

# CABINET

## Provisional Revenue, Capital and Treasury Management Outturn 2016/17 26 June 2017 Chief Officer (Resources)

PURPOSE OF REPORT					
This report provides summary information regarding the provisional outturn for 2016/17, 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	<input checked="" type="checkbox"/>
Date of Notice of Forthcoming Key Decision		N/A			
This report is public.					

### OFFICER RECOMMENDATIONS:

1. That the provisional outturn for 2016/17 be endorsed, including the transfers to Provisions, Reserves and Balances actioned by the Chief Officer (Resources), and the position regarding overspendings.
2. That the requests for capital slippage and the adjustments to reflect accelerated capital spending on projects as set out at Appendix G be endorsed, with the Capital Programme being updated accordingly.
3. That the Annual Treasury Management report and Prudential Indicators as set out at Appendix H be noted and referred on to Council for information.
4. That the implications of business rate growth be noted, with them being fed into the next update of the Council's Medium Term Financial Strategy (MTFS).

### 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 2016/17 accounts is expected to be complete, in support of the Statement of Accounts being signed off by the Chief Officer (Resources) by the statutory deadline (30 June for this year). The draft Statement itself will be freely available on the Council's website.
- 1.2 This report provides Cabinet with an update on the provisional outturn, including treasury management, and seeks endorsement 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 £'000	Provisional Outturn £'000	Variance (Favourable) / Adverse £'000
Housing Revenue Account (HRA) – relates to Council Housing services	(133)	(245)	(112)
General Fund Council Tax Requirement – covers all other Council services (but excludes parish precepts)	8,296	8,047	(249)

## 3 HOUSING REVENUE ACCOUNT (HRA)

3.1 The Housing Revenue Account was underspent in last year by approximately £112K net (2015/16 comparative: £348K underspend).

3.2 A summary of the HRA provisional outturn is included at **Appendix A**. Discounting any notional and presentational variances, the main items of interest are as follows:

- overspending on repair and maintenance of £134K;
- a reduced revenue funding requirement for capital, mainly shown as a lower call on the Major Repairs Reserve (£485K net saving overall);
- an increased depreciation charge of £249K;
- a variety of other net underspendings amounting to £10K.

3.3 With regard to repair and maintenance services (RMS), a number of factors have resulted in the overspending. The following explanations have been provided by the service:

- The number of voids increased beyond expectation during the last quarter of the year, and more specifically major work voids.
- Increased pressure to improved void turn-around times have increased costs, as well as changes to legislative and regulatory requirements relating to health and safety. Overall void property costs have increased by 24% since 2015/16.
- The incidence of sickness has required the use of more external contractors, in addition to other in-house capacity issues resulting again in the use of external contractors.

- 3.4 As reported previously, RMS remains an area under review, and the above outturn performance will feed into that review, with the aim of securing improvements in financial management and reporting.
- 3.5 The increased depreciation charge resulted from an upward revaluation of property values which is undertaken at year end but applied from 01 April 2016. As such this could not have been anticipated when the budget was set. However, as depreciation is transferred into the Major Repairs Reserve and then used to finance the capital programme this has simply meant a reduced call on revenue to fund the remainder of the programme – the overall impact is therefore neutral.
- 3.6 At outturn the HRA's financial standing still remains sound. As at 31 March its Balances stood at £1.938M, this being £112K higher than budgeted. A summary of all its Balances, reserves and provisions is included at **Appendix D**.

#### 4 GENERAL FUND

##### 4.1 Revenue Outturn

- 4.1.1 The 2016/17 financial year saw further substantial reductions in Government funding, amounting to around £1.166M or 13%. The outturn for General Fund should be considered in that context.
- 4.1.2 After allowing for various year-end adjustments, there has been a net underspending of £249K against the overall Revised Budget for 2016/17 and a summary statement is included at **Appendix B**. The underspending represents 1.5% of the Council's net revenue budget (*2015/16 comparative: £331K underspend, 1.9% of budget*) or 3% of the council tax requirement (*i.e. the amount raised from council tax; this measure is growing in prominence*). If compared with the Council's gross budget, however, which is in the region of £100M+, the level of net underspending is very minor.
- 4.1.3 Variance analysis is provided at **Appendix C**, the key elements of which are summarised below:

Main Areas for net variances	Gross Budget (For comparison)  £'000	Value (Favourable) / Adverse  £'000
<b>Operational:</b>		
Employee Related	20,328	(109)
Premises Related	9,282	(236)
Transport and other Supplies and Services	14,594	65
General Income	(16,007)	(91)
Other minor variances		(35)
<b>Other Areas:</b>		
Extra Contribution to Reserves		50
Extra Contribution to Provisions		107
<b>Net Total</b>		<b>(249)</b>

- 4.1.4 Employee savings continued to be generated after the revised budget had been set, and consideration will be given to applying an additional turnover target as part of the 2018/19 budget setting process.
- 4.1.5 Underspends have occurred on repair and maintenance of property and sea and river defences totalling £156K. These are due to a variety of reasons such as vacancies within the Coast Protection team meaning works could not progress. In addition, significant utility savings have also been generated either through on-off circumstances or reduced usage.
- 4.1.6 Additional income of £233K has been generated across the Council and it is anticipated that a large element of this will continue in the future. Key areas are Council Tax/NNDR legal and court costs recovered (£74K), DFG administration charges (£41K), Off-street car parking income (£36K).
- 4.1.7 In contrast there have also been reductions in income of £142K. The majority of this was a one-off back dated VAT refund to HMRC relating to Trade Waste (£100K). The reason for this is currently being investigated by Officers. One further point to note is that Green Waste income of £125K was generated in last year, this being only £5K below target. The current year's position is expected to be more challenging but this will be covered in future monitoring reports.
- 4.1.8 Overall the outturn position is positive, which is encouraging given the significant financial uncertainty and challenges ahead. Reducing net service costs will continue to be encouraged where it does not damage performance; indeed current financial strategy is still based on taking proactive management decisions to save money and maximise income during the year. Other reasons for underspending do occur though and so it is important that appropriate analysis is undertaken. This will be undertaken as normal alongside monitoring arrangements, with the aim of drawing 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.
- 4.1.9 This process will lead into the 2018/19 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 is attached at **Appendix D** and the main issues and transfers regarding General Fund are highlighted specifically below:
- An additional contribution of £50K has been made into the Corporate Property Reserve, it being funded from corporate property repair and maintenance budgets. The transfer will provide additional cover primarily for one-off maintenance issues that cannot be capitalised as part of the on-going capital programme of works.
  - An additional amount of £107K has been transferred into the Insurance Provision to provide increased cover against outstanding claims, in particular those relating 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 £249K has been transferred into Balances by the Chief Officer (Resources). This means that as at 31 March 2017 Balances amount to £4.725M, as compared with the budgeted figure of £4.476M. Similar to the HRA, the General Fund's financial standing is currently sound but as Members know, General Fund still has much uncertainty and major 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 underspends, there are no requests for Cabinet to consider.
- 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 overspends 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 comparative small deficit of £197K in relation to council tax, whereas a balanced position was forecast back in January of this year. The deficit represents a net reduction of approximately 122 chargeable Band D dwellings (0.3% of the estimated Tax Base) over the period from when the estimate was set, to the end of March. As the City Council funds 13% of the deficit this would

mean an additional charge against the revenue budget of £26K in 2017/18. The Fund's movements will continue to be monitored and reported to Members as part of the quarterly financial monitoring process.

### **6.3 Retained Business Rates**

- 6.3.1 The position for business rates remains much more complicated and significant. At the end of 2016/17 the provision for appeals was reassessed down by £30M, mainly as a result of one major appeal being settled at a significantly lower value than originally estimated. Combined with in-year deficit recovery payments and other changes in gross rates payable, it gave an in-year surplus of £38.2M for 2016/17 (the Council's share being 40% or about £15.3M).
- 6.3.2 As result of that in-year movement, the opening deficit of £40M as at 01 April 2016 has been reduced to a closing deficit of £1.8M as at 31 March 2017. Of the £1.8M closing deficit, the City Council's share is £720K, but this will not be recouped for some time and it will not impact directly on the Council's budget.
- 6.3.3 The workings of the Business Rates Retention Scheme have meant, however, that despite there still being a deficit at year end, the significant in-year surplus has actually translated into additional business rates income being recognised, over and above that budgeted. In total that extra income amounts to £9.3M, of which 50% (£4.65M) will be paid over to the Government. The remaining 50% (£4.65M) is retained by the City Council, but it cannot be realised until 2018/19. In the meantime, it will be held within the Collection Fund Adjustment Account (as prescribed) and it could still be affected by further fluctuations in business rate appeals and other changes in the amount collectable.
- 6.3.4 Cabinet Members may recall that during the last budget, the expectation was that potentially, extra income of £3.7M may be retained. It is excellent news that the figure has risen to £4.65M, and it is hoped that nothing arises in the interim to offset that amount. The position will continue to be monitored and an update factored into the next MTFS review, as will current and future years' expectations. (Practically this work can be picked up only after outturn has been completed).
- 6.3.5 In addition, the City Council continues to benefit from renewable energy income amounting to £917K in last year (£622K in 2015/16). For renewable energy schemes approved by the Council as planning authority, the current regulatory framework provides for the City Council retaining 100% of such business rate income, outside of the operation of the main rates retention system and the safety net.

6.3.6 In summary, the main business rate transactions are presented as follows.

	2016/17 Estimate £'000	2016/17 Outturn £'000	Variance £'000
Retained Business Rates	(24,074)	(24,074)	0
Central Government Tariff	20,216	20,216	0
<b>Net Retained Business Rates</b>	<b>(3,858)</b>	<b>(3,858)</b>	<b>0</b>
Small Business Rate Relief Grant	(1,072)	(1,324)	(252)
2016/17 Estimated Deficit	5,733	5,733	0
2016/17 Actual Surplus	-	(15,300)	(15,300)
Transfer to/(from) Collection Fund Adj. Account	(5,375)	5,464	10,839
2015/16 Renewable Energy realised in 2016/17	(930)	(917)	13
Growth Levy payable to Central Government	0	4,703	4,703
Safety Net Payment from Central Government	(13)	(13)	0
<b>Net Revenue Funding from Business Rates</b>	<b>(5,515)</b>	<b>(5,512)</b>	<b>3</b>

## 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	4,314	4,077	(237)	(5.5)
General Fund	14,496	12,632	(1,864)	(12.9)
<b>Total Programme</b>	<b>18,810</b>	<b>16,709</b>	<b>(2,101)</b>	<b>(11.2)</b>

## 7.2 Capital Slippage

7.2.1 Details of individual slippage 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 not to endorse (and refuse) any, it would be useful to know prior to the meeting, to ensure that sufficient detailed information is available.

7.2.2 Information on recent years' slippage is also included below for comparison. Slippage has increased in 2016/17 mainly due to two schemes - Wave Reflection Wall (£642K) and the Salt Ayre Redevelopment (£786K). For the former, as mentioned earlier measures are in place to try to address recruitment issues and regarding the latter, the project remains on target, hence there are no specific concerns to highlight.

	2016/17 £'000	2015/16 £'000	2014/15 £'000	2013/14 £'000	2012/13 £'000
Council Housing	0	36	95	0	16
General Fund	2,410	576	2,526	1,706	438
<b>Total Slippage Requested</b>	<b>2,410</b>	<b>612</b>	<b>2,621</b>	<b>1,706</b>	<b>454</b>

### 7.3 Capital Overspends / Accelerated Spending

7.3.1 The requirements relating to revenue overspends (as set out in section 5) also apply to capital overspends. At the end of 2016/17 there was one HRA scheme and three General Fund schemes where overspends exceeded £10K:

	Revised Budget £'000	Actual Spend £'000	Overspend £'000
<b>Housing Revenue Account</b>			
Boiler Replacements	575	586	+11
<b>General Fund</b>			
Disabled Facilities Grants	850	997	+147
Energy Efficiency Works	40	379	+339
Application Systems Renewal – Salt Ayre	240	306	+66

7.3.2 The HRA overspending was due to increased cost of materials, such as copper, and boiler price increases. Future budgets will need to be reviewed in light of the increased costs, but no further action is required.

7.3.3 The Disabled Facilities Grants apparent overspend is actually accelerated spending (ahead of schedule) on grants. The additional cost is fully funded from the DFG grant allocation of £1.463M for 2016/17, and will need a corresponding adjustment to the 2017/18 budget, but no other action is required.

7.3.4 The Energy Efficiency Works apparent overspending is again actually accelerated spending on works at Salt Ayre Leisure Centre. There will therefore be a corresponding reduction in the 2017/18 budget. Other than this adjustment no further action is required.

7.3.5 The Salt Ayre ICT system replacement overspending was due to the new leisure management system needing to be "on premise" and not in the Cloud as originally envisaged. As a result, additional costs were incurred on enhancing the server room, providing extra resilience, and upgrading the power supply cabling. As the situation was unforeseen, with the preferred supplier not being able to provide a Cloud based

system, no further budgetary action is required, although actions are underway to help prevent such a situation occurring again.

#### 7.4 Summary Position

7.4.1 The following table pulls together the financing position after allowing for slippage. Overall the under and overspendings are considered comparatively minor when viewed against the programmes as a whole.

Capital Programme	Revised Estimate £'000	Comparative Adjusted Expenditure £'000	Overspend Or (Underspend) £'000
Council Housing	4,314	4,077	(237)
General Fund	14,496	14,556	60

### 8 TREASURY MANAGEMENT

8.1 The annual treasury management report is attached at **Appendix H** and sets out the performance of treasury operations for 2016/17 in terms of long and short term borrowing, investment activities and relevant borrowing limits and prudential indicators. This must be referred on to Council for information.

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 01 July	Commencement of 30 working day period for public inspection, questioning and objecting to unaudited accounts.
Monday 10 July	Audit of accounts commences.
Tuesday 11 July	Budget and Performance Panel: consideration of outturn.
Wednesday 19 July	Council: annual Treasury Management report for information.
Wednesday 06 September	Audit Committee: consideration of audited accounts.

During July the first quarterly monitoring report for 2017/18 will be produced. This will draw on the outturn for last year, to identify any implications for current and future years.

## **10 DETAILS OF CONSULTATION**

- 10.1 As reflected in section 9 above, the statutory arrangements regarding the public's rights in relation to the accounts provide for a fixed 30 working day period, to commence on 01 July for this year.

## **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 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.

## **12 OFFICER PREFERRED OPTION AND JUSTIFICATION**

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

## **13 CONCLUSION**

- 13.1 Although the General Fund budget and associated Government funding reduced again in 2016/17, the Council continued to manage the financial pressures well and it has again improved the Fund's overall financial standing as at 31 March 2017. Similarly, the HRA's standing is currently sound. Whilst net revenue underspendings were experienced on both General Fund and HRA, their scale is again lower than in previous years, reflecting the much tighter financial environment within which the Council is working. Although various actions have been outlined in the report, there are no wholly new matters arising that have not previously been reported or highlighted in some form, and this should give some comfort with regard to the adequacy of the Council's financial planning and monitoring arrangements. This is especially so, given that local government finance appears to be getting more complex, as evidenced perhaps by the business rates outturn position for last year.

**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. Accordingly the report is in her name (as Chief Officer (Resources)).

**LEGAL IMPLICATIONS**

There are no legal implications directly arising.

**MONITORING OFFICER'S COMMENTS**

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

**BACKGROUND PAPERS**

None.

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# HOUSING REVENUE ACCOUNT OUTTURN 2016/17

For Consideration by Cabinet 26 June 2017

	Original Budget £	Revised Budget £	Actual £	Variance £	Adjusted Variance £
<b>INCOME</b>				(Favourable) / Adverse	(Favourable) / Adverse
Rental Income - Council Housing	(13,700,500)	(13,679,000)	(13,656,185)	22,815	22,815
Rental Income - Other (Shops and Garages etc.)	(228,700)	(229,500)	(227,200)	2,300	2,300
Charges for Services & Facilities	(1,600,000)	(1,673,200)	(1,662,235)	10,965	10,965
Grant Income	(7,700)	(7,700)	(7,736)	(36)	(36)
Contributions from General Fund	(95,800)	(101,000)	(102,557)	(1,557)	(1,557)
<b>Total Income</b>	<b>(15,632,700)</b>	<b>(15,690,400)</b>	<b>(15,655,913)</b>	<b>34,487</b>	<b>34,487</b>
<b>EXPENDITURE</b>					
Repairs & Maintenance	4,518,800	4,982,500	5,116,419	133,919	133,919
Supervision & Management	3,063,200	3,044,600	3,006,651	(37,950)	(39,054)
Rents, Rates & Insurance	191,500	183,400	183,711	311	311
Contribution to Provision for Bad and Doubtful Debts	145,100	157,500	161,436	3,936	3,936
Depreciation & Impairment of Fixed Assets	2,006,000	2,146,100	4,365,726	2,219,626	249,116
Debt Management Costs	1,100	1,100	1,100	0	0
<b>Total Expenditure</b>	<b>9,925,700</b>	<b>10,515,200</b>	<b>12,835,043</b>	<b>2,319,843</b>	<b>348,229</b>
<b>NET COST OF HRA SERVICES</b>	<b>(5,707,000)</b>	<b>(5,175,200)</b>	<b>(2,820,871)</b>	<b>2,354,329</b>	<b>382,715</b>
Capital Grants and Contributions Receivable	0	(34,000)	(22,469)	11,531	11,531
Interest Payable & Similar Charges	1,967,000	1,960,200	1,953,524	(6,676)	(6,676)
Premiums & Discounts from Earlier Debt Rescheduling	(600)	(600)	(573)	27	27
Interest & Investment Income	(80,300)	(53,200)	(57,118)	(3,918)	(3,918)
Pensions Interest Costs & Expected Return on Pensions Assets	185,300	231,700	506,063	274,363	(0)
Self Financing Debt Repayment	0	0	0	0	0
<b>(SURPLUS) OR DEFICIT FOR THE YEAR</b>	<b>(3,635,600)</b>	<b>(3,071,100)</b>	<b>(441,443)</b>	<b>2,629,657</b>	<b>383,680</b>
Adjustments to reverse out Notional Charges included above	1,023,100	1,075,200	(900,993)	(1,976,193)	(34)
Net Charges made for Retirement Benefits	0	0	(269,818)	(269,818)	(0)
Transfer to/(from) Earmarked Reserves - for Revenue Purposes	0	0	0	0	0
Capital Expenditure funded from Major Repairs Reserve	2,146,600	1,697,500	1,067,960	(629,540)	(629,540)
Transfer from Earmarked Reserves - for Capital Purposes	(26,800)	(2,000)	142,616	144,616	144,616
Financing of Capital Expenditure from Earmarked Reserves	217,000	167,000	156,142	(10,858)	(10,858)
<b>TOTAL (SURPLUS) / DEFICIT FOR THE YEAR</b>	<b>(275,700)</b>	<b>(133,400)</b>	<b>(245,536)</b>	<b>(112,136)</b>	<b>(112,136)</b>
Housing Revenue Account Balance brought forward	(1,344,417)	(1,692,066)	(1,692,066)	0	0
<b>HRA BALANCE CARRIED FORWARD</b>	<b>(1,620,117)</b>	<b>(1,825,466)</b>	<b>(1,937,602)</b>	<b>(112,136)</b>	<b>(112,136)</b>

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.

The first variance column includes notional variances mainly relating to pensions charges and revaluations 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 26 June 2017

	Original Budget £	Revised Budget £	Actuals £	Variance £ (Favourable) / Adverse	Adjusted Variance £ (Favourable) / Adverse
<b>Management Team</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>389</b>
<b>Environmental Services</b>					
Service Support	0	0	0	0	27,603
Public Realm	1,795,100	1,929,800	1,931,078	1,278	(24,852)
Repairs & Maintenance	0	0	0	0	(14,415)
Safety	195,500	190,800	185,135	(5,665)	(3,631)
Waste / Recycling	1,977,300	2,367,600	2,496,817	129,217	108,784
	<b>3,967,900</b>	<b>4,488,200</b>	<b>4,613,030</b>	<b>124,830</b>	<b>93,489</b>
<b>Governance Services</b>					
Democratic Services	1,512,400	1,520,900	1,533,143	12,243	1,493
Human Resources & Organisational Development	218,200	218,200	216,298	(1,902)	(22,216)
Legal	(57,000)	(77,300)	(80,883)	(3,583)	(7,876)
	<b>1,673,600</b>	<b>1,661,800</b>	<b>1,668,558</b>	<b>6,758</b>	<b>(28,599)</b>
Environmental Health	1,379,500	1,353,800	1,353,645	(155)	(53,192)
General Fund Housing	169,900	176,800	179,686	2,886	2,263
Licensing	8,400	(2,000)	(9,865)	(7,865)	(15,358)
Sport and Leisure	2,345,200	2,340,700	2,314,509	(26,191)	(46,465)
Strategic Housing	826,600	800,500	752,465	(48,035)	(62,505)
<b>Health &amp; Housing Services</b>	<b>4,729,600</b>	<b>4,669,800</b>	<b>4,590,440</b>	<b>(79,360)</b>	<b>(175,257)</b>
Development Management	576,500	882,400	1,067,093	184,693	(3,936)
Economic Development	1,785,700	1,899,000	1,836,044	(62,956)	(55,006)
Regeneration	3,415,300	3,535,200	9,689,701	6,154,501	(256,029)
Service Support	62,800	55,300	54,430	(870)	(7,714)
<b>Regeneration &amp; Planning</b>	<b>5,840,300</b>	<b>6,371,900</b>	<b>12,647,268</b>	<b>6,275,368</b>	<b>(322,685)</b>
Audit	68,600	63,800	62,359	(1,441)	(7,272)
Financial Services	0	0	0	0	2,654
ICT	0	0	0	0	(21,029)
Property Group	(147,100)	(20,700)	1,836	22,536	(35,448)
Revenues and Benefits	1,134,600	879,400	837,318	(42,082)	(99,562)
<b>Resources</b>	<b>1,056,100</b>	<b>922,500</b>	<b>901,513</b>	<b>(20,987)</b>	<b>(160,657)</b>
Central Services	2,043,100	2,035,200	2,323,740	288,540	235,538
<b>Central Services</b>	<b>2,043,100</b>	<b>2,035,200</b>	<b>2,323,740</b>	<b>288,540</b>	<b>235,538</b>
Capital Financing	2,622,000	2,577,200	2,480,754	(96,446)	(96,446)
Reversal of Notional Charges	(4,260,500)	(4,694,200)	(635,060)	4,059,140	(37,885)
Treasury Management	942,500	979,500	(3,877,642)	(4,857,142)	(16,617)
Other Government Grants	(1,917,500)	(1,917,500)	(1,938,109)	(20,609)	(20,609)
Appropriations (to / (-) from Reserves)	(456,500)	(588,800)	(6,520,344)	(5,931,544)	277,887
Appropriations (to / (-) from Balances)	17,400	17,400	17,400	0	0
<b>Other Income &amp; Expenditure</b>	<b>(3,052,600)</b>	<b>(3,626,400)</b>	<b>(10,473,001)</b>	<b>(6,846,601)</b>	<b>106,330</b>
<b>Net Revenue Budget</b>	<b>16,258,000</b>	<b>16,523,000</b>	<b>16,271,548</b>	<b>(251,452)</b>	<b>(251,452)</b>
<b>Financed by:</b>					
Retained Business Rates	(25,177,700)	(25,730,900)	(25,728,117)	2,783	2,783
Less Business Rates Tariff	19,927,600	20,215,800	20,215,859	59	59
Baseline Funding Level	(5,250,100)	(5,515,100)	(5,512,258)	2,842	2,842
Revenue Support Grant	(2,651,900)	(2,651,900)	(2,651,908)	(8)	(8)
<b>Total Settlement Funding</b>	<b>(7,902,000)</b>	<b>(8,167,000)</b>	<b>(8,164,166)</b>	<b>2,834</b>	<b>2,834</b>
<b>Council Tax Surplus</b>	<b>(60,000)</b>	<b>(60,000)</b>	<b>(60,000)</b>	<b>0</b>	<b>0</b>
<b>Council Tax Requirement</b>	<b>8,296,000</b>	<b>8,296,000</b>	<b>8,047,382</b>	<b>(248,618)</b>	<b>(248,618)</b>

Note the underspend of approx £249K 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 26 June 2016

	<b>2016/17 Outturn Compared to Working Budget</b>	
	<b>(Favourable) / Adverse</b>	
	£	£
<b>COUNCIL TAX REQUIREMENT</b>		<b>8,296,000</b>
<b>EXPENDITURE</b>		
<b>Employee Savings</b>		<b>(108,685)</b>
<b>Premises</b>		
Repair & Maintenance underspends	(155,973)	
Utility Savings	(80,165)	<b>(236,138)</b>
<b>Transport Expenses</b>		
Additional fleet maintenance costs	51,184	
Increased petrol and derv costs	13,994	<b>65,178</b>
<b>Supplies &amp; Services</b>		
Stores stock write-off re Highways	14,008	
Consultancy/Agency savings	(25,220)	<b>(11,213)</b>
<b>INCOME</b>		
Additional Income from Fees & Charges	(232,794)	
Reduced Income from Fees & Charges	142,209	
Net balance on Housing Benefits Subsidy Claim	(25,544)	
De-minimis capital receipts	(16,375)	
Interest - mainly additional investment interest	(16,617)	
Additional government grants - New Burdens and extra NHB Grant	(20,609)	<b>(169,730)</b>
<b>Other Net Service Variances</b>		<b>(4,984)</b>
<b>SPECIFIC VARIANCES NOT INCLUDED ABOVE:</b>		
<b>Capital Financing (Net) - Mainly relating to additional ICT software costs</b>		<b>59,954</b>
<b>Provisions and Reserves:</b>		
Corporate Property Reserve - additional contribution		<b>50,000</b>
Insurance Provision - additional contribution to cover pre-1990 claims		<b>107,000</b>
<b>TOTAL VARIANCES</b>		<b>(248,618)</b>
<b>PROVISIONAL OUTTURN 2016/17</b>		<b>8,047,382</b>

## RESERVES AND PROVISIONS STATEMENT (INCLUDING BALANCES)

For consideration by Cabinet 26 June 2017

GENERAL FUND	OUTTURN				AS CURRENTLY BUDGETED																	
	31/03/16	Contributions to Reserve		Contribution from Reserve To Revenue	31/03/17	Contributions to Reserve		Contribution from Reserve To Revenue	31/03/18	Contributions to Reserve		Contribution from Reserve To Revenue	31/03/19	Contributions to Reserve		Contribution from Reserve To Revenue	31/03/20	Contributions to Reserve		Contribution from Reserve To Revenue	31/03/21	
		From Revenue	To Capital			To Revenue	From Revenue			To Capital	To Revenue			From Revenue	To Capital			To Revenue	From Revenue			To Capital
£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	
<b>General Fund Balance</b>	<b>(4,459,011)</b>	(266,018)			<b>(4,725,029)</b>	(164,900)			<b>(4,889,929)</b>	(164,900)			<b>(4,889,929)</b>	(164,900)			<b>(4,889,929)</b>	(164,900)			<b>(4,889,929)</b>	
<b>Earmarked Reserves:</b>																						
Apprenticeships	(39,654)			39,654	0			0				0					0					0
Business Rates Retention	(381,458)				(381,458)			381,500	42			42					42					42
Business Support	0				0	(1,000,000)	85,000	(915,000)			135,200	(779,800)			57,900	(721,900)						(721,900)
Canal Corridor	0				0	(400,000)		(400,000)			40,500	(359,500)			42,100	(317,400)				44,000		(273,400)
Capital Support	(526,455)	(173,856)		248,800	(451,510)	(30,300)	126,000	(355,810)				(355,810)				(355,810)						(355,810)
Corporate Property	(328,106)	(104,100)		14,700	(417,506)	(99,000)	59,000	100,000	(357,506)			(357,506)				(357,506)						(357,506)
Economic Growth	0				0	(500,000)		(500,000)				(500,000)				(500,000)						(500,000)
Elections	0	(40,000)			(40,000)	(40,000)		(80,000)	(40,000)		(40,000)	(120,000)	(40,000)	160,000	0	(40,000)			(40,000)			(40,000)
Highways	(219,604)			219,604	0			0				0				0						0
Homelessness Support	(76,459)	(18,016)			(94,475)	(3,100)		(97,575)	(9,800)			(107,375)	(10,100)		(117,475)	(10,100)			(10,100)			(127,575)
Invest to Save	(1,469,557)	(350,700)			(1,820,257)			314,300	(1,505,957)			(1,505,957)				(1,505,957)						(1,505,957)
Local Plan	(71,574)	(78,720)			(150,293)			87,400	(62,893)			(62,893)				(62,893)						(62,893)
Markets	(54,099)			54,099	0			0				0				0						0
Morecambe Area Action Plan (MAAP)	(114,469)		70,012	15,027	(29,430)			(29,430)				(29,430)				(29,430)						(29,430)
Renewals (all services)	(812,263)	(402,800)	280,463	77,500	(857,100)	(479,300)	280,000	33,700	(1,022,700)	(479,300)	382,000	46,400	(1,073,600)	(479,300)	114,000	102,900	(1,336,000)	(479,300)	38,000	28,200		(1,749,100)
Restructuring / Budget Support	(602,922)	(333,600)		386,397	(550,125)			48,500	(501,625)			(501,625)				(501,625)						(501,625)
S106 Commuted Sums - Open Spaces	(104,010)			22,497	(81,513)			20,900	(60,613)			(44,013)			15,600	(28,413)					11,800	(16,613)
S106 Commuted Sums - Affordable Housing	(261,777)	(59,714)	90,000		(231,491)				(231,491)			(231,491)				(231,491)						(231,491)
S106 Commuted Sums - Highways, crossing & cycle paths	(844,073)	(68,426)	578,849	1,500	(332,150)	(50,000)	190,500	6,800	(184,850)	(75,000)	75,000	6,700	(178,150)	(75,000)	75,000	4,400	(173,750)					(173,750)
Welfare Reforms	(396,284)	(59,286)		190,000	(265,571)			170,300	(95,271)			(95,271)				(95,271)						(95,271)
Youth Games	(32,914)			32,914	0			0				0				0						0
<b>Reserves Held in Perpetuity:</b>																						
Graves Maintenance	(22,201)				(22,201)			(22,201)				(22,201)				(22,201)						(22,201)
Marsh Capital	(47,677)				(47,677)			(47,677)				(47,677)				(47,677)						(47,677)
<b>Total Earmarked Reserves</b>	<b>(6,405,556)</b>	<b>(1,689,217)</b>	<b>1,019,324</b>	<b>1,302,692</b>	<b>(5,772,757)</b>	<b>(2,601,700)</b>	<b>655,500</b>	<b>1,248,400</b>	<b>(6,470,557)</b>	<b>(604,100)</b>	<b>457,000</b>	<b>245,400</b>	<b>(6,372,257)</b>	<b>(604,400)</b>	<b>189,000</b>	<b>382,900</b>	<b>(6,404,757)</b>	<b>(529,400)</b>	<b>38,000</b>	<b>84,000</b>		<b>(6,812,157)</b>

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	31/03/16	Contributions to Reserve	Net Payments from Reserve	31/03/17
	£	£	£	£
Bad Debts	(1,959,915)	(534,182)	128,143	(2,365,954)
Legal	(164,468)		25,741	(138,727)
Insurance	(399,617)	(257,842)	292,493	(364,966)
<b>Total Provisions</b>	<b>(2,524,000)</b>	<b>(792,024)</b>	<b>446,377</b>	<b>(2,869,647)</b>

HOUSING REVENUE ACCOUNT	OUTTURN				AS CURRENTLY BUDGETED																
	31/03/16	Contributions to Reserve		Contribution from Reserve	31/03/17	Contributions to Reserve		31/03/18	Contribution from Reserve			31/03/19	Contribution from Reserve			31/03/20	Contribution from Reserve			31/03/21	
		From Revenue	To Capital	To Revenue		From Revenue	To Capital		To Revenue	From Revenue	To Capital		To Revenue	From Revenue	To Capital		To Revenue				
		£	£	£		£	£		£	£	£		£	£	£		£	£	£		£
<b>HRA BALANCE</b>	<b>(1,692,066)</b>		(245,536)		<b>(1,937,602)</b>	(179,900)		<b>(2,117,502)</b>	(18,700)		<b>(2,136,202)</b>			351,100	<b>(1,785,102)</b>			507,700	<b>(1,277,402)</b>		
<b>Earmarked Reserves:</b>																					
Business Support Reserve	<b>(8,436,881)</b>				<b>(8,436,881)</b>			<b>(8,436,881)</b>			<b>(8,436,881)</b>				<b>(8,436,881)</b>				<b>(8,436,881)</b>		
Major Repairs Reserve	<b>0</b>	(3,468,407)	3,468,407		<b>0</b>	(3,834,200)	3,834,200	<b>0</b>	(3,962,200)	3,962,200	<b>0</b>	(3,660,200)	3,660,200	<b>0</b>	(3,801,400)	3,801,400	<b>0</b>	(3,801,400)	3,801,400	<b>0</b>	
Flats - Planned Maintenance	<b>(690,738)</b>	(133,000)	156,142		<b>(667,596)</b>	(133,000)	200,000	24,300	<b>(576,296)</b>	(133,000)	200,000	85,100	<b>(424,196)</b>	(133,000)	200,000	51,100	<b>(306,096)</b>	(133,000)	100,000	58,000	<b>(281,096)</b>
I T Replacement	<b>(591,195)</b>	(57,000)		46,253	<b>(601,942)</b>	(57,000)			<b>(658,942)</b>				<b>(658,942)</b>				<b>(658,942)</b>			<b>(658,942)</b>	
Office Equipment Reserve	<b>(36,009)</b>	(3,000)			<b>(39,009)</b>				<b>(39,009)</b>				<b>(39,009)</b>				<b>(39,009)</b>			<b>(39,009)</b>	
Sheltered - Equipment	<b>(240,953)</b>	(65,784)		3,208	<b>(303,529)</b>	(31,800)		38,000	<b>(297,329)</b>	(28,100)		40,700	<b>(284,729)</b>	(27,900)		31,300	<b>(281,329)</b>	(27,900)		30,900	<b>(278,329)</b>
Sheltered - Planned Maintenance	<b>(126,014)</b>	(102,421)		12,986	<b>(215,449)</b>	(50,000)		20,000	<b>(245,449)</b>	(57,500)		20,000	<b>(282,949)</b>	(52,500)		20,000	<b>(315,449)</b>	(52,200)		20,000	<b>(347,649)</b>
Sheltered Support Grant Maintenance	<b>(445,075)</b>				<b>(445,075)</b>	(28,000)			<b>(473,075)</b>	(28,100)			<b>(501,175)</b>	(27,900)			<b>(529,075)</b>	(27,900)			<b>(556,975)</b>
<b>Total Earmarked Reserves</b>	<b>(10,566,865)</b>	<b>(3,829,612)</b>	<b>3,624,549</b>	<b>62,447</b>	<b>(10,709,481)</b>	<b>(4,134,000)</b>	<b>4,034,200</b>	<b>82,300</b>	<b>(10,726,981)</b>	<b>(4,208,900)</b>	<b>4,162,200</b>	<b>145,800</b>	<b>(10,627,881)</b>	<b>(3,901,500)</b>	<b>3,860,200</b>	<b>102,400</b>	<b>(10,566,781)</b>	<b>(4,042,400)</b>	<b>3,901,400</b>	<b>108,900</b>	<b>(10,598,881)</b>

Provisions	31/03/16	Contributions to Reserve	Net Payments from Reserve	31/03/17
	£	£	£	£
<b>Bad Debts</b>	<b>(522,138)</b>	<b>(161,436)</b>	<b>161,436</b>	<b>(522,138)</b>

## Carry Forward of Controllable Overspends

For Consideration by Cabinet 26 June 2017

Services and Detail of Overspend		Revised Budget £	Actual £	Variance £	Comments
<b>GENERAL FUND REVENUE</b>					
<b>Environmental Services</b>					
Waste Collection / Street Cleaning	Vehicle Repair and Maintenance	390,000	443,078	53,078	Delays in the procurement of replacement vehicles (largely due to longer lead-in times) and keeping vehicles for longer have resulted in higher levels of repairs required in year. Going forward, all new vehicles have been purchased with longer warranties, in addition further work on reviewing the replacement programme is underway, to ensure that decisions take account of VFM / cost benefit analysis. As such no further budgetary action is required at this time.
Waste Collection	Garden Waste Income	(130,300)	(124,896)	5,404	New scheme - take-up rates fell just short of the estimated level of demand resulting in a slight shortfall in income. Initial monitoring of 2017/18 projections indicate a continuing lower level of take-up, but targeted marketing campaigns are currently underway. The position will be monitored and reported through the quarterly corporate monitoring process. As a result, no further budgetary action is required.
Trade Refuse	Trade Refuse Income	(1,322,700)	(1,241,190)	81,510	The trade refuse function outperformed the expected position with the exception of a payment of £100K made to HMRC regarding an outstanding VAT issue. This was a one-off cost, therefore no further budgetary action is required.
White Lund Depot	Materials	3,700	17,708	14,008	Higher levels of stock were written-off in year following termination of the Lancashire Highways Partnership agreement and review of obsolete stock. This was a one-off cost, therefore no further budgetary action is required.
<b>Governance</b>					
City Council Elections	Printing & Stationery / Postages / Misc. Licences	317,900	327,275	9,375	Net additional costs mainly relating to Individual Electoral Registration (IER) legislative changes. This was a one-off cost, therefore no further budgetary action is required.
<b>Health &amp; Housing</b>					
Environmental Protection	Services - Pollution Surveys	1,500	6,663	5,163	Additional costs mainly relating to a complicated planning application concerning acoustics at the Gillows Building. This was a one-off cost, therefore no further budgetary action is required.

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

## Lancaster City Council - Capital Expenditure 2016/17

For consideration by Cabinet 26 June 2017

HOUSING REVENUE ACCOUNT	Revised Estimate	Expenditure in 2016/17	Expenditure to be financed in 2016/17	SCHEME FINANCING					BALANCE FINANCED BY GENERAL CAPITAL RESOURCES
				Grants & Contributions	Grant Unapplied	Earmarked Reserves	Specific Revenue Financing	Major Repairs Reserve (HRA Only)	
	£	£	£	£	£	£	£	£	£
<b>COUNCIL HOUSING</b>									
Bathroom Kitchen Refurbishment	906,000	875,718.51	875,718.51					875,718.51	0.00
External Refurbishment	921,000	893,430.05	893,430.05	19,915.07				873,514.98	0.00
Re-roofing / Window Renewals	510,000	492,006.59	492,006.59					492,006.59	0.00
Environmental / Crime Prevention Works	784,000	738,296.23	738,296.23			135,964.79		602,331.44	0.00
Energy Efficiency Works	575,000	586,299.55	586,299.55					365,750.18	220,549.37
Rewiring	68,000	67,029.90	67,029.90					67,029.90	0.00
Adaptations	350,000	227,608.90	227,608.90					0.00	227,608.90
Fire Precaution Works	200,000	196,785.03	196,785.03	2,553.92		20,177.21		174,053.90	0.00
Lift Replacement	0	-467.92	-467.92					-467.92	0.00
<b>TOTAL - HRA</b>	<b>4,314,000</b>	<b>4,076,706.84</b>	<b>4,076,706.84</b>	<b>22,468.99</b>	<b>0.00</b>	<b>156,142.00</b>	<b>0.00</b>	<b>3,449,937.58</b>	<b>448,158.27</b>

GENERAL FUND	Revised Estimate	Expenditure in 2016/17	Expenditure to be financed in 2016/17	SCHEME FINANCING					BALANCE FINANCED BY GENERAL CAPITAL RESOURCES
				Grants & Contributions	Grant Unapplied	Earmarked Reserves	Specific Revenue Financing	Major Repairs Reserve (HRA Only)	
	£	£	£	£	£	£	£	£	£
<b>ENVIRONMENTAL SERVICES</b>									
Vehicle Renewals	486,000	395,410.18	395,410.18				17,217.00	17,217.00	378,193.18
Bins & Boxes Buy-out	74,000	67,737.88	67,737.88				67,737.88	67,737.88	0.00
Car Park Improvement Programme	57,000	840.00	840.00					0.00	840.00
Langridge Way Play Area	23,000	22,630.00	22,630.00	16,000.00			6,630.00	22,630.00	0.00
<b>Sub-Total</b>	<b>640,000</b>	<b>486,618.06</b>	<b>486,618.06</b>	<b>16,000.00</b>	<b>0.00</b>	<b>0.00</b>	<b>91,584.88</b>	<b>107,584.88</b>	<b>379,033.18</b>
<b>HEALTH &amp; HOUSING</b>									
Disabled Facilities Grants	850,000	997,377.70	997,377.70	997,377.70				997,377.70	0.00
Warmer Homes Scheme	1,000	830.00	830.00		830.00			830.00	0.00
Salt Ayre Sports Centre	4,405,000	3,619,231.38	3,619,231.38					0.00	3,619,231.38
<b>Sub-Total</b>	<b>5,256,000</b>	<b>4,617,439.08</b>	<b>4,617,439.08</b>	<b>997,377.70</b>	<b>830.00</b>	<b>0.00</b>	<b>0.00</b>	<b>998,207.70</b>	<b>3,619,231.38</b>
<b>REGENERATION &amp; PLANNING</b>									
Artle Beck Improvements	5,000	0.00	0.00					0.00	0.00
Strategic Monitoring Baywide	2,000	1,717.20	1,717.20	1,717.20				1,717.20	0.00
Wave Reflection Wall Construction	3,773,000	3,131,417.62	3,131,417.62	3,131,417.62				3,131,417.62	0.00
Amenity Improvements	6,000	158.15	158.15					0.00	158.15
Luneside East	30,000	31,890.10	31,890.10				8,000.00	8,000.00	23,890.10
Morecambe THI 2: A View for Eric	375,000	306,565.30	306,565.30	229,476.73			39,000.00	268,476.73	38,088.57
Morecambe Area Action Plan (Improving Streets)	527,000	368,281.31	368,281.31	9,681.42		155,012.00	3,000.00	167,693.42	200,587.89
King St & Wellington Terrace Affordable Housing	90,000	90,000.00	90,000.00			90,000.00		90,000.00	0.00
Middleton Nature Reserve s106 Scheme	4,000	4,360.46	4,360.46			4,000.00		4,000.00	360.46
Pedestrian Cycle Link - Sainsburys Mcbe s106	1,000	299.98	299.98					0.00	299.98
Lancaster District Empty Homes Partnership	99,000	51,144.33	51,144.33				51,144.33	51,144.33	0.00
Bay Arena Improvements	50,000	41,805.72	41,805.72	41,805.72				41,805.72	0.00
S106 Highways Works	485,000	484,783.00	484,783.00			484,783.00		484,783.00	0.00
<b>Sub-Total</b>	<b>5,447,000</b>	<b>4,512,423.17</b>	<b>4,512,423.17</b>	<b>3,414,098.69</b>	<b>0.00</b>	<b>733,795.00</b>	<b>101,144.33</b>	<b>4,249,038.02</b>	<b>263,385.15</b>
<b>Resources</b>									
ICT Systems, Infrastructure & Equipment	799,000	618,812.94	618,812.94	68,348.65		265,526.16	65,600.00	399,474.81	219,338.13
Energy Efficiency Works	40,000	379,359.33	379,359.33					0.00	379,359.33
Corporate Property Works :	2,314,000	2,017,683.32	2,017,683.32	8,288.80		14,936.88		23,225.68	1,994,457.64
<b>Sub-Total</b>	<b>3,153,000</b>	<b>3,015,855.59</b>	<b>3,015,855.59</b>	<b>76,637.45</b>	<b>0.00</b>	<b>280,463.04</b>	<b>65,600.00</b>	<b>422,700.49</b>	<b>2,593,155.10</b>
<b>TOTAL - GENERAL FUND</b>	<b>14,496,000</b>	<b>12,632,336</b>	<b>12,632,336</b>	<b>4,504,113.84</b>	<b>830.00</b>	<b>1,014,258.04</b>	<b>258,329.21</b>	<b>5,777,531.09</b>	<b>6,854,804.81</b>

GENERAL FUND HOUSING REVENUE ACCOUNT	Revised Estimate	Expenditure in 2016/17	Expenditure to be financed in 2016/17	SCHEME FINANCING					BALANCE FINANCED BY GENERAL CAPITAL RESOURCES	
				Grants & Contributions	Grant Unapplied	Earmarked Reserves	Specific Revenue Financing	Major Repairs Reserve (HRA Only)		Total Scheme Specific Financing
	£	£	£	£	£	£	£	£	£	
	14,496,000	12,632,335.90	12,632,335.90	4,504,113.84	830.00	1,014,258.04	258,329.21	0.00	5,777,531.09	6,854,804.81
	4,314,000	4,076,706.84	4,076,706.84	22,468.99	0.00	156,142.00	0.00	3,449,937.58	3,628,548.57	448,158.27
<b>TOTAL CAPITAL EXPENDITURE &amp; FINANCING</b>	<b>18,810,000</b>	<b>16,709,042.74</b>	<b>16,709,042.74</b>	<b>4,526,582.83</b>	<b>830.00</b>	<b>1,170,400.04</b>	<b>258,329.21</b>	<b>3,449,937.58</b>	<b>9,406,079.66</b>	<b>7,302,963.08</b>

2016/17 CAPITAL EXPENDITURE FINANCING			Housing Revenue Account	General Fund	Total for all Funds
			£	£	£
<b>Amounts to be financed by General Capital Resources</b>			<b>448,158.27</b>	<b>6,854,804.81</b>	<b>7,302,963.08</b>
<b>Financed by:</b>					
<b>Underlying Borrowing Need - Increase in Capital Financing Requirement</b>			<b>0.00</b>	<b>6,453,562.95</b>	<b>6,453,562.95</b>
<b>Usable Capital Receipts</b>			<b>448,158.27</b>	<b>401,241.86</b>	<b>849,400.13</b>
<b>General Grants Unapplied</b>			<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Total Financing from General Capital Resources</b>			<b>448,158.27</b>	<b>6,854,804.81</b>	<b>7,302,963.08</b>

**CAPITAL SLIPPAGE - INTO FINANCIAL YEAR 2017/18**  
**For Consideration by Cabinet 26 June 2017**

	Slippage Requested	Percentage of Revised budget	Source of Funding			Reasons for Slippage Requests
			LCC Funded	Grants & Contributions	Total	
	£		£	£	£	
<b>GENERAL FUND</b>						
<b>Environmental Services</b>						
Vehicle Renewals	90,000	19%	90,000		<b>90,000</b>	Delayed procurement of 2 cleansing vehicles (£45K each). West View Car Park scheme delayed for logistical and operational reasons.
Car Parks Improvement Programme	56,000	98%	56,000		<b>56,000</b>	
	<b>146,000</b>		<b>146,000</b>	<b>0</b>	<b>146,000</b>	
<b>Health and Housing</b>						
Salt Ayre Sports Centre Redevelopment	786,000	18%	786,000		<b>786,000</b>	Overall programme spend on target, but profile not as originally anticipated.
	<b>786,000</b>		<b>786,000</b>	<b>0</b>	<b>786,000</b>	
<b>Regeneration and Planning</b>						
Wave Reflection Wall	642,000	17%		642,000	<b>642,000</b>	Elements of Phase 1 delayed until April 2017 due to staff vacancies. Delays in progressing scheme due to staff vacancies. Difficulties in agreeing with owners works to improve untidy properties in Morecambe. Project delays relating to Connecting Victoria St, Euston Rd and New Town Square. Property grant payments delayed until April 2017. Outstanding works for Art and Environmental features. Two schemes delayed due to quotations not being finalised.
Artle Beck Improvements	5,000	100%		5,000	<b>5,000</b>	
Amenity Improvements	6,000	100%	6,000		<b>6,000</b>	
MAAP Improving Morecambe's Main Streets	159,000	30%	159,000		<b>159,000</b>	
THI 2 - A View for Eric	68,000	18%	16,000	52,000	<b>68,000</b>	
Bay Arena Improvements	8,000	16%		8,000	<b>8,000</b>	
Lancaster District Empty Homes Partnership	48,000	48%	48,000		<b>48,000</b>	
	<b>936,000</b>		<b>229,000</b>	<b>707,000</b>	<b>936,000</b>	
<b>Resources</b>						
ICT Systems, Infrastructure & Equipment	246,000	31%	246,000		<b>246,000</b>	Delayed implementation of CRM system, and storage upgrades. Delays in progressing a number of schemes, mainly LTH disabled access ramp and other works (£135K) , Ashton Memorial (£58K) and Lancaster Museum (£67K).
Corporate Property Works	296,000	13%	296,000		<b>296,000</b>	
	<b>542,000</b>		<b>542,000</b>	<b>0</b>	<b>542,000</b>	
<b>GENERAL FUND TOTAL</b>	<b>2,410,000</b>		<b>1,703,000</b>	<b>707,000</b>	<b>2,410,000</b>	
<b>Accelerated Spend</b>						
<b>GENERAL FUND</b>						
<b>Health and Housing</b>						
Disabled Facilities Grants	-147,000			-147,000	<b>-147,000</b>	Funded from 2016/17 grant allocation of £1.463M.
<b>Resources</b>						
Energy Efficiency Works	-339,000		-339,000		<b>-339,000</b>	Works brought forward in conjunction with Salt Ayre Redevelopment programme.
	<b>-486,000</b>		<b>-339,000</b>	<b>-147,000</b>	<b>-486,000</b>	
<b>OVERALL NET SLIPPAGE</b>	<b>1,924,000</b>		<b>1,364,000</b>	<b>560,000</b>	<b>1,924,000</b>	

**Annual Treasury Management Report**  
2016/17

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For Noting by Cabinet 26 June 2017

# Annual Treasury Management Review 2016/16

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## 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 2016/17. 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 2016/17 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 02 March 2016)
- a mid-year (minimum) treasury update report (Council 14 December 2016)
- an annual review following the end of the year describing the activity compared to the strategy (this report).

In addition, Members have received quarterly treasury management update reports that were presented to Cabinet and Budget and Performance Panel.

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 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 2016/17

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.

General Fund (GF) £M	2015/16 Actual	2016/17 Estimate	2016/17 Actual
<b>Capital expenditure</b>	<b>7.52</b>	<b>14.50</b>	<b>12.63</b>
Financed in year	3.10	7.58	6.18
<b>Unfinanced capital expenditure (i.e. reliant on an increase in underlying borrowing need)</b>	<b>4.42</b>	<b>6.92</b>	<b>6.45</b>

HRA £M	2015/16 Actual	2016/17 Estimate	2016/17 Actual
<b>Capital expenditure</b>	<b>4.88</b>	<b>4.31</b>	<b>4.08</b>
Financed in year	4.88	4.31	4.08
<b>Unfinanced capital expenditure (i.e. reliant on an increase in underlying borrowing need)</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>

# 2. The Council's Capital Financing Requirement 2016/17

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 2016/17 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 [PWL] 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 2016/17 MRP Policy (as required by Government Guidance) was approved as part of the Treasury Management Strategy Report for 2016/17 on 02 March 2016.

The Council's CFR for the year is shown below, and represents a key prudential indicator. It includes leasing schemes on the balance sheet, which effectively increase the Council's borrowing need. No borrowing is actually required against these schemes, however, as a borrowing facility is included in the contract (if applicable).

CFR (£M): General Fund	31 March 2016 Actual	31 March 2017 Estimate	31 March 2017 Actual
<b>Opening balance</b>	<b>32.52</b>	<b>35.38</b>	<b>35.37</b>
Add unfinanced capital expenditure (as above)	4.42	6.92	6.45
Less MRP	(1.46)	(1.12)	(1.12)
Less finance lease repayments	(0.11)	(0.10)	(0.08)
<b>Closing balance</b>	<b>35.37</b>	<b>41.08</b>	<b>40.62</b>

CFR (£M): HRA	31 March 2016 Actual	31 March 2017 Estimate	31 March 2017 Actual
<b>Opening balance</b>	<b>43.59</b>	<b>42.52</b>	<b>42.52</b>
Add unfinanced capital expenditure (as above)	0.00	0.00	0.00
Less Debt Repayment	(1.07)	(1.04)	(1.07)
<b>Closing balance</b>	<b>42.52</b>	<b>41.48</b>	<b>41.45</b>

CFR (£M): Combined	31 March 2016 Actual	31 March 2017 Estimate	31 March 2017 Actual
<b>Opening balance</b>	<b>76.11</b>	<b>77.90</b>	<b>77.89</b>
Add unfinanced capital expenditure (as above)	4.42	6.92	6.45
Less Debt Repayment, Finance Leases and MRP	(2.64)	(2.26)	(2.26)
<b>Closing balance</b>	<b>77.89</b>	<b>82.56</b>	<b>82.07</b>

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 (2016/17), plus the estimates of any additional capital financing requirement for the current (2017/18) and next two financial years. This essentially helps to demonstrate that the Council is not borrowing to support revenue expenditure, whilst allowing some flexibility in 2016/17 to borrow in advance of future capital needs. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with the legal requirements underpinning this prudential indicator.

	31 March 2016 Actual	31 March 2017 Estimate	31 March 2017 Actual
Gross borrowing position	£66.42M	£65.29M	£65.29M
CFR	£77.89M	£82.55M	£82.07M

**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 2016/17 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 helps identify the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2016/17 Actual
Authorised limit	£100.000M
Maximum gross borrowing position	£66.29M
Operational boundary	£83.53M
Average gross borrowing position	£65.94M
Financing costs as a proportion of net revenue stream - GF	13.9%
Financing costs as a proportion of net revenue stream - HRA	17.4%

### 3. Treasury Position as at 31 March 2017

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 2016/17 the Council's treasury (excluding borrowing relating to finance leases) position was as follows:

	31 March 2016 Principal	Average Rate	Average Life yrs	31 March 2017 Principal	Average Rate	Average Life yrs
Fixed rate funding:						
PWLB	£66.29M	4.59%	37	£65.25m	4.61%	36
<b>Total debt</b>	<b>£66.29M</b>			<b>£65.25M</b>		
<b>CFR</b>	<b>£77.89M</b>			<b>£82.07M</b>		
<b>Over / (under) borrowing</b>	<b>(£11.60M)</b>			<b>(£16.82M)</b>		
<b>Total investments</b>	<b>£39.22M</b>	<b>0.47%</b>		<b>£30.25M</b>	<b>0.37%</b>	

All investments were placed for under one year.

The loan repayment schedule is as follows:

	31 March 2016 actual	31 March 2017 actual
Under 12 months	£1.04M	£1.04M
12 months and within 24 months	£1.04M	£1.04M
24 months and within 5 years	£3.12M	£3.12M
5 years and within 10 years	£5.21M	£5.21M
10 years and within 20 years	£10.41M	£10.41M
20 years and within 30 years	£10.41M	£10.41M
More than 30 years	£34.01M	£32.98M

The average rate of interest payable on PWLB debt in 2016/17 was 4.61%. A total of £3.04M interest was incurred during the year, of which £1.95M was recharged to the HRA.

#### *Interest Payable*

	2016/17
Estimate	£3.07M
Actual	£3.04M

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

## 4. Interest Rates: Investment Strategy for 2016/17

The expectation for interest rates within the treasury management strategy for 2016/17 anticipated a low but rising Bank Rate. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

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

*The UK GDP annual growth rates in each calendar year 2013 – 2016 of 1.9%, 3.1%, 2.2% and finally 1.8%, have all been the top rate, or near top rate, of any of the G7 countries in every year. It is particularly notable that this UK performance was repeated in 2016, a year in which the Bank of England had forecast in August that growth would be near to zero in the second half of the year due to the economic shock it expected from the result of the Brexit referendum in June. However, it has had to change its mind and in its February 2017 Inflation Report, the Bank again upgraded its forecasts for growth in 2017 and 2018 to 2.0% and 1.6%. However over this two year period, it also expects inflation to accelerate towards nearly 3% as increases in costs as a result of the fall in the value of sterling since the referendum, gradually feeds through into the economy. This fall has been steepest against the US dollar where its value has fallen 17%. Provided those cost pressures do not feed through into significantly higher domestically generated inflation within the UK, the MPC is expected to 'look through' this one off blip upwards in inflation. Wage inflation, which is a key driver of domestically generated price pressures, is currently subdued.*

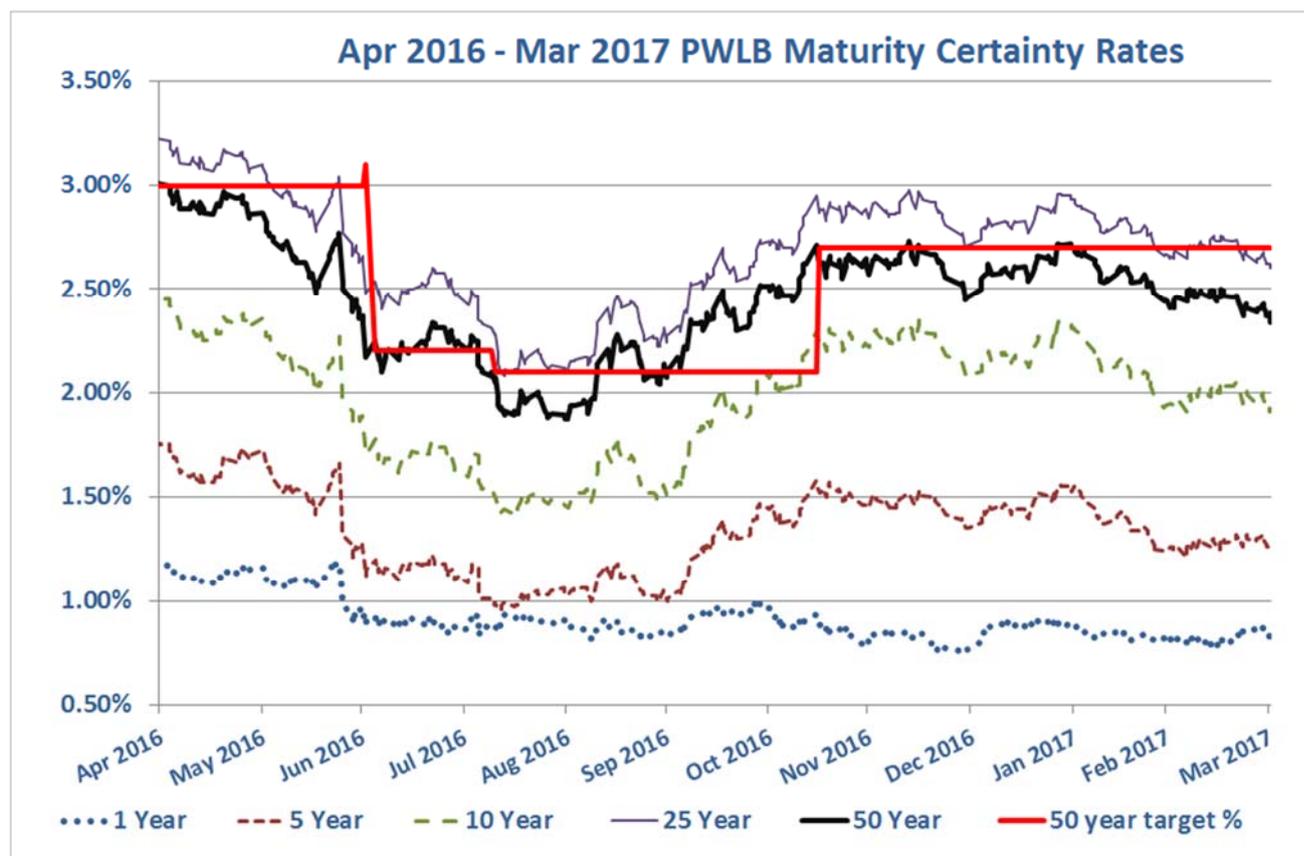
*The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August 2016 in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. At that juncture, it also gave a strong steer that it was likely to cut Bank Rate again by the end of 2016. However, since August, growth has been robust; also, inflation forecasts have risen substantially as a result of the sharp fall in the value of sterling since the referendum. Consequently, Bank Rate has not been cut again, and, on current trends, it now appears unlikely that there will be another cut. Nevertheless, that cannot be completely ruled out if there was a significant dip downwards in economic growth. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is unlikely that the MPC will do anything to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.*

*The Council's treasury advisor, Capita Asset Services, has provided the following forecast:*

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	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%	0.75%
5yr PWLB rate	1.40%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%	2.00%
10yr PWLB rate	2.10%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%
25yr PWLB rate	2.70%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%
50yr PWLB rate	2.50%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%

**PWLB certainty maturity borrowing rates** - the graphs 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.



No actual borrowing was undertaken during the year.

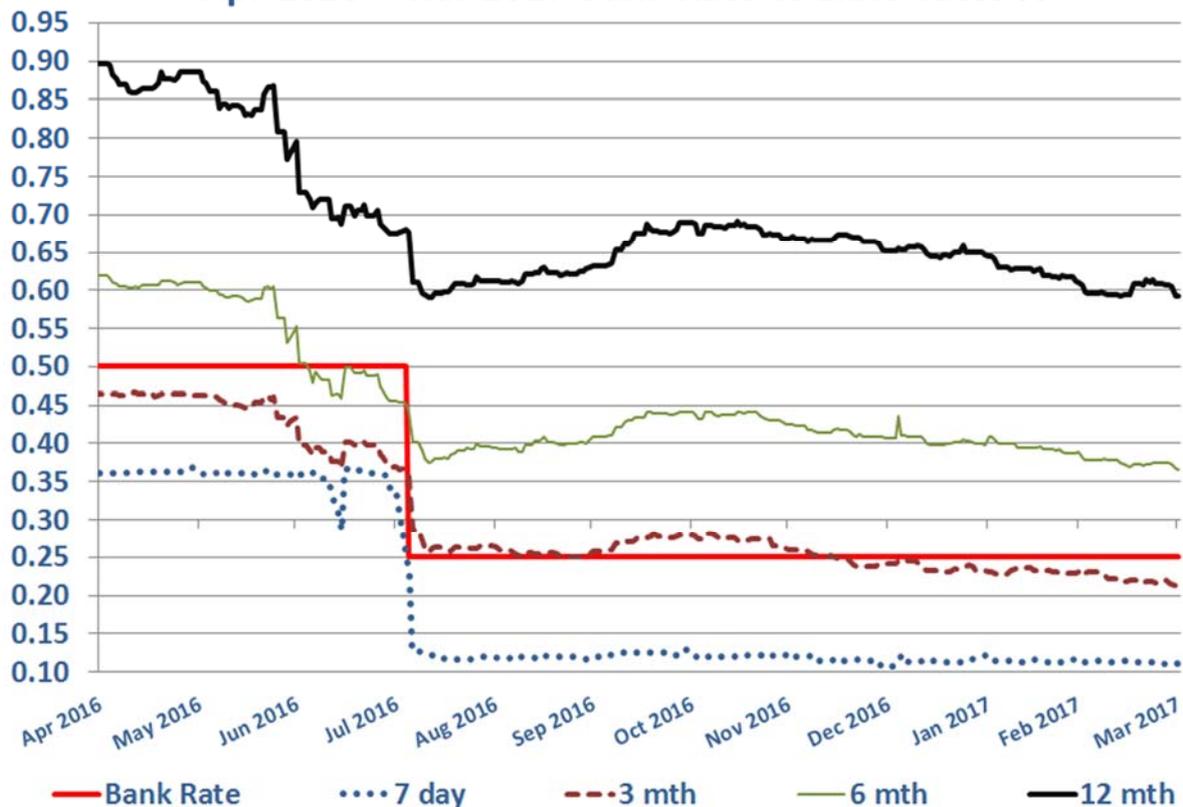
### Rescheduling

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 Rates in 2016/17

The Bank Rate was cut on 04 August from its then historic low of 0.5% to 0.25%. Investment rates available in the market fell sharply during the first quarter of the year before partially recovering but then subsiding gently again in the final quarter.

Apr 2016 - Mar 2017 Bank Rate vs LIBID rates %



## 9. Investment Outturn for 2016/17

**Investment Policy** – the Council's investment policy is governed by Government investment guidance, which underpins the annual investment strategy approved by the Council on 02 March 2016. 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 were comprised of the following:

Balance Sheet Resources (£M)	General Fund		HRA		TOTAL	
	31/03/16	31/03/17	31/03/16	31/03/17	31/03/16	31/03/17
Balances	4.46	4.73	1.69	1.94	6.15	6.67
Earmarked reserves	6.51	6.61	10.57	10.71	17.08	17.32
Provisions	0.56	0.50	0.00	0.00	0.56	0.50
Working Capital	24.07	20.13	3.01	2.56	27.08	22.69
<b>Total Resources</b>	<b>35.60</b>	<b>31.97</b>	<b>15.27</b>	<b>15.21</b>	<b>50.87</b>	<b>47.18</b>
<b>Amount Over / (Under) Borrowed</b>					<b>(11.60)</b>	<b>(16.82)</b>
<b>Baseline Investment Balances</b>					<b>39.27</b>	<b>30.36</b>
<b>Actual Investment Balances</b>					<b>39.22</b>	<b>30.25</b>

**Investments held by the Council** - the Council maintained an average investment balance of £47.2M of internally managed funds. The average rate of interest earned was 0.37% is compared to the base rate and average 3-month LIBID rate as set you below.

	2015/16	2016/17
Lancaster CC Investments	0.47%	0.37%
Base Rate	0.50%	0.25%
3 Month LIBID	0.46%	0.32%

In terms of performance against budget the actual interest earned in 2016/17 was £173K compared to a budget of £161K.

## 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 is required under the CIPFA Treasury Management Code, the adoption of which is another Prudential Indicator. The strategy for 2016/17 complied with the latest Code of Practice (November 2011) and relevant Government investment guidance.

## 11. Conclusion

The Council's treasury activities were in line with its approved policies and strategies. With respect to investments, some longer fixed term investments were placed with other Local Authorities which helped to increase the average yield for the year. Cash balances have, however, reduced significantly during the year following the completion of transactions relating to business rate appeals. This in turn will reduce investment interest going forward, something which has already been factored into future forecasts.

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**LANCASTER CITY COUNCIL**  
**TREASURY MANAGEMENT POLICY STATEMENT**

**Last reported to Council on 02 March 2016**

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.
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## 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.
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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.
- **Capita Asset Services** – Capita 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*.

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