



Committee: BUDGET AND PERFORMANCE PANEL

Date: WEDNESDAY, 21ST SEPTEMBER 2022

Venue: MORECAMBE TOWN HALL

Time: 6.00 P.M.

A G E N D A

1. **Apologies for Absence**

2. **Appointment of Vice-Chair**

In accordance with Rule 8, paragraph c, Part 3 – Rules of Procedure, Section 3, the Chair and Vice Chair shall not be members of the largest political group which has Councillors serving on the Cabinet.

3. **Minutes**

Minutes of the Meeting held on 28th July 2022 (previously circulated).

4. **Items of Urgent Business authorised by the Chair**

5. **Declaration of Interests**

To receive declarations by Councillors of interests in respect of items on this Agenda.

Councillors are reminded that, in accordance with the Localism Act 2011, they are required to declare any disclosable pecuniary interests which have not already been declared in the Council's Register of Interests. (It is a criminal offence not to declare a disclosable pecuniary interest either in the Register or at the meeting).

Whilst not a legal requirement, in accordance with Council Procedure Rule 9 and in the interests of clarity and transparency, Councillors should declare any disclosable pecuniary interests which they have already declared in the Register, at this point in the meeting.

In accordance with Part B Section 2 of the Code Of Conduct, Councillors are required to declare the existence and nature of any other interests as defined in paragraphs 8(1) or 9(2) of the Code of Conduct.

6. **Budget and Performance Panel - Financial Overview and Strategic Direction - Communities and the Environment Directorate**

Note: All Members of Council are invited to attend the meeting for this item.

7. **Provisional Revenue, Capital and Treasury Management Outturn 2021/22 (Pages 3 - 36)**

Councillor Whitehead, Cabinet Member with particular responsibility for Finance and Resources, has been invited to the meeting for this item.

Report of the Chief Finance Officer. Report and Appendices published on 14th September 2022.

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

Councillors Joan Jackson (Chair), Phillip Black, Victoria Boyd-Power, Tim Dant, Roger Dennison, Colin Hartley, Ross Hunter, Sally Maddocks and Margaret Pattison

(ii) Substitute Membership

Councillors Mandy Bannon, Geoff Knight, Erica Lewis, Alistair Sinclair and David Whitaker, (BI Group, Conservative and Liberal Democrat vacancies)

(iii) Queries regarding this Agenda

Please contact Stephen Metcalfe, Democratic Services - email sjmetcalfe@lancaster.gov.uk.

(iv) Changes to Membership, substitutions or apologies

Please contact Democratic Support email democracy@lancaster.gov.uk.

MARK DAVIES,
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Published on Monday, 12th September, 2022.

BUDGET AND PERFORMANCE PANEL

Provisional Revenue, Capital, and Treasury Management Outturn 2021-22

21 September 2022

Report of the Chief Finance Officer

PURPOSE OF REPORT

To present Members of the Panel with the Provisional Revenue, Capital, and Treasury Management Outturn for 2021-22

This report is public

RECOMMENDATIONS

- (1) That Budget and Performance Panel note the Cabinet Report dated 13 September 2022 and attached appendices.

1.0 INTRODUCTION

- 1.0 The report attached at **Appendix 1**, was presented to Cabinet on 13 September 2022, Budget and Performance Panel are asked to consider the Cabinet report and attachments in line with their Terms of Reference within the Constitution.

CONCLUSION OF IMPACT ASSESSMENT
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(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing): As set out in the relevant appendices.

LEGAL IMPLICATIONS

As set out in the relevant appendices.

FINANCIAL IMPLICATIONS

As set out in the relevant appendices.

OTHER RESOURCE IMPLICATIONS, such as Human Resources, Information Services, Property, Open Spaces:

As set out in the relevant appendices.

SECTION 151 OFFICER'S COMMENTS

The report has been written by the Section 151 Officer.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

None.

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CABINET

Provisional Revenue, Capital and Treasury Management Outturn 2021/22 13 September 2022

Chief Finance Officer

PURPOSE OF REPORT			
This report provides summary information regarding the provisional outturn for 2021/22, including treasury management. It also sets out information regarding the carry forward of capital slippage and other matters for Members' consideration.			
Key Decision	<input type="checkbox"/>	Non-Key Decision	<input type="checkbox"/>
Officer Referral			X
Date of notice of forthcoming key decision		N/A	
This report is public.			

RECOMMENDATIONS OF COUNCILLOR WHITEHEAD:

- (1) That the provisional outturn for 2021/22 be endorsed, including the transfers to and from Reserves and Balances actioned by the Chief Finance Officer as set out in 6.1 and Appendix 5.
- (2) That Cabinet approve the treatment of year end overspends and endorse the do-nothing approach in-light of the current situation.
- (3) That the requests for capital slippage and the adjustments to reflect accelerated capital spending on projects as set out at Appendices 6 and 7 be endorsed, with the Capital Programme being updated accordingly.
- (4) That the Annual Treasury Management report and Prudential Indicators as set out at Appendix 2 be noted and referred on to Council for information.

1. BACKGROUND

- 1.1. All local authorities have a legal duty to produce an annual Statement of Accounts. For 2021/22 the requirements and timeline for the approval of a Local Authority's Statement of Accounts were unchanged from 2020/21. In accordance with the regulations, the draft Accounts must be published on the Council's website and submitted for audit by 31 July 2022 and the timeline for the conclusion of the audit is 30 November 2022.
- 1.2. It is pleasing to report that the statutory deadline of 31 July 2022 was met, and the Statement of Accounts was completed and signed off prior to that date by the Chief Finance Officer. Deloitte have not yet commenced the audit of accounts, however, the draft Statements are available on the Council's website via the following link [Statement of Accounts - Lancaster City Council](#)

- 1.3. This report provides Cabinet with an update on the provisional outturn, including Treasury Management, and seeks endorsement for certain matters. The Council's financial performance is integral to its service performance overall, which is included elsewhere on this agenda, and Members are advised to consider this report in that context.

2. COVID-19 GOVERNMENT GRANTS & SUPPORT FOR THE LOCAL ECONOMY

- 2.1 The Council continued to receive a wide range of grants from Central Government in 2021/22 to support the overall response to the COVID-19 pandemic.
- 2.2 The grants were administered by the Council in line with the guidance received from Central Government. In unusual circumstances, the Council received an allocation and the grant in advance to assist with cash flow. It then had to be determined whether the Council were administering the grant acting as either an agent or as principal.
- 2.3 In acting as agent the Council was essentially acting as an intermediary between the recipient and the Government Department and had no control of the level of grant payable; whereas in acting as principal, it was able to use its own discretion when allocating the amount of grant payable.
- 2.4 A high-level summary of specific grant funding received showing in each instance whether the Council acted as either principal or as agent in distributing the monies alongside further details is given at **Annex A to Appendix 1**:
- 2.5 All remaining unspent funds as at 31st March 2022 are included in the Council's balance sheet within Short Term Creditors or held in Reserve with the funds available to be utilised within 2022/23.
- 2.6 In addition to the business grant funding and COVID specific grants, the Council also received non-ringfenced general grants to support its COVID response. These were:
- General grant allocation of £0.852M alongside unspent monies of £0.505M from previous years totalling £1.357M. The Council applied £0.863M of these allocations to expenditure in 2021/22 with the remaining £0.494M being held in reserve prior to being utilised to support the future net financial position of the Council;
 - Compensation for the loss of Sales, Fees and Charges income of £0.731M;

With the exception of the £0.494M unspent general Covid response grant, the grants set out in paragraph 2.6 have been used to support expenditure in year and thus impact the final net financial position of the Council.

3. PROVISIONAL REVENUE OUTTURN: SUMMARY

3.1 General Fund Revenue Outturn

The General Fund accounts for income and expenditure associated with the day to day running of all the services that the Council provides, with the exception of council housing. On 24 February 2021 Council approved a General Fund Revenue Budget for 2021/22 of £17.774M (£17.903M 2020/21) which included a budgeted contribution of £2.267M from the General Fund unallocated reserve which was required to produce a balanced budget.

- 3.2 The table below provides details of the General Fund revenue income and expenditure for 2021/22 and shows variances for each service area. The format includes the removal of various accounting entries such as internal recharging, notional items such as pension

adjustments, capital charges and the removal of various COVID grants initially charged to Service.

	2021/22			Remove	Remove	Variance
	Original Budget	Working Budget	Actual	Covid-19 Related Variances	Reserve Funded Variances	from Working Budget
Expenditure:	£000	£000	£000	£000	£000	£000
Central Services	1,342	1,342	1,140	-	(159)	43
Communities and Environment	9,576	9,701	9,966	1,087	(522)	300
Corporate Services	6,479	7,573	5,851	33	(1,122)	633
Economic Growth and Regeneration	7,824	9,241	6,743	171	(2,533)	136
Other Corporate Income & Expenditure Items	(5,180)	(7,736)	(4,150)	(1,291)	4,336	(541)
Contribution from General Fund Balance	(2,267)	(2,347)	(1,776)	-	-	(571)
NET REVENUE EXPENDITURE	17,774	17,774	17,774	-	-	-

- 3.3 After allowing for various year-end adjustments, there has been a net underspend of £0.571M against the Working Budget for 2021/22 which has resulted in a reduced amount needing to be transferred from the General Fund unallocated reserve. The underspending represents 3.2% of the Council's net revenue budget (2020/21 comparative: £0.695M underspend, 3.0% of budget) or 5.8% of the Council Tax requirement.
- 3.4 Details of the significant variances and a detailed explanations of the major differences between provisional outturn and the revised budgeted position is provided at **Appendix 1**.

4. TREASURY MANAGEMENT

- 4.1 We are required by statute to report our annual treasury management performance. This report is attached at **Appendix 2** and sets out the performance of treasury operations for 2021/22. The Council's treasury operations are conducted in accordance with its annual Treasury Management Strategy, which was approved by Council on 24 February 2021. This document identifies the investment and borrowing policies of the Council specifying various criteria for investment counterparties, maximum duration and the amount of investments together with the framework for any future borrowing.

Investments

- 4.2 In 2021/22 the Council retained its comparatively low risk appetite towards investments. The average daily amount invested increased to £45.004M (£38.541M 2020/21) with short term investments on 31 March 2022 (all held in the balance sheet as cash and cash equivalents) totalling £42.7M (£22.0M 20/21). The overall return on investments was £0.033M at an average interest rate of 0.07% (£0.061M and 0.12% 2020/21).

Borrowing

- 4.3 The Council did not undertake any short-term borrowing in 2021/22. Total long-term debt at 31 March 2022 amounted to £59.01M (£60.04M 2020/21) all of which relates to PWLB borrowing. A further £1.04M is included within short term liabilities as payment falls due within 12 months.
- 4.4 In determining its Council Tax charges Councils must make a specific provision for the financing of capital expenditure known as Minimum Revenue Provision (MRP). The outstanding amount for which MRP has to be made is known as the Capital Financing Requirement (CFR). At 31 March 2022 the Councils CFR was £95.24M (£94.95M 2020/21) an increase of £0.29M. The amount of MRP charged in 2021/22 totalled £3.206M (£2.810M 2020/21) with accompanying interest charges £2.882M (£2.916M 2020/21).

5. HOUSING REVENUE ACCOUNT (HRA)

- 5.1 At the end of the financial year, the Council owns 3,644 homes generating rental income of £13.8M. The Local Government & Housing Act 1989 requires that this income and associated expenditure is held in a ring-fenced account, the Housing Revenue Account (HRA).
- 5.2 As part of the 2021/22 General Fund budget setting process, the Council approved the use of £1.023M (revised to £0.854M in year) of unallocated reserves in order to deliver its strategic priorities and stated outcomes within a balanced budget. The outturn position was favourable resulting in a reduction of £0.118M being required from the reserve.

	£000
Repairs & Maintenance costs	15
Rent Income from Dwellings	(154)
Net pension adjustment re IAS19	230
Reduced use of Reserves	(519)
Net increase in Capital funded from Revenue	508
Other minor variances	38
	<u>118</u>

- 5.3 A summary of the HRA provisional outturn is included at **Appendix 3**. Discounting any notional and presentational variances.
- 5.4 As at 31 March 2022 the HRA's unallocated reserve balance stands at £2.552M (£3.287M 2020/21) which is £2.052M above the £0.500M minimum recommended level. Expenditure within the HRA is supported by a 30 year business plan and the Council is planning significant investment over a number of years to improve its social housing stock. A summary of all its Balances & Reserves is included at **Appendix 4**.

6. GENERAL FUND USABLE REVENUE RESERVES AND BALANCES

- 6.1 As discussed in Section 3, the General Fund called on the use of its general unallocated reserve to provide a balanced budget. The amount required was £1.776M. This means that as at 31 March 2022 General Fund Balances amounted to £6.032M (2020/21 £7.808M). This is £2.532M above the current minimum recommended level of reserves £3.500M. However, as part of the 2022/23 budget process, a forecasted contribution to reserves of £0.034M in order to balance its revenue budget was made but it should be highlighted that the estimates were prepared and approved before the current energy price and cost of living crisis which is discussed elsewhere on this agenda as part of the 'Delivering our Ambitions Q1' report.
- 6.2 The overall level of General Fund Usable Reserves has reduced to £28.886M (2020/21 £33.445M) however, it should be noted that £7.891M of Central Government COVID -19 grants were held in reserves for distribution in 2021/22. Summary details of these movement are provided in **Appendix 5**.

7. CARRY FORWARD OF UNDERSPENDINGS AND OVERSPENDINGS

- 7.1 Under the financial strategy, provisions exist to adjust budgets between years by carrying forward under or over-spending. These arrangements help to:
- provide some flexibility in delivering the Council's stated objectives
 - remove the incentive to spend up budgets unnecessarily by year end, and
 - promote good financial management.

7.2 With regard to the carry forward of revenue underspends, and given the overall outturn position, there are no requests for Cabinet to consider.

7.3 With regard to overspendings, arrangements require that

- any overspending on any expenditure budget, or shortfall on any income budget, under the control of a Director (or their nominated representative) will be automatically carried forward to the following year as part of the closure of accounts process except where the relevant Director and the S151 Officer agree that it does not make operational sense to do so, or where the overspending is trifling in value.
- The S151 Officer will report to Cabinet on overspendings and their treatment as part of year-end reporting. Such reporting will also include the reasons for any overspends occurring and details of any actions taken to prevent the situation recurring.

7.4 Given the current financial climate and future challenges facing the Council it is proposed not to carry forward any overspends occurring within 2021/22.

8. CAPITAL OUTTURN

8.1 In 2021/22 the Council spent £14.982M in total on capital schemes (£22.068M 2020/21). Total spend on the General Fund was £11.224M against a budget £17.256M, with the HRA spending being £3.758M against a budget of £5.626M.

8.2 A provisional capital expenditure and financing statement for the year is included at **Appendix 6**, which is summarised in the following tables:

Capital Expenditure

Service	A	B	C	D	E
	2021/22 Gross Budget £000	2021/22 Expenditure £000	Variance £000 (B-A)	(Slippage)/ Accelerated Expenditure £000	Final Over/(Under) spend £000 (C-D)
Communities & Environment	12,137	7,033	(5,104)	(5,010)	(94)
Economic Growth & Regeneration	4,974	4,084	(890)	(893)	3
Corporate Services	145	107	(38)	(48)	10
Total General Fund Programme	17,256	11,224	(6,032)	(5,951)	(81)
Housing Revenue Account	5,626	3,758	(1,868)	(469)	(1,399)
Total Council Capital Programme	22,882	14,982	(7,900)	(6,420)	(1,480)

Capital Financing

Service	Grants & Contributions £000	Earmarked Reserves £000	Major Repairs Reserve £000	Capital Receipts £000	Unsupported Borrowing £000	Total £000
Communities & Environment	6,846	141		58	188	7,033
Economic Growth & Regeneration	824	-			3,260	4,084
Corporate Services	-	60			47	107
Total General Fund Programme	7,470	201		58	3,495	11,224
Housing Revenue Account	24	278	3,456	-	-	3,758
Total Council Capital Programme	7,494	479		58	3,495	14,982

Capital Slippage

- 8.4 Details of individual slippage requests from services have been received, a schedule of which is attached at **Appendix 7**. In considering these, Cabinet is asked to note that many of the associated capital schemes are already underway and expenditure may already have been incurred in this year – the actual carry forward of slippage can be a formality.

9. DETAILS OF CONSULTATION

- 9.1 As reflected above, the statutory arrangements regarding the public's rights in relation to the accounts provide for a fixed 30 working day period, which commenced on 2nd August for this year.

10. OPTIONS AND OPTIONS ANALYSIS

- 10.1 The Council has a legal requirement to ensure that its expenditure is fully funded and to produce accounts in accordance with proper accounting practice. In addition, the Prudential Indicators are a statutory requirement linked to the budgetary framework. For these aspects, therefore, there are no alternative options for Cabinet to consider. Members are being asked to endorse certain actions taken by the Chief Finance Officer, and Cabinet should consider whether it has sufficient information to do so or whether it requires any further justification.
- 10.2 The report requests Cabinet to consider a number of revenue overspending, capital slippage and other budget adjustment matters. The framework for considering these is set out in the report but basically Cabinet may:
- Endorse any number of the items / requests, in full or part.
 - Refuse various requests and if commitments have already been incurred, require alternative funding options to be identified. Cabinet should note, however, that this may impact on other areas of service delivery.
 - Request further information regarding them, if appropriate.

11. OFFICER PREFERRED OPTION AND JUSTIFICATION

- 11.1 The Officer preferred options are as set out in the recommendations, on the assumption that Members continue to support their previously approved spending plans.

12 CONCLUSION

- 12.1 Although the Council's financial position appears relatively healthy with a surplus against the revised budget and an overall increase in the level of reserves held, the Council's Medium Term Financial Strategy suggests a structural budget gap in 2022/23 onwards of approximately £2.183M rising to £4.668M.
- 12.2 Work has commenced to support opportunities to address the underlying structural deficit, by:
- Increasing and diversifying income
 - Improving productivity and securing efficiencies via new ways of working (e.g., Outcomes Based Resourcing)
 - Developing alternative ways to achieve priority outcomes (e.g., partnership)
- 12.3 However, if these are not successful and the deficit is not closed, then balances will be required to make up the difference.

RELATIONSHIP TO POLICY FRAMEWORK
The Outturn and Statement of Accounts report on all the financial resources generated and/or used by the Council in providing services or undertaking other activities under the Policy Framework.
CONCLUSION OF IMPACT ASSESSMENT (including Health & Safety, Equality & Diversity, Human Rights, Community Safety, HR, Sustainability and Rural Proofing)
None directly identifiable, due to the high level nature of this report.
LEGAL IMPLICATIONS
There are no legal implications directly arising.

FINANCIAL IMPLICATIONS

As set out in the report

OTHER RESOURCE IMPLICATIONS

Human Resources / Information Services / Property / Open Spaces:

References and any related implications are contained within the report and related appendices.

SECTION 151 OFFICER'S COMMENTS

The report has been written by the Section 151 Officer.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments

BACKGROUND PAPERS

None.

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Financial Performance

General Fund

The General Fund accounts for income and expenditure associated with the day to day running of all the services that the Council provides, with the exception of council housing. On 24 February 2021 Council approved a General Fund Revenue Budget for 2021/22 of £17.774M (£17.903M 2020/21). The net underspend on the General Fund was £0.571M allowing for all budgeted contributions to/from reserves, which has been transferred to the General Fund unallocated reserve.

The table below provides details of the General Fund revenue income and expenditure for 2021/22 and shows variances for each service area. The format includes the removal of various accounting entries such as internal recharging, notional items such as pension adjustments and capital charges and the removal of various COVID grants initially charged to Service.

	2021/22			Remove Covid-19 Related Variances	Remove Reserve Funded Variances	Variance from Working Budget	Note
	Original Budget	Working Budget	Actual				
	£000	£000	£000	£000	£000	£000	
Expenditure:							
Central Services	1,342	1,342	1,140	-	(159)	43	
Communities and Environment	9,576	9,701	9,966	1,087	(522)	300	1
Corporate Services	6,479	7,573	5,851	33	(1,122)	633	2
Economic Growth and Regeneration	7,824	9,241	6,743	171	(2,533)	136	3
Other Corporate Income & Expenditure Items	(5,180)	(7,736)	(4,150)	(1,291)	4,336	(541)	4
Contribution from General Fund Balance	(2,267)	(2,347)	(1,776)	-	-	(571)	5
NET REVENUE EXPENDITURE	17,774	17,774	17,774	-	-	-	

A core element of the Council's budget is salary driven. During the year, top-up pension payments were made to the Lancashire County Pension Fund following a review of the base data in which the Council entered into a 3 year prepayment arrangement. The variances relating to salaries are summarised in the table below.

Service/Section	SALARIES VARIANCE (EXCL. SUPERANN)		AGENCY VARIANCE	OTHER	VARIANCE
	£'000	£'000			
Central Services	16	(25)	-	-	(9)
Communities and Environment	398	(359)	(282)	79	(164)
Corporate Services	441	(52)	(10)	-	379
Economic Growth & Regeneration	743	(127)	(254)	(243)	119
Staff Turnover Target	(481)	-	-	-	(481)
TOTAL VARIANCE FAVOURABLE / (ADVERSE)	1,117	(563)	(546)	(164)	(156)

For clarity, the staff turnover target is usually included within Corporate Services but has been separated out for illustrative purposes. Overall, salaries performed well with the exception of the pension top-up which was unforeseen resulting in an overall salary related overspend for 2021/22 is £0.156M.

Further explanations to variances including salaries are detailed as follows.

Note 1 Communities & Environment

Salt Ayre Leisure Centre Income (£470K increase)

The forecasted income targets were reduced during the pandemic. The recovery surpassed all expectations in particular areas such as swimming and the café. Budget levels have since been returned to pre-pandemic times.

Non-Realisation of Feed in Tariff Credits (£130K shortfall)

As part of a previous budget setting process, an anticipated credit amount was included in the budget for the sale of electricity to the grid as part of a solar farm project at Salt Ayre. Whilst the project took place and was completed during 2021/22, the basis for charging had changed resulting in the budgetary shortfall highlighted.

Car Parking (£565K increase)

The forecasted income targets were reduced during the pandemic. Car parking income net of increased transaction costs has far exceeded the pre-pandemic expectancy level of 65% and the addition of Castle Car Park has resulted in substantial additional income. Budget levels have since been returned to pre-pandemic times.

Transport Related Costs (£351K overspend)

Increased transport costs due to vehicle R&M and associated hire costs arising from delayed delivery of new fleet plus increased fuel costs (delays to electric-RCV's and roll-out of route optimisation plus unforeseen inflationary increases).

Note 2 Corporate Services

Removal of Staff Turnover Target (£481K removal)

The Council sets an annual target for staff turnover during the year which offsets the net financial position of the Council. The budget is included within Corporate Services but all services are responsible for working towards achieving this.

Interest Payments (£403K underspend)

Due to changes to the Capital Programme the amount set aside in relation to borrowing for new schemes was not required in 2021/22.

Revenues & Benefits (£283K underspend)

Due to the pandemic, delays in court action resulted in reduced income levels due to the non-recovery of legal and court costs recovered (£184K). The government provided additional grants during the year, namely Local Council Tax Support Schemes grant £243K and Housing Benefit grant £150K. The Shared Service performed well financially during the year and Council benefitted from a £122K rebate at the end of the year.

Note 3 Economic Growth & Regeneration

Energy Costs (£130K overspend)

Energy costs across Municipal Buildings increased during the year resulting in a year end overspend. It is expected that this will create substantial further pressures in 2022/23 due to the rising cost of energy and will be subject to close scrutiny throughout the year.

Planning Fees (£177K increase)

The forecasted income targets were reduced during the pandemic. However, there has been a general upturn in the market for both residential and larger fee earning applications resulting in increased levels of income returning to pre-pandemic levels.

Note 4 Other Items

Sales, Fees & Charges Compensation (£276K credit)

As part of the pandemic the government introduced a scheme which allowed Councils to reclaim a portion of their in-year income losses relating to sales fees and charges. The scheme was extended to 30th June 2021 and additional losses were assessed against pre-pandemic income levels.

Interest Payments (£264K underspend)

The delays and removal of schemes within the Capital Programme resulted in unrequired borrowing during the year. This was addressed as part of the 2022/23 budget setting process where the Capital Programme was subject to review and schemes were slipped/removed as appropriate.

Note 5 Contribution from General Fund Balance (£571K reduction)

Balances are a fundamental component in protecting the Council's financial standing, as well as being an important element in helping to address the Council's financial challenges and establishing a sustainable budget, through their appropriate use. As part of the 2021/22 General Fund budget setting process, the Council approved the use of £2.267M (revised to £2.347M in year) of unallocated reserves in order to deliver its strategic priorities and stated outcomes within a balanced budget. The General Fund outturn position was favourable resulting in a reduction of £571K being required from the reserve. At 31 March 2022, the General Fund's unallocated reserve balance stands at £6.032M which is £2.532M above the minimum recommended level.

Housing Revenue Account

At the end of the financial year, the Council owns 3,644 homes generating rental income of £13.8M. The Local Government & Housing Act 1989 requires that this income and associated expenditure is held in a ring-fenced account, the Housing Revenue Account (HRA). Full details of the HRA are included within these accounts.

	£000
Repairs & Maintenance costs	15
Rent Income from Dwellings	(154)
Net pension adjustment re IAS19	230
Reduced use of Reserves	(519)
Net increase in Capital funded from Revenue	508
Other minor variances	38
	118

As part of the 2021/22 General Fund budget setting process, the Council approved the use of £1.023M (revised to £0.854M in year) of unallocated reserves in order to deliver its strategic priorities and stated outcomes within a balanced budget. The outturn position was favourable resulting in a reduction of £118K being required from the reserve. At 31 March 2022, the HRA's unallocated reserve balance stands at £2.552M which is £2.052M above the minimum recommended level. Expenditure within the HRA is supported by a 30 year business plan and the Council is planning significant investment over a number of years to improve its social housing stock.

APPENDIX 1 (ANNEX A)

COVID-19 Government Grants and Support for the Local Economy

The Council received a range of grants from Central Government in 2021/22 to support the overall response to the COVID-19 pandemic. The financial impact of these grants is included within the outturn and Statement of Accounts. The grants were administered by the Council in line with the guidance received from Central Government.

In usual circumstances, the Council received an allocation and the grant in advance which assisted with cash flow. It then had to be determined whether the Council were administering the grant acting as either an agent or as principal.

In acting as agent the following conditions applied:

- It was acting as an intermediary between the recipient and the Government Department;
- It did not have “control” of the grant conditions and there was no flexibility in determining the level of grant payable.

In acting as principal, it was able to use its own discretion when allocating the amount of grant payable.

For the months covering September 2020 to March 2021, the Government introduced a range of grants under the general heading of Local Restrictions Support Grant (LRSG).

From 1 April 2021, the Council began administering a new round of business support grants known as Restart Grants and continued to administer this grant regime until the closing date for final payments on 31 July 2021.

On 21 December 2021, and in recognition of the rise of the Omicron variant throughout the country, the Government announced the introduction of grant support for hospitality, leisure and accommodation businesses. Funding was made available to all Local Authorities from January 2022 and the scheme was to close in March 2022 with all final payments being made and dispersed to recipients by 31 March 2022.

The table below summarises the business grant activity during 2021/22.

Grants	Total grant allocation £000	Grant Remaining as at 31 March 2021 £000	The Council acting as Agent £000	The Council acting as Principal £000	Expenditure as at 31 March 2022 £000	Amount Returned / to be Returned £000
Closed Tier 3 17th October 2020 (19 days)	89	12	-	-	-	12
Closed Addendum 5th November 2020 (28 days)	2,860	954	92	-	92	862
Closed Tier 3 3rd December 2020 (28 days)	420	(448)	57	-	57	(505)
Closed Tier 4 31st December 2020 (5 days)	1,045	707	18	-	18	689
Closed Addendum 5th January 2021 (42 days)	4,290	1,442	149	-	149	1,293
Closed Business Lockdown One-Off Payment	8,577	2,882	304	-	304	2,578
Closed Addendum 16th February 2021 (44 days)	4,494	1,553	210	-	210	1,343
Christmas Support Payment (Wet Led Pubs)	90	2	-	-	-	2
Restart Grants	9,786	9,786	8,415	-	8,415	1,371
Omicron Hospitality and Leisure Grant	1,986	1,986	1,491	-	1,491	495
Open/Additional Restrictions Grant	6,438	3,759	-	3,376	3,376	383
	40,075	22,635	10,736	3,376	14,112	8,523

In total the Council administered and forwarded grant payments of £14.112M during 2021/22 and met the final deadline of 31 March 2022. Now all rounds have been completed the reconciliation process is underway (completed in most cases) and any remaining funds are to be repaid to Central Government as appropriate.

As outlined in the table below, the COVID-19 pandemic led the Government to introduce further specific grant regimes for the Council to administer. Each of these grants had its own terms, conditions and eligibility criteria and some had detailed reporting requirements.

	Total grant allocation	Grant Remaining as at 31 March 2021	The Council acting as Principal	Grant Remaining as at 31 March 2022
Grants	£000	£000	£000	£000
Community Vaccine Champions	485	485	166	319
Contain Outbreak Management Fund	1,826	1,826	989	837
Council Tax Hardship Fund	1,425	414	16	398
COVID Winter Grant Scheme	14	14	14	-
Holiday Activity Fund	393	393	383	10
Household Support Fund	435	435	430	5
Local Authority Compliance and Enforcement Grant	77	27	-	27
Play and Skills at Teatime Activities	30	30	-	30
Reopening the High Street Safely Grant	354	284	281	3
Self Isolation Practical Support	283	283	261	22
Support for Clinically Extremely Vulnerable Individuals	422	422	7	415
Test and Trace Allocation (Lancs County Council)	151	151	34	117
Test and Trace Support Payments	1,488	1,280	1,280	-
	7,383	6,044	3,861	2,183

All remaining unspent funds as at 31st March 2022 are included in the Councils balance sheet within Short Term Creditors and the funds are available to be utilised within 2022/23.

In addition to the business grant funding and COVID specific grants, the Council also received non-ringfenced general grants to support its COVID response. These were:

- General grant allocation of £0.852M alongside unspent monies of £0.505M from previous years totalling £1.357M. The Council applied £0.863M of these allocations to expenditure in 2021/22 with the remaining £0.494M being held in reserve prior to being utilised to support the future net financial position of the Council;
- Compensation for the loss of Sales, Fees and Charges income of £0.731M;

As per the previous financial year, the government and local businesses have relied upon an expeditious, yet robust, application process. The Council have generally met this through the hard work, dedication and diligence of its staff, widespread throughout the Council.

Annual Treasury Management Report
2021/22

For Noting by Cabinet 13 September 2022

Annual Treasury Management Review 2021/22

Purpose

The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2021/22. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2021/22 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 24 February 2021)
- a mid-year (minimum) treasury update report
- an annual review following the end of the year describing the activity compared to the strategy (this report).

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

The Council confirms that it has complied with the requirement under the Code to give prior scrutiny (by Budget and Performance Panel) to all of the above treasury management reports before they were reported to the full Council.

Introduction and Background

This report summarises the following:-

- Capital activity during the year;
 - Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
 - The actual prudential and treasury indicators;
 - Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
 - Summary of interest rate movements in the year;
 - Detailed debt activity; and
 - Detailed investment activity.
-

1. The Council's Capital Expenditure and Financing 2021/22

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

- financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- if insufficient financing is available from the above sources, or a decision is taken not to apply such resources, the capital expenditure will give rise to a borrowing need (also referred to as "unfinanced", within the tables and sections below).

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

There is a significant difference between the level of capital expenditure estimated in the 2021/22 Treasury Management Strategy and the actual level of expenditure incurred. General Fund expenditure is £51.69m lower than expected whilst HRA is £1.02m lower. A very ambitious Capital Programme was agreed for General Fund for the year with schemes in the Development Pool of £50.15m. During the year these were reviewed and rationalised down to a more achievable level realising savings for the revenue budget. The delivery of the HRA Capital Programme was impacted by the Covid 19 pandemic.

General Fund (GF) £M	2020/21 Actual	2021/22 Estimate	2021/22 Actual
Capital expenditure	19.03	62.91	11.22
Financed in year	(7.97)	(20.68)	(7.73)
Unfinanced capital expenditure (i.e. reliant on an increase in underlying borrowing need)	11.06	42.23	3.49

HRA £M	2020/21 Actual	2021/22 Estimate	2021/22 Actual
Capital expenditure	3.04	4.78	3.76
Financed in year	(3.04)	(4.78)	(3.76)
Unfinanced capital expenditure (i.e. reliant on an increase in underlying borrowing need)	0.00	0.00	0.00

2. The Council's Capital Financing Requirement 2021/22

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2021/22 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury function organises the Council's cash position to ensure that sufficient cash is available

to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Council.

Reducing the CFR – the Council's (non HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the non-Housing Revenue Account (HRA) borrowing need (there is no statutory requirement to reduce the HRA CFR). This differs in purpose from other treasury management arrangements, which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Council's 2021/22 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2021/22 on 24 February 2021.

The Council's CFR for the year is shown below, and represents a key prudential indicator. There is a difference of £39.64m between the CFR estimated in the 2021/22 Treasury Management Strategy and the actual closing CFR. As outlined in section 1 this is due to the rationalisation of the General Fund Capital Programme to a more achievable level.

No borrowing has actually been required against these schemes, however, as cash supporting the Council's reserves, balances and cash flow has been used as an interim measure. The disjoint between the forecast and actual levels of capital expenditure during the first eight months of the year made the timing of potential borrowing and cash flow decisions more challenging than it might have otherwise been.

CFR (£M): General Fund	31 March 2021 Actual	31 March 2022 Estimate	31 March 2022 Actual
Opening balance	48.43	58.63	57.73
Add unfinanced capital expenditure (as above)	11.06	42.23	3.49
Less MRP	(1.76)	(2.17)	(2.16)
Less finance lease repayments	0.00	0.00	0.00
Closing balance	57.73	98.69	59.06

CFR (£M): HRA	31 March 2021 Actual	31 March 2022 Estimate	31 March 2022 Actual
Opening balance	38.28	37.23	37.23
Add unfinanced capital expenditure (as above)	0.00	0.00	0.00
Less Debt Repayment	(1.05)	(1.04)	(1.05)
Closing balance	37.23	36.19	36.18

CFR (£M): Combined	31 March 2021 Actual	31 March 2022 Estimate	31 March 2022 Actual
Opening balance	86.71	95.86	94.96
Add unfinanced capital expenditure (as above)	11.06	42.23	3.49
Less Debt Repayment, Finance Leases and MRP	(2.81)	(3.21)	(3.21)
Closing balance	94.95	134.88	95.24

Borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2020/21) plus the estimates of any additional capital financing requirement for the current (2021/22) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2021/22. The table below highlights the Council's gross borrowing position against the CFR. The Treasury Management Strategy for 2021/22 estimated that some borrowing in advance may be undertaken but was within the forecast CFR for the next two years. The Council has, therefore, complied with this prudential indicator.

£M	31 March 2021 Actual	31 March 2022 Estimate	31 March 2022 Actual
Gross borrowing position	61.08	101.05	60.05
CFR	94.95	95.87	95.24

The authorised limit - the authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2021/22 the Council has maintained gross borrowing within its authorised limit.

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

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

	2021/22 Actual
Authorised limit	£111.00M
Maximum gross borrowing position	£61.09M
Operational boundary	£95.24M
Average gross borrowing position	£60.74M
Financing costs as a proportion of net revenue stream - GF	18.50%
Financing costs as a proportion of net revenue stream - HRA	19.87%

3. Treasury Position as at 31 March 2022

The Council's debt and investment position is administered to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the end of 2021/22 the Council's treasury position was as follows:

DEBT PORTFOLIO	31 March 2021 Principal £M	Average Rate %	Average Life yrs	31 March 2022 Principal £M	Average Rate %	Average Life yrs
Fixed rate funding:						
PWLB	61.08	4.72	32	60.05	4.75	31
Total debt	61.08			60.05		
CFR	94.95			95.24		
Over / (under) borrowing	(22.86)			(35.19)		

The loan repayment schedule is as follows:

	31 March 2021 Actual £M
Under 12 months	1.04
12 months and within 24 months	1.04
24 months and within 5 years	3.12
5 years and within 10 years	5.21
10 years and within 20 years	10.41
20 years and within 30 years	0.02
More than 30 years	39.20

All investments were placed for under one year.

INVESTMENT PORTFOLIO	31 March 2021 £M	31 March 2021 %	31 March 2022 £M	31 March 2022 %
Money Market Funds	0.00	0.00	14.70	34.00
Other Local Authorities	22.00	100.00	28.00	66.00
Total investments	22.00		42.70	

The average rate of interest payable on PWLB debt in 2021/22 was 4.75%. A total of £2.88M interest was incurred during the year, of which £1.75M was recharged to the HRA.

Interest Payable

	2021/22
Estimate	£2.88M
Actual	£2.88M

4. The Strategy for 2021/22

The expectation for interest rates within the treasury management strategy for 2021/22 was that Bank Rate would remain at 0.1% until it was clear to the Bank of England that the emergency level of rates introduced at the start of the Covid-19 pandemic were no longer necessitated.

5. The Economy and Interest Rates (supplied by Link Asset Services)

Investment returns remained close to zero for much of 2021/22. Most local authority lending managed to avoid negative rates and one feature of the year was the continued growth of inter local authority lending.

The Bank of England and the Government also maintained various monetary and fiscal measures, supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the various lockdowns/negative impact on their cashflow. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates remained low until towards the turn of the year when inflation concerns indicated central banks, not just the Bank of England, would need to lift interest rates to combat the second-round effects of growing levels of inflation.

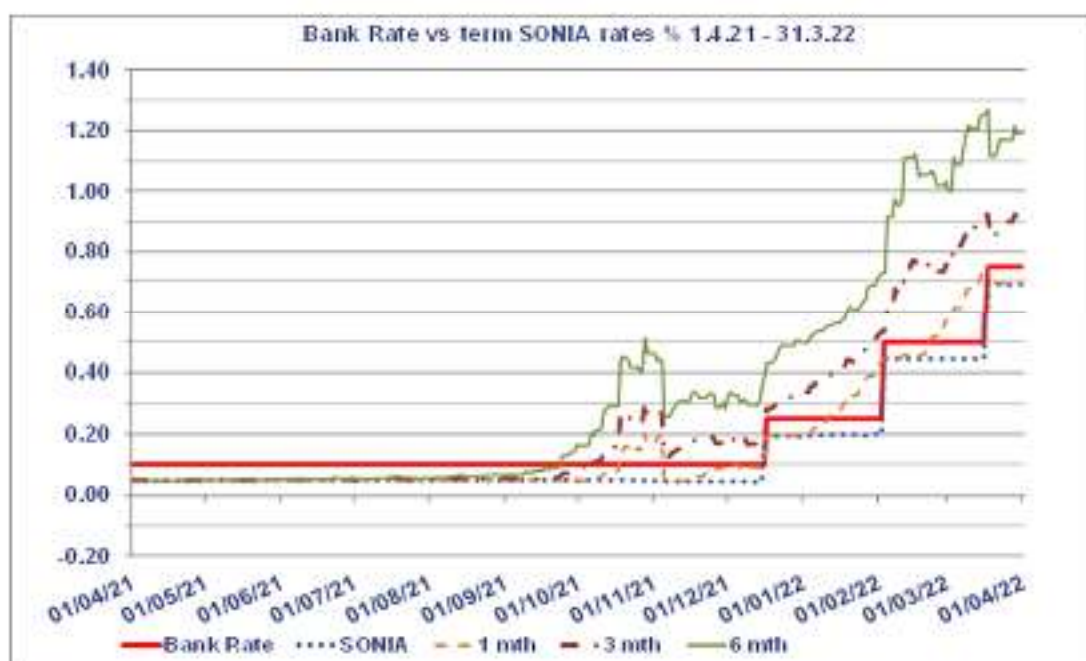
Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates.. Such an approach has also provided benefits in terms of reducing the counterparty risk exposure, by having fewer investments placed in the financial markets.

Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021, 0.50% at its meeting of 4th February 2022 and then to 0.75% in March 2022.

The UK economy has endured several false dawns through 2021/22, but with most of the economy now opened up and nearly back to business-as-usual, the GDP numbers have been robust (9% y/y Q1 2022) and sufficient for the MPC to focus on tackling the second-round effects of inflation.

However, the squeeze on real household disposable incomes arising from the 54% leap in April utilities prices as well as rises in council tax, water prices and many phone contract prices, are strong headwinds for any economy to deal with. In addition, from 1st April 2022, employees also pay 1.25% more in National Insurance tax. Consequently, inflation will be a bigger drag on real incomes in 2022 than in any year since records began in 1955

Investment Benchmarking Data – Sterling Overnight Index Average 2021/22



6. Borrowing Strategy and Control of Interest Rate Risk

During 2021/22, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement set out in paragraph 2), was not fully funded with loan debt. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when the authority may not be able to avoid new borrowing to finance capital expenditure

Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Section 151 Officer therefore monitored interest rates in

financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risk:

- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.
- if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2021/22 and the two subsequent financial years until the turn of the year, when inflation concerns increased significantly. Variable, or short-term rates, were expected to be the cheaper form of borrowing until well into the second half of 2021/22.

Forecasts at the time of approval of the treasury management strategy report for 2021/22 were as follows:

	Mar-21	Mar-22	Mar-23	Mar-24
Bank Rate	0.10	0.10	0.10	0.10
3 Month average earnings	0.10	0.10	0.10	0.10
6 Month average earnings	0.10	0.10	0.10	0.10
12 Month average earnings	0.20	0.20	0.20	0.20
5yr PWLB rate	0.80	0.90	0.90	1.00
10yr PWLB rate	1.10	1.20	1.20	1.30
25yr PWLB rate	1.50	1.60	1.70	1.80
50yr PWLB rate	1.30	1.40	1.50	1.60

PWLB borrowing rates - the graph and table for PWLB rates below show, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year:



	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2021	0.80%	1.20%	1.73%	2.22%	2.03%
31/03/2022	1.91%	2.25%	2.43%	2.64%	2.39%
Low	0.78%	1.05%	1.39%	1.87%	1.25%
Low date	08/04/2021	08/07/2021	05/08/2021	08/12/2021	09/12/2021
High	2.03%	2.37%	2.52%	2.75%	2.49%
High date	15/02/2022	28/03/2022	28/03/2022	23/03/2022	28/03/2022
Average	1.13%	1.45%	1.78%	2.10%	1.85%
Spread	1.25%	1.32%	1.13%	1.08%	1.24%

7. Borrowing Outturn for 2021/22

Borrowing

No long-term borrowing was undertaken during the year.

Borrowing in advance of need

The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

Rescheduling

No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

8. Investment Outturn for 2021/22

Investment Policy – the Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 24 February 2021. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Resources – the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources (£M)	General Fund		HRA		TOTAL	
	31/03/21	31/03/22	31/03/21	31/03/22	31/03/21	31/03/22
Balances	7.81	6.03	3.29	2.55	11.10	8.58
Earmarked reserves	25.74	22.96	11.59	12.33	37.33	35.29
Provisions	7.14	6.66	0.00	0.00	7.14	6.66
Working Capital	11.81	28.73	4.48	4.13	16.29	32.85
Total	52.50	64.38	19.36	19.01	71.86	83.38
Amount Over/(Under) Borrowed						(35.19)
Baseline Investment Balances						48.19

Investments held by the Council - the Council maintained an average investment balance of £45.0M of internally managed funds. The average rate of interest earned for the year was 0.07%. The weighted average rate of interest being earned on the investment portfolio at the end of the year is also given. These rates are compared to the average base rate and average 7- day SONIA (Sterling Overnight Index Average).

	2021/22
Lancaster CC Investments full year	0.07
Lancaster CC Investments weighted average at 31 March	0.48
Base Rate	0.19
7 day SONIA rate	0.14

The actual interest earned in 2021/22 was £33K.

10. Other Risk Management Issues

Many of the risks in relation to treasury management are managed through the setting and monitoring of performance against the relevant Prudential and Treasury Indicators and the approved Investment Strategy, as discussed above.

The Authority's Investment Strategy is designed to engineer risk management into investment activity by reference to credit ratings and the length of deposit to generate a pool of counterparties, together with consideration of other creditworthiness information to refine investment decisions. The Council is required to have a strategy under the CIPFA Treasury Management Code, the adoption of which is another Prudential Indicator. The strategy for 2021/22 complied with the latest Code of Practice and relevant Government investment guidance.

LANCASTER CITY COUNCIL
TREASURY MANAGEMENT POLICY STATEMENT

Last reported to Council on 23 February 2022

This reflects the revised CIPFA Treasury Management Code of Practice

1. This organisation defines its treasury management activities as:

“The management of the authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

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

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

Treasury Management Glossary of Terms

- **Annuity** – method of repaying a loan where the payment amount remains uniform throughout the life of the loan, therefore the split varies such that the proportion of the payment relating to the principal increases as the amount of interest decreases.
- **CIPFA** – the Chartered Institute of Public Finance and Accountancy, is the professional body for accountants working in Local Government and other public sector organisations, also the standard setting organisation for Local Government Finance.
- **Call account** – instant access deposit account.
- **Counterparty** – an institution (e.g. a bank) with whom a borrowing or investment transaction is made.
- **Credit Rating** – is an opinion on the credit-worthiness of an institution, based on judgements about the future status of that institution. It is based on any information available regarding the institution: published results, Shareholders' reports, reports from trading partners, and also an analysis of the environment in which the institution operates (e.g. its home economy, and its market sector). The main rating agencies are Fitch, Standard and Poor's, and Moody's. They currently analyse credit worthiness under four headings (but see changes referred to in the strategy):
 - **Short Term Rating** – the perceived ability of the organisation to meet its obligations in the short term, this will be based on measures of liquidity.
 - **Long Term Rating** – the ability of the organisation to repay its debts in the long term, based on opinions regarding future stability, e.g. its exposure to 'risky' markets.
 - **Individual/Financial Strength Rating** – a measure of an institution's soundness on a stand-alone basis based on its structure, past performance and credit profile.
 - **Legal Support Rating** – a view of the likelihood, in the case of a financial institution failing, that its obligations would be met, in whole or part, by its shareholders, central bank, or national government.

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

- **DMADF and the DMO** – The DMADF is the 'Debt Management Account Deposit Facility'; this is highly secure fixed term deposit account with the Debt Management Office (DMO), part of Her Majesty's Treasury.
 - **EIP** – Equal Instalments of Principal, a type of loan where each payment includes an equal amount in respect of loan principal, therefore the interest due with each payment reduces as the principal is eroded, and so the total amount reduces with each instalment.
 - **Gilts** – the name given to bonds issued by the U K Government. Gilts are issued bearing interest at a specified rate, however they are then traded on the markets like shares and their value rises or falls accordingly. The Yield on a gilt is the interest paid divided by the Market Value of that gilt.
-

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

See also PWLB.

- **LIBID** – The London Inter-Bank Bid Rate, the rate which banks would have to bid to borrow funds from other banks for a given period. The official rate is published by the Bank of England at 11am each day based on trades up to that time.
- **LIBOR** – The London Inter-Bank Offer Rate, the rate at which banks with surplus funds are offering to lend them to other banks, again published at 11am each day.
- **Liquidity** – Relates to the amount of readily available or short term investment money which can be used for either day to day or unforeseen expenses. For example Call Accounts allow instant daily access to invested funds.
- **Maturity** – Type of loan where only payments of interest are made during the life of the loan, with the total amount of principal falling due at the end of the loan period.
- **Money Market Fund (MMF)** – Type of investment where the Council purchases a share of a cash fund that makes short term deposits with a broad range of high quality counterparties. These are highly regulated in terms of average length of deposit and counterparty quality, to ensure AAA rated status.
- **Policy and Strategy Documents** – documents required by the CIPFA Code of Practice on Treasury Management in Local Authorities. These set out the framework for treasury management operations during the year.
- **Public Works Loans Board (PWLB)** – a central government agency providing long and short term loans to Local Authorities. Rates are set daily at a margin over the Gilt yield (see Gilts above). Loans may be taken at fixed or variable rates and as Annuity, Maturity, or EIP loans (see separate definitions) over periods of up to fifty years. Financing is also available from the money markets, however because of its nature the PWLB is generally able to offer better terms.
- **Link Asset Services** – Link Asset Services are the City Council's Treasury Management advisors. They provide advice on borrowing strategy, investment strategy, and vetting of investment counterparties, in addition to ad hoc guidance throughout the year.
- **Yield** – see Gilts

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

HOUSING REVENUE ACCOUNT OUTTURN 2021/22

For Consideration by Cabinet 13 September 2022

	Original Budget £	Working Budget £	Actual £	Variance £	Adjusted Variance £
INCOME				(Adverse) / Favourable	(Adverse) / Favourable
Rental Income - Council Housing	(13,949,900)	(13,949,900)	(13,795,684)	(154,216)	(154,216)
Rental Income - Other (Shops and Garages etc.)	(265,700)	(265,700)	(267,871)	2,171	2,171
Charges for Services & Facilities	(1,593,600)	(1,593,600)	(1,592,966)	(634)	(634)
Grant Income	(7,700)	(7,700)	(7,736)	36	36
Contributions from General Fund	(93,300)	(93,300)	(90,567)	(2,733)	(2,733)
Total Income	(15,910,200)	(15,910,200)	(15,754,824)	(155,376)	(155,376)
EXPENDITURE					
Repairs & Maintenance	5,598,700	5,673,500	5,683,696	(10,196)	(10,196)
Supervision & Management	3,949,700	4,249,700	4,559,928	(310,228)	417,266
Rents, Rates & Insurance	288,100	288,100	381,094	(92,994)	(92,994)
Contribution to Provision for Bad and Doubtful Debts	157,400	157,400	71,644	85,756	85,756
Depreciation & Impairment of Fixed Assets	2,772,300	2,772,300	6,733,267	(3,960,967)	(1,639,111)
Debt Management Costs	0	0	0	0	0
Total Expenditure	12,766,200	13,141,000	17,429,629	(4,288,629)	(1,239,279)
NET COST OF HRA SERVICES	(3,144,000)	(2,769,200)	1,674,805	(4,444,005)	(1,394,655)
(Gain)/Loss on disposal of non-current assets	0	0	(647,804)	647,804	647,804
Interest Payable & Similar Charges	1,718,300	1,718,300	1,753,098	(34,798)	(34,798)
Interest & Investment Income	(33,100)	(33,100)	(10,874)	(22,226)	(22,226)
Pensions Interest Costs & Expected Return on Pensions Assets	0	0	271,614	(271,614)	0
Capital Grants and Contributions Receivable	0	0	(24,076)	24,076	24,076
Premiums & Discounts from Earlier Debt Rescheduling	0	0	0	0	0
(SURPLUS) OR DEFICIT FOR THE YEAR	(1,458,800)	(1,084,000)	3,016,763	(4,100,763)	(779,799)
Self Financing Debt Repayment	1,041,400	1,041,400	1,041,366	34	34
Net Charges made for Retirement Benefits	0	0	(999,108)	999,108	0
Adjustments to reverse out Notional Charges included above	0	0	(2,321,856)	2,321,856	0
Transfer to/(from) Earmarked Reserves - for Revenue Purposes	64,700	(310,100)	(339,595)	29,495	29,495
Capital Expenditure funded from Major Repairs Reserve	1,375,200	1,206,600	337,935	868,665	868,665
Transfer from Earmarked Reserves - for Capital Purposes	(430,000)	(608,000)	(278,567)	(329,433)	(329,433)
Financing of Capital Expenditure from Earmarked Reserves	430,000	608,000	278,567	329,433	329,433
TOTAL (SURPLUS) / DEFICIT FOR THE YEAR	1,022,500	853,900	735,505	118,395	118,395
Housing Revenue Account Balance brought forward	(3,287,169)	(3,287,169)	(3,287,169)	0	0
HRA BALANCE CARRIED FORWARD	(2,264,669)	(2,433,269)	(2,551,664)	118,395	118,395

Note: The shaded items relate directly to financing the capital programme, and comprise depreciation on Council Dwellings, grants and contributions, use of the Major Repairs Reserve and specific Earmarked Reserves.

HRA RESERVES BUDGET SUMMARY - 2021/22 OUTTURN

2021/22					
HOUSING REVENUE ACCOUNT	Balance as at 31/03/21	Contributions to Reserve	Contributions from Reserve		Balance as at 31/03/22
	£000	From Revenue £000	To Capital £000	To Revenue £000	£000
HRA General Balance	(3,287)	(429)	-	-	(3,716)
Earmarked Reserves:					
Business Support Reserve	(7,910)	-	222	251	(7,437)
Major Repairs Reserve	(404)	(3,801)	3,463	-	(742)
Flats - Planned Maintenance	(758)	(133)	56	18	(817)
I T Replacement	(580)	-	-	1	(579)
Office Equipment Reserve	(39)	-	-	-	(39)
Sheltered - Equipment	(412)	(30)	-	59	(383)
Sheltered - Planned Maintenance	(401)	(61)	-	16	(446)
Sheltered Support Grant Mtce	(568)	(31)	-	-	(599)
Total Earmarked Reserves	(11,071)	(4,056)	3,741	345	(11,041)

Appendix 5 General Fund Usable Reserves

General Fund Usable Reserves				
	31/03/21 £000	Transfer (From) Reserve £000	Transfer To Reserve £000	31/03/22 £000
General Fund Balance	7,808	(1,776)		6,032
Earmarked Reserves				
Revenue Grants Unapplied Reserve	8,497	(7,528)	3,389	4,358
Business Rates Retention Reserve	8,301	(96)	886	9,091
Corporate Priorities Reserve	2,478	(361)		2,117
Covid 19 Support Reserve	1,813	(66)		1,747
Invest to Save Reserve	1,233	(441)	34	826
S106 Commuted Sums Reserve	969	(41)	461	1,389
Restructure Reserve	451	(20)		431
Corporate Property Reserve	339	(50)		289
Welfare Reforms Reserve	325			325
Renewals Reserves	602	(269)	504	837
Economic Growth Reserve	189	(37)	96	248
Homelessness Support Reserve	110			110
Lancaster District Hardship Fund	0		377	377
Other Earmarked Reserves	330	(14)	393	709
Total Earmarked Reserves	25,637	(8,923)	6,140	22,854
Total Usable Revenue Reserves	33,445	(10,699)	6,140	28,886
Capital Receipts Reserve	521			521
Capital Grants Unapplied Reserve	103			103
Total Usable Capital Reserves	624	0	0	624
Total Usable Reserves	34,069	(10,699)	6,140	29,510

Lancaster City Council - Capital Expenditure 2021/22

For consideration by Cabinet 13 September 2022

HOUSING REVENUE ACCOUNT	Revised Estimate	Expenditure in 2021/22	Expenditure to be financed in 2021/22	SCHEME FINANCING					TOTAL SCHEME SPECIFIC FINANCING / ITEMS	BALANCE FINANCED BY GENERAL CAPITAL RESOURCES
				GRANTS & CONTRIBUTIONS	GRANTS UNAPPLIED	EARMARKED RESERVES / PROVISIONS	SPECIFIC REVENUE FINANCING	MAJOR REPAIRS ALLOWANCE (HRA only)		
	£	£	£	£	£	£	£	£	£	
COUNCIL HOUSING										
Adaptations	360,000	379,408.58	379,408.58					379,408.58	0.00	
Energy Efficiency boiler Replacements	969,000	786,003.63	786,003.63					786,003.63	0.00	
Environmental Improvements	405,000	647,385.65	647,385.65	1,473.63		56,265.80		589,646.22	0.00	
External Refurbishments	235,000	232,320.92	232,320.92	16,534.18				215,786.74	0.00	
Fire Precaution Works	150,000	116,021.50	116,021.50	6,068.62				109,952.88	0.00	
Internal Reurbishments	888,000	4,027.25	4,027.25					4,027.25	0.00	
Re-roofing & Window Renewals	1,185,000	611,104.87	611,104.87					611,104.87	0.00	
Rewiring	84,000	24,891.80	24,891.80					24,891.80	0.00	
Housing Renewal & Renovation	1,350,000	957,331.33	957,331.33			222,301.33		735,030.00	0.00	
TOTAL - HRA	5,626,000	3,758,495.53	3,758,495.53	24,076	0	278,567	0	3,455,852	0	

GENERAL FUND	Revised Estimate	Expenditure in 2021/22	Expenditure to be financed in 2021/22	SCHEME FINANCING					TOTAL SCHEME SPECIFIC FINANCING / ITEMS	BALANCE FINANCED BY GENERAL CAPITAL RESOURCES
				GRANTS & CONTRIBUTIONS	GRANTS UNAPPLIED	EARMARKED RESERVES / PROVISIONS	SPECIFIC REVENUE FINANCING	MAJOR REPAIRS ALLOWANCE (HRA only)		
	£	£	£	£	£	£	£	£	£	
COMMUNITIES AND ENVIRONMENT										
Vehicle Renewals	2,503,000	164,882.20	164,882.20					0.00	164,882.20	
Happy Mount Park Pathway Replacements	13,000	5,150.00	5,150.00			1,000.00		1,000.00	4,150.00	
Far Moor Playing Fields S106 scheme	56,000	56,231.60	56,231.60	20,625.00		35,606.60		56,231.60	0.00	
Torrisholme Park Play Area	0	6,027.87	6,027.87	6,027.87				6,027.87	0.00	
Disabled Facilities Grants	1,870,000	2,073,740.53	2,073,740.53	2,073,740.53				2,073,740.53	0.00	
Half Moon Bay Car Park Extension	30,000	0.00	0.00					0.00	0.00	
2 x Electric Refuse Vehicles	400,000	0.00	0.00					0.00	0.00	
Salt Ayre Replacement Equipment	1,436,000	109,666.38	109,666.38	5,000.00		104,666.38		109,666.38	0.00	
One Million Trees	33,000	17,000.00	17,000.00					0.00	17,000.00	
Electronic Vehicle Charging Points	58,000	55,164.16	55,164.16	30,000.00				30,000.00	25,164.16	
Customer Contact System	91,000	0.00	0.00					0.00	0.00	
SALC optimised solar farm, air source heating pumps & glaz	4,828,000	4,509,842.36	4,509,842.36	4,509,842.36				4,509,842.36	0.00	
Roof Mounted Solar Array - City Labs	33,000	0.00	0.00					0.00	0.00	
VMU Brake Rollers	36,000	35,000.00	35,000.00					0.00	35,000.00	
Next Steps Accomodation Programme Property Purchases	750,000	0.00	0.00					0.00	0.00	
Sub-Total	12,137,000	7,032,705.10	7,032,705.10	6,645,235.76	0.00	141,272.98	0.00	6,786,508.74	246,196.36	
ECONOMIC GROWTH AND REGENERATION										
Sea & River Defence Works & Studies	3,000	0.00	0.00					0.00	0.00	
Caton Road Flood Relief Scheme	907,000	550,605.01	550,605.01	550,605.01				550,605.01	0.00	
S106 Highways Works	70,000	0.00	0.00					0.00	0.00	
Coastal Revival Fund - Morecambe Co-op Building	11,000	0.00	0.00					0.00	0.00	
Canal Quarter - site acquisition	110,000	0.00	0.00					0.00	0.00	
City Museum Boiler	179,000	53,825.79	53,825.79	27,991.25				27,991.25	25,834.54	
Palatine Recreation Ground - Pavillion	138,000	0.00	0.00					0.00	0.00	
1 Lodge Street Urgent Structural Repairs	150,000	10,886.50	10,886.50	8,266.13				8,266.13	2,620.37	
Lancaster Heritage Action Zone	174,000	295,173.13	295,173.13	236,928.71				236,928.71	58,244.42	
Morecambe Co-op Building Renovation	50,000	0.00	0.00					0.00	0.00	
Morecambe Regeneration	3,165,000	3,173,500.00	3,173,500.00					0.00	3,173,500.00	
Engineers Electric Vehicle	15,000	0.00	0.00					0.00	0.00	
Lawson's Bridge S106 Scheme	2,000	0.00	0.00					0.00	0.00	
Sub-Total	4,974,000	4,083,990.43	4,083,990.43	823,791.10	0.00	0.00	0.00	823,791.10	3,260,199.33	
CORPORATE SERVICES										
ICT Systems, Infrastructure & Equipment	145,000	106,722.41	106,722.41			60,000.00		60,000.00	46,722.41	
Sub-Total	145,000	106,722.41	106,722.41	0.00	0.00	60,000.00	0.00	60,000.00	46,722.41	
TOTAL - GENERAL FUND	17,256,000	11,223,418	11,223,418	7,469,027	0	201,273	0	7,670,300	3,553,118	

GENERAL FUND HOUSING REVENUE ACCOUNT	Revised Estimate	Expenditure in 2021/22	Expenditure to be financed in 2021/22	SCHEME FINANCING					TOTAL SCHEME SPECIFIC FINANCING / ITEMS	BALANCE FINANCED BY GENERAL CAPITAL RESOURCES
				GRANT	GRANTS UNAPPLIED	EARMARKED RESERVES / PROVISIONS	SPECIFIC REVENUE FINANCING	MAJOR REPAIRS ALLOWANCE (HRA only)		
	£	£	£	£	£	£	£	£	£	
	17,256,000	11,223,417.94	11,223,417.94	7,469,026.86	0.00	201,272.98	0.00	0.00	7,670,299.84	3,553,118.10
	5,626,000	3,758,495.53	3,758,495.53	24,076.43	0.00	278,567.13	0.00	3,455,851.97	3,758,495.53	0.00
TOTAL CAPITAL EXPENDITURE & FINANCING	22,882,000	14,981,913.47	14,981,913.47	7,493,103.29	0.00	479,840.11	0.00	3,455,851.97	11,428,795.37	3,553,118.10

2020/21 CAPITAL EXPENDITURE FINANCING			Housing Revenue Account	General Fund	Grand Total for all Funds
			£	£	£
Amounts to be financed by General Capital Resources			0.00	3,553,118.10	3,553,118.10
Financed by:					
Underlying Borrowing Need - Increase in Capital Financing Requirement			0.00	3,495,360.65	3,495,360.65
Usable Capital Receipts			0.00	57,757.45	57,757.45
General Grants Unapplied			0.00	0.00	0.00
Total Financing from General Capital Resources			0.00	3,553,118.10	3,553,118.10

Appendix 7 - Slippage and Accelerated Expenditure

	Slippage £	Reason for Slippage £
Communities & Environment		
Purchase of Vehicles (including 2 x electric RCV's)	(2,738)	Protracted vehicle build times
Salt Ayre Equipment Programme	(1,326)	Equipment purchase for gym & pool change development did not proceed as originally planned
Next Steps Accommodation Programme	(750)	To fund property acquisition in July 2022
SALC Salix Funded Optimised Solar Farm	(318)	Required for practical completion of PV system, LED lighting & glazing
Roof Mounted Solar Array - Citylab	(33)	Installation not undertaking in year as originally planned
Half Moon Bay Car Park Extension	(30)	Lack of project management resource has lead to delay. Work due to commence June 2022
One Million Trees	(16)	Required to support the Million Trees project in 22/23
Happy Mount Park Footpaths	(8)	Scheme not completed as expected due to time constraints & contractor availability
	<u>(5,219)</u>	
Economic Growth & Regeneration		
Caton Road Flood Relief Scheme	(357)	Required to support Phase 3a of the scheme
1 Lodge Street Urgent Structural Repairs	(139)	Project delayed
Palatine Recreation Ground Veterans Club	(138)	Scheme delayed awaiting planning comments. Due to commence April 2022
Lancaster City Museum Boiler	(125)	Works due to complete in first quarter of 2022
Canal Quarter	(110)	Property acquisition delayed
S106 Payments to Lancashire County Council	(70)	Relates to contributions for a bus route not utilised in year as anticipated
Morecambe Co-op Renovation	(50)	Project start is depended on securing external funding
Engineers Electric Vehicle	(15)	Delay in vehicle delivery
Coastal Revival fund - Morecambe Co-op	(11)	HR resourcing issues lead to project delay
	<u>(1,015)</u>	
Corporate Services		
ICT Systems, Infrastructure & Equipment	(48)	Slow deployment of equipment due to staff location changes
	<u>(48)</u>	
Housing Revenue Account		
Re-roofing/Window Renewals	(250)	Works completed during the first quarter of 2022/23
External Refurbishment	(105)	Chosen contractor unable to start on site as early as requested
Energy Efficiency/Boiler Renewals	(40)	
Fire Precaution Works	(40)	Access issues to certain properties due to some tenants not engaging. No access properties now being revisited using alternative contact details
Balcony Railings	(34)	Delay to start on site as officer time was spent on compliance works which took precedence earlier in the year
	<u>(469)</u>	
	<u>(6,751)</u>	
	Accelerated Expenditure £	Reason for Accelerated Expenditure
Communities & Environment		
Disabled Facilities Grants	204	Grants allocated more quickly than forecast
Torrisholme Park Play Area	6	Grant funded expenditure incurred earlier than anticipated
	<u>210</u>	
Economic Growth & Regeneration		
Lancaster High Streets Heritage Action Zone	121	Expenditure & related grant income profiling change occurring in later part of the year
	<u>121</u>	
	<u>331</u>	
Total Net Slippage & Accelerated Expenditure	<u><u>(6,420)</u></u>	