2012/13 onwards.

2.4 It is important to note too that whilst budget proposals will be considered at the next Council meeting, the Corporate Plan will be presented at the subsequent Council meeting. This means that the Budget will already have been set by the time Council considers the Corporate Plan and therefore there may be little flexibility in budgetary terms, at that stage. This is inevitable, but it should be borne in mind. Some further flexibility may be provided through the mid-year monitoring and review processes, but that will depend on prevailing circumstance.

3 LOCAL GOVERNMENT SETTLEMENT

3.1 Government has now announced the final Settlement for 2012/13 and there are no changes from the provisional position.

3.2 No amendments have been made therefore to future years' support assumptions, although with reforms to the redistribution of Business Rates still planned for 2013/14 onwards and the difficulties in the economy generally, these remain as key risks for medium term financial planning.

4 COLLECTION FUND POSITION

4.1 Legislation requires that an estimate of any surplus or deficit on the Collection Fund is made each year, and that any such balance is distributed to the major precepting authorities and taken into account in setting council tax. The Collection Fund is the account into which all council tax income is paid, and from which precept payments are made to the County, Police, Fire and the City Council's own General Fund.

4.2 The review of the Collection Fund's financial position as at January 2012 indicates that overall the Fund has a comparatively small surplus of £72K for distribution, in comparison with the £66M that is due to be collected for this year. This indicates good practice, both in terms of collection rates and in terms of financial forecasting. The City Council's share of the surplus is £9K and this has been incorporated into the budget position.

5 2012/13 GENERAL FUND REVENUE BUDGET

5.1 In order to fit with a freeze in council tax rates and the final Settlement and Collection Fund positions outlined above, the General Fund Revenue Budget must be set at £20.190M for 2012/13, excluding parish precepts, and Cabinet is requested to refer this on to Council for approval.

5.2 Updated revenue proposals are set out at ***Appendix A***. These take account of all the decisions approved earlier by both Cabinet and Council. Other base budget changes have been made but in net terms, these are fairly minor. In addition, later this month Council will be required to consider a pay policy statement (now required under the Localism Act) and there will be financial implications linked to this. Full details will be reported to Council but the base budget has been updated provisionally, subject to Council's final decision.

5.3 Regarding savings and growth proposals, if those listed were all taken forward further savings of £363K would still be needed to balance the 2012/13 budget. This figure could well change, as outlined below:

- The proposals allow for the published recommendations for items elsewhere on the agenda, namely charging for bins and boxes, wellbeing fees and charges and the security/health and safety related aspects of accommodation. It is noted that at this stage the recommendations in some of the reports are officer recommendations. If different decisions are taken, the savings requirement would alter.

- Any other potential growth associated with accommodation has not been allowed for as yet; this would be amended depending on Cabinet's decision. If additional growth is added in, this would increase the savings needed.

- In relation to the potential saving regarding Morecambe Bay Strategy Partnership, work is underway to establish with other partners what the risks and loss of benefits would be from withdrawal. The outcome will be reported prior to the Cabinet meeting, together with any other updates from Officers on outstanding budgetary matters.

- Although no formal amendments or suggestions were put forward from either Council or Budget and Performance Panel, a query was raised in the Panel meeting regarding the intended savings associated with the Morecambe Business Improvement District (BID) development. Cabinet will recall that this savings option was allowed for, but on the basis that further investigations on the prospects for progressing any Morecambe BID would be undertaken and budget provision would be reassessed if any future spending needs materialised. The outcome of those investigations so far can be summarised as follows:

i. Discussions to date have focussed on developing a suitable forum to assist with progressing the BID and considering the BID's potential area / coverage.

ii. Informal feedback is that the various associations do want to progress a BID; a formal statement of proposed arrangements and commitments is being sought.

iii. To help with this it is felt that the local trade associations should be given a chance to explain where they are up to in a formal setting. It is considered that the appropriate forum for this would be the next Business Cabinet Liaison Group scheduled for 28 February.

In view of these points and timescales, Officer views are that it would be more appropriate to reinstate the budget at this time so that funds are still in place should the BID development go ahead. Cabinet is requested to reconsider this savings proposal therefore.

5.4 Cabinet is now required to finalise its full savings and growth proposals and make recommendations to Council to tie in with a Revenue Budget of £20.190M. Setting the Revenue Budget at this level will result in a 0% increase in the basic City Council tax rate for the district. The actual basic Band D City Council tax payable (excluding parish precepts) will be £192.25.

5.5 Linked to the above, under the Localism Act emphasis is now moving away from the current 'Budget' definition, onto 'Council Tax Requirement'. This is therefore a term that will feature in the formal council tax resolutions to be made by Council and in due course, it may well become more widely used in comparing councils' financial forecasts. For now though, both measures are provided for.

6 PROVISIONS, RESERVES AND BALANCES

6.1 Under current legislation the Section 151 Officer is required to give explicit advice to Council on the minimum level of reserves and balances. This advice should take account of:

- the context of the Authority's Medium Term Financial Strategy (MTFS), not just short-term considerations;
- the strategic, operational and financial risks facing the authority;
- the effectiveness of financial management arrangements and internal financial and other controls;
- specific risks and assumptions underlying production of the General Fund budget figures.

6.2 The main reasons why an authority should maintain an unallocated Balance are to provide:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing, and
- a contingency to cushion the impact of significant unexpected events or emergencies.

6.3 After reviewing the General Fund in comparative terms and considering the issues and assumptions outlined above, the Head of Financial Services (as Section 151 Officer) advises that the level of General Fund balances can be retained at no less than £1M to support the next three years' budget forecasts, on the basis that other provisions and reserves remain broadly as set out in this report.

6.4 The s151 Officer's advice takes account of a number of key risk considerations:

– Once again the Council has demonstrated its ability to achieve major savings and underspendings, whilst still providing financial capacity for invest to save schemes and other initiatives. It has also been able to manage the revenue impact of current economic conditions felt through reducing income streams, etc. Going forward, whilst the Council's budget is tighter, it should be more representative of its known spending needs and achievable income levels. Unless windfalls arise though, there should be less chance of major underspendings (and more chance of overspends) occurring.

– Other risks have reduced as a result of external factors, Luneside East being an example. The less that the Council is involved in direct delivery of major schemes – promoting or supporting other partners or routes instead to further its priorities - the lower its general exposure to financial risk may be.

– That said, there are still clearly financial and other risks attached to resolving the way forward for stalled housing regeneration schemes, and in due course the Council will consider taking on additional financial obligations for these. A similar situation exists for Lancaster Indoor Market, albeit that this aims to 'swap' a long term financial obligation with an arrangement that would save money overall, and still provide an opportunity for improving the city centre retail offer. Separately, the expected delays in selling the land at south Lancaster mean that this risk is not yet eliminated.

– Linked to the economy and the Government's reform agenda, there are still big challenges and risks ahead. Welfare reforms are worthy of a special mention, as are plans for changing how (and how much) business rate income is distributed. It is assumed that in future Government will retain its current threshold of a 3.5% but this could change, taking account of reduced inflation prospects as an example.

– To date, the Council has maintained significant earmarked reserves to help manage its financial risks and these should give leeway if unexpected spending needs arise. Furthermore the Council has access to facilities such as capitalisation directives. These give some other comfort in considering how the Council would deal with any unexpected pressures arising.

– Finally, whilst acknowledging the uncertainties, current savings requirements for future years are significantly lower than they have been in previous budget rounds.

6.5 On balance, although there have been shifts in particular financial risks, it is considered that there is no justification for requiring a change to the Council's minimum balance levels. This advice would alter only if there were some major amendments to Cabinet's current budget proposals.

6.6 Balances are currently forecast to be £2.021M by the end of March 2012. After allowing for next year's budgeted use of £326K and the minimum level being retained at £1M, this still leaves £695K surplus Balances available for allocation.

6.7 The review of all Balances, provisions and reserves is reflected in the updated policy attached at ***Appendix B***. As well as showing the amounts held, the appendix also sets out the decision-making for their use. Cabinet is advised to consider this aspect carefully.

7 GENERAL FUND CAPITAL INVESTMENT

7.1 The current draft programme for the period to 2016/17 is included at ***Appendix C*** for Cabinet's consideration.

7.2 The draft includes a small number of adjustments made since the last Cabinet meeting. Other than any re-profiling of schemes, the main points to highlight are as follows:

- an additional (externally funded) phase of Hala playground improvements is now included, as are works to Ashton Memorial Steps;

- an extra £63K in Disabled Facilities Grant (DFG) funding has been received from Government in the current year. Future years' figures are still estimates, but if received in time the formal notification for 2012/13 will be incorporated into the report for Budget Council. Unless Cabinet indicates otherwise, given current demand for disabled facility adaptations the actual notification for next year will be wholly allocated for this purpose, without seeking any further specific Cabinet approval;

- the growth proposals for Allotments (£60K), Square Routes (£300K) and Morecambe Area Action (£200K) are all included.

7.3 The current year's Revised Programme now stands at £6.668M. It is estimated that there will be no capital receipts unapplied as at 31 March 2012. This year's programme now assumes a £2.407M increase in the underlying need to borrow (known as the Capital Financing Requirement: CFR).

7.4 For the 5-year period from 2012/13 onwards, the draft programme amounts to £10.554M, but Cabinet will see that it is now balanced. This is because it assumes that extra revenue financing of £235K will remain as part of Cabinet's revenue growth proposals (as provided for in Appendix A).

7.5 Nonetheless, Cabinet may still choose to adjust the draft programme, by removing non-essential schemes or any of the growth proposals, or indeed using other revenue resources to provide for some further limited capital investment.

7.6 In terms of managing the financing risks, to the extent that capital investment in next year covers only existing contractual commitments or essential works, all schemes would progress once any internal appraisal needs have been met. For any non-essential schemes, in line with the Financial Regulations these would only progress once the sale of land at south Lancaster has been confirmed.

7.7 The Council's Prudential Indicators have been updated to reflect the draft capital position so far and these are also incorporated at ***Appendix D (Annex A)***.

8 OPTIONS FOR BALANCING THE BUDGET

8.1 Cabinet is now required to identify a full set of balanced budget proposals for referral to Council, to fit with agreed council tax for 2012/13. These final budget proposals should be informed by and support Cabinet's review of the Corporate Plan and the fourteen activity areas.

8.2 As a recap, the current revenue shortfall in next year is £363K and to address this, Cabinet may consider options around the following:

i. identify more revenue savings;
ii. reduce or remove revenue growth;
iii. reduce or remove capital schemes (to the extent that they are revenue funded)
iv. apply some or all of the estimated surplus Balances of £695K.

8.3 Should there be any removal of current savings or increases in growth proposals, then further compensating savings would be needed.

8.4 In formulating its recommendations, Cabinet is advised to note the following points:

- given the tighter budgeting adopted it may be prudent for Cabinet to leave room for any new demands, by leaving some Balances unallocated as an example.

- in view of the formal advice regarding reserves, there is little scope for reallocation.

9 BUDGET PROSPECTS FOR FUTURE YEARS (BEYOND 2012/13)

9.1 Indicative revenue spending and council tax forecasts for 2013/14 and 2014/15 have been reported and updated on an ongoing basis during the budget process. The latest projections are summarised as follows:

	Budget Projections (allowing for savings & growth)			**Council Tax**		
	Net Budget	**Annual Increase**	**Budgeted Contribn. to Balances**	**Council Tax Requiremt.**	**Average Band D Tax Rate**	**Annual Increase (YOY)**
	£000	**%**	***£000***	***£000***		**%**
2013/14*	20,569	1.9	--		£206.37	7.3
2014/15	20,912	1.7	--		£214.00	3.7

* Annual increase assumes that 2012/13 budget will be balanced.

9.2 It can be seen that after next year, year on year changes in budget forecasts are relatively steady.

9.3 The Council aims to keep basic City Council tax increases to no more than 3.5% for 2013/14 and 2014/15. As a consequence, the following table sets out the key financial targets that the Council will strive to work within for the next three years.

Target (To be updated)	**2012/13**	**2013/14**	**2014/15**
Budget Requirement	£20.190M	£20.247M	£20.560M
Council Tax Increase (maximum)	0%	3.5%	3.5%
Year on Year Net Savings Requirement (assumes recurring savings achieved)	-	£322K	£30K
Cumulative Net Savings Requirement	-	£322K	£352K

9.4 The net savings targets would need to be increased for any additional growth that may be required in future, any further net increases in the base budget, or any reductions in council tax targets (below the maximum assumed).

9.5 The MTFS is now attached in full at ***Appendix D***, for Cabinet's consideration. Other than reflecting changes in budget and council tax projections, there have been no other substantive changes.

9.6 Once approved the Strategy and associated projections will continue to be reviewed and updated regularly; in this way the Council can maintain an informed view about its financial outlook and the implications for corporate priorities and service delivery.

10 DETAILS OF CONSULTATION

10.1 This is outlined in section 1 of the report.

11 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

Cabinet is now requested to finalise its preferred revenue budget and capital programme proposals for referral on to Council, using the latest information as set out in this report.

<u>Revenue Budget</u>
As Council has now determined the City Council tax rate for 2012/13, there are no options to change the total net revenue budget for next year (recommended at £20.190M) but Cabinet now needs to put forward detailed budget proposals that add back to that amount. Detailed options would be dependent very much on Members' views on spending priorities. Taking account of these, the Head of Financial

Services (as s151 Officer) continues to advise that wherever possible, emphasis should be on achieving recurring reductions to the revenue budget.

Capital Programme
Cabinet may adjust its capital investment and financing proposals to reflect spending commitments and priorities but overall its proposals for 2011/12 and 2012/13 must balance. Whilst there is no legal requirement to have a programme balanced over the full 5-year period, it is considered good practice to do so – or at least have clear plans in place to manage the financing position over that time. Inevitably capital investment needs and funding opportunities will change, but it is important to consider and manage stakeholder expectations regarding investment too.

In deciding its final proposals, Cabinet is asked also to take into account the relevant basic principles of the Prudential Code, which are:

- *that the capital investment plans of local authorities are affordable, prudent and sustainable, and*
- *that local strategic planning, asset management planning and proper options appraisal are supported.*

Budget Framework (Reserves and Provisions / MTFS)
Given known commitments, risks and approved council tax targets there is little flexibility in financial terms, but Cabinet could consider different arrangements for approving the use of various reserves, or consider different budget strategies for future years. On the whole, however, the current arrangements have worked reasonably well and so no fundamental changes are proposed.

12 OFFICER PREFERRED OPTION AND COMMENTS

For General Fund, proposals to be put forward by Cabinet should fit with any external constraints and the budgetary framework already approved. The recommendations as set out meet these requirements; the detailed supporting budget proposals are then a matter for Members.

13 CONCLUSION

This report outlines the actions required to complete the budget setting process for 2012/13.

RELATIONSHIP TO POLICY FRAMEWORK

The budget should represent, in financial terms, what the Council is seeking to achieve through its Policy Framework.

CONCLUSION OF IMPACT ASSESSMENT
(including Diversity, Human Rights, Community Safety, Sustainability etc)

None directly arising in terms of the corporate nature of this report – any implications would be as a result of specific decisions on budget proposals affecting service delivery, etc.

FINANCIAL IMPLICATIONS

As set out in the report.

SECTION 151 OFFICER'S COMMENTS

The Local Government Act 2003 placed explicit requirements on the s151 Officer to report on the robustness of the estimates included in the budget and on the adequacy of the Council's reserves. Previous Cabinet reports have already included some relevant details of this advice, together with the risks and assumptions underpinning the budget process so far. A summary of the s151 Officer's advice to date is provided below for information, but it should be noted that some of this is provisional until Cabinet's full budget proposals are known. At Budget Council, Members will be recommended to note formally the advice of the s151 Officer.

Provisions, Reserves and Balances

- Specific earmarked reserves and provisions are satisfactory at the levels currently proposed.

- Unallocated balances of £1M for General Fund are reasonable levels to safeguard the Council's overall financial position, given other measures and safeguards in place.

With regard to General Fund balances, £1M represents 5% of the net Revenue Budget (or 12% of the Council Tax Requirement). The above advice regarding unallocated balances is dependent upon other provisions and reserves remaining broadly at proposed levels, unless a specific policy change indicates otherwise.

Robustness of Estimates

A variety of exercises have been undertaken to establish a robust budget for the forthcoming year. These include:

- producing a base budget, taking account of service commitments, pay and price increases and expected demand / activity levels as appropriate, and the consideration of key assumptions and risks. In particular, this has drawn on previous years' spending and income generation patterns to tighten budgets and reduce the scope for underspending;
- reviewing the Council's priorities and new proposals, and its associated service activities and spending plans;
- reviewing the Council's MTFS, together with other corporate monitoring information produced during the year;
- undertaking a review of the Council's affordable borrowing levels to support capital investment, in line with the Prudential Code, but taking account of capital receipt expectations and potential investment needs for progressing Lancaster Indoor Market.

These measures ensure that as far as is practical, the estimates and assumptions underpinning the base budget are robust.

Affordability of Spending Plans

In addition, the s151 Officer is responsible for ensuring that when setting and revising Prudential Indicators, including borrowing limits, all matters to be taken into account are reported to Council for consideration.

In considering affordability, the fundamental objective is to ensure that the Council's capital investment remains within sustainable limits, having particular regard to the impact on council tax (for General Fund). Affordability is ultimately determined by judgements on what is 'acceptable' - this will be influenced by public, political and national influences.

The factors that have been taken into account in considering capital investment plans include the following.

- availability of capital resources, including capital grants, capital receipts, etc
- existing commitments and planned service / priority changes
- revenue consequences of any proposed capital schemes, including interest and debt repayment costs of any borrowing
- future years' revenue budget projections, and the scope to meet borrowing costs
- the likely level of government support for revenue generally
- the likely need for further capital investment and prudential borrowing, as yet un-quantified, to address other potential liabilities arising.

In considering and balancing these factors, the capital proposals to date are based on a net reduction in General Fund prudential borrowing over the period from 2012/13 to 2016/17. This is to offset earlier years' increases (resulting from delays in generating capital receipts). Comparatively low levels of new capital investment are provided for, in recognition of the pressures facing the Council, but these do not involve prudential borrowing. These issues have been built into the draft Prudential Indicators for approval by Budget Council.

It is acknowledged that uncertainties over capital receipts forecasts could add further pressure to the revenue budget, at least in the short term. If these result in medium term pressures, further revenue savings would be required to ensure affordability. Also, for Lancaster Indoor Market, this represents the top priority in terms of any future prudential borrowing need, to allow the Council to save money over the longer term.

LEGAL IMPLICATIONS

Legal Services have been consulted and have no observations to make.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments to add.

BACKGROUND PAPERS **LG Finance Settlement** **Prudential Code**	**Contact Officer: Nadine Muschamp** **Telephone: 01524 582117** **E-mail:nmuschamp@lancaster.gov.uk**

APPENDIX A

2012/13 GENERAL FUND BUDGET:
DRAFT REVENUE PROPOSALS (INCLUDING SAVINGS AND GROWTH)

For Consideration by Cabinet 14 February 2012

	2011/12 Budget £000	2012/13 Budget £000	2013/14 Projection £000	2014/15 Projection £000
ORIGINAL REVENUE BUDGET AND PROJECTIONS (Council March 2011)	**21,481.0**	**21,131.0**	**21,726.0**	
UPDATED BUDGET PROJECTIONS (Council 01 February 2012)	**21,481.0**	**20,427.8**	**20,889.8**	**21,244.1**
FURTHER UPDATES:				
Base Budget Changes to Date		-9.6	+6.7	-2.6
Decisions expected at Council 29 February 2012:				
Pay Policy Statement		+53.1	+63.2	+67.6
BUDGET PROPOSALS FOR CONSIDERATION (see following pages):				
Savings		-339.1	-392.7	-399.3
Growth		+420.5	+2.3	+2.3
RESULTING NET REVENUE BUDGET	**21,481.0**	**20,552.7**	**20,569.3**	**20,912.1**
Government Support	13,127.8	11,818.2	11,581.8	11,581.8
Collection Fund Surplus		-9.0		
COUNCIL TAX REQUIREMENT	**8,353.2**	**8,725.5**	**8,987.5**	**9,330.3**
Tax Base	43,450	43,500	43,550	43,600

	2012/13	2013/14	2014/15
REMAINING SAVINGS REQUIREMENT (to fit with council tax targets: 0% for 2012/13 and then 3.5% assumed for 2013/14 onwards)	363	322	352

TARGET COUNCIL TAX:

	2012/13	2013/14	2014/15
Band D Basic City Council Tax	**£192.25**	**£198.97**	**£205.93**
Percentage Increase Year on Year (maximum)	**0.0%**	**3.5%**	**3.5%**

CURRENT COUNCIL TAX PROJECTIONS:

	2013/14	2014/15
Band D Basic City Council Tax	**£206.37**	**£214.00**
Percentage Increase Year on Year	**7.3%**	**3.7%**

APPENDIX A

SAVINGS PROPOSALS TO BE CONSIDERED

INCOME GENERATION	SERVICE	NOTES	2012/13 Estimate £000	2013/14 Projection £000	2014/15 Projection £000
Disabled Facilities Grant Admin.	Health & Housing	Increase in charge from 10% to 15%	-10.0	-15.0	-15.0
Wellbeing Fees and Charges Review	Community Engagement	Cabinet 14 Feb	-11.3	-11.5	-11.7
Refuse Bins & Boxes - Charging	Environmental Services	Cabinet 14 Feb	-50.0	-106.4	-108.5
		Sub-Total	**-71.3**	**-132.9**	**-135.2**

BUDGET REDUCTIONS	SERVICE	NOTES	2012/13 Estimate £000	2013/14 Projection £000	2014/15 Projection £000
SLA's - Inflationary Freeze	Community Engagement	Cabinet 17 Jan	-11.0	-11.2	-11.4
Morecambe BID Feasibility Study	Regeneration & Policy	Budget Removal	-40.0		
Historic Towns Forum	Regeneration & Policy	Budget Removal	-0.4	-0.4	-0.4
Morecambe Bay Strategy Partnership	Regeneration & Policy	Budget Removal	?	?	?
Overview & Scrutiny Expenses	Governance	Budget Removal	-2.4	-2.4	-2.5
		Sub-Total	**-53.8**	**-14.0**	**-14.3**

EFFICIENCY PROPOSALS	SERVICE	NOTES	2012/13 Estimate £000	2013/14 Projection £000	2014/15 Projection £000
Grounds Maintenance	Environmental Services		-38.4	-38.8	-39.2
Refuse Collection	Environmental Services		-21.7	-21.9	-22.1
Accountancy Services	Financial Services		-25.0	-50.0	-51.0
Revenues and Benefits (Shared Service)	Financial Services		-33.0	-33.7	-34.4
HR/Payroll Software Replacement	Financial Services		-20.0	-20.4	-20.6
Licensing	Governance	Personnel Cttee 31 Jan	-75.9	-81.0	-82.5
		Sub-Total	**-214.0**	**-245.8**	**-249.8**
		Total Savings for Consideration (as totalled on previous page)	**-339.1**	**-392.7**	**-399.3**

GROWTH PROPOSALS TO BE CONSIDERED

DETAILS	SERVICE	NOTES	2012/13 Estimate £000	2013/14 Projection £000	2014/15 Projection £000
Recurring Revenue Growth:					
Accommodation - Security & Carpets	Property Services	Cabinet 14 Feb	+1.5	+2.3	+2.3
One-Off Revenue Growth:					
Apprenticeship Scheme	Governance	Council 01 Feb	+45.0		
Community Safety - PCSOs (one year)	Environmental Services	Cabinet 17 Jan (up to 9 PCSOs)	+99.0		
Feasibility Bid - Science Park	Regeneration & Policy	Cabinet 17 Jan	+20.0		
Feasibility Bid - Heysham Gateway	Regeneration & Policy	Cabinet 17 Jan	+20.0		
		Sub-Total	**+185.5**	**+2.3**	**+2.3**
One-Off Capital Growth:					
Accommodation - Furniture & Other Works	Property Services	Cabinet 14 Feb	?	?	?
Allotments	Community Engagement	Cabinet 08 Nov	+60.0		
Morecambe Area Action Plan	Regeneration & Policy	Cabinet 04 Oct	+200.0		
Lancaster Square Routes	Regeneration & Policy	Cabinet 04 Oct	+300.0		
Adjustment for capital savings already made			-325.0		
		Sub-Total (now allowed for in draft Capital Programme)	**+235.0**	**+0.0**	**+0.0**
		Total Growth for Consideration (as totalled on previous page)	**+420.5**	**+2.3**	**+2.3**

APPENDIX A

FUTURE YEARS: OTHER OUTLINE PROPOSALS

AREA	SERVICE	NOTES	2012/13 Estimate £000	2013/14 Projection £000	2014/15 Projection £000
Closure of Lancaster Indoor Market	Property Services	Council 16 Nov		?	?
HR/Payroll, 'Procure to Pay' and other financial management arrangements	ALL	Indicative Savings Target		-150.0	-150.0
Grey Fleet Review - Business Travel	ALL	JCC 05 Dec 11		-100.0	-100.0
		Total Outline Proposals	**+0.0**	**-250.0**	**-250.0**

Note that whilst indicative values are shown above, these will be developed over the course of the next year. They are not yet built into the formal budget projections. In effect, they would help to address future years' remaining savings requirements shown at the bottom of the first page on this summary.

OTHER ACTIONS TO BE TAKEN FORWARD

DETAILS	SERVICE
Community Safety proposals (CCTV / PCSOs etc) to be confirmed at February Cabinet	Various
Monitoring, review and update of 'Invest to Save' scheme savings	Various
Review of Car Parking Lighting	Property Services
Review of Charter Market - opportunities to extend trading days	Property Services
Review of Building Control Operation	Regeneration & Policy
Review of Christmas Decorations	Regeneration & Policy
Review of future Coast Protection arrangements	Regeneration & Policy
Morecambe BID budgetary needs to be considered at February Cabinet	Regeneration & Policy
Review of Stock Management	Environmental Services
Review of Williamson Park	Env. Serv. / Comm.Engagmt.
Review future requirements in light of Local Strategic Partnership changes (Cabinet Dec 11)	Community Engagement
Review of Salt Ayre Sports Centre	Community Engagement
Review of Museums Partnership	Community Engagement
Review any charging / sponsorship opportunities for Lancaster Fireworks Event	Community Engagement
Respond to Welfare Reforms (localisation of council tax support - est. 10% or £1M reduction in awards)	Financial Services

APPENDIX B (i)

LANCASTER CITY COUNCIL

Promoting City, Coast & Countryside

PROVISIONS AND RESERVES POLICY 2012/13

(Details of General Fund Items)

February 2012

Provisions & Reserves Policy

1. Legislative/Regulatory Framework

1.1 The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 (as amended) require billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget / council tax requirement.

1.2 There is also a requirement reinforced by section 114 of the Local Government Finance Act 1988 which requires the chief financial officer to report to all the authority's councillors if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year.

1.3 Furthermore, sections 26 and 27 of the Local Government Act 2003 set out the requirements regarding the determination of minimum levels of controlled reserves (i.e. currently unallocated balances), and actions required should they fall below such minimum levels.

2. Role of the Chief Financial Officer

2.1 Within the existing statutory and regulatory framework, it is the responsibility of the Chief Financial Officer (at Lancaster this is the Head of Financial Services) to advise local authorities about the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use.

2.2 For clarity, within the legislation the minimum level of any reserve is not quantified, and it is not considered appropriate or practical for the Chartered Institute of Public Finance and Accountancy (CIPFA), or other external agencies, to give prescriptive guidance on the minimum, or maximum, level of reserves required either as an absolute amount or a percentage of the budget.

3. Purpose of Reserves and Balances

3.1 Reserves and balances can be held for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of what is commonly referred to as 'general balances';
- A contingency to cushion the impact of unexpected events or emergencies – this also forms part of 'general balances';
- A means of building up funds, commonly referred to as earmarked reserves, to meet known or predicted liabilities.

3.2 For each earmarked reserve held by a local authority there should be a clear protocol setting out:

- The reason for/purpose of the reserve;
- How and when the reserve can be used;
- Procedures for the reserve's management and control; and
- A process and timescale for review of the reserve to ensure continuing relevance and adequacy.

4. Principles to Assess Adequacy

4.1 Setting the level of reserves and balances is just one of several related decisions in the formulation of the medium term financial strategy and the budget for a particular year. Account should be taken of the key financial assumptions underpinning the budget alongside a consideration of the authority's financial management arrangements. In addition to the cash flow requirements of the authority the following factors should be considered:

Budget Assumptions

- The treatment of inflation and interest rates
- Estimates of the level and timing of capital receipts
- The treatment of demand led pressures
- The treatment of planned efficiency savings/gains
- The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments
- The availability of other funds to deal with major contingencies and the adequacy of provisions

Financial Standing and Management

- The overall financial standing of the authority (level of borrowing, debt outstanding, council tax collection rates, etc.)
- The authority's track record in budget and financial management including the robustness of the medium term financial plans
- The authority's capacity to manage in-year budget pressures
- The strength of the financial information and reporting arrangements
- The authority's virement and end of year procedures in relation to budget under/over spends at authority and departmental level
- The adequacy of the authority's insurance arrangements to cover major unforeseen risks.

4.2 The minimum level of general balances considered appropriate for the Council is reviewed annually as part of the budget process and Medium Term Financial Strategy. At present, the minimum level of general reserves is set at £1M for the General Fund and £350K for the Housing Revenue Account.

4.3 A review of the level of earmarked reserves is undertaken generally as part of the annual budget preparation and as part of the closure of accounts process. As part of the 2012/13 budget process the following provisions and reserves have been closed:

- Stock Write Off Provision
- Business Continuity Reserve
- Concessionary Travel Reserve
- Connecting Communities Reserve
- Every Child Matters Reserve
- Impairment Reserve
- Revenues and Benefits Reserve
- Risk Management Reserve
- Vacant Shops Fund Reserve

Four new reserves have also been established to provide for the following:

- Apprenticeships
- Olympic Events
- Welfare Reforms
- Youth Games

4.4 The Council's external auditors recommend the use of a risk based approach when setting the level of reserves. As far as reasonably practical this approach is used, although for many reserves the balance is being held to meet a specific budgeted need, or alternatively future spending needs can be restricted to tie in with monies available. For others, whilst the risk of financial liabilities arising is acknowledged, it may be impossible to assess accurately (or quantify) the financial risks involved, and the balances of such reserves are determined initially based on informed judgement. Their future levels will be further reviewed as more information becomes available.

5. Reporting Framework

5.1 The level and utilisation of reserves will be determined formally by Council through this policy, informed by the advice and judgement of the Head of Financial Services.

5.2 The Council's annual budget report includes a statement showing the estimated opening general fund balances for the year ahead, the addition to/withdrawal from balances, and the estimated end of year balance. A statement is also included commenting on the adequacy of general balances and provisions in respect of the forthcoming financial year and the authority's medium term financial strategy.

5.3 Similarly, a statement is also included, as part of the budget report, identifying earmarked reserves, the opening balances for the year, planned additions/withdrawals and the estimated closing balances.

6 Provisions & Reserves Protocol : General Fund

Reserve	Purpose	How and When Used	Procedures for management and control	Timescale for review
Apprenticeships	Established to pump prime an apprenticeship scheme within services, to provide recruitment and development opportunities.	Use of the reserve to be approved by Head of Governance with top up contributions being approved also by Head of Financial Services (or their nominated representatives).	Governance / Financial Services Any change in use to be approved by Cabinet.	Budget & Outturn, and mid-year MTFS review
Building Regulations	This is a statutory reserve to which the annual surplus or deficit on the Building Control Account is transferred. In addition, the reserve may be used to finance expenditure which will make the Building Control function more efficient.	The surplus or deficit on the Building Control Account is appropriated to/from the reserve at the end of each financial year. In addition, it may be used to finance specific one-off Building Control expenditure, with Head of Financial Services approval (to reflect statutory usage), or with Cabinet approval for recurring items.	Regeneration & Policy / Financial Services No changes to its use are permitted.	Budget & Outturn
Capital Support	To cover contractual liabilities as at 31 March 2011 on West End properties and to provide cover for any revenue costs arising through shortfalls in capital financing (i.e. from capital receipts).	Any use to be determined and reported to Cabinet by Head of Financial Services.	Financial Services Any change in use to be approved by Cabinet, but permitted only where surplus balances exist.	Budget & Outturn, & mid-year MTFS review
City Lab	Surpluses on the operation of the building to be used to support any future losses / economic development in the district.	Any contributions to or from the reserve to be approved by Cabinet.	Regeneration & Policy / Financial Services Any change in use to be approved by Cabinet.	Budget & Outturn
Invest to Save	The reserve has been established to finance any Invest to Save initiatives.	Use linked to capital or revenue schemes that can generate future savings in the medium term (or more specifically if needed, to assist in resolving the way forward for Lancaster Indoor Market). In line with these, contributions to or from reserve to be approved by Cabinet.	Financial Services. Pay back periods must be in accordance with MTFS, and as advised by Head of Financial Services. Any change of use to be approved by Cabinet, should the reserve balance exceed spending needs.	Budget & Outturn, and mid year MTFS review

Reserve	Purpose	How and When Used	Procedures for management and control	Timescale for review
Job Evaluation	To support development and modelling, and implementation of pay structures.	Contributions to the reserve to be approved by Cabinet. In line with this, use of the reserve to be agreed by the Head of Governance and Head of Financial Services (or their nominated representatives).	Governance Services / Financial Services Any change in use to be approved by Cabinet, should the reserve balance exceed spending needs.	Budget & Outturn
Lancaster Indoor Market	The reserve will cover the cost of compensation and other costs arising through interim changes to the indoor market operation, to support the decisions of Council.	Use of the reserve to be approved by Head of Property Services, in conjunction with Head of Financial Services (or their nominated representatives), and in accordance with any extra requirements as may be approved by Council or Cabinet in due course.	Property Services / Financial Services Any change in use to be approved by Cabinet, should the reserve balance exceed spending needs.	Budget & Outturn, and mid-year MTFS review.
Municipal Buildings	To provide for surveys and repair works to municipal buildings and facilities (in particular, for those that cannot be capitalised as part of the current works programme or are not otherwise budgeted for). Additional contributions made in 2012/13 to cover surveys and essential works at Williamson Park.	Use of the reserve to be agreed by Head of Property Services, in conjunction with Head of Financial Services (or their nominated representatives).	Property Services / Financial Services Any change of use to be approved by Cabinet, should the reserve balance exceed spending needs.	Budget & Outturn
Olympic Torch Event	Established to fund an events weekend associated with the carrying of the Olympic Torch through the district.	Use to be approved by Cabinet in accordance with Council decision. To be closed once event is completed.	Community Engagement / Financial Services	Mid-year MTFS review
Open Spaces – Commuted Sums	This reserve receives all sums paid to the Council from third parties for the maintenance of open spaces adopted by the City Council.	Lump sums are credited to the reserve, and an annual contribution is made from the reserve to cover the additional grounds maintenance costs. The value of commuted sums due is to be agreed with Financial Services prior to the development agreement being completed. Budgets to be updated by Financial Services in consultation with Environmental Services as sums received.	Environmental Services / Financial Services Any use of reserve must be in accordance with specific s106 agreements.	Budget & Outturn

Reserve	Purpose	How and When Used	Procedures for management and control	Timescale for review
Performance Reward Grant	To support residual initiatives in accordance with former protocol.	Use of reserve to support previously approved allocations by Cabinet. Reserve to be closed once these have been spent. Any underspendings to be considered corporately.	Community Engagement / Financial Services	Budget & Outturn
Planning Delivery Grant (PDG)	To enable grant monies committed against approved spend to be rolled forward between financial years.	Where specific PDG funded budgets have not been spent, the balance of unapplied grant will be transferred into the reserve and applied in the following financial year.	Regeneration & Policy / Financial Services. Any change in use to be approved by Cabinet.	Budget & Outturn
Renewals (Including Williamson Park, IT, AONB Vehicle, Car Park Equipment, Courier Vehicle, Parks vehicles & Salt Ayre Sports Centre renewals)	Contributions are made into the fund to provide for renewal of major assets such as vehicles, plant and equipment.	Contributions are made into the reserve on an annual basis, and transferred to revenue as and when renewals are undertaken. Contributions to the reserve are to be approved by Cabinet. Use of the reserve to be agreed by Head of Financial Services.	Financial Services Any change of use to be approved by Cabinet, should the reserve balance exceed spending needs.	Budget & Outturn
Restructuring Reserve	To fund the costs associated with early termination of staff (in the interests of efficiency / redundancy).	Use (in line with relevant approved HR policies) to be agreed with Heads of Governance and Financial Services (or their nominated representatives). Any further contributions to the reserve to be approved by Cabinet.	Governance Services / Financial Services Any change of use to be approved by Cabinet, should the reserve balance exceed spending needs.	Budget & Outturn, and mid-year MTFS review
S106 Commuted Sums – Affordable Housing	This reserve receives all sums paid to the Council from third parties in respect of affordable housing schemes	Lump sums are credited to the reserve and appropriated either to revenue or capital dependent upon the nature of the agreement and subject to approved policy for use (Cabinet:November 2009).	Regeneration & Policy / Financial Services Any use of reserve must be in accordance with specific s106 agreements.	Budget & Outturn

Reserve	Purpose	How and When Used	Procedures for management and control	Timescale for review
S106 Commuted Sums – Highways, cycle paths and crossings.	This reserve receives all sums paid to the Council from third parties other than for affordable housing and grounds maintenance.	Lump sums are credited to the reserve and appropriated either to revenue or capital dependent upon the nature of the agreement.	Regeneration & Policy / Financial Services Any use of reserve must be in accordance with specific s106 agreements.	Budget & Outturn
Welfare Reforms	To help manage the cost pressures of any welfare reforms (in particular, localisation of council tax support).	Contributions to and from the reserve to be approved by Cabinet.	Financial Services Any change in use to be approved by Cabinet, should the reserve balance exceed spending needs.	Budget & Outturn, and mid-year MTFS review
Youth Games	The reserve has been established to even out the cost of hosting the games every four years.	Contributions to and from reserve to be approved by Cabinet.	Community Engagement / Financial Services Any change in use to be approved by Cabinet, should the reserve balance exceed spending needs.	Budget & Outturn
Reserves held in perpetuity:				
Graves Maintenance	This reserve holds monies donated to the City Council by individuals, specifically for the maintenance of graves.	The capital sum must be maintained at the original level of contribution, with interest earned being appropriated to revenue to offset maintenance costs.	Health & Housing / Financial Services. No changes to its use are permitted.	Outturn
Marsh Capital	The monies held in this reserve came from the proceeds of land sold at Willow Lane on the Marsh, as set out by the Lancaster Corporation Act 1900. The Act determines that the interest generated on this reserve be applied in perpetuity to the payment to the freemen of the City.	Investment interest generated on the reserve is used to make annual payments to the freemen of the City.	Financial Services. No changes to its use are permitted.	Outturn

Provision	Purpose	How and When Used	Procedures for management and control	Timescale for review
PROVISIONS				
Bad & Doubtful Debts	This provision is used to write off all General Fund bad debts that have been approved.	The provision is funded by an annual contribution based on assessment of the level of debt outstanding.	Financial Services	Budget, Outturn & mid-year MTFS review
Derelict Land Grant	This provision covers the cost of anticipated grant clawback in respect of land sales, previously financed from grant.	The provision will be fully utilised in 2012/13.	Financial Services	Budget & Outturn
Insurance	The cost of insurance claims, premiums and brokerage are charged to the provision.	Contributions are made to the provision from individual services at a level sufficient to cover the anticipated claims experience and premiums.	Financial Services	Budget & Outturn, and mid-year MTFS review
Williamson Park	As the company is wholly controlled by the City Council, provision must be made for any losses arising.	Provision will be applied in dissolving company during 2011/12 and closed at outturn.	Financial Services	Outturn

All provisions will be applied by the Head of Financial Services (or her nominated representative) and reported through to Members, primarily as part of outturn.

Appendix B(ii)

PROVISIONS AND RESERVES STATEMENT : For consideration by Cabinet 14 February 2012

PROVISIONS

	31/03/11	Contributions to Provision	Contributions from Provision	31/03/12	Contributions to Provision	Contributions from Provision	31/03/13
	£	£	£	£	£	£	£
B&D Debts-General Fund	433,188			433,188			433,188
Derelict Land Clawback	56,932			56,932		-56,932	0
Insurance Excess	330,777			330,777			330,777
Provision for Stock Write Off	28,932		-28,932	0			0
Williamson Park	100,000			100,000			100,000
TOTAL	949,829	0	-28,932	920,897	0	-56,932	863,965

RESERVES

	31/03/11	Contributions to Reserve	Contributions from Reserve	31/03/12	Contributions to Reserve	Contributions from Reserve	31/03/13	Contributions to Reserve	Contributions from Reserve	31/03/14	Contributions to Reserve	Contributions from Reserve	31/03/15
	£	£	£	£	£	£	£	£	£	£	£	£	£
Apprenticeship (funding subject to growth approval)	0			0	45,000		45,000			45,000			45,000
Business Continuity	17,199		-17,199	0			0			0			0
Capital Support	537,714	400,000	-253,000	684,714		-361,000	323,714			323,714			323,714
City Lab	36,692		-8,700	27,992		-24,600	3,392		-3,392	0			0
Concessionary Travel	70,000		-70,000	0			0			0			0
Connecting Communities	29,818		-29,818	0			0			0			0
Every Child Matters	11,313		-11,313	0			0			0			0
Impairment Reserve	1,363,493		-1,363,493	0			0			0			0
Invest to Save	0	1,436,500	-750,000	686,500	325,500		1,012,000			1,012,000			1,012,000
Job Evaluation	338,097		-285,200	52,897		-49,000	3,897			3,897			3,897
Lancaster Indoor Market	139,537	530,000	-27,800	641,737			641,737			641,737			641,737
Municipal Buildings	300,000	250,000	-164,500	385,500			385,500			385,500			385,500
Olympic Torch Event	0			0	40,000		40,000						
Open Spaces Commuted Sums	272,340		-58,900	213,440		-46,200	167,240		-34,800	132,440		-29,600	102,840
Performance Reward Grant	308,723	33,800	-120,300	222,223		-98,400	123,823		-54,300	69,523			69,523
Planning Delivery Grant	46,906		-40,306	6,600		-3,300	3,300		-3,300	0			0
Renewals (all services)	199,802	546,100	-111,300	634,602	395,900	-93,000	937,502	410,000	-71,600	1,275,902	373,200	-23,400	1,625,702
Restructuring	666,021	425,000	-238,300	852,721			852,721			852,721			852,721
Revenues and Benefits	75,268		-75,268	0			0			0			0
Risk Management	25,983		-25,983	0			0			0			0
S106 Commuted Sums - Affordable Housing	920,780		-250,000	670,780		-13,000	657,780		-10,000	647,780			647,780
S106 Commuted Sums - Highways, crossing & cycle paths	352,433		-304,100	48,333			48,333			48,333			48,333
Vacant Shops Fund	29,999		-29,999	0			0			0			0
Welfare Reforms	0	200,000		200,000			200,000			200,000			200,000
Youth Games	0	18,500		18,500	18,500		37,000	18,500	-55,500	0	15,000		15,000
Reserves Held in Perpetuity :													
Graves Maintenance	22,201			22,201			22,201			22,201			22,201
Marsh Capital	47,677			47,677			47,677			47,677			47,677
TOTAL	5,811,996	3,839,900	-4,235,479	5,416,417	824,900	-688,500	5,552,817	428,500	-232,892	5,708,425	388,200	-53,000	6,043,625
General Fund Balances	3,674,039	37,000	-1,690,000	2,021,039		-325,500	1,695,539			1,695,539			1,695,539
Unallocated Government Grants - Capital (PRG)	323,723		-323,723	0			0			0			0

Note - For various provisions and reserves, not all spending needs are reflected (eg. the majority of the renewals balance will be applied for future vehicle replacements) and so over the period their balances will reduce from the levels shown above, as and when spending commitments and their timing are confirmed.

APPENDIX C

General Fund Gross Capital Programme

For consideration by Cabinet 14 February 2012

Service / Scheme	Funding	2011/12 £	2012/13 £	2013/14 £	2014/15 £	2015/16 £	2016/17 £	Total £
Environmental Services								
District Playground Improvements		61,000						**61,000**
Hala Park Playground Improvements	PEF	89,000						**89,000**
Heysham Village Playground	EF	46,000						**46,000**
Clay Pitts Recreation / Play Facilities Development	S106	140,000						**140,000**
Mainway Recycling Bins		34,000						**34,000**
Toilet Works		94,000	90,000	60,000	90,000			**334,000**
Allotment Extension - Scotforth		**0**	**60,000**					**60,000**
Allotment Improvements (subject to expenditure plan)		9,000	47,000					**56,000**
Community Engagement								
The Platform Improvements (subject to business case)		0	110,000					**110,000**
Warm Homes Scheme	EF	50,000	50,000					**100,000**
Woodland Improvement Grant - Williamson Park	EF	0	23,000					**23,000**
Williamson Park		0	75,000					**75,000**
Salt Ayre Sports Centre - Swimming Pools Hydraulic Floors		45,000						**45,000**
Salt Ayre Works Programme		118,000						**118,000**
Health and Housing								
YMCA Places of Change	EF	63,000						**63,000**
Disabled Facilities Grants (future years funding to be confirmed)	EF	744,000	653,000	653,000	653,000	653,000	653,000	**4,009,000**
Information Services								
I.T. Infrastructure		20,000						**20,000**
I.T. Application Systems Renewal		21,000	50,000	225,000				**296,000**
I.T. Desktop Equipment		30,000	135,000	50,000	50,000	50,000	50,000	**365,000**
Regeneration & Policy								
Cycling England	EF	13,000						**13,000**
Morecambe FC Footpath Works	S106	69,000						**69,000**
Sustrans Grants - Links to Schools	PEF	156,000						**156,000**
Toucan Crossing-King Street	S106	14,000						**14,000**
Artle Beck Improvements (Flood Defences)	PEF	240,000						**240,000**
Strategic Monitoring (River & Sea Defences)	PEF	98,000	98,000	101,000	101,000	101,000	101,000	**600,000**
Denny Beck Bridge Improvements		81,000						**81,000**
Wave Reflection Wall Refurbishment	PEF	15,000	1,000					**16,000**
Slynedale Culvert Project	PEF	22,000	3,000					**25,000**
The Dome (Demolition)		12,000						**12,000**
Amenity Improvements	PEF	37,000						**37,000**
Luneside East		462,000						**462,000**
Poulton Public Realm-Edward St, Union St, Church Walk	EF	15,000						**15,000**
Bold Street Renovation Scheme	EF	94,000						**94,000**
Lancaster Square Routes (Phases 1 and 2)		220,000	**300,000**					**520,000**
Ffrances Passage (links to Square Routes)	S106	73,000						**73,000**
Morecambe THI2: A View for Eric	PEF	0	100,000	375,000	172,000	217,000	261,000	**1,125,000**
Poulton Pedestrian Route	P S106	0		160,000				**160,000**
Public Realm Works		13,000						**13,000**
Greyhound Bridge Road Affordable Housing	S106	250,000						**250,000**
Storey Institute Centre for Industries	EF	34,000						**34,000**
Morecambe Area Action Plan (Improving Streets)		**0**	**200,000**					**200,000**
White Lund Industrial Estate - highways works	S106	76,000						**76,000**
Money Close Lane - highways works	S106	14,000						**14,000**
Port of Heysham Sites 1&4 (Payment of Clawback)		0	328,000					**328,000**
West End Temporary Car Park	EF	19,000						**19,000**
Property Services								
Car Park Improvement Programme		0	80,000					**80,000**
Williamsons Park Steps		120,000						**120,000**
Invest to Save: Addition of Solar Panels to Municipal Buildings		750,000						**750,000**
Corp. & Municipal Building Works (incl. energy efficiency)		2,207,000	1,688,000	1,687,000				**5,582,000**
GENERAL FUND CAPITAL PROGRAMME		**6,668,000**	**4,091,000**	**3,311,000**	**1,066,000**	**1,021,000**	**1,065,000**	**17,222,000**
Financing :								
Specific Grants and Contributions		1,664,000	841,000	1,150,000	873,000	908,000	943,000	**6,379,000**
Usable Capital Receipts (see table below)		387,000	8,020,000	1,244,000	44,000	44,000	0	**9,739,000**
General Capital Grants		190,000	150,000					**340,000**
Revenue Financing		2,020,000	509,000	90,000	45,000	45,000	45,000	**2,754,000**
Sub-total		4,261,000	9,520,000	2,484,000	962,000	997,000	988,000	**19,212,000**
Increase / Reduction (-) in Capital Financing Requirement (Underlying Change in Borrowing Need)		2,407,000	-5,429,000	827,000	104,000	24,000	77,000	**-1,990,000**
TOTAL FINANCING		**6,668,000**	**4,091,000**	**3,311,000**	**1,066,000**	**1,021,000**	**1,065,000**	**17,222,000**
Shortfall / Surplus (-)		**0**	**0**	**0**	**0**	**0**	**0**	**0**
Cumulative Shortfall / Surplus (-)		**0**	**0**	**0**	**0**	**0**	**0**	**0**

EF = 100% externally funded, PEF = part externally funded, S106 = S106 funded, P S106 = part S106 funded.

Capital Receipts Summary	2011/12 £	2012/13 £	2013/14 £	2014/15 £	2015/16 £	2016/17 £	Total £
Balance Brought Forwards:	0	0	0	0	0	0	
Receipts Due In Year:	387,000	8,020,000	1,244,000	44,000	44,000	0	**9,739,000**
In Year Capital Programme Financing:	-387,000	-8,020,000	-1,244,000	-44,000	-44,000	0	**-9,739,000**
Balance Carried Forwards :	**0**	**0**	**0**	**0**	**0**	**0**	**0**

PRUDENTIAL INDICATORS - LANCASTER CITY COUNCIL

Draft for consideration by Cabinet 14th February 2012

			2012/13 £'000	2013/14 £'000	2014/15 £'000

AFFORDABILITY

			2012/13	2013/14	2014/15
PI 1:	Estimates of ratio of financing costs to net revenue stream	Non - HRA	16.3%	13.3%	12.7%
		HRA	24.6%	23.0%	21.7%
		Overall	19.6%	17.2%	16.3%

PI 2:	Actual ratio of financing cost to net revenue stream	Reported after each financial year end

		2012/13	2013/14	2014/15
PI 3:	Estimates of the incremental impact of new Capital Investment decisions on the Council Tax	£5.40	£0.00	£0.00
	This includes the impact of all elements of funding, including any increase in the need to borrow, required to finance new schemes added to the Capital Programme	2.8%	0.0%	0.0%

		Repayment Period		
PI 3A:	Illustrative Impact of Additional Borrowing £1 million	**5 Years**	**10 Years**	**25 Years**
	Increase in Council Tax (£)	£4.81	£2.57	£1.38
	Increase in Council Tax (%)	2.50%	1.34%	0.72%

		2012/13	2013/14	2014/15
PI 4:	Estimates of the incremental impact of Capital Investment on Housing Rents	Nil	Nil	Nil

CAPITAL EXPENDITURE

			2012/13	2013/14	2014/15
PI 5:	Estimates of capital expenditure	Non - HRA	4,091	3,311	1,066
		HRA	3,916	3,616	3,616
		Total	8,007	6,927	4,682

PI 6:	Actual capital expenditure	Reported after each financial year end

			2012/13	2013/14	2014/15
PI 7:	Estimates of Capital Financing Requirement	Non - HRA	28,850	28,474	27,459
		HRA	45,264	43,984	42,704
		Total	74,114	72,458	70,163

PI 8:	Actual Capital Financing Requirement	Reported after each financial year end

EXTERNAL DEBT

		2012/13	2013/14	2014/15
PI 9:	Authorised Limit			
	Authorised Limit for Borrowing	75,500	75,500	75,500
	Authorised Limit for Other Long Term Liabilities	2,700	2,500	2,300
	Authorised Limit for External Debt	78,200	78,000	77,800

		2012/13	2013/14	2014/15
PI 10:	External Debt: Operational Boundary	73,200	73,000	72,800

PI 11:	Actual external debt	Reported after each financial year end

		2012/13	2013/14	2014/15
PI 12:	HRA limit on indebtedness	60,194	60,194	60,194

PRUDENCE

PI 13:	Treasury Management: adoption of CIPFA code of Practice	The Council has adopted the updated Treasury Management code of practice (2011).

		2012/13	2013/14	2014/15
PI 14:	Net debt and the capital financing requirement			
	Anticipated indebtedness (operational boundary)	73,200	73,000	72,800
	Anticipated investment	14,930	13,990	14,920
	CFR	74,114	72,458	70,163
	Under/over borrowed (-/+)	-14,016	-14,532	-17,557

APPENDIX D

LANCASTER CITY COUNCIL
Promoting City, Coast & Countryside

MEDIUM TERM FINANCIAL STRATEGY 2012-15

(Note that other than the tables and figures, most of this strategy is unchanged. Any key changes have been highlighted.)

February 2012

1.0 INTRODUCTION

1.1 The Medium Term Financial Strategy (MTFS) sets out how Lancaster City Council proposes to manage its financial resources in line with current corporate priorities and future challenges the Council faces in service delivery.

1.2 The City Council responds to these challenges through a rolling process of policy review and financial planning. The Medium Term Financial Strategy (MTFS) is integral to this; it forms part of the Council's wider resources framework linking to the Medium Term Corporate Property Strategy (MTCPS), the Human Resources (HR) Strategy and the Information and Communications Technology (ICT) Strategy.

1.3 The MTFS covers both revenue and capital financial planning. It outlines the key financial targets and constraints for the Council, together with the financial planning and budget setting timescales that will be followed in seeking to achieve those targets. The processes are designed to ensure that policy objectives and spending demands are balanced against available resources, having regard to risk considerations and the community's needs.

In short:

- The Corporate Plan sets out the council's Vision for the district and summarises the Council's medium term key priorities, aims and objectives in terms of outcomes and outputs to achieve the Vision;

- The MTFS also summarises the same key priorities, aims and objectives, but expresses them in financial terms. It also highlights any imbalance – which is the need to make savings and/or change aspirations for the future.

1.4 At present, for revenue planning the Strategy's focus is very much on General Fund services funded through council tax. In broad terms, this covers all council activities with the exception of council housing. Council housing finances are managed through a separate Housing Revenue Account (HRA).

1.5 Financial planning for council housing will now change significantly with the implementation of self-financing. Future investment opportunities will be dependent upon the rent levels set and the robustness of the 30 year business plan. A full review of the future rent policy, investment needs and other opportunities will be undertaken during this financial year, and updated into the MTFS as appropriate.

2.0 Aims and Objectives

2.1 The aims and objectives of the MTFS are to:

- protect the Council's financial standing and avoid volatile or unnecessary fluctuations in the provision of council services, by:
  - providing a clear and regularly updated view of the council's future financial prospects;
  - setting out the Council's key financial objectives and budget constraints within which members and officers must operate;
  - promoting and progressing the delivery of a financially sustainable and balanced budget for the medium term.

- deliver a balanced, robust budget (for both revenue and capital) each year, which:
  - matches and realigns resources both to Council priorities and statutory needs;
  - is based on informed decision-making across all Council policies and activities, underpinned by risk management;
  - takes account of budget consultation with stakeholders.

- help achieve value for money in the use of the Council's resources. This includes:
  - maximising efficiency savings and, where appropriate, increasing income;
  - protecting statutory services and minimising reductions in other front-line services, where possible and where this is in line with Council priorities, and
  - working with services to challenge traditional methods of service provision.

- be transparent about how the Council will manage and plan its finances, together with the implications on service delivery.

3.0 Current Position

3.1 Net Revenue Spending

3.1.1 The Council's current approved forecasts for net revenue spending and resulting Council Tax rates for the next three years are shown overleaf:

	Revenue Budget Projections (allowing for savings & growth)			**Council Tax Projections**	
	Net Budget	**Annual Change**	**Net Contributions from Balances**	**Average Band D Tax Rate**	**Annual Increase (YOY)**
	£000	**%**	***£000***		**%**
2012/13	20,190	-6.0		£192.25	0%
2013/14	20,569	1.9		£206.37	7.3%
2014/15	20,912	1.7		£214.00	3.7%

Draft, subject to final budget proposals

* After allowing for the change in categorisation of Council Tax freeze grant from a general grant to Government Support.

3.1.2 The Council has implemented measures to make substantial net recurring savings. These achievements, together with Government's one-off grant incentive, have supported a council tax freeze for 2012/13.

3.1.3 In terms of Government funding, this is currently expected to reduce in cash terms by 2% between 2012/13 and 2013/14, based on Government's last CSR. Thereafter for 2014/15, support levels are assumed to remain static in cash terms, in the absence of any better information and in view of the forthcoming changes under the Government's resource review. Whilst different scenarios may be modelled in due course, in terms of sensitivity a 1% change in Government support from 2013/14 onwards amounts to over £115K or a little under a 1.3% change in council tax.

3.2 RESERVES AND BALANCES

3.2.1 The Council's Section 151 Officer has advised that balances should be maintained at £1M for General Fund and £350K for the Housing Revenue Account; the Council accepts this advice and this is taken account of in future financial strategy.

3.2.2 As at 31 March 2012, the Council's General Fund balances are estimated to be just over £2M, which is budgeted to reduce to just under £1.7M in the next year following a further transfer to the Invest to Save Reserve.

3.2.3 The Council has a formal policy setting out its position in terms of provisions, reserves and balances. This is a key element for managing risk; helping to protect the Council's financial standing as well as supporting its medium term financial planning.

3.3 CAPITAL INVESTMENT AND FINANCING

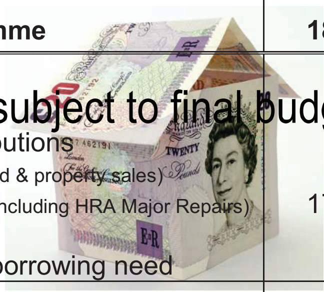
3.3.1 The Council's current asset base is summarised below, based on its Balance Sheet. As at the end of last financial year the Council held land and other property of £252M, against which it had £42M borrowing outstanding. The majority of assets held are integral to providing services and supporting delivery of the Council's objectives, however, and this means that most assets cannot readily be sold.

Summary Consolidated Balance Sheet	**31 March 2010 £'000 (Restated)**	**31 March 2011 £'000**
Intangible Assets	306	233
Tangible Fixed Assets:		
Property, Plant and Equipment	263,806	224,721
Investment Property	19,827	26,913
Assets Held for Sale	0	452
Total Capital Asset Base	**283,939**	**252,319**

3.3.2 A key task within the Council's Property Strategy is to keep the authority's property portfolio under regular review to ensure that its capital base remains fit for purpose, and that any major associated risks or opportunities are identified and managed as appropriate. In turn these are reflected in either the Council's capital investment priorities, or its capital receipts forecasts.

3.3.3 Accordingly, over the next five years, the Council's capital investment and its assuming financing is summarised as follows:

	Council Housing £'000	General Fund £'000	Total £'000
Total Gross Capital Programme	**18,758**	**10,554**	**29,312**
Financed by:			
External Grants and Contributions	0	4,865	4,865
Capital Receipts (from other land & property sales)	442	9,352	9,794
Direct Revenue Financing (including HRA Major Repairs)	17,966	734	18,700
Use of Reserves	350		350
Net Increase in underlying borrowing need	0	(4,397)	(4,397)
Total Financing	**18,758**	**10,554**	**29,312**



3.3.4 It can be seen that the Council Housing programme is heavily reliant on using revenue financing to support its capital programme. In terms of the General Fund, funding is mainly split between external monies, capital receipts and an underlying need to borrow. This position is still heavily dependent upon the receipt for land at South Lancaster which is profiled to be received in 2012/13.

4.0 LINKS WITH COUNCIL PRIORITIES

4.1 The MTFS must both support and inform the Council's Vision for the District and strategic direction as set out in the Corporate Plan, to match available resources to the following agreed priorities and any other supporting needs. The following table provides a simple breakdown of the General Fund revenue budget and all capital budgets (including council housing) broadly analysed over the council's priorities.

PRIORITY / KEY OBJECTIVE (To be updated after Budget Council)	ANNUAL REVENUE BUDGET £000	5 YEAR CAPITAL PROGRAMME £000
Economic Growth		
Health and Wellbeing		
Clean, Green and Safe Places		
Community Leadership		
TOTAL PLANNED INVESTMENT		

(The above analysis will be updated once draft priorities are confirmed.)

4.2 Given the nature of the Council's priorities, it is inevitable that spending will not be evenly spread. As an example, community leadership does not typically involve significant capital investment. The Council's role in pursuing its priorities is also changing, linked to changes in funding and partnership opportunities.

4.3 For capital investment, there is a need to be more specific in terms of priorities. In particular, much investment relates to property used corporately across the full range of Council activities. For this reason, the following supplementary priorities have been adopted to direct investment over the next five years, subject to annual review:

- Withdrawing from Lancaster Indoor Market
- Delivering the Council's Economic Vision as set out in the Economic Regeneration Strategy.
- Delivering improvements for the Public Realm.
- Delivering schemes that support the Council's focus on energy efficiency and income generation.
- Progressing the priorities within the Council's Housing Strategy and in particular, in meeting the current 'Lancaster' Standard in the provision of Council Housing, in line with the 30-Year Business Plan.
- Refurbishment/replacement of existing property or facilities required to deliver existing service levels, or to achieve key performance targets as set out in the Corporate Plan or Corporate Property Strategy, or to meet other legislative requirements.
- New (or the expansion of existing) facilities, where they link clearly with the Corporate Plan and they are either :
  - at least self financing (both in revenue and capital terms) or
  - invest to save proposals that require some up front capital investment but would generate cashable ongoing revenue savings. As a general guide, payback should be achievable in the medium term, up to 5 years, but longer payback periods may be considered should circumstances warrant it (taking account of the Prudential Code – see later).

5.0 TARGETS AND CONSTRAINTS

5.1 COUNCIL TAX

5.1.1 Lancaster City Council believes that council tax should give good value for local taxpayers. In setting its tax rates, the council should also have regard to:

- anticipated levels of pay and price inflation
- Government funding levels
- Government targets for Council Tax
- the ability to meet minimum statutory requirements
- its Vision for the district.

5.1.2 The Council aims to keep Council Tax increases to no more than 3.5% for 2013/14 and 2014/15. These targets apply to the basic City Council tax rate across the district, excluding parish precepts.

5.1.3 As a consequence, the following table sets out the key financial targets that the Council will strive to work within for the next three years.

Target (To be updated)	**2012/13**	**2013/14**	**2014/15**
Budget Requirement	£20.190M	£20.247M	£20.560M
Council Tax Increase (maximum)	0%	3.5%	3.5%
Year on Year Net Savings Requirement (assumes recurring savings achieved)	-	£322K	£30K
Cumulative Net Savings Requirement	-	£322K	£352K

5.1.4 The net savings targets would need to be increased for any additional growth that may be required in future, or for any further net increases in the base budget, or if council tax targets reduce below 3.5%. Clearly the savings targets are indicative and will continue to be monitored and reviewed as referred to later in this Strategy.

5.2 REVENUE BUDGET LIMITS

5.2.1 Council ultimately approves the budget forecasts for future years and any associated use of balances. Cabinet members and officers must then work within this framework, unless any flexibility is agreed by Council. The budget, after any use or contributions from balances, is known as either the Net Revenue Budget or the Budget Requirement.

5.2.2 For the next three years, current figures are as follows:

(To be updated)

Year	**Basic Budget Limit £'000**	**Forecast Contribution from Balances £'000**	**Forecast Net Revenue Budget £'000**
2012/13	20,517	326	20,191
2013/14	20,569	0	20,569
2014/15	20,912	0	20,912

5.2.3 Cabinet has no flexibility to increase net spending over the amounts shown above, or to increase the contributions from balances, or to take on new spending commitments for subsequent years. Any flexibility within these overall financial constraints is set out within the council's Financial Regulations.

5.3 CAPITAL: UNDERLYING BORROWING NEED (ALSO KNOWN AS CAPITAL FINANCING REQUIREMENT OR CFR)

5.3.1 To support affordable, sustainable and prudent capital investment, and taking into account the latest revenue budget and council tax projections, previous years' interim increases in the CFR and the Council's expected future investment needs, the Council's basic underlying borrowing need will reduce by £4.397M over the next five years.

5.3.2 The practice will continue by which the Head of Financial Services, will, under delegated authority and in consultation with relevant Service Heads, assess the most appropriate means of financing for the acquisition of new vehicles and equipment (as budgeted). This may give rise to further increases in underlying borrowing need.

5.3.3 Further increases to the CFR may be considered, but only in context of the Prudential Code requirements and the following:

- providing funding to help the withdrawal from Lancaster Indoor Market. Council approval would be required in view of the likely amounts involved;

- providing interim funding for progressing commitments or essential works in the 2012/13 approved Capital Programme, prior to other reasonably expected sources of funding (e.g. capital receipts) becoming available. Cabinet / Council approval will be required to progress any non-essential works in these circumstances;

- robust, achievable revenue savings being identified or income being generated, which reasonably exceed the ongoing (whole life) costs associated with a new capital proposal and meet any other payback requirements. This scenario would require further specific Cabinet / Council approval as required;

- no underlying borrowing requirement being assumed for any private sector or council housing investment at present. This will be subject to review during 2012/13 and will be presented for consideration by both Cabinet and Council given the likely amounts involved.

5.3.4 Whether or not any of these underlying borrowing needs will give rise to actual additional long-term borrowing or, alternatively, be financed by utilising the Council's cash balances, is a decision that will be made within the framework of the council's Treasury Management Strategy.

5.4 REVENUE FINANCING FOR CAPITAL INVESTMENT

5.4.1 Substantial general budgetary provision for direct revenue financing will be made within the Housing Revenue Account (HRA) for council housing purposes, in line with approved budgets and forecasts to support the Business Plan. No general provisions will be built into the General Fund revenue budget, though additional revenue financing relating to specific schemes may be considered in appropriate circumstances, e.g. Invest to Save and other energy efficiency works, or to finance specific growth needs.

5.4.2 Revenue financing from reserves will be based on existing earmarked reserve levels (or projections), as long as capital investment proposals match with the approved use of those reserves.

5.5 Capital Receipts

5.5.1 Over the next five years, usable capital receipts totalling £9.8M are anticipated, of which approximately £9.4M relates to General Fund property disposals, with the remainder relating to council housing. The controls regarding their use are set out below:

- Council housing capital receipts may be used either to support capital investment in council housing stock and supporting assets, or to reduce HRA capital financing costs. The use of any additional receipts arising will be considered in context of the review of housing finance following the implementation of self financing.

- For General Fund, all of the budgeted £9.4M capital receipts will be used to support the capital programme and reduce the need for unsupported borrowing. Any additional capital receipts generated will not normally be ring-fenced or reinvested into particular areas, as this can undermine the prioritisation of investment needs, but there are exceptions to this:

    - Capital receipts arising from the West End Housing Schemes will be ring-fenced to meeting associated costs and liabilities arising, subject to appropriate Cabinet approval.

- The application of any additional General Fund capital receipts arising will only be considered once sufficient anticipated receipts have been received to finance existing programmes and achieve the planned reductions in the Council's underlying borrowing need. They will not be used to support new spending or commitments.

5.6 External Grants and Contributions

5.6.1 The Council anticipates that external sources of finance will continue to be scarce. Nonetheless, it will continue to pursue funding opportunities where:

- they fit clearly with the Council's Vision and capital investment priorities;
- the funding makes provision for extra capacity to support the workload involved, should it be required; and
- pursuing such opportunities requires no extra financial support over and above that already provided for within approved budgets, or included in budget proposals supported by Cabinet, or alternatively, the funding opportunity may reasonably result in the Council avoiding future costs or liabilities.

5.6.2 Should potential funding opportunities arise for provision of services, these will be considered as part of the budget and planning process wherever possible.

5.6.3 The use of any general, non-specific grants will also be considered as part of the budget process, should timescales permit, to allow appraisal in light of overall spending needs and priorities.

6.0 THE BUDGET PROCESS

6.1 This is an annual process, which is part of the Council's corporate planning and policy-making arrangements. It integrates any agreed policy changes and priorities with inflation and other financial adjustments, to arrive at a set of detailed budgets for the year ahead within the targets as set out (for Council Tax, as an example).

6.2 Through the review process, elected Members determine the allocation of resources across services and Corporate Plan priorities. In conjunction with the Head of Financial Services, Management Team is responsible for the more detailed aspects of budget preparation including bringing forward project proposals and service provision options to assist elected Members' deliberations.

6.3 The approved annual budget is therefore a resource plan that, as far as possible, matches inputs (e.g. staff, premises, equipment) to planned outputs and objectives, and gives authority to spend. It provides a basis for monitoring and accountability.

6.4 The Council will review its timetable for the 2013/14 budget during the summer of 2012. Notwithstanding this revision, there are certain key dates which must be adhered to in budget setting. These are determined by Government, either through funding announcements or legislative requirements.

6.5 Ultimately, the Council must set a budget (or council tax requirement) and the council tax before 11 March each year. The Council's financial year runs from 01 April to 31 March. Generally the budget process looks at a three year time span for revenue and a five year time span for capital, but as the year moves on, attention will become more focussed on the detailed budget for the next financial year.

6.6 BUDGET PREPARATION

6.6.1 The Council has taken an incremental approach to budget-setting for 2012/13 and for future years' forecasts underpinning this Strategy. Broadly speaking, this means that the current year's budget provides the starting point for next year's. It is based on the assumption that unless any specific decisions are taken to determine otherwise, services and activities will continue at the same level, from one year to the next. This does not preclude efficiency or innovation being sought in service delivery, however. Indeed efficiencies are the first priority for achieving budget savings and this is reflected later.

6.6.2 The initial "baseline" assessment of the cost of service provision is referred to as the base budget. In the course of the planning process, the base budget for each service area is updated to include:

- an allowance for the estimated level of pay and price inflation from one year to the next;

- adjustments to reflect the transfer of functions in the Council, changes in activity / demand levels for services where appropriate or general cost reductions, as examples;

- any previously approved changes to policy or strategy, for example a reduction in budget to reflect withdrawal of services or an increase to fund a new initiative or the impact of new legislation.

6.6.3 As part of the subsequent reviews of this Strategy, consideration may be given to other budgeting approaches such as zero-based budgeting, as an example.

6.7 GOVERNMENT FUNDING

6.7.1 Government funding directly influences the match between service provision and Council Tax levels, and so is a critical factor in the budget process; around 58% of the Council's revenue funding is received directly from Government. The results of the latest Comprehensive Spending Review (CSR) were announced in October 2010 and this set out significant reductions in public spending plans for the next 4 years. However, the Local Government Settlement only covered 2 years – redistribution of business rates under the Resource Review is planned for 2013/14 - and therefore this leaves some uncertainty over funding levels from that year onwards. There has also been a marked reduction in the number of specific or ring-fenced grant funding streams and whilst this has, overall, resulted in reduced funding, it does also reduce the associated administrative burdens.

6.7.2 Estimates of expected general revenue support, as well as any remaining ring-fenced specific grants and associated costs, will be revised during the planning and budget setting process.

6.8 BALANCING THE REVENUE BUDGET: SAVINGS AND GROWTH OPTIONS

6.8.1 Typically there is the need to address a funding gap between spending aspirations and the resources available and, consequently, savings must be achieved. There is also the need to accommodate any required growth in services, other legislative changes and the costs of financing and implementing major projects. This can require a significant realignment of resources. The council will achieve this through the following means.

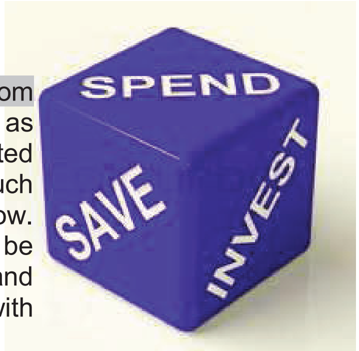
a. Efficiency Savings:
These are regarded as a priority over other forms of making savings in Council expenditure. Given the forecast need to make ongoing reductions to the budget, the Council will focus on 'cashable' efficiency savings predominantly, rather than those that seek to enhance service standards for the same cost. Efficiency savings may arise in the following ways:

- **Shared Service Programme**
  An important element of achieving efficiencies (either to improve service delivery or make cashable savings) is the Council's programme for collaborative or joint working with other local authorities or public sector organisations. The Council will continue with this programme, to achieve

better value for money for the community across the public sector as a whole.

- **Re-engineering and Re-structuring of Services**
  The council will continue to use "business process re-engineering" tools and techniques to ensure services are delivered within minimum cost and maximum outputs. These together with other shared service developments will change the Council's workforce over time. These changes are identified in the HR Strategy and associated reductions may involve upfront costs.

b. Invest to Save Initiatives:
The Council is committed to withdrawing from Lancaster Indoor Market operation as well as reducing its energy costs and/or generating related income. Priority will be given to progressing such proposals during 2012/13, should resources allow. Other options for achieving further savings will be considered in light of any remaining resources and the Council's priorities; these may cross over with other efficiency proposals.



c. Income Generation
As part of either its overall charging policy or various specific service reviews, the Council will identify potential options for increasing income generation (and potentially reducing the subsidy for services).

d. Service Reductions
Notwithstanding the drive for efficiency, savings may be needed through reducing the level or range of services provided to meet future financial targets. The Council will consider options for:

- reducing statutory service standards, where these are provided at above minimum standards;
- reducing or withdrawing discretionary services and activities, informed by the council's current priorities and any proposed future changes, as well as any provision made by other organisations and partners.

e. Growth
The scope for supporting growth may be limited and therefore any future growth need will only be considered if it meets any of the following conditions:
- it is needed to meet statutory service standards;
- it is essential to meet a key objective proposed within the Council's Plan, for which there are no alternative providers or sources of funding available; and it is considered affordable and sustainable in the medium to long term.

6.9 **BALANCING THE CAPITAL PROGRAMME: REQUIREMENTS OF THE PRUDENTIAL CODE**

6.9.1 The Prudential Code for Capital Finance in Local Authorities was introduced to support councils in planning for capital investment at a local level. The key objectives of the code are to ensure, within a clear framework, that:

- the capital investment plans of local authorities are affordable, prudent and sustainable;

- treasury management decisions are taken in accordance with sound professional practice; and
- local strategic planning, asset management planning and proper options appraisal are supported.

6.9.2 The ultimate aim is to help ensure value for money from capital investment. Also, it reinforces openness and accountability in the decision-making surrounding capital spending.

6.9.3 Details of the Council's Prudential Indicators as required under the relevant code are set out at ***Annex A*** and the Treasury Strategy for next year sets out the framework for managing the Council's associated debt.

6.10 **OPTIONS APPRAISAL**

6.10.1 The appraisal of key budget options will incorporate an appropriate impact assessment and consider the workforce, property and any other resource implications, as well as the timescales for implementation and impact on partnerships. It is recognised that major change programmes cannot all be agreed and delivered at the same time and this will be reflected within the Council's planning arrangements.

6.10.2 Options for capital investment and their financing will also be appraised as part of the budget process, in line with priorities as set out earlier and to meet the requirements of the Prudential Code. It is imperative that the investment of capital resources contributes clearly to the achievement of the authority's objectives and supporting activities, and that such investment represents real value for money for people in the district.

6.10.3 Given that resources are scarce, the planning and budget process enables the authority to consider and appraise, at a higher level, alternative capital financing levels or strategies and their impact on the Council's revenue budget and medium term financial planning, or the 30-year Business Plan for council housing.

6.10.4 The annual planning and budget exercise also underpins the development of a detailed five year rolling Capital Programme, ensuring that this is informed by the outcome of all relevant reviews and development plans. In particular, corporate property requirements are identified through the Council's asset management arrangements as set out in the Council's Property Strategy, ICT requirements are similarly identified and assessed.

6.10.5 The authority also requires potential key capital projects to undergo a rigorous project appraisal, using a standard framework to ensure that they are appraised consistently and are deliverable. Wherever possible, this will be undertaken prior to Members considering scheme proposals.

6.10.6 Essentially, budget development and options appraisal is an iterative process, particularly between Cabinet and Council.

6.11 **DECISION-MAKING**

6.11.1 In recent years the Council, through its Cabinet, has moved towards taking budget-related decisions on savings proposals during the year, rather than keeping all options open until Budget Council in late February/early March.

6.11.2 As the Council still needs to make savings in future, and, in any event, it makes sense to implement any true efficiency measures as soon as possible to give better value for money, this practice of taking decisions on efficiency proposals throughout the year will continue, rather than leaving all such options for consideration as part of the budget process.

6.11.3 For Invest to Save initiatives, once the future of Lancaster Indoor Market is resolved any further proposals will be appraised and determined simultaneously, as far as possible. Another round of proposals may be considered if funding permits.

6.11.4 For income generation and service reduction proposals, decisions will be taken throughout the year where operationally it makes sense to do so. In other scenarios, decisions may be taken in principle, subject to the budget process (i.e. Budget Council). In any event, decision-makers will be clear about the nature and status of their decisions.

6.11.5 Regarding growth, unless there is an unavoidable Council or corporate need, all growth options will be considered as part of the budget process (at Budget Council).

6.11.6 Ultimately, the General Fund Revenue Budget, the Council Tax Requirement, the Capital Programme and its financing, together with Council Tax levels, will be approved by Council at the Budget meeting to be held in late February / early March. Generally the Housing Revenue Account Budget and Council Housing Programme will be approved at the meeting earlier in February, to give adequate time for any rent variation notices to be issued, although this could change in future.

6.12 **MANAGING FINANCIAL AND OTHER RISKS**

6.12.1 During the annual budget process, the main assumptions underpinning the process are identified, assessed and reported to members, together with the main financial risks facing the council. This is an important element of the council's risk management arrangements, and major issues will influence the scope and timing of the monitoring and review processes outlined.

7.0 MONITORING AND REVIEW

7.1 The Council needs to ensure that its financial planning takes adequate account of the many changes or other issues that inevitably arise during the course of a year, including risk considerations. The Council's approach to financial management forms a key element of the performance management framework which is detailed in the Corporate Plan. Financial monitoring will be done in a variety of ways:

- Any potential impact generally from the Council's corporate financial monitoring arrangements will be considered, together with the impact of the previous year's outturn. This will also include a review of the national economic outlook and other key assumptions and risks underpinning the budget. Corporate financial monitoring reports will be produced and reported quarterly.

- A financial impact assessment of any key decisions will be undertaken, including any proposed major policy changes. (It should also be noted that similar impact assessments will also take place for HR, IT and Property issues).

7.2 Major changes in policy or service delivery that are implemented over a number of years on a phased basis will have budgetary impact spread over a corresponding period. These will be incorporated into this Strategy as appropriate, once they have been evaluated and approved.

7.3 As detailed, the outcome of the monitoring and review arrangements will be brought together to avoid a piecemeal approach to reviewing the Strategy. This may necessitate changes to the MTFS framework and the key financial targets contained within it. Any changes will ultimately be reported twice yearly (once during autumn 2012 and once as part of the 2013/14 budget process) for referral on to Council for approval, together with the rationale behind such changes.

8.0 GOVERNANCE

8.1 **Members -** The current Portfolio Holder for finance is Councillor Abbott Bryning.

Cabinet is responsible for formulating and recommending proposals and updates to Council.

Full Council is responsible for approving the MTFS and any updates; this is on the basis that it forms part of the council's overall Policy and Budget Framework.

Overview and Scrutiny Committee may commission or undertake work or on related issues as part of its Work Programme or take other measures (such as the call-in of decisions) as set out the Constitution.

8.2 **Officers** - The Head of Financial Services (as Section 151 Officer) is responsible for leading the development of the MTFS, the annual budgeting process to ensure financial balance, and the financial monitoring arrangements to ensure delivery. She is also responsible for ensuring the MTFS reflects any joint planning with partners and other stakeholders. All Management Team actively contributes to this process.

Other detailed officer responsibilities and key controls are set out in the council's Financial Regulations and Procedures. Nothing within this Strategy overrides the responsibilities or requirements placed on individuals or services as set out in the Financial Regulations.

9.0 PUBLIC ACCESS TO INFORMATION

9.1 As a publicly funded organisation, the Council is committed to being as open and transparent as possible on how it spends tax-payers' money. The Government requires councils to be so; this is mainly to improve public scrutiny and accountability, but such openness also helps to gain a wider understanding of the many financial pressures and challenges that the organisation faces. The Council demonstrates this openness through various means:

The Annual Budget
Information is published each year in two main documents:

- the budget/Council Tax leaflet, which is distributed to local tax payers along with the Council Tax bills each spring;
- the budget book, which is distributed in various forms to Council officers and members, with a summary version available on the website.

Spending in Year
Each month, on its website, the Council provides information on payments made to suppliers for goods and services, where the value is over £500. Its formal financial monitoring reports are also available through the website.

Outturn and other annual reports
After the year end, the Council reports on its actual financial performance. Information is included in the Council magazine, and more formally reported through the audited Statement of Accounts. In addition, the Council publishes information on specific aspects such as senior officer pay and its pay policy.

9.2 As well as informing the public and other stakeholders, the Council uses the results and feedback from this information to inform its financial planning and strategy going forward.

9.3 All information is available through the Council's website or alternatively, queries can be sent to finance@lancaster.gov.uk .

CABINET

Treasury Management Framework 2012/13
14 February 2012

Report of Head of Financial Services

PURPOSE OF REPORT					
This report sets out the 2012/13 Treasury Management framework for Cabinet's approval and referral on to Council.					
Key Decision	✓	**Non-Key Decision**		**Referral**	
Date Included in Forward Plan	May 2011				
This report is public.					

RECOMMENDATIONS OF COUNCILLOR BRYNING:

1. **That Council be recommended to approve the Treasury Management Framework as reflected in Appendices B to D, and as updated for Cabinet's final budget proposals.**

1 **INTRODUCTION**

1.1 The CIPFA Code of Practice on Treasury Management ("the Code") requires that a strategy outlining the expected treasury activity for the forthcoming 3 years be adopted, but that it be reviewed at least annually. It needs to cover various forecasts and activities.

1.2 To give context, the Quarter 3 monitoring report for the current year is included at ***Appendix A*** for information.

2 **TREASURY MANAGEMENT FRAMEWORK**

2.1 The proposed Strategy for 2012/13 to 2014/15 is set out at ***Appendix B*** for Cabinet's consideration. This document contains the necessary details to comply with both the Code and Government investment guidance. Responsibilities for treasury management are set out at ***Appendix C*** and the updated policy statement is presented at ***Appendix D***.

2.2 Key elements and assumptions feeding into the proposals are outlined below. These take account of Cabinet's existing budget proposals. Should there be any changes to the budget, then the treasury framework would need to be updated accordingly before being referred on to Council.

2.3 **Borrowing Aspects of the Strategy**

2.3.1 Based on the draft budget, for now the physical borrowing position of the Council is projected to remain constant over the next three years for the General Fund capital programme, but additional borrowing of £31.2M will be needed to support the HRA self financing buy out.

2.3.2 This position is based on:

- land at south Lancaster being sold in 2012/13;
- no capital growth on schemes funded through prudential borrowing;
- significant amounts of cash being returned from Icelandic bank investments;
- the withdrawal of Lancaster Indoor Market being managed within projected cash resources, or any borrowing need being considered later by Council.

2.3.3 The above points represent major assumptions and depending on their outcome, the debt strategy may need to be varied greatly. If so, Member approval would be sought where appropriate.

2.4 **Investment Aspects of the Strategy**

2.4.1 2011/12 has been dominated by a sovereign debt crisis, which has had a negative impact on the Euro zone as well as the UK economy including widespread downgrading of banks. This means that there is no strong argument for relaxation of the measures taken post Iceland as counterparty strength is still a major risk. There is the need, however, to ensure sufficient flexibility in managing investments without undermining security, and to ensure that risk appetite is appropriate.

2.4.2 Accordingly, the main changes to investment limits for 2012/13 onwards are:

- an increase to the proposed investment limits with the County Council. This will include retaining the option of placing fixed term deposits for up to 1 year with the County, where liquidity will allow. This will enhance yields without exposing the Council to institutions whose counterparty strength could change materially over a 12 month period, such as with banks.

- a move away from banks that had access to the Government's 'guarantee' scheme, but are not part-nationalised UK institutions.

2.4.3 Overall, the strategy put forward follows on from 2011/12 in that it is based on the Council having a low risk appetite with focus on high quality deposits, and with the potential for a core of cash to be placed fixed term with the County Council to enhance yield, as long as this fits with cash flow needs.

2.4.4 There is a cost linked to a low risk strategy as instant access accounts with good quality counterparties have relatively low yields. Markets are starting to offer significantly improved rates for longer term deposits with rates of 1.87% for a 12 month deposit (as at 30 January). This is in comparison to 0.62% being the average return for the Council's balances overall. To illustrate, placing a £6M deposit for 1 year would have a marginal yield of £75K above that for the Council 'average' investment.

2.4.5 Having said that, many of the instant access investments are linked to the bank rate and so a low risk, high liquidity strategy will still benefit from an increase in interest rates. It is judged unlikely, however, that rates will move in the near term and so the County Council facility, where the Council can place a fixed term deposit at a market rate without the risk of such market volatility, is an attractive option.

2.5 It is stressed in terms of treasury activity, there is no risk free approach. It is felt though that the measures set out above provide a sound framework within which to work over the coming year.

3 **CONSULTATION**

3.1 Officers have liaised with Sector, the Council's Treasury Advisors, in developing the proposed framework. It will be considered by Budget and Performance Panel at its meeting on 21 February 2012.

4 **OPTIONS AND OPTIONS ANALYSIS**

4.1 Cabinet may put forward alternative proposals or amendments to the proposed Strategy in Appendix B, but these would have to be considered in light of legislative, professional and economic factors, and importantly, any alternative views regarding the Council's risk appetite. As such, no further options analysis is available at this time.

4.2 Furthermore, the Strategy must fit with other aspects of Cabinet's budget proposals, such as investment interest estimates and underlying prudential borrowing assumptions, feeding into Prudential and Treasury Management Indicators.

5 **OFFICER PREFERRED OPTION AND JUSTIFICATION**

5.1 To approve the framework as attached, for referral on to Council. This is based on the Council continuing to have a low risk appetite regarding investments.

RELATIONSHIP TO POLICY FRAMEWORK
This report seeks minor changes to the Council's Treasury Management Policy, and fits with the development of the Medium Term Financial Strategy.

CONCLUSION OF IMPACT ASSESSMENT
(including Diversity, Human Rights, Community Safety, Sustainability etc)
No direct implications arising.

FINANCIAL IMPLICATIONS
The Strategy is in support of achieving the borrowing cost and investment interest estimates included in the draft budget.

SECTION 151 OFFICER'S COMMENTS
This report and its content forms part of the S151 Officer's responsibilities.

LEGAL IMPLICATIONS
Legal Services have been consulted and have no observations to make regarding this report as there are no implications directly arising.

MONITORING OFFICER'S COMMENTS
The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS Treasury Management in the Public Services. CIPFA Code of Practice and Cross-sector Guidance Notes (2011)	**Contact Officer: Nadine Muschamp** **Telephone:01524 582117** **E-mail:nmuschamp@lancaster.gov.uk**

ANNEX A

Treasury Management Glossary of Terms

- **Annuity** – method of repaying a loan where the payment amount remains uniform throughout the life of the loan, therefore the split varies such that the proportion of the payment relating to the principal increases as the amount of interest decreases.

- **CIPFA** – the Chartered Institute of Public Finance and Accountancy, is the professional body for accountants working in Local Government and other public sector organisations, also the standard setting organisation for Local Government Finance.

- **Call account** – instant access deposit account.

- **Counterparty** – an institution (e.g. a bank) with whom a borrowing or investment transaction is made.

- **Credit Rating** – is an opinion on the credit-worthiness of an institution, based on judgements about the future status of that institution. It is based on any information available regarding the institution: published results, Shareholders' reports, reports from trading partners, and also an analysis of the environment in which the institution operates (e.g. its home economy, and its market sector). The main rating agencies are Fitch, Standard and Poor's, and Moody's. They analyse credit worthiness under four headings:
  Short Term Rating – the perceived ability of the organisation to meet its obligations in the short term, this will be based on measures of liquidity.
  Long Term Rating – the ability of the organisation to repay its debts in the long term, based on opinions regarding future stability, e.g. its exposure to 'risky' markets.
  Individual/Financial Strength Rating – a measure of an institution's soundness on a stand-alone basis based on its structure, past performance and credit profile.
  Legal Support Rating – a view of the likelihood, in the case of a financial institution failing, that its obligations would be met, in whole or part, by its shareholders, central bank, or national government.

  The rating agencies constantly monitor information received regarding financial institutions, and will amend the credit ratings assigned as necessary.

- **DMADF and the DMO –** The DMADF is the 'Debt Management Account Deposit Facility'; this is highly secure fixed term deposit account with the Debt Management Office (DMO), part of Her Majesty's Treasury.

- **EIP –** Equal Instalments of Principal, a type of loan where each payment includes an equal amount in respect of loan principal, therefore the interest due with each payment reduces as the principal is eroded, and so the total amount reduces with each instalment.

- **Gilts** – the name given to bonds issued by the U K Government. Gilts are issued bearing interest at a specified rate, however they are then traded on the markets like shares and their value rises or falls accordingly. The Yield on a gilt is the interest paid divided by the Market Value of that gilt.

Eg. a 30 year gilt is issued in 1994 at £1, bearing interest of 8%. In 1999 the market value of the gilt is £1.45. The yield on that gilt is calculated as 8%/1.45 = 5.5%.
See also PWLB.

- **LIBID** – The London Inter-Bank Bid Rate, the rate which banks would have to bid to borrow funds from other banks for a given period. The official rate is published by the Bank of England at 11am each day based on trades up to that time.

- **LIBOR** – The London Inter-Bank Offer Rate, the rate at which banks with surplus funds are offering to lend them to other banks, again published at 11am each day.

- **Liquidity** – Relates to the amount of readily available or short term investment money which can be used for either day to day or unforeseen expenses. For example Call Accounts allow instant daily access to invested funds.

- **Maturity** – Type of loan where only payments of interest are made during the life of the loan, with the total amount of principal falling due at the end of the loan period.

- **Money Market Fund (MMF)** – Type of investment where the Council purchases a share of a cash fund that makes short term deposits with a broad range of high quality counterparties. These are highly regulated in terms of average length of deposit and counterparty quality, to ensure AAA rated status.

- **Policy and Strategy Documents** – documents required by the CIPFA Code of Practice on Treasury Management in Local Authorities. These set out the framework for treasury management operations during the year.

- **Public Works Loans Board (PWLB)** – a central government agency providing long and short term loans to Local Authorities. Rates are set daily at a margin over the Gilt yield (see Gilts above). Loans may be taken at fixed or variable rates and as Annuity, Maturity, or EIP loans (see separate definitions) over periods of up to fifty years. Financing is also available from the money markets, however because of its nature the PWLB is generally able to offer better terms.

- **Sector** – Sector are the City Council's Treasury Management advisors. They provide advice on borrowing strategy, investment strategy, and vetting of investment counterparties, in addition to ad hoc guidance throughout the year.

- **Yield** – see Gilts

Members may also wish to make reference to *The Councillor's Guide to Local Government Finance.*

Annex B

INVESTMENT INTEREST EARNED TO 31st December 2011

Icelandic investments	No	Start	End	Rate %	Principal £	Cumulative Interest* £
Deposited 2007/08						
Landsbanki Islands	004	31-Mar-08	22-Apr-09	6.25	1,000,000	27,722
Glitnir	FI02/023	31-Mar-08	22-Apr-09	5.76	3,000,000	85,699
Deposited 2008/09						
Kaupthing, Singer & Friedlander	06/07-I29	16-May-08	07-Oct-08	6.00	740,000	20,472
Sub total					4,740,000.00	133,893
Budgeted income (£100K pro rated)						125,822

Other Investments	opening	Min	Max	closing	Indicative rate	Cumulative Interest £
Call: Santander	2,470,000	1,800,000	6,000,000	3,000,000	0.75%	23,698
Call: Yorkshire bank	460,000	0	3,000,000	0	0.50%	2,800
Call: RBS	2,700,000	2,700,000	3,000,000	3,000,000	0.70%	14,961
Call: Barclays	0	0	6,000,000	3,000,000	0.65%	6,064
Call: Lancashire County Council	0	0	6,000,000	6,000,000	0.70%	3,533
DMADF	0	0	3,000,000	0	0.25%	267
Government Liquidity MMF	2,980,000	0	4,650,000	600,000	0.39%	8,763
Liquidity First MMF.	6,000,000	4,050,000	6,000,000	6,000,000	0.65%	29,982
Sub-total	14,610,000			21,600,000		90,068
Budgeted income (£105K pro rated)						79,411

TOTAL Interest	**223,961**
Variance (+ive = favourable)	**18,728**

* Under 2009 accounting guidance, interest continues to be accrued whilst Icelandic investments are on the Council's balance sheet. To counter this, however, the provisions made to cover any losses take account of this accrued interest, as well as the principal sums (i.e. the £4.84M) invested.
As at the end of Qtr 3 2011/12 £1,260K of principal had been repaid by KSF, representing 63% of the original deposit.

Appendix A

2011/12 Treasury Management Progress Report to 31 December 2011

Report of Head of Financial Services

1. Introduction

This report is in line with the reporting requirements of the CIPFA Code of Practice on Treasury Management, which is a technical area. To assist with its understanding, a glossary of terms commonly used in Treasury Management is attached at ***Annex A***. In addition, the Councillor's Guide to Local Government Finance also has a section on treasury and cash management and this is available through the Member Information section on the Intranet.

2. Summary

- There has been limited further information from the Icelandic banks since the positive news in the last quarter. Further information is awaited regarding repayment dates and amounts.

- On other treasury matters there have been no changes to the debt portfolio. No temporary borrowing was required during the quarter and no new long term debt has been taken on.

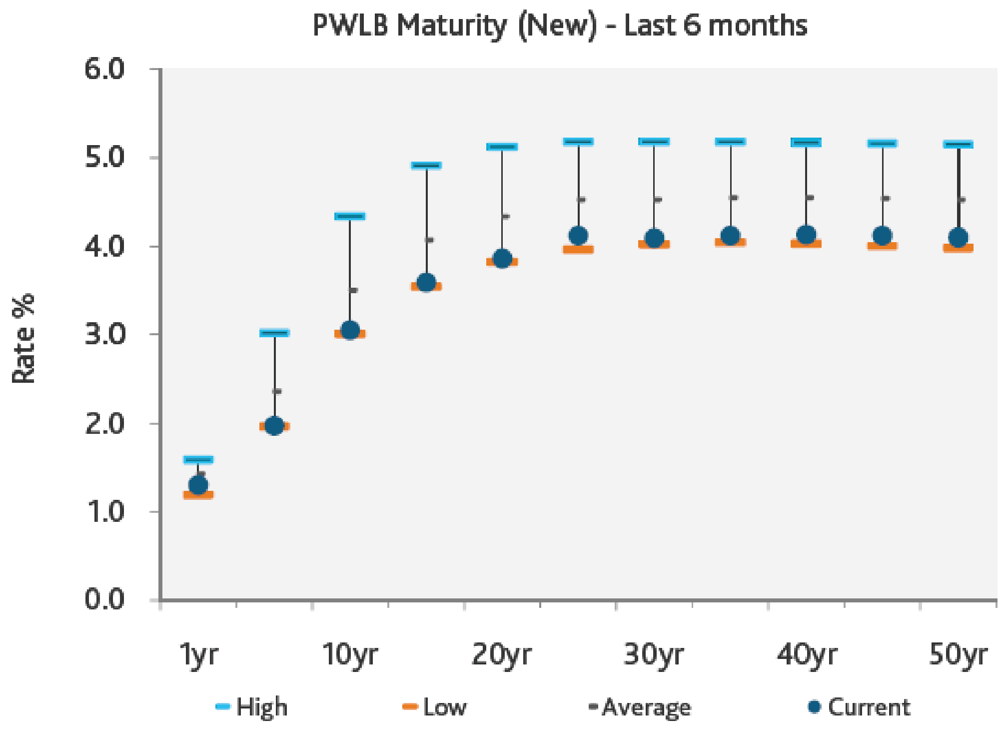
- There have been no material breaches of any prudential indicators or counterparty limits in the quarter and no other major risks have been identified.

3. Icelandic Investments Update

Since the good news reported at quarter 2 about the Council's Icelandic investments, little further information has been received. The Council awaits something concrete in terms of repayment plans from Glitnir and Landsbanki although material receipts are anticipated before the end of the financial year.

4. Current Borrowing Rates.

The following graph shows that the pattern seen since January 2009 has persisted, with a marked spread between short term and long term borrowing. Further, rates remain at their depressed levels even compared to the range seen over the last 6 months and have been on a downward trend, fuelled by the Eurozone crisis.



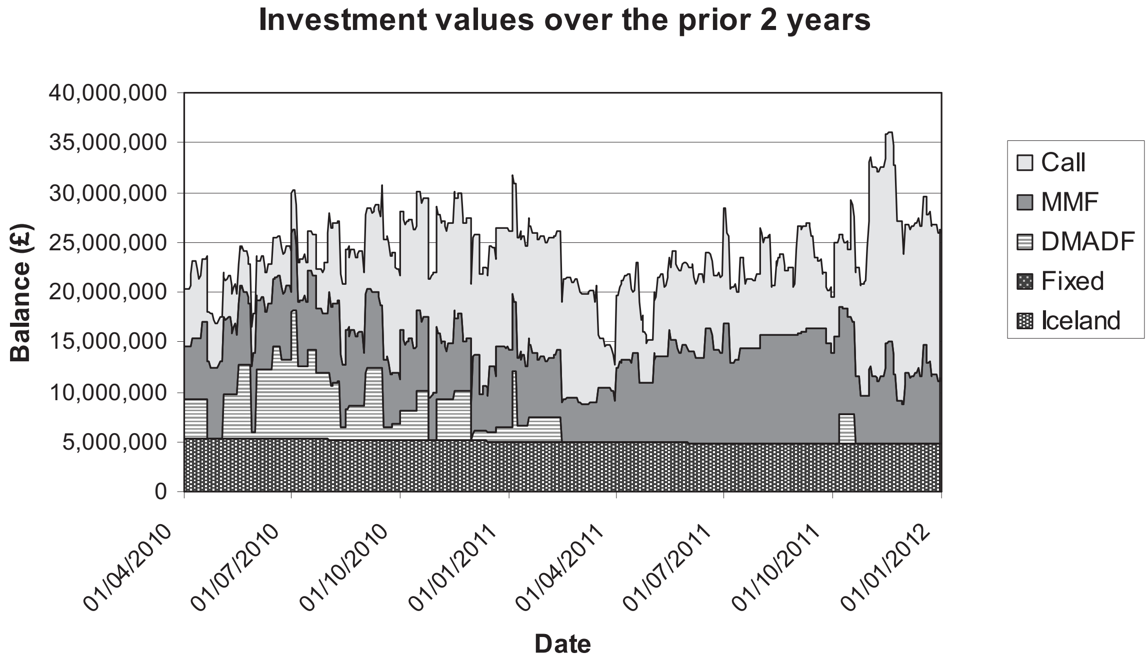
Extract from Sector weekly debt monitor 16/1/2012

This is good for the Council as it faces taking on new borrowing before the end of the financial year, in relation to the HRA subsidy buy out. The projections from Sector are that these rates will rise before the self financing buy out but will still remain relatively low. The spread of rates also means that structuring the maturity profile rather than relying on long term maturity loans would be beneficial in terms of interest cost, although it would commit the Council to either repayment or re-financing sooner than if long term loans were used.

5. Investing Activities

As laid down in the approved Investment Strategy, the aim is to prioritise security and liquidity of the Council's investments. This is to ensure that the Council has sufficient cash to support its business, but also to minimise any further chance of a counterparty failing and the Council not being able to remove its deposits, as happened with the Icelandic banks.

All investment activity has been in line with the approved Treasury Strategy for 2011/12. No fixed term investments have been placed; surplus cash has been managed on a day to day basis using the call accounts and Money Market Funds (MMF). A full list of the investments at the end of Quarter 3 is enclosed at ***Annex B***.



In addition, the Council has opened a call account with Barclays which came into use during the quarter. Although this does not pay as high a rate as some other Call offerings, it is judged to be more secure and would form part of the 'specified' investments unlike the other call accounts that are included on the investment list, partly on the basis of their access to Government support. In addition, the Council has started placing deposits with the County Council again, following a review of the facility.

The quarter has been another turbulent one in terms of counterparty security. Barclays limit was reduced from £6M to £3M, Santander dropped from £6M to £3M and Yorkshire bank has been removed from the list having previously had a limit of £3M. The lending list is now very limited and focuses on a small number of high quality counterparties. In terms of spreading risk, the Council has two money market funds which indirectly diversify the portfolio. In addition, the use of the County Call account has increased the pool of quality counterparties and the 2012/13 investment strategy will look at ways of increasing the use of this facility. (Note that in Quarter 4, no funds are now placed with Santander.)

6. Summary of Budget Position and Performance

In terms of performance against external benchmarks, the return on investments compared to the 7 day LIBID and bank rates over the year to date is as follows:

Base Rate	0.50%
7 day LIBID	0.61%
Lancaster CC investments	0.62%

The return is just above base but matches the 7 day LIBID. The Council has focused on secure and highly liquid deposits that have mainly been on instant access, hence the relatively poor rate of return in absolute terms, however, for the type of investment the Council is making, it is achieving a reasonable rate.

In terms of performance against budget, the details are as follows:

Annual budget (revised)	£268K	
Actual to date	£90K	(see details in ***Annex B)***
“Icelandic” to date	£134K	(see details in ***Annex B)***
Total	£224K	
Variance	£19K	favourable against evenly profiled budget

There is a £19K favourable variance which is jointly due to the real cash income and the impact of Icelandic investments. The cash budget is expected to fall back over the last quarter as balances reduce down towards year end. This is because Council Tax and NNDR are generally collected over the first 10 periods.

7. Risk management

There has been no material change in the policy or operation of the treasury function over the quarter, in recognition of the considerable uncertainty that exists within the economy and financial sector. The view is, therefore, that residual risk exposure for investment remains comparatively low.

There is now no option to borrow early from the PWLB for HRA self-financing, as all loans must be agreed on 26 March 2012 for payment to authorities on the 28 March 2012. Officers have been liaising with the PWLB to ensure the logistics for agreeing loans are in place.

Finally, as per the previous quarterly updates, recovery of Icelandic investments is still being managed with legal support organised through the Local Government Association.

APPENDIX B1

Definitions of Specified and Non Specified Investments

See the detailed Investment Strategy included in ***Appendix B***, for the limits to be applied.

1. Specified Investments are defined as follows.

SPECIFIED INVESTMENTS

These are to be sterling investments of a maturity period of not more than 364 days, or those which could be for a longer period but where the Council has the right to be repaid within 364 days if it wishes. These are low risk assets where the possibility of loss of principal or investment income is considered negligible. These include investments with:

(i) The UK Government (such as the Debt Management Office, UK Treasury Bills or a Gilt with less than one year to maturity).

(ii Supranational bonds of less than one year's duration.

(iii) A local authority, parish council or community council.

(iv) An investment scheme that has been awarded a high credit rating by a credit rating agency.

(v) A body with high credit quality (such as a bank or building society).

For category (iv) this covers a money market fund AAA rated by Standard and Poor's, Moody's or Fitch rating agencies.

2. Non-specified Investments are defined as follows:

Non-specified investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments are set out below. Non specified investments not explicitly referred to below are excluded.

Ref	Non Specified Investment Category	Limit
(i)	A body which has been provided with a government issued guarantee for wholesale deposits within specific timeframes. Where these guarantees are in place and the government has an AAA sovereign long term rating these institutions will be included within the Council's criteria temporarily until such time as the ratings improve or the guarantees are withdrawn. Monies will only be deposited within the timeframe of the guarantee.	Included as per table 3
(ii)	Lloyds Bank and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised.	Included as per table 3
(iii)	The Council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	Included as per table 3

APPENDIX B2

Background information on credit ratings

Credit ratings are an important part of the Authority's investment strategy. The information below summarises some of the key features of credit ratings and why they are important.

What is a Credit Rating ?

A credit rating is:
- An independent assessment of an organisation;
- It gauges the likelihood of getting money back on the terms it was invested;
- It is a statement of opinion, not statement of fact;
- They help to measure the risk associated with investing with a counterparty;

Who Provides / Uses Credit Ratings?

There are three main ratings agencies, all of which are used in the Authority's treasury strategy.
- Fitch
- Moody's Investor Services
- Standard & Poors

The ratings supplied by these agencies are used by a broad range of institutions to help with investment decisions, these include:

- Local Authorities;
- Other non-financial institutional investors;
- Financial institutions;
- Regulators;
- Central Banks;

Rating Criteria

There are many different types of rating supplied by the agencies. The key ones used by the Authority are ratings to indicate the likelihood of getting money back on terms invested. These can be split into two main categories:

- 'Short Term' ratings for time horizons of 12 months or less. These may be considered as the most important for local authorities.

- 'Long Term' ratings for time horizons of over 12 months. These may be considered as less important in the current climate.

In addition, the agencies issue sovereign, individual and support ratings which will also feed into the investment strategy.

Rating Scales (Fitch, Moody's and Standard & Poors)

The table below shows how some of the higher graded short and long term ratings compare across the agencies; the top line represents the highest grade possible. (There are other ratings that go much lower than those shown below, and ratings for other elements.)

Short Term			**Long Term**		
Fitch	Moody's	S&P	Fitch	Moody's	S&P
F1+	P-1	A-1+	AAA	Aaa	AAA
F1	P-1	A-1	AA	Aa2	AA
F2	P-2	A-2	A	A2	A

Appendix B

Treasury Management Strategy 2012/13 to 2014/15

Draft for Consideration by Cabinet 14 February 2012

Introduction

1. The treasury management function is an important part of the overall financial management of the Council's affairs. Its importance has increased as a result of the freedoms provided by the Prudential Code. Whilst the prudential indicators consider the affordability and impact of capital expenditure decisions, the treasury function covers the effective funding of these decisions. There are also specific treasury indicators included in this strategy that need approval.
2. The Council's activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management, revised 2011: the "Code"). This Council originally adopted the Code on 13 February 2002, and has adopted any updates as these have come into force.
3. The Code requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. A further report is produced after the year-end to report on actual activity for the year as well as a mid year monitoring report. Quarterly reports will continue to be presented to Cabinet with the Quarter 2 report being forwarded on to full Council.
4. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury function.
5. This strategy therefore covers:
   - the current treasury position;
   - expected movement in interest rates;
   - the Council's borrowing and debt strategy (including its policy on making provision for the repayment of debt);
   - the Council's Investment Strategy;
   - specific limits on treasury activities;
   - treasury management indicators; and
   - specific sections on training and the use of consultants.

   This strategy document contains the relevant information to comply with both the Code and the Investment Guidance issued by Government. The sections that specifically satisfy requirements of the Investment Guidance are: specified and non specified investments (32-40 and ***Appendix B1***), credit risk assessment (32-45), use of investment consultants (51-52), training (53), borrowing in advance of need (23) and length of deposits (table 3).

Treasury Position

6. The forecast treasury position and the expected movement in debt and investment levels over the next three years are as follows.

Table 1: Gross external debt and investment forecast

	2012/13 £'000	2013/14 £'000	2014/15 £'000
External Debt			
Borrowing			
Existing	39,215	39,215	39,215
Additional HRA borrowing	31,241	31,241	31,241
Other long term liabilities	225	225	225
Finance lease liability	2,514	2,282	2,127
Total External Debt at 31 March	**73,195**	**72,963**	**72,808**
Investments			
Total investment 31 March	**14,930**	**13,990**	**14,920**
Projected average investment balances	**26,770**	**26,460**	**26,430**

7. The current capital programme assumes a reduction of £4.4M (during the 5 years 2012/13 to 2016/17) against the 'underlying need to borrow' for capital expenditure to reverse prudential funding from prior years. This is reliant on the sale of land at South Lancaster, receipt of which is assumed in the balances above. These balances may appear high but there are factors which are very likely to reduce these materially, as follows.

8. No amounts have been included for potential capital expenditure on Lancaster Indoor Market. Whatever the decision, this is likely to reduce materially the cash balances in Table 1 above. The figures also assume that the Municipal Building works budgets are reasonable estimates; should the new condition survey find additional liabilities in terms of backlog repair works, the cash figure could be reduced further. In addition, should any decision be made about significant spend on housing projects or any other capital growth items, these figures would be further reduced (see 13 – 18 below). As such, the core cash balance at the end of 2012/13 could well be more in the region of £3.5M rather than £15M.

9. Opportunities to net down the cash balances through early repayment of loans will be reviewed during the year as these factors, and therefore the likely cash balances, become clearer.

10. The revenue consequences of the balances in Table 1, namely investment income and borrowing costs, are included within the overall revenue budget. These do not currently take account of the major uncertainties outlined in paragraph 8 and so any option appraisals on these schemes will need to include their full impact on the revenue budget.

11. Although the Council holds both investment balances and long term borrowings, this is not a result of borrowing in advance of need or to on-lend. The Council's external borrowings provide the cash to help pay for a proportion of the Council's accumulated, prudentially funded, capital spend (the Capital Financing Requirement - CFR). Separate to this, the Council is required to hold a certain amount of balances, provisions and other items to ensure that resources are available when needed; these are generally cash backed. Flexibility is allowed on utilising these cash funds in lieu of borrowing, which the Council is doing in part.

Capital programme scenarios

12. The position above assumes that following the Housing Revenue Account (HRA) financing in 2011/12, there will be no pressure to physically borrow to support the capital programme over the next three years and that over the life of the current programme (including the anticipated out-turn on 2011/12) Council will be able to reverse £1.99M of

previously incurred, prudentially funded, capital expenditure. This is in line with the targets agreed by Council in the prior year.

13. There are however a number of material variables which could alter this position, the main one being Lancaster Market. Whatever proposals are taken forward on the Market, this is likely to incur prudentially funded capital expenditure in the £millions. Work is currently ongoing to investigate the various options and fully worked up proposals are to be brought back before Members in due course. These proposals are focussed on reducing the ongoing revenue deficit and so although may incur high up front cash demands, should eventually generate material savings.

14. Further, following the withdrawal of external funding for housing schemes in the West End of Morecambe, if these are to progress Council funding will be required. These proposals would not be expected to generate net savings and so need to be within the framework of a balanced revenue budget that can accommodate the growth.

15. Previous years have included Luneside East as a significant variable. It is hoped, however, that there will be no further Council budget requirement on this scheme.

16. In addition, Icelandic bank investments have also cast a shadow over previous strategies. Following the successful outcome of the court case, the Council has secured preferential creditor status and now expects to get the vast majority of its investments back. This means that the impact of these investments on the capital programme has been neutralised in 2011/12 and will have no ongoing impact in capital terms. Depending on the timing of payments from the claims, these will still impact on the treasury position overall; the estimated repayment dates have been included in the projected cash flows over the 3 years 2012/13 to 2014/15.

17. There is still a risk around the large capital receipt for sale of land at South Lancaster. However, this is judged to be more a risk over timing rather than whether it will actually be received or not. The capital budget and associated revenue costs now assume receipt in 2012/13.

Expected Movement in Interest Rates

Table 2: Medium-Term Rate Estimates (averages)

Annual Average %	Bank Rate	Money Rates		PWLB Borrowing Rates		
		3 month	1 year	5 year	25 year	50 year
March 2012	0.50	0.70	1.50	2.30	4.20	4.30
June 2012	0.50	0.70	1.50	2.30	4.20	4.30
Sept 2012	0.50	0.70	1.50	2.30	4.30	4.40
Dec2012	0.50	0.70	1.60	2.40	4.30	4.40
March 2013	0.50	0.75	1.70	2.50	4.40	4.50
June 2013	0.50	0.80	1.80	2.60	4.50	4.60
Sept 2013	0.75	0.90	1.90	2.70	4.60	4.70
Dec 2013	1.00	1.20	2.20	2.80	4.70	4.80
March 2014	1.25	1.40	2.40	2.90	4.80	4.90
June 2014	1.50	1.60	2.60	3.10	4.90	5.00

Information provided by Sector December 2011.

18. Growth in the UK economy is expected to be weak in the next two years and there is a risk of a technical recession (i.e. two quarters of negative growth). Bank Rate, currently 0.5%, underpins investment returns and is not expected to start increasing until quarter 3 of 2013 despite inflation currently being well above the Monetary Policy Committee inflation target. Hopes for an export led recovery appear likely to be disappointed due to the Eurozone sovereign debt crisis depressing growth in the UK's biggest export market. The

Comprehensive Spending Review, which seeks to reduce the UK's annual fiscal deficit, may also depress growth during the next few years.

19. Fixed interest borrowing rates are based on UK gilt yields. The outlook for borrowing rates is currently much more difficult to predict. The UK total national debt is forecast to continue rising until 2015/16; the consequent increase in gilt issuance is therefore expected to be reflected in an increase in gilt yields over this period. However, gilt yields are currently at historically low levels due to investor concerns over Eurozone sovereign debt and have been subject to exceptionally high levels of volatility as events in the Eurozone debt crisis have evolved.

20. This challenging and uncertain economic outlook has several key treasury mangement implications:

- The Eurozone sovereign debt difficulties, most evident in Greece, provide a clear indication of much higher counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2012/13;
- Borrowing interest rates are currently attractive, but may remain low for some time. The timing of any borrowing will need to be monitored carefully;
- There will remain a cost of capital – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

Borrowing and Debt Strategy 2012/13 to 2014/15

21. The continued uncertainty over future interest rates increases the risks associated with treasury activity. As a result there is no strong argument for a significant relaxation of the Council's treasury strategy. As outlined in the scenarios section above, there are also a number of other factors outside of the Council's direct control, which could have a significant impact on its need to borrow. As these issues are clarified, the options around borrowing will be considered in relation to the longer term prospects of rate rises.

22. The Head of Financial Services, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, if need be, taking into account the risks shown in the forecast above. It is likely that shorter term fixed rates may provide lower cost opportunities in the short to medium term.

23. Borrowing will only be taken on once a liability has been established although the timing of the borrowing may precede the point at which the liability actually falls due for payment. This would only be done to secure a preferential position for the Council, for example to benefit from lower interest rates. Following discussion with the Council's treasury advisors, the Treasury Indicator for Gross and Net debt has not been included as this is currently under revision by CIPFA.

24. With the likelihood of rates increasing, any debt restructuring is likely to focus on switching from longer term fixed rates to cheaper shorter term debt, although the Head of Financial Services and treasury consultants will monitor prevailing rates for any opportunities during the year. The benefit of this will be balanced against the risks attached to the more frequent refinancing that would be required.

25. The option of postponing borrowing and running down investment balances will also be considered; this would have the added benefit of further reducing counterparty risk and also could improve the revenue situation with the cost of loans currently far outweighing the return on investments, as already mentioned above. However, this will only be done once the cash needs of the Council have been clarified (see paragraph 8 above).

HRA borrowing

26. In relation to the HRA subsidy buy out, the Council will need to have the cash settlement amount of £31.2M available by the 28 March 2012. The PWLB are providing loans at interest rates 0.85% lower than the usual PWLB interest rates solely for the settlement requirements. As per the cash projections above, due to the uncertainty over material elements of capital expenditure for the Council as a whole it is judged that the full amount will need to be borrowed, rather than underborrowing to reduce cash balances and interest charges. The exact structure of debt to be drawn down will be finalised by the Head of Financial Services, ensuring that it meets the requirements of the HRA business plan and the overall requirements of the Council.

27. CIPFA have issued guidance on the accounting policies for 'post HRA buy out' debt and how the cost of this could be shared between the General Fund (GF) and the HRA. The Council is now required to approve its approach to apportioning this debt between the HRA and GF in the absence of the prescribed method, previously issued in the annual HRA item 8 determination. It is currently proposed to use a '1 pool' approach as this is judged to promote decision making that is good for the authority as a whole whilst satisfying the principles set down in the CIPFA Code (section 10), namely:

    - There should be no detriment to the General Fund.
    - The apportionment should be broadly equitable.
    - Future charges to the HRA in relation to borrowing are not influenced by the General Fund.
    - Un-invested balance sheet resources which allow borrowing to be below the CFR are properly identified between the HRA and the General Fund.

28. However, as the actual apportionment will not be made until the closure of the 2012/13 accounts, this will be subject to review once the settlement has physically happened and the overall impact on the authority is clearer.

Provision for the Repayment of Debt 2012/13 to 2014/15

29. New arrangements for calculating the Minimum Revenue Provision (MRP) were introduced from 01 April 2008 with refinements added in guidance published by Government in March 2010.

30. In line with this guidance, for 2012/13 the Council's policy for the making of provision for the repayment of debt will be as follows:

    - For all relevant capital expenditure prior to 01 April 2008, with the exception of that in respect of motor vehicles (i.e. less than 15 years life), by the application of the former prescribed formula *(i.e. for General Fund, 4% of the non-housing related Capital Financing Requirement at the start of the year)*.
    - For capital expenditure on motor vehicles prior to 01 April 2008, and for all supported or unsupported capital expenditure on or after that date, equal annual amounts based on the estimated life of each individual asset so financed, as is consistent with the revised Minimum Revenue Provision guidance (DCLG MRP guidance, March 2010, method 3).
    - For finance leases the annuity method will be used to ensure the total charges in year remain constant (MRP plus interest cost) and match what would otherwise be an annual revenue cost. This is also to be applied retrospectively to any operating leases subsequently re-classified as finance leases.

31. Although it is not mandatory to make a set aside for repayment of HRA debt, repayment of borrowing is considered an important part of the HRA debt strategy and so resources will be set aside annually to repay the new HRA debt over the 30 year business plan, but this aspect of the strategy is also subject to review during 2012/13.

Investment Strategy 2012/13 to 2014/15

32. The primary objective of the Council's investment strategy is to safeguard the re-payment of the principal and interest of its investments, with ensuring adequate liquidity being the second objective, and achieving investment returns being the third.

33. The types of investment allowable are categorised as either Specified and Non Specified investments. Details of these are set out in ***Appendix B1***.

34. Following the economic background described above, the current investment climate has one over-riding risk consideration, that of counterparty security risk. The Head of Financial Services will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. The use of these criteria provides an overall pool of counterparties that are considered as high quality and that may be chosen for investment, subject to other considerations.

35. The rating criteria use the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside of the lending criteria. This complies with a CIPFA Treasury Management Panel recommendation in March 2009 and the Code.

36. Credit rating information is supplied by the Council's treasury consultants (Sector) on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria will be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. More information on credit ratings is included in ***Appendix B2***.

37. The criteria for providing a pool of high credit quality investment counterparties (for both specified and non-specified investments) are:

Banks 1 - Good Credit Quality

The Council will only use banks that:

a) are UK banks; or
b) are non-UK but are domiciled in an EU country with a long term sovereignty rating of AAA,

and have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated, as is consistent with the middle limit as per table 3):

i. **Short Term:** F1/P-1/A-1
ii. **Long Term:** A/A2/A
iii. **Individual Viability / Financial Strength:** bb+/C (Fitch / Moody's only)
iv. **Support:** 3 (Fitch only)

Banks 2 – Part nationalised UK banks

Lloyds Bank and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or if they meet the ratings in Banks 1 above. Investment limits will be subject to the short and long term rating limits in table 3 below.

Banks 3 – The Council's own Banker

The bank may be used for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.

Building Societies – all Societies that meet the ratings for banks outlined above.

Money Market Funds – AAA-rated sterling funds with constant unit value.

UK Government – Debt Management Account Deposit Facility (DMADF)

Local Authorities (including Police and Fire Authorities), Parish Councils

Supranational institutions (e.g. European Central Bank)

38. Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part the country selection will be chosen by the credit rating of the Sovereign state in *Banks 1* above. In addition:

- no more than 25% will be placed with any one non-UK country at any time;
- limits in place above will apply to Group companies (eg Natwest and RBS count as a single counterparty);
- sector limits will be monitored.

39. The Code and Investment Guidance require the Council to supplement credit rating information. Whilst the Council's strategy relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (e.g. credit default swaps, equity price, media coverage) will be reviewed prior to investments being placed.

40. For the above categories of Specified and Non Specified Investments, and in accordance with the Code, the Council has developed additional criteria to set the maximum amounts that may be invested in these bodies. The criteria, using the lowest common denominator approach are set out below.

Table 3: Counterparty Criteria and Investment Limits

	Minimum across all three ratings			Money Limit[8]	Time Limiit[9]
	Fitch	Moody's	Standard & Poors		
Upper Limit[1]	F1+/AA-	P-1/AA3	A-1+/AA-	£6M	Instant access only
				£3M	100 days
Middle Limit[2]	F1/A	P-1/A2	A-1/A	£3M	Instant access only
Other Institutions[3]	N/A	N/A	N/A	£6M	1 Year
Lancashire County[4]	N/A	N/A	N/A	£12M	1 Year
Money Market Funds[5]	AAA	AAA	AAA	£6M	Instant Access Only
DMADF deposit[6]	N/A	N/A	N/A	No limit	1 Year
Sovereign rating to apply to all non UK counterparties[7]	AAA	AAA	AAA	N/A	N/A

Notes:

1 & 2: The Upper and Middle Limits apply to appropriately rated banks and building societies.
3: The Other Institutions limit applies to other local authorities and supranational institutions (i.e. ECB).
4: This recognises the special status of Lancashire County Council as the City Council's upper tier authority.
5: Sterling, constant net asset value funds only.
6: The DMADF facility is direct with the UK government; it is extremely low risk.
7: UK counterparties are defined as those listed under UK banks or building societies in the Sector counterparty listing.
8: Money limits apply to principal invested and do not include accrued interest.
9: Time Limits start on the trade date for the investment.

41. In the normal course of the Authority's cash flow operations it is expected that both specified and non-specified Investments will be utilised for the control of liquidity as both categories allow for short term investments. The Council will maintain a minimum £2M of investments in Specified Investments provided that the cashflow allows for this. In addition, although the Council will consider using non specified investments (as described in ***Appendix B1***), these should not exceed 50% of the portfolio at any one time. The limits applied will be consistent with the short and long term ratings in table 3 above.

42. The use of longer term instruments (greater than one year from trade date to maturity) and forward deals will not be used.

43. Expectations on shorter-term interest rates, on which investment decisions are based, show a low likelihood of the current 0.5% Bank Rate increasing over the next 12 months but with the possibility of a moderate rise in 2013/14.

44. There is some operational difficulty arising from the legacy of the banking crisis; although there is some value returning to longer term investment, credit risk remains within the market. Whilst some selective options do provide additional yield, uncertainty over counterparty creditworthiness indicates that shorter dated investments still provide better security. However, in line with limits in table 3, fixed term investing is judged to be acceptable for certain institutions or where certain credit rating limits are met.

45. Members are asked to approve the base criteria above, however, the Head of Financial Services may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval.

Risk benchmarking

46. A further development in terms of managing risk is the use of benchmarks. Yield benchmarks are currently widely used to assess investment performance but there is little comparative data available to Members to assess where this strategy sits in comparison to other authorities in terms of the types of counterparty used and the lengths of deposit.

47. At present, the criteria set down in table 3 above and through the treasury management indicators below, limit activity in terms of length of deposit (liquidity) and in terms of strength of the counterparty (security). The current strategy follows on from the 2011/12 strategy in being low risk through, for example, restricting the amount and length of deposit in any one counterparty as well as requiring high liquidity on most large deposits. The use of information from other authorities might allow the officers to refine the investment strategy once it is clearer how other local districts are performing and the investment parameters they are using. Officers will work towards obtaining comparative information from other Districts over the course of 2012/13 with a view to presenting this information to Members in due course.

Treasury Management Indicators and Limits on Activity

48. There are four mandatory treasury management indicators. The purpose of these indicators is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. The full list of Prudential Indicators is included elsewhere on the agenda, but the treasury management indicators are as follows:

- Upper limits on fixed interest rate exposure – This indicator identifies a maximum limit for fixed interest rates based upon the debt position net of investments.
- Upper limits on variable interest rate exposure – Similar to the previous indicator, this covers a maximum limit on variable interest rates.

- Maturity structures of borrowing – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.
- Total principal funds invested for greater than 364 days – given the current economic climate the Authority is not willing to risk investing sums for fixed terms of greater than 1 year and so this is £0.

49. Council will also be requested to approve the treasury management indicators, as updated in line with final budget proposals, at its meeting on 29 February 2012.

Table 5: Treasury Management Indicators

	2012/13		**2013/14**		**2014/15**	
Interest Rate Exposures (TM 1 & 2)						
	Upper		**Upper**		**Upper**	
Limits on exposure to fixed interest rates	100%		100%		100%	
Limits on exposure to variable interest rates	30%		30%		30%	
Maturity Structure of fixed interest rate borrowing (TM 3)						
	Lower	**Upper**	**Lower**	**Upper**	**Lower**	**Upper**
Under 12 months	0%	50%	0%	50%	0%	50%
12 months to 2 years	0%	50%	0%	50%	0%	50%
2 years to 5 years	0%	50%	0%	50%	0%	50%
5 years to 10 years	0%	50%	0%	50%	0%	50%
10 years to 15 years	0%	100%	0%	100%	0%	100%
15 years to 25 years	0%	100%	0%	100%	0%	100%
25 years to 50 years	50%	100%	50%	100%	50%	100%
Actual current position (not including new HRA debt)						
Under 12 months	0%					
12 months to 2 years	0%					
2 years to 5 years	0%					
5 years to 10 years	0%					
10 years to 15 years	0%					
15 years to 25 years	0%					
25 years to 50 years	100%					
Maximum principal sums invested > 364 days (TM 4)						
Principal sums invested, in 2012/13, for periods of greater than 364 days, to mature after the end of each financial year	£0M		£0M		£0M	

Performance Indicators

50. The Code requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators that are predominantly forward looking. Examples of performance indicators to be used for the treasury function are:

- Debt – Average rate movement year on year
- Investments – Internal returns above the 7 day LIBID rate

The results of these indicators will be reported in the Treasury Annual Report and the mid-year report as required under the Code.

Treasury Management Advisers

51. The Council currently uses Sector as its treasury management consultants. The company provides a range of services that include:
    - technical support on treasury matters, capital finance issues and the drafting of Member reports;
    - economic and interest rate analysis;
    - debt services which includes advice on the timing of borrowing;
    - debt rescheduling advice surrounding the existing portfolio;
    - generic investment advice on interest rates, timing and investment instruments;
    - credit ratings/market information service comprising the three main credit rating agencies.
52. Whilst the advisers provide support to the internal treasury function, under current market rules and the Code the final decision on treasury matters remains with the Council. The service is subject to regular review.

Member and Officer Training

53. The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. This Council addresses this important issue by providing Member training in liaison with its treasury advisors and through ongoing training and supervision of officers involved the day to day operation of the treasury function.

APPENDIX C

TREASURY MANAGEMENT FRAMEWORK DOCUMENTS AND RESPONSIBILITIES

For Consideration by Cabinet 14 February 2012

DOCUMENT	RESPONSIBILITY
CODE of PRACTICE	To be adopted by Council (as updated 2011).
POLICY STATEMENT	The Code of Practice recommends a specific form of words to be used, to set out the Council's objectives within the Policy Statement for its Treasury Management activities. It is the responsibility of Council to approve this document, and then note it each year thereafter if unchanged. This reflects the revised code November 2011.
TREASURY MANAGEMENT STRATEGY	The Strategy document breaks down the Policy Statement into detailed activities and sets out the objectives and expected market forecasts for the coming year. This also contains all the elements of an Investment Strategy as set out in the Government guidance; it is the responsibility of Council to approve this document, following referral from Cabinet.
TREASURY MANAGEMENT INDICATORS	These are included within the Strategy Statement as part of the framework within which treasury activities will be undertaken. It is the responsibility of Council to approve these limits.
INVESTMENT STRATEGY	The Investment Strategy is included within the Treasury Management Strategy. It states which types of investments the Council may use for the prudent management of its treasury balances during the financial year. Under existing guidance the Secretary of State recommends that the Strategy should be approved by Council.
TREASURY MANAGEMENT PRACTICES	These are documents that set out the procedures that are in place for the Treasury Management function within the Council. The main principles were approved by Cabinet following initial adoption of the Code of Practice; they include: *TMP 1:* Risk management *TMP 2:* Performance measurement *TMP 3:* Decision-making and analysis *TMP 4:* Approved instruments, methods & techniques *TMP 5:* Organisation, clarity and segregation of responsibilities, and dealing arrangememts. *TMP 6:* Reporting requirements & management information requirements *TMP 7:* Budgeting, accounting & audit *TMP 8:* Cash & cash flow management *TMP 9:* Money laundering *TMP 10:* Staff training & qualifications *TMP 11:* Use of external service providers *TMP 12:* Corporate governance Any changes to the above principles will require Cabinet approval. It is the Head of Financial Service's responsibility to maintain detailed working documents and to ensure their compliance with the main principles. Quarterly treasury management reports will continue to be reported through to Members.

APPENDIX D

LANCASTER CITY COUNCIL

TREASURY MANAGEMENT POLICY STATEMENT

For noting by Cabinet 14 February 2012

This reflects the revised CIPFA Treasury Management Code of Practice (Code updated 2011, additions from the approved 2011/12 statement are in *italics*).

1. This organisation defines its treasury management activities as:

   "The management of the 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. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation *and any financial instruments entered into to manage these risks*.

3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.