LANCASTER CITY COUNCIL

Promoting City, Coast & Countryside

LATE REPORTS AND URGENT BUSINESS

Cabinet

Tuesday, 12 February 2013

Agenda Item Number	Page	Title	Report	Reason for urgency
3	1 - 3	ITEMS OF URGENT BUSINESS AUTHORISED BY THE LEADER	Publication of Exempt Report re Lunesdale East Regeneration Project	A decision is required prior to the next scheduled Cabinet meeting on 12 March 2013

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CABINET

Publication of 2010 Exempt Report re Luneside East Regeneration Project
12th February 2013

Report of the Monitoring Officer

PURPOSE OF REPORT					
To enable Cabinet to consider "unexempting" a Cabinet report of November 2010					
Key Decision		**Non-Key Decision**		**Referral from Officer**	**X**
Date of notice of forthcoming key decision	N/A				
This report is public					

RECOMMENDATIONS OF MONITORING OFFICER

(1) That the report to Cabinet on the 9th November 2010 regarding the Luneside East Regeneration Project, and relevant minute (Minute 73 of 2010/11) be no longer exempt.

(2) That in view of the need for Freedom of Information requests to be dealt with in a timely manner, it be noted that the Leader will be asked to consider amending the Scheme of Delegation to authorise the Head of Governance, as Monitoring Officer, to determine that exempt reports, minutes or background papers are no longer required to be treated as exempt.

1.0 Introduction

1.1 This report is submitted as an item of urgent business, as, in order to comply with the Freedom of Information Act 2000, a decision is required before the next meeting of Cabinet.

1.2 At its meeting in November 2010, Cabinet considered a report on options for progressing the Luneside East Regeneration Project. At the time, the report was exempt under paragraph 3 of Schedule 12A to the Local Government Act 1972 on the basis that it included information about the business affairs of third parties.

1.3 A freedom of information request has now been received in respect of the minute. The Monitoring Officer has considered the request, and in reviewing the report and minute, does not consider that any of the exemptions in the Freedom of Information Act 2000 apply. In particular, it cannot reasonably be argued that the disclosure of the information would or would be likely to, prejudice the commercial interests of any person (including the public authority holding it).

2.0 Proposal Details

2.1 When dealing with exempt information, and requests under the Freedom of Information Act 2000, it is inevitable that, over time, circumstances will change, and that information that may have been sensitive when a decision was being taken, may no longer be so after a period of time when events may have moved on.

2.2 That is the case with this particular report and minute. However, the Council's requirements with regard to confidential and exempt information currently provide that any information which has been treated by a member body as exempt shall remain so until the member body "lifts" the exemption. Accordingly, Cabinet is requested through this report to agree to "lift" the exemption in respect of the November 2010 Luneside East report and minute.

3.0 Details of Consultation

3.1 There has been consultation with Regeneration and Planning, as the Service that produced the 2010 report.

4.0 Options and Options Analysis (including risk assessment)

4.1 No options are presented, as the Monitoring Officer is of the view that the information in the report and minute does not now fall within an exemption under the Freedom of Information Act, and that a request for disclosure cannot reasonably be refused.

5.0 Conclusion

5.1 Cabinet is asked to formally "lift" the exemption, and to note that in order that similar future requests may be dealt with expeditiously, the Leader will be asked to consider amending the Scheme of Delegation to authorise the Head of Governance, as Monitoring Officer, to determine that exempt reports, minutes or background papers are no longer required to be treated as exempt.

RELATIONSHIP TO POLICY FRAMEWORK None directly arising from this report.
CONCLUSION OF IMPACT ASSESSMENT **(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, HR, Sustainability and Rural Proofing)** None directly arising from this report.
LEGAL IMPLICATIONS The Council has a statutory duty to comply with the Freedom of Information Act 2000, and may only refuse to disclose information if an exemption under the act applies at the time the request for disclosure is made.
FINANCIAL IMPLICATIONS There are no financial implications arising from this report.

OTHER RESOURCE IMPLICATIONS

Human Resources:

There are no HR implications arising from this report. However, if the information were not disclosed, staff resources would need to be directed to dealing with any subsequent appeal.

Information Services:

None

Property:

None

Open Spaces:

None

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has been consulted and has no further comments.

MONITORING OFFICER'S COMMENTS

The report has been prepared by the Monitoring Officer in her capacity as the officer responsible for ensuring that the Council complies with the law and the Constitution.

BACKGROUND PAPERS	**Contact Officer:** Mrs S Taylor **Telephone:** 01524 582025 **E-mail:** STaylor@lancaster.gov.uk **Ref:**
None	

CABINET

Budget and Policy Framework Update – General Fund Revenue Budget and Capital Programme 12 February 2013

Report of Head of Resources

PURPOSE OF REPORT					
To inform Cabinet of the latest position following Council's initial consideration of the Budget and Policy Framework, and to make recommendations back to Council in order to complete the budget setting process for 2013/14.					
Key Decision		**Non-Key Decision**		**Referral**	**X**
Date of notice of forthcoming key decision	21 December 2012				
This report is public.					

OFFICER RECOMMENDATIONS:

(1) That subject to confirmation of the Local Government Finance Settlement, the associated Local Referendum Thresholds and any budget amendments arising in the Cabinet meeting, Council be recommended to approve:

- **a General Fund Revenue Budget of £19.819M for 2013/14, resulting in a Council Tax Requirement of £7.274M excluding parish precepts;**
- **the budget proposals as summarised at Appendix A;**
- **the resulting policy on provisions and reserves as included at Appendix B; and**
- **the resulting Capital Programme as set out at Appendices C and D.**

(2) That should any minor changes arise as part of Government approving the Settlement, the Leader and Finance Portfolio Holder be given delegated authority to update the budget proposals accordingly.

(3) That the Leader and Finance Portfolio Holder be given delegated authority to update the Medium Term Financial Strategy based on the principles outlined in section 8 of this report, for referral on to Budget Council.

1 INTRODUCTION

1.1 Cabinet's initial proposals regarding the Budget and Policy Framework were considered at Budget and Performance Panel on 29 January and at Council on 06 February (minute 112 refers). No specific feedback was received from the Panel. The key points arising from Council are as follows:

– a 2% increase in the 2013/14 City Council tax rate was approved, together with target increases of 2% for subsequent years, all subject to local referendum thresholds.

– no other specific resolutions were made by Council, although it seems clear from the debate that Council may benefit from understanding more about the level of reserves held and how these fit with plans for addressing future years' expected budget shortfalls.

1.2 This report builds on these points and on other updated information, in order that final recommendations can be made to Budget Council on 27 February.

2 POLICY IMPLICATIONS

2.1 Cabinet has developed its budget proposals to reflect existing corporate priorities, with some redirection of resources proposed across various specific activities.

2.2 To ensure that the Council's plans and budgets are meaningful and deliverable, it is essential that they fit together. The fundamental difficulty is that at this point in time, it is known that there is a considerable gap between what the Council is currently planning to do and what it can afford in the medium term.

2.3 Work is underway on updating the Corporate Plan to reflect Cabinet's budget proposals, for consideration at a later meeting. This update will be an interim position, prior to establishing clear plans for changing corporate priorities and service provision to fit with what will be affordable.

2.4 Cabinet is requested to appreciate the above points in finalising its budget proposals.

3 LOCAL GOVERNMENT SETTLEMENT AND COUNCIL TAX THRESHOLDS

3.1 Government has now announced the final Settlement for 2013/14, which is substantially unchanged from the provisional position. Similarly, the local referendum threshold for next year remains at 2%.

3.2 Government has also confirmed the provisional Settlement for 2014/15, which still forecasts a funding reduction of almost £1.5M or 11% for that year, after allowing for estimated New Homes Bonus.

3.3 These matters have been laid before the House of Commons for approval and they are due to be considered on 13 February. It is envisaged that only minor adjustments could arise, and provision for dealing with this situation is reflected in the recommendations.

3.4 With regard to business rates retention, around £5M of the Council's future annual funding is attributed to business rates. Although more work is needed to understand fully the new system, it is known that the Council's 'safety net threshold' is forecast at around £4.6M; this may be viewed as the minimum level of income that the Council would retain, if business rate yields fell in the district. In very simple terms, therefore, the Council's risk exposure may be around £400K per year. This will be explored further in the coming months.

4 COLLECTION FUND POSITION

4.1 Legislation requires that an estimate of any surplus or deficit on the Collection Fund is made each year, with any such balance being shared with 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 payable, 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 2013 indicates that overall the Fund is in balance. This demonstrates continuing good practice, both in terms of collection rates and in terms of financial forecasting. For next year, the Fund will have the extra challenges of localised council tax support and second/empty homes' charging, so its monitoring will be more high profile.

5 2013/14 GENERAL FUND REVENUE BUDGET

5.1 In order to fit with a 2% increase in council tax rates and the final Settlement, the General Fund Revenue Budget must be set at £19.819M for 2012/14, 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***. Various fairly minor changes have been made but the key points to note are listed below:

- With regard to the Living Wage, at its meeting on 05 February Personnel Committee resolved:

  "That Cabinet be advised that Personnel Committee supported the principle of the living wage, but was concerned that it could adversely affect some employees' economic situation or cause budgetary difficulties for the council. The committee would support payment of the living wage to council employees if the additional costs be met from the current pay bill and suggested this be achieved by not replacing the outgoing Head of Community Engagement.

  That Cabinet be advised to recommend that the council does not become an accredited living wage employer."

  Although not yet finalised, it is known that the Community Engagement management restructure would generate sufficient savings to cover the Living Wage proposals and so this is reflected in the schedule.

- Some forthcoming staffing changes have generated the need to consider growth in relation to conservation capacity with Regeneration and Planning. The request is to increase conservation staffing resources from 2 to 2½ full-time posts, for up to three years. Detailed arrangements would be finalised in due course, subject to any growth being approved.

- For the Storey's gardens, provision has been made for some limited grounds maintenance but there is a need to increase this by £8K as a one-off in next year to cover essential tree works, which pose a threat structurally to the Garden's walls. Given their nature, this has been included in the base budget.

- Costings are being sought for lighting up the Ashton Memorial. Generally, Officer advice is still that recurring growth should be avoided wherever possible.

- The only other item of recurring growth relates to the corporate property portfolio, which is unavoidable. Nonetheless, a commitment is sought for reducing the financing burden over the 5-year period. This is outlined later.

5.3 If the budget proposals were taken forward as listed, then this would result in a contribution of £325K into Balances in next year.

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 £19.819M.

5.5 Setting the Revenue Budget at this level will result in a 2% increase in the basic City Council tax rate for the district, or 1.99% to be more accurate. The actual basic Band D City Council tax payable (excluding parish precepts) will be £196.08, which will raise income of £7.274M for City Council services.

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.

6.2 On reviewing the General Fund in comparative terms and considering the issues and assumptions outlined above, the Head of Resources (as Section 151 Officer) advises that the level of General Fund balances should 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.

6.3 After transferring in this year's forecast net underspending, balances would amount to around £2.6M by 31 March 2013. Should the outturn prove in line with this forecast, it would mean that the Council has increased flexibility to help manage its position.

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, as part of its financial strategy. Earmarked reserve levels are healthy.

– Although there is progress being made in the Council's long-standing key financial risk areas (e.g. Luneside East Lands Tribunal appeal and capital receipts generation), they have not yet been resolved fully.

– Newer risks now feature strongly, many of which relate to the very recent changes in local government finance. Business rates retention, localised council tax support, and increased council tax charging for empty/second homes all bring risk, and Lancaster Market headlease surrender is not yet resolved fully.

– The Authority has only recently received information on its very bleak medium term funding forecasts, and a plan of action to tackle the medium term budget deficit will take time to develop.

6.5 As a very simple measure, the inherent value of the risks referred to above by far exceeds the total of all General Fund reserves and balances. Whilst it is not the case that all these risks could fall due immediately, the information should help Members appreciate the need for holding Balances and reserves more generally. It is inappropriate to view simply the level of funds held, without considering the reasons as to why those funds might be needed.

6.6 It is appropriate to plan for the future though and as reported to January Cabinet, a sensible approach would be to:

- retain existing levels of reserves and Balances for now but with a firm commitment to establish, for autumn, clear plans for reducing net spending from 2014/15 onwards. The recent budget reviews would be used to inform such plans.

- To support delivery of those plans, a full reassessment of reserves and Balances would be completed to ensure that monies were allocated appropriately. The whole exercise would be reflected in the mid year review of the Corporate Plan and Medium Term Financial Strategy.

- This would mean that by late Autumn / early winter, the Council should be far clearer about how it will tackle its budget deficit and work could focus on ensuring implementation, rather than still being at the planning stage.

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 2017/18 is included at ***Appendix C*** for Cabinet's consideration. ***Appendix D*** includes some brief comments in relation to the schemes included from next year onwards.

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

- The programme has been updated to reflect planned vehicle acquisitions, the financing of which will be agreed under Officer delegated arrangements.

- Costings for the car parking improvement programme have been increased by £250K, to reflect far more realistic estimates for the works involved.

- Improvements of £115K for the Platform have been removed for now, as immediate requirements of £15K have been met from the Renewals Reserve. Any additional needs will be addressed during next year, as part of developing a full plan for the use of that Reserve.

- In terms of corporate property investment, the full £7.2M growth bid is provided for over the next five years. To help with affordability, this must be linked with a commitment that the primary aim of the forthcoming property review is to reduce this investment need through the rationalisation of property holdings, with any resulting capital receipts being applied accordingly, rather than being used to support other new investment. Discretionary investment will need to be minimised, wherever possible.

- Any developments in the Lancaster Market headlease position or in the recent Lancaster and Morecambe Bay (LAMB) funding bid will be included in the report to Budget Council, as appropriate.

- The budget proposals assume that Cabinet does not wish to take forward the request from Heysham Mossgate Company, which was considered as an exempt item back in July.

- Appendix D highlights those schemes that can only progress following a further Cabinet report, and those that are on hold generally until funding is in place and the need for capital investment is confirmed. This is advantageous, as it will give time for Cabinet to start developing its budget proposals for 2014/15 – and be clearer about whether any planned investment in discretionary facilities is still needed.

- In terms of the major capital receipt from the sale of land at south Lancaster, the application for a judicial review of the decision to grant Booths planning permission is being withdrawn. This means that there should be no remaining barriers to prevent the sale going ahead and it is therefore scheduled to take place during next year, at which point it would be applied to offset earlier increases in the Council's underlying borrowing requirement. Whilst this represents real progress, completion cannot yet be guaranteed.

7.3 The current year's Revised Programme now stands at £5.693M. It is estimated that there will be no capital receipts unapplied as at 31 March 2013.

7.4 For the 5-year period from 2013/14 onwards, the draft programme amounts to £18.411M, but Cabinet will see that it is balanced. This is because it assumes a £5.2M increase in the underlying need to borrow (known as the Capital Financing Requirement or CFR). The aim is to reduce this need, specifically through property rationalisation.

8 BUDGET PROSPECTS FOR FUTURE YEARS (2014/15 AND BEYOND)

8.1 Indicative revenue spending and council tax forecasts for 2014/15 and 2015/16 have been reported and updated on an ongoing basis during the budget process.

8.2 The Council aims to keep basic City Council tax increases at 2% 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	£19.819M	£18.348M	£17.768M
Council Tax Increase (subject to local referendum thresholds)	2%	2%	2%
Year on Year Net Savings Requirement (assumes recurring savings achieved)	-	£1,120K	1,222K
Cumulative Net Savings Requirement	-	£1,120K	£2,342K

8.3 The MTFS will be updated to reflect the above, as well Cabinet's full budget proposals. Delegated authority is sought to complete this task in order that the MTFS can be presented to Budget Council.

8.4 It is intended too that the MTFS would be updated for the following, unless Cabinet indicates otherwise:

- The approach for tackling the 2014/15 budget and reviewing reserves and balances will be incorporated, as set out in section 6.6 of this report.

- The approach for managing the capital financing position, the progression of capital schemes and the commitment to reduce the financing burden for property holdings will be included, as outlined in section 7.2. The associated Prudential Indicators will be attached.

- It will be stressed that because of existing arrangements - in that budget savings are made during the year whenever possible, rather than leaving them all to Budget Council - then the clear expectation should be that underspendings will arise in-year, for incorporation into the Revised Budget. This may help Members' understanding of the budget process.

8.5 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.

9 DETAILS OF CONSULTATION

9.1 This is outlined in section 1 of the report.

10 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

10.1 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.

Revenue Budget
As Council has now determined the City Council tax rate for 2013/14, there are no options to change the total net revenue budget for next year (recommended at £19.819M) but Cabinet now needs to put forward detailed budget proposals that add back to that amount. The Head of Resources (as s151 Officer) continues to advise that wherever possible, emphasis should be on reducing future years' net spending.

Capital Programme
Cabinet may adjust its capital investment and financing proposals to reflect spending commitments and priorities but overall its proposals for 2012/13 and 2013/14 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.

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 approaches for addressing the medium term budget deficit.

11 OFFICER PREFERRED OPTION AND COMMENTS

11.1 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.

12 CONCLUSION

12.1 This report outlines the actions required to complete the budget setting process for 2013/14 and put in place plans for tackling 2014/15 and beyond.

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. 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 proposed.

With regard to General Fund balances, £1M represents 5% of the net Revenue Budget (or 14% 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 services and activities, making provision for expected changes;
- reviewing the Council's MTFS, together with other corporate monitoring information produced during the year;
- undertaking a review of the Council's borrowing needs to support capital investment, in line with the Prudential Code.

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 increase in "prudential borrowing" over the period to 2017/18. This excludes any impact from the plans to surrender the Lancaster Market headlease, but the Prudential Indicators will make provision for these plans.

The Council is in a difficult position. It cannot avoid the need to improve the condition of its buildings, but the scale of that investment will require an increase in its borrowing need, even allowing for the planned sale of land at south Lancaster. The investment will be affordable only if the Council commits to tackling its medium term deficit and reducing future investment needs through rationalising property holdings. Furthermore, any discretionary capital investment will need to be minimised wherever possible, or financed through available reserves. Without these measures, the Council's capital investment and revenue spending plans will be unaffordable, unless there is a fundamental shift in future Government policy and public spending. Such a shift seems highly unlikely, based on information available at present.

LEGAL IMPLICATIONS

Legal Services have been consulted and have no further comments.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS **None.**	**Contact Officer: Nadine Muschamp** **Telephone: 01524 582117** **E-mail:nmuschamp@lancaster.gov.uk**

APPENDIX A

2013/14 GENERAL FUND BUDGET
Including Outline Savings and Growth Proposals
For Consideration by Cabinet 12 February 2013

	2012/13 Budget £000	2013/14 Budget £000	2014/15 Projection £000	2015/16 Projection £000
ORIGINAL REVENUE BUDGET AND PROJECTIONS (Council 29 Feb 2012)	**20,190**	**20,655**	**21,000**	
Based Budget changes reported to December Cabinet:	(981)	(459)	(723)	20,806
Base Budget changes reported to January Cabinet:	(178)	(625)	(711)	(701)
Additional Base Budget changes:				
As per Cabinet decisions taken on 22 January 2013	162	(13)	(13)	(13)
Additional Net Changes arising since then	0	27	5	(111)
Sub total	**19,193**			
Changes approved by Council on 06 February 2013:				
2012/13 Estimated Surplus to be transferred to Balances	997		0	0
LATEST BASE BUDGET PROJECTIONS	**20,190**	**19,585**	**19,559**	**19,982**
BUDGET PROPOSALS FOR CONSIDERATION (see overleaf)				
Provisional Savings Proposals		**(303)**	**(287)**	**(280)**
Provisional Growth Proposals		**213**	**197**	**408**
NET (SAVINGS) / GROWTH		**(91)**	**(90)**	**128**
RESULTING NET REVENUE BUDGET		**19,494**	**19,468**	**20,110**
Government Support (Including Council Tax Support)		12,545	10,918	10,179
Collection Fund Surplus		0	0	0
COUNCIL TAX REQUIREMENT		**6,950**	**8,550**	**9,931**
	Tax Base	*37,100*	*37,150*	*37,200*
Latest Council Tax projections based on above:				
Band D Basic City Council Tax	**£192.25**	**£187.33**	**£230.15**	**£266.97**
Percentage Increase Year on Year	**0.0%**	**-2.6%**	**22.9%**	**16.0%**

Council Tax Increase Scenarios

A - ASSUMING A 2% INCREASE IN COUNCIL TAX FOR 2013/14 ONWARDS	**2%**	**2%**	**2%**
Band D Basic City Council Tax	£196.08	£200.00	£204.00
	£000	**£000**	**£000**
SAVINGS REQUIREMENT / (PROVISIONAL SURPLUS)	**(325)**	**1,120**	**2,342**

Savings Proposals to be considered

INCOME GENERATION	SERVICE	NOTES	2013/14 Budget £000	2014/15 Projection £000	2015/16 Projection £000
Three Stream Waste - charging for Bins & Boxes	Environmental Services	Admin and delivery charge	(60)	(82)	(83)
		Sub-Total	**(60)**	**(82)**	**(83)**

BUDGET REDUCTIONS	SERVICE	NOTES	2013/14 Budget £000	2014/15 Projection £000	2015/16 Projection £000
Your District Council Matters	Community Engagement	Reduce from 3 to 2	(10)	(10)	(10)
Voluntary sector grants	Community Engagement	Only apply 1% inflation	(6)	(6)	(6)
Morecambe BID	Regeneration & Planning	To be reinstated when needed	(40)	-	-
Member training budget reduction	Governance	Excluding election year	(6)	(6)	-
		Sub-Total	**(61)**	**(21)**	**(16)**

EFFICIENCY PROPOSALS	SERVICE	NOTES	2013/14 Budget £000	2014/15 Projection £000	2015/16 Projection £000
Salt Ayre Sports Centre review	Community Engagement		(75)	(92)	(94)
Community Engagement Management Review	Community Engagement	To fund Living Wage Growth	(57)	(42)	(37)
Museums Partnership	Community Engagement		(50)	(50)	(50)
		Sub-Total	**(182)**	**(184)**	**(181)**
		Total Savings (as totalled on previous page)	**(303)**	**(287)**	**(280)**

Growth Proposals to be considered

DETAILS	SERVICE	NOTES	2013/14 Budget £000	2014/15 Projection £000	2015/16 Projection £000
Recurring Revenue Growth:					
Living Wage (to be met from Community Engagement review)	Governance	Personnel 05 Feb 2013	57	42	37
Corporate Property Improvements (financing costs)	Resources	Cabinet 22 Jan 2013	(54)	103	354
Part-time Conservation Officer Post	Regeneration & Planning	3 year contract only	17	17	17
One-Off Revenue Growth:					
Energy Renewal Strategy	Environmental Services	Cabinet 04 Dec 2012	20	-	-
Funding for above from Invest to Save Reserve	Resources	Cabinet 04 Dec 2012	(20)	-	-
PCSO's	Environmental Services	Cabinet 22 Jan 2013	99	-	-
Empty Homes Officer : 2 years contract	Regeneration & Planning	Cabinet 04 Dec 2012	34	34	-
Markets Reserve	Resources	Cabinet 04 Dec 2012	50	-	-
Cycling Event	Community Engagement	Cabinet 04 Dec 2012	10	-	-
		Sub-Total	**213**	**197**	**408**
		Total Growth (as totalled on previous page)	**213**	**197**	**408**

APPENDIX B (i)

LANCASTER CITY COUNCIL

Promoting City, Coast & Countryside

PROVISIONS AND RESERVES POLICY 2013/14

(Details of General Fund Items)

February 2013

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 Resources) 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 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 Resources.

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 Resources (or their nominated representatives).	Governance / Resources 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 Resources approval (to reflect statutory usage), or with Cabinet approval for recurring items.	Regeneration & Planning / Resources 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 Resources.	Resources 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 & Planning / Resources. Any change in use to be approved by Cabinet.	Budget & Outturn
Highways	Created from previous years' surpluses, to provide support for anticipated additional cost pressures arising from the new Highways Partnership contract.	Any contributions to or from the reserve to be approved by Cabinet (as part of budget or outturn reporting) .	Environmental Services / Resources.	Budget and Outturn.
Homelessness	Established at 2011/12 outturn from additional government grant, for additional homelessness prevention measures.	Use of Reserve to be approved by Head of Health & Housing, in consultation with Head of Resources (or her nominated representative). To be closed once used.	Health & Housing / Resources.	Budget and Outturn.

Reserve	Purpose	How and When Used	Procedures for management and control	Timescale for review
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.	Resources. Pay back periods must be in accordance with MTFS, and as advised by Head of Resources (or her nominated representative). Any change of use to be approved by Cabinet, should the reserve balance exceed spending needs.	Budget & Outturn, and mid year MTFS 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 Resources (or their nominated representatives).	Governance Services / Resources Any change in use to be approved by Cabinet, should the reserve balance exceed spending needs.	Budget & Outturn
Lancaster Indoor Market	The reserve will help cover the costs associated with surrender of Lancaster Market headlease. .	Use of the reserve to be approved by Head of Resources, in accordance with Council resolution.	Resources. Any change in use to be approved by Cabinet, should the reserve balance exceed spending needs.	Budget & Outturn, and mid-year MTFS review.
Markets Reserve (new proposal)	The establishment of the reserve is subject to approval of a £50K growth item for 2013/14. The funding will be used to make improvements to the existing markets in operation.	Use of the reserve to be approved by Head of Environmental Services in consultation with Portfolio Holder and Head of Resources (or her nominated representative).	Environmental Services / Resources	Budget & Outturn
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).	Use of the reserve to be approved by Head of Resources (or her nominated representative), subsequent to Cabinet report on investment programme.	Resources. Any change of use to be approved by Cabinet, should the reserve balance exceed spending needs.	Quarterly reporting, Budget & Outturn
Olympic Torch Event	Established to fund an events weekend associated with the carrying of the Olympic Torch through the district.	Reserve now closed.		

Reserve	Purpose	How and When Used	Procedures for management and control	Timescale for 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 Resources (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 / Resources Any use of reserve must be in accordance with specific s106 agreements.	Budget & Outturn
Performance Reward Grant	To support residual initiatives in accordance with former protocol.	Reserve to be closed in 2013/14. .		
Planning Delivery Grant (PDG)	To enable grant monies committed against approved spend to be rolled forward between financial years.	Reserve to be closed in 2013/14.		
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 Resources (or her nominated representative). Subject to Cabinet report in 2013/14.	Resources. 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 Resources (or their nominated representatives). Any further contributions to the reserve to be approved by Cabinet.	Governance Services / Resources 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
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 & Planning / Resources Any use of reserve must be in accordance with specific s106 agreements.	Budget & Outturn
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 & Planning / Resources Any use of reserve must be in accordance with specific s106 agreements.	Budget & Outturn
Vacant Shops Fund	The reserve was established in 2009/10 from grant monies received but not applied	Reserve to be closed in 2012/13.		
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.	Resources. 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 (generally as part of annual budget process, rather than specifically).	Community Engagement / Resources 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 / Resources. 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.	Resources. 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.	Resources.	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 closed in 2013/14.		
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.	Resources.	Budget & Outturn, and mid-year MTFS review

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

APPENDIX B

PROVISIONS AND RESERVES STATEMENT : For consideration by Cabinet 12 February 2013

PROVISIONS	31/03/12	Contributions to Provision	Contributions from Provision	31/03/13	Contributions to Provision	Contributions from Provision	31/03/14
	£	£	£	£	£	£	£
B&D Debts-General Fund	512,091			512,091			512,091
Derelict Land Clawback	56,932			56,932		-56,932	0
Insurance Excess	452,786			452,786			452,786
TOTAL	1,021,809	0	0	1,021,809	0	-56,932	964,877

RESERVES	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	Contributions to Reserve	Contributions from Reserve	31/03/16
	£	£	£	£	£	£	£	£	£	£	£	£	£
Apprenticeships	0	63,300	-19,500	43,800	29,200	-19,600	53,400	29,200	-7,900	74,700	29,200	-7,900	96,000
Capital Support	1,004,714		-681,000	323,714			323,714			323,714			323,714
City Lab	44,595		-34,100	10,495		-10,495	0			0			0
Highways	44,673		-44,673	0			0			0			0
Homelessness Support	0	65,000		65,000		-35,000	30,000			30,000			30,000
Invest to Save	1,229,183	325,500		1,554,683			1,554,683			1,554,683			1,554,683
Job Evaluation	52,897		-49,000	3,897			3,897			3,897			3,897
Lancaster Indoor Market	647,549			647,549			647,549			647,549			647,549
Municipal Buildings	464,152	180,000	-304,000	340,152			340,152			340,152			340,152
Olympic Torch Event	0	40,000	-40,000	0			0						
Open Spaces Commuted Sums	204,650	57,600	-57,800	204,450		-40,600	163,850		-35,400	128,450		-24,400	104,050
Performance Reward Grant	223,513		-169,200	54,313		-54,300	13			13			13
Planning Delivery Grant	26,705		-23,405	3,300		-3,300	0			0			0
Renewals (all services)	699,362	375,600	-220,800	854,162	431,000	-359,000	926,162	394,000	-84,400	1,235,762	391,200	-190,000	1,436,962
Restructuring	586,099		-52,500	533,599			533,599			533,599			533,599
S106 Commuted Sums - Affordable Housing	920,780			920,780			920,780			920,780			920,780
S106 Commuted Sums - Highways, crossing & cycle paths	715,185	18,100	-357,400	375,885		-5,000	370,885		-10,000	360,885		-10,000	350,885
Vacant Shops Fund	22,632		-22,632	0			0			0			0
Welfare Reforms	200,000			200,000			200,000			200,000			200,000
Youth Games	18,500	18,500		37,000	18,500	-55,500	0	15,000		15,000	15,000		30,000
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	7,175,065	1,143,600	-2,076,010	6,242,655	478,700	-582,795	6,138,560	438,200	-137,700	6,439,060	435,400	-232,300	6,642,160
General Fund Balances	2,673,735	997,400	-1,035,400	2,635,735			2,635,735			2,635,735			2,635,735

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 a

APPENDIX C

GENERAL FUND CAPITAL PROGRAMME

Service / Scheme	2012/13 Gross Budget	2012/13 External Funding	2012/13 Net Programme	2013/14 Gross Budget	2013/14 External Funding	2013/14 Net Programme	2014/15 Gross Budget	2014/15 External Funding	2014/15 Net Programme	2015/16 Gross Budget	2015/16 External Funding	2015/16 Net Programme	2016/17 Gross Budget	2016/17 External Funding	2016/17 Net Programme	2017/18 Gross Budget	2017/18 External Funding	2017/18 Net Programme	5 YEAR PROGRAMME Total Gross Programme	5 YEAR PROGRAMME Total External Funding	5 YEAR PROGRAMME Total Net Programme
Environmental Services	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£		£
Playground Improvements / Facilities	119,000	74,000	45,000	47,000		47,000													47,000		47,000
Allotments	61,000	5,000	56,000	40,000		40,000													40,000		40,000
Mainway Recycling Bins	4,000		4,000																		
Vehicle Renewals	1,365,000		1,365,000																		
Toilet Works				90,000		90,000	60,000		60,000	90,000		90,000							240,000		240,000
Car Parks Improvement Programme				120,000		120,000	210,000		210,000										330,000		330,000
Community Engagement																					
Warm Homes Scheme				50,000	50,000														50,000	50,000	
Williamson Park Improvements & Enhancements	206,000	23,000	183,000	75,000		75,000													75,000		75,000
Salt Ayre Sports Centre - Replacements & Refurbishments	89,000		89,000	30,000		30,000													30,000		30,000
Health and Housing																					
YMCA Places of Change	52,000	52,000																			
Disabled Facilities Grants (future years funding to be confirmed)	802,000	802,000		653,000	653,000		653,000	653,000		653,000	653,000		653,000	653,000		653,000	653,000		3,265,000	3,265,000	
Regeneration and Planning																					
Toucan Crossing - King Street				13,000	13,000														13,000	13,000	
Sea & River Defence Works & Studies	158,000	148,000	10,000	278,000	255,000	23,000	480,000	443,000	37,000	101,000	90,000	11,000	101,000	90,000	11,000	101,000	90,000	11,000	1,061,000	968,000	93,000
Amenity Improvements (Morecambe Promenade)				36,000	3,000	33,000													36,000	3,000	33,000
Luneside East	78,000		78,000	50,000		50,000													50,000		50,000
Bold Street Renovation Scheme	262,000	54,000	208,000																		
Lancaster Square Routes				196,000		196,000	150,000		150,000										346,000		346,000
Ffrances Passage	7,000	7,000																			
Morecambe THI2: A View for Eric	17,000	13,000	4,000	446,000	334,000	112,000	174,000	133,000	41,000	217,000	166,000	51,000	261,000	200,000	61,000				1,098,000	833,000	265,000
Poulton Pedestrian Route				160,000	127,000	33,000													160,000	127,000	33,000
Morecambe Area Action Plan (Improving Streets)				100,000		100,000	100,000		100,000										200,000		200,000
Greyhound Bridge Road Affordable Housing	250,000		250,000																		
West End Temporary Car Park	19,000		19,000																		
Resources																					
ICT Systems, Infrastructure & Equipment	327,000		327,000	349,000		349,000	70,000		70,000	160,000		160,000	70,000		70,000	84,000		84,000	733,000		733,000
Lancaster Indoor Market	1,168,000		1,168,000																		
Corporate Property Works	709,000	48,000	661,000	2,402,000		2,402,000	2,681,000		2,681,000	2,681,000		2,681,000	2,839,000		2,839,000	34,000		34,000	10,637,000		10,637,000
GENERAL FUND CAPITAL PROGRAMME	5,693,000	1,226,000	4,467,000	5,135,000	1,435,000	3,700,000	4,578,000	1,229,000	3,349,000	3,902,000	909,000	2,993,000	3,924,000	943,000	2,981,000	872,000	743,000	129,000	18,411,000	5,259,000	13,152,000

Financing :	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
External						
Specific Grants and Contributions	1,226,000	1,435,000	1,229,000	909,000	943,000	743,000
Internal						
General Capital Grants	100,000					
Revenue Financing	306,000	87,000	30,000	30,000	30,000	
Reserves Financing	989,000	347,000	70,000	194,000	70,000	60,000
Capital Receipts Applied to Finance Programme	618,000	80,000				
Capital Receipts Applied to Reduce Capital Financing Requirement		9,363,000				
	3,239,000	11,312,000	1,329,000	1,133,000	1,043,000	803,000
Increase / Reduction (-) in Capital Financing Requirement (CFR) (Underlying Change in Borrowing Need)	2,454,000	-6,177,000	3,249,000	2,769,000	2,881,000	69,000
TOTAL FINANCING	5,693,000	5,135,000	4,578,000	3,902,000	3,924,000	872,000

APPENDIX D

Further details and comments on schemes within the capital programme.

Service / Scheme	Total Budget	Additional details and comments
The following schemes are on hold pending funding being available:		
Environmental Services	£	
Car Parks Improvement Programme:		
Auction Mart reconstruction	120,000	Proposed scheme for 2013/14
Overlays at 7 car parks (Dallas Rd, Nelson St, Moor Mills, Pedder St, MTHx2, Heysham Village)	210,000	Proposed schemes - Est. £30K per car park (2014/15)
Toilet Works:		
Bull Beck	90,000	Scheme planned for 2013/14
Glasson Dock	60,000	Scheme planned for 2014/15
Demolish surplus toilets and make good the sites	90,000	Scheme planned for 2015/16
Allotments:		
Allotment Extension - Scotforth	40,000	Scheme being delivered in conjunction with County (2013/14)
Allotment Improvements	47,000	Currently uncommitted & no essential work identified (2013/14). Arose from Task Group back in 2009/10.
Community Engagement		
Williamson Park Improvements & Enhancements:		
Roadway Lighting & Toilets	75,000	Proposed scheme dates back to 2008/09. A review of current investment needs is required.
Salt Ayre Sports Centre - Replacements & Refurbishments:		
Reflexions Changing Rooms Refurbishment	30,000	Slipped from previous years.

The following schemes can progress but several are subject to Cabinet reports first		
Regeneration and Planning	£	
Sea & River Defence Works & Studies:		
Artle Beck Improvements (Flood Defences)	58,000	Externally funded (2013/14)
West End Sea Wall Study	29,000	Externally funded (2013/14)
Morecambe Strategy Study - Heysham to Hest Bank	28,000	Externally funded (2013/14)
Strategic Monitoring (River & Sea Defences)	505,000	Mainly externally funded (2013/14 - 2017/18)
Wave Reflection Wall Refurbishment	54,000	Mainly externally funded (2013/14 - 2014/15)
Slynedale Culvert Project	387,000	Mainly externally funded (2013/14 - 2014/15)
Lancaster Square Routes	346,000	Outcome of ERDF bid awaited, and the detailed scheme design to be subject to Cabinet report prior to progression.
Morecambe THI2: A View for Eric	1,098,000	
Poulton Pedestrian Route	160,000	
Morecambe Area Action Plan	200,000	
Resources		
ICT Systems, Infrastructure & Equipment:		
ICT Infrastructure	125,000	Firewall devices and file storage/switches (2013/14 - 2016/17)
ICT Application Systems Renewal	264,000	Systems replacements and upgrades (2013/14)
ICT Desktop Equipment	344,000	Desktop replacements (2013/14-2017/18), including £24K for Members. Progression subject to Cabinet report on ICT Strategy.
Corporate Property Works	10,637,000	As per Cabinet report 22 January 2013 (2013/14 - 2017/18), and progression subject to further Cabinet report.

CABINET

Budget and Policy Framework Update – Housing Revenue Account and Capital Programme 12 February 2013

Joint Report of Head of Health and Housing and Head of Resources

PURPOSE OF REPORT					
This report provides an update on the council housing budgetary position and seeks Cabinet's decisions on council housing rent levels for 2013/14 together with targets for future years. It also seeks approval of Cabinet's supporting revenue budget and capital programme proposals for referral on to Council, in order to complete the HRA budget setting process for 2013/14.					
Key Decision	X	**Non-Key Decision**		**Referral from Cabinet Member**	
Date of notice of forthcoming key decision	12 December 2012				
This report is public.					

RECOMMENDATIONS OF COUNCILLOR LEYTHAM:

1 **That the Housing Revenue Account Revised Budget for 2012/13, as set out at Appendix A, be referred on to Council for approval.**

2 **That the minimum level of HRA unallocated balances be retained at £350,000 from 01 April 2013, and that the full Statement on Reserves and Balances be endorsed and referred on to Council for approval, taking into account the changes as outlined in section 3 of the report.**

3 **That Option 5 be adopted as rent setting policy for the medium term, in that:**

- **an average rent of £69.22 for 2013/14 be approved, representing an increase of 0%, and the resulting Housing Revenue Account budget for 2013/14 be recommended to Council for approval; and**

- **for years 2014/15 to 2016/17 target rent increases be set at 1%, 2% and 3% respectively, and the revenue budget forecasts be updated accordingly.**

4 **That the Capital Programme as set out at Appendix D be referred on to Council for approval and in addition:**

- **Cabinet approves in principle to invest in new one-bedroom accommodation within the district using funding from the Business Support Reserve, and that detailed proposals be brought back to Cabinet following input from the Housing Regeneration Cabinet Liaison Group.**

5 **That the above recommendations for the Housing Revenue Account be reflected within the Council's draft Medium Term Financial Strategy as appropriate, ensuring clarity in Cabinet's responsibilities regarding the setting of rent levels.**

1 INTRODUCTION

1.1 The Council is required under statutory provisions to maintain a separate ring-fenced account for the provision of local authority housing, known as the Housing Revenue Account (HRA). This covers the maintenance and management of the Council's housing stock.

1.2 At its meeting in September 2012, Cabinet approved the key principles and broad financial targets for managing the HRA over the medium term, to give a strategic financial context for council housing.

1.3 In line with that context, Cabinet is now required to make recommendations to Budget Council regarding the HRA and to set the level of housing rents in sufficient time for the statutory notice of rent variations to be issued to tenants by 01 March. Effectively, this means that the whole 2013/14 budget and rent setting exercise must be complete by that date.

1.4 The draft MTFS will also be updated to reflect Cabinet's HRA budget proposals, for consideration at Budget Council.

2 2012/13 REVISED BUDGET

2.1 A review of the current HRA budget has been undertaken and during the year, a net surplus of £947K is forecast. Most of this is as a result of not making a budgeted contribution into the Major Repairs Reserve, as outlined in section 3 later. Excluding this adjustment, the net underspending would be only £16K.

2.2 A summary statement is set out at ***Appendix A*** and the main variations are shown below. This focuses on the 'cash' or bottom-line variances, excluding any notional charges:

SUMMARY OF MAIN 'CASH' VARIANCES ON HRA	**£'000**
Operational Variances: (+)Adverse / (-)Favourable	
Reduction in Rental and Other Income	+53
Underspendings on Repairs and Maintenance	-122
Increase in Interest Payable	+182
Reduction in Debt Repayment	-238
Settlement of Previous Year's HRA Subsidy Payable	+148
Net Increase in Revenue Financing of Capital Programme (either directly or from Reserves)	+19
Net Reduction in transfers from Other Earmarked Reserves	-43
Other minor variances (net)	-15
Sub-total	-16
Review of Reserves (see section 3)	
Net Reduction in transfer to Major Repairs Reserve	-931
Net Underspending Forecast for Year	**947**

2.3 Cabinet may note from Appendix A that a very large variance exists in relation to depreciation. Depreciation represents, in accounting terms, the extent to which assets have been “consumed” in delivering the service during the year. Under accounting guidance, it was intended that depreciation would equate to the “real” annual cost of maintaining the housing stock but unfortunately, the position has not yet been resolved. As a result, there is still uncertainty around how depreciation and similar sorts of costs will be treated, going forward under self-financing.

2.4 Nonetheless, work has been done to refine the depreciation calculations based on existing accounting and regulatory requirements. This has effectively reduced the depreciation charge by around £1.7M, but it is important to note that this change does not impact on the bottom line of the HRA. Instead, it is offset against the transfer to the Major Repairs Reserve (MRR).

2.5 Taking account of the overall revised budget outlined above, HRA Balances at the end of this year are expected to be around £1.4M higher than originally forecast, as shown below:

	2012/13 Original Budget £’000	**2012/13 Revised Budget £’000**
Original Estimated Balances as at 31 March 2013	350	350
Add: Underspending in 2011/12, at outturn	--	502
Less: Approved Carry Forward Requests	--	-29
Add: Forecast underspending in current year		947
Forecast Balances as at 31 March 2013		**1,770**
Of which:		
Surplus Balances (above minimum £350K)		**1,420**

2.6 Cabinet is recommended to refer the HRA Revised Budget for 2012/13 to Council for approval.

3 PROVISIONS, RESERVES AND BALANCES

3.1 The Section 151 Officer is required to undertake a formal review of general reserve levels. In assessing the adequacy of such balances, the Head of Resources takes account of the strategic, operational and financial risks facing the authority. The effectiveness of internal financial and other controls are taken into account; assurance on these can be taken from the respective formal Statements and external assessments. Consideration has also been given to the specific risks and assumptions underlying the HRA as set out in ***Appendix B***.

3.2 After reviewing the Housing Revenue Account and General Fund in comparative terms and considering the key issues, assumptions and risks underlying the budget projections, the Section 151 Officer advises retaining the minimum level of HRA Balances at £350K to support the budget forecasts, as part of the overall medium term financial planning for the HRA. This level has presented no difficulties in previous years and furthermore, the HRA has other substantial reserves available, to support the condition of the housing stock and manage other current service risks.

3.3 In view of the decisions taken at the September Cabinet, however, it is considered appropriate to separate out any surplus resources available, over and above what is needed to maintain current stock. This should give a clearer picture of what financial scope is available to Members.

3.4 In applying this approach, the following amounts have been separated into a Business Support Reserve (previously this was combined with the Major Repairs Reserve):

	£'000
Forecast Surplus Balances (s2.5 above)	1,420
Surplus in Major Repairs Reserve	6,683
Forecast Business Support Reserve as at 01 April 2013	**8,103**

3.5 Once future plans are clearer, this reserve will be reviewed and updated. The assumption is that Cabinet would have authority to allocate this reserve, with any future contributions into it being approved by Council as part of the overall budget. This would then give Cabinet flexibility to development and refine its plans.

3.6 Alongside this change, the assumption is that the Major Repairs Reserve would be used solely to finance existing investment needs (as part of the usual capital programming). Under current Regulations, the Council must still operate a Major Repairs Reserve post self-financing, but it is fair to say that the regulatory and accounting framework for the HRA still has some areas for development.

3.7 The only other change actioned in respect of Reserves relates to the relatively minor Telecare and Central Control Reserves. For the time being, these have been merged, pending gaining clarity on how out of hours support will be provided in future.

3.8 In terms of provisions, amounts set aside for bad debts have been increased only very slightly for future years, as a marker for future welfare reforms including the planned introduction of universal credit, but clearly this will need to be kept under review.

3.9 A draft statement on all reserves incorporating these changes is attached at ***Appendix C (i)*** and ***Appendix C (ii)***. The latter details the purpose and application of each reserve together with relevant recommendations on current use. These reserves are viewed as adequate for the period covered, but will need to be reviewed regularly as shown. Cabinet is asked to endorse this information, with the Statement being referred on to Council as part of the HRA budget proposals.

4 2013/14 BASE BUDGET AND FUTURE YEARS' PROJECTIONS

4.1 The draft budget has now been prepared for 2013/14 together with projections for 2014/15 and 2015/16. The budgets are set out in line with Accounting Requirements and they take account of the usual pay and price inflation assumptions. Specific aspects of the budget are outlined in more detail below.

- Provision has been made for repayment of the self-financing debt over a 30-year period. No provision has been made as yet in respect of the £15.3M HRA share of earlier years' debt, but this is the same approach that applied under the former subsidy system. Once the regulatory and accounting framework is complete, the HRA debt management strategy can be reviewed and updated as necessary.

- A pooled approach has been adopted for apportioning interest charges between the General Fund and the HRA.

- With regard to financing investment needs for the existing housing stock, the budget has been prepared on the basis that if there is a shortfall in the funding required to support the capital programme, then a top up should be charged to the revenue account (through increasing the contribution to the MRR).

- In terms of revenue savings and growth no proposals have been put forward at this time, but options to generate efficiencies for future budgets will be identified and explored, in much the same way as for General Fund.

5 CAPITAL PROGRAMME 2012/13 TO 2016/17

5.1 The City Council has a statutory duty to ensure that all of its council housing stock meets the Decent Homes Standard. In addition, the Council has set its own higher standard for improvement works known as the "Lancaster Standard", and this has been agreed with the District Wide Tenants' Forum.

5.2 The Council has a long-term investment programme, which identifies the indicative resources needed to maintain a viable 30-year Business Plan taking account of the agreed housing standards. This has been incorporated in the Council's new self-financing business plan. The sections below set out the capital investment plans for the next five years or so.

5.3 ***Appendix D*** sets out the overall capital programme for consideration by Cabinet and referral on to Council. More details are provided in the sections below.

5.4 2012/13 Revised Capital Programme

5.4.1 The 2012/13 Council Housing Capital Programme was set at £3.916M by Council on 01 February 2012. This programme has since been updated for the addition of slippage from last year and other minor adjustments.

5.4.2 The draft has then been adjusted further to incorporate procurement savings, other projected variances and new additions. In particular, £269K has been added in for the following:

- £147K for the Invest to Save – Photovoltaic (PV) Solar Panels Scheme
- £30K for Total Mobile (upgrade and installation of handsets and software)
- £40K for Sceptic Tank Renewals
- £52K for Lift Replacements

5.4.3 The revised 2012/13 Capital Programme now totals £3.892M.

5.5 **2013/14 to 2017/18 Capital Programme**

5.5.1 One of the outcomes from the Stock Options Appraisal was that future years' programmes should be set in line with the HRA Business Plan wherever possible. Drawing on information from the 2008 Stock Condition Survey and allowing for revenue funded maintenance, the draft programme included at Appendix D would enable the housing stock to continue to meet both the Decent Homes Standard and the Lancaster Standard.

5.5.2 Now that the new self-financing system has been implemented, however, it means that the Council is in a better, more informed position to consider any further investment and growth opportunities for council housing provision. Accordingly, the additional investment proposals previously reported to Cabinet in September 2012 have been built into the draft capital programme, increasing the annual cost by up to £1.2M. The additions relate to the following areas, for existing stock:

- Boiler replacements – £100K
- Category 2 sheltered housing schemes remodelling and refurbishment - £100K
- Improvements to communal areas - £50K
- Increased environmental works - £390K
- Fire precaution works - £300K
- Lift replacements - £110K
- Increased adaptations - £50K
- Renewable technologies - £100K

5.5.3 Revenue financing (via the Major Repairs Reserve) has been included for these improvements.

5.5.4 The total draft five-programme for 2013/14 onwards now stands at £28.205M, the vast bulk of which would be financed from revenue sources. There is no prudential borrowing requirement. The HRA is therefore in a very strong position financially, with flexibility to consider options for rent levels and further investment – but it still must ensure that long-term financial sustainability is not compromised.

6 **RENT SETTING POLICY**

6.1 In September 2012, Cabinet adopted a HRA medium term financial strategy and rent policy that supported the future needs of the HRA housing stock, whilst enabling the Council to consider using HRA funding in a wider regeneration context.

6.2 At that meeting Cabinet approved a rent setting policy which capped rent increases at no more than 3% per year. As a starting point, the draft budget figures in Appendix A have therefore assumed a rent increase of 3% - Option 1 below.

6.3 However, this report also details alternative rent increases and ***Appendix E*** compares a range of rent options.

6.4 In addition, the following table also shows the impact each option would have on the longer term financial viability of the 30 year Business Plan in terms of the proposed Business Support Reserve.

Impact on Business Support Reserve		2012/13	2013/14	2014/15	2015/16	30 Year Cumulative Total
Option 1	3% per annum	£8.103M	£8.653M	£9.801M	£11.334M	**£130.436M**
Option 2	2% per annum	£8.103M	£8.522M	£9.397M	£10.511M	**£40.462M**
Option 3	1% per annum	£8.103M	£8.390M	£8.995M	£9.700M	**-£33.840M**
Option 4	0% per annum	£8.103M	£8.257M	£8.596M	£8.900M	**-£95.355M**
Option 5	0%, 1%, 2%, then 3% thereafter	£8.103M	£8.257M	£8.728M	£9.433M	**£96.544M**
Option 6	1%, 2% then 3% thereafter	£8.103M	£8.390M	£9.129M	£10.242M	**£113.167M**
Option 7	2% then 3% thereafter	£8.103M	£8.522M	£9.532M	£10.923M	**£124.600M**

6.5 The above shows that in order to maximise service investment opportunities then an annual 3% increase would be required, whereas 0% or 1% increases are not viable in the longer term as there would be insufficient funding to maintain the business plan.

6.6 The first four options maintain the same year on year % increase, but it is recognised that they could vary year on year. Options 5, 6 & 7 have been provided to show how various phased increases would impact on the Business Support Reserve. In reality, there are numerous other options available, within the broad 3% annual policy constraint previously set by Cabinet.

6.7 Cabinet is now required to make a decision on rent levels for 2013/14, in order to ensure that the rent notices can be issued in sufficient time. Furthermore, Cabinet's approval of future rent targets is also sought.

6.8 For information, 2013/14 will be a 53 week rent year, which will be collected over the standard 48 weeks with 5 non-collection weeks.

7 INVESTMENT OPPORTUNITIES

7.1 In the recent past the Council has not had the financial certainty to be in a strong position to consider any acquisition or new build opportunities, but with the introduction of self-financing the position has improved. Having said that, the scope for new investment is directly influenced by future rent levels, as shown in the previous table.

7.2 The report presented to Cabinet in September 2012 provided illustrative costs of two schemes recently built by housing associations within the district:

- Flat development – total scheme cost of £3.4M including cost of site, 30 units (1 and 2 bedroom flats) at an average cost of £112K per unit.

- General Need Housing – total scheme cost of £3.5M including cost of privately owned site, 27 units (7 x 2 bed houses and 20 x 3 bed houses) at an average cost of £131K per unit.

7.3 Initial indications are that the most pressing need is for 1 bedroom accommodation within the district. This will become even more of an issue with the introduction of welfare reforms affecting single benefit claimants occupying accommodation with more than one bedroom.

7.4 However, there are numerous issues to be addressed before embarking on any new build scheme:

- How many units are needed.
- Where would they be built, on existing Council Estates or elsewhere.
- Ensuring suitable expertise to manage a new build programme.
- Planning issues and considerations.
- Would conversion of existing empty properties be more or less cost effective and viable than new build.
- Is it affordable, given decisions on rent policy.
- What are the likely timescales.

7.5 This list is by no means exhaustive but demonstrates the considerations to be addressed in developing detailed proposals for decision, and implementation.

7.6 With this in mind, it is proposed that officers report back to the Housing Regeneration Cabinet Liaison Group with a range of options for potential schemes in the district, providing potential costs, locations and timescales and addressing any other relevant issues. This will allow the necessary detail to be considered, to inform what investment is ultimately required.

7.7 At this stage, Cabinet are therefore requested to approve in principle the creation of new 1 bedroom accommodation within the district, to be funded from the Business Support Reserve, with detailed proposals being brought back to Cabinet for approval following consideration by the Housing Regeneration Cabinet Liaison Group. This request is subject to sufficient funds remaining after Cabinet has determined future rent policy.

8 DETAILS OF CONSULTATION

8.1 The draft Revenue Budget and Capital Programme has been presented to the District Wide Tenants' Forum on 05 February 2013. Views expressed by the Forum will be fed directly into Cabinet.

9 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

9.1 With regard to the revenue budget generally, Cabinet could consider other proposals that may influence spending in current and future years, as long their financing is considered and addressed.

9.2 The options available in respect of the minimum level of HRA balances are to set the level at £350,000 in line with the advice of the Section 151 Officer, or to adopt a different level. Should Members choose not to accept the advice on the level of balances, then this should be recorded formally in the minutes of the meeting and it could have implications for the Council's financial standing, as assessed by its external auditors.

9.3 The most obvious options available in respect of the 2013/14 rent increase are set out in section 6 of the report. That section also highlights the intrinsic link between rent levels and scope for future investment.

9.4 The options available in respect of the Capital Programme are:

i) To approve the programme in full, with the financing as set out;
ii) To incorporate other increases or reductions to the programme, with appropriate sources of funding being identified.

9.5 Any risks attached to the above would depend very much on what measures Members proposed, and their impact on the council housing service and its tenants. As such, a full options analysis could only be undertaken once any alternative proposals are known, and Officers may require more time in order to do this.

10 OFFICER PREFERRED OPTION AND COMMENTS

10.1 The Officer preferred options are to:

- approve/ refer on the provisions, reserves and balances position as set out;
- set rent levels that would provide sufficient flexibility for future investment, as well as sufficient headroom to address any future accounting / regulatory / welfare reform changes. Officers would advise against longer term rent freezes or below inflation increases, for these reasons. If future investment opportunity is to be maximised, then the Officer preferred option would be for a 3% annual increase.
- approve / refer on the revenue and capital budget proposals as set out, as adjusted to fit with rents levels mentioned above.

RELATIONSHIP TO POLICY FRAMEWORK
The budget represents, in financial terms, what the Council is seeking to achieve through its approved Housing Strategy in relation to council housing.

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

FINANCIAL IMPLICATIONS
As set out in the report.

SECTION 151 OFFICER'S COMMENTS
The s151 Officer's comments are incorporated into the report. Formal advice regarding affordability and borrowing etc. will be included in the subsequent reports to Council, alongside Cabinet's budget proposals. .

LEGAL IMPLICATIONS
Legal Services have been consulted and have no further comments.

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

BACKGROUND PAPERS **None**	**Contact Officer: Nadine Muschamp/Suzanne Lodge** **Telephone: 01524 582117 / 582701** **E-mail: nmuschamp@lancaster.gov.uk**

APPENDIX A

HOUSING REVENUE ACCOUNT DRAFT BUDGET

For Consideration by Cabinet 12 February 2013

	2012/13 Original Budget £	2012/13 Revised Budget £	2013/14 Budget £	2014/15 Forecast £	2015/16 Forecast £
INCOME					
Rental Income - Council Housing	-13,476,400	-13,474,400	-13,860,100	-14,256,800	-14,664,800
Rental Income - Other (Shops and Garages etc.)	-204,300	-211,700	-217,300	-222,200	-226,800
Charges for Services & Facilities	-1,719,200	-1,707,600	-1,758,000	-1,797,700	-1,829,000
Grant Income	-7,700	-7,700	-7,700	-7,700	-7,700
Contributions from General Fund	-170,000	-122,900	-127,000	-131,100	-131,200
Total Income	**-15,577,600**	**-15,524,300**	**-15,970,100**	**-16,415,500**	**-16,859,500**
EXPENDITURE					
Repairs & Maintenance	4,252,900	4,130,700	3,950,100	4,048,500	4,074,400
Supervision & Management	3,105,900	3,097,200	3,198,400	3,233,400	3,294,500
Rents, Rates & Insurance	93,000	139,200	139,300	152,900	166,600
Settlement of Previous Year's HRA Subsidy	0	147,700	0	0	0
Increase in Provision for Bad and Doubtful Debts	190,400	193,900	197,000	198,200	199,400
Depreciation & Impairment of Fixed Assets	3,502,100	1,749,600	1,810,800	1,877,700	1,951,300
Debt Management Costs	1,100	1,100	1,100	1,100	1,100
Total Expenditure	**11,145,400**	**9,459,400**	**9,296,700**	**9,511,800**	**9,687,300**
NET COST OF HRA SERVICES	**-4,432,200**	**-6,064,900**	**-6,673,400**	**-6,903,700**	**-7,172,200**
Interest Payable & Similar Charges	1,921,900	2,103,800	2,080,000	2,041,300	2,006,500
Premiums & Discounts from Earlier Debt Rescheduling	161,000	161,000	49,100	-600	-600
Interest & Investment Income	-44,700	-30,600	-27,400	-41,900	-104,600
Self Financing Debt Repayment	1,280,000	1,041,400	1,041,400	1,041,400	1,041,400
(SURPLUS) OR DEFICIT FOR THE YEAR	**-1,114,000**	**-2,789,300**	**-3,530,300**	**-3,863,500**	**-4,229,500**
Adjustments to reverse out Notional Charges included above	-32,100	-32,100	-32,100	-32,100	-32,100
Transfers to/(from) Business Support Reserve	0	0	550,000	1,148,400	1,533,100
Transfers to/(from) Major Repairs Reserve	951,100	1,768,500	2,875,300	2,601,900	2,612,800
Transfer to/(from) Earmarked Reserves	187,900	144,700	27,100	35,300	5,700
Capital Expenditure funded from Revenue	360,000	343,000	110,000	110,000	110,000
TOTAL (SURPLUS) / DEFICIT FOR THE YEAR	**352,900**	**-565,200**	**0**	**0**	**0**
Housing Revenue Account Balance brought forward	-702,900	-1,204,600	-1,769,800	-1,769,800	-1,769,800
HRA BALANCE CARRIED FORWARD	**-350,000**	**-1,769,800**	**-1,769,800**	**-1,769,800**	**-1,769,800**

APPENDIX B

2013/14 BUDGET
HOUSING REVENUE ACCOUNT – RISK & ASSUMPTIONS
FOR CONSIDERATION BY CABINET 12 FEBRUARY 2013

LANCASTER CITY COUNCIL
Promoting City, Coast & Countryside

RISK AREA	NOTES/DETAILS
Self financing	Whilst the key debt transaction has been completed, guidance is still awaited for other accounting aspects such as depreciation. Linked with capital financing strategy generally, this may mean that in future different accounting policies should be considered and therefore there is still risk attached. Robust business planning arrangements will need to be maintained that take into account debt financing, stock condition, service budgetary needs, and ongoing Government policy around rents and inflation.
Rent policy	The council has adopted a medium term financial strategy and has agreed to set a rent policy that supports the future investment needs of its HRA housing stock, and to enable council housing to be considered in a wider regeneration context. The council is committed to maintaining decent homes. The two issues (rent policy and investment plans) need to be considered together, in order to manage the associated key risks: - Rents set too low = insufficient scope to meet business needs and HRA becomes unsustainable. - Rents set too high, with no supporting investment strategy or other business needs identified = funds raised for no purpose (with is also unsustainable). That said, the inherent weakness in forecasting over very long periods also need to be appreciated. The Government assumed, in its calculation of the debt settlement for self financing, that the council would increase its rents in accordance with Government guidelines. The Government also assumed that the national policy of rent convergence will continue, with the assumption that local authority rents will converge with RSL rents after 2016. There will always be the risk that the Government may 're-open' the self-financing settlement or introduce further measures, but the first is considered unlikely and the second must simply be accepted and monitored.
Income recovery	The proposed Government welfare reforms present a higher risk to levels of rent collection and that the council may need to increase the contribution to the Bad Debts Provision to reflect future arrears trends. There is a negative effect on future years' budgets if income recovery deteriorates. Arrangements for the future introduction of Universal Credit are very uncertain at this stage.
Void levels	Rent loss through void properties in previous years has been maintained at a low level. The reduction followed the introduction of improved void management arrangements within Health and Housing Services. Over the last year we experienced an increase in rent loss through voids and steps are being taken to tackle this, however if stock turnover increases greater allowance may need to be made within the budget.
Reduced / changing demand	Demand for council housing remains high, and does not present a significant risk overall. That said, the pattern of demand for different types of properties is expected to be influenced by welfare reforms, hence proposals to consider new build.

APPENDIX B

Stock reductions	The rate of sales in 2012/13 remains low. It is anticipated that this trend is likely to continue in the short to medium term leading to higher levels of rental income than would previously have been predicted. Low sales levels leads to lower levels of capital receipts. Sales impact on the revenue position as income is reduced, but many costs are fixed. The Government's objective is to increase the number of sales through the Right to Buy. At this stage it is difficult to assess the impact but it is anticipated that given the current economic climate sales will not increase. Significant increase in RTB sale would reduce rental streams that would lead to deterioration in the HRA budgetary position unless measures could be taken to reduce costs within the HRA.
Additional capital requirements	Legislation, changes in health and safety standards or the discovery of previously unknown defects may require additional capital expenditure. This is evidenced by the need recently to increase expenditure on fire precaution works, which has been reflected in the capital programme. The council will be carrying out a further stock condition survey and maintains a detailed asset register to ensure that the investment needs are regularly reviewed and reflected in the 30 year HRA Business Plan.
Major disasters	Major disasters are generally covered by insurance. The Government also provides support for uninsurable losses incurred by local authorities through the Bellwin scheme.
Tenancies	The Localism Act places new responsibilities regarding the adoption of a tenancy policy, and depending on its proposed content this could pose additional risks for the Council. Such risks will be considered in developing the policy, for subsequent consideration by Members.
Effects of Legislation /Regulation generally	Various risks are attached - implications of new legislation / regulation or changes to existing requirements may not be not identified; funding may not be readily available to meet the costs associated with changes in statutory requirements, etc. Effective processes are in place to ensure that implications are identified and raised. The Council has processes in place to manage the demands of local and national housing agendas, including the Corporate Plan, MTFS and HRA Business Plan.
Other specific events	Lancashire County Council provide an annual grant of approximately £240,000 for 3 contracts providing support services in sheltered housing and community alarm support. County are continuing to reconfigure their commissioning strategy for these services. Existing contracts will expire 31 March 2013. Lancashire County Council has not yet identified how future contracts will be awarded, and therefore this poses risks and uncertainties for the HRA budget.

APPENDIX C (i)

RESERVES AND PROVISIONS - FOR CONSIDERATION BY CABINET 12 FEBRUARY 2013

	HRA General Balances £'000	Business Support Reserve £'000	Major Repairs Reserve £'000	Total Earmarked Reserves → £'000	Flats - Planned Maintenance £'000	Central Control Equipment / Telecare £'000	Non-Sheltered Scheme Equipment £'000	I T Replacement £'000	Office Equipment Reserve £'000	Sheltered - Equipment £'000	Sheltered - Planned Maintenance £'000	Sheltered Support Grant Maintenance £'000
Actual Balance 31st March 2012	**1,205**	**0**	**6,683**	**2,418**	**997**	**118**	**47**	**358**	**71**	**289**	**355**	**185**
Estimates 2012/13												
Contributions to Reserves : Revenue Underspend	0	565	0	254	136	15	15	57	10	7	10	4
Depreciation transfer			1,738									
Additional Revenue Funding			1,769									
Transfer between reserves		6,683	-6,683									
Transfer between reserves	-855	855	0	-56	-15	0	-7	-14	0	-11	-9	0
Appropriations to/from (-) Reserves - Capital	0	0	-3,506	-53	0	0	0	0	0	0	-53	0
Projected Balance 31st March 2013	**350**	**8,103**	**0**	**2,563**	**1,118**	**133**	**54**	**401**	**81**	**284**	**303**	**189**
Estimates 2013/14												
Contributions to Reserves : Revenue Underspend	0	550	0	237	136	15	15	57	10	1	2	1
Depreciation transfer			1,799									
Additional Revenue Funding			2,875									
Appropriations to/from (-) Reserves - Revenue	0	0	0	-100	-35	0	-19	0	0	-36	-10	0
Appropriations to/from (-) Reserves - Capital	0	0	-4,674	-110	-50	0	0	0	0	0	-60	0
Projected Balance 31st March 2014	**350**	**8,653**	**0**	**2,590**	**1,169**	**148**	**50**	**458**	**91**	**250**	**235**	**190**
Estimates 2014/15												
Contributions to Reserves : Revenue Underspend	0	1,148	0	239	136	15	15	57	10	2	3	1
Depreciation transfer			1,866									
Additional Revenue Funding			2,602									
Appropriations to/from (-) Reserves - Revenue	0	0	0	-94	-50	0	-19	0	0	-22	-3	0
Appropriations to/from (-) Reserves - Capital	0	0	-4,468	-110	-50	0	0	0	0	0	-60	0
Projected Balance 31st March 2015	**350**	**9,801**	**0**	**2,625**	**1,205**	**163**	**46**	**515**	**101**	**230**	**175**	**191**
Estimates 2015/16												
Contributions to Reserves : Revenue Underspend	0	1,533	0	245	136	15	15	57	10	4	6	2
Depreciation transfer			1,939									
Additional Revenue Funding			2,613									
Appropriations to/from (-) Reserves - Revenue	0	0	0	-129	-55	0	-19	0	0	-22	-33	0
Appropriations to/from (-) Reserves - Capital	0	0	-4,552	-110	-50	0	0	0	0	0	-60	0
Projected Balance 31st March 2016	**350**	**11,334**	**0**	**2,631**	**1,236**	**178**	**42**	**572**	**111**	**212**	**87**	**193**

RESERVES AND PROVISIONS- For Consideration by Cabinet 12 February 2013 APPENDIX C (ii)

	Reason for/purpose	How & when it be used	Management & control	Reviewed	Recommendations
Capital Reserves					
Major Repairs Reserve (MRR)	Set up following the introduction of Resource Accounting in the HRA. Credited with the amount of depreciation charged to the HRA and topped up with additional funds required to finance the capital programme in-year.	Can be applied to capital improvements to HRA housing stock (specifically excluding demolition) and, additionally from 1st April 2004, repayment of HRA debt and credit liabilities (including premia on early repayment of PWLB loans).	**Health & Housing /Resources**	**Budget & Outturn**	**To provide in-year funding for the capital programme as budgeted ,with the surplus balance being transferred to the Business Plan Support Reserve.**
Business Support Reserve	Established to provide support to additional business plan commitments and planned investment opportunities.	Use of the reserve to be approved by Cabinet. Contributions to the reserve to be approved annually as part of the budget.	**Health & Housing /Resources** .	**Budget & Outturn**	**To be established from the surplus resources in the HRA balance reserve and the Major Repairs Reserve.**

RESERVES AND PROVISIONS- For Consideration by Cabinet 12 February 2013 APPENDIX C (ii)

	Reason for/purpose	How & when it be used	Management & control	Reviewed	Recommendations
Revenue Reserves					
Flats – Planned Maintenance Reserve	Established to smooth the costs of major revenue and capital works to flats funded from Service Charges.	Contributions from Service Charges made to this reserve, together with additional appropriations in lieu of interest. Reserve to be applied to major works to communal facilities in flats.	**Health & Housing /Resources**	**Budget & Outturn**	**Retain as budgeted.**

RESERVES AND PROVISIONS- For Consideration by Cabinet 12 February 2013 APPENDIX C (ii)

	Reason for/purpose	How & when it be used	Management & control	Reviewed	Recommendations
Central Control Equipment Reserve	Established to smooth the costs of major renewal or replacement of Central Control Equipment and systems	Reserve is to be applied to renewal or replacement of major items of equipment and systems. Also used for chargeable enhancements throughout the life of the system.	**Health & Housing /Resources**	**Budget & Outturn**	**Retain as budgeted (combined with former Telecare Reserve), but to be reviewed once County Council's commissioning strategy and future contracting arrangements are clear.**
Telecare	Established to smooth the costs of renewal or replacement of Telecare Equipment.	N/A	**Health & Housing /Resources**	**Budget & Outturn**	**Merged with Central Control Reserve above.**
Non-sheltered scheme equipment	Established to fund purchases of equipment for non-sheltered schemes funded from Service Charges.	Contributions from Service Charges made to this reserve, together with additional appropriations in lieu of interest. Reserve to be applied to purchases of equipment for non-sheltered schemes.	**Health & Housing /Resources**	**Budget & Outturn**	**Retain as budgeted.**

RESERVES AND PROVISIONS- For Consideration by Cabinet 12 February 2013 APPENDIX C (ii)

	Reason for/purpose	How & when it be used	Management & control	Reviewed	Recommendations
IT Replacement	Established to fund future major IT systems replacement.	To be applied to future replacements.	**Health & Housing /Resources**	**Budget & Outturn**	**Retain as budgeted.**
Office Equipment Reserve	Established to fund purchases of minor I T and other office equipment.	Used to fund ad-hoc purchases of major office furnishings resultant from health & safety legislation and risk assessments (desk, chairs, cabinets etc) and minor office equipment items e.g. pc upgrades.	**Health & Housing /Resources**	**Budget & Outturn**	**Retain as budgeted.**
Sheltered Equipment Reserve	Established to fund purchases of equipment for Sheltered schemes funded from Service Charges.	Contributions from Service Charges made to this reserve, together with additional appropriations in lieu of interest. Reserve to be applied to purchases of equipment for common area services for Sheltered schemes.	**Health & Housing /Resources**	**Budget & Outturn**	**Retain as budgeted.**
Sheltered – Planned Maintenance	Established to smooth the costs of major revenue and capital works to flats funded from Service Charges	Contributions from Service Charges made to this reserve, together with additional appropriations in lieu of interest. Reserve to be applied to major works to communal facilities in Sheltered schemes.	**Health & Housing /Resources**	**Budget & Outturn**	**Retain as budgeted.**

RESERVES AND PROVISIONS- For Consideration by Cabinet 12 February 2013 APPENDIX C (ii)

	Reason for/purpose	How & when it be used	Management & control	Reviewed	Recommendations
Sheltered – Support Grant Maintenance	Established to fund purchases of equipment for Sheltered schemes funded from Service Charges, but classed as Support Costs under County Guidelines.	Contributions from Service Charges made to this reserve, together with additional appropriations in lieu of interest. Reserve to be applied to major works to communal facilities in Sheltered schemes.	**Health & Housing /Resources**	**Budget & Outturn**	**Retain as budgeted.**
JE Reserve	Established to fund the support of the pay structure. The reserve is currently empty.	Contribution to the reserve to be approved by Cabinet. Use of the reserves to be determined (and agreed) by both the Head of Governance and Head of Resources.	**Health & Housing /Resources**	**Budget & Outturn**	**Reserve still retained pending the outcome of the second job evaluation review.**

	Reason for/purpose	How & when it be used	Management & control	Reviewed	Recommendations
Provisions					
Bad Debts	This provision is used to write off all Housing Revenue Account bad debts that have been approved.	The provision is funded by an annual contribution based on assessment of the level of debt outstanding.	**Resources**	**Budget & Outturn**	**To be reviewed following an assessment of the impact of Welfare Reforms.**

APPENDIX D

Council Housing 5 Year Capital Programme

For consideration by Cabinet 12 February 2013

	2012/13 Approved Budget £'000	2012/13 Revised £'000	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	201617 Estimate £'000	2017/18 Estimate £'000	TOTAL £'000
EXPENDITURE								
Adaptations	250,000	300,000	300,000	300,000	300,000	300,000	300,000	1,800,000
Energy Efficiency/Boiler Replacement (incl. renewable technologies)	460,000	450,000	660,000	660,000	660,000	600,000	600,000	3,630,000
Kitchen/Bathroom Refurbishment	1,088,000	919,000	644,000	1,094,000	901,000	1,335,000	1,335,000	6,228,000
External Refurbishments	696,000	660,000	1,269,000	559,000	1,040,000	-	-	3,528,000
Environmental Improvements (incl. Sheltered Schemes & Communal Areas)	360,000	398,000	900,000	900,000	900,000	900,000	900,000	4,898,000
Re-roofing	429,000	422,000	544,000	725,000	520,000	1,644,000	1,644,000	5,499,000
Rewiring	333,000	290,000	83,000	83,000	86,000	-	-	542,000
Lift Replacements	-	52,000	110,000	-	-	-	-	162,000
Septic Tanks Renewals	-	40,000	-	-	-	-	-	40,000
Fire Precaution Works	300,000	184,000	300,000	300,000	300,000	300,000	300,000	1,684,000
Invest to Save - PV Solar Panels	-	147,000	17,000	-	-	-	-	164,000
Total Mobile	-	30,000	-	-	-	-	-	30,000
TOTAL EXPENDITURE	**3,916,000**	**3,892,000**	**4,827,000**	**4,621,000**	**4,707,000**	**5,079,000**	**5,079,000**	**28,205,000**
FINANCING								
Capital Receipts	86,000	43,000	43,000	44,000	45,000	46,000	48,000	269,000
Direct Revenue Financing	290,000	290,000	-	-	-	-	-	290,000
Earmarked Reserves	70,000	53,000	110,000	110,000	110,000	50,000	50,000	483,000
Major Repairs Reserve	3,470,000	3,506,000	4,674,000	4,467,000	4,552,000	4,983,000	4,981,000	27,163,000
TOTAL FINANCING	**3,916,000**	**3,892,000**	**4,827,000**	**4,621,000**	**4,707,000**	**5,079,000**	**5,079,000**	**28,205,000**
SHORTFALL/(SURPLUS)	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

APPENDIX E

RENT INCREASE - COMPARISON OF OPTIONS FOR CONSIDERATION BY CABINET 12 FEBRUARY 2013

		Year 1	Year 2	Year 3
	2012/13	**2013/14**	**2014/15**	**2015/16**
	Revised	**Estimate**	**Estimate**	**Estimate**
Average No of Properties for Rent purposes	3,801	3,796	3,791	3,786
LESS voids @ 1.5%	57	57	57	57
Projected chargeable properties	3,744	3,739	3,734	3,729
Option 1 - 3% per annum				
Projected % Increase (Inflation)	7.82%	3.00%	3.00%	3.00%
Projected £ Increase		£2.08	£2.14	£2.20
Projected Actual Rent	**£69.22**	**£71.30**	**£73.44**	**£75.64**
Option 2 - 2% per annum				
Projected % Increase	7.82%	2.00%	2.00%	2.00%
Projected £ Increase		£1.38	£1.41	£1.44
Projected Actual Rent	**£69.22**	**£70.60**	**£72.02**	**£73.46**
Option 3 - 1% per annum				
Projected % Increase	7.82%	1.00%	1.00%	1.00%
Projected £ Increase		£0.69	£0.70	£0.71
Projected Actual Rent	**£69.22**	**£69.91**	**£70.61**	**£71.32**
Option 4 - 0% per annum				
Projected % Increase	7.82%	0.00%	0.00%	0.00%
Projected £ Increase		£0.00	£0.00	£0.00
Projected Actual Rent	**£69.22**	**£69.22**	**£69.22**	**£69.22**
Option 5 - 0%, 1%, 2% then 3% thereafter				
Projected % Increase	7.82%	0.00%	1.00%	2.00%
Projected £ Increase		£0.00	£0.69	£1.40
Projected Actual Rent	**£69.22**	**£69.22**	**£69.91**	**£71.31**
Option 6 - 1%, 2% then 3% thereafter				
Projected % Increase	7.82%	1.00%	2.00%	3.00%
Projected £ Increase		£0.69	£1.40	£2.14
Projected Actual Rent	**£69.22**	**£69.91**	**£71.31**	**£73.45**
Option 7 - 2%, then 3% thereafter				
Projected % Increase	7.82%	1.00%	2.00%	3.00%
Projected £ Increase		£0.69	£1.40	£2.14
Projected Actual Rent	**£69.22**	**£69.91**	**£71.31**	**£73.45**

For impact on individual property types see following page

RENT INCREASE OPTIONS BY PROPERTY TYPE AND ANALYSIS OF TENANTS IN RECEIPT OF HOUSING BENEFITS

Rent increase options by property type					
		2012/13	2013/14	2014/15	2015/16
Property Type	No of Bedrooms	7.82%	Based on a 3% Increase	Based on a 3% Increase	Based on a 3% Increase
		£	£	£	£
Bedsit	1	55.23	56.89	58.59	60.35
Bungalow	1	62.82	64.70	66.65	68.65
Flat	1	61.28	63.12	65.01	66.96
House	1	61.69	63.54	65.45	67.41
Bungalow	2	70.90	73.03	75.22	77.47
Flat	2	66.60	68.60	70.66	72.78
House	2	70.51	72.63	74.80	77.05
Maisonette	2	67.41	69.43	71.52	73.66
Bungalow	3	77.70	80.03	82.43	84.90
Flat	3	75.76	78.03	80.37	82.78
House	3	77.03	79.34	81.72	84.17
Maisonette	3	74.31	76.54	78.84	81.20
House	4	81.01	83.44	85.94	88.52
House	5	79.48	81.86	84.32	86.85

These rents are indicative for each property type as individual rents will vary within the category.

Analysis of tenants receiving Housing Benefits as at 01 February 2013

Band	Number	Percentage
100% HB	1,510	40%
>75% to 99.9% HB	946	25%
>50% to 75% HB	167	5%
>25% to 50% HB	93	2%
>0% to 25% HB	62	2%
Full rent paid	970	26%
Total number of tenants	**3,748**	**100%**

CABINET

Treasury Management Framework 2013/14
12 February 2013

Report of Head of Resources

PURPOSE OF REPORT					
This report sets out the 2013/14 Treasury Management framework for Cabinet's approval and referral on to Council.					
Key Decision	✓	**Non-Key Decision**		**Referral**	
Date of notice of forthcoming Key Decision	14 January 2013				
This report is public.					

OFFICER RECOMMENDATIONS:

1. **That the Finance Portfolio Holder be given delegated authority to finalise the Treasury Management Framework, as updated for Cabinet's final budget proposals, for referral on to Council.**

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 2013/14 to 2015/16 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 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, as far as possible at this stage, but there has been only limited time available to update the framework following the last Council meeting Should there be any changes to the budget, then the treasury framework would need to be updated accordingly

before being referred on to Council. For these reasons, delegated arrangements are being sought for finalising the framework, prior to it being referred on to Budget 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. It is also projected that the HRA capital programme will not require any additional borrowing.

2.3.2 This position is based on:

- land at south Lancaster being sold in 2013/14;
- the withdrawal from Lancaster Indoor Market and capital growth in connection with corporate property improvements being managed within projected cash resources over the period.

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 2012/13 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 a significant 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 2013/14 onwards are:

- Ensuring that sufficient flexibility exists for using part-nationalised banks.
- Allowing for a degree of flexibility so that if a need is determined then the Council may enter in to a cash backed Mortgage Guarantee scheme, linked to its housing regeneration plans.

2.4.3 Overall, the strategy put forward follows on from 2012/13 in that it is based on the Council having a low risk appetite with focus on high quality deposits.

2.4.4 There is a cost linked to a very 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 1.10% for a 12 month deposit (offered by Lloyds TSB as at 08/01/2013). This is in comparison to 0.54% 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 £41K above that for the Council 'average' investment. A reasonable balance needs to be made.

3 CONSULTATION

3.1 Officers have liaised with Sector, the Council's Treasury Advisors, in developing the proposed framework.

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, allowing for any amendments being made under delegated authority prior to referral to Council. This is based on the Council continuing to have a low risk appetite regarding investments. 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.

RELATIONSHIP TO POLICY FRAMEWORK This report covers 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 at this stage.	
MONITORING OFFICER'S COMMENTS The Monitoring Officer has been consulted and has no further comments.	
BACKGROUND PAPERS None	**Contact Officer: Nadine Muschamp** **Telephone:01524 582117** **E-mail:nmuschamp@lancaster.gov.uk**

Appendix A

2012/13 Treasury Management Progress Report to 31 December 2012

Report of Head of Resources

Introduction

It is a requirement of the CIPFA Code of Practice on Treasury Management that regular monitoring reports are presented to Members on treasury activities. These reports will normally be presented soon after the end of June, September, December and March as part of the Council's performance management framework.

Council approved the Treasury Strategy including the Investment Strategy for 2012/13 at its meeting on 29 February 2012. This report outlines activities undertaken in pursuance of those strategies during the financial year up to the end of Quarter 3.

Treasury management is a technical area. To assist with the understanding of this report, a glossary of terms commonly used in Treasury Management is attached at **Appendix B -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.

Summary

- Payments have been made by KSF and Landsbanki, leaving outstanding amounts due of £154K and £583K respectively.

- On other treasury matters, since the HRA self financing transaction at the end of 2011/12 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.

Economic update (provided by Sector)

The Eurozone debt crisis has continued to cast a pall over the world economy and has depressed growth in most countries. This has impacted the UK economy which is unlikely to grow significantly in 2012 and is creating a major headwind for recovery in 2013. Quarter 2 of 2012 was the third quarter of contraction in the economy; this recession is the worst and slowest recovery of any of the five recessions since 1930. A return to growth at 1% in quarter 3 in unlikely to prove anything more than a washing out of the dip in the previous quarter before a return to weak, or even negative, growth in quarter 4.

Given the weak outlook for economic growth, Sector sees the prospects for any changes in Bank Rate before 2015 as very limited. There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints.

Economic growth has basically flat lined since the election of 2010 and, worryingly, the economic forecasts for 2012 and beyond were revised substantially lower in the

Bank of England Inflation quarterly report for August 2012 and were then further lowered in the November Report. Quantitative Easing (QE) was increased again by £50bn in July 2012 to a total of £375bn. Many forecasters are expecting the MPC to vote for a further round of QE to stimulate economic activity regardless of any near-term optimism. The announcement in November 2012 that £35bn will be transferred from the Bank of England's Asset Purchase Facility to the Treasury (representing coupon payments to the Bank by the Treasury on gilts held by the Bank) is also effectively a further addition of QE.

	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%
5yr PWLB rate	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.80%	2.00%	2.20%
10yr PWLB rate	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	3.00%	3.20%
25yr PWLB rate	3.80%	3.80%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.30%
50yr PWLB rate	4.00%	4.00%	4.00%	4.00%	4.10%	4.10%	4.20%	4.30%	4.50%

Economic forecasting remains difficult with so many external influences weighing on the UK. Key areas of uncertainty include:

- The impact of the Eurozone crisis on financial markets and the banking sector.
- The impact of the UK Government's austerity plan on confidence and growth.
- Monetary policy action failing to stimulate growth in western economies.
- The potential for weak growth or recession in the UK's main trading partners - the EU and US.
- The potential for political issues to have an adverse impact e.g. trade disputes or political upheaval in the Middle East.

Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries. The interest rate forecast in this report represents a balance of downside and upside risks. The downside risks have already been commented on. However, there are upside risks as follows to PWLB rates and gilt yields, and especially to longer term rates and yields as the effects of Quantitative Easing reverse and the UK status as a relative safe haven declines as other economies improve.

Icelandic Investments Update

As reported in the year end report for 2011/12 there have been material repayments made against the Council's Icelandic deposits from all three banks. During quarter 1 2012/13 repayments were received from KSF (10%) and Landsbanki (12%). In quarter 3 further payments from Landsbanki (5.8%) and KSF (3%) were received. The current position is summarised below:

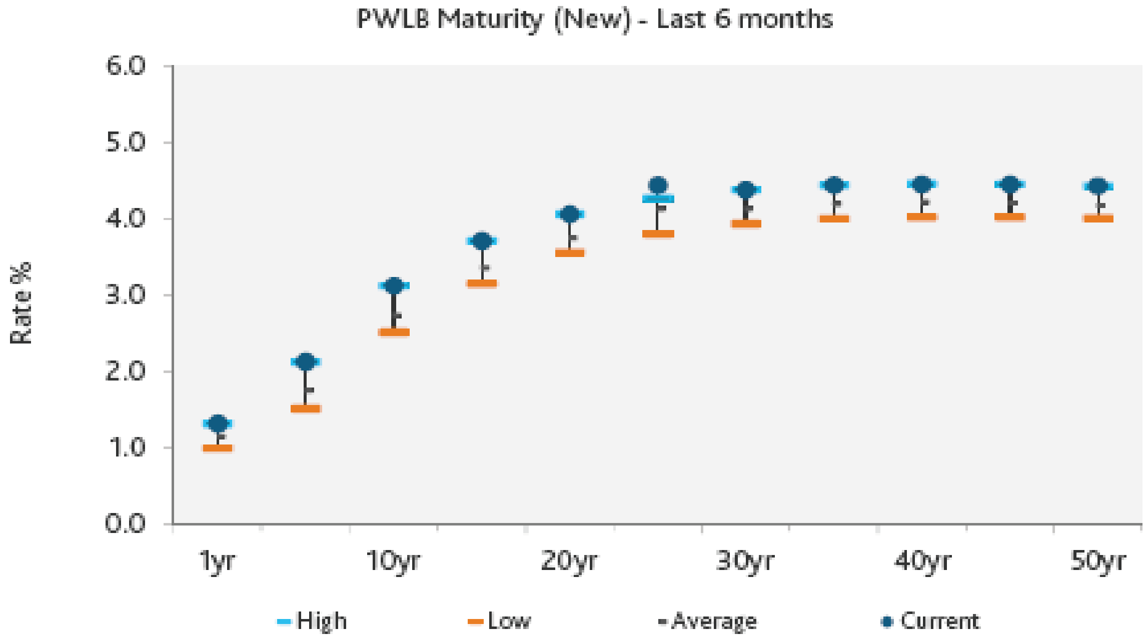
	KSF £000	Glitnir £000	Landsbanki £000	Total £000
Deposit	**2,000**	**3,000**	**1,000**	**6,000**
Claim	**2,048**	**3,173**	**1,121**	**6,342**
Payments received	**1,556**	**2,508**	**529**	**4,593**
Amounts held in ISK*		**571**	**8**	**579**
Total anticipated recovery (%)	**83.50%**	**100%**	**100%**	
Further payments due (%)	**7.50%**	**0%**	**52%**	
Further payments due (£000)	**154**	**0**	**583**	**737**
Total anticipated receipts	**1,710**	**3,079**	**1,119**	**5,908**

*These are earning interest but are also subject to currency fluctuations, these sums will be repatriated once Icelandic currency controls allow.

The total repayment in cash terms is now expected to be £5.9M meaning that the majority of the £6M principal invested will be returned.

Current Borrowing Rates.

There are few changes in relation to the cost of new debt. The graph below 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.



Extract from Sector weekly debt monitor 7/1/2013

However, as the Council is not currently looking to borrow, there is little immediate impact of these low rates. The main issue going forward could be that the margin between the Council's current loans and the threshold for avoiding penalties for early repayment will also increase but there are currently no plans to make early repayments and it will not be clear whether this is an attractive strategy until the cash demands linked to Lancaster Indoor Market are clarified, hopefully during quarters 3 and 4.

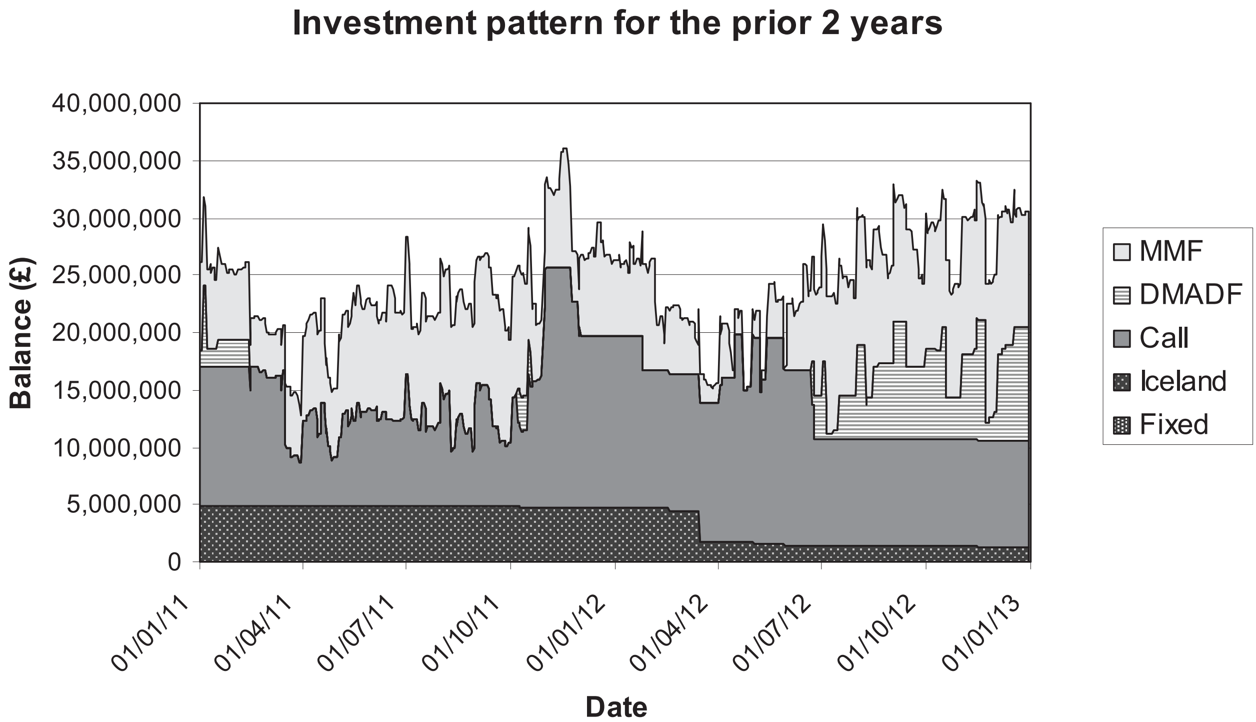
The £31M loan taken out at the end of March in respect of ending the HRA subsidy system was drawn down as an Equal Instalment of Principal (EIP) loan at 3.03% compared to the estimated 3.5%. This has resulted in annual saving of approximately £432K in interest which is split between the General Fund (£364K) and the HRA (£68K).

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 2012/13. 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 shown below.

Other Investments	Opening	Min	Max	Closing	Indicative rate	Cumulative Interest £
Call: RBS	£ 3,000,000	£ 3,000,000	£ 3,000,000	£ -	0.80%	£ 5,589
Call: Barclays	£ 3,000,000	£ -	£ 3,000,000	£ -	0.55%	£ 3,707
Call: Lancashire County Council	£ 6,000,000	£ 6,000,000	£ 12,000,000	£ 9,300,000	0.70%	£ 49,750
DMADF	£ -	£ -	£ 10,530,000	£ 9,810,000	0.25%	£ 8,335
Government Liquidity MMF	£ -	£ -	£ 6,000,000	£ 3,840,000	0.32%	£ 8,223
Liquidity First MMF.	£ 1,850,000	£ -	£ 6,000,000	£ 6,000,000	0.64%	£ 23,204
Sub-total	£ 13,850,000			£ 28,950,000		£ 98,807
					Budgeted income	£ 121,829



In the last quarter the Council has tried to make full use of the capacity with the County Council, once current cash demands become clear it may be that fixed term deposits are placed with County although they are at present fully borrowed and not taking on further deposits. Towards the end of the first quarter, credit rating changes to RBS and Barclays meant that these counterparties fell off the investment list. This is being addressed in developing next year's strategy.

Given this and the reduced ability to place deposits with County, lower yielding accounts have been used such as the DMADF and governmental MMF accounts with a resultant loss of investment income. In addition, cash balances are lower than anticipated in the budget, the main reason being the ongoing delays with realising material capital receipts.

.

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	0.41%
Lancaster CC investments	0.54%

The return is just above base and is better than the 7 day LIBID benchmark which is positive given that the Council's investments are in the main on instant access. In absolute terms as the Council has focused on secure and highly liquid deposits the rate of return is very modest however, for the type of investment the Council is making, it is a reasonable rate.

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

	Annual Budget	**Profiled Budget**	**Actual to Date**	**Variance**
	£'000	£'000	£'000	£'000
Icelandic Credits	50	38	38	0
Cash Interest	164	123	99	24
Total	**214**	**161**	**137**	**24**

There is an £24K adverse variance which is jointly due to lower cash balances than anticipated, as noted in section 6, as well as reduced capacity on higher yielding accounts following limits placed by the County and credit rating reductions to Barclays and RBS.

The credits from Icelandic investments are accounting adjustments to the investments that still held with the Icelandic banks. These are real credits to the General Fund balance but are subject to adjustments depending on changes to the repayment profile of outstanding amounts. At present there is no reason to alter the assumptions made at budget time but this will be kept under review.

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 counterparty risk exposure for investment remains low.

There is financial risk attached to the longer term debt portfolio, associated with interest rate exposure but all of the debt is on fixed interest and there has been no change to this over the quarter. The low rates create a risk in terms of the ability to repay debt but the Council is not yet in position to be following such a strategy.

There have been very positive developments with the Icelandic banks over the last 3 quarters and the risk attached to uncertainty of the Council's creditor status has now been extinguished. There are still uncertainties over the timing and exact amounts of repayments, as well as how elements already repaid in ISK will be repatriated.

Further, there is an interest rate risk attached to the current investment strategy where the Council, as at December 2012, had only those nationalised or part nationalised high street banks it could deal with, on an instant access basis. The cost/benefit of the current strategy in being reviewed to ensure that the risk of foregone income is being actively monitored against a level of counterparty risk that is acceptable.

A copy of the approved Prudential and Treasury Indicators is included for reference at ***Appendix B***.

Appendix B

Treasury Management Strategy 2013/14 to 2015/16

Draft for Consideration by Cabinet 12 February 2013

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash to be raised during the year will meet cash expenditure, after allowing for any changes in reserves and balances. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.2 Reporting requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report) **-** The first, and most important report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

A mid year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision. In addition, quarterly reports will continue to be presented to Cabinet with the Quarter 2 report being forwarded to full council.

An annual treasury report – This is prepared after the end of the financial year and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.3 Treasury Management Strategy for 2013/14

The strategy for 2013/14 covers two main areas:

Capital issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) strategy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsibe for scrutiny. Further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

2 THE CAPITAL PRUDENTIAL INDICATORS 2013/14 – 2015/16

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members overview and confirm capital expenditure plans.

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

The table below summarises capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need

Capital expenditure £'000	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Non-HRA	3,826	5,693	5,135	4,578	3,902
HRA	3,574	3,892	4,827	4,622	4,707
Total	**7,400**	**9,585**	**9,962**	**9,200**	**8,609**
Financed by:					
Capital receipts		618	9,443		
Capital grants (general)	100	100			
Capital reserves	647	989	347	70	194
Revenue	484	306	87	30	30
Capital grants (Specific)	1,262	1,226	1,435	1,229	909
HRA:					
Capital Receipts	759	43	43	44	45
Capital Grants (general)	90				
Capital Reserves	2,453	3,559	4,784	4,578	4,662
Revenue	1,035	290			
Capital grants (Specific)	10				
Net financing need for the year	**559**	**2,454**	**(6,177)**	**3,249**	**2,769**

*The relatively large capital receipt relates to the sale of land in south Lancaster

2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £5.9m of such schemes within the CFR.

The Council is asked to approve the CFR projections below:

£'000	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Capital Financing Requirement					
CFR – non housing	36,644	37,534	29,851	32,026	33,642
CFR – housing	46,544	45,503	44,461	43,420	42,379
Total CFR	**83,188**	**83,037**	**74,312**	**75,446**	**76,021**
Movement in CFR	**32,368**	**(151)**	**(8,725)**	**1,134**	**575**

Movement in CFR represented by					
Net financing need for the year (above)	34,274*	2,454	(6,177)	3,249	2,769
Less MRP/VRP and other financing movements	(1,906)	2,605	2,548	2,115	2,194
Movement in CFR	**32,368**	**(151)**	**(8,725)**	**1,134**	**575**

*The large increase in HRA financing requirement related to the HRA Self Financing payment.

2.3 Minimum revenue provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

CLG regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement*:*

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);

These options provide for a reduction in the borrowing need over approximately the asset's life.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

Lancaster City Council may consider a mortgage support scheme in line with current regeneration projects in Morecambe.

2.4 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources £'000	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Fund balances / reserves	20,150	19,203	20,511	22,495	23,819
Capital receipts	210	0	0	0	0
Provisions	510	453	453	453	453
Other	200	100	0	0	0
Total core funds	**21,070**	**19,756**	**20,964**	**22,948**	**24,272**
Internal Investments*	6,188	7,216	(233)	2,100	3,826
Expected investments	****14,882**	**12,541**	**21,197**	**20,848**	**20,446**

*Internal investments relate to the difference between the CFR and the debt position as stated in section 3.1.
**Reason why this is different to ST + LT investments is due to surplus on working capital (creditor balance is higher than debtor balance)

2.5 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

2.6 Ratio of financing costs to net revenue stream.

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

%	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Total	**13.7%**	**19.1%**	**17.7%**	**16.0%**	**15.9%**

The estimates of financing costs include current commitments and the proposals in this budget report.

2.7 Incremental impact of capital investment decisions on council tax.

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

Incremental impact of capital investment decisions on the band D council tax

£	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Council tax - band D	**£2.28**	**-£4.20**	**£1.03**	**£3.13**	**£5.98**

* The large impact on band D council tax is due to a delayed capital receipt, relating to the sale of land in south Lancaster. This receipt is expected to be received during 2013/14.

3 Borrowing

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The Council's treasury portfolio position at 31 March 2012 and forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£'000	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
External Debt					
Debt at 1 April	70,872	70,109	69,068	68,027	66,985
Other long-term liabilities (OLTL)	6,128	5,712	5,477	5,319	5,209
Total external debt at 31 March	**77,000**	**75,821**	**74,545**	**73,346**	**72,195**
The Capital Financing Requirement	**83,188**	**83,037**	**74,312**	**75,446**	**76,021**
Under / (over) borrowing	**6,188**	**7,216**	**(233)**	**2,100**	**3,826**

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2013/14 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Head of Resources reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational boundary £m	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Debt	77.33	77.56	70.70	70.81
Other long term liabilities	5.49	5.25	5.10	4.99
Total	82.81	82.81	75.80	75.80

The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit:

Authorised limit £m	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Debt	94.00	94.00	87.00	87.00
Other long term liabilities	6.00	6.00	6.00	6.00
Total	100.00	100.00	93.00	93.00

3.3 Prospects for interest rates

The Council has appointed Sector as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the Sector central view.

Annual Average %	Bank Rate	PWLB Borrowing Rates (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2012	0.50	1.50	3.70	3.90
March 2013	0.50	1.50	3.80	4.00
June 2013	0.50	1.50	3.80	4.00
Sept 2013	0.50	1.60	3.80	4.00
Dec 2013	0.50	1.60	3.80	4.00
March 2014	0.50	1.70	3.90	4.10
June 2014	0.50	1.70	3.90	4.10
Sept 2014	0.50	1.80	4.00	4.20
Dec 2014	0.50	2.00	4.10	4.30
March 2015	0.75	2.20	4.30	4.50
June 2015	1.00	2.30	4.40	4.60
Sept 2015	1.25	2.50	4.60	4.80
Dec 2015	1.50	2.70	4.80	5.00
March 2016	1.75	2.90	5.00	5.20

The economic recovery in the UK since 2008 has been the worst and slowest recovery in recent history, although the economy returned to positive growth in the third quarter of 2012. Growth prospects are weak and consumer spending, the usual driving force of recovery, is likely to remain under pressure due to consumers focusing on repayment of personal debt, inflation eroding disposable income, general malaise about the economy and employment fears.

The primary drivers of the UK economy are likely to remain external. 40% of UK exports go to the Eurozone so the difficulties in this area are likely to continue to hinder UK growth. The US, the main world economy, faces similar debt problems to the UK, but urgently needs to resolve the fiscal cliff now that the the Presidential elections are out of the way. The resulting US fiscal tightening and continuing Eurozone problems will depress UK growth and is likely to see the UK deficit reduction plans slip.

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

- The Eurozone sovereign debt difficulties provide a clear indication of high 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 2013/14 and beyond;
- Borrowing interest rates continue to be attractive and may remain relatively low for some time. The timing of any borrowing will need to be monitored carefully;
- There will remain a cost of carry – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

3.4 Borrowing strategy

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.

The Head of Resources, 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 term.

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.

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 Resources 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.

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.

4 Investment Strategy

Investment Strategy 2012/13 to 2014/15

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.

The types of investment allowable are categorised as either Specified and Non Specified investments. Details of these are set out in Table 3.

The current investment climate has an over-riding risk consideration, that of counterparty security risk. The Head of Resources 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.

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.

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 *Annex C*.

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:

- are UK banks; or
- 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)

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's limits will be monitored.

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, and media coverage) will be reviewed prior to investments being placed.

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				
	Fitch	**Moody's**	**Standard & Poors**	**Money Limit[8]**	**Time Limiit[9]**
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), and part-nationalised banks.

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.

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, 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.

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

Expectations on shorter-term interest rates is the possibility of a moderate rise in 2013/14.

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.

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

Risk benchmarking

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.

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 2012/13 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 2013/14 with a view to presenting this information to Members in due course.

Treasury Management Indicators and Limits on Activity

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.

Council will also be requested to approve the treasury management indicators, as updated in line with final budget proposals, at its meeting on 27 February 2013.

Table 5: Treasury Management Indicators

£m	2013/14		2014/15		2015/16	
Interest rate exposures (TM 1 & TM 2)						
	Upper		**Upper**		**Upper**	
Limits on fixed interest rates based on net debt	100%		100%		100%	
Limits on variable interest rates based on net debt	30%		30%		30%	
Maturity structure of fixed interest rate borrowing (TM3)						
	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 2013/14 for periods of greater than 364 days, to mature after the end of each financial year	£0M		£0M		£0M	

Treasury Management Advisers

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.

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

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.

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 A2

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

Annex B

Investment Interest Earned 31st December 2012

Icelandic Investments	Opening	Closing	Rate	Cumulative Interest
Deposited 2007/08				
Landsbanki Islands	£ 792,407	£ 592,902	6.25%	£ 32,671
Glitnir	£ 570,818	£ 570,818	5.76%	£ 24,772
Deposited 2008/09				
Kaupthing, Singer & Friedlander	£ 419,840	£ 153,600	6.00%	£ 10,334
Sub total	£ 1,783,065.00	£ 1,317,320.00		£ 67,776.93

Other Investments	Opening	Min	Max	Closing	Indicative rate	Cumulative Interest £
Call: RBS	£ 3,000,000	£ 3,000,000	£ 3,000,000	£ -	0.80%	£ 5,589
Call: Barclays	£ 3,000,000	£ -	£ 3,000,000	£ -	0.55%	£ 3,707
Call: Lancashire County Council	£ 6,000,000	£ 6,000,000	£ 12,000,000	£ 9,300,000	0.70%	£ 49,750
DMADF	£ -	£ -	£ 10,530,000	£ 9,810,000	0.25%	£ 8,335
Government Liquidity MMF	£ -	£ -	£ 6,000,000	£ 3,840,000	0.32%	£ 8,223
Liquidity First MMF.	£ 1,850,000	£ -	£ 6,000,000	£ 6,000,000	0.64%	£ 23,204
Sub-total	£ 13,850,000			£ 28,950,000		£ 98,807
					Budgeted income	£ 121,829

*Under 2009 accounting guidance, interest continues to be accrued whilst Icelandic investments are on the councils balance sheet. To counter th, however, the provisions made to cover any losses take account of this accrued interest, as well as principle sums (£4.84m invested).

ANNEX C

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 C

TREASURY MANAGEMENT FRAMEWORK DOCUMENTS AND RESPONSIBILITIES
For Consideration by Cabinet 12 February 2013

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 arrangements. *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 Resources' 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 12 February 2013

This reflects the revised CIPFA Treasury Management Code of Practice (Code updated in 2011).

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.