



Cabinet

Tuesday, 3 November 2015

The following report was received too late to be included on the main agenda for this meeting and was marked 'to follow'.

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CABINET

Corporate Performance and Financial Monitoring 2015/16 – Quarter 2

03 November 2015

Report of the Chief Officer (Governance) and Chief Officer (Resources)

PURPOSE OF REPORT				
To present the corporate financial monitoring report for Quarter 2 of the 2015/16 monitoring cycle and provide an update on improvements being made in corporate performance management, monitoring and reporting and the effective use of business intelligence to inform decision-making.				
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 considers the corporate financial monitoring report and appendices and makes any recommendations as appropriate.
- (2) That Cabinet notes the measures being taken to further develop the corporate performance management arrangements, and develop a corporate approach to service modelling and business improvement.

1. *Corporate Financial Monitoring*

- 1.1. The corporate financial monitoring report for Quarter 2 is attached at **Appendix A**, and the headline variances and projections are as following:
 - Current General Fund underspend of £769K, projected to increase to £842K by the end of the year.
 - Housing Revenue Account overspend of £55K, project to reduce to £41K by the end of the year.
 - Estimated Council Tax surplus of £458K, of which the Council's share would be £60K.
- 1.2. The General Fund full year projected underspend has significantly increased from projections made at the end of Quarter 1, increasing by £289K from £553K to £842K. The main reasons for this are set out in section 2.1 of Appendix A, but key areas include:
 - Increased salary savings - £120K
 - Savings on the Revenues & Benefits management fee (incl. corporate anti-fraud being externally funded in year 1) - £112K
 - Additional planning fee income - £121K
 - Additional Salt Ayre Sports Centre income - £42K

- 1.3. This builds on the messages and actions considered by Cabinet in September. Whilst there are some areas of overspending, some one-off windfall savings and some delays being experienced in recruitment and other service activities, there is a huge amount of work being done proactively to save money, generate more income, and strengthen the budgeting approach – which inevitably means accepting higher financial, operational and reputational risk. Indications are that Officers are managing services and taking operational decisions accordingly, in context of them being tasked with identifying £4M of savings options for December time.
- 1.4. Cabinet Members may recall that in provisionally updating the General Fund budget forecasts, ongoing savings of £400K were allowed for, drawing on last year's outturn and this year's early monitoring. Work is well underway on the detailed review of the budgetary position and the aim is to report on this in December.
- 1.5. All the above fits with the Council reviewing and refocusing on its affordable priorities for the medium term, in order to establish a sustainable budget going forward.
- 1.6. On a separate note, the latest update on treasury management report is included at **Appendix B**.

2. Corporate Performance Management

- 2.1. In early September, Cabinet, and subsequently Budget and Performance Panel, endorsed the revised *Performance Management Framework* which set out the requirements for effective performance management within a framework that helps to integrate planning, service review, financial management and business improvement that results in action being taken in response to actual performance.
- 2.2. Management Team have called for a plan of action to be developed so that performance management arrangements are implemented and corporately established, with a view to Members being provided with '*meaningful performance reporting*'. This action is echoed by the Budget and Performance Panel and identified in the Local Government Association (LGA) Peer Review by April 2016.
- 2.3. Key activities have now been identified and the programme of work needed to further develop the Council's performance management arrangements, in line with the framework will be reported to, and monitored by, the Budget and Performance Panel going forward.
- 2.4. The performance management action plan, which recognises the points raised in the recent peer review and the Management Team draft Peer Review Action Plan is being developed and will be submitted to Management Team for approval. These actions will strengthen the Council's existing Performance Management arrangements. The Council's business improvement activities will also be enhanced following the adoption of a new Service modelling (review) process. Once embedded the revised performance management framework will provide:
 - a refreshed approach to Service reviews;
 - a more detailed understanding of the performance of Services;
 - a platform for closer involvement in strategic decision making and the consideration of future options and service delivery models;
 - the ability to drilldown into value for money issues and performance comparison with other local authorities;

- a comprehensive suite of management information and business intelligence metrics to identify service improvement opportunities;
 - a clearly defined structure of accountability;
- 2.5. Some of these will be fairly labour-intensive from both within Services and through support from Human Resources and Organisational Development (HR&OD), and the pace of implementation needs to be managed to ensure meaningful progress is made in a timely manner with the resources available. . As the LGA Peer review pointed out, however, this approach will realise benefits by unlocking the *'right capacity and skills to deliver the future priorities of the council'*.
- 2.6. Since September, a refreshed service modelling approach has been developed and is currently being tested as part of a review of Regeneration and Planning Services, specifically Development Management that, with the vital practical and operational knowledge of service managers and team members, will develop an accurate service model based on:
- a 'Service process inventory' of all work and related process maps;
 - a single view of customer demand and contact methods;
 - a skills matrix of staff capability and competency and the identification of training needs if there are any significant skills gaps, and;
 - a review of management information and performance measures
- 2.7. The model aims to allow for key details of an operation or service to be considered at a glance and provide a means for:
- investigating the root cause of issues;
 - identifying risks and opportunities, and;
 - forecasting the outcome of changes
- 2.8. The impact of, and lessons learned from, the Regeneration and Planning Service Review will be monitored and the approach applied across all Council Services and fully completed by March 2017. The first part of this is the compilation of the Service process inventory which will be completed by April 2016 and provide the means for providing Members with meaningful performance monitoring reports.
- 2.9. The LGA Peer review identified that there is a genuine appetite amongst management and staff to develop further the Council's Performance management and service improvement arrangements. The enhanced arrangements that are being developed will, as stated by the LGA Peer Review enable the Council to more efficiently to *'...explore how services can be delivered differently in the future and [to] examine how income generating opportunities can be generated'*.
- 2.10. Early work has commenced between HR&OD and Internal Audit to jointly take forward a revised and proportionate approach to the management of risk - another action identified in the draft action plan resulting from the LGA Peer Review - acknowledging the common ground between this and performance management when considering the potential threats and opportunities involved in any new service developments and improvements.

Other activity

- 2.11. HR&OD working with consultants from the Association of Public Service Excellence (APSE) and council staff have recently undertaken a review of Environmental Services, Repairs and Maintenance (RMS). Using an approach involving similar tools and techniques to that employed (in house) by HR&OD, the APSE review involved a diagnostic of available data and

management information compared to benchmarking data submitted to the APSE Performance Networks benchmarking service and a workshop where high level key processes (voids management and responsive repairs) were 'mapped'. This helped to clarify and verify opportunities for improvement and redesign and establish where changes to operational systems will improve outcomes and reduce cost. A report from APSE, setting out the detailed findings of the review and possible actions for improvement is expected by the end of October.

- 2.12. Data extracted from the telemetry system, Ctrack, has been used to establish utilisation of the Council's vehicle fleet, identifying opportunities for further work to introduce an effective vehicle booking system and realise further savings and efficiencies in the use of the fleet.
- 2.13. An analysis has been completed of the first three months of operation of six pool cars to the end of September. Data has been drawn from a combination of the online booking system and the telemetry units fitted to each vehicle. Overall, the analysis suggests that the initiative has been a success so far with a reasonable balance of utilisation against availability. The detailed findings will be reported to Management Team in November and will continue to be monitored throughout the year.

3. Conclusions

- 3.1. Financially, the Quarter 2 results help to strengthen the Council's financial position and its ability to tackle future funding reductions and balance its ongoing budget. It provides evidence that Officers are doing what has been asked of them – to save money, generate income, and be less cautious (but still reasonable) in reviewing budget forecasts and in operational terms. This is to be welcomed. Inevitably there are also other budgetary variances - either way - driven by unforeseen circumstances but these will always happen to some degree.
- 3.2. With regard to performance, following the adoption of the Performance Management Framework in September, work has been undertaken to develop a performance management action plan. The steps being taken also address a number of matters identified in the Peer Review and the subsequent draft action plan, developed by Management Team. These actions will strengthen the Council's existing performance management arrangements. The Council's business improvement activities will also be enhanced by the use of a new approach to Service modelling (review) that will realise a number of benefits for Members and management.
- 3.3. Progress against the implementation of the performance management plan will be reported to both Cabinet and Budget and Performance Panel in line with their relevant terms of reference.

RELATIONSHIP TO POLICY FRAMEWORK

This report is a requirement of the council's Performance Management Framework in support of the delivery of key priorities and outcomes as set out in the overall policy framework and specifically in the Corporate Plan 2015-18.

CONCLUSION OF IMPACT ASSESSMENT

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

None directly arising from this report.

LEGAL IMPLICATIONS

None directly arising from this report.

FINANCIAL IMPLICATIONS

As set out in the report.

OTHER RESOURCE IMPLICATIONS

Human Resources / Information Services / Property / Open Spaces:

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

SECTION 151 OFFICER'S COMMENTS

Section 151 Officer has been consulted and has no further comments.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

Corporate Plan 2015 – 18

Performance Management Framework

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Ref:

Corporate Financial Monitoring Quarter 2: July – September 2015

HEADLINE INFORMATION:

- General Fund revenue budget underspend of £769K, projected to become £842K by the year end.
- Housing Revenue Account overspend of £55K, projected to reduce to £41K by the year end.
- Estimated Council Tax surplus of £458K to date.
- Sundry Debt level at £3.4M of which £1.9M relates to Housing Benefit Overpayment recoveries.
- Council Housing Rent Arrears circa £325K.

1. INTRODUCTION

This report provides a snapshot on the corporate financial position for the Council at the end of September. It looks at the latest spend and income collected against profiled budgets, and where appropriate it provides a forecast projection for the full year. In addition, there are sections covering income collection and procurement.

The report is split into the following areas:

- Revenue Monitoring – General Fund and Housing Revenue Account
- Capital Monitoring – General Fund and Housing Revenue Account
- Local Taxation – Council Tax and Business Rates
- Income Collection – General Fund Sundry Debts and Council Housing Rents
- Procurement

It should be noted that the Council has to operate two specific service related funds – General Fund and Housing Revenue Account (HRA). The latter covers all aspect relating to Council Housing, whilst the General Fund covers all other Council services.

In addition, there is also a Collection Fund where the Council acts as billing authority for all Council Tax and Business Rates income in the district. This is then shared between itself, the Government, Lancashire County Council, the Police and Crime Commissioner and the Fire Authority.

2. REVENUE MONITORING

This section covers both General Fund and the Housing Revenue Account (HRA), and reports on variances relating to the day to day income and expenditure of the Council. There are also two specific sections for salaries and the Repair and Maintenance Section (RMS).

2.1. Summary Position

The table below provides an overall summary position as at the end of September for both the General Fund and HRA.

	GENERAL FUND			HRA		
	<i>Annual Budget</i> £000's	<i>Current Variance</i> £000's	<i>Full Year Projection</i> £000's	<i>Annual Budget</i> £000's	<i>Current Variance</i> £000's	<i>Full Year Projection</i> £000's
Salaries	20,146	(326)	(407)	1,465	(19)	(42)
Transport	1,701	(28)	(72)	27	(1)	(8)
Premises	9,560	12	32	5,689	18	21
Supplies & Services	9,232	(84)	48	654	13	(12)
Fees & Charges	(12,622)	(343)	(443)	(15,584)	44	82
Grants & Contributions	(4,087)	0	0	(85)	0	0
Other Net Budgets	(3,181)	0	0	0	0	0
Transfer to/(from) Reserves	(3,696)	0	0	3,464	0	0
	17,053	(769)	(842)	0	55	41

At the end of Qtr 1 the underspend on General Fund was £201K, which has now increased to £769K at the end of Qtr 2, and is projected to increase further to £842K by the year end. For the HRA Qtr 1 showed an underspend of £13K which has now changed to an overspend of £55K, however this is expected to reduce to £41K by the year end. The main changes between the Qtr 1 and Qtr 2 forecasts are shown in the following table:

	Movement	
	Qtr 1 to Qtr 2 £'000	Full Year £'000
General Fund Position as at Quarter 1	(201)	(553)
Increase in salary savings	(156)	(120)
Savings on vehicle renewals and mileage	(12)	(9)
Fuel savings	+1	+23
Utility savings	(61)	-
Bins and Boxes net savings	(25)	(7)
Reduction in cases requiring Bed & Breakfast accommodation	(10)	(16)
ICT consultancy savings	-	(19)
Additional contribution to Bad Debt Provision	-	+250
Savings on Revenues & Benefits Management Fee (re Fraud Team)	(29)	(112)
Additional planning fee income	(149)	(121)
Additional Salt Ayre Sports Centre income	(76)	(42)
Housing Benefit Overpayment Recoveries	-	(48)
Increased investment interest	(22)	-
Other net movements	(29)	(68)
Position as at Quarter 2	(769)	(842)

HRA Position as at Quarter 1	(13)	+39
Changes in salary savings	+12	(39)
Increase in court costs	+10	+9
Reduction in bad debt provision	-	(46)
Reduced rental income from increase in voids	+16	+26
Reduction in central control income	+28	+57
Other net movements	+2	(5)
Position as at Quarter 2	+55	+41

A more detailed analysis of all the variances at the end of Qtr 2, and projections for the year, is included at **Annex A**.

2.2. Salary Monitoring

The following table shows the savings for each service together with the number of vacant posts at the end of September that go towards generating those savings. At the end of September there were savings of £326K for General Fund with a total of 50 vacant posts, and savings of £19K for Council Housing and 2 vacant posts. These savings are projected to increase to £407K and £42K respectively by the end of the year.

Service	FTE's*	Vacancies as at 30 Sept	Annual Budget £000's	Current Savings £000's	Projected Savings £000's
General Fund					
Management Team	8	0	594	0	(13)
Environmental Services	348	21	6,979	(69)	(122)
Governance	42	4	1,252	(54)	(103)
Health & Housing	125	12	2,789	(50)	(46)
Regeneration & Planning	112	4	2,366	(55)	(17)
Resources	95	9	2,506	(98)	(106)
	730	50	15,150	(326)	(407)
Housing Revenue Account					
Council Housing	125	2	2,789	(19)	(42)
* FTE's - Full Time Equivalent Posts					

A full review of all vacant post is currently being undertaken as part of the budget process.

2.3. Repair and Maintenance Section – Trading Position

The work of this section is predominantly on the Council Housing stock, with a small element on municipal buildings. The total budget for the section is around £9.5M, and covers both in-house and contracted out provision for all repair and maintenance and capital works.

The table to the right sets out the financial position at the end of September. This shows there is currently an overspend of £13K against the profiled budget, which is only 0.1% of the overall annual budget, and therefore within acceptable tolerances.

	TOTAL £
INCOME	(1,255,477)
EXPENDITURE	
Direct Labour	523,507
Direct Materials	238,812
Overheads	757,080
Recharged Revenue Work	834,952
TOTAL EXPENDITURE	2,354,351
NET EXPENDITURE	1,098,874
Profiled Budget	1,085,900
Variance from Budget - Adverse/(Favourable)	12,974

With regards to Value for Money considerations, officers have recently commissioned a high level review of the section, and the results of this will be considered during the budget process.

3. CAPITAL MONITORING

This section covers both General Fund and the HRA. Again reporting on any changes to the programmes or key variances. This section includes both expenditure and financing.

3.1. General Fund Capital Programme

The latest gross capital programme stands at £12.631M after the following changes were made during Qtr 2:

- **Delegated Officer Decision – 10 July 2015**
Bold Street Demolition Works £4,000
 Funded from revenue.
- **Delegated Officer Decision – 21 July 2015**
MAAP – Improving Morecambe’s Main Streets -£85,000
- **Delegated Officer Decision – July 2015**
Williamson Park playground £30,000
 Funded by Lancashire Environmental Fund grant.
- **Delegated Officer Decision – July 2015**
Wave Reflection Wall re-profiling £1,033,000
 Grant funding also re-profiled.

At the end of September there were spend and commitments of £2.977M leaving £9.654M still to spend. Details of spend against each scheme is shown in **Annex B**.

Unfortunately, it has not been possible to provide a Property Group report for Qtr 2 due to unforeseen work demands.

3.2. HRA Capital Programme

The gross HRA Capital Programme currently stands at £5.045M. Against this there are spend and commitments of £2.477M leaving £2.568M still to spend. Details of spend against each scheme is shown in **Annex B**.

4. LOCAL TAXATION

4.1. Collection Fund Monitoring

4.1.1. Council Tax Yield (Total Collectable)

This section provides a summary analysis of the current surplus or deficit on the Fund, shown in the following table. Such a surplus or deficit arises because of the great many changes in liability that occur throughout the year. Furthermore, any difference between estimated and actual collection performance will ultimately have a bearing.

		£000's
Collection Fund Surplus (September 2015)		(458)
<i>Represented by In-Year Movements to Date:</i>		
Lower Council Tax Support than estimated	(420)	
Net of Higher Second Homes/Lower Empty Homes income	+47	
Other Movements in the Tax Base	(85)	(458)
<i>Of which the City Council would retain 13%</i>		<i>(60)</i>

As at 30 September, there is an estimated surplus of £458K of which the City Council would retain £60K.

This year's position is made up of:

- £420K lower than estimated council tax support. This will continue to fluctuate as claimants' circumstances change, but since establishing the scheme proposals back in 2013, the trend is still that the total support being claimed is lower than expected;
- overall £47K lower than estimated income from second/empty homes (specifically identifiable);
- a balance of £85K relating to other movements in the tax base.

Should the tax base increase each year by more than originally estimated, this too helps towards balancing the General Fund revenue budget for future years.

4.1.2. Business Rates Retention

The position relating to retained business rates at the end of September is shown in the following table.

	Original £000's	June £000's	Sept £000's
Net Collectable Amount of Business Rates	(64.309)	(65.251)	(64.991)
Less: Provision for Appeals	3.109	7.771	5.302
Net retained business rates	(61.200)	(57.480)	(59.689)
Less: Central Government Share – 50%	30.600	28.740	29.845
Less: County Council & Fire Authority Share – 10%	6.120	5.748	5.969
Lancaster's Retained Business Rates Share – 40%	(24.480)	(22.992)	(23.875)
Less: Tariff payable to Central Government	19.763	19.763	19.763
Add Back: Cost of Collection	(0.227)	(0.227)	(0.227)
Add: Small Business Rates Relief Grant	(1.415)	(1.390)	(1.408)
Total Amount of Retained Business Rates	(6.359)	(4.846)	(5.747)
Less: Lancaster's Baseline Funding Level	5.207	5.207	5.207
Provisional Additional Income	(1.152)	-	(0.540)
Provisional Loss of Income	-	0.361	-
Split as follows:			
50% Levy Payable to Central Government	(0.576)	-	(0.270)
50% Retained by Lancaster	(0.576)	-	(0.270)

N.B. The Safety Net Threshold for 2015/16 is £4.816M

The table shows that originally it was anticipated that there would be additional income of £1.152M, of which 50% (£576K) is payable to Central Government and 50% retained by the Council. At the end of June this was projected to be a loss in income of £361K, and now the latest position shows additional income of £540K. The main reason for such fluctuations is a result of changes in the valuation of appeals, which can change for a variety of reasons – new appeals being lodged, appeals being settled, withdrawn, rejected or revalued. As the table above shows, the value of appeals can go up as well as down.

Such fluctuations highlight how uncertain forecasting business rates income can be and also the significant impact changes in appeals can have.

4.2. Council Tax and Business Rates Collection

The percentages collected in year for both council tax and business rates are ahead of target at the end of September. The cumulative collection for all years is also ahead.

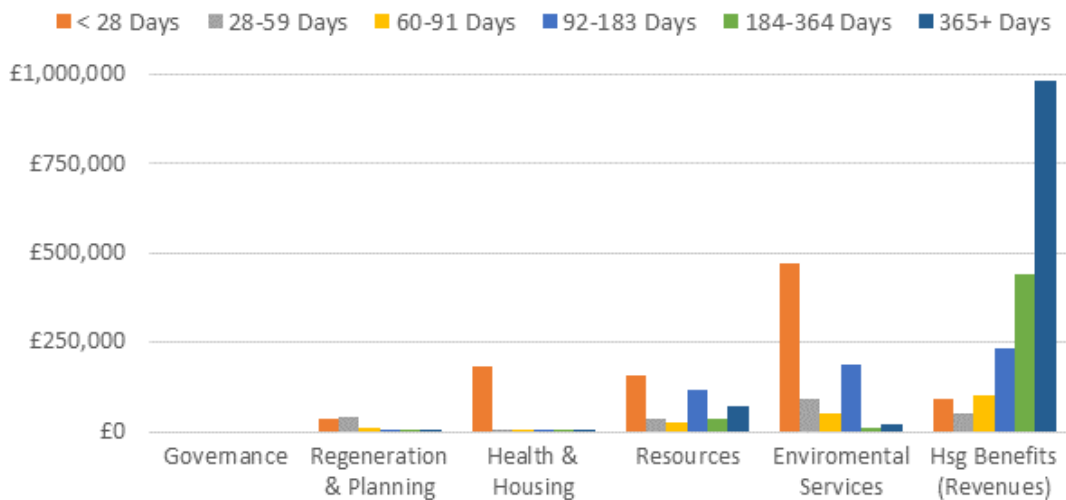
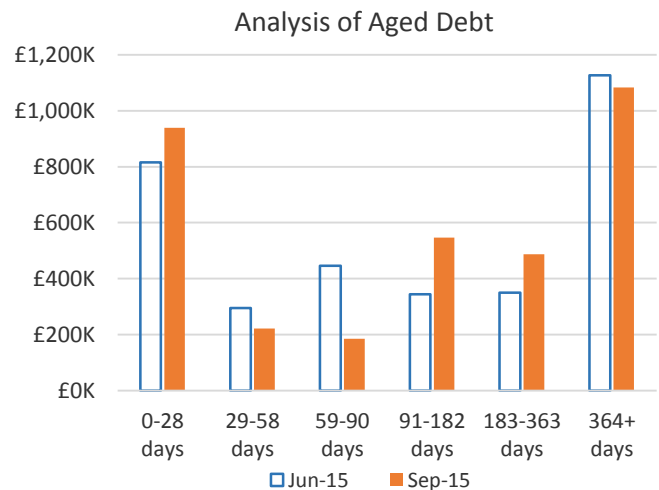
Percentage Collected	2014/15	2015/16	2015/16 Target	2015/16 Actual	Status
	All Years		In Year		
Council Tax	52.1%	56.4%	57.0%	57.5%	Ahead of Target
Business Rates	55.5%	56.0%	55.2%	56.6%	Ahead of Target

5. INCOME COLLECTION

5.1. Sundry Debts

This section sets out the latest position on the level of outstanding sundry debts (excluding Council Housing). At the end of September the total debt outstanding was just under £3.5M, which is £88K higher than the previous quarter. The bad debt provision currently stands at £974K which is under provided by £75K at the half year point, and with further write-offs expected before the end of the year, around an additional £250K is expected to be added as part of the revised budget process. This would also increase cover for Housing Benefit Overpayments from 60% to 70%, ahead of Universal Credit wider roll out.

	June 15	Sept 15
	£000's	£000's
0-28 days	815	939
29-58 days	295	222
59-90 days	446	186
91-182 days	344	547
183-363 days	350	487
364+ days	1,126	1,083
	3,376	3,464
Previous Year	3,244	3,295

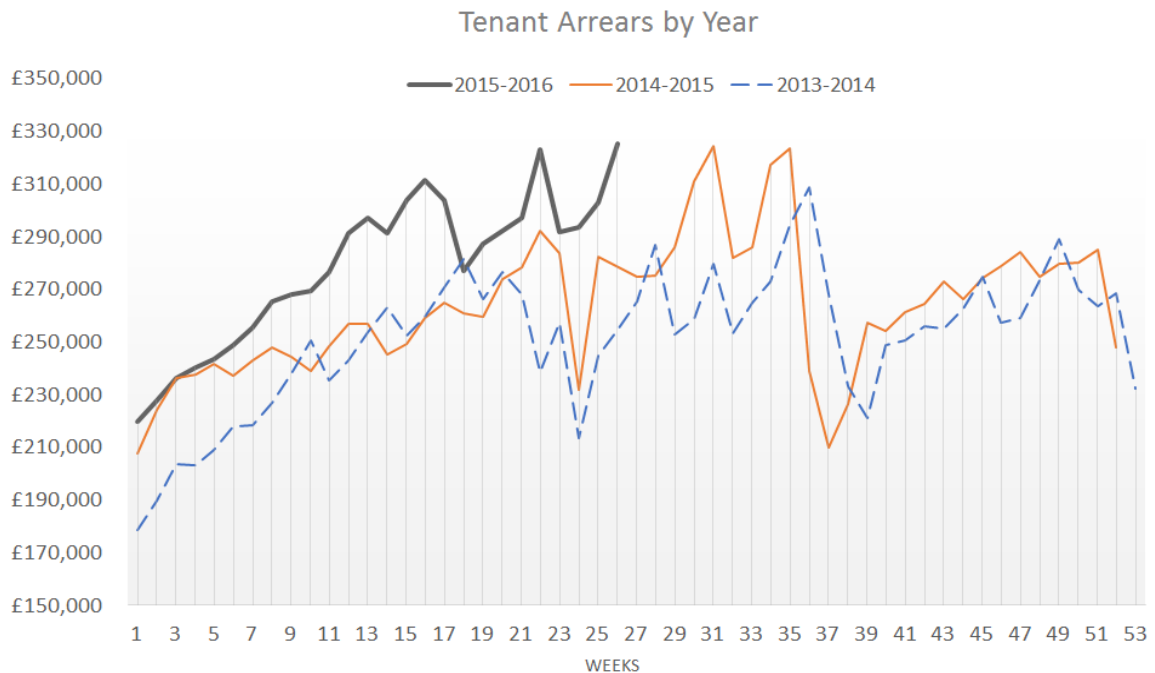


SERVICE	< 28 Days	28-59 Days	60-91 Days	92-183 Days	184-364 Days	365+ Days	TOTAL
	£	£	£	£	£	£	£
Environmental Services	470,674	90,933	50,812	188,153	9,513	20,941	831,025
Governance							-
Regeneration & Planning	37,829	40,770	8,985	5,810	709	4,666	98,770
Resources	158,365	35,036	25,493	117,407	35,096	73,531	444,928
Health & Housing	180,253	2,656	1,089	597	1,018	505	186,118
Hsg Benefits (Revenues)	91,533	52,609	99,998	235,220	441,160	983,557	1,904,077
	938,655	222,003	186,377	547,186	487,496	1,083,201	3,464,918

5.2. Council Housing Rent Arrears

This section monitors the level of tenant arrears, to indicate any impact from welfare reforms and/or the wider economy on rent collection and in turn, to inform whether any specific actions are necessary. It will also feed into future reviews of the bad debt provision.

The following chart shows the current level of arrears compared to the previous 2 years. At the end of September, the level of arrears for 2015/16 is £325K (2014/15 Qtr 2 £282K) which is £34K higher than the previous quarter this year. At this early stage, no specific actions are yet proposed (other than continuing to review and analysis).



6. CONTRACT PROCEDURE RULES AND OTHER EXCEPTIONS TO TENDER

6.1. Exceptions to Tender

In accordance with the approved contract procedure rules all exceptions to tender and other significant contract variations will be reported as part of the quarterly corporate monitoring process.

- The first exception relates to the 2nd class mail services, for which a Yorkshire Purchasing Organisation framework agreement was used instead of an open tender.
- The second exception relates to the Morecambe Area Action Plan, and a select list of 7 contractors was used instead of an open tender. The list was previously used for similar works on Lancaster Square Routes.

CORPORATE FINANCIAL MONITORING: General Fund Revenue Budget

Subjective Area	Service	Reason for Variance	Current Variances		Projection for Year	
			Adverse / (Favourable)		Adverse / (Favourable)	
			£	£	£	£
Employees	Environmental Services	Turnover savings	(69,100)		(122,000)	
	Governance Services	Turnover savings	(54,000)		(103,000)	
	Health & Housing	Turnover savings	(50,000)		(46,500)	
	Management Team	Turnover savings	-		(13,000)	
	Regeneration & Planning	Turnover savings	(55,000)		(17,000)	
	Resources	Turnover savings	(98,300)	(326,400)	(105,700)	(407,200)
Transport	Environmental Services	Mainly Fuel savings	(12,500)		(38,500)	
	Governance Services	Mayoral transport savings	(2,400)		(8,500)	
	Health & Housing	Savings from vehicle renewals and reduced mileage	(11,500)		(18,500)	
	Regeneration & Planning	Essential car user allowance savings	(1,400)	(27,800)	(6,500)	(72,000)
Premises	Environmental Services	Utility savings	(8,000)		(6,300)	
	Health & Housing	Utility savings	(5,900)		(10,000)	
		Mainly additional business rates cost at Salt Ayre following a revaluation	16,700		10,900	
		Salt Ayre - failed Combined Heat & Power unit resulting in increased utility costs	-		23,000	
	Regeneration & Planning	Mainly additional local taxation on West End properties	17,600		17,100	
	Resources	Gas & electricity cost reductions (commercial & municipal buildings)	(27,200)		(21,500)	
	Commercial properties - additional business rates from empty properties	18,700	11,900	18,700	31,900	
Supplies & Services	Environmental Services	Mainly bins and boxes (£40K), plus bus route support and parking telemetry savings	(50,000)		(50,000)	
	Corporate Accounts	Additional contribution to Bad Debt provision	-		250,000	
	Governance Services	Savings mainly from Member Special Responsibilities and Transport	(4,300)		(12,600)	
	Health & Housing	Increase in burial costs	8,000		8,000	
		Reduction in cases requiring emergency B&B	(9,900)		(16,200)	
	Regeneration & Planning	Sustainable Initiatives - budget no longer required	(4,300)		(4,300)	
	Resources	ICT - overall reduction in consultancy required	2,100		(18,600)	
		ICT - increased software costs	3,400		3,400	
		Revenues & Benefits management fee reduction - Fraud Team externally funded year 1	(29,100)	(84,100)	(111,600)	48,100
Fees & Charges	Environmental Services	Additional car parking income, and Williamson Park income	(29,400)		(31,800)	
	Governance Services	Additional search fee income	(13,700)		(14,600)	
		Additional legal fee income	(14,400)		(14,400)	
		Reduced Licence fee income	2,600		8,200	
	Health & Housing	Cemeteries income projected increase - based on previous years	-		(13,500)	
		Income relating to new scheme for Primary Health Authority	(2,000)		(7,000)	
		Reduction in insect treatments	7,500		6,300	
		Salt Ayre - Additional income	(55,300)		(45,800)	
		Salt Ayre - renewal of contract with University of Cumbria	(51,700)		(51,700)	
		Lower completions expected and referrals from County Council	-		7,500	
		New HMO's identified	(4,400)		(12,600)	
	Regeneration & Planning	Planning application fee income	(115,100)		(167,000)	
		Additional income from pre-app advice (£14K)and building regulation fee (£40K)	(39,700)		(54,000)	
		Additional Platform hire income	(4,800)		(8,800)	
	Resources	Lancaster Town Hall - reduced rental income	7,500		7,500	
		Commercial properties - overall net increase in rental income	(1,400)		(3,400)	
		Investment Interest	(28,000)		?	
	Housing Benefit Overpayment Recoveries	-	(342,300)	(47,500)	(442,600)	
TOTAL				(768,700)		(841,800)

CORPORATE FINANCIAL MONITORING: Housing Revenue Account

Subjective Area	Service	Reason for Variance	Current Variances Adverse / (Favourable)		Projection for Year Adverse / (Favourable)	
			£	£	£	£
Employees	Health & Housing	Turnover Savings	(19,000)	(19,000)	(42,000)	(42,000)
Transport	Health & Housing	Essential car user allowance savings	(1,500)	(1,500)	(8,100)	(8,100)
Premises	Health & Housing	Cable Street - service charge not previously invoiced due to resolving errors	12,000		12,000	
		Increase in insurance and business rates charges	6,000	18,000	8,800	20,800
Supplies and Services	Health & Housing	Increase in court costs relating to rent arrear cases	19,000		38,600	
		Decrease in general office supplies spend	(5,700)		(4,900)	
		Reduction in bad debt provision contribution	-	13,300	(45,600)	(11,900)
Fees and Charges	Health & Housing	Reduced rental income as a result of and increase in voids	15,800		25,900	
		Central Control income reduced due to less demand	21,200		26,600	
		New Telecare service provided by County Council leading to a reduction in income	-		19,200	
		Reduction in County Council income for supporting Central Control	7,300	44,300	10,800	82,500
TOTAL				55,100		41,300

GENERAL FUND CAPITAL PROGRAMME MONITORING REPORT

SERVICE	SCHEME	2015/16	Actual to	Commitments	Total	Variance
		Gross Budget	Date	(Outstanding Orders)		+Overspend / (Underspend)
		£	£	£	£	£
Environmental Services	Allotment Improvements	5,000	5,028	0	5,028	28
	Bins & Boxes Lease Buy-out	21,000	0	0	0	(21,000)
	Car Park Improvements Prog	160,000	7,280	1,789	9,068	(150,932)
	Middleton Solar Farm Feasibility Study	67,000	0	23,855	23,855	(43,145)
	District Playground Improvements	125,000	0	44,976	44,976	(80,024)
	Vehicle Tracking System	24,000				(24,000)
	Purchase of Vehicles	1,313,000	522,248	75,645	597,893	(715,107)
Health & Housing Services	Disabled Facilities Grants	983,000	260,755	0	260,755	(722,245)
	Salt Ayre Works Programme	30,000	0	0	0	(30,000)
	Warm Homes Scheme	6,000	1,911	0	1,911	(4,089)
Regeneration & Planning	Toucan Crossing King Street	3,000	0	0	0	(3,000)
	Dalton Square Christmas Lights Renewal	28,000	0	0	0	(28,000)
	Sea & River Defence Works	2,129,000	56,064	7,785	63,849	(2,065,151)
	Amenity Improvements	31,000	1,259	1,895	3,154	(27,846)
	Lancaster Square Routes	108,000	67,206	0	67,206	(40,794)
	Morecambe TH12 A View for Eric	857,000	88,904	0	88,904	(768,096)
	Improving Morecambe's Main Streets	363,000	4,444	12,949	17,393	(345,607)
	MAAP - Connecting Eric	155,000	0	0	0	(155,000)
	Albion Mills Affordable Housing s106 scheme	40,000	39,750	0	39,750	(250)
	King St/Wellington Terrace Affordable Housing s106 scheme	90,000	0	0	0	(90,000)
	Middleton Nature Reserve	17,000	0	0	0	(17,000)
	Pedestrian/cycle links Sainsbury's Morecambe s106 scheme	55,000	0	224	224	(54,776)
	Bold Street Housing Regeneration Site Works	24,000	26,150	0	26,150	2,150
	Chatsworth Gardens	1,878,000	927,778	0	927,778	(950,222)
	Lancaster District Empty Homes Partnership	200,000	0	0	0	(200,000)
	AONB Vehicle Replacement	25,000	0	25,189	25,189	189
Resources	Corporate Property Works	3,254,000	460,851	101,499	562,350	(2,691,650)
	ICT Systems, Infrastructure & Equipment	640,000	155,149	56,732	211,881	(428,119)
Total Gross Programme		12,631,000	2,624,776	352,538	2,977,314	(9,653,686)

Grants & Contributions

Capital Contributions Income	(30,000)	(103,651)	0	(103,651)	(73,651)
Capital Grants Income	(3,836,000)	(1,085,132)	0	(1,085,132)	2,750,868
Total External Income from Grants & Contributions	(3,866,000)	(1,188,783)	0	(1,188,783)	2,677,217

Total Net Programme	8,765,000	1,435,993	352,538	1,788,531	(6,976,469)
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HRA CAPITAL PROGRAMME MONITORING REPORT

SERVICE	SCHEME	2015/16	Actual to	Commitments	Total	Variance
		Gross Budget	Date	(Outstanding Orders)		+Overspend / (Underspend)
		£	£	£	£	£
Health & Housing Services	Adaptations	300,000	13,302	291	13,594	(286,406)
	Energy Efficiency Boiler Repla	625,000	185,787	0	185,787	(439,213)
	Environmental Improvements	684,000	373,705	128,566	502,270	(181,730)
	External Refurbishments	950,000	626,494	0	626,494	(323,506)
	Fire Precaution Works	328,000	57,794	0	57,794	(270,206)
	Kitchen Bathroom Replacement	1,136,000	371,073	217,118	588,191	(547,809)
	Lift Replacements	120,000	36,648	0	36,648	(83,352)
	Re-roofing & Window Renewals	794,000	393,398	0	393,398	(400,602)
	Rewiring	88,000	43,956	16,594	60,550	(27,450)
	Communal Areas - Flats	20,000	12,173	0	12,173	(7,827)
Total Gross Programme		5,045,000	2,114,330	362,570	2,476,899	(2,568,101)

2015/16 Treasury Management Progress Report July to September 2015 (Quarter 2)

Report of Chief Officer (Resources)

1. Introduction

The CIPFA Code of Practice on Treasury Management requires that regular monitoring reports be presented to Members on treasury activities. These reports will normally be presented after the end of June, September, December and March as part of the Council's performance management framework.

Council approved the 2015/16 Treasury Strategy, which incorporates the Investment Strategy, at its meeting on 4 March 2015. This report outlines activities undertaken in pursuance of those strategies during the financial year up to the end of Qtr 2.

Treasury management is a technical area. To assist with the understanding of this report, a glossary of terms commonly used in Treasury Management is attached at **Annex A**. In addition, the Councillor's Guide to Local Government Finance also has a section on treasury and cash management and an updated Guide is now available through the Member Information section on the Intranet.

2. Economic update (provided by Capital Asset Services)

UK GDP growth is expected to be strong, possibly being equal to that of the US during 2015. The growth in Q1 was weak, however there has been a rebound in Q2. Growth is expected to weaken marginally in Q3 as the economy faces headwinds for exporters from the appreciation of Sterling against the Euro and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme, although the pace of reductions was eased in the May Budget. However, the Purchasing Manager's Index, (PMI), for services suggest low growth during Q4 (a growth rate at its lowest since 2012).

Despite these headwinds, the Bank of England August Inflation Report had included a forecast for growth to remain around 2.4% – 2.8% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero over the last quarter. Investment expenditure is also expected to support growth. Since then, worldwide economic statistics have been distinctly weak so it would not be a surprise if the next Inflation Report in November were to cut those forecasts.

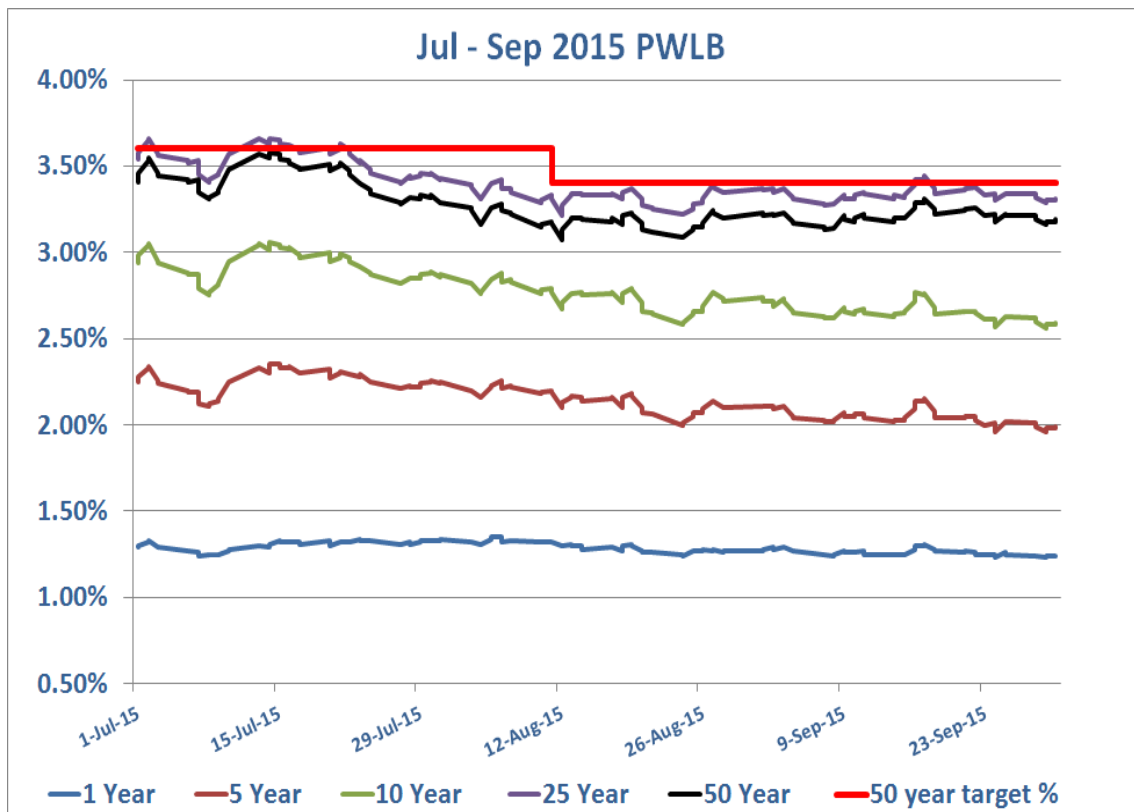
The August Bank of England Inflation Report forecast was notably subdued with inflation barely getting back up to the 2% target within the 2-3 year time horizon. However, with the price of oil taking a fresh downward direction and Iran expected to soon re-join the world oil market after the impending lifting of sanctions, there could be several more months of low inflation still to come, especially as world commodity prices have generally been depressed by the Chinese economic downturn.

There are therefore considerable risks around whether inflation will rise in the near future as strongly as previously expected; this will make it more difficult for the central banks of both the US and the UK to raise rates as soon as had previously been expected, especially given the recent major concerns around the slowdown in Chinese growth, the knock on impact on the earnings of emerging countries from falling oil and commodity prices, and the volatility we have seen in equity and bond markets in 2015 so far, which could potentially spill over to impact the real economies rather than just financial markets.

There are increasing concerns, in the UK, that the growth rates currently being achieved are only being achieved with monetary policy being highly aggressive with central rates at near zero and huge QE in place. This is causing an increasing debate as to how realistic it will be for central banks to start on reversing such aggressive monetary policy until such time as strong growth rates are more firmly established and confidence increases that inflation is going to get back to around 2% within a 2-3 year time horizon. In the Eurozone, the ECB introduced a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This already appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth. However, the recent downbeat Chinese and Japanese news has raised questions as to whether the ECB will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

3. Borrowing Activities

No new borrowing was undertaken during Qtr 2. Of the existing debt, £520K was repaid in relation to the HRA Self-Financing loan. The loan balance with the Public Works Loans Board (PWLB) at the end of September was £66.811M, and the annual cost of borrowing is £3.071M. The following graph shows the PWLB rates for the first quarter of this year.



Early Repayment of Debt

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. At present, it would not be financially prudent to repay any debt based on the current rates being offered.

4. Investing Activities

As laid down in the approved Investment Strategy, the aim is to prioritise security and liquidity of the Council's investments. This is to ensure that the Council has sufficient cash to support its business, but also to minimise any further chance of a counterparty failing and the Council not being able to remove any cash deposited.

All investment activity has been in line with the approved Treasury Strategy for 2015/16. A summary of the investments at the end of Qtr 2 is shown in the following table (Table 6.1):

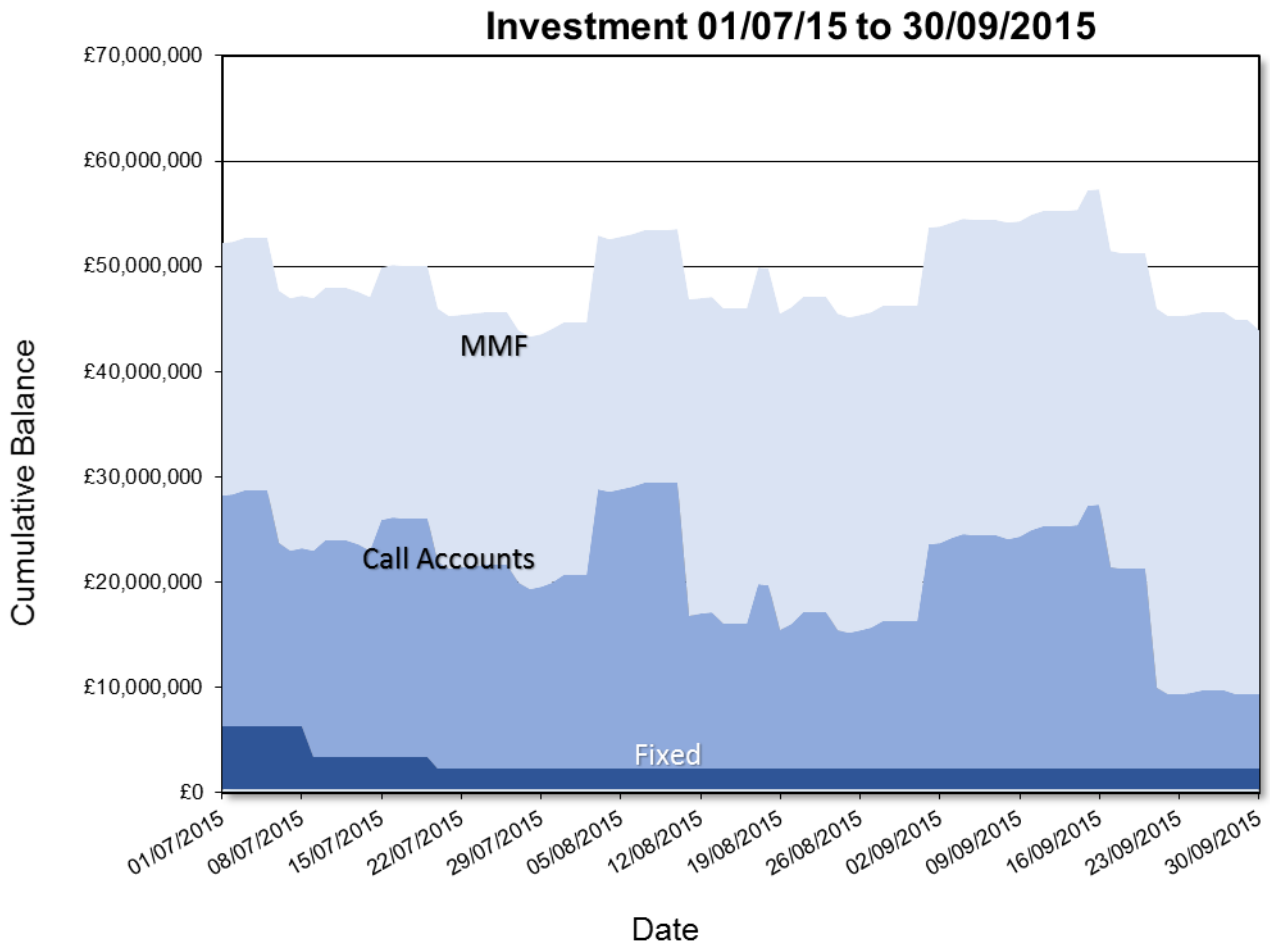
Table 6.1 Counterparty balances

Other Investments	Term	Maturity Date	Opening £	Min £	Max £	Closing £	Indicative Rate (YTD)	Current Fixed Rate	Cumulative Interest (YTD) £
Call Accounts									
Natwest (Cash Manager Plus)			0	0	9,923,904	65,243		0.25%	6,753
Lancashire County Council			49,000	0	12,000,000	0		0.25%	4,792
Santander			0	0	2,000,000	2,000,000		0.40%	3,660
Lloyds			4,000,000	0	4,000,000	0		0.40%	2,060
Notice Accounts									
Svenska Handelsbanken (35 day)			3,000,000	994,000	3,000,000	3,000,000	0.38%	0.45%	5,552
Money Market Funds									
Blackrock Government Liquidity			6,000,000	4,525,000	6,000,000	4,525,000	0.35%		10,445
Blackrock Liquidity First			6,000,000	6,000,000	6,000,000	6,000,000	0.44%		13,256
Insight			6,000,000	6,000,000	6,000,000	6,000,000	0.40%		12,001
Ignis			6,000,000	6,000,000	6,000,000	6,000,000	0.48%		14,402
Goldman Sachs			0	0	6,000,000	6,000,000	0.44%		3,677
LGIM			0	0	6,000,000	6,000,000	0.47%		777
Fixed Term Deposits									
DMADF			0	0	4,000,000	0		0.25%	219
Lloyds	6 Months	20/01/2015	6,000,000	2,000,000	6,000,000	2,000,000		0.70%	14,825
Barclays	6 Months	15/10/2015	0	2,000,000	2,000,000	2,000,000		0.64%	5,927
Sub-total			37,049,000			43,590,243			98,345

The longer term credit rating of Lloyds Banking Group has reduced slightly, following the Government's decision to gradually sell off its stake in this group. As a result for now, to fit with current investment criteria, future investments placed with Lloyds will be kept short term. During the period a new Money Market Fund (Legal and General Investment Management - LGIM) was opened and £6M deposited. This fund offers a highly liquid investment with typically higher rates of return than call accounts. Also during the period, officers have agreed to lend £12M to Birmingham City Council for 6 months at a rate of 0.47%, with the transaction taking place at the end of October.

The Council continues to hold very high cash balances, caused primarily by the provision being held for repaying Business Rates transitional protection monies due back to the Government. The timing and mechanism for repayment is yet to be confirmed however, and so to manage this uncertainty the majority of the Council's balances are held in highly liquid MMFs and call accounts. The distribution of the Council's balances are displayed in the following graph:

Graph 6.1 Investment balances



Summary of Budget Position and Performance

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:

Base Rate	0.500%
7 day LIBID	0.362%
Lancaster City Council investments	0.406%

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

	Budget to Date £000's	Actuals to Date £000's	Variance £000's
Cash Interest	70	98	28
Total	70	98	28

Investment returns exceed the budgeted level by £28K. This is due to cash balances being larger than expected as a result of delays within the capital programme and from the Business Rates provision, as mentioned earlier.

5. Risk management

The new investment matrix, as approved by Council on 04 March, has increased the pool of counterparties that can be used and the term over which an investment can be placed, whilst still keeping risk appetite low. Given the very high cash balances being held currently, officers are keeping capacity under review, and have set up new MMF's and inter-authority investments as a result.

There is financial risk attached to the longer term debt portfolio (associated with interest rate exposure) as all of the debt is on fixed interest but there has been no change to this over the quarter. Low investment returns mean that using cash invested to repay debt can appear more attractive, however this is not a financially viable option at present due to the penalties associated with early repayment.

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 analyse credit worthiness under four headings:
 - **Short Term Rating** – the perceived ability of the organisation to meet its obligations in the short term, this will be based on measures of liquidity.
 - **Long Term Rating** – the ability of the organisation to repay its debts in the long term, based on opinions regarding future stability, e.g. its exposure to 'risky' markets.
 - **Individual/Financial Strength Rating** – a measure of an institution's soundness on a stand-alone basis based on its structure, past performance and credit profile.
 - **Legal Support Rating** – a view of the likelihood, in the case of a financial institution failing, that its obligations would be met, in whole or part, by its shareholders, central bank, or national government.

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

- **DMADF and the DMO** – The DMADF is the 'Debt Management Account Deposit Facility'; this is highly secure fixed term deposit account with the Debt Management Office (DMO), part of Her Majesty's Treasury.
- **EIP** – Equal Instalments of Principal, a type of loan where each payment includes an equal amount in respect of loan principal, therefore the interest due with each payment reduces as the principal is eroded, and so the total amount reduces with each instalment.
- **Gilts** – the name given to bonds issued by the U K Government. Gilts are issued bearing interest at a specified rate, however they are then traded on the markets like shares and their value rises or falls accordingly. The Yield on a gilt is the interest paid divided by the Market Value of that gilt.
E.g. a 30 year gilt is issued in 1994 at £1, bearing interest of 8%. In 1999 the market value of the gilt is £1.45. The yield on that gilt is calculated as $8\%/1.45 = 5.5\%$.
See also PWLB.

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

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