

# CABINET

## Provisional Revenue, Capital and Treasury Management Outturn 2017/18 26 June 2018 Chief Officer (Resources)

PURPOSE OF REPORT			
This report provides summary information regarding the provisional outturn for 2017/18, 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	Officer Referral
			<input checked="" type="checkbox"/>
Date of Notice of Forthcoming Key Decision	N/A		
This report is public.			

### RECOMMENDATIONS OF COUNCILLOR WHITEHEAD:

1. That the provisional outturn for 2017/18 be endorsed, including the transfers and amendments to Provisions, Reserves and Balances actioned by the Chief Officer (Resources), and the position regarding overspendings.
2. That Cabinet approves the requests to carry forward underspent revenue budgets as set out in section 5.2.
3. That the requests for capital slippage and the adjustments to reflect accelerated capital spending on projects as set out at Appendix H be endorsed, with the Capital Programme being updated accordingly.
4. That the Annual Treasury Management report and Prudential Indicators as set out at Appendix J be noted and referred on to Council for information.

### 1 BACKGROUND

- 1.1 All local authorities have a legal duty to produce annual accounts, in support of openness and accountability. It is pleasing to report that the new statutory deadline of 31 May was met and the Statement of Accounts were completed and signed off by the Chief Officer (Resources) on that date. The audit of accounts by KPMG is currently underway and for information the draft Statement itself is 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. The Council's financial performance is integral to its service performance overall, which is included elsewhere on this agenda, and Members are advised to consider this report in that context.

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	221	(80)	(301)
General Fund Council Tax Requirement – covers all other Council services (but excludes parish precepts)	8,623	8,224	(399)

## 3 HOUSING REVENUE ACCOUNT (HRA)

3.1 The Housing Revenue Account was underspent in last year by approximately £301K net (2016/17 comparative: £112K 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:

- a reduced revenue funding requirement for capital, mainly shown as a lower call on the Major Repairs Reserve (£282K net saving overall);
- an increased depreciation charge of £38K;
- increased income from rents due to carrying fewer void properties - £78K;
- a number of other net overspendings amounting to £21K.

3.3 Improvements have been made to void turnaround times during 2017/18 resulting in the increased rental income. At the start of the year there were 83 void properties reducing to 37 by the end of the year, which is the lowest level since 2012/13.

3.4 At outturn the HRA's financial standing still remains sound. As at 31 March its Balances stood at £2.018M, this being £301K higher than budgeted. A summary of all its Balances, reserves and provisions is included at **Appendix E**.

## 4 GENERAL FUND

### 4.1 Revenue Outturn

4.1.1 The 2017/18 financial year saw further substantial reductions in Government funding, amounting to around £0.940M or 12%. 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 £399K against the overall Revised Budget for 2017/18 and a summary statement is included at **Appendix B**. The underspending represents 2.5% of the Council's net revenue budget (2016/17 comparative: £249K underspend, 1.5% of budget) or 4.6% 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)	Value (Favourable) / Adverse
	£'000	£'000
<b>Operational:</b>		
Employee Related	22,467	(41)
Premises Related	9,464	(242)
Transport and other Supplies and Services	14,749	(39)
General Income (including Grants)	(20,226)	(230)
Other minor variances		(32)
<b>Other Areas:</b>		
Additional Contribution to Welfare Reserve		130
Net Additional Contribution to Provisions		55
<b>Net Total</b>		<b>(399)</b>

4.1.4 Underspends have again occurred on repair and maintenance of property and sea and river defences totalling £203K. These are due to a variety of reasons such as vacancies within the Coast Protection team meaning works could not progress. As a result, work will be rescheduled in 2018/19.

4.1.5 Additional income of £160K has been generated across the Council and it is anticipated that the majority of this will continue in the future. Key areas are DFG administration charges (£24K), Off-street car parking income (£48K) and Commercial Property rents (£46K).

4.1.6 In contrast there have also been reductions in income of £95K, relating to Salt Ayre (£27K) Legal Fees recovered (£25K) and Planning Fee income (£28K). Further work is underway to ascertain any ongoing impact in these areas.

4.1.7 Additional government grants have also been received in respect of Universal Credit (£130K) and New Burdens and Transparency (£35K), of which the £130K has been transferred into the Welfare Reforms Reserve (see 4.2.1 below).

- 4.1.8 In terms of the 2017/18 approved savings for 2017/18, of the total £103K budgeted net savings £89K has been achieved, leaving a shortfall of £14K. The two main areas where income has not been achieved as expected relate to the Kingsway overspill car park (£7K shortfall) and Planning pre-application advice income (£9K shortfall). Full details are set out at **Appendix D**.
- 4.1.9 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.
- 4.1.10 This process will lead into the 2019/20 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 E** and the main issues and transfers regarding General Fund are highlighted specifically below:
- A new Back Pay Provision has been created and £100K set aside in it. This follows a ruling by the Employment Appeal Tribunal in 2017, whereby employers must now include overtime in the calculation for holiday pay. The provision has been created to cover the potential cost of backdated payments.
  - An additional £45K was received from Government in respect of previous Legal claims which have now been settled. This money has been transferred into revenue and the provision closed.
  - As mentioned above, the Universal Credit grant of £130K has been transferred into the Welfare Reform Reserve to help manage the cost of current and future administrative pressures of welfare reforms.
  - Use of the AONB Reserve is currently limited to replacement of vehicles and machinery. However, it is proposed to widen this now to allow the transfer in of additional income or underspends, and to allow the reserve to be used to fund specific projects and plans that arise. The Arnside and Silverdale AONB is jointly funded by four councils as well as receiving grants from DEFRA.
- 4.2.2 The transfers have already been reflected in the General Fund summary position outlined earlier, hence Cabinet is asked to endorse them and the change in use of the AONB Reserve.
- 4.2.3 After allowing for these transfers, the General Fund net underspending of £399K has been transferred into Balances by the Chief Officer (Resources). This means that as at 31 March 2018 Balances amount to £5.067M, as compared with the budgeted figure of £4.668M. 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 underspend, there are two specific requests for Cabinet to consider.

5.2.1 The first relates to the Community Governance Review which was scheduled to start in 2017/18 and continue into 2018/19. However, due to unforeseen delays work has not commenced until April 2018. The request is to carry forward the £10,000 budget originally allocated in 2017/18. It should be noted that the Council is statutorily required to carry the review.

5.2.2 The second request is to carry forward £11,400 of unspent budget relating to Townscape Heritage Initiative 2. Progress on some of the Heritage Skills and Business Support programme were delayed due to difficulties finding suitable trainers to deliver the heritage skills programme and delays by third parties in delivering accredited schemes. The carry forward represents the Council's matched funding contribution to the HLF grant which is being provided for this initiative, and which has to be completed before the end of 2018/19.

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 overspend 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 F** 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 £94K 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 47 chargeable Band D dwellings (0.1% 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 £12K in 2019/20. The Fund's movements will continue to be monitored and reported to Members as part of the quarterly financial monitoring process.

### 6.3 Business Rates

6.3.1 On 01 April 2017 the latest revaluation by the Valuation Office Agency came into effect, which for Lancaster saw an increase in Rateable Value of 4% from £153.637M (2010 List) to £159.981M (2017 List). However, since the new list became effective no appeals have been made yet against it for Lancaster – and it is not known how many might be in the pipeline. This has made estimating the provision for appeals very difficult; as a result an historic average loss of 5.7% has been assumed for 2017/18 appeals.

6.3.2 Allowing for that provision for appeals, and from a Collection Fund perspective, the overall Fund position has moved from an opening deficit of £1.8M to a final surplus of £9.3M at the end of 2017/18. Of that £9.3M surplus, the City Council's share is £3.7M (40%) but this figure is subject to changes arising from the current year onwards. Any surplus remaining could not be realised as growth for some time (and certainly not in the current year); it will therefore not immediately impact directly on the Council's budget.

6.3.3 Separately however, £2.6M of business rate growth is expected to be realised in 2018/19, in line with the expectations reported during the budget. Assuming no changes, this will be transferred into the Budget Support Reserve later this year.

6.3.4 In addition, the City Council continues to benefit from renewable energy income amounting to £954K in last year (£917K in 2016/17). 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.

## 7 CAPITAL OUTFURN

7.1 **Appendix G** 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	4,204	4,030	(174)	(4.1)
General Fund	12,146	11,642	(504)	(4.1)
<b>Total Programme</b>	<b>16,350</b>	<b>15,672</b>	<b>(678)</b>	<b>(4.1)</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 H**. 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 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 and shows that slippage has reduced significantly in 2017/18, which is a positive step. Overall it represents 4.6% of the overall £16.350M programme.

	2017/18 £'000	2016/17 £'000	2015/16 £'000	2014/15 £'000	2013/14 £'000
Council Housing	60	0	36	95	0
General Fund	695	2,410	576	2,526	1,706
<b>Total Slippage Requested</b>	<b>755</b>	<b>2,410</b>	<b>612</b>	<b>2,621</b>	<b>1,706</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 2017/18 there were two HRA schemes where overspends exceeded £10K, however, there were none for General Fund.

	Revised Budget £'000	Actual Spend £'000	Overspends/ Accelerated Spending £'000
<b>OVERPSENDS</b>			
<b>Housing Revenue Account</b>			
Disabled Adaptations	350	365	+15 (4.3%)
Environmental Improvements	508	521	+13 (2.6%)
<b>ACCELERATED SPENDING</b>			
<b>General Fund</b>			
Vehicle Renewals	2,105	2,115	+10
Disabled Facilities Grants	1,107	1,240	+133
Energy Efficiency Works	393	430	+37

7.3.2 The HRA overspending on disabled adaptations has resulted from additional referrals from Occupational Therapy requiring more adaptation works to be carried out. As this is a reactive budget it can sometimes be difficult to predict spend therefore no further action is required, other than to monitor future spend more closely.

7.3.3 The environmental improvements overspending is due to 2016/17 slippage not being requested which in turn had a knock on impact in 2017/18. Whilst efforts to address this were made by officers there still remains a small overspend. No further action is required as the overspending is covered by underspending on other schemes.

However, there is now much closer liaison between the Council Housing and Financial Services to ensure this does not occur in future.

7.3.4 The vehicle renewals accelerated spending (ahead of schedule) relates to stop safe mechanisms for four refuse collection vehicles and purchase of a new JCB. There will be a corresponding reduction in the 2018/19 budget, therefore no further action is required.

7.3.5 The Disabled Facilities Grants accelerated spending relates to grant payments. The additional cost is fully funded from the DFG grant allocation of £1.6M for 2017/18, and will need a corresponding reduction to the 2018/19 budget, but no other action is required.

7.3.6 The Energy Efficiency Works accelerated spending relates to the installation of a new combined heat and power unit at Salt Ayre Leisure Centre. There will therefore be a corresponding reduction in the 2018/19 budget. Other than this adjustment no further action is required.

#### 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.

<b>Capital Programme</b>	<b>Revised Estimate</b>	<b>Comparative Adjusted Expenditure</b>	<b>Overspend Or (Underspend)</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Council Housing	4,204	4,090	(114)
General Fund	12,146	12,157	11

## 8 TREASURY MANAGEMENT

8.1 The annual treasury management report is attached at **Appendix J** and sets out the performance of treasury operations for 2017/18 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:

Friday 01 June                                      Commencement of 30 working day period for public inspection, questioning and objecting to unaudited accounts.

Monday 11 June                                      Audit of accounts commences.



Tuesday 26 June	Cabinet: consideration of outturn
Tuesday 10 July	Budget and Performance Panel: consideration of outturn.
Wednesday 18 July	Council: annual Treasury Management report for information.
Wednesday 24 July	Audit Committee: consideration of audited accounts.

During July the first quarterly monitoring report for 2018/19 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 June 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 2017/18, the Council continued to manage the financial pressures well and it has again improved the Fund's overall financial standing as at 31 March 2018. Similarly, the HRA's standing is currently sound. 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.

**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 2017/18

For Consideration by Cabinet 26 June 2018

	Original Budget £	Revised Budget £	Actual £	Variance £	Adjusted Variance £
<b>INCOME</b>				(Favourable) / Adverse	(Favourable) / Adverse
Rental Income - Council Housing	(13,515,300)	(13,331,100)	(13,409,278)	(78,178)	(78,178)
Rental Income - Other (Shops and Garages etc.)	(253,100)	(250,700)	(254,155)	(3,455)	(3,455)
Charges for Services & Facilities	(1,487,400)	(1,460,500)	(1,469,839)	(9,339)	(9,339)
Grant Income	(7,700)	(7,700)	(7,736)	(36)	(36)
Contributions from General Fund	(101,000)	(100,800)	(108,415)	(7,615)	(7,615)
<b>Total Income</b>	<b>(15,364,500)</b>	<b>(15,150,800)</b>	<b>(15,249,423)</b>	<b>(98,623)</b>	<b>(98,623)</b>
<b>EXPENDITURE</b>					
Repairs & Maintenance	4,875,700	5,353,700	5,394,262	40,562	40,562
Supervision & Management	3,013,800	2,992,400	3,140,581	148,181	(94,256)
Rents, Rates & Insurance	200,000	203,600	191,347	(12,253)	(12,253)
Contribution to Provision for Bad and Doubtful Debts	159,200	196,600	177,372	(19,228)	(19,228)
Depreciation & Impairment of Fixed Assets	2,082,900	2,765,300	6,434,470	3,669,170	56,146
Debt Management Costs	1,100	1,100	1,100	0	0
<b>Total Expenditure</b>	<b>10,332,700</b>	<b>11,512,700</b>	<b>15,339,133</b>	<b>3,826,433</b>	<b>(29,028)</b>
<b>NET COST OF HRA SERVICES</b>	<b>(5,031,800)</b>	<b>(3,638,100)</b>	<b>89,710</b>	<b>3,727,810</b>	<b>(127,651)</b>
Capital Grants and Contributions Receivable	(21,000)	(22,000)	(39,840)	(17,840)	(17,840)
Interest Payable & Similar Charges	1,937,100	1,921,400	1,915,998	(5,402)	(5,402)
Premiums & Discounts from Earlier Debt Rescheduling	0	0	0	0	0
Interest & Investment Income	(7,400)	(37,400)	(35,999)	1,401	1,401
Pensions Interest Costs & Expected Return on Pensions Assets	152,000	163,000	383,542	220,542	(0)
Self Financing Debt Repayment	0	0	0	0	0
<b>(SURPLUS) OR DEFICIT FOR THE YEAR</b>	<b>(2,971,100)</b>	<b>(1,613,100)</b>	<b>2,313,411</b>	<b>3,926,511</b>	<b>(149,492)</b>
Adjustments to reverse out Notional Charges included above	1,062,400	1,063,400	(2,554,950)	(3,618,350)	(0)
Net Charges made for Retirement Benefits	0	0	(457,653)	(457,653)	(0)
Transfer to/(from) Earmarked Reserves - for Revenue Purposes	0	0	0	0	0
Capital Expenditure funded from Major Repairs Reserve	1,525,300	775,000	493,389	(281,611)	(281,611)
Transfer from Earmarked Reserves - for Capital Purposes	17,500	(284,400)	(148,730)	135,670	135,670
Financing of Capital Expenditure from Earmarked Reserves	200,000	280,000	274,400	(5,600)	(5,600)
<b>TOTAL (SURPLUS) / DEFICIT FOR THE YEAR</b>	<b>(165,900)</b>	<b>220,900</b>	<b>(80,134)</b>	<b>(301,034)</b>	<b>(301,034)</b>
Housing Revenue Account Balance brought forward	(1,825,465)	(1,937,602)	(1,937,602)	0	0
<b>HRA BALANCE CARRIED FORWARD</b>	<b>(1,991,365)</b>	<b>(1,716,702)</b>	<b>(2,017,736)</b>	<b>(301,034)</b>	<b>(301,034)</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 2018

	Original Budget £	Revised Budget £	Actuals £	Variance £ (Favourable) / Adverse	Adjusted Variance £ (Favourable) / Adverse
Management Team and Support	0	0	0	0	37,230
Human Resources	0	0	0	0	7,510
VCFS Support	262,900	263,000	260,410	(2,590)	(2,590)
<b>Management Team</b>	<b>262,900</b>	<b>263,000</b>	<b>260,410</b>	<b>(2,590)</b>	<b>42,150</b>
Service Support	0	0	0	0	(33,804)
Public Realm	2,320,800	2,406,900	2,692,029	285,129	(78,739)
Repairs & Maintenance	0	0	0	0	(80,376)
Safety	71,900	74,600	114,551	39,951	7,411
Waste / Recycling	1,733,700	1,927,300	2,238,245	310,945	(20,414)
Organisational Development	0	89,900	86,046	(3,854)	(12,315)
<b>Environmental Services</b>	<b>4,126,400</b>	<b>4,498,700</b>	<b>5,130,871</b>	<b>632,171</b>	<b>(218,237)</b>
Democratic Services	1,586,600	1,626,300	1,811,010	184,710	(17,568)
Legal	(61,300)	(46,000)	(8,896)	37,104	56,088
<b>Governance Services</b>	<b>1,525,300</b>	<b>1,580,300</b>	<b>1,802,114</b>	<b>221,814</b>	<b>38,520</b>
Environmental Health	1,228,800	1,281,400	1,531,510	250,110	(13,542)
General Fund Housing	165,500	157,400	165,139	7,739	3,501
Licensing	(17,400)	(30,100)	36,298	66,398	3,947
Sport and Leisure	1,480,600	1,841,200	2,031,292	190,092	73,791
Strategic Housing	787,300	658,900	787,696	128,796	(57,406)
<b>Health &amp; Housing Services</b>	<b>3,644,800</b>	<b>3,908,800</b>	<b>4,551,935</b>	<b>643,135</b>	<b>10,291</b>
Development Management	924,800	(18,100)	321,063	339,163	60,154
Economic Development	1,833,100	2,081,300	2,096,266	14,966	(123,952)
Regeneration	4,310,800	3,969,400	5,345,419	1,376,019	26,731
Service Support	66,200	56,400	55,788	(612)	(6,346)
<b>Regeneration &amp; Planning</b>	<b>7,134,900</b>	<b>6,089,000</b>	<b>7,818,536</b>	<b>1,729,536</b>	<b>(43,413)</b>
Audit	64,200	55,800	60,269	4,469	(2,302)
Financial Services	0	0	0	0	(23,699)
ICT	0	0	0	0	(53,979)
Property Group	(246,500)	(97,800)	(186,561)	(88,761)	(233,320)
Revenues and Benefits	1,127,800	917,300	1,379,580	462,280	(5,430)
<b>Resources</b>	<b>945,500</b>	<b>875,300</b>	<b>1,253,288</b>	<b>377,988</b>	<b>(318,730)</b>
Central Services	1,761,900	1,760,400	2,071,007	310,607	54,730
<b>Central Services</b>	<b>1,761,900</b>	<b>1,760,400</b>	<b>2,071,007</b>	<b>310,607</b>	<b>54,730</b>
Capital Financing	2,212,900	2,388,800	2,252,347	(136,453)	(136,453)
Reversal of Notional Charges	(5,149,800)	(4,643,700)	(17,426,391)	(12,782,691)	300
Treasury Management	1,007,000	1,014,100	(465,079)	(1,479,179)	7,180
Other Government Grants	(1,854,200)	(1,854,200)	(1,889,015)	(34,815)	(34,815)
Appropriations (to / (-) from Reserves)	221,400	(41,500)	10,136,978	10,178,478	199,378
Appropriations (to / (-) from Balances)			(57,100)	(57,100)	0
<b>Other Income &amp; Expenditure</b>	<b>(3,562,700)</b>	<b>(3,136,500)</b>	<b>(7,448,260)</b>	<b>(4,311,760)</b>	<b>35,590</b>
<b>Net Revenue Budget</b>	<b>15,839,000</b>	<b>15,839,000</b>	<b>15,439,901</b>	<b>(399,099)</b>	<b>(399,099)</b>
<b>Financed by:</b>					
Retained Business Rates	(25,272,500)	(24,200,100)	(24,200,153)	(53)	(53)
Less Business Rates Tariff	19,661,700	18,589,300	18,589,332	32	32
Baseline Funding Level	(5,610,800)	(5,610,800)	(5,610,821)	(21)	(21)
Revenue Support Grant	(1,605,200)	(1,605,200)	(1,605,179)	21	21
<b>Total Settlement Funding</b>	<b>(7,216,000)</b>	<b>(7,216,000)</b>	<b>(7,216,000)</b>	<b>0</b>	<b>0</b>
<b>Council Tax Requirement</b>	<b>8,623,000</b>	<b>8,623,000</b>	<b>8,223,901</b>	<b>(399,099)</b>	<b>(399,099)</b>

Note the underspend of approx £399K 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 2018

	2017/18 Outturn Compared to Working Budget		Potential Impact on Current / Future Budgets
	(Favourable) / Adverse		
	£	£	
<b>COUNCIL TAX REQUIREMENT</b>		<b>8,623,000</b>	
<b>EXPENDITURE</b>			
<b>Employee Savings</b>			
Environmental Services	(31,623)		
Governance	14,072		
Health & Housing	(20,898)		
Management Team	38,378		
Regeneration & Planning	(17,205)		
Resources	(23,402)	<b>(40,678)</b>	
<b>Premises</b>			
Repairs & Maintenance (mainly Williamson Park and VMU)	(18,515)		
Water (White Lund Depot 2016/17 Trade Effluent Charges)	10,480		
Utility / Rates Savings (Mainly Winning Back the West End, Bold Street, Middleton Wood and Palatine Hall)	(20,676)		
Coast Protection & Land Drainage Team Repair & Maintenance (reduced staff capacity caused by recruitment problems)	(40,328)		
NNDR Refunds (mainly Water Treatment Plant, Lansil Industrial Estate)	(29,120)		
Corporate Property Repair & Maintenance	(144,174)	<b>(242,333)</b>	
<b>Transport Expenses</b>			
Repairs & maintenance (mainly Grounds Maintenance and Street Cleaning / Reduced Vehicle replacements)	30,415	<b>30,415</b>	
<b>Supplies &amp; Services</b>			
Increased external Legal advice due to staff turnover	15,175		
Community Governance Review delays in starting work	(10,000)		
Corporate software solution for H&S Management Strategy delayed until 2018/19	(9,750)		
Coast Protection & Land Drainage Team Consultancy (mainly Greenway Dyke & Culvert works delayed until 2018/19)	(14,880)		
Museums Management Fee	(10,200)		
THI - Heritage Skills & Business Support Programme delayed until 2018/19	(11,430)		
Aurora (part implementation delays into 2018/19) / ICT telephone maintenance	(28,499)	<b>(69,584)</b>	
<b>INCOME</b>			
Williamson Park (Butterfly House admissions and Events - Dukes Play in the Park)	(8,633)		<b>(8,600)</b>
Car Parking (Greyhound Bridge repairs impacted less than expected / increased PCN's)	(47,520)		<b>(48,000)</b>
Trade Waste additional income	(15,086)		<b>(15,100)</b>
Bulky Waste (co-ordinated marketing re introduction of 6 day week)	(9,378)		<b>(9,400)</b>
DFG Administration Charges	(24,288)		<b>(50,000)</b>
SALC (mainly reduced Gravity, Xheight & SPA income / increased one-off café costs)	42,895		
Reduced Planning Fee income	27,754		
Commercial Property net additional rental / service charge income (mainly CityLab, Lancaster Bus Station & Printroom)	(46,287)		<b>(20,000)</b>
Municipal Buildings - increased room hire at Lancaster Town Hall	(8,428)		
Reduced Legal Fees & Charges / Court Cost Recovered	24,708		
Additional Govt. grant for New Burdens, Transparency & Council Tax Discounts	(34,815)		
Additional Universal Credit grant - offset by transfer to Welfare Reforms Reserve	(130,705)	<b>(229,783)</b>	
<b>Other Net Service Variances</b>		<b>(32,067)</b>	
<b>SPECIFIC VARIANCES NOT INCLUDED ABOVE:</b>			
<b>Provisions &amp; Reserves</b>			
Back Pay Provision - Re Overtime on Holiday Pay		<b>100,000</b>	
Legal Provision - Additional Funding Received (Provision now closed)		<b>(45,069)</b>	
Welfare Reforms Reserve - Additional Universal Credit Grant		<b>130,000</b>	
<b>TOTAL VARIANCES</b>		<b>(399,099)</b>	<b>(151,100)</b>
<b>PROVISIONAL OUTTURN 2017-18</b>		<b>8,223,901</b>	

# GENERAL FUND - 2017/18 SAVINGS MONITORING

Initiative	Type	Budget	Outturn	Variance	Progress
		£	£	£	
<b>2017/18 APPROVED SAVINGS</b>					
<b>Environmental Services</b>					
Street Cleaning Working Patterns	Efficiency	(60,000)	(56,725)	3,275 ↓	Whilst the target saving fell short, this was offset by savings on standby payments and National Insurance savings.
Kingsway Overspill Car Park (£15K upfront cost less additional income of £8K)	Inc Generation	7,000	14,494	7,494 ↓	Only £500 of income has been generated as the car park has been closed to allow Stagecoach lay-over parking for buses during the bridge closure. This was not anticipated at the time the proposal was put forward. However, overall car parking income was up by £48K for the year, therefore this loss has been covered, and it is expected to continue to be absorbed during 2018/19 whilst the bridge is closed.
Health & Safety Training (external clients)	Inc Generation	1,000	1,000	0 ↑	Implemented April 2018, in line with target.
<b>Health &amp; Housing</b>					
Increase Burial Charges (out of district)	Inc Generation	(13,000)	(13,000)	0 ↑	
Increased Charge For Ashes Internment	Inc Generation	(5,500)	(5,500)	0 ↑	Overall income on internment fees exceeded the £142K budget by £7.5K.
3% Increase in Cemetery Fees	Inc Generation	(7,900)	(7,900)	0 ↑	
Safer Food Direct Services	Inc Generation	(3,000)	(2,630)	370 ↓	The pilot was successfully launched however income for the year just fell short of target.
<b>Regeneration &amp; Planning</b>					
Pre-application Advice (approved budget increased by £9K to £49K, then reduced back down to £40K in revised budget.)	Inc Generation	(9,100)	0	9,100 ↓	Whilst application numbers were up, they mainly related to small schemes and therefore generated smaller fees. Officers are still proactively marketing the service to try and attract larger fee clients. (Actual income for the year was £27K, hence none of the increase was achieved.)
<b>Resources (Property Group)</b>					
Review of Room Hire Policy	Inc Generation	(13,000)	(19,087)	(6,087) ↑	Overall room hire booking exceeded the budget by £6K. This is despite delays in establishing the hospitality team.
<b>Total</b>		<b>(103,500)</b>	<b>(89,348)</b>	<b>14,152</b>	

## Reserves Statement (Including Unallocated Balances)

For Consideration by Cabinet 26 June 2018

GENERAL FUND	OUTTURN					AS CURRENTLY BUDGETED															
	31 March 2017	From Revenue	To / (From) Capital	To Revenue	31 March 2018	From Revenue	To / (From) Capital	To Revenue	31 March 2019	From Revenue	To / (From) Capital	To Revenue	31 March 2020	From Revenue	To / (From) Capital	To Revenue	31 March 2021	From Revenue	To / (From) Capital	To Revenue	31 March 2022
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
<b>Unallocated Balances</b>	<b>(4,725,029)</b>	(399,099)		57,100	<b>(5,067,028)</b>				<b>(5,067,028)</b>				<b>(5,067,028)</b>				<b>(5,067,028)</b>				<b>(5,067,028)</b>
<b>Earmarked Reserves:</b>																					
<b>Business Rates Retention</b>	<b>(381,458)</b>	(7,353,723)		3,133,228	<b>(4,601,953)</b>	(4,347,700)		2,666,300	<b>(6,283,353)</b>				<b>(6,283,353)</b>				<b>(6,283,353)</b>				<b>(6,283,353)</b>
<b>Budget Support</b>		(1,000,000)		289,166	<b>(710,834)</b>	(2,666,300)	320,000	868,100	<b>(2,189,034)</b>			279,400	<b>(1,909,634)</b>			60,400	<b>(1,849,234)</b>			46,600	<b>(1,802,634)</b>
<b>Canal Corridor</b>		(400,000)		185,787	<b>(214,213)</b>			79,000	<b>(135,213)</b>			38,000	<b>(97,213)</b>				<b>(97,213)</b>				<b>(97,213)</b>
<b>Capital Support</b>	<b>(451,510)</b>	(44,997)	11,314		<b>(485,193)</b>		99,000		<b>(386,193)</b>				<b>(386,193)</b>				<b>(386,193)</b>				<b>(386,193)</b>
<b>Corporate Property</b>	<b>(417,506)</b>	(99,000)	59,000	45,789	<b>(411,717)</b>			15,000	<b>(396,717)</b>				<b>(396,717)</b>				<b>(396,717)</b>				<b>(396,717)</b>
<b>Economic Growth</b>		(500,000)		141,348	<b>(358,652)</b>			145,000	<b>(213,652)</b>			84,700	<b>(128,952)</b>			1,500	<b>(127,452)</b>			1,500	<b>(125,952)</b>
<b>Elections</b>	<b>(40,000)</b>	(40,000)			<b>(80,000)</b>	(40,000)			<b>(120,000)</b>	(40,000)		160,000		(40,000)			<b>(40,000)</b>	(40,000)			<b>(80,000)</b>
<b>Homelessness</b>	<b>(94,475)</b>	(7,155)			<b>(101,630)</b>	(6,600)			<b>(108,230)</b>	(10,100)			<b>(118,330)</b>	(10,100)			<b>(128,430)</b>	(10,100)			<b>(138,530)</b>
<b>Invest to Save</b>	<b>(1,820,257)</b>			314,300	<b>(1,505,957)</b>				<b>(1,505,957)</b>				<b>(1,505,957)</b>				<b>(1,505,957)</b>				<b>(1,505,957)</b>
<b>Local Plan</b>	<b>(150,293)</b>			25,430	<b>(124,863)</b>			55,693	<b>(69,170)</b>				<b>(69,170)</b>				<b>(69,170)</b>				<b>(69,170)</b>
<b>Morecambe Area Action Plan</b>	<b>(29,430)</b>			2,106	<b>(27,324)</b>			11,000	<b>(16,324)</b>				<b>(16,324)</b>				<b>(16,324)</b>				<b>(16,324)</b>
<b>Planning Fee Income</b>						(61,800)			<b>(61,800)</b>	(14,400)			<b>(76,200)</b>		31,200		<b>(45,000)</b>			39,600	<b>(5,400)</b>
<b>Renewals Reserves</b>	<b>(857,100)</b>	(483,300)	652,925	236,084	<b>(451,390)</b>	(479,300)	282,000	136,400	<b>(512,290)</b>	(479,300)	229,000	126,400	<b>(636,190)</b>	(479,300)	63,000	29,200	<b>(1,023,290)</b>	(479,300)	60,000	29,200	<b>(1,413,390)</b>
<b>Restructure</b>	<b>(550,125)</b>	(16,752)		1,138	<b>(565,739)</b>				<b>(565,739)</b>				<b>(565,739)</b>				<b>(565,739)</b>				<b>(565,739)</b>
<b>S106 Commuted Sums - Open Spaces</b>	<b>(81,513)</b>			20,932	<b>(60,581)</b>			16,600	<b>(43,981)</b>			15,600	<b>(28,381)</b>			11,800	<b>(16,581)</b>			11,800	<b>(4,781)</b>
<b>S106 Commuted Sums - Affordable Housing</b>	<b>(231,500)</b>	(122,023)			<b>(353,523)</b>				<b>(353,523)</b>				<b>(353,523)</b>				<b>(353,523)</b>				<b>(353,523)</b>
<b>S106 Commuted Sums - Highways, Cycle Paths etc.</b>	<b>(332,141)</b>	(447,094)		1,248	<b>(777,987)</b>	(350,000)	254,000	6,700	<b>(867,287)</b>	(150,000)	150,000	4,400	<b>(862,887)</b>				<b>(862,887)</b>				<b>(862,887)</b>
<b>Welfare Reforms</b>	<b>(265,571)</b>	(130,000)		172,108	<b>(223,463)</b>	(154,100)			<b>(377,563)</b>				<b>(377,563)</b>				<b>(377,563)</b>				<b>(377,563)</b>
<b>Reserves Held in Perpetuity:</b>																					
<b>Graves Maintenance</b>	<b>(22,200)</b>				<b>(22,200)</b>				<b>(22,200)</b>				<b>(22,200)</b>				<b>(22,200)</b>				<b>(22,200)</b>
<b>Marsh Capital</b>	<b>(47,700)</b>				<b>(47,700)</b>				<b>(47,700)</b>				<b>(47,700)</b>				<b>(47,700)</b>				<b>(47,700)</b>
<b>Total Earmarked Reserves</b>	<b>(5,772,779)</b>	(10,644,043)	723,239	4,568,664	<b>(11,124,919)</b>	(8,105,800)	966,000	3,988,793	<b>(14,275,926)</b>	(693,800)	379,000	708,500	<b>(13,882,226)</b>	(529,400)	63,000	134,100	<b>(14,214,526)</b>	(529,400)	60,000	128,700	<b>(14,555,226)</b>
<b>Total Combined Reserves</b>	<b>(10,497,808)</b>				<b>(16,191,947)</b>				<b>(19,342,954)</b>				<b>(18,949,254)</b>				<b>(19,281,554)</b>				<b>(19,622,254)</b>

## Reserves Statement (Including Unallocated Balances)

HOUSING REVENUE ACCOUNT	OUTTURN					AS CURRENTLY BUDGETED																
	31 March 2017	From Revenue	To / (From) Capital	To Revenue	31 March 2018	From Revenue	To / (From) Capital	To Revenue	31 March 2019	From Revenue	To / (From) Capital	To Revenue	31 March 2020	From Revenue	To / (From) Capital	To Revenue	31 March 2021	From Revenue	To / (From) Capital	To Revenue	31 March 2022	
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	
<b>HRA General Balance</b>	<b>(1,937,602)</b>	(80,134)		0	<b>(2,017,736)</b>			150,100	<b>(1,867,636)</b>			279,100	<b>(1,588,536)</b>			50,800	<b>(1,537,736)</b>	(256,800)			<b>(1,794,536)</b>	
<b>Earmarked Reserves:</b>																						
Business Support Reserve	<b>(8,436,881)</b>	0	0	104,775	<b>(8,332,106)</b>	0	260,000	0	<b>(8,072,106)</b>	0	0	0	<b>(8,072,106)</b>	0	0	0	<b>(8,072,106)</b>	0	0	0	<b>(8,072,106)</b>	
Major Repairs Reserve	<b>0</b>	(3,278,690)	3,278,690	0	<b>0</b>	(3,554,000)	3,554,000	0	<b>0</b>	(3,814,000)	3,814,000	0	<b>0</b>	(3,682,000)	3,682,000	0	<b>0</b>	(3,684,000)	3,684,000	0	<b>0</b>	
Flats - Planned Maintenance	<b>(667,596)</b>	(133,000)	214,234	0	<b>(586,362)</b>	(133,000)	0	223,200	<b>(496,162)</b>	(133,000)	143,200	0	<b>(485,962)</b>	(133,000)	123,200	0	<b>(495,762)</b>	(133,000)	123,200	0	<b>(505,562)</b>	
IT Replacement	<b>(601,942)</b>	(57,000)	0	36,306	<b>(622,636)</b>	(57,000)	0	50,300	<b>(629,336)</b>	(57,000)	0	0	<b>(686,336)</b>	(57,000)	0	0	<b>(743,336)</b>	(57,000)	0	0	<b>(800,336)</b>	
Office Equipment Reserve	<b>(39,009)</b>	0	0	0	<b>(39,009)</b>	0	0	0	<b>(39,009)</b>	0	0	0	<b>(39,009)</b>	0	0	0	<b>(39,009)</b>	0	0	0	<b>(39,009)</b>	
Sheltered - Equipment	<b>(303,529)</b>	(30,900)	0	3,441	<b>(330,987)</b>	(23,500)	0	56,300	<b>(298,187)</b>	(20,600)	0	49,800	<b>(268,987)</b>	(15,400)	0	44,100	<b>(240,287)</b>	(12,700)	0	34,400	<b>(218,587)</b>	
Sheltered - Planned Maintenance	<b>(215,449)</b>	(61,799)	82,474	21,098	<b>(173,676)</b>	(46,800)	0	40,500	<b>(179,976)</b>	(41,300)	0	15,500	<b>(205,776)</b>	(30,600)	0	15,500	<b>(220,876)</b>	(25,300)	0	15,500	<b>(230,676)</b>	
Sheltered Support Grant Mtce	<b>(445,075)</b>	(30,900)	0	0	<b>(475,975)</b>	(23,500)	0	0	<b>(499,475)</b>	(20,600)	0	0	<b>(520,075)</b>	(15,400)	0	0	<b>(535,475)</b>	(12,700)	0	0	<b>(548,175)</b>	
<b>TOTAL EARMARKED RESERVES</b>	<b>(10,709,480)</b>				<b>(10,560,750)</b>				<b>(10,214,250)</b>				<b>(10,278,250)</b>				<b>(10,346,850)</b>				<b>(10,414,450)</b>	



## Carry Forward of Controllable Overspends For Consideration by Cabinet 26 June 2018

Services and Detail of Overspend		Revised Budget £	Actual £	Variance £	Comments
<b>GENERAL FUND REVENUE</b>					
<b>Environmental Services</b>					
Street Cleaning & Grounds Maintenance	Vehicle Repair and Maintenance	191,100	216,132	25,032	Overspend has been incurred due to increased maintenance requirements. Further work is required to link maintenance requirements with the vehicle replacement programme, which will commence before the next budget setting process. No further budgetary action is required.
Grounds Maintenance	Waste Disposal Costs	21,100	29,603	8,503	Increased dyke and plant waste during winter months plus detritus from November floods. The flooding was an unexpected event and it is difficult to predict the impact of weather conditions, therefore no future budgetary action is required.
White Lund Depot	Water Services	20,700	32,191	11,491	Trade effluent charges for 2016/17 were not received or accrued for in previous years accounts, resulting in a corresponding underspend being reported in 2016/17. There will be closer liaison between officers to ensure the situation does not arise in future, therefore no further budgetary action is required.
Trade Refuse	Salaries - Overtime	24,400	32,485	8,085	Increased overtime used to cover long-term sickness and higher levels of trade waste business. Additional income offsets this increased cost, therefore no further budgetary action is required.
<b>Health &amp; Housing</b>					
SALC Café	Materials for Resale/Staffing/Income	(39,200)	(15,294)	23,906	Staffing issues and control of stock purchases/wastage/product pricing resulting in additional costs and only partly offset by additional income. As these are one-off costs and the operational issues have been addressed no further budgetary action is required. However, the overall SALC financial performance will continue to be reported through the corporate financial monitoring reports.
<b>Regeneration &amp; Planning</b>					
Capital Salaries	Recharge of Engineers time to Capital projects	(44,400)	(32,975)	11,425	Underspend on Capital Salaries due to vacant post and less time spent on capital projects. A large proportion of time has been spent on Lune 3 Flood Defence Scheme (Caton Road) which is currently pre-capital, and therefore a revenue cost. This has been partly offset by turnover savings arising from the vacant post and recharge income from other revenue projects, 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 still being reviewed.

# Lancaster City Council - Capital Expenditure 2017/18

# Appendix G

For consideration by Cabinet 26 June 2018

HOUSING REVENUE ACCOUNT	Revised Estimate	Expenditure in 2017/18	Expenditure to be financed in 2017/18	SCHEME FINANCING					TOTAL SCHEME SPECIFIC FINANCING / ITEMS	BALANCE FINANCED BY GENERAL CAPITAL RESOURCES
				GRANTS & CONTRIBUTIONS	GRANTS UNAPPLIED	EARMARKED RESERVES / PROVISIONS	SPECIFIC REVENUE FINANCING	MAJOR REPAIRS ALLOWANCE (HRA only)		
	£	£	£	£	£	£	£	£	£	£
<b>COUNCIL HOUSING</b>										
Bathroom Kitchen Refurbishment	820,000	735,127.94	735,127.94					735,127.94	735,127.94	0.00
External Refurbishment	423,000	380,057.19	380,057.19					380,057.19	380,057.19	0.00
Re-roofing / Window Renewals	810,000	785,109.09	785,109.09				179,011.85	606,097.24	785,109.09	0.00
Environmental Improvements	508,000	521,002.03	521,002.03	32,506.54		191,925.71		296,569.78	521,002.03	0.00
Energy Efficiency Works / Boiler Replacement	655,000	628,365.36	628,365.36			30,000.00		524,580.51	554,580.51	73,784.85
Rewiring	60,000	49,148.03	49,148.03				49,148.03		49,148.03	0.00
Adaptations	350,000	364,896.70	364,896.70	1,378.67					1,378.67	363,518.03
Fire Precaution Works	300,000	301,296.77	301,296.77	5,954.64		52,474.22		242,867.91	301,296.77	0.00
Whole House Improvements	278,000	265,229.08	265,229.08				265,229.08		265,229.08	0.00
<b>TOTAL - HRA</b>	<b>4,204,000</b>	<b>4,030,232.19</b>	<b>4,030,232.19</b>	<b>39,839.85</b>	<b>0.00</b>	<b>274,399.93</b>	<b>493,388.96</b>	<b>2,785,300.57</b>	<b>3,592,929.31</b>	<b>437,302.88</b>

GENERAL FUND	Revised Estimate	Expenditure in 2017/18	Expenditure to be financed in 2017/18	SCHEME FINANCING					TOTAL SCHEME SPECIFIC FINANCING / ITEMS	BALANCE FINANCED BY GENERAL CAPITAL RESOURCES
				GRANTS & CONTRIBUTIONS	GRANTS UNAPPLIED	EARMARKED RESERVES / PROVISIONS	SPECIFIC REVENUE FINANCING	MAJOR REPAIRS ALLOWANCE (HRA only)		
	£	£	£	£	£	£	£	£	£	£
<b>ENVIRONMENTAL SERVICES</b>										
Vehicle Renewals	2,105,000	2,115,097.06	2,115,097.06						0.00	2,115,097.06
Bins & Boxes Buy-out	100,000	104,859.14	104,859.14				50,000.00	50,000.00	50,000.00	54,859.14
Bay cottage Play Area	47,000	46,360.27	46,360.27	39,278.00				7,082.27	46,360.27	0.00
New CCTV Camera System	85,000	85,487.00	85,487.00			85,487.00			85,487.00	0.00
Grosvenor Park Play Area	54,000	54,400.00	54,400.00	54,400.00					54,400.00	0.00
Car Park Improvement Programme	110,000	110,617.35	110,617.35	617.35		13,000.00	14,000.00		27,617.35	83,000.00
Cable Street Car Park Extension	0	462.00	462.00						0.00	462.00
<b>Sub-Total</b>	<b>2,501,000</b>	<b>2,517,282.82</b>	<b>2,517,282.82</b>	<b>94,295.35</b>	<b>0.00</b>	<b>98,487.00</b>	<b>71,082.27</b>	<b>0.00</b>	<b>263,864.62</b>	<b>2,253,418.20</b>
<b>HEALTH &amp; HOUSING</b>										
Disabled Facilities Grants	939,000	1,071,382.79	1,071,382.79	1,071,382.79					1,071,382.79	0.00
Disabled Facilities Grants 17-18 Top-up	168,000	168,286.00	168,286.00	168,286.00					168,286.00	0.00
Adactus Top-up Grants	11,000	11,440.00	11,440.00	125.93		11,314.07			11,440.00	0.00
Heysham School Capital Funding	36,000	0.00	0.00						0.00	0.00
Salt Ayre Sports Centre Developer Partnership	1,126,000	1,102,305.46	1,102,305.46						0.00	1,102,305.46
Salt Ayre Sports Centre Additional Enhancements	185,000	188,433.94	188,433.94			188,433.94			188,433.94	0.00
<b>Sub-Total</b>	<b>2,465,000</b>	<b>2,541,848.19</b>	<b>2,541,848.19</b>	<b>1,239,794.72</b>	<b>0.00</b>	<b>199,748.01</b>	<b>0.00</b>	<b>0.00</b>	<b>1,439,542.73</b>	<b>1,102,305.46</b>
<b>REGENERATION &amp; PLANNING</b>										
Artle Beck Improvements	5,000	0.00	0.00						0.00	0.00
Strategic Monitoring Baywide	1,000	1,743.99	1,743.99	1,743.99					1,743.99	0.00
Wave Reflection Wall Construction	4,477,000	4,169,708.27	4,169,708.27	4,169,708.27					4,169,708.27	0.00
Amenity Improvements	10,000	8,148.29	8,148.29	8,148.29					8,148.29	0.00
Morecambe THI 2: A View for Eric	51,000	38,765.76	38,765.76	29,461.98			9,303.78		38,765.76	0.00
Morecambe Area Action Plan (Improving Streets)	294,000	257,078.07	257,078.07						0.00	257,078.07
Lancaster District Empty Homes Partnership	60,000	48,000.00	48,000.00				48,000.00		48,000.00	0.00
Bay Arena Improvements	11,000	11,170.00	11,170.00	8,194.28			2,975.72		11,170.00	0.00
<b>Sub-Total</b>	<b>4,909,000</b>	<b>4,534,614.38</b>	<b>4,534,614.38</b>	<b>4,217,256.81</b>	<b>0.00</b>	<b>0.00</b>	<b>60,279.50</b>	<b>0.00</b>	<b>4,277,536.31</b>	<b>257,078.07</b>
<b>Resources</b>										
ICT Strategy	252,000	252,377.92	252,377.92			124,000.00			124,000.00	128,377.92
ICT Application System Renewal	152,000	137,726.88	137,726.88			137,726.88			137,726.88	0.00
ICT Desktop Equipment	74,000	80,231.47	80,231.47			66,231.47			66,231.47	14,000.00
ICT Salt Ayre Capital	39,000	34,397.72	34,397.72						0.00	34,397.72
Energy Efficiency Works	393,000	429,831.68	429,831.68						0.00	429,831.68
Corporate Property Works	1,361,000	1,114,067.57	1,114,067.57			79,000.00			79,000.00	1,035,067.57
<b>Sub-Total</b>	<b>2,271,000</b>	<b>2,048,633.24</b>	<b>2,048,633.24</b>	<b>0.00</b>	<b>0.00</b>	<b>406,958.35</b>	<b>0.00</b>	<b>0.00</b>	<b>406,958.35</b>	<b>1,641,674.89</b>
<b>TOTAL - GENERAL FUND</b>	<b>12,146,000</b>	<b>11,642,378.63</b>	<b>11,642,378.63</b>	<b>5,551,346.88</b>	<b>0.00</b>	<b>705,193.36</b>	<b>131,361.77</b>	<b>0.00</b>	<b>6,387,902.01</b>	<b>5,254,476.62</b>

GENERAL FUND HOUSING REVENUE ACCOUNT	Revised Estimate	Expenditure in 2017/18	Expenditure to be financed in 2017/18	SCHEME FINANCING					TOTAL SCHEME SPECIFIC FINANCING / ITEMS	BALANCE FINANCED BY GENERAL CAPITAL RESOURCES
				GRANT	GRANTS UNAPPLIED	EARMARKED RESERVES / PROVISIONS	SPECIFIC REVENUE FINANCING	MAJOR REPAIRS ALLOWANCE (HRA only)		
	£	£	£	£	£	£	£	£	£	£
	12,146,000	11,642,378.63	11,642,378.63	5,551,346.88	0.00	705,193.36	131,361.77	0.00	6,387,902.01	5,254,476.62
	4,204,000	4,030,232.19	4,030,232.19	39,839.85	0.00	274,399.93	493,388.96	2,785,300.57	3,592,929.31	437,302.88
<b>TOTAL CAPITAL EXPENDITURE &amp; FINANCING</b>	<b>16,350,000</b>	<b>15,672,610.82</b>	<b>15,672,610.82</b>	<b>5,591,186.73</b>	<b>0.00</b>	<b>979,593.29</b>	<b>624,750.73</b>	<b>2,785,300.57</b>	<b>9,980,831.32</b>	<b>5,691,779.50</b>

2017/18 CAPITAL EXPENDITURE FINANCING			Housing Revenue Account	General Fund	Grand Total for all Funds
			£	£	£
<b>Amounts to be financed by General Capital Resources</b>			<b>437,302.88</b>	<b>5,254,476.62</b>	<b>5,691,779.50</b>
<b>Financed by:</b>					
<b>Underlying Borrowing Need - Increase in Capital Financing Requirement</b>			<b>0.00</b>	<b>4,411,256.13</b>	<b>4,411,256.13</b>
<b>Usable Capital Receipts</b>			<b>437,302.88</b>	<b>843,220.49</b>	<b>1,280,523.37</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>437,302.88</b>	<b>5,254,476.62</b>	<b>5,691,779.50</b>

# CAPITAL SLIPPAGE - INTO FINANCIAL YEAR 2018/19

For Consideration by Cabinet 26 June 2018

	Slippage Requested	Percentage of Revised budget	Source of Funding			Reasons for Slippage Requests
			LCC Funded	Grants & Contributions	Total	
	£		£	£	£	
<b>GENERAL FUND</b>						
<b>Health and Housing</b>						
Salt Ayre Sports Centre Redevelopment	24,000	2%	24,000		24,000	Funding required for retentions in respect of the gym floor, the external monolith sign and other outdoor works.
Heysham School Capital Grant	36,000	100%	36,000		36,000	Required as match funding for grant funding from Sport England which has been delayed.
	60,000		60,000	0	60,000	
<b>Regeneration and Planning</b>						
Wave Reflection Wall	307,000	7%		307,000	307,000	Funding required to cover the programme for Phase 2 & 3 works which are externally funded by the Environment Agency.
Artle Beck Improvements	5,000	100%		5,000	5,000	Expenditure to be incurred once compensation agreements are completed by legal services.
Amenity Improvements	2,000	20%	2,000		2,000	Funding required to support ongoing works to properties initiative.
MAAP Improving Morecambe's Main Streets	37,000	13%	37,000		37,000	Funding required to cover the Main Road Signage project and other on-going projects.
THI 2 - A View for Eric	12,000	24%	12,000		12,000	To facilitate the on-going property grant programme in 2018/19.
Lancaster District Empty Homes Partnership	12,000	20%	12,000		12,000	One of the larger schemes in the initiative did not start in 2017/18 as had been planned.
	375,000		63,000	312,000	375,000	
<b>Resources</b>						
ICT Systems, Infrastructure & Equipment	13,000	2%	13,000		13,000	To support the completion of the Customer Experience Platform project.
Corporate Property Works	247,000	18%	247,000		247,000	Funding required for a number of schemes including City Museum, Lancaster Town Hall and Ryelands House.
	260,000		260,000	0	260,000	
<b>GENERAL FUND TOTAL</b>	<b>695,000</b>		<b>383,000</b>	<b>312,000</b>	<b>695,000</b>	

## ACCELERATED SPEND

### GENERAL FUND

	Slippage Requested	Percentage of Revised budget	LCC Funded	Grants & Contributions	Total	Reasons for Slippage Requests
	£		£	£	£	
<b>Environmental Services</b>						
Vehicle Renewals	-10,000	1%	-10,000		-10,000	Represents expenditure on 4 stop safe mechanisms and increased cost for JCB loadall which will be funded by a reduction in the 2018/19 vehicle replacement programme.
<b>Health and Housing</b>						
Disabled Facilities Grants	-133,000	12%		-133,000	-133,000	Funded from 2017/18 grant allocation.
<b>Resources</b>						
Energy Efficiency Works	-37,000	9%	-37,000		-37,000	Expenditure on Energy Efficiency Works at Salt Ayre Leisure Centre incurred earlier than anticipated.
	-180,000		-47,000	-133,000	-180,000	
<b>OVERALL NET GENERAL FUND SLIPPAGE</b>	<b>515,000</b>		<b>336,000</b>	<b>179,000</b>	<b>515,000</b>	

	Slippage Requested	Percentage of Revised budget	Source of Funding			Reasons for Slippage Requests
			LCC Funded	Grants & Contributions	Total	
	£		£	£	£	
<b>Housing Revenue Account</b>						
<b>Council Housing</b>						
Energy Efficiency / Boiler Replacements	35,000	5%	35,000		35,000	Funding required to complete the renewal of soil vent pipes and rain water pipes to high rise blocks.
Re-Roofing & Window Replacements	25,000	3%	25,000		25,000	Funding required to continue re-roofing contract which started later than scheduled.
	60,000		60,000	0	60,000	
<b>HRA TOTAL</b>	<b>60,000</b>		<b>60,000</b>	<b>0</b>	<b>60,000</b>	

**Annual Treasury Management Report**  
2017/18

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For Noting by Cabinet 26 June 2018

# Annual Treasury Management Review 2017/18

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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 2017/18. 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 2017/18 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 01 March 2017)
- a mid-year (minimum) treasury update report (Council 28 February 2018)
- 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 on which 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 the full Council. Member training on treasury management issues was undertaken during the year on 6 February 2018 in order to support members' scrutiny role.

## 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	2016/17 Actual	2017/18 Estimate	2017/18 Actual
<b>Capital expenditure</b>	<b>12.63</b>	<b>12.15</b>	<b>11.64</b>
Financed in year	6.18	7.79	7.23
<b>Unfinanced capital expenditure (i.e. reliant on an increase in underlying borrowing need)</b>	<b>6.45</b>	<b>4.36</b>	<b>4.41</b>

HRA £M	2016/17 Actual	2017/18 Estimate	2017/18 Actual
<b>Capital expenditure</b>	<b>4.08</b>	<b>4.20</b>	<b>4.03</b>
Financed in year	4.08	4.20	4.03
<b>Unfinanced capital expenditure (i.e. reliant on an increase in underlying borrowing need)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</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 2017/18 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 CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2017/18 on 01 March 2017.

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 2017 Actual	31 March 2018 Estimate	31 March 2018 Actual
<b>Opening balance</b>	<b>35.37</b>	<b>40.62</b>	<b>40.62</b>
Add unfinanced capital expenditure (as above)	6.45	4.36	4.41
Less MRP	(1.12)	(1.38)	(1.38)
Less finance lease repayments	(0.08)	(0.04)	(0.04)
<b>Closing balance</b>	<b>40.62</b>	<b>43.56</b>	<b>43.61</b>

CFR (£M): HRA	31 March 2017 Actual	31 March 2018 Estimate	31 March 2018 Actual
<b>Opening balance</b>	<b>42.52</b>	<b>41.45</b>	<b>41.45</b>
Add unfinanced capital expenditure (as above)	0.00	0.00	0.00
Less Debt Repayment	(1.07)	(1.04)	(1.06)
<b>Closing balance</b>	<b>41.45</b>	<b>40.41</b>	<b>40.39</b>

CFR (£M): Combined	31 March 2017 Actual	31 March 2018 Estimate	31 March 2018 Actual
<b>Opening balance</b>	<b>77.89</b>	<b>82.07</b>	<b>82.07</b>
Add unfinanced capital expenditure (as above)	6.45	4.36	4.41
Less Debt Repayment, Finance Leases and MRP	(2.26)	(2.46)	(2.47)
<b>Closing balance</b>	<b>82.07</b>	<b>83.97</b>	<b>84.01</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 means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2017/18. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2017 Actual	31 March 2018 Estimate	31 March 2018 Actual
Gross borrowing position	£65.29M	£64.21M	£64.21M
CFR	£82.07M	£83.97M	£84.01M

**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 2017/18 the Council has maintained gross borrowing within its authorised limit.

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

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

	2017/18 Actual
Authorised limit	100.00
Maximum gross borrowing position	65.25
Operational boundary	83.98
Average gross borrowing position	64.90
Financing costs as a proportion of net revenue stream - GF	15.50%
Financing costs as a proportion of net revenue stream - HRA	21.7%

### 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 2017/18 the Council's treasury (excluding borrowing relating to finance leases) position was as follows:



	31 March 2017 Principal	Average Rate	Average Life yrs	31 March 2018 Principal	Average Rate	Average Life yrs
Fixed rate funding:						
PWLB	£65.25M	4.61%	36	£64.21M	4.64%	35
<b>Total debt</b>	<b>£65.25M</b>			<b>£64.21M</b>		
<b>CFR</b>	<b>£82.07M</b>			<b>£84.01M</b>		
<b>Over / (under) borrowing</b>	<b>(£16.82M)</b>			<b>(£19.80M)</b>		
<b>Total investments</b>	<b>£30.25M</b>	<b>0.37%</b>		<b>£25.10M</b>	<b>0.33%</b>	

All investments were placed for under one year.

The loan repayment schedule is as follows:

	31 March 2017 actual	31 March 2018 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	£34.02M	£32.98M

The average rate of interest payable on PWLB debt in 2017/18 was 4.64%. A total of £3.08M interest was incurred during the year, of which £1.92M was recharged to the HRA.

#### *Interest Payable*

	2017/18
Estimate	£3.01M
Actual	£3.02M

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. The Strategy for 2017/18

The expectation for interest rates within the treasury management strategy for 2017/18 anticipated that the Bank Rate would not start rising from 0.25% until 31 March 2020. 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 Link Asset Services)

*During the calendar year of 2017, there was a major shift in expectations in financial markets in terms of how soon the Bank Rate would start on a rising trend. After the UK economy surprised on the upside with strong growth in the second half of 2016, growth in 2017 was disappointingly weak in the first half of the year which meant that growth was the slowest for the first half of any year since 2012. The main reason for this was the sharp increase in inflation caused by the devaluation of sterling after the EU referendum, feeding increases into the cost of imports into the economy. This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases. Consequently, the services sector of the economy, accounting for around 75% of GDP, saw weak growth as consumers responded by cutting back on their expenditure. However, growth did pick up modestly in the second half of 2017. Consequently, market expectations during the autumn, rose significantly that the MPC would be heading in the direction of imminently raising the Bank Rate. The minutes of the MPC meeting of 14 September indicated that the MPC was likely to raise the Bank Rate very soon. The 2 November MPC quarterly Inflation Report meeting duly delivered by raising the Bank Rate from 0.25% to 0.50%.*

*The 8 February MPC meeting minutes then revealed another sharp hardening in MPC warnings on a more imminent and faster pace of increases in the Bank Rate than had previously been expected. Market expectations for increases in Bank Rate, therefore, shifted considerably during the second half of 2017-18 and resulted in investment rates from 3 – 12 months increasing sharply during the spring quarter.*

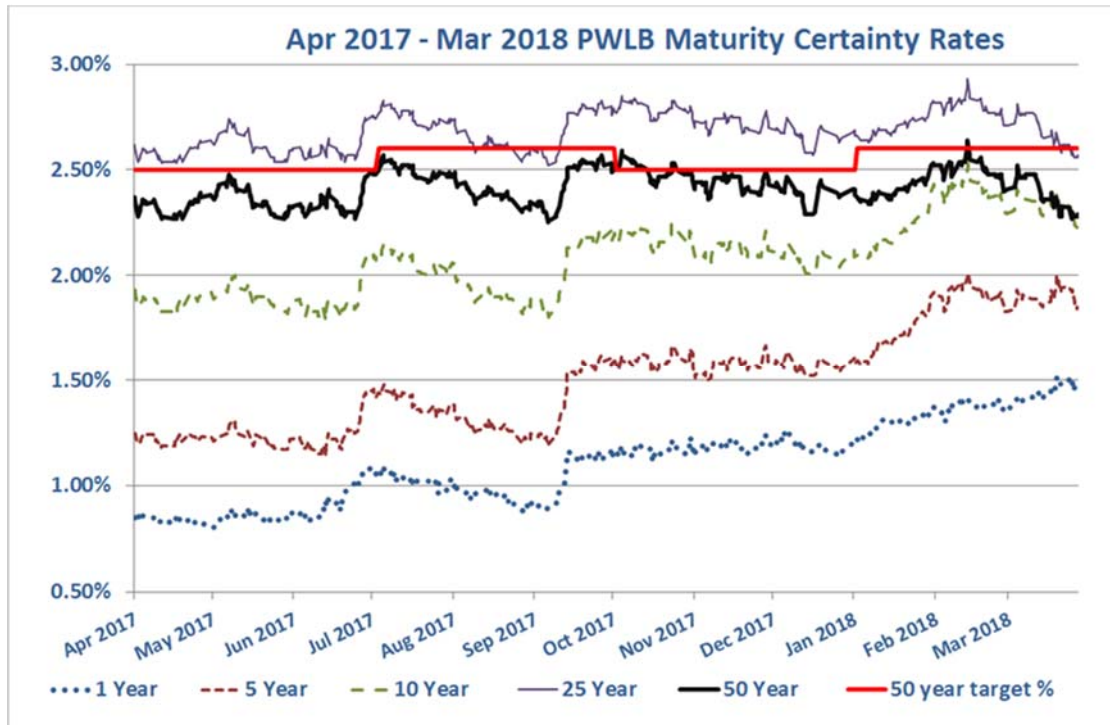
*PWLB borrowing rates increased correspondingly to the above developments with the shorter term rates increasing more sharply than longer term rates*

*The major UK landmark event of the year was the inconclusive result of the general election on 8 June. However, this had relatively little impact on financial markets.*

## 6. Borrowing Rates in 2017/18

**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.

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## 7. Borrowing Outturn for 2017/18

### Borrowing

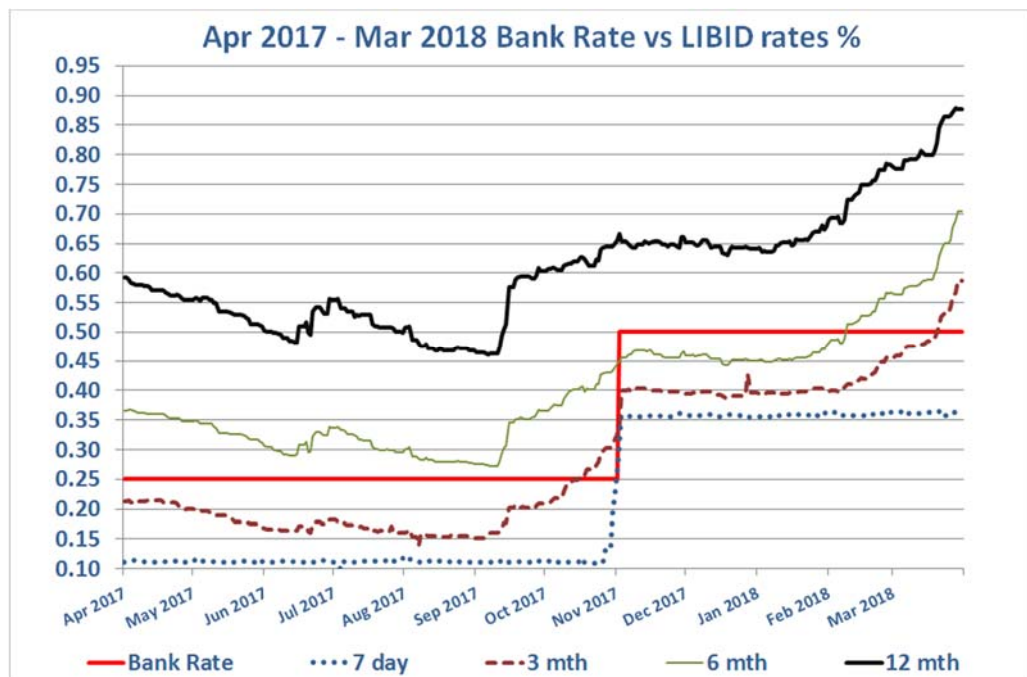
No actual borrowing was undertaken during the year.

### 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 2017/18

Investment rates for 3 months and longer have been on a rising trend during the second half of the year in the expectation of the Bank Rate increasing from its floor of 0.25% and reached a peak at the end of March. The Bank Rate was duly raised to 0.50% on 02 November 2017 and remained at that level for the rest of the year.



## 9. Investment Outturn for 2017/18

**Investment Policy** – the Council’s investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 01 March 2017. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

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

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

Balance Sheet Resources (£M)	General Fund		HRA		TOTAL	
	31/03/17	31/03/18	31/03/17	31/03/18	31/03/17	31/03/18
Balances	4.73	5.07	1.94	2.02	6.67	7.09
Earmarked reserves	6.61	11.87	10.71	10.56	17.32	22.43
Provisions	0.50	0.58	0.00	0.00	0.56	0.58
Working Capital	20.13	12.20	2.56	2.62	22.69	14.81
<b>Total</b>	<b>31.97</b>	<b>29.72</b>	<b>15.21</b>	<b>15.20</b>	<b>47.18</b>	<b>44.91</b>
<b>Amount Over/(Under) Borrowed</b>					<b>(16.82)</b>	<b>(19.80)</b>
<b>Baseline Investment Balances</b>					<b>30.36</b>	<b>25.11</b>
<b>Actual Investment Balances</b>					<b>30.25</b>	<b>25.10</b>

**Investments held by the Council** - the Council maintained an average investment balance of £34.6M of internally managed funds. The average rate of interest earned for the year as a whole was 0.33% is compared to the base rate and average 3-month LIBID rate as set out below. It should be noted, however, that the Base Rate and 3 Month LIBID increased substantially in the latter part of the current financial year was. To set the comparators in a more appropriate context the weighted average interest rate being earned on the investment portfolio as at 31 March 2018 was 0.45%

	2016/17	2017/18
Lancaster CC Investments	0.37%	0.33%
Base Rate	0.25%	0.50%
3 Month LIBID	0.32%	0.45%

In terms of performance against budget the actual interest earned in 2017/18 was £109K compared to a budget of £113K.

## 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 2017/18 complied with the latest Code of Practice (November 2011) and relevant Government investment guidance.

In December 2017, CIPFA issued a revised Treasury Management Code and a revised Prudential Code. A particular focus of these revised codes was how to deal with local authority investments which are not treasury type investments (e.g. by investing in purchasing property in order to generate income for the Authority at a much higher level than can be attained by treasury investments. A particular recommendation was that local authorities should produce a new report to members to give a high level summary of the overall capital strategy, setting out a long-term context in which capital expenditure and investment decisions are made.

## 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. Investment balances have reduced during the year in line with the unwinding of transactions related to business rate appeals as anticipated. Given the Bank Rate, investment returns inevitably remain low and there is little that can be done to improve prospects in the current economic situation.

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

**Last reported to Council on 01 March 2017**

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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