LANCASTER CITY COUNCIL

Promoting City, Coast & Countryside

Committee: **BUDGET AND PERFORMANCE PANEL**

Date: **TUESDAY, 26 MARCH 2013**

Venue: **LANCASTER TOWN HALL**

Time: **6.00 P.M.**

A G E N D A

1. **Apologies for Absence**

2. **Minutes**

   Minutes of the Meeting held on 29 January 2013 (previously circulated).

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

4. **Declaration of Interests**

   To receive declarations by Members of interests in respect of items on this Agenda.

   Members are reminded that, in accordance with the Localism Act 2011, they are required to declare any disclosable pecuniary interests which have not already been declared in the Council's Register of Interests. (It is a criminal offence not to declare a disclosable pecuniary interest either in the Register or at the meeting).

   Whilst not a legal requirement, in accordance with Council Procedure Rule 10 and in the interests of clarity and transparency, Members should declare any disclosable pecuniary interests which they have already declared in the Register, at this point in the meeting.

   In accordance with Part B Section 2 of the Code Of Conduct, Members are required to declare the existence and nature of any other interests as defined in paragraphs 8(1) or 9(2) of the Code of Conduct.

5. **Salt Ayre Sports Centre** (Pages 1 - 7)

   Report of Head of Community Engagement.

6. **Corporate Performance and Financial Monitoring - Quarter 3 2012/13** (Pages 8 - 30)

   Report of Assistant Head, Community Engagement (Partnerships) and Financial Services Manager.

7. **Treasury Management Strategy 2013/14** (Pages 31 - 59)

   Report of the Head of Resources.

8. **The Effect of the Current Economic Climate and Changes to Planning Legislation on Related Revenue Coming into the Council** (Pages 60 - 63)

Report of the Head of Regeneration and Planning.

9. **Work Programme Report** (Pages 64 - 67)

Report of the Head of Governance.

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

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

(ii) Substitute Membership

Councillors Chris Coates, Mike Greenall, Richard Rollins, 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 1PJ

Published on Monday 18 March 2013.

Agenda Item 5

BUDGET AND PERFORMANCE PANEL

Salt Ayre Sports Centre

26 March 2013

Report of Head of Community Engagement and Assistant Head (Wellbeing)

PURPOSE OF REPORT
To update members on the continuing work in relation to the performance of Salt Ayre sports centre.
This report is public

Recommendations:

(1) That the report be noted and that Members consider any comments they would wish to make.

Introduction

1.1 Following a previous report on Salt Ayre Sports Centre presented to the 23 October 2012 meeting and a subsequent report to the 12th December 2012 meeting the following resolutions remain outstanding:

(1) That the additional report include financial information regarding the amounts spent on leisure centres by other local authorities in the North West, in order that comparisons might be made with expenditure by Lancaster City Council on Salt Ayre Sports Centre.

(2) That officers be requested to look at the various headings to consider a reduction of up to 5% (by way of example) with particular emphasis on the management and admin costs in such a way that it does not negatively impact on service provision.

(3) That information regarding the marketing and advertising of Salt Ayre Sports Centre be included in the report scheduled to be considered by the Panel on 5th March 2013

1.2 Accordingly this report concerns itself with the above resolutions and additionally sets out the latest position in relation to the ongoing review of Salt Ayre Sports Centre.

1.3 As was stated in the report to members in December, there is not a statutory requirement to provide leisure services. To do so is discretionary. However, the Council has identified the importance of providing leisure services to achieve its priorities around Health and Wellbeing and Clean Green Safe places

1.4 It is recognized that the health and wellbeing of local residents of all ages is improved by participation in sports and leisure activities. Health inequalities stop people achieving their potential. Poor health and wellbeing prevents many citizens from working, learning, being involved in their community and enjoying their leisure time. Reduced productivity due to poor health also has a negative impact on the local economy. As such members have chosen to subsidise the cost of services provided at Salt Ayre Sports Centre

2 Report

Salt Ayre Sports Centre: Performance Comparison

2.1 The sports centre is a member of the Association for Public Service Excellence (APSE) and as such submits benchmarking data each year for comparison against similar size facilities. This is not an exact science however, as facilities classed as being similar enough to be included within the appropriate 'family' grouping will always have some differences.

2.2 Set out in Appendices A and B are some of the current **key** indicators for the service and the current performance levels for similar sites.

2.3 The predominant indicators linked to income generation and usage are all in the bottom two quartiles, which would indicate that there is room for improvement at the site as far as usage and spend are concerned. 2011/12 figures are an improvement on 2010/11 indicating that the centre is travelling in the right direction although further improvements are needed.

2.4 The performance indicators suggest that a number of key areas should be examined:

- PI 31 (usage per opening hour) would suggest that the centre reviews its current opening hours in direct relation to attendance during those hours, or targets specific programmes or activities during the hours when the centre is at its quietest.
- The centre has already taken some action regarding staffing levels which could impact significantly on PI 07 (staff cost per admission) in the future.
- P1 21 (customer spend per head) would suggest there is potential to review the café and catering areas with a view to increasing income generation within that specific area.
  In general, there is room for improvement on costs, which are relatively high, and usage, which is low in comparison to its family group members.

2.5 Benchmarking with the best performers is something that Salt Ayre has already started to undertake. This needs to be pursued in order to learn from best practice. A number of neighbouring authorities have **not** been included owing to the differing nature of the ranges of facilities at the sites. The sites included in Appendix B have been chosen deliberately due to their similarity to Salt Ayre Sports Centre and therefore broadly provide like for like comparators.

Management and Administration Cost Reduction

2.6 Members will be aware that as part of the budget process for 2013/14 consideration was given to the current operating costs of Salt Ayre sports centre. As a result a review of the opening times and associated shift patterns has led to a saving of £75,000 in 2013/14. These changes were approved by Cabinet at its meeting on the 12 March 2013 (min. no. 132 refers). The figure of £75k for next financial year equates approximately to a reduction of 5% against the management and administration cost centre.

Marketing and Advertising

2.7 Salt Ayre Sports Centre is marketed in-house by the city council's communications and marketing team. Marketing activities are primarily carried out by a dedicated marketing officer, based at the sports centre one day per week who is also responsible for marketing and promoting other leisure/sport based activity from across the council.

2.8 As with all services the key marketing aims are set in agreement with the relevant service and for the past year they are as follows:

- Increase the number of customers using the sports centre facilities and support the centre in achieving their income targets.
- Maintain Reflexions gym memberships and deliver a number of specific campaigns throughout the year
- Raise the profile of Salt Ayre Sports Centre, its role as a community resource and of the many events that take place throughout the year. Ensure that the venue maximises its role within our community.
- Increase the level of internal communications with current Salt Ayre members and users, encourage feedback and cross-market other facilities, events and products to them.
- Improve internal marketing and raise the profile of Salt Ayre Sports Centre within our organisation with colleagues and elected members.

2.9 For 2012/13 budgets were allocated for each area of marketing activity (within the overall marketing budget) to ensure that marketing officers are able to effectively plan their activities and ensure the overall marketing spend remains within budget. A range of promotional material will be on display at the meeting.

2.10 For 2012/13 the overall budget for Salt Ayre is £6,400, but with the flexibility for additional resources within the overall marketing budget if they have not been allocated elsewhere (for instance where there is an underspend on another portfolio area) in order that opportunities are not missed and/or where new projects come on stream that require an element of marketing resources.

2.11 In addition the centre benefited from the council's corporate radio advertising account (from January 2012) with Bay Radio. Adverts ran every three months at key times. Based on the cost of the package, the value received by the centre was £2,468.

2.12 In addition to paid for advertising in the local media, Salt Ayre benefits from advertising by way of news articles in the local press. The value of these articles can be measured in terms of how much it would cost to place a similar sized advert, or EAV (Equivalent Advertising Value). So far in 2012/13 the EAV for Salt Ayre of articles in the local media is £5,168. This is in addition to other free marketing/advertising provided as part of the council's corporate communications and marketing function.

2.13 Increasingly the focus for Salt Ayre, and marketing of all council services, is via the online route and in particular social media. These have particular benefits in that the costs of providing the marketing element does not cost any more, i.e. the cost of provision is included within the overall corporate budget. They can also be easily evaluated in terms of their reach and the number of people interacting with a particular service.

2.14 A Salt Ayre Facebook site was successfully launched in July 2012 and its audience has steadily built. Regular messages are posted to update visitors on the latest activities and to engage with potential visitors. The regular weekly reach is now regularly more than 700 people, with the audience continuing to build.

2.15 Salt Ayre does not have a dedicated Twitter account but messages are posted using the corporate account (@lancastercc). Mentions of Salt Ayre by other users are monitored using the corporate facilities and replied to if a reply is necessary (to provide information, respond to customer queries etc).

2.16 The council's corporate e-newsletter (Connect) regularly features news stories from Salt Are and is sent to a database of more than 350 people.

2.17 Salt Ayre's web presence is within the council's corporate website. Since the marketing section restructuring a number of improvements have been made to both the benefit of the overall customer experience and marketing of the venue. A Google calendar includes all class timetables and is updated regularly to ensure that customers can easily access information and are kept informed of any changes which occur.

2.18 The main Salt Ayre webpage (www.lancaster.gov.uk/saltayre) is the first port of call for visitors wishing to find out more information about the centre. In turn this links to a number of other pages with specific information on a particular function (for instance the gym, swimming pool etc).

2.19 Visitor numbers are increasing and in 2011/12 (financial year) the main page received a total of 25,021 unique page views.

2.20 The most recent SOCITM (Society of Information Technology Management) annual survey of local authority websites show we have retained our 3-star rating, missing (by the narrowest possible margin) on the highest possible 4-star rating. The information relating to the swimming pool was cited as an example of national best practice.

Salt Ayre Sports Centre – Ongoing Review

2.21 Representatives from APSE attended review meetings held at the centre on 14th and 15th January 2013. Their role was to facilitate and encourage a dialogue with staff about the review of Salt Ayre Sports Centre. On the first day a workshop was held followed by a day of one to one meetings with various staff in order to stimulate further thoughts around improvements.

2.22 Following on from this a number of project groups have been established to look at the following areas :

- Business planning and performance
- Alternative business models
- Customer feedback
- Marketing / Advertising / Publicity / Promotion
- Sports Development and community outreach
- Staffing
- Café and catering
- Gym and classes

2.23 The review process is continuing and a range of options will be produced for consideration. All options consider how the sports centre could operate more efficiently and cohesively, reduce costs and look at opportunities for income generation. Initial findings from the review will be made available to members during the coming year and it is anticipated that further financial savings will feed into budget process in future years.

2.24 During the review process the Active Health programme has been awarded a further £90k of funding to continue with the scheme for next financial year. The relationship with the health sector is a particularly positive one and with the introduction of Clinical Commissioning Groups it is hoped that relationship will continue.

Conclusion

Using the APSE performance data as a tool it has been possible to highlight current performance and identify key areas for improvement. Some improvements have already been implemented and achieved reductions in operating costs for future years. There remains further work still to be done and the outcomes of that work will be reported to members throughout the coming year.

CONCLUSION OF IMPACT ASSESSMENT **(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)** None arising from this report.	
LEGAL IMPLICATIONS There are no legal implications arising as a result of this report	
FINANCIAL IMPLICATIONS There are no financial implications arising as a result of this report	
OTHER RESOURCE IMPLICATIONS **Human Resources / Information Services / Property / Open Spaces:** HR support will be required if there are any further restructuring exercises within the Service	
SECTION 151 OFFICER'S COMMENTS The Deputy Section 151 Officer has been consulted and has nothing further to add	
MONITORING OFFICER'S COMMENTS The Deputy Monitoring Officer has been consulted and has nothing further to add	
BACKGROUND PAPERS	**Contact Officer:** Simon Kirby : Assistant head Community Engagement - Wellbeing **Telephone: 01524 582831** **E-mail:**skirby@lancaster.gov.uk

APPENDIX A

Performance Indicators

Key Performance Indicator (All sites)	Highest in service	Lowest in service	Salt Ayre Score	Quartile
PI 02a – Subsidy per visit (low is good)	£7.33	-0.41	£1.52	3
PI 03 – Operational Recovery Ratio	166.18%	27.00%	61.81%	3
PI 06 – Subsidy per opening hour (low is good)	£170.60	-£256.69	£105.10	4
PI 13 - Net cost per head of population (low is good)	£5.61	-£6.27	£4.12	4
PI 20 – Customer Satisfaction performance indicator (high is good)	83.64%	61.60%	No Data available	
PI 07 – Staff costs per admission	£7.98	£0.87	£2.24	3
PI 21 – Customer spend per head (including catering income)	£5.93	£1.07	£2.45	2
PI 31 – Usage per opening hour	216.65	14.31	69.34	2

Note; PI03 the 'operational recovery ratio' is often used as an efficiency measure, assessing operational expenditure recovered through customer receipts.

Family Group Comparators

Key Performance Indicator (Family Group)	Highest in service	Lowest in service	Salt Ayre Score	Quartile
PI 02a – Subsidy per visit (excluding CEC)	£2.66	£0.15	£1.52	3
PI 03 – Operational Recovery Ratio	93.91%	48.47%	61.81%	3
PI 06 – Subsidy per opening hour (excluding CEC)	£170.60	£13.05	£105.10	2
PI 13 - Net cost per head of population (excluding CEC)	£5.61	£0.17	£4.12	4
PI 20 – Customer Satisfaction performance indicator	No Data available	No Data available	No Data available	
PI 07 – Staff costs per admission	£3.21	£1.88	£2.24	3
PI 21 – Customer spend per head (including catering income)	£3.07	£2.27	£2.45	3
PI 31 – Usage per opening hour	115.87	46.04	69.34	3

These indicators are useful in terms of analysing trends over a period of time. No two centres are exactly alike they do not all provide the same services, populations served vary, the extent of wet and dry, indoor or outdoors will vary etc. Caution should be taken in using the figures as exact comparators.

APPENDIX B

Similar Specific and Neighbouring Centres

Note: within our family group of leisure centres those identified below represent some centres that are some of the most similar to Salt Ayre in terms of scale and services provided.

Key Performance Indicator	Salt Ayre	Preston West View LC	Liverpool Lifestyles Garston	Grimsby Leisure Centre	East Riding Francis Scaife SC	West Lindsey LC
PI 02a – Subsidy per visit	£1.52	£0.70	£0.27	£2.20	£0.20	£1.22
PI 03 – Operational Recovery Ratio	61.81%	77.94%	89.40%	52.61%	89.76%	65.14%
PI 06 – Subsidy per opening hour	£105.10	£69.66	£34.47	£93.32	£13.70	£60.02
PI 13 - Net cost per head of population	£4.12	£2.68	£0.37	£3.31	£0.20	£3.66
PI 07 – Staff costs per admission	£2.24	£2.05	£1.35	£2.39	£1.25	£2.17
PI 21 – Customer spend per head(including catering income)	£2.45	£2.48	N/A	N/A	£1.72	£2.27
PI 31 – Usage per opening hour	69.34	99.04	126.30	42.43	69.76	49.36

BUDGET AND PERFORMANCE PANEL

Corporate Performance and Financial Monitoring - Quarter 3 2012/13

26 March 2013

Report of Assistant Head, Community Engagement (Partnerships) and Financial Services Manager

PURPOSE OF REPORT
To present the corporate performance and financial monitoring reports for Quarter 3 of the 2012/13 Performance Review Team cycle and progress as at December 2013towards delivery of the Corporate Plan 2012 – 15.
This report is public

RECOMMENDATIONS:

(1) That Budget and Performance Panel considers this report and makes any comments or recommendations as appropriate.

1.0 CORPORATE PERFORMANCE MONITORING – QUARTER 3

1.1 Quarter 3 Performance Summary reports setting out progress towards the delivery of Corporate Plan outcomes and success measures for each Cabinet Member's Portfolio Area were published as scheduled on 21 January 2013, together with the Financial Reports for the same period.

1.2 As well as an update on quarterly measures as at Quarter 3 the report also provided commentary on progress towards the delivery of annual measures (shaded grey in the attached report) due to be formally reported on in Qtr 4 when performance for the whole of the Corporate Plan will be reported.

1.3 The Corporate Plan Performance Review report for Quarter 3 is attached as ***Appendix A***

1.4 There are currently **no** corporate plan priorities with a **Red** status – see ***Appendix B***.

1.5 The Corporate Plan Performance Review report specifically indicates performance against agreed corporate plan success measures that are now explicit and quantifiable measurements (*Targets)* which quantify achievement of, or progress towards, delivery of the Corporate Plan priorities.

1.6 The Corporate Financial Monitoring report for Quarter 3 is attached as ***Appendix C.***

CONCLUSION OF IMPACT ASSESSMENT **(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)** None arising from this report	
LEGAL IMPLICATIONS None directly arising from this report	
FINANCIAL IMPLICATIONS None directly arising from this report	
OTHER RESOURCE IMPLICATIONS: Human Resources / Information Services / Property / Open Spaces: None directly arising from this report	
SECTION 151 OFFICER'S COMMENTS The Section 151 Officer has been consulted and has no further comments to add.	
DEPUTY MONITORING OFFICER'S COMMENTS The Deputy Monitoring Officer has been consulted and has no further comments to add.	
BACKGROUND PAPERS Corporate Performance Review Team Reports Quarter 3 2012/13	**Contact Officer:** Performance - Bob Bailey, Corporate Planning and Performance Manager; Finance – Andrew Clarke, Financial Services Manager **Telephone: 01524 582018/582138** **E-mail:** rbailey@lancaster.gov.uk; aclarke@lancaster.gov.uk **Ref:** PRT 2012 Qtr 3

Corporate Plan Performance Review Report

Quarter 3 2012

Outcome	Success Measure	Measure Frequency	Owner	Portfolio Holder	Polarity	Latest Data (Quarter 3)			Trends			Report Comments
						Target	Actual	RAG	Period Trend	Prev Year End Trend	Year on Year Trend	
Clean, Green and Safe Places												
CO2 emissions from council activities are reduced	CGS1 Annual reduction in carbon emissions 3.4%pa (34% by 2020)	Yearly (to be reported Q4)	Dan Wood	Tim Hamilton-Cox		N/A	N/A		No Data	No Data	No Data	The current estimates suggest that the Carbon Dioxide emissions from the councils municipal buildings for the current year are 0.37% lower than at the same stage last year. However, information for all sites is not currently available so this figure is likely to change. It is felt that the reduction is lower than in previous years due to variations in weather conditions (2011/12 was an unusually warm year). The reduction in CO2 emissions but an increase in energy consumption is due to variations in fuel usage i.e. carbon dioxide emissions are lower for gas consumption than for energy consumption.
	CGS3 Increase average SAP rating in council homes	Yearly (to be reported Q4)	Chris Hanna	Karen Leytham		N/A	N/A		No Data	No Data	No Data	Budget for 2012/13 is £460,000. Replacement of gas central heating boilers that are coming to the end of their useful life, where breakdowns are frequent and parts are difficult to obtain. Budget £400,000; Spend @ 8/1/2013 £251,211. Replacement of communal boilers with high efficiency boilers at Kingsway Sheltered Housing Scheme. Budget £60,000 - works completed

Corporate Plan Performance Review Report

Quarter 3 2012

Outcome	Success Measure	Measure Frequency	Owner	Portfolio Holder	Polarity	Latest Data (Quarter 3)			Trends			Report Comments
						Target	Actual	RAG	Period Trend	Prev Year End Trend	Year on Year Trend	
Clean, Green and Safe Places												
Council's energy usage is reduced	CGS2 Reduce energy usage across LCC buildings	Yearly (to be reported Q4)	Dan Wood	Tim Hamilton-Cox		N/A	N/A		No Data	No Data	No Data	The current estimates suggest that energy consumption for the municipal buildings for the current year are 3.16% higher than at the same stage last year. However, information for all sites is not currently available so this figure is likely to change. It is felt that increase on the previous years is due to variations in weather conditions (2011/12 was an unusually warm year). The reduction in Carbon Dioxide emissions but an increase in energy consumption is due to variations in fuel usage i.e. carbon dioxide emissions are lower for gas consumption than for energy consumption.
Income generated through climate change mitigation and adaptation projects for reinvesting into the invest to save fund	CGS4 Increase in the number of allotment plots in the district	Yearly (to be reported Q4)	Paul Cocker	David Smith		N/A	N/A		No Data	No Data	No Data	Still progressing the development of new allotment space at Scotforth. Property services are negotiating to end the current lease on the land.
	CGS4 Increase % of household waste reused, recycled or composted	Quarterly	Peter Taylor	David Smith	High is Good	45.0%	44.8%	Amber		No Data	No Data	As at Qtr 3 the Council has almost achieved its target for the whole year of 45%
	CGS4 Increased income from energy and recycling projects	Quarterly	Dan Wood	Tim Hamilton-Cox	High is Good	1	4,609	Green		No Data	No Data	This figure includes the new sites at the Vale with the exception of the instalation at Bronte House. However, income from Bronte House for Qtr 3 will be available for reporting at the end of Qtr 4. The income generated through the Feed-in Tariff from the Solar PV schemes up to the end of Qtr 3 is £24,579.75.

Corporate Plan Performance Review Report

Quarter 3 2012

Outcome	Success Measure	Measure Frequency	Owner	Portfolio Holder	Polarity	Latest Data (Quarter 3)			Trends			Report Comments
						Target	Actual	RAG	Period Trend	Prev Year End Trend	Year on Year Trend	
Clean, Green and Safe Places												
Our district is safe	CGS6 Increased number of diversionary activities for young people	Quarterly	Richard Hammond	Ron Sands	High is Good	411	2,544	Green		No Data	No Data	
Our streets and public spaces are clean	CGS5 Perception of people that district is safe, is improved	Yearly (to be reported Q4)	Amanda Crane	David Smith		N/A	N/A		No Data	No Data	No Data	Data/information for this measure is not yet available.

Corporate Plan Performance Review Report
Quarter 3 2012

Outcome	Success Measure	Measure Frequency	Owner	Portfolio Holder	Polarity	Latest Data (Quarter 3)			Trends			Report Comments
						Target	Actual	RAG	Period Trend	Prev Year End Trend	Year on Year Trend	
Community Leadership												
Better understanding of communities and needs so that services that matter most to our communities will be prioritised	CL2 % of local residents satisfied with council services	Yearly (to be reported Q4)	Jen Milligan	Eileen Blamire		N/A	N/A		No Data	No Data	No Data	Nothing to report because data/information is not yet available.
Council's financial standing maintained to support future service delivery and planning	CL8 Balanced budget set for 2013/14 with no more than 3.5% increase in council tax	Yearly (to be reported Q4)	Andrew Clarke	Abbott Bryning		N/A	N/A		No Data	No Data	No Data	The Government has now set the level of Council Tax increase before a referendum is triggered at 2%, therefore the proposed increase has now been revised down. In addition, the Government is also offering a Council Tax freeze grant equivalent to 1% for Councils that do not increase their Council Tax for 2013/14. Cabinet will be asked to consider the latest budget position on 22 January 2013 and make recommendations to Council on the proposed level of Council Tax increase for 2013/14.
	CL8 Clean bill of health given through Annual Governance and audit reviews	Quarterly	Derek Whiteway	Eileen Blamire	Low is Good	0	0	Green		No Data	No Data	No issues identified at point of reporting to Audit Committee on 23/01/13.
	CL8 Future years financial strategy set in light of government planned financial changes	Quarterly	Andrew Clarke	Abbott Bryning	High is Good	1	1	Green	No Data	No Data	No Data	The MTFS update was reported to Cabinet on 6/11/12.
	CL8 Robust and tested arrangements are in place for emergency planning	Quarterly	Mark Bartlett	Karen Leytham	High is Good	1	1	Green		No Data	No Data	Emergency and Business Continuity Plans are regularly reviewed and updated. Several exercises were held during 2012. Emergency rota maintained by team of trained Duty Incident Officers on a 24/7 basis.

Corporate Plan Performance Review Report
Quarter 3 2012

Outcome	Success Measure	Measure Frequency	Owner	Portfolio Holder	Polarity	Latest Data (Quarter 3)			Trends			Report Comments
						Target	Actual	RAG	Period Trend	Prev Year End Trend	Year on Year Trend	
Community Leadership												
	CL8 NDR collection as % of NDR due	Monthly	Julie Smethurst	Abbott Bryning	High is Good	88.9%	88.0%	Amber		No Data	No Data	The collection of Business Rates is currently falling slightly short of the target up to the end of December. The current economic situation is particularly affecting some small businesses which is creating a particularly difficult climate in which to collect outstanding debts. However the NNDR team are working hard with reduced resources to ensure accounts are accurately maintained & recovered in accordance with legislation.
	CL8 Council Tax collection as a % Council Tax Due	Monthly	Julie Smethurst	Abbott Bryning	High is Good	86.2%	85.9%	Amber		No Data	No Data	The collection of Council Tax at the end of quarter 3 has fallen slightly short of the target of 86.2%. Recovery procedures & timetables are continually being reviewed to ensure maximum effect. Staff within the shared service at both sites are working together looking at more efficient ways of working, but the current economic climate has an impact on customer's ability to pay, and continues to have an effect on collection rates.

Corporate Plan Performance Review Report

Quarter 3 2012

Outcome	Success Measure	Measure Frequency	Owner	Portfolio Holder	Polarity	Latest Data (Quarter 3)			Trends			Report Comments
						Target	Actual	RAG	Period Trend	Prev Year End Trend	Year on Year Trend	
Community Leadership												
Efficiency savings and service improvements achieved through joint working and shared services	CL3 Savings/Efficiencies achieved through shared service/joint working	Yearly (to be reported Q4)	Heather Armstrong	Eileen Blamire		N/A	N/A		No Data	No Data	No Data	Discussions with Lancashire County Council/One Connect Limited (OCL) around provision of face to face services remain on hold awaiting availability of their resource. Currently OCL Customer Service Advisors continue to offer face to face access to Lancashire County Council services in the Lancashire district on a limited part time basis.
	CL3 Service improvements achieved thorugh shared service/joint working	Yearly (to be reported Q4)	Anne Marie Harrison	Eileen Blamire		N/A	N/A		No Data	No Data	No Data	Two Business Improvement projects drawing to completion, expected to be achieved by the end of quarter 4. Further Business Improvement work now in development
	CL3 Service Improvements achieved through online service delivery and other measures	Quarterly	Ian Jackson	Eileen Blamire	High is Good	1%	85%	Green		No Data	No Data	Measure currently derived from online user satisfaction survey at www.lancaster.gov.uk
	CL3 Work with partners to increase income from climate change initiatives and projects	Yearly (to be reported Q4)	Dan Wood	Tim Hamilton-Cox		N/A	N/A		No Data	No Data	No Data	The income generated through the Feed-in Tariff from the Solar PV schemes up to the end of Qtr 3 is £24,579.75.
	CL3 Increase levels of online engagement with local citizens	Yearly (to be reported Q4)	Jen Milligan	Eileen Blamire		N/A	N/A		No Data	No Data	No Data	123 peopel are registered to receive consultation info online. A further 162 are signed up to receive consultation info, but haven't registered with our updated online system.

Corporate Plan Performance Review Report

Quarter 3 2012

Outcome	Success Measure	Measure Frequency	Owner	Portfolio Holder	Polarity	Latest Data (Quarter 3)			Trends			Report Comments
						Target	Actual	RAG	Period Trend	Prev Year End Trend	Year on Year Trend	
Community Leadership												
Local communities will be actively working with partners to improve where they live, in ways that matter to them.	CL6 % of councillors undertaking training/development in community leadership	Yearly (to be reported Q4)	Debbie Chambers	Eileen Blamire		N/A	N/A		No Data	No Data	No Data	At this point in the year (end of December 2012), 24 out of the 60 Councillors have attended some training or event around Community Leadership since May 2012. This includes the number who have taken part in the Keep It Real project.
The voluntary, community and faith sector (VCFS) have capacity to deliver services for the district	CL4 VCFS partnership working arrangements are agreed and in place	Yearly (to be reported Q4)	Anne Marie Harrison	Jon Barry		N/A	N/A		No Data	No Data	No Data	Arrangements developing in line with and to support the council's VCFS commissioning programme

Corporate Plan Performance Review Report

Quarter 3 2012

Outcome	Success Measure	Measure Frequency	Owner	Portfolio Holder	Polarity	Latest Data (Quarter 3)			Trends			Report Comments
						Target	Actual	RAG	Period Trend	Prev Year End Trend	Year on Year Trend	
Economic Growth												
Lancaster district's recognition as a visitor destination is enhanced	EG6 Increased participation in local entertainment and community events	Yearly (to be reported Q4)	Richard Hammond	Ron Sands		N/A	N/A		No Data	No Data	No Data	Admissions are generally on course to make target
Local Authority partners will be working together to develop plans for economic growth aligned to nationally important energy and Heysham/M6 transport links	EG1 Number of offshore wind renewables biomass initiatives supported	Yearly (to be reported Q4)	David Lawson	Janice Hanson		N/A	N/A		No Data	No Data	No Data	Nothing to report at this stage. More information will be available when the annual report is prepared
	EG1 Activities agreed in the PPA for the National grid will be delivered	Quarterly	Andrew Dobson	Janice Hanson	High is Good	1	1	Green		No Data	No Data	
More tourists coming to the district and tourist income is maximised	EG3 Visitor enquiries increased	Yearly (to be reported Q4)	Heather Armstrong	Ron Sands		N/A	N/A		No Data	No Data	No Data	Visitor enquiries telephone stats currently unavailable from ICT due to technical issues. A solution is being worked on. Progress continues on establishing the baseline for all channels (Face to face, telephone, internet).
	EG3 Visitor numbers increased	Yearly (to be reported Q4)	Gill Haigh	Ron Sands		N/A	N/A		No Data	No Data	No Data	Progress is being made to introduce a new system of collating attendance figures for the different data sources which provide an indicator of performance for this measure. This includes: Website data, Events evaluation and City Council run visitor attractions. As there are various sources of data we are reviewing a means of using these appropriately to provide an overall indicator.

Corporate Plan Performance Review Report

Quarter 3 2012

Outcome	Success Measure	Measure Frequency	Owner	Portfolio Holder	Polarity	Latest Data (Quarter 3)			Trends			Report Comments
						Target	Actual	RAG	Period Trend	Prev Year End Trend	Year on Year Trend	
Economic Growth												
	EG3 Visitor Spend Increased	Yearly (to be reported Q4)	Gill Haigh	Ron Sands		N/A	N/A		No Data	No Data	No Data	Progress is being made to introduce a new system of collating gross income figures for the different venues which provide an indicator of performance for this measure. This includes: VIC and City Council managed attractions. It will also include estimated expenditure figures from city council run festivals and event. As there are various sources of data we are reviewing a means of using these appropriately to provide an overall indicator.
The attractiveness of the district as a place to visit is improved	EG4 Heritage Assets improved	Quarterly	Andrew Drummond	Janice Hanson	High is Good	1	21	Green		No Data	No Data	
THEME: Managing resources wisely	EG2 Increase in the number of apprenticeships	Quarterly	Stuart Hampson	Eileen Blamire	High is Good	3	7	Green		No Data	No Data	We have exceeded our target of 5 for the year and are in the process of starting the recruitment process for an 8th apprenticeship

Corporate Plan Performance Review Report

Quarter 3 2012

LANCASTER CITY COUNCIL
Promoting City, Coast & Countryside

Outcome	Success Measure	Measure Frequency	Owner	Portfolio Holder	Polarity	Latest Data (Quarter 3)			Trends			Report Comments
						Target	Actual	RAG	Period Trend	Prev Year End Trend	Year on Year Trend	
Health & Wellbeing												
Enhanced quality of life of local residents through access to good quality housing	HW1 Percentage of council homes that fail to meet the Decent Homes Standard	Yearly (to be reported Q4)	Chris Hanna	Karen Leytham		N/A	N/A		No Data	No Data	No Data	The 2012/2013 Capital programme includes kitchen/bathroom refurbishment; electrical rewiring; boiler replacements; asbestos removal; fire precaution works; and disabled adaptations; external refurbishment; re-roofing; environmental Improvements. Budget £3.8m; Spend @ 8/1/2013 £1.6m. Programme on track.
	HW1 Increase in the number of affordable homes delivered	Yearly (to be reported Q4)	Kath Sinclair	Janice Hanson		N/A	N/A		No Data	No Data	No Data	'Data/information not yet available'
	HW1 Number of new homes completed	Yearly (to be reported Q4)	Maurice Brophy	Janice Hanson		N/A	N/A		No Data	No Data	No Data	'Data/information not yet available'
	HW1 Number of improved homes	Quarterly	Mike Dagger	Karen Leytham	High is Good	1,275	1,490	Green		No Data	No Data	16.8% ahead of target at the end of Q3.
Health and wellbeing improved and mortality rates reduced for vulnerable people in the district	HW2 Air Quality Strategy in place and agreed by March 2013	Yearly (to be reported Q4)	Nick Howard	Tim Hamilton-Cox		N/A	N/A		No Data	No Data	No Data	Strategy due to be written by March 2013
	HW2 Reduction in homeless people in the district	Quarterly	Mike Dagger	Karen Leytham	Low is Good	90	46	Green		No Data	No Data	48.8% ahead of target at the end of Q3.
	HW2 Reduction in number of people sleeping rough in the district	Yearly (to be reported Q4)	Mike Dagger	Karen Leytham		N/A	N/A		No Data	No Data	No Data	Four rough sleepers were recorded at the official rough sleepers count undertaken in November 2012. In December 2012, the National rough sleepers reporting line, Street Link, went live providing an all year round service for the reporting of rough sleepers by members of the public. Two Council officers visit reported location to assess the situation and offer support dependant on the clients needs.

Corporate Plan Performance Review Report

Quarter 3 2012

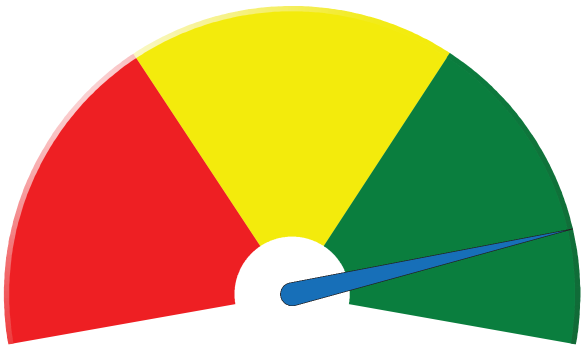
Outcome	Success Measure	Measure Frequency	Owner	Portfolio Holder	Polarity	Latest Data (Quarter 3)			Trends			Report Comments
						Target	Actual	RAG	Period Trend	Prev Year End Trend	Year on Year Trend	
Health & Wellbeing												
	HW2 Number of vulnerable individuals benefitting from Warm Homes Initiatives	Quarterly	Dan Wood	Karen Leytham	High is Good	30	800	Green	No Data	No Data	No Data	Since the Qtr 2 report, the HIA and Private Sector Housing have successfully secured additional funding from a number of sources including the Department of Health, the Primary Care Trust, and the council's Performance Reward Grant for use in the 2012/13 financial year. This has enabled assistance to be provided to an increased number of clients than originally projected for this period
The health and wellbeing of local residents of all ages is improved by participating in sports and leisure activities	HW3 A health and wellbeing strategy for the district will be in place and agreed by June 2013	Halfyearly (to be reported Q4)	Suzanne Lodge	Karen Leytham		N/A	N/A		No Data	No Data	No Data	
	HW3 Increase in take up of leisure services	Yearly (to be reported Q4)	Richard Hammond	Ron Sands		N/A	N/A		No Data	No Data	No Data	Take up in Leisure Service by the end of 12/13 is likely to achieve the same level as per the previous year.
	HW3 Number of residents and visitors participating in sports and leisure activities	Quarterly	Richard Hammond	Ron Sands	High is Good	127,278	182,606	Green		No Data	No Data	

Corporate Plan Performance Review Report

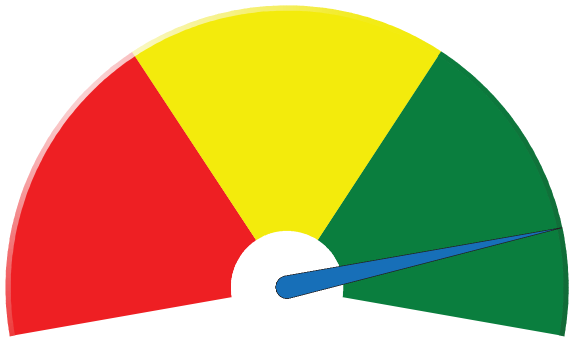
Quarter 3 2012

Outcome	Success Measure	Measure Frequency	Owner	Portfolio Holder	Polarity	Latest Data (Quarter 3)			Trends			Report Comments
						Target	Actual	RAG	Period Trend	Prev Year End Trend	Year on Year Trend	
Health & Wellbeing												
Welfare reforms managed well so to avoid any unnecessary impact on local communities	HW4 Readiness for changes in welfare reform	Quarterly	Adrian Robinson	Abbott Bryning	High is Good	1	1	Green		No Data	No Data	All staff and managers are keeping up to date with communcations from the DWP and Communities and Local Government. Roadshows have been attended throughout the City to inform people of some of the reforms and how they will be effected. Plans have been made to advertise all new reforms. Training will be delivered to all Revenues and Contact Centre staff, and correspondence reviewed to ensure all necessary information is delivered in a clear and appropriate manner to those potentially affected by the changes. This includes changes to the website which are already being made on an ongoing basis.

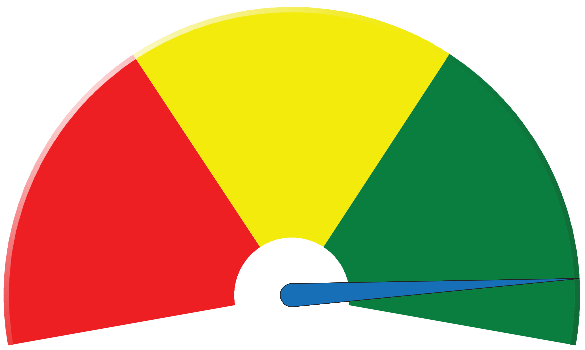
Corporate Priorities RAG



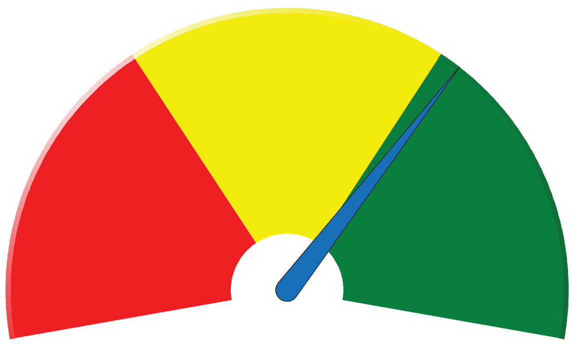
Clean, Green & Safe Places



Economic Growth



Health & Wellbeing



Community Leadership

Measure Summary Table

Frequency	Active		Grey	Red	Amber	Green
	No	Yes	Current	Current	Current	Current
HALFYEARLY	2	0	2 (100%)	0 (0%)	0 (0%)	0 (0%)
MONTHLY	0	2	0 (0%)	0 (0%)	2 (100%)	0 (0%)
QUARTERLY	0	15	0 (0%)	0 (0%)	1 (7%)	14 (93%)
YEARLY	23	0	23 (100%)	0 (0%)	0 (0%)	0 (0%)
		17	25 (60%)	0 (0%)	3 (7%)	14 (33%)

LANCASTER CITY COUNCIL
Promoting City, Coast & Countryside
www.lancaster.gov.uk

Corporate Financial Monitoring
December 2012 | Quarter 3

Report of Financial Services Manager

HEADLINE INFORMATION			
REVENUE	**Current (Underspend) / + Overspend £**	**Projected (Underspend) / + Overspend £**	**Future Years Projection (Underspend) / + Overspend £**
General Fund	**(136)**	**(208)**	**+27**
Housing Revenue Account (HRA)	**(6)**	**(10)**	**--**

CORPORATE FINANCIAL MONITORING

December 2012 | Quarter 3

1. INTRODUCTION

This monitoring report of expenditure and income for 2012/13 sets out an indicative corporate picture of the Council's financial performance relating to the period ending 31 December 2012.

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.

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

2. GENERAL FUND REVENUE MONITORING

2.1 General Fund Summary Position

The current overall General Fund summary position shows that at the end of December there is a net underspend of **£136K** against the budget. This is currently forecast to increase to **£208K** by the end of the year.

VARIANCES	Current £000's	Current Year Projection £000's	Future Years Projection £000's
Major Variances (see section 2.2)	(88)	(78)	+27
Salaries (see sections 2.3 & 2.4)	(48)	(130)	--
Sub Total	**(136)**	**(208)**	**+27**
ESTIMATED OUTTURN / IMPACT ON FUTURE YEARS	**--**	**--**	**+27**

One of the key financial indicators is to keep any under or overspends within 2% of the overall net controllable revenue budget, and the following table shows that at the end of December this has been achieved. That said, actions could be taken to improve the Council's position still further.

	£000's
Net Controllable Budget	**24,278**
2% Target	+/() 486
Provisional Controllable Net Underspend	**(11)**
Percentage of Net Controllable Budget	0.05%

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**		
Environmental Services	(84)	(27)	--
Health & Housing	(24)	(24)	--
Regeneration & Planning	--	(27)	+27
Resources	+20	--	--
	(88)	**(78)**	**+27**
Variances not reported to PRT meetings : None	**--**	**--**	**--**
TOTAL VARIANCES	**(88)**	**(78)**	**+27**

The following table provides an analysis of these variances and Appendix A shows how each variance has been initially categorised.

FACTORS INFLUENCING VARIANCES	**Variances to Date £000's**	**Current Year Projection £000's**	**Future Years Projection £000's**
Unforeseeable windfalls or costs	(25)	(30)	0
Demand led variances	(10)	(20)	+7
Efficiency savings	0	0	0
Other service driven variances (incl delays)	(38)	+7	0
Budget setting issues / errors	(24)	(24)	0
Other variances	+9	(11)	+20
TOTAL	**(88)**	**(78)**	**+27**

In terms of future years, the above analysis does not include any projection as yet in respect of on-going salary savings as these will be picked up as part of the current budget review process.

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.

The main savings against the revised budget are in Environmental Services (£27K), Health and Housing (£13K) and Community Engagement (£12K). The overall saving of £52K is projected to rise to £130K by the end of the year.

3 GENERAL FUND CAPITAL PROGRAMME

3.1 Capital Expenditure & Financing

The capital programme has now been updated following a full review as part of the budget process. A summary of the latest position is shown below, and there are no variances to report against the revised budget position.

Scheme	2012/13 Budget £000's	Spend & Commitments £000's	Budget Remaining £000's
Salt Ayre Sports Centre	89	89	0
Warm Homes Scheme	5	5	0
Williamson Park Improvements	206	3	203
Allotment Improvements	61	57	4
Playground Improvements / Facilities	119	118	1
Invest to Save Solar Panels	20	18	2
Mainway Recycling Bins	4	3	1
Purchase of Vehicles	1,365	1,342	23
Disabled Facilities Grants	802	515	287
YMCA Places of Change	52	33	19
Sea & River Defences	158	157	1
Bold Street Renovation Scheme	262	180	82
Ffrances Passage	7	3	4
Greyhound Bridge Rd Affordable Hsg	250	250	0
Luneside East	78	74	4
Morecambe THI2 A View for Eric	17	0	17
Storey Inst Centre for Industries	13	0	13
West End Temp Car Park	19	1	18
Corporate Property Works	676	216	460
ICT Systems, Infrastructure & Equip	327	213	114
Lancaster Market	1,168	1,168	0
TOTAL	**5,698**	**4,445**	**1,253**

4 HOUSING REVENUE ACCOUNT (HRA) MONITORING

4.1 HRA Revenue Position

At the end of December the position for the Housing Revenue Account shows an underspend of **£6K** against the profiled budget, which is currently projected to rise to **£10K** by the end of the year. The main variance relates to reduced spend on printing and stationery.

4.2 Council Housing Rent Collection

At the end of December rental income was slightly lower than estimated but is forecasted to remain on budget.

Total Estimate for Year	**£13,448,900**
Profiled Budget	£10,088,555
Actual to Date	£10,087,552
Difference	**(£1,003)**

4.3 Council Housing Capital Programme

The council housing capital programme has also been updated as part of the budget process and the latest position is set out below.

	Current Approved Programme £000's	Spend & Commitments to Date £000's	Budget Remaining £000's
Bathroom Kitchen Refurbishment	919	422	497
External Refurbishment	660	459	201
Re-roofing / Window Renewals	422	395	27
Environmental / Crime Prevention Works	398	266	132
Energy Efficiency Works	450	303	147
Rewiring	290	50	240
Adaptations	300	166	134
Fire Precaution Works	184	8	176
Invest to Save - PV Solar Panels	147	0	147
Total Mobile	30	23	7
Choice Based Lettings	0	1	(1)
Lift Replacement	52	0	52
Sceptic Tanks	40	20	20
TOTAL	**3,892**	**2,113**	**1,779**

5 REVENUE COLLECTION PERFORMANCE

5.1 Council Tax & Business Rates

In year collection performance for Council Tax is very slightly down and NNDR is also slightly down on the same period last year.

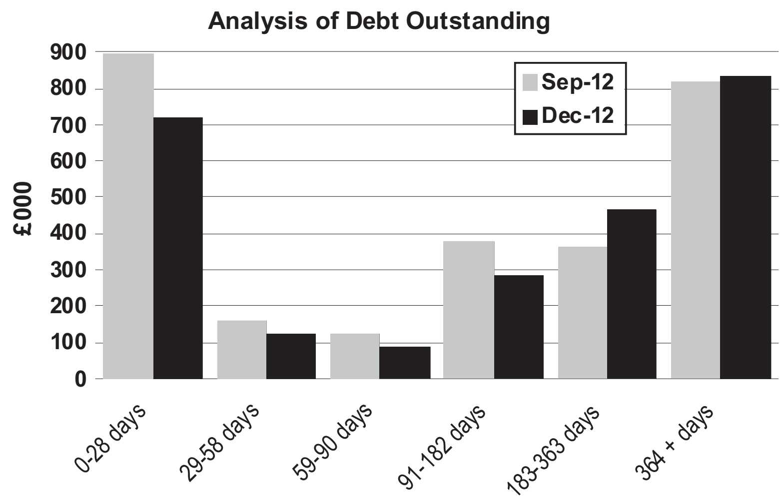
Percentage Collected	2011/12 %	2012/13 %	2012/13 Target %	2012/13 Actual %	Status
	All Years		In Year		
Council Tax	79.91	79.25	97.2	85.9	Slightly short of target
Business Rates	88.39	87.85	98.7	88.0	Slightly short of target

5.2 Collection Fund Monitoring

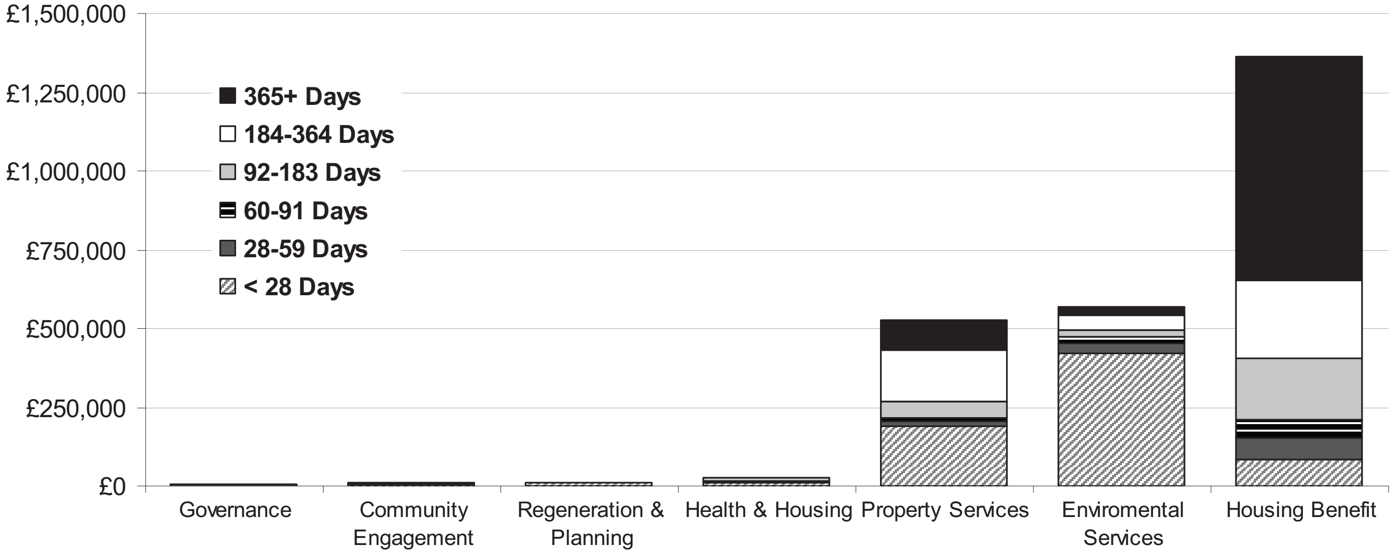
This section sets out the latest position on the Collection Fund, in particular in relation to Council Tax. Whilst the above section looks at collection performance, this section shows the current surplus or deficit on the Fund. It basically compares the amounts collectable with the Precepts levied by 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 December the Fund was in surplus by £54K, but it should be noted that the surplus can fluctuate significantly month by month. Any surplus or deficit is shared between the relevant precepting bodies and the City Council's element equates to 13% and would therefore be £7K.

5.3 Sundry Debts

This section sets out the latest position on the level of outstanding sundry debts (excluding Council Housing). At the end of December the total debt outstanding was just under £2.521M, which is £227K less than the previous quarter.



	Sept 12	Dec 12
	£000's	£000's
0-28 days	**897**	**722**
29-58 days	**163**	**125**
59-90 days	**124**	**87**
91-182 days	**380**	**286**
183-363 days	**363**	**465**
364+ days	**821**	**836**
	2,748	**2,521**
Previous Year	**2,603**	**2,124**



6 PROVISIONS AND RESERVES

This section provides and update on key provisions and reserves.

6.1 Insurance Provision

The current balance on the insurance provision is £435K, after making net payments of £130K in settlement of claims made.

At present, the Council's insurers estimate that the value of claims outstanding is £461K, which relates to a total of 230 claims made over a 5 year period. This estimate assumes that all these claims will be settled at the maximum reserve limit; however, statistics show that, on average, only 59% of the total reserve will be paid. The estimated cost of claims outstanding could therefore reasonably be valued at around £272K. In addition, at the end of the last financial year the council was notified that it was liable for old claims relating to the MMI scheme of arrangement for which an estimated liability of £155K was provided for in the provision. Therefore, the total value of estimated liabilities is £427K which is still £8K less than the current provision. The provision will formally be assessed as part of the closedown process.

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.

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	722	1%	7
1 Month to 3 Months	212	5%	11
3 Months to 365 Days	751	10%	75
Over 365 Days	836	50%	418
TOTAL	**2,521**		**511**

The current balance on the General Fund Bad Debt provision is £541K which is £30K above the requirement indicated, but that is after allowing for this year's contribution of £100K. The position has been reviewed as part of the budget process and no adjustments were made, however it will be reviewed again as part of the closedown process. Given that the majority of sundry debts relate to housing benefit overpayments, the planned welfare reforms could well have major bearing in future.

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 key financial and other risks have been incorporated into the budget reports presented to Cabinet as part of the 2013/14 budget process.

Appendix A

SUMMARY OF GENERAL FUND MAJOR VARIANCES (Qtr 3 2012/13)

FACTORS INFLUENCING VARIANCES	Variance to Date £	Current Year Projection £	Future Years Projection £
1. Unforeseeable windfalls or costs	(25,000)	(30,000)	+0
2. Demand led variances	(10,000)	(19,600)	+7,600
3. Efficiency savings	+0	+0	+0
4. Other service driven variances (incl delays)	(38,400)	+6,600	+0
5. Budget setting issues/errors	(23,500)	(23,500)	+0
6. Other variances	+9,300	(11,500)	+20,000
TOTAL VARIANCES	**(87,600)**	**(78,000)**	**+27,600**

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)						
Environmental Services	1	Vehicles - Fuel	(25,000)	(30,000)	?	Government delayed anticipated 3% fuel duty rise from August to January has now been cancelled. Savings also due to price being lower than predicted throughout year
	4	Highways	(45,000)	?	?	New contract entered into in August 2012 so still in its infancy. Projected outturn expected to be lower than current variance
	6	Off Street Car Parks - Premises Costs	(10,700)	(11,500)	+0	Electricity savings due to energy saving lights installed on Festival Market Car Park. Also delays in carrying maintenance works eg asphalting at Parksafe.
	2	Off Street Car Parks - Income	(14,600)	(20,000)	+0	Daytime charging in positive position offset by slight downturn in evening usage. Final quarter subject to seasonal adverse weather resulting in expected lower usage however this has been factored into the budget.
	4	Lancaster Market Decommissioning	+6,600	+6,600	+0	Difficult to predict at time of budget setting, largely due to electrical works required
	6	Lancaster Market - Gas	+0	+20,000	+0	Faulty gas reading equipment resulting in backlog of unpaid gas usage for approximately 18 months. Property Group are currently investigating current usage
	2	Nurseries Income	+4,600	+8,000	+0	Fewer sales leading to failure to meet income target. Contributory factors include people spending less because of economy and poor weather during summer
Health & Housing	5	Private Rented Sector Activity - Grant Income	(9,800)	(9,800)	+0	Additional funding received from NLPCT to pay for temporary post from October 12 to September 13.
	5	Housing Options - Grant Income	(13,700)	(13,700)	+0	Additional funding received from NLPCT to pay for temporary post from October 12 to September 13.
Regeneration & Policy	2	Morecambe THI 2 - A View for Eric	+0	(7,600)	+7,600	Slippage of current budget into 2013/14 may be requested.
	6	Morecambe Feasibility Studies	+0	(20,000)	+20,000	Slippage of current budget into 2013/14 may be requested.
Resources	6	Kellet Road Industrial Estate, Carnforth	+20,000	?	?	Outstanding claim for dilapidations. Matter still with Legal. Ongoing for three years.

TOTAL VARIANCES	**(87,600)**	**(78,000)**	**+27,600**
Overall Salary Savings	**(52,400)**	**(130,000)**	**+0**
OVERALL VARIANCES	**(140,000)**	**(208,000)**	**+27,600**

Agenda Item 7

Budget and Performance Panel

Treasury Management Strategy 2013/14

26 March 2013

Report of Head of Resources

PURPOSE OF REPORT
To seek the Panel's views regarding the approved treasury management framework for 2013/14.
This report is public

RECOMMENDATIONS

1. **That Budget and Performance Panel considers the attached Treasury Management progress report and approved framework documents for 2013/14 and makes recommendations as appropriate.**

1 **Introduction**

1.1 The attached report was approved by Budget Council on 27 February 2013. In line with the updated (2011) CIPFA Treasury Management Code of Practice, Budget and Performance Panel have been explicitly named as responsible for scrutiny of the Treasury Management function, including review of the Annual Strategy.

1.2 Given the timing of Budget and Performance panel meetings, unfortunately it has not been possible to provide for scrutiny of the treasury proposals prior to them being approved by Budget Council. However, it is still important for this Panel to consider the framework and make any recommendations that can be fed into future reviews.

CONCLUSION OF IMPACT ASSESSMENT **(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)** As set out in the attached report.	
FINANCIAL IMPLICATIONS As set out in the attached report.	
LEGAL IMPLICATIONS As set out in the attached report.	
S151 and MONITORING OFFICER'S COMMENTS As set out in the attached report.	
BACKGROUND PAPERS None.	**Contact Officer: Nadine Muschamp** **Telephone: 01524 582122** **E-mail: nmuschamp@lancaster.gov.uk** **Ref:**

COUNCIL

Treasury Management Framework 2013/14
27 February 2013

Report of Cabinet

PURPOSE OF REPORT
This report seeks approval for the Council's treasury management framework for 2013/14 onwards, including all the various elements as required under relevant legislation and the Code of Practice.
This report is public.

RECOMMENDATIONS

1) That Council approves the Treasury Management Framework and associated Prudential Indicators for the period 2013/14 to 2015/16 as set out in Appendices A to C.

1 INTRODUCTION

1.1 The CIPFA Code of Practice on Treasury Management ("the Code") requires that a strategy outlining the expected treasury activity for the forthcoming 3 years be adopted, but that it be reviewed at least annually. It needs to reflect treasury policy and cover various forecasts and activities to integrate the Council's spending and income plans with decisions about investing and borrowing.

1.2 Responsibilities associated with the Code's requirements are set out at ***Appendix A***. Those aspects that require consideration by Council are covered in the following sections.

2 TREASURY MANAGEMENT POLICY STATEMENT

2.1 The Code requires the Council to set out a Policy Statement outlining the definition and objectives of its treasury management activities. The Code requires a specific form of words for the Policy Statement; this is unchanged from the current policy and it is set out at ***Appendix B***.

3 TREASURY MANAGEMENT STRATEGY

3.1 The proposed Strategy for 2013/14 to 2015/16 is set out at ***Appendix C.*** This document contains the necessary details to comply with both the Code and Government investment guidance.

3.2 Key elements and assumptions feeding into the Strategy are outlined below. These fit with Cabinet's budget proposals.

3.3 **Borrowing Aspects of the Strategy**

3.3.1 Based on the draft budget, for now the physical borrowing position of the Council is projected to remain fairly constant over the next three years for the General Fund capital programme, allowing for scheduled repayments. It is also projected that the Council Housing capital programme will not require any additional borrowing.

3.3.2 This position is based on:

- land at south Lancaster being sold in 2013/14;
- the withdrawal from Lancaster Indoor Market and capital growth in connection with corporate property improvements being managed within projected cash resources over the period.

3.3.3 The above points represent major assumptions and depending on their outcome, the debt strategy may need to be varied greatly. If so, Member approval would be sought where appropriate.

3.4 **Investment Aspects of the Strategy**

3.4.1 2012/13 has been dominated by a sovereign debt crisis, which has had a negative impact on the Euro zone as well as the UK economy, including widespread downgrading of banks. This means that there is no strong argument for a significant relaxation of the measures taken post Iceland as counterparty strength is still a major risk. There is the need, however, to ensure sufficient flexibility in managing investments without undermining security, and to ensure that risk appetite is appropriate.

3.4.2 Accordingly, the main changes to investment limits for 2013/14 onwards are:

- Ensuring that sufficient flexibility exists for using part-nationalised banks.
- Allowing for a degree of flexibility so that if a need is determined then the Council may enter in to a cash backed Mortgage Guarantee scheme, linked to its housing regeneration plans.

3.4.3 Overall, the strategy put forward follows on from 2012/13 in that it is based on the Council having a low risk appetite with focus on high quality deposits.

3.4.4 There is a cost linked to a very low risk strategy as instant access accounts with good quality counterparties have relatively low yields. Markets are starting to offer significantly improved rates for longer term deposits with rates of 1.10% for a 12 month deposit. This is in comparison to 0.54% being the average return for the Council's balances overall. To illustrate, placing a £6M deposit for 1 year would have a marginal yield of £41K above that for the Council 'average' investment. A reasonable balance needs to be made.

4 **MID YEAR REVIEW**

4.1 In accordance with the existing strategy, Council must receive a mid-year progress report on treasury activities. Given that Cabinet has recently considered the Quarter 3 treasury management report this is now presented to Council as the mid-year review (rather than the older Quarter 2 report). It is attached at ***Appendix D.***

5 **CONSULTATION**

5.1 Officers have liaised with Sector, the Council's Treasury Advisors, in developing the proposed framework. The approved framework is also due to be considered by Budget and Performance Panel at its meeting on 05 March 2013, to help inform its future work programme.

6 **OPTIONS AND OPTIONS ANALYSIS**

6.1 Council may put forward alternative proposals or amendments to the proposed Strategy in ***Appendix C***, but these would have to be considered in light of legislative, professional and economic factors, and importantly, any alternative views regarding the Council's risk appetite.

6.2 Furthermore the Strategy must fit with other aspects of the budget, such as investment interest estimates and underlying prudential borrowing assumptions, feeding into Prudential and Treasury Management Indicators.

7 **CONCLUSION**

7.1 Over the coming months, key transactions should be completed and this will give a much clearer picture of the Council's cashflow and in turn this will assist greatly in actioning the proposed treasury strategy.

RELATIONSHIP TO POLICY FRAMEWORK This report seeks minor changes to the Council's Treasury Management Policy, and fits with the proposed Medium Term Financial Strategy.	
CONCLUSION OF IMPACT ASSESSMENT **(including Diversity, Human Rights, Community Safety, Sustainability etc)** No direct implications arising.	
FINANCIAL IMPLICATIONS The Strategy is in support of achieving the borrowing cost and investment interest estimates included in the budget.	
SECTION 151 OFFICER'S COMMENTS Treasury management forms part of the s151 Officer's responsibilities and she has no further comments to make regarding the proposals.	
LEGAL IMPLICATIONS Legal Services have been consulted and have no observations to make regarding this report as there are no implications directly arising.	
MONITORING OFFICER'S COMMENTS The Monitoring Officer has been consulted and has no further comments.	
BACKGROUND PAPERS Treasury Management in the Public Services. CIPFA Code of Practice and Cross-sector Guidance Notes (2011)	**Contact Officer: Nadine Muschamp** **Telephone:01524 582117** **E-mail:nmuschamp@lancaster.gov.uk**

Appendix A

TREASURY MANAGEMENT FRAMEWORK DOCUMENTS AND RESPONSIBILITIES

For Consideration by Council 27 February 2013

DOCUMENT	RESPONSIBILITY
CODE of PRACTICE	To be adopted by Council (as updated 2011).
POLICY STATEMENT	The Code of Practice recommends a specific form of words to be used, to set out the Council's objectives within the Policy Statement for its Treasury Management activities. It is the responsibility of Council to approve this document, and then note it each year thereafter if unchanged. This reflects the revised code November 2011.
TREASURY MANAGEMENT STRATEGY	The Strategy document breaks down the Policy Statement into detailed activities and sets out the objectives and expected market forecasts for the coming year. This also contains all the elements of an Investment Strategy as set out in the Government guidance; it is the responsibility of Council to approve this document, following referral from Cabinet.
TREASURY MANAGEMENT INDICATORS	These are included within the Strategy Statement as part of the framework within which treasury activities will be undertaken. It is the responsibility of Council to approve these limits.
INVESTMENT STRATEGY	The Investment Strategy is included within the Treasury Management Strategy. It states which types of investments the Council may use for the prudent management of its treasury balances during the financial year. Under existing guidance the Secretary of State recommends that the Strategy should be approved by Council.
TREASURY MANAGEMENT PRACTICES	These are documents that set out the procedures that are in place for the Treasury Management function within the Council. The main principles were approved by Cabinet following initial adoption of the Code of Practice; they include: *TMP 1:* Risk management *TMP 2:* Performance measurement *TMP 3:* Decision-making and analysis *TMP 4:* Approved instruments, methods & techniques *TMP 5:* Organisation, clarity and segregation of responsibilities, and dealing arrangememts. *TMP 6:* Reporting requirements & management information requirements *TMP 7:* Budgeting, accounting & audit *TMP 8:* Cash & cash flow management *TMP 9:* Money laundering *TMP 10:* Staff training & qualifications *TMP 11:* Use of external service providers *TMP 12:* Corporate governance Any changes to the above principles will require Cabinet approval. It is the Head of Resources' responsibility to maintain detailed working documents and to ensure their compliance with the main principles. Quarterly treasury management reports will continue to be reported through to Members.

Appendix B

LANCASTER CITY COUNCIL
TREASURY MANAGEMENT POLICY STATEMENT

For noting by Council 27 February 2013

This reflects the revised CIPFA Treasury Management Code of Practice (Code updated in 2011).

1. This organisation defines its treasury management activities as:

   "The management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation and any financial instruments entered into to manage these risks.

3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Appendix C

Treasury Management Strategy 2013/14 to 2015/16

For Consideration by Council 27 February 2013

1 Introduction

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash to be raised during the year will meet cash expenditure, after allowing for any changes in reserves and balances. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.2 Reporting Requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report)

The first and most important report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

A mid year treasury management report

This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision. In addition, quarterly reports will continue to be presented to Cabinet with the mid year review being forwarded to Council.

An annual treasury report

This is prepared after the end of the financial year and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.3 Treasury Management Strategy for 2013/14

The strategy for 2013/14 covers two main areas:

Capital issues
- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) strategy.

Treasury management issues
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code, Government MRP guidance, the CIPFA Treasury Management Code and Government investment guidance.

1.4 Training

The CIPFA Code requires the Head of Resources to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsibe for scrutiny. The training needs of treasury management officers must also be reviewed periodically.

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

2 The Capital Prudential Indicators 2013/14 – 2015/16

The Council's capital expenditure plans are the key driver of treasury management activity. The detail of capital expenditure plans are reflected in prudential indicators, which aim to give an overview.

2.1 Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

The table below summarises capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need

Capital expenditure £'000	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
General Fund	3,826	5,698	5,133	4,578	3,902
HRA	3,574	3,892	4,827	4,621	4,707
Total	**7,400**	**9,590**	**9,960**	**9,199**	**8,609**
Financed by:					
Capital receipts		618	9,443		
Capital grants (general)	100	105	48		
Capital reserves	647	989	487	70	194
Revenue	484	306	30	30	30
Capital grants (specific)	1,262	1,226	1,245	1,229	909
HRA:					
Capital Receipts	759	43	43	44	45
Capital Grants (general)	90				
Capital Reserves	2,453	3,559	4,784	4,577	4,662
Revenue	1,035	290			
Capital grants (specific)	10				
Net financing need for the year	**559**	**2,454**	**(6,120)**	**3,249**	**2,769**

*The relatively large capital receipt relates to the sale of land in south Lancaster

2.2 **The Council's Borrowing Need (the Capital Financing Requirement)**

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has around £6M of such schemes within the CFR.

£'000	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Capital Financing Requirement					
CFR – General Fund	36,644	37,447	29,821	31,993	33,606
CFR – HRA	46,544	45,503	44,461	43,420	42,379
Total CFR	**83,188**	**82,950**	**74,282**	**75,413**	**75,985**
Movement in CFR	**32,368**	**(238)**	**(8,668)**	**1,131**	**573**

Movement in CFR represented by					
Net financing need for the year (above)	34,274*	2,454	(6,120)	3,249	2,769
Less MRP/VRP and other financing movements	(1,906)	2,692	2,548	2,118	2,196
Movement in CFR	**32,368**	**(238)**	**(8,668)**	**1,133**	**573**

*The large increase in HRA financing requirement related to the HRA Self Financing payment.

2.3 **Minimum Revenue Provision (MRP) Policy Statement**

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

Government regulations require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement*:*

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this method must also be applied for any expenditure capitalised under a Capitalisation Direction).

This provides for reducing any associated borrowing need over the asset's life.

Whilst there is no requirement on the HRA to make a minimum revenue provision, with the move to self financing equal annual instalments of principal are being made in respect of the 30 year loan taken out at the end 2012/13. There is, however, a requirement for a charge for depreciation to be made, although there are transitional arrangements in place until CIPFA determine the most appropriate accounting treatment to be applied under self financing. At present depreciation is based on the value of the relevant asset components charged over the asset lives.

2.4 **Core Funds and Expected Investment Balances**

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources £'000	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Fund balances / reserves	21,359	27,004	27,310	28,112	29,017
Capital receipts	210	0	0	0	0
Provisions	1,534	1,534	1,534	1,534	1,534
Other	200	100	0	0	0
Total core funds	**23,303**	**28,638**	**28,844**	**29,646**	**30,551**
Internal Investments*	6,188	7,129	(263)	2,067	3,791
Expected investments	**17,115**	**21,509**	**29,107**	**27,579**	**26,760**

*Internal investments relate to the difference between the CFR and the debt position as stated in section 3.1.

2.5 **Affordability Prudential Indicators**

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

2.6 Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
General Fund	17.8%	14.7%	14.2%	12.3%	12.2%
HRA	6.7%	24.2%	23.2%	22.3%	21.7%
Overall Total	**13.7%**	**18.5%**	**17.9%**	**16.4%**	**16.1%**

The estimates of financing costs include current commitments and the proposals in this budget report.

2.7 Incremental Impact of Capital Investment Decisions on Council Tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in the budget report compared to the Council's existing approved commitments and current plans.

Incremental impact of capital investment decisions on the band D council tax.

	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Council tax - band D	**£2.28**	**-£4.20**	**£1.03**	**£3.13**	**£5.98**
Percentage Change	**1.19%**	**-2.18%**	**0.53%**	**1.56%**	**2.93%**

The large impact on band D council tax is due to a delayed capital receipt, relating to the sale of land in south Lancaster. This receipt is expected to be received during 2013/14.

Illustrative impact of an additional £1M borrowing is shown below.

	5 Years	10 Years	25 Years
Increase in Council Tax	**£4.78**	**£2.53**	**£1.33**
Percentage Change	**2.49%**	**1.31%**	**0.95%**

3 Borrowing

The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet capital expenditure plans and related service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current Portfolio Position

The Council's treasury portfolio position at 31 March 2012 and forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£'000	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
External Debt					
Debt at 1 April	70,872	70,109	69,068	68,027	66,985
Other long-term liabilities (OLTL)	6,128	5,712	5,477	5,319	5,209
Total external debt at 31 March	**77,000**	**75,821**	**74,545**	**73,346**	**72,195**
The Capital Financing Requirement	**83,188**	**82,950**	**74,282**	**75,413**	**75,985**
Under / (over) borrowing	**6,188**	**7,129**	**(263)**	**2,067**	**3,791**

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2013/14 and the following two financial years. The over borrowing shown in 2013/14 reflects the application of the receipt from the sale of land at South Lancaster to reduce the underlying need to borrow, thereby reducing the CFR in that year. Thereafter, there is some flexibility for limited borrowing for future years.

The Head of Resources reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 **Treasury Indicators: Limits to Borrowing Activity**

The operational boundary. This is the limit that external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational boundary £m	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Debt	77	78	71	71
Other long term liabilities	5	5	5	5
Total	**82**	**83**	**76**	**76**

The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited. It reflects the level of external debt that, whilst not desired, could be afforded in the short term but may be unsustainable in the longer term. It is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Authorised limit £m	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Debt	94	93	87	87
Other long term liabilities	6	6	6	6
Total	**100**	**99**	**93**	**93**

HRA Limit on Indebtedness £m	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Debt	**60**	**60**	**60**	**60**

3.3 **Prospects for interest rates**

The Council has appointed Sector as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table and commentary gives the Sector central view.

Annual Average %	Bank Rate	PWLB Borrowing Rates (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2012	0.50	1.50	3.70	3.90
March 2013	0.50	1.50	3.80	4.00
June 2013	0.50	1.50	3.80	4.00
Sept 2013	0.50	1.60	3.80	4.00
Dec 2013	0.50	1.60	3.80	4.00
March 2014	0.50	1.70	3.90	4.10
June 2014	0.50	1.70	3.90	4.10
Sept 2014	0.50	1.80	4.00	4.20
Dec 2014	0.50	2.00	4.10	4.30
March 2015	0.75	2.20	4.30	4.50
June 2015	1.00	2.30	4.40	4.60
Sept 2015	1.25	2.50	4.60	4.80
Dec 2015	1.50	2.70	4.80	5.00
March 2016	1.75	2.90	5.00	5.20

The economic recovery in the UK since 2008 has been the worst and slowest recovery in recent history, although the economy returned to positive growth in the third quarter of 2012. Growth prospects are weak and consumer spending, the usual driving force of recovery, is likely to remain under pressure due to consumers focusing on repayment of personal debt, inflation eroding disposable income, and general malaise about the economy and employment fears.

The primary drivers of the UK economy are likely to remain external. 40% of UK exports go to the Eurozone so the difficulties in this area are likely to continue to hinder UK growth. The US, the main world economy, faces similar debt problems to the UK, but urgently needs to resolve the fiscal cliff now that the the Presidential elections are out of the way. The resulting US fiscal tightening and continuing Eurozone problems will depress UK growth and it is likely to see the UK deficit reduction plans slip.

This challenging and uncertain economic outlook has several key treasury mangement implications:

- The Eurozone sovereign debt difficulties provide a clear indication of high counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods.
- Investment returns are likely to remain relatively low during 2013/14 and beyond.
- Borrowing interest rates continue to be attractive and may remain relatively low for some time. The timing of any borrowing will need to be monitored carefully.
- There will remain a cost of carry – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

3.4 **Borrowing strategy**

The continued uncertainty over future interest rates increases the risks associated with treasury activity. As a result there is no strong argument for a significant relaxation of the Council's treasury strategy.

The Head of Resources, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, if need be, taking into account the risks shown in the forecast above. It is likely that shorter term fixed rates may provide lower cost opportunities in the short term.

Borrowing will only be taken on once a liability has been established although the timing of the borrowing may precede the point at which the liability actually falls due for payment. This would only be done to secure a preferential position for the Council, for example to benefit from lower interest rates.

With the likelihood of rates increasing, any debt restructuring is likely to focus on switching from longer term fixed rates to cheaper shorter term debt, although the Head of Resources and treasury consultants will monitor prevailing rates for any opportunities during the year. The benefit of this will be balanced against the risks attached to the more frequent refinancing that would be required.

The option of postponing borrowing and running down investment balances will be considered primarliry. This would have the added benefit of further reducing counterparty risk and also could support the revenue situation with the cost of loans currently far outweighing the return on investments.

4 Investment Strategy

4.1 Investment Strategy 2012/13 to 2014/15

The primary objective of the Council's investment strategy is to safeguard the re-payment of the principal and interest of its investments, with ensuring adequate liquidity being the second objective, and achieving investment returns being the third.

The types of investment allowable are categorised as either Specified and Non Specified investments. Details of these are set out in ***Annex B(1)***.

The current investment climate has an over-riding risk consideration, that of counterparty security risk. The Head of Resources will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. The use of these criteria provides an overall pool of counterparties that are considered as high quality and that may be chosen for investment, subject to other considerations.

The rating criteria use the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside of the lending criteria. This complies with a CIPFA Treasury Management Panel recommendation in March 2009 and the Code.

Credit rating information is supplied by the Council's treasury consultants (Sector) on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria will be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. More information on credit ratings is included in ***Annex B(2).***

The criteria for providing a pool of high credit quality investment counterparties (for both specified and non-specified investments) are:

Banks 1 - Good Credit Quality

The Council will only use banks that:

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

and have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated, as is consistent with the middle limit as per table 3):

i. Short Term: F1/P-1/A-1

ii. Long Term: A/A2/A

iii. Individual Viability / Financial Strength: bb+/C (Fitch / Moody's only)

iv. Support: 3 (Fitch only)

Banks 2 – Part nationalised UK banks
Lloyds Bank and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or if they meet the ratings in Banks 1 above. Investment limits will be subject to the short and long term rating limits in the table at 4.2 below.

Banks 3 – The Council's own Banker

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

Building Societies – all Societies that meet the ratings for banks outlined above.

Money Market Funds – AAA-rated sterling funds with constant unit value.

UK Government – Debt Management Account Deposit Facility (DMADF).

Local Authorities (including Police and Fire Authorities), Parish Councils

Supranational institutions (e.g. European Central Bank).

Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part the country selection will be chosen by the credit rating of the Sovereign state in *Banks 1* above. In addition:

- no more than 25% will be placed with any one non-UK country at any time;
- limits in place above will apply to Group companies (eg Natwest and RBS count as a single counterparty);
- Sector's limits will be monitored.

The Code and Investment Guidance require the Council to supplement credit rating information. Whilst the Council's strategy relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (e.g. credit default swaps, equity price, and media coverage) will be reviewed prior to investments being placed.

For the above categories of Specified and Non Specified Investments, and in accordance with the Code, the Council has developed additional criteria to set the maximum amounts that may be invested in these bodies. The criteria, using the lowest common denominator approach, are set out below.

4.2 **Counterparty Criteria and Investment Limits**

	Minimum across all three ratings				
	Fitch	**Moody's**	**Standard & Poors**	**Money Limit[8]**	**Time Limiit[9]**
Upper Limit[1]	**F1+/AA-**	**P-1/AA3**	**A-1+/AA-**	**£6M**	**Instant access only**
				£3M	**100 days**
Middle Limit[2]	**F1/A**	**P-1/A2**	**A-1/A**	**£3M**	**Instant access only**
Other Institutions[3]	**N/A**	**N/A**	**N/A**	**£6M**	**1 Year**
Lancashire County[4]	**N/A**	**N/A**	**N/A**	**£12M**	**1 Year**
Money Market Funds[5]	**AAA**	**AAA**	**AAA**	**£6M**	**Instant Access Only**
DMADF deposit[6]	**N/A**	**N/A**	**N/A**	**No limit**	**1 Year**
Sovereign rating to apply to all non UK counterparties[7]	**AAA**	**AAA**	**AAA**	**N/A**	**N/A**

Notes:
- 1 & 2: **The Upper and Middle Limits apply to appropriately rated banks and building societies.**
- 3: **The Other Institutions limit applies to other local authorities and supranational institutions (i.e. ECB), and non-specified investments (including part-nationalised banks).**
- 4: **This recognises the special status of Lancashire County Council as the City Council's upper tier authority.**
- 5: **Sterling, constant net asset value funds only.**
- 6: **The DMADF facility is direct with the UK government; it is extremely low risk.**
- 7: **UK counterparties are defined as those listed under UK banks or building societies in the Sector counterparty listing.**
- 8: **Money limits apply to principal invested and do not include accrued interest.**
- 9: **Time Limits start on the trade date for the investment.**

In the normal course of the Authority's cash flow operations it is expected that both Specified and Non Specified investments will be utilised for the control of liquidity as both categories allow for short term investments. The Council will maintain a minimum £2M of investments in Specified investments provided that the cashflow allows for this. In addition, although the Council will consider using Non Specified investments, these should not exceed 50% of the portfolio at any one time. The limits applied will be consistent with the short and long term ratings in the above table.

The use of longer term instruments (greater than one year from trade date to maturity) and forward deals will not be used.

There is some operational difficulty arising from the legacy of the banking crisis; although there is some value returning to longer term investment, credit risk remains within the market. Whilst some selective options do provide additional yield, uncertainty over counterparty creditworthiness indicates that shorter dated investments still provide better security. However, in line with limits in the previous table, fixed term investing is judged to be acceptable for certain institutions or where certain credit rating limits are met.

Council is asked to approve the base criteria above, although the Head of Resources may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval.

4.3 **Risk Benchmarking**

A further development in terms of managing risk is the use of benchmarks. Yield benchmarks are currently widely used to assess investment performance but there is little comparative data available to Members to assess where this strategy sits in comparison to other authorities in terms of the types of counterparty used and the lengths of deposit.

At present, the criteria set down above and through the treasury management indicators below, limit activity in terms of length of deposit (liquidity) and in terms of strength of the counterparty (security). The current strategy follows on from the 2012/13 strategy in being low risk through, for example, restricting the amount and length of deposit in any one counterparty as well as requiring high liquidity on most large deposits. The use of information from other authorities might allow the officers to refine the investment strategy once it is clearer how other local districts are performing and the investment parameters they are using. Officers will work towards obtaining comparative information from other Districts over the course of 2013/14 with a view to presenting this information to Members in due course.

4.4 **Treasury Management Indicators and Limits on Activity**

There are four mandatory treasury management indicators. The purpose of these indicators is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. The indicators are as follows:

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

Treasury Management Indicators

£m	2013/14		2014/15		2015/16	
Interest rate exposures (TM 1 & TM 2)						
	Upper		**Upper**		**Upper**	
Limits on fixed interest rates based on net debt	100%		100%		100%	
Limits on variable interest rates based on net debt	30%		30%		30%	
Maturity structure of fixed interest rate borrowing (TM3)						
	Lower	**Upper**	**Lower**	**Upper**	**Lower**	**Upper**
Under 12 months	0%	50%	0%	50%	0%	50%
12 months to 2 years	0%	50%	0%	50%	0%	50%
2 years to 5 years	0%	50%	0%	50%	0%	50%
5 years to 10 years	0%	50%	0%	50%	0%	50%
10 years to 15 years	0%	100%	0%	100%	0%	100%
15 years to 25 years	0%	100%	0%	100%	0%	100%
25 years to 50 years	50%	100%	50%	100%	50%	100%
Actual current position (not including new HRA debt)						
Under 12 months	*0%*					
12 months to 2 years	*0%*					
2 years to 5 years	*0%*					
5 years to 10 years	*0%*					
10 years to 15 years	*0%*					
15 years to 25 years	*0%*					
25 years to 50 years	*100%*					
Maximum principal sums invested > 364 days (TM 4)						
Principal sums invested, in 2013/14 for periods of greater than 364 days, to mature after the end of each financial year	£0M		£0M		£0M	

4.5 **Treasury Management Advisers**

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

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

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

Annex A

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 UK 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.*

Annex B (1)

Definitions of Specified and Non Specified Investments

See the detailed Investment Strategy for the limits to be applied.

1 Specified Investments are defined as follows.

SPECIFIED INVESTMENTS
These are to be sterling investments of a maturity period of not more than 364 days, or those which could be for a longer period but where the Council has the right to be repaid within 364 days if it wishes. These are low risk assets where the possibility of loss of principal or investment income is considered negligible. These include investments with:

(i) The UK Government (such as the Debt Management Office, UK Treasury Bills or a Gilt with less than one year to maturity).

(ii Supranational bonds of less than one year's duration.

(iii) A local authority, parish council or community council.

(iv) An investment scheme that has been awarded a high credit rating by a credit rating agency.

(v) A body with high credit quality (such as a bank or building society).

For category (iv) this covers a money market fund AAA rated by Standard and Poor's, Moody's or Fitch rating agencies.

2 Non-specified Investments are defined as follows:

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

Ref	Non Specified Investment Category	Limit
(i)	A body which has been provided with a government issued guarantee for wholesale deposits within specific timeframes. Where these guarantees are in place and the government has an AAA sovereign long term rating these institutions will be included within the Council's criteria temporarily until such time as the ratings improve or the guarantees are withdrawn. Monies will only be deposited within the timeframe of the guarantee.	Included as per table in 4.2
(ii)	Lloyds Bank and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised.	Included as per table in 4.2
(iii)	The Council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	Included as per table in 4.2

Annex B(2)

Background Information on Credit Ratings

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

What is a Credit Rating?

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

Who Provides / Uses Credit Ratings?

There are three main ratings agencies, all of which are used in the Authority's treasury strategy.
- Fitch
- Moody's Investor Services
- Standard & Poors

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

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

Rating Criteria

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

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

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

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

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

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

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

Appendix D

2012/13 Treasury Management Progress Report to 31 December 2012

Report of Head of Resources

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 2012/13 at its meeting on 29 February 2012. This report outlines activities undertaken in pursuance of those strategies during the financial year up to the end of Quarter 3.

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 **Appendix C - 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.

Summary

- Payments have been made by KSF and Landsbanki, leaving outstanding amounts due of £154K and £583K respectively.

- On other treasury matters, since the HRA self financing transaction at the end of 2011/12 there have been no changes to the debt portfolio. No temporary borrowing was required during the quarter and no new long term debt has been taken on.

- There have been no material breaches of any prudential indicators or counterparty limits in the quarter and no other major risks have been identified.

Economic update (provided by Sector)

The Eurozone debt crisis has continued to cast a pall over the world economy and has depressed growth in most countries. This has impacted the UK economy which is unlikely to grow significantly in 2012 and is creating a major headwind for recovery in 2013. Quarter 2 of 2012 was the third quarter of contraction in the economy; this recession is the worst and slowest recovery of any of the five recessions since 1930. A return to growth at 1% in quarter 3 in unlikely to prove anything more than a washing out of the dip in the previous quarter before a return to weak, or even negative, growth in quarter 4.

Given the weak outlook for economic growth, Sector sees the prospects for any changes in Bank Rate before 2015 as very limited. There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints.

Economic growth has basically flat lined since the election of 2010 and, worryingly, the economic forecasts for 2012 and beyond were revised substantially lower in the

Bank of England Inflation quarterly report for August 2012 and were then further lowered in the November Report. Quantitative Easing (QE) was increased again by £50bn in July 2012 to a total of £375bn. Many forecasters are expecting the MPC to vote for a further round of QE to stimulate economic activity regardless of any near-term optimism. The announcement in November 2012 that £35bn will be transferred from the Bank of England's Asset Purchase Facility to the Treasury (representing coupon payments to the Bank by the Treasury on gilts held by the Bank) is also effectively a further addition of QE.

	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%
5yr PWLB rate	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.80%	2.00%	2.20%
10yr PWLB rate	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	3.00%	3.20%
25yr PWLB rate	3.80%	3.80%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.30%
50yr PWLB rate	4.00%	4.00%	4.00%	4.00%	4.10%	4.10%	4.20%	4.30%	4.50%

Economic forecasting remains difficult with so many external influences weighing on the UK. Key areas of uncertainty include:

- The impact of the Eurozone crisis on financial markets and the banking sector.
- The impact of the UK Government's austerity plan on confidence and growth.
- Monetary policy action failing to stimulate growth in western economies.
- The potential for weak growth or recession in the UK's main trading partners - the EU and US.
- The potential for political issues to have an adverse impact e.g. trade disputes or political upheaval in the Middle East.

Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries. The interest rate forecast in this report represents a balance of downside and upside risks. The downside risks have already been commented on. However, there are upside risks as follows to PWLB rates and gilt yields, and especially to longer term rates and yields as the effects of Quantitative Easing reverse and the UK status as a relative safe haven declines as other economies improve.

Icelandic Investments Update

As reported in the year end report for 2011/12 there have been material repayments made against the Council's Icelandic deposits from all three banks. During quarter 1 2012/13 repayments were received from KSF (10%) and Landsbanki (12%). In quarter 3 further payments from Landsbanki (5.8%) and KSF (3%) were received. The current position is summarised below:

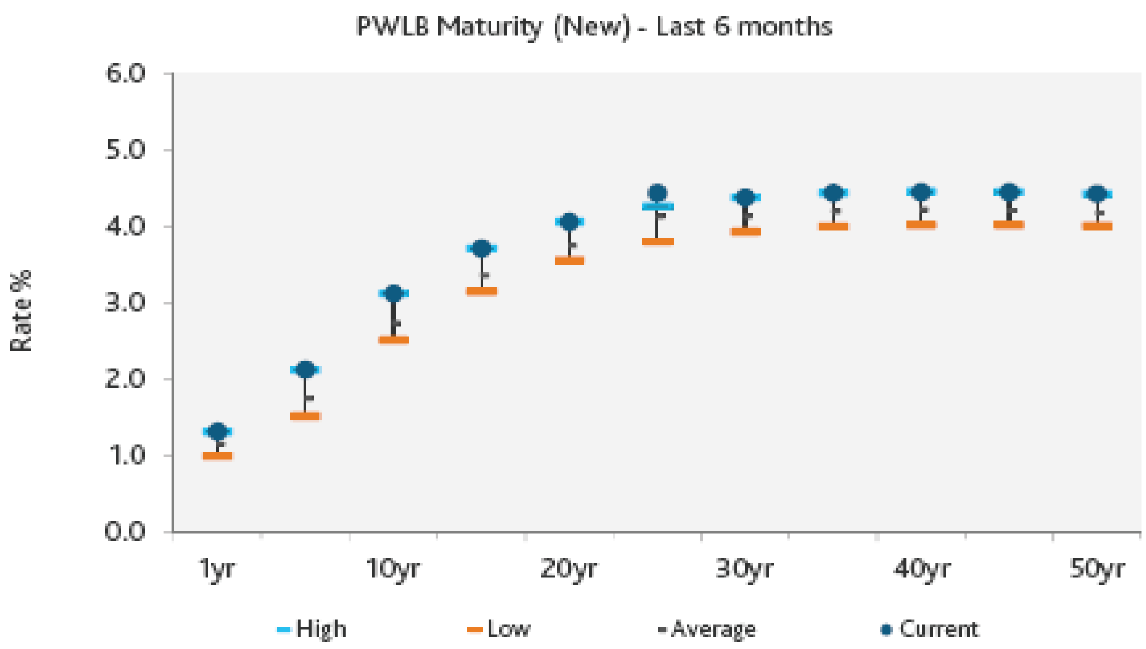
	KSF £000	Glitnir £000	Landsbanki £000	Total £000
Deposit	**2,000**	**3,000**	**1,000**	**6,000**
Claim	**2,048**	**3,173**	**1,121**	**6,342**
Payments received	**1,556**	**2,508**	**529**	**4,593**
Amounts held in ISK*		**571**	**8**	**579**
Total anticipated recovery (%)	**83.50%**	**100%**	**100%**	
Further payments due (%)	**7.50%**	**0%**	**52%**	
Further payments due (£000)	**154**	**0**	**583**	**737**
Total anticipated receipts	**1,710**	**3,079**	**1,119**	**5,908**

*These are earning interest but are also subject to currency fluctuations, these sums will be repatriated once Icelandic currency controls allow.

The total repayment in cash terms is now expected to be £5.9M meaning that the majority of the £6M principal invested will be returned.

Current Borrowing Rates.

There are few changes in relation to the cost of new debt. The graph below shows that the pattern seen since January 2009 has persisted, with a marked spread between short term and long term borrowing. Further, rates remain at their depressed levels even compared to the range seen over the last 6 months.



Extract from Sector weekly debt monitor 7/1/2013

However, as the Council is not currently looking to borrow, there is little immediate impact of these low rates. The main issue going forward could be that the margin between the Council's current loans and the threshold for avoiding penalties for early repayment will also increase but there are currently no plans to make early repayments and it will not be clear whether this is an attractive strategy until the cash demands linked to Lancaster Indoor Market are clarified, hopefully during quarters 3 and 4.

The £31M loan taken out at the end of March in respect of ending the HRA subsidy system was drawn down as an Equal Instalment of Principal (EIP) loan at 3.03% compared to the estimated 3.5%. This has resulted in annual saving of approximately £432K in interest which is split between the General Fund (£364K) and the HRA (£68K).

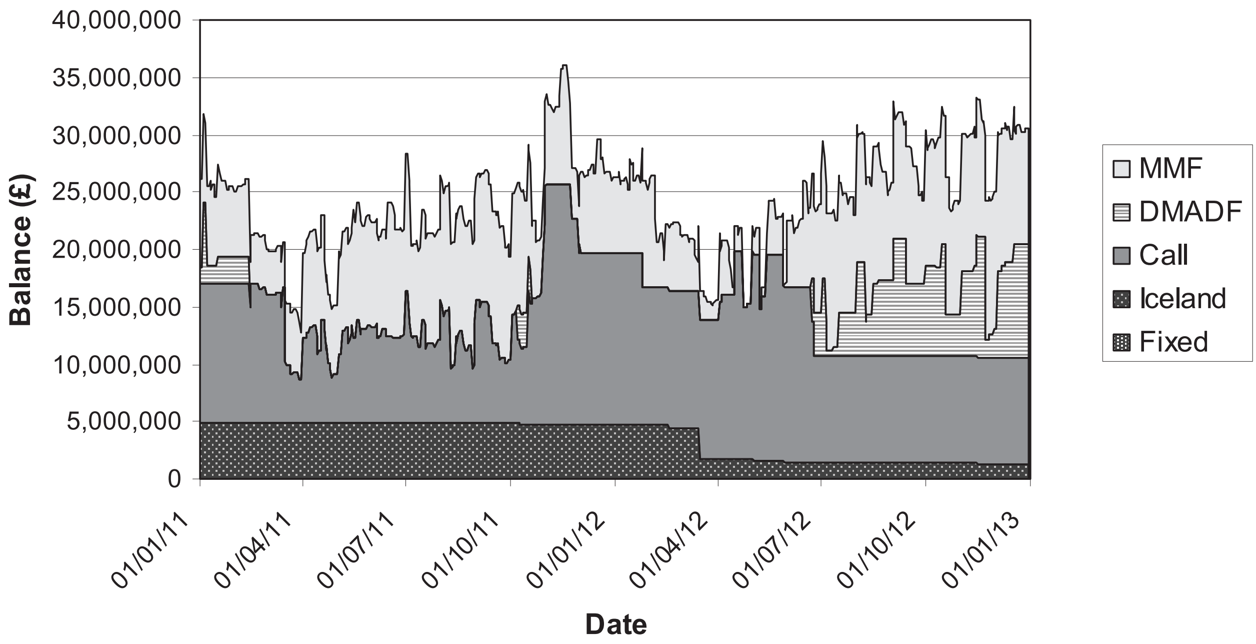
Investing Activities

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 2012/13. 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 3 is shown below.

Other Investments	Opening	Min	Max	Closing	Indicative rate	Cumulative Interest £
Call: RBS	£ 3,000,000	£ 3,000,000	£ 3,000,000	£ -	0.80%	£ 5,589
Call: Barclays	£ 3,000,000	£ -	£ 3,000,000	£ -	0.55%	£ 3,707
Call: Lancashire County Council	£ 6,000,000	£ 6,000,000	£ 12,000,000	£ 9,300,000	0.70%	£ 49,750
DMADF	£ -	£ -	£ 10,530,000	£ 9,810,000	0.25%	£ 8,335
Government Liquidity MMF	£ -	£ -	£ 6,000,000	£ 3,840,000	0.32%	£ 8,223
Liquidity First MMF.	£ 1,850,000	£ -	£ 6,000,000	£ 6,000,000	0.64%	£ 23,204
Sub-total	£ 13,850,000			£ 28,950,000		£ 98,807
					Budgeted income	£ 121,829

Investment pattern for the prior 2 years



In the last quarter the Council has tried to make full use of the capacity with the County Council, once current cash demands become clear it may be that fixed term deposits are placed with County although they are at present fully borrowed and not taking on further deposits. Towards the end of the first quarter, credit rating changes to RBS and Barclays meant that these counterparties fell off the investment list. This is being addressed in developing next year's strategy.

Given this and the reduced ability to place deposits with County, lower yielding accounts have been used such as the DMADF and governmental MMF accounts with a resultant loss of investment income. In addition, cash balances are lower than anticipated in the budget, the main reason being the ongoing delays with realising material capital receipts.

Summary of Budget Position and Performance

In terms of performance against external benchmarks, the return on investments compared to the 7 day LIBID and bank rates over the year to date is as follows:

Base Rate	0.50%
7 day LIBID	0.41%
Lancaster CC investments	0.54%

The return is just above base and is better than the 7 day LIBID benchmark which is positive given that the Council's investments are in the main on instant access. In absolute terms as the Council has focused on secure and highly liquid deposits the rate of return is very modest however, for the type of investment the Council is making, it is a reasonable rate.

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

	Annual Budget	**Profiled Budget**	**Actual to Date**	**Variance**
	£'000	£'000	£'000	£'000
Icelandic Credits	50	38	38	0
Cash Interest	164	123	99	24
Total	**214**	**161**	**137**	**24**

There is an £24K adverse variance which is jointly due to lower cash balances than anticipated, as noted in section 6, as well as reduced capacity on higher yielding accounts following limits placed by the County and credit rating reductions to Barclays and RBS.

The credits from Icelandic investments are accounting adjustments to the investments that still held with the Icelandic banks. These are real credits to the General Fund balance but are subject to adjustments depending on changes to the repayment profile of outstanding amounts. At present there is no reason to alter the assumptions made at budget time but this will be kept under review.

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 counterparty risk exposure for investment remains low.

There is financial risk attached to the longer term debt portfolio, associated with interest rate exposure but all of the debt is on fixed interest and there has been no change to this over the quarter. The low rates create a risk in terms of the ability to repay debt but the Council is not yet in position to be following such a strategy.

There have been very positive developments with the Icelandic banks over the last 3 quarters and the risk attached to uncertainty of the Council's creditor status has now been extinguished. There are still uncertainties over the timing and exact amounts of repayments, as well as how elements already repaid in ISK will be repatriated.

Further, there is an interest rate risk attached to the current investment strategy where the Council, as at December 2012, had only those nationalised or part nationalised high street banks it could deal with, on an instant access basis. The cost/benefit of the current strategy in being reviewed to ensure that the risk of foregone income is being actively monitored against a level of counterparty risk that is acceptable.

BUDGET AND PERFORMANCE PANEL

The Effect of the Current Economic Climate and Changes to Planning Legislation on Related Revenue Coming into the Council

26 March 2013

REPORT OF THE HEAD OF REGENERATION AND PLANNING

PURPOSE OF REPORT
To brief the panel on the most significant impacts of the current economic climate and changes in planning legislation on income received by the Council relating to its Regeneration and Planning function.
This report is public.

Recommendations:

(1) That the report be noted and that Members consider any comments they would wish to make.

1.0 Introduction

1.1 The economic downturn, which began in 2008, had wide ranging impacts on the world economy. Those impacts affect almost every strand of everyday life so it is difficult, when trying to evaluate how revenue to one type of organisation has been affected, to cover all the potential impacts comprehensively. Some impacts were immediate such as building companies, negotiating with the council to submit development proposals, suddenly going into receivership. Others were gradual such as the reduction in economic activity giving rise to a decline in planning and building control income through fees for applications.

1.2 A summary of the most significant impacts targeted at revenue streams is the best that can be achieved realistically with the trends currently being observed providing commentary to try and plan for the future.

2.0 Detail

2.1 **External Funding Programmes.** Shortly after the general election the Government abolished the North West Development Agency and with it went a number of funding streams for regeneration activity. Historically, the City Council has performed well in attracting external funding for regeneration projects with the support of the NWDA. In addition, the funding allocations administered by the Homes and Communities Agency and the Regional Housing Pot were removed. As a consequence of these fiscal measures key projects which no longer had access to regeneration funding were Lancaster Science Park, the Chatsworth Gardens Housing Exemplar scheme, and other continuing housing regeneration opportunities in the West End of Morecambe. It is difficult to place exact figures on the amount of funding potentially lost because the next stage of funding had not been agreed for these projects. However, as a guide, around £7m might have been obtained for infrastructure on Lancaster Science Park and around £2.3 m was originally sought for the housing exemplar scheme.

2.2 The abolition of the NWDA has however been mitigated in part by the establishment of a Local Enterprise Partnership for Lancashire which is supported in secretarial terms by the County Council. The LEP has been allocated funds to distribute on the basis of local economic priorities. It should be noted that the funds available to the LEP for allocation are much smaller than those which were previously available to the NWDA, and that bids for funding are usually made for loans rather than grants. The City Council's officers have been working closely with the County Council's Economic Development arm to ensure that schemes in Lancaster district which have major regeneration potential have access to these funds. In addition to the LEP there have been various sources of funding for regeneration projects which officers have sought to access using the bidding experience developed over many years. The Homes and Communities Agency have been particularly supportive in providing funds. By December 2012 £3m in additional external funding had been raised for regeneration work since the abolition of the NWDA and £4M Growing Places loan facilitated for the clean up of Luneside East. A further "in principle" commitment to £6m has been given in relation to other schemes.

2.3 Members should note that when bidding for external funding, the Council must ensure that it does not commit itself to match funding that cannot be afforded or does not have the appropriate approval. Either match funding in officer time or with property match is the normal criteria or no match funding requirement at all. Members should also note that the City Council's capacity to plan, project manage and be the accountable body for projects has reduced in line with the Council's financial position.

2.4 **Section 106 Contributions.** With a reduction in the number of major planning applications and the viability of development schemes suffering as a result of the economic climate, there has been a reduction in the level of income to fund mitigation measures through Section 106 agreements but this has been sudden in 2012/13. Until then since 2008/9 income has remained steady at an average of £500k pa. Although this is not an easily forecasted income stream a certain trend analysis is evident. With brown field development or schemes which require high infrastructure levels it is not uncommon for viability appraisals now to demonstrate that previously affordable contributions to travel and transport infrastructure can no longer be afforded. Even commuted sums to help fund affordable housing schemes are being asked to be waived for brown field development. There are currently pre application discussions taking place in relation to the majority of major brown field sites which in theory should give rise to a return to the normal level of section 106 contributions, however if viability issues remain key to whether a development can be afforded or not a lower level of contributions can be expected.

2.5 Another major casualty of the current economic climate has been the potential to create a standard charging regime for Community Infrastructure Levy. The levy (commonly referred to as CIL) would enable pools of funds to be created to pay for identified infrastructure deficits in the district such as schools or community facilities. CIL regulations would allow a standard charge usually based on floor space in development schemes. The creation of a CIL charge has to be undertaken using prescribed methodology as part of a Local Plan. Part of the methodology requires councils to properly assess how viable a charge would be against realistic land and development values in an area. This work has been carried out in association with the current work for the Lancaster District Local Plan. The evidence has demonstrated that in the current economic climate a Community Infrastructure Levy would render development schemes unviable in all areas other than the high value, but undevelopable northern borders of the district. There is currently no prospect of building a CIL fund therefore associated with new development.

2.6 **Reductions in Planning Fee income.** Between 2008 and the end of 2012 fee income has steadily reduced from £575k in 2008 to £350k anticipated for 2012/13. This has not simply been because of a general reduction in the number of planning applications. Changes to fee structures to reduce costs for developers, for example reducing renewal fees to a small flat rate (for example £575 for major applications) has had a significant impact on fee income whilst having no impact on workload in individual cases. In November 2012 fees were raised nationally by 15% to recognise the potentially detrimental impact of reduced fee income on capacity in planning services. In April 2010 staffing levels in the former Planning Service were cut in recognition of reduced fee income. An increase in non fee earning workload since that time and a general increase in complexity of applications has put the service under pressure and currently a number of temporary contracts are being operated to ensure that the significant number of development schemes in the pre application process can be nurtured with professional advice.

2.7 **The Building Control Trading Account.** The Council provides a Building Control service which is subject to competition from the private sector. It has an element of statutory duties which have to be carried out at cost. Its fee earning trading account relates to vetting applications for Building Regulations approval and inspecting building works. In addition to a down turn in work associated with the economic climate, increased local competition has also had a significant impact on the trading account. Building Regulations fee income of £403K in 2007/8 had reduced to 306K in 2009/10. In 2010 staffing numbers were drastically reduced to address the deficit and a further abolition of two vacant posts now leaves only three officers providing this service. Notwithstanding these actions fee income decreased to £116K in 2011/12. The time has come where the council will have to consider ending the provision of an independent building control service in the future and a report is being prepared to assess how this can be done and seek a decision on moving forward.

2.8 To further reduce the number of planning controls the Government is consulting on proposals to increase the level of "**Permitted Development Rights**" for extensions to houses. For a temporary period, potentially of up to three years, it is suggested that planning permission may no longer be needed for single storey extensions of between 4 and 6 meters in length. The government believes that this will increase the incentive to build and assist in revitalising the construction industry. Whilst this will also mean that further fee income (albeit in the cheapest categories of application) will be lost, it is your officers view that there will be a consequential increase in planning enforcement casework as low tolerance to such developments leads to an increase in enforcement complaints requiring investigation.

2.9 **Civil Engineering Projects.** The City Council is the riparian owner of Morecambe Promenade and also has a responsibility for land drainage regulation to assist the

County Council as Flood Management Authority. This means that the Council's small team of engineers can access funding from bodies such as the Environment Agency to maintain and improve coastal and flooding defences. Access to funds has improved recently with £100k allocated to undertake a coastal strategy review and design works to repair the coastal defences in Morecambe. A funding bid for £1.4m is in place for 2013/14 to start a phased programme for replacement of Morecambe's wave reflection wall.

3.0 **Conclusions.** The economic down turn and the Government's response to it through both the planning system and reductions in public expenditure (both capital and revenue) has had a significant impact on the Council's income and capacity. This has meant adjustments to its ability to provide services in the area of Planning and Regeneration. The level of business activity in this service area has not remained low during the recession however and current interest in development and investment in the area is at very high levels. The dilemma for the Council is that if it is unable to provide expertise and capacity in this service area because of the need to reduce expenditure, it could have the effect of prejudicing the delivery of the very investment needed to effect economic recovery in the area.

FINANCIAL IMPLICATIONS

The report highlights a number of areas which are facing financial uncertainty over the forthcoming years. The latest approved budget (Council 27th February 2013) takes account of these concerns as far as possible and base budgets have been updated with the latest projections available.

SECTION 151 OFFICER'S COMMENTS
The s151 Officer has been consulted and has no further comments.

MONITORING OFFICER'S COMMENTS

The monitoring Officer has been consulted and has no comments to make.

BACKGROUND PAPERS	**Contact Officer: Andrew Dobson** **Telephone:** 01524 582303 **E-mail:** adobson@lancaster.gov.uk **Ref:**

BUDGET AND PERFORMANCE PANEL

Work Programme
26 March 2013

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 updated work programme 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.

1.2 The Budget and Performance Panel is responsible for setting its own annual work programme within the terms of reference, as set out in Part 3, Section 13 of the Constitution.

2.0 Details

2.1 Customer Comments, Compliments and Complaints Policy and Guidance

Members are reminded that at its meeting on 6 November 2012, Cabinet had agreed the recommendations of the council's Overview and Scrutiny Committee made at its meeting on 10 October 2012 with regard to the revised Customer Comments, Compliments and Complaints Policy. It was reported that the committee had recommended: -

'That the Budget and Performance Panel be requested to undertake the performance monitoring of the complaints procedure.'

Following consultation with the Head of Environmental Services, it had been recommended that the issue be included on the panel's work programme for consideration at its meeting scheduled for 5 March 2013. This was agreed by the panel at its meeting on 27 November 2012.

The Head of Environmental Services has advised that officers were currently working on the details of compiling this report which would be report to the panel on a six-monthly basis commencing in 2013/14. As such it is expected that the first report will be presented to the panel in October 2013.

2.2 Salt Ayre Sports Centre

Members are reminded that at its meeting on 11 December 2012 the Assistant Head of Community Engagement (Wellbeing) had provided a report to update members on the social contribution Salt Ayre Sports Centre offered to the council and its partners.

At that meeting it was advised that further information in relation to performance against regional and national benchmarking standards, and possible reductions against management and admin costs would be presented to the panel at a future meeting.

The report is complex as it deals with comparative performance, human resource issues and financial savings and as such more time has been required to provide Budget and Performance Panel with a full picture. The report has been included in the panel's work programme for consideration at this meeting scheduled for 26 March 2013.

2.3 How the Current Economic Climate and Changes to Planning Legislation has Affected Revenue Coming into the Council

At its meeting on 15 October 2012, the panel had resolved that the Chief Executive be requested to arrange for the appropriate officer to attend and report on how the current economic climate and changes to planning legislation had affected revenue coming into the council. This report has been included in the panel's work programme for this meeting.

Members are advised that this report also covers a request made by the panel on 15 October 2012 for more information relating to Section 106 Monies and the introduction of new legislation, particularly concerning the Community Infrastructure Levy (CIL).

2.4 Building Control

Members are reminded that at its meeting on 15 October 2012 the panel had resolved that the Chief Executive be requested to arrange for the appropriate officer to attend and report on Building Control, and that this be included in the panel's work programme.

Officers have been trying to establish how many options there are to vary the way the Council delivers this service and to reduce current losses in the Building Control Trading Account. Until very recently there appeared to be no viable option of shared service provision with a neighbouring local authority. Trading conditions have suddenly changed for neighbouring authorities and talks have opened to discuss new opportunities. This will enable a report with more options for the Council to consider to be prepared in the near future.

A report will be provided to the panel once more information is available.

2.5 Empty Houses, Voids, and why Properties are in Need of Repair

Members are reminded that at its meeting on 15 October 2012 the panel had referred to the briefing note regarding Empty Houses, Voids, and why Properties are in need of Repair and had agreed that a report from an appropriate officer should be requested providing further information. Following consultation with the chairman it was agreed that the Head of Environmental Services be invited to a future meeting to discuss issues relating to empty houses, voids, and why properties are in need of repair with the panel.

The Head of Environmental Services has been invited to attend a future meeting of the panel.

2.6 Upcoming items

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

3.0 Conclusion

3.1 Members are asked to consider whether they would like to include any further items in the work programme.

SECTION 151 OFFICER'S COMMENTS The S151 Officer has been consulted and has no further comments.	
MONITORING OFFICER'S COMMENTS The Monitoring Officer has been consulted and has no further comments.	
BACKGROUND PAPERS None	**Contact Officer:** Tom Silvani **Telephone:** 01524 582132 **E-mail:** tsilvani@lancaster.gov.uk

APPENDIX A

BUDGET & PERFORMANCE PANEL WORK PROGRAMME 2012/13

Matter for consideration	Officer responsible / External	Date of meeting
Empty Houses, Voids, and why Properties are in Need of Repair	The Head of Environmental Services has been invited to discuss issues relating to empty houses, voids, and why properties are in need of repair with the panel.	TBC
Update Building Control Service Area	Head of Regeneration and Planning	TBC
Budget Overspends/Variances	As required	As required

Invitations to Cabinet Members

Cabinet Member and area of responsibility	Issue	Date of meeting
Councillor Sands (Cabinet Member for Arts and Culture) and Councillor Barry (Cabinet Member for Voluntary Sector)	To discuss partnerships within their respective portfolios.	TBC

Briefing Notes

Matter for consideration	Date Circulated	Officer responsible
Lettings of Council Buildings		Head of Resources
Shared Property Services with Lancashire County Council		Head of Resources