Appendix 1

CABINET

Corporate Financial Monitoring 2018/19 – Quarter 1
07 August 2018
Report of the Chief Officer (Resources)

PURPOSE OF REPORT					
To provide an overview of the Council's financial position for Quarter 1 of the 2018/19 monitoring cycle, and the supporting actions underway.					
Key Decision		**Non-Key Decision**	**X**	**Referral from Cabinet Member**	
Date of notice of forthcoming key decision	N/A				
This report is public.					

OFFICER RECOMMENDATIONS:

(1) That Cabinet notes the report and endorses the supporting actions as set out in Appendix A.

1. Overview

1.1. The corporate financial monitoring report for Quarter 1 is attached at ***Appendix A***. The headlines are as follows:

- A current General Fund net overspending of £25K, but this could increase to £307K by the year end depending on various factors. A number of actions are proposed to help avoid such a situation arising.
- The Housing Revenue Account is currently underspent by £30K, and this is expected to increase to £86K by the year end. The key message relates to the significant improvement in void property turnaround times, which has led to forecast additional rental income of £100K.

1.2. An update on Salt Ayre is included at ***Annex B.***

1.3. Progress against the savings measures approved as part of the 2019/20 budget is detailed within ***Annex C.*** This progress is allowed for in the overall headline figures quoted above.

1.4. In support of corporate financial monitoring, the latest Treasury Management update report is included at ***Appendix B***.

RELATIONSHIP TO POLICY FRAMEWORK

This report is in support of the delivery of the Council's overall policy framework, and more specifically its Corporate Plan.

CONCLUSION OF IMPACT ASSESSMENT
(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, HR, Sustainability and Rural Proofing)

None directly arising from this report. Any additional implications linked to or arising from the various financial matters raised will be addressed in taking any relevant actions forward.

LEGAL IMPLICATIONS

None directly arising from this report. Any additional implications linked to or arising from the various financial matters raised will be addressed in taking any relevant actions forward.

FINANCIAL IMPLICATIONS

As set out in the attached.

OTHER RESOURCE IMPLICATIONS

Human Resources / Information Services / Property / Open Spaces:

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

SECTION 151 OFFICER'S COMMENTS

This report is in the name of the s151 Officer, albeit in her capacity as Chief Officer (Resources).

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS None.	**Contact Officers:** Andrew Clarke, Financial Services Manager **Telephone: 01524 582138** **E-mail: aclarke@lancaster.gov.uk** **Ref:**

CORPORATE FINANCIAL MONITORING 2018/19

QUARTER 1

INTRODUCTION

This report provides an overview of the Council's financial position and key budgetary variances as at the end of June, in terms of the revenue and capital budgets and local taxation. It also includes updates on key reserves and income collection.

REVENUE BUDGET

General Fund – A minor net overspending of **£25K** exists as at 30 June. Should net spending progress as currently forecast, an overspending in the region of **£307K** could be experienced by year-end, taking account of various assumptions drawing on last year's outturn. The main variances are summarised in the table below and provided in more detail at **Annex A**. In addition, a separate monitoring statement on Salt Ayre Leisure Centre is included at **Annex B.**

	Qtr 1 £000's	Full Year Forecast £000's
General Fund Net Revenue Budget	**16,204**	**16,204**
	(Favourable)/+Adverse	
Employees	(4)	+251
Premises	0	+34
Transport	+7	+8
Supplies & Services	+13	+77
Income(Fees & Charges and Interest)	+9	(63)
Updated Net Revenue Budget	**16,229**	**16,511**
Net Overspend (+)	**+25**	**+307**

The main forecast variance of £251K (adverse) relates predominantly to staff turnover savings yet to be achieved. In line with recent years, a savings provision of just over £400K is assumed within the current year's budget. The provision has been comfortably made in the past - for example in last year, as at Qtr 1 the salaries budget (net of that quarter's turnover savings provision) was underspent by £86K, but that compares with a £4K underspending for the comparable period this year, based on services' monitoring information.

There is a tendency for managers to under-estimate lead-in times for replacing staff, and clearly the actual incidence of turnover is not certain and so can vary significantly (either way) from budget assumptions. Nonetheless, when compared with last year the monitoring indicates that remedial action is likely to be needed to contain costs within budget, but further analysis needs to be undertaken to inform any such actions or decision-making.

ACTION:

The HR Manager undertakes further analysis of the turnover position and future expectations, in conjunction with the Financial Services Manager, and reports back to Cabinet on the outcome and any proposed actions.

Separately, progress against the savings measures approved as part of the 2019/20 budget **(£505K)** is detailed within **Annex C**, and is broadly in line with current expectations.

On a more general note it is evident that there are a number of areas of potential under- or overspending (including under-achievement of income).
To demonstrate:

The additional income reported in the table is primarily due to extra pay and display revenue ((£80K), increased visitor numbers to Williamson Park (£50K) and a high number of DFG grant completions within Health & Housing (£50K).

Conversely, greater budget pressures are evident. The garden waste collection service has so far generated £890K of income but a shortfall is still forecast. Work is taking place to assess the budgetary risks, in the context of the overall waste collection / trade waste budget. Regarding other functions, reduced occupancy levels on the markets are being experienced (+£24K) as is reduced activity within Building Control (+£37K). In addition, investment interest received is lower than expected (+£22K).

In previous years, forecast underspendings have typically exceeded any forecast overspendings, but this is not the current expectation in this year.

ACTION:
Chief Officers review their areas of current and/or expected overspendings, identifying corrective actions or options where possible, providing such information to the Financial Services Manager for him to report back corporately to Cabinet.

More generally, capacity concerns still exist regarding the prioritisation, programming and management of key projects and feasibility studies, that in turn should feed into the 2019/20 budget.

ACTION:
A report also scheduled for the August Cabinet agenda proposes some measures to help address those concerns. Other proposed measures will follow in due course, as Management Team completes its programming review.

Housing Revenue Account – Current underspend of **£30K,** which is forecast to increase to **£86K** by year end. The main reason is a significant improvement in void property turnaround times which has led to forecast additional rental income (£100K).

CAPITAL

Expenditure

General Fund – The original approved Capital Programme of £11.400M has been increased by a net £515K for slippage and accelerated spend from 2017/18, and by a further £204K (see detailed below) to give an updated programme of £12.119M. Total spend and commitments to the end of June totalled £1.719M leaving £10.400M still to spend.

Additional Changes:

CCTV: Extension to White Lund Depot - £53K, funded from Invest to Save Reserve (approved Cabinet 24 April 2018)

Car Park Improvements - £7K, external contribution to upper St.Leonardgate / Lodge Street car parks.

Disabled Facilities Grants - £144K, increase in grant funding allocation above original estimate.

Housing Revenue Account – The original Capital Programme of £4.421M has been increased to £4.481M after allowing for slippage of £60K from 2017/18. Spend and commitments at the June totalled £483K leaving £3.998M still to spend.

Financing

General Fund

To date £3.559M of grants and contributions has been received against a budget of £5.395M (updated for slippage from 2017/18 and for new funding identified above). Also, additional capital receipts of £41K have been received from the sale of vehicles, and other low value items.

RESERVES

Budget Support Reserve – Approved allocations are shown below, which leave a current balance of **£2.060M** on the reserve.

	£000's
Opening Balance	**711**
Net Budgeted Contribution to Reserve (allowing for £2.6M business rate income)	1,512
Cabinet 26th June:	
Environmental Services Restructure	(90)
Extension of Interim HR Manager to 31 July 2018	(23)
Extension of Interim Head Legal and Democratic Services to 31 October 2018	(32)
Officer Delegated Decisions in consultation with Cabinet Members	
Job Evaluation Officer – to undertake a 3 months review of options	(18)
Closing Balance	**2,060**

The above takes account of the £2.6M planned transfer from the Business Rate Retention Reserve, following the 2017/18 outturn.

Invest to Save – Approved allocation are shown below which leave a current balance of **£1.453M** on the reserve.

	£000's
Opening Balance	**1,506**
Cabinet 24th April – White Lund Depot	(53)
Closing Balance	**1,453**

General Fund Unallocated Balances

Unallocated General Fund Balances stand at £5.067M, this is £399K more than the original estimate of £4.668M, due to the revenue underspend in 2017/18.

LOCAL TAXATION

Council Tax – Current deficit of £93K (£94K deficit as at 31 March 2018). Main changes are:

- Deficit from previous year +£94K
- Reduced cost of Council Tax Support (£165K)
- Reduced charge for Second/Empty Homes +£93K
- Other Movements in Tax Base +£71K

In tax base terms this equates to approximately 53 net chargeable Band D equivalent properties, bringing the total tax base to 41,699 gross properties. Should the deficit remain then this would mean an additional cost to the General Fund of £12K in 2019/20 (13% of the deficit).

Retained Business Rates – The latest position on business rates shows net income down by £98K when compared to the original estimate, after allowing for an increase in estimated appeals of just over £1M.

Overall, the total estimated Retained Income is £73K down on the original forecast. This position will inevitably fluctuate during the year but will not impact directly on the overall General Fund budget, as in due course, any decrease in income of around that scale would be met from the Business Rates Retention Reserve.

	Original £000's	June £000's	Movement From Original Fav (-) / Adverse (+) £000's
Net Rates Payable	(64,487)	(65,398)	(911)
Appeals	3,123	4,132	+1,009
Business Rates Income	**(61,364)**	**(61,266)**	**+98**
City Council Retained Income (40%)	(24,546)	(24,506)	
Less Tariff	18,848	18,848	
Add Net Small Business Rates Relief Grant	(1,102)	(1,042)	
Net Retained Income	**(6,800)**	**(6,700)**	**+100**
Safety Net Payment	-	-	
50% Levy Payment	616	589	(27)
Total Retained Income	**(6,184)**	**(6,111)**	**+73**

Collection Performance

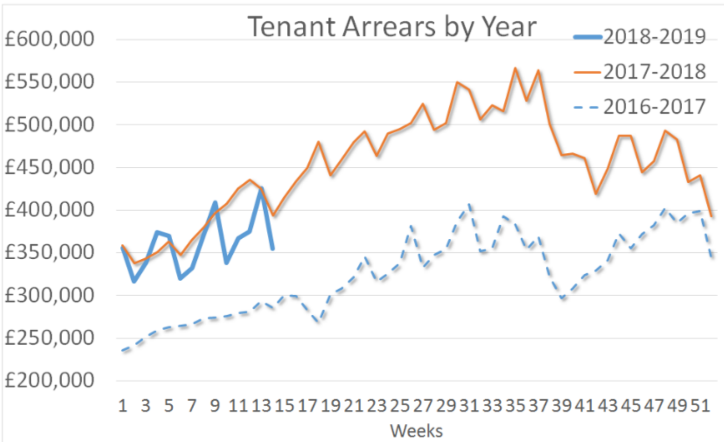
Both Council Tax and Business Rates are very slightly behind target - no specific action is required at this point.

	Full Year Target	Target to Date	Actual to Date
Council Tax	96.4%	29.4%	29.1%
Business Rates	98.8%	28.3%	28.1%

INCOME COLLECTION

Council Housing Rent Arrears – At the end of week 14 the level of current council housing rent arrears was £354K (2.9% of £13.337M rent debit), a reduction of £39K on the previous Qtr4 figure of £393K.

The profile is now matching the 4 weekly cycle of direct debit and DWP payments being received. This is because more and more tenants are moving over to Universal Credit and onto direct DWP monthly payments.



Sundry Debts – At the end of June the level of debt was £5.261M which is an increase of £2.038m from Qtr4. However, of this £1.751M relates to an invoice to Lancashire County Council for the 2018/19 Disabled Facilities Grant allocation, which was repaid on 13 July. Excluding this the increase reduces to £288K.

The bad debt provision currently stands at £2.596M which is £13K lower than the required level. No action is required at present but a further review of the provision will be made in October.

SERVICE	< 28 Days	28-59 Days	60-91 Days	92-183 Days	184-364 Days	365+ Days	2018/19 QUARTER 1 TOTALS	*Compared to 2017/18 Quarter 1 totals*
	£	£	£	£	£	£	£	
Enviromental Services	95,709	236,927	461,647	8,311	13,678	13,152	829,423	*924,460*
Regeneration & Planning	7,751	8,805	5,895	6,719	18,164	15,164	62,497	*32,039*
Resources	150,576	30,002	56,206	39,308	41,254	47,740	365,086	*411,901*
Health & Housing	1,882,042	8,364	2,034	24,627	15,655	15,549	1,948,272	*87,685*
Governance	-	-	-	-	307	780	1,087	*1,693*
Comm Eng M & A	57,102		2,682	300	-	314	60,399	
Hsg Benefits (Revenues)	44,894	61,780	71,357	82,778	235,094	1,498,450	1,994,352	*1,978,393*
2018/19 Quarter 1 Totals	**2,238,074**	**345,878**	**599,821**	**162,042**	**324,153**	**1,591,149**	**5,261,116**	***3,436,171***
2017/18 Quarter 4 Totals	***833,509***	***129,072***	***97,402***	***194,573***	***390,330***	***1,578,342***	***3,223,228***	

CONTRACT PROCEDURE RULES AND OTHER EXCEPTIONS TO TENDER

Exceptions to Tender – There was one exception to tender in Qtr 1:

- Installation of Smart CCTV and access control system at White Lund Depot, by Vodafone under the CCS framework RM1045 in order to provide a consistent approach throughout the authority on CCTV.

QUARTER 1 CORPORATE FINANCIAL MONITORING: General Fund Revenue Budget

ANNEX A

Subjective Area	Service	Reason for Variance	Current Variances Adverse / (Favourable)		Projection for Year Adverse / (Favourable)	
			£	£	£	£
Employees	Environmental Services		(15,300)			
	Resources		(17,754)			
	Management Team		3,327			
	Governance	Salaries - turnover savings net of turnover target	3,879			
	Health & Housing - Leisure		7,111			
	Health & Housing		7,821			
	Regeneration & Planning		7,151			
				(3,765)		**251,072**
Premises	Health & Housing - Leisure	Additional costs associated with the new CHP installation & SPA/Development increases	9,981		44,000	
	Resources	Rates savings at Storey/Lansil Water Treatment Plant	(9,839)		(9,839)	
				142		**34,161**
Transport	Environmental Services	Diesel prices have seen a 7.5% increase in first three months of the year	3,800		-	
		Increased use of hired vehicles whilst awaiting delivery of electric pool cars	3,400		8,000	
				7,200		**8,000**
Supplies & Services	Environmental Services	Restructure savings target (approved as part of 2016/17 budget) still to be identified	19,700		67,100	
	Governance	Cost of 1.5 Planning Lawyer Locums until end September	2,157		17,799	
	Resources	Telephone Maintenance no longer required, built into cost of new system	(8,659)		(7,700)	
				13,198		**77,199**
Fees & Charges	Environmental Services	Car Parking - Increased pay and display income expected following favourable outturn from previous year	(39,800)		(80,000)	
	Environmental Services	Rent received from developer in respect of Lower St Leonardgate car park not budgeted for	(7,500)		(30,000)	
	Environmental Services	CCTV - contributions received from BID's and Morecambe Town Council (not included in budget)	(14,000)		(14,000)	
	Environmental Services	Markets - reduced occupancy levels resulting in lower rent income	6,200		24,000	
	Environmental Services	Williamson Park - increase in visitor numbers	(36,300)		(49,500)	
	Environmental Services	Garden Waste - subscription levels currently at 22,000 against projected 24,000	70,000		70,000	
	Regeneration & Planning	Building Control construction activity for non-domestic development reduced income	15,349		37,000	
	Governance	Loss of fee earning capacity whilst no Planning Lawyer in post	3,990		5,000	
	Health & Housing	New legislation resulting in an estimated 100 new licences	(9,387)		(31,250)	
	Health & Housing	Slower than expected growth with Unbugged	7,950		31,800	
	Health & Housing	High number of DFG grant completions in Q1, as a result of Lancashire County Council clearing outstanding claims.	(4,166)		(50,000)	
	Resources	Additional Rent/Service Charge income at CityLab	(16,281)		(16,000)	
	Resources	Storey Café behind target; the position is being reviewed and options for improvement to be explored.	11,047		18,000	
	Investment Interest	Cash balances are £9M lower than anticipated combined with interest rates not being increased in line with expectations	21,740		21,470	
				8,842		**(63,480)**
		TOTAL		**25,617**		**306,952**

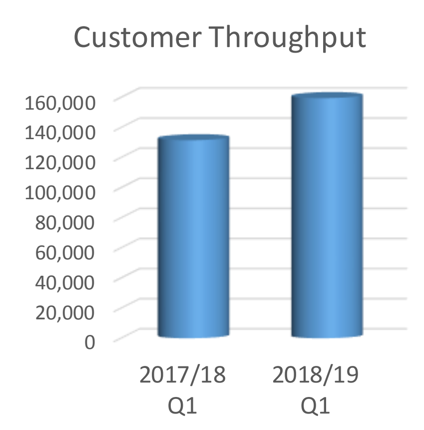
SALT AYRE LEISURE CENTRE

2018/19 QUARTER 1 PERFORMANCE MONITORING

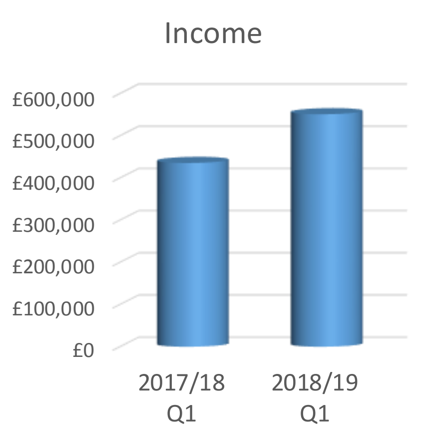
Key Messages

- The operating subsidy for Salt Ayre Leisure Centre has significantly reduced from pre development and is currently anticipated to be around £223K for the year compared with £789K in 2016/17. Although the current year direct net operating cost is showing an increase of £79K compared with the original budget, some £37K of this relates to the staff turnover target, and so the variance should reduce as vacancies occur.
- The newly installed CHP system is generating savings, however the energy budget will be overspent by some £44K (included in the £79K above) due to additional CHP installation costs and higher than anticipated costs at the SPA.
- Gym membership numbers are in excess of 2,800 which includes over 250 junior members aged between 14 and 17 years. The gym contributes in excess of £903k towards the overall revenue target.
- The swimming lesson programme has more than 500 people enrolled, mostly paying by direct debit and this is contributing to an estimated increase in income on original swimming budgets of circa £80K per annum.
- The café continues to perform well and is on target (despite the recent extreme weather which reduced visits) to achieve the annual income target of £413K.
- Similarly, Energy (indoor play) has seen reduced admissions with customers preferring to spend leisure time outdoors – however, the agile marketing approach to include various offers and target particular user groups such as schools has worked well to leave this cost centre on target for the year.

Customer Throughput	2017/18 Q1	2018/19 Q1	(Favourable) / Adverse	(Favourable) / Adverse %
Shop	1,089	789	300	(27.5%)
Health & Fitness	21,425	34,074	(12,649)	(59.0%)
SASC Café	50,012	53,387	(3,375)	(6.74%)
Sports Hall	14,729	21,338	(6,609)	(44.9%)
Studio	9,867	12,681	(2,814)	(28.5%)
Swimming	22,483	23,187	(704)	(3.%)
Spa	0	2,919	(2,919)	N/A
Gravity	274	207	67	24.50%
X - Height	1,471	1,460	11	0.74%
Energy	10,186	9,478	708	6.90%
	131,536	159,520	(27,984)	(21.3%)



Income	2017/18 Q1	2018/19 Q1	(Favourable) / Adverse £	(Favourable) / Adverse %
Shop	4,056	4,688	(632)	(15.6%)
Health & Fitness	175,298	229,747	(54,449)	(31.1%)
SASC Café	83,299	93,490	(10,191)	(12.2%)
Sports Hall	31,708	39,188	(7,480)	(23.6%)
Studio	6,927	5,639	1,288	18.6%
Swimming	86,082	112,154	(26,072)	(30.3%)
Spa	0	33,295	(33,295)	N/A
Gravity	6,834	1,986	4,848	70.9%
X - Height	18,265	13,452	4,813	26.4%
Energy	22,973	17,247	5,726	24.9%
	435,442	550,886	(115,444)	(26.5%)



	2017/18 Full Year Actuals	2018/19 Original Full Year Budget	Qtr1 Budget	Qtr1 Actual	Qtr1 Variance	Full Year Projection	Variance to Original Budget	Percentage of Original Budget
	£	£	£	£	£	£	£	
Expenditure								
Employees	1,259,787	1,396,400	293,379	301,191	**7,812**	1,431,107	**34,707**	2%
Premises Costs	589,995	548,900	294,146	274,743	**(19,403)**	592,900	**44,000**	8%
Transport Costs	23,000	14,600	5,703	3,151	**(2,552)**	14,600	**0**	0%
Supplies and Services	538,632	539,000	212,466	102,021	**(110,445)**	539,000	**0**	0%
Funding from Renewals Reserve	(89,814)	0	0	0	**0**	0	**0**	
Income								
Fees and Charges	(2,123,387)	(2,354,500)	(558,183)	(557,902)	**281**	(2,354,500)	**0**	0%
Direct Net Operating Cost/(-) Surplus	**198,213**	**144,400**	**247,511**	**123,204**	**(124,307)**	**223,107**	**78,707**	
Support Service Costs	399,292	361,800	90,450	90,450	**0**	361,800	**0**	
Total Net Operating Cost	**597,505**	**506,200**	**337,961**	**213,654**	**(124,307)**	**584,907**	**78,707**	
Renewals Reserve Contribution	150,000	150,000	0	0	**0**	150,000	**0**	
Capital Financing Costs - MRP re £5M development	177,973	218,500	54,625	54,625	**0**	218,500	**0**	
Total Net Cost	**925,478**	**874,700**	**392,586**	**268,279**	**(124,307)**	**953,407**	**78,707**	

Comments from Leisure Services Manager

Salt Ayre Leisure Centre continues to reduce costs to the Council and as mentioned in previous reports is highly regarded within the industry and by organisations such as Sport England, UK Active and APSE. The facility recently won the UK Active award for best building design concept, following on from the UK Active national case study highlighting the vast increases in throughput to the Centre.

The Centre has just been shortlisted from 380 submissions for the APSE award of 'Best Public/Private Working Initiative'. This recognises the mix of facilities introduced as part of the redevelopment, how the project was managed and the partnership relationship with Alliance Leisure.

It is important to focus on the outcomes the redevelopment provides to the district and visitors as well as the financial gains to the Council.

Education

Through the Primary PE Schools Sports Network (SSN) 40 schools attend sessions with more still to book and confirm dates, bringing 30 Children each time. The sessions are all paid for by the SSN through PE funding awarded to Schools and allow children from all backgrounds to experience X-height indoor climbing. Some schools have booked several subsequent visits and paid for them themselves. The advertisement of these school sessions on social media has now led to schools out of the area from Preston and Kendal booking.

SALC hosts the SSN annual P.E conference which caters or 100 teachers. In addition the SSN hosts its young leader's conference for 80 young people

SALC is the venue for the annual sport festival which has around 700 primary school children taking part.

Disability sessions

Weekly sessions take place on X-height indoor climbing for children with additional needs arranged by the Business Development Manager with the local Special Educational Needs Officer.

The sessions are attended by the same Children each week and have helped build confidence allowing siblings to enjoy an activity together in the same environment rather than at different times and places.

SALC currently provides 4 sessions per week for adults with learning disabilities. 2 assisted cycling sessions averaging 30 people + support staff, a disability football session that also leads to fixtures in local festivals and a multi skills sports session.

Piccadilly Gardens (adults with learning disabilities) will be accessing SALC for a range of activities.

SALC will be hosting the CAN Do Day on 30th September which is for carers and parents to access a range of support networks and service providers in a market place that will run alongside a range of activities for the children to try on the day

Community Support

Chadwick Centre - SALC will be providing facilities from September 2018 with staff support to enable excluded pupils to access some P.E Curriculum activities

Women's Institute -SALC is supporting their health week in September by providing them access to the facilities during the week with a discounted join up opportunity

Lancaster Distract Chamber of Commerce. - SALC support chamber members to maintain healthy lifestyles by providing concessionary memberships, support workforce days on business sites.

Links with the Chamber have developed considerably with SALC now becoming a venue for Chamber meetings further raising the profile of the Leisure Centre throughout the District.

University of Cumbria

Partnership in place that provides access to SALC facilities as part of their University membership. The University use this as a major part of their recruitment drive for new students.

Resident clubs

SALC is the home of 2 successful Swimming clubs, Carnforth Otters, Lancaster City who have around 500 members between them

Lancaster & Morecambe Athletics Club has a successful road running group and junior coaching programme.

Lancaster Bulldogs Wheelchair Basketball club which has recently played in national play offs and currently plan in national league 2 since moving to SALC

SALC is home the SALT Ayre Cycling Association. SACA consists of 4 clubs and has a junior club, COGSET with over 200 junior members

Gymnastics programme - SALC is home to a gymnastics coaching programme that caters for 450 children per week. The club competes regionally and is successful

Swimming lesson programme - SALC teaches over 500 children and adults to swim each week as part of the lesson programme. Approximately 800 children attend the educational swimming programme that is delivered.

GENERAL FUND - 2018/19 SAVINGS MONITORING (PERIOD 3)

ANNEX C

Initiative	Type	Budget	Profiled Budget	Actual to Date	Variance	R A G	Progress
PHASE 1 - 2018/19 APPROVED SAVINGS		£	£	£	£		
Environmental Services							
Solar Farm Design and Business Case Development	Inc Generation	50,000	4,440	4,440	0		Initial calculations by APSE have been provided for various sites at SALC. In-house appraisals to take place shortly with view to reporting to October Cabinet to inform next stage.
Waste Collection Management Systems	Efficiency	138,000	0	0	0		Several suppliers identified following presentations and specification being formulated. Site visits to other users of similar systems currently being arranged. DPIS with Information Governance.
Extension of CCTV to Public Buildings	Efficiency	(17,000)	(4,250)	(4,250)	0		In progress. Perimeter fencing installation started 26th June. Road widening to accommodate barriers due to start on 6th July. CCTV to follow.
Extension of Cable Street Car Park	Inc Generation	(9,000)	0	0	0		Design and procurement ongoing for implementation when vacant possession obtained.
Management of St. George's Quay Car Park	Inc Generation	(10,000)	0	0	0		Off Street Amendment Order advertised and due to be completed in late July for implementation in August. (Note item elsewhere on Cabinet agenda, however.)
Vehicle Fleet Review	Inc Generation	(27,000)	(6,750)	(3,367)	3,383		2 petrol and 2 electric pool cars currently ordered (all due by September but hired vehicles being used instead of). Charging infrastructure to be installed in July.
Williamson Park Facilities Expansion - Design and Business Case Development	Inc Generation	210,000	0	0	0		Currently awaiting for adventure play tender to be signed off by support services including Legal, Procurement and Engineers. On completion progress will be started on the design brief for the Café/Wedding Conference Centre.
Bulky Waste Collection - Service and Charging Review	Inc Generation	(20,000)	(5,000)	(5,117)	(117)		Review built into budget and broadly in line to date.
Health & Housing							
Development of Business Case for Local Authority Trading Company (LATC)	Inc Generation	75,000	65,000	65,000	0		£65K order raised P03 with the remainder to be spent during the year.
Management Team							
Rationalisation of Organisational Development Capacity	Efficiency	(77,000)	(12,833)	(12,833)	0		Staff Changes actioned and built into budget.
Regeneration & Planning							
Heysham Gateway - Site Improvement Works		320,000	18,050	18,050	0		£320K is the net capital budget with £100K being for drainage & site surveys. These are well underway with £79K already committed.
Extension of Charging for Planning Services	Inc Generation	(5,000)		0	0		Delayed start with tree-related working charges. It is still the intention of the service to proceed, however, staff shortages have meant that this is now a low priority.
Resources							
ICT Network Performance Monitoring and Improvement	Efficiency	30,000	0	0	0		Software installation and licence purchase expected in September 2018.
Repair and Maintenance of Corporate Property	Efficiency	(82,000)	(20,500)	(20,500)	0		Built into budget and expected to be managed within overall R&M allocation.
Continuation of Internal Audit Collaboration and Restructure	Efficiency	(26,000)	(6,500)	(6,500)	0		Savings already incorporated into budget and expected to be achieved.
Revenues & Benefits Shared Service Savings	Efficiency	(45,000)	0	0	0		Savings achieved in Shared Service Budget and recharge will be reduced as part of the Revised Budget process.
Total		**505,000**	**31,657**	**34,922**	**3,266**		

Treasury Management Update

Quarter Ended 30 June 2018

Report of Chief Officer (Resources)

Treasury Management Update

Quarter Ended 30 June 2018

1. Introduction

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (through the reporting of the Treasury Management Strategy, and annual and midyear reports). This report is in line with best practice in accordance with that Code, to help demonstrate transparency and promote accountability.

2. Economic Background (provided by Link Asset Services)

Growth in 2017 was disappointingly weak in the first half of the year but picked up to 0.5% in quarter 3 and 0.4% in quarter 4. Growth in quarter 1 of 2018 was again disappointing, although on the first revision the rate improved from 0.1 to 0.2% to allay fears that the economy may have started a prolonged period of very weak growth. Initial indications in quarter 2 are that growth may have picked up speed to around 0.4%. The main reason for weak growth during 2017 and 2018 has been that inflation has been exceeding pay growth until recently, meaning that there has been negative growth in consumer disposable income when consumer expenditure is the biggest driver of the services sector which accounts for about 75% of GDP.

The manufacturing sector was the bright spot in the economy in 2017 in terms of strong growth but quarter 1 was the weakest quarter for one and a half years and forward indicators do not suggest a return to strong growth is likely.

During January and February financial markets were viewing a Bank Rate increase at the May Monetary Policy Committee (MPC) meeting as likely to be a near certainty after strong growth in the second half of 2017. However, the ensuing weeks before the meeting saw opinion turn right around and the MPC did not disappoint by leaving rates unchanged due to concerns as to whether the weak growth in quarter 1 was indicative of the start of a prolonged slow down or just a temporary blip. Since May, opinion has again turned to suggest that an August Bank Rate increase is back on the cards.

However, there remains much uncertainty around the Brexit negotiations, consumer spending levels and business investment, so it is still far too early to be confident about how strong growth and inflationary pressures will be over the next two years, and therefore the pace of any rate increases.

3. Interest Rate Forecast

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

	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-20
Bank Rate	0.50%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
5yr PWLB Rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%
10yr PWLB View	2.40%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%
50yr PWLB View	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%

Link Asset Services undertook its last review of interest rate forecasts on 11 May after the quarterly Bank of England Inflation Report and MPC meeting at which the MPC kept the Bank

Rate unchanged at 0.50%. The MPC Minutes indicated they wanted to see whether the slowdown in growth in quarter 1 had been a temporary blip or a potential first sign of a prolonged period of weak growth.

The overall balance of risks to economic recovery in the UK is probably even. However, given the uncertainties around Brexit in particular, but also other uncertainties, there is a wide diversity of possible outcomes for the strength of economic growth and inflation, and the corresponding speed with which the Bank Rate could go up.

4. Annual Investment Strategy

The Treasury Management Strategy (TMS) for 2018/19, which includes the Annual Investment Strategy, was approved by the Council on 28 February 2018. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

The Council will also aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with highly credit rated financial institutions, using Link's suggested creditworthiness approach, including a minimum sovereign credit rating, and Credit Default Swap (CDS) overlay information.

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30 June 2018.

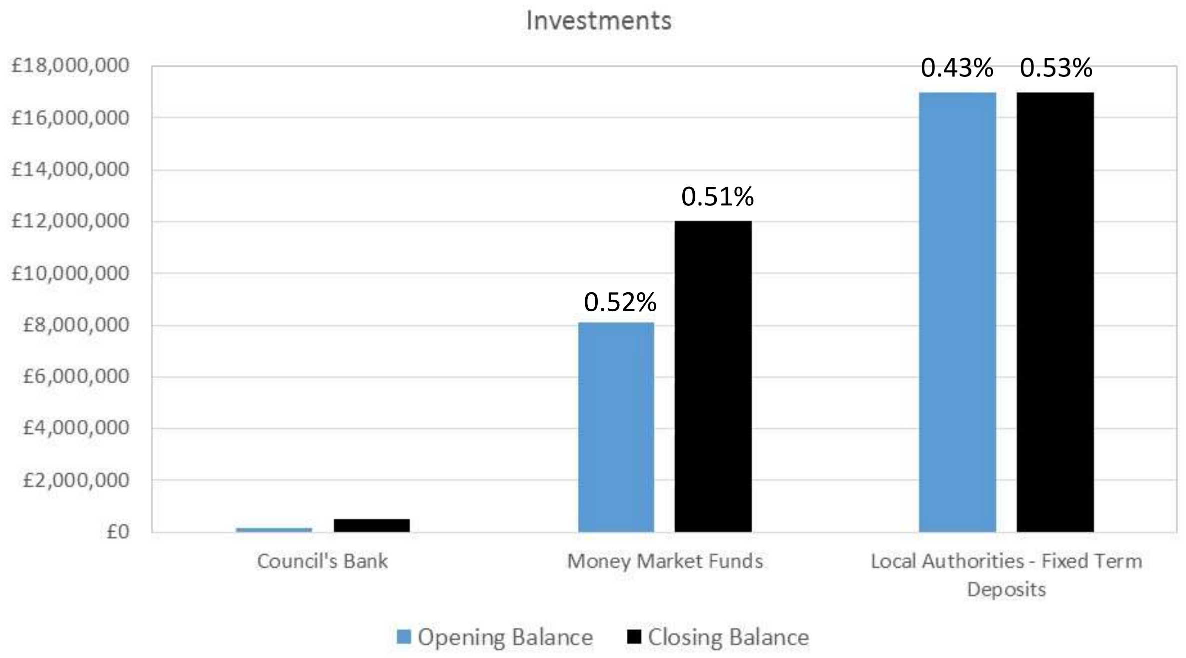
The average level of funds available for investment purposes during the quarter was £27M. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept and business rate related payments, the receipt of grants and progress on the Capital Programme. Unfortunately, it had been anticipated that cash levels would be higher in the quarter and that interest rates would have been increased again, however this has not been the case and as a result investment interest is currently £22K behind target.

In terms of performance against external benchmarks, the return on investments compared to the 7 day LIBID and bank rates over the year to date is as follows. This is viewed as reasonable performance, given the need to prioritise security of investments, and liquidity (i.e. making sure that the Council's cashflow meets its needs):

Base Rate	0.50%
7 day LIBID	0.36%
Lancaster City Council investments	0.52%

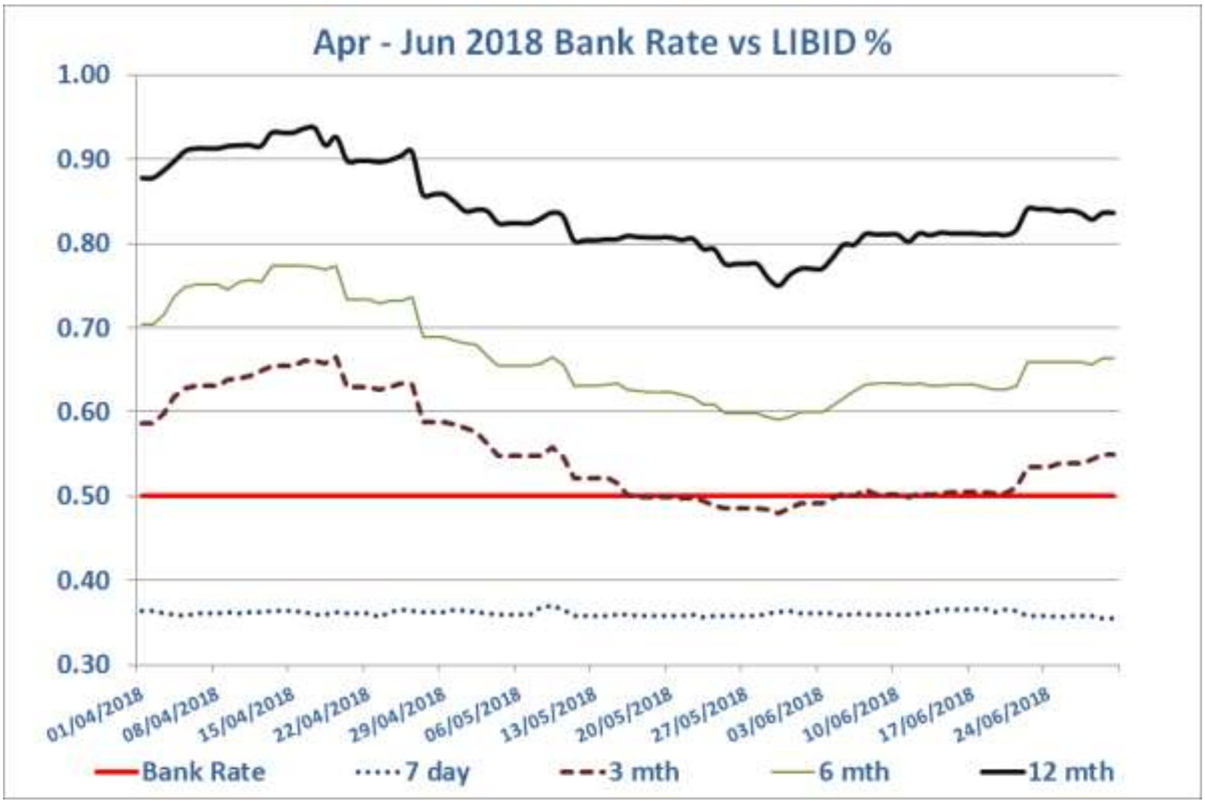
Investments Balances - quarter ended 30 June 2018

At the start of the quarter investments totalled £25M rising to £29.5M by 30 June. Fixed term investments with local authorities remained at £17M whilst Money Market Funds increased by £4M.



Other Investments	Term	Maturity Date	Opening £	Closing £	Indicative Rate (YTD)	Current Fixed Rate	Interest to Date £
Call Accounts							
Natwest (Cash Manager Plus)			131,602	527,635		0.01%	23
Money Market Funds							
Fund			0	6,000,000	0.50%		4,954
LGIM			2,100,000	0	0.51%		4,272
Ignis			6,000,000	6,000,000	0.52%		7,512
Insight			0	0	0.45%		194
Fixed Term Deposits							
Guildford Borough Council	364 days	17/07/2018	5,000,000	5,000,000		0.53%	6,607
Rugby Borough Council	11 months	29/06/2018	1,000,000	0		0.35%	853
Antrim & Newtown Abbey BC	364 days	06/08/2018	3,000,000	3,000,000		0.37%	2,767
Broxtowe Borough Council	364 days	28/09/2018	1,000,000	1,000,000		0.40%	997
London Borough of Islington	364 days	01/10/2018	2,000,000	2,000,000		0.40%	1,995
Surrey Heath Borough Council	44 days	15/05/2018	5,000,000	0		0.50%	3,014
Surrey Heath Borough Council	183 days	16/11/2018	0	1,000,000		0.75%	904
Northamptonshire County Council	363 days	01/04/2019	0	1,000,000		0.70%	1,688
Telford & Wrekin Council	123 days	25/09/2018	0	4,000,000		0.55%	2,230
Sub-total			**25,231,602**	**29,527,635**			**38,010**
						Budgeted income	**59,750**
							(21,740)

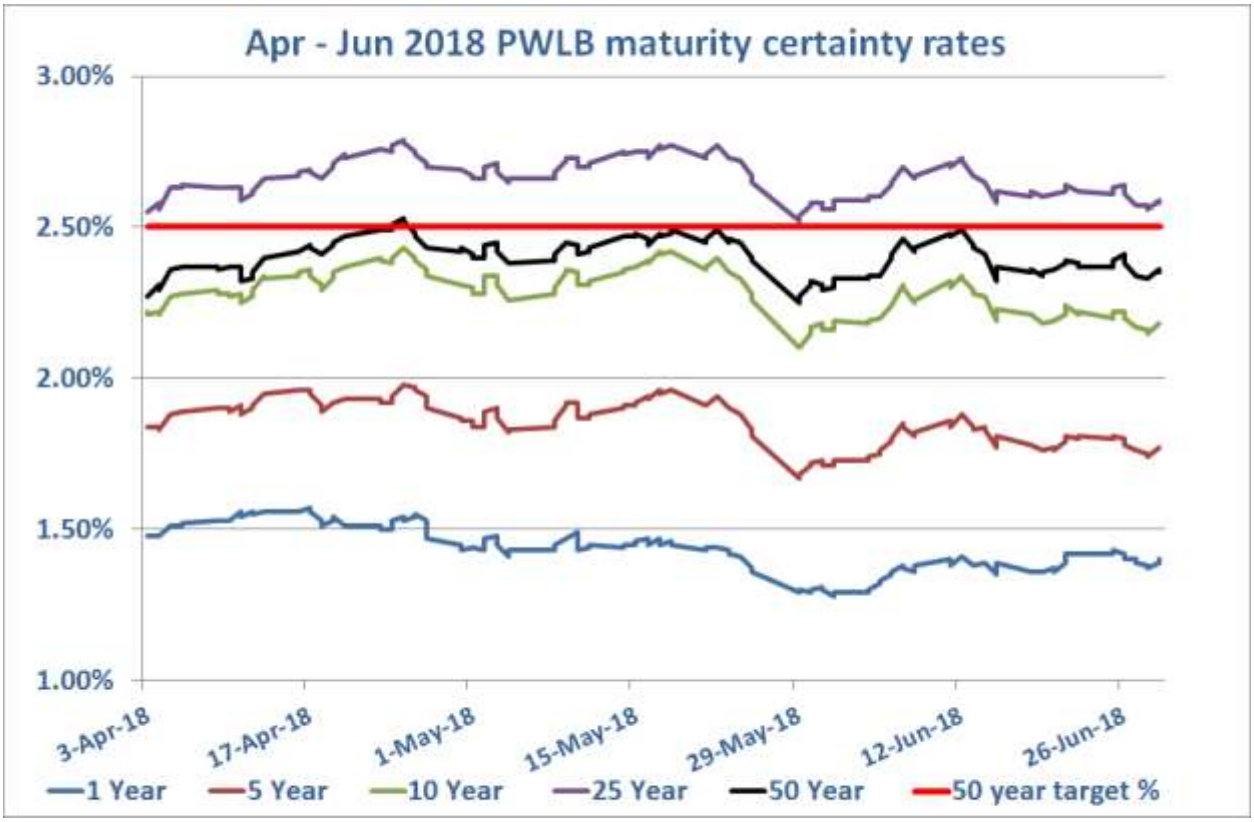
*Regarding Northamptonshire and their s114 notice, that does not affect the security of the investment. A s114 notice does not enable an authority simply to renege on its contractual obligations, such as repaying an investment, and if reorganisation occurs, then any successor organisation/s would pick up those repayment obligations. Local authorities cannot go into liquidation in the same way that banks etc. can; the requirement to provide (and therefore manage the cash to fund) statutory public services remains.



5. Borrowing (commentary provided by Link Asset Services)

As depicted in the graph(s) below, PWLB rates have not been on any consistent trend in this quarter.

During the quarter ended 30 June 2018, the 50 year PWLB target (certainty) rate for new long term borrowing was marginally reduced to 2.40%.



Due to the overall financial position there is no underlying need to borrow further for capital purposes (the Capital Financing Requirement – CFR), therefore no new borrowing was undertaken.

6. Debt Rescheduling

Officers continue to monitor potential saving opportunities associated with the early repayment of existing debt. This takes into account the premiums or discounts associated with early repayment and the projected cost of refinancing or loss in investment interest. Debt rescheduling opportunities have been limited in the current economic climate. At present, it would still not be financially prudent to repay any debt based on the current rates being offered.

7. Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved Treasury Management Strategy.

During the financial year to date the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy and in compliance with the Council's Treasury Management Practices.

8. Risk Management

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.

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, including consideration of the nature and status of counterparty groups (eg. MMFs, banks, local asuthorities).