LANCASTER CITY COUNCIL

*Promoting City, Coast & Countryside*

## LATE REPORTS, URGENT BUSINESS and SUPPLEMENTARY INFORMATION

Cabinet

Tuesday, 15 February 2011

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

| Agenda Item Number | Page | Title | Officer Responsible For Late Report |
|---|---|---|---|
| 9 | 1 - 17 | WELLBEING FEES AND CHARGES | Report of the Head of Community Engagement |

| Agenda Item Number | Page | Title | Officer Responsible For Late Report |
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| 11 | 18 - 52 | BUDGET UPDATE REPORT 2011/12 | Report of the Head of Financial Services |

| Agenda Item Number | Page | Title | Officer Responsible For Late Report |
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| 12 | 53 - 77 | TREASURY MANAGEMENT STRATEGY 2011/12 | Report of the Head of Financial Services |

**CABINET**

# Community Engagement - Wellbeing
# Fees & Charges 2011/12

## 15th February 2011

## Report of Head of Community Engagement

<table>
<tr><td colspan="6">PURPOSE OF REPORT<br><br>This report has been prepared as part of the 2011/12 estimate procedure and sets out options for increasing the level of fees and charges at Salt Ayre Sports Centre, Community Pools and Platform.</td></tr>
<tr><td>Key Decision</td><td>X</td><td>Non-Key Decision</td><td></td><td>Referral from Cabinet Member</td><td></td></tr>
<tr><td colspan="2">Date Included in Forward Plan</td><td colspan="4">02 February 2011</td></tr>
<tr><td colspan="6">This report is public.</td></tr>
</table>

**RECOMMENDATIONS OF COUNCILLOR ASHWORTH**

**(1) That the charges for Salt Ayre Sports Centre, Community Pools, Williamson Park, Parks and Recreation Grounds and the Platform are increased in line with the proposed percentages (rounded to nearest £0.10) as set out in Appendix 1 with effect from 1st March 2011, generating additional income of £14,400 over and above the minimum budgetary requirement to cover inflation and VAT increases.**

**(2) That the Overview & Scrutiny Chairman be consulted with a view to waiving call in, in accordance with Overview & Scrutiny Procedure Rule 17, to enable the decision to be implemented immediately.**

### 1.0 Introduction

Figures for income generation are set each year as part of the budget process. This report sets out to demonstrate possible increases to revenue across Salt Ayre Sports Centre, Community Swimming Pools, Williamson Park, Parks and Recreation Grounds and the Platform from 1st March 2011.

### 2.0 Proposal Details

2.1 Appendix 1 details the current charges and the options for increases. The charges are rounded to the nearest 10p.

2.2 Increasing Charges

The setting of charges within each facility is very much led by customer demand and as such is not always easily addressed by simply applying one percentage increase across the board. Some competitors within the industry apply different strategies and in some cases opt not to increase charges on the basis that customer resistance would result in dramatic reduction in throughput and therefore a decrease in income.

2.2 This report sets out increases to key charges (activities which generate majority of total income) with varying percentage increases based on officers knowledge of market demand and supply, factors such as inflation and VAT and the need for the Council to operate services which provide value for money.

2.3 Monitoring

Officers within Wellbeing and Finance have improved the ability to monitor performance of each facility. Monthly monitoring of performance against all cost centres will enable officers to pick up on trend analysis and make adjustments in order to help address under performance. Similarly, information will be retained which will help influence future price increases.

Formal monitoring will continue to be reported via the Performance Review Team (PRT) process on a quarterly basis.

## 3.0 Options and Options Analysis

| | **Option 1** To approve the increase in fees as recommended in the report | **Option 2** To approve a different percentage increase. | **Option 3** To do nothing and retain the existing fees and charges. |
|---|---|---|---|
| Advantages | This option makes a small additional contribution to the 2011/12 budget process, whilst retaining fees at competitive levels.<br><br>This therefore takes into account inflation and the implications of the increase in VAT. | This option potentially allows for a greater increase in revenue if an increase of greater than the recommended percentage is approved, therefore making a greater contribution to the 2011/12 budget process. | This option would mean no price increases for customers.<br><br>This could have a positive effect on income generation should the trend for throughput increase significantly as a result of no increases. |
| Disadvantages | Any increase in fees is likely to be unpopular with customers. | An increase in fees above the recommended amount is likely to meet with customer resistance.<br><br>This could result in reduction in income generation and as such customer dissatisfaction that may be difficult to respond to. | No opportunity to raise additional revenue through fees and charges in areas that may stand an increase.<br><br>This option will not meet the current budget requirements, requiring additional income or savings to be generated from other activities / services undertaken by |

| | | | |
|---|---|---|---|
| | | | the council. |
| Risks | There is always a risk that customers will choose not to access services with any increase in charges. | There is always a risk that customers will choose not to access services if fees are too high or move to one of the key competitors in the district.<br><br>There is a risk that even current income levels will fail to be achieved if fees are perceived to be too high. | This option increases the difficulties of securing a viable budget at a time when additional income and savings are required.<br><br>There is no increase in throughput and the Council suffers loss of income. |

**4.0 Officer Preferred Options**

4.1 The officer preferred option is Option 1. This option allows for increased revenue whilst retaining fees at affordable and competitive levels. The flexibility for the Head of Community Engagement to set maximum prices in line with particular promotions for activities would help to respond to changes in market demand throughout the year and this is noted on the Appendix.

4.2 For future years, it is anticipated that there will be changes to introduce a clearer policy for the setting of fees and charges generally, supported by updates to the Scheme of Delegation. This is currently being developed for consideration by Members in due course and this will be considered as part of a review of the Scheme of Delegation.

**RELATIONSHIP TO POLICY FRAMEWORK**

Fees and charges form an integral part of the budget setting process, which in turn relates to the Council's priorities.

**CONCLUSION OF IMPACT ASSESSMENT**
**(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)**

The proposed increases are considered to be fair and reasonable.

**FINANCIAL IMPLICATIONS**

The report recommends that the proposed price increases take effect from 1st March rather than 1st April 2011 to avoid setting new fees more than once in a relatively short time period, i.e. once for VAT and then again to cover future inflationary increases. This will also offset income currently being lost since 4th January when the new VAT rate came into force. Should Members resolve to implement the new prices from 1st April instead, it is not expected that variances will be significant, however.

The 2011/12 draft budget assumes that throughput for all areas will continue at similar levels as has been projected for 2010/11. An inflationary increase of 2.4% in respect of fees and charges totalling £39,400 for all areas included within this report has been added in line with the council’s policy on fees and charges. The increase in the standard VAT rate from 17.5% to

20% from 4th January 2011 totalling £23,900 for all areas has also been taken into account in developing the options included within this report. It should be further noted that some areas are non-vatable, i.e. hall and pool hire and educational classes and this has also been acccounted for in the projections shown in the table below.

The report sets out a number of options for Members consideration, which not only meet the draft budget but also gives the flexibility to consider setting fees and charges over and above those currently projected.

Option 1 as set out in the table below is expected to not only meet the budgetary requirement of £63,300, but also provide an additional £14,400 over and above that currently included within the draft budget. This option has an inherent risk associated with it as any increases could potentially impact on usage, although is mitigated to some extent as is based on managers current experience of their respective areas.

| | **2.4% Inflation included in 2011/12 Draft Budget** | **2.5% Add'l VAT included in 2011/12 Draft Budget** | **Total Inflation + VAT** | **Propopsed Additional Income** |
|---|---|---|---|---|
| **Budgetary Requirement (Inflation/VAT Shortfall)** | **(39,400)** | **(23,900)** | **(63,300)** | **14,400** |
| SASC | 22,500 | 11,800 | 34,300 | (2,600) |
| Community Pools | 7,400 | 3,900 | 11,300 | (7,200) |
| The Platform | 1,400 | 0 | 1,400 | (4,300) |
| Williamson Park | 7,700 | 8,200 | 15,900 | 0 |
| Recreation Grounds/Parks | 400 | 0 | 400 | (300) |
| **Total Budget Shortfall/(Surplus)** | **39,400** | **23,900** | **63,300** | **(14,400)** |

Should Members approve a different percentage increase as set out in the report for option 2, the impact on the draft budget cannot be properly quantified at this stage until the financial implications are further analysed based on the new percentage proposed. The Head of Community Engagement would need the flexibility to choose a range of fee increases where appropriate that will not only meet the current budget requirement of £63,300, but also allow an additional contribution to be made to the 2011/12 draft budget in line with any increased percentage as agreed by Members. Depending on the percentage increase chosen, this option has significantly increased risks however, i.e. associated with increased customer resistance and any differing trend in activities undertaken which will inevitably impact on the actual income raised.

Under option 3 there is no strong evidence to suggest that throughput would increase, therefore there is a high risk that income would be very similar to 2010/11, therefore not meet the budget requirement currently included in the 2011/12 draft budget. This could result in a potential shortfall of £63,300 (split £39,400 inflation and £23,900 VAT). In effect, the VAT increase from 4th January reduces further the flexibility to meet the current target through alternative means other than increasing fees and charges in line with option 1 and 2.

Members are reminded that, if option 3 is taken forward, then as it falls outside of the current budget framework and it will impact on the need to make more savings in other areas of activity, then it would need to be referred onto Full Council for further consideration as part of the overall budget process.

**SECTION 151 OFFICER'S COMMENTS**

The s151 Officer would advise that the proposals be considered in context of the Council's priorities and its future financial prospects, as well as the need to be fair to service users, balanced against Council Tax payers more generally.

**LEGAL IMPLICATIONS**

There are legal implications associated with this report

**MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted and has no further comment

| | |
|---|---|
| **BACKGROUND PAPERS**<br><br>Fees & Charges 2010/11 report to Cabinet | **Contact Officer: Simon Kirby**<br>**Telephone:** 01524 582831<br>**E-mail: skirby@lancaster.gov.uk**<br>**Ref:** |

# Appendix 1

Prices listed are maximum charges and are all subject to variation in line with market demand and specific promotional campaigns. A flexible approach with regard to setting charges is required in order for officers to maximise marketing opportunities and respond to industry trends which could include introduction of new activities at competitive charges.

## Salt Ayre Sports Centre

| ITEM | Current Gross Price (rounded) 2010/11 | Proposed Gross Price (rounded to nearest 10p) 2011/12 | Total % Increase including VAT@2.5% + RPI@2.4%+ Service Increase | Service % Increase |
|---|---|---|---|---|
| **Main Hall** Peak Mon - Fri 16.00 - 22.30 inc. | | | | |
| **Per Court** | | | | |
| Badminton / Short Tennis Adult Peak | 8.50 | 9.00 | 5.9% | 1.0% |
| Badminton / Short Tennis Adult Off Peak | 7.50 | 8.00 | 6.7% | 1.8% |
| Badminton / Short Tennis Junior Peak | 7.00 | 7.50 | 7.1% | 2.2% |
| Badminton / Short Tennis Junior Off Peak | 6.00 | 6.50 | 8.3% | 3.4% |
| 50 + Badminton | 3.30 | 3.50 | 6.1% | 1.2% |
| PTL Badminton / Short Tennis | 4.00 | 4.50 | 12.5% | 7.6% |
| **Per Table** | | | | |
| Table Tennis Adult Peak | 4.50 | 5.00 | 11.1% | 6.2% |
| Table Tennis Adult Off Peak | 4.00 | 4.50 | 12.5% | 7.6% |
| Table Tennis Junior Peak | 3.50 | 4.00 | 14.3% | 9.4% |
| Table Tennis Junior Off Peak | 3.00 | 3.50 | 16.7% | 11.8% |
| PTL Table Tennis | 4.00 | 4.20 | 5.0% | 0.1% |
| PTLAnnual Card Fee | 13.00 | 14.00 | 7.7% | 2.8% |
| **Main Hall Hire Hourly** | | | | |
| 1/4 Hall Peak | 23.00 | 25.00 | 8.7% | 3.8% |
| 1/4 Hall Off Peak | 18.50 | 20.00 | 8.1% | 3.2% |
| 1/2 Hall Peak | 45.00 | 48.00 | 6.7% | 1.8% |
| 1/2 Hall Off Peak | 35.00 | 37.00 | 5.7% | 0.8% |
| 1/2 Hall Adult Day Sport | 240.00 | 250.00 | 4.2% | |
| 1/2 Hall Junior Day Sport | 120.00 | 130.00 | 8.3% | 3.4% |
| Whole Hall Peak | 480.00 | 500.00 | 4.2% | |
| Whole Hall Off Peak | 250.00 | 270.00 | 8.0% | 3.1% |
| Meeting room Hire | 20.00 | 22.00 | 10.0% | 5.1% |
| **Swimming** | | | | |
| Adult | 3.20 | 3.50 | 9.4% | 4.5% |
| Junior | 1.80 | 2.00 | 11.1% | 6.2% |
| Senior Citizen | 2.20 | 2.40 | 9.1% | 4.2% |
| Senior Citizen with Card | 2.00 | 2.20 | 10.0% | 5.1% |
| PTL Swim | 2.20 | 2.40 | 9.1% | 4.2% |
| Family Swim | 7.50 | 9.00 | 20.0% | 15.1% |

## Salt Ayre Sports Centre

| ITEM | Current Gross Price (rounded) 2010/11 | Proposed Gross Price (rounded to nearest 10p) 2011/12 | Total % Increase including VAT@2.5% + RPI@2.4%+ Service Increase | Service % Increase |
|---|---|---|---|---|
| Spectators (all) | 1.20 | 1.50 | 25.0% | 20.1% |
| Discount Adult 12 @ 10 | 32.00 | 35.00 | 9.4% | 4.5% |
| Discount Junior 12 @ 10 | 18.00 | 20.00 | 11.1% | 6.2% |
| Badges & Certificates | 3.00 | 3.50 | 16.7% | 11.8% |
| **Swim Tuition** per lesson | | | | |
| Adult | 3.85 | 4.25 | 10.4% | 5.5% |
| Junior | 3.85 | 4.25 | 10.4% | 5.5% |
| **Swim Passes** | | | | |
| Early Bird 6 Month | 70.00 | 75.00 | 7.1% | 2.2% |
| Adult 6 Month | 135.00 | 140.00 | 3.7% | |
| Senior 60 + 6 Month | 99.00 | 110.00 | 11.1% | 6.2% |
| Junior 6 Month | 70.00 | 75.00 | 7.1% | 2.2% |
| Adult 1 Month | 35.00 | 38.00 | 8.6% | 3.7% |
| Junior 1 Month | 20.00 | 22.00 | 10.0% | 5.1% |
| **Pool Hire (Per Hour)** | | | | |
| Learner Pool | 30.00 | 32.00 | 6.7% | 1.8% |
| Main Pool | 50.00 | 55.00 | 10.0% | 5.1% |
| Whole Pool | 70.00 | 75.00 | 7.1% | 2.2% |
| Clubs | 42.00 | 46.00 | 9.5% | 4.6% |
| **Fitness Classes** | | | | |
| Classes (Off Peak) | 3.30 | 4.00 | 21.2% | 16.3% |
| Classes (Peak) | 4.30 | 4.50 | 4.7% | |
| PTLClasses | 2.20 | 2.40 | 9.1% | 4.2% |
| Gymnastics | 4.00 | 4.25 | 6.3% | 1.4% |
| | | | | |
| **Reflexions (Priced monthly)** | | | | |
| Induction | 25.00 | 25.00 | 0.0% | |
| PTL Reflexions Induction | 20.00 | 22.00 | 10.0% | 5.1% |
| Annual Pass | 33.00 | 34.00 | 3.0% | |
| Membership Off Peak | 25.00 | 26.00 | 4.0% | |
| Monthly Membership | 45.00 | 45.00 | 0.0% | |
| PHYZZ 55 | 20.00 | 22.00 | 10.0% | 5.1% |
| Corporate | 26.00 | 28.00 | 7.7% | 2.8% |
| PTL Gym & Sauna | 5.50 | 6.00 | 9.1% | 4.2% |
| Junior | 16.50 | 17.00 | 3.0% | |
| Casual Use | 5.50 | 6.00 | 9.1% | 4.2% |
| PTL Fitness Suite | 4.50 | 5.00 | 11.1% | 6.2% |
| **Heatwaves** | | | | |
| Sauna Steam Adult | 5.00 | 5.50 | 10.0% | 5.1% |
| PTL Heatwaves | 4.50 | 5.00 | 11.1% | 6.2% |

## Salt Ayre Sports Centre

| ITEM | Current Gross Price (rounded) 2010/11 | Proposed Gross Price (rounded to nearest 10p) 2011/12 | Total % Increase including VAT@2.5% + RPI@2.4%+ Service Increase | Service % Increase |
|---|---|---|---|---|
| **Hall Hire - Other** | | | | |
| Hall Hire - Studio | 28.00 | 30.00 | 7.1% | 2.2% |
| Hall Hire - Projectile Hall | 28.00 | 30.00 | 7.1% | 2.2% |
| Aquarius | 22.00 | 24.00 | 9.1% | 4.2% |
| **Athletics Track** | | | | |
| Events (with equipment) | 250.00 | 260.00 | 4.0% | |
| Events | 120.00 | 130.00 | 8.3% | 3.4% |
| Hourly Rate | 30.00 | 33.00 | 10.0% | 5.1% |
| **Outdoor Hire (Per Hour)** | | | | |
| Synthetic Pitch Adult Floodlit | 33.00 | 34.00 | 3.0% | |
| Synthetic Pitch Junior Floodlit | 16.50 | 17.00 | 3.0% | |
| Cycle Racing Circuit | 25.00 | 28.00 | 12.0% | 7.1% |
| Cycle Skills | 12.50 | 14.00 | 12.0% | 7.1% |
| **Misc Income** | | | | |
| Shower | 2.50 | 3.00 | 20.0% | 15.1% |

## Heysham Pool

| ITEM | Current Gross Price (rounded) 2010/11 | Proposed Gross Price (rounded to nearest 10p) 2011/12 | Total % Increase including VAT@2.5% + RPI@2.4%+ Service Increase | Service % Increase |
|---|---|---|---|---|
| **Swimming** | | | | |
| Adult | 3.20 | 3.50 | 9.4% | 4.5% |
| Junior | 1.80 | 2.00 | 11.1% | 6.2% |
| Senior Citizen | 2.20 | 2.40 | 9.1% | 4.2% |
| Senior with card | 2.00 | 2.20 | 10.0% | 5.1% |
| PTL Swim | 2.20 | 2.40 | 9.1% | 4.2% |
| Spectators (all) | 1.20 | 1.50 | 25.0% | 20.1% |
| Family Swim | 7.50 | 9.00 | 20.0% | 15.1% |
| **Discount Books** | | | | |
| Discount Adult 12 @ 10 | 32.00 | 35.00 | 9.4% | 4.5% |
| Discount Junior 12 @ 10 | 18.00 | 20.00 | 11.1% | 6.2% |
| **Six Month Pass** | | | | |
| Adult | 135.00 | 150.00 | 11.1% | 6.2% |
| Junior | 70.00 | 75.00 | 7.1% | 2.2% |
| Senior | 99.00 | 110.00 | 11.1% | 6.2% |
| Early Bird | 70.00 | 75.00 | 7.1% | 2.2% |
| **Classes** | | | | |
| Aquafit | | | | |
| Daytime, Adult/Senior Citizen | 3.20 | 3.40 | 6.3% | 1.4% |
| Evening, Adult | 4.00 | 4.20 | 5.0% | 0.1% |
| Evening Senior Citizen | 2.80 | 3.00 | 7.1% | 2.2% |
| Parent and Child | 3.20 | 3.40 | 6.3% | 1.4% |
| **Pool Hire** | | | | |
| Private Hire | 41.20 | 50.00 | 21.4% | 16.5% |
| Private Hire Block Booking | 41.20 | 43.00 | 4.4% | |
| Carnforth Otters | 37.50 | 40.00 | 6.7% | 1.8% |
| Commercial Hire | 74.00 | 78.00 | 5.4% | 0.5% |
| Lifeguard | 13.00 | 14.00 | 7.7% | 2.8% |
| **Swimming Lessons** | | | | |
| Adult 8/10 week course | 3.85 | 4.25 | 10.4% | 5.5% |
| Junior | 3.85 | 4.25 | 10.4% | 5.5% |
| One to One | 10.00 | 11.00 | 10.0% | 5.1% |
| Badge and certificates | 3.00 | 3.50 | 16.7% | 11.8% |
| **Parties** | | | | |
| Floats | 62.00 | 65.00 | 4.8% | |
| Knockout | 78.00 | 85.00 | 9.0% | 4.1% |
| Vend Area 30 mins | 22.70 | 25.00 | 10.1% | 5.2% |

## Hornby Pool

| ITEM | Current Gross Price (rounded) 2010/11 | Proposed Gross Price (rounded to nearest 10p) 2011/12 | Total % Increase including VAT@2.5% + RPI@2.4%+ Service Increase | Service % Increase |
|---|---|---|---|---|
| **Swimming** | | | | |
| Adult | 3.20 | 3.50 | 9.4% | 4.5% |
| Junior | 1.80 | 2.00 | 11.1% | 6.2% |
| Senior Citizen | 2.20 | 2.40 | 9.1% | 4.2% |
| Senior with card | 2.00 | 2.20 | 10.0% | 5.1% |
| PTL Swim | 2.20 | 2.40 | 9.1% | 4.2% |
| Spectators (all) | 1.20 | 1.50 | 25.0% | 20.1% |
| Family Swim | 7.50 | 9.00 | 20.0% | 15.1% |
| **Discount Books** | | | | |
| Discount Adult 12 @ 10 | 32.00 | 35.00 | 9.4% | 4.5% |
| Discount Junior 12 @ 10 | 18.00 | 20.00 | 11.1% | 6.2% |
| **Six Month Pass** | | | | |
| Adult | 135.00 | 150.00 | 11.1% | 6.2% |
| Junior | 70.00 | 75.00 | 7.1% | 2.2% |
| Senior Citizen | 99.00 | 110.00 | 11.1% | 6.2% |
| Early Bird Pass | 70.00 | 75.00 | 7.1% | 2.2% |
| **Classes** | | | | |
| Aquacise Day / Seniors | 3.20 | 3.40 | 6.3% | 1.4% |
| Aquacise Evening | 4.00 | 4.20 | 5.0% | 0.1% |
| Daytime, Adult/Senior Citizen | 3.20 | 3.40 | 6.3% | 1.4% |
| Evening, Adult | 4.00 | 4.20 | 5.0% | 0.1% |
| Evening Senior Citizen | 2.80 | 3.00 | 7.1% | 2.2% |
| Parent and Child | 3.00 | 3.40 | 13.3% | 8.4% |
| **Pool Hire** | | | | |
| Private Hire | 41.20 | 50.00 | 21.4% | 16.5% |
| Private Hire Block Booking | 41.20 | 43.00 | 4.4% | |
| Commercial Hire | | 78.00 | | |
| Lifeguard per hour | 13.00 | 14.00 | 7.7% | 2.8% |
| Pool Party inc. Lifeguard | 65.00 | 65.00 | 0.0% | |
| **Swimming Lessons** | | | | |
| Adult 8/10 week course | 3.85 | 4.25 | 10.4% | 5.5% |
| Junior | 3.85 | 4.25 | 10.4% | 5.5% |
| One to one | 10.00 | 11.00 | 10.0% | 5.1% |
| Badge and certificates | 3.00 | 3.50 | 16.7% | 11.8% |

## Carnforth Pool

| ITEM | Current Gross Price (rounded) 2010/11 | Proposed Gross Price (rounded to nearest 10p) 2011/12 | Total % Increase including VAT@2.5% + RPI@2.4%+ Service Increase | Service % Increase |
|---|---|---|---|---|
| **Swimming** | | | | |
| Adult | 3.20 | 3.50 | 9.4% | 4.5% |
| Junior | 1.80 | 2.00 | 11.1% | 6.2% |
| Senior Citizen | 2.20 | 2.40 | 9.1% | 4.2% |
| Senior with card | 2.00 | 2.20 | 10.0% | 5.1% |
| PTL Swim | 2.20 | 2.40 | 9.1% | 4.2% |
| Spectators (all) | 1.20 | 1.50 | 25.0% | 20.1% |
| Family swim | 7.50 | 9.00 | 20.0% | 15.1% |
| **Discount Books** | | | | |
| Discount Adult 12 @ 10 | 32.00 | 35.00 | 9.4% | 4.5% |
| Discount Junior 12 @ 10 | 18.00 | 20.00 | 11.1% | 6.2% |
| **Six Month Pass** | | | | |
| Adult | 135.00 | 150.00 | 11.1% | 6.2% |
| Junior/ | 70.00 | 75.00 | 7.1% | 2.2% |
| Senior Citizen | 99.00 | 110.00 | 11.1% | 6.2% |
| Early Bird Pass | 70.00 | 75.00 | 7.1% | 2.2% |
| **Classes** | | | | |
| Aquafit | | | | |
| Daytime, Adult/Senior Citizen | 3.20 | 3.40 | 6.3% | 1.4% |
| Evening, Adult | 4.00 | 4.20 | 5.0% | 0.1% |
| Evening Senior Citizen | 2.80 | 3.00 | 7.1% | 2.2% |
| Parent and Child | 3.00 | 3.40 | 13.3% | 8.4% |
| Ante Natal | | 3.40 | | |
| **Pool Hire** | | | | |
| Private Hire | 41.20 | 50.00 | 21.4% | 16.5% |
| Private Hire Block Booking | 41.20 | 43.00 | 4.4% | |
| Carnforth Otters | 37.50 | 40.00 | 6.7% | 1.8% |
| Commercial Hire | 74.00 | 78.00 | 5.4% | 0.5% |
| Lifeguard | 13.00 | 14.00 | 7.7% | 2.8% |
| **Swimming Lessons** | | | | |
| Adult 8/10 week course | 3.85 | 4.25 | 10.4% | 5.5% |
| Junior | 3.85 | 4.25 | 10.4% | 5.5% |
| One to One | 10.00 | 11.00 | 10.0% | 5.1% |
| Badge and certificates | 3.00 | 3.50 | 16.7% | 11.8% |
| **Parties** | | | | |
| Floats | 62.00 | 65.00 | 4.8% | |
| Knockout | 78.00 | 85.00 | 9.0% | 4.1% |
| Vend Area 30 mins | 22.70 | 25.00 | 10.1% | 5.2% |

## The Platform

| ITEM | Current Gross Price (rounded) 2010/11 | Proposed Gross Price (rounded to nearest 10p) 2011/12 | Total % Increase including VAT@2.5% + RPI@2.4%+ Service Increase | Service % Increase |
|---|---|---|---|---|
| | | | | |
| **Hire Charges - Charity Rate** | | | | |
| ***Daytime 9.30am to 12.30pm*** | | | | |
| Mon, Tues & Weds | £30.00 | £40.00 | 33.3% | 28.4% |
| Thurs | £35.00 | £45.00 | 28.6% | 23.7% |
| Fri | £45.00 | £55.00 | 22.2% | 17.3% |
| Sat, Sun & Bank Holidays | £100.00 | £130.00 | 30.0% | 25.1% |
| Coffee Morning rate available Mon - Thurs only | £20.00 | £25.00 | 25.0% | 20.1% |
| Morning Xmas Fair | £40.00 | £50.00 | 25.0% | 20.1% |
| | | | | |
| ***Daytime 1.00pm to 5.00pm*** | | | | |
| Mon, Tues & Weds | £35.00 | £45.00 | 28.6% | 23.7% |
| Thurs | £50.00 | £60.00 | 20.0% | 15.1% |
| Fri | £55.00 | £70.00 | 27.3% | 22.4% |
| Sat, Sun & Bank Holidays | £100.00 | £140.00 | 40.0% | 35.1% |
| | | | | |
| ***Evening 6pm to 10.30pm (meetings) etc*** | | | | |
| min charge (upto 3 hours) under 100 persons | £75.00 | £95.00 | 26.7% | 21.8% |
| up to 150 | £150.00 | £180.00 | 20.0% | 15.1% |
| | | | | |
| **Concerts/Events open to General Public** | | | | |
| Hall Only | £300.00 | £365.00 | 21.7% | 16.8% |
| Technician to operate inhouse PA/Lights | £85.00 | £95.00 | 11.8% | 6.9% |
| | | | | |
| **Hire Charges - Commercial Hire** | | | | |
| ***Daytime 9.30am to 12.30pm*** | | | | |
| Mon to Fri | £65.00 | £85.00 | 30.8% | 25.9% |
| Sat, Sun | £175.00 | £195.00 | 11.4% | 6.5% |
| | | | | |
| | | | | |
| ***Daytime 1.00pm to 5.00pm*** | | | | |
| Mon to Fri | £75.00 | £95.00 | 26.7% | 21.8% |
| Sat & Sun | £175.00 | £210.00 | 20.0% | 15.1% |
| Bank Holidays | £175.00 | £280.00 | 60.0% | 55.1% |
| | | | | |
| ***Evening 6pm to 11.00pm*** | | | | |
| Mon to Wed | £300.00 | £365.00 | 21.7% | 16.8% |

## The Platform

| ITEM | Current Gross Price (rounded) 2010/11 | Proposed Gross Price (rounded to nearest 10p) 2011/12 | Total % Increase including VAT@2.5% + RPI@2.4%+ Service Increase | Service % Increase |
|---|---|---|---|---|
| Thurs, Fri, Sat, Sun | **£400.00** | **£455.00** | **13.8%** | **8.9%** |
| Bank Holidays | **£400.00** | **£525.00** | **31.3%** | **26.4%** |
| plus extra security costs if necessary | | | | |
| | | | | |
| ***Evening after 11pm*** | | | | |
| Mon to Thurs per hour | **£55.00** | **£65.00** | **18.2%** | **13.3%** |
| Fri, Sat, Sun & Bank Holidays per hour | **£75.00** | **£90.00** | **20.0%** | **15.1%** |
| Bank Holidays per hour | **£75.00** | **£110.00** | **46.7%** | **41.8%** |
| | | | | |
| Hire of house PA/Lights inc Technician 5 hrs | **£85.00** | **£100.00** | **17.6%** | **12.7%** |
| | | | | |
| Wedding reception & conference hire available on request | | | | |
| | | | | |

## Williamson Park Pricing

| ITEM | Current Gross Price (rounded) 2010/11 | Proposed Gross Price (rounded to nearest 10p) 2011/12 | Total % Increase including VAT@2.5% + RPI@2.4%+ Service Increase | Service % Increase |
|---|---|---|---|---|
| Adult Admission BH | £3.50 | £3.50 | 0.0% | |
| Child Admission BH | £2.50 | £2.50 | 0.0% | |
| Concession Admission | £3.00 | £3.00 | 0.0% | |
| Family Admission (2 x Adult 2 x Children) | £11.00 | £11.00 | 0.0% | |
| | | | | |
| School Booking Half Tour | £3.50 | 3.65 | 4.3% | |
| School Booking Full Tour | £4.25 | 4.30 | 1.2% | |
| | | | | |
| Wedding Hire | £400.00 | 420.00 | 5.0% | 0.1% |
| Wedding Corkage Alcoholic Drinks | £5.00 | 5.50 | 10.0% | 5.1% |
| Wedding Corkage Soft Drinks | £3.00 | 3.50 | 16.7% | 11.8% |
| Evening Hire | £350.00 | 370.00 | 5.7% | 0.8% |
| Evening Hire - Table Cloths | £50.00 | 55.00 | 10.0% | 5.1% |
| Evening Hire - Additional staff | £60.00 | 60.00 | 0.0% | |
| Ashton Memorial Day Hire | £150.00 | 155.00 | 3.3% | |
| Ashton Memorial 1/2 Day Hire | £75.00 | 80.00 | 6.7% | 1.8% |
| | | | | |
| Art Exhibition (1 week) | £20.00 | 25.00 | 25.0% | 20.1% |
| | | | | |
| Birthday Party Tour | £25.00 | 27.00 | 8.0% | 3.1% |
| Birtday Party Food Boxes | £3.75 | 4.00 | 6.7% | 1.8% |
| | | | | |
| Junior Zoo Keeper Course | £20.00 | 21.00 | 5.0% | 0.1% |
| Wildlife Detective Session | £3.00 | 3.50 | 16.7% | 11.8% |
| | | | | |
| WP Outdoor Theatre Adult Admission | £12.00 | 12.50 | 4.2% | |
| WP Outdoor Theatre Child Admission | £8.00 | 8.50 | 6.3% | 1.4% |
| WP Outdoor Theatre Concession Admission | £8.00 | 8.50 | 6.3% | 1.4% |
| WP Outdoor Theatre Family Admission | £35.00 | 37.00 | 5.7% | 0.8% |
| | | | | |
| Car Parking Permits | £20.00 | 22.00 | 10.0% | 5.1% |
| Short Stay Car Park | £0.50 | 0.60 | 20.0% | 15.1% |
| Long Stay Car Park | £1.00 | 1.20 | 20.0% | 15.1% |
| | | | | |
| Orienteering Admissions | £1.50 | 1.60 | 6.7% | 1.8% |

## Parks, Recreation Grounds & Open Space Pricing

| ITEM | Current Gross Price (rounded) 2010/11 | Proposed Gross Price (rounded to nearest 10p) 2011/12 | Total % Increase including VAT@2.5% + RPI@2.4%+ Service Increase | Service % Increase |
|---|---|---|---|---|
| **Grass Pitch (2 Hours)** | | | | |
| Adult Game | £39.00 | £40.90 | 4.9% | 0.0% |
| Junior Game | £19.50 | £20.50 | 5.1% | 0.2% |
| | | | | |
| **Recreation Grounds** | | | | |
| | | | | |
| **Bowls (Summer Season Ticket)** | | | | |
| Adult | £45.00 | 46.00 | 2.2% | -2.7% |
| Senior Citizen/Junior | £22.50 | 23.00 | 2.2% | -2.7% |
| **Bowls (Winter Season Ticket)** | | | | |
| Adult | £30.00 | 31.50 | 5.0% | 0.1% |
| Senior Citizen/Junior | £15.00 | 15.75 | 5.0% | 0.1% |
| **Bowls Casual Per Hour** | | | | |
| Adult | £3.20 | 3.50 | 9.4% | 4.5% |
| Senior Citizen/Junior | £1.60 | 1.75 | 9.4% | 4.5% |
| **Exclusive Green Use** | | | | |
| Half Day 3 hours | £32.50 | 34.00 | 4.6% | |
| Full Day 6 hours | £48.00 | 50.00 | 4.2% | |
| | | | | |
| **Clubs Per Season/Team** | | | | |
| Adult | £210.00 | 220.00 | 4.8% | |
| Senior Citizen/Junior | £110.00 | 115.00 | 4.5% | |
| | | | | |
| **Tennis Per Person** | | | | |
| **Season Ticket** | | | | |
| Adult | £55.00 | 56.00 | 1.8% | |
| Senior Citizen/Junior | £23.00 | 24.00 | 4.3% | |
| | | | | |
| **Casual Per Hour** | | | | |
| Adult | £3.00 | 3.50 | 16.7% | 11.8% |
| Senior Citizen/Junior | £1.50 | 1.70 | 13.3% | 8.4% |
| Lost Ball | £2.10 | 2.50 | 19.0% | 14.1% |
| 2 adult 2 children | £6.00 | 6.50 | 8.3% | 3.4% |
| | | | | |
| **Multi Use Games Areas (MUGA)** | | | | |
| **Happy Mount Park** | | | | |
| 55 mins with lights | £26.00 | 28.00 | 7.7% | 2.8% |
| Adult Without lights | £23.00 | 25.00 | 8.7% | 3.8% |

## Parks, Recreation Grounds & Open Space Pricing

| | Current Gross Price (rounded) | Proposed Gross Price (rounded to nearest 10p) | Total % Increase including VAT@2.5% + RPI@2.4%+ Service Increase | Service % Increase |
|---|---|---|---|---|
| Junior Without lights | £11.50 | 12.50 | 8.7% | 3.8% |
| **Douglas Park** | | | | |
| 55 mins with lights | £26.00 | | | |
| Adult Without lights | £23.00 | | | |
| Junior Without lights | £11.50 | | | |
| **10x 1hr sessions - no refunds** | | | | |
| Adult/Junior with floodlights 12 sessions(2free) | £260.00 | 280.00 | 7.7% | 2.8% |
| Adult no floodlight 12 session (2free) | £230.00 | 250.00 | 8.7% | 3.8% |
| Junior Without lights | £115.00 | 125.00 | 8.7% | 3.8% |
| **Ridge Ryelands Palatine** | | | | |
| Adult Without lights | | | | |
| Junior Without lights | | | | |
| **Playing Fields** | | | | |
| | | | | |
| **Football Club per Season** | | | | |
| Adult with changing rooms | £370.00 | 400.00 | 8.1% | 3.2% |
| Adult without changing room | £200.00 | 215.00 | 7.5% | 2.6% |
| Junior | £175.00 | 190.00 | 8.6% | 3.7% |
| | | | | |
| **Cricket club per season** | | | | |
| Adult with changing | £370.00 | 400.00 | 8.1% | 3.2% |
| Adult without Changing | £200.00 | 215.00 | 7.5% | 2.6% |
| Junior | £175.00 | 190.00 | 8.6% | 3.7% |
| | | | | |
| **Cricket per match** | | | | |
| Adult | £59.00 | 60.00 | 1.7% | |
| Junior | £32.50 | 33.00 | 1.5% | |
| | | | | |
| **Launching Permits** | | | | |
| Powered Craft | £15.00 | 15.50 | 3.3% | |
| Datatag (one off charge) | £50.00 | 50.00 | 0.0% | |
| Non Powered Vessel | £15.00 | 15.50 | 3.3% | |
| | | | | |
| **Registration of Commercial Vessels** | | | | |
| All Vessels | £0.00 | | | |
| | | | | |
| Quad Bike Access Permits for Shellfish Collection | £50.00 | 55.00 | 10.0% | 5.1% |
| Day Permits - All Vessels | £10.00 | 11.00 | 10.0% | 5.1% |
| | | | | |

## Parks, Recreation Grounds & Open Space Pricing

| | Current Gross Price (rounded) | Proposed Gross Price (rounded to nearest 10p) | Total % Increase including VAT@2.5% + RPI@2.4%+ Service Increase | Service % Increase |
|---|---|---|---|---|
| **Moored Vessel Registration** | | | | |
| Access to Carleton Terrace & Moorings | **£0.00** | | | |
| | | | | |
| Stone Jetty Permits - Disabled Anglers Vehicles | **£12.00** | **12.50** | **4.2%** | |
| Grosvenor Access Permits - Disabled Anglers Vehicles | **£6.00** | **6.50** | **8.3%** | **3.4%** |
| | | | | |
| Quad Bikes - Bond | **£250.00** | **250.00** | **0.0%** | |

# Agenda Item 11

**CABINET**

## Budget Update Report 2011/12
## 15 February 2011

## Report of Head of Financial Services

| | | | | | |
|---|---|---|---|---|---|
| **PURPOSE OF REPORT**<br><br>To inform Cabinet of the latest position following Council's consideration of the Budget and Policy Framework at its meeting held on 02 February, and to make recommendations back to Council in order to complete the budget setting process for 2011/12. | | | | | |
| **Key Decision** | | **Non-Key Decision** | | **Referral** | **X** |
| **Date Included in Forward Plan** | February 2011 | | | | |
| **This report is public.** | | | | | |

**RECOMMENDATIONS OF COUNCILLOR LANGHORN:**

1) **That Cabinet notes the inclusion of housing regeneration in the Council's corporate priorities and:**
   - **makes no changes to its budget proposals for 2011/12 but draws on existing housing related activity to inform development of the draft Corporate Plan;**
   - **requests the regeneration and housing Portfolio Holders to work jointly on proposals for consideration as part of the 2012/13 budget exercise, taking into account affordability and the Council's financial prospects.**

2) **That Council be recommended to approve the General Fund Revenue Budget at £21.481M for 2011/12, excluding parish precepts.**

3) **That Cabinet approves the budget proposals summarised at Appendices B and C for referral on to Council, subject to any changes in relation to items included elsewhere on the agenda.**

4) **That Cabinet approves the policy on provisions and reserves as included at Appendix D, for referral on to Council.**

5) **That Cabinet notes the final Local Government Settlement and the position regarding the estimated Collection Fund balance.**

6) **That Cabinet recommends a Council Tax target increase of no more than 2% for years 2012/13 and 2013/14, for incorporation into the draft Medium Term Financial Strategy.**

7) **That Cabinet approves the draft Capital Investment Priorities for 2012/13 onwards included at Appendix E, for incorporation into the draft Medium Term Financial Strategy.**

8) **That in line with recommendation (7) above, Cabinet approves the Capital Programme as set out at Appendix F for referral on to Council.**

9) **That the associated Prudential Indicators at Appendix G be referred on to Council for approval.**

**RECOMMENDATION OF COUNCILLOR KERR:**

10) **That the Housing Revenue Account budgets as set out at Appendix H be referred back to Council for approval.**

## 1 INTRODUCTION

1.1 Cabinet's initial proposals regarding the Budget and Policy Framework were considered at Budget and Performance Panel on 25 January and at Council on 02 February (minute 99 refers). No specific feedback was received from the Panel. The key points arising from Council are as follows:

- The priority of Economic Regeneration now covers Housing Regeneration as well as Energy Coast and Visitor Economy.
- A freeze in 2011/12 City Council Tax rates was approved.
- No specific recommendations or amendments were put forward in connection with the General Fund revenue or capital budget proposals.
- For Council Housing, the capital and reserves proposals were approved but the overall revenue budget was not approved.

1.2 This report builds on those resolutions and on other updated financial information, in order that recommendations can be made back to Budget Council on 02 March to finalise the Capital Programme, the Revenue Budget and Council Tax for 2011/12.

1.3 In addition, the report also seeks approval for key financial targets to be built into the Medium Term Financial Strategy (MTFS) update, which will be presented in full at the next Cabinet meeting.

## 2 POLICY IMPLICATIONS

2.1 Throughout this year's budget process, Cabinet has been consistently clear that proposals for allocating resources should be driven by policy and in particular, the Council's corporate priorities.

2.2 Further to the last Council meeting, development of the policy framework is now to cover housing as well as other regeneration. This presents Cabinet with the challenge of formulating proposals on how this priority is to be taken forward, in an affordable manner. To assist with this, the following points are highlighted:

- Support for housing regeneration may take various forms, such as through the planning framework, promoting and enforcing housing standards, investment in council housing, or enabling or delivering specific schemes in other housing sectors, as examples. Current growth proposals provide for increasing capacity in private sector housing standards. Future capacity for council housing investment will be dependent upon the Housing Revenue Account's financial prospects, taking account of rent levels and self-financing arrangements.

- Whilst various housing related functions and activities are already provided for within existing budget proposals, the only other available resources identified that could be used to support this priority further are £0.9M of s106 monies (held in the Other Commuted Sums Reserve), or alternatively unallocated Balances. Use of the former is covered by an existing protocol to support affordable housing. Use of the latter would mean that less (or no) funds could be set aside for invest to save initiatives, as set out later.

- At the time of writing this report, it is still unclear whether the Council will receive any specific housing capital grant funding for future years, other than that assumed for Disabled Facilities Grants. If possible an update will be provided at the meeting. There are no other housing investment provisions including in the draft Capital Programme for 2011/12 onwards.

- Alternatively, Cabinet may wish to consider redirecting resources away from other areas, into housing regeneration.

2.3 Cabinet is requested to consider the above points in finalising its budget proposals and capital investment priorities for 2011/12 or later years. Similarly Members are advised to take into account the key financial risks facing the Council, as summarised at ***Appendix A,*** and raise any other perceived key risks or opportunities that may influence budget setting.

2.4 It is important to note also that whilst budget proposals will be considered at the March Council meeting, the Corporate Plan will be considered at the subsequent Council meeting. Whilst this allows changes to the Plan to fit with any further budget amendments arising, the Budget will already have been set by the time Council considers the Corporate Plan and therefore there will be little flexibility in budgetary terms. This is inevitable, but it should be borne in mind.

## 3 2011/12 GENERAL FUND REVENUE BUDGET

3.1 In order to fit with a freeze in Council Tax rates and the final Settlement and Collection Fund positions as outlined later in this report, the General Fund Revenue Budget must be set at £21.481M for 2011/12, excluding parish precepts, and Cabinet is requested to refer this on to Council for approval.

3.2 In support of the above, additional work has been undertaken regarding the budget position and updated revenue proposals have been prepared as set out at ***Appendices B and C***. In summary, sufficient net savings have been identified to give a revenue budget that fits with a freeze in Council Tax, whilst still allowing a £500K contribution into Balances. This is on the assumption that all the savings and growth proposals as set out will be approved by Cabinet, for referral on to Council.

3.3 There are a few other points to note with regard to the draft position:

- Some further base budget changes have been made, mainly in relation to the change in thresholds for empty property rate relief, National Insurance contribution rates and also capital financing costs.

- The schedule takes account of various recommendations for items elsewhere on the agenda.

- The principle still remains that the City Council will no longer support any discretionary travel concessions and all budgets have been removed accordingly. Any administration changes will be resolved in due course.

- This is the last formal opportunity for Cabinet collectively to identify and consider any other savings, growth, or other redirecting of resources proposals in accordance with proposed priorities and in response to any consultation.

- At the last Cabinet meeting it was resolved that in principle, any surplus balances be used to support invest to save schemes and this is covered in section 4 below.

3.4 Cabinet is now requested to consider the schedule of budget proposals as set out in the appendices, together with other items included on this agenda, and make recommendations to Council to tie in with a Revenue Budget of £21.481M. This represents a year on year reduction in net spending of 13.2%; but after adjusting for the transfer of concessionary travel responsibilities the reduction is 5.6%.

3.5 Setting the Revenue Budget at this level will result in a 0% increase in the basic City Council Tax Rate for the district. The actual basic Band D City Council tax payable (excluding parish precepts) will be £192.25.

## 4 PROVISIONS, RESERVES AND BALANCES

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

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

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

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

4.3 After reviewing the General Fund in comparative terms and considering the issues and assumptions outlined above, the Head of Financial Services (as Section 151 Officer) advises that the level of General Fund balances 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 unless a specific service policy change indicates otherwise.

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

- The Council has demonstrated its ability to achieve major recurring savings particularly over the last year or so, whilst still providing financial cover for issues such as estimated losses on Icelandic investments, and increasing financial capacity for invest to save schemes. Other risks have reduced as a result of external factors. The transfer of concessionary travel will remove much budget uncertainty in future; assessing the financial impact of this function has proved particularly difficult in recent times. Whilst compensation claims and the future for the Luneside East site have not yet been fully resolved, progress is being made. Overall, it is considered that the Council has reduced its exposure to specific financial risks when compared with its position over the last two years.

- As ever though, there are still big challenges and risks ahead. The national economy, through its influence on public spending reductions and demand for various services, presents the greatest challenge. The Council still has a considerable way to go before it has a financially sustainable budget, even in the medium term. Its capital financing plans for next year are based on achieving £9M of asset sales and these are not guaranteed. If these are not forthcoming, the contingency plan would be to increase the Council's borrowing requirement but this in itself poses difficulties in meeting the requirements of the Prudential Code, namely that borrowing is prudent, affordable and sustainable. The next two years are considered crucial in shaping the Council's future financial prospects and its standing.

4.5 At this stage, the draft proposals as set out are in line with the above advice. Whilst balances are forecast to be £2.356M by March 2011, the budget assumes that surplus resources would be transferred into the Invest to Save Reserve early in the following year (with the same principle applying as at March 2012). This allows consideration of the provisional outturn position and helps mitigate any risks of the Council spending surplus balances before it has actually confirmed them.

4.6 A full review of provisions and other reserves has also been completed and the main changes arising are outlined below:

i. <u>Capital Support Reserve</u>
In view of proposals regarding Lancaster Market and taking account of the latest draft Capital Programme, the balance of this general reserve has been effectively transferred to create a Lancaster Markets Reserve (£130K) and a Municipal Buildings Reserve (£300K).

ii. <u>Restructuring Reserve</u>
The balance of the Revenue Support Reserve has been transferred in, together with other minor amounts. After allowing for estimated costs arising from known or expected staff restructuring proposals, this would leave around a further £200K to cover other needs.

iii. <u>Williamson Park</u>
This provision now reflects the latest estimated outcome of the winding up of the Company, with the balance being set aside pending future assimilation of staff.

iv. Invest to Save Reserve
After allowing for all of Cabinet's budget proposals and advice regarding minimum balances, any surplus resources have been transferred into an Invest to Save Reserve.

4.7 Movements between the various provisions and reserves are spread over three years but they are summarised below. This is also reflected in the statement attached at ***Appendix D***, and the draft budget figures.

| **Provision / Reserve** | **Contribution to / (from)** £'000 |
|---|---|
| Capital Support | (430) |
| Lancaster Market | 130 |
| Municipal Buildings | 300 |
| Restructuring | 698 |
| Revenue Support | (661) |
| Invest to Save | 1,857 |
| Other Minor Reserves | (37) |
| Unallocated Balances | (1,857) |
| **NET MOVEMENT** | **0** |

4.8 The appendices also set out the decision-making for use of all reserves and provisions. Cabinet is advised to consider this aspect carefully. In particular, given the level of funds involved and the need to consider potentially competing demands, it is proposed that any use of the Invest to Save Reserve would rest with Cabinet.

4.9 As well as holding Balances and reserves for specific purposes, the Council has access to facilities such as capitalisation directives and in the past it has managed to keep spending well within budget. These give some other comfort in considering how the Council would deal with any unexpected pressures arising.

4.10 Cabinet is now requested to approve the policy attached for referral on to Council, subject to any changes arising in finalising its budget proposals.

## 5 LOCAL GOVERNMENT SETTLEMENT

5.1 Government has now announced the final Settlement for 2011/12 and has updated the provisional figures for 2012/13. The changes are summarised below.

| **Year** | **Updated Settlement £'000** | **Increase (+) / Reduction (-) £'000** |
|---|---|---|
| 2011/12 | 13,128 | +91 |
| 2012/13 | 11,609 | -11 |

5.2 The announcement also provides for the Council Tax Freeze Compensation grant. The New Homes Bonus has yet to be confirmed but this is due shortly and the draft budget still assumes its receipt. Any further updates will be fed into the Cabinet meeting.

## 6 COLLECTION FUND POSITION

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

6.2 The review of the Fund's financial position as at January 2011 indicates that overall the Fund is in balance, after allowing for a reassessment of the bad debts provision. There is therefore no surplus or deficit to take account of in tax setting. The County, Fire and Police Authorities have been informed accordingly.

## 7 BUDGET PROSPECTS FOR FUTURE YEARS (BEYOND 2011/12)

7.1 Indicative revenue spending and Council Tax forecasts for 2012/13 and 2013/14 have been reported and updated on an ongoing basis during the budget process. The latest projections are included at Appendices B and C and are summarised below:

| | **Revenue Budget Projections (allowing for savings & growth)** | | | **Council Tax Projections** | |
|---|---|---|---|---|---|
| | **Net Budget** | **Annual Increase** | **Assumed Contribution to Balances** | **Average Band D Tax Rate** | **Annual Increase (YOY)** |
| | ***£000*** | **%** | ***£000*** | | **%** |
| 2012/13 | 21,061 | -2.0 | -- | £217.27 | 13.01 |
| 2013/14 | 21,666 | 2.9 | -- | £236.26 | 8.74 |

7.2 It can be seen that the Council's budget forecast goes down in 2012/13 and there are three main reasons for this:

- There is no assumed contribution to Balances in 2012/13.
- Of the capital receipts assumed in 2011/12, around £5M is to be applied to reduce the Council's underlying borrowing requirement (known as the Capital Financing Requirement: CFR), to offset interim increases in previous years. This reduces the borrowing costs from 2012/13 onwards, but if there are any delays in land sales this will add costs back in.
- The cost of local elections falls out in 2012/13.

7.3 The current projections for 2013/14 assume a 2% year on year cash reduction in Government support but as reported in January, there could well be further finance reforms in the meantime.

7.4 In essence, over the next year the Council needs to make further substantial recurring savings in its Revenue Budget.

7.5 It is in this context that Cabinet is asked to review its targets for future years' Council Tax increases, for incorporation into the MTFS. In line with the decision of Council current targets are based on a range of between 0 and 2% and the table below sets out the estimated savings requirements. To make future modeling simpler and clearer, even if Members wish to retain a target range, it would be advisable to determine which percentage should be used as the core assumption. The estimate of how much a percentage change equates to would still be used to highlight the sensitivity, i.e. a 1% change amounts to approximately £84K.

| Council Tax Increase | 2012/13 | 2013/14 | |
|---|---|---|---|
| | Year on Year Net Savings Requirement £'000 | Year on Year Net Savings Requirement £'000 | Cumulative Net Savings Requirement £'000 |
| 0% | 1,088 | 829 | 1,917 |
| 1% | 1,005 | 743 | 1,748 |
| 2% | 921 | 657 | 1,578 |

7.6 No general headroom for growth is provided. Instead, the savings requirements would need to be increased to cover any such needs. A number of actions to be taken forward during next year are included at the bottom of Appendix C.

7.7 The MTFS document will be updated to reflect all of Cabinet's budget proposals for consideration at the March meeting, for referral on to Council. 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.

## 8 GENERAL FUND CAPITAL INVESTMENT

8.1 The Council's existing capital financing principles and investment priorities have been updated slightly to reflect the change of emphasis in some corporate priorities but prior to the last Council meeting. They are set out at ***Appendix E***.

8.2 Cabinet is requested to reconsider these in light of the very recent changes associated with housing regeneration.

8.3 The current draft programme for the five-year period to 2014/15 is included at ***Appendix F*** also for Cabinet's consideration. It is highlighted that the appendix includes two versions of the programme. The first sheet shows the Net Capital Programme that focuses on the City Council's own contributions to schemes, and the second sheet shows the full Gross Capital Programme, which sets out the total estimated cost of schemes including any amounts to be funded from external grants and contributions, etc.

8.4 The drafts include a number of adjustments made since the last Cabinet meeting. The main points to highlight are as follows:

- Given the risks surrounding capital receipts, where operationally possible schemes have been deferred into 2012/13. The exceptions to this are Playground Improvements and Toilet Works. The timing of these is still based on the schedules previously approved by Members, but Cabinet may consider deferring these schemes also.

- The costs for other schemes have been updated where considered necessary to reflect estimated price changes. Reductions in IT provision have been incorporated to take account of expected changes in procurement and replacement cycles, together with associated changes in revenue financing.

- Luneside East provisions reflect current estimates for settling outstanding claims but should these prove insufficient, additional capacity is already built into the capital financing principles through unsupported borrowing. There is no provision though for making any contributions towards resolving future development of the site.

- It is assumed that Government funding for Disabled Facilities Grants will continue at current levels, but with no top up from the Council. The match funding requirement no longer applies but clearly with no top up, this adds pressure in managing the budgets available.

- Whilst there are no other resources allocated specifically for private sector housing there is the need to resolve the position on schemes such as Chatsworth Gardens and on other expected liabilities.

- In view of the creation of the Invest to Save Reserve, the capital budgets for energy efficiency have been simplified. Should Cabinet approve the replacement of the Town Hall boilers, this will be added into Municipal Buildings to be financed from the Reserve.

- There have been no other major changes to the basic funding assumptions underpinning the draft programme.

8.5 Overall, the current year's gross Revised Programme now stands at £5.851M. It is estimated that there will be no capital receipts unapplied as at 31 March 2011. This year's programme now assumes a £1.094M increase in the underlying need to borrow, or CFR.

8.6 For the 5-year period from 2011/12 onwards, the draft gross programme amounts to £11.915M and Cabinet is now required to make formal recommendations to Council regarding the Capital Programme. Whilst the draft position is now balanced, Cabinet can still make changes to the proposals.

8.7 In terms of managing the financing risks, on the basis that capital investment in next year covers only existing contractual commitments or essential works, all schemes would progress once any internal appraisal needs have been met. If sufficient capital receipts are not received the Council's underlying need to borrow would increase, resulting in additional costs for the revenue budget as mentioned earlier.

8.8 The Council's Prudential Indicators have been updated to reflect the draft capital position so far and these are attached at ***Appendix G***. They will need to be updated to reflect Cabinet's final budget proposals, prior to being considered by Council. The capital investment element of the MTFS will also be updated to reflect the final approved capital position.

## 9 HOUSING REVENUE ACCOUNT (HRA)

9.1 In light of the decision taken at Council on 02 February there is also the need for Cabinet to reconsider its HRA Revenue Budget proposals; these are summarised at ***Appendix H***.

9.2 As the Capital Programme and its Balances position have been approved, this need is driven by the Council's own Constitution and Financial Regulations rather than it being a specific legal requirement. Essentially, to ensure appropriate governance and comprehensive service delivery, a Revenue Budget must be approved. The approval of a budget generally confers authority for expenditure to be incurred.

9.3 During the Council meeting, questions were raised regarding the content and status of the response from the District Wide Tenants' Forum. In response to this, the following points are highlighted:

- The Forum is established as a Cabinet Liaison Group. The response as fed into Cabinet on 18 January and as reported to Council on 02 February represents an extract from the draft notes of the Forum's meeting held on 12 January 2011.

- Whilst no formal voting takes place regarding any item on the Group's agenda, the notes are drafted to record the meeting. These would then be considered for signing off as a true record at the following meeting, but a draft copy is sent to the Chairman as soon as possible. For the meeting in question, this was done on 13 January.

9.4 At Council it was apparent at the end of the debate that some Members thought that in not supporting the revenue Budget proposals they were, in effect, rescinding the decision of Cabinet to increase average housing rents by 6.9%. This is not the case. Indeed other Members at Council highlighted this fact during the debate and the Council report explicitly stated that "next year's proposed revenue budget ... takes account of Cabinet's decision to set average housing rents at £64.20 per week, which represents an increase of 6.9%."

9.5 A call-in of the rents decision would have been needed in order prevent its implementation. This is because the setting of housing rents is an executive function and so rests with Cabinet, as with other fees and charges such as parking. This principle has been tested out in previous years' budget exercises. There are other decisions that the law states are executive decisions and cannot therefore be taken by full Council.

9.6 As there were no formal amendments arising from Council, however, it is not possible to be absolutely clear about the reasons for Council's actions. Cabinet is therefore advised to form its own views on why its Revenue Budget proposals were not approved. Nonetheless, there is the need to resolve the HRA budget position and from an Officer perspective, the key issues appeared to relate to rent increases and uncertainty over the Tenant Forum's views.

9.7 Budgeting and rent setting can be difficult decisions. On the one hand, rent levels may impact on more vulnerable members of society but on the other hand, if the

Council is to continue being a social housing provider, it needs to make sure that the service is funded properly. The future withdrawal of housing subsidy system should remove many of the year on year uncertainties and fluctuations but overall it is not expected to make decision-making any easier.

9.8 Outline options for resolving the HRA position are set out in section 11 below.

## 10 DETAILS OF CONSULTATION

10.1 This is outlined in section 1 of this report.

## 11 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

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

**Revenue Budget**

As Council has now determined the City Council Tax Rate for 2011/12, there are no options to change the total net revenue budget for next year (recommended at £21.481M) but Cabinet now needs to put forward detailed budget proposals that add back to that amount. Detailed options would be dependent very much on Members' views on spending priorities.

The Head of Financial Services (as s151 Officer) continues to advise that emphasis should be very much on achieving recurring reductions to the revenue budget.

**Capital Programme**

Cabinet may adjust its capital investment and financing proposals to reflect spending commitments and priorities but overall its proposals for 2010/11 and 2011/12 must balance. Whilst there is no legal requirement to have a programme balanced over the full 5-year period, it is considered good practice to do so – or at least have clear plans in place to manage the financing position over that time. Inevitably capital investment needs and funding opportunities will change, but it is important to consider and manage stakeholder expectations regarding investment too.

Setting a balanced capital programme is an iterative process, essentially balancing service delivery impact and aspirations against what the Council can afford. The programme attached represents the outcome of the work undertaken to date.

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.*

**Future Years' Council Tax Targets**

It is felt that there is little scope for increasing Council Tax increases targets above 2.5% for 2012/13 and beyond, assuming that the Council wishes to avoid any form of challenge. In considering any lower target, Members should have regard to the impact on service delivery, the capacity to make savings or to provide for growth, and the impact on subsequent years – as well as the implications for tax payers.

**Housing Revenue Account Budget**

The extent to which Cabinet's earlier decision on housing rents had bearing on the debate and outcome of Council needs careful consideration. Outline options for resolving the HRA position are set out below.

**Option 1: To retain existing Revenue Budget proposals and refer them back to Council.**

As previously reported, this supports the continuing need for the Council to maintain and invest in its housing stock and therefore represents the best position financially, to help sustain a good quality housing service.

**Option 2: To consider changes to the Revenue Budget proposals for referral back to Council.**

Given that decisions have already been taken on rent levels, balances, and the capital programme and its financing, the only other straightforward option would be for Cabinet to consider changing specific aspects of the budget, such as repairs and maintenance or management costs. No specific proposals have been identified at this time, however, and therefore depending on the nature of what Cabinet may consider, it is likely that Officers would need more time to undertake a full assessment.

Some proposals may prove very challenging to implement from 01 April. Whilst a later implementation could be assumed, there may be workload implications and also the timing would need to be factored into any updates to Cabinet's HRA budget proposals.

## 12 OFFICER PREFERRED OPTION AND COMMENTS

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

For future Council Tax targets, both the Chief Executive and the s151 Officer would still advise against planning for a general Council Tax increase outside of the range of say 0 to 2.5%.

Regarding the HRA, Option 1 remains the Officer preferred option.

## 13 CONCLUSION

This report outlines the actions required to complete the budget setting process for 2011/12 and to establish the key financial targets and constraints, to inform the financial planning framework for future years.

**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. Where responsibilities for functions have transferred away from the City Council, it is assumed that decisions regarding future levels of service rest with the transferee authority.

**FINANCIAL IMPLICATIONS**

As set out in the report.

**SECTION 151 OFFICER'S COMMENTS**

The Local Government Act 2003 placed explicit requirements on the s151 Officer to report on the robustness of the estimates included in the budget and on the adequacy of the Council's reserves. Previous Cabinet and Council reports have already included some relevant details of this advice, together with the risks and assumptions underpinning the budget process so far. A summary of the s151 Officer's current advice regarding General Fund is provided below for information, but it should be noted that this is provisional until such time as Cabinet's full budget proposals have been finalised.

**Reserves and Provisions**

- 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 the other measures in place.

  With regard to General Fund balances, £1M represents 4.7% of the net Revenue Budget. The above advice regarding unallocated balances is dependent upon other provisions and reserves remaining broadly at proposed levels, unless a specific service policy change indicates otherwise, and also this advice may be reviewed again once Cabinet's final General Fund budget proposals are known.

**Robustness of Estimates**

A variety of exercises have been undertaken to establish a robust budget for the forthcoming year, as reported previously. These measures ensure that as far as is practical at this stage, the estimates and assumptions underpinning the revenue budget are robust.

Other key areas of risk are highlighted in the body of the report.

**Affordability of Spending Plans**

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. This will be covered in the report to Budget Council, at which time Council will consider full proposals regarding the capital programme and financing for the five year period to 2015/16.

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 or housing rents. 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 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 borrowing and for revenue generally
- The likely need for further capital investment and prudential borrowing, as yet un-quantified, to address other potential liabilities arising.

In considering and balancing these factors, the capital proposals to date are based on a net reduction in prudential borrowing over the period from 2011/12 to 2015/16. This is to offset earlier years' increases. As far as possible, measures have been taken to reduce other capital investment, in recognition of the pressures facing the Council. That said, it is acknowledged that some degree of additional unsupported borrowing may be unavoidable in the interim, to address Municipal Building Works as an example. It is acknowledged that if this is the case it will add further pressure to the revenue budget, at least in the short term, and further revenue savings would be required to ensure affordability. These issues have been built into the draft Prudential Indicators for approval by Council in March, but again these are subject to Cabinet's final budget proposals.

**LEGAL IMPLICATIONS**

Legal Services have been consulted and have no observations to make on this report.

**MONITORING OFFICER'S COMMENTS**

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

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

**APPENDIX A**

# MEDIUM TERM FINANCIAL STRATEGY 2011/12 TO 2013/14

LANCASTER CITY COUNCIL
*Promoting City, Coast & Countryside*

**Key Extracts for Consideration by Cabinet**

**15 February 2011**

## 1 KEY STRATEGIC AND FINANCIAL RISKS

***The following sections set out key financial risks, which could significantly impact on the council's ability to achieve its plans and strategies.***

***Luneside East***

Key risks relate to the final outcome of the lands tribunal and associated legal costs, and potential clawback of funding should the project not progress to deliver its economic outputs. Should the project progress, however, there is the opportunity to receive a developer contribution on site transfer. *(Mitigation: specialist legal support, discussions with and commitment from funders/partners, budget and capital investment strategy provisions)*

***Municipal Buildings***

Essential works are being progressed to protect the Council's interests, but this may lead to additional financing costs. Price increases are being experienced on the municipal building works programme and there will be a need to increase the budgets over the coming years to reflect these. At present, the broad assumption is that most works will fall as capital but this has not been fully tested as yet. There is therefore the risk that budgets are inappropriate. *(Mitigation: capital investment strategy provisions, incorporating appraisal of revenue v capital, establishment of new earmarked reserve to cover revenue costs)*

***Funding of Capital Programme***

Should the latest capital receipts schedule not be achievable, this would prevent some capital investment from happening, but ensuring that funding is in place for essential works would add more pressure on revenue and cause affordability and financial sustainability risks. As an indication £1M of additional borrowing need could cost £70K per year, depending on various factors. *(Mitigation: capital investment strategy provisions, ongoing review and monitoring, options appraisal through budget process)*

***Capital Liabilities***

There is a potential liability relating to properties developed jointly with a Housing Association in the West End of Morecambe. If ultimately the value of properties sold is less than the cost of purchase and development then the Council will need to stand losses. The converse also applies if the value is greater, however due to falls in the property market the current situation is potentially negative. *(Mitigation: ongoing review and monitoring of capital programme and market conditions)*

***Decision-making***

There is the risk that the Council fails to reach agreement in order to deliver a balanced, robust and deliverable budget for future years. *(Mitigation: through budget process, learning from previous years, not being over-ambitious in terms of balancing service provision against funding levels or delivering change)*

***Icelandic Investments (and investment losses generally)***

The prospects for successful recovery action and affordability risks are influenced by creditor status for two of the investments made. Priority status has been accepted by one Winding Up Board and rejected by the other. Legal advice remains however that investment 'deposits' such as that made by the City Council should be treated as priority and as such the latter decision is being challenged. Risks remain throughout the banking sector generally. *(Mitigation: adverse decisions challenged through Icelandic courts, ongoing work through LGA, capitalisation directive applied, impairment reserve established to cover balance of currently estimated losses, updated investment strategy & future review)*

***Government Support (future years)***

2011/12 and 2012/13 have seen significant reductions in Government funding levels. There is still uncertainty over 2013/14 and beyond, however the initial two years allocations have been broadly in line with the 4 year Comprehensive Spending Review (CSR) projections. The level of support for 2013/14 assumes a further 2% reduction, in line with the CSR. *(Mitigation: scenario planning, future budget processes and monitoring / review.)*

***Other Economic Factors and Prospects generally***

As well as affecting future levels of government support, economic factors will affect the Council's finances through other funding streams, inflation, interest rates and pay settlements, as well as demand for services. *(Mitigation through monitoring and future budget processes)*

***Council Tax Capping (or replacement measures)***

In recent times the Government has demonstrated a firm commitment to capping, however new criteria are due to be announced in conjunction with the new Localism Bill, which will include provision for Council Tax referendums should council tax increases exceed the principles set down by the Secretary of State. *(Mitigation: setting of targets for future years, review any national criteria etc. for 2012/13 and beyond)*

***Concessionary Travel***

From 2011/12 responsibility for concessionary travel transfers to the County Council and all costs have been removed from future years' budgets. There is still an outstanding issue to be resolved regarding reimbursement rates to bus operators which has not been finalised. *(Mitigation: countywide approach with consultancy support regarding reimbursement rates, earmarked reserves)*

***Fair Pay***

The financial implications of the current pay and grading structure have been recognised as unsustainable in the medium and longer term. A further review has now been started to establish a more sustainable grading structure. *(Mitigation: supporting HR policies, use of earmarked reserves, commitment to review and amend the grading structure within 2 years of implementation)*

***Change Management & Investing to Save (e.g. Restructuring Reserves)***

The Council has gone through a period of significant change and is still progressing with a number of service restructures. Whilst there are sufficient funds identified to facilitate current plans, further development is still needed in a number of areas. There is the general risk that the Council could have insufficient funds available to enable sufficient invest to save schemes, or such initiatives prove unsuccessful. There are also financial risks attached to the process of change, and maintaining sufficient capacity to ensure sound financial management and planning etc. *(Mitigation: through budget process, earmarked reserves, and change management and appraisal arrangements)*

***Shared Services***

As an example, the Council has already entered into a Shared Management arrangement with Preston City Council in respect of Revenues and Benefits and will be looking to create a full shared service during 2011/12. The Council has benefited financially from the changes already made without impacting on service delivery, however the new shared service will need to demonstrate that further efficiency savings can be made whilst still maintaining current service standards. *(Mitigation: financial appraisal and project management, development of governance arrangements, communication, involvement of support services)*

***HRA review (for General Fund)***

The Government has now published the rationale, methodology and financial parameters four the reforms to council housing finance otherwise known as "self-financing" which will be achieved with a form of redistributed housing debt. The current subsidy system will continue for 2011/12 with self-financing due to start in April 2012. Details of the new system were only published at the start of February and officers are currently determining what impact there will be on the General Fund, in particular in relation to Treasury Management and other cost allocations. As an indication, the changes may involve the Council taking on around £30M additional debt, with associated risks involved *(Mitigation: monitoring, review and appraisal of current information)*

***Future Savings Potential***

Each year the Council continues to make efficiency savings, however some of the larger savings such as those in areas like Revenues and Benefits and Environmental Services have already been taken with the introduction of shared services and co-mingling respectively. The achievement of future savings targets may well prove more difficult. *(Mitigation: robust consideration of risks by Cabinet, financial planning arrangements, Invest to Save options, change management arrangements)*

**APPENDIX B**

## Future Years' Budgets, Provisional Settlements and associated Council Tax Rates
## For consideration by Cabinet 15 February 2011

| | | 2010/11 Budget £000 | 2011/12 Estimate £000 | 2012/13 Projection £000 | 2013/14 Projection £000 |
|---|---|---|---|---|---|
| **Original Revenue Budget Projection (Per Budget Council 03 March 2010)** | | **24,740** | **25,323** | **25,678** | **0** |
| **Latest Draft Budget Projection** | | **23,616** | **21,423** | **21,408** | **22,096** |
| **Base Budget Changes** | | | 64 | 219 | 247 |
| **Changes Approved at Personnel Cttee 01 February** | | | -166 | -182 | -183 |
| **Changes Approved at Council 02 February** | | +1,124 | -226 | -229 | -231 |
| **Current Net Revenue Budget** | A | **24,740** | **21,095** | **21,217** | **21,929** |
| **Cabinet Budget Proposals :** | | | | | |
| Income Generation | | | -79 | -80 | -82 |
| Savings not linked to draft priorities | | | -39 | -48 | -49 |
| Efficiencies linked to draft priorities | | | -437 | -440 | -438 |
| Growth proposals | | | 440 | 412 | 306 |
| **Contribution to Balances** | | | 500 | 0 | 0 |
| **Resulting Net Revenue Budget** | B | **24,740** | **21,481** | **21,061** | **21,666** |
| **Provisional Government Support** | | 16,377 | 13,128 | 11,609 | 11,377 |
| Collection Fund Deficit / (-) Surplus | | -19 | 0 | 0 | 0 |
| **Amount met by Council Tax** | | **8,344** | **8,353** | **9,451** | **10,289** |
| **Latest Tax Base Estimates** | | **43,400** | **43,450** | **43,500** | **43,550** |

**COUNCIL TAX IMPLICATIONS :**

**A : Excluding Budget Proposals**

| | 2010/11 | 2011/12 | 2012/13 | 2013/14 |
|---|---|---|---|---|
| **Band D Basic Council Tax (across district)** | **£192.25** | **£183.37** | **£220.86** | **£242.30** |
| **Percentage Increase Year on Year** | **3.75%** | **-4.6%** | **20.4%** | **9.7%** |

**B : Including Budget Proposals**

| | 2010/11 | 2011/12 | 2012/13 | 2013/14 |
|---|---|---|---|---|
| **Band D Basic Council Tax (across district)** | **£192.25** | **£192.25** | **£217.27** | **£236.26** |
| **Percentage Increase Year on Year** | **3.75%** | **0.00%** | **13.01%** | **8.74%** |

| | | 2011/12 | 2012/13 | 2013/14 |
|---|---|---|---|---|
| **Target Year on Year Basic Council Tax Increase** | **In % terms** | **0.0%** | **2.0%** | **2.0%** |
| | **In £ terms (Band D)** | **£0.00** | **£3.85** | **£3.92** |
| **Target Basic City Council Tax Rate across the District** | | **£192.25** | **£196.10** | **£200.02** |
| **Budget assumptions to achieve these targets:** | | **£'000** | **£'000** | **£'000** |
| **Current Revenue Budget Projection ('B' from above table, including budget proposals)** | | **21,481** | **21,061** | **21,666** |
| **Target Revenue Budget Requirement** | | **21,481** | **20,140** | **20,088** |
| **REMAINING SAVINGS REQUIREMENT** | | **0** | **921** | **1,578** |

***Note - A 1% reduction in Council Tax equates to £84K.***

# 2011/12 Revenue Budget : Savings & Growth Options

**For Consideration by Cabinet 15 February 2011**

| | 2010/11 £'000 | 2011/12 £'000 | 2012/13 £'000 | 2013/14 £'000 |
|---|---|---|---|---|
| **Original Revenue Budget Projection (Per Budget Council 03 March 2010)** | **24,740.0** | **25,323.0** | **25,678.0** | **0.0** |
| **BUDGET PROJECTIONS** | **23,615.6** | **21,423.3** | **21,408.2** | **22,096.0** |
| **Base Budget Changes:** | | | | |
| National Insurance and other salary budget changes | | +30.7 | +62.4 | +63.0 |
| NNDR empty property threshold reductions | | +39.9 | +41.8 | +42.8 |
| Changes in debt charges following HRA settlement and review of capital programme | | +41.2 | +105.6 | +88.2 |
| Other minor / inflationary changes | | -48.0 | +9.6 | +53.3 |
| **Changes Approved at Personnel Cttee 01 February:** | | | | |
| Financial Services restructure | | -78.3 | -81.7 | -81.6 |
| Health and Housing restructure | | -87.3 | -100.2 | -101.2 |
| **Changes Approved at Council 02 February:** | | | | |
| 2010/11 Estimated Surplus to be transferred to Balances | 1,124.4 | | | |
| Members Allowances | | -16.6 | -19.2 | -21.7 |
| Additional Government funding for setting a 0% Council Tax increase | | -209.5 | -209.5 | -209.5 |
| **LATEST BASE BUDGET PROJECTIONS** | **24,740.0** | **21,095.4** | **21,217.0** | **21,929.3** |
| **TARGET REVENUE BUDGET (for a 0% increase in Council Tax for 2011/12, then 2% thereafter)** | | **21,481.0** | **20,140.0** | **20,088.0** |
| **NET SURPLUS RESOURCES (-) / SAVINGS REQUIREMENT** | | **-385.6** | **1,077.0** | **1,841.3** |
| **Budget Proposals (see schedules on next page) :** | | | | |
| Income generation | | -78.9 | -80.2 | -81.8 |
| Savings in service areas not linked to draft priorities | | -38.8 | -48.3 | -48.9 |
| Efficiencies linked to draft priorities | | -437.3 | -440.4 | -438.0 |
| Growth proposals | | +440.3 | +412.4 | +305.8 |
| **Net Total** | | **-114.7** | **-156.5** | **-262.9** |
| **Contribution to Balances** | | **500.3** | **0.0** | **0.0** |
| **REMAINING SAVINGS REQUIREMENT** | | **0.0** | **920.5** | **1,578.4** |

*Details of Budget Proposals on next page*

## Cabinet Budget Proposals :

| INCOME GENERATION PROPOSALS | SERVICE | NOTES | -78.9 | -80.2 | -81.8 |
|---|---|---|---|---|---|
| Wellbeing fees and charges | Community Engagement | *Cabinet 15 Feb* | -14.4 | -14.6 | -14.9 |
| Charging for replacement waste collection bins / boxes | Environmental Services | *Cabinet 15 Feb* | -64.5 | -65.6 | -66.9 |

| SAVINGS PROPOSALS FOR SERVICES NOT LINKED TO DRAFT PRIORITIES | SERVICE | NOTES | -38.8 | -48.3 | -48.9 |
|---|---|---|---|---|---|
| Children and Young People - budget reduction | Community Engagement | *Operational* | -2.1 | -2.1 | -2.2 |
| Access for the Disabled - removal of non-statutory element | Regeneration & Policy | *Personnel Cttee* | -24.7 | -34.0 | -34.3 |
| Bus shelter cleaning - take back in-house and use existing capacity | Environmental Services | *Operational* | -12.0 | -12.2 | -12.4 |

| EFFICIENCY PROPOSALS LINKED TO DRAFT PRIORITIES | SERVICE | NOTES | -437.3 | -440.4 | -438.0 |
|---|---|---|---|---|---|
| Wellbeing Function - restructure | Community Engagement | *March Personnel Cttee* | -114.7 | -117.4 | -120.7 |
| Partnerships Function - restructure | Community Engagement | *March Personnel Cttee* | -26.6 | -25.4 | -24.1 |
| Review of SLAs - inflation freeze at 2010/11 prices | Community Engagement | *Cabinet 15 Feb* | -10.6 | -10.8 | -11.0 |
| Children's Trust - shared support with County Council | Community Engagement | *Operational* | -20.0 | +0.0 | +0.0 |
| Economic Development - reduction in business support | Regeneration & Policy | *Personnel Cttee* | -64.0 | -87.3 | -89.1 |
| Financial Services - Revenues & Benefits Shared Service | Financial Services | *Council April 2011* | -23.0 | -46.0 | -46.0 |
| Homeless Prevention - saving due to additional Government grant allocation | Health & Housing | *Operational* | -25.0 | +0.0 | +0.0 |
| Waste Collection - enforcement/performance review | Environmental Services | *March Personnel Cttee* | -52.8 | -70.0 | -71.1 |
| Waste Collection - operational efficiencies | Environmental Services | *Operational* | -80.6 | -63.3 | -55.6 |
| Grounds Maintenance - community payback work during summer | Environmental Services | *Operational* | -20.0 | -20.2 | -20.4 |

| GROWTH PROPOSALS | SERVICE | NOTES | +440.3 | +412.4 | +305.8 |
|---|---|---|---|---|---|
| Partnership Team - removal of external grant funding | Community Engagement | *Cabinet 05 Oct* | +172.8 | +172.0 | +175.4 |
| Regeneration Team - removal of external grant funding | Regeneration & Policy | *Cabinet 05 Oct* | +84.9 | +86.2 | +86.2 |
| "A View for Eric" THI2 (matched funding for 5 years) | Regeneration & Policy | *Cabinet 05 Oct* | +10.0 | +10.0 | +10.0 |
| Temporary Planning Assistant - 12 months contract | Regeneration & Policy | *Operational* | +28.5 | +0.0 | +0.0 |
| Private Sector Housing Standards - to meet statutory requirements | Health & Housing | *Operational* | +34.1 | +34.2 | +34.2 |
| Funding contribution for PCSOs - maximum potential cost but seeking to reduce if possible | Community Engagement | *Operational* | +110.0 | +110.0 | -- |

| PROPOSALS TO BE TAKEN FORWARD DURING 2011/12 | SERVICE | NOTES |
|---|---|---|
| **GROWTH** | | |
| Establishment of Lord Mayoralty - subject to submitting successful bid | Governance | *Council Business 14 Jan* |
| **INVEST TO SAVE** | | |
| Initial Scheme Proposals | Various | *Cabinet 15 Feb* |
| **SAVINGS** | | |
| Environmental Services Admin / Support staff - review of staffing | Environmental Services | |
| Vehicles - review replacement programme | Environmental Services | |
| Vehicle Maintenance - review shared service opportunities | Environmental Services | |
| Bulky Matters - consider options to expand / review charges | Environmental Services | |
| Waste Collection - consider bidding for other contracts | Environmental Services | |
| CCTV - review of operations | Property Services | |
| Facilities Management & Property Services - restructure | Property Services | |
| Museum Partnership - withdraw from shared service | Community Engagement | |

# PROVISIONS AND RESERVES STATEMENT : For consideration by Cabinet 15 February 2011

## PROVISIONS

| PROVISIONS | 31/03/10 | Contributions to Provision | Contributions from Provision | 31/03/11 | Contributions to Provision | Contributions from Provision | 31/03/12 |
|---|---|---|---|---|---|---|---|
| | | £ | £ | £ | £ | £ | £ |
| B&D Debts-General Fund | 370,510 | | | 370,510 | | | 370,510 |
| Provision for Stock Write Off | 26,560 | | | 26,560 | | | 26,560 |
| Derelict Land Clawback | 56,932 | | | 56,932 | | -56,932 | 0 |
| Insurance Excess | 273,417 | | | 273,417 | | | 273,417 |
| Williamson Park | 100,000 | | | 100,000 | | -52,300 | 47,700 |
| TOTAL | 827,419 | 0 | 0 | 827,419 | 0 | -109,232 | 718,187 |

## RESERVES

| RESERVES | 31/03/10 | Contributions to Reserve | Contributions from Reserve | 31/03/11 | Contributions to Reserve | Contributions from Reserve | 31/03/12 | Contributions to Reserve | Contributions from Reserve | 31/03/13 | Contributions to Reserve | Contributions from Reserve | 31/03/14 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| Allotment Improvements | 5,305 | | -5,305 | 0 | | | 0 | | | 0 | | | 0 |
| Building Regulation Account | 0 | | | 0 | | | 0 | | | 0 | | | 0 |
| Business Continuity | 17,199 | | | 17,199 | | | 17,199 | | | 17,199 | | | 17,199 |
| Capital Support | 507,000 | | -270,000 | 237,000 | | -237,000 | 0 | | | 0 | | | 0 |
| City Lab | 53,011 | | -12,800 | 40,211 | 35,700 | | 75,911 | 36,700 | | 112,611 | 31,900 | | 144,511 |
| Community Cohesion | 14,000 | | -14,000 | 0 | | | 0 | | | 0 | | | 0 |
| Concessionary Travel | 100,000 | 200,000 | | 300,000 | | | 300,000 | | | 300,000 | | | 300,000 |
| Connecting Communities | 58,000 | | -58,000 | 0 | | | 0 | | | 0 | | | 0 |
| Every Child Matters | 20,000 | | -20,000 | 0 | | | 0 | | | 0 | | | 0 |
| Graves Maintenance | 22,201 | | | 22,201 | | | 22,201 | | | 22,201 | | | 22,201 |
| HMO Registration Fees | 20,785 | | -20,785 | 0 | | | 0 | | | 0 | | | 0 |
| Revenues and Benefits | 48,000 | | -48,000 | 0 | | | 0 | | | 0 | | | 0 |
| Impairment Reserve | 1,363,493 | | | 1,363,493 | | | 1,363,493 | | | 1,363,493 | | | 1,363,493 |
| Invest to Save | 0 | | | 0 | 1,356,500 | | 1,356,500 | 500,300 | | 1,856,800 | | | 1,856,800 |
| Job Evaluation | 610,797 | | -272,700 | 338,097 | 50,000 | -285,200 | 102,897 | | -49,000 | 53,897 | | | 53,897 |
| Lancaster Market | 0 | 130,000 | | 130,000 | | | 130,000 | | | 130,000 | | | 130,000 |
| Marsh Capital | 47,677 | | | 47,677 | | | 47,677 | | | 47,677 | | | 47,677 |
| Municipal Buildings | 0 | 300,000 | | 300,000 | | | 300,000 | | | 300,000 | | | 300,000 |
| Open Spaces Commuted Sums | 215,953 | 37,500 | -61,100 | 192,353 | | -58,800 | 133,553 | | -40,200 | 93,353 | | -40,200 | 53,153 |
| Other Commuted Sums | 1,155,315 | 410,100 | -180,000 | 1,385,415 | | | 1,385,415 | | | 1,385,415 | | | 1,385,415 |
| Performance Reward Grant | 239,192 | 84,500 | -15,000 | 308,692 | | -15,000 | 293,692 | | | 293,692 | | | 293,692 |
| Planning Delivery Grant | 89,682 | | -57,200 | 32,482 | | -26,300 | 6,182 | | -5,500 | 682 | | | 682 |
| Priv.Hsg-Rental Deposit Guarantee | 2,000 | | -2,000 | 0 | | | 0 | | | 0 | | | 0 |
| Project Implementation | 88,633 | | -88,633 | 0 | | | 0 | | | 0 | | | 0 |
| Renewals (all services) | 258,755 | 102,000 | -208,300 | 152,455 | 119,000 | -104,000 | 167,455 | 119,000 | -104,000 | 182,455 | 69,000 | -104,000 | 147,455 |
| Restructuring | 673,800 | 697,700 | -533,400 | 838,100 | | | 838,100 | | | 838,100 | | | 838,100 |
| Revenue Support | 800,000 | | -800,000 | 0 | | | 0 | | | 0 | | | 0 |
| Risk Management | 15,983 | 10,000 | | 25,983 | | | 25,983 | | | 25,983 | | | 25,983 |
| Vacant Shops Fund | 52,631 | | -52,631 | 0 | | | 0 | | | 0 | | | 0 |
| TOTAL | 6,479,412 | 1,971,800 | -2,719,854 | 5,731,358 | 1,561,200 | -726,300 | 6,566,258 | 656,000 | -198,700 | 7,023,558 | 100,900 | -144,200 | 6,980,258 |
| General Fund Unallocated Reserve | 1,244,713 | 1,217,100 | -105,300 | 2,356,513 | 500,300 | -1,356,500 | 1,500,313 | | -500,300 | 1,000,013 | | | 1,000,013 |
| Unallocated Government Grants - Capital (PRG) | 239,192 | 84,500 | | 323,692 | | | 323,692 | | | 323,692 | | | 323,692 |

**APPENDIX D(ii)**

LANCASTER CITY COUNCIL

*Promoting City, Coast & Countryside*

# Provisions and Reserves Policy

## (Details of General Fund Items)

February 2011

# 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 require billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

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

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

## 2. Role of the Chief Financial Officer

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

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

## 3. Purpose of Reserves and Balances

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

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

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

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

## 4. Principles to Assess Adequacy

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

**Budget Assumptions**

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

**Financial Standing and Management**

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

4.2 The minimum level of general reserves which is 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 £1 million for the General Fund and £350K for the Housing Revenue Account.

4.3 A review of the level of earmarked reserves is undertaken generally as part of the annual budget preparation and as part of the closure of accounts process.

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

## 5. Reporting Framework

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

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

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

## 6 Provisions & Reserves Protocol : General Fund

| Reserve | Purpose | How and When Used | Procedures for management and control | Timescale for review |
|---|---|---|---|---|
| **CAPITAL RESERVES** | | | | |
| 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 the annual payments to the freemen of the City. | Financial Services | Outturn |
| Capital Support | To support the financing of the capital programme and revenue elements of capital schemes, where applicable. | For 2010/11, to help fund the Capital Programme, reserve to be fully utilised by 2011/12. | Financial Services | Budget & Outturn, & mid-year MTFS review. |
| **REVENUE RESERVES** | | | | |
| Allotment Improvements | To improve allotments across the district. | To be applied as determined by the Head of Community Engagement and in accordance with budget proposals. Reserve fully utilised in 2010/11 and will be closed at outturn. | Community Engagement / Financial Services | Outturn |
| Building Regulations | This is a statutory reserve to which the annual surplus or deficit on the Building Control Account is transferred. In addition, the reserve may be used to finance expenditure which will make the Building Control function more efficient. | The surplus or deficit on the Building Control Account is appropriated to/from the reserve at the end of each financial year. In addition, it may be used to finance specific one-off Building Control expenditure, with Head of Financial Services approval (to reflect statutory usage), or with Cabinet approval for recurring items. | Regeneration & Policy / Financial Services | Budget & Outturn |
| Business Continuity | To provide funding to ensure Business Continuity Plans can be effectively actioned as and when required (one-off costs). | Any contributions to reserve to be approved by Cabinet. Use of the reserve to be determined by Head of Health & Housing, in conjunction with the Head of Financial Services. | Health & Housing / Financial Services | Budget & Outturn |

| Reserve | Purpose | How and When Used | Procedures for management and control | Timescale for review |
|---|---|---|---|---|
| City Lab | Surpluses on the operation of the building to be used to support any future losses / economic development in the district. | Contributions to and from the reserve to be approved by Cabinet. | Regeneration & Policy / Financial Services | Budget & Outturn |
| Community Cohesion Reserve | Currently unallocated. | Balance no longer required. Funds transferred out during 2010/11 and then reserve to be closed at outturn. | Community Engagement / Financial Services | Outturn |
| Revenue Support | To cover potential additional costs arising regarding Concessionary Travel, Fairpay (including ongoing costs), and building works that cannot fall as capital. | Reserve balance reallocated to restructuring reserve. | Financial Services | Budget, Outturn, and mid year as part of MTFS review |
| HMO Registration Fees | This is a mandatory scheme which is required to be self funding over a five year period. | Surpluses generated at the start of the scheme no longer required. Funds transferred out during 2010/11 and then reserve to be closed at outturn. | Health & Housing / Financial Services | Outturn |
| Revenues and Benefits (formerly Housing Benefit Administration) | The reserve has been established to ensure additional grant monies received can be applied to the relevant year in which the expenditure is planned, subject to service outturn. | Contributions to & from reserve to be agreed with Head of Financial Services. Current balance fully utilised in 2010/11. | Financial Services | Budget & Outturn |
| Job Evaluation | To support development and modelling, and implementation of pay structures. | Contributions to the reserve to be approved by Cabinet. Use of the reserve to be agreed by both the Head of Governance and Head of Financial Services, linked to new Pay & Grading structure. | Governance Services / Financial Services | Budget & Outturn |
| Planning Delivery Grant (PDG) | To enable grant monies committed against approved spend to be rolled forward between financial years. | Where specific approved budgets have not been spent, which are funded from PDG, the balance of unapplied grant will be transferred into the reserve and applied in the following financial year. Any other use to be approved by Cabinet. | Regeneration & Policy / Financial Services. | Budget & Outturn |

| Reserve | Purpose | How and When Used | Procedures for management and control | Timescale for review |
|---|---|---|---|---|
| Private Housing Rental Deposits | The reserve has been established as a rental deposit guarantee for private landlords, against tenants who are financially unable to provide such a deposit. | Any necessary repairs will be funded from existing budgets. Balance transferred and reserve to be closed at outturn. | Health & Housing / Financial Services | Outturn |
| Project Implementation | To meet one-off costs of project implementation that cannot be directly charged to other funding sources: e.g. training, site visits and providing temporary cover for secondments. | Reserve fully utilised in 2010/11 and then to be closed at outturn. | Financial Services | Outturn |
| Restructuring Reserve | To fund the cost of redundancies and early retirements as a result of Service restructures. | Use linked to major service restructurings requires Personnel Cttee approval. Any further contributions to the reserve to be approved by Cabinet. | Governance Services / Financial Services | Quarterly PRT, Budget & Outturn |
| Risk Management | The reserve was established to finance any Risk Management initiatives. | Expenditure relating to risk management is charged to revenue and financed by an appropriation from the reserve. Its application must be in line with the Risk Management Policy. No further planned contributions to the reserve after 2010/11. | Financial Services | Budget & Outturn |
| Vacant Shops Fund | The reserve was established in 2009/10 from grant monies received but not applied. | Funding applied in 2010/11 and reserve to be closed at outturn. | Community Engagement / Financial Services | Outturn |
| Performance Reward Grant | The reserve was established in 2009/10 from grant monies received but not applied. | Use subject to Cabinet approval in accordance with approved protocol. | Community Engagement / Financial Services | Budget & Outturn |
| Connecting Communities | The reserve was established in 2009/10 from grant monies received but not applied. | Funding applied in 2010/11 and reserve to be closed at outturn. | Community Engagement / Financial Services | Outturn |
| Lancaster Market | The reserve has been established to finance costs associated with consultancy costs. | Use linked to costs associated with Lancaster Market. Application of the reserve to be approved by Head of Property Services, in consultation with portfolio holder and Head of Financial Services. | Property Services / Financial Services | Budget & 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 and meet pay back periods in accordance with MTFS, as advised by Head of Financial Services. Application of and contributions to reserve to be approved by Cabinet. | Financial Services | Budget, Outturn and quarterly PRT. |

| Reserve | Purpose | How and When Used | Procedures for management and control | Timescale for review |
|---|---|---|---|---|
| **MAINTENANCE / RENEWALS** | | | | |
| 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. An amount is then transferred from the revenue on an annual basis to cover the additional maintenance costs associated with the open space. | Lump sums are credited to the reserve, and an annual contribution is made from the reserve to cover the additional grounds maintenance costs.<br>The value of commuted sums due is to be agreed with Financial Services prior to the development agreement being completed. Budgets to be updated by Financial Services in consultation with Environmental Services as sums received. | Environmental Services / Financial Services | Budget & Outturn |
| Other Commuted Sums | This reserve receives all sums paid to the Council from third parties other than for Grounds Maintenance, e.g. affordable housing. | Lump sums are credited to the reserve and appropriated either to revenue or capital dependent upon the nature of the agreement – subject also to approved policy for use (November 2009). | Regeneration & Policy / Financial Services | Budget & Outturn |
| Graves Maintenance | This reserve holds monies donated to the City Council by individuals, specifically for the maintenance of graves. | The capital sum must be maintained at the original level of contribution, with interest earned being appropriated to revenue to offset maintenance costs. | Health & Housing / Financial Services | Outturn |
| Renewals (Including 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.<br>Contributions to the reserve are to be approved by Cabinet.<br>Use of the reserve to be agreed by Head of Financial Services. | Financial Services | Quarterly PRT, Budget & Outturn |
| Municipal Buildings | Contributions are made into the fund to provide for municipal building works that cannot be capitalised as part of the current scheme of works. In addition, further survey costs will be funded from this reserve. | An initial contribution of £300K has been made in 2010/11. Use of the reserve to be agreed by Head of Property Services, in conjunction with Head of Financial Services. | Property Services / Financial Services | Budget & Outturn |

| Reserve | Purpose | How and When Used | Procedures for management and control | Timescale for review |
|---|---|---|---|---|
| **PROVISIONS** | | | | |
| Bad & Doubtful Debts | This provision is used to write off all General Fund bad debts that have been approved. | The provision is funded by an annual contribution based on assessment of the level of debt outstanding. | Financial Services | Budget, Outturn & Quarterly PRT |
| Insurance | The cost of insurance claims, premiums and brokerage are charged to the provision. | Contributions are made to the provision from individual services at a level sufficient to cover the anticipated claims experience and premiums. | Financial Services | Budget, Outturn and Quarterly PRT |
| Provision for Write-Off / Obsolete Stock | The provision provides for obsolete stock or stock that has reduced in value. | The stock is valued as part of the closure of accounts process and adjustments made as appropriate. | Environmental Services / Financial Services | Outturn |
| Derelict Land Grant | This provision covers the cost of anticipated grant clawback in respect of land sales, previously financed from grant. | The provision will be fully utilised in 2011/12. | Financial Services | Budget & Outturn |
| Williamson Park | As the company is wholly controlled by the City Council, provision must be made for any losses arising. | Provision established during 2008/09 following review of operations. Provision will be applied in dissolving company during 2010/11 and 2011/12. | Financial Services | Budget & Outturn |

| Reserve | Purpose | How and When Used | Procedures for management and control | Timescale for review |
|---|---|---|---|---|
| **UNALLOCATED GOVERNMENT GRANTS** | | | | |
| Capital Grants – Performance Reward Grant (PRG) | Under International Financial Reporting Standards any capital grants which are currently unallocated must be held in a separate account. | Established in 2009/10 following receipt of PRG capital monies. Application subject to Cabinet approval in accordance with protocol. | Community Engagement / Financial Services | Budget & Outturn |

**APPENDIX E**

# MEDIUM TERM FINANCIAL STRATEGY 2011/12 TO 2013/14

**Key Extracts for Consideration by Cabinet**

**15 February 2011**

## 2 CAPITAL INVESTMENT STRATEGY - FUNDING

### 2.1 UNDERLYING BORROWING REQUIREMENT TO SUPPORT CAPITAL INVESTMENT

Assumptions underpinning the Council's underlying borrowing requirement (known as its Capital Financing Requirement or CFR) are outlined below:

i. Taking into account the latest revenue budget and council tax projections set out later in this Strategy, and the Council's likely investment needs arising from the condition of its asset base and from progressing its corporate and service priorities, the General Fund capital programme provides for a £1.994M reduction in the underlying requirement for unsupported borrowing from 2011/12 onwards.

ii. As in previous years, the practice will continue by which the Head of Finance will, under delegated authority, assess the most appropriate means of financing for the purchase of new vehicles and equipment. Unsupported borrowing will be selected if this offers a more cost effective solution than leasing, with the Capital Programme being updated as necessary.

iii. Further prudential unsupported borrowing may be considered, but only in context of either:

- Providing funding to meet any additional costs arising in connection with liabilities arising for the Luneside East scheme. Cabinet approval would be required before this facility could be called on;

- Providing cover for any losses associated with Icelandic investments, should there be any increase in need following changes in Icelandic court decisions and associated recovery prospects;

- Providing interim funding for progressing the 2011/12 programme as set out, prior to other sources of funding (e.g. capital receipts) becoming available;

- Robust, achievable revenue savings being identified or income being generated to at least offset the ongoing (whole life) costs associated with individual schemes, and / or borrowing being required to support the cashflow position of major schemes spanning financial years. This would require further specific Cabinet / Council approval as required;

- No underlying borrowing requirement is assumed for council housing investment at present but this will need to be updated in light of the outcome of the housing funding review, for consideration by both Cabinet and Council, given the likely amounts involved;

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

## 3 CAPITAL INVESTMENT PRIORITIES

In line with the Council's core values, priorities and associated targets, capital investment for the period to 2017 will be focused into delivering the Council's medium term priorities and objectives. In determining priorities where funding is limited, then preference will be given to those schemes that contribute to delivering the agreed high priorities for capital investment, as set out below:

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

**APPENDIX F (i)**

# General Fund Net Capital Programme

## For consideration by Cabinet 15 February 2011

| Service / Scheme | 2010/11 Revised: 2010/11 Net £ | 2010/11 Revised: Total 2010/11 Grants £ | 2010/11 Revised: 2010/11 Gross total £ | NET PROGRAMME: 2011/12 £ | NET PROGRAMME: 2012/13 £ | NET PROGRAMME: 2013/14 £ | NET PROGRAMME: 2014/15 £ | NET PROGRAMME: 2015/16 £ | NET PROGRAMME: 5 year Net Total £ | GROSS PROGRAMME: Grants & Contribs £ | GROSS PROGRAMME: Total £ |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Environmental services** | | | | | | | | | | | |
| District Playground Improvements | 96,000 | | 96,000 | 60,000 | | | | | 60,000 | | **60,000** |
| Greaves park resurfacing | 0 | 16,000 | 16,000 | | | | | | 0 | | **0** |
| Ryelands Park improvements | 0 | 24,000 | 24,000 | | | | | | 0 | | **0** |
| Cedar Park Playground Improvements | 4,000 | 9,000 | 13,000 | | | | | | 0 | | **0** |
| Hala Park Playground Improvements (subject to external funding) | 9,000 | | 9,000 | | | | | | 0 | | **0** |
| Toilet Works | 100,000 | 25,000 | 125,000 | 90,000 | 90,000 | 60,000 | 90,000 | | 330,000 | | **330,000** |
| Allotment Improvements (subject to expenditure plan) | 29,000 | | 29,000 | | 56,000 | | | | 56,000 | | **56,000** |
| **Community Engagement** | | | | | | | | | | | |
| Energy Efficiency Schemes | 22,000 | | 22,000 | | | | | | 0 | | **0** |
| The Platform Improvements (subject to business case) | 0 | | 0 | | 110,000 | | | | 110,000 | | **110,000** |
| Happy Mount Park Natural Adventure | 0 | 31,000 | 31,000 | | | | | | 0 | | **0** |
| Williamson Park Developments | 0 | | 0 | | 75,000 | | | | 75,000 | | **75,000** |
| Salt Ayre works programme | 0 | | 18,000 | 115,000 | | | | | 115,000 | | **115,000** |
| **Health and Housing** | | | | | | | | | | | |
| YMCA Places of Change | 0 | 783,000 | 783,000 | | | | | | 0 | | **0** |
| Impact Housing association | 50,000 | | 50,000 | | | | | | 0 | | **0** |
| Disabled Facilities Grants | 0 | 753,000 | 753,000 | | | | | | 0 | 3,265,000 | **3,265,000** |
| **Information Services** | | | | | | | | | | | |
| I.T. Infrastructure | 26,000 | | 26,000 | 10,000 | | 35,000 | | | 45,000 | | **45,000** |
| I.T. Application Systems Renewal | 55,000 | | 68,000 | 70,000 | 115,000 | 230,000 | | | 415,000 | | **415,000** |
| I.T. Desktop Equipment | 25,000 | | 25,000 | 90,000 | 50,000 | 50,000 | 50,000 | 50,000 | 290,000 | | **290,000** |
| **Regeneration & Policy** | | | | | | | | | | | |
| Cycling England | 4,000 | 405,000 | 409,000 | | | | | | 0 | | **0** |
| Toucan Crossing-King Street | 0 | 70,000 | 70,000 | | | | | | 0 | | **0** |
| Artle Beck Improvements (Flood Defences) | 5,000 | 411,000 | 416,000 | | | | | | 0 | | **0** |
| Christmas Lights Renewals | 31,000 | | 31,000 | | | | | | 0 | | **0** |
| Strategic Monitoring (River & Sea Defences, subject to EA funding) | 5,000 | 80,000 | 85,000 | 11,000 | 11,000 | 11,000 | 11,000 | 11,000 | 55,000 | 510,000 | **565,000** |
| Denny Beck Bridge Improvements | 139,000 | | 139,000 | | | | | | 0 | | **0** |
| Mill Head Warton (Flood Defences) | 8,000 | 22,000 | 30,000 | | | | | | 0 | | **0** |
| Wave Reflection Wall Refurbishment (subject to EA funding) | 2,000 | 17,000 | 19,000 | | | | | | 0 | | **0** |
| Slynedale Culvert project | 3,000 | 23,000 | 26,000 | 3,000 | | | | | 3,000 | | **3,000** |
| The Dome (Demolition) | 140,000 | | 140,000 | | | | | | 0 | | **0** |
| Amenity improvements | 10,000 | | 10,000 | 30,000 | | | | | 30,000 | 4,000 | **34,000** |
| Luneside East | 172,000 | | 172,000 | 461,000 | | | | | 461,000 | | **461,000** |
| Poulton Public Realm-Edward St, Union St, Church Walk | 0 | 25,000 | 25,000 | | | | | | 0 | | **0** |
| Bold Street Renovation Scheme | 0 | 908,000 | 908,000 | | | | | | 0 | | **0** |
| Marlborough Road Redevelopment | 90,000 | 110,000 | 200,000 | | | | | | 0 | | **0** |
| Lancaster Square Routes | 0 | | 0 | 220,000 | | | | | 220,000 | | **220,000** |
| Ffrances passage (Square routes S106) | 0 | | 0 | | | | | | 0 | 73,000 | **73,000** |
| Morecambe THI2: A View for Eric | 0 | | 0 | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 | 125,000 | | **125,000** |
| Poulton Pedestrian Route | 0 | | 0 | 33,000 | | | | | 33,000 | 127,000 | **160,000** |
| Public Realm Works | 13,000 | | 13,000 | | | | | | 0 | | **0** |
| Storey Institute Centre for Industries | 0 | 45,000 | 45,000 | | | | | | 0 | | **0** |
| Port of Heysham Sites 1&4 (Payment of Clawback) | | | 0 | 328,000 | | | | | 328,000 | | **328,000** |
| **Property Services** | | | | | | | | | | | |
| Car Park Improvement Programme | | | 0 | | 80,000 | | | | 80,000 | | **80,000** |
| Corporate and Municipal Building Works (to include related energy efficiency schemes) | 1,025,000 | 0 | 1,025,000 | 2,780,000 | 2,275,000 | | | | 5,055,000 | | **5,055,000** |
| Carnforth CCTV | 0 | 0 | 0 | | 25,000 | | | | 25,000 | 25,000 | **50,000** |
| **GENERAL FUND CAPITAL PROGRAMME** | **2,063,000** | **3,757,000** | **5,851,000** | **4,326,000** | **2,912,000** | **411,000** | **176,000** | **86,000** | **7,911,000** | **4,004,000** | **11,915,000** |
| **Financing :** | | | | | | | | | | | |
| Grants and contributions | 0 | 3,757,000 | 3,757,000 | | | | | | 0 | 4,004,000 | **4,004,000** |
| Usable Capital Receipts | 613,000 | | 613,000 | 8,989,000 | 314,000 | 64,000 | 64,000 | 20,000 | 9,451,000 | | **9,451,000** |
| Direct Revenue Financing | 387,000 | | 387,000 | 304,000 | 60,000 | 60,000 | 15,000 | 15,000 | 454,000 | | **454,000** |
| **Sub-total** | 1,000,000 | 3,757,000 | 4,757,000 | 9,293,000 | 374,000 | 124,000 | 79,000 | 35,000 | 9,870,000 | 4,004,000 | **13,909,000** |
| **Increase / Reduction (-) in CFR (Underlying Change in Borrowing Need)** | 1,094,000 | | 1,094,000 | -4,967,000 | 2,538,000 | 287,000 | 97,000 | 51,000 | -1,994,000 | | **-1,994,000** |
| **TOTAL FINANCING** | **2,094,000** | **3,757,000** | **5,851,000** | **4,326,000** | **2,912,000** | **411,000** | **176,000** | **86,000** | **7,911,000** | **4,004,000** | **11,915,000** |
| **Shortfall / Surplus (-)** | | | **0** | **0** | **0** | **0** | **0** | **0** | **0** | | **0** |
| **Cumulative Shortfall / Surplus (-)** | | | **0** | **0** | **0** | **0** | **0** | **0** | **0** | | **0** |

APPENDIX F (ii)

# General Fund Gross Capital Programme
# For consideration by Cabinet 15 February 2011

| Service / Scheme | 2010/11 £ | 2011/12 £ | 2012/13 £ | 2013/14 £ | 2014/15 £ | 2015/16 £ | 5 year Total £ |
|---|---|---|---|---|---|---|---|
| **Environmental services** | | | | | | | |
| District Playground Improvements | 96,000 | 60,000 | | | | | **60,000** |
| Greaves park resurfacing | 16,000 | | | | | | **0** |
| Ryelands Park improvements | 24,000 | | | | | | **0** |
| Cedar Park Playground Improvements | 13,000 | | | | | | **0** |
| Hala Park Playground Improvements (subject to external funding) | 9,000 | | | | | | **0** |
| Toilet Works | 125,000 | 90,000 | 90,000 | 60,000 | 90,000 | | **330,000** |
| Allotment Improvements (subject to expenditure plan) | 29,000 | | 56,000 | | | | **56,000** |
| **Community Engagement** | | | | | | | |
| Energy Efficiency Schemes | 22,000 | | | | | | **0** |
| The Platform Improvements (subject to business case) | 0 | | 110,000 | | | | **110,000** |
| Happy Mount Park Natural Adventure | 31,000 | | | | | | **0** |
| Williamson Park Developments | 0 | | 75,000 | | | | **75,000** |
| Salt Ayre works programme | 18,000 | 115,000 | | | | | **115,000** |
| **Health and Housing** | | | | | | | |
| YMCA Places of Change | 783,000 | | | | | | **0** |
| Impact Housing association | 50,000 | | | | | | **0** |
| Disabled Facilities Grants | 753,000 | 653,000 | 653,000 | 653,000 | 653,000 | 653,000 | **3,265,000** |
| **Information Services** | | | | | | | |
| I.T. Infrastructure | 26,000 | 10,000 | | 35,000 | | | **45,000** |
| I.T. Application Systems Renewal | 68,000 | 70,000 | 115,000 | 230,000 | | | **415,000** |
| I.T. Desktop Equipment | 25,000 | 90,000 | 50,000 | 50,000 | 50,000 | 50,000 | **290,000** |
| **Regeneration & Policy** | | | | | | | |
| Cycling England | 409,000 | | | | | | **0** |
| Toucan Crossing-King Street | 70,000 | | | | | | **0** |
| Artle Beck Improvements (Flood Defences) | 416,000 | | | | | | **0** |
| Christmas Lights Renewals | 31,000 | | | | | | **0** |
| Strategic Monitoring (River & Sea Defences, subject to EA funding) | 85,000 | 113,000 | 113,000 | 113,000 | 113,000 | 113,000 | **565,000** |
| Denny Beck Bridge Improvements | 139,000 | | | | | | **0** |
| Mill Head Warton (Flood Defences) | 30,000 | | | | | | **0** |
| Wave Reflection Wall Refurbishment (subject to EA funding) | 19,000 | | | | | | **0** |
| Slynedale Culvert project | 26,000 | 3,000 | | | | | **3,000** |
| The Dome (Demolition) | 140,000 | | | | | | **0** |
| Amenity improvements | 10,000 | 34,000 | | | | | **34,000** |
| Luneside East | 172,000 | 461,000 | | | | | **461,000** |
| Poulton Public Realm-Edward St, Union St, Church Walk | 25,000 | | | | | | **0** |
| Bold Street Renovation Scheme | 908,000 | | | | | | **0** |
| Marlborough Road Redevelopment | 200,000 | | | | | | **0** |
| Lancaster Square Routes | 0 | 220,000 | | | | | **220,000** |
| Ffrances passage (Square routes S106) | 0 | 73,000 | | | | | **73,000** |
| Morecambe THI2: A View for Eric | 0 | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 | **125,000** |
| Poulton Pedestrian Route | 0 | 160,000 | | | | | **160,000** |
| Public Realm Works | 13,000 | | | | | | **0** |
| Storey Institute Centre for Industries | 45,000 | | | | | | **0** |
| Port of Heysham Sites 1&4 (Payment of Clawback) | 0 | 328,000 | | | | | **328,000** |
| **Property Services** | | | | | | | |
| Car Park Improvement Programme | 0 | | 80,000 | | | | **80,000** |
| Corporate and Municipal Building Works (to include related energy efficiency schemes) | 1,025,000 | 2,780,000 | 2,275,000 | | | | **5,055,000** |
| Carnforth CCTV | 0 | | 50,000 | | | | **50,000** |
| **GENERAL FUND CAPITAL PROGRAMME** | **5,851,000** | **5,285,000** | **3,692,000** | **1,166,000** | **931,000** | **841,000** | **11,915,000** |

| Financing : | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 5 year Total |
|---|---|---|---|---|---|---|---|
| Grants and Contributions | 3,757,000 | 959,000 | 780,000 | 755,000 | 755,000 | 755,000 | **4,004,000** |
| Usable Capital Receipts (see table below) | 613,000 | 8,989,000 | 314,000 | 64,000 | 64,000 | 20,000 | **9,451,000** |
| Revenue Financing | 387,000 | 304,000 | 60,000 | 60,000 | 15,000 | 15,000 | **454,000** |
| **Sub-total** | 4,757,000 | 10,252,000 | 1,154,000 | 879,000 | 834,000 | 790,000 | **13,909,000** |
| **Increase / Reduction (-) in CFR (Underlying Change in Borrowing Need)** | 1,094,000 | -4,967,000 | 2,538,000 | 287,000 | 97,000 | 51,000 | **-1,994,000** |
| **TOTAL FINANCING** | **5,851,000** | **5,285,000** | **3,692,000** | **1,166,000** | **931,000** | **841,000** | **11,915,000** |
| **Shortfall / Surplus (-)** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Cumulative Shortfall / Surplus (-)** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |

| Capital Receipts Summary | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2014/15 | Total |
|---|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ | £ |
| Balance Brought Forwards: | 150,000 | 0 | 0 | 0 | 0 | 0 | **150,000** |
| Receipts Due In Year: | 463,000 | 8,989,000 | 314,000 | 64,000 | 64,000 | 20,000 | **9,914,000** |
| In Year Capital Programme Financing: | -613,000 | -8,989,000 | -314,000 | -64,000 | -64,000 | -20,000 | **-10,064,000** |
| **Balance Carried Forwards :** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |

APPENDIX G

# PRUDENTIAL INDICATORS - LANCASTER CITY COUNCIL

## Draft for consideration by Cabinet 15th February 2011

| | | | 2011/12 £'000 | 2012/13 £'000 | 2013/14 £'000 |
|---|---|---|---|---|---|

## AFFORDABILITY

| | | | 2011/12 | 2012/13 | 2013/14 |
|---|---|---|---|---|---|
| **PI 1:** | Estimates of ratio of financing costs to net revenue stream | Non - HRA | 13.7% | 11.7% | 11.3% |
| | | HRA* | 7.2% | 7.2% | 7.1% |
| | | Overall | 11.3% | 10.0% | 9.7% |
| **PI 2:** | Actual ratio of financing cost to net revenue stream | | Reported after each financial year end | | |
| **PI 3:** | Estimates of the incremental impact of new Capital Investment decisions on the Council Tax | | 2.12% | 0.67% | 1.34% |
| | This includes the impact of all elements of funding, including any increase in the need to borrow, required to finance new schemes added to the Capital Programme | | £4.07 | £1.31 | £2.67 |

| | | Repayment Period | | |
|---|---|---|---|---|
| **PI 3A:** | Illustrative Impact of Additional Borrowing £1 million | **5 Years** | **10 Years** | **25 Years** |
| | Increase in Council Tax (£) | £4.99 | £2.80 | £1.65 |
| | Increase in Council Tax (%) | 2.59% | 1.46% | 0.86% |

| | | 2011/12 | 2012/13 | 2013/14 |
|---|---|---|---|---|
| **PI 4:** | Estimates of the incremental impact of Capital Investment on Housing Rents | Nil | Nil | Nil |

## CAPITAL EXPENDITURE

| | | | 2011/12 | 2012/13 | 2013/14 |
|---|---|---|---|---|---|
| **PI 5:** | Estimates of capital expenditure | Non - HRA | 5,285 | 3,692 | 1,166 |
| | | HRA | 3,658 | 3,616 | 3,616 |
| | | Total | 8,943 | 7,308 | 4,782 |
| **PI 6:** | Actual capital expenditure | | Reported after each financial year end | | |
| **PI 7:** | Estimates of Capital Financing Requirement | Non - HRA** | 28,655 | 30,133 | 29,336 |
| | | HRA* | 15,303 | 15,303 | 15,303 |
| | | Total | 43,958 | 45,436 | 44,639 |
| **PI 8:** | Actual Capital Financing Requirement | | Reported after each financial year end | | |

## EXTERNAL DEBT

| | | 2011/12 | 2012/13 | 2013/14 |
|---|---|---|---|---|
| **PI 9:** | Authorised Limit | | | |
| | Authorised Limit for Borrowing* ** | 51,740 | 51,640 | 51,650 |
| | Authorised Limit for Other Long Term Liabilities | 260 | 260 | 250 |
| | Authorised Limit for External Debt | 52,000 | 51,900 | 51,900 |
| **PI 10:** | External Debt: Operational Boundary* ** | 47,000 | 46,900 | 46,900 |
| **PI 11:** | Actual external debt | Reported after each financial year end | | |

## PRUDENCE

| | | |
|---|---|---|
| **PI 12:** | Treasury Management: adoption of CIPFA code of Practice | The Council has adopted the updated Treasury Management code of practice (November 2009). |

| | | 2011/12 | 2012/13 | 2013/14 |
|---|---|---|---|---|
| **PI 13:** | Net borrowing and the capital financing requirement | | | |
| | Anticipated indebtedness (Authorised limit) | 47,000 | 46,900 | 46,900 |
| | Anticipated average investment | 15,960 | 15,750 | 14,590 |
| | CFR | 47,153 | 44,697 | 45,037 |
| | (Under)/over borrowed | -16,113 | -13,547 | -12,727 |

*This does not take into account potential reforms to the Housing Revenue Account Subsidy system

**This is on an IFRS basis including proposed adjustments to the balance sheet for reclassification of leases.

**Appendix H**

## HOUSING REVENUE ACCOUNT DRAFT BUDGET

## FOR CONSIDERATION BY CABINET 15 FEBRUARY 2011

| | 2009/10 Outturn £ | 2010/11 Budget £ | 2010/11 Revised £ | 2011/12 Budget £ | 2012/13 Forecast £ | 2013/14 Forecast £ |
|---|---|---|---|---|---|---|
| **INCOME** | | | | | | |
| Rental Income - Council Housing (Gross) | -11,416,100 | -11,717,900 | -11,720,600 | -12,527,200 | -13,113,400 | -13,718,900 |
| Rental Income - Other (Gross) | -183,900 | -188,600 | -192,700 | -193,100 | -196,400 | -200,300 |
| Charges for Services & Facilities | -1,874,900 | -1,841,900 | -1,821,800 | -1,835,000 | -1,871,300 | -1,911,100 |
| Grant Income | -7,700 | -7,700 | -7,700 | -7,700 | -7,700 | -7,700 |
| Contributions from General Fund | -167,900 | -165,200 | -165,200 | -165,200 | -165,200 | -165,200 |
| **Total Income** | **-13,650,500** | **-13,921,300** | **-13,908,000** | **-14,728,200** | **-15,354,000** | **-16,003,200** |
| **EXPENDITURE** | | | | | | |
| Repairs & Maintenance | 4,236,600 | 4,028,500 | 3,943,100 | 4,071,900 | 4,001,900 | 4,282,800 |
| Supervision & Management | 3,012,600 | 3,357,300 | 3,393,600 | 3,285,300 | 3,341,500 | 3,413,300 |
| Rents, Rates, Taxes & Other Charges | 92,600 | 99,400 | 94,000 | 103,200 | 112,100 | 121,300 |
| Negative Housing Revenue Account Subsidy Payable | 946,900 | 1,574,500 | 1,748,600 | 2,348,000 | 2,680,200 | 3,069,800 |
| Increase in Provision for Bad and Doubtful Debts | 209,600 | 155,800 | 180,000 | 182,000 | 183,100 | 184,300 |
| Depreciation & Impairment of Fixed Assets | 14,268,900 | 2,369,000 | 2,370,300 | 2,346,800 | 2,393,700 | 2,441,100 |
| Debt Management Costs | 1,100 | 1,100 | 1,100 | 1,100 | 1,100 | 1,100 |
| **Total Expenditure** | **22,768,300** | **11,585,600** | **11,730,700** | **12,338,300** | **12,713,600** | **13,513,700** |
| **NET COST OF HRA SERVICES** | **9,117,800** | **-2,335,700** | **-2,177,300** | **-2,389,900** | **-2,640,400** | **-2,489,500** |
| (Gain) or Loss on Sale of HRA Fixed Assets | -65,600 | 0 | 0 | 0 | 0 | 0 |
| Interest Payable & Similar Charges | 798,800 | 808,000 | 717,700 | 751,400 | 801,900 | 831,000 |
| Amortisation of Premiums & Discounts | 0 | 158,500 | 158,500 | 159,000 | 161,000 | 161,700 |
| Interest & Investment Income | -33,100 | -55,000 | -22,900 | -32,500 | -53,700 | -74,200 |
| Pensions Interest Costs & Expected Return on Pensions Assets | 481,900 | 68,000 | 68,000 | 68,000 | 68,000 | 68,000 |
| **(SURPLUS) OR DEFICIT FOR THE YEAR** | **10,299,800** | **-1,356,200** | **-1,256,000** | **-1,444,000** | **-1,663,200** | **-1,503,000** |
| Adjustments to reverse out Notional Charges included above | -11,740,600 | -65,400 | -63,200 | -63,200 | -63,200 | -63,200 |
| Net charges made for retirement benefits | -295,300 | -68,000 | -68,000 | -68,000 | -68,000 | -68,000 |
| Transfer to/(from) Major Repairs Reserve | 143,900 | 0 | -411,100 | 73,100 | 355,400 | 330,600 |
| Transfer to/(from) Earmarked Reserves | 409,100 | 238,400 | 9,600 | 199,900 | 225,300 | 177,100 |
| Capital Expenditure funded by the Housing Revenue Account | 1,153,700 | 1,251,200 | 1,961,900 | 1,302,200 | 1,213,700 | 1,126,500 |
| **TOTAL (SURPLUS) / DEFICIT FOR THE YEAR** | **-29,400** | **0** | **173,200** | **0** | **0** | **0** |
| Housing Revenue Account Balance brought forward | -493,900 | -350,000 | -523,200 | -350,000 | -350,000 | -350,000 |
| **Housing Revenue Account Balance carried forward** | **-523,300** | **-350,000** | **-350,000** | **-350,000** | **-350,000** | **-350,000** |

**CABINET**

# Treasury Management Strategy 2011/12
# 15 February 2011

## Report of Head of Financial Services

| **PURPOSE OF REPORT** | | | | | |
|---|---|---|---|---|---|
| This report sets out the position regarding the 2011/12 to 2013/14 Treasury Management Strategy for Cabinet's approval. | | | | | |
| **Key Decision** | ✓ | **Non-Key Decision** | | **Referral** | |
| **Date Included in Forward Plan** | February 2011 | | | | |
| **This report is public.** | | | | | |

**RECOMMENDATIONS OF COUNCILLOR LANGHORN:**

1. **That the monitoring report as set out at Appendix A be noted and referred on to Council for information.**

2. **That Council be recommended to approve the Treasury Management Strategy for the period 2011/12 to 2013/14 as set out in Appendix B, incorporating the Investment Strategy and Treasury Management Indicators, and as updated for Cabinet's final budget proposals.**

1 **INTRODUCTION**

1.1 It is a requirement of the CIPFA Code of Practice on Treasury Management ("the Code") that a strategy outlining the expected treasury activity for the forthcoming 3 years is adopted, but that this be reviewed at least annually. The proposed Treasury Management Strategy for the period 2011/12 to 2013/14 needs to cover the following forecasts and activities:

- the current treasury position
- expected movement in interest rates
- the borrowing and debt strategy
- the investment strategy
- specific limits on treasury activities
- treasury management indicators (previously reported as prudential indicators).

1.2 Further to the difficulties experienced in the Icelandic banking collapse and the wider banking crisis generally, the Code was updated in November 2009 and implemented in the 2010/11 Strategy. Both the Code and investment guidance issued by Government still remain flexible in order to cater for different public sector organisations and their differing operating arrangements, circumstances and risk appetites. Proposals regarding the various aspects of this authority's treasury management framework are set out below for Cabinet's consideration, although these would need to be updated should there be any changes to Cabinet's final budget proposals. The treasury framework, as updated, will be referred on for approval at Budget Council on 02 March 2011.

1.3 One of the changes introduced under the updated Code was that as well as receiving an outturn report on treasury performance, Council should also receive a mid-year update. In line with this principle, a summary of the latest monitoring report is included at ***Appendix A*** for information and referral on to Council.

1.4 In terms of Member training, the last formal session was held in September 2009. As demand was low, and treasury activity over the last year has been very low risk, it is not intended to undertake any further formal sessions until after the local elections. Very recently the Audit Committee indicated their support for this approach but training can be provided in the interim if Members require it.

## 2 TREASURY MANAGEMENT STRATEGY

2.1 The proposed Treasury Management Strategy for 2011/12 to 2013/14 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***. A single document covering the Treasury Management Strategy and the Investment Strategy is to be approved by Council.

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

### 2.3 Borrowing Aspects of the Strategy

2.3.1 Based on the draft budget, the physical borrowing position of the Council is projected to remain constant over the next three years. This assumes that the Council will benefit from capital receipts linked to the sale of land at South Lancaster. The position on Iceland is also far from certain although essentially the worst case scenario was provided for in the prior year accounts. The resolution of Luneside East land acquisition is also still a material uncertainty. Another potential factor relates to managing any redundancy costs arising from any future staffing reductions, as the Council takes action to balance its medium term budget forecasts. The Council may choose to manage these through its proposed Restructuring reserves, but depending on affordability, it may seek capitalisation directives that could give rise to further borrowing pressures.

2.3.2 The above points represent major assumptions and depending on their outcome, the debt strategy may need to vary greatly from that attached. There is also the potential for a significant net impact on revenue, through associated increased interest charges or lost investment income, and making minimum revenue provisions (MRP) for any additional debt repayment. Cabinet's proposals in respect of the General Fund Capital Programme are most likely to affect this element of the Strategy.

2.3.3 Even more significant, however, is the planned implementation of self-financing for council housing from April 2012. These reforms are covered in the Localism Bill and information on the methodology has now been received from Government. To give context, in broad terms the proposals may involve the Council taking on around £30M debt, potentially, in return for the housing subsidy system (and the obligation to pay negative subsidy) being withdrawn.

2.3.4 At this point though, as the proposals for these reforms are still going through Parliament, the proposed Strategy does not provide for the impact of these potential changes. A revision of the Strategy will need to be considered by Cabinet and Council in due course, once the legislative position is clearer.

2.4 **Investment Aspects of the Strategy**

2.4.1 The current strategy follows on from previous, "post Iceland" strategies. It still represents a marked step back in terms of the perception of 'risk' from the position a few years ago. Several changes were introduced post Iceland to reduce counterparty risk in relation to investments. These included reducing limits both in terms of deposit length and amount, increasing the use of the Government's Debt Management Accounts Deposit Facility (DMADF), and excluding forward deals.

2.4.2 Although the financial sector has remained relatively stable over the last 12 months, following the General Election public services are facing budget cuts of such a scale and there are views that that there could potentially be serious, adverse, knock on effects to the wider economy. Similar issues also face a number of other EU countries such as Ireland, Greece, Portugal and Spain. Overall, this means that there is no strong argument for significant relaxation of the measures taken post Iceland as there is still a great deal of uncertainty over the direction of the economy, and therefore risk to the banking sector. There is the need, however, to ensure sufficient flexibility in managing investments without undermining security, and to ensure that risk appetite is appropriate.

2.4.3 Accordingly, the main changes to investment limits for 2011/12 onwards include some increases to the proposed limits with banks that meet investment criteria. This reflects the vastly reduced counterparty list of quality institutions that the Council can trade with, but also retains a strong link between investment amounts and the length of deposit with higher value deposits being held only on instant access. This will allow the Council to utilise more fully the value present in instant access call accounts and money market funds, without reducing credit criteria or liquidity. In addition the time limit for upper tier banks has been increased to 1 year but on a maximum deposit of £2M (see table 4, ***Appendix B***) to allow the Council to take advantage of the increased yields (see 2.4.6 below), where it is judged that adequate security and liquidity are not being sacrificed.

2.4.4 Under the Code, it is crucial that training is provided to help ensure that both Members and Officers have the necessary skills to fulfil their respective responsibilities. This area will continue to feature in the Member Development Strategy as well as Officer related training programmes. Member development will be considered by the Council's Business Committee after the local elections.

2.4.5 Overall, the strategy put forward follows on from 2010/11 in that it is based on the Council having a low risk appetite, with a focus on highly liquid, high quality deposits. The Code encourages greater involvement from Members in terms of setting benchmarks for risk, above those set down in investment strategy and Treasury Management Indicators. This is to be taken forward after the local elections. The development of benchmarking should help Members in future to set the strategic framework for Treasury Management, allowing for a more sophisticated method of setting the level of risk that is judged to be acceptable.

2.4.6 At present, given very low interest rates, the opportunity cost attached to a low risk strategy is considered to be small. However, the markets are starting to offer significantly improved rates for longer term deposits with rates of 1.5% for a 12 month deposit rising to 2.3% for a 2 year deposit. This is in comparison to 0.75% being the Council's best instant access account and 0.25% being the prevailing rate on the

DMADF account. Having said this, many of the instant access investments are linked to the bank rate so a low risk, high liquidity strategy will still benefit from an increase in interest rates. Although the margins between short and long term deposits may increase; the Council should avoid defaulting to an overly cautious approach and should look to ways, such as through the use of security and liquidity benchmarks, to manage risk effectively whilst improving slightly its investment returns.

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

## 3 CONSULTATION

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

3.2 The proposals are also to be considered by Budget and Performance Panel at its meeting on 22 February 2011 and any recommendations arising will be fed directly into Budget Council.

## 4 OPTIONS AND OPTIONS ANALYSIS

4.1 As part of the adoption of the CIPFA Code of Practice on Treasury Management (2009) it is a statutory requirement that the Authority has a Treasury Management Strategy Statement and Investment Strategy. In this regard, Cabinet may put forward alternative proposals or amendments to the proposed documents, 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 Strategies 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. It should be noted that the Prudential Indicators are also covered in the Budget report elsewhere on this agenda.

## 5 OFFICER PREFERRED OPTION AND JUSTIFICATION

5.1 The Officer Preferred Options are as reflected in the recommendations to this report. This is based on the Council continuing to have a low risk appetite regarding investments, and it takes into account the requirements of the Code.

**RELATIONSHIP TO POLICY FRAMEWORK**

This report is in accordance with the Council's Treasury Management Policy, and fits with the development of the Medium Term Financial Strategy. As well as approving the Strategy Council will be requested to re-approve the Policy Statement, as it does every year.

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

No direct implications arising.

| |
|---|
| **FINANCIAL IMPLICATIONS**<br><br>None directly arising. The Strategy is in support of achieving the borrowing cost and investment interest estimates included in the draft base budget, based on a low risk approach. |
| **SECTION 151 OFFICER'S COMMENTS**<br><br>This report and its content forms part of the S151 Officer's responsibilities. |
| **LEGAL IMPLICATIONS**<br><br>Legal Services have been consulted and have no observations to make regarding this report; there are no implications directly arising. |
| **DEPUTY MONITORING OFFICER'S COMMENTS**<br><br>The Deputy Monitoring Officer has been consulted and has no further comments. |

| | |
|---|---|
| **BACKGROUND PAPERS**<br>CIPFA Code of Practice | **Contact Officer: Nadine Muschamp**<br>**Telephone:01524 582117**<br>**E-mail:nmuschamp@lancaster.gov.uk** |

**Appendix A**

# 2010/11 Treasury Management Progress Report to 31 December 2010

## Report of Head of Financial Services

### 1. Introduction

Council approved the Treasury Strategy including the Investment Strategy for 2010/11 at its meeting on 03 March 2010. This report outlines activities undertaken in pursuance of those strategies during the financial year up to the end of quarter 3.

### 2. Summary

- During the quarter there has been a further repayment from KSF of £163K, bringing the total to £1,084K representing 53% of the claim. The Council's creditor status for Glitnir and Landsbanki is still awaiting judgement from the Icelandic courts with test cases due to be tried during March and February 2011. The results of these will give a strong indication of the outcome of the Council's claims.

- Regarding investment interest to 31 December there has been £74K of cash interest on investments with £137K of 'accounting' interest on Icelandic investments. This is in line with the revised budget for 2010/11.

- On other treasury matters there have been no changes to the debt portfolio. No temporary borrowing was required during the quarter, no new long term debt has been taken on and there has been no opportunity for repayment of existing loans. PWLB have put their rates up by 1% across the board which may alter their position in the market should the Council need to take on new loans, for example due to the forthcoming dismantling of the HRA subsidy system.

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

### 3. Icelandic Investments Update

Regarding Icelandic investments, there is little new information from that reported as part of the 2009/10 outturn. During quarter 3 a further payment of £163K was received from KSF. This means that there is £940K still outstanding of the £2M invested, bringing total recoveries to 53%.

The legal action regarding preferential creditor status in relation to the Landsbanki and Glitnir investments (totalling £4M) is still underway in the Icelandic Courts. The Council continues as a party to the joint arrangements with other local authorities, organised through the Local Government Association and using Bevan Brittan which is judged to be both maximising the chance of a successful outcome and excellent value for money.

The test cases for Landsbanki and Glitnir are due to be heard in the Icelandic courts in February and March 2011. The outcome of these cases should give a strong indication of the outcome of the Council's claims.

**4. Debt Portfolio**

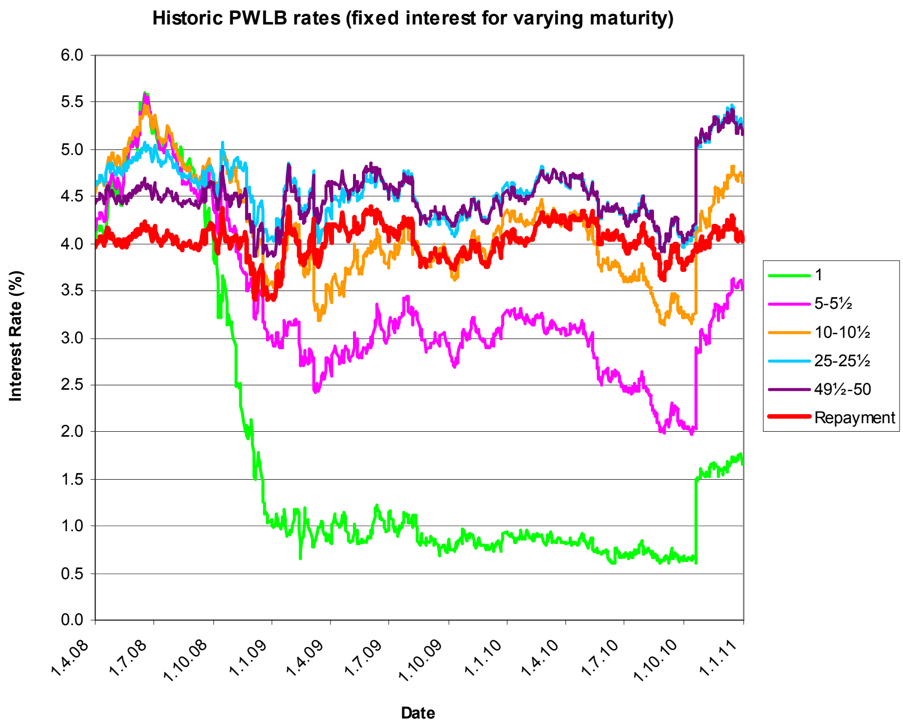
There has been no change to the long term debt portfolio since January 2009 and there is no immediate need to take out new long term loans. The Council's cash flow position remains strong, which is primarily because of the amounts being set aside each year from the budget for the future repayment of debt, through the Minimum Revenue Provision (MRP). Officers continue to monitor PWLB repayment rates for opportunities to reduce the outstanding debt balance without incurring early repayment penalties; the current position is reviewed in detail in section 5 below.

Some large schemes within the capital programme are now commencing (works at Lancaster and Morecambe town halls) however, there is likely to be significant slippage into 2011/12, any re-profiling and the implications on capital financing of this and any other additions or changes to the rolling 5 year programme will be reported through budget reports to Members. Luneside East compensation settlements, receipts from South Lancaster and the longer term liability linked to municipal buildings are still significant uncertainties which could impact on the debt position.

**5. Current Borrowing Rates**

The graph below shows that the pattern seen since January 2009 has persisted, with a marked spread between short term and long term borrowing. The main feature is the jump in rates across the board on the 20th October 2010 when central government added 1% to the cost of borrowing through the PWLB. This may have a significant impact in the future if the Council has to take on new debt through the review of the Housing Revenue Account Subsidy (HRAS) system. The repayment threshold has not been increased meaning that any new loans taken on would be less likely to be repayable early without incurring penalties. Together, these reduce the attractiveness of the PWLB as a lender and a thorough review of the market will be required for any new debt.

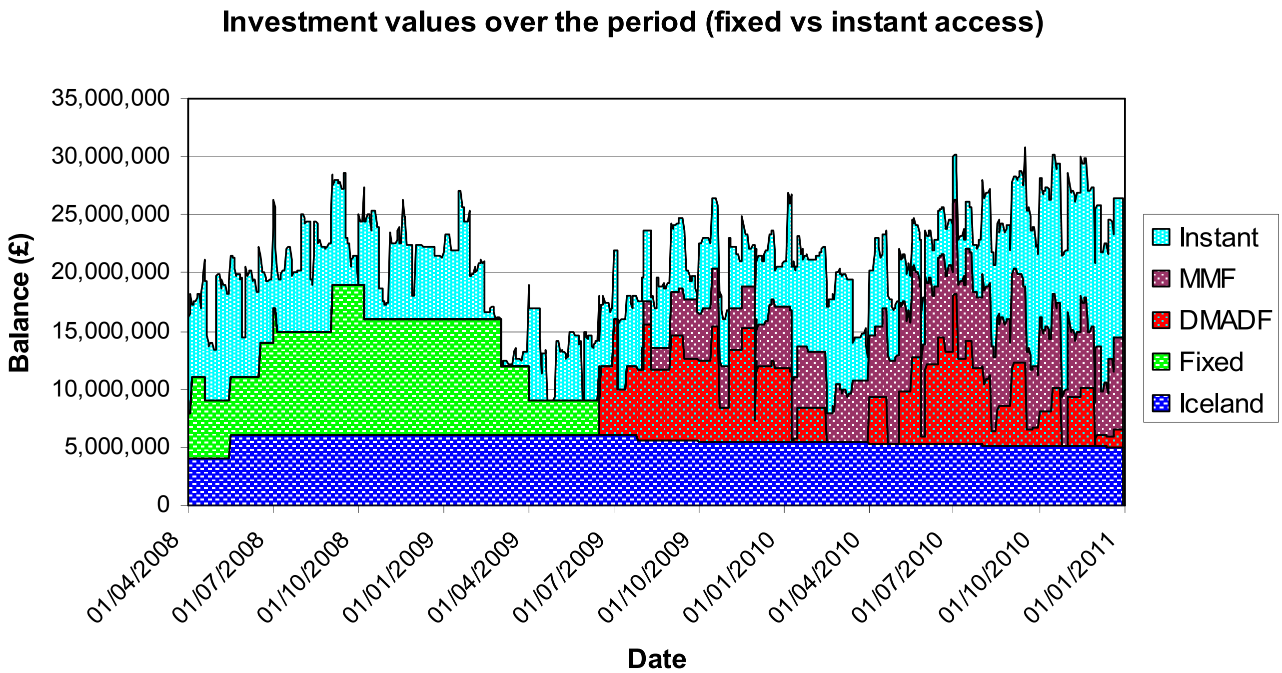
In relation to existing debt, the Council's cheapest major loan is at 4.6%; only when the repayment rate rises to 4.6% could we repay early without penalty and as can be seen from the graph the early repayment rate is still well below the level at which no penalty would be incurred, currently fluctuating around the 4% level.




## 6. 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 2010/11. No fixed term investments have been placed since September 2008, with the exception of Debt Management Accounts Deposit Facility (DMADF) deposits (i.e. with HM Government). Any other surplus cash has been managed on a day to day basis using the call accounts and Money Market Funds (MMF). A full list of the investments at the end of quarter 3 is enclosed at ***Appendix A1.*** Towards the end of quarter 2, the Council had brought the Santander Call account back into use following relaxing of concerns around its credit worthiness. In addition, there has been a full quarter of using the County Council Call account. These factors combined have helped to reduce the number of deposits in the DMADF and have allowed both improved liquidity and improved returns without loss of security.




## 7. Summary of Budget Position and Performance

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

| | |
|---|---|
| Base Rate | 0.50% |
| 3 Month LIBID | 0.72% |
| Lancaster CC investments | 0.51% |

The return is just above base but well below 3 month LIBID. The Council has focussed on secure and highly liquid deposits. This is a slight improvement on quarter 2 (4.6%) due to increased use of the Santander Call account and the County council facility. The portfolio is still spread over a variety of investments with DMADF (0.25%) and governmental money market fund (0.39%) both paying below Bank rate but still forming a core of the balances invested.

The approved Investment Strategy also allows for fixed term deposits up to 1 year with other local authorities, which means that the Council could take advantage of the County Council's fixed term investment offer that would match the market rate. This would pay a significant margin over the instant access rates albeit at the expense of liquidity. Current market rates for a 12 month deposit are in the region of 1.5% (as per Sector investment monitor).

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

| | | |
|---|---|---|
| Annual budget | £254K (revised) | |
| Evenly profiled budget | £191K | |
| | | |
| Actual to date | £74K | (see details in ***Appendix A1)*** |
| "Icelandic" to date | £137K | (see details in ***Appendix A1)*** |
| | | |
| Total | £211K | |
| | | |
| Variance | £20K | |

Although investment interest is showing a positive variance against the evenly profiled budget, it is expected that investment balances will drop off in the final quarter of the year as Council tax and NNDR income fall away after January. The revised annual budget is the expected out-turn. This takes into account both the ‘real’ interest from active external investments as well as the ‘accounting’ interest applied to Icelandic investments that have defaulted, as per the accounting regulations.

## 8. Risk management

There has been no material change in the policy or operation of the Treasury function over the quarter, the view is, therefore, that associated risks have remained consistently very low.

Cash balances have remained healthy as in the previous quarter; although there may be lower cash balances by the end of the year due to the profile of local taxation income, liquidity is not anticipated to create significant risk for the Council over the remainder of the year.

Aside from the above, there is also financial risk attached to the longer term debt portfolio, associated with interest rate exposure; there has been no change to this over the quarter. Although PWLB have increased their rates for new loans, this is not judged to impact on the risks linked to the current portfolio. To manage the risk attached to any new borrowing, market data will be used to ensure value for money is assured on any new debt.

As noted in section 4 above, there is uncertainty over some material elements of the capital programme. The financial risk that this creates is managed through regular reviews of expenditure to date as well as integration between capital budgeting and the treasury strategy, so that this can be factored into any decisions on whether to invest or borrow.

Finally, as per the previous quarterly updates, recovery of Icelandic investments is still being managed with legal support organised through the Local Government Association. Future views on recovery prospects will be informed by accounting guidance and information arising from the legal proceedings; hopefully there will be a clearer indication of the levels of recovery following the test cases on Landsbanki and Glitnir which are due to be heard during 2010/11 quarter 4.

A further element of risk management is the prudential framework; there have been no breaches of any prudential indicators in the quarter.

## 9. Conclusion

Consistent with the prior quarter, the third quarter of the 2010/11 has been steady in treasury management terms.

The appetite for risk has remained very low with the use of either AAA rated MMFs, instant access call accounts or deposits with HM Treasury. It is anticipated that this will remain low for the next annual strategy, which is currently under development.

Whilst some progress has been made in recovering Icelandic investments, the bulk of monies outstanding are still subject to court action with no new significant information as yet in terms of a likely outcome.

**APPENDIX A1**

## INVESTMENT INTEREST EARNED TO 31 December 2010

| Icelandic investments | No | Start | End | Rate % | Principal £ | Cumulative Interest* £ |
|---|---|---|---|---|---|---|
| **Deposited 2007/08** | | | | | | |
| Landsbanki Islands | 004 | 31-Mar-08 | 22-Apr-09 | 6.25 | 1,000,000 | 26,370 |
| Glitnir | FI02/023 | 31-Mar-08 | 22-Apr-09 | 5.76 | 3,000,000 | 80,616 |
| **Deposited 2008/09** | | | | | | |
| Kaupthing, Singer & Friedlander | 06/07-I29 | 16-May-08 | 07-Oct-08 | 6.00 | 1,282,500 | 30,137 |
| Sub total | | | | | 5,282,500.00 | 137,123 |

| Other Investments | opening | Min | Max | closing | Indicative rate | Cumulative Interest £ |
|---|---|---|---|---|---|---|
| Call: Abbey National | 4,000,000 | 3,850,000 | 4,000,000 | 4,000,000 | 0.75% | 10,322 |
| Call: Yorkshire bank | 2,000,000 | 2,000,000 | 2,000,000 | 2,000,000 | 0.50% | 8,229 |
| Call: RBS | 2,000,000 | 2,000,000 | 2,000,000 | 2,000,000 | 0.70% | 10,024 |
| Call: Lancashire County Council | 4,000,000 | 4,000,000 | 4,000,000 | 4,000,000 | 0.70% | 12,647 |
| DMADF | 3,050,000 | 0 | 5,050,000 | 1,550,000 | 0.25% | 8,435 |
| Government Liquidity MMF | 4,000,000 | 0 | 4,000,000 | 3,700,000 | 0.39% | 9,378 |
| Liquidity First MMF. | 4,000,000 | 1,000,000 | 4,000,000 | 4,000,000 | 0.65% | 15,113 |
| Sub-total | | | | | | 74,148 |

| | | |
|---|---|---|
| **TOTAL Interest** | | **211,271** |

* Under the 2009 SORP, interest continues to be accrued whilst Icelandic investments are on the Council's balance sheet. As the full impairment on the investments was recognised in the 0910 accounts, it is anticipated that this interest will be credited to the General fund in 10/11. This may vary depending on subsequent guidance from CIPFA. £1,084K had been received from KSF as at the end of Qtr 3 2010/11 representing 53% of the total claim.

**APPENDIX B**

# Treasury Management Strategy 2011/12 to 2013/14

**Draft for Consideration by Cabinet 15 February 2011**

## Introduction

1. The treasury management function is an important part of the overall financial management of the Council's affairs. Its importance has increased as a result of the freedoms provided by the Prudential Code. Whilst the prudential indicators consider the affordability and impact of capital expenditure decisions, the treasury function covers the effective funding of these decisions. There are also specific treasury indicators included in this strategy that need approval.
2. The Council's activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management, revised November 2009: the "Code"). This Council originally adopted the Code on 13 February 2002, and adopted the revised Code from 2010/11 onwards.
3. The Code requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. A further report is produced after the year-end to report on actual activity for the year. As a consequence of the revised Code, the a quarterly PRT report will also be referred to full Council by way of a mid year monitoring report.
4. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury function.
5. This strategy therefore covers:
   - the current treasury position;
   - expected movement in interest rates;
   - the Council's borrowing and debt strategy (including its policy on making provision for the repayment of debt);
   - the Council's Investment Strategy;
   - specific limits on treasury activities;
   - treasury management indicators; and
   - specific sections on training and the use of consultants.

   This strategy document contains the relevant information to comply with both the Code and the Investment Guidance issued by Government. The sections that specifically satisfy requirements of the Investment Guidance are: specified and non specified investments (31-39), credit risk assessment (32-44), use of investment consultants (50-51), training (52), borrowing in advance of need (22) and length of deposits (38-40).

## Treasury Position

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

**Table 1: Gross external debt and investment forecast**

| | 2011/12 Estimated | 2012/13 Estimated | 2013/14 Estimated |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **External Debt** | | | |
| Borrowing | **39,200** | **39,200** | **39,200** |
| Other long term liabilities | **255** | **250** | **245** |
| Finance lease liability** | **4,500** | **4,500** | **4,500** |
| Total Debt at 31 March | **43,955** | **43,950** | **43,945** |
| **Investments** | | | |
| Total investment adjusted for Iceland 31 March* | **11,570** | **9,360** | **9,200** |
| Projected average investment balances* | **15,960** | **15,570** | **14,590** |

*Non Iceland investments plus cash due back as per CIPFA LAAP repayment schedules

**Estimate subject to IFRS adjustments to lease classifications

7. The current capital programme assumes an overpayment of £2.1M (during the 3 years 2011-12 to 2013-14) against capital expenditure to reverse prudential funding from prior years. This is reliant on a large capital receipt in 2011/12 relating to the sale of land at South Lancaster followed by further prudentially funded capital expenditure in 2012/13 and 2013/14. The investment profile remains fairly smooth because as cash is expended on capital, it is anticipated that there will be offsetting cash recovered from Icelandic investments. It is assumed that no new borrowings will be taken on and also that no loans will be physically repaid. The impact of a projected £1.1M of prudentially funded capital expenditure in 2010/11 has also been included in the figures in table 1.

8. The revenue consequences of these balances, namely investment income and borrowing costs (and the relevant recharges between the HRA), are included within the overall revenue budget. All these figures assume a 50/50 chance of preferential creditor status with Landsbanki and Glitnir, as is consistent with the charges put through the 2009/10 final accounts.

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

10. Further, the Council's closing cash position generally represents the lowest point throughout the year. The table above indicates that there is a core cash element of around £9M showing that there is capacity to net down the investment/borrowing position, saving the margin between the investment rates and the, currently far higher, borrowing costs. This is certainly a policy that the Council would consider should the conditions for early repayment without penalty occur.

11. As noted, the figures above include a projected liability for reclassification of operating leases to finance leases under the conversion to International Financial Reporting Standards. This is an accounting adjustment which the Council is required to do and which will lead to an increase in financing liabilities and the CFR. However, the figures are estimates only at this stage and are subject to sign off by external audit. Once this has been done, it may be that a separate report will be made to Members to explain the changes and amend any elements of the debt strategy and associated Prudential Indicators, if necessary.

12. One major factor that will have a significant impact on the treasury position is the proposed change to the HRA subsidy system under the Localism Bill. Indicative figures from DCLG suggest that the Council will have to make a payment to DCLG of £30M early in 2012-13

in exchange for not having to pay an annual amount through the subsidy system. However, the payments are still subject to finalisation by DCLG and the Localism Bill has yet to be brought into law. Due to the uncertainties over this, the strategy below does not make any further reference to the impact of HRA reforms. Although these should not impact on the strategy for 2011/12, figures for 2012/13 and 2013/14 could change materially. Further work will be required during 2011-12 in relation to the possible financing of this transaction, for inclusion in the strategy for 2012/13.

**Scenario Review**

13. The position above assumes that there will be no pressure to physically borrow to support the capital programme over the next three years and that the Council will be able to reverse £1.9M of previously incurred, prudentially funded, capital expenditure. There are however a number of further assumptions which this is based on. Table 2 below illustrates these and the potential impact they could have.

**Table 2 Scenarios for the period 2011/12 to 2013/14**

| Scenarios | Cash impact | Capital impact | Annual Revenue impact | Comments |
|---|---|---|---|---|
| | £000 | £000 | £000 | |
| Iceland best case | 1,420 | -1,420 | 90 | £2.1M of Icelandic investment impairment was capitalised in 2009-10 and funded prudentially. Should a best case outcome occur, it is projected that most of this would be reversed (except the underlying KSF impairment) giving an ongoing MRP saving plus additional cash to invest with an anticipated return of £20K per annum. In addition, £1.4M of resources set aside to cover the worst case scenario would be a one off release back into the GF. |
| As presented | 0 | 0 | 0 | As presented. |
| Luneside additional costs | 1,000 | 1,000 | -60 | There is potential additional expenditure required in relation to Luneside East; £1M is used for exemplification. It is anticipated that should this fall due, it would be taken out of investment balances with a knock on effect on investment income of approximately £10K with an ongoing MRP implication estimated at £50K per annum |
| South Lancaster | -7,240 | 7,240 | -340 | All of this funding is earmarked in the capital programme, if the receipt fell through, this would have an ongoing impact in terms of MRP estimated at between £200K and £300K per annum, this would also mean that the demands of the capital programme would wipe out cash balances for investments, estimated at £90K per annum. |

*investment losses based on average Bank rate over the period of 1.2%.

14. From the table above it is clear that the capital receipt from the sale of land at South Lancaster remains a key assumption underpinning the TM strategy. It could have a large impact on the Council's borrowing requirement and its treasury position, be this increased loans or depleted cash (as assumed above). There would also be an ongoing MRP consequence relating to the capital expenditure which would no longer be fundable through capital receipts.

15. The impact of Iceland has reduced relative to last year's figures but this is mostly due to the Council having already capitalised £2.1M of the impairment whilst setting aside a further £1.4M to cover the difference between the assumption of a 50/50 chance of

preferential creditor status and the worst case scenario. The degree of uncertainty on Luneside has reduced from prior years given the successful result on the valuation basis but there is still material uncertainty over the costs to settle the unresolved land acquisitions on the site. The Council was successful in defending its valuation basis so although there is still uncertainty over the net outcome of the various land acquisitions and legal fees, the degree of uncertainty is now thought to be within a smaller financial limit.

**Expected Movement in Interest Rates**

**Table 3: Medium-Term Rate Estimates (averages)**

| Annual Average % | Bank Rate | Money Rates | | PWLB Rates* | | | |
|---|---|---|---|---|---|---|---|
| | | 3 month | 1 year | 5 year | 10 year | 25 year | 50 year |
| 2010/11 | 0.5 | 0.7 | 1.5 | 2.6 | 3.7 | 4.6 | 4.7 |
| 2011/12 | 0.7 | 0.9 | 1.8 | 3.5 | 4.5 | 5.3 | 5.3 |
| 2012/13 | 1.7 | 1.9 | 2.8 | 4.0 | 5.0 | 5.4 | 5.4 |
| 2013/14 | 3.1 | 3.3 | 3.8 | 4.8 | 5.3 | 5.6 | 5.6 |

* Borrowing Rates

*Information provided by Butlers Consultants January 2010.*

16. The key theme of uncertainty continues with mixed economic data undermining robust medium term projections. Whilst short-term rates are expected to remain on hold through most of 2011, inflation has been above the 2% target for so long that this will make the Bank of England's Monetary Policy Committee (MPC) decisions during 2011 difficult to project as an equally important pressure is whether rates need to be kept low to aid the recovery, particularly given the recently reported 0.5% shrinkage in GDP for 2010 quarter 4.

17. The Government's determination to cut the size of the public sector deficit will be a drag upon activity in the medium term. The void left by significant cuts in public spending will need to be filled by a number of alternatives. These are corporate investment, rising exports (assisted by the fall in the value of sterling) and consumers' expenditure. In terms of sheer magnitude, the latter is the most important and strong growth in this area is by no means certain. The combination of the desire to reduce the level of personal debt, lack of access to credit and continued job uncertainty is likely to weigh heavily upon spending. This will be amplified by the fiscal policy tightening, in the Comprehensive Spending Review. Without growth in personal spending remaining robust, any recovery in the economy is set to be weak and protracted.

18. Fiscal support in the US through the extension of tax cuts and monetary support through the extension of quantitative easing (QEII, with the potential for further easing), has had an adverse effect on world bond markets. Following the recent sell off the outlook for long term interest rates is favourable in the near term, but is set to deteriorate again in the latter part of 2011. The increase in yields will be suppressed by continued investor demand for safe haven instruments following the uncertainties and unfolding tensions within the entire Eurozone. In addition to this, the market has been underpinned by evidence of moderating activity in major economies and the coalition government's determination to deal with the parlous state of public sector finances. These two factors will restrict any deterioration in gilt market performance in the near term.

19. However, while the UK's fiscal burden will almost certainly ease, it will be a lengthy process and deficits over the next two to three financial years will still require a very heavy programme of gilt issuance. The latest Bank Inflation Report suggests the market will not

be able to rely upon Quantitative Easing indefinitely to alleviate this enormous burden. Eventually, the absence of the Bank of England as a continued buyer of gilts will shift the balance between supply and demand in the gilt-edged market. Other investors will almost certainly require some incentive to continue buying government paper. This incentive will take the form of higher yields. The longer dated maturities will suffer from the lack of support from the major savings institutions (pension funds and insurance companies) who will continue to favour other investment instruments as a source of value and performance. Although the FSA has recently delayed implementation of their liquidity requirements, the regulator will still look to ensure banks have necessary short term liquidity. The front end of the curve will benefit from this and will ensure the steeply-positive incline of the yield curve remains intact. The consequence of this will be that the spread between long and short term PWLB rates is likely to continue although rates in general are likely to rise across the board.

**Borrowing and Debt Strategy 2011/12 to 2013/14**

20. The continued uncertainty over future interest rates increases the risks associated with treasury activity. As a result there is no strong argument for a significant relaxation of the Council's treasury strategy. As outlined in the scenarios section above, there are also a number of other factors outside of the Council's direct control, which could have a significant impact on its need to borrow. As these issues are clarified, the options around borrowing will be considered in relation to the longer term prospects of rate rises.
21. The Head of Financial Services, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, if need be, taking into account the risks shown in the forecast above. It is likely that shorter term fixed rates may provide lower cost opportunities in the short to medium term.
22. 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.
23. With the likelihood of rates increasing, any debt restructuring is likely to focus on switching from longer term fixed rates to cheaper shorter term debt, although the Head of Financial Services and treasury consultants will monitor prevailing rates for any opportunities during the year. The benefit of this will be balanced against the risks attached to the more frequent refinancing that would be required.
24. The option of postponing borrowing and running down investment balances will also be considered, this would have the added benefit of further reducing counterparty risk and also could improve the revenue situation with the cost of loans currently far outweighing the return on investments, as already mentioned in paragraph 10 above.

**Provision for the Repayment of Debt 2011/12 to 2013/14**

25. Up until 2007/08 the Council calculated the basic amount of provision, which it sets aside each year from revenue for the repayment of debt, in accordance with a prescribed formula based on the CFR. To this was added a further provision in respect of the financing of assets with relatively short lives, as considered prudent.
26. The new arrangements were introduced from 1 April 2008. In summary:
    - the prescribed formula has been abolished and replaced by a simple requirement for Councils to make 'prudent' provision;
    - the old calculation may still be used for relevant capital expenditure before 31 March 2008, but
    - provision relating to relevant capital expenditure after this date must either be based on the estimated life of the asset, or equal to the depreciation on the asset.

27. The new arrangements also included reference to 'supported' or unsupported' capital expenditure:

    - 'Supported' is the amount of capital expenditure for which the authority has received revenue support from Government to help meet the financing costs. (i.e. for credit / borrowing – it excludes grant financing).
    - 'Unsupported' is where the authority receives no such revenue assistance (often also referred to as prudential borrowing).

28. Financially, the new arrangements for calculating the Minimum Revenue Provision (MRP) have no real impact on the Council because the changes effectively codify the full 'prudent' provision which the Council was already making. Nonetheless, as an element of discretion has been introduced the Council's approach must be formalised within the borrowing strategy.

29. Therefore, for 2011/12, the Council's policy for the making of provision for the repayment of debt will be as follows:

    - For all relevant capital expenditure prior to 1 April 2008, with the exception of that in respect of motor vehicles (i.e. less than 15 years life), by the application of the former prescribed formula *(i.e. for General Fund, 4% of the non-housing related Capital Financing Requirement at the start of the year)*.
    - For capital expenditure on motor vehicles prior to 01 April 2008, and for all supported or unsupported capital expenditure on or after that date, equal annual amounts based on the estimated life of each individual asset so financed, as is consistent with the revised Minimum Revenue Provision guidance (February 2008, method 3).
    - For finance leases the annuity method will be used to ensure the total charges in year remain constant (MRP plus interest cost) and match what would otherwise be an annual revenue cost. This is also to be applied retrospectively to any operating leases re-classified as finance leases under the transfer to IFRS for the 2010-11 final accounts.

**Investment Strategy 2011/12 to 2013/14**

30. 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.

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

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

33. 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.

34. 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 would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible

longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. More information on credit ratings is included in ***Appendix B2***.

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

- **Banks 1 - Good Credit Quality**

  The Council will only use banks that:

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

  and have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated, as is consistent with the middle limit as per table 4):

  i. **Short Term:** F1/P-1/A-1

  ii. **Long Term:** A/A2/A

  iii. **Individual / Financial Strength:** C (Fitch / Moody's only)

  iv. **Support:** 3 (Fitch only)

- **Banks 2 – Guaranteed Banks with suitable Sovereign Support**

  In addition, the Council will use EU banks whose ratings fall below the criteria specified above if all of the following conditions are met:

  a) wholesale deposits in the bank are covered by a government guarantee;

  b) the government providing the guarantee is rated "AAA" by all three major rating agencies (Fitch, Moody's and Standard & Poors); and

  c) the Council's investments with the bank are limited to amounts and maturities within the terms of the stipulated guarantee.

- **Banks 3 – Eligible Institutions**

  The Council will use banks where the organisation was an Eligible Institution for the HM Treasury Credit Guarantee Scheme initially announced on 13 October 2008, with the necessary short and long term ratings required in *Banks 1* above. These institutions have been subject to suitability checks before inclusion, and have access to HM Treasury liquidity if needed. These will continue to be included on the counterparty list even if the credit guarantee scheme is withdrawn although the Head of Financial services may restrict their usage.

- **Banks 4 – 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)

36. 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;
- Sector limits will be monitored.

37. The Code and Investment Guidance now 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, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

38. 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 4: Counterparty Criteria and Investment Limits**

| | Minimum across all three ratings | | | Money Limit[7] | Time Limiit[8] |
|---|---|---|---|---|---|
| | Fitch | Moody's | Standard & Poors | | |
| Upper Limit[1] | F1+/AA- | P-1/AA3 | A-1+/AA- | £6M | Instant access only |
| | | | | £3M | 3 months |
| | | | | £2M | 1 Year |
| 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 |
| Money Market Funds[4] | AAA | AAA | AAA | £6M | Instant Access Only |
| DMADF deposit[5] | N/A | N/A | N/A | £20M | 1 Year |
| Sovereign rating to apply to all non UK counterparties[6] | AAA | AAA | AAA | N/A | N/A |

**Notes:**

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

39. In the normal course of the Authority's cash flow operations it is expected that both specified and non-specified Investments will be utilised for the control of liquidity as both categories allow for short term investments. The Council will maintain a minimum £2M of investments in Specified Investments provided that the cashflow allows for this. In addition, although the Council will consider using non specified investments (as described in append B1), these should not exceed 50% of the portfolio at any one time. The limits applied will be consistent with the short and long term ratings in table 4 above.

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

41. Expectations on shorter-term interest rates, on which investment decisions are based, show a likelihood of the current 0.5% Bank Rate increasing moderately over the next 12 months but with the possibility of a steeper rise in 2012-13. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts.

42. 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, for institutions in the upper limit category, limited amounts of fixed term investing are judged to be acceptable.

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

44. Examples of these restrictions include greater use of the Debt Management Deposit Account Facility (DMADF – a Government body which accepts local authority deposits), guaranteed deposit facilities and strongly rated institutions offered support by the UK Government as appropriate. The credit criteria reflect these facilities.

**Risk benchmarking**

45. A further development in terms of managing risk is the use of security and liquidity benchmarks, above and beyond the limits on time and creditworthiness listed above. Yield benchmarks are currently widely used to assess investment performance but more sophisticated security and liquidity benchmarks could be set by Members and incorporated into reporting. The purposes of the benchmarks would be to further aid Officer monitoring of the current and trend positions and to inform any amendments to the operational strategy.

46. At present, the criteria set down in table 4 above and through the treasury management indicators below, limit activity in terms of length of deposit (liquidity and security) and in terms of strength of the counterparty (security). The current strategy follows on from the 2010/11 strategy in being low risk through, for example, restricting the amount and length of deposit in any one counterparty as well as mandating high liquidity on larger deposits. The use of benchmarking would allow the Council to set more subtle strategic parameters on investments that allow for an 'acceptable' level of risk in the portfolio. For example, Members could set a benchmark for 'average days to maturity' to supplement the time limits already given in table 4 above. This is something that will be considered and developed during the year.

**Treasury Management Indicators and Limits on Activity**

47. 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.

48. Council will also be requested to approve the treasury management indicators, as updated in line with final budget proposals, at its meeting on 02 March 2011.

**Table 5: Treasury Management Indicators**

| | 2011/12 | | 2012/13 | | 2013/14 | |
|---|---|---|---|---|---|---|
| **Interest Rate Exposures (TM 1 & 2)** | | | | | | |
| | | | | | | |
| | **Upper** | | **Upper** | | **Upper** | |
| | | | | | | |
| **Limits on exposure to fixed interest rates** | 100% | | 100% | | 100% | |
| **Limits on exposure to variable interest rates** | 30% | | 30% | | 30% | |
| **Maturity Structure of fixed interest rate borrowing (TM 3)** | | | | | | |
| | **Lower** | **Upper** | **Lower** | **Upper** | **Lower** | **Upper** |
| Under 12 months | 0% | 35% | 0% | 35% | 0% | 35% |
| 12 months to 2 years | 0% | 20% | 0% | 20% | 0% | 20% |
| 2 years to 5 years | 0% | 20% | 0% | 20% | 0% | 20% |
| 5 years to 10 years | 0% | 20% | 0% | 20% | 0% | 20% |
| 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** | | | | | | |
| Under 12 months | 0% | | 0% | | 0% | |
| 12 months to 2 years | 0% | | 0% | | 0% | |
| 2 years to 5 years | 0% | | 0% | | 0% | |
| 5 years to 10 years | 0% | | 0% | | 0% | |
| 10 years to 15 years | 0% | | 0% | | 0% | |
| 15 years to 25 years | 0% | | 0% | | 0% | |
| 25 years to 50 years | 100% | | 100% | | 100% | |
| **Maximum principal sums invested > 364 days (TM 4)** | | | | | | |
| Principal sums invested, in 2011/12, for periods of greater than 364 days, to mature after the end of each financial year | £0M | | £0M | | £0M | |

**Performance Indicators**

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

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

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

**Treasury Management Advisers**

50. 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;
51. 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**

52. 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.

# 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.<br><br>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 Appendix B |
| (ii) | A body which was an Eligible Institution for the HM Treasury Credit Guarantee Scheme initially announced on 13 October 2008. | Included as per Appendix B |
| (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 Appendix B |

APPENDIX B2

## Background information on credit ratings

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

What is a Credit Rating ?

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

Who Provides / Uses Credit Ratings?

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

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

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

Rating Criteria

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

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

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

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

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

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

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

**APPENDIX C**

# TREASURY MANAGEMENT FRAMEWORK DOCUMENTS AND RESPONSIBILITIES

**For Consideration by Cabinet 15 February 2011**

| DOCUMENT | RESPONSIBILITY |
|---|---|
| **CODE of PRACTICE** | To be adopted by Council (as updated November 2009). |
| **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 2009. |
| **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 DCLG 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:<br>*TMP 1:* Risk management<br>*TMP 2:* Performance measurement<br>*TMP 3:* Decision-making and analysis<br>*TMP 4:* Approved instruments, methods & techniques<br>*TMP 5:* Organisation, clarity and segregation of responsibilities, and dealing arrangememts.<br>*TMP 6:* Reporting requirements & management information requirements<br>*TMP 7:* Budgeting, accounting & audit<br>*TMP 8:* Cash & cash flow management<br>*TMP 9:* Money laundering<br>*TMP 10:* Staff training & qualifications<br>*TMP 11:* Use of external service providers<br>*TMP 12:* Corporate governance<br>Any changes to the above principles will require Cabinet approval. It is the Head of Financial Service's responsibility to maintain detailed working documents and to ensure their compliance with the main principles. It is highlighted that for 2011/12, quarterly treasury management reports will continue to be included within Corporate Financial Monitoring and reported through to Members. |