

CABINET

**Provisional Revenue, Capital and Treasury Management
Outturn 2014/15
23 June 2015
Chief Officer (Resources)**

PURPOSE OF REPORT			
This report provides summary information regarding the provisional outturn for 2014/15. It sets out information regarding the carry forward of capital slippage for Members' consideration. It also incorporates the treasury management outturn report and related matters.			
Key Decision	X	Non-Key Decision	Referral from Cabinet Member
Date of Notice of Forthcoming Key Decision		22 May 2015	
This report is public.			

RECOMMENDATIONS:

1. That the provisional outturn for 2014/15 be endorsed, including the transfers to provisions and Balances actioned by the Chief Officer (Resources), and the position regarding overspendings.
2. That the requests for capital slippage as set out at Appendix G be approved.
3. That the Annual Treasury Management report and Prudential Indicators as set out at Appendix H be noted and referred on to Council.

1 BACKGROUND

- 1.1 All local authorities have a legal duty to produce annual accounts, in support of openness and accountability. By the time of the Cabinet meeting, the work required to close the Council's 2014/15 accounts will be substantially complete and the draft Statement of Accounts is expected to be signed off by the Chief Officer (Resources) on 30 June, to meet the statutory deadline. The draft Statement will be freely available on the Council's website.
- 1.2 This report provides Cabinet with an update on issues arising from the provisional outturn, including treasury management, and seeks approval for certain matters. If there are any further updates to the position, these will be fed into the Cabinet meeting. The Council's financial performance is integral to its service performance overall and Members are advised to consider this report in that context.
- 1.3 Note that larger copies of the appendices are available on request.

2 PROVISIONAL REVENUE OUTTURN: SUMMARY

- 2.1 A summary of the revenue outturn position for the main service accounts of the Authority is set out below.

	Revised Budget Position	Provisional Outturn	Variance (Favourable) / Adverse
	£000	£000	£000
Housing Revenue Account (HRA) – relates to Council Housing services	(104)	(640)	(536)
General Fund Council Tax Requirement – covers all other Council services (but excludes parish precepts)	7,599	7,046	(553)

3 HOUSING REVENUE ACCOUNT (HRA)

- 3.1 The Housing Revenue Account was underspent in last year by approximately £536K net (2013/14 comparative: £51K underspend).
- 3.2 A summary of the HRA provisional outturn is included at **Appendix A**. Discounting any notional and presentational variances, the three main items behind the net underspending are as follows:
- reduced revenue funding requirement for capital, mainly shown as a lower call on the Major Repairs Reserve (£381K saving);
 - reduced spend on repairs and maintenance of £172K;
 - a variety of underspendings on supervision and management, amounting to £100K. These include salaries and energy charges, plus additional income from fees and charges.
- 3.3 Overall therefore, the outturn position for the HRA is favourable and as at 31 March its Balances stood at £1.041M, this being £536K higher than budgeted.
- 3.4 Taken at face value this is a good result, but the first two specific variances are significant and they have not previously been reported through monitoring; furthermore there is no clear picture of whether or how service performance has been affected. At the start of 2014/15 a programme of work was initiated to develop and strengthen the business practices and financial management underpinning the Repairs and Maintenance Service (RMS). These are particularly relevant given the Council's ethos of being a direct service provider, in order to deliver value for money. Overall progress against the programme has been slower than anticipated, however, as a result of other work priorities. The programme is to be picked up again in this year and the capacity to complete it will need to be reappraised; it is likely that capacity will need to be increased somehow. Drawing on the outturn, the main aims are to improve management information and monitoring, and to address any implications for future operations, support services and budgeting. Similarly, specific updates on RMS were planned for 2014/15 as part of the usual quarterly financial monitoring reports, but these too were delayed and will commence in Quarter 1 of 2015/16.

3.5 Notwithstanding the above, at outturn the HRA's financial standing remains sound. A summary of its Balances, reserves and provisions is included at **Appendix D**.

4 GENERAL FUND

4.1 Revenue Outturn

4.1.1 The 2014/15 financial year saw further substantial reductions in Government funding, amounting to around £1.8M or almost 14%. The outturn for General Fund should be considered in this context.

4.1.2 Nonetheless, after allowing for various year-end adjustments, there has been a net underspending of £553K against the Revised Budget for 2014/15 and a summary statement is included at **Appendix B**. The underspending represents 3% of the Council's net revenue budget (2013/14 comparative: £277K underspend, 1.4% of budget), or 7.3% of the council tax requirement (i.e. the amount raised from council tax; this measure is growing in prominence).

4.1.3 On closer analysis, the bulk of the net underspending can be attributed to a fairly small number of key variances, some of which are one-off and/or relate to circumstances arising after setting the Revised Budget, which was finalised in operational terms last November. Variance analysis is provided at **Appendix C**, the key elements of which are summarised below:

Main Areas for variances	Gross Budget (For comparison) £'000	Value (Favourable) / Adverse £'000
Operational:		
Employee Related	19,515	(261)
Premises Related	9,682	(118)
Transport and other Supplies and Services	1,773	(37)
General Income	(16,700)	(336)
Other minor variances		(46)
Other Areas:		
Capital Financing Costs		(68)
Extra Contributions to Provisions		140
Extra Treasury Management Costs (Icelandic)		173
Net Total		(553)

4.1.4 Underspending is encouraged where it does not damage performance; indeed current financial strategy is based on taking proactive management decisions to save money during the year. Other reasons for underspending do occur though and so it is important that appropriate analysis is undertaken. All Chief Officers have again committed to undertaking a full review of their underspendings over the summer, primarily as part of the current year's Quarter 1 reporting. The aim is to draw out further savings and any service performance or financial improvements needed. Any budgetary matters arising will be reported through corporate monitoring and incorporated into the half-yearly Medium Term Financial Strategy (MTFS) review.

4.1.5 This process will lead into the 2016/17 budget and planning process, for which the timetable and other arrangements are due to be considered by Cabinet over the summer.

4.2 Provisions, Reserves and Balances

4.2.1 In closing the accounts for last year the Council's reserves and provisions have been reviewed; this is in accordance with the policy and schedule approved by Council back in March. A full statement for General Fund and HRA is attached at **Appendix D** and the main issues and transfers regarding General Fund are highlighted specifically below:

- An additional contribution of £100K has been made into the Bad Debts provision following a reassessment of sundry debts – particularly those in relation to housing benefit (HB) overpayment recoveries. Typically the Council deals with HB recoveries in excess of £1.2M per year, not all of which prove collectable. Currently £1.8M remain outstanding (cumulatively, covering many previous years) and the Bad Debts provision now provides cover for 60% of this, as well as covering other sundry debts.
- An additional £40K has been added to the Insurance provision following a review of the current insurance claims outstanding and their likely settlement values. In particular the increase relates to very old liabilities (pre-1990).

4.2.2 The transfers have already been reflected in the General Fund summary position outlined earlier, hence Cabinet is asked to endorse them.

4.2.3 After allowing for these transfers, the General Fund net underspending of £553K has been transferred into Balances by the Chief Officer (Resources). This means that as at 31 March 2015, Balances amount to £4.625M, as compared with the budgeted figure of £4.072M. Similar to the HRA, the General Fund's financial standing is currently sound but General Fund has far bigger challenges ahead.

5 'CARRY FORWARD' OF UNDERSPENDINGS AND OVERSPENDINGS

5.1 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.

5.2 With regard to the carry forward of revenue underspend, only one potential need has been identified, with a total value of £27K. This related to the Townscape Heritage Initiative (THI) 2 Scheme in Morecambe. This scheme has suffered from various delays in implementation and it is therefore planned that Officers report back to Cabinet on the progress and proposed future for the scheme overall, with any financial matters being addressed at that time.

5.3 With regard to overspendings, arrangements require that:

- any overspending on any expenditure budget, or shortfall on any income budget, under the control of a Chief Officer (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 Chief Officer 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 overspendings occurring and details of any actions taken to prevent the situation recurring.

5.4 There are only a small number of revenue overspendings occurring and given their nature, Officers have agreed that there is no case for carrying these forward to reduce the current year's budgets. **Appendix E** sets out the relevant details, for Cabinet's consideration and endorsement.

5.5 Capital related carry forward matters are covered later in section 7 of this report.

6 **COLLECTION FUND**

6.1 The Collection Fund deals with local taxation matters and as such, its performance has a direct bearing on General Fund services. For this reason, a high level review of its outturn is presented for Members' information.

6.2 **Council Tax**

6.2.1 At the end of the financial year there was a surplus of £1M in relation to council tax, which is in line with the £1M estimated surplus declared in January earlier this year. Of this 13% (£131K) is retained by the City Council and this has already been built into the approved budget for 2015/16. Essentially the surplus has arisen because of more properties becoming chargeable during the year for a variety of reasons (new builds, lower exemptions, discounts claimable by householders, etc).

6.3 **Retained Business Rates**

6.3.1 The position for business rates is somewhat more complicated. Two major appeals, which have been outstanding since the 2005 and 2010 valuations, have now been settled and reflected in the 2014/15 accounts. This has resulted in refunds of £23.7M becoming payable in total (some to business rate payers, but most of it to Central Government). This is £12.7M higher than the mid-year estimate calculated back in October 2014.

6.3.2 The settlement of appeals is undertaken by the Valuation Office Agency (VOA) and whilst there are regular liaison meetings between Officers and the Agency, they are unable to provide the Council with estimates of potential settlement values due to confidentiality. Officers therefore have to rely on historical settlements for similar hereditaments (i.e. rateable properties) to project the likely outcomes. In this case the reductions in rateable value awarded were significantly higher than historic averages.

6.3.3 As a result of the settlement, at the end of 2014/15 there was a deficit of £5.7M on the Collection Fund in respect of Business Rates, with the Council's share being £689K. The complexities of the Business Rates Retention Scheme mean that this will not be recouped for some time but very importantly, any adverse impact is restricted, through the operation of a 'Safety Net'. This guarantees a minimum level of rating income for General Fund services each year.

6.3.4 In terms of the 2014/15 General Fund outturn therefore, fortunately there is no bottom-line impact as the City Council is now due £3.6M back from the Government to bring net income back up to the Safety Net, as budgeted. Unfortunately, however, the

settlement of the appeals does mean that the City Council has lost the opportunity to retain growth in other business rate income, previously estimated at around £1.2M. The system is very complex; the following table summarises the position as far as possible.

	2014/15 Estimate £'000	2014/15 Outturn £'000	Variance £'000
Retained Business Rates	(25,317)	(25,317)	0
Central Government Tariff	19,392	19,392	0
Net Retained Business Rates	(5,925)	(5,925)	0
Small Business Rate Relief Grant	(919)	(919)	0
2014/15 Deficit (in total)	-	5,715	5,715
Transfer Growth to Business Rates Reserve	1,251	0	(1,251)
Growth Levy payable to Central Government	867	0	(867)
Safety Net Payment from Central Government	0	(3,597)	(3,597)
Net Revenue Funding from Business Rates (Safety Net Level)	4,726	4,726	0

6.3.5 Expectations going forward are still uncertain and more complicated, as there are still other rating appeals and various issues that have not yet been settled. Certainly, at this point, the Council has lost the opportunity to retain extra business rates income – and this could have reached over £1.5M per year in future, potentially, although at least that opportunity has not been budgeted for. On a more positive note, there are additional revenue streams coming in from renewable energy sites that will help to reduce that loss, to some degree.

6.3.6 Overall however, there is a very real chance that the business rate position will add pressure of around £400K to the City Council's General Fund revenue budget, if its retained business rate income continues at Safety Net levels, and this pressure could be ongoing. The Quarter 1 financial monitoring report will aim to provide a clearer picture, depending on what information is available then.

7 CAPITAL OUTTURN

7.1 **Appendix F** includes a provisional capital expenditure and financing statement for the year, which is summarised in the following table:

Capital Programme	Revised Budget	Expenditure (before slippage)	Overspend or (Underspend)	
	£'000	£'000	£'000	%
Council Housing	4,861	4,709	(152)	3.1
General Fund	8,280	5,717	(2,563)	30.9
Total Programme	13,141	10,426	(2,715)	20.7

- 7.2 Details of individual slippage (i.e. carry forward) requests from services have been received, a schedule of which is attached at **Appendix G**. 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. If Members have any questions on particular requests and/or are minded to refuse any, it would be useful to know prior to the meeting, to ensure that sufficient detailed information is available.
- 7.3 Information on recent years' slippage is also included below for comparison. This is the second year slippage has been high. However, given the outline reasons for slippage requests shown in Appendix G, it is expected that some improvements can be made in future, in terms of budget profiling. That said, it must be recognised that there will always be some scope for slippage occurring.

	2014/15	2013/14	2012/13	2011/12	2010/11
	£'000	£'000	£'000	£'000	£'000
Council Housing	95	0	16	160	82
General Fund	<u>2,526</u>	<u>1,706</u>	<u>438</u>	<u>1,828</u>	<u>899</u>
Total Slippage Requested	<u>2,621</u>	<u>1,706</u>	<u>454</u>	<u>1,988</u>	<u>981</u>

- 7.4 The following table pulls together the financing position after allowing for slippage. The impact on resources is favourable for both Council Housing and for General Fund. Again, any implications for current or future years will be picked up as part of the mid-year review for the Medium Term Financial Strategy.

Capital Programme	Revised Estimate	Forecast Expenditure (including slippage)	Overspend Or (Underspend) - Rounded	Impact on Council Resources (Fav) / Adv
	£'000	£'000	£'000	£'000
Council Housing	4,861	4,804	(57)	(57)
General Fund	8,280	8,243	(37)	(4)

- 7.5 The requirements relating to revenue overspends (as set out in section 5) also apply to capital overspends. At the end of 2014/15 there were two schemes where overspends exceeded £10K:

- Luneside East £10,525
- Adactus Top-Up Grants £11,336

- 7.6 Luneside East spend has been relatively difficult to predict as it relates to the litigation process associated with a previous compulsory purchase order. The process has been determined in the Council's favour, although it is possible that the Council may continue to incur costs, as the other party still seeks to continue with litigation. Given this, no action is possible regarding the outturn position. Separately, no assumptions have been made regarding recovery of the Council's costs.

- 7.7 The overspending on the Adactus Top-Up Grants relates to a commitment to repay grant following the sale of a property on Albert Road, Morecambe. The timing of this was uncertain, although funding had already been earmarked from the Capital Support Reserve to cover it. As a result no further action has been taken.

8 TREASURY MANAGEMENT

- 8.1 The annual treasury management report is attached at **Appendix H** and sets out the performance of treasury operations for 2014/15 in terms of long and short term borrowing, investment activities and relevant borrowing limits and prudential indicators. This must be referred on to Council.
- 8.2 Whilst the topic is complex, it does have strong linkages with other aspects of the outturn, for example the capital position and business rates income.

9 TIMETABLE FOR COMPLETION OF ACCOUNTS AND ASSOCIATED MATTERS

- 9.1 As in previous years, key aspects of the outturn will be made available to Members and other stakeholders for their due consideration, in line with the following timetable:

Monday 13 July	Commencement of audit of Accounts and 4 week public inspection period.
Wednesday 15 July	Council: referral of any issues as may be required, including the annual Treasury Management report.
Tuesday 21 July	Budget and Performance Panel: consideration of outturn.
Monday 10 August	Public access to Auditor commences.
Wednesday 16 September	Audit Committee: consideration of audited accounts.

During July the first quarterly monitoring report for the current year (2015/16) will be produced. This will draw on services' final outturn for last year, to identify any implications for current and future years - in particular, the identification of ongoing savings and any clarification of the business rates position, as mentioned earlier.

10 DETAILS OF CONSULTATION

- 10.1 As reflected in section 9 above, the statutory 4 week public inspection period commences in July. Information on the public's rights is made available as part of this process.

11 OPTIONS AND OPTIONS ANALYSIS

- 11.1 The City 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 Officer (Resources), and Cabinet should consider whether it has sufficient information to do so or whether it requires any further justification.
- 11.2 The report requests Cabinet to consider a number of capital slippage items. The framework for considering these is set out in the report but basically Cabinet may:

- Approve 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.

12 OFFICER PREFERRED OPTION AND JUSTIFICATION

- 12.1 On the assumption that the Council continues to support its previously approved spending plans, then the Officer preferred options are to approve the capital slippage requests (Appendix G).

13 CONCLUSION

- 13.1 Although the Council's General Fund budget and the associated Government funding reduced again in 2014/15, it continued to manage the financial pressure well, and has again improved its overall financial standing as at 31 March 2015. Similarly, the HRA's standing is sound. Balances for both General Fund and the HRA are higher than forecast, and the Council has other substantial earmarked reserves to help respond to the tough financial challenges now ahead. In itself however, the Council's financial standing will not withstand those challenges, without other decisive planning and action being taken.

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 Diversity, Human Rights, Community Safety, Sustainability etc)	
None directly identifiable, due to the high level nature of this report.	
FINANCIAL IMPLICATIONS	
As set out in the report.	
SECTION 151 OFFICER'S COMMENTS	
This report forms part of the section 151 officer responsibilities, with the outturn being subject to external audit.	
LEGAL IMPLICATIONS	
Legal Services have been consulted and have no comments to add.	
MONITORING OFFICER'S COMMENTS	
The Monitoring Officer has been consulted and has no further comments to add.	
BACKGROUND PAPERS	Contact Officer: Nadine Muschamp
None.	Telephone: 01524 582117
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HOUSING REVENUE ACCOUNT OUTTURN 2014/15

For Consideration by Cabinet 23 June 2015

	Original Budget £	Revised Budget £	Actual £	Variance £	Adjusted Variance £
INCOME				(Favourable) / Adverse	(Favourable) / Adverse
Rental Income - Council Housing	(13,545,600)	(13,495,700)	(13,498,196)	(2,496)	(2,496)
Rental Income - Other (Shops and Garages etc.)	(208,700)	(210,400)	(209,781)	619	619
Charges for Services & Facilities	(1,823,600)	(1,830,700)	(1,845,338)	(14,638)	(14,638)
Grant Income	(7,700)	(7,700)	(7,736)	(36)	(36)
Contributions from General Fund	(87,400)	(87,500)	(87,500)	0	0
Total Income	(15,673,000)	(15,632,000)	(15,648,551)	(16,551)	(16,551)
EXPENDITURE					
Repairs & Maintenance	4,189,800	4,541,100	4,369,233	(171,867)	(171,867)
Supervision & Management	3,313,700	3,244,100	2,927,505	(316,595)	(100,399)
Rents, Rates & Insurance	144,700	155,900	157,700	1,800	1,800
Contribution to Provision for Bad and Doubtful Debts	175,000	191,200	140,527	(50,673)	(50,673)
Depreciation & Impairment of Council Dwellings	1,701,700	1,956,400	2,047,238	90,838	90,838
Depreciation & Impairment of Non-Operational Assets	14,200	32,300	(820,970)	(853,270)	30,890
Debt Management Costs	1,100	1,100	1,100	0	0
Total Expenditure	9,540,200	10,122,100	8,822,333	(1,299,767)	(199,410)
NET COST OF HRA SERVICES	(6,132,800)	(5,509,900)	(6,826,218)	(1,316,318)	(215,961)
Interest Payable & Similar Charges	2,041,300	2,041,300	2,040,780	(520)	(520)
Premiums & Discounts from Earlier Debt Rescheduling	(600)	(600)	(581)	19	19
Interest & Investment Income	(27,400)	(25,300)	(27,485)	(2,185)	(2,185)
Pensions Interest Costs & Expected Return on Pensions Assets	0	0	416,307	416,307	0
Self Financing Debt Repayment	1,041,400	1,041,400	1,041,367	(33)	(33)
(SURPLUS) OR DEFICIT FOR THE YEAR	(3,078,100)	(2,453,100)	(3,355,830)	(902,730)	(218,680)
Adjustments to reverse out Notional Charges included above	(32,700)	(32,200)	(50,113)	(17,913)	0
Net Charges made for Retirement Benefits	0	0	701,963	701,963	0
Transfer to/(from) Earmarked Reserves - for Revenue Purposes	187,600	59,000	122,098	63,098	63,098
Capital Expenditure funded from Major Repairs Reserve	2,850,100	2,322,600	1,941,761	(380,839)	(380,839)
Transfer from Earmarked Reserves - for Capital Purposes	(210,000)	(414,400)	(436,407)	(22,007)	(22,007)
Financing of Capital Expenditure from Earmarked Reserves	210,000	414,400	436,407	22,007	22,007
TOTAL (SURPLUS) / DEFICIT FOR THE YEAR	(73,100)	(103,700)	(640,121)	(536,421)	(536,421)
Housing Revenue Account Balance brought forward	(400,896)	(400,896)	(400,896)	0	0
HRA BALANCE CARRIED FORWARD	(473,996)	(504,596)	(1,041,017)	(536,421)	(536,421)

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

The first variance column includes notional variances mainly relating to pensions charges that have to be included within the relevant service areas, but they are then reversed out and so do not impact on the 'bottom-line' outturn position. The adjusted variance column excludes these items and therefore shows a clearer outturn position.

GENERAL FUND REVENUE BUDGET SUMMARY

For Consideration by Cabinet 23 June 2015

	Original Budget £	Revised Budget £	Actuals £	Variance £ (Favourable) / Adverse	Adjusted Variance £ (Favourable) / Adverse
Management Team	0	0	0	0	(1,222)
Environmental Services					
Service Support	0	0	0	0	(13,206)
Public Realm	2,176,500	2,130,100	1,982,939	(147,161)	(80,923)
Repairs & Maintenance	0	0	0	0	0
Safety	173,100	180,600	189,882	9,282	15,631
Waste / Recycling	2,890,100	2,653,000	2,493,701	(159,299)	(91,535)
	5,239,700	4,963,700	4,666,522	(297,178)	(170,033)
Governance Services					
Democratic Services	1,469,800	1,405,400	1,334,547	(70,853)	(45,913)
Human Resources & Organisational Development	711,000	551,700	535,870	(15,830)	(24,690)
Legal	(53,600)	(80,300)	(100,984)	(20,684)	(19,979)
Licensing	(16,100)	(21,400)	(18,196)	3,204	9,628
	2,111,100	1,855,400	1,751,237	(104,163)	(80,954)
Health & Housing Services					
Environmental Health	1,405,700	1,321,200	1,228,933	(92,267)	(82,144)
General Fund Housing	170,700	134,700	129,094	(5,606)	(4,968)
Strategic Housing	893,200	864,700	830,124	(34,576)	(18,417)
Sport and Leisure	1,784,600	1,794,600	1,918,908	124,308	(99,489)
	4,254,200	4,115,200	4,107,059	(8,141)	(205,018)
Regeneration & Planning					
Development Management	688,800	756,300	528,937	(227,363)	(103,073)
Economic Development	1,842,700	1,730,900	1,690,637	(40,263)	(43,235)
Regeneration	3,308,200	3,763,600	3,706,894	(56,706)	7,348
Service Support	62,500	60,000	48,202	(11,798)	(28,365)
	5,902,200	6,310,800	5,974,670	(336,130)	(167,325)
Resources					
Audit	90,400	85,700	66,878	(18,822)	(23,145)
Financial Services	0	0	0	0	(12,677)
ICT	0	0	0	0	(46,824)
Property Group	(299,200)	(9,200)	(87,493)	(78,293)	(101,247)
Revenues and Benefits	1,330,300	1,058,800	1,027,713	(31,087)	(12,197)
	1,121,500	1,135,300	1,007,098	(128,202)	(196,090)
Corporate Accounts					
Capital Financing	2,413,600	3,205,200	1,490,340	(1,714,860)	(405,619)
Other Corporate Costs	1,548,300	1,662,200	1,770,565	108,365	108,365
Reversal of Notional Charges	(3,899,700)	(4,541,900)	(3,179,487)	1,362,413	0
Treasury Management	1,136,800	1,062,100	1,320,127	258,027	258,027
Net Business Rates Adjustments	382,400	383,000	766,000	383,000	383,000
Other Government Grants	(1,137,900)	(1,137,900)	(1,167,970)	(30,070)	(30,070)
Appropriations (to / (-) from Reserves)	(74,700)	(831,600)	(495,515)	336,085	336,085
Appropriations (to / (-) from Balances)	(457,500)	358,500	358,500	0	0
	(88,700)	159,600	862,560	702,960	649,788
Net Revenue Budget	18,540,000	18,540,000	18,369,146	(170,854)	(170,854)
Financed by:					
Retained Business Rates	(24,501,600)	(24,501,600)	(24,884,214)	(382,614)	(382,614)
Less Business Rates Tariff	19,392,400	19,392,400	19,392,391	(9)	(9)
Baseline Funding Level	(5,109,200)	(5,109,200)	(5,491,823)	(382,623)	(382,623)
Revenue Support Grant	(5,700,300)	(5,700,300)	(5,700,281)	19	19
Total Settlement Funding	(10,809,500)	(10,809,500)	(11,192,104)	(382,604)	(382,604)
Council Tax Surplus	(131,000)	(131,000)	(131,000)	0	0
Council Tax Requirement	7,599,500	7,599,500	7,046,042	(553,458)	(553,458)

Note the underspend of approx £553K will be transferred to Unallocated Balances to balance off the Fund accounts.

The first variance column includes notional variances relating to numerous capital and pensions charges that have to be included within the relevant service areas, but they are then reversed out (within the Corporate Accounts section) and so do not impact on the 'bottom-line' outturn position. The adjusted variance column excludes these items and therefore shows a clearer outturn position - the full analysis of this is shown at Appendix C.

GENERAL FUND VARIANCE ANALYSIS

For Consideration by Cabinet 23 June 2015

2014/15 Outturn
Compared to Working
Budget

(Favourable) / Adverse

£

£

COUNCIL TAX REQUIREMENT		7,599,500
EXPENDITURE		
Employee Savings		
Environmental Services	(52,628)	
Governance	(31,898)	
Health & Housing	(51,142)	
Regeneration & Planning	(41,715)	
Resources	(84,247)	(261,630)
Premises		
Business Rates (mainly Commercial Properties)	(12,046)	
Energy Savings	(106,266)	(118,312)
Transport Expenses		
Fuel	(29,896)	
Leasing Costs	13,009	(16,887)
Supplies & Services		
Materials & Equipment (mainly Grounds Maintenance)	(21,825)	
Waste Disposal Charges	40,678	
THI2 Scheme	(11,070)	
Electoral / Member Related	(38,788)	
Revenues Shared Service Management Fee	10,789	(20,216)
INCOME		
Additional Government Grants (New Burdens / Transparency Code)	(30,816)	
Bins and Boxes Charging	(56,928)	
Williamson Park	(23,019)	
Search Fees	(17,402)	
Taxi / Miscellaneous Licences	13,633	
Salt Ayre Sports Centre	(44,708)	
Housing Benefits (mainly overpayment recoveries)	(54,269)	
Cemeteries / Pest Control	(23,851)	
Planning Application Fees	(86,044)	
Revenues Net Legal Costs Recovered	19,006	
Property Rental Income / Service Charges Recovered	(31,701)	(336,099)
Other Net Service Variances		(45,566)
SPECIFIC VARIANCES NOT INCLUDED ABOVE:		
Reduced revenue financing of capital programme due to slippage		(67,961)
Additional contributions to Provisions (£100K Bad Debts & £40K Insurance)		140,000
Exchange rate losses on settlement of outstanding Icelandic Investments (excluding interest)		173,213
TOTAL VARIANCES		(553,458)
PROVISIONAL OUTTURN 2014-15		7,046,042

RESERVES AND PROVISIONS STATEMENT (INCLUDING BALANCES)

For consideration by Cabinet 23 June 2015

GENERAL FUND	OUTTURN				
	31/03/14	Contributions to Reserve	Contribution from Reserve		31/03/15
		From Revenue	To Capital	To Revenue	
	£	£	£	£	£
General Fund Balance	3,713,249	911,958			4,625,207
Earmarked Reserves:					
Apprenticeships	34,873	29,200		(26,019)	38,054
Business Rates Retention	1,699,258			(1,317,800)	381,458
Capital Support	469,104		(170,337)		298,767
City Lab	14,987			(14,987)	0
Elections	0				0
Highways	213,283	66,107			279,390
Homelessness Support	50,956			(34,671)	16,285
Invest to Save	1,514,350		(12,938)		1,501,412
Local Plan	23,160	19,007			42,167
Markets	9,599	50,000			59,599
Morecambe Area Action Plan (MAAP)	15,893	215,000		(7,090)	223,803
Corporate Property	386,298			(43,713)	342,585
Open Spaces Commuted Sums	163,828			(35,380)	128,448
Performance Reward Grant	39,670			(20,670)	19,000
Renewals (all services)	930,484	406,796	(451,453)	(178,226)	707,601
Restructuring	602,922				602,922
S106 Commuted Sums - Affordable Housing	700,493	236,539	(322,400)		614,632
S106 Commuted Sums - Highways, crossing & cycle paths	532,688		(21,279)	(6,680)	504,729
Welfare Reforms	257,000	68,222		(17,226)	307,996
Youth Games	2,914	18,600			21,514
Reserves Held in Perpetuity:					
Graves Maintenance	22,201				22,201
Marsh Capital	47,677				47,677
Total Earmarked Reserves	7,731,639	1,109,471	(978,407)	(1,702,462)	6,160,241

AS CURRENTLY BUDGETED												
Contributions to Reserve	Contribution from Reserve		31/03/16	Contributions to Reserve	Contribution from Reserve		31/03/17	Contributions to Reserve	Contribution from Reserve		31/03/18	
	From Revenue	To Capital			To Revenue	From Revenue			To Capital	To Revenue		From Revenue
£	£	£	£	£	£	£	£	£	£	£	£	
			(1,000,000)	3,625,207			3,625,207				3,625,207	
	21,200		(19,600)	39,654	21,200		(4,500)	56,354	21,200		77,554	
	275,200			656,658				656,658			656,658	
				298,767				298,767			298,767	
				0				0			0	
				0	30,000			30,000	30,000		60,000	
				279,390				279,390			279,390	
				16,285				16,285			16,285	
			(60,000)	1,441,412				1,441,412			1,441,412	
				42,167				42,167			42,167	
				59,599				59,599			59,599	
			(35,000)	188,803				188,803			188,803	
				342,585				342,585			342,585	
			(24,400)	104,048			(22,500)	81,548		(22,500)	59,048	
			(12,000)	7,000				7,000			7,000	
	605,400	(626,500)	(101,300)	585,201	402,800	(96,000)	(37,000)	855,001	402,300	(230,000)	(23,400)	1,003,901
				602,922				602,922			602,922	
			(90,000)	524,632				524,632			524,632	
		(194,500)	(12,700)	297,529		(4,000)	(500)	293,029			293,029	
			(18,900)	289,096				289,096			289,096	
	15,000			36,514	15,000			51,514	15,000		66,514	
				22,201				22,201			22,201	
				47,677				47,677			47,677	
Total Earmarked Reserves	916,800	(971,000)	(223,900)	5,882,141	469,000	(100,000)	(64,500)	6,186,641	468,500	(230,000)	(45,900)	6,379,241

Note - For various provisions and reserves, not all spending needs are reflected and so over the period their balances will reduce from the levels shown above, as and when spending commitments and their timing are confirmed.

Provisions	31/03/14	Contributions to Reserve	Payments from Reserve	31/03/15
	£	£	£	£
Bad Debts	1,102,243	300,000	(227,720)	1,174,523
Legal	175,000			175,000
Insurance	318,828	166,750	(125,970)	359,608
Total Provisions	1,596,071	466,750	(353,690)	1,709,131

**HOUSING REVENUE
ACCOUNT**

	OUTTURN					
	31/03/14	Contributions to Reserve		Contribution from Reserve		31/03/15
		From Revenue	To Capital	To Revenue	To Revenue	
£	£	£	£	£	£	
HRA General Balance	400,896	640,121			1,041,017	
Earmarked Reserves:						
Business Support Reserve	8,612,720				8,612,720	
Major Repairs Reserve	0	3,989,000	(3,989,000)		0	
Flats - Planned Maintenance	1,209,738		(250,402)	(36,876)	922,460	
Central Control Equipment / Telecare	40,000				40,000	
Non-Sheltered Scheme Equipment	28,841	11,600		(24,181)	16,260	
I T Replacement	591,195				591,195	
Office Equipment Reserve	43,921	3,000		(6,650)	40,271	
Sheltered - Equipment	333,781	43,765		(11,525)	366,021	
Sheltered - Planned Maintenance	311,280	99,200	(186,005)		224,475	
Sheltered Support Grant Maintenance	235,534	43,765			279,299	
Total Earmarked Reserves	11,407,010	4,190,330	(4,425,407)	(79,232)	11,092,701	

Provision	
Bad Debts	494,892

AS CURRENTLY BUDGETED												
	Contributions to Reserve		31/03/16	Contribution from Reserve			31/03/17	Contribution from Reserve			31/03/18	
	From Revenue	To Capital		To Revenue	To Revenue	To Capital		To Revenue				
	£	£	£	£	£	£	£	£	£	£	£	
			(47,000)	994,017	171,200		1,165,217	224,900			1,390,117	
			(37,900)	8,574,820		(39,100)	8,535,720		(40,400)		8,495,320	
	4,492,000	(4,492,000)	0	4,431,800	(4,431,800)		0	4,613,400	(4,613,400)		0	
		(306,500)	615,960	133,000	(205,000)	(15,000)	528,960	133,000	(160,000)	(15,000)	486,960	
			40,000				40,000				40,000	
	16,600		8,860	16,600		(20,500)	4,960	16,600		(20,500)	1,060	
			591,195	57,000			648,195	57,000			705,195	
	3,000		43,271	3,000			46,271	3,000			49,271	
	22,700		364,721	22,000		(20,500)	366,221	22,900		(20,500)	368,621	
	45,500	(60,000)	167,275	44,100	(60,000)	(3,000)	148,375	45,800	(35,000)	(3,000)	156,175	
	20,700		299,999	21,200			321,199	17,300			338,499	
	4,600,500	(4,858,500)	(128,600)	10,706,101	4,728,700	(4,696,800)	(98,100)	10,639,901	4,909,000	(4,808,400)	(99,400)	10,641,101

Carry Forward of Controllable Overspends

For Consideration by Cabinet 23 June 2015

Services and Detail of Overspend		Revised Budget £	Actual £	Variance £	Comments
GENERAL FUND REVENUE					
Environmental Services					
Grounds Maintenance	Vehicle & Plant Hire	28,600	35,460	6,860	The additional cost has been managed by making savings of £19K on vehicle and plant repairs, which has ultimately proved more cost effective. This may be a continuing practice in which case future savings could be generated.
	Waste Disposal Services	16,100	24,647	8,547	Initially offset by £10K saving on equipment & tools. In reality these additional costs are uncontrollable as there are no alternative waste disposal providers in the district. Disposal of waste from Council operations represents a significant cost to the organisation, which will continue. In any event there will be a review of waste disposal arrangements during 2015/16.
White Lund Depot	Waste Disposal Services	8,200	13,661	5,461	Initially offset by £11K saving on equipment & tools. See comments above re future impact on budgets.
Nurseries	Materials	68,700	77,500	8,800	This relates to the cost of purchasing bulbs, plants and compost etc. Costs were higher than anticipated but spend was necessary to complete the planting programme. These additional costs were offset by saving on salaries (£3K), equipment (£2K) and additional income (£5K). It is uncertain as to whether this additional cost will continue in future years, however if it does it will need to be managed within existing budgets again.
Street Cleaning	Salaries - Overtime	84,700	90,031	5,331	Offset by savings on vehicle repairs (£8K), salaries (£10K), and additional income (£18K). The additional costs result from covering staff vacancies, having to extend vehicle leases due to late supply of new vehicles and additional waste disposal charges as mentioned above. These are on-off costs with the exception of the waste disposal charges.
	Transport Leases	36,800	42,691	5,891	
	Waste Disposal Services	17,900	38,801	20,901	
Engineering Section	Waste Disposal Services	12,200	17,969	5,769	Offset by vehicle repair savings (£7K). See comments above re future impact on budgets.
Trade Refuse	Trade Refuse Collections	(1,266,600)	(1,224,538)	42,062	Offset by savings on fuel (£6K), plastic sacks (£4K), waste disposal (£18K) and landfill tax (£17K). Whilst every effort is made to maximise income if demand falls, unfortunately income has reduced. It is uncertain as to whether this trend will continue or not, but this will be kept under review. It should be noted however, that trade refuse collections still make a significant contribution to the Council's budget.
Regeneration & Planning					
Building Control	Consultancy	50,000	60,554	10,554	Offset by savings of £24K within other Planning areas. Spend was necessary to complete the work into establishing whether a shared service arrangement was feasible with a neighbouring authority. This was a one-off overspend and therefore no future budgetary action is required.
Resources					
Information, Communications & Technology	Infrastructure - Update & Maintenance	60,700	71,653	10,953	Offset by salary savings of £65K. Spend relates to necessary PSN requirements on disaster recovery arrangements, and line rental charges which are currently being disputed with the provider. These are one-off overspends and therefore no future budgetary action is required.
	Members Line Rental	7,000	14,699	7,699	
Revenues & Benefits	Revenues Shared Service Management Fee	2,051,500	2,062,289	10,789	Relates to a variety of factors, including welfare reform preparations, so not expected to recur. There are funds available to cover these in future, and therefore no remedial action is proposed. Note also that in proportion to the budget the overspending is minor.

Officer Decisions: That no further action be taken as all overspends are offset by other savings. On-going implications still being reviewed.

CAPITAL SLIPPAGE - INTO FINANCIAL YEAR 2015/16

For consideration by Cabinet 23 June 2015

	Slippage Requested	Percentage of Revised Budget	Source of Funding:			Reasons for Slippage Requests
			LCC Funded	Grant / Contributions	Total	
	£		£	£	£	
Environmental Services						
Car Park Improvement Programme	25,000	7%	25,000		25,000	Delays due to long lead-in times with County and additional externally funded works. Outstanding order not fulfilled until April 2015. Vehicles ordered but not received as at 31st March 2015. Goods ordered but delayed due to vehicles that are due to be replaced. Scheme still in preliminary stage.
Allotment Extension - Scotforth	5,000	19%	5,000		5,000	
Vehicle Renewals	533,000	66%	533,000		533,000	
Vehicle Tracking System	24,000	23%	24,000		24,000	
Middleton Solar Farm	7,000	35%	7,000		7,000	
	594,000		594,000	0	594,000	
Health and Housing						
Disabled Facilities Grants	200,000	23%		200,000	200,000	Represents commitments entered into but not discharged by 31 March 2015. Represents commitments entered into but not discharged by 31 March 2015.
Warm Homes Scheme	6,000	16%	6,000		6,000	
	206,000		6,000	200,000	206,000	
Regeneration & Planning						
Toucan Crossing - King Street	3,000	23%	3,000		3,000	Scheme still to be finalised with County Council. Ongoing compensation negotiations not finalised in 2014/15. Resource levels resulted in fewer hours being available to this scheme in 2014/15. Planning application constraints resulted in delay to programme. Due to ongoing liaisons with County Council who are undertaking this work. Unpredictable on-going scheme. Delay in delivery of early projects in 2014/15 impacting implementation of later projects. Delays due to grant applications and regulatory approvals. Delays due to regulatory approvals. Trigger for this payment was not reached in 2014/15. Delayed start to scheme. Delay in final demolition due to time taken to acquire all properties. Delayed start to scheme. Delayed start to file storage and switches replacement. Delays in HR/Payroll Integration, Leisure Management and Customer Services Systems. Delays on member notebooks, required early 2015/16. Delays in receiving Agreed Maximum Prices from contractors & commencement on site, for some schemes.
Artle Beck Improvements (Flood Defences)	16,000	36%		16,000	16,000	
Strategic Monitoring (River & Sea Defences)	18,000	50%	1,000	17,000	18,000	
Wave Reflection Wall Construction	37,000	19%	1,000	36,000	37,000	
Slynedale Culvert	5,000	100%		5,000	5,000	
Amenity Improvements	31,000	100%	28,000	3,000	31,000	
Lancaster Square Routes	103,000	8%	15,000	88,000	103,000	
Morecambe TH12: A View for Eric	386,000	89%	93,000	293,000	386,000	
Morecambe Area Action Plan (improving streets)	118,000	98%	118,000		118,000	
Albion Mills Affordable Housing Scheme S106	40,000	100%	40,000		40,000	
Sainsbury's Section 106 pedestrian/cycle links Morecambe	5,000	100%	5,000		5,000	
Bold Street Demolition	20,000	5%	20,000		20,000	
Chatsworth Gardens	300,000	100%	300,000		300,000	
	1,082,000		624,000	458,000	1,082,000	
Resources						
ICT infrastructure	43,000	20%	43,000		43,000	
ICT Application Systems Renewal	106,000	82%	106,000		106,000	
ICT Desktop Equipment	12,000	20%	12,000		12,000	
Corporate & Municipal Building Works	483,000	25%	473,000	10,000	483,000	
	644,000		634,000	10,000	644,000	
GENERAL FUND TOTAL	2,526,000		1,858,000	668,000	2,526,000	
Council Housing						
Kitchens & Bathrooms	3,000	1%	3,000		3,000	Contractors not completed due to delays in RMS works. Works delayed due to lease holder consultation period. Delays due to bad weather. Works delayed due to lease holder consultation period. Delayed start due to procurement requirements.
Communal Area Flats	20,000	13%	20,000		20,000	
External Refurbishments - Marsh	16,000	3%	16,000		16,000	
Fire Precaution Works	23,000	9%	23,000		23,000	
Lift Replacement - Glebe	33,000	55%	33,000		33,000	
	95,000		95,000	0	95,000	
HOUSING REVENUE ACCOUNT TOTAL	95,000		95,000	0	95,000	

Annual Treasury Management Report 2014/15

1 Introduction

1.1 The Council's Treasury Management Strategy for 2014/15 was approved by Council on 26 February 2014. This report sets out the related performance of the Treasury function by providing details of:

- a) long term and short term borrowing (i.e. debt that the Council owes)
- b) investment activities
- c) relevant borrowing limits and prudential indicators.

It is a requirement of the CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice on Treasury Management in Local Authorities that such a report be presented to Cabinet within six months of the end of the financial year, and that it is also reported to Council for information.

1.2 The aim of the Treasury Management Policy and associated activity is to ensure that the investment of surplus cash is managed in line with the guidance issued by both CIPFA and Government, as well as in line with the Council's appetite for risk. For reference, the Policy is attached at **Annex A**. For 2014/15 the appetite for risk remained low given the continued volatility in the national economy and the Eurozone.

1.3 Treasury management is a technical area. Training will be provided to Members during 2015 and this also continues to be an important part of the CIPFA Code. To assist with the understanding of this report, a glossary of terms commonly used in Treasury Management is attached at **Annex B**. In addition, the Councillor's Guide to Local Government Finance also has a section on treasury and cash management, and this is available through the Member Information section on the Intranet.

2 Summary: Headline Messages for 2014/15

2.1 The key points arising from this report are as follows:

- Further action was undertaken in connection with Icelandic investments, to free up the foreign currency previously held in Iceland. Recovery action is now all but complete; since 2008 £5.7M has been recovered in total, against the original £6M invested (excluding interest implications).
- No temporary borrowings have been required to support day to day cash flow. The Council ended the year with healthy cash balances of £35.7M, reflecting many net liabilities as well as backing various provisions and reserves. The biggest component relates to provisions held to cover successful business rate appeals (£24M).
- The Council has stayed within its prudential limits for investments and has not breached any of the criteria set out in the approved Strategy.
- In terms of the most significant individual treasury transactions:
 - an investment of £6M was made with a new AAA rated Money Market Fund (MMF) offered by Ignis Asset Management (now owned by Standard Life);

- a scheduled £1.04M loan repayment was made in relation to the Housing Revenue Account (HRA) self-financing loan (taken out two years ago, linked to the abolition of the former subsidy system for council housing).

2.2 Separately, the operational banking provider was changed from The Co-operative Bank to National Westminster Bank during March 2015.

3 **Economic Background (supplied by Capita Asset Services)**

After strong UK GDP growth in 2013 at an annual rate of 2.7%, and then growth in 2014 of 0.6% in Q1, 0.8% Q2, 0.6% Q3 and 0.6% Q4 (annual rate for 2014 of 2.8% - the strongest rate since 2006), there are good grounds for optimism that the growth rate will increase further during 2015 as the positive effects from the fall in the price of oil feeds through to consumers and other parts of the economy. In its February quarterly Inflation Report, the Bank of England maintained its GDP forecast for 2015 at 2.9%, but revised up its forecasts for 2016 and 2017 to 2.9% and 2.7% respectively, from 2.6% in both years. The main source of upward revisions came from higher consumption growth, which is now expected to accelerate to 3.75% in 2015 due primarily to a 3.5% rise in real post-tax household income growth. Income growth is also supported by solid employment growth and a pick-up in average weekly pay growth of 3.5% in 2014 and 4.0% in 2016 and 2017. Unit labour cost growth is consequently forecast to be 2.0% in 2015 and 2.75% in 2016 which then pushes up the inflation forecast slightly in two years time to 1.96%, while in three years' time it is forecast at 2.15%.

The American economy is well on track to making a full recovery from the financial crash. GDP quarterly growth rates (annualised) for Q1, Q2, Q3 and Q4 of -2.1%, 4.6%, 5.0% and 2.6%, (2.4% for 2014 as a whole), hold great promise for strong growth going forward and for further falls in unemployment. It is therefore confidently predicted that the Federal Open Market Committee will start on the first increase in the Fed funds rate during 2015 and is likely to be ahead of the UK in being the first major western country to raise rates.

As for the Eurozone, on 21 January 2015 it issued a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is currently intended to run initially to September 2016. However, it remains to be seen whether this will have a significant enough effect in terms of boosting growth and employment, though the fall in the price of oil will provide additional support.

4 Icelandic Investments

Icelandic Investment Position 31/03/2015

	KSF	Glitnir	Landsbanki	Total
	£'000	£'000	£'000	£'000
Original Investment Value	2,000	3,000	1,000	6,000
Claim Value (allowing for interest)	2,048	3,173	1,121	6,342
Prior Year Receipts	1,669	2,508	1,021	5,198
2014/15 Receipts	20	477	-	497
Estimated future Receipts	57	-	-	57
Total Recoveries (£)	1,746	2,985	1,021	5,752
Equivalent Recovery (%)	85.3	94.0	91.1	90.7
Headline Recovery (%) (before exchange rate impacts)	85.3	100.0	92.0	93.8
Prior Year Net Losses	302	15	100	417
2014/15 Losses (excl. interest)	-	173	-	173
Total Losses	302	188	100	590

Key points to note are:

With regard to KSF

- The recovery of this claim has been administered in the UK and it has therefore not involved any currency conversion and resulting foreign exchange rate risks. Of the original £2.048M claim value, only 2.7% or £57K remains outstanding.

With regard to Glitnir

- The Glitnir claim was settled some years ago in full, although this was administered through Iceland and unfortunately it involved repayment in a number of currencies, including Icelandic Kronur (ISK). This exposed the Council to foreign exchange rate risks. Of the original £3.173M claim value, approximately 20% or £615K was repaid in ISK, but this could not readily leave Iceland, due to the currency controls imposed by the Central Bank of Iceland. The funds were therefore paid into an Icelandic escrow account (similar to a client account at a solicitors). The funds attracted interest of over 4% but they were also subject to gains and losses due to fluctuations in the exchange rate between Sterling and ISK.
- In January of this year, the Council received notification that a currency auction was to take place on 10 February. The view from Bevan Brittan, who are the legal advisors appointed by the Local Government Association (LGA) on behalf of Local Authority creditors, was that this presented a good opportunity for authorities such as the City Council to release the funds held in the escrow accounts. After due consultation Officers accepted this advice; an update was outlined verbally to Council back in March. As background, there was growing speculation that during 2015 Iceland would start to relax its currency controls

but in doing so, exchange rates could adversely affect monies held in Kronur, and also there may be fairly hefty 'exit taxes' levied if monies are withdrawn from the country.

- On balance, it was considered appropriate to take part in the auction to gain certainty on recovery, in terms of timing and value. Well over 40 other authorities also took part in the auction. It is not known exactly how many sold, but it is understood to be at least 32 or so.
- For the City Council, as a result of the auction it received £477K in its (UK) bank account on 13 February. This represents a loss of £138K when compared with the remaining book value of the claim. Furthermore, accrued interest of in the region of £70K has also been foregone.
- Separately, legal action has been ongoing in Iceland to test out what date should have been used to determine the currency exchange rates for the earlier repayments that were made in other currencies. Again local authorities have been supported by Bevan Brittan, through the LGA. Unfortunately, the result of the final ruling meant that the City Council was overpaid by a net £35K and this too has been charged into 2014/15.
- These transactions conclude the dealing associated with the Glitnir claim. They mean that against the original value of £3.173M, total funds of £2.985M or 94% have been recovered. Net losses therefore total £188K (excluding interest implications) and predominantly these have been charged into 2014/15.

With regard to Landsbanki:

- This claim was settled prior to 2014/15 and there are no new matters arising in connection with it.

Overall, against the original investments and claims, the Council expects to recover £5.7M. This does not allow for interest losses, but it does mean that the vast majority of the capital sum has now been recovered. In view of this, future reporting will not cover Icelandic investments in any detail.

5 Borrowing and Capital Expenditure

5.1 Capital Expenditure and Financing

Long term borrowing is an important part of the Council's capital financing. Under the Prudential Code a key indicator is the Capital Financing Requirement (CFR). This figure is calculated from the Council's balance sheet. In essence, it may be viewed as the cumulative amount of capital investment that may need to be funded through external borrowing (i.e. the amount of capital investment that has not been funded from other sources such as grants, revenue contributions and capital receipts). Borrowing should not then exceed the CFR on a long term basis, as this would indicate that borrowing is being used to fund expenditure other than capital. For 2014/15 the figures were as follows:

Capital Financing Requirement

	2014/15
	£'000
Opening CFR	78,449
Closing CFR*	76,113
Weighted average borrowings	
	68,027
Weighted average finance lease liability	
	349
Weighted average investments*	
	36,595

* Average investment balance excludes Icelandic deposits

From this it is clear that net borrowings are well below the Council's CFR. This shows that long term borrowing has not been used to fund revenue activities.

In terms of capital expenditure and funding in the year, this can be summarised as follows:

Capital Expenditure and Financing

	2013/14	2014/15
	£'000	£'000
Opening Capital Financing Requirement	83,276	78,449
<i>Capital investment:</i>		
Property, Plant and Equipment	18,631	8,705
Investment Properties	7	56
Intangible Assets	36	21
Revenue Expenditure Funded from Capital Under Statute	1,564	1,644
<i>Sources of financing:</i>		
Capital receipts	(8,323)	(2,278)
Government Grants and other contributions	(3,333)	(2,025)
Direct revenue contributions	(1,452)	(1,842)
Minimum Revenue Provision	(7,851)	(2,628)
Major Repairs Reserve	(4,106)	(3,989)
Closing Capital Financing Requirement	78,449	76,113
<i>Explanation of movements in year:</i>		
Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	(4,827)	(2,336)
Increase/(decrease) in Capital Financing Requirement	(4,827)	(2,336)

The figures stated above show a net decrease in CFR of £2.327M, which is after allowing for making provisions for debt repayment from the revenue budgets (often known as Minimum Revenue Provision or MRP) of £2.619M. Excluding this, the underlying need to borrow has increased by £292K, in order to help finance 2014/15 capital investment. This is some £1.318M less than budgeted, mainly due to slippage on capital schemes. This links to the more detailed capital expenditure statement included as a separate Appendix to the outturn report.

5.2 Borrowing levels

To control the actual level of borrowing, indicators are set on both the absolute allowable amount of debt (the Authorised Limit) and expected gross debt allowing for day to day cash management (Operational Boundary).

Debt boundaries

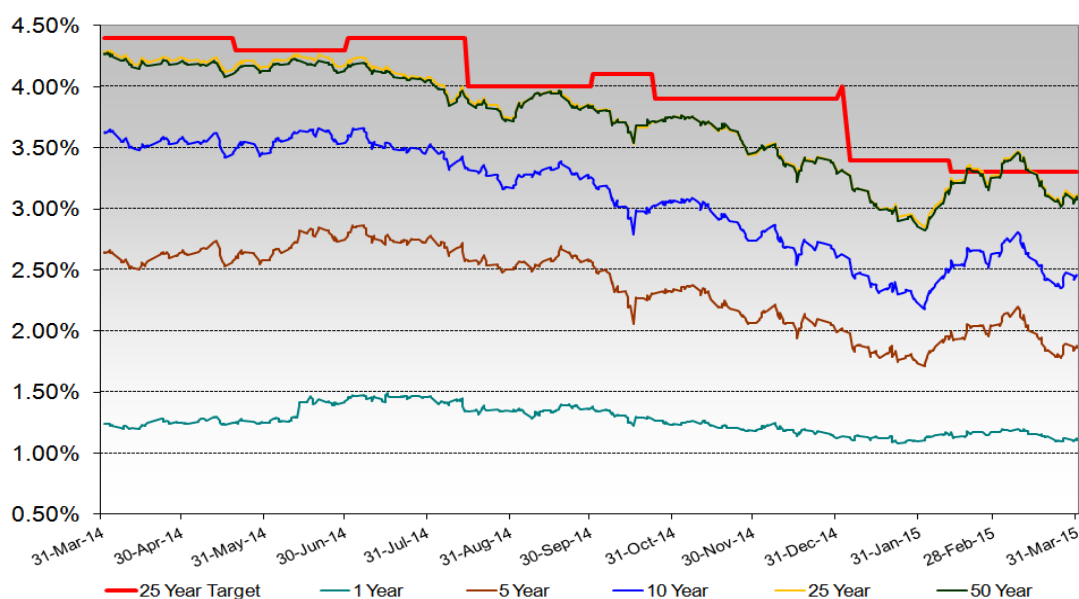
	Actual 31/03/14 £'000	Actual 31/03/15 £'000	Operational Boundary £'000	Authorised Limit £'000
Other Long Term Liabilities	650	462	240	1,000
PWLB Debt	68,374	67,332	77,000	93,000
Total	69,024	67,794	77,240	94,000

The actual debt, as calculated in accordance with the Prudential Code, includes the liability associated with finance leases and other long term creditors. The Council's debt levels are well within its operating boundaries and limits.

5.3 PWLB Interest Rate Movements

All of the Council's long term borrowings are held with the Public Works Loan Board (PWLB). The following chart illustrates the movement on PWLB fixed term rates over the year. This clearly shows the spread of rates depending on length of loan.

As rates fall the prospect of early repayment becomes no longer financially viable as the premium charged by the lender would increase. The chart below displays falling loan rates, so a decision to make early repayments was not taken during 2014/15, but any opportunities will continue to be monitored.



Where it can be facilitated and future needs and expectations support it, repayment of PWLB debt may still prove an attractive option, should the Council continue to hold a grossed up position of higher borrowings matched by higher investment balances.

5.4 Debt Maturity (or Repayment) Profile

The Council is exposed to “liquidity” risks if high value loans mature (i.e. become due for repayment) at the same time, making a large demand on cash. One Treasury Indicator which is used to manage this risk is the maturity structure of borrowing. This indicator introduces limits to help reduce the Council’s exposure to large fixed rate sums falling due for repayment (and potentially re-financing) all at once. The table below shows these profiles at the beginning and end of the year against the indicator. The only change is due to the repayment of an element of the HRA loan.

Of the total loan balance, 43% relates to an Equal Instalment of Principal (EIP) loan and 57% is made up of maturity loans. Therefore the short term percentages will decrease as the total debt balance decreases.

Loan repayment schedule

	31/03/14		31/03/15	
	£'000	%	£'000	%
Less than 1 year	1,041	1.5%	1,041	1.6%
1 to 2 years	1,041	1.5%	1,041	1.6%
3 to 5 years	3,124	4.6%	3,124	4.6%
6 to 10 years	5,207	7.6%	5,207	7.7%
11 to 20 years	10,414	15.2%	10,414	15.5%
21 to 30 years	8,332	12.2%	7,290	10.8%
More than 30 years	39,215	57.4%	39,215	58.2%
Total	68,374		67,332	

The actual profile of the debt is well within the approved limits (liabilities in relation to finance leases are not included within this indicator).

5.5 Interest Payable on Longer Term Borrowing

The average rate of interest payable on PWLB debt in 2014/15 was 4.59%. A total of £3.103M interest was incurred during the year, of which £2.041M was recharged to the HRA in respect of the self-financing loan.

Interest Payable

	£'000
2014/15 Estimate	3,103
2014/15 Actual	3,103
Variance	0

There was also £25K of interest in relation to finance leases under IFRS accounting. This is a cost that in previous years has been presented within service expenditure. It is purely a presentational change with no impact on the bottom line.

Prudential Indicators also provide exposure limits that identify the maximum limit for variable / fixed interest rate exposure, based upon the debt position. The table below shows that the outturn position was within the limits set by Members at the beginning of the year. The Council currently only has fixed interest rate debt, although again this could change in future if market conditions warrant or facilitate it.

Fixed/Variable rate limits

	Prudential Indicator (%)	Actual (%)
Fixed Rate	100	100
Variable Rate	30	0

Finance leases are also classed as fixed, as the interest rates implicit in any such agreement are fixed at their inception date.

6 Investment Activities

6.1 Performance against Prudential Indicators

In 2014/15 all investments were placed in accordance with the approved Investment Strategy. There have been no breaches of the investment criteria.

The Council made (or holds) no investments with a maturity of longer than 365 days; the investment strategy prohibited such long term investments. Most deposits have been made either to instant access call accounts and money market funds or have been placed on a fixed term bank deposit with Lloyds. Details of the average balances held during the year along with the year-end position is given in **Annex C**.

With regard to Icelandic investments and claims, these were covered earlier and are therefore excluded from the following sections.

6.2 Performance against budget and external benchmarks

In terms of performance against external benchmarks, the return on investments (not including Icelandic interest) compared to the LIBID and bank rates over the year to date is as follows:

Interest rates on investments

Indicator (mean value)	2013/14	2014/15
Base Rate	0.5%	0.5%
3 Month LIBID	0.5%	0.4%
Lancaster CC investments	0.5%	0.4%

The return is slightly below the Bank of England base rate, due to all investments being held in high credit quality accounts and all immediately available. Another Money Market Fund was opened to secure funds (all MMFs are AAA rated) and to achieve a better rate over the Debt Management Office (DMO).

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

	2014/15
	£'000
Budget	157
Actual	165
Favourable Variance	8

The favourable balance was due to cash balances being higher than expected. This is due to cashflow complexities associated with the Business Rates Retention Scheme. This also impacted on the need to ensure cash was readily available.

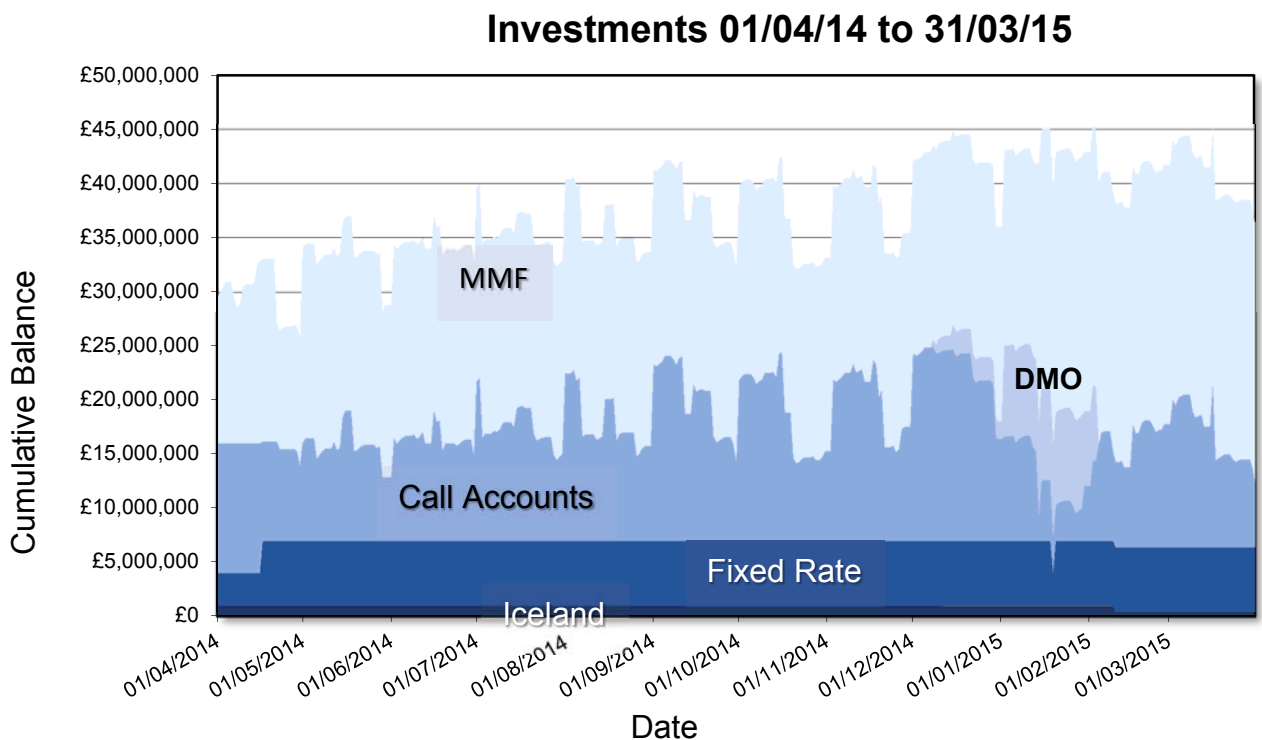
As illustrated in the table below, the short term projection for rates is flat. It is anticipated that the position on low investment interest rates will hold for the next financial year.

Interest Rate Projections

	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank Rate	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	2.00%
5yr PWLB Rate	2.20%	2.30%	2.50%	2.60%	2.70%	2.80%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%
10yr PWLB Rate	2.80%	3.00%	3.10%	3.20%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%
25yr PWLB Rate	3.40%	3.60%	3.80%	3.90%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%	4.70%
50yr PWLB Rate	3.40%	3.60%	3.80%	3.90%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%	4.70%

Source: Capita Asset Services, June 2015

The Investment Strategy for 2014/15 continued with a cautious approach to managing surplus cash, this being in place since the banking crisis. In practice, most deposits were placed on instant access in either call accounts or Money Market Funds (MMFs) with limited use of the DMO account. The pattern of these investments during 2014/15 can be seen in more detail in the following graph:



7 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 2014/15 complied with the latest Code of Practice (November 2011) and relevant Government investment guidance.

8 Other Prudential Indicators

As required under the Prudential Code, certain other year end Prudential Indicators must be calculated. Those not included (or presented differently) within the body of this report are included at **Annex D** for noting by Cabinet and subsequent approval by Council.

9 Conclusion

The Council's treasury activities were in line with its approved policies and strategies. Last year was very quiet in terms of borrowing activity. With respect to investments, rates fell again marginally, given the Council's low risk appetite and its exposure to liquidity (cashflow) risks, which meant that investment periods had to remain very short. Actual investment returns did hold up, however, because of cash balances being higher than expected. Linked to this, the business rates position has been clarified to some degree during 2014/15, but there is still considerable uncertainty as to when the Council will see the full effect on its cash flow – its cash and investment balances are expected to reduce substantially at some point. Whilst the new year's Strategy gives some greater flexibility to manage investment security and return, liquidity risks still remain very high.

LANCASTER CITY COUNCIL
TREASURY MANAGEMENT POLICY STATEMENT

Last reported to Council on 04 March 2015

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

1. This organisation defines its treasury management activities as:

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

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

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

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

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

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

Counterparties used during 2014/15

Counterparty	Type	Average	Maximum	Year End
		£'000	£'000	£'000
Lloyds	Fixed Term	5,860	6,000	6,000
Blackrock (Gov)	MMF	6,000	6,000	6,000
Blackrock (Liquidity)	MMF	6,000	6,000	6,000
Insight	MMF	6,000	6,000	6,000
Ignis	MMF	1,266	6,000	6,000
Lancashire County Council	Call	576	9,204	49
Svenska Handelsbanken	Call	5,163	5,876	5,698
Total				35,747

PRUDENTIAL INDICATORS - LANCASTER CITY COUNCIL

For Noting by Cabinet 23rd June 2015

2013/14	2014/15	2014/15
Actual	Estimate	Actual

AFFORDABILITY

		2013/14 Actual	2014/15 Estimate	2014/15 Actual
PI 2: Actual ratio of financing cost to net revenue stream	Non - HRA	42.4%	15.6%	14.9%
	HRA	23.3%	22.6%	22.9%
	Overall	34.3%	18.7%	18.4%

CAPITAL EXPENDITURE

		£K	£K	£K
PI 6: Actual capital expenditure	Non - HRA	15,954	8,280	5,717
	HRA	4,285	4,862	4,709
	Total	20,239	13,142	10,426

PI 8: Actual Capital Financing Requirement	Non - HRA	49,290	49,315	47,996
	HRA	29,159	28,118	28,117
	Total	78,449	77,433	76,113

* Minor adjustment of £9K to agree with finalised outturn position, subject to audit.