



Committee: BUDGET AND PERFORMANCE PANEL

Date: TUESDAY, 30 AUGUST 2011

Venue: LANCASTER TOWN HALL

Time: 6.00 P.M.

A G E N D A

1. **Apologies for absence**

2. **Declaration of Interests**

3. **Minutes**

Minutes of the Meeting held on 12th July, 2011 (previously circulated)

4. **Items of Urgent Business authorised by the Chairman**

5. **Quarter 1 Performance Monitoring Report** (Pages 1 - 31)

Report of Accountancy Services Manager and Assistant Head (Partnerships).

6. **Provisional Revenue and Capital Outturn 2010/2011** (Pages 32 - 91)

Report of Accountancy Services Manager

7. **Work Programme Report** (Pages 92 - 95)

Report of Head of Governance.

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

Councillors Susan Sykes (Chairman), Alycia James (Vice-Chairman), Tony Anderson, Dave Brookes, Janet Hall, Richard Newman-Thompson, Richard Rollins, Elizabeth Scott and Keith Sowden

(ii) Substitute Membership

Councillors Chris Coates, Mike Greenall, Roger Mace, Roger Sherlock, Emma Smith and Paul Woodruff

(iii) Queries regarding this Agenda

Please contact Tom Silvani, Democratic Services - telephone 01524 582132, or email tsilvani@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,
LANCASTER LA1 1 PJ

Published on Thursday 18th August, 2011

BUDGET AND PERFORMANCE PANEL**Quarter 1 Corporate Performance Monitoring Report
30 August 2011****Report of Accountancy Services Manager and
Assistant Head (Partnerships)****PURPOSE OF REPORT**

To present the corporate performance report for Quarter 1 of the 2011 Performance Review Team Cycle

This report is public

RECOMMENDATIONS

- (1) That Budget and Performance Panel consider for comment the Quarter 1 Corporate Performance Monitoring Report of the 2011 Performance Review Team Cycle

1.0 REPORT

- 1.1 The attached report, to be presented to Cabinet on 6 September 2011, sets out the corporate performance report for the 1st Quarter of the Performance Review Team Cycle for 2011/12.
- 1.2 Budget and Performance Panel are asked to consider the report in line with their Terms of Reference within the Constitution relating to the monitoring and review of the council's performance

CONCLUSION OF IMPACT ASSESSMENT

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

None arising from this report

LEGAL IMPLICATIONS

None arising from this report

FINANCIAL IMPLICATIONS

As set out in the attached Cabinet Report

OTHER RESOURCE IMPLICATIONS

Human Resources:

None arising from this report

Information Services:

None arising from this report

Property:

None arising from this report

Open Spaces:

None arising from this report

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has been consulted and her comments are reflected in the attached report

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments

BACKGROUND PAPERS

Performance Review Team Reports

Contact Officer: Performance - Bob Bailey,
Corporate Planning and Performance
Manager, Finance – Andrew Clarke,
Accountancy Services Manager
Telephone: 01524 582018 / 582138
E-mail: rbailey@lancaster.gov.uk
aclarke@lancaster.gov.uk
Ref: PRT 2011 Qtr 1

CABINET

**Quarter 1 Corporate Performance Monitoring Report
6th September 2011
Joint Report of the Leader of the Council and Finance
Portfolio Holder**

PURPOSE OF REPORT				
To present the corporate performance report for the 1 st Quarter of the Performance Review Team Cycle for 2011/12.				
Key Decision		Non-Key Decision		Referral from Cabinet Member
Date Included in Forward Plan		N/A		
This report is public				

RECOMMENDATIONS OF LEADER OF THE COUNCIL

- (1) That the report be noted.

REPORT

1. The first quarter Performance Review Team (PRT) meetings with individual Cabinet members were held between Friday 22nd July and Thursday 28th July 2011. These were presented by Service Heads covering each portfolio area and related corporate priority. One further meeting is scheduled for 10th August 2011.
2. Members will be aware that following approval by the Corporate Management Team a revised PRT process was used in Quarter 1 for the first time. Reports considered by individual Cabinet members included a RAG (Red, Amber and Green) reporting system indicating service delivery and programmes/projects performance. These reports set out achievements against key areas of work and any difficulties being experienced and/or expected to facilitate a focussed discussion on progress and any actions needed to get delivery back on track.
3. Cabinet Members were also provided with a financial report covering their portfolio and service area for Quarter 1 with reasons for any variances and actions being taken to address these being highlighted.
4. The *Corporate Performance Review* report was considered by the Leader of the Council on 5th August 2011. This report (See **Appendix A**) is attached providing a summary of **significant issues only**. Specifically these are separate documents incorporating:
 - o An exception report indicating service delivery performance for each portfolio area and related corporate priority considered to be '*Significantly behind target*' for delivery (Red status); and

- An exception report of individual programmes/projects that have a Red status indicating that they are considered to be significantly behind time; cost and/or need significant action to realise benefits and/or mitigate risks.
- 5. The *Corporate Financial Monitoring and Treasury Management Progress Reports* have also been considered by the Leader and Finance Portfolio Holder (Councillor Bryning). These are attached as **Appendices B and C** respectively.
- 6. As a result of the meeting with the Leader an Action Plan was produced, setting out the *Key Actions Agreed* at the Leader's PRT meeting. This is included at **Appendix D** together with information on any progress to date.
- 7. Since the meeting with the Leader, however, Officers have highlighted a further issue and this is now brought to Members' attention by Officers:
 - A partial collapse of a section of the lower steps below the Ashton Memorial has necessitated some urgent technical support to be commissioned. This is to inform what works are needed and any associated options; in the meantime the steps have been blocked off to prevent public access. A separate report is being produced on this matter, but for now Cabinet is requested to note that structural engineering and stone mason costs totalling £6,200 have been committed to date. Whilst no specific budget exists, the provisions within Financial Regulations have been relied upon (to allow expenditure to be incurred where there is the threat of major structural damage etc). Specific financing will be addressed in the separate report but in the interim, it is assumed that other underspendings in this year will be used to cover the technical support costs incurred. Council will also need to be informed of the position, as required under Financial Regulations, and this is in hand.

CONCLUSION

- 8. The council's Performance Management Framework requires the regular reporting of operational and financial performance to Cabinet as part of the Performance Review Team cycle of meetings. The Corporate PRT report provides a summary of key issues and associated actions that have arisen in the quarter and have been escalated to the Leader of the Council for attention.
- 9. To date, from the actions arising there are no new key issues presented, other than Ashton Memorial steps. In finance terms, it is expected that significant staffing savings should be identifiable for both current and future financial years, driven predominantly by efficiencies. These will be needed in any event to offset other budgetary pressures highlighted, as well as to help achieve existing savings targets.
- 10. With the experience of Quarter 1 the revised PRT process will be reviewed so that any lessons can be learned to improve the process further.

RELATIONSHIP TO POLICY FRAMEWORK

This report is a requirement of the council's Performance Management Framework (in support of the Council achieving its key tasks and objectives as reflected in its policy framework).

CONCLUSION OF IMPACT ASSESSMENT

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

None arising from this report

LEGAL IMPLICATIONS

None arising from this report

FINANCIAL IMPLICATIONS

As set out in the report and appendices.

OTHER RESOURCE IMPLICATIONS

Human Resources / Information Services / Property / Open Spaces:

As set out in the report and appendices.

SECTION 151 OFFICER'S COMMENTS

The s151 Officer's comments are reflected within the report and appendices.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments

BACKGROUND PAPERS

Performance Review Team Reports

Contact Officer: Performance - Bob Bailey,
Corporate Planning and Performance
Manager, Finance – Andrew Clarke,
Accountancy Services Manager
Telephone: 01524 582018 / 582138
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Ref: PRT 2011 Qtr 1



**CORPORATE PERFORMANCE REVIEW REPORT
LEADER OF THE COUNCIL: COUNCILLOR EILEEN BLAMIRE**

PRT Quarter 1 meeting		Date of Leaders PRT meeting: Friday 5 th August 2011 at 10.00am in Chief Executives office			
Portfolio Holder	Portfolio Area(s)	Key Service Actions	Success Measures		Achievements and/or difficulties identified (significant ongoing issues and or forecasted risks)
			Description	R/A/G Status	
Cllr Janice Hanson	Chatsworth Gardens	Investigate alternative funding streams	New funding streams found.	R	Options report for housing regeneration being prepared
	Bold Street/ Marlborough Road	Investigate alternative funding streams	New funding Streams found	R	
	Affordable Housing	Investigate alternative funding streams. Support provision	Affordable homes built with council support	R	

**CORPORATE PERFORMANCE REVIEW – PROGRAMMES AND PROJECTS
LEADER OF THE COUNCIL: COUNCILLOR EILEEN BLAMIRE**

Key Programmes/Projects	Lead Officer	Performance				Risk	
		Time (R/A/G)	Cost (R/A/G)	Benefit s (R/A/G)	Comments	Risk (R/A/G)	Comments
Luneside East compensation	Andrew Dobson Regen & Policy	A	A	A	One claim to Lands tribunal arising out of CPO still outstanding	6	Land tribunal to determine compensation following hearing w/c 3 October - council has assembled a specialist team
Luneside East regeneration project	Andrew Dobson Regen & Policy	A	A	A	Delayed due to recession. Cost associated with site security and maintenance	6	A revised building agreement has now been signed with the developer
Adactus Top Up Grants	Andrew Dobson Regen & Policy	R	A	R	Funding issues	6	All mitigating steps now being taken
Vacant Shop Funds	Richard Tulej Community Engagement	R	G	A	Proposals for Morecambe have taken some time to develop leading to delay	4	Relatively low risks to the council re external funding - managed via normal internal processes

Quarter 1 Corporate Performance Review – Action Plan Appendix A(i)

CORPORATE PERFORMANCE REVIEW - ACTION PLAN LEADER OF THE COUNCIL: COUNCILLOR EILEEN BLAMIRE					
PRT Quarter 1 meeting(s)			Date of Leaders PRT meeting: Friday 5 th August 2011		
Portfolio Holder	Portfolio Area	Key PRT Actions Agreed	Status	Comments on progress	
Cllr Janice Hanson	Housing Regeneration	Bring forward Cabinet report with funding options		Options report prepared in draft and securing officer comments. Note that at this stage and in line with previous resolutions of Cabinet, any detailed funding options will only be identifiable through the budget process.	P C C C
Cllr Blamire	All	In conjunction with all services, Finance and HR undertake a review of the establishment and report back on what reductions can be actioned at this time.		Intention is to 'capture' permanent savings as soon as possible, to help make progress against existing savings targets for future years (note too that extra savings would be needed to provide scope for any growth or redirection of resources).	

Corporate Financial Monitoring

June 2011 | Quarter 1

Report of the Head of Financial Services

HEADLINE INFORMATION			
REVENUE	Current (Underspend) / + Overspend £	Projected (Underspend) / + Overspend £	Future Years Projection (Underspend) / + Overspend £
General Fund	(65)	(437)	+137
Housing Revenue Account (HRA)	(28)	(124)	(56)

Note that regarding General Fund future years' projections, this currently excludes any assumptions on likely staffing savings. Based on monitoring and trends to date however, it seems reasonable to assume that savings of at least £500K could be achieved. This would easily offset the apparent future years' overspending shown above.

CORPORATE FINANCIAL MONITORING

June 2011 | Quarter 1

1. INTRODUCTION

This monitoring report of expenditure and income for 2011/12 sets out an indicative corporate picture of the Council's financial performance relating to the period ending 30 June 2011.

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 (HRA), revenue collection performance and Insurance and Risk Management.

2. GENERAL FUND REVENUE MONITORING

2.1 General Fund Summary Position

The current overall General Fund summary position shows that at the end of June there is a net underspend of **£65K** against the budget. This is currently forecast to increase to **£437K** by the end of the year. Conversely, from the information available to date future years' projections show a potential net overspending of **£137K** – see later sections for details. This is not yet based on complete information, however. In particular, no assumptions have been made regarding future years' salary savings.

VARIANCES	Current £000's	Current Year Projection £000's	Future Years Projection £000's
Major Variances (see section 2.2)	+196	+63	+137
Salaries (see sections 2.3 & 2.4)	(261)	(500)	--
Sub Total	(65)	(437)	+137
ESTIMATED OUTTURN / IMPACT ON FUTURE YEARS	--	(437)	+137

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 June this has been achieved. That said, actions could be taken to improve the Council's position still further.

Net Controllable Budget	£000's 22,608
2% Target	+/() 452
Provisional Controllable Net Underspend	(284)
Percentage of Net Controllable Budget	1.26%

As set out in the Medium Term Financial Strategy, Cabinet has no authority to increase net spending above the net revenue budget. Whilst the overall position may not be projected to breach this position, this does not remove the need to consider specifically whether any actions can or should be taken to address particular areas of overspending outlined in this report.

2.2 Major Budget Variances

Appendix A details the major true variances identified to date 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. A summary is provided in the following table.

SUMMARY BY SERVICE	Current £000's	Current Year Projection £000's	Future Years Projection £000's
REPORTED VARIANCES :	() Favourable / + Adverse		
Community Engagement	+22	+75	+79
Environmental Services	+76	+141	+201
Financial Services	(19)	(65)	(65)
Governance Services	(58)	(69)	(15)
Health & Housing	+14	(86)	(70)
Property Services	+102	+67	+7
Regeneration and Policy	+59	0	0
	+196	+63	+137
VARIANCES NOT REPORTED TO PRT MEETINGS :			
None	0	0	0
TOTAL VARIANCES	+196	+63	+137

As part of the 2010/11 outturn process Services were asked to identify the key factors influencing variances and this has now been continued into the PRT financial monitoring process. The following table provides an analysis of these variances and Appendix A shows how each variance has been initially categorised; this will be refined as the year progresses.

FACTORS INFLUENCING VARIANCES	Variances to Date £000's	Current Year Projection £000's	Future Years Projection £000's
Unforeseeable windfalls or costs	(95)	(92)	+30
Demand led variances	+197	+147	+103
Efficiency savings	0	(5)	(5)
Other service driven variances (incl delays)	+48	+110	+110
Budget setting issues / errors	+26	(45)	(23)
Other variances	+20	(52)	(78)
TOTAL	+196	+63	+137

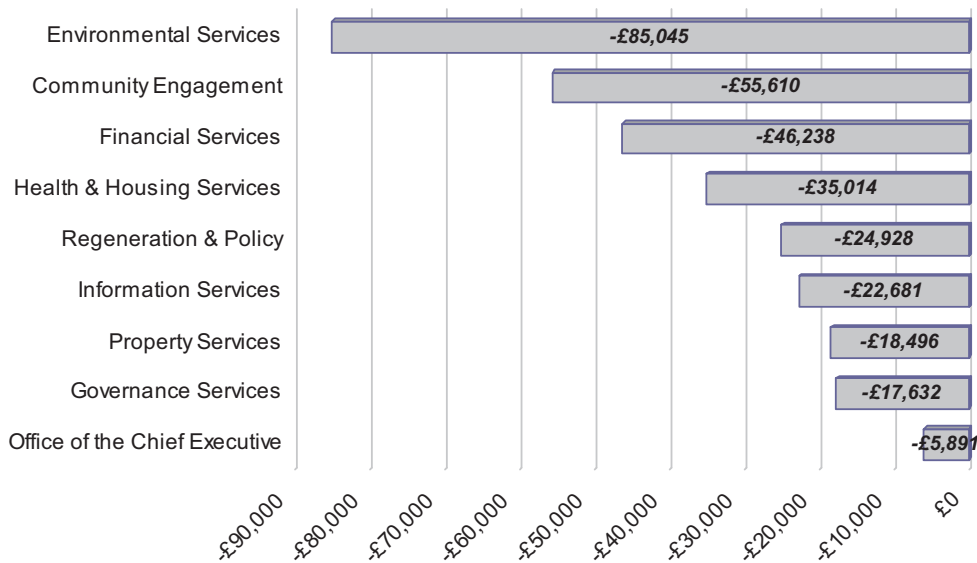
In terms of future years, the above analysis does not include any projection as yet in respect of on-going salary savings. Consideration will also need to be given to the impact of the current Fair Pay review for "red book" employees and the further review of the current pay and grading structure, as well as developments in the Shared Services agenda.

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.

To date total savings of £311K have been achieved, which is some **£261K** above the £50K profiled turnover target, and £113K above the full year target of £198K. It should be noted that the current savings include £24K in respect of an anticipated pay award of £250 for each employee earning less than £21K, as this award has not materialised.

The following graph shows the savings on a Service by Service basis.



Main Reasons for the variances are as follows:

Environmental Services – 1.5 vacant posts on street cleansing and 5 posts on Three Stream Waste, in addition to efficiency savings from a review of overtime.

Community Engagement – Partnerships Team 3 vacant posts, plus other vacancies at Salt Ayre, the Platform and Parks Patrol.

Financial Services (Revenues) – A number of vacant posts, maternity leave and reduced hours.

Health & Housing – A number of vacant posts different sections and reduced hours in Housing Advice.

Regeneration & Policy – A number of vacant posts in different sections.

Information Services – A number of vacant posts plus reduced hours.

Property Services – A number of vacant posts.

Governance Services – Vacant posts and restructuring.

Office of the Chief Executive – one vacant post.

Whilst it is anticipated that the current level of vacancies will reduce it is clear that the turnover target has already been exceeded by some margin. It is difficult to accurately predict the full year savings at this point in time, although a full staffing review will take place during the forthcoming budget exercise. That being said, even if the savings were to at least double then savings in the region of £500K (after allowing for the turnover target) could be achieved. It should be noted however that Revenue and Benefits is now operating as a shared service with Preston City Council (from 01 July 2011) and any future savings on the combined establishment will be split on a 50/50 basis.

Recommendation

To make progress now, it is recommended that in conjunction with services, Finance and HR undertake a review of the establishment and report back on what reductions can be actioned at this time.

2.4 Budgeted Savings Targets

There are four main savings targets included in the 2011/12 budget:

- Wellbeing function restructure - £38,700
- Partnerships function restructure - £26,600
- Regeneration efficiency savings - £24,700
- Revenues and Benefits Shared Service - £23,000

The first two items are being covered by current vacancies, and the third item is due to be implemented in the last half of the year but again will require current vacancy savings to be used to achieve the full saving. The fourth item is anticipated to be achieved following the implementation of the shared service

with Preston City Council. The outcome of achieving these savings may ultimately impact on the ability to achieve the indicative £500K salary savings.

All other savings proposals, approved as part of the 2011/12 budget setting process, have already been clearly identified within the budget. For Quarter 2 monitoring, an update on 2011/12 approved growth will also be provided.

3 GENERAL FUND CAPITAL PROGRAMME

3.1 Capital Expenditure

At the end of June there was spend and commitments of £1.5M against the programme of £6.756M, which has been updated for slippage from 2010/11 (approved in July) and 2 new externally funded schemes – see below.

Approved Programme (Council 02 March 2011)	£000's 5,765
Slippage from 2010/11 (Cabinet 26 July 2011)	899
New Schemes approved under S151 Officer delegation:	
Heysham Village Phase 2 Play Area – externally funded (April 2011)	46
White Lund transport link works – S106 payment to County Council (May 2011)	76
Updated Programme	6,756

The other main issues to note are as follows; more information on capital is scheduled to be included within the Medium Term Financial Strategy (MTFS) update report:

- Vehicle renewals of £469K are committed or have been procured and arrangements are currently underway to determine the most cost effective financing (re either leasing or outright purchase).
- There is a contractual dispute relating to previous Public Realm works in the West End which has been refuted but as yet not resolved.

3.2 Capital Financing

Capital Receipts

A total of £8.989M is required to finance the 2011/12 capital programme. The Head of Property Services has reviewed the proposed receipts for the current year and has recommended that the forecast remains unchanged.

4 HOUSING REVENUE ACCOUNT (HRA) MONITORING

4.1 HRA Revenue Position

At the end of June the position for the Housing Revenue Account shows an underspend of **£28K** against the profiled budget, which is currently projected to increase to **£124K** by the end of the year. A full list of the variances is shown in **Appendix B**.

VARIANCES	Variances to Date £000's	Current Year Projection £000's	Future Years Projection £000's
Major Variances	(28)	(124)	(56)
ESTIMATED OUTTURN (NET OVERSPEND)	(28)	(124)	(56)

The main variance relates to the Responsive Maintenance account where there are currently a number of vacant posts.

As mentioned in section 2.2, Services are now required to identify the key factors influencing variances as part of the PRT financial monitoring process. The following table provides an analysis of these variances and Appendix B shows how each variance has been categorised.

FACTORS INFLUENCING VARIANCES	Variances to Date £000's	Current Year Projection £000's	Future Years Projection £000's
Unforeseeable windfalls or costs	0	(6)	(6)
Demand led variances	0	0	0
Efficiency savings	0	(50)	(50)
Other service driven variances (incl delays)	(28)	(68)	0
Budget setting issues / errors	0	0	0
Other variances	0	0	0
TOTAL	(28)	(124)	(56)

4.2 Council Housing Rent Collection

At the end of June rent income is slightly higher than estimated.

Total Estimate for Year	£12,527,200
Profiled Budget	£2,869,767
Actual to Date	£2,866,500
Difference	(£3,267)

4.3 Council Housing Capital Programme

This section analyses actual spend against the Council Housing Capital Programme at the end of June. To date spend and commitments total £897M against a budget of £3.740M (including 2010/11 slippage approved in July) leaving a balance of £2.843M.

	Current Approved Programme £000's	Spend & Commitments to Date £000's	Budget Remaining £000's
Adaptations	250	42	208
Energy Efficiency / Boiler Replacement	545	92	453
Bathroom / Kitchen Refurbishment	1,034	157	877
External Refurbishments	1,331	424	907
Environmental Improvements	421	164	257
Rewiring	85	17	68
Fire Precaution Works	7	1	6
Choice Based Lettings	67	0	67
TOTAL	3,740	897	2,843

5 REVENUE COLLECTION PERFORMANCE

5.1 Council Tax & Business Rates

In year collection performance for Council Tax compares favourably with the same period last year. The position for NNDR is slightly different as payments for Council owned properties have been credited in the June this year as compared with July last year. It is still pleasing to report that overall performance is still being maintained, given the level of financial savings achieved in service delivery.

Percentage Collected	2010/11 %	2011/12 %	2011/12 Target %	2011/12 Actual %	Status
	All Years		In Year		
Council Tax	27.23	27.17	97.2	29.97	On Target
Business Rates	25.65	30.99	98.7	30.92	On Target

5.2 Collection Fund Monitoring

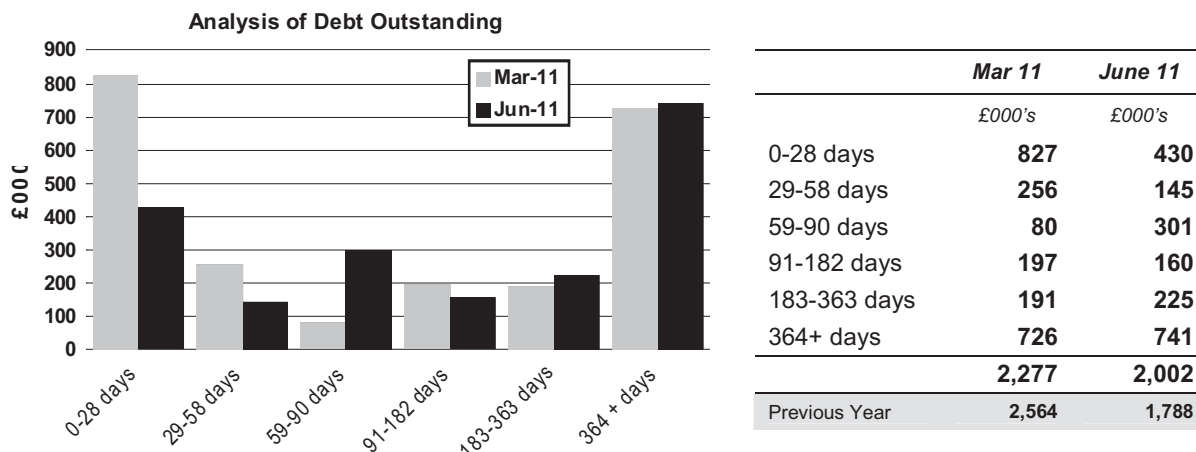
This section sets out the latest position on the Collection Fund, in particular in relation to Council Tax. Whilst the above section looks at collection performance, this section shows the current surplus or deficit on the Fund. It basically compares the amounts collectable with the Precepts levied by the relevant authorities after allowing for refunds, bad debt provisions, income collected and Council Tax benefits. The monitoring shows that as at the end of June the Fund was in surplus by £423K, but it should be noted that the surplus can fluctuate significantly month by month. For information, the equivalent value for June 2010 was a surplus of £553K reducing to £299K at the year end.

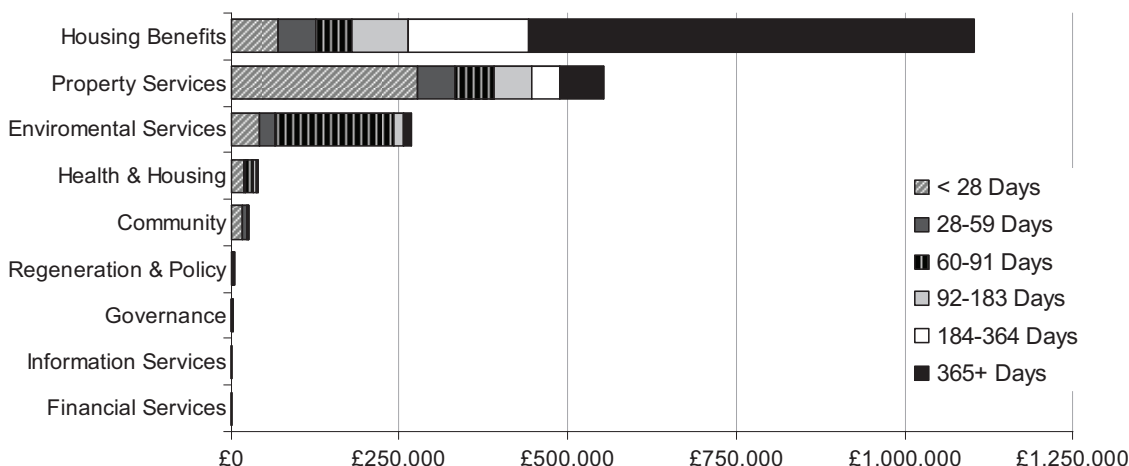
Any surplus or deficit is shared between the relevant precepting bodies and the City Council's element equates to 13% and would therefore be £55K. The position will formally be assessed in January when the Council Tax base for 2012/13 is set. At that point in time any surplus or deficit will be notified to the relevant precepting bodies for inclusion in their 2012/13 budget.

5.3 Sundry Debts

This section sets out the latest position on the level of outstanding sundry debts (excluding Council Housing; these are to be incorporated in due course). At the end of June the total debt outstanding was just over £2M, which is £275K less than the previous quarter.

The level of debt over 1 year old has increased in the last quarter to 37% (32% *last quarter*) of the total outstanding debt. In addition, the total value of all debt over 3 months old has increased by £233K from the previous quarter. For information, attached at **Appendix C** is an analysis of the action being taken on debt over 90 days old.





6 PROVISIONS AND RESERVES

This section provides an update on key provisions and reserves.

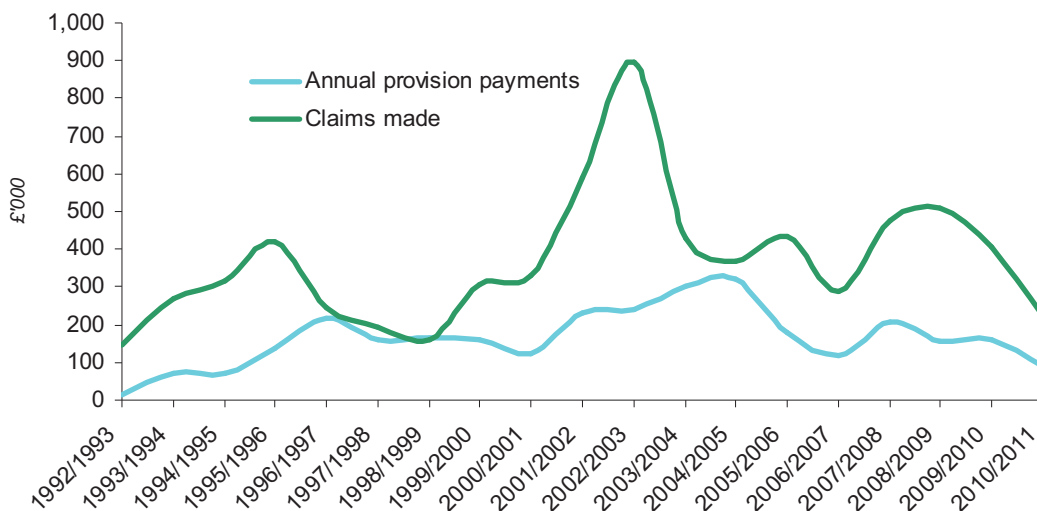
6.1 Insurance Provision

The current balance on the insurance provision is £412K, after making net payments of £29K in settlement of claims made.

At present, the Council's insurers estimate that the value of claims outstanding is £499K, which relates to a total of 269 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 61% of the total reserve will be paid. The estimated cost of claims outstanding could therefore reasonably be valued at around £304K, which is £108K less than 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.

Analysis of claims made, paid and outstanding by year.



6.2 Bad Debt Provision

The Bad Debt provision is formally reviewed half yearly at revised estimate time and closedown. In addition, quarterly updates are now provided as part of the Corporate Monitoring process.

The level of the provision has been assessed based on assumed 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's	% Cover Required	Value £000's
Up to 1 Month	430	1%	4
1 Month to 3 Months	446	5%	22
3 Months to 365 Days	385	10%	38
Over 365 Days	741	50%	370
TOTAL	2,002		434

The current balance on the General Fund Bad Debt provision is £425K which is £9K below the requirement indicated, but that is after allowing for this year's contribution of £100K. The position will be reviewed again as part of the forthcoming budget process and any adjustments required will be reported accordingly and built into the revised budget projections. Given that the majority of sundry debts relate to housing benefit overpayments, the planned welfare reforms could well have major bearing in future.

6.3 Other Major Reserves

Invest to Save Reserve

As part of the 2011/12 budget setting process, Members identified four Invest to Save areas to be investigated which were:

- Boiler replacement – Town Halls
- Double Glazing – Town Halls
- Salt Ayre Sports Centre
 - Pipeline from landfill
 - Photovoltaic panels on roof of leisure centre.

In addition, officers have also been asked to:

- Investigate feed-in tariffs on Council buildings (including housing stock) and green deal
- Undertake a "green fleet" review.

Work is on-going in all areas and it is anticipated that a report will be presented to Cabinet in November.

Icelandic Impairment Reserve

Regarding Icelandic impairments, a decision from the Supreme Court is now expected in October.

7 RISK MANAGEMENT

As part of the business planning process, key business risks need to be considered by Service Heads and any significant ongoing or emerging risks should be reported on an exceptions basis through quarterly Performance Review Team reports, together with any actions needed to manage the situation.

The type of risks that should be reported on are major issues that could affect achievement of key objectives, expose the Council to significant financial losses or liabilities, and/or result in serious damage to the Council's reputation.

Various performance related or financial risks are included throughout the various elements of this PRT report. In considering the information, Members are advised to consider:

- whether, from their own perspectives, the key risks are covered; and

- whether the actions put forward are appropriate, and make any further recommendations if required.

The extent of ongoing or potential change within the Council also raises the Council's risk profile more generally. This has been acknowledged and the Council's Internal Audit plans reflect this position, with the aim of providing flexibility to give necessary assurances surrounding change management programmes etc.

Similarly, in strategic terms one of the biggest risks facing the Council has been the extent of funding cuts and the impact these may have on services and the Council's overall direction. Whilst the Government have provided a 2 years settlement there is still uncertainty for 2013/14 and beyond. Various measures to help the position are underway, such as considering further shared service opportunities and completing various service restructures etc. In addition, several options will be taken forward during 2011/12 to provide further savings opportunities in future years. This will include Invest to Save initiatives to be funded from the new reserve established for such schemes.

APPENDIX A

SUMMARY OF GENERAL FUND MAJOR VARIANCES (Qtr 1 2011/12)

(Not included elsewhere in the report - excluding salaries for example)

FACTORS INFLUENCING VARIANCES	Variance to Date £	Current Year Projection £	Future Years Projection £
1. Unforeseeable windfalls or costs	(94,900)	(92,000)	+30,000
2. Demand led variances	+196,500	+147,400	+102,900
3. Efficiency savings	+0	(5,000)	(5,000)
4. Other service driven variances (incl delays)	+48,000	+110,000	+110,000
5. Budget setting issues/errors	+25,600	(44,500)	(23,000)
6. Other variances	+20,400	(52,500)	(78,000)
TOTAL VARIANCES	+195,600	+63,400	+136,900

Service	Variance Type	Service Area	Variance to Date	Current Year Projection	Future Years Projection	Reason for Variance & Action being taken
			£	£	£	
+ = Adverse () = Favourable						
VARIANCES REPORTED THROUGH PRT PROCESS (SERVICE HEAD COMMENTS)						
Community Engagement	5	Salt Ayre NNDR (Rates)	+17,300	+17,300	+20,000	Uncontrollable increase due to revaluation last year. Transitional relief applied of which 2011/12 is the last year.
	2	Salt Ayre Studio	+4,500	+20,000	+20,000	Unachievable income target in relation to fitness activity classes in a highly competitive market. Note - Reflexions (Gym) income is on target at this stage. Adjustments to be dealt with at revised budget process.
	5	Salt Ayre - VAT	+0	+12,000	+12,000	Error in way VAT was charged on debtors accounts in previous years. Issue now resolved but will lead to an estimated £12000 loss in income across the Centre this year. Issue will be monitored and reviewed as the year progresses.
	6	Williamson Park - Water Services (Surface Water Drainage)	+0	+15,600	+16,000	Uncontrollable overspend due to change in way United Utilities invoices for surface water/drainage at the park. This is a revised figure based on a successful appeal.
	6	Lancaster VIC	+500	+10,500	+11,000	Rent and service charges (SC) from SCIC to increase following recent recalculation . Breakdown of SC requested from SCIC
Environmental Services	6	Public Conveniences - Demolition	+12,500	+0	+0	Carry forward request submitted in respect of £8k of works; any further overspend will be met from savings to existing budgets.
	2	Waste Collection - Contracted Services	(6,800)	(10,000)	(10,000)	Low absence levels have resulted in reduced need for agency staff to provide short term cover.
	2	Waste Collection - Plastic Refuse Sacks	(5,600)	(10,000)	(10,000)	Increased controls over issue have been introduced resulting in decreased demand
	2	Waste Collection - Replacement Bins & Boxes	+15,000	+0	+60,000	It is estimated that this budget will be overspent by £60k should the carry forward request not be approved. By not introducing a charging mechanism a system to ration demand is difficult.
	2	Trade Refuse	+13,000	+51,000	+51,000	Trade Refuse Charges were increased by an average of 7.3% but year on year the 1st qtr income is down £26k. This position reflects the decline identified in PRT 3 & 4 of 2010-11 and added to by the decline in the income from the University contract which is down 30% in the 1st 2 months of 2011-12.
	4	Highways	+48,000	+110,000	+110,000	The highways contract with County has now ended and ongoing discussions are taking place as to the future delivery of service. Since 1st April, the nature of the work has changed and it is now almost entirely urgent work resulting from Capita inspections. This work is paid on a similar basis to "cost-plus" and it does not generate the financial returns that we were reporting with schedule of rates work. The budget includes a surplus of £200k from highways work and latest projections indicate this isn't likely to be achieved but it should be noted that the service is still expected to contribute significantly to the General Fund.
Financial Services	3	Banking / bill payment Charges	+0	(5,000)	(5,000)	Achieving PCIDSS compliance will enable reductions in charges to be achieved.
	6	Investment Interest - Recovery of Icelandic Investments	(19,000)	(105,000)	(105,000)	The current estimate assumed that a settlement would be reached by the end of June 2011, however it is now likely to be that the court decision on creditor status will be later. The savings assume that priority status will be retained.
	1	Recovery of legal costs (from issuing summonses for non-payment of council tax or business rates).	+0	+45,000	+45,000	Provisional figure only, following last year's outturn. More analysis will be undertaken over the summer. Recent increases in charges and changes in payment patterns have reduced summonses, but importantly actual collection rates have been maintained or increased slightly.

APPENDIX A

Service	Variance Type	Service Area	Variance to Date	Current Year Projection	Future Years Projection	Reason for Variance & Action being taken
			£	£	£	
			+ = Adverse () = Favourable			
VARIANCES REPORTED THROUGH PRT PROCESS (SERVICE HEAD COMMENTS)						
Governance Services	1	Members Special Responsibility Allowances	(8,400)	(19,000)	(15,000)	Savings on 2 Cabinet places unfilled together with part of opposition leaders' SRA and savings on changeover.
	1	Elections	(50,000)	(50,000)	+0	Estimated savings made due to the sharing of some of the election costs with the Alternative Vote Referendum - the go ahead of which wasn't known at the time of setting the budget.
Health & Housing	2	Cemeteries - General - Income	+17,800	+0	+0	Lower than anticipated sale of grave spaces and Internment fees. However, last years outturn was higher than anticipated.
	5	Strategic Housing Mgt & Admin - Management Fee	+0	(12,200)	+0	Management fee from Home Improvement Agency not included in estimates as confirmation of grant had not been received.
	5	Strategic Housing Mgt & Admin - Administration Charges	(3,900)	(73,800)	(70,000)	Administration charge not included in budget as confirmation of DFG grant had not been received.
Property Services	2	7, Cheapside, Lancaster - Rent & Rates	+35,200	+43,900	+0	Vacant property. In discussions to let property this Financial year. Part year rates will be reimbursed via service charges income.
	2	CityLab - rent and service charge recharges	+17,000	+0	+0	Major tenant has moved out of the building. Reduction in income at the estimated level will result in an outturn deficit of £18.3k rather than the budgeted surplus of £30.6k, but £18.3k will be taken from the separate Reserve at outturn, to offset impact on revenue budget..
	2	Covered Yard - rent	(8,700)	(8,100)	(8,100)	New tenants have rented two units.
	1	Palatine Hall - rates	(5,000)	(5,000)	+0	Refund from 10/11 following county occupation.
	6	Car Parks rates	+26,400	+26,400	?	New RVs and appeals being considered that might lead to refunds if successful.
	2	Car Parks Fees	(18,300)	?	?	April and May income on target but below target in June. Projected variance for full year is extremely difficult to predict at this stage in the year.
	2	Car Parks Permits	+81,800	+67,600	?	Further reduced permit sales - 23% on public permits and 8% on staff and Members. Uptake on Partner Permits well below estimated figure.
	2	Energy Performance Certificates	(6,800)	(7,000)	+0	Reduced cost of and demand for certificates.
	2	St Leonard's House - rent	+0	?	?	A major tenant has unexpectedly left the building which will impact on the rental income for the year and future years.
	5	National non-domestic rates - for all properties other than identified above	+12,200	+12,200	+15,000	Uncontrollable increase due to revaluation in 2010/11. Transitional relief applied of which 2011/12 is the last year.
	1	Property Services mgt & admin - income general	(5,500)	(3,000)	+0	Increased income from land transactions.
	1	Concessionary Travel - Community Transport	(26,000)	(60,000)	+0	Since budgets were set County have made the decision to take over Community Transport from 1st July and introduce a system of fares. Based on 2010/11 monthly charges and taking into account a 2010/11 creditor adjustment the final variance could be approximately £55k-£60k.
	6	Electricity & Gas - all budgets	?	?	?	Reduced cost identified in Q1 but analysis to be undertaken during Q2 reflecting potentially large increase in unit costs due in the autumn to identify whether or not there will be a saving at year end. Some areas over-accrued for final quarter last year which will partially offset any increases.
Regeneration & Policy	2	Planning Application Fee Income	+22,000	+0	+0	Uncontrollable. Anticipated fee income dependant upon receipt of major schemes, one of which was Centros (previously anticipated to be by Spring 11 - not achieved). Full year budget achievable only if anticipated large schemes come forward.
	2	Building Control Application Fee Income	+36,400	+0	+0	Sustained competition from Private Sector Approved Inspectors - improved marketing over remainder of year should assist recovery.
TOTAL VARIANCES			+195,600	+63,400	+136,900	

VARIANCES <u>NOT</u> REPORTED THROUGH PRT PROCESS						
TOTAL VARIANCES			+0	+0	+0	
OVERALL VARIANCES			+195,600	+63,400	+136,900	

PRT Financial Report

QUARTER 1

Health & Housing HRA

VARIANCE TYPE SUMMARY	Variance to Date	Projected Variance for Year
1. Unforeseeable windfalls or costs	0	(6,000)
2. Demand led variances	0	0
3. Efficiency savings	0	(50,000)
4. Other service driven variances (incl delays)	(28,300)	(67,700)
5. Budget setting issues/errors	0	0
6. Other Variances	0	0
TOTAL VARIANCES	(28,300)	(123,700)

Service Area	Variance to Date	Projected Variance for Year	Future Years Projection	Reason for Variance & Action being Taken	Variance Type (see above)	Variance First Reported
	£	£	£			
Housing Options Choice Based Lettings - Salaries	(5,500)	(5,500)	0	Vacant post savings	4	Q1
Repairs & Maintenance - Salaries	(40,900)	(75,200)	0	Vacant Post Savings	4	Q1
Planned Maintenance - Rota Painting	0	(50,000)	(50,000)	Savings are anticipated to be made by splitting the contract in estates and agreeing a contract sum individually.	3	Q1
Planned Maintenance - R & M Paths & Fences	0	(6,000)	(6,000)	Savings on contract due to lower tender figure received	1	Q1
Responsive Maintenance - General Fees & Charges	18,100	13,000	0	Liability for some septic tank charges has been negotiated and agreed with Yealand Parish Council for years 2008/9 and 2009/10. Refunds for the Council's liability charged in error for these years have been issued.	4	Q1
	(28,300)	(123,700)	(56,000)			

ACTION BEING TAKEN BY SERVICES

Service	Total Outstanding Debt (over 90 days old)	Debt to be Written Off	Refer(red) to Moorcroft Rossendales	Refer(red) for Legal recovery	Debt still being pursued	Payment / Instalment Agreed	Other Action / Reasons	TOTAL	Notes on Other Action / Reasons
	£	£	£	£	£	£	£	£	
Community Engagement	160.00				160.00			160.00	
Community Engagement (Salt Ayre)	390.00				390.00			390.00	
Regeneration and Policy	2,145.00			1,950.00		195.00		2,145.00	
Regeneration and Policy (Building Control)	1,050.81				585.00	465.81		1,050.81	
Environmental Services	24,365.64	1,299.61	934.42	100.00	18,672.34	1,918.84	1,440.43	24,365.64	Various actions to be taken, e.g credit note to be processed
Health & Housing	8,224.37				4,189.51	780.73	3,254.13	8,224.37	Land charge registered against the property, payment will be received once the property is sold.
Property Services	162,829.53	2,970.07	10,708.53	64,503.78	29,241.07	55,406.08		162,829.53	
Financial Services	1,687.91		145.58	1,542.33				1,687.91	
Information Services	2,004.16				2,004.16			2,004.16	
Governance	2,516.01							2,516.01	Formerly Legal, Licensing & HR
Housing Benefits	920,465.11	9,014.97	81,735.50			633,962.97	195,751.67	920,465.11	* Various actions see below
Total Outstanding	1,125,638.54	13,284.65	93,524.03	68,096.11	57,758.09	692,729.43	200,446.23	1,125,638.54	

* Actions relating to Housing Benefit Debt

Appeals - where an appeal has been made against the creation of an overpayment & recovery has been suspended pending the outcome of the appeal

Bankruptcy - where a debtor has been made bankrupt & recovery of the debt is suspended until the bankruptcy has been discharged

Claim Pending - where a claim for Housing Benefit (HB) has not yet been determined & there is prospect of recovery from ongoing HB

First Reminder - where no agreement has been made to repay the debt & reminder invoice is issued

Second Reminder - where no agreement has been made to repay the debt & a reminder letter is issued

Instalment Warning - where an instalment as per an agreement has not been made & a reminder letter is issued

Instalment Termination - where instalments as per an agreement have not been made & the agreement has been terminated & a termination letter issued



2011/12 Treasury Management Progress Report to 30 June 2011

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 as part of the Council's performance management framework.

Council approved the Treasury Strategy including the Investment Strategy for 2011/12 at its meeting on 02 March 2011. This report outlines activities undertaken in pursuance of those strategies during the financial year up to the end of Quarter 1.

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

2. Summary

- There is no further news in relation to Icelandic banks, it is hoped that a decision will be made in the Icelandic courts around the end of Quarter 2.
- There is a £19K favourable variance against the budget to date. This relates to Icelandic investments, but it will need to be reviewed once it is clearer when and how much the Council will be getting back from Landsbanki and Glitnir.
- On other treasury matters there have been no changes to the debt portfolio. No temporary borrowing was required during the quarter, no new long term debt has been taken on and there has been no opportunity for repayment of existing loans.
- There have been no material breaches of any prudential indicators or counterparty limits in the quarter and no other major risks have been identified (a full list of the approved PIs is attached for information at **Annex B**).

3. Economic Review (as provided by Sector)

The economic recovery has been struggling to regain momentum after underlying activity more or less stagnated between October and March. The number of job vacancies continued to fall throughout the quarter and the claimant count measure of unemployment also continued to rise over the last three months although this partly reflected a rise in the number

of lone parents claiming Jobseeker's Allowance due to recent benefit changes. The housing market has continued to tread water with the number of mortgage approvals for new house purchases broadly unchanged at a very low level, in the region of 46,000. House prices have also remained broadly flat.

The additional bank holiday for the Royal Wedding pulled down both industrial and services output in April. The pick-up in the consumer sector seen during the spring appears to have been only temporary, reflecting the good weather and extra bank holiday as retail sales volumes fell in May, more than reversing April's increase.

Consumers appear to be reacting to the squeeze on their real incomes. Household real disposable incomes fell by 0.8% in Q4 of 2010/11 as inflation outpaces average earnings by about 2.5%. The near-term outlook for inflation has deteriorated further; although CPI inflation held steady at 4.5% in May, it now looks likely to rise to 5.5% or even higher within the next few months. Food price inflation is likely to rise further and Scottish Power announced in June a 19% rise in gas prices and 10% rise in electricity prices to take effect in August. Other utility suppliers are likely to follow suit. This is in contrast to the median pay settlement which was unchanged at 2.5% in May.

Most Monetary Policy Committee members still think that the rise in inflation will be only temporary and that inflation will fall back sharply next year. So despite the worsening of the near-term inflation outlook, the weakness of the activity data has pushed most members further away from an interest rate rise.

Overall, the economy remains in a delicate state with decreased chance of imminent interest rate rises compared to the prior quarter. This is bad in terms of investment returns but may be beneficial if additional debt is required to finance the HRA subsidy buy out discussed in sections 5 and 6 below.

4. Icelandic Investments Update

There has been no news on the Icelandic investments since the end of 2010/11. The Council is still awaiting a decision from the Icelandic courts on the creditor status of UK local authorities but it is hoped that this will be reached sometime in October 2011. Once this issue is resolved it will be much clearer as to the level of recovery on Glitnir and Landsbanki.

During the quarter, KSF made a further 5% repayment, bringing the total to 58% of the claim value (£1,160K of the £2M principal).

5. Capital Budgets and the Debt Portfolio

There has been no change to the long term debt portfolio since January 2009 and there is no immediate need to take out new long term loans. The capital expenditure from 2010/11 has not generated any further actual need to borrow and the budget for 2011/12 is for capital funding to greatly exceed the capital expenditure with the excess being used to write down the Capital Financing Requirement. This is however contingent on the completion of the sale of land at South Lancaster.

In addition, should the favourable verdict on Icelandic bank creditor status be upheld at appeal, the £2.1M capitalised expenditure added to the Council's underlying borrowing need (under directive in 2009/10) would be reversed in full. Further, the current expectation is that there should be no further significant payments in relation to Luneside East land acquisitions, although that too is awaiting conclusion at the Lands Tribunal.

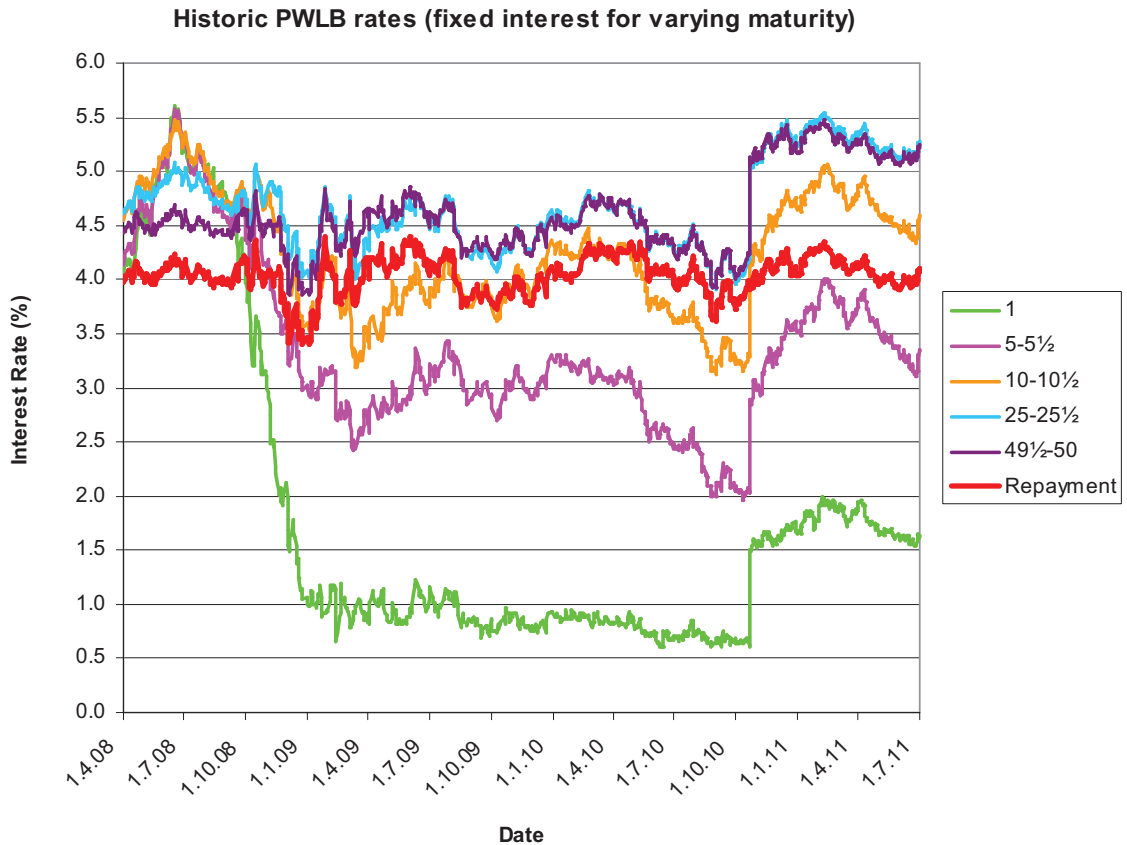
Overall then, the three big issues (Iceland, Luneside and Land at South Lancaster) for the capital programme are nearing conclusion with reason for optimism on all fronts. The next major issue will be Council Housing self financing. Officers will need to develop a strategy for financing the likely settlement (currently estimated in the region of £30M of additional debt to buy out of the subsidy system), taking into account the anticipated levels of borrowing and

cash balances available to fund the buy-out. This may be an opportunity to net down the borrowing/investment balances, as has been discussed in previous quarterly updates.

6. Current Borrowing Rates

The graph below shows that the pattern seen since January 2009 has persisted, with a marked spread between short term and long term borrowing. The main feature is the jump in rates across the board on 20 October 2010 when central government added 1% to the cost of borrowing through the PWLB. Over the quarter there has been a reduction in rates across the board, which reflects UK gilts faring relatively well in the face of sovereign debt difficulties in the Eurozone.

In relation to existing debt, the Council's cheapest major loan is at 4.6%. Only when the repayment rate rises to 4.6% could this be repaid early without penalty and as can be seen from the graph, the early repayment rate is still well below this, fluctuating around the 4% level. However, as noted in 5 above, the proposed HRA subsidy buy-out will be an opportunity to review the investment and debt portfolio and it may be that some internal cash can be used to part finance any buy out, if this is better value than taking on full additional borrowing.

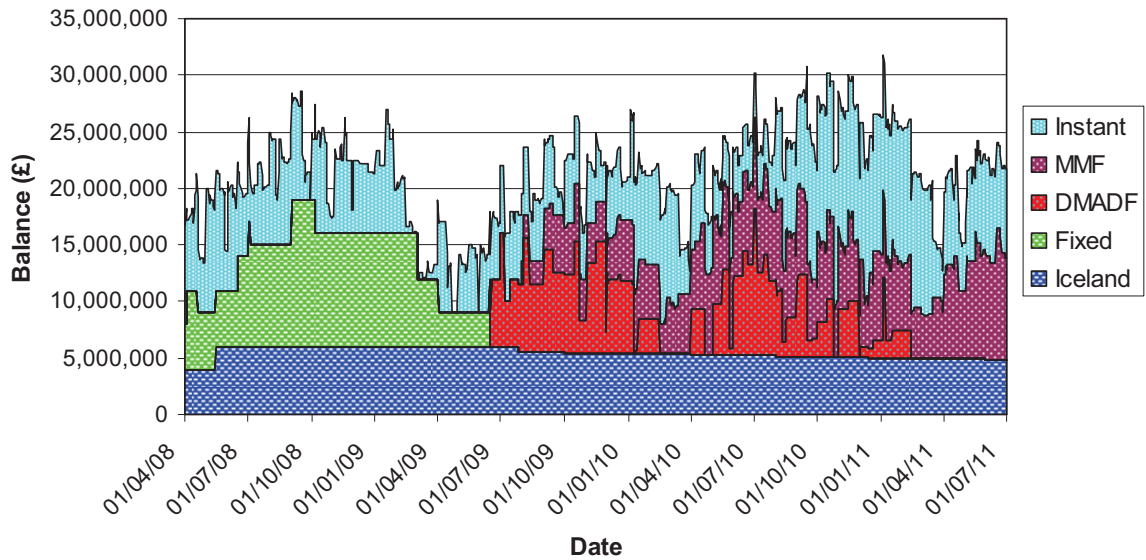


7. Investing Activities

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

All investment activity has been in line with the approved Treasury Strategy for 2011/12. No fixed term investments have been placed; surplus cash has been managed on a day to day basis using the call accounts and Money Market Funds (MMF). A full list of the investments at the end of Quarter 1 is enclosed at **Annex B**. The strategy approved for 2011/12 did not reduce credit criteria for counterparties but it did increase the investment limits for the small pool of counterparties that the Council places deposits with. This has meant that the DMADF account has not been needed in the quarter. Instead, deposits have been held in instant access accounts that are higher yielding.

Investment values over the prior 2 years



8. Summary of Budget Position and Performance

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	0.82%
Lancaster CC investments	0.65%

The return is just above base but well below 3 month LIBID. The Council has focused on secure and highly liquid deposits that have mainly been on instant access, hence the relatively poor rate of return.

The approved Investment Strategy also allows for fixed term deposits up to 1 year with other local authorities. Further consideration will therefore be given to any such options in future, e.g. with the County Council.

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

Annual budget	£205K
Actual to date	£26K (see details in Annex C)
“Icelandic” to date	£44K (see details in Annex C)
Total	£70K
Variance	£19K favourable

There is a £19K favourable variance which is due to the impact of Icelandic investments. At the time the budget was set, the best estimate was that there was a 50/50 chance of full repayment in June 2011. The Icelandic element of the budget will need to be reviewed once the appeal case has concluded and the actual repayment amounts and dates are better known.

9. Risk management

There has been no material change in the policy or operation of the treasury function over the quarter, in recognition of the considerable uncertainty that exists within the economy and financial sector. The view is, therefore, that residual risk exposure for investment remains comparatively low.

There is financial risk attached to the longer term debt portfolio, associated with interest rate exposure; there has been no change to this over the quarter. Although PWLB have increased their rates for new loans, this is not judged to impact on the risks linked to the current portfolio. To mitigate the risk attached to any new borrowing, market data will be used to ensure value for money is assured on any new debt. This is particularly relevant given the proposed buy-out of the HRA subsidy system referred to in sections 5 and 6.

As noted in section 5 above, although there is reason for optimism, there is still uncertainty over some material elements of the capital programme. The financial risk that this creates is managed through regular reviews of expenditure to date as well as integration between capital budgeting and the treasury strategy; these risks are also managed through the Prudential Indicators, a full list of which is attached for information at **Annex B**.

Finally, as per the previous year's quarterly updates, recovery of Icelandic investments is still being managed with legal support organised through the Local Government Association. This should reach a conclusion around the end of Quarter 2.

10. Conclusion

The Council's treasury function has been on a low risk plateau since the Icelandic banking crisis; given the delicate state of the economy there is no strong argument for moving away from this position.

The appetite for risk has remained very low with the use of either AAA rated MMFs, and instant access call accounts. The strategy for 2011/12 was approved at budget Council on 02 March 2011 and this has continued in the same vein as prior years, being very cautious although with the limits on some counterparties increased. This is allowing more investments to be placed outside of the DMDAF account whilst maintaining high credit quality.

Some significant progress has been made in the recovery of Icelandic investments with the Icelandic District Court ruling in councils' favour, however, a final judgement is still awaited by the Supreme Court. The main upcoming issue that will need addressing through 2011/12 is the HRA subsidy buy out. A detailed treasury strategy to finance the potential buy out will be developed in parallel with the Council Housing 30-year business plan and in consultation with Sector, the Council's Treasury advisors.

Treasury Management Glossary of Terms

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

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

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

See also PWLB.

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

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

PRUDENTIAL INDICATORS - LANCASTER CITY COUNCIL

As Approved and Updated by Council 02 March 2011

		2011/12 £'000	2012/13 £'000	2013/14 £'000
AFFORDABILITY				
PI 1:	Estimates of ratio of financing costs to net revenue stream	13.7%	11.7%	11.3%
	Non - HRA	7.2%	7.2%	7.1%
	HRA*	11.3%	10.0%	9.7%
	Overall			
PI 2:	Actual ratio of financing cost to net revenue stream	Reported after each financial year end		
PI 3:	Estimates of the incremental impact of new Capital Investment decisions on the Council Tax	2.29%	1.12%	1.17%
	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	£4.41	£2.19	£2.35
PI 3A:	Illustrative Impact of Additional Borrowing £1 million	Repayment Period		
		5 Years	10 Years	25 Years
	Increase in Council Tax (£)	£4.99	£2.80	£1.65
	Increase in Council Tax (%)	2.59%	1.46%	0.86%
PI 4:	Estimates of the incremental impact of Capital Investment on Housing Rents	Nil	Nil	Nil
CAPITAL EXPENDITURE				
PI 5:	Estimates of capital expenditure	5,765	3,822	1,196
	Non - HRA	3,658	3,616	3,616
	HRA	9,423	7,438	4,812
	Total			
PI 6:	Actual capital expenditure	Reported after each financial year end		
PI 7:	Estimates of Capital Financing Requirement	28,655	30,133	29,336
	Non - HRA**	15,303	15,303	15,303
	HRA*	43,958	45,436	44,639
	Total			
PI 8:	Actual Capital Financing Requirement	Reported after each financial year end		
EXTERNAL DEBT				
PI 9:	Authorised Limit			
	Authorised Limit for Borrowing* **	51,740	51,640	51,650
	Authorised Limit for Other Long Term Liabilities	260	260	250
	Authorised Limit for External Debt	52,000	51,900	51,900
PI 10:	External Debt: Operational Boundary* **	47,000	46,900	46,900
PI 11:	Actual external debt	Reported after each financial year end		
PRUDENCE				
PI 12:	Treasury Management: adoption of CIPFA code of Practice	The Council has adopted the updated Treasury Management code of practice (November 2009).		
PI 13:	Net borrowing and the capital financing requirement			
	Anticipated indebtedness (Authorised limit)	47,000	46,900	46,900
	Anticipated average investment	15,960	15,750	14,590
	CFR	47,153	44,697	45,037
	(Under)/over borrowed	-16,113	-13,547	-12,727
*This does not take into account potential reforms to the Housing Revenue Account Subsidy system **This is on an IFRS basis including proposed adjustments to the balance sheet for reclassification of leases.				
TREASURY MANAGEMENT				
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.	100%	100%	100%
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.	30%	30%	30%
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 within 15 years	0% to 100%	0% to 100%	0% to 100%
	15 years and within 25 years	0% to 100%	0% to 100%	0% to 100%
	25 years and within 50 years	50% to 100%	50% to 100%	50% to 100%
	Maturity Profile of Current Outstanding Debt			
	Under 12 months	0%	0%	0%
	12 months and within 24 months	0%	0%	0%
	24 months and within 5 years	0%	0%	0%
	5 years and within 10 years	0%	0%	0%
	10 years and within 15 years	0%	0%	0%
	15 years and within 25 years	0%	0%	0%
	25 years and within 50 years	100%	100%	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 30 June 2011

Icelandic investments	No	Start	End	Rate %	Principal £	Carrying value	Cumulative Interest** £
Deposited 2007/08							
Landsbanki Islands	004	31-Mar-08	22-Apr-09	6.25	1,000,000	588,718	9,174
Glitnir	F102/023	31-Mar-08	22-Apr-09	5.76	3,000,000	1,976,474	28,359
Deposited 2008/09							
Kaupthing, Singer & Friedlander	06/07-129	16-May-08	07-Oct-08	6.00	840,000	452,867	6,774
Sub total					<u>4,840,000.00</u>		<u>44,307</u>
Budgeted income (£100K pro rated)							<u>24,932</u>

Other Investments	opening	Min	Max	closing	Indicative rate	Cumulative Interest £
Call: Abbey National	6,000,000	3,900,000	6,000,000	4,850,000	0.75%	10,270
Call: Yorkshire bank	0	0	0	0	0.50%	134
Call: RBS	1,300,000	0	3,000,000	3,000,000	0.70%	3,699
Call: Lancashire County Council	0	0	0	0	0.70%	0
DMADF	0	0	0	0	0.25%	0
Government Liquidity MMF	100,000	0	5,600,000	3,000,000	0.39%	2,605
Liquidity First MMF.	6,000,000	6,000,000	6,000,000	6,000,000	0.65%	9,390
Sub-total	<u>13,400,000</u>			<u>16,850,000</u>		<u>26,098</u>
Budgeted income (£105K pro rated)						<u>26,278</u>

TOTAL Interest	70,405
Variance (+ive = favourable)	19,196

* Under 2009 accounting guidance, which is quite complex, interest continues to be accrued whilst Icelandic investments are on the Council's balance sheet. To counter this, however, the provisions made to cover any losses take account of such accrued interest, as well as the principal sums (i.e. the £6M) invested.

As at the end of Qtr 1 2011/12 £1,160K of principal had been repaid by KSF, representing 58% of the original deposit.

Budget and Performance Panel

Provisional Revenue and Capital Outturn 2010/11

30 August 2011

Report of Accountancy Services Manager

PURPOSE OF REPORT

To provide Members of the Panel with the Provisional Revenue and Capital Outturn for 2010/11.

This report is public

RECOMMENDATIONS

(1) That the report be noted.

1.0 Introduction

1.1 A copy of the report considered by Cabinet at its meeting on 26 July 2011 is appended for consideration by the Budget and Performance Panel, together with the relevant resolutions from the Cabinet meeting.

CONCLUSION OF IMPACT ASSESSMENT
--

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

None arising from this report.

FINANCIAL IMPLICATIONS

See attached report – no other implications arising directly.

SECTION 151 OFFICER'S COMMENTS

The s151 Officer has been consulted and has no further comments.
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LEGAL IMPLICATIONS

There are no legal implications directly arising.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no comments to add.

BACKGROUND PAPERS	Contact Officer: Andrew Clarke
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None.	Telephone: 01524 582138
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E-mail: aclarke@lancaster.gov.uk
Ref:

CABINET

**Provisional Revenue, Capital and Treasury Management
Outturn 2010/11
26 July 2011
Report of Head of Financial Services**

PURPOSE OF REPORT			
This report provides summary information regarding the provisional outturn for 2010/11 and the timetable for completion of the closure of accounts process. It also sets out information regarding the carry forward of underspent/overspent revenue budgets and capital slippage for Members' consideration, and seeks approval of various Prudential Indicators for last year for referral on to Council. It also incorporates the Treasury Management Outturn report (previously this has been reported separately).			
Key Decision	X	Non-Key Decision	Referral from Cabinet Member
Date Included in Forward Plan	July 2011		
This report is public.			

RECOMMENDATIONS OF COUNCILLOR BRYNING

1. That the provisional outturn for 2010/11 be noted.
2. That Cabinet notes the transfers to provisions and reserves actioned by the Head of Financial Services as set out in section 4.2 of the report.
3. That Cabinet approves the recommendations regarding carry forward of overspendings as set out at Appendix F.
4. That Cabinet approves the requests to carry forward underspent General Fund revenue budgets numbered 1 to 14 and the Housing Revenue Account request numbered 19 all as set out at Appendix G, with referral on to Council where appropriate.
5. That Cabinet considers the remaining General Fund carry forward requests numbered 15 to 18, which involve some change of use from the original budget purpose, and makes recommendations as appropriate.
6. That Cabinet approves the requests for capital slippage as set out at Appendix J.
7. That the timetable for completion and reporting of the closure of accounts be noted, as set out in section 8 of the report.

8. That the Annual Treasury Management report as set out at Appendix K be noted and referred on to Council.
9. That the Prudential Indicators as at 31 March 2011 as set out at Appendix L be approved for referral on to Council.

1 BACKGROUND

All local authorities have a legal duty to produce annual accounts in accordance with various regulations and professional practice. The work required to close the 2010/11 accounts has now been completed and the draft Statement of Accounts was signed off on 30 June 2011, in line with the statutory deadline. The full Statement is freely available on the Council's website.

For 2010/11, councils were required to adopt International Financial Reporting Standards (IFRS) and whilst this introduces greater comparability with private sector reporting, it does mean that the accounts are now more complex. To help with interpretation the 'foreword' section of the Accounts is presented in a less prescribed, simpler manner than the full Statement.

This report draws on information outlined in the foreword to provide Cabinet with an update on issues arising from the outturn, including treasury management, and seeks Cabinet approval for various matters. Councils' financial performance is integral to its service performance overall and Members are advised to consider this report in that context.

Please note that larger copies of the appendices are available on request.

2 PROVISIONAL REVENUE OUTTURN

- 2.1 A summary of the revenue outturn position for the main accounts of the Authority is set out below.

	Revised Budget	Provisional Outturn	Variance (Favourable) / Adverse
	£000	£000	£000
Housing Revenue Account (HRA) Deficit – relates to Council Housing services	173	71	(102)
General Fund Net Budget – covers all other Council services (but excludes parish precepts)	24,740	23,653	(1,087)

3 HOUSING REVENUE ACCOUNT (HRA)

- 3.1.1 The Housing Revenue Account was underspent in last year by approximately £102K (2009/10 comparative: £173K underspend). A summary of the HRA provisional

outturn is included at **Appendix A** and outline variance analysis is attached at **Appendix B**. Points to note include the following:

- The bulk of significant operational variances were picked up through quarterly monitoring.
- Significant efficiency and other savings were achieved but these were offset in part by the need to increase provisions to cover potential bad debts on rechargeable repairs and former tenant arrears. Improvements to the recovery arrangements are currently being implemented.
- Some minor slippage was experienced in planned maintenance and also slippage on the capital programme resulted in a lower revenue financing contribution, although these will require financing in the current year.

3.1.2 Overall therefore, the outturn position for the HRA is favourable, albeit that this has been influenced by some comparatively minor spending delays. Linked to this, the sections later in this report on carry forward requests and capital slippage include items relating to council housing.

4 GENERAL FUND

4.1 Revenue Outturn

4.1.1 After allowing for various year end adjustments, there has been a net underspending of £1.087M during 2010/11 and a summary statement is included at **Appendix C**; the underspending represents 4.4% of the Council's net budget requirement (*2009/10 comparative: £245K underspend, 1% of budget*).

4.1.2 This position is after providing a little over £500K of additional contributions to provisions and reserves, more details of which are included in section 4.2 below. Before these contributions, the underspending was around £1.6M or 6% of the budget (*2009/10 comparative: £1.5M underspend, 6% of budget; in last year extra contributions of around £1.3M were transferred into earmarked reserves*).

4.1.3 A summary of the variances analysed primarily by service is included at **Appendix D**. The appendix also highlights the variances that were reported in Performance Review Team (PRT) meetings, and provides the following summary of the main factors behind the outturn position:

Factors influencing Outturn	Value £'000
One-off windfalls and unforeseeable savings	(328)
Demand led variances	(138)
Efficiency savings	(369)
Service changes and reductions (including delays)	(659)
Budget setting issues / errors	(63)
Year end adjustments	524
Other variances (including where reasons are being clarified)	(54)
Net Total	(1,087)

- 4.1.4 It should be appreciated that the above analysis is not perfect; there are many budget variances that are influenced by a variety of factors and where this is so, a view has been taken on what is most relevant. Nonetheless, the above gives a useful picture on which to focus further work. This is with the aim of strengthening budgeting and forecasting, as well as identifying ongoing savings or actions to avoid future overspending.
- 4.1.5 In addition to there being a comparatively high value of unforeseen variances that would not reasonably have been budgeted for, there are also some fairly major spending delays, which link to the carry forward requests set out in section 5, and also some fairly high efficiency savings achieved. The variances are too wide ranging to comment further but even allowing for all carry forward requests, a major net underspending still results.
- 4.1.6 Appendix D also gives preliminary indications from services on which variances may reasonably be expected to continue into current and future years. At present this has focused mainly on adverse areas where income levels are expected to fall, but given the scale and nature of the overall underspending, it is fully expected that overall, ongoing net savings should be identifiable from the outturn.
- 4.1.7 All Service Heads have therefore committed to undertaking a full review of their underspendings over the summer, primarily as part of the current year's Quarter 1 reporting. The aim is to draw out any savings and service performance or financial improvements needed. Any budgetary matters arising will be reported through corporate monitoring and incorporated into the half-yearly Medium Term Financial Strategy (MTFS) review. This should improve financial and service planning for the future – and assist in balancing the budget.

4.2 Provisions and Reserves

- 4.3 In closing the accounts for last year the Council's reserves and provision balances have been reviewed; this is in accordance with the policy and schedule approved by Council back in March. A full statement for General Fund is attached at **Appendix E** and the main issues and transfers are highlighted specifically below:
- For insurance, an additional contribution of £153K has been made, to ensure that the closing balance covers the estimated settlement values for claims outstanding as at 31 March. The expected need to make an extra contribution at year end was reported in the last financial monitoring report.
 - An additional £350K has been added to the Capital Support Reserve, to cover contractual liabilities existing at 31 March attached to West End properties and also additional legal costs associated with the ongoing tribunal for Luneside East compensation claims.
 - Some minor reserves have not yet been closed as there is still spending to be financed from them.
- 4.4 All the additional contributions outlined above relate to financial obligations that existed at 31 March rather than them supporting future policies or new spending commitments. This is in line with the current provisions and reserves policy.

- 4.5 In total the additional transfers amount to £503K and they have already been reflected in the General Fund summary position outlined earlier, hence at this stage Cabinet is asked only to note them.

5 CARRY FORWARD OF UNDERSPENDS AND OVERSPENDS

- 5.1 As set out in the Financial Regulations the aims of the Carry Forward Scheme are to:
- provide some flexibility in delivering the Council’s stated objectives
 - remove the incentive to spend up budgets unnecessarily by year end, and
 - promote good financial management.
- 5.2 Under the Scheme, the carry forward of overspends on controllable budgets is generally automatic. Requests for the carry forward of underspends is subject to Member approval, however. Whilst there is a need to protect the overall financial position of the Council, it is recognised that there is also the need to be fair to services in dealing with carry forwards and to ensure that the process does not act as a disincentive to sound financial management (i.e. does not encourage managers simply to spend up, to avoid ‘losing’ budgets). That said, budgets exist for specific plans and purposes and the carry forward scheme is also designed to support this.
- 5.3 In view of the above, in previous years Cabinet has adopted the following approach to achieve a reasonable balance:
- Carry forwards of overspends were considered in view of the circumstance and level, but Cabinet exercised its discretion in waiving the carry forward requirement where the aggregate overspending of any service was less than £5,000.
 - Cabinet considered certain requests for carrying forward underspendings but sought to approve only those where there were clear existing commitments against the appropriate budget and it was demonstrated that there was no scope for meeting such commitments from current year’s allocations.
- 5.4 On the basis that Cabinet chooses to follow a similar approach for this year, details of overspends on controllable budgets (or net overspends, where applicable) are set out at **Appendix F**. This also incorporates the comments received from Service Managers. A number of the larger overspends relate to shortfall in income which have resulted from a reduction in demand for chargeable services and as such no further action is recommended. As background, the determination of whether a budget is ‘controllable’ is not wholly objective, e.g. with income budgets, whilst the setting of fees and charges are controlled by the council the demand for those services is not controllable. That is why there is a need to consider each case on its merits.
- 5.5 With regard to the carry forward of underspends, Service Heads have submitted various proposals and these are attached at **Appendix G**. In total, they amount to £429K for General Fund and £30K for the Housing Revenue Account. If all requests were approved, it would have the following effect on revenue balances at the end of the current year. This makes no allowance for the impact of any decisions regarding overspends, however:

Fund	Estimated Balances as at 31 March 2012:			Basic Minimum Balances Level £'000
	Per Approved Budget £'000	Assuming all requests approved £'000	Variance (Surplus) £'000	
Housing Revenue Account	350	407	(57)	350
General Fund	1,326	1,984	(658)	1,000

- 5.6 With regard to the HRA, there is also the need to provide some revenue financing for capital slippage (£67K) and capital retentions (£15K), as covered in section 6 below. The capital slippage will be met from an earmarked reserve whilst the HRA balance shown above has been adjusted for the financing of capital retentions.
- 5.7 Cabinet could support all carry forward requests as set out in the Appendix and still stay within the approved budget framework. In considering each bid, however, Cabinet should be mindful of the overall financial position and the MTFS, as well as the impact on service delivery and what the request would achieve. Some items are clearly tied in with existing contractual or statutory commitments, and some are requesting either a change in use of the budget underspend or for it to be applied to new schemes or anticipated commitments. It is also highlighted that because of their high value, some bids would still need to be referred on to Council for final approval.

6 CAPITAL OUTTURN

- 6.1 In last year as in previous years, there is a sizeable net underspending on the Capital Programme before the effects of slippage are taken into account. **Appendix H** includes a provisional capital expenditure and financing statement for the year, which is summarised in the table below. Members should note that the revised budget has been updated to reflect the decision to acquire vehicles and waste receptacles and fund them through unsupported borrowing rather than through sale and lease back arrangements, on value for money grounds. The update is in accordance with the delegated authority given to the Section 151 Officer as set out in the MTFS.
- 6.2 In considering the position Members should bear in mind the processes in place to ensure that schemes progress only when funding is available.

Capital Programme	Revised Budget	Expenditure (before slippage)	Overspend or (Underspend)	
	£'000	£'000	£'000	%
Council Housing	4,274	4,185	(89)	2
General Fund	7,224	6,733	(491)	7
Total Programme	11,498	10,918	(580)	5

- 6.3 Details of individual slippage requests from services have been received, a schedule of which is attached at **Appendix J**. In considering these, Cabinet is asked to note that many of the associated capital schemes are already underway and expenditure may already have been incurred in this year – the actual approval of slippage can be a formality. If Members have any questions on particular requests and/or are minded to refuse any, it would be useful to know prior to the meeting, to ensure that sufficient detailed information is available.
- 6.4 Information on recent years' slippage is also included below for comparison. This shows that it has reduced significantly in previous years – though clearly total levels of capital investment have reduced also.

	2010/11	2009/10	2008/09	2007/08	2006/07
	£'000	£'000	£'000	£'000	£'000
Council Housing	82	384	478	480	157
General Fund	<u>899</u>	<u>2,303</u>	<u>1,952</u>	<u>4,235</u>	<u>2,554</u>
Total Slippage Requested	<u>981</u>	<u>2,687</u>	<u>2,430</u>	<u>4,715</u>	<u>2,711</u>

- 6.5 The table below pulls together the position after allowing for slippage. The impact on resources for both the HRA and General Fund is still favourable. Again, any implications for current or future years will be picked up as part of the mid-year review for the Medium Term Financial Strategy.

Capital Programme	Revised Estimate	Forecast Expenditure (including slippage)	Overspend Or (Underspend) - Rounded	Impact on Council Resources (Fav) / Adv
	£'000	£'000	£'000	£'000
Council Housing	4,274	4,267	(7)	(7)
General Fund	7,224	7,632	408	(35)

7 TREASURY MANAGEMENT

7.1 Annual Report

- 7.1.1 The annual treasury management report is attached at **Appendix K** and sets out the performance of treasury operations for 2010/11 in terms of long and short term borrowing, investment activities and relevant borrowing limits and prudential indicators. This must be referred on to Council.

7.2 Outturn Position Regarding Icelandic Investments

- 7.2.1 At the end of 2010/11, after taking account of principal repayments the Council still had £4.94M of investments outstanding with the three Icelandic banks that are in administration, excluding any interest (the original total value was £6M).
- 7.2.2 A decision by the Icelandic District Court effectively gives the Council preferred creditor status for £4M of the outstanding deposits (in Glitnir and Landsbanki) and if upheld, this status should improve recovery prospects significantly. The final

outcome is currently subject to appeal through the Icelandic Supreme Court, however, and therefore the provisions to cover estimated losses on the £4M have not been reduced; they still allow for a worse case scenario.

- 7.2.3 Unless circumstances warrant it, the provisions will only be reassessed when a final ruling has been received. This is not expected before September.
- 7.2.4 With regard to the other investment in Kaupthing, Singer and Friedlander (KSF), to 31 March 2011 the Council had received 53% of the original £2M outstanding. A further 5% repayment has been received so far this financial year. Overall, recovery prospects have improved by 11% on average from those a year ago. The Council now estimates it should recover 82% of the original investment (and relevant interest) and this has been reflected in last year's Accounts.
- 7.2.5 In line with the above, total impairment provisions of approximately £3.3M were in place as at 31 March 2011, of which almost £2M is capitalised (to be funded over future years) and over £1.3M is held as a cash backed Impairment Reserve.
- 7.2.6 If the final outcome of the Icelandic litigation for Glitnir and Landsbanki is favourable, however, then impairment provisions could be reduced by around £3M. This would mean that Council would have around £1M of the Impairment Reserve becoming available for other purposes, as well as avoiding the £105K budgeted annual charge arising from the capitalised amount.

7.3 Prudential Indicators

- 7.4 Following the introduction of the Prudential Code for Capital Finance under the Local Government Act 2003, certain year end indicators must be produced for approval by Council. These are set out in **Appendix L** and their basic definitions are as follows:

Affordability: Actual ratio of financing costs to net revenue stream
This is basically total interest payments during the year, expressed as a percentage of the budget requirement.

Prudence: Actual Capital Expenditure
As set out in previous section – the spend incurred during the year excluding capital creditors brought forward.

Actual Capital Financing Requirement
Essentially this is the cumulative value of assets / capital expenditure that has not already been financed from cash resources such as capital receipts, revenue, etc. or covered by monies put aside for debt repayment.

Actual External Debt
In broad terms this is mainly debt outstanding that has been used to support previous years' capital expenditure but some other fairly minor long term liabilities are included.

- 7.5 The Indicators reflect the basis on which the budget was prepared; the final accounts have also been prepared on the same basis. The Prudential Indicators will also be referred onto Council as part of the wider Treasury Management annual report.

8 TIMETABLE FOR COMPLETION OF ACCOUNTS AND ASSOCIATED MATTERS

8.1 The timetable for completion and consideration of any issues arising as a result of the outturn is as follows, for Cabinet's information:

Monday 18 July	Commencement of audit of Accounts
Friday 27 July	4 week period for public inspection of Accounts ends
Monday 01 August	Public access to Auditor commences
July – August	Quarter 1 Performance Review – to include consideration on services' final outturn and implications for current and future years (in particular, identification of ongoing savings)
Tuesday 30 August	Budget and Performance Panel: Consideration of Quarter 1 report and any detailed outturn consideration as required
Wednesday 14 September	Council: referral of any issues as may be required, including carry forward requests and annual Treasury Management report.
Wednesday 23 September	Audit Committee: consideration of audited accounts
October / November	Cabinet and referral on to Council: Medium Term Financial Strategy update, incorporating impact of outturn and current year's monitoring to date

8.2 It can be seen from the above that various aspects of the outturn will be reported through to Members for their due consideration:

- Cabinet will receive high level information in connection with the impact of the outturn on financial monitoring for this year and on future years' projections within the Financial Strategy. It will also provide a basis for Cabinet Members to consider any related specific performance issues if required, through Quarter 1 monitoring as appropriate.
- Certain matters such as the Treasury Management Annual Report require Council approval.
- Budget and Performance Panel will consider Cabinet reports and recommendations, and may request more detailed information regarding individual service financial performance as appropriate, to hold the Executive (Members and Officers) to account.
- Audit Committee now approve the Accounts only after they have been audited (previously they considered the draft version in June).

9 DETAILS OF CONSULTATION

As reflected in section 8 above, the statutory 4 week public inspection period is currently underway; information on the public's rights have been made available as part of this process.

10 OPTIONS AND OPTIONS ANALYSIS

The City Council has a legal requirement to ensure that its expenditure is fully funded and to produce a Statement of Accounts in accordance with proper accounting practice. In addition, the Prudential Indicators are a statutory requirement linked to the budgetary framework. For these aspects, therefore, there are no alternative options for Cabinet to consider. Members are being asked to endorse certain actions taken by the Head of Financial Services, however. Cabinet should consider whether it has sufficient information to do so or whether it requires any further justification. With regard to reserves contributions, there will be opportunities for these to be amended during the current financial year, as part of the usual arrangements.

The report requests Cabinet to consider a number of revenue budget carry forward matters and capital slippage. The framework for considering these is set out in the report but basically Cabinet may:

- Approve any number of the items / requests, in full or part.
- Refuse any number of the requests and if commitments have already been incurred, require alternative funding options to be identified. Cabinet should note, however, that this may impact on other areas of service delivery.
- Request further information regarding them, if appropriate. Cabinet is asked to bear in mind any work required against the value of the individual bids.

11 OFFICER PREFERRED OPTION AND JUSTIFICATION

Officer recommendations regarding any carry forward of overspendings are set out in Appendix F, as referred to earlier. Where there are alternative options for other aspects of the outturn, in view of the comments made above there are no specific officer preferred options put forward.

12 CONCLUSION

Although 2010/11 has been an uncertain year financially, as at 31 March the Council has improved its financial standing overall by generating net efficiency savings and through other underspendings. Balances are significantly higher than forecast. Whilst there are still uncertainties surrounding the outcome of Icelandic investments, the Council has retained its provisions to cover 'worse case' estimated losses and therefore potentially there is scope for its financial position to improve further, should a positive ruling be forthcoming. Looking forward, the Council has earmarked further reserves to help respond to the ongoing financial challenges expected over the coming years. Given funding prospects the Council must continue to reduce costs wherever possible – substantially more efficiency and other savings initiatives will be needed in future in order to ensure a balanced annual budget and financial stability.

RELATIONSHIP TO POLICY FRAMEWORK The Outturn and Statement of Accounts report on all the financial resources generated and/or used by the Council in providing services or undertaking other activities under the Policy Framework.	
CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability etc) None directly identifiable, due to the high level nature of this report.	
FINANCIAL IMPLICATIONS As set out in the report.	
SECTION 151 OFFICER'S COMMENTS This report forms part of the section 151 officer responsibilities; clearly the outturn is also subject to external audit.	
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 Financial Regulations, MTFs, LGA 2003	Contact Officer: Nadine Muschamp Telephone: 01524 582117 E-mail: nmuschamp@lancaster.gov.uk

APPENDIX A

Housing Revenue Account Outturn - 2010/11

For Consideration by Cabinet 26 July 2011

	2010/11 BUDGET	2010/11 REVISED	2010/11 ACTUAL	VARIANCE ADVERSE / (FAVOURABLE)
	£'000	£'000	£'000	£'000
INCOME				
Rental Income - Council Housing (Gross)	(11,717,900)	(11,720,600)	(11,754,600)	(34,000)
Rental Income - Other (Gross)	(188,600)	(192,700)	(197,800)	(5,100)
Charges for Services & Facilities	(1,841,900)	(1,821,800)	(1,801,300)	20,500
Grant Income	(7,700)	(7,700)	(7,700)	0
Contributions from General Fund	(165,200)	(165,200)	(170,100)	(4,900)
Total Income	(13,921,300)	(13,908,000)	(13,931,500)	(23,500)
EXPENDITURE				
Repairs & Maintenance	4,028,500	3,943,100	3,792,200	(150,900)
Supervision & Management	3,357,300	3,393,600	3,197,900	(195,700)
Rents, Rates, Taxes & Other Charges	99,400	94,000	128,200	34,200
Negative Housing Revenue Account Subsidy Payable	1,574,500	1,748,600	1,748,700	100
Increase in Provision for Bad and Doubtful Debts	155,800	180,000	315,200	135,200
Depreciation & Impairment of Fixed Assets	2,369,000	2,370,300	36,519,400	34,149,100
Debt Management Costs	1,100	1,100	1,100	0
Total Expenditure	11,585,600	11,730,700	45,702,700	33,972,000
NET COST OF HRA SERVICES	(2,335,700)	(2,177,300)	31,771,200	33,948,500
(Gain) or Loss on Sale of HRA Fixed Assets	0	0	(109,300)	(109,300)
Interest Payable & Similar Charges	808,000	717,700	723,800	6,100
Amortisation of Premiums & Discounts	158,500	158,500	0	(158,500)
Interest & Investment Income	(55,000)	(22,900)	(236,000)	(213,100)
Pensions Interest Costs & Expected Return on Pensions Assets	68,000	68,000	(836,200)	(904,200)
(SURPLUS) OR DEFICIT FOR THE YEAR	(1,356,200)	(1,256,000)	31,313,500	32,569,500
Adjustments to reverse out Notional Charges included above	(65,400)	(63,200)	(33,747,300)	(33,684,100)
Net charges made for retirement benefits	(68,000)	(68,000)	945,600	1,013,600
Transfer to/(from) Major Repairs Reserve	0	(411,100)	(286,600)	124,500
Transfer to/(from) Earmarked Reserves	238,400	9,600	22,700	13,100
Capital Expenditure funded by the Housing Revenue Account	1,251,200	1,961,900	1,823,400	(138,500)
TOTAL (SURPLUS) / DEFICIT FOR THE YEAR	0	173,200	71,300	(101,900)
Housing Revenue Account Balance brought forward	(350,000)	(523,200)	(523,172)	28
Housing Revenue Account Balance carried forward	(350,000)	(350,000)	(451,872)	(101,872)

NOTE: the above statement has been updated to reflect changes in accounting practice. This has resulted in several large apparent variances, but these are due to presentation only.

2010/11 HRA Fund Variance Analysis

FACTORS INFLUENCING OUTTURN	VALUE		PRT QTR4 Projection £	C/Fwd Request £	Ongoing? £	
	£	£				
1 Unforeseeable windfalls or costs		3,304				
2 Demand led variances		122,870				
3 Efficiency savings	(166,362)					
4 Other service driven variances (including delays)	(82,347)					
5 Budget setting issues / errors		0				
6 Year end adjustments		21,729				
7 Minor variances	(1,066)	(101,872)				
DETAILED VARIANCE BY SERVICE AREA						
	£	£				
	Adverse or (Favourable)					
HRA - Council Housing						
Dwelling Rents (Gross)						
2 Lower voids at 1.2%, compared to estimate at 1.5%.	(33,963)		(34,000)			
2 Increase in rent income on Commercial Properties	(5,053)					
Charges for Services & Facilities						
1 Lower recovery of Court Cost debts	7,228					
2 Reduced income from heating charges and lower de-minimus receipts	6,510					
Repairs & Maintenance						
3 Caretaker Services : reduced energy costs obtained through purchasing consortium	(5,538)					
3 Responsive Maintenance : Increase in chargeable hours, from improved sickness levels and lower void levels	(62,285)					
Planned Maintenance						
2 Increase in boiler replacements following annual inspections.	14,842					
4 Appletree Close car parking completed ahead of schedule.	15,254		14,000			
3 Savings on contract	(73,457)		(36,800)			
4 Increase in insurance works resulted in delay in concrete repairs	(30,000)		(3,000)	30,000		
Supervision & Management						
Housing Options - Choice Based Lettings						
4 Vacant post savings	(12,908)		(9,800)			
4 Installation of system delayed due to contract issues	(6,484)		(6,600)			
Council Housing Management & Admin						
4 Deferred training courses and purchase of stock	(19,953)		(24,800)			
3 Savings on housing survey contract plus contribution from Environmental Services (Task System)	(12,867)		(15,400)			
1 New starters opting in to the pension scheme	5,193		5,200			
1 Costs incurred meeting statutory responsibility	5,911					
3 Procurement savings for works to the Oracle system	(5,236)					
4 Postage savings	(4,193)					
Repairs and Maintenance Management and Admin						
2 Increase in emergency inspections resulting in increased mileage	5,334					
4 Vacant post savings	(5,262)					
Sheltered Schemes						
4 Melling House/Alder Grove : Vacant post savings	(14,989)		(6,300)			
4 Beck View/Kingsway : Necessary safety works following fire risk assessment.	12,588		0			
1 Glebe Court : Electricity dispute with supplier is now resolved in favour of LCC	(7,028)		(7,600)			
Central Control						
4 System implementation behind target, first year maintenance costs now due in 2011/12	(16,400)		(16,400)			
3 Less equipment required due to equipment being returned and then relet	(6,979)					
Rents, Rates, Taxes & Other Charges						
6 Insurances : Additional contribution due to more claims received	34,228					
Negative Housing Revenue Account Subsidy Payable						
Increase in Provision for Bad and Doubtful Debts						
2 Increased provision to allow for increase in arrears	135,200					
Interest Payable & Similar Charges						
6 Consolidated Rate of Interest higher than estimated	6,140					
Interest & Investment Income						
1 Additional interest income from investments	(8,000)					
7 Minor Variances	(1,066)	(83,233)				
6 Year end adjustments from Environmental Services	(18,639)	(18,639)				
UNDERSPEND ON HRA BEFORE CARRY FORWARD AND SLIPPAGE REQUESTS			(101,872)	(141,500)	30,000	0
Total Provisional Carry Forward Requests				30,000		
Total Revenue Financing required to meet capital retentions				15,500		
TOTAL NET UNDERSPEND ON HRA, ASSUMING ALL CARRY FORWARD AND SLIPPAGE REQUEST APPROVED				(56,372)		

GENERAL FUND REVENUE SUMMARY

For Consideration by Cabinet 26 July 2011

	Original Budget £	Revised Budget £	Actuals £	Variance £	True Variance £
Office of the Chief Executive	0	0	0	0	(4,403)
Community Engagement	5,614,400	5,523,400	5,283,023	(240,377)	(264,721)
Environmental Services	6,697,200	6,339,700	5,853,281	(486,419)	(222,404)
Financial Services	3,855,400	3,924,400	7,601,786	3,677,386	(41,458)
Governances	2,013,300	1,905,900	1,721,641	(184,259)	(127,715)
Health & Housing	2,722,600	2,625,700	2,552,371	(73,329)	45,840
Information Services	174,100	235,100	201,738	(33,362)	(48,344)
Property Services	1,180,600	1,351,600	917,497	(434,103)	(249,728)
Regeneration and Policy	4,489,900	4,169,800	4,300,897	131,097	(370,885)
Corporate Accounts	(2,007,500)	(1,335,600)	(4,779,759)	(3,444,159)	196,293
Total Budget Requirement	24,740,000	24,740,000	23,652,475	(1,087,525)	(1,087,525)
Parish Precepts	528,100	528,100	528,100	0	
Total Net Expenditure	25,268,100	25,268,100	24,180,575	(1,087,525)	

Note the underspend of approx £1.087M will be transferred to Unallocated balances to balance off the Fund accounts.

The first variance column includes notional variances relating to numerous capital and pensions charges that have to be included within the relevant service areas, but they are then reversed out (within the Corporate Accounts section) and so do not impact on the 'bottom-line' outturn position. The true variance column excludes these items and therefore shows the real outturn position - the full analysis of this is shown at Appendix D.

SUBJECTIVE ANALYSIS	2010/11 Estimate £	2010/11 Revised £	2010/11 Actuals £	Variance £	True Variance £
Direct Employee Expenses	21,385,100	20,321,800	12,020,231	-8,301,569	-288,569
Indirect Employee Expenses	711,900	1,451,900	1,657,666	205,766	149,011
Employees	22,097,000	21,773,700	13,677,897	-8,095,803	-139,558
Apportionment of Operational Buildings	180,600	179,000	158,947	-20,053	-20,053
Cleaning and Domestic Supplies	452,600	455,000	439,228	-15,772	-15,772
Energy Costs	920,100	844,500	700,340	-144,160	-144,160
Grounds Maintenance Costs	1,599,600	1,407,500	1,337,618	-69,882	-69,882
Premises Insurance	119,200	114,800	115,043	243	243
Rates	823,000	834,300	833,005	-1,295	-1,295
Rents	718,700	737,100	738,627	1,527	1,527
Repair and Maintenance of Buildings	1,357,300	1,474,000	1,323,326	-150,674	-150,674
Water Services	272,200	298,200	287,956	-10,244	-10,244
Premises Related Expenditure	6,443,300	6,344,400	5,934,090	-410,310	-410,310
Car Allowances	288,800	309,500	295,206	-14,294	-14,294
Contract Hire and Operating Leases	804,900	588,300	471,819	-116,481	-116,481
Direct Transport Costs	1,290,000	1,268,600	1,226,921	-41,679	-41,679
Public Transport	9,600	14,600	15,009	409	409
Transport Insurance	79,900	103,100	102,867	-233	-233
Transport Related Expenditure	2,473,200	2,284,100	2,111,822	-172,278	-172,278
Catering	67,900	78,100	68,156	-9,944	-9,944
Clothing Uniform and Laundry	77,400	76,700	69,402	-7,298	-7,298
Communications and Computing	974,200	1,042,600	1,012,912	-29,688	-29,688
Contribution to Provisions	109,800	108,700	254,000	145,300	145,300
Equipment, Furniture and Materials	1,353,700	1,398,700	1,286,243	-112,457	-112,457
General Expenses	426,800	421,500	403,903	-17,597	-17,597
Grants and Subscriptions	11,279,700	6,368,700	6,920,797	552,097	-95,576
Miscellaneous Expenses	287,200	301,500	702,879	401,379	196,069
Printing, Stationery and General Office Expenses	651,700	677,400	580,466	-96,934	-96,934
General Services	4,031,900	4,437,400	4,033,110	-404,290	-404,290
Supplies and Services	19,260,300	14,911,300	15,331,868	420,568	-432,414
Recharges	17,945,900	16,457,300	15,411,275	-1,046,025	-52,605
Support Services	17,945,900	16,457,300	15,411,275	-1,046,025	-52,605
Depreciation	3,988,200	3,557,100	8,621,355	5,064,255	9
Capital Charges	3,988,200	3,557,100	8,621,355	5,064,255	9
Interest Payments	7,887,400	7,888,100	10,384,208	2,496,108	449
Capital Financing Costs	7,887,400	7,888,100	10,384,208	2,496,108	449
Housing Benefit	48,405,900	50,432,700	49,394,645	-1,038,055	-1,038,055
Transfer Payments	48,405,900	50,432,700	49,394,645	-1,038,055	-1,038,055
Appropriations	9,550,900	9,150,200	32,014,521	22,864,321	546,866
Appropriations	9,550,900	9,150,200	32,014,521	22,864,321	546,866
TOTAL	138,052,100	132,798,900	152,881,681	20,082,781	-1,697,896
Appropriations	-11,781,100	-8,784,400	-7,779,153	1,005,247	24,328
Appropriations	-11,781,100	-8,784,400	-7,779,153	1,005,247	24,328
Capital Related Income	-6,768,100	-3,639,000	-21,750,336	-18,111,336	-157,599
Capital Financing Income	-6,768,100	-3,639,000	-21,750,336	-18,111,336	-157,599
Customer Fees and Charges	-13,104,200	-12,804,300	-12,667,732	136,568	136,568
Government Grants	-50,195,700	-52,382,300	-51,537,856	844,444	844,444
Interest	-5,458,300	-5,561,800	-11,121,085	-5,559,285	-239,154
Other Grants and Contributions	-3,711,600	-4,133,800	-4,187,381	-53,581	-53,581
Recharges	-22,293,100	-20,753,300	-20,185,663	567,637	55,365
Income	-94,762,900	-95,635,500	-99,699,717	-4,064,217	743,642
TOTAL	-113,312,100	-108,058,900	-129,229,206	-21,170,306	610,371
NET REVENUE EXPENDITURE	24,740,000	24,740,000	23,652,475	-1,087,525	-1,087,525

Note the underspend of approx £1,087,000 will be transferred to Unallocated balances to balance off the Fund accounts.

The first variance column includes notional variances relating to numerous capital and pensions charges that have to be included within the relevant service areas, but they are then reversed out and so do not impact on the 'bottom-line' outturn position. The true variance column excludes these items and therefore shows the real outturn position.

		VALUE				
FACTORS INFLUENCING OUTTURN		£	£			
1	Unforeseeable windfalls or costs	(328,528)				
2	Demand led variances	(138,489)				
3	Efficiency savings	(368,555)				
4	Other service driven variances (including delays)	(659,793)				
5	Budget setting issues / errors	(63,098)				
6	Year end adjustments	524,446				
7	Minor variances	(53,507)	(1,087,524)			
<hr/>						
DETAILED VARIANCE BY SERVICE AREA		£	£	PRT QTR4 Projection £	C/Fwd Request £	Ongoing? £
		Adverse or (Favourable)				
Community Engagement						
4	Communications Mgt & Admin : Statutory Place Survey replaced by new community engagement approach	(20,300)		(20,300)		
4	Customer Services : Customer Insight 2nd instalment slipped into 2011/12	(4,725)		(4,700)	4,700	
4	Marketing & Promotions : Marketing, advertising and brochure distribution delays	(13,986)		(17,500)		
3	Partnerships Team : Salary savings, severance offset by restructuring reserve, retrospective grant claim	(7,798)				
4	Morecambe VIC : reduced electricity and postages	(8,903)				
4	Climate Change : vehicle telematics behind schedule	(20,098)		(20,100)	16,500	
2	Platform : Increased demand this year due to improved 'artist / audience fit'	(13,570)		(19,600)		
3	Wellbeing M&A : Postage recharges, leisure software virement and printing & stationery savings	(10,343)				
4	Arts Development / North West Arts Board : Planned projects cancelled due to other service priorities	(10,971)		(11,300)		
3	Holiday Activities / Leisure Development : Staff savings and tools and equipment savings	(13,782)		(19,400)		
2	Leisure Development : Increased admissions for educational use	(6,747)				
1	Management & Administration : Additional recovery of staff costs	(7,515)				
3	Parks & Open Spaces : Efficiency savings across all areas	(7,359)				
5	Community Pools Hornby/Carnforth : Reduced staff costs, overtime for sickness and holiday cover	(21,687)		(15,200)		
4	Children & YP Services : Consultancy	(8,850)		(8,900)	6,000	
4	Salt Ayre Sports Centre : Net staff savings, energy savings, delayed spend and reduced income	(54,297)		(42,700)	30,000	
3	Williamson Park - overall net efficiency savings and increased demand	(12,090)		(37,500)		
7	Minor Variances	(17,859)	(260,880)	(8,200)		
Corporate Accounts						
3	Corporate Expenses - mainly savings on Ctax leaflet by using "Your District Council Matters"	(18,466)				(10,000)
1	Corporate Income : VAT reclaimed from HMRC of £210K less fees of £40K	(170,253)		(100,000)		
1	Luneside East : Energy costs and new security contract.	6,922		5,400		
1	Other Government Grants: 3rd instalment of New Burdens Grant and slight increase to Area Based Grant	(19,710)			12,700	
6	Additional contribution to insurance provision	153,378				
6	Increased HRA contribution to insurance provision	(34,000)				
6	Additional contribution to capital support reserve	350,000				
4	Net Direct Revenue Financing - delayed capital schemes	(41,582)	226,288		26,500	
Environmental Services						
4	Mgt & Admin : Overtime and training savings, car lease & variable recharge savings	(17,180)		(10,000)		
2	Vehicles : Procurement and Repair & Maintenance savings less additional fuel costs	(108,480)		(32,700)		
3	Vehicle Maintenance : Savings on overtime, R&M, equipment & plant and licenses	(17,327)				
3	Three Stream Waste : Employees, equipment procurement and supplies & services savings	(144,928)		(121,000)	94,000	
2	Trade Refuse Income (impact of recession)	26,896		33,000		30,000
4	Grounds Maintenance : Employees and supplies & services savings, plus additional parks income	(26,098)				
4	Public Conveniences : Increased vandalism and difficulties predicting utilities post review	18,129				
4	Public Conveniences : Demolition delays	(8,660)		(8,700)	8,700	
4	Street Cleaning : Equipment & tools (delay in purchasing equipment)	(8,759)		(8,600)	4,400	
7	Other Minor Variances	14,291	(272,116)			
Financial Services						
4	Financial Services - Software savings	(10,289)				
3	Financial Services : Employees leaving pension scheme, timing of retirements and trainee costs	(11,171)				
3	Other supplies and services: Reduction in printing/photocopying and VAT consultancy charges	(9,050)				
5	Audit Fees: recharge out of grant audit costs and corrections to charging from 2009-10	(17,646)				
6	HRA Charges (Item8): Reduced recharge due to lower consolidated rate of interest	55,068				
2	Interest And Investment Income (GF): Better investment performance than anticipated	(16,349)				
2	Benefits Subsidy	19,852				
2	Council Tax : Legal Costs Recovered - less summonses issued than anticipated	53,831				50,000
2	NNDR : Legal Costs Recovered - more summonses issued	(6,936)				(7,000)
3	Benefits : Staff Savings and reduced printing & stationary spend	(12,726)				
7	Minor Variances	6,540	51,123			(4,000)
Governance Services						
3	Legal : Books and Periodicals; on-going review including potential transfer to online method	(16,053)		(16,000)		?
1	Legal : Additional Fee Income due to several successful litigation cases Feb/March	(9,738)		(8,600)		
1	Search Fee Income : Unexpected increase in Full Searches requested	(52,142)		(17,300)		
3	Electoral Registration : Reduction in postage/delivery/equipment costs	(15,889)		(18,500)		
1	Democratic Services : Staff Savings	(9,458)		(7,300)		
3	Members Services : Saving on non-replacement of Chauffeur	(5,689)		(5,700)		
4	Human Resources : delays in Corporate Training programme due to maternity leave	(11,013)		(11,000)	11,000	
4	Licensing : Taxi Fees & Charges; Change to 6 monthly Licences	17,805		16,100		
4	Licensing : Taxi Stands; works to be completed	(6,800)			6,800	
2	Minor variances	(18,737)	(127,714)			
Health & Housing Services						
2	Private Rented Sector Activity : Lancaster University increased demand for properties leading to an increase in HMO licenses/fees.	(11,625)		(10,500)		

DETAILED VARIANCE BY SERVICE AREA

	£	£	PRT QTR4 Projection £	C/Fwd Request £	Ongoing? £
		Adverse or (Favourable)			
4 Handyman Scheme : Severance payment not required as contract extended to March 2012	(13,600)		(13,600)		
2 Pest Control : Increase in treatments and rodent proofing products	(10,664)		(5,100)		
3 Environmental Protection, Pest control - Operational changes / restructuring	(6,975)				
7 Miscellaneous Items	(19,690)	(62,554)			
Information Services					
4 Staffing : Savings due to Voluntary Redundancy/Non Replacement and Reduced Hours	(22,679)		(23,500)		
3 Equipment/Network Updates and Maintenance	(30,865)		(21,800)		
2 Prints & Plans Income : No longer recharged	5,200	(48,344)			5,200
Office of the Chief Executive					
2 Chief Executive & Support : Service training, car allowances, supplies & services	(4,403)	(4,403)			
Property Services					
4 Utilities : contract savings	(63,343)		(63,700)		
2 Additional building repairs arising through additional unforeseen works across various buildings	16,474		31,000		
2 Charter Market : Additional rental income from stalls	(5,569)				
3 Municipal Building : Staffing and supplies & services underspend	(9,092)				
2 Municipal Building : Energy certificates (dependant on sale and rent of properties)/room hire	(11,700)		(7,400)		
3 Lancaster Town Hall : Water (water saving devices installed) and trade refuse savings	(6,793)				
4 Palatine Hall : Water and trade refuse savings following hand over to County, plus additional rental income	(26,755)				
2 Services relocation costs : Additional building works	10,478		10,500		
1 7 Cheapside : Rental income - tenants occupied for longer than expected	(26,082)		(26,100)		
5 City Lab : Net additional rental income	(10,278)				
2 City Lab : Water services / telephones / rental income / reserve adjustment	(9,272)				
1 Misc Land : Rental income - de minimus capital receipts re sale of land and grazing rights rent	(6,386)				
2 Commercial Properties : Service charges and rental income	(19,882)		18,000		
1 Parking Team M&A : one off additional staff time spent on introduction of new zones	(30,684)				
2 Off street car parking : reduced premises costs, supplies & services / increased fees & fine income	(25,354)		(10,700)		
2 Concessionary Travel : Main scheme, travel pass, sales	(12,115)		(20,000)		
1 Concessionary Travel : Community transport re change of service provider	17,609		17,000		
7 Miscellaneous Items	(30,984)	(249,728)			
Regeneration & Policy					
2 Building Control M&A : Car Leases/Allowances, Office Equipment, Salaries, Training, low applications	(11,896)		(15,200)		
2 Building Regulations : Fees - low applications	64,098		62,100		40,000
3 Regeneration & Projects Team : Salary Savings on vacant post	(12,158)				
4 Local Development Framework : Services, sales & general income - delayed spend	(25,050)		(24,700)	17,100	
4 Morecambe Area Action Plan : Consultancy / Feasibility Study delayed	(37,894)		(37,900)	37,400	
5 Planning, Housing & Policy : Salaries - 8 week temp post budgeted for full year	(9,100)				
4 Planning, Housing & Policy : Research, Office Equipment, Subsistence	(5,487)				
4 Regeneration & Policy M&A : LEP subscriptions - delays in alternative partnership arrangements	(13,869)				?
2 Regeneration & Policy M&A : Consultancy savings	(8,477)				
1 Planning Delivery : Computer equipment - savings on system upgrade	(5,633)				
4 Coast Protection & Land Drainage Team : Office Equipment, Transport, Salaries	(8,200)				
1 Coast Protection & Land Drainage Team : Capital Staff Salaries	(15,457)				
4 Sea Defence Works : R&M Sea & River/Promenade works underway but not complete by end of March	(82,840)		(69,000)	39,000	
4 Bridge Maintenance : R&M expenditure slippage to support capital works on Denny Beck Bridge	(9,322)		(9,300)		
4 Public Realm R&M General : delays in planned work due to staff sickness	(34,171)		(34,500)	34,200	
5 Christmas Decoration : Electricity (budget error), Services underspend	(4,387)				
4 Townscape Heritage : Lancaster & Morecambe BID Development	(80,006)		(80,000)	80,000	
2 Development Control : Services - reduced Consultants and Legal Costs / Application Fees shortfall	(9,175)		10,100		
2 Planning Advice & Control : Staff turnover / Car allowances / Advertising / Office equip / Reduced applications	(24,367)				
7 Miscellaneous Items	(5,805)	(339,196)			
TOTAL NET UNDERSPEND			(1,087,524)	(860,600)	429,000
Total Provisional Carry Forward Requests			429,000		
TOTAL NET UNDERSPEND, ASSUMING ALL CARRY FORWARD REQUESTS APPROVED			(658,524)		104,200

PROVISIONS AND RESERVES STATEMENT : For consideration by Cabinet 26 July 2011

PROVISIONS

	31/03/10	Contributions to Provision	Contributions from Provision	31/03/11	Contributions to Provision	Contributions from Provision	31/03/12
	£	£	£	£	£	£	£
B&D Debts-General Fund	370,846	100,000	-37,658	433,188			433,188
Derelict Land Clawback	56,932			56,932		-56,932	0
Insurance Excess	273,417	315,990	-258,630	330,777			330,777
Provision for Stock Write Off	24,708			24,708			24,708
Williamson Park	100,000			100,000		-52,300	47,700
TOTAL	825,903	415,990	-296,288	945,605	0	-109,232	836,373

RESERVES

	31/03/10	Contributions to Reserve	Contributions from Reserve	31/03/11	Contributions to Reserve	Contributions from Reserve	31/03/12	Contributions to Reserve	Contributions from Reserve	31/03/13	Contributions to Reserve	Contributions from Reserve	31/03/14
	£	£	£	£	£	£	£	£	£	£	£	£	£
CAPITAL RESERVES													
Capital Support	507,000	615,000	-584,286	537,714		-237,000	300,714			300,714			300,714
Marsh Capital	47,677			47,677			47,677			47,677			47,677
REVENUE RESERVES													
Allotment Improvements	5,305		-5,305	0			0			0			0
Building Regulation Account	0			0			0			0			0
Business Continuity	17,199			17,199			17,199			17,199			17,199
City Lab	53,011		-16,319	36,692	35,700		72,392	36,700		109,092	31,900		140,992
Community Cohesion	14,000		-14,000	0			0			0			0
Concessionary Travel	100,000		-30,000	70,000		-70,000	0			0			0
Connecting Communities	58,000		-28,182	29,818			29,818			29,818			29,818
Every Child Matters	20,000		-8,687	11,313			11,313			11,313			11,313
HMO Registration Fees	20,785		-20,785	0			0			0			0
Invest to Save	0			0	1,436,500		1,436,500	325,500		1,762,000			1,762,000
Job Evaluation	610,797		-272,700	338,097	50,000	-285,200	102,897		-49,000	53,897			53,897
Impairment Reserve	1,363,493			1,363,493			1,363,493			1,363,493			1,363,493
Lancaster Market	0	139,537		139,537			139,537			139,537			139,537
Performance Reward Grant	239,192	84,500	-14,969	308,723		-15,000	293,723			293,723			293,723
Planning Delivery Grant	89,682		-42,776	46,906		-26,300	20,606		-5,500	15,106			15,106
Priv.Hsg-Rental Deposit Guarantee	2,000		-2,000	0			0			0			0
Project Implementation	88,633		-88,633	0			0			0			0
Restructuring	673,800	697,700	-705,479	666,021		-226,200	439,821			439,821			439,821
Revenues and Benefits	48,000	75,268	-48,000	75,268			75,268			75,268			75,268
Revenue Support	800,000		-800,000	0			0			0			0
Risk Management	15,983	10,000		25,983			25,983			25,983			25,983
Vacant Shops Fund	52,631		-22,632	29,999			47,999			47,999			47,999
MAINTENANCE / RENEWALS RESERVES													
Graves Maintenance	22,201			22,201			22,201			22,201			22,201
Municipal Buildings	0	300,000		300,000			300,000			300,000			300,000
Open Spaces Commuted Sums	215,953	37,500	-61,113	192,340		-58,800	133,540		-40,200	93,340		-40,200	53,140
Other Commuted Sums	1,155,315	410,100	-212,202	1,353,213		-250,000	1,103,213			1,103,213			1,103,213
Renewals (all services)	258,755	102,000	-160,953	199,802		-104,000	214,802	119,000	-104,000	229,802	69,000	-104,000	194,802
TOTAL	6,479,412	2,471,605	-3,139,021	5,811,996	1,659,200	-1,272,500	6,198,696	481,200	-198,700	6,481,196	100,900	-144,200	6,437,896
General Fund Unallocated Reserve	1,244,713	2,534,626	-105,300	3,674,039		-1,261,000	2,413,039		-325,500	2,087,539			2,087,539
Unallocated Government Grants - Capital (PRG)	323,723			323,723			323,723			323,723			323,723

CONTROLLABLE OVERSPENDS GREATER THAN £5,000
For Consideration by Cabinet 26 July 2011

SERVICE	DETAILS	BUDGET	ACTUAL	OVERSPEND	EXPLANATION / ACTION
Community Engagement	Salt Ayre Sports Centre	£ -756,300	£ -675,264	£ 81,036	Income from fees and charges were down last year, however compensating savings were made on other controllable budgets and there was an overall underspend of £54K - No further action is recommended.
Environmental Services	Public Conveniences	11,000	20,966	9,966	Increased vandalism at Lancaster Bus Station resulted in more repairs. As the nature of the overspend is not controllable no further action is recommended.
	Public Conveniences	5,200	13,091	7,891	Difficulties in predicting useage following Parish Toilet Review, therefore no further action recommended.
	Public Conveniences	19,800	25,490	5,690	The overspend has resulted from a new surface water charge therefore no further action is recommended.
	Vehicles	325,200	334,315	9,115	Rising cost of fuel has increased beyond expectation, however as there has been an overall underspend on vehicles no further action is recommended.
	Trade Refuse	-952,000	-917,992	34,008	There has been a general reduction in demand which reflects the recession and will no doubt continue into 2011/12. As a result, and as the service was underspent overall, no further action is recommended.
Property Services	Service relocation costs	58,000	68,478	10,478	The cost of relocating services resulting from the vacation of Palatine Hall was greater than anticipated due to additional works being required. As this was a one off project and the service was underspent overall no further action is recommended.
Regeneration and Policy	Municipal Buildings	596,900	613,374	16,474	Additional unforeseen works required, however as the services was underspent overall no further action is recommended.
	Building Regulations	-225,000	-161,660	63,340	Reduced application numbers due to economy and increased local competition with in depth knowledge of local builders etc. The new charging regime was introduced in Oct 2010 and has completely changed how the Building Control charges are calculated. The scheme is still bedding in and has effectively increased the cost of applications for small scale domestic works and decreased the charges for major applications. Any deficit on the Building Control account is already built into the charging review and is planned to be recovered over the next three years in line with the requirement to break even over that period. As a result no further action is recommended.
Health & Housing	Council Housing Planned Maintenance	43,000	58,254	15,254	Appletree Close car parking works were due to complete early 2011/12 but were actually completed ahead of schedule in 2010/11. As there will be a compensating saving in 2011/12 no further action is recommended.

2010/11 REQUESTS FOR CARRY FORWARD

For consideration by Cabinet on 26 July 2011

General Fund

Number	Service	Budget	Carry Forward Request	
			£	
Requests in line with original budget purpose				
1	Community Engagement	Customer Insight	4,700	
2	Community Engagement	Climate Change - vehicle telematics	16,500	FC
3	Community Engagement	Salt Ayre Sports Centre - maintenance	30,000	FC
4	Regeneration & Policy	Local Development Framework - Special Burdens	12,700	FC
5	Corporate	Revenue financing of capital schemes	26,500	FC
6	Environmental Services	Public Conveniences - Demolition	8,700	
7	Environmental Services	Street Cleaning - equipment	4,400	
8	Governance	Corporate Training	11,000	FC
9	Governance	Taxi stands	6,800	
10	Regeneration & Policy	Local Development Framework - Special Burdens	17,100	FC
11	Regeneration & Policy	Morecambe Area Action Plan	37,400	FC
12	Regeneration & Policy	Sea Defence Works - repair and maintenance	39,000	FC
13	Regeneration & Policy	Lancaster Square Routes - BID feasibility study	40,000	FC
14	Regeneration & Policy	Morecambe TH12 - BID feasibility study	40,000	FC
Requests to change use of original budget underspend				
15	Environmental Services	Communal recycling facilities	34,000	FC
16	Environmental Services	Replacement bins and boxes	60,000	FC
17	Community Engagement	Children & Young People - Training & Start Up Costs	6,000	
18	Regeneration & Policy	New Cycle Paths & Bike It Project	34,200	FC
			429,000	

Housing Revenue Account

Requests in line with original budget purpose				
19	Health & Housing	Planned Maintenance	30,000	FC
			30,000	

"FC" denotes Full Council approval also required, if the requests are approved in full by Cabinet.

Further details relating to each request are attached.....

2010/11 REQUESTS FOR CARRY FORWARD

SERVICE	Community Engagement
BUDGET HEADING	Customer Services - Customer Insight
AMOUNT	£4,700

1

The reasons why the spend didn't occur during 2010/11 and why we are still committed to doing this work in 2011/12.

Customer research was commissioned in 2010/11. The total spend has been committed but is payable in two instalments. The first instalment was payable in 2010/11, however the second instalment is not payable until the completion of all research which will not be until early in 2011/12.

What the implications for service delivery will be if the carry forward is not approved.

If the carry forward is not approved then the cost will need to be met from another budget as the spend is already contractually committed, however there are no available budgets from which to fund the outstanding payment at this time.

Financial Services Comments

The 2010/11 revenue budget contained a sum of £9,200 for Customer Insight. As the work was not completed in 2010/11 there was an underspend of £4,700 against this budget. The request can therefore be met from the underspend.

2010/11 REQUESTS FOR CARRY FORWARD

SERVICE	Community Engagement – Partnerships
BUDGET HEADING	Climate Change
AMOUNT	£16,500

2

The reasons why the spend didn't occur during 2010/11 and why we are still committed to doing this work in 2011/12.

The funding is to install vehicle telematics for our commercial fleet of small vans as part of the Climate Change Strategy and Energy Saving Trust Green Fleet Review. The project was planned in 2010/11 but the software was unable to be procured in that year due to the need to gather data from a trial system. In addition, there was further delay due to the YPO setting up a procurement framework for tendering the project, which will hopefully reduce the overall cost. The framework was only finalised in February 2011 and procurement was unable to take place before the end of the financial year.

We are still committed to the project as an action in our Climate Change Strategy and through the delivery of our corporate priority on climate change; to save energy and generate income.

What the implications for service delivery will be if the carry forward is not approved.

Without procuring telematics for our commercial fleet of small vans we will not be able to effectively monitor mileage, fuel use and journey efficiency. Without telematics, the Council would lose out on vital carbon, fuel and money savings in this area.

There is no scope to fund telematics from 2011/12 as the budget is already earmarked for delivery of other projects under the Climate Change Strategy.

Financial Services Comments

There was a total underspend of £19,600 during 2010/11 for this area for the reasons stated above. The request is only for £16,500 as a result of benefitting from YPO procurement. As the request is in excess of £10,000 then Full Council approval will be required.

2010/11 REQUESTS FOR CARRY FORWARD

SERVICE	Community Engagement
BUDGET HEADING	Wellbeing (Salt Ayre Sports Centre) Equipment and Maintenance
AMOUNT	£30,000

3

The reasons why the spend didn't occur during 2010/11 and why we are still committed to doing this work in 2011/12.

As a result of the ongoing savings requirement for 2010/11 and the additional £22,700 savings roll forward from the previous year, spending in these areas was held to an absolute minimum.

The rolling programme of planned maintenance was suspended pending the savings outcome. Equipment that would have been routinely replaced last year was held over in case of a shortfall in the savings required. Expenditure on routine maintenance such as painting and decorating, replacement of worn flooring and repairs to the fabric of the building were all held back in order to ensure the savings target would be met.

What the implications for service delivery will be if the carry forward is not approved.

There is now a backlog of general maintenance works. The carry forward request is to ensure the general maintenance can be brought back up to date and replacement equipment can be purchased. This avoids a negative 'knock on' impact to the current year's plan.

If this request is refused, it will have a detrimental effect on the customer experience. In order to secure future income, the sports centre must be well maintained and well equipped.

Costs are likely to escalate further if this carry forward is not approved. Scheduled repairs in the annual maintenance plan that were postponed will cause a further slip into future budgets. This delay will also accelerate the downward spiral of decline which will be more expensive to address if not carried out in a timely manner.

In the current economic climate contractors are willing to respond well and price competitively for this type of work.

The cost of replacement equipment rises every year so the delay in replacing equipment causes a double negative. On the one hand service deteriorates and on the other renewal costs increase each year. Both factors ultimately influence income negatively.

Financial Services Comments

The combined underspend on equipment and maintenance budgets at outturn was £47,100 which covers this carry forward request.

A full breakdown of routine and planned maintenance and R&M for SASC can be provided if required.

As the request is in excess of £10,000 then Full Council approval will be required.

2010/11 REQUESTS FOR CARRY FORWARD

SERVICE	Regeneration & Policy Service
BUDGET HEADING	Local Development Framework – Special Burdens Grant
AMOUNT	£12,700

4

The reasons why the spend didn't occur during 2010/11 and why we are still committed to doing this work in 2011/12.

Spending has been delayed due to progress on LDF being behind schedule. We now have a new Local Development Scheme and are on track to complete most of the work during 2011/12 with a smaller element of work due in 2012/13.

The main call on money is formal sustainability appraisal and habitats regulations screening of LDF documents, most of which will take place in 2011/12. Therefore, the budget needs to be slipped into 2011/12.

The request is to carry forward the grant monies received and use them to fund consultancy work on the LDF which will need to be split between the years 2011/12 and 2012/13 at half year budget revision to reflect the current LDF programme.

What the implications for service delivery will be if the carry forward is not approved.

The work covered by the money is mandatory given the European nature designations in the area. If the money is not rolled forward, it will still have to be paid from mainstream budgets.

Financial Services Comments

A carry forward of £28,200 into 2010/11 for special burdens was approved as part of the 2009/10 outturn, of which £24,300 has subsequently been reprofiled into 2011/12 as part of the recent budget process. The request is for an element of the third and final allocation of £16,800, which was received in March 2011, to be carried forward on the basis of £5,100 for 2011/12 and £7,600 for 2012/13.

It should be noted that the planning for climate change grant is not a ringfenced grant.

As the request is in excess of £10,000 then Full Council approval will be required.

2010/11 REQUESTS FOR CARRY FORWARD

SERVICE	Corporate
BUDGET HEADING	Direct Revenue Financing
AMOUNT	£26,500

5

The reasons why the spend didn't occur during 2010/11 and why we are still committed to doing this work in 2011/12.

The carry forward request relates to the revenue financing of two capital schemes which have been completed:

Performance Management system - £17,000

Hala playground - £8,500

Officers are currently in the process of selecting a performance management system, although no procurement has yet taken place, whereas the Hala playground works are currently ongoing.

What the implications for service delivery will be if the carry forward is not approved.

If the carry forward of funding for performance management system was not approved then it is likely the purchase of the new system would not go ahead as there are no other funds identified. This would mean the council would not benefit from the streamlining of processes and reporting in respect of programme management and operational performance management that a new system could bring.

In terms of Hala playground other funding would need to be identified from within Environmental Services budgets as the scheme is currently underway.

Financial Services Comments

The carry forward request is for the full underspend on the revenue financing budget and relates to specific schemes within the capital programme.

As the request is in excess of £10,000 then Full Council approval will be required.

2010/11 REQUESTS FOR CARRY FORWARD

SERVICE	Environmental Services
BUDGET HEADING	Public Conveniences – Demolition
AMOUNT	£8,700

6

The reasons why the spend didn't occur during 2010/11 and why we are still committed to doing this work in 2011/12.

Three toilet blocks were identified for demolition in 2010/11. The contractor was unable to carry out the work before March 2011. The toilet blocks have since had asbestos surveys prior to their demolition and one of the blocks has already been demolished.

What the implications for service delivery will be if the carry forward is not approved.

As stated above, part of the work has been completed and the rest will be done in due course. There is no budgetary provision within 2011/12 for the works, therefore should the request not be approved the budget will be overspent or service savings will have to be identified to cover the remaining cost.

Financial Services Comments

Following the 2010/11 revised budget exercise, savings were identified within public conveniences and an amount of £10,000 was included to demolish the three toilet blocks. However, the works were not completed within the latter part of the financial year and the budget was subsequently underspent by the requested amount. It is therefore requested that this amount is carried forward to 2011/12.

2010/11 REQUESTS FOR CARRY FORWARD

SERVICE	Environmental Services
BUDGET HEADING	Street Cleaning Equipment
AMOUNT	£4,400

7

The reasons why the spend didn't occur during 2010/11 and why we are still committed to doing this work in 2011/12.

Street Cleaning equipment totalling £4,400 was ordered in March 2011. Due to delays by the suppliers, the equipment was not received until early April and therefore the cost of the equipment has fallen into 2011/12.

What the implications for service delivery will be if the carry forward is not approved.

As stated above, the equipment has been received and paid for. Although there is budgetary provision within 2011/12, it is for items of a similar nature and all this years budget has been allocated. Failure to approve the carry forward would result in a likely overspend within 2011/12

Financial Services Comments

The 2010/11 budget includes an amount of £28,200 for street cleaning equipment and was underspent by £8,800. The requested amount is within this amount and is therefore requested to be carried forward.

2010/11 REQUESTS FOR CARRY FORWARD

SERVICE	Human Resources - Governance
BUDGET HEADING	Corporate Training
AMOUNT	£11,000

8

The reasons why the spend didn't occur during 2010/11 and why we are still committed to doing this work in 2011/12.

The spend did not occur in 2010/11 due to three main factors:-

1. Due to the availability of the Management Team towards the end 2010 and the early part of 2011, the development programme and coaching support commenced later than expected. Therefore there is a slippage in the events into 2011/12.
2. A set of Health & Safety (H&S) training events were delayed due to the availability of staff and the training provider. The corporate programme has therefore been reprogrammed in 2011/12 to ensure we meet our statutory obligation in relation to H&S Management.
3. The management training for operational managers has been re-defined, however the pilot programme was delayed to ensure staff identified for the training could attend all three phases. The post programme review was therefore delayed which has led to elements of the training, that would have taken place in 2010/11, being moved into 2011/12. This programme of "Management Essentials" is critical in the development of core competencies/behaviours across various levels of management. This action is seen as a key component in the objective to lever change in management practice across the organisation.

What the implications for service delivery will be if the carry forward is not approved.

The objectives within the three areas above will have to be changed, with a lower level of outcome being achieved.

Each of the above activities is seen as real catalyst for change. Failure to address these areas within 2011 will leave the Council short of its desired outcomes in relation to H & S competence and general management knowledge/practice.

Financial Services Comments

The Corporate Training budget for 2010/11 was increased as part of the budget process to include an additional £9,000 towards Management Development training taking the budget to £41,000. Due to the reasons listed above there was an underspend of £11,000 and it is requested that this balance is carried forward to 2011/12. As the request is in excess of £10,000 then Full Council approval will be required.

2010/11 REQUESTS FOR CARRY FORWARD

SERVICE	Governance Services
BUDGET HEADING	Hackney Carriages
AMOUNT	£6,800

9

The reasons why the spend didn't occur during 2010/11 and why we are still committed to doing this work in 2011/12.

The amount is committed to works being carried out on new taxi ranks which were not completed by the end of the financial year.

What the implications for service delivery will be if the carry forward is not approved.

As stated above the work has been done, and the money is committed and the works will be completed early in 2011/12. There is no budget in 2011/12 for the works.

Financial Services Comments

There was a budget of £6,800 in 2010/11 and this was fully committed for the works to the taxi ranks. However as the works have not been completed there was an underspend and it is requested that this amount is carried forward to 2011/12.

2010/11 REQUESTS FOR CARRY FORWARD

SERVICE	Regeneration & Policy Service
BUDGET HEADING	Local Development Framework - General Services
AMOUNT	£17,100

10

The reasons why the spend didn't occur during 2010/11 and why we are still committed to doing this work in 2011/12.

The budget relates to work on monitoring and preparing the policies for the Districts Local Development Framework. The Council is currently preparing three Development Plan Documents (DPD), along with undertaking to monitor the various areas the Framework covers such as Housing Need and preparing and producing formal Proposal Maps. These three documents are:

- Land Allocations,
- Development Management Policies
- Morecambe Area Action Plan

The budget needs to be carried forward to align with the current timetable for the development and adoption of these DPDs as per the revised Local Development Scheme.

What the implications for service delivery will be if the carry forward is not approved.

The Service would not be able to produce sound Development Plan Documents or undertake the statutory steps to maintain the Local Development Framework.

Financial Services Comments

There was a total underspend of £20,500 on this budget at the year end which covers this carry forward request.

As the request is in excess of £10,000 then Full Council approval will be required.

2010/11 REQUESTS FOR CARRY FORWARD

SERVICE	Regeneration & Policy Service
BUDGET HEADING	Morecambe Area Action Plan
AMOUNT	£37,400

11

The reasons why the spend didn't occur during 2010/11 and why we are still committed to doing this work in 2011/12.

The budget relates to the preparation of the Development Plan Documents (DPD) Area Action Plan for the Centre of Morecambe, associated feasibility work and any engagement the council might undertake separately as land owner with the development industry. The plan is being developed in tandem with other DPD's as per the revised Local Development Scheme.

Plan Making Budget Carry Forward £19,100

Officers have been involved in extensive community engagement as part of the issues and options stage work. Due to the iterative nature of this work it is difficult to programme. The main focus has been to engage fully and thoroughly with the community which has taken longer than anticipated. Work is now at an advanced stage with officers preparing a report to outline preferred options for public consultation in the autumn. The budget needs to be carried forward to align with the current timetable for the development and adoption of the DPD as per the revised Local Development Scheme.

Developer Engagement Carry Forward £10,000

This budget relates to the separate activity of engagement and potential procurement of development partner(s) to deliver the Area Action Plan. The plan making timetable has seen some delays in the spending for this area.. Once the plan reaches a position where the council can engage with the development industry, the budget will be required to procure the necessary legal and technical advice to assist the council in the engagement process. The carried forward will align with budgets with the current timetable.

Feasibility Studies Carry Forward £8,300

Spend in 2010/11 related solely to the undertaking of a feasibility study into the potential for a marina in the area. As plans for other areas develop and options for other sites are considered further feasibility studies for other forms of development will need to be undertaken. The carry forward will align with budgets with the current timetable.

What the implications for service delivery will be if the carry forward is not approved.

The Service would not be able to undertake the necessary work to ensure a viable, sustainable and sound DPD was prepared for public examination.

Financial Services Comments

The carry forward requests are for the full value of the underspends in all three areas at 2010/11 outturn. Whilst they could be taken individually all three elements are integral to the delivery of the Morecambe Area Action Plan and have therefore been combined into one request.

As the request is in excess of £10,000 then Full Council approval will be required.

2010/11 REQUESTS FOR CARRY FORWARD

SERVICE	Regeneration & Policy Service
BUDGET HEADING	Sea Defence Works : Repair & Maintenance
AMOUNT	£39,000

12

The reasons why the spend didn't occur during 2010/11 and why we are still committed to doing this work in 2011/12.

The City Council has a duty of care to users of Morecambe Promenade to provide a safe pedestrian and cycling environment. The promenade seafront railings are in some areas over 100 years old and have over the years deteriorated beyond their serviceable life and now fall short of current safety standards in respect of the spacing and height of rails and are therefore in need of wholesale replacement.

The Environmental Management team has been replacing the posts and rails, either as part of major coastal defence projects or through the R&M budget, on a phased programme of work in order to spread the cost over a number of years. Works due to be carried out in 2010/11 between Thornton Road and Broadway were delayed, initially in part to staff shortages through prolonged sickness absence, other priorities and due to an unexpected lengthy lead in time for the manufacture and supply of the posts which has led to the works moving into 2011/12.

The outstanding posts are currently on order with delivery expected soon, works to install the posts and rails will commence shortly thereafter.

The request is to carry forward £39,000 to pay for the supply of posts for the next phase of promenade railing replacement.

What the implications for service delivery will be if the carry forward is not approved.

Failure to comply with current design standards and meet expectations in terms of providing a safe environment.

A further final phase of railing replacement, between Scalestones point and Teal Bay, is due to be carried out alongside that which has been delayed during 2011/12 - this would be compromised and further delayed, with potentially increased costs, should the carry forward be refused.

Other commitments throughout 2011/12 may also be compromised.

Financial Services Comments

Long term sickness in the Environmental Management Team greatly affected the teams ability to complete all intended works during 2010/11, resulting in underspends across several different areas. In addition to this the manufacturing problems mentioned above created further delays with the sea defence works.

If the carry forward request is not approved the purchase of the remaining posts and rails can be funded from the 2011/12 budget but the resulting delays to other works planned for 2011/12, and subsequently future years works, could increase costs if defences deteriorate further or prices increase. The total underspend on this budget was £76,400 in 2010/11 but only £39,000 of this would need to be carried forward to complete the outstanding works.

As the request is greater than £10,000 then Full Council approval will be required.

2010/11 REQUESTS FOR CARRY FORWARD

SERVICE	Regeneration & Policy Service
BUDGET HEADING	Lancaster Square Routes
AMOUNT	£40,000

13

The reasons why the spend didn't occur during 2010/11 and why we are still committed to doing this work in 2011/12.

October 2010 Cabinet approved £40,000 to investigate the feasibility and, if appropriate, subsequent development of a BID for Lancaster. Officers are in discussion with the Lancaster Chamber of Trade and Commerce on the arrangements for leading the work. This will probably involve using support from the North West Lancashire Chamber of Commerce who were responsible for the BID proposal development, ballot administration and service delivery for the Preston BID.

The Council will draw up a Service Level Agreement with the Chamber to enable them to access the money and for the Council to ensure that the budget is spent in a proper and timely manner.

A BID is governed by statutory procedure and the initial BID proposal development will require considerable work to be undertaken in the 2011/2012 financial year. Therefore it is requested that this budget to be carried forward to reflect the current workplan and timetable.

What the implications for service delivery will be if the carry forward is not approved.

Work into the feasibility of a Business Improvement District in Lancaster would not be able to be undertaken. This would create reputational damage for the council given its commitment to support BIDs. It was not possible to spend the money in the 2010/11 financial year but the majority of funds allocated will be spent in 2011/12.

Financial Services Comments

Delays have meant that this budget could not be spent in 2010/11. There is no further budget for the BID Feasibility Study in 2011/12, therefore if this carry forward request is not approved the study will not take place.

A separate carry forwards request has been submitted for the Morecambe BID.

As the request is in excess of £10,000 then Full Council approval will be required.

2010/11 REQUESTS FOR CARRY FORWARD

SERVICE	Regeneration & Policy Service
BUDGET HEADING	Morecambe Townscape Heritage Initiative 2
AMOUNT	£40,000

14

The reasons why the spend didn't occur during 2010/11 and why we are still committed to doing this work in 2011/12.

October 2010 Cabinet approved £40,000 to investigate the feasibility and, if appropriate, subsequent development of a BID for Morecambe. The discussion into the development of a Business Improvement District Proposal in Morecambe is ongoing between the Lancaster District Chamber and the local Morecambe trade associations.

Once agreement has been reached on who will lead the work a Service Level Agreement will be entered into between the Council and the BID proposer (the lead body who will carry out the work) to ensure that the budget is utilised in a proper and timely manner.

A BID is governed by statutory procedure and the initial BID proposal development will require considerable work to be undertaken in the 2011/12 financial year. Therefore it is requested that this budget be carried forward to reflect the current workplan timetable.

What the implications for service delivery will be if the carry forward is not approved.

Work into the feasibility of a Business Improvement District in Morecambe would not be able to be undertaken. This would create reputational damage for the council given its commitment to support BIDs. It was not possible to spend the money in the 2010/11 financial year but the majority of funds allocated will be spent in 2011/12.

Financial Services Comments

Delays have meant that this budget could not be spent in 2010/11. There is no further budget for the BID Feasibility Study in 2011/12, therefore if this carry forward request is not approved the study will not take place.

A separate carry forwards request has been submitted for the Lancaster BID.

As the request is in excess of £10,000 then Full Council approval will be required.

2010/11 REQUESTS FOR CARRY FORWARD

15

SERVICE	Environmental Services
GENERAL UNDERSPENDING ON PROPOSED USE	Three Stream Waste Collection
AMOUNT	Communal Recycling Facilities
	£34,000

The reasons why the spend didn't occur during 2010/11 and why we are still committed to doing this work in 2011/12.

The Corporate Plan states that on the next 3 years we will 'deliver the objectives of the Lancashire Waste Strategy 2008-2020...'

In practical terms our aim is to provide an efficient waste collection / recycling service throughout our district. We are continually exploring options and methods of how we operate and deliver our collection services in the most efficient, effective and economic ways.

This policy of continual improvement has allowed us to significantly reorganise our operational practices (eg co-mingling, food waste collection). In turn the Council has benefitted by making significant ongoing financial savings in waste collection these have been built into the Council's budget. Furthermore they have been delivered ahead of schedule and this is reflected in the 2010/11 outturn position for waste collection.

This request seeks how to meet 100% coverage of our waste collection scheme- which on an ongoing basis is financially advantageous to the Council because of the County Council's cost sharing arrangement.

What the implications for service delivery will be if the carry forward is not approved.

Whilst 97% of the district is covered by kerbside recycling we need to maintain an upward momentum in line with our strategy aim to provide kerbside recycling to 100% of the district.

There are inconsistencies in frequency and method of collection throughout the district with some areas being harder to reach than others. To ensure that services are accessible to all residents' individual arrangements for properties some requiring communal recycling are being negotiated. For areas such as Mainway, communal recycling has been identified as a suitable option ensuring accessibility for all residents. This type of collection method is more expensive than the normal kerbside collection because of the containers type and hard standing required. The costs for supplying containers, communication and associated works would be approximately £34,000.

In order to reach our targets we need to maximise the amount of waste that is recycled and composted, including food waste.

Lancashire County Council provides financial support in the form of cost sharing. Continuing our programme of kerbside recycling will provide us with £11,022 per annum of additional income. This one off request should therefore be seen as an

2010/11 REQUESTS FOR CARRY FORWARD

invest to save initiative.

By providing Mainway with recycling facilities we will reduce the frequency of residual collection from 4 to 3 times a fortnight. Achieve a minimum of 12% recycling rate for dry recyclables. Achieve a minimum 10% reduction of residual waste helping us to achieve our NI 192 Household Waste Reuse/ Recycle / Compost target of 48% for 2011/12.

Financial Services Comments

In 2010/11 the waste collection service was underspent by £145,000 through efficiency savings and unforeseeable windfalls. As detailed in the report, £34,000 is required for extending the scheme to include hard to reach areas, including Mainway. By doing this work, the grant we receive from Lancashire County Council in respect of cost sharing arrangements is estimated to increase by £11,000. Therefore, by investing in this scheme, the payback period of the initial outlay is 3 years and 2 months.

However, it should be noted that the request is not in respect of a specific budget commitment but seeks to apply an element of the underspend for a new scheme.

As the request is in excess of £10,000 then Full Council approval will be required.

2010/11 REQUESTS FOR CARRY FORWARD

SERVICE	Environmental Services
GENERAL UNDERSPENDING ON PROPOSED USE	Three Stream Waste Collection
AMOUNT	Replacement Bins and Boxes
	£60,000

16

The reasons why the spend didn't occur during 2010/11 and why we are still committed to doing this work in 2011/12.

The Corporate Plan states that on the next 3 years we will 'deliver the objectives of the Lancashire Waste Strategy 2008-2020...'

In practical terms our aim is to provide an efficient waste collection / recycling service throughout our district. We are continually exploring options and methods of how we operate and deliver our collection services in the most efficient, effective and economic ways.

This policy of continual improvement has allowed us to significantly reorganise our operational practices (eg co-mingling, food waste collection). In turn the Council has benefitted by making significant ongoing financial savings in waste collection these have been built into the Council's budget. Furthermore they have been delivered ahead of schedule and this is reflected in the 2010/11 outturn position for waste collection.

As part of the 2010/11 budget exercise we reported to Cabinet on the issue of charging for replacement bins and boxes. The report did highlight that Council spending on replacement bins and boxes was growing faster than the available budget. Cabinet requested further updates on this issue ahead of the 2011/12 budget. This request seeks to ensure that in 2011/12 there is sufficient budget for replacement bins and boxes.

What the implications for service delivery will be if the carry forward is not approved.

The current budget does not support the number of replacement bins and boxes required to operate the three stream waste collection scheme and there is no indication that there will be a reduction in the number of replacement containers this year. Since April 2011 to date we have had 2089 requests for replacement bins and boxes compared with 1803 request for the same period last year.

The prices of plastic polymers have increased by 7%, due to the rise in oil prices.

Based on last year's figures we expect that a further £80,000 will be required to meet demand for bins and boxes in 2011/12.

Introducing a system to ration demand is difficult without a charging mechanism.

It is proposed that a further report be brought to Cabinet as part of this year's budget process to establish how we deal with this growth in future years.

2010/11 REQUESTS FOR CARRY FORWARD

Financial Services Comments

When approving the various stages of the waste strategy, a 2% provision was included for the replacement of bins and boxes – in 2010/11 6,452 bins, 7,412 boxes and approximately 8,000 lids were issued as replacements which is far in excess of the 2% provision. In previous years there have been surplus bins and boxes from the rolling-out of the waste strategy but now stocks are running at low levels. Alongside the budget (albeit with a £2,300 overspend in 10/11) this has been sufficient to deal with demand in previous years.

The 2011/12 budget includes an amount of £81,700 for replacement bins, boxes and lids. Using the latest usage and costing information available it is likely that this will be exceeded by approximately £60,000.

In 2010/11 the waste collection service was underspent by £145,000 through efficiency savings and unforeseeable windfalls. By not approving the carry forward request of £60,000 and should policy not change to introduce charging then the service will find it difficult not to continue to spend at current levels resulting in an overspent budget. Therefore a base budget adjustment will be required within the forthcoming budget process to counter-act the additional expenditure.

It should also be noted that the request is not in respect of a specific outstanding budget commitment but seeks to apply an element of the underspend for an anticipated overspend in 2011/12.

As the request is in excess of £10,000 then Full Council approval will be required.

2010/11 REQUESTS FOR CARRY FORWARD

SERVICE	Community Engagement
BUDGET HEADING	Wellbeing - Children & Young Peoples Services (CYP) : Consultancy
PROPOSED USE	CYP : Training and Start-Up Costs
AMOUNT	£6,000

17

The reasons why the spend didn't occur during 2010/11 and why we are still committed to doing this work in 2011/12.

Spend was limited as the Service was undergoing a major restructure which included ways of planning spend against this budget for future years. This situation has now been resolved and the budget is to be utilised appropriately against the new way of operating playschemes for children and young people.

The spend in 2010/11 was limited as the number of sessions, which would ordinarily be undertaken by staff within various venues which would need payment and associated equipment costs, were reduced significantly in order to build relationships further with organisations that could deliver playschemes on our behalf. This is a much more cost effective option to the council.

What the implications for service delivery will be if the carry forward is not approved.

The carry forward would be used to assist with the one off costs associated with the introduction of a new way of working. The funding will be key to reducing the associated risk with engaging new partners to deliver playschemes. It will ensure that sufficient training and provision of one off start up costs such as supply of equipment, are dealt with leaving partner organisations to pick up such costs in the future.

Should the funding not be carried forward it is more likely that the playschemes would operate in an environment which would not be as conducive to the effective development of children and young people. Similarly providing a safe environment is less likely to negatively affect the image and reputation of the council and is something that Community Engagement would like to provide.

It was anticipated that the specific children and young people training for our partners and the one off equipment purchases would have occurred in 2010/11 but delays have given rise to this carry forward request. If the request is not approved it would lead to a reduced provision for the anticipated playschemes programme in 2011/12.

Financial Services Comments

Whilst there is an underspend of £8,900 on the consultancy budget at the end of the year, the carry forward request relates to training and the provision of one off start up costs and therefore constitutes a change of use.

2010/11 REQUESTS FOR CARRY FORWARD

SERVICE	Regeneration & Policy Service
BUDGET HEADING	Public Realm Repair & Maintenance
PROPOSED USE	New Cycle Paths & Bike It Project
AMOUNT	£34,200

18

The reasons why the spend didn't occur during 2010/11 and why we are still committed to doing this work in 2011/12.

Expenditure throughout 2010/11 on the Public Realm R&M was significantly lower than expected, particularly on the TERN element of the budget - this was due in part to staff shortages through prolonged sickness absence and other priorities.

This request to carry the balance of £34,200 forward into 2011/12 is two fold.

1. The final outstanding balance of the Cycling Demonstration Town budget infrastructure element was to be spent by the end of 2010/11 - The only scheme of sufficient size to utilise the value of this funding was an extension of the cycle path along the river frontage of St Georges Quay/New Quay Road. The scheme cost however exceeded the available budget by approx £7,500 therefore this carry forward is required to defray this final expenditure, without compromising the 2011/12 R&M budget.

2. A report updating Members on the Cycling Initiatives in the Lancaster and Morecambe District is included as a separate item on the agenda including;

- i. The end of the Cycling Demonstration Town Project.
- ii. Joint working with Lancashire County Council on future cycling initiatives.
- iii. Success of a bid to Sustrans for funding for a cycling scheme from their Links to Schools budget.
- iv. Partial success in a joint project with Sustrans and Devon County Council in a themed bid to the Department for Transport's Local Sustainable Transport Fund.
- v. Proposals to extend the ongoing 'Bike It' project.

The report highlights two areas where funding from the public realm R&M budget would provide financial support to the success and delivery of two of these projects i.e.

iii. Success of a bid to Sustrans for funding for a cycling scheme from their Links to Schools budget.

A bid was put together and submitted to the Sustrans Links to Schools Fund for a cycle route scheme comprising conversion of footways on Westgate to shared use between the Globe Arena and Buckingham Road, upgrade of the existing footpath to the rear of Heysham High School to a shared use path and development and introduction of a signed on road cycle route between Heysham High School and Morecambe town centre and the Greenway. The scheme is to include the delivery of the already proposed section 106 funded scheme associated with the Globe Arena development.

A sum of £10,000 was identified from the public realm R&M budget to increase the amount of match funding that could be allocated against the project. Whilst the total match funding offered fell short of that which Sustrans normally expect, the proposed match demonstrated sufficient commitment to the aims and objectives of the project and therefore contributed to the success of the bid.

2010/11 REQUESTS FOR CARRY FORWARD

- vi. Proposals to extend the ongoing 'Bike It' project.

The Bike It project has been running alongside the Cycling Demonstration Town project since 2005 and currently employs two part time Bike It officers. The scheme has historically been part funded by Sustrans (who employ the BI officers) and external grants i.e. the CDT funding. The current round of Sustrans Bike It funding expires at the end of July 2011. Sustrans have expressed a desire and commitment to continue the Bike It project in Lancaster & Morecambe but only have sufficient funds to extend it to the end of March 2012. Sustrans have requested that Lancaster City Council provide funds equivalent to £16,700 in order to extend this period to the end of July 2012 after which it is anticipated the project will continue further with funding from the joint thematic bid to the Local Sustainable Transport fund referred to in iv. above.

The Bike It project works in up to 12 selected schools throughout the school year to promote and encourage cycling to and from the school, both staff and pupils, by delivering skills and maintenance training, carrying out events and activities and occasional financial support through grants for such things as secure cycle parking. The project has been hugely successful during the Cycling Demonstration Town project and made a considerable contribution to its success.

What the implications for service delivery will be if the carry forward is not approved.

1. The Additional funding required will have to be found from the 2011/12 R&M budget and may compromise other commitments during the year
2. By not identifying any financial commitment to either the Sustrans Links to Schools bid or the Sustrans Bike It project the offers of external grants may be withdrawn with a resultant loss in momentum in the delivery of cycling projects in the district. In the case of the Bike It project it would also result in the loss of two valued colleagues from the Service (although they are not directly employed).

Financial Services Comments

The Public Realm R&M budget covers TERN, River Lune Millennium Park and Cycle Track maintenance across the district. Long term staff sickness in the Environmental Management Team, along with less deterioration in infrastructure than anticipated, resulted in an underspend of £34,200 in 2010/11.

The majority of this carry forward request supports initiatives going forward in a Cabinet Report to build on the success of the Cycling Demonstration Town Initiative now that funding from the Dept of Transport has ended.

If the carry forwards request were not approved it is felt that the contributions of £10,000 in 2011/12 to the Links to Schools Project and £16,700 in 2012/13 could still be made but with increased pressure on the revenue budget. This could cause delays to work schedules and result in increased costs in the long term.

It should be noted that whilst it was planned for this budget to be used to support the above initiatives the request is not for repair and maintenance, for which the budget was established, and therefore this constitutes a change in use.

As the request is greater than £10,000 then Full Council approval will be required.

2010/11 REQUESTS FOR CARRY FORWARD

SERVICE	Health and Housing
BUDGET HEADING	HRA Planned Maintenance
AMOUNT	£30,000

19

The reasons why the spend didn't occur during 2010/11 and why we are still committed to doing this work in 2011/12.

Work was planned to be carried out toward the end of the financial year. However due to an increase in insurance works arising from the inclement weather conditions during the winter period the preparation of the specification for the concrete repair works was delayed. Therefore the works were unable to be carried out during 2010/11.

What the implications for service delivery will be if the carry forward is not approved.

Temporary repair work was carried out initially to prevent any health and safety implications arising. However if the work is not completed the concrete will deteriorate further and may become hazardous possibly resulting in claims against the Council for personal injuries.

Financial Services Comments

The overall net underspend on Planned Maintenance in 2010/11 was £73,000. The carry forward request can be accommodated within this.

As the request is in excess of £10,000 then full Council approval will be required.

For consideration by Cabinet 26 July 2011

HOUSING REVENUE ACCOUNT	Revised Estimate	Expenditure in 2010/11	Expenditure to be financed in 2010/11	SCHEME FINANCING					TOTAL SCHEME SPECIFIC FINANCING / ITEMS	BALANCE FINANCED BY GENERAL CAPITAL RESOURCES
				GRANT	GRANTS UNAPPLIED	EARMARKED RESERVES / PROVISIONS	SPECIFIC REVENUE FINANCING	MAJOR REPAIRS ALLOWANCE (HRA only)		
	£	£	£	£	£	£	£	£	£	
COUNCIL HOUSING										
Environmental / Crime Prevention works	433,000	479,717.38	479,717.38				479,717.38		0.00	
External Refurbishment	1,352,000	1,346,942.81	1,346,942.81				19,000.00	1,275,409.94	52,532.87	
Energy Efficiency works	585,000	612,554.63	612,554.63	1,645.88		56,996.34	553,912.41		0.00	
Bathroom / Kitchen Improvements	1,086,000	1,015,360.67	1,015,360.67				875.00	1,014,485.67	0.00	
Rewiring	62,000	49,107.65	49,107.65				49,107.65		0.00	
Renewal of Heaters	5,000	5,211.25	5,211.25				5,211.25		0.00	
Re-roofing Works	171,000	152,121.63	152,121.63				134,976.24	17,145.39	0.00	
Adaptations	250,000	259,275.86	259,275.86				40,200.07	219,075.79	0.00	
Fire Precaution Works	240,000	240,794.38	240,794.38					240,794.38	0.00	
Choice Based Lettings	90,000	23,544.70	23,544.70					23,544.70	0.00	
TOTAL - HRA	4,274,000	4,184,630.96	4,184,630.96	1,645.88	0.00	80,541.04	1,283,000.00	2,766,911.17	52,532.87	

GENERAL FUND	Revised Estimate	Expenditure in 2010/11	Expenditure to be financed in 2010/11	SCHEME FINANCING					TOTAL SCHEME SPECIFIC FINANCING / ITEMS	BALANCE FINANCED BY GENERAL CAPITAL RESOURCES
				GRANT	GRANTS UNAPPLIED	EARMARKED RESERVES / PROVISIONS	SPECIFIC REVENUE FINANCING	MAJOR REPAIRS ALLOWANCE (HRA only)		
	£	£	£	£	£	£	£	£	£	
ENVIRONMENTAL SERVICES										
Performance Reward Grant	0	0.00	0.00	323,723.50	-323,723.50				0.00	
District Playground Improvements	96,000	95,326.32	95,326.32				36,000.00	36,000.00	59,326.32	
Greaves Park Resurfacing	16,000	15,979.00	15,979.00	15,979.00				15,979.00	0.00	
Ryelands Park improvements	24,000	24,531.00	24,531.00	24,531.00				24,531.00	0.00	
Cedar Park Playground Improvements	13,000	11,896.61	11,896.61	8,490.59			3,406.02	11,896.61	0.00	
Hala Park Playground Improvements	47,000	8,220.00	8,220.00	8,220.00				8,220.00	0.00	
Toilet Works	125,000	121,132.41	121,132.41	25,000.00		45,000.00		70,000.00	51,132.41	
Allotment Improvements	29,000	29,495.75	29,495.75			5,304.59		5,304.59	24,191.16	
Purchase of Vehicles	1,236,000	1,236,079.32	1,236,079.32						1,236,079.32	
Food Waste	99,000	99,143.20	99,143.20						99,143.20	
Sub-Total	1,685,000	1,641,804	1,641,804	405,944.09	-323,723.50	50,304.59	39,406.02	0.00	1,171,931.20	1,469,872
COMMUNITY ENGAGEMENT										
Energy Efficiency Schemes	22,000	0.00	0.00						0.00	
Happy Mount Park Natural Adventure	31,000	30,273.10	30,273.10	30,273.10				30,273.10	0.00	
Salt Ayre works programme	18,000	15,323.38	15,323.38						15,323.38	
Lancaster Hub TIC	0	400.00	400.00						400.00	
Sub-Total	71,000	45,996.48	45,996.48	30,273.10	0.00	0.00	0.00	0.00	30,273.10	15,723.38
HEALTH & HOUSING										
YMCA Places of Change	783,000	720,269.87	720,269.87	720,269.87				720,269.87	0.00	
Impact Housing association	50,000	50,000.00	50,000.00			50,000.00		50,000.00	0.00	
Disabled Facilities Grants	753,000	725,132.82	725,132.82	725,132.82				725,132.82	0.00	
Sub-Total	1,586,000	1,495,402.69	1,495,402.69	1,445,402.69	0.00	50,000.00	0.00	0.00	1,495,402.69	0.00
INFORMATION SERVICES										
I.T. Strategy	26,000	13,628.49	13,628.49						13,628.49	
I.T. Application Systems Renewal	25,000	25,000.00	25,000.00						25,000.00	
I.T. Desktop Equipment	25,000	0.00	0.00						0.00	
I.T. Asset Management Software	30,000	29,735.00	29,735.00						29,735.00	
I.T. Electronic Room Hire Booking Equip't	13,000	11,969.67	11,969.67						11,969.67	
Sub-Total	119,000	80,333.16	80,333.16	0.00	0.00	0.00	0.00	0.00	80,333.16	
REGENERATION & POLICY										
Cycling England	409,000	396,113.61	396,113.61	392,113.61				392,113.61	4,000.00	
Toucan Crossing-King Street	70,000	56,202.01	56,202.01			56,202.01		56,202.01	0.00	
Artle Beck Improvements (Flood Defences)	416,000	179,696.65	179,696.65	174,262.65				174,262.65	5,434.00	
Christmas Lights Renewals	31,000	31,360.00	31,360.00			31,000.00		31,000.00	360.00	
Strategic Monitoring (River & Sea Defences)	85,000	85,456.10	85,456.10	79,088.10				79,088.10	6,368.00	
Denny Beck Bridge Improvements	139,000	73,214.55	73,214.55						73,214.55	
Mill Head Warton (Flood Defences)	30,000	30,420.61	30,420.61	21,939.21			8,000.00	29,939.21	481.40	
Wave Reflection Wall Refurbishment	19,000	3,620.00	3,620.00	2,907.00				2,907.00	713.00	
Slyndale Culvert project	26,000	2,933.00	2,933.00	2,355.00				2,355.00	578.00	
The Dome (Demolition)	140,000	100,472.51	100,472.51						100,472.51	
Amenity improvements	10,000	6,575.00	6,575.00						6,575.00	
Luneside East-Land Acquisition	87,000	86,731.60	86,731.60	-628.00				-628.00	87,359.60	
Luneside East-Compensation	85,000	134,286.09	134,286.09			134,286.09		134,286.09	0.00	
Poulton Public Realm-Edward St, Union St, Church Walk	25,000	15,000.00	15,000.00	15,000.00				15,000.00	0.00	
Bold Street Renovation Scheme	908,000	814,300.76	814,300.76	814,300.76				814,300.76	0.00	
Marlborough Road Redevelopment	200,000	200,000.00	200,000.00	110,000.00		90,000.00		200,000.00	0.00	
Public Realm Works	13,000	0.00	0.00						0.00	
Storey Institute Centre for Industries	45,000	10,796.22	10,796.22	10,796.22				10,796.22	0.00	
SACS Business Continuity	0	-2,245.00	-2,245.00						-2,245.00	
EP Exemplar Project Funding	0	375,150.00	375,150.00	75,960.20				75,960.20	299,189.80	
Sub-Total	2,738,000	2,600,083.71	2,600,083.71	1,698,094.75	0.00	311,488.10	8,000.00	0.00	2,017,582.85	582,500.86
PROPERTY SERVICES										
Lancaster Town Hall Clock Tower	0	0.00	0.00	50,000.00	-50,000.00				0.00	
Fire Safety Works	2,000	4,330.62	4,330.62						4,330.62	
Corporate and Municipal Building Works	100,000	0.00	0.00						0.00	
St Leonards House Electrics	9,000	4,000.00	4,000.00						4,000.00	
Festival Market Electrical Works	0	864.28	864.28						864.28	
67-71 Market Street	33,000	10,000.00	10,000.00						10,000.00	
Old Fire Station Renovation Works	7,000	3,912.63	3,912.63						3,912.63	
Municipal Buildings Ceiling Works	23,000	33,750.00	33,750.00						33,750.00	
LTH Emergency Electrical Works	100,000	121,581.25	121,581.25						121,581.25	
LTH Roof Replacement	300,000	267,034.70	267,034.70						267,034.70	
MTH Roof Replacement	400,000	347,572.53	347,572.53						347,572.53	
Palatine Hall Emergency Building Works	6,000	4,537.28	4,537.28						4,537.28	
Works to LTH Offices	15,000	11,849.00	11,849.00						11,849.00	
Maritime Museum Remedial Works	30,000	44,564.16	44,564.16						44,564.16	
Assembly Rooms Structural Works	0	15,687.86	15,687.86						15,687.86	
Sub-Total	1,025,000	869,684.31	869,684.31	50,000.00	-50,000.00	0.00	0.00	0.00	869,684.31	
TOTAL - GENERAL FUND	7,224,000	6,733,303.96	6,733,303.96	3,629,714.63	-373,723.50	411,792.69	47,406.02	0.00	3,715,189.84	3,018,114.12

Revised Estimate	Expenditure in 2010/11	Expenditure to be financed in 2010/11	SCHEME FINANCING					TOTAL SCHEME SPECIFIC FINANCING / ITEMS	BALANCE FINANCED BY GENERAL CAPITAL RESOURCES
			GRANT	GRANTS UNAPPLIED	EARMARKED RESERVES / PROVISIONS	SPECIFIC REVENUE FINANCING	MAJOR REPAIRS ALLOWANCE (HRA only)		
£	£	£	£	£	£	£	£	£	
GENERAL FUND									
7,224,000	6,733,303.96	6,733,303.96	3,629,714.63	-373,723.50	411,792.69	47,406.02	0.00	3,715,189.84	3,018,114.12
HOUSING REVENUE ACCOUNT									
4,274,000	4,184,631	4,184,631	1,646	0	80,541	1,283,000	2,766,911	4,132,098	52,532.87
TOTAL CAPITAL EXPENDITURE & FINANCING									
11,498,000	10,917,934.92	10,917,934.92	3,631,360.51	-373,723.50	492,333.73	1,330,406.02	2,766,911.17	7,847,287.93	3,070,646.99

2010/11 CAPITAL EXPENDITURE FINANCING	Housing Revenue Account	General Fund	Grand Total for all Funds
	£	£	£
Amounts to be financed by General Capital Resources	52,532.87	3,018,114.12	3,070,646.99
Financed by:			
Unsupported Borrowing	0.00	2,352,220.01	2,352,220.01
Usable Capital Receipts	52,532.87	665,894.11	718,426.98
Total Financing from General Capital Resources	52,532.87	3,018,114.12	3,070,646.99

CAPITAL SLIPPAGE - INTO FINANCIAL YEAR 2011/12

For consideration by Cabinet 26 July 2011

	Slippage Requested	Source of Funding:		
		LCC Funded	Grant / Contributions	Total
		£	£	£
Environmental Services				
District Playground Improvements	1,000.00	1,000.00		1,000.00
Hala Park Playground Improvements	39,000.00	9,000.00	30,000.00	39,000.00
Toilet Works	4,000.00	4,000.00		4,000.00
	44,000.00	14,000.00	30,000.00	44,000.00
Community Engagement				
Energy Efficiency Schemes	22,000.00	22,000.00		22,000.00
Salt Ayre works programme	3,000.00	3,000.00		3,000.00
	25,000.00	25,000.00	0.00	25,000.00
Health and Housing				
YMCA Places of Change	63,000.00		63,000.00	63,000.00
Disabled Facilities Grants	28,000.00		28,000.00	28,000.00
	91,000.00	0.00	91,000.00	91,000.00
Information Services				
I.T. Infrastructure	10,000.00	10,000.00		10,000.00
I.T. Desktop Equipment	25,000.00	25,000.00		25,000.00
Electronic Room Hire Booking System	1,000.00	1,000.00		1,000.00
	36,000.00	36,000.00	0.00	36,000.00
Regeneration & Policy				
Cycling England	13,000.00		13,000.00	13,000.00
Toucan Crossing-King Street	14,000.00		14,000.00	14,000.00
Artle Beck Improvements (Flood Defences)	237,000.00		237,000.00	237,000.00
Denny Beck Bridge Improvements	81,000.00	81,000.00		81,000.00
Wave Reflection Wall Refurbishment	15,000.00	1,000.00	14,000.00	15,000.00
Slynedale Culvert project	21,000.00		21,000.00	21,000.00
The Dome (Demolition)	12,000.00	12,000.00		12,000.00
Amenity improvements	3,000.00	3,000.00		3,000.00
Luneside East Compensation Claims	1,000.00	1,000.00		1,000.00
Poulton Public Realm-Edward St, Union St, Church Walk	10,000.00		10,000.00	10,000.00
Bold Street Renovation Scheme	94,000.00		94,000.00	94,000.00
Public Realm Works	13,000.00	13,000.00		13,000.00
Storey Institute Centre for Industries	34,000.00		34,000.00	34,000.00
	548,000.00	111,000.00	437,000.00	548,000.00
Property Services				
Corporate & Municipal Building Works (incl. energy efficiency)	47,000.00	47,000.00		47,000.00
67-71 Market Street	23,000.00	23,000.00		23,000.00
LTH Roof Replacement	33,000.00	33,000.00		33,000.00
MTH Roof Replacement	52,000.00	52,000.00		52,000.00
	155,000.00	155,000.00	0.00	155,000.00
GENERAL FUND TOTAL	899,000.00	341,000.00	558,000.00	899,000.00
Council Housing				
Kitchen/Bath 09/10 Contract 2 Ridge	8,000.00	8,000.00		8,000.00
Fire Precaution Works 10/11	7,000.00	7,000.00		7,000.00
Choice Based Letting	67,000.00	67,000.00		67,000.00
COUNCIL HOUSING TOTAL	82,000.00	82,000.00	0.00	82,000.00

APPENDIX K

Annual Treasury Management Report 2010/11

For consideration by Cabinet 26 July 2011

1 Introduction

1.1 The Council's Treasury Management Strategy for 2010/11 was approved by Council on 03 March 2010. This report sets out the related performance of the treasury function by providing details of:

- a) long term and short term borrowing (i.e. debt that the Council owes)
- b) investment activities
- c) relevant borrowing limits and prudential indicators.

It is a requirement of the CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice on Treasury Management in Local Authorities that such a report be made to the Cabinet within six months of the end of the financial year, and that it also be reported to Council for information.

1.2 The aim of the Treasury Management Policy and associated activity is to ensure that the investment of surplus cash is managed in line the guidance issued by both CIPFA and Government, as well as in line with the Council's appetite for risk. For 2010/11 the appetite for risk remained low following the collapse of the Icelandic banks and resulting volatility in the wider economy.

1.3 Treasury management is a technical area. Training has been provided in the past to Members and this continues to be an important part of the updated CIPFA code of practice (November 2009) covering strategies from 2010/11 onwards. To assist with the understanding of this report, a glossary of terms commonly used in Treasury Management is attached at **Annex A**. In addition, the Councillor's Guide to Local Government Finance also has a section on treasury and cash management, and this is available through the Member Information section on the Intranet. Member training has been organised with the Council's Treasury Management consultants, Sector, for later in the 2011/12 financial year.

2 Summary: Headline Messages for 2010/11

2.1 The key points arising from this report are as follows:

- There is still a great deal of uncertainty in the economy with a number of competing factors in the balance as to whether interest rates may increase and the timing of any increase. Credit worthiness is still an key issue.
- Although there is reason for optimism in relation to Icelandic investments, the judgement to award preferential creditor status for Glitnir and Landsbanki has yet to be passed irrefutably. However, a concrete decision should be known before the end of the calendar year.
- Payments have continued against the KSF deposit which is now up to 53% repayment against a total predicted settlement of 82%.
- No new long term debt has been taken on in the year. The Council has not breached any Treasury Management Indicators relating to debt in the year.

Borrowings were in line with the Council's Capital Financing Requirement (CFR). They have not been above either the Operational or Authorised limits and the maturity profile/variable rate exposure on borrowings has also stayed within the approved limits, although the change to IFRS accounting has brought some very long term liabilities onto the Council's balance sheet, and these are longer than the range previously used in the maturity of debt indicator.

- Although the capital programme increased the amount of prudentially funded expenditure in year, this was offset by provision for repayment of principal so that the net underlying need to borrow was static in year.
- No long term loans have been repaid in the year and no temporary borrowings have been required to support day to day cash flow. The portfolio will monitored going forward with an eye on the potential requirement to finance a buy out of the HRA subsidy system.
- The Council has stayed within its Prudential limits for investments and has not breached any of the criteria set out in the approved strategy. As was the case in 2009/10, funds have been kept either on instant access or within short fixed term deposits at the Debt Management Office (part of Her Majesty's Treasury).
- Outturn on investment interest was £271K, which was £17K above the revised budget. This is largely due to higher cash balances in the year than anticipated and slightly higher rates of return on the call accounts and money market funds.

3 **Economic background**

2010/11 proved to be another watershed year for financial markets. Rather than a focus on individual institutions, market fears moved to sovereign debt issues, particularly in the peripheral Euro zone countries.

UK growth proved mixed over the year. The first half of the year saw the economy outperform expectations, although the economy slipped into negative territory in the final quarter of 2010 due to inclement weather conditions. The year finished with prospects for the UK economy being decidedly downbeat over the short to medium term. The Japanese disasters in March and the crisis in Libya caused an increase in world oil prices, which all combined to dampen international economic growth prospects.

The cost of the UK Government's borrowing (Gilt yields) fell for much of the first half of the year as financial markets drew considerable reassurance from the Government's debt reduction plans, especially in the light of Euro zone sovereign debt concerns. However, this positive performance was mostly reversed in the closing months of 2010 as sentiment changed due to sharply rising inflation pressures. These were also expected to cause the Monetary Policy Committee (MPC) to start raising the Bank Rate. Although this did not happen in 2010/11, it remains a continuing pressure on the MPC. However, in March 2011, slowing actual growth, together with weak growth prospects, saw consensus expectations of the first UK rate rise move back from May to August 2011 despite high inflation.

The developing Euro zone peripheral sovereign debt crisis caused considerable concerns in financial markets. First Greece (May 2010), then Ireland (December), were forced to accept assistance from a combined EU / IMF rescue package.

Subsequently, fears steadily grew about Portugal, although it managed to put off accepting assistance till after the year end. These worries caused international investors to seek safe havens in investing in non-Euro zone government bonds.

Risk premiums were also a constant factor in raising money market deposit rates beyond 3 months. Although market sentiment has improved, continued Euro zone concerns, and the significant funding issues still faced by many financial institutions, mean that investors remain cautious of longer-term commitment. The European Commission did try to address market concerns through a stress test of major financial institutions in July 2010. Although only a small minority of banks "failed" the test, investors were highly sceptical as to the robustness of the tests, as they also are over the further tests now taking place. Results for these are due in mid-2011.

Overall then, there is still a great deal of uncertainty in the economy with interest rates still at historically low levels. There are a number of competing factors in the balance as to whether rates may increase and if so, what the timing of any increase might be. Credit worthiness is still an key issue.

4 **Icelandic Investments**

There is still significant uncertainty over the position on the Council's Icelandic investments. Although the Council has had a favourable verdict on its creditor status for both Landsbanki and Glitnir, these rulings have been appealed and so, as yet, there is no definitive outcome. The high court ruling is expected some time in late Summer or Autumn 2011 which may, or may not, be in time for the final accounts being signed off.

Although CIPFA revised its accounting guidance, removing the worst case scenario from its recommended range of values, the Council has not adjusted the impairment on these investments, keeping them at a value that was half way between best and worst case. This is because revising the value upwards in line with CIPFAs recommended values would expose the Council to a potentially large revenue cost if the appeal led to the Council losing its preferential creditor status.

KSF are still making repayments and as at the end of the year, 53% of the claim (£1,082K including £22K of interest) had been paid. The latest prediction as per CIPFA (update 4) is that in total 82% of the claim should be refunded to the Council (£1,640K of principal and £39K of interest), which is an increase on the prior year.

As was reported in the prior year, there is an exchange rate risk linked to the Icelandic deposits. The claims with Glitnir and Landsbanki were converted to Icelandic Krona (ISK) on 22 April 2009. Repayments by the banks will be based on the value of the deposit in ISK so the sterling value received by authorities will depend on the prevailing exchange rate which may be lower than the equivalent value on 22 April 2009 (190.62 ISK/£, the rate as at 31/3/2011 was 183.4 ISK/£). However, as previously reported by CIPFA, this is not expected to be material, although it is possible that this could change in the future.

The Government allocated a £2.1M capitalisation order to the Council, all of which was used in 2009/10. Due to the upwards re-measurement of the KSF investment, £222K of the capitalisation has been reversed but the remainder is in place covering the recognised impairment on Glitnir and Landsbanki. Once a conclusive valuation for these two assets is available, the impairment and its financing will be reviewed.

5 Borrowing and capital expenditure.

5.1 Longer Term Borrowing and Funding of Capital.

Long term borrowing is an important part of the Council's capital financing. Under the Prudential Code a key indicator is the Capital Financing Requirement (CFR). This figure is calculated from the Council's balance sheet and represents, in broad terms, the gap between the value of fixed assets and that of capital reserves. In essence, this gap may be viewed as the cumulative amount of capital investment that may need to be funded through external borrowing (i.e. the amount of capital investment that hasn't been funded from other sources such as grants, revenue contributions and capital receipts). Borrowing should not then exceed the CFR on a long term basis, as this would indicate that borrowing is being used to fund expenditure other than capital. For 2010/11 the figures were as follows:

	£000
Opening CFR	50,811
Closing CFR	50,820
Average CFR	50,816
Weighted average borrowings	39,215
Weighted average fianance lease liability	4,187
Weighted average investments*	18,805
Net borrowings	24,597

From this it is clear that net borrowings are well below the Council's CFR, and average gross borrowings are comfortably below, even adjusting the CFR down for the balance sheet adjustments relating to finance lease liabilities. This shows that that long term borrowing has not been used to fund revenue activities.

In terms of capital expenditure and funding in the year, this can be summarised as follows:

	2009/10 (restated)	2010/11
	£000	£000
Opening Capital Financing Requirement	50,398	50,810
<i>Capital investment</i>		
Property, Plant and Equipment	9,066	8,397
Investment Properties	39	12
Intangible Assets	27	90
Revenue Expenditure Funded from Capital Under Statute	4,228	2,197
<i>Sources of financing</i>		
Capital receipts	(1,409)	(718)
Government Grants and other contributions	(5,660)	(3,258)
Direct revenue contributions	(1,499)	(1,823)
Minimum Revenue Provision	(2,076)	(2,121)
Major Repairs Reserve	(2,304)	(2,767)
Closing Capital Financing Requirement	50,810	50,819

This shows little movement in the CFR over the year. The capital programme was budgeted to have a borrowing requirement of £1.1M for 2010/11. The actual out-turn was £2.13M of prudentially funded expenditure. This increase was due to the decision to acquire vehicles and waste receptacles through capital expenditure rather than through sale and lease back agreements, on value for money grounds. Under the newly introduced international financial reporting standards (IFRS) many of these sale and lease back arrangements end up counting towards the Council's capital expenditure anyway, so future capital budgets will need to be adjusted to reflect this change in treatment and the impact on the CFR. This also explains why the 2009/10 figures have been restated as lease arrangements that were previously treated as revenue costs have been capitalised under IFRS accounting.

Although there was an increase to the Council's prudentially funded capital expenditure, this was offset by the reduction in capitalisation directive required for the impairment on the Council's investment with the Icelandic bank KSF (£222K) and through the statutory provision for repayment of principal (MRP). In summary, there has been little change in the underlying need to borrow, over the year.

To control the actual level of borrowing indicators are set on both the absolute allowable amount of debt (the Authorised limit) and expected gross debt allowing for day to day cash management (Operational Boundary). This is summarised below:

	Actual Debt 31/03/11	Operational Boundary	Authorised Limit
	£000's	£000's	£000's
Deferred Liabilities	223		
Long term Finance lease liability	3,433		
PWLB Debt	39,215		
Total	42,871	48,100	53,110

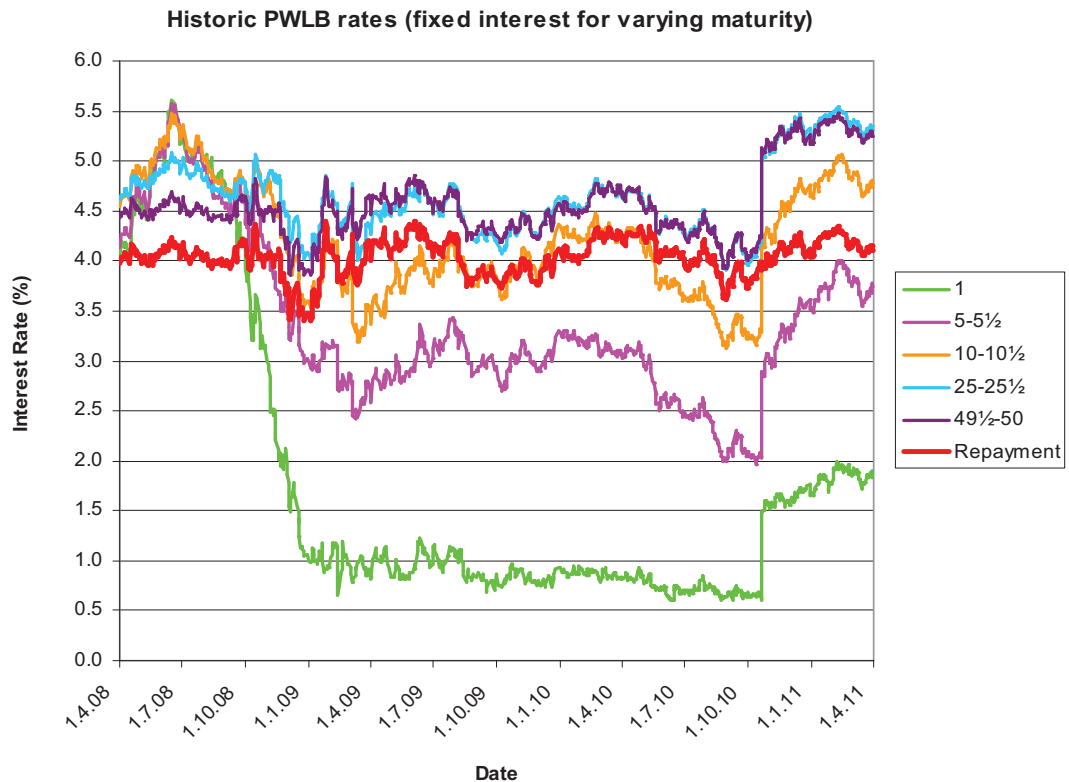
It can be seen that the Council was well below the Authorised Limit and Operation Boundary throughout the year. The debt boundaries appear high in relation to the level of debt actually incurred, but these were originally set to provide flexibility for some potentially large liabilities within the capital programme arising in connection

with matters such as Luneside East land acquisitions. These have not resulted in a direct impact on capital expenditure or income in 2010/11 and following the successful result in the first round of the Lands Tribunal, a smaller contingency is required in future years. However, other issues such the timing and likelihood of some major capital receipts still mean that flexibility is required in terms of future years' borrowing limits.

The Council's debt figure also includes the long term element of finance lease liabilities, in line with the Prudential Code. Although these are not strictly borrowings, they are included to reflect the capital substance of some lease contracts.

5.2 PWLB Interest Rate Movements

All of the Council's long term borrowings are held with the Public Works Loan Board (PWLB). During the course of 2010/11 the spread in rates which started in 2008/09 has remained, with a much lower rate for short term loans than those for longer periods. The Government did however raise rates in October 2010, adding 1% across the board on PWLB rates:



Repayment of PWLB debt is still an attractive option in the current climate, as investment returns remain far lower than the interest payable on existing debt. However, the rates during 2010/11 did not allow this without inhibitive early repayment penalties. Opportunities to make repayments will be reviewed throughout 2011/12 although this will be done with an eye on the possible need to take on more debt should HRA self financing become a reality. In this case it may make sense to keep hold of existing loans if these are below the projected market rates.

5.3 Debt Maturity (or Repayment) Profile

The Council is exposed to “liquidity” risks if high value loans mature (i.e. become due for repayment) at the same time, making a large demand on cash. One Treasury Indicator which is used to manage this risk is the maturity structure of borrowing. This indicator introduces limits to help reduce the Council’s exposure to large fixed rate sums falling due for repayment (and potentially re-financing) all at once. The table below shows these profiles at the beginning and end of the year against the indicator. The portfolio has not moved during the year.

None of the Council’s current longer term borrowing is due for scheduled repayment in the next ten years, although, as noted above, there may be some large changes to the debt portfolio going forward, in relation to HRA self financing.

	Treasury Indicator	Actual (restated) 31/3/10	Actual 31/3/11
Under 12 months	0-35 %	1%	1%
12 – 24 Months	0 – 20%	1%	1%
24 – 5 years	0 – 20%	1%	2%
5 – 10 years	0 – 20%	0%	0%
10 -15 years	0 – 50%	0%	0%
15 – 25 years	0 - 100%	0%	0%
25 – 50 years	50 – 100%	92%	91%
50 years and upwards		5%	5%

In line with the Prudential Code, these figures now include the finance lease liabilities brought onto the balance sheet under IFRS during 2010/11. As one of these leases is for longer than 50 years (Lancaster Market), the accounting adjustments result in a long term liability greater than 50 years in length which is outside the range of the indicators set for 2010/11. This is not judged to alter the liquidity risk of the debt portfolio which is otherwise well within the approved limits.

5.4 Interest Payable on Longer Term Borrowing

The average rate of interest payable on PWLB debt in 2010/11 was 5.68% which is identical to 2009/10 and was on budget.

	£'000
2010/11 Estimate	2,227
2010/11 Actual	2,227 (of which £724K was re-charged to the HRA)
Variance	0

There was also £429K of interest in relation to finance leases under IFRS accounting. This is a cost that in previous years has been presented within service expenditure. It is purely a presentational change with no impact on the bottom line.

Prudential Indicators also provide exposure limits that identify the maximum limit for variable / fixed interest rate exposure, based upon the debt position. The table below shows that the outturn position was within the limits set by Members at the beginning of the year. The Council currently only has fixed interest rate maturity debt, although again this could change in future if market conditions warrant or facilitate it.

	Prudential Indicator	Actual
	%	%
Fixed Rate	100	100
Variable Rate	30	0

Accounting for finance leases has not altered this as the interest rates implicit in the leases are fixed at their inception date.

6 Investment Activities

5.1 Performance against Prudential Indicators

In 2010/11 all investments were placed in accordance with the approved Investment Strategy; there have been no breaches of the investment criteria.

The Council has made no investments and held no investments with a maturity of longer than 365 days from the end of 2010/11; the investment strategy prohibited such long term investments. All deposits have been made either to instant access call accounts and money market funds or have been placed as term deposits with the Debt Management Office (DMO), part of Her Majesty's Treasury.

Details of deposits are included in **Annex B**.

5.2 Performance against budget and external benchmarks.

In terms of performance against external benchmarks, the return on investments (not including notional Icelandic interest) compared to the LIBID and bank rates over the year to date is as follows:

Indicator (mean value)	2009/10	2010/11
Base Rate	0.50%	0.50%
3 Month LIBID	0.83%	0.74%
Lancaster CC investment	0.86%	0.53%

The return is just above base but well below 3 month LIBID. This is because the Council has focussed on secure and highly liquid deposits which have mainly been on instant access, hence the relatively poor rate of return.

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

Annual budget	£254K
Actual to date	£99K (see details in Annex B)
"Icelandic" to date	£172K (see details in Annex B)
Total	£271K
Variance	£17K favourable

There is a £17K favourable variance. This is largely due to higher cash balances in the year than anticipated and slightly higher rates of return on the call accounts and money market funds. The Icelandic income is a real credit to the general fund, unlike in previous years when this 'accounting' interest had to be reversed out to the

Financial Instrument Adjustment Account to net off against the deferred impairment charge.

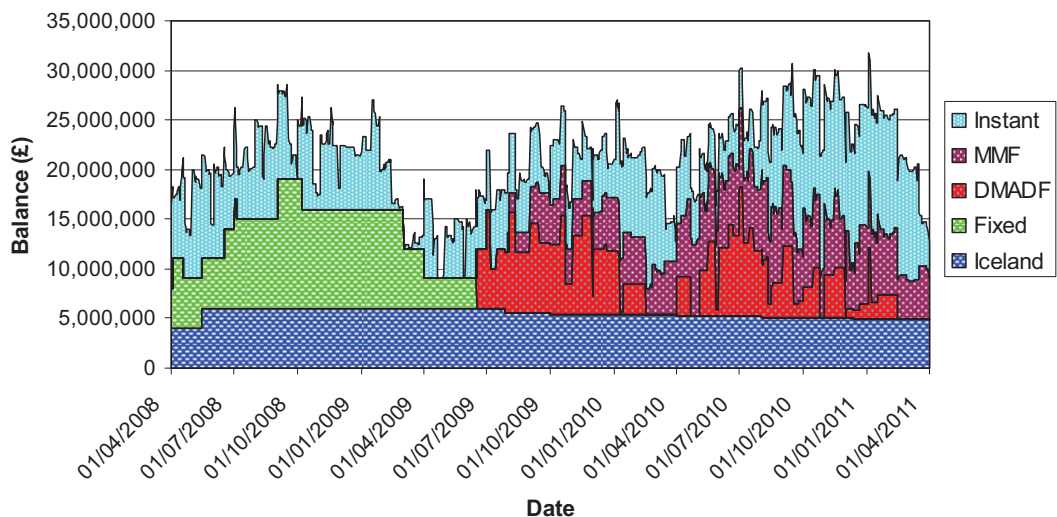
Overall, the investment returns were within the range limited by the base rate and LIBID (London Inter-bank Bid) rate. In comparison to the prior year, the overall rate of return is worse although the absolute amount of 'real' interest (not including Iceland) is similarly low (£99K vs £108K), which reflects the consolidation of the downturn which started in 2008/09. It is anticipated that returns may double over the year but as can be seen from the table below, these predictions are still cautious and are well below the high rates of investment interest being earned during 2007/08.

Date	3 month LIBID projection (%)
01/06/2011	0.80
01/09/2011	0.90
01/12/2011	1.25
01/03/2012	1.50
01/06/2012	1.75

Source: Sector, June 2011

The Investment Strategy for 2010/11 continued with the more cautious approach to managing surplus cash which has been in place since the banking crisis. This has restricted the term of deposits to a maximum of 1 year, reduced the counterparty limits and removed the option to make non EU deposits. In practice, deposits were placed on instant access in either call accounts or Money Market Funds (MMFs), or were placed on term deposit in the DMO account. The pattern of these investments over 2010/11 and the prior year can be seen in more detail below (the reduction in Icelandic balances represents the repayments made by KSF).

Investment values over the prior 2 years



Similar to the borrowing comparators, there is currently no information available regarding other Local Authorities' investment performance during 2010/11.

Treasury Management Glossary of Terms

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

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

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

See also PWLB.

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

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

7 Other Risk Management Issues

Many of the risks in relation to treasury management are managed through the setting and monitoring performance against the relevant Prudential Indicators and the approved investment strategy, as discussed above.

The risk management framework within treasury management has been recently updated within the new codes of practice from CIPFA and the new investment guidance due from the DCLG. Since 2007/08 the environment has changed from a relatively stable economy with investment returns that were higher than the cost of much of the Council's debt, to one where investment returns have slumped and the credit worthiness of counterparties is paramount. The Authority's Investment Strategy is designed to engineer risk management into investment activity largely by reference to credit ratings and length of deposit to generate a pool of counterparties, together with consideration of non credit rating information to refine investment decisions. This strategy is required under the CIPFA Treasury Management Code, the adoption of which is another Prudential Indicator. The strategy for 2010/11 complied with updated code of practice and DCLG investment guidance.

8 Other Prudential Indicators

As required under the Prudential Code, certain other year end Prudential Indicators must be calculated and these are included in a separate Appendix. They cover the other side of investment and debt management referred to briefly in 5.1 above, this being capital expenditure, and they will be incorporated into the referral report to Council.

9 Conclusion

As for 2009/10, the main issue for 2010/11 treasury management relates to Icelandic investments although progress with the legal claims is being made to the extent that, within months, the Council should have a concrete figure in terms of the amounts to be recovered from Glitnir and Landsbanki.

Due to the ongoing impact of Iceland on the Council's risk appetite and the ongoing economic malaise, all other Treasury management activity has continued within a very narrow band of low risk products and counterparties maintaining the trend of relatively low investment returns compared to the pre Iceland years.

INVESTMENT INTEREST EARNED TO 31 March 2011

Icelandic investments	No	Start	End	Rate %	Principal £	Cumulative Interest* £
Deposited 2007/08						
Landsbanki Islands	004	31-Mar-08	22-Apr-09	6.25	1,000,000	35,000
Glitnir	FI02/023	31-Mar-08	22-Apr-09	5.76	3,000,000	107,000
Deposited 2008/09						
Kaupthing, Singer & Friedlander	06/07-I29	16-May-08	07-Oct-08	6.00	940,000	30,000
Sub total					4,940,000	172,000

Other Investments	opening	Min	Max	closing	Indicative rate	Cumulative Interest £
Call: Abbey National	3,300,000	0	4,000,000	2,400,000	0.75%	17,560
Call: Yorkshire bank	2,000,000	0	2,000,000	0	0.50%	8,849
Call: RBS	400,000	400,000	2,000,000	1,300,000	0.70%	13,338
Call: Lancashire County Council	0	0	4,000,000	0	0.70%	17,481
DMADF	4,000,000	0	12,950,000	0	0.25%	9,214
Government Liquidity MMF	1,600,000	0	4,000,000	100,000	0.39%	11,003
Liquidity First MMF.	3,700,000	1,000,000	4,000,000	4,000,000	0.65%	21,751
Sub-total	15,000,000			7,800,000		99,196

TOTAL Interest						271,196
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* Under the 2009 SORP, interest continues to be accrued whilst Icelandic investments are on the Council's balance sheet. As the full impairment on the investments was recognised in the 0910 accounts, this interest will be credited to the General Fund.

PRUDENTIAL INDICATORS - LANCASTER CITY COUNCIL

For consideration by Cabinet 26 July 2011

2009/10*	2010/11
£'000	£'000

AFFORDABILITY

PI 2: Actual ratio of financing cost to net revenue stream		2009/10*	2010/11
	Non - HRA	15.4%	16.0%
	HRA	8.4%	7.4%
	Overall	13.2%	13.2%

PRUDENCE

PI 6: Actual capital expenditure		2009/10*	2010/11
	Non - HRA	9,852	6,511
	HRA	3,508	4,185
	Total	13,360	10,696

PI 8: Actual Capital Financing Requirement		2009/10*	2010/11
	Non - HRA	35,508	35,517
	HRA	15,303	15,303
	Total	50,811	50,820

PI 11: Actual external debt		2009/10*	2010/11
	PWLB loans	39,215	39,215
	Long term Finance lease liability	3,938	3,433
	Short term finance lease liability	498	504
	Other long term liability	223	223

BUDGET AND PERFORMANCE PANEL**Work Programme Report
30 August 2011****Report of Head of Governance****PURPOSE OF REPORT**

To update Members regarding the Panel's Work Programme.

This report is public

RECOMMENDATIONS

- (1) That Members note the items to be carried forward for consideration at future meetings, as detailed in Appendix A to the report.
- (2) That Members consider whether they would like to include any further items in the work programme.

1.0 Introduction

- 1.1 This report provides Members with recommendations for inclusion in the Panel's Work Programme and advises of possible upcoming items for consideration and work in progress.

2.0 Report**2.1 Upcoming Items**

- Details of upcoming items are detailed in Appendix A to the report.

- 2.2 Members are reminded that at the last meeting of the Panel on 12 July 2011 members resolved the following:

"That Councillor James attend the next meeting of the Overview and Scrutiny Committee in order to provide an update on the work of the panel."

Councillor James has attended the meeting of the Overview and Scrutiny Committee on 13 July 2011 and updated members on the work of the Panel

Councillor James was appointed to the Conservative group vacancy on the Overview and Scrutiny Committee at the meeting of Council on 20 July 2011, and is now therefore a member of both the Committee and this Panel. Members may therefore feel it appropriate for her to provide feedback from the Overview and Scrutiny Committee to the Panel at future meetings.

3.0 Outstanding items

3.1 Invitations to Cabinet Members

Members are reminded that they may wish to consider extending invitations to cabinet members to coincide with consideration of issues relevant to their respective portfolios, such as the budget, or issues relating to performance/financial management.

SECTION 151 OFFICER'S COMMENTS

The S151 Officer has been consulted and has no comments.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no comments.

BACKGROUND PAPERS

None.

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BUDGET & PERFORMANCE PANEL WORK PROGRAMME
2011/12

Matter for consideration	Officer responsible / External	Date of meeting
Service Level Agreements	Head of Community Engagement	18 October 2011
Partnerships	Head of Community Engagement	18 October 2011
2011/12 Qtr2 Corporate Financial Monitoring, Including Treasury Management	Head of Financial Services	29 November 2011
Lancaster City Council Leader's Presentation on the Budget and Policy Framework Proposals	Leader of the Council	24 January 2012 (Note: This meeting to be held at Morecambe Town Hall).
Lancashire County Council's Director of Resources – Budget and Capital Investment Strategy Budget and Policy Framework Proposals.	External	24 January 2012 (Note: This meeting to be held at Morecambe Town Hall).
2011/12 Qtr3 Corporate Financial Monitoring, including Treasury Management.	Head of Financial Services	21 February 2012
Treasury Management Strategy 2012/13	Head of Financial Services	21 February 2012
Building Control Service Area – raised in response to PRT report	Head of Planning and Building Control	27 March 2012
2011/12 Qtr4 Corporate Financial Monitoring, including Treasury Management	Head of Financial Services	June 2012 (Date to be determined).
Updates on the work of the Affordable Housing Task Group, once established.	Head of Planning and Building Control	TBC – awaiting information from central government prior to establishing.
Budget Overspends/Variances	As required	As required

Invitations to Cabinet Members

Cabinet Member and area of responsibility	Issue	Date of meeting
Councillor Blamire (Leader) and Councillor Bryning (Finance)	To discuss budget issues and financial matters, together with performance management issues.	18 October 2011

Briefing Notes

Matter for consideration	Officer responsible	Date of meeting
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Members are advised that there are currently no outstanding requests for briefing notes.