

<b>CABINET</b>
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## Provisional Revenue, Capital and Treasury Management Outturn 2018/19 6 August 2019

### Chief Finance Officer

PURPOSE OF REPORT			
This report provides summary information regarding the provisional outturn for 2018/19, including treasury management. It also sets out information regarding the carry forward of capital slippage and other matters for Members' consideration.			
<b>Key Decision</b>	<input type="checkbox"/>	<b>Non-Key Decision</b>	<input type="checkbox"/>
<b>Officer Referral</b>			<b>X</b>
<b>Date of notice of forthcoming key decision</b>		N/A	
<b>This report is public.</b>			

#### RECOMMENDATIONS OF COUNCILLOR WHITEHEAD:

- (1) That the provisional outturn for 2018/19 be endorsed, including the transfers to Reserves and Balances actioned by the Chief Finance Officer and changes to the Reserves Strategy set out in 5.2 and Appendix 5.
- (2) That Cabinet approves the request to carry forward underspent revenue budgets as set out in section 6 and Appendix 6.
- (3) That the requests for capital slippage and the adjustments to reflect accelerated capital spending on projects as set out at Appendix 8 be endorsed, with the Capital Programme being updated accordingly.
- (4) That Cabinet approves the redirection of funding in 2019/20 from the HRA Business Support Reserve for the remodelling of Beck View as set out at section 7.3.
- (5) That the Annual Treasury Management report and Prudential Indicators as set out at Appendix 2 be noted and referred on to Council for information.

#### 1. BACKGROUND

- 1.1. All local authorities have a legal duty to produce annual accounts, in support of openness and accountability. It is pleasing to report that the statutory deadline of 31 May was met and the Statement of Accounts was completed and signed off by the Chief Finance Officer on that date. The audit of accounts by Deloitte 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.

## 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.

### General Fund Revenue Outturn

Expenditure	Original Budget	Working Budget	Actual	Variance	Appendix 1 Note
				(Under)/Over Spend	
Central Services	1,815	1,815	1,758	(57)	
Environmental Services	5,666	5,645	5,457	(188)	1
Governance Services	1,629	1,724	1,702	(22)	
Health & Housing Services	4,026	4,027	3,711	(316)	2
Office of the Chief Executive	270	299	331	32	
Regeneration & Planning	6,113	6,285	6,531	246	3
Resources	1,119	1,109	1,276	167	4
Other Corporate Income & Expenditure Item	(4,434)	(4,700)	(5,209)	(509)	5
<b>Net Revenue Expenditure</b>	<b>16,204</b>	<b>16,204</b>	<b>15,557</b>	<b>(647)</b>	

- 2.2 After allowing for various year-end adjustments, there has been a net underspending of £647K against the Original Budget for 2018/19 which has been transferred into the General Fund unallocated reserve
- 2.3 The underspending represents 4.0% of the Council's net revenue budget (2017/18 comparative: £399K underspend, 2.5% of budget) or 7.1% of the council tax requirement. If compared with the Council's gross budget, however, which is in the region of £100M+, the level of net underspending is less than 1%
- 2.4 Details of the significant variances is provided at **Appendix 1**.

## 3. TREASURY MANAGEMENT

- 3.1 We are required by statute to report our annual treasury management performance. This report is attached at **Appendix 2** and sets out the performance of treasury operations for 2018/19. The Council's treasury operations are conducted in accordance with its annual Treasury Management Strategy, which was approved by Council. This document identifies the investment and borrowing policies of the Council specifying various criteria for investment counterparties, maximum duration and the amount of investments together with the framework for any future borrowing.

### 3.2 Investments

- 3.2.1 In 2018/19 the Council had a comparatively low risk to investments. The average daily amount invested reduced slightly to £34.62M (£34.71M 2017/18) with short term investments at 31 March 2019 totalling £25.11M (£25.10M 2017/18). The overall return on investments was £211K at an average interest rate of 0.61% (£113K and 0.33% 2017/18).

### 3.3 Borrowing

- 3.3.1 The Council did not incur any short term, or long term borrowing during 2018/19. Total long term debt at 31 March 2019 amounted to £62.13M (£63.17M 2017/18) all of which relates to PWLB borrowing. A further £1.04M is included within short term liabilities as payment falls due within 12 months.

## 4 HOUSING REVENUE ACCOUNT (HRA)

- 4.1 A summary of the HRA provisional outturn is included at **Appendix 3**. Discounting any notional and presentational variances, the main items of interest are as follows:

	<b>£000</b>
Repairs & Maintenance costs	72
Reduced contribution to the Bad Debt Provision	(107)
Increased Rental Income from tenants	(143)
Reduced use of Reserves	258
Net reduction in Capital funded from Revenue	(410)
Other minor variances	(38)
	<u>(368)</u>

- 4.2 The Councils Housing Voids Team achieved a reduction in average empty property re-let time from 66 days to 26 days, due to a combination of reduced volumes and faster turnaround. This has realised a decrease in void rent loss from 2.6% to 1.5% equating to £143K additional rental income in 2018/19.
- 4.3 At outturn the HRA's financial standing still remains sound. As at 31 March its Balances stood at £10.537M, this being £458K higher than budgeted. A summary of all its Balances & Reserves is included at **Appendix 4**.

## 5 USABLE RESERVES AND BALANCES

- 5.1 The General Fund net underspending of £647K has been transferred into Balances. This means that as at 31 March 2019 General Fund Balances amounted to £5.714M, and the overall level of Usable Revenue Reserves £20.566M (2017/18 £16.936M). Further details of this work and analysis of the Council's Reserves is provided at **Appendix 5**.
- 5.2 Work is currently being undertaken with Cabinet to review the Council's Reserves policy in order to ensure it fully supports and clearly aligns with its ambitions and priorities. Paragraph 10 in **Appendix 5** outlines a number of changes to the future use of Reserves. These include the completion of a business case template setting out specific plans for the use of Reserve, likely outcomes from investment including social value and crucially the link to the Council's key ambitions and strategies. It also proposes that Reserves are assigned to Portfolio Holders who sign off on all reserve allocations. Monitoring of Reserve use will be incorporated into the emerging performance, project and financial monitoring framework.
- 5.3 It is also recommended that the Business Rates Reserve and Budget Support Reserve be opened for bids which support economic prosperity and Funding the Future projects respectively.

## 6 CARRY FORWARD OF UNDERSPENDINGS AND OVERSPENDINGS

- 6.1 Under the financial strategy, provisions exist to adjust budgets between years by carrying forward under or over spendings. 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.

6.2 With regard to the carry forward of revenue underspends, there are two specific requests totalling £38,800, for Cabinet to consider which are detailed at **Appendix 6**

6.3 With regard to overspendings, arrangements require that

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

## 7 CAPITAL OUTTURN

7.1 **Appendix 7** includes a provisional capital expenditure and financing statement for the year, which is summarised in the following tables:

### Capital Expenditure

SERVICE	A	B	C	D	E
	2018/19 Gross Budget £000's	2018/19 Expenditure £000's	Variance Against Budget Overspend/ (Underspend) £000's	(Slippage) or accelerated expenditure £000's	Final Over or (Underspend) £000's
			(B-A)		(C-D)
Environmental Services	912	899	(13)	(4)	(9)
Health and Housing	2,850	2,576	(274)	(273)	(1)
Regeneration and Planning Resources	2,774	3,026	252	274	(22)
Development Pool	777	644	(133)	(146)	13
	132	124	(8)	(8)	0
<b>Total General Fund Programme</b>	<b>7,445</b>	<b>7,269</b>	<b>(176)</b>	<b>(157)</b>	<b>(19)</b>
Housing Revenue Account	4,421	3,987	(434)	(68)	(366)
<b>Total Council Capital Programme</b>	<b>11,866</b>	<b>11,256</b>	<b>(610)</b>	<b>(225)</b>	<b>(385)</b>

### Capital Financing

SERVICE	Direct						Total
	Grants & Contributions £000's	Earmarked Reserves £000's	Revenue Financing £000's	Capital Receipts £000's	Unsupported Borrowing £000's	Major Repairs Allowance £000's	
Environmental Services	44	105	12	0	738	0	899
Health and Housing	2369	184	0	0	23	0	2,576
Regeneration and Planning Resources	2,420	294	1	0	435	0	3,150
Development Pool	0	203	0	0	441	0	644
	0	0	0	0	0	0	0
<b>Total General Fund Financing</b>	<b>4,833</b>	<b>786</b>	<b>13</b>	<b>0</b>	<b>1,637</b>		<b>7,269</b>
Housing Revenue Account	25	141	509	334	0	2,978	3,987
<b>Total Financing</b>	<b>4,858</b>	<b>927</b>	<b>522</b>	<b>334</b>	<b>1,637</b>	<b>2,978</b>	<b>11,256</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 8**. 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.

## **7.3 Change to Future Programme**

- 7.3.1 A growth bid was approved as part of the 2018/19 budget process to convert a redundant shop into a flat at Beech Avenue. The scheme was to be funded from the HRA Business Support Reserve but did not go ahead as planned. Officers are now wishing to redirect this capital allocation to the remodelling of the warden's property at Beck View sheltered scheme, similar to the remodelling which has just been completed at Altham Walk.
- 7.3.2 This report now seeks the approval by Cabinet to redirect of funding in 2019/20 from the HRA Business Support Reserve for the remodelling of Beck View.

## **8 DETAILS OF CONSULTATION**

- 8.1 As reflected above, the statutory arrangements regarding the public's rights in relation to the accounts provide for a fixed 30 working day period, which commenced on 3rd June for this year.

## **9 OPTIONS AND OPTIONS ANALYSIS**

- 9.1 The Council has a legal requirement to ensure that its expenditure is fully funded and to produce accounts in accordance with proper accounting practice. In addition, the Prudential Indicators are a statutory requirement linked to the budgetary framework. For these aspects, therefore, there are no alternative options for Cabinet to consider. Members are being asked to endorse certain actions taken by the Chief Finance Officer, and Cabinet should consider whether it has sufficient information to do so or whether it requires any further justification.
- 9.2 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.

## **10 OFFICER PREFERRED OPTION AND JUSTIFICATION**

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

## **11 CONCLUSION**

- 11.1 Although the General Fund budget and associated Government funding reduced again in 2018/19, the Council continued to manage the financial pressures well and it has again improved the Fund's overall financial standing as at 31 March 2019. 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.

The Outturn and Statement of Accounts report on all the financial resources generated and/or used by the Council in providing services or undertaking other activities under the Policy Framework.

**CONCLUSION OF IMPACT ASSESSMENT**

**(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, HR, Sustainability and Rural Proofing)**

None directly identifiable, due to the high level nature of this report.

**LEGAL IMPLICATIONS**

There are no legal implications directly arising.

**FINANCIAL IMPLICATIONS**

As set out in the report

**OTHER RESOURCE IMPLICATIONS**

**Human Resources / Information Services / Property / Open Spaces:**

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

**DEPUTY SECTION 151 OFFICER'S COMMENTS**

The report has been written by the Section 151 Officer. The comments of Deputy S151 Officer (Director of Corporate Services) are as follows:

The report provides a summary of the revenue and capital outturns for the 2018/19 financial year. It should also provide Cabinet with a view of the financial health of the authority ahead of the process for setting the budget framework to cover the next four years

**MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted and has no further comments

**BACKGROUND PAPERS**

None.

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## Appendix 1: General Fund Revenue Outturn

### General Fund Revenue Outturn as at 31<sup>st</sup> March 2019

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

<b>Expenditure</b>	<b>Original Budget</b>	<b>Working Budget</b>	<b>Actual</b>	<b>Variance (Under)/ Over Spend</b>	<b>Appendix 1 Note</b>
Central Services	1,815	1,815	1,758	(57)	
Environmental Services	5,666	5,645	5,457	(188)	1
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#### **Note1 Environmental Services**

##### Car Parking Income (£179K above forecast)

The base budget was projected prior to February 2018 and doesn't include a favourable outturn of £48K for 2017/18. Explanations for the remaining additional income include increased numbers of festivals in the district and a general upturn in parking levels which has continued since the opening of the bypass.

##### Vehicle Repairs & Maintenance (£93K overspend)

Overspend has been incurred due to increased maintenance requirements. Further work will take place in 2019/20 to profile forecast maintenance budgets using actual information from previous years to optimise the vehicle replacement programme

##### Garden Waste Subscriptions (£55K below forecast)

The number of subscriptions dropped by 5.6% however the additional capacity generated was utilised to absorb the impact of new residential developments across the district which has contributed to delaying a new collection round scheduled for April 2019. Prices have been frozen for 2019/20 in order to protect the client base.

##### Waste Collection Salaries (£53K above forecast staff turnover)

Usually an area of high staff turnover, the target of £93K wasn't achieved due to vastly improved retention rates.

#### **Note 2. Health & Housing**

##### DFG Admin Fee Income (£137K underspend)

The capital DFG grant has been increasing year on year and for 2018/19 was £1.97M. Grants are allocated and an 18% admin fee is levied. More money has meant an increased number of grant allocations and a subsequent rise in admin fee income. There is some offset to staff overtime, agency costs and IT equipment to deal with the extra volume of work.

#### HMO Income (£74K underspend)

New HMO legislation from October 2018 resulted in 100+ additional properties for licensing resulting in an additional £74K income. The licences are for 5 years so this will be an exceptional year and it is expected to peak again in 2023/24.

#### Salt Ayre SPA and Health & Fitness (£96K underspend)

Problems recruiting to and retaining posts including the SPA manager post has resulted in savings. New staffing structure recently implemented is working well and improved performance has been noticed now the new team is established. Gym membership numbers continue to rise following the development and the marketing of the new offer with £33K additional income. This, coupled with savings from the vacant gym manager post, now restructured, has returned the net saving.

#### Salt Ayre Management & Administration (£80K overspend)

During the 2018/19 budget process, estimates provided by an external company were used by Property Services to reduce the electricity budgets based on expected savings made from the repair of the air handling unit at Salt Ayre. Whilst the centre continues to be as efficient as it can with all utilities, the returned savings have not been as high as expected resulting in a £50K overspend on electricity. In addition to this a rates revaluation has been completed at Salt Ayre which has increased by £30K.

### **Note 3 Regeneration & Planning**

#### Development Management (£228K overspend)

An increase in non-fee earning work and reduced level of staffing to carry out building control fee earning work has resulted in an underachievement of income of £35K. Development control has had unforeseeable court costs and appeals in year to the value of £44K. Pre-app and planning fee income has seen a steady decrease in year, potentially due to Brexit uncertainty, with an underachievement of income of £191K.

#### Economic Development (£81K underspend)

Vintage and Light Up Lancaster, despite the best efforts of officers, have been unable to achieve the full savings target of £22K leaving an overspend of £19K. Economic Initiatives have incurred a £69K underspend due to delays in administering spend. New staff/structure now in place and a carry forward request of £29K has been submitted and will offset the underspend.

#### Regeneration (£216K underspend)

Engineers R&M budgets are both reactive and planned. Reactive jobs have been lower than estimated and some planned work delayed. This, along with lower capital salary charges and consultancy costs that will be delayed into 2019/20, have resulted in an underspend of £122K. Neighbourhood Planning consultancy expenditure £43K is likely to be delayed into 2019/20.

#### Service Support (£52K overspend)

Salary turnover target not achieved due to savings being used for interim cover which have out-turned higher than previously estimated.

### **Note 4 Resources**

#### Net cost of Housing Benefits Grants (£183K overspend)

There was a reduction in 2018/19 in Housing Benefit Overpayment Recoveries of £285K as the number of claimants and overpayments reduced as more people move across to Universal Credit leaving a net cost of £183K after net spend on benefits awarded and in year overpayments are taken into account.

#### Reduction in Court Costs Income (£163K overspend)

Difficult to budget for Council Tax/NNDR Court Cost income as numbers of court cases can vary quite significantly year on year and estimates are based on previous years' numbers. 2018/19 was based on a large number of cases which didn't materialise.

#### Reduced Repairs & Maintenance Expenditure (£90K underspend)

As the Building Condition Works Programme draws to a close, and a lot of the essential upgrade works completed to the Councils buildings, the amount spent on one off repairs has reduced again. The budgets have been cut back in recent years and will be assessed going forward again to ensure that the correct level of funding is available for the routine maintenance and one-off repairs.

#### Resources Staffing (£116K underspend)

There have been two vacant Customer Service posts that haven't, and are unlikely to be, filled (subject to any service restructures) leading to a saving of £41K. Staff savings during the year in all Resources areas including Financial Services, Audit and Property Services totalled £75K.

### **Note 5 Other Corporate Income & Expenditure**

#### Additional Government Income (£112k underspend)

Additional unanticipated income for received towards the end of the year in respect of Brexit preparations (£18k) and returned Business Rates levy (£88k).

#### Reduced Minimum Revenue Provision (£104k underspend)

Minimum Revenue Provision budgets are calculated in accordance with anticipated capital expenditure and borrowing. A lower than anticipated spend reflects lower levels of capital expenditure and therefore the need to borrow.

#### Direct Revenue Funding of Capital (£486k underspend)

Delays in some capital schemes have resulted in lower than anticipated revenue funding of capital schemes,

**Annual Treasury Management Report**  
2018/19

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For Noting by Cabinet 6 August 2019

# Annual Treasury Management Review 2018/19

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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 2018/19. 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 2018/19 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 28 February 2018)
- a mid-year (minimum) treasury update report (**non compliant**)
- 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. (non compliant)*

## 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.
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# 1. The Council's Capital Expenditure and Financing 2018/19

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	2017/18 Actual	2018/19 Estimate	2018/19 Actual
<b>Capital expenditure</b>	<b>11.64</b>	<b>11.40</b>	<b>7.27</b>
Financed in year	(7.23)	(6.51)	(5.67)
<b>Unfinanced capital expenditure (i.e. reliant on an increase in underlying borrowing need)</b>	<b>4.41</b>	<b>4.89</b>	<b>1.60</b>

HRA £M	2017/18 Actual	2018/19 Estimate	2018/19 Actual
<b>Capital expenditure</b>	<b>4.03</b>	<b>4.42</b>	<b>3.99</b>
Financed in year	(4.03)	(4.42)	(3.99)
<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 2018/19

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 2018/19 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 2018/19 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2018/19 on 28 February 2018.

The Council's CFR for the year is shown below, and represents a key prudential indicator. No borrowing is actually required against these schemes, however, as cash supporting the Council's reserves, balances and cash flow has been used as an interim measure.

CFR (£M): General Fund	31 March 2018 Actual	31 March 2019 Estimate	31 March 2019 Actual
<b>Opening balance</b>	<b>40.62</b>	<b>46.69</b>	<b>43.61</b>
Add unfinanced capital expenditure (as above)	4.41	4.89	1.60
Less MRP	(1.38)	(1.77)	(1.66)
Less finance lease repayments	(0.04)	0.00	0.00
<b>Closing balance</b>	<b>43.61</b>	<b>49.81</b>	<b>43.55</b>

CFR (£M): HRA	31 March 2018 Actual	31 March 2019 Estimate	31 March 2019 Actual
<b>Opening balance</b>	<b>41.45</b>	<b>39.37</b>	<b>40.39</b>
Add unfinanced capital expenditure (as above)	0.00	0.00	0.00
Less Debt Repayment	(1.06)	(1.04)	(1.06)
<b>Closing balance</b>	<b>40.39</b>	<b>38.33</b>	<b>40.33</b>

CFR (£M): Combined	31 March 2018 Actual	31 March 2019 Estimate	31 March 2019 Actual
<b>Opening balance</b>	<b>82.07</b>	<b>86.06</b>	<b>84.00</b>
Add unfinanced capital expenditure (as above)	4.41	4.89	1.60
Less Debt Repayment, Finance Leases and MRP	(2.47)	(2.81)	(2.72)
<b>Closing balance</b>	<b>84.01</b>	<b>88.14</b>	<b>82.88</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 (2017/18) plus the estimates of any additional capital financing requirement for the current (2018/19) 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 2018/19. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

£M	31 March 2018 Actual	31 March 2019 Estimate	31 March 2019 Actual
Gross borrowing position	64.21	63.13	62.13
CFR	84.00	86.06	82.88

**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 2018/19 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.

	2018/19 Actual
Authorised limit	£102.00M
Maximum gross borrowing position	£64.21M
Operational boundary	£86.06M
Average gross borrowing position	£63.86M
Financing costs as a proportion of net revenue stream - GF	17.00%
Financing costs as a proportion of net revenue stream - HRA	21.26%

### 3. Treasury Position as at 31 March 2019

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 2018/19 the Council's treasury position was as follows:

<b>DEBT PORTFOLIO</b>	<b>31 March 2018 Principal £M</b>	<b>Average Rate %</b>	<b>Average Life yrs</b>	<b>31 March 2019 Principal £M</b>	<b>Average Rate %</b>	<b>Average Life yrs</b>
Fixed rate funding:						
PWLB	64.21	4.64	35	63.17	4.66	34
<b>Total debt</b>	<b>64.21</b>			<b>63.17</b>		
<b>CFR</b>	<b>84.01</b>			<b>82.88</b>		
<b>Over / (under) borrowing</b>	<b>(19.80)</b>			<b>(20.76)</b>		

The loan repayment schedule is as follows:

	<b>31 March 2019 Actual £M</b>
Under 12 months	1.04
12 months and within 24 months	1.04
24 months and within 5 years	3.12
5 years and within 10 years	5.20
10 years and within 20 years	5.20
20 years and within 30 years	8.35
More than 30 years	39.22

All investments were placed for under one year.

<b>INVESTMENT PORTFOLIO</b>	<b>31 March 2018 £M</b>	<b>31 March 2018 %</b>	<b>31 March 2019 £M</b>	<b>31 March 2019 %</b>
Money Market Funds	8.10	32.27	4.11	16.37
Other Local Authorities	17.00	67.73	21.00	83.63
<b>Total investments</b>	<b>25.10</b>		<b>25.11</b>	

The average rate of interest payable on PWLB debt in 2018/19 was 4.66%. A total of £2.98M interest was incurred during the year, of which £1.83M was recharged to the HRA.

#### *Interest Payable*

	<b>2018/19</b>
Estimate	£2.98M
Actual	£2.98M

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 2018/19

Investment returns remained low during 2018/19. The expectation for interest rates within the treasury management strategy for 2018/19 was that the Bank Rate would rise from 0.50% to 0.75%. 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)

*At the start of 2018/19, and after UK GDP growth had proved disappointingly weak in the first few months of 2018, the expectation for the timing of this increase was pushed back from May to August 2018. Investment interest rates were therefore on a gently rising trend in the first half of the year after April, in anticipation that the MPC would raise the Bank Rate in August. This duly happened at the MPC meeting on 2 August 2018.*

*It was not expected that the MPC would raise the Bank Rate again during 2018/19 after August in view of the fact that the UK was entering into a time of major uncertainty with Brexit due in March 2019.*

*Investment rates were little changed during August to October but rose sharply after the MPC meeting of 1 November was unexpectedly hawkish about their perception of building inflationary pressures, particularly from rising wages. However, weak GDP growth data after December, plus increasing concerns generated by Brexit, resulted in investment rates falling back again.*

## 6. Borrowing Strategy and Control of Interest Rate Risk

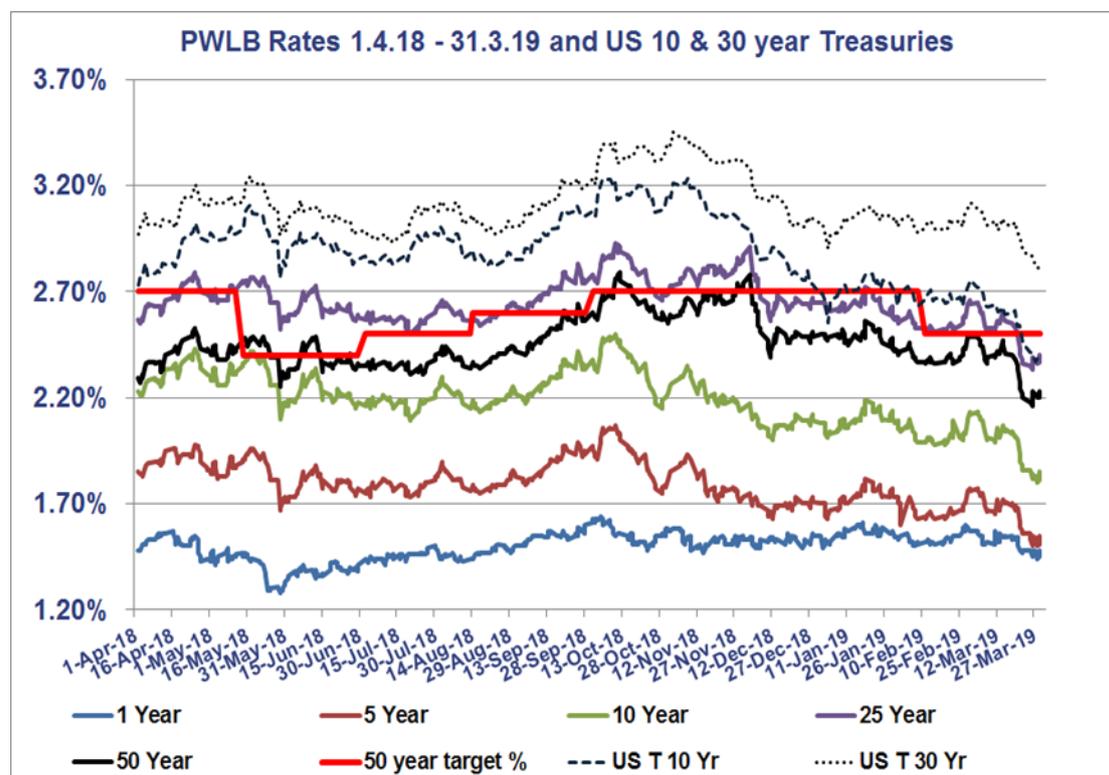
During 2018/19, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement set out in paragraph 2), was not fully funded with loan debt. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

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

Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2018/19 and the two subsequent financial years.

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



	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2018	1.48%	1.85%	2.23%	2.57%	2.29%
29/03/2019	1.48%	1.55%	1.85%	2.40%	2.23%
Low	1.28%	1.50%	1.80%	2.33%	2.16%
Date	29/05/2018	26/03/2019	28/03/2019	26/03/2019	26/03/2019
High	1.64%	2.07%	2.50%	2.93%	2.79%
Date	04/10/2018	10/10/2018	10/10/2018	10/10/2018	12/10/2018
Average	1.50%	1.80%	2.20%	2.66%	2.47%

## 7. Borrowing Outturn for 2018/19

### 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 Outturn for 2018/19

**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 28 February 2018. 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	
	31/03/18	31/03/19	31/03/18	31/03/19	31/03/18	31/03/19
Balances	5.07	5.71	2.02	2.24	7.09	7.95
Earmarked reserves	11.87	14.84	10.56	10.54	22.43	25.38
Provisions	0.58	4.04	0.00	0.00	0.58	4.04
Working Capital	12.20	6.88	2.62	2.30	14.82	9.18
<b>Total</b>	<b>29.72</b>	<b>31.47</b>	<b>15.20</b>	<b>15.08</b>	<b>44.91</b>	<b>46.55</b>
<b>Amount Over/(Under) Borrowed</b>					<b>(19.80)</b>	<b>(20.76)</b>
<b>Baseline Investment Balances</b>					<b>25.11</b>	<b>25.79</b>
<b>Actual Investment Balances</b>					<b>25.10</b>	<b>25.11</b>

**Investments held by the Council** - the Council maintained an average investment balance of £34.7M of internally managed funds. The average rate of interest earned for the year as a whole was 0.61%. As the Base Rate and 3 Month LIBID increased part of the way through both 2017/18 and 2018/19, the weighted average rate of interest being earned on the investment portfolio at the end of both years is also given. These rates are compared to the base rate and average 3-month LIBID rate at the end of the year.

	2017/18	2018/19
Lancaster CC Investments full year	0.33%	0.61%
Lancaster CC Investments weighted average at 31 March	0.45%	0.87%
Base Rate	0.50%	0.75%
3 Month LIBID	0.45%	0.67%

The actual interest earned in 2018/19 was £215K.

## 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 2018/19 complied with the latest Code of Practice (December 2017) and relevant Government investment guidance.

## 11. Conclusion

The Council's treasury activities were in line with its approved policies and strategies. With respect to investments, some longer fixed term investments were placed with other Local Authorities which helped to increase the average yield for the year. 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 28 February 2018**

This reflects the revised CIPFA Treasury Management Code of Practice (Code updated in 2017).

1. This organisation defines its treasury management activities as:  
  
“The management of the authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.
  
  2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation and any financial instruments entered into to manage these risks.
  
  3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.
-

## Treasury Management Glossary of Terms

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

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

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

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

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

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

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# HOUSING REVENUE ACCOUNT OUTTURN 2018/19

For Consideration by Cabinet 6 August 2019

	Original Budget £	Actual £	Variance £	Adjusted Variance £
<b>INCOME</b>			<b>(Favourable) / Adverse</b>	<b>(Favourable) / Adverse</b>
Rental Income - Council Housing	(13,336,700)	(13,479,760)	(143,060)	(143,060)
Rental Income - Other (Shops and Garages etc.)	(282,500)	(255,361)	27,139	27,139
Charges for Services & Facilities	(1,496,600)	(1,496,813)	(213)	(213)
Grant Income	(7,700)	(7,736)	(36)	(36)
Contributions from General Fund	(103,200)	(104,227)	(1,027)	(1,027)
<b>Total Income</b>	<b>(15,226,700)</b>	<b>(15,343,896)</b>	<b>(117,196)</b>	<b>(117,196)</b>
<b>EXPENDITURE</b>				
Repairs & Maintenance	5,097,500	5,192,027	94,527	94,527
Supervision & Management	3,155,000	3,375,381	220,381	(115,763)
Rents, Rates & Insurance	212,700	179,170	(33,530)	(33,530)
Contribution to Provision for Bad and Doubtful Debts	181,800	74,696	(107,104)	(107,104)
Depreciation & Impairment of Fixed Assets	2,601,200	6,812,345	4,211,145	415,335
Debt Management Costs	1,100	0	(1,100)	(1,100)
<b>Total Expenditure</b>	<b>11,249,300</b>	<b>15,633,620</b>	<b>4,384,320</b>	<b>252,366</b>
<b>NET COST OF HRA SERVICES</b>	<b>(3,977,400)</b>	<b>289,724</b>	<b>4,267,124</b>	<b>135,170</b>
Capital Grants and Contributions Receivable	(2,000)	(24,829)	(22,829)	(22,829)
Interest Payable & Similar Charges	1,883,700	1,878,277	(5,423)	(5,423)
Premiums & Discounts from Earlier Debt Rescheduling	0	0	0	0
Interest & Investment Income	(76,600)	(70,032)	6,568	6,568
Pensions Interest Costs & Expected Return on Pensions Assets	169,400	360,420	191,020	0
Self Financing Debt Repayment	0	0	0	0
<b>(SURPLUS) OR DEFICIT FOR THE YEAR</b>	<b>(2,002,900)</b>	<b>2,433,561</b>	<b>4,436,461</b>	<b>113,487</b>
Adjustments to reverse out Notional Charges included above	1,043,400	(2,752,410)	(3,795,810)	0
Net Charges made for Retirement Benefits	0	(527,164)	(527,164)	0
Transfer to/(from) Earmarked Reserves - for Revenue Purposes	0	0	0	0
Capital Expenditure funded from Major Repairs Reserve	971,100	510,937	(460,163)	(460,163)
Transfer from Earmarked Reserves - for Capital Purposes	(346,500)	(24,226)	322,274	322,274
Financing of Capital Expenditure from Earmarked Reserves	485,000	141,752	(343,248)	(343,248)
<b>TOTAL (SURPLUS) / DEFICIT FOR THE YEAR</b>	<b>150,100</b>	<b>(217,550)</b>	<b>(367,650)</b>	<b>(367,650)</b>
Housing Revenue Account Balance brought forward	(1,716,702)	(2,017,736)	0	0
<b>HRA BALANCE CARRIED FORWARD</b>	<b>(1,566,602)</b>	<b>(2,235,286)</b>	<b>(367,650)</b>	<b>(367,650)</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.

## HRA RESERVES BUDGET SUMMARY - 2018/19 Outturn

2018/19						
HOUSING REVENUE ACCOUNT	Balance as at 31/03/18 £	Contributions to Reserve		Contribution from Reserve		Balance as at 31/03/19 £
		From Revenue £	To Capital £	To Revenue £	To Revenue £	
<b>HRA General Balance</b>	<b>(2,017,736)</b>	<b>(217,549)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(2,235,285)</b>
<b>Earmarked Reserves:</b>						
Business Support Reserve	(8,332,106)	0	26,152	40,775		(8,265,179)
Major Repairs Reserve	0	(3,484,673)	3,484,673	0		0
Flats - Planned Maintenance	(586,362)	(133,000)	107,488	0		(611,874)
I T Replacement	(622,636)	(57,000)	0	104,747		(574,889)
Office Equipment Reserve	(39,009)	0	0	0		(39,009)
Sheltered - Equipment	(330,987)	(29,649)	0	17,054		(343,582)
Sheltered - Planned Maintenance	(173,676)	(59,199)	0	36,506		(196,369)
Sheltered Support Grant Mtce	(475,975)	(29,649)	0	0		(505,624)
<b>Total Earmarked Reserves</b>	<b>(10,560,750)</b>	<b>(3,793,169)</b>	<b>3,618,313</b>	<b>199,082</b>		<b>(10,536,524)</b>

## Appendix 4 – Usable Reserves Outturn and Look Forward

### Usable Reserves Outturn as at 31 March 2019

- The level of usable reserves as at 31 March 2019 is shown in the table below. The balances are subject to the annual audit of the accounts which is due to be completed by 31 July 2019.

Reserve	Balance in £'000 as at		
	31/03/17	31/03/18	31/03/19
<b>General Fund</b>	<b>4,725</b>	<b>5,067</b>	<b>5,714</b>
<b>Earmarked Reserves</b>			
Business Rates Retention	381	4,602	6,283
Budget Support	0	711	2,532
Invest to Save	1,820	1,506	1,450
S106 Commuted Sums	640	1,192	1,147
Revenue Grants Unapplied	0	744	694
Restructure	550	566	531
Corporate Property	418	412	372
Welfare Reforms	266	223	349
Renewals Reserves	857	451	330
Capital Support	452	485	262
Canal Quarter	0	214	237
Economic Growth	0	359	204
Other Earmarked Reserves	384	404	451
<b>Total Earmarked Reserves</b>	<b>5,768</b>	<b>11,869</b>	<b>14,843</b>
<b>Total Usable Revenue Reserves</b>	<b>10,493</b>	<b>16,936</b>	<b>20,566</b>
Capital Receipts Reserve	0	0	0
Capital Grants Unapplied	103	103	103
<b>Total Usable Capital Reserves</b>	<b>103</b>	<b>103</b>	<b>103</b>
<b>Total Usable Reserves (per balance sheet)</b>	<b>10,596</b>	<b>17,039</b>	<b>20,669</b>

- The outturn shows a significant increase in both the General Fund balance and in Earmarked Reserves. The increase in the General Fund balance of £647k is due entirely to the revenue budget underspend which is reported in appendix one. The increase in earmarked reserves is due, in the main part, to an accumulation of business rates gains over the last few years. The table below provides an analysis of the change in reserves during 2018/19.

### Reconciliation between level of reserves at March 2018 and 2019

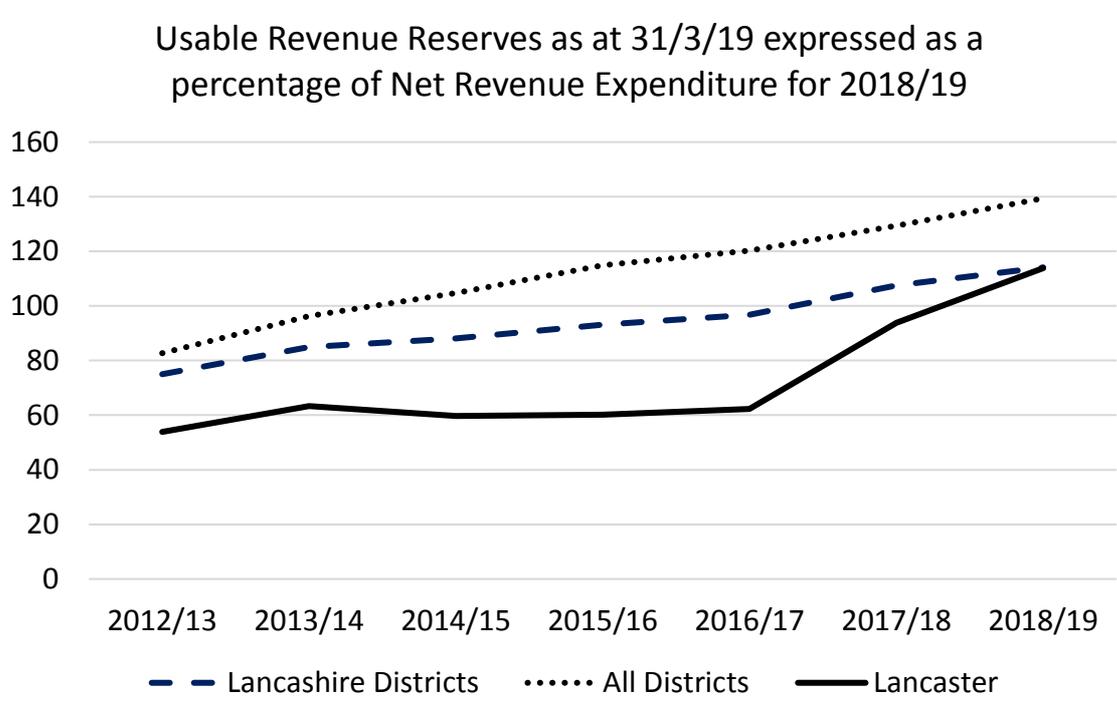
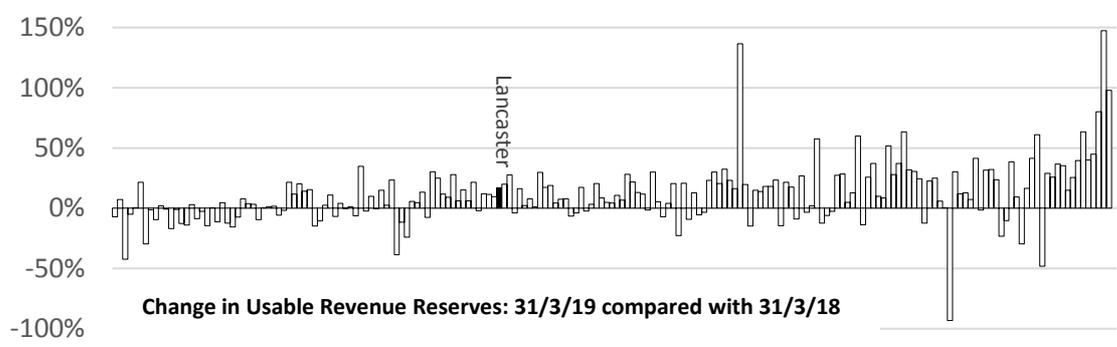
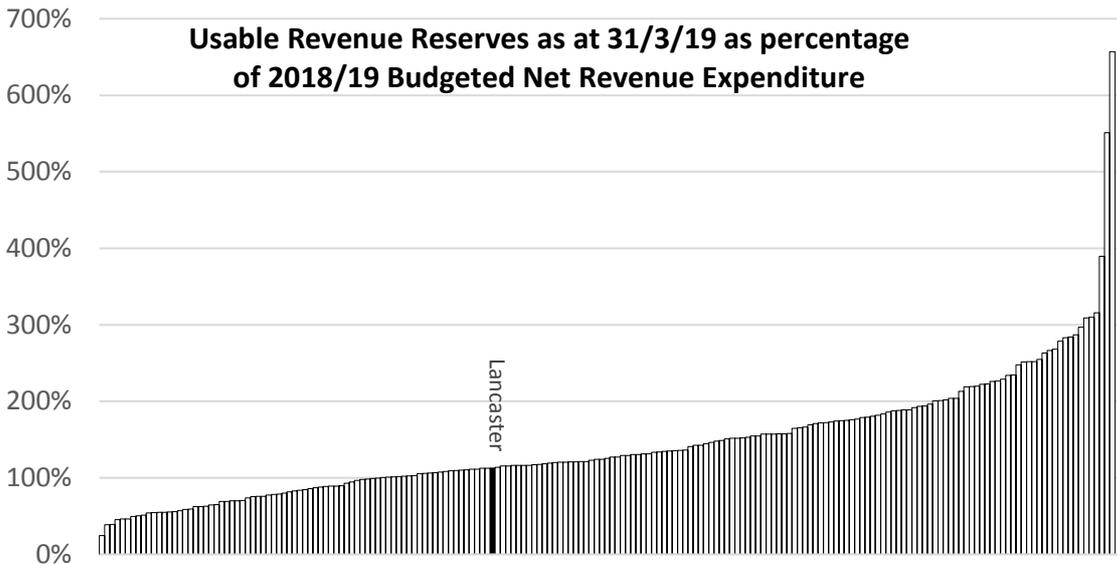
General Fund Reserve Balance at 31/03/18	5,067
<i>Add: Revenue Underspend at 2018/19 (see appendix one)</i>	<u>647</u>
General Fund Reserve Balance at 31/03/19	<u><b>5,714</b></u>
Earmarked Revenue Reserves Balance at 31/03/18	11,869
<i>Add: forecast increase in reserves (per 2018/19 rev. budget)</i>	8,301
<i>Less: forecast use of reserves (per 2018/19 rev. budget)</i>	<u>(6,169)</u>
Earmarked Revenue Reserves Balance per 2019/10 rev. budget	<u>14,001</u>
<i>Add: Earmarked reserves allocations not used in 2018/19</i>	<u>842</u>
Earmarked Revenue Reserves Balance at 31/03/19	<u><b>14,843</b></u>

### Business Rates Reserves

3. This reserve was set up to manage fluctuations in business rates income and ensure that risks attributable to business rates appeals and the potential shutdown of Heysham Power Station. However, in six years these risks have only been partially realised and the Council has been able to accrue the rewards from good levels of business rates growth in the Lancaster district. As the above analyses show it is the accumulation of this additional income which is the major contribution to the increase in usable reserves. Future plans for this reserve are considered later in this report.

### Financial Health Analysis

4. There has been significant media focus on the level of revenue reserves as the main determinant of financial health of local authorities as well as a measure of resilience against potential future funding reductions.
5. The increase in usable revenue reserves over the last two years has significantly improved the financial health and resilience of the Council. This is demonstrated in the three charts overleaf. The top chart shows the usable revenue reserves at 31 March 2019 expressed as a percentage of net revenue expenditure for all district authorities. The middle chart shows the change in those reserves during 2018/19. The bottom chart shows the same analysis in a line graph over a longer period comparing Lancaster with the Lancashire districts average and all districts average.
6. The charts show almost a doubling in usable revenue reserves over the last two years and Lancaster City Council now has over a year's worth of net revenue expenditure held in reserve.



## Looking forward

7. There are a number of commonly accepted reasons for holding and using reserves which are all associated with managing current and future financial challenges and risks. These include:
  - Using reserves to offset funding reductions to protect services – although this can only be a short-term strategy as reserves are a one-off funding resource.
  - Increasing reserves to strengthen resilience against future, uncertain cost pressures.
  - To fund project expenditure, particularly in respect of key projects which meet the Council's priority areas.
  - Investing in making changes that reduce the cost of providing services in the longer-term.
  - Using reserves to fund significant one-off (eg. Elections, Local Plan) or unpredictable (eg. Renewals) expenditures in order to even out contributions over the period of the expenditure.
  
8. The Council agreed its Reserves Strategy on 28 February 2019 agreeing the following:
  - Revenue contributions from reserves of £1.219m and contributions to reserves from the revenue budget of £755k and capital contributions from reserves of £864k resulting in a budgeted reduction in reserves of £1.328m.
  - That following on from the year end the balance on the business rates reserves is reviewed and any surplus funds, over and above those required to provide funding certainty, are redesignated towards the delivery of corporate priorities as set out in the Council Plan or accompanying strategic documents as and when revised by the new Council.
  - That the budget support reserve purpose should be extended to include any upfront costs which are attributable to work undertaken in respect of Funding the Future.
  
9. Since the Reserves Strategy was agreed, a new Council has been elected and the new Cabinet is in the process of agreeing priorities which include key projects and assigning responsibilities to Portfolio Holders. Additionally, a number of key strategies will be considered over the next few months covering key priority areas.

10. Taking account of the above the following recommendations are now made.

**a. Improved clarity with respect to the Use of Reserves**

Any bid for the use of reserves should be supported by a business case showing the need for resources and the impact arising from the use of the reserve. A pro-forma has been developed which, for each reserve bid, includes:

- Description of project
- Amount of reserve bid
- Link to reserve purpose and link to relevant Strategy
- Full costing of project linked to a SMART Action Plan
- List of Outcomes and Impacts arising from the use of reserve
- Completion of Social Value matrix including reference to Climate Change Emergency and Community Wealth Building priorities
- Sign off by relevant Director and Portfolio Holder

The pro-forma will be applied to all existing budgeted use of reserves as well as any new bids for the use of reserves. A quarterly report covering use of reserves will be incorporated into the performance management reporting framework.

**b. Alignment of Earmarked Reserves to Portfolio Holders**

Earmarked reserves will be assigned to relevant Portfolio Holders for the purposes of approval (subject to Reserves Policy) and monitoring. The list of responsibilities is included in the table below.

Reserve	Portfolio Holder
Business Rates Retention	Economic Development
Budget Support	Finance
Invest to Save	Finance
S106 Commuted Sums	Planning
Revenue Grants Unapplied	Finance
Restructure	Resources
Corporate Property	Economic Development
Welfare Reforms	Social Justice
Renewals Reserves	Various
Capital Support	Finance
Canal Quarter	Economic Development
Economic Growth	Economic Development

The Portfolio Holder for Finance will retain an overarching responsibility for managing the overall level of usable revenue reserves having regard for the Council's financial resilience and future financial risks.

***c. Business Rates Reserve***

The Business Rates reserve has a balance of £6.283m at 31/03/19 and this is likely to increase further in 2019/20 so long as there is no closedown at Heysham Nuclear Power Station. This balance is significantly greater than the level which is required to secure continued resilience over the four year period of the Council. It is therefore recommended that bids to the Business Rates reserve be allowed using the process set out in **a** and **b** above in order that key corporate projects can be progressed.

***d. Budget Support Reserve***

A number of Funding the Future Strategy projects are planned to be progressed over the next few months. It is therefore recommended that bids to the Budget Support reserve be allowed using the process set out in **a** and **b** above in order that key financial resilience projects can be progressed.

## APPENDIX 6

### 2018/19 REQUESTS FOR CARRY FORWARD

<b>SERVICE</b>	Regeneration & Planning
<b>BUDGET HEADING</b>	City/Maritime Museum Computer Equipment
<b>LEDGER CODE</b>	N2900/E3450 & N2901/E3450
<b>AMOUNT</b>	£9,600

#### **The reasons why the spend didn't occur during 2018/19 and why we still have a commitment for it in 2019/20.**

Delays with the wifi provider due to internal staff sickness has resulted in the slightly later than planned implementation of Wi-Fi throughout the City and Maritime Museums. Should the implementation not go ahead the alternative will be less effective and long term will result in an additional cost to the Council.

#### **Financial Services Comments**

The Museums function has recently been brought back in house and has recruited a new Manager. The budgets for the museums have been estimated based on detail provided by County and are proving to be challenging. The museums staff have worked really hard to keep within budget, with one off costs that were not budgeted for being absorbed; there is no capacity, however, to reallocate 19/20 budgets for the Wi-Fi expenditure.

This is a retrospective request as it has already been discussed with the Director of Corporate Services who has given consent for work to proceed and the budget carried forward.

## APPENDIX 6

2018/19

### REQUESTS FOR CARRY FORWARD

<b>SERVICE</b>	<b>Economic Growth and Regeneration</b>
<b>BUDGET HEADING</b>	<b>Economic Development Initiatives</b>
<b>LEDGER CODE</b>	<b>N5001</b>
<b>AMOUNT</b>	<b>£29,200</b>

#### **The reasons why the spend didn't occur during 2018/19 and why we still have a commitment for it in 2019/20.**

The budget relates to a number of Economic Development projects and initiatives that are on-going. The nature of work involved, often working with external partner organisations, is difficult to profile by financial year and therefore carry forward requests are required to continue with the on-going activity. Narrative for individual carry forward requests are as follows.

#### **Archaeological Site Spend N5001/E3958 £5,000**

Consultancy contract for an archaeological report relating to the Quay Meadow excavations. Consultant contracted in 18/19 but unavoidably delayed until 19/20. Carry forward request required to match committed activity.

#### **Business and Skills N5001/E3964 £10,000**

A number of Business and Skills initiatives are now underway and a carry forward request is required to continue work in this area. Two specific commitments made in 18/19 from existing budgets are the NW Lancs Expo that the Council delivers in partnership with the Chamber (£5k) and development of the UK Corporate Games 2020, which the Council is delivering with Lancaster University (£5k).

#### **Community Business N5001/E3966 £6,000**

Relates to the budget for the Local Wealth Building Officer post, which is an 18-month post, and supporting costs. Post not recruited to until March/April. Carry forward required to fund the post in 19/20 and 20/21 accordingly. The budget will then be moved to Economic Development salaries.

#### **Support for Groups N5001/E3967 £1,000**

Budget relates to support for local groups and enterprises that are largely excluded from mainstream funding programmes. A specific commitment (£1k) has been made for accommodation costs relating to an event to showcase local creative industries.

#### **Morecambe Bay Collaborative Projects £7,200**

Budget relates to Lancaster and South Cumbria Economic Region (LSCER). Activity is on-going so budget is requested to be carried forward into 19/20 accordingly. A specific commitment of £7,200 has been made for economic consultancy work.

#### **Financial Services Comments**

The Economic Initiatives budget was approved at the start of 18/19 and was allocated wholly in that year. Due to the nature of the work it is not always possible to estimate when spend will take place hence the carry forward requests.

## Lancaster City Council - Capital Expenditure 2018/19

For consideration by Cabinet 6th August 2019

HOUSING REVENUE ACCOUNT	Revised Budget	Expenditure in 2018/19	Variance Against Budget Over/ (Under) Spend	Expenditure to be financed in 2018/19	SCHEME FINANCING						BALANCE FINANCED BY GENERAL CAPITAL RESOURCES
					GRANTS & CONTRIBUTIONS	GRANTS UNAPPLIED	EARMARKED RESERVES / PROVISIONS	SPECIFIC REVENUE FINANCING	MAJOR REPAIRS ALLOWANCE (HRA only)	TOTAL SCHEME SPECIFIC FINANCING / ITEMS	
<b>COUNCIL HOUSING</b>	£	£	£	£	£	£	£	£	£	£	£
Adaptations	250,000	251,908	-1,908	251,908						0	251,908
Energy Efficiency boiler Replacements	635,000	694,690	-59,690	694,690			9,950		602,864	612,814	81,876
Environmental Improvements	1,037,000	1,050,595	-13,595	1,050,595	18,668		90,650		941,278	1,050,595	0
Fire Precaution Works	180,000	193,069	-13,069	193,069	6,161		15,000		171,908	193,069	0
Kitchen/Bathroom Replacement	1,032,000	879,219	152,781	879,219					879,219	879,219	0
Lift Replacements	70,000	68,991	1,009	68,991					68,991	68,991	0
Re-roofing & Window Renewals	641,000	570,861	70,139	570,861				257,385	313,476	570,861	0
Rewiring	86,000	37,375	48,625	37,375				37,375		37,375	0
Whole House Improvements	490,000	240,329	249,671	240,329			26,152	214,177		240,329	0
<b>TOTAL - HRA</b>	<b>4,421,000</b>	<b>3,987,037</b>	<b>433,963</b>	<b>3,987,037</b>	<b>24,829</b>	<b>0</b>	<b>141,752</b>	<b>508,937</b>	<b>2,977,736</b>	<b>3,653,253</b>	<b>333,784</b>

GENERAL FUND	Revised Estimate	Expenditure in 2018/19	Variance Against Budget Over/ (Under) Spend	Expenditure to be financed in 2018/19	SCHEME FINANCING						BALANCE FINANCED BY GENERAL CAPITAL RESOURCES
					GRANTS & CONTRIBUTIONS	GRANTS UNAPPLIED	EARMARKED RESERVES / PROVISIONS	SPECIFIC REVENUE FINANCING	MAJOR REPAIRS ALLOWANCE (HRA only)	TOTAL SCHEME SPECIFIC FINANCING / ITEMS	
<b>ENVIRONMENTAL SERVICES</b>	£	£	£	£	£	£	£	£	£	£	£
Vehicle Renewals	662,000	657,679	4,321	657,679						0	657,679
Electronic Vehicle Charging Points	54,000	56,487	-2,487	56,487	44,487				12,000	56,487	0
Vehicle Fleet Review	59,000	55,543	3,457	55,543						0	55,543
CCTV Extension to White Lund	53,000	55,570	-2,570	55,570			55,570			55,570	0
Vehicle Ramp	34,000	34,485	-485	34,485			34,485			34,485	0
Bolton Le Sands Young People's Facilities	15,000	14,920	80	14,920			14,920			14,920	0
Cable Street Car Park Extension	35,000	24,755	10,245	24,755						0	24,755
<b>Sub-Total</b>	<b>912,000</b>	<b>899,440</b>	<b>12,560</b>	<b>899,440</b>	<b>44,487</b>	<b>0</b>	<b>104,975</b>	<b>12,000</b>	<b>0</b>	<b>161,462</b>	<b>737,977</b>
<b>HEALTH &amp; HOUSING</b>											
Disabled Facilities Grants	2,435,000	2,153,308	281,692	2,153,308	2,153,308					2,153,308	0
Disabled Facilities Grants 18-19 Top-up	215,000	215,763	-763	215,763	215,763					215,763	0
Heysham School Capital Funding	36,000	36,000	0	36,000			36,000			36,000	0
Salt Ayre Sports Centre Redevelopment	164,000	170,578	-6,578	170,578			147,547			147,547	23,031
<b>Sub-Total</b>	<b>2,850,000</b>	<b>2,575,650</b>	<b>274,350</b>	<b>2,575,650</b>	<b>2,369,071</b>	<b>0</b>	<b>183,547</b>	<b>0</b>	<b>0</b>	<b>2,552,618</b>	<b>23,031</b>
<b>REGENERATION &amp; PLANNING</b>											
Artle Beck Improvements (Flood Defences)	5,000	0	5,000	0						0	0
Strategic Monitoring (River & Sea Defences)	3,000	33	2,967	33						0	33
Wave Reflection Wall Construction	2,419,000	2,359,122	59,878	2,359,122	2,359,122					2,359,122	0
Caton Road Flood Relief Scheme	0	408,284	-408,284	408,284						0	408,284
Amenity Improvements	6,000	4,970	1,030	4,970						0	4,970
Lancaster Square Routes (Phases 1 & 2)	21,000	17,020	3,980	17,020	5,000		4,000	960		9,960	7,060
Morecambe TH12: A View for Eric	15,000	16,340	-1,340	16,340	12,419					12,419	3,922
Morecambe Area Action Plan (Improving Streets)	44,000	10,658	33,342	10,658						0	10,658
Lancaster District Empty Homes Partnership - Methodist Action	36,000	24,000	12,000	24,000			24,000			24,000	0
S106 Highways Works	148,000	149,866	-1,866	149,866			149,866			149,866	0
Coastal Revival Fund - Morecambe Co-op Building	77,000	35,608	41,392	35,608	35,608					35,608	0
Heysham Gateway - Demolition & Removal of Tanks	132,000	124,375	7,625	124,375	8,000		116,375			124,375	0
<b>Sub-Total</b>	<b>2,906,000</b>	<b>3,150,277</b>	<b>-244,277</b>	<b>3,150,277</b>	<b>2,420,148</b>	<b>0</b>	<b>294,241</b>	<b>960</b>	<b>0</b>	<b>2,715,350</b>	<b>434,927</b>
<b>Resources</b>											
ICT Infrastructure	140,000	106,396	33,604	106,396			106,396			106,396	0
Application System Renewal	94,000	74,784	19,216	74,784			46,000			46,000	28,784
I.S. Desktop Equipment	55,000	50,970	4,030	50,970			50,970			50,970	0
SALC ICT Capital	4,000	0	4,000	0						0	0
Lancaster City Museum Boiler	316,000	298,862	17,138	298,862						0	298,862
Ryelands Park - Ryelands House	100,000	67,798	32,202	67,798						0	67,798
Lancaster Town Hall Steps	43,000	3,110	39,890	3,110						0	3,110
Residual Corporate Property Works:											
- Dukes Playhouse	0	-13,000	13,000	-13,000						0	-13,000
- Williamson Park - Ashton Memorial	15,000	22,660	-7,660	22,660						0	22,660
- Storey Institute	0	-7,489	7,489	-7,489						0	-7,489
- King Street Assembly Rooms	0	-2,873	2,873	-2,873						0	-2,873
- Former Old Station Platform	1,000	0	1,000	0						0	0
- Williamson Park Butterfly House	7,000	0	7,000	0						0	0
- Lancaster Town Hall	0	42,925	-42,925	42,925						0	42,925
- Caton Road/Kingsway - Bridge End Depot	1,000	1,256	-256	1,256						0	1,256
- Lancaster Bus Station	4,000	-1,320	5,320	-1,320						0	-1,320
- Happy Mount Park	-3,000	0	-3,000	0						0	0
<b>Sub-Total</b>	<b>777,000</b>	<b>644,078</b>	<b>132,922</b>	<b>644,078</b>	<b>0</b>	<b>0</b>	<b>203,366</b>	<b>0</b>	<b>0</b>	<b>203,366</b>	<b>440,712</b>
<b>TOTAL - GENERAL FUND</b>	<b>7,445,000</b>	<b>7,269,444</b>	<b>175,556</b>	<b>7,269,444</b>	<b>4,833,707</b>	<b>0</b>	<b>786,129</b>	<b>12,960</b>	<b>0</b>	<b>5,632,796</b>	<b>1,636,648</b>

GENERAL FUND	Revised Estimate	Expenditure in 2018/19	Variance Against Budget Over/ (Under) Spend	Expenditure to be financed in 2018/19	SCHEME FINANCING						BALANCE FINANCED BY GENERAL CAPITAL RESOURCES
					GRANT	GRANTS UNAPPLIED	EARMARKED RESERVES / PROVISIONS	SPECIFIC REVENUE FINANCING	MAJOR REPAIRS ALLOWANCE (HRA only)	TOTAL SCHEME SPECIFIC FINANCING / ITEMS	
<b>GENERAL FUND</b>	£	£	£	£	£	£	£	£	£	£	£
	7,445,000	7,269,444	175,556	7,269,444	4,833,707	0	786,129	12,960	0	5,632,796	1,636,648
<b>HOUSING REVENUE ACCOUNT</b>											
	4,421,000	3,987,037	433,963	3,987,037	24,829	0	141,752	508,937	2,977,736	3,653,253	333,784
<b>TOTAL CAPITAL EXPENDITURE &amp; FINANCING</b>	<b>11,866,000</b>	<b>11,256,481</b>	<b>609,519</b>	<b>11,256,481</b>	<b>4,858,535</b>	<b>0</b>	<b>927,881</b>	<b>521,897</b>	<b>2,977,736</b>	<b>9,286,049</b>	<b>1,970,432</b>

2018/19 CAPITAL EXPENDITURE FINANCING				Housing Revenue	General Fund	Grand Total for all
				£	£	£
<b>Amounts to be financed by General Capital Resources</b>				<b>333,784</b>	<b>1,636,648</b>	<b>1,970,432</b>
<b>Financed by:</b>						
Underlying Borrowing Need - Increase in Capital Financing Requirement				0	1,597,948	1,597,948
Recovery of Capital Receipts Paid in Advance				0	0	0
<b>Usable Capital Receipts</b>				<b>333,784</b>	<b>38,700</b>	<b>372,484</b>
<b>General Grants Unapplied</b>				<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Financing from General Capital Resources</b>				<b>333,784</b>	<b>1,636,648</b>	<b>1,970,432</b>

