



Committee: BUDGET AND PERFORMANCE PANEL

Date: TUESDAY, 23RD FEBRUARY 2010

Venue: LANCASTER TOWN HALL

Time: 6.00 P.M.

Councillors are reminded that as Members of Overview and Scrutiny they may not be subjected to the Party Whip, which is prohibited under the Lancaster City Council Constitution.

A G E N D A

1. Apologies for Absence

2. Declarations of Interest

3. Minutes

Minutes of the Meeting held on 26th January 2010 (previously circulated)

4. Items of Urgent Business authorised by the Chairman

5. The Dukes

Presentation by Joe Sumsion, Director of The Dukes

6. 2009/10 3rd Quarter Corporate Performance Review (Pages 1 - 32)

Report from the Leader of the Council

7. Treasury Management Strategy 2010/11 (Pages 33 - 55)

Report of Head of Financial Services

8. Place Survey

Presentation by Head of Corporate Strategy

9. Procurement Strategy Update (Pages 56 - 77)

Report of Procurement Manager

10. Service Level Agreement Monitoring - Thumbprint (Pages 78 - 83)

Report of Head of Economic Development and Tourism Services

11. Work Programme (Pages 84 - 85)

Report of Head of Democratic Services

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

Councillors Roger Sherlock (Chairman), Emily Heath (Vice-Chairman), Tina Clifford, Jean Dent, Keran Farrow, Sarah Fishwick, Bob Roe, Keith Sowden and John Whitelegg

(ii) Substitute Membership

Councillors Chris Coates, Roger Dennison, Rebekah Gerrard, Karen Leytham, Roger Plumb, Peter Robinson, Sylvia Rogerson, Morgwn Trolinger and Paul Woodruff

(iii) Queries regarding this Agenda

Please contact Jane Glenton, Democratic Services - telephone 01524 582068 or alternatively email jglenton@lancaster.gov.uk.

(iv) Changes to Membership, substitutions or apologies

Please contact Members' Secretary, telephone 582170, or alternatively email memberservices@lancaster.gov.uk.

MARK CULLINAN,
CHIEF EXECUTIVE,
TOWN HALL,
DALTON SQUARE,
LANCASTER, LA1 1PJ

Published on Monday, 15th February 2010

BUDGET AND PERFORMANCE PANEL

2009/10 3rd Quarter Corporate Performance Review 23 February 2010

Report of Corporate Director (Finance and Performance)

PURPOSE OF REPORT

To receive the Leader's highlight report in respect of the third quarter of Performance Review Team meetings for 2009/10 recently undertaken by individual cabinet members.

This report is public

RECOMMENDATIONS

- (1) That the Panel consider the report and comment accordingly.

REPORT

- 1 The third quarter of Performance Review Team (PRT) meetings for 2009/10 took place between 1st and 9th February 2010. Each meeting monitored progress against the action sheets drawn up for the previous round of meetings and any performance/financial issues highlighted in quarter 3.

- 2 The corporate exception report was considered by the Leader on 12th February, and was considered by Cabinet on 16th February 2010.

- 3 Attached as **Appendices** for information are:
 - Leader's Agreed Actions for quarter 3.
 - Update on progress in respect of Leader's Actions from Quarter 2
 - Timetable of quarter 3 PRT meetings
 - Corporate Performance Exception Monitoring Report Quarter 3
 - Financial Corporate Monitoring Report Quarter 3 plus attachments :-
 - Summary of major variances
 - Treasury Management Progress Report Quarter 3
 - Prudential Indicators
 - Investment Interest Earned

5 Conclusion

The Council's Performance Management Framework now requires the regular reporting of performance into both the Budget & Performance Panel and Cabinet as part of the Performance Review Team cycle of meetings. This report provides a strategic summary of how the council is performing in delivering its Corporate Plan targets using exception information from the quarter 3 PRT meetings with individual cabinet members

RELATIONSHIP TO POLICY FRAMEWORK	
This report is a requirement of the Council's Performance Management Framework.	
CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)	
None arising from this report.	
FINANCIAL IMPLICATIONS	
As set out in the attached appendices.	
SECTION 151 OFFICER'S COMMENTS	
The Section 151 has been consulted and has no additional comments.	
LEGAL IMPLICATIONS	
Legal Services have been consulted and have no comments to add.	
MONITORING OFFICER'S COMMENTS	
The Monitoring Officer has been consulted and has no comments to add.	
BACKGROUND PAPERS	Contact Officer: Roger Muckle
2009/10 Q3 PRT Reports	Telephone: 01524 582022
	E-mail: rmuckle@lancaster.gov.uk
	Ref: RCM/PRT

PERFORMANCE REVIEW TEAM MEETING - Q3 2009/10

SERVICE AREA: CORPORATE

DATE: 12 February 2010

PRESENT: Cllr Stuart Langhorn; Roger Muckle ; Richard Tulej

NO	AGREED ACTIONS QUARTER 3	RESPONSIBILITY	PROGRESS
	PERFORMANCE MONITORING		
1	Review the Council's Sickness Management Absence Policy and Procedure (both long & short term absences) and reconsider the previous growth bid in respect of extending the occupational health provision with a view to mitigating long term sickness absence	Chief Exec /Head of Legal & HR	
2	Request briefing from LDLSP ESO Thematic Group Chairman on difficulties being experienced that prevents the drafting of the Employment and Skills Plan and associated action plans	Leader	
3	Following implementation of the senior management restructuring consideration to be given to the capacity required for the review of service efficiency and improvements to enable a programme/process to be created that in turn	Corporate Director (Finance & Performance)	

	will enable vf m to be evidenced and NI 179 ongoing efficiencies to be recorded and reported.		
4	Number of affordable homes (NI 155) – Need to move forward with partners in LDLSP as part of the “Big Ticket” agenda	Corporate Director (Community Services)	
5	Equality Framework Following the implementation of the senior management restructuring identify requirements to ensure that there is the capacity and provision for developing the Council’s approach to equality, diversity, and community cohesion	Corporate Director (Regeneration)	
	FINANCIAL MONITORING		
6	Financial Variance Analysis Winning Back the West End Property A/c Report back on the latest position regarding the outstanding HCA claims pending payment	Corporate Director (Community Services)	
7	Debt Management Report back to appropriate Portfolio Holder on each service with debt over half a year old. What actions in place to either collect debt or write it off.	Relevant Service Heads	

PERFORMANCE REVIEW TEAM MEETING - Q2 2009/10

SERVICE AREA: CORPORATE

DATE: 17 November 2009

PRESENT: Cllr Stuart Langhorn; Roger Muckle ; Nadine Muschamp; Richard Tulej

NO	AGREED ACTIONS QUARTER 2	RESPONSIBILITY	PROGRESS
1	Actions Outstanding from Quarter 1		
	3 above Capacity to Deliver an effective HR service in particular in respect of delivering the major restructurings	Chief Exec /Head of Legal & HR	Noted that recruitment to posts in HR had taken place but restructuring itself will need to ensure that the HR service has the skills and capacity to be effective. This will be addressed following the completion of the senior management restructure. Any interim arrangements will ensure that the service business plan including any restructurings, can be delivered. COMPLETE
	4 Review the Council's occupational health provision in terms of addressing long term sickness absence	Chief Exec /Head of Legal & HR	Not progressed to date. REQUEST CABINET MEMBER & SERVICE HEAD TO REVIEW OPTIONS FOR IMPROVEMENT Briefing received. See action agreed quarter 3
	6 Equality Framework for Local Government - progress	Chief Exec / Head of Corporate Strategy	Still outstanding. Flagged up in Use of Resources Judgement. Awaiting recommendations from KMPG before developing action plan REQUEST CHIEF EXEC TO DEVELOP STRATEGY

<p>FOR IMPROVEMENT FOLLOWING RECEIPT OF KPMG REPORT HCS attended meeting with Cllrs Langhorn and Fletcher (20/01/10) to discuss opportunities that arise from the creation of the new Community Engagement Service. Agreement that commitment to equalities must be identified by members as a priority (as currently included within Corporate Plan) before resources can be allocated. Community Engagement Service identified as most potential to be the lead Service. HCS has also been contacted again by NWEQ Equalities Gateway with an offer of further support. Meeting arranged for 16 February. See Actions Agreed Quarter3</p>		
<p>Still outstanding REQUEST CD & HEAD OF SERVICE TO BRIEF LEADER & CABINET PORTFOLIO HOLDER Leader and Cabinet briefed – no further action</p>	<p>CD Regen/ HD of Cultural Service</p>	
<p>Still outstanding. REQUEST CHIEF EXEC TO ADDRESS AS PART OF RESTRUCTURING No immediate plans for service restructure. Will be reviewed following completion of senior management</p>	<p>Chief Exec / HD of Legal & HR</p>	<p>9 Search fees – income drop Prepare options paper to reduce staff to break even</p>

			restructuring. No further action
	10 Legal Library – costs. Prepare options paper for Cabinet member for reducing costs and sharing with other councils	Chief Exec / HD of Legal & HR	Take forward as part of Budget process REQUEST CHIEF EXEC & HEAD OF SERVICE TO PREPARE OPTIONS PAPER FOR LEADER & CABINET PORTFOLIO HOLDER Briefing note received. No further action
2	Planning Services :- Morecambe Central Redevelopment & Luneside West	CD Regen/ HD of Planning	REQUEST CD & HEAD OF SERVICE TO BRIEF LEADER & CABINET PORTFOLIO HOLDER Leader and Cabinet briefed – no further action
3	Target CH8 Sickness absence	Chief Exec / HD of Legal & HR	REQUEST CHIEF EXEC & HEAD OF SERVICE TO REVIEW EXISTING PROVISION OF OCCUPATIONAL HEALTH AND OPPORTUNITIES FOR MAKING HR POLICIES RELATING TO SICKNESS ABSENCE MORE EFFECTIVE Briefing note Received. See agreed actions quarter 3
4	Target CH9 Equality Framework (see 1 (3) & (6) above)	Chief Exec / HD of Legal & HR	REQUEST CHIEF EXEC TO DEVELOP STRATEGY FOR IMPROVEMENT FOLLOWING RECEIPT OF KPMG REPORT REQUEST CHIEF EXEC TO ADDRESS IN THE RESTRUCTURING PROPOSALS See response to 1(6) above. Any establishment changes will be considered following completion of senior management restructure for

			<p>Community Engagement Service</p> <p>See agreed actions quarter 3</p>
5	<p>Financial Monitoring Report – note that variances were being analysed by Cabinet portfolio holders and that a revised budget would be prepared for December Cabinet. However, no financial monitoring information had been received from Cultural services in time for this meeting</p>	<p>CD (Regen)</p>	<p>REQUEST CHIEF EXECUTIVE & CD(REEN) TO REVIEW POSITION AND TAKE APPROPRIATE ACTION</p> <p>COMPLETED</p>

PORTFOLIO BASED PERFORMANCE REVIEW TEAMS

Timetable for 3rd Quarter 09/10 – 25 January to 05 February 2010

PORTFOLIO	Meeting arranged	Cabinet Member(s)	Director (s)	Service Head	Paperwork Received (inc. updated action from previous meeting]	Action Note received	Additional Info.
Economy	09.00 02 February	Cllr Archer	Heather McManus	Peter Sandford Andrew Dobson	Yes	Yes	
Environment (Waste)	10.00 03 February	Cllr Barry	Peter Loker	Mark Davies	Yes	Yes	
Environment (Climate change)	09.30 03 February	Cllr Barry	Roger Muckle	Richard Tulej Andrew Dobson	Yes	Yes	
Finance	10.00 04 February	Cllr Thomas	Roger Muckle Heather McManus	Nadine Muschamp Graham Cox	Yes	Yes	
Internal Affairs	10.00 05 February	Cllr Mace	Mark Cullinan Roger Muckle	Jane Alder Sarah Taylor Gill Noall Richard Mason	Yes	Yes	Debbie Chambers deputising for Gill Noall
Safety	2.00 04 February	Cllr Blamire	Roger Muckle Peter Loker	Richard Tulej	Yes	Yes	
Culture/Children and Young People	11.30 05 February	Cllr Ashworth	Roger Muckle Heather McManus	Richard Tulej David Owen	Yes	Yes	
Education, Skills and Opportunities	10.00 05 February	Cllr Bryning	Heather McManus	Peter Sandford	Yes	Yes	
Health and Wellbeing	2.30 01 February	Cllr Kerr	Peter Loker Heather McManus	Suzanne Lodge Steven Milce Andrew Dobson David Owen	Yes	Yes	
Valuing People	9.00 09 February	Cllr Fletcher	Roger Muckle	Richard Tulej	Yes	Yes	
Leader	16.00 12 February	Cllr Langhorn	Roger Muckle	Richard Tulej Nadine Muschamp	Yes	Yes	NM not present due to Funeral
PERFORMANCE MANAGEMENT GROUP	19 February		All	Nadine Muschamp Richard Tulej			
CABINET	16 February		All				
BUDGET AND PERFORMANCE PANEL	23 February		Roger Muckle	Richard Tulej Nadine Muschamp			

[Reminder: Annual report to PMG in March/April each year: PRT Quarterly Reports Timetable – report of CD(F&P)]



Corporate Financial Monitoring

December 2009 | Quarter 3

Report of the Head of Financial Services
 Corporate PRT meeting | 12 February 2010

HEADLINE INFORMATION

REVENUE	Current (Underspend) / + Overspend	Projected (Underspend) / + Overspend
General Fund	+£483K	(£68K)
Housing Revenue Account	(£60K)	(£82K)

CORPORATE FINANCIAL MONITORING

December 2009 | Quarter 3

1. INTRODUCTION

This monitoring report of expenditure and income for 2009/10 sets out an indicative corporate picture of the Council's financial performance relating to the period ending 31 December 2009.

The report summarises the variances reported through Services quarterly PRT meetings, and also identifies any omissions, updates and/or actions required. In addition there are specific sections for salary monitoring, capital expenditure and financing, Housing Revenue Account, revenue collection performance and Insurance and Risk Management.

It should be noted that this quarter's monitoring is based on the Revised Budget.

2. GENERAL FUND REVENUE MONITORING

2.1 General Fund Summary Position

The current overall General Fund summary position shows that at the end of December there is a net overspend of **£483K** against the revised budget. This is forecast to change to an underspend of **£68K** by the end of the year.

The current overspend includes a variance of £400K in respect of the VAT recovery claim which had been expected by now. HMRC have accepted the principles underpinning the claim and have already settled with some other local authorities. It is still anticipated that the claim will be settled by the year end, but not guaranteed.

VARIANCES	Current £000	Projected £000
Major Variances (see section 2.3)	+537	+82
Salaries (see section 2.4)	(54)	(150)
ESTIMATED OUTTURN	+483	(68)

One of the key financial indicators is to keep any under or overspends within 2% of the overall net controllable revenue budget, and the following table shows that at the end of December this has been achieved. The relevance of this target will be reviewed over the coming months, in light of experience.

	£000
Net Controllable Budget	23,792
2% Target	+/() 475
Provisional Controllable Net Underspend	(77)
Percentage of Net Controllable Budget	0.32%

2.2 Major Budget Variances

Appendix A details the major true variances that have been included within individual Services' PRT reports. The variances reported are either +/- £5K in value and cover premises, transport, supplies and services and general income.

SUMMARY BY SERVICE	Current £000	Projected £000
REPORTED VARIANCES :	() Favourable / + Adverse	
Financial Services	+381	0
CC(D)S	+3	+9
Property Services	+14	+40
Cultural Services	+14	+33
Planning Services	+125	0
	+537	+82
VARIANCES NOT REPORTED TO PRT MEETINGS :	--	--
	+537	+82

The variances listed in **Appendix A** show that there is currently an overall overspend of £537K, which is anticipated to be reduced to £82K by the year end. As mentioned in section 2.1, the current overspend includes a variance of £400K in respect of the outstanding VAT claim.

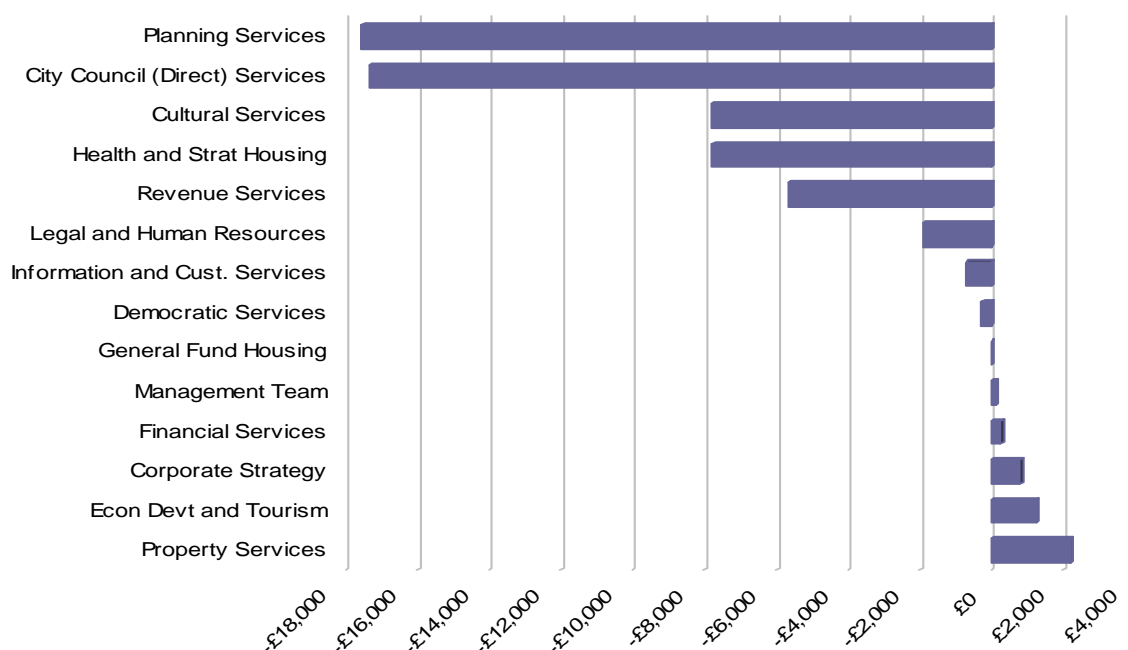
There are two major variances included within the forecast of £82K, relating to Lancaster Market (+£38K) - from the loss of tenants resulting in a drop in income, and Salt Ayre Sports Centre (+£35K) - pool cover and new Reflexions contract late in being implemented resulting in anticipated savings not being achieved.

2.3 General Fund Salary Monitoring

Salary monitoring has been reported separately as there are a number of small variances that fall below the threshold for major items, however their aggregate effect is fairly significant.

At the end of December there are savings of £54K against the revised salary budgets. This could increase to £150K by the end of the financial year, however it is difficult to accurately predict the exact figure. The following graph shows the savings on a Service by Service basis.

Planning and CC(D)S have the largest savings of £17K each, which are mainly in respect of the Coast Protection team, Planning management and admin and the CC(D)S grounds maintenance section. There are also minor overspends in Economic Development and Tourism relating to Morecambe VIC, and Property Services in respect of additional overtime.



3 GENERAL FUND CAPITAL PROGRAMME

3.1 Capital Expenditure & Financing

Capital Expenditure (General Fund)

As reported to Cabinet on 8th December 2009 the gross Capital Programme for 2009/10 was £9.886M, and at the end of the month spend against the programme was £6.797M. The programme has subsequently been revised upwards to include the Icelandic Bank impairment of £2.047M for which capitalisation has been granted.

Capital Receipts (General Fund)

Estimated receipts of £1.765M are required to finance the current years capital programme, of which £1.298M is currently available leaving a balance of £467K still to be achieved this year.

4 HOUSING REVENUE ACCOUNT (HRA) MONITORING

4.1 HRA Revenue Position

At the end of December the position for the Housing Revenue Account shows an underspend of **£60K** against the budget, which is currently projected to increase to **£82K** by the end of the year.

	Variances to Date	Project to Yr End	Comments
	£000	£000	
Council House Rents	(24)	--	See section 4.2 below.
Estate Support Services - electricity	(6)	0	Delay in starting photo electric cells work.
Insurance Repairs	+29	?	Outstanding claims
Planned Maintenance – electricity inspections	(23)	(40)	Anticipated savings on follow up work from inspections.
Repair & Maintenance section - salaries	(7)	(10)	Savings from 2 vacant posts
Repair & Maintenance – admin charges	(5)	(10)	Additional admin charges from rechargeable repairs.
Responsive Maintenance - fees	(26)	(12)	Works completed on septic tank due to legal responsibility has led to an increase in income as all costs are recharged out to owner occupiers.
Telecare – contracted services	(3)	(15)	Savings on contract – officers reviewing service provider.
Mgt & Admin – service charges	+5	+5	Additional expenditure relating to insurance costs.
Net Total	(60)	(82)	

4.2 Council House Rent Collection

At the end of December rent collection is slightly higher than estimated, however this is mainly due to the revised profile needing to be reviewed. It is anticipated that the outturn will be in line with the revised budget by year end.

Total Estimate for Year	£11,412,900
Profiled Budget	£8,560,055
Actual to Date	£8,583,936
Difference	£23,881

4.3 Council Housing Capital Programme

This section analyses actual spend against the Council Housing Capital Programme at the end of December. To date spend and commitments total £2.666M against a budget of £3.847M leaving a balance of £1.181M. Slippage of £478K has already been identified against the programme and officers are currently looking into the reasons why the revised budget did not incorporate this.

	Current Approved Programme £000	Spend & Commitments to Date £000	Budget Remaining £000
Adaptations	250	246	4
Bathroom / Kitchen Refurbishment	497	307	190
External Refurbishment	1,300	964	336
Rewiring	53	46	7
Renewal of Heaters	45	36	9
Environmental / Crime Prevention	444	214	230
Re-roofing / Window Renewals	520	477	43
Energy Efficiency Works	540	360	180
IT Replacement	83	16	67
Central Control Equipment	100	0	100
Prospect Grove Office Conversion	15	0	15
TOTAL	3,847	2,666	1,181

5 REVENUE COLLECTION PERFORMANCE

5.1 Council Tax & Business Rates

This section analyses the Council Tax and Business Rate collection performance. Collection for both elements is on target, and comparable to previous years performance.

Percentage Collected	2008/09	2009/10	2009/10	2009/10	Status
	%	%	Target	Actual	
	All Years		In Year		
			%	%	
Council Tax	88.42	87.93	96.60	85.98	On Target
Business Rates	80.22	80.52	98.00	89.08	On Target

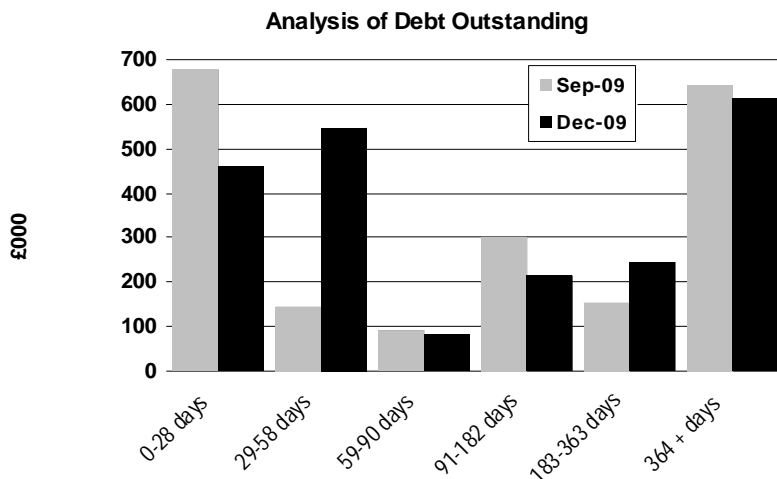
5.2 Collection Fund Monitoring

This section sets out the latest position on the Collection Fund, in particular in relation to Council Tax. Whilst the above section looks at collection performance, this section shows the current surplus or deficit on the Fund. It basically compares the amounts collectable with the Precepts levied by the relevant authorities after allowing for refunds, bad debt provisions, income collected and Council Tax benefits. The monitoring shows that at the end of December the Fund was in surplus by £263K, but it should be noted that any surplus or deficit is shared between the relevant precepting bodies. The City Council's element equates to 12% and would therefore be £32K. This position will fluctuate throughout the year but will formally be assessed in January when the Council Tax base for 2010/11 is set. At that point in time any surplus or deficit will be notified to the relevant precepting bodies for inclusion in their 2010/11 budget. This information should be viewed in context: the Fund is due to collect approaching £65M in Council Tax for 2009/10.

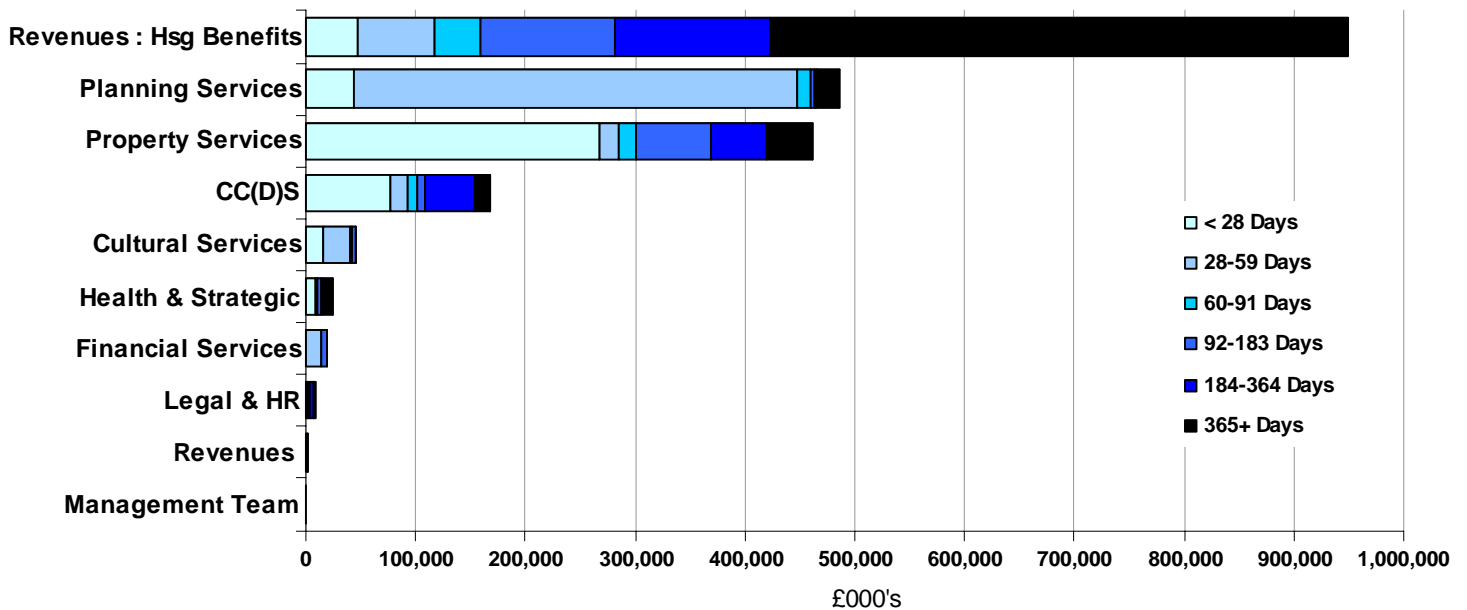
5.3 Sundry Debts

This section sets out the latest position on the level of outstanding sundry debts (excluding Council Housing). At the end of December the total debt outstanding stands at £2.165M, which is virtually the same as the previous year. However, compared to the previous quarter, this is an increase of £150K.

The level of debt over 1 year old has reduced slightly to 28% (32% at Quarter 2) of the total outstanding debt. The total value of all debt over 3 months old has also reduced slightly by £17K from the previous quarter.



	Sept 09	Dec 09
	£000	£000
0-28 days	679	461
29-58 days	141	548
59-90 days	102	80
91-182 days	293	215
183-363 days	154	245
364+ days	646	616
	2,015	2,165
Previous Year	1,458	2,142



6 PROVISIONS AND RESERVES

This section provides and update on key provisions and reserves.

6.1 Restructuring Reserve

This reserve was established to cover the cost of redundancies and early retirements as a result of Service restructures during 2009/10 and 2010/11. The following table shows the approvals to date and those still subject to approval.

In addition, a further report is due to be submitted to Cabinet in February regarding future stages of the Senior Management Restructure.

Restructuring Reserve			Annual Savings Generated	Comments
			£	
Balance as at	31 March 2009	943,100		
Quarter 1 Approvals				
<i>Personnel Cttee 26 March 09</i> Corporate Strategy Restructure			30,200	Annual savings reduce by £8K after 2009/10. Additional savings being identified.
Balance as at	30 June 2009	879,500		
Quarter 2 & 3 Approvals				
<i>Personnel Cttee 30 July 09</i> Management Team PA Restructure			15,500	Annual saving rises to £32K after 2011/12.
<i>Personnel Cttee 30 July 09</i> Senior Management Restructure NWE0 Fees (referred to Cabinet)				
Balance as at	30 December 2009	809,100		
Quarter 4 Subject to Approval				
<i>Personnel Cttee 12 January 2010</i> Community Engagement Policy and Regeneration			229,100	
			149,900	
<i>Cabinet 19 January 2010</i> Additional Contribution				
Balance as at	31 March 2010	773,838		

6.2 Insurance Provision

The current balance on the insurance provision is £256K, after making net payments of £141K in settlement of claims made. (*Quarter 2: balance £277K, net payments £26K*).

At present, the Council's insurers estimate that the value of claims outstanding is £468K, which relates to a total of 204 claims made over a 13 year period. This estimate assumes that all these claims will be settled at the maximum reserve limit; however, recent statistics show that, on average, only 57% of the total reserve will be paid. The estimated cost of claims outstanding could therefore reasonably be valued at around £267K, which is £11K below the current provision.

It is highly unlikely that all these outstanding claims will fall due for payment in the same financial year, but the uncertain nature of insurance claims payments means that accurate predictions are difficult. Nonetheless, the overriding principle is that the Council must make reasonable provision for all its known liabilities. Officers will continue to monitor the level of the provision to ensure it remains at a prudent level.

6.3 Bad Debt Provision

The Bad Debt provision is reviewed half yearly at revised estimate time and closedown. However, it is proposed to provide a quarterly review and report as part of the Corporate Monitoring process.

The level of the provision has been assessed based on anticipated levels of write-off as a proportion of debt outstanding. Based on the figures shown in section 5.3 the level of provision would be as follows :

Period	Debt £000	% Cover Required	Value £000
Up to 1 Month	461	1%	5
1 Month to 3 Months	628	5%	31
3 Months to 365 Days	460	10%	46
Over 365 Days	616	50%	307
TOTAL	2,165		389

The current balance on the Bad Debt provision is £421K which is £32K above the requirement indicated. There are various write offs being processed at present though, and therefore the difference is not viewed as significant.

7 RISK MANAGEMENT

The Risk and Insurance Manager has been working closely with the Corporate Performance Manager to review the significant risks highlighted in Services' Business Plans, and to ensure that Service Heads are clear about their associated responsibilities. At this stage, to 31 December, there are no major exceptions to report, though clearly this can change at any time.

From a strategic perspective, the Corporate Director (Finance & Performance) is leading on a review of strategic risks, for consideration by Members as part of the budget process. To support this, information on the key business risks from services' perspectives will also be drawn on, to inform future planning and budgeting as appropriate.

Service (s)	Corporate overview - Includes Internal Affairs portfolio - Finance portfolio and Red/Amber targets arising from PRT	
Portfolio Holder/s	Cllr Langhorn	
Quarter 3		Date of meeting
Actions	<p>All Portfolios Significant achievements and or difficulties experienced in delivering targets (highlight significant ongoing or emerging risks)</p> <p>Property Services - Property disposals continue to be difficult to achieve in the current market both in terms of funds available for purchasers and developers being able to obtain planning permission in the face of objections e.g. Lawson's Bridge, Scotforth and the Canal Corridor scheme. This also affects the opportunity to dispose of the council's interest in Lancaster Market in accordance with council policy. Q3 Update position remains unchanged</p> <p>Building repairs - The lack of capital receipts impinges on the ability to undertake the full backlog of repairs programme. In the interim, buildings are deteriorating, increasing both the size of the programme and its cost. This remains a serious risk for the council. Q3 update - There have been further collapses at Lancaster Town Hall, some repair works are underway and others are being commissioned. The capital programme being considered by february's cabinet includes funding to meet know urgent repairs</p> <p>Economic Development and Tourism - A concept proposal was submitted to NWDA in June and discussions are ongoing regarding the key requirements for delivery of the economic regeneration agenda in the District. In principle NWDA is supportive of the council's bid but discussions are taking place with senior officers from within the Agency to determine the best way to contract with the council for both staffing and development of key projects. One concern is that time is passing whilst these decisions are made and the council is unable to make the progress it would like in respect of some important regeneration work. However, an outcome is expected within the next few weeks. Q3 UPDATE In principle, NWDA is still supportive of the council's plans but we understand they wish to propose a slightly different way forward to that originally discussed. Meetings are scheduled to take place during February to take these discussions further. In the meantime the NWDA is working with the council to develop specific project proposals.</p> <p>Planning - There is some uncertainty pending the Urban Splash re-design of current planning application. Wider proposals for Morecambe Centre will emerge through Area Action Plan. Q3 update - Submission of a bid for NWDA funding is on hold pending the outcome of the Urban Splash planning applications. Now scheduled for March Planning Committee.</p> <p>Planning - Initial discussions with land owners of Luneside West regarding the cooperation over the development needs of both sites is taking place. No changes to report, further exploratory meetings have taken place but no measurable progress to report. Q3 update - No changes to report. Funding uncertainty due to delays in gaining confirmation of funding for regeneration framework projects is delaying progress at this time.</p>	

PI No	Description of indicator	08/09 Outturn	09/10 target	Good is ?	Q1	Q2	Q3	Q4	Year to date	Status	Target Owner	Commentary (highlight significant achievements or ongoing risks)
All Portfolios - Red & Amber indicators												
CH8	Reduce the number of days lost to sickness absence		9.5 days	Low	2.456	5.69	9.05		9.05	Behind Target	ST	No change: To achieve 9.5 days for the year, the target for the end of December was 7.31. The figure at the end of the third quarter last year was 7.11. The total number of days' absence reduced to 853.5 in December 2009 from 1064.9 in November 2009. In November 35 days were lost to swine flu, reducing to 4 in December. To date this year, 65% of absence has been long term and 35% short term, compared with 61% long term and 39% short term at the same point last year. HR officers have been liaising with managers to ensure that sickness absence is properly managed, and to seek to stem the increase. Quarter 3 Update :- See actions agreed
KPI 8	Deliver the Council's actions identified in the LDLSP's Education, Skills and Opportunities Thematic Group Action Plan									Behind Target	PS	Status change (On target Q2)- The Employment & Skills Work Group continues to meet but progress in drafting the Employment and Skills Plan and associated action plans has fallen behind schedule as the priority, with limited staff capacity, is to ensure initiatives which can have a direct impact, such as the Future Jobs Fund, are implemented. Quarter 3 Update :- See action agreed

NI188	Adapting to climate change	£477K	Level 1	High						RT	<p>Status change - (On target in Q2) - Due to current resources, no work has been undertaken to achieve level one in the current financial year, however student placement has been sought to address this and ensure progress in the new financial year, it should be recognised that progress will not be possible without additional support. Quarter 3 Update :- Climate Change Officer Group have an agreed action to develop a strategy for achieving Level 2 by 31st March 2011. No further action</p>
CH2/NI179	Value for money - total net value of ongoing cash releasing value for money gains (Efficiency/MT FS targets)	£2,127K	£2,127K	high	Not quantified	£1,378K	£1,378K			NM	<p>No change First monitoring to Govt submitted on 23 October. Shortfall of £749K - difficult to see how this can be addressed at present. Aim to address capacity issues associated with supporting VFM / business improvement agenda through future restructuring of services - but don't expect that this will be done in the short term. No further progress since first monitoring to Govt submitted. Quarter 3 Update :- See actions agreed</p>
CH7/NI4	% of residents agree that the City Council provides value for money (Place Survey)	30%	Next survey 2010/11	high						RT	<p>This target relates to a two yearly survey. The next survey is not due till 2010/11. No monitoring therefore is possible this year Quarter 3 Update :- No action required</p>

KPI 7	Number of enquiries at Visitor Information Centres	MVIC 100,381 LVIC 102,022 Total 202,403	3% increase to 208,475	High	MVIC 27,617 LVIC 16,204 Total 42851	MVIC 34,949 LVIC 19,606 Total 54,555	MVIC 13,336 LVIC 12,888 Total 26,224	MVIC LVIC Total	MVIC 75,902 LVIC 48,698 Total 124,600	Behind Target	PS	<p>No Change Enquiries at Morecambe and Lancaster VICs have declined during the autumn and winter months and it is unlikely that over 83,000 enquiries will be handled by the VICs in Q4 in order to met the original target. Reasons for the decline in numbers during Q3 include seasonality, the economic recession, lack of visibility for Lancaster VIC and bad weather from mid-December. Quarter3 Update :- No action required</p>
NI 155	Number of affordable homes delivered (gross)	43	63	High						Behind Target	AD	<p>Although down turn in housing market is main cause. The Council is in a position to make funding available from Section 106 agreements to assist in making new units available. Talks opening with house builders again on Luneside West where affordable Housing element may be possible. Quarter 3 Update :- See action agreed</p>
CH9	Level of Equality Framework for Local Government	N/A	Level 1 - developing							Behind Target	RT	<p>No change Briefing sessions have taken place for members and officers. Head of Corporate Strategy has been nominated as lead officer. HCS has met up with North West Employers and Wyre BC to try and get external support. Quarter 3 Update :- See action agreed</p>

Action Plan	Agreed actions from PRTs	Status update
<p>Quarter 1</p>	<p>Finance - To provide a further report updating the schedule of capital receipts to the October 2009 cabinet meeting.</p> <p>Bulky Matters - Continue to monitor reduced demand for the service and liaise with the service provider on reasons for the fall in demand. If this becomes a trend take action to reduce service provision and costs.</p> <p>Trade Refuse - analyse reasons for reduction in income and develop options for dealing with variance.</p> <p>Valuing People</p> <ol style="list-style-type: none"> 1 Cllr Fletcher to be sent a copy of the draft Voluntary, Community, Sector Compact. 2 Develop criteria, template for evaluation and reporting requirements of Service Level Agreements, Grants to outside bodies. 3 Report to Cabinet to be developed in respect of how the Council is to take forward work on the new Equalities Framework <p>Children and Young People</p> <ul style="list-style-type: none"> - Provide officer support to Cllr Ashworth at Childrens Trust theme leads meeting on Thursday 13 August. - Provide more information as to how the Children and Young people engagement strategy will operate in practice <p>Climate Change Specific Salt Ayre energy monitoring information and longer term strategic action plan report (D Owen) to next CCCLG in September. To include 2008/09 outturn and first quarter monitoring report. Create action plans for quick wins on energy efficiency. Ensure information on 3.3 and 3.4 are available for next quarter and September's CCCLG.</p> <p>Health and Wellbeing Affordable Homes - Smaller number of new build linked directly to down turn in house building completions. However, actual availability of more affordable housing likely to be higher due to significantly reduced market prices and over supply in flat market. There is no direct corrective action which the Council can take in the short term to influence this indicator. In the medium term opportunities to build more social housing are being explored.</p> <p>Safety</p> <ol style="list-style-type: none"> 1 Review funding arrangements in respect of LSP and quick response vehicles. 2 Obtain a summary report for the Road Safety Partnership. 3 Provide financial information (for review) in respect of City Council funding for community safety 	<p>QUARTER 2</p> <p>Finance - information provided to Cabinet</p> <p>Bulky Matters - levels of uptake steadily improving in Q2 and hit monthly target in September, sales income about on target - continuing to monitor closely Blackpool project launches Nov Wyre launch hopeful for April, Potential for Fylde and S Lakeland</p> <p>Trade Refuse recycling generally proving a success in terms of uptake - customer levels holding but tonnage decreasing with net negative impact upon income levels. However this is positive from waste reduction perspective (NB. this does not contribute to statutory NIs)</p> <p>Valuing People</p> <ol style="list-style-type: none"> 1 Draft compact has been developed. 2 SLA criteria and template about to be sent out to outside bodies 3 Not yet ready for a report to Cabinet <p>Children and Young People</p> <p>Awaiting outcome of meeting between City Council Corporate Directors and relevant portfolio holder with their County Council counterparts, in respect of overlap between City Council Objectives and LDLSPP Priorities for Promoting Pos Head of Corporate Strategy provided officer support</p> <p>Climate Change - all relevant information provided</p> <p>Health and Wellbeing - Use of Section 106 funding</p> <p>Safety</p> <ol style="list-style-type: none"> 1 and 2 still to be actioned 3. complete

<p>Quarter 2</p>	<p>Finance - Identify schedule of works at Festival market that could reduce energy costs. These should be costed and the savings identified and then reported to the Climate Change Cabinet Liaison Group</p> <p>Economy - No additional actions arising from the meeting, but it was noted that income targets for Lancaster VIC are being reviewed as part of the revised estimates process.</p> <p>Climate change</p> <ol style="list-style-type: none"> 1. Establish an officer group from key services to understand and roll out actions included in the Climate Change Strategy. 2. Develop a robust performance management reporting process to ensure all necessary data in respect of agreed climate change reduction targets. 3. Consider EST recommendations and develop action plan that can be integrated into the CCS. 4. Provide an update of the agreed 16 Salt Ayre energy reduction projects <p>Health and Wellbeing - NI 187 Fuel Poverty – now linked to Climate Change Strategy to be considered by Cabinet in November. Opportunities - especially external funding – for moving this forward to be explored as part of that strategy Refresh Housing Strategy – currently on hold pending appointment to two vacant posts in needed to bring up to lettable standard</p> <p>Valuing people</p> <p>Agreed process for reviewing SLA's - letter and priorities review form to be sent to outside organisations in the relevant Cabinet members name.</p> <p>HCS to pursue opportunities for support from NWEO re Equality Framework for Local Government.</p> <p>Children and Young people</p> <p>Corp dir Regen and F and P to meet with Chair of Childrens Trust and Ann Pannel (lancs County council) to set Remove KPI 17 from future PRT reports (not SMART)</p> <p>HCS to follow up on Lancs Chief Execs report on revised support arrangements and offer of financial support t</p>	<p>Q3 Progress</p> <p>Climate Change</p> <ol style="list-style-type: none"> 1. Completed 2. Not commenced - to be commenced through Climate Change Officer Working Group(CCOWG) 3. Action Plan due to complete by Feb - on track 4. Update will be fed through Cabinet Liaison Group and CCOWG <p>Q3 Update re Refresh Housing Strategy - Appointments made to housing strategy posts commencing February 2010. Progress will resume once officers in post.</p> <p>Health and Wellbeing - Projected overspend on Council Housing Responsive Repairs - Revised Budget for 2009/2010 increased by £145,000 to accommodate overspend (see HIRA Report to Cabinet 19/01/2010)</p> <p>Children and Young People</p> <ol style="list-style-type: none"> 1. Meeting arranged for 11 February 2010 2. KPI 17 now removed 3. The new arrangements are now confirmed and formally accepted. When the new Job Description has been developed recruitment will commence
	<p>From Climate Change PRT</p> <ol style="list-style-type: none"> 1. Develop effective performance management arrangements in respect of energy monitoring 2 Agree target to achieve NI 188 level 2 by March 2011 - initial proposal is to recruit a Lancaster Uni. graduate to a work placement to support achievement of Level 1 and then review requirements to achieve Level 2. 3 Note remaining funding for 2009/10 Climate Change initiatives (£4,700) - agree to carry forward if no suitable project identified as a result of CC action plans. 4. Pitt Review Recommendations: concern at lack of progress from County in engaging in discussions about joint working. Head of Planning Services to formally write to County about concerns. 	<p style="text-align: center;">NOTED</p>

<p>Quarter 3</p>	<p>From Economy PRT To survey Yorkshire Street shopping area and prepare a scheme for potential action under Section 215 powers to secure improvements to the appearance of shops. In addition examine the potential to reduce the number of shop units and compress the size of the shopping core</p> <p>From Health and Wellbeing PRT - Affordable Housing - Head of Planning Services to advise Cabinet Member of timetable for progressing expenditure of S.106 monies on affordable housing, once new Strategic housing staff in post.</p> <p>From Safety PRT</p> <ol style="list-style-type: none"> 1 Draft briefing note for Cllr Blamire for LDLS Management Group re. commitment of partners to CSP. 2 Review CCTV funding arrangements next year as part of developing MTFS. 3 Redraft format of Safety PRT report for Q4 and include new performance reporting arrangements developed by the CSP <p>From Internal Affairs PRT</p> <ol style="list-style-type: none"> 1. Review targets for next year in respect of CH11(c) to reflect trends and also four year cycle of member elections. 2. Ensure results from "avoidable contact" survey translated into actions for improvement. <p>From Valuing People PRT Ensure that within 2010 Corporate plan the commitment to the Equality Framework for Local Government is explicit and that the restructuring of Services to form the new Community Engagement Service allows for sufficient capacity to take this work forward and provides support to the LDLS in developing its Cohesion Strategy for the district.</p>	<p>NOTED</p> <p>NOTED</p> <p>NOTED</p> <p>NOTED</p> <p>NOTED</p>
<p>Quarter 4</p>		

SUMMARY OF MAJOR VARIANCES (Qtr 3 2009/10)

(Not included elsewhere in the report)

Service	Service Area	Reason for Variance & Action being taken	Variance to Date	Projected Variance to Year End
			£	£
			+ = Adverse	
			(-) = Favourable	
VARIANCES REPORTED THROUGH PRT PROCESS (SERVICE HEAD COMMENTS)				
Financial Services	Investment Interest	See separate report.	(19,000)	
	Part provision for estimated losses in investments	Capitalisation directive for £2.1M now received - outturn dependent on views at year end regarding Landsbanki & Glitnir creditor status and any updates to estimated recovery rates.	+0	+0
	VAT Recovery Claim	Still awaiting outcome of claim. It is known that HMRC have accepted the principles underpinning the claim as they have settled with some other local authorities. Being pursued through PWC.	+400,000	+0
CC(D)S	Electricity	Mistake made by supplier regarding meter readings leading to under charged amounts of £6K in 2008/09 and £3K in 2009/10.	+3,000	+9,000
Property Services	Lancaster Market Rent	Loss of tenants resulting in a drop in income. In addition, poor Christmas trading is expected to result in more tenant losses.	+12,300	+21,700
	Lancaster Market Service Charge	As above.	+9,400	+16,600
	Off-street car parks - fees	Income was above target in October and November. However, in December it dropped due to the poor weather conditions.	(7,600)	+0
	Postage	Budget reduced by £22.2K at revised estimate stage which was too much in light of current throughput.	+6,200	+10,100
	Hire premises	Additional income from lettings.	(6,700)	(9,000)
Cultural Services	Dome Ice Rink	Morecambe Town Council contribution not previously budgeted for.	+0	(8,000)
	Promenade Management - income	Agreement with Fairground operator is £6K less than anticipated.	+0	+6,000
	Salt Ayre Sports Centre - various areas	Pool cover and new Reflexions contract late in being implemented. All budget headings being monitored closely with Financial Services and costs being held where possible in a bid to reduce this deficit.	+14,300	+35,400
Planning Services	Planning Application Fee income	Increased income in Qtr3 against revised budget.	(27,800)	?
	Winning Back West End Property Account	Outstanding HCA claims pending payment. Positive discussions with funder to gain clarity and agree position. Claim expected to be paid Qtr4.	+105,500	+0
	West End EP Delivery Team	As above.	+47,300	+0
			+536,900	+81,800

VARIANCES NOT REPORTED THROUGH PRT PROCESS				
			+0	+0

TOTAL VARIANCES	+536,900	+81,800
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PERFORMANCE REVIEW TEAM

2009/10 Treasury Management Progress Report to 31 December 2009

Report of Head of Financial Services

1. Introduction

It is a requirement of the CIPFA Code of Practice on Treasury Management that regular monitoring reports are presented to Members on treasury activities. These reports will normally be presented soon after the end of June, September, December and March.

Cabinet approved the Treasury Strategy for 200/10 on 17 February 2009 and the Investment Strategy was approved by Council at its meeting on 04 March 2009. This report outlines activities undertaken in pursuance of those strategies during the financial year.

2. Summary

- £410K was received from KSF (£2M deposit) in July, an additional deposit of £205K was received in December.
- The council's preferential creditor status in relation to Glitnir has been challenged. The outcome of this ruling will have a large impact on the return from this investment and potentially that with Landsbanki.
- There have been no changes to the debt portfolio and it not anticipated that any new long term borrowing will be required before the year end.
- An RBS call account has been opened. This is a Government controlled, eligible institution and so is being operated in line with the upper limit institutions as defined in the investment strategy.
- There have been no material breaches of any prudential indicators or counterparty limits in the quarter and no other major risks have been identified.

3. Icelandic Investments Update

The main event during the quarter was that the council's preferential creditor status has been challenged by the Glitnir winding up board on the basis that our investment was a loan and not a deposit. The reasoning for this is unclear and the decision is to be challenged through the Icelandic courts. The outcome of the ruling will have a large impact on the returns which could drop from an anticipated 100% under preferential status to around 30% for non preferential status (on a principal of £3M). We currently have preferential status with Landsbanki but should Glitnir's objection be upheld, it is anticipated that Landsbanki would also attempt to challenge our preferential status. The process is ongoing and is being managed by Bevan Brittan, via the LGA, on behalf of all authorities with frozen Icelandic deposits.

In terms of the budgetary impact and accounting for a potentially much larger impairment loss, a capitalisation bid has been submitted to DCLG for £2.1M (to cover the additional potential losses on Glitnir). This will allow the council to amortise the loss over 20 years rather than taking the full impact in 2009/10. This does not include any provision for further losses on Landsbanki as the DCLG would only let the council assume best case for this counterparty even though there is a risk that this will change, pending the outcome of Glitnir (*update as required*).

A payment from KSF was received in late July for £410K and a further payment was received in December for £205K; the final settlement has still to be determined.

It is anticipated that CIPFA will release further bulletins relating to accounting for Icelandic deposits as and when more information is available.

4. Debt Portfolio

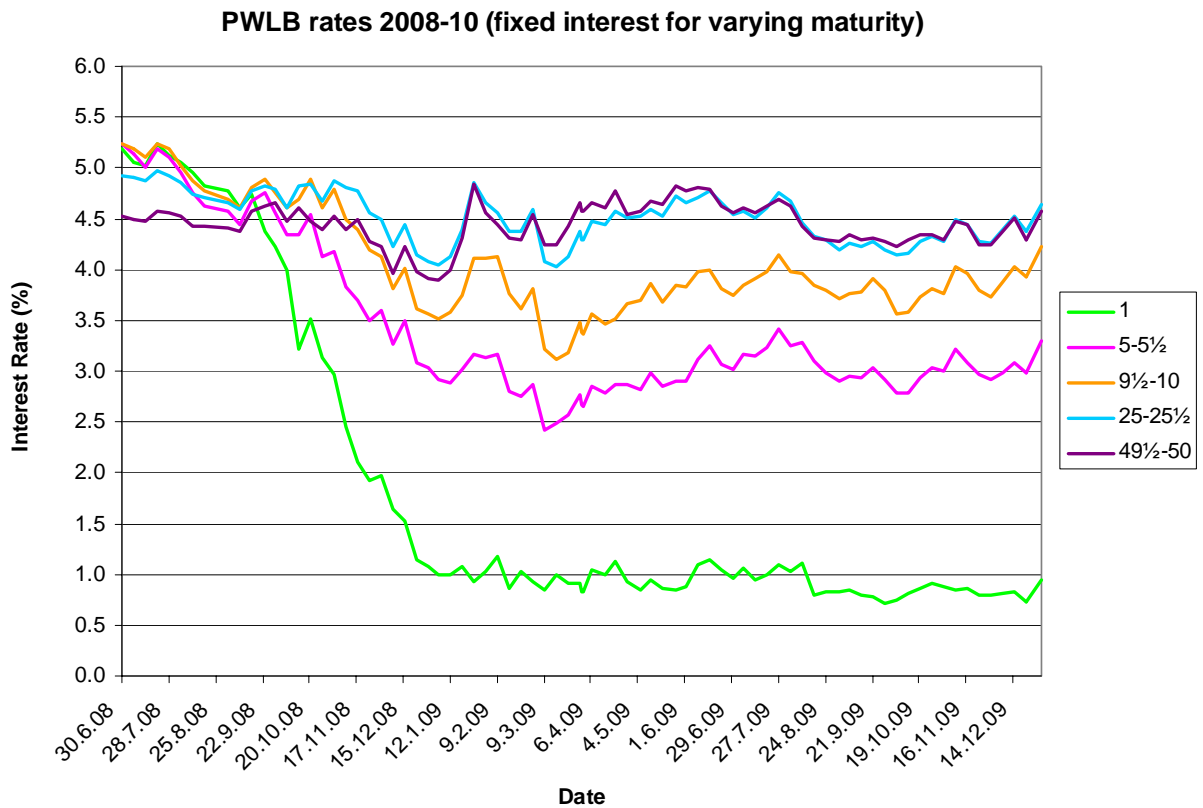
The opening level of longer term debt for the period was £39.4M. During the quarter, in cash flow terms there was no new long term external borrowing required, despite the Council's Capital Financing Requirement being around £45.8M. The closing balance of longer term debt was therefore still £39.4M - the bulk of this relates to Public Works Loan Board (PWLB) loans of £39.2M. This is well within the Operational Boundary, which is set at £56M. All of the Authority's debt is currently fixed term and due to mature in 10 or more years. This means that during the quarter the Authority was within all relevant Prudential Limits (see **Appendix A** for full listing of indicators).

There is no immediate need to take out new long term loans at present to help fund capital investment, because cash flow is still relatively strong, despite the difficulties with Icelandic investments. In very broad terms, this is primarily because of the amounts being set aside each year from the budget for the future repayment of debt, through the Minimum Revenue Provision (MRP). At present it is still favourable to avoid taking out any new longer term borrowing. This is because there is less resulting counterparty risk involved and new long term loans would cost more than the returns, if the council were to invest an equivalent sum.

However, as in prior years, the council is facing some challenges in terms of realising the capital receipts that underpin the capital programme. The programme for future years is currently being refined through the annual budget process, the outcome of which will influence whether the council decides to take on any prudential borrowing in future – affordability being a key concern. There are two major unknown factors, additional to Iceland that will also have a significant bearing on this, these being capital receipts for the land at South Lancaster and potential Luneside East compensation claims. The capital programme and debt strategy will be updated accordingly, as and when more detail emerges on these issues.

5. Current Borrowing Rates

The graph below shows that the pattern seen over the prior year has persisted with shorter term loans remaining well below the interest rates from 18 months ago, with higher rates for longer loans. Short term borrowing remains historically low and longer term rates remain relatively low should any further borrowing be required. The conditions for borrowing will be actively monitored as the capital investment requirements for future years are crystallised.



6. Investing Activities

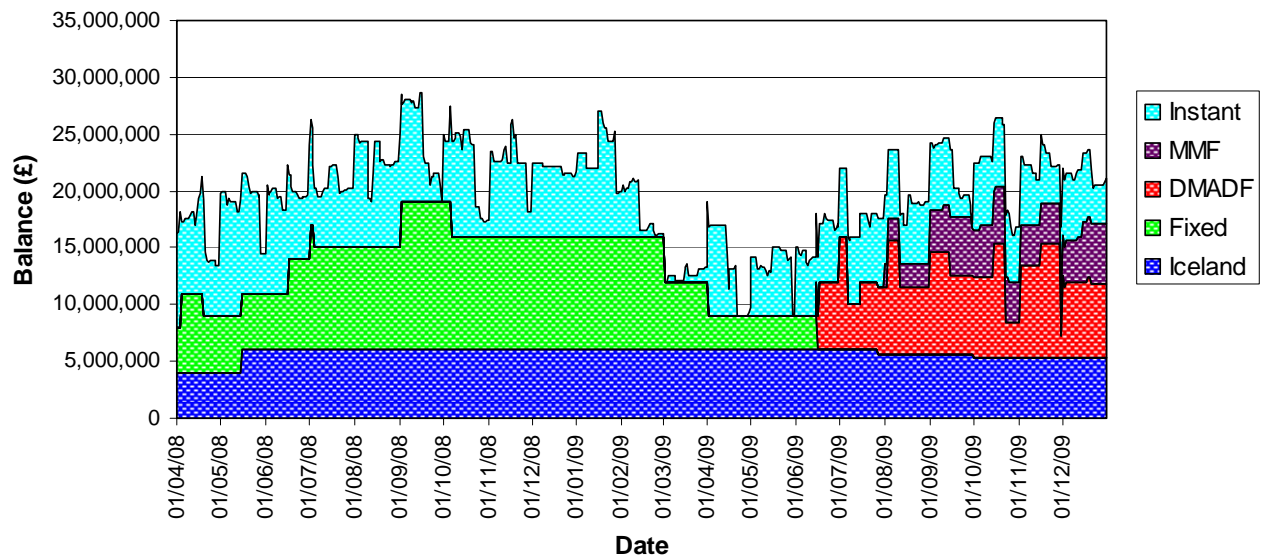
As laid down in the approved Investment Strategy, the aim is to prioritise security and liquidity of the council's investments. This is to minimise any further chance of a counterparty failing and the council not being able to remove its deposits, as happened with the Icelandic banks.

All investment activity has been in line with the approved Treasury Strategy for 2009/10. No fixed term investments have been placed since September 2008, with the exception of Debt Management Accounts Deposit Facility (DMADF) deposits (i.e. with HM Government). Any other surplus cash has been managed on a day to day basis using the call accounts and since August, two Money Market Funds (MMF). A full list of the investments placed during the year is enclosed at **Appendix B** along with details of the balances on liquid deposits held.

The split of investments is shown graphically below (see also further details in **Appendix B**). It is clear from this that the investment portfolio is split between Call accounts, the DMADF and MMFs. This keeps deposits secure, liquid and spread over a number of counterparties. £615K has been repaid to date by KSF which has reduced the balance outstanding with Icelandic banks (at this stage, it is assumed all of this relates to the principal).

In addition, during the period, a further call account was opened with Royal Bank of Scotland.

Investment values over the period (fixed vs instant access)



7. Summary of Budget Position and Performance at 30 September 2009

In terms of performance against external benchmarks, the return on investments compared to the LIBID and bank rates over the year to date is as follows:

Base Rate	0.50%
3 Month LIBID	0.91%
Lancaster CC Investments	0.58%
Lancaster CC investments*	0.83%

*This rate includes £5.4M frozen in Icelandic banks, assumed at 0%. Although as per accounting guidance, we can accrue for this interest, it is both notional and subject to amendment depending on the terms of the ultimate settlement.

This performance appears good but it should be noted that it is affected by fixed term investments that were taken out before the global economic down-turn.

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

Annual budget	£86K
Profiled budget	£61K
Actual to date	£82K (see details in Appendix B)
Variance	£19K (favourable)

The reason for the favourable position is due to the slight fluctuation in interest receipts over the course of the year. The amount of investment balance will run down over the last quarter as income from Council tax and NNDR stops; the £86K annual figure is judged to be a good estimate of the final out-turn.

These figures do not take account of interest from Icelandic investments. At this stage it is considered likely that the Council will be able to recognise interest from these investments although, as previously reported, accounting requirements mean that this will be used to offset the losses in principal expected.

8. Risk management

The main focus of risk within treasury management currently is security of deposits and their liquidity. The Council's investment strategy is designed to engineer risk management into investment activity largely by reference to credit ratings and length of deposit, together with

supporting advice. Officers have been maintaining the portfolio well within the agreed limits by utilising instant access call accounts and avoiding any new fixed term investments except for short term deposits with the DMADF. The view is, therefore, that associated risks have reduced over the period and are low, as at 31 December. Since Quarter 1 the portfolio has been diversified by using AAA rated Money Market Funds. At present these accounts are paying lower rates than the call accounts, but slightly higher than the DMADF, and they have added further capacity that is considered both secure and liquid. They are therefore judged to be acceptable in risk terms.

There is also a liquidity risk associated with needing access to cash on a day to day basis. At the end of the period the Authority had cash balances of £15.6M, £9.2M of which was held on instant access. As such, liquidity is not judged to be significant risk at the present time.

Aside from the above, there is also financial risk attached to the longer term debt portfolio, associated with interest rate exposure. Until such time as PWLB repayment rates improve though, as mentioned earlier, there are unlikely to be any further actions that can be taken to improve further the Council's position. In addition, due to the unknowns linked to capital programme, there is a risk that the Council may have to take on further borrowing. However, with rates, particularly on shorter term loans, at very low levels, this is relatively good period to take on borrowings if required.

Finally, with regard to recovery of Icelandic investments, this is still being managed with the support through the Local Government Association. It is judged that this is the most effective way of maximising recovery on the Council's behalf. Following Glitnir's challenge to our creditor status, there is a risk of increased losses, however, Bevan Brittan and the LGA are acting on behalf to help minimise this.

9. Conclusion

The third quarter of the year has been relatively uneventful for Treasury Management, with the exception of Glitnir's challenge to the council's preferential creditor status.

Over the quarter there have been no material breaches of counterparty limits or other prudential indicators. The Authority is starting to see the full impact of interest rate reductions on investment returns. Investment returns are expected to fall back in line with budget as surplus cash runs down over the last quarter.

The appetite for risk has remained low with the use of either AAA money market funds, instant access deposit accounts or deposits with HM Treasury. These have been used in preference to making the general fixed terms deposits which would previously have been used.

The information currently available regarding Icelandic investments gives some cause for concern in relation to the Council's creditor status. The decision on this will have a large impact on the Council's position in terms of cash balances and revenue charges relating to the impairment. Further information on the decision and accounting is awaited.

PRUDENTIAL INDICATORS - LANCASTER CITY COUNCIL

Quarter 3 Update on Treasury Management activities, to 31 December 2009

		2009/10 £'000	2010/11 £'000	2011/12 £'000
AFFORDABILITY				
PI 1:	Estimates of ratio of financing costs to net revenue stream			
	Non - HRA	12.4%	11.5%	10.2%
	HRA	8.5%	8.1%	7.8%
	Overall	11.1%	10.4%	9.4%
PI 2:	Actual ratio of financing cost to net revenue stream	Reported after each financial year end		
PI 3:	Estimates of impact of Capital Investment decisions on the Council Tax	£11.62	£8.69	£5.74
	This includes the impact of all elements of funding, including any increase in the need to borrow, required to finance new schemes added to the Capital Programme	6.52%	4.88%	3.22%
PI 3A:	Illustrative Impact of Additional Borrowing £1 million		Repayment Period	
		5 Years	10 Years	25 Years
	Increase in Council Tax (£)	£4.93	£2.73	£1.54
	Increase in Council Tax (%)	2.66%	1.47%	0.83%
PI 4:	Estimates of impact of Capital Investment on Housing Rents	Nil	Nil	Nil
PRUDENCE				
PI 6:	Estimates of capital expenditure			
	Non - HRA	14,185	10,960	8,697
	HRA	3,547	3,546	3,477
	Total	17,732	14,506	12,174
PI 7:	Actual capital expenditure	Reported after each financial year end		
PI 8:	Estimates of Capital Financing Requirement			
	Non - HRA	27,702	26,245	25,044
	HRA	15,303	15,303	15,303
	Total	43,005	41,548	40,347
PI 9:	Actual Capital Financing Requirement	Reported after each financial year end		
PI 10:	Authorised Limit			
	Authorised Limit for Borrowing	57,710	57,710	57,710
	Authorised Limit for Other Long Term Liabilities	290	290	290
	Authorised Limit for External Debt	58,000	58,000	58,000
PI 11:	External Debt: Operational Boundary	56,000	56,000	56,000
PI 12:	Actual external debt	Reported after each financial year end		
TREASURY MANAGEMENT				
PI 13:	Treasury Management: adoption of CIPFA code of Practice	The Council adopted the CIPFA code of Practice for Treasury Management at its meeting on the 13th March 2002.		
PI 14:	Fixed Interest Rate Exposure			
	The Authority will limit its exposure to fixed interest rate costs to the amounts payable on the following amount of outstanding debt.	£58m	£58m	£58m
PI 15:	Variable Rate Interest Rate Exposure			
	The Authority will limit its exposure to variable interest rate costs to the amounts payable on the following amount of outstanding debt.	£15m	£15m	£15m
PI 16:	Maturity Structure of Borrowing			
	Upper and Lower Limits			
	Under 12 months	0% to 35%	0% to 35%	0% to 35%
	12 months and within 24 months	0% to 20%	0% to 20%	0% to 20%
	24 months and within 5 years	0% to 20%	0% to 20%	0% to 20%
	5 years and within 10 years	0% to 20%	0% to 20%	0% to 20%
	10 years and above	60% to 100%	60% to 100%	60% to 100%
	Maturity Profile of Current Outstanding Debt 30/6/09			
	Under 12 months	0%		
	12 months and within 24 months	0%		
	24 months and within 5 years	0%		
	5 years and within 10 years	0%		
	10 years and above	100%		
PI 17:	Investments for periods longer than 364 days			
	The Authority will not invest for periods of longer than 364 days.	Nil	Nil	Nil

INVESTMENT INTEREST EARNED TO 31 December 2009

Name	No	Start	End	Rate %	Days up to 30/9/09	Principal £	Interest £
Fixed term investments							
Deposited 2007/08							
Landsbanki Islands	004	31-Mar-08	08-Oct-08	6.25	0	1,000,000	0
Glitnir	FI02/023	31-Mar-08	08-Oct-08	5.76	0	3,000,000	0
Deposited 2008/09							
Kaupthing, Singer & Friedlander	06/07-I29	16-May-08	08-Oct-08	6.00	0	1,385,000	0
Anglo Irish Bank Corporation	004	17-Jun-08	17-Jun-09	6.56	78	3,000,000	41,517
Irish Permanent Plc	005	02-Jul-08	02-Apr-09	6.31	2	3,000,000	519
Sub total							42,035
Other accounts	opening	Min	Max	closing	Indicative rate		
Call: Abbey National	4,000,000	1,000,000	4,000,000	1,860,000	0.60%		13,373
Call: Yorkshire bank	2,000,000	1,500,000	2,000,000	2,000,000	0.70%		9,043
DMADF	7,000,000	1,900,000	10,000,000	6,500,000	0.30%		10,897
Government Liquidity MMF	1,000,000	0	1,400,000	1,400,000	0.27%		1,728
Liquidity First MMF.	3,100,000	3,100,000	4,000,000	3,900,000	0.47%		4,640
Sub-total							39,680
TOTAL							81,715

For investments highlighted, the counterparties have since been downgraded and removed from the counterparty list. Those highlighted in purple are Icelandic banks, those in yellow are Irish banks. The deposits from Irish banks have been received and £615K has been received from KSF to date.

No interest is being assumed from Icelandic banks as yet, pending final settlements or the prevailing advice at year end (as set out in the report).

Budget and Performance Panel**Treasury Management Strategy 2010/11
23 February 2010****Report of Head of Financial Services****PURPOSE OF REPORT**

To seek the Panel's views regarding the treasury management framework proposals for next year, prior to them being considered by Council.

This report is public

RECOMMENDATIONS

- 1. That Budget and Performance Panel considers the attached draft Treasury Management framework documents and makes recommendations as appropriate.**

1 Introduction

- 1.1 At its meeting on 16 February Cabinet will consider the attached report, together with the treasury management framework proposals for 2010/11.
- 1.2 The attachments provide information on recent changes to the Code of Practice for treasury management, following the collapse of the Icelandic banking system and the difficulties experienced in the global banking system generally.
- 1.3 In line with the new Code's requirements, it is recommended that responsibility for scrutiny of treasury management remains with Budget and Performance Panel, but that this responsibility is made more explicit.
- 1.4 Given the timing of the new Code's release, unfortunately it has not been possible to provide for scrutiny of the treasury proposals prior to them being considered by Cabinet, but any recommendations arising from this Panel meeting will be fed into Budget Council on 03 March, when Members will be asked formally to approve the framework.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

As set out in the attached report.

FINANCIAL IMPLICATIONS

As set out in the attached report.

LEGAL IMPLICATIONS

As set out in the attached report.

S151 and MONITORING OFFICER'S COMMENTS

As set out in the attached report.

BACKGROUND PAPERS

None.

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CABINET

**TREASURY MANAGEMENT STRATEGY 2010/11
16 February 2010**

Report of Head of Financial Services

PURPOSE OF REPORT			
This report sets out the position regarding the 2010/11 to 2012/13 Treasury Management Strategy for Cabinet's approval.			
Key Decision	✓	Non-Key Decision	Referral
Date Included in Forward Plan	February 2010		
This report is public.			

RECOMMENDATIONS OF OFFICERS

1. That Council be recommended to adopt the updated Code of Practice as reflected in *Appendix A*.
2. That Council be recommended to approve the Treasury Management Policy Statement as set out at *Appendix B*.
3. That Council be recommended to approve the Treasury Management Strategy for the period 2010/11 to 2012/13 as set out in *Appendix C*, incorporating the Investment Strategy and Treasury Management Indicators, and as updated for Cabinet's final budget proposals.

1 INTRODUCTION

- 1.1 It is a requirement of the CIPFA Code of Practice on Treasury Management that a strategy outlining the expected treasury activity for the forthcoming 3 years is adopted, but that this be reviewed at least annually. The proposed Treasury Management Strategy for the period 2010/11 to 2012/13 needs to cover the following forecasts and activities:
 - the current treasury position
 - expected movement in interest rates
 - the borrowing and debt strategy
 - the investment strategy
 - specific limits on treasury activities
 - treasury management indicators (previously reported as prudential indicators).
- 1.2 Further to the difficulties experienced in the Icelandic banking collapse and the wider banking crisis generally, the Code was updated in November 2009 and as a result

several specific changes have been made. Also Government has recently consulted on changes to its investment guidance and these also need to be taken into account. That said, the Code and draft investment guidance still remain flexible in order to cater for different public sector organisations and their differing operating arrangements, circumstances and risk appetites. Proposals regarding the various aspects of this authority's treasury management framework are set out below for Cabinet's consideration, although these would need to be updated should there be any changes to Cabinet's final budget proposals. It is not known when the investment guidance will be finalised, but it is not expected that there will be any substantive changes to the current draft. The treasury framework, as updated, will be referred on for approval at Budget Council on 03 March.

2 ADOPTION OF THE UPDATED CODE AND POLICY STATEMENT

- 2.1 The Code was originally adopted by Council back in 2002. Whilst in essence much of the updated 2009 Code remains the same, there are some changes required to the key principles and supporting requirements and these are reflected in **Appendix A**; the wording is prescribed in the Code and in essence, the content underpins the rest of the framework proposals as set out in this report. It is therefore recommended that the updated Code be adopted by the Council. In due course, Audit Committee will be recommended to update the Financial Regulations accordingly.
- 2.2 Similarly, prior to reviewing any detailed proposals regarding the framework for next year, Cabinet also need to consider the Treasury Policy Statement as set out at **Appendix B**, for referral on to Council. This has been amended slightly to reflect the updated Code's requirements and will be included in the Council report accordingly.

3 TREASURY MANAGEMENT STRATEGY

- 3.1 Taking account of the above changes, the proposed Treasury Management Strategy Statement for 2010/11 to 2012/13 is set out at **Appendix C** for Cabinet's consideration. This document contains the necessary details to comply with both the Code and investment guidance. Responsibilities for treasury management are set out at **Appendix D**. These are broadly unchanged from previous years but are updated to reflect the new Code and that a single document covering the Treasury Management Strategy and the Investment Strategy is to be approved by Council.
- 3.2 Key elements and assumptions feeding into the proposals are outlined below. These take account of Cabinet's existing budget proposals. Should there be any changes to the budget, then the treasury framework would need to be updated accordingly.
- 3.3 **Borrowing Aspects of the Strategy**
- 3.3.1 Based on the draft budget, the borrowing position of the Council is currently projected to remain constant over the next three years. This however, assumes no impact from compensation claims for Luneside East regeneration and also assumes that the Council will benefit from capital receipts linked to the sale of land at South Lancaster. The position on Iceland is also far from certain; whilst assumptions have been made, as yet the Council's creditor status has yet to be finally determined through the courts.
- 3.3.2 The above points represent major assumptions and depending on their outcome, the debt strategy may vary greatly from that attached. There is also the potential for significant impact on revenue, through associated increased interest charges/lost investment income and making minimum revenue provisions (MRP) for any additional debt repayment. Cabinet's proposals in respect of the General Fund Capital Programme are most likely to affect this element of the Strategy.

3.4 Investment Aspects of the Strategy

3.4.1 The investment strategy for 2009/10 came in the aftermath of the Icelandic banking crisis. This had a direct impact on the Council in terms of frozen investment balances, as well as a broader influence on the treasury management function. Several changes were introduced to reduce counterparty risk in relation to investments, as follows:

- The maximum amount to be invested with any one institution (other than the UK Government) was reduced from £6M to £4M. This limit applies mainly where there is instant access (i.e. not fixed term investments), but with the exception of investments placed with other local authorities or the European Central Bank. Should any other fixed term deposits be considered, a lower limit of £2M applies.
- The lowest common denominator approach to interpreting credit ratings from all 3 agencies was introduced.
- The Strategy included a separate limit of £10M (now proposed to be increased to £20M) specifically for the Government's Debt Management Accounts Deposit Facility (DMADF). This is included as a minimal return 'safe haven'.
- UK institutions were given precedence over other countries, and sovereign ratings (i.e. the credit ratings of countries) were applied. Aside from the UK, only other EU countries were to be used.
- No forward deals were to be entered into.
- No investments were to be made for any period longer than a year.

3.4.2 Although the financial sector has remained relatively stable over the last 12 months, the UK is only just out of recession and it is still facing an unprecedented public sector deficit. Uncertainty in the financial sector still remains. This means that there is no argument for relaxation of the measures taken in the prior year. The only real changes to investment limits for 2010/11 onwards are an increase to the proposed limit with the DMADF and a reduction on the time limits for fixed term deposits to 3 months on upper limit counterparties (see table 4, **Appendix C**). This reduction reflects the Authority's lack of appetite for the risk associated with longer term deposits; even through the limit was set at 1 year for 2009/10, no fixed term deposits were placed (except with the DMADF).

3.4.3 In line with the updated Treasury Management Code and Investment Guidance though, there are additional elements to be introduced to help manage risk. These include:

- the explicit nomination of Budget and Performance Panel as the scrutiny committee for Treasury Management; and
- an increased frequency of reporting to Members, insofar as a formal mid-year review will be included.

3.4.4 Whilst in essence the requirements of the new Code and guidance do not materially change the Council's existing arrangements, they do seek to clarify responsibilities. In particular, it is crucial that training is provided to help ensure that both Members and Officers have the necessary skills to fulfil their respective responsibilities. This area will continue to feature in the Member Development Plan as well as Officer related training programmes. It will be considered by the Council's Business Committee in due course.

- 3.4.5 Overall, the strategy put forward follows on from 2009/10 in that it is based on the Council having a low risk appetite, with a focus on highly liquid, high quality deposits. Going forward, the development of benchmarking should help Members in future to set the strategic framework for Treasury Management, allowing for a degree of risk that is judged to be acceptable. At present, given very low interest rates, the opportunity cost attached to a low risk strategy is considered to be low also – but this would change should interest rates start to increase.
- 3.4.6 It is stressed in terms of treasury activity, there is no risk free option. It is felt, however, that the measures set out above provide a sound framework within which to work over the coming year.

4 CONSULTATION

- 4.1 Officers have liaised with Butlers, the Council's Treasury Advisors, in developing the proposed Strategies and they have also consulted KPMG LLP as the Council's external auditors. Following the Icelandic difficulties, additional audit work was undertaken regarding the Council's treasury management arrangements. This led to a number of recommendations and Officers have given these due consideration and responded accordingly. Where appropriate, further discussions have taken place. At this stage it is considered that the actions taken (or planned) are reasonable, though clearly progress will be reviewed and reported in future audit work. More information is included at *Appendix E*.
- 4.2 The proposals are also to be considered by Budget and Performance Panel at its meeting on 23 February 2010 and any recommendations arising will be fed directly into Budget Council.

5 OPTIONS AND OPTIONS ANALYSIS

- 5.1 As part of the adoption of the updated CIPFA Code of Practice on Treasury Management it is a statutory requirement that the Authority has a Treasury Management Strategy Statement and Investment Strategy. In this regard, Cabinet may put forward alternative proposals or amendments to the proposed documents, but these would have to be considered in light of legislative, professional and economic factors, and importantly, any alternative views regarding the Council's risk appetite. As such, no further options analysis is available at this time.
- 5.2 Furthermore, the Strategies must fit with other aspects of Cabinet's budget proposals, such as investment interest estimates and underlying prudential borrowing assumptions, feeding into Prudential and Treasury Management Indicators. It should be noted that the Prudential Indicators will also be covered in the Budget report, elsewhere on this agenda.

6 OFFICER PREFERRED OPTION AND JUSTIFICATION

- 6.1 The Officer Preferred Options are as reflected in the recommendations to this report. This is based on the Council having a low risk appetite regarding investments, and it takes into account the requirements of the new Code.

RELATIONSHIP TO POLICY FRAMEWORK

This report is in accordance with the Council's Treasury Management Policy, and fit with the development of the Medium Term Financial Strategy.

**CONCLUSION OF IMPACT ASSESSMENT
(including Diversity, Human Rights, Community Safety, Sustainability etc)**

No direct implications arising.

FINANCIAL IMPLICATIONS

None directly arising. The Strategy is in support of achieving the borrowing cost and investment interest estimates included in the draft base budget, based on a low risk approach.

DEPUTY SECTION 151 OFFICER'S COMMENTS

This report and its content forms part of the S151 Officer's responsibilities.

LEGAL IMPLICATIONS

Legal Services have been consulted and have no observations to make regarding this report; there are no implications directly arising.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS
CIPFA Code of Practice

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For consideration by Cabinet 16 February 2010

**Adoption of the 2009 Code of Practice on Treasury Management:
Treasury Management Clauses to form part of Financial Regulations**

Changes are in *italics*:

- C1 The authority has adopted the key recommendations of CIPFA's Treasury Management in Public Services: *Code of Practice 2009 (the Code)* as detailed below:

Key Principle 1

Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

Key Principle 2

Their policies and practices should make clear the effective management and control of risk and prime objectives of their treasury management activities *and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy and should ensure that priority is given to security and yield when investing funds.*

Key Principle 3

They should acknowledge that the pursuit of *value for money* in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

- C2 Accordingly, the Authority will create and maintain, as cornerstones for effective treasury management:
- a treasury management policy statement, stating the policies and objectives *and approach to risk management* of its treasury management activities;
 - suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- C3 Full Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, *a mid-year review* and an annual report after its close, in the form prescribed in its TMPs.
- C4 The Authority delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Cabinet (through the Council's Performance Management Framework), and for the execution and administration of treasury management decisions to the Section 151 Officer, who will act in accordance with the Council's policy statement and TMPs and, if they are a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.
- C5 *The Authority designates Budget and Performance Panel to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.*

LANCASTER CITY COUNCIL
TREASURY MANAGEMENT POLICY STATEMENT

For consideration by Cabinet 16 February 2010

This has been updated to reflect the revised CIPFA Treasury Management Code of Practice (November 2009). Changes are in *italics*.

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.
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.

Note: The current policy reads “... achieving *best value* in treasury management, and to employing suitable performance measurement ...”.

Treasury Management Strategy 2010/11 to 2012/13

Draft for Consideration by Cabinet 16 February 2010

Introduction

1. The treasury management function is an important part of the overall financial management of the Council's affairs. Its importance has increased as a result of the freedoms provided by the Prudential Code. Whilst the prudential indicators consider the affordability and impact of capital expenditure decisions, the treasury function covers the effective funding of these decisions. There are also specific treasury indicators included in this strategy that need approval.
2. The Council's activities are strictly regulated by statutory requirements and a professional code of practice (i.e. the CIPFA Code of Practice on Treasury Management, revised November 2009: the "Code"). This Council originally adopted the Code on 13 February 2002, and will now adopt the revised Code. In doing so, it will also adopt an updated treasury management policy statement.
3. The Code requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. A further report is produced after the year-end to report on actual activity for the year. As a consequence of the revised Code, a mid year monitoring report will now also be produced for Council.
4. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury function.
5. This strategy therefore covers:
 - the current treasury position;
 - expected movement in interest rates;
 - the Council's borrowing and debt strategy (including its policy on making provision for the repayment of debt);
 - the Council's Investment Strategy;
 - specific limits on treasury activities;
 - treasury management indicators; and
 - specific sections on training and the use of consultants.

This strategy document contains the relevant information to comply with both the Code and the draft updated Investment Guidance issued by Government. The sections that specifically satisfy requirements of the Investment Guidance are: specified and non specified investments (33-42), credit risk assessment (34-39), use of investment consultants (52-53), training (54), borrowing in advance of need (10) and length of deposits (40-44).

Treasury Position

6. The forecast treasury position and the expected movement in debt and investment levels over the next three years are as follows.

Table 1: Gross external debt and investment forecast

	2010/11 Estimated	2011/12 Estimated	2012/13 Estimated
	£'000	£'000	£'000
EXTERNAL DEBT			
Borrowing	39,200	39,200	39,200
Other long term liabilities	260	255	250
Total Debt at 31 March	39,460	39,455	39,450
INVESTMENTS			
Total Investments at 31 March	8,800	8,800	8,800
Total investment adjusted for Iceland 31 March*	3,640	4,810	5,730
Projected average investment balances*	10,240	11,060	11,910

*cash balances projected assuming non priority creditor status for Glitnir

7. The forecast position on external borrowing remains static across the three years, despite the fact that by the end of 2009/10 the Council's Capital Financing Requirement (CFR: i.e. the underlying need to borrow) is projected to be well in excess of gross long term borrowings. The twin issues of the amounts set aside for the future repayment of debt, and a cashflow position which is forecast to remain relatively stable, mean that there is no immediate need to take out new loans.
8. The revenue consequences of these balances, namely investment income and borrowing costs (and the relevant recharges between the HRA), are included within the overall revenue budget.
9. The projected average investment balances indicate the difference between the gross and the net borrowing position. This is projected to be lower than in prior years due to the repayment of PWLB loans in January 2009 (£5.6M) and the potential loss of principal from Icelandic banks.
10. Although the Council holds both investment balances and long terms borrowings, this is not a result of borrowing in advance of need or to on-lend. The Council's external borrowings provide the cash to help pay for a proportion of the Council's ongoing and accumulated capital spend (the CFR). Separate to this the Council is required to hold a certain amount of balances, provisions and other items to ensure that resources are available when needed; these are generally cash backed. Flexibility is allowed on utilising these cash funds in lieu of borrowing, which the Council is doing in part.

Scenario Review

11. The position above assumes that there will be no pressure to physically borrow to support the capital programme over the next three years, although it does assume that cash balances will be reduced due to Icelandic impairments, including having no priority creditor status for Glitnir. This is equivalent to scenario 2 below. However, there are two large elements that could lead to a change in this position. These are the potential impact of Luneside East compensation claims and the potential failure to achieve capital receipts for sale of land at South Lancaster. The potential incremental effect of these over the period 2009/10 to 2012/13 on the Council's borrowing requirement and its need to make provision for repayment in its revenue budget (MRP: Minimum Revenue Provision) can be seen overleaf:

Table 2 Debt scenarios for the period 2009/10 to 2012/13

	Borrowing requirement over period	Total MRP over a 4 year period	Projected movement in CFR over period
	£'000	£'000	£'000
Scenario 1, "best case"	-1,505	5,414	-6,919
Scenario 2, Icelandic impairment required	542	5,660	-5,118
Scenario 3, Iceland impairment and additional Luneside costs	5,042	6,020	-978
Scenario 4, Worst case; Iceland, Luneside East and South Lancaster	12,542	6,320	6,222

12. From the table above it is clear that the effect of Luneside East and capital receipts from sale of land at South Lancaster could have a large impact on the Council's CFR and its potential debt position, as well as the annual revenue provision that will have to be set aside, irrespective whether physical borrowing is taken out or not.

13. It is important to note that any increase in CFR does not necessarily lead to an increase in physical borrowing. Should physical borrowings not be required, this would be due to internal cash being applied instead, as outlined in paragraph 10. In the current climate, where investment returns are well below the cost of borrowing, this would be the preferred option. Where there is an increase in CFR however, there would be either a real interest charge arising should new borrowing be taken out, or a loss of investment income should existing cash balances be used to support the capital expenditure.

Expected Movement in Interest Rates

Table 3: Medium-Term Rate Estimates (averages)

Annual Average %	Bank Rate	Money Rates		PWLB Rates*		
		3 month	1 year	5 year	20 year	50 year
2008/09	3.9	5.0	5.3	4.2	4.8	4.5
2009/10	0.5	0.8	1.4	3.2	4.4	4.6
2010/11	1.0	1.5	2.3	4.0	5.0	5.2
2011/12	2.0	2.5	3.3	4.3	5.3	5.3
2012/13	4.5	4.8	5.3	5.3	5.5	5.3

* Borrowing Rates

Information provided by Butlers Consultants January 2010:

14. Short-term rates are expected to remain on hold for a considerable time. The recovery in the economy has commenced but it will remain insipid and there is a danger that early reversal of monetary ease, (rate cuts and Quantitative Easing (QE)), could trigger a dip back to negative growth and a W-shaped Gross Domestic Product (GDP) path.

15. Credit extension to the corporate and personal sectors has improved modestly but banks remain nervous about the viability of counterparties. This is likely to remain a drag upon activity prospects, as will the lacklustre growth of broad money supply.

16. The main drag upon the economy is expected to be weak consumers' expenditure growth. The combination of the desire to reduce the level of personal debt and job uncertainty is likely to weigh heavily upon spending. This will be amplified by the prospective increases in taxation already scheduled for 2010 – VAT and National Insurance. Without a rebound

in this key element of UK GDP growth, any recovery in the economy is set to be weak and protracted.

17. The Monetary Policy Committee (MPC) will continue to promote easy credit conditions via quantitative monetary measures. QE has been extended to a total of £200BN. Whether this has much impact in the near term remains a moot point given the personal sector's reluctance to take on more debt and add to its already unhealthy balance sheet.
18. With inflation set to remain subdued in the next few years (though a sharp blip is forecast for the next few months), the pressure upon the MPC to hike rates will remain moderate. But some increase will be seen as necessary in 2010 to counter the effects of external cost pressures (as commodity price strength filters through) and to avoid damage that sterling could endure if the UK is seen to defy an international move to commence policy exit strategies.
19. The outlook for long-term fixed interest rates is a lot less favourable. Whilst the UK's fiscal burden should ease in the future, this will be a lengthy process and deficits over the next two to three financial years will require a very heavy programme of gilt issuance. The market will no longer be able to rely upon Quantitative Easing to alleviate this enormous burden.
20. The programme was not extended in February. With growth back on the agenda and inflation challenging the upper limit of the Government's target range, going forward, the majority of MPC members may feel enough assistance has been given to ensure lack of credit is no longer a fundamental threat to the welfare of the economy.
21. The absence of the Bank of England as the largest buyer of gilts will shift the balance between supply and demand in the gilt-edged market. Other investors will almost certainly require some incentive to continue buying government paper.
22. This incentive will take the form of higher interest rates. The longer fixed interest rates will suffer from the lack of support from the major savings institutions – pension funds and insurance companies - who will continue to favour other investment instruments as a source of value and performance. The shorter fixed interest rates will be pressured higher by the impact of rising money market rates. While bank purchases in this part of the market will continue to feature as these institutions meet regulatory obligations, this process will be insufficiently strong to resist the upward trend in yields.

Borrowing and Debt Strategy 2010/11 to 2012/13

23. The uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its treasury strategy. As outlined in the scenarios section above, there are also a number of other factors outside of the Council's direct control, which could have a significant impact on its need to borrow. As these issues are clarified, the options around borrowing will be considered in relation to the longer term prospects of rate rises.
24. Long-term fixed interest rates are at risk of being higher over the medium term, and short term rates are expected to rise, although more modestly. The Head of Financial Services, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, if need be, taking into account the risks shown in the forecast above. It is likely that shorter term fixed rates may provide lower cost opportunities in the short to medium term.
25. With the likelihood of long term rates increasing, debt restructuring is likely to focus on switching from longer term fixed rates to cheaper shorter term debt, although the Head of Financial Services and treasury consultants will monitor prevailing rates for any opportunities during the year.
26. The option of postponing borrowing and running down investment balances will also be considered, this would have the added benefit of further reducing counterparty risk.

Provision for the Repayment of Debt 2010/11 to 2012/13

27. Up until 2007/08 the Council calculated the basic amount of provision, which it sets aside each year from revenue for the repayment of debt, in accordance with a prescribed formula based on the CFR. To this was added a further provision in respect of the financing of assets with relatively short lives, as considered prudent.
28. The new arrangements were introduced from 1 April 2008. In summary:
- the prescribed formula has been abolished and replaced by a simple requirement for Councils to make 'prudent' provision;
 - the old calculation may still be used for relevant capital expenditure before 31 March 2008, but
 - provision relating to relevant capital expenditure after this date must either be based on the estimated life of the asset, or equal to the depreciation on the asset.
29. The new arrangements also included reference to 'supported' or unsupported' capital expenditure:
- 'Supported' is the amount of capital expenditure for which the authority has received revenue support from Government to help meet the financing costs. (i.e. for credit / borrowing – it excludes grant financing).
 - 'Unsupported' is where the authority receives no such revenue assistance (often also referred to as prudential borrowing).
30. Financially, the new arrangements for calculating the Minimum Revenue Provision (MRP) has no real impact on the Council because the changes effectively codify the full 'prudent' provision which the Council was already making. Nonetheless, as an element of discretion has been introduced the Council's approach must be formalised within the borrowing strategy.
31. Therefore, for 2010/11, the Council's policy for the making of provision for the repayment of debt will be as follows:
- For all relevant capital expenditure prior to 1 April 2008, with the exception of that in respect of motor vehicles (i.e. less than 15 years life), by the application of the former prescribed formula (*i.e. for General Fund, 4% of the non-housing related Capital Financing Requirement at the start of the year*).
 - For capital expenditure on motor vehicles prior to 01 April 2008, and for all supported or unsupported capital expenditure on or after that date, equal annual amounts based on the estimated life of each individual asset so financed, as is consistent with the revised Minimum Revenue Provision guidance (February 2008, method 3).

Investment Strategy 2010/11 to 2012/13

32. The primary objective of the Council's investment strategy is to safeguard the re-payment of the principal and interest of its investments, with ensuring adequate liquidity being the second objective, and achieving investment returns being the third.
33. The types of investment allowable are categorised as either Specified and Non Specified investments. Details of these are set out in **Appendix C1**.
34. Following the economic background described above, the current investment climate has one over-riding risk consideration, that of counterparty security risk. As a result of these underlying concerns, Officers are currently implementing an operational investment strategy which tightens the controls already in place. The Head of Financial Services will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. The use of these criteria provides an overall pool of counterparties that are considered as high quality and that may be chosen for investment, subject to other considerations.

35. The rating criteria use the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside of the lending criteria. This complies with a CIPFA Treasury Management Panel recommendation in March 2009 and the actual Code.
36. Credit rating information is supplied by the Council's treasury consultants (Butlers) on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. More information on credit ratings is included in **Appendix C2**.
37. The criteria for providing a pool of high credit quality investment counterparties (for both specified and non-specified investments) are:

- **Banks 1 - Good Credit Quality**

The Council will only use banks that:

- a) are UK banks; or
- b) are non-UK but are domiciled in an EU country with a long term sovereignty rating of AAA,

and have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated, as is consistent with the middle limit as per table 4):

- i. **Short Term:** F1/P-1/A-1
- ii. **Long Term:** A/A2/A
- iii. **Individual / Financial Strength:** C (Fitch / Moody's only)
- iv. **Support:** 3 (Fitch only)

- **Banks 2 – Guaranteed Banks with suitable Sovereign Support**

In addition, the Council will use EU banks whose ratings fall below the criteria specified above if all of the following conditions are met:

- a) wholesale deposits in the bank are covered by a government guarantee;
- b) the government providing the guarantee is rated "AAA" by all three major rating agencies (Fitch, Moody's and Standard & Poors); and
- c) the Council's investments with the bank are limited to amounts and maturities within the terms of the stipulated guarantee.

- **Banks 3 – Eligible Institutions**

The organisation is an Eligible Institution for the HM Treasury Credit Guarantee Scheme initially announced on 13 October 2008, with the necessary short and long term ratings required in *Banks 1* above. These institutions have been subject to suitability checks before inclusion, and have access to HM Treasury liquidity if needed.

- **Banks 4 – The Council's own Banker**

The bank may be used for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.

- **Building Societies** – all Societies that meet the ratings for banks outlined above.
- **Money Market Funds** – AAA-rated sterling funds with constant unit value.
- **UK Government** – Debt Management Account Deposit Facility (DMADF)

- **Local Authorities (including Police and Fire Authorities), Parish Councils**
 - **Supranational institutions** (e.g. European Central Bank)
38. Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part the country selection will be chosen by the credit rating of the Sovereign state in *Banks 1* above. In addition:
- no more than 25% will be placed with any one non-UK country at any time;
 - limits in place above will apply to Group companies;
 - Sector limits will be monitored.
39. The updated Code of Practice and draft Investment Guidance now require the Council to supplement credit rating information. Whilst the Council's strategy relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (e.g. credit default swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.
40. For the above categories of Specified and Non Specified Investments, and in accordance with the Code, the Council has developed additional criteria to set the maximum amounts that may be invested in these bodies. The criteria, using the lowest common denominator approach are set out below.

Table 4: Counterparty Criteria and Investment Limits

	Minimum across all three ratings			Money Limit ⁷	Time Limit ⁸
	Fitch	Moody's	Standard & Poors		
Upper Limit ¹	F1+/AA-	P-1/AA3	A-1+/AA-	£4M	Instant access only
				£2M	3 months
Middle Limit ²	F1/A	P-1/A2	A-1/A	£2M	Instant access only
Other Institutions ³	N/A	N/A	N/A	£4M	1 Year
Money Market Funds ⁴	AAA	AAA	AAA	£4M	Instant Access Only
DMADF deposit ⁵	N/A	N/A	N/A	£20M	1 Year
Sovereign rating to apply to all non UK counterparties ⁶	AAA	AAA	AAA	N/A	N/A

Notes:

1 & 2: The Upper and Middle Limits apply to appropriately rated banks and building societies.

3: The Other Institutions limit applies to other local authorities and supranational institutions (i.e. ECB).

4: Sterling, constant net asset value funds only.

5: The DMADF facility is direct with the UK government, it is extremely low risk and hence the higher limit.

6: UK investments are defined as those listed under UK banks or building societies in the Butler's counterparty listing.

7: Money limits apply to principal invested and do not include accrued interest.

8: Time Limits start on the trade date for the investment.

41. In the normal course of the Authority's cash flow operations it is expected that both specified and non-specified Investments will be utilised for the control of liquidity as both categories allow for short term investments. The Council will maintain a minimum £2M of investments in Specified Investments provided that the cashflow allows for this. In

addition, although the Council will consider using non specified investments (as described in append C1), these should not exceed 50% of the portfolio at any one time. The limits applied will be consistent with the short and long term ratings in table 4 above.

42. The use of longer term instruments (greater than one year from trade date to maturity) and forward deals will not be used.
43. Expectations on shorter-term interest rates, on which investment decisions are based, show a likelihood of the current 0.5% Bank Rate remaining flat but with the possibility of a rise in mid-2010. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts.
44. There is some operational difficulty arising from the current banking crisis, albeit that there is currently little value investing longer term and credit risk remains uncertain. Whilst some selective options do provide additional yield, uncertainty over counterparty creditworthiness indicates that shorter dated investments provide better security. As such, the time limit for upper limit investments has been further reduced to 3 months with middle limit institutions only being used for instant access.
45. The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve the base criteria above, under the exceptional current market conditions the Head of Financial Services may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly the time periods for investments will be restricted.
46. Examples of these restrictions include greater use of the Debt Management Deposit Account Facility (DMADF – a Government body which accepts local authority deposits), guaranteed deposit facilities and strongly rated institutions offered support by the UK Government as appropriate. The credit criteria reflect these facilities.

Risk benchmarking

47. A development in the revised Code and in Government consultation is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Discrete security and liquidity benchmarks are new requirements for Member reporting, although the application of these is more subjective in nature. The purposes of the benchmarks are to aid Officer monitoring of the current and trend positions and to inform any amendments to the operational strategy and actions required, depending on any changes.
48. At present, the criteria set down in table 4 above and through the treasury management indicators below, limit activity in terms of length of deposit (liquidity) and in terms of strength of the counterparty (security). The current strategy follows on from the 2009/10 strategy in being low risk through, for example, restricting the amount and length of deposit in any one counterparty as well as mandating high liquidity on larger deposits. The use of benchmarking should allow the Council to set strategic parameters on investments that allow for an 'acceptable' level of risk in the portfolio, as set down by Members. The Council's treasury consultants, Butlers, have provided a method for quantifying the security and liquidity of the portfolio and this is currently under review. Detailed proposals will be included in subsequent reports to Members.

Treasury Management Indicators and Limits on Activity

49. There are four mandatory treasury management Indicators. The purpose of these indicators is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. The full list of Prudential Indicators is included elsewhere on the agenda, but the treasury management indicators are as follows:

- Upper limits on fixed interest rate exposure – This indicator identifies a maximum limit for fixed interest rates based upon the debt position net of investments.
- Upper limits on variable interest rate exposure – Similar to the previous indicator, this covers a maximum limit on variable interest rates.
- Maturity structures of borrowing – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.
- Total principal funds invested for greater than 364 days – given the current economic climate the Authority is not willing to risk investing sums for fixed terms of greater than 1 year and so this is £0.

50. Council will also be requested to approve the treasury management indicators, as updated in line with final budget proposals, at its meeting on 03 March 2010.

Table 5: Treasury Management Indicators

	2010/11		2011/12		2012/13	
Interest Rate Exposures						
	Upper		Upper		Upper	
Limits on exposure to fixed interest rates	100%		100%		100%	
Limits on exposure to variable interest rates	30%		30%		30%	
Maturity Structure of fixed interest rate borrowing						
	Lower	Upper	Lower	Upper	Lower	Upper
Under 12 months	0%	35%	0%	35%	0%	35%
12 months to 2 years	0%	20%	0%	20%	0%	20%
2 years to 5 years	0%	20%	0%	20%	0%	20%
5 years to 10 years	0%	20%	0%	20%	0%	20%
10 years to 15 years	0%	50%	0%	100%	0%	100%
15 years to 25 years	0%	100%	0%	100%	0%	100%
25 years to 50 years	50%	100%	50%	100%	50%	100%
Actual current position						
Under 12 months	0%		0%		0%	
12 months to 2 years	0%		0%		0%	
2 years to 5 years	0%		0%		0%	
5 years to 10 years	0%		0%		0%	
10 years to 15 years	0%		0%		0%	
15 years to 25 years	0%		0%		0%	
25 years to 50 years	100%		100%		100%	
Maximum principal sums invested > 364 days						
Principal sums invested, in 2010/11, for periods of greater than 364 days, to mature after the end of each financial year	£0M		£0M		£0M	

Performance Indicators

51. The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are

distinct historic indicators, as opposed to the prudential indicators that are predominantly forward looking. Examples of performance indicators often used for the treasury function are:

- Debt – Average rate movement year on year
- Investments – Internal returns above the 7 day LIBID rate

The results of these indicators will be reported in the Treasury Annual Report and the mid-year report as required under the new Code.

Treasury Management Advisers

52. The Council currently uses Butlers as its treasury management consultants. The company provides a range of services that include:

- technical support on treasury matters, capital finance issues and the drafting of Member reports;
- economic and interest rate analysis;
- debt services which includes advice on the timing of borrowing;
- debt rescheduling advice surrounding the existing portfolio;
- generic investment advice on interest rates, timing and investment instruments;
- credit ratings/market information service comprising the three main credit rating agencies;

53. Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with the Council. This service is subject to regular review.

Member and Officer Training

54. The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. This Council addresses this important issue by providing Member training in liaison with its treasury advisors and through ongoing training and supervision of officers involved the day to day operation of the treasury function.

Definitions of Specified and Non Specified Investments

See the detailed Investment Strategy included in Appendix C, for the limits to be applied.

1. Specified Investments are defined as follows.

SPECIFIED INVESTMENTS	
<p>These are to be sterling investments of a maturity period of not more than 364 days, or those which could be for a longer period but where the Council has the right to be repaid within 364 days if it wishes. These are low risk assets where the possibility of loss of principal or investment income is considered negligible. These include investments with:</p>	
<p>(i) The UK Government (such as the Debt Management Office, UK Treasury Bills or a Gilt with less than one year to maturity).</p>	
<p>(ii) Supranational bonds of less than one year's duration.</p>	
<p>(iii) A local authority, parish council or community council.</p>	
<p>(iv) An investment scheme that has been awarded a high credit rating by a credit rating agency (although this definition is changing in the draft CLG Investment Guidance to "High Credit Quality").</p>	
<p>(v) A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society).</p>	
<p>For category (iv) this covers a money market fund rated by Standard and Poor's, Moody's or Fitch rating agencies.</p>	

2. Non-specified Investments are defined as follows:

Non-specified investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments are set out below.

Ref	Non Specified Investment Category	Limit
(i)	<p>A body which has been provided with a government issued guarantee for wholesale deposits within specific timeframes.</p> <p>Where these guarantees are in place and the government has an AAA sovereign long term rating these institutions will be included within the Council's criteria temporarily until such time as the ratings improve or the guarantees are withdrawn. Monies will only be deposited within the timeframe of the guarantee.</p>	Included as per Appendix C
(ii)	<p>A body which is an Eligible Institution for the HM Treasury Credit Guarantee Scheme initially announced on 13 October 2008.</p>	Included as per Appendix C
(iii)	<p>The Council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.</p>	Included as per Appendix C

Background information on credit ratings

Credit ratings are a key part of the Authority's investment strategy. The information below summarises some of the key features of credit ratings and why they are important.

What is a Credit Rating ?

A credit rating is:

- An independent assessment of an organisation;
- It gauges the likelihood of getting money back on the terms it was invested;
- It is a statement of opinion, not statement of fact;
- They help to measure the risk associated with investing with a counterparty;

Who Provides / Uses Credit Ratings?

There are three main ratings agencies, all of which are used in the Authority's treasury strategy.

- Fitch
- Moody's Investor Services
- Standard & Poors

The ratings supplied by these agencies are used by a broad range of institutions to help with investment decisions, these include:

- Local Authorities;
- Other non-financial institutional investors;
- Financial institutions;
- Regulators;
- Central Banks;

Rating Criteria

There are many different types of rating supplied by the agencies. The key ones used by the Authority are ratings to indicate the likelihood of getting money back on terms invested. These can be split into two main categories:

- 'Short Term' ratings for time horizons of 12 months or less. These may be considered as the most important for local authorities.
- 'Long Term' ratings for time horizons of over 12 months. These may be considered as less important in the current climate.

In addition, the agencies issue sovereign, individual and support ratings which will also feed into the investment strategy.

Rating Scales (Fitch, Moody's and Standard & Poors)

The table below shows how some of the higher graded short and long term ratings compare across the agencies; the top line represents the highest grade possible. (There are other ratings that go much lower than those shown below, and ratings for other elements.)

Short Term			Long Term		
Fitch	Moody's	S&P	Fitch	Moody's	S&P
F1+	P-1	A-1+	AAA	Aaa	AAA
F1	P-1	A-1	AA	Aa2	AA
F2	P-2	A-2	A	A2	A

TREASURY MANAGEMENT FRAMEWORK DOCUMENTS AND RESPONSIBILITIES
For Consideration by Cabinet 16 February 2010

DOCUMENT	RESPONSIBILITY																
CODE of PRACTICE	To be adopted by Council (originally adopted in 2002 - now updated).																
POLICY STATEMENT	The Code of Practice recommends a specific form of words to be used, to set out the Council's objectives within the Policy Statement for its Treasury Management activities. It is the responsibility of Council to approve this document, and then note it each year thereafter if unchanged. This has been updated in line with the revised code November 2009.																
TREASURY MANAGEMENT STRATEGY	The Strategy document breaks down the Policy Statement into detailed activities and sets out the objectives and expected market forecasts for the coming year. This also contains all the elements of an Investment Strategy as set out in the DCLG guidance; it is the responsibility of Council to approve this document, following referral from Cabinet.																
TREASURY MANAGEMENT INDICATORS	These are included within the Strategy Statement as part of the framework within which treasury activities will be undertaken. It is the responsibility of Council to approve these limits.																
INVESTMENT STRATEGY	The Investment Strategy is included within the Treasury Management Strategy. It states which types of investments the Council may use for the prudent management of its treasury balances during the financial year. Under existing guidance the Secretary of State recommends that the Strategy should be approved by Council.																
TREASURY MANAGEMENT PRACTICES	<p>These are documents that set out the procedures that are in place for the Treasury Management function within the Council. The main principles were approved by Cabinet following the adoption of the Code of Practice; they include:</p> <table border="0" data-bbox="451 1205 1490 1429"> <tr> <td><i>TMP 1:</i> Risk management</td> <td><i>TMP 7:</i> Budgeting, accounting & audit</td> </tr> <tr> <td><i>TMP 2:</i> Performance measurement</td> <td><i>TMP 8:</i> Cash & cash flow management</td> </tr> <tr> <td><i>TMP 3:</i> Decision-making and analysis</td> <td><i>TMP 9:</i> Money laundering</td> </tr> <tr> <td><i>TMP 4:</i> Approved instruments, methods & techniques</td> <td><i>TMP 10:</i> Staff training & qualifications</td> </tr> <tr> <td>Organisation, clarity and segregation of</td> <td></td> </tr> <tr> <td><i>TMP 5:</i> responsibilities, and dealing arrangements.</td> <td><i>TMP 11:</i> Use of external service providers</td> </tr> <tr> <td>Reporting requirements & management</td> <td></td> </tr> <tr> <td><i>TMP 6:</i> information requirements</td> <td><i>TMP 12:</i> Corporate governance</td> </tr> </table> <p>Any changes to the above principles will require Cabinet approval. It is the Head of Financial Service's responsibility to maintain detailed working documents and to ensure their compliance with the main principles. It is highlighted that for 2010/11, quarterly treasury management reports will continue to be included within Corporate Financial Monitoring and in turn, these will be reported into Cabinet and Budget and Performance Panel.</p>	<i>TMP 1:</i> Risk management	<i>TMP 7:</i> Budgeting, accounting & audit	<i>TMP 2:</i> Performance measurement	<i>TMP 8:</i> Cash & cash flow management	<i>TMP 3:</i> Decision-making and analysis	<i>TMP 9:</i> Money laundering	<i>TMP 4:</i> Approved instruments, methods & techniques	<i>TMP 10:</i> Staff training & qualifications	Organisation, clarity and segregation of		<i>TMP 5:</i> responsibilities, and dealing arrangements.	<i>TMP 11:</i> Use of external service providers	Reporting requirements & management		<i>TMP 6:</i> information requirements	<i>TMP 12:</i> Corporate governance
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Reporting requirements & management																	
<i>TMP 6:</i> information requirements	<i>TMP 12:</i> Corporate governance																

APPENDIX E

**Recommendations Arising from Audit Work on Treasury Management,
as mandated by the Audit Commission**

- Internal Audit should undertake a comprehensive review of the treasury management function and its activities on an annual basis and should report its findings to the Audit Committee;
- All staff involved in undertaking treasury management activities and elected members with responsibility for the stewardship of public money and scrutiny of the treasury management function should undertake ongoing training to ensure they can effectively discharge their responsibilities;
- The Council should consider its arrangements for scrutiny of the whole treasury management process and over its individual investment decisions, ensuring that they are informed; and
- The Council should strengthen its investment criteria by considering wider economic conditions/factors and other information sources, such as the financial press, in addition to strong credit ratings (with the minimum credit rating being AA) when placing investments. This would minimise the risk of investing in institutions with financial difficulties.

Officer Responses:

1. Arrangements are in hand for an Internal Audit review to be undertaken early in the new year, once the new framework is in place under the new Code. This would be reported to Audit Committee as a matter of course. Thereafter, the approach for regular reviews will be agreed between Internal and external audit, taking account of risk considerations.
2. Ongoing training is provided and this is reflected in the draft Strategy. More frequent Member training will be provided in future, but perhaps more significantly, consideration of whether such training should be mandatory will be referred to the Council's Business Committee, as part of the Member Development Plan.
3. Budget and Performance Panel already has responsibility but this will now be more explicit, under the current proposals. The effectiveness of these arrangements will be informed by recommendation 2 above.
4. This is catered for within the proposed strategy, although it has not been possible to incorporate only AA institutions and still maintain a workable UK counterparty listing. After due consideration and consultation, the proposed strategy is based on A rated listings, but with reference to other information sources, such as credit default swap rates, sovereign ratings, and importantly time and money limits. This is considered to be a reasonable approach overall, in managing risk and considering liquidity and return. It is also emphasised that the counterparty list represents only a pool from which to identify potential organisations with which to invest, before taking account of other factors.

Budget and Performance Panel**Procurement Strategy Update
23 February 2010****Report of Procurement Manager****PURPOSE OF REPORT**

To seek the Panel's views regarding the new draft Corporate Procurement Strategy, prior to it being submitted for approval.

This report is public

RECOMMENDATIONS

1. That Budget and Performance Panel consider the attached draft Corporate Procurement Strategy and make recommendations as appropriate.

1 Introduction

- 1.1 The Council's first procurement strategy was approved in January 2003, following a detailed review of corporate procurement in 2002. This strategy was superseded in 2005 by a strategy encompassing the National Procurement Strategy, which was launched in 2003. It set out the policies and practices the Council intended to follow, given that the authority spent an estimated £35 million each year on the acquisition of goods, works and services. This new strategy describes how the Council will organise its procurement practices in order to manage expenditure as effectively as possible. The draft strategy sets out a number of actions to further develop the Council's procurement policies and practices and to establish a programme for continuous improvement.
- 1.2 In due course the draft will be submitted for approval by the Cabinet Member with responsibility for Finance. To allow pre-scrutiny of the proposals, however, it was agreed that the new strategy would be considered first by Budget and Performance Panel.

2 Details

2.1 The strategy has been completely revised to reflect the advances made to date by the authority on procurement issues. The strategy sets out new elements or other developments that are a priority for the Council. It:

- details how the authority will work with others within the region and purchasing organisations to realise efficiencies;
- states the importance of Procurement Principles, standards, Policy and Procedures that currently exist, for example The Sustainable Procurement Policy, Whole Life Costing and Lancaster’s Approach to Project Management;
- details the responsibilities of stakeholders, including Council members, Chief Officers and Council staff;
- identifies the monitoring and reporting arrangements to be put in place;
- expands the need to increase the amount of business the authority does electronically, by introducing new elements to the procurement cycle that facilitate current or new software.

2.2 The procurement discipline within the authority and within local and central government is still evolving but it is felt that is now recognised as a major contributor to the authority, in helping it to meet its objectives.

2.3 The draft strategy also provides for flexibility, allowing the Council to respond to the rapidly changing environment surrounding public sector procurement, taking into account Lancaster’s experiences and those of others and to integrate improvements into our processes and systems.

3 Conclusion

3.0 Much work has been done within the procurement discipline through out the authority and adoption of the Procurement Strategy will help achieve modern and efficient procurement functionality within Lancaster City Council, contributing to the Council priorities and service delivery.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

The strategy and its future development will provide a framework within which procurement can support aspects such as sustainability and the achievement of other impacts on a clearer and more consistent basis.

FINANCIAL IMPLICATIONS

There are no direct financial implications arising. That said, the strategy should help the authority achieve greater value for money in future. Any aspects of the strategy that require investment would be appraised accordingly first (this includes electronic / systems developments, etc).

LEGAL IMPLICATIONS

The strategy is in line with relevant procurement law, particularly EU law.
Legal Services have been consulted and have no observations to make on this report.

S151 and MONITORING OFFICER'S COMMENTS

The s151 Officer and Monitoring Officer have been consulted and have no comments to add.

BACKGROUND PAPERS

None.

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LANCASTER CITY COUNCIL
Promoting City, Coast & Countryside

Procurement Strategy

DRAFT

November 2009

Reference: Procurement Strategy

Version: 0.06

Date: 18/11/2009

Status: Release 1

Issue History: First Release

Author: Helen McMahon – Procurement Manager

DRAFT

Document History

Document Title	Version	Reference/Date	Comments
Procurement Strategy	0.01	13/02/09	First Draft sent for review by Procurement Strategy Officer Group
Procurement Strategy	0.02	16/03/09	Amendments from first review
Procurement Strategy	0.03	13.07.09	Amendments from second review
Procurement Strategy	0.04	01.08.09	Amendments from Procurement Strategy meeting 22.07.09
Procurement Strategy	0.05	17.09.09	Suggested additions from Nicola Hallsworth – Lancashire Procurement Hub
Procurement Strategy	0.06	18.11.09	Amendments from HFS

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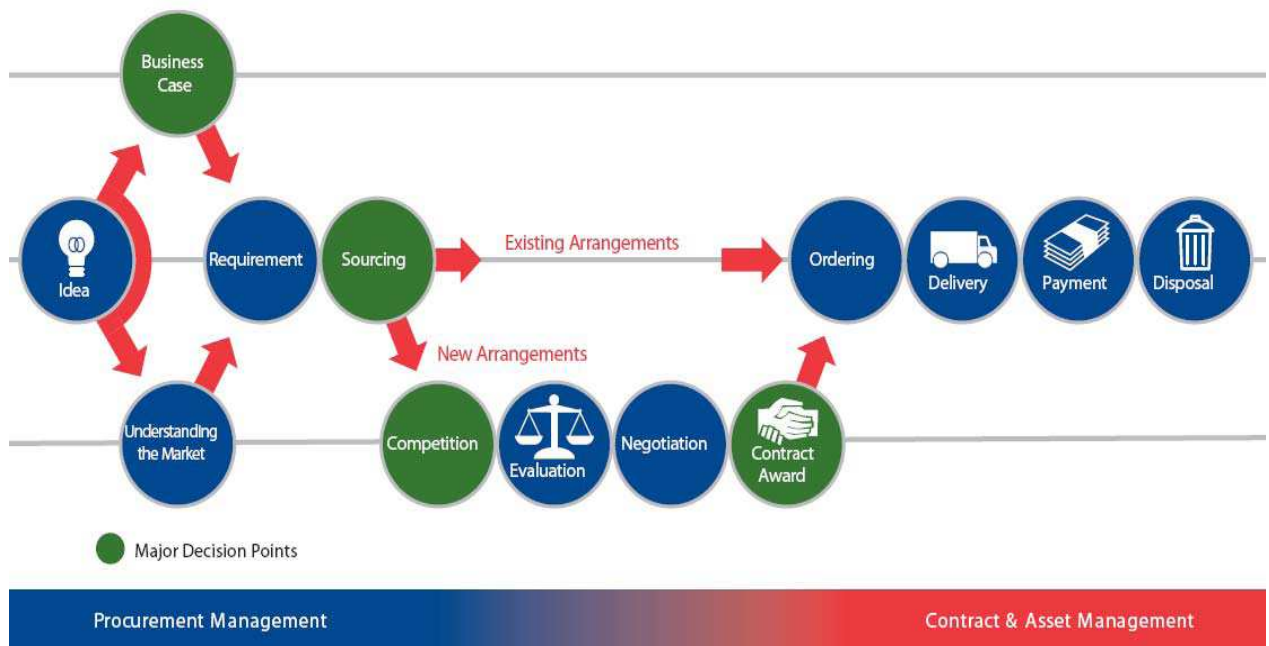
Introduction

The Council's first procurement strategy was approved in January 2003, following a detailed review of corporate procurement in 2002. This strategy was superseded in 2005 by a strategy encompassing the National Procurement Strategy which was launched in 2003. It set out the policies and practices the Council intended to follow as it spent £35 million each year on the acquisition of goods, works and services.

This strategy has been completely revised, it builds on the previous strategy and the policies and practices introduced as a result of changing national, regional and local priorities. It describes how the Council will organise its procurement practices in order to manage expenditure as effectively as possible. The strategy sets out a number of actions to further develop the Council's procurement policies and practices and establish a programme for continuous improvement.

What is Procurement?

Procurement is the execution of the decisions made during commissioning – when it has been identified that there is a need. Traditionally, local government and others have viewed procurement as Tenders and contracts. In reality this is only the purchasing cycle. Procurement is much wider as illustrated below.



“Procurement” is the process of acquiring goods, works and services, covering both acquisitions from third parties and from in-house providers. The process spans the **whole cycle** from identification of needs, through to the end of a services contract or the end of the useful life of an asset. It involves option appraisal and the critical “make or Buy” decision which may result in the provision of services in-house in appropriate circumstances.”

National Procurement Strategy 23rd October 2003

Aims and Purpose of the Strategy

The aim of this Procurement Strategy is to set out a clear framework for procurement throughout the authority, which is consistent with Lancaster City Council's Sustainable Community Strategy, the Council's Corporate Plan, the Council's Constitution, Standing Orders, Contract Procedure Rules, and Financial Regulations.

The strategy will communicate to all stakeholders, including Council Members, Chief Officers and Council staff the Council's 'vision' for the way forward in procuring its goods, works and services and detailing their responsibilities to play a meaningful role in achieving that 'vision'. It aims to bring together the existing examples of good procurement practice throughout the Authority.

The document seeks to set out the Council's high level, strategic plans for how procurement will be organised and managed in support of the 'vision'. It is aimed at promoting effective procurement across the whole of the authority and the wider district in collaboration with the Lancashire Procurement Hub, by setting a flexible framework within which procurement development can take place. Flexibility is required to allow the Council to respond to the rapidly changing environment surrounding public sector procurement, taking into account our own experiences and those of others and to integrate improvements into our processes and systems.

This strategy has been produced by the Procurement Strategy group, made up of senior officers led by the Corporate Director (Finance and Performance). Copies of the strategy are available directly from the Council's Procurement Manager or electronically via the Council's intranet or website.

Strategic Positioning of Purchasing within Lancaster City Council

The Council provides a leadership role in promoting the economic, social and environmental well-being of the community and in delivering collaboratively through the Local Strategic Partnership, the strategic objectives, action plans and targets in the Community Strategy.

The Council has policies in place to facilitate the effective purchasing decisions for goods, works and services, to satisfy an immediate tactical/operational requirement. We now need to develop the ability to fully take account of whole life costs and the Council's wider objectives. Effective use of procurement across the Council will only be delivered through the active participation of all those who control budgets and authorise expenditure as well as those with the appropriate technical expertise.

The implementation of this Procurement Strategy will require decisive and sustained leadership from Members and Senior Officers to ensure that the Council is an organisation that is proactive, joined up and visionary in its approach to the delivery of best in class.

To support this approach there are a number of key tasks, these include:

- The review of all the Council's procurement related policies, regulations and procedures to ensure they support and do not hinder, the delivery of the Procurement Strategy and enhance the use of procurement to deliver the Council's objectives.
- The production of clear guidance on the new policies;
- The communication of the guidance;
- The provision of targeted training.

Council Priorities

The Council's current Corporate Plan has been divided into four Corporate Priorities to provide clarity and focus, these priorities are:

- Support Our Local Economy
- Clean and Green Places
- Safe and Healthy Communities
- Support our Local Communities

Within the four priorities there are seven objectives, the objectives will help us focus on the things we need to do to deliver real and lasting achievements. The objectives are:

1. work in partnership to ensure a strategic approach to economic development and regeneration;
2. Maintain the cleanliness of our streets and public spaces;
3. Develop local responses to Climate Change;
4. Contribute towards making our district an even safer place by reducing crime and the fear of crime, and anti-social behaviour;
5. To contribute towards health improvement and reduce health inequalities through both delivery of our own services and our work with partners;
6. Work in partnership with others to meet the differing needs of communities within our district;
7. Improve the standard, availability and affordability of housing in the district to

Whilst there may be changes to the Council's key priorities and objectives over time, the Procurement Strategy is designed to support in general terms the overall corporate aims of the Council, with sufficient flexibility to deal with such changes.

Comprehensive Spending Review 2007 (CSR07)

The CRS07 sets councils ambitious and stretching targets in terms of efficiency gains during the period 2008/11. Local Government is facing rising public expectations and increasing demands for local services in a tight fiscal environment. This will call for strong and innovative approaches to achieving efficiency; procurement will play an important role in identifying and assisting these approaches.

Performance Management.

The Council will need to implement monitoring and reporting arrangements in order to monitor progress towards meeting it's procurement objectives.

Procurement

In collaboration with the Lancashire Procurement Hub's Best Value Group, a suite of Key Performance Indicators (KPI's) will be adopted enabling Lancaster City Council to measure and monitor performance for improvement and against other authorities within the region.

Each year Lancaster City Council will complete the healthcheck produced by the Lancashire Procurement Hub from the document 'Procurement Working Better Together'. This will inform progress and aid the development of an annual action plan.

Contracts

Responsible Spending Officers (RSO's) will be required to monitor the performance of their contractors/contracts, this will be established by the completion of the Contractors Performance report which should be completed annually and at the end of each contract. Any issues arising from the reports will be reported to the Procurement Manager who will facilitate the sharing of information.

Each RSO will be responsible for determining a risk log for each contract that is in place. Together with the supplier and any other partners they will be responsible for the management and mitigation of risk within the contract.

Collaboration and Partnership Working

As part of the challenge and the options appraisal process the Council will take into account the appropriate use of partnering, collaboration and trading approaches.

The Council will proactively seek out collaborative opportunities with other councils and other public bodies, through active participation both in existing consortia and the North West Improvement and Efficiency Partnership, through the Team Lancashire Procurement Hub (Hub).

The Council will use identified collaborative opportunities wherever this is of benefit:

- exclusively to the Council;
- to both the Council and the other bodies; or
- exclusively for the other bodies, except where there is a negative impact on the Council.

In assessing such opportunities, the Council will have regard to the overall strategic direction of the Council, to achieve best fit with the Council's priorities and objectives.

Team Lancashire – Lancashire Procurement Hub

The aim of the Hub is to deliver a coherent and effectively managed procurement strategy for the sub region founded on proactively managed collaboration. The Hub will support the delivery of the Sub Regional Improvement and Efficiency Strategy and support the aspirations of the North West and National improvement and efficiency strategies. They will work with all the authorities in the district to facilitate collaboration. Lancaster City Council is committed to working with the Hub and will collaborate where it is in the best interest of the Council.

Lancaster City Council acknowledges that working in partnership with other authorities, agencies and other public bodies brings benefits that may not be achieved by working in isolation. We will work more in partnership and re-design the delivery of our services to realise true savings and efficiencies.

Purchasing Organisations

It is recognised that the use of purchasing organisations can reduce the amount of resources needed to carry out a procurement exercise and the combined buying power of several organisations could lead to financial savings. Lancaster City Council actively encourages officers to use Purchasing organisations such as OGC Buying Solutions, Yorkshire Purchasing Organisation (YPO) and East Shires Purchasing Organisation (ESPO)

The North West Development Agency (NWDA) insist that authorities use their panel of suppliers when using agency funding. The NWDA panels have suppliers who have been selected using a compliant European Union Public Procurement and are widely regarded as best practice.

Roles and Responsibilities

Members and Officers have a responsibility to make the most of the resources available to them while ensuring that services are maintained or improved. Implementation of this strategy requires clear functional responsibility to be assigned for procurement at both member and officer level. An outline of the responsibilities of Members and Officers is shown below.

Members

Elected Members:

Members will take a strategic role, scrutinizing the procurement processes and monitoring the outcomes of procurements. They should provide executive direction and decisions on strategic projects, and depending on their varied roles and responsibilities within the Council, will ask challenging questions about value for money and risk management in relation to procurement.

Cabinet

- All Executive Members need to be familiar with current best practice in Procurement and Partnering.
- The Cabinet Member with portfolio responsibilities for finance will be the Member Procurement Champion.
- Cabinet will preside over decisions where contracts are proposed for acceptance but are over the budgetary figure allocated to the contract.
- Other procurement decisions will be delegated to nominated officers or individual Cabinet Members, in line with the Constitution and where such decisions are within the budget framework.
- Reports presented to Cabinet, with the recommendation of a contract for approval which is in excess of the available budget, will be the responsibility of the Portfolio holder.

Member Champion

- The Member Champion will ensure that best practice procurement is communicated to all Members and act as a change agent for procurement.
- They have responsibility for approving the Corporate Procurement strategy, ensuring it is aligned with strategic objectives, and for monitoring the associated Action Plan.
- They will help ensure that systems are in place to facilitate member engagement in the making of key decisions in procurement, e.g. for major projects and contracts.
- They will promote the Procurement Strategy and vision with Members.
- They will seek to motivate Members, gaining their commitment to procurement change.
- They will contribute to developing Members' understanding of strategic procurement management and promoting skills' development.

Overview and Scrutiny

- Where necessary the Committee will challenge major projects to ensure that they support community and corporate strategies. This may include:
 - conducting inquiries into new models of service delivery
 - challenging the progress of major procurement projects
 - ensuring that lessons are learnt from major projects and partnerships.

Budget and Performance Panel

- Budget and Performance Panel will be responsible for scrutinising the Corporate Procurement Strategy, ensuring it is aligned with strategic objectives and monitor the associated Action Plan
- Through Performance Review Team (PRT) reports and corporate financial monitoring, the Panel will consider procurement issues in reviewing and scrutinising performance. In particular, this includes:
 - reviewing areas of high spend to identify opportunities for improved value for money
 - reviewing the performance of partnerships and other key contracts
 - holding the Member and Officer Procurement Champions to account.

Officers

Executive

Senior Management involvement should allow for prompt decisions on key decisions, enabling access to resources outside the project team's immediate control.

The Corporate Director (Finance and Performance)

- To act as the Council's Procurement Officer Champion with responsibility for liaising between Team Lancashire, Corporate Management Team and the Procurement Strategy Group.
- To ensure the Procurement Policies and Strategy are effective in supporting high standards of corporate governance.

Head of Financial Services

- To ensure that an effective system of internal audit is carried out for the authority.
- To incorporate the Procurement Strategy actions within the service business plan.
- To review Financial Regulations and other standing orders including the Contract Procedure rules.

Procurement Strategy Group

- To develop, implement and review the Procurement Strategy.
- To advise on the use of Procurement initiatives to support projects, activities and initiatives.
- To evaluate new approaches on procurement and the extent to which they would be helpful to the authority and its services.
- To advise on the development of procurement policies.
- To support the provision of staff training in procurement.
- To provide for information sharing and mutual support links with other groups at regional and national level.
- To promote good Procurement practice throughout the authority by co-operation and liaison with managers and employees and relevant external agencies.
- To monitor delivery of Corporate Procurement Strategy and achievement of KPIs.

Procurement Manager

- To act as professional lead on procurement matters, consulting and providing direction and/or advice as appropriate, to ensure that the Council meets associated legal and regulatory requirements.
- To lead on the promotion of good procurement practice throughout the authority, through co-operation and liaison with managers, other employees and relevant external agencies.

- To support the provision of staff training in, and raising the level of, procurement throughout the authority.
- To ensure that appropriate European Union returns are carried out.
- To report on procurement activity and performance to Services, Members, the Procurement Strategy Group and other relevant parties as appropriate.
- To maintain a corporate register of contracts.
- To examine the requests for exceptions, and report approved exceptions to through corporate financial monitoring.
- To collate and report on procurement efficiencies.
- To maintain up to date information on the internet and intranet.
- To represent Lancaster City council on Team Lancashire Procurement Groups as necessary and collate / provide information as required.

Heads of Service

- To ensure that procurement activity within their service areas is in accordance with this Strategy, the requirements of the Constitution and supporting professional advice.
- To identify procurements and opportunities within their service areas and to forward information on these on a timely basis to the Procurement Section.
- To ensure that procurement issues are appropriately considered and evidenced, as appropriate, when developing Service Business Plans.
- To ensure that officers within their service who have responsibility for procurement are suitably qualified, experienced and trained.
- To identify any skills, training or development needs to ensure the competencies within the authority support the drive for better procurement.
- To highlight areas of spend where corporate procurement arrangements can be developed.
- To ensure effective communication within their service area of the Procurement Strategy and supporting standing orders.
- To promote and support the development of the Council's Procurement Strategy.

Employees

- To procure goods, works and services in accordance with this Strategy, Contract Procedure Rules, Financial Regulations, and other relevant sections of the Constitution.
- To participate in collaborative working.
- To support the Procurement Section on corporate reporting requirements, and have due regard to professional advice.
- To report opportunities or risks to their Line Manager or Service head where service delivery can be improved through procurement.
- To adopt Whole Life Costing for the appraisal of tenders and through out the life of contracts.
- To monitor performance of suppliers through Contract Performance Reports
- To identify, manage and where possible mitigate risks within contracts by working with suppliers and partners to ensure that the authority is not exposed to adverse risk.

Procurement Principles, Standards, Policy and Procedures

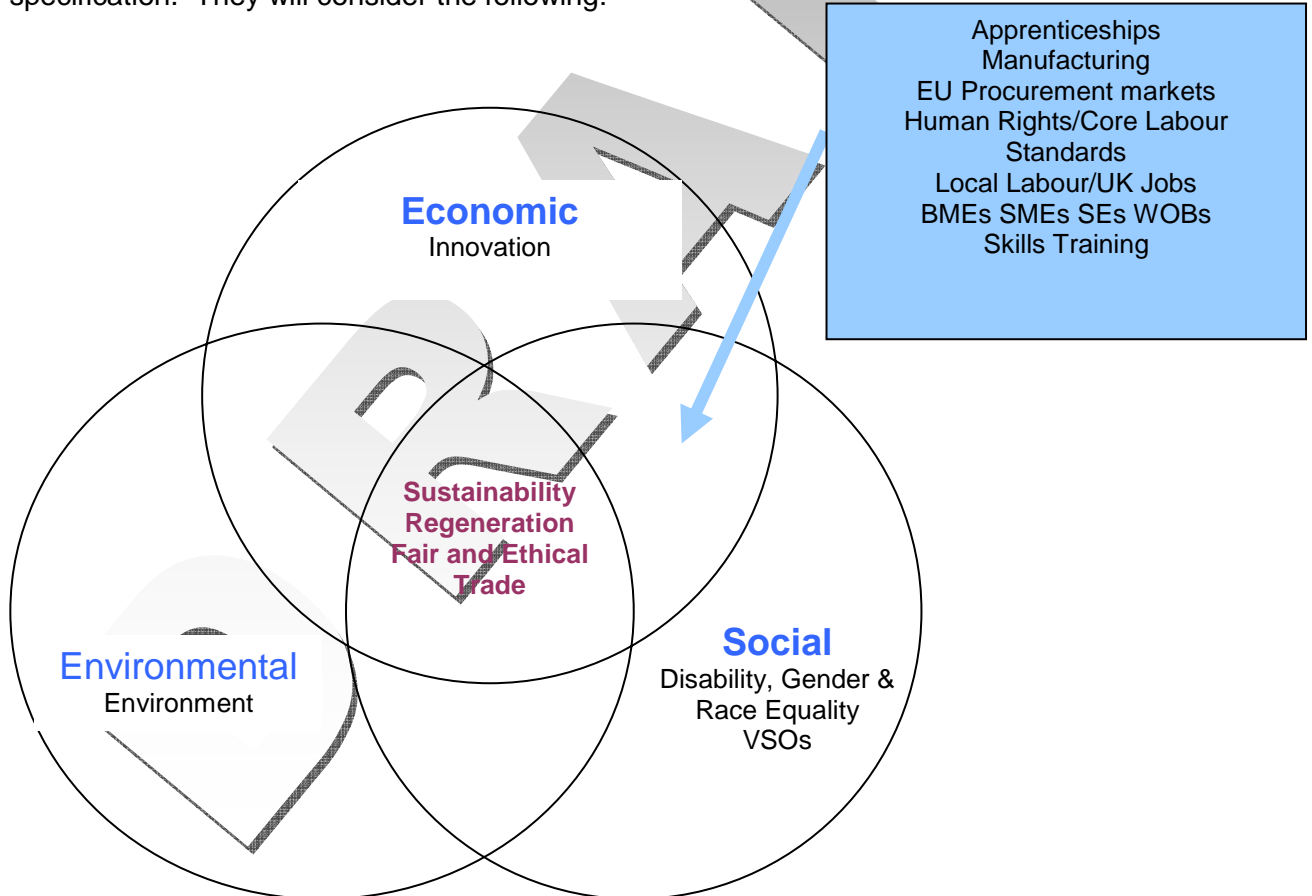
Lancaster City Council has a number of documents aimed at explaining the wider practices of procurement and the current policy, procedures and practices that are to be followed.

Sustainable Procurement Policy

Leadership on sustainable development sets an example to both the public and to partner organisations. Lancaster City Council will contribute to a sustainable way of life by adopting the principles set out in the Sustainable Procurement Policy.

Cabinet approved the Sustainable Procurement Policy in 2007 committing the authority to use its purchasing power to promote sustainability, in its widest sense, when choosing products and contracting services, to optimise the sustainable benefits of procurement decisions, in accordance with the principle of best value.

Officers will set clear priorities when determining the sustainable criteria of a contracts specification. They will consider the following:



Lancaster's Approach to Project Management (LAMP)

Lancaster City Council is ambitious for its communities and is committed to improving on a continuing basis the services the Council provides. The change associated with improvement requires processes to manage it well and Project Management (PM) is a key tool to help us do this. To this end, a corporate PM methodology has been developed. Known as Lancaster City Council's Approach to Managing Projects (LAMP) the methodology, whilst based on the nationally recognized PM standard, PRINCE2, it recognises that the majority of our projects will not be complex enough to require the full PRINCE2 processes. The LAMP methodology is adaptable to any type or size of project proportionate to its significance to the success of the Council, its complexity and degree of risk. The corporate approach is supported by a LAMP Handbook; standard PM templates and formal training for all staff with an interest in project management. This new approach to project management came into operation from 01 April 2007.

Whole life Costing – *‘the systematic consideration of all relevant costs and revenues associated with the acquisition and ownership of an asset’.*

Lancaster City Council recognises that decisions based on long term vision form a fundamental component of the option appraisal. This will ensure that the assessment of ongoing revenue/resource costs together with the initial capital investment is taken into consideration when deciding on a preferred solution. A guide to whole life costing has been published on the intranet and should be used for procurements, especially when projects being delivered using Lancaster's Approach to Project Management (LAMP) is being followed.

Equality and Diversity

As a leader of the community Lancaster City Council has a responsibility to create a fairer society. Authorities also have a responsibility to use taxpayer's money wisely in public procurement. Officers within Lancaster City Council must ensure that they fulfil their legal obligations relating to equality, specifically the public sector equality duties. In addition, there is further scope to address equality related issues, where they are relevant to the procurement.

Equality issues will be addressed at the following stages of a procurement process:

- Pre-procurement – when identifying the need and considering the market;
- Specification stage – when deciding the requirement;
- Selection stage – when selecting suppliers to invite to tender;
- Award stage – when awarding the contract;
- Contract conditions – in the performance of a contract;
- Relationship management – on an informal basis, outside procurement and contract management.

Doing Business Electronically

Electronic Procure to Pay functionality enables organisations to automate procurement activities, including sourcing, ordering and commissioning, receipting and making payments for the whole spectrum of goods and services that they purchase. E-Procurement matters to Councils because of the benefits that are available – better value for money from less resource, more outcomes from the same resource, and the generation of cost and efficiency savings that can be redirected into priority services.

Lancaster City Council has invested heavily in information technology and a solution to electronically carry out some procurement processes is embedded. The software – Authority Financials from Civica, is currently used by 11 other authorities in the Northwest and the sharing of information is common practice, this collaboration will continue through Team Lancashire forums with the shared interest of generating common information to carry out benchmarking and collaborative procurements.

In 2007 the council set out a 'Vision for E-Procurement' within its E-Procurement Strategy. By implementing the strategy the Authority will achieve efficiencies in the reduction of: cycle times, transaction costs, resources, will provide more accurate and easily reported management information allowing more informed decisions to be made, adherence to Contract Procedure rules and attain targets set by the National Procurement Strategy. The strategy is being delivered on a modular basis, using the LAMP methodology with a cross service project board; implementing the initiatives where a business case exists and those appropriate to its infrastructure and needs. Areas that are to be investigated are listed below,

Sourcing and Tendering

The Council advertises potential tender opportunities to the business community on its website; publishes information on how suppliers can do business with the Council and provides links to Constructionline (a database of prequalified contractors), the Council's preferred method of selecting firms to be invited to tender for works goods and services. There is also an opportunity to use a third party facility to advertise opportunities, the regional improvement and efficiency partnership has endorsed a supplier and may be used where resources allow. This is expected to encourage greater competition and interest from potential suppliers and will make information on opportunities for the business community more accessible

An e-tendering solution would enable the council to undertake the advertising, issuing and receipting of tender documents via the internet, saving the council time and overhead costs compared to current paper tender process. E-tendering can also reduce bureaucracy and duplication, simplify procedures and make procurement process more transparent. A regional solution is available and will be examined as part of the work under taken with the Lancashire Procurement Hub e-procurement group.

Alternatively Authority Financials are exploring the market to find a partner whose product would complement their current suite of applications. Authority Financials has the functionality to carry out Requests for Quotation; however this is not integrated into the purchasing module and has limitations.

E-Auctions

Lancaster City Council is committed to exploring the benefits of e-auctions in the longer-term and to identify areas for which this process would be most suitable. It is recognised that the resources involved in running an e-auction

<p>may require collaboration or partnership with other public or private bodies.</p>
<p>Catalogue Management</p>
<p>The purchasing functionality within the authority's financial systems facilitates the use of electronic catalogues. It is anticipated that as framework agreements are adopted by the authority the provision of an electronic catalogue will be explicit in the agreement.</p>
<p>Payment</p>
<p>The Corporate Procurement function is proactively supporting Exchequer officers in collating payment information to allow payment to be made by BACS. Some progress has been made towards the full implementation of BACS IP for the payment of suppliers. Work is continuing to extend the number of suppliers who are capable of being paid by BACS and a process where suppliers will not be approved if the Bank details are not available is to be introduced. Details of e-mail addresses for remittances are being collated and when functionality is applied this will reduce the number of remittances send in the post.</p>
<p>E-Invoicing</p>
<p>The current financial system, Authority Financials has the functionality to receive invoices electronically. Work is commencing on identification of suppliers with whom the Council would want to introduce this facility.</p>
<p>Purchase Orders</p>
<p>All purchase orders are currently produced electronically. The method of delivery for the purchase order will be migrated to e-mail, reducing costs associated with printing, and postage. The facility to import purchase orders raised on other systems used by the authority ie. Task and Technology Forge, into Authority Financials will be explored and when adopted, this will ensure all purchase orders are available within the purchasing module, allowing better reporting.</p> <p>Internal Trading – the ability to raise a purchase order against another service within the Council will be implemented for items such as copy paper and envelopes the use of a purchase order will remove the need for an internal recharge to be performed. If other opportunities to use this functionality arise they will be explored.</p>
<p>Purchasing Cards</p>
<p>Procurement cards have been used within the authority since 2004, to improve services and /or reduce the administrative costs of low-value ad-hoc purchases. The number of cards has steadily increased and currently stands at 60. At least one Officer within each service has been issued with a procurement card. This is now the favoured payment method for goods or services that are bought over the internet, training and where the use of the supplier will be a one off. The introduction of the new financial system has allowed for the automatic input of commitment against a procurement card and electronic authorisation.</p>

The Council has dedicated a specific part of its website, www.lancaster.gov.uk, to procurement issues. This contains details of forthcoming tendering opportunities and information on how to do business with the council, giving contact details including an e-mail

address for procurement. The procurement information on the internet will be enhanced throughout the period of this strategy and will include the publication of updated publications.

Monitoring and Review

The Procurement Strategy Group of Lancaster City Council will review the Procurement Strategy on an annual basis. The group will ensure that all relevant and newly introduced legislation is taken into account. Any new developments in the purchasing arena will be evaluated and if appropriate incorporated into the strategy. Any changes to the Strategy will be a matter for the Member Champion to agree as an individual cabinet member decision.

The Procurement Strategy group shall meet quarterly, with regular monitoring and efficiency reports circulated to the group from the Procurement Manager detailing procurement progress and initiatives that are being developed and progressed through Team Lancashire and the Lancashire Procurement Hub.

Procurement efficiencies and a system of monitoring and reporting Key Procurement Performance Indicators will be developed and used to report to the Officer Group and Member Procurement Champion on a quarterly basis.

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Plan of Action

Risk Management

Effective use of procurement strengthens the Council's overall management of the organisation, complementing and supporting other areas such as Risk Management. Risk Management Procedures identify specific risks to the Council and the delivery of its services and consequently the Council will take specific procurement decisions as part of its mitigation and handling of the identified risks.

Forward Planning

To ensure the effective use of procurement the Council will create one single register for the whole Council. This Contracts Register will cover all procurements and contracts to be tendered and/or awarded by the council over £30,000.

The Contracts register will include all future known procurements – both for the renewal of existing period based contracts and for new projects/requirements. To achieve this, close linkages will be made with the Asset Management working group, the Council's Medium Term Financial Strategy and Service Plans.

Contract Management

Effective procurement is measured by the outcomes and not by completion of the process. Contracts must be managed throughout their life to ensure that the benefits identified in the business case are delivered. The Council will adopt the use of contract management, building on the areas of current best practice.

The councils current procurement related policies are published in a number of separate documents. No single document contains them all. A comprehensive document will be compiled for officers giving a clear reference document on legislation, rules and guidance on good practice and examples of pitfalls.

Training

With the wider view on the definition of 'procurement' and its use throughout the Council it is important that the skills base of Council staff is understood and effective steps taken where it needs to be re-aligned.

The corporate Procurement function will work with The Learning and Development Officer to ensure that procurement is seen by service heads as a core competence for their staff and that adequate training opportunities are available. Procurement training will also be built into the Member Development Programme.

Efficient Working

Development of the procedures and functionality within the electronic financial system will be expanded to release efficiencies from within the system, delivering commitment

accounting and providing consistent and accurate information from which to make more informed procurement decisions. These will include but are not limited to:

- Contract Monitoring
- Internal Trading
- Electronic communications
 - Requests for Quotations
 - Purchase orders
 - Creditor BACS remittances.

As part of the ongoing commitment to the Lancashire Procurement Hub and Team Lancashire, Lancaster City Council will adopt a number of KPI's, to be agreed by the Procurement Hub's Performance Management group. These KPI's will provide a comparison between the authorities and highlight where good practice is taking place and may be replicated.

DRAFT

BUDGET AND PERFORMANCE PANEL**Monitoring of Service Level Agreements - Thumbprint
23rd February 2010****Report of Head of Democratic Services****PURPOSE OF REPORT**

To present the annual review of Thumbprint as part of the monitoring of service level agreements (SLAs) undertaken by the Panel in accordance with its terms of reference.

This report is public

RECOMMENDATIONS

That Members consider the annual review of Thumbprint, attached at Appendix 1, and approve its recommendations as follows:

1. That the SLA with Thumbprint remains unchanged, subject to review in 2010/11.
2. That, subject to the approval of the Chief Executive and Member editorial team, consideration be given to including an article on Thumbprint/One Voice and other organisations that the Council funds in Your District Council Matters to publicise the City Council's support for Thumbprint, and help promote a positive image of disabled people and raise awareness of their needs.

REPORT

1. The Panel has responsibility for reviewing and monitoring of SLAs with non-housing voluntary organisations.
2. This report concerns the SLA with Thumbprint and is the work of the Head of Economic Development and Tourism.
3. The SLA with Thumbprint requires them to be monitored annually. The annual review of the service considers:
 - a copy of its examined accounts
 - an evaluation of the service
 - development plans for the forthcoming year
 - arrangements for future funding including estimated income and expenditure for the following financial year
 - any amendments required to this agreement.

4. Attached at Appendix 1 is a copy of Thumbprint's annual review for consideration by the Panel.
5. This is the first SLA review to be considered by the Panel in 2009/10. There are 12 non-housing voluntary organisations with SLAs in place. A further report will be presented to the Panel's meeting on 30th March 2010 to consider the SLA monitoring procedure.

BACKGROUND PAPERS	Contact Officer: Jane Glenton Telephone: 01524 582068 E-mail: jglenton@lancaster.gov.uk Ref: JEG
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SERVICE LEVEL AGREEMENT BETWEEN LANCASTER CITY COUNCIL AND THUMBPRINT

ANNUAL REVIEW - 2009

SLA SUMMARY

Period of the Agreement	1 st April 2008 to 31 st March 2011
Funding provision	£4,000 each year
Service aim	To enable local people with learning disabilities to create access and develop user-led opportunities for employment and training
Core services funded under the Agreement	<ul style="list-style-type: none"> • Support for local people with learning disabilities in a range of community based, practical projects • Provision on a range of opportunities for employment, volunteering, training and leisure for people with learning disabilities living in Lancaster district • Supporting statutory, private and other voluntary agencies in their work • Promoting a positive image of disabled people and raising an awareness of disabled people's needs • Actively pursuing additional sources of funding towards the operation
Contacts: Thumbprint Lancaster City Council	<p>Dave Kirsopp, Co-ordinator and Project Worker</p> <p>Bill Kindon, Principal Economic Development Officer</p>

REVIEW MEETING HELD 13 NOVEMBER 2009 AT THE CORNERSTONE

Present:

Dave Kirsopp – Co-ordinator and Project Worker, Thumbprint
Bill Kindon – Principal Economic Development Officer, Lancaster City Council

Review requirement	Comments
Annual Report of the service	2008-2009 Annual Report supplied at the meeting together with draft report outlining planned/proposed Thumbprint activities in 2010. Finalised reports subsequently submitted prior to Thumbprint AGM on 9 December 2009.
Copy of examined accounts	Copy of examined accounts submitted following the meeting and prior to Thumbprint AGM.
Evaluation of the service <i>Services provided</i>	<p>Core services provided by Thumbprint are consistent with those specified in the SLA but with an emphasis on supporting people with learning disabilities in a range of practical, community based projects.</p> <p>Thumbprint provides support to people with learning disabilities to enable them to set up and run projects with a view to increasing their confidence and developing their vocational skills. It is based in The Cornerstone in Dalton Square, Lancaster and works very closely with One Voice (also City Council supported). Current projects include:</p> <ul style="list-style-type: none"> • Fork-to-Fork – a new one year project for about 20 volunteers with learning difficulties growing fresh food for local people • Untangling the Web – an accessible internet service, charged at affordable rates, and run by volunteers with learning difficulties • Ink Again – ink and toner cartridge collecting service which has a contract with Lancaster University and is close to being self-sustaining • Mosaic house signs – an early stage project producing house signs from broken tiles <p>There is a core client group of 14, mostly working in specific projects, with a small additional flow through. The emphasis is on providing in depth support. Whilst it is based in Lancaster, there is a good geographic spread within the District of individuals supported through Thumbprint. The number of clients involved in projects will increase through the Fork 2 Fork project.</p>
Breakdown of clients	

Review requirement	Comments
<p>Comparison with previous year</p> <p>Evidence of user feedback and involvement/feedback from stakeholders</p>	<p>This reflects an increase from about 10 in the previous year in line with increased project activity</p> <p>Feedback is not formally gathered but the need to monitor feedback is acknowledged. Consideration is being given to the possibility of an independent assessment of the impact of the service eg by a post-graduate student.</p> <p>Following the meeting, contact was made with the Vocational Support Team in Social Services, who refer people with learning difficulties to Thumbprint, and very positive feedback was provided. Emphasis was placed on Thumbprint's approach in helping referred clients to gain confidence by giving them responsibility within a supportive and safe environment and several examples were cited. The view was expressed that Thumbprint adds value to other support services and provides support which would not otherwise be available. Reference was also made to the benefits of co-location with One Voice and the sense of belonging provided through people's involvement with activities in The Cornerstone.</p>
<p>Any income</p>	<p>Income is generated through the projects and this is used to cover projects' costs and provide some income for the clients. One example is Ink Again which generates approx £30 per week.</p>
<p>Publicity for the service</p> <p>Access to the service</p>	<p>The service is not actively publicised as support capacity is limited and potential beneficiaries can be readily identified through referral and targeted through networks. However, a basic Thumbprint website is maintained and Thumbprint was actively involved in the Social Enterprise Festival held during the year.</p> <p>Service access is consistent with the SLA. Thumbprint is open from 10 to 4 each day for project work and is accessible by telephone and by drop-in at The Cornerstone from 10 to 3. The service can also be contacted by email and via the website.</p>
<p>Evidence of service development/improvement</p>	<p>There is strong evidence that the service is innovative in identifying new project opportunities which are appropriate to the abilities and needs of its client group and which can provide some income to support project costs. Thumbprint has also provided placements for a number of social work students from Lancaster University which provides a source of additional support and significant additional income as well as providing valuable experience for the students.</p>
<p>Quality assurance</p>	<p>The SLA refers to Access Lancashire continuing to review Thumbprint in the context of quality assurance. DK was not aware of this – needs to be followed up.</p>
<p>Development plans for the coming year</p>	<p>The stated priorities for 2010 are:</p> <ul style="list-style-type: none"> • consolidating existing projects and enhancing their sustainability • ensuring core costs for the base in The Cornerstone are secure • increasing the number of paid project workers and staff with the right skills and reducing dependency on

Review requirement	Comments
	<p>volunteers</p> <p>Fork 2 Fork will be a significant project over the coming year and one potential new project is a mobile phone recycling service, currently in development.</p>
<p>Funding received from other bodies and purpose</p>	<p>Lottery funding of approx £10,000 has been secured for the Fork 2 Fork project As previously noted, some income is provided through hosting several student placements.</p>
<p>Arrangements for future funding (including estimated income and expenditure for 2010/11)</p>	<p>A cash flow forecast was provided following the meeting for the period April 2009 to March 2011 Income from student placements is helping to meet projected core costs in 2010/11, including rent and other overheads at The Cornerstone. The projections would indicate that the service is adequately funded projected income from student placements is realised.</p>
<p>Any amendments required to the Agreement</p>	<p>Formal notification of the change in City Council contact officer is required. No other amendments required.</p>
<p>Conclusion</p>	<p>Thumbprint is considered to be meeting the terms of the SLA. The funding from the City Council is important in enabling dedicated staff time to co-ordinate Thumbprint's activities which comprise a number of relatively small, but broad-ranging, projects. Several projects are currently operating, including some in the development stage, which meet a local need as well as providing opportunities for people with learning difficulties. Whilst some of these projects can reach a position where income covers materials and other costs, funding for the project worker will need to be maintained to ensure clients have access to on-going support. It should also be noted that there is strong complementarity between Thumbprint and One Voice and it might be appropriate for future SLA reviews of the two organisations to be conducted in parallel.</p>
<p>Recommendations</p>	<p>i) that the Service Level Agreement remains unchanged subject to review in 2010/11 ii) that, subject to the approval of the Chief Executive and Member editorial team, consideration be given to including an article on Thumbprint/One Voice and other organisations that the Council funds in Your District Council Matters to publicise the City Council's support for Thumbprint and help promote a positive image of disabled people and raise awareness of their needs</p>

BUDGET AND PERFORMANCE PANEL

**Work Programme
23rd February 2010**

Report of Head of Democratic Services

PURPOSE OF REPORT

To provide Members with an update of the Budget and Performance Panel Work Programme.

This report is public

RECOMMENDATIONS

That Members agree the matters for consideration at the next meeting of the Panel scheduled to take place on 30th March 2010.

- The following items will be considered at the Panel's meeting on 30th March 2010:

Update Report on the Evaluation of the Council's Major Partnerships

Details had not been received from the three remaining partnerships in time for the February meeting of the Panel, therefore arrangements are being made for a report on progress against the agreed work programme to be presented to the Panel's March meeting.

Monitoring Delivery and Effectiveness of Service Level Agreement Targets

All organisations receiving funding over £1,000 per annum have a Service Level Agreement (SLA) with the City Council setting out the anticipated service to be provided by the organisation and the level of funding from the Council. A report to consider the procedure for the monitoring of SLAs will be presented to the Panel's March meeting.

Climate Change and Energy

A report by the Head of Corporate Strategy on the Council's Climate Change Strategy and action being taken by the Council in the Lancaster district to avoid the effects of dangerous climate change.

Report of Chair from one of the Lancaster District Local Strategic Partnership Thematic Groups

The Head of Corporate Strategy is arranging for a Chair from one of the Lancaster District Local Strategic Partnership Thematic Groups to attend the next meeting of the Panel.

BACKGROUND PAPERS	Contact Officer: Jane Glenton Telephone: 01524 582068 E-mail: jglenton@lancaster.gov.uk Ref: JEG
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BUDGET AND PERFORMANCE PANEL
WORK PROGRAMME

Matter for consideration	Officer Responsible	Meeting date
Update Report on the Evaluation of the Council's Major Partnerships	Corporate Director (Finance and Performance)	30.03.10
Monitoring Delivery and Effectiveness of Service Level Agreement Targets	Head of Democratic Services	30.03.10
Report on Climate Change and Energy	Head of Corporate Strategy	30.03.10
Report of Chair from one of the Lancaster District Local Strategic Partnership Thematic Groups	Head of Corporate Strategy	30.03.10