



Committee: BUDGET AND PERFORMANCE PANEL

Date: TUESDAY, 4 MARCH 2014

Venue: LANCASTER TOWN HALL

Time: 6.10 P.M.

A G E N D A

1. **Apologies for Absence**

2. **Minutes**

Minutes of the Meeting held on 28 January 2014 (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. **Partnerships** (Pages 1 - 7)

Report of the Chief Executive

6. **Treasury Management Strategy 2014/15** (Pages 8 - 32)

Report of Chief Officer (Resources)

All members of the council have been invited to attend for this item.

7. **Corporate Performance Monitoring 2013/14** (Pages 33 - 61)

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

8. **Work Programme Report** (Pages 62 - 64)

Report of Chief Officer (Governance).

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

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

(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 24 February 2014.

BUDGET AND PERFORMANCE PANEL**Partnerships
04 March 2014****Report of the Chief Executive****PURPOSE OF REPORT**

To update Budget and Performance Panel on the key partnerships with which the Council engages regularly and to provide information on costs and outcomes.

This report is public

RECOMMENDATIONS

(1) That Budget and Performance Panel notes the content of this report.

1.0 Introduction

1.1 In November 2012, Budget and Performance Panel considered a report on the key district partnerships with which the Council was working at that time. This report now provides further information on the Council's current key partnerships with some detail on operational and financial effectiveness, taking into account inputs and outcomes.

1.2 Although the Council works with partners widely and in different ways to deliver priorities, unless there are financial or decision making responsibilities, it is not always necessary to create formal governance structures and management arrangements to achieve outcomes. In many cases, the Council is a supporting rather than a lead partner. Reflecting this, there have been some changes in the Council's partnership working arrangements since 2012, with some partnerships no longer active, new arrangements emerging, and less formal joint working taking place, as required.

1.3 For the purposes of this report, key partnerships are considered to be those where the Council makes a direct contribution of funds, officer time or other resources to support joint working with partners to deliver agreed outcomes. The report does not consider the wide range of other arrangements in existence such as joint committees, shared services or very informal or ad hoc joint working with partners and other agencies.

2.0 Details

2.1 In the current context, the key partnerships are identified below. A further breakdown of partnership costs and contributions as well as intended outcomes is attached at Appendix A.

• **Children's Trust Board and Partnership**

The Council currently works with Lancashire County Council to manage the Children's Trust Board for the district, which takes the strategic responsibility for achievement of positive outcomes for children and young people. The Board has an overview of mainstream services but seeks to add value by enabling additional services that reflect district priorities. The membership of the Board is limited but is supported by a wider partnership, which meets twice a year and provides direct engagement with many other partner organisations.

The Council contributes to the Children's Trust Board and Partnership at the strategic level and also provides coordination, supported by a financial contribution from Lancashire County Council under the terms of a Statement of Commitment.

• **Community Safety Partnership (CSP) and sub groups**

The CSP is a statutory partnership which brings together the key agencies working together to reduce crime and disorder in the district. It is supported by sub groups working to address local priorities on a multi agency basis, including Anti Social Behaviour and Domestic Violence.

Currently the CSP is chaired by the Council's portfolio holder and the council also provides a senior officer contribution at the strategic level, policy support to inform and advise and to oversee projects and funding. An annual financial contribution is made to assist in delivering specific projects linked to district priorities.

• **Health and Well Being Partnership**

The Health and Well Being Partnership for the district was created around three years ago to mirror new sub regional health structures at the local level. These arrangements provide the mechanism via which the district can develop a coordinated position on local health and well being priorities and communicate formally with the Lancashire wide group to influence emerging policies and funding.

The Council provides an officer contribution at the strategic level but does not take the leading role or provide coordination or funding for this partnership.

• **Lancaster Arts Partnership (LAP)**

LAP was created by partners in 2010 to provide a coordinated and coherent approach to delivering arts activities in the district. The partnership currently has x local arts organisations as members but seeks to engage with the wider range of arts groups as far as possible.

The Council provides officer advice and information for LAP, with Lancashire County Council and the Arts Council, but does not take the leading role or provide coordination. No ongoing funding is provided for this partnership although some financial support has been provided for specific initiatives, for example, Take Pride funding was awarded for development work.

• **Communities Together**

Communities Together was previously known as the Community Leader's Group and its objectives relate to the promotion of positive relationships between diverse communities and groups in the district.

The Council provides senior officer attendance and meeting administration as well as occasional support for specific activities.

• **Affordable Warmth Group**

The Affordable Warmth Steering Group was established around three years ago to bring district partners together to develop ways of improving the health and mortality rates for vulnerable people affected by cold and unsuitable living conditions. This group links to the Lancaster and North Fylde Affordable Warmth Group, which provides strategic coordination across the north of Lancashire. The local group is informal and primarily provides a means of engagement and consultation with local partners as well as means of coordinating local delivery activities.

The Council provides officer attendance at meetings, which occur 3 to 4 times per annum, and, separately, has taken accountable body responsibility for external funding to support affordable warmth activities.

• **Morecambe Bay Partnership**

Morecambe Bay Partnership is a strategic partnership that has been in existence for some years as a registered charity with a board of trustees. The partnership is strongly engaged in bringing together economic, heritage and environmental interests around the bay. Current partners include all four Local Authorities including Lancaster City Council.

The Council provides senior management capacity at Board level and a direct annual contribution of £4k. Separately, the Council works with Morecambe Bay Partnership on specific initiatives, such as destination branding.

• **Arnside and Silverdale AONB**

The Arnside and Silverdale AONB Partnership was established in 2002 to lead on the delivery of statutory responsibilities relating to the Countryside Rights of Way Act 2000. The main purpose of the Partnership is to actively conserve and enhance the AONB, promote the purpose of its designation and to fulfil the statutory duties and other requirements of local authorities. The AONB has an executive committee and an AONB team based in Arnside, which serves as the main vehicle through which the partnership delivers its responsibilities.

The Council takes management responsibility for the AONB, including financial accountability, on behalf of Lancashire County Council, Cumbria County Council and South Lakeland District Council.

The table at Appendix A provides a further breakdown of partnership costs and contributions as well as intended outcomes.

3.0 Conclusion

3.1 Generally, the Council is still working extensively with other partners and agencies, although in a very flexible and cost effective way with fewer formal structures and management arrangements, unless these are required or beneficial. In many cases, the Council is a contributing rather than a lead partner and does not automatically assume responsibility for partnership management. This report reflects current partnership arrangements in the district and provides

information on the Council's costs and contributions as well as intended partnership outcomes.

CONCLUSION OF IMPACT ASSESSMENT
(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

No specific implications as a result of this report.

LEGAL IMPLICATIONS

No specific implications as a result of this report.

FINANCIAL IMPLICATIONS

No specific implications as a result of this report.

OTHER RESOURCE IMPLICATIONS

Human Resources:

No specific implications as a result of this report

Information Services:

No specific implications as a result of this report.

Property:

No specific implications as a result of this report.

Open Spaces:

No specific implications as a result of this report.

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

Contact Officer: Anne Marie Harrison
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Ref:

| Partnership | Corporate Priority | Financial contribution | Other resources | Partnership outcomes |
|--|----------------------|---|--|---|
| District Children's Trust Board and Partnership | Community Leadership | <ul style="list-style-type: none"> • No direct financial contribution • <i>£20k per annum income from County Council, reducing to £15K per annum from April 2014</i> | <ul style="list-style-type: none"> • Officer time: <ul style="list-style-type: none"> -Senior manager attendance (quarterly meetings) -Policy support (variable) -Coordinator (approx 0.6 fte) • Incidental costs for meetings | Positive outcomes for children and young people in the district. The Children and Young People Action Plan details priority areas for the district, which are currently: <ul style="list-style-type: none"> • Providing access to learning/work opportunities for young people • Reducing family poverty • Reducing youth offending • Reducing risk taking behaviours by teenagers (especially excess alcohol consumption) • Working together to improve safeguarding |
| Community Safety Partnership and associated groups, including: <ul style="list-style-type: none"> • ASBRAC's (Anti Social Behaviour Risk Assessment Conferences) • DARG (Domestic Abuse Reduction Group) • Domestic Homicide Review Group (sub regional) | Community Leadership | <ul style="list-style-type: none"> • Direct financial contribution of £13.5k (plus inflation) per annum • Current specific support totalling £50k (£26k in 2013/14, £12k in 2014/15 and £12K in 2015/16) for domestic violence project. | <ul style="list-style-type: none"> • Officer time: <ul style="list-style-type: none"> -Senior manager attendance (quarterly meetings) -Policy support (approx 3 days per week) • Accountable body support for CSP funding, i.e. £33.8K in addition to Lancaster City Council direct contribution in 2013/14. Subject to annual confirmation | Improved quality of life for individuals and families living in the district and improved visitor experience, achieved by reducing crime and disorder. Current priorities identified in the Community Safety Action Plan are: <ul style="list-style-type: none"> • Domestic violence/abuse • Violence against the person • Road Safety • Antisocial behaviour • Serious acquisitive crime |

| Partnership | Corporate Priority | Financial contribution | Other resources | Partnership outcomes |
|--|-----------------------|--|---|---|
| Health and Well Being Partnership | Health and Well Being | <ul style="list-style-type: none"> No direct financial contribution. | <ul style="list-style-type: none"> Officer time: <ul style="list-style-type: none"> -Senior manager attendance | <p>Quality of life for individuals and families living in the district by reducing for health inequalities. Current priorities in the Action Plan include:</p> <ul style="list-style-type: none"> Housing and homelessness Child Health Tobacco Alcohol Physical activity Self care |
| Lancaster Arts Partnership | Economic Growth | <ul style="list-style-type: none"> No direct financial contribution Some second homes funding £21.8K has been provided for specific initiatives e.g. development funding for Take Pride initiatives (Some individual arts organisations currently receive separate financial support, i.e. the Dukes, Ludus, Litfest and Morecambe Music Residency) | <ul style="list-style-type: none"> Officer time: <ul style="list-style-type: none"> - Attendance at meetings - Advice and information | <ul style="list-style-type: none"> Increased economic impact of arts activities in the district Improved reputation as a visitor destination achieved by delivery of world class arts events and performances |
| Communities Together | Community Leadership | <ul style="list-style-type: none"> No direct financial contribution | <ul style="list-style-type: none"> Officer time: <ul style="list-style-type: none"> - Senior officer attendance - Administration for quarterly meetings Meeting facilities | <p>Promotion of positive relationships between diverse communities and groups in the district.</p> |

| Partnership | Corporate Priority | Financial contribution | Other resources | Partnership outcomes |
|--|---|--|---|---|
| Affordable Warmth Group | Health and Well Being | <ul style="list-style-type: none"> No direct financial contribution. <i>External funding income provided for delivery of Affordable Warmth measures – total in 2012/13 was £139k and £46.3K in 2013/14</i> | <ul style="list-style-type: none"> Officer time: <ul style="list-style-type: none"> -Coordination of funding bids -Delivery of affordable warmth measures Accountable body support for external funding | Reduced mortality and improved health outcomes for vulnerable individuals and households in the district. |
| Morecambe Bay Partnership | Economic Growth | <ul style="list-style-type: none"> £4K contribution per annum | <ul style="list-style-type: none"> Senior officer attendance at meetings Support for specific initiatives when relevant to the Council's priorities. | Economic, heritage and environmental outcomes as a result of joint working between partners around Morecambe Bay |
| Arnsdale and Silverdale AONB (Area of Outstanding Natural Beauty) | Clean, Green and Safe/ Economic Growth | <ul style="list-style-type: none"> Direct contribution of £15k Accountable body for partners contribution totalling £38.6k per annum Accountable body for DEFRA core funding of £144k in 2013/14 reducing to £133.2k for future years Accountable body for other external funds to support projects, totalling £849.2k from Natural England for 2012/13 to 2014/15 | <ul style="list-style-type: none"> Joint working with the Executive Committee to meet statutory requirements under the Countryside Rights of Way Act 2000 Provision of support for AONB including human resources, financial and IT Support for the development of the AONB Management Plan and Annual Business plan | <p>Outcomes relating to:</p> <ul style="list-style-type: none"> Landscape and seascape Biodiversity and geodiversity Historic and cultural landscape Thriving sustainable economy and vibrant communities Rural growth Visitor economy Low carbon living |

Budget and Performance Panel

**Treasury Management Strategy 2014/15
04 March 2014**

Report of Chief Officer (Resources)

PURPOSE OF REPORT

To seek the Panel's views regarding the approved treasury management framework for 2014/15.

This report is public

RECOMMENDATIONS

- 1. That Budget and Performance Panel considers the attached Treasury Management progress report and approved framework documents for 2014/15 and makes recommendations as appropriate.**

1 Introduction

- 1.1 The attached report is being considered by Budget Council on 26 February 2014. 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 present for approval 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.

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Ref:

COUNCIL

**Treasury Management Framework 2014/15
26 February 2014**

Report of Cabinet

PURPOSE OF REPORT

This report seeks approval for the Council's treasury management framework for 2014/15 onwards, including all the various elements as required under relevant legislation and the associated Code of Practice.

This report is public.

RECOMMENDATIONS

- 1) **That Council approves the Treasury Management Framework and associated Prudential Indicators as set out in Appendices A to D.**

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, in order 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 2014/15 to 2016/17 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, allowing for scheduled repayments.

3.3.2 This position is based on the Council's capital spending and its provisions, reserves and balances being in line with forecasts. If cash payments increase significantly beyond this – for example, if key rating appeals are successful, and early additional demands on reserves such as Invest to Save/Council Housing business support come through - then the debt position may need to be varied accordingly. If so, additional Council approval would be sought if appropriate.

3.4 **Investment Aspects of the Strategy**

3.4.1 Overall, the strategy put forward follows on from 2013/14 in that it is based on the Council having a comparatively low risk appetite with focus on high quality deposits.

3.4.2 As background, Council may be aware that the sovereign debt crisis has eased during 2013. The Eurozone escaped seven quarters of recession but growth is likely to remain low and will therefore dampen UK growth. Debt levels remains comparatively very high in a number of European countries (Italy, Greece, Ireland, Portugal and Cyprus) and any sharp downturn in economic growth would make these countries vulnerable to another sovereign debt crisis. 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, but there is some scope for building in more flexibility, and this has been agreed with the Finance Portfolio Holder, in line with the delegations granted at February Cabinet and following discussions with the Council's advisors.

3.4.3 Accordingly, the proposed strategy now provides up to £6M flexibility to allow investments for up to 364 days with high credit quality banks (as compared with the currently strategy, that allowed up to £3M being invested for up to 100 days). This increased flexibility will only be used if circumstances, and in particular counterparty security, warrants it. Furthermore, the Council still has significant liquidity risk, although the key element of this is now linked to rating appeals rather than capital receipts, as was the position a year or so ago. Liquidity risks will also inform future investment patterns and periods.

3.4.4 In terms of return, the opportunity cost of keeping investments with good quality counterparties very short, through using predominantly instant access accounts, is that of a relatively low yield. Markets are starting to offer significantly improved rates for longer term deposits, however, with rates of 0.95% for a 12 month deposit. This is in comparison to 0.482% 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 £28K above that for the Council 'average' investment. A reasonable balance needs to be made, however, and it is stressed that in order of priority, the objectives of investing activity remain as:

- 1: Security of investment
- 2: Liquidity, to ensure that the council can meet all its payments
- 3: Return, through investment rates.

4 CONSULTATION

4.1 Officers have liaised with Capita Asset Services, 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 04 March 2014, to help inform its future work programme. A training session has also been organised for then, and all Members are welcome to attend it.

5 OPTIONS AND OPTIONS ANALYSIS

5.1 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.

5.2 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.

6 CONCLUSION

6.1 Although the Council's proposed treasury management framework remains relatively unchanged, there is case for increasing flexibility regarding investments to some limited degree, and this is reflected in the proposals.

| | |
|--|---|
| <p>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.</p> | |
| <p>CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability etc) No direct implications arising.</p> | |
| <p>FINANCIAL IMPLICATIONS The Strategy is in support of achieving the borrowing cost and investment interest estimates included in the budget.</p> | |
| <p>SECTION 151 OFFICER'S COMMENTS The section 151 Officer has produced this report, on behalf of Cabinet. Her comments and advice are reflected accordingly.</p> | |
| <p>LEGAL IMPLICATIONS There are no legal implications arising from this report.</p> | |
| <p>MONITORING OFFICER'S COMMENTS The Monitoring Officer has been consulted and has no further comments to add.</p> | |
| <p>BACKGROUND PAPERS Treasury Management in the Public Services. CIPFA Code of Practice and Cross-sector Guidance Notes (2011)</p> | <p>Contact Officer: Nadine Muschamp Telephone:01524 582117 E-mail:nmuschamp@lancaster.gov.uk</p> |

TREASURY MANAGEMENT FRAMEWORK DOCUMENTS AND RESPONSIBILITIES

For Consideration by Council 26 February 2014

| 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 | <p>These are documents that set out the procedures that are in place for the Treasury Management function within the Council. The main principles were approved by Cabinet following initial adoption of the Code of Practice; they include:</p> <p>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 arrangements. 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.</p> <p>Any changes to the above principles will require Cabinet approval. It is the Chief Officer (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.</p> |

**LANCASTER CITY COUNCIL
TREASURY MANAGEMENT POLICY STATEMENT**

For noting by Council 26 February 2014

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.

Treasury Management Strategy 2014/15 to 2016/17

For Consideration by Council 26 February 2014

1 INTRODUCTION

1.1 Background

The Council is required to operate a balanced budget, which broadly means that income to be raised during the year will meet expenditure to be made, after allowing for any changes in reserves and balances. Part of the treasury management operation is to ensure that the associated 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.

CIPFA defines treasury management as:

"The management of the local 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."

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 policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report):

The first, and most important report covers:

- capital plans (including prudential indicators);
- the 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 indicating whether treasury activity is

meeting objectives or whether any revisions are required. In addition, Cabinet will receive quarterly update reports.

An annual treasury report:

This provides details of various actual prudential and treasury indicators and actual treasury operations compared to the estimates within the approved Strategy.

Scrutiny

This role is undertaken primarily by Budget and Performance Panel. Where time allows, reports will be scrutinised by the Panel prior to consideration by Council. In any event, all reports are considered by Cabinet ahead of referral to Council, thereby facilitating pre-scrutiny to some extent.

1.3 Treasury Management Strategy: Scope

The strategy for 2014/15 covers two main areas:

Capital Issues

- capital plans and the prudential indicators; and
- the minimum revenue provision (MRP) policy.

Treasury Management Issues

- the current treasury position;
- treasury indicators that limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- 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 CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

1.4 Training

The CIPFA Code requires the Chief Officer (Resources) to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. The first training session has been arranged for Members on 04 March 2014 (linked to the Budget and Performance Panel meeting) and further training will be arranged as required.

The training needs of treasury management Officers are periodically reviewed.

1.5 Treasury Management Consultants

The Council uses Capita Asset Services (Treasury solutions), as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2 CAPITAL PRUDENTIAL INDICATORS 2014/15 – 2016/17

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, which aim to provide Members with 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 provides that summary, showing how the plans are being financed by capital or revenue resources. Any shortfall of resources results in a borrowing need.

| Capital Expenditure | 2012/13 Actual £M | 2013/14 Estimate £M | 2014/15 Estimate £M | 2015/16 Estimate £M | 2016/17 Estimate £M |
|--|-------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| General Fund | 5.32 | 17.29 | 10.17 | 3.91 | 4.03 |
| Housing Revenue Account (HRA) | 3.59 | 4.87 | 4.79 | 4.93 | 4.66 |
| Total | 8.91 | 22.16 | 14.96 | 8.84 | 8.69 |
| Financed by: | | | | | |
| Capital receipts | 0.44 | 8.10 | 0.99 | 0.68 | 0.42 |
| Capital grants | 1.01 | 3.96 | 2.09 | 0.99 | 1.03 |
| Capital reserves | 4.45 | 5.72 | 5.24 | 5.08 | 4.68 |
| Revenue | 0.40 | 0.13 | 0.46 | 0.05 | 0.10 |
| Net financing need for the year | 2.61 | 4.25 | 6.18 | 2.04 | 2.46 |

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 amount of capital expenditure (including that from prior years) that has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying need to borrow. Any capital expenditure above, which is not wholly financed in-year, will increase the CFR.

The CFR does not increase indefinitely. This is because the Minimum Revenue Provision (MRP), which is a statutory annual charge to revenue, helps offset any annual increases.

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 £425K of vehicle leases within the CFR.

The Council is asked to approve the following CFR projections:

| | 2012/13 Actual £M | 2013/14 Estimate £M | 2014/15 Estimate £M | 2015/16 Estimate £M | 2016/17 Estimate £M |
|---|-------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Capital Financing Requirement | | | | | |
| General Fund | 37.57 | 40.28 | 45.10 | 45.65 | 46.55 |
| HRA | 45.51 | 44.47 | 43.43 | 42.39 | 41.35 |
| Total CFR | 83.08 | 84.75 | 88.53 | 88.04 | 87.90 |
| Year on Year Movement in CFR | -0.04 | 1.67 | 3.78 | -0.49 | -0.14 |

| Movement in CFR represented by | | | | | |
|--|--------------|-------------|-------------|--------------|--------------|
| Net financing need for the year (above) | 2.60 | 4.25 | 6.18 | 2.04 | 2.46 |
| Less MRP/VRP and other financing movements | -2.64 | -2.57 | -2.40 | -2.53 | -2.60 |
| Movement in CFR | -0.04 | 1.67 | 3.78 | -0.49 | -0.14 |

2.3 Minimum Revenue Provision (MRP) Policy Statement

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

Government Regulations require 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 being made. In approving this Strategy, Council approves the following MRP Statement:

For capital expenditure incurred before 01 April 2008 or in subsequent years, MRP will be based on:

- **Asset life method** – MRP will be based on the estimated life of the each asset created as a result of the related capital expenditure, in accordance with the Regulations (this option must also be applied for any expenditure capitalised under a Capitalisation Direction).

This option provides for a reduction in the borrowing need over the approximate life of the asset concerned.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

Repayments included in annual finance leases are applied as MRP.

2.4 Core Funds and Expected Investment Balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments, unless resources are supplemented each year from new sources (e.g. asset sales). The following table provides estimates of the year end balances for each resource and anticipated day to day cash flow balances. These could vary hugely, however, for example as a result of any successful rating appeals.

| Year End Resources | 2012/13 Actual £M | 2013/14 Estimate £M | 2014/15 Estimate £M | 2015/16 Estimate £M | 2016/17 Estimate £M |
|-----------------------------|-------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Fund balances/reserves | 21.42 | 21.16 | 21.30 | 22.02 | 21.45 |
| Capital receipts | 0.11 | 0.09 | 0.09 | 0.12 | 0.15 |
| Provisions | 0.51 | 0.42 | 0.42 | 0.42 | 0.42 |
| Total Core Funds | 22.04 | 21.67 | 21.81 | 22.56 | 22.02 |
| Working capital* | 3.35 | 3.35 | 3.35 | 3.35 | 3.35 |
| Under/over borrowing** | -6.59 | -8.26 | -12.04 | -11.55 | -11.41 |
| Expected Investments | 18.80 | 16.76 | 13.12 | 14.36 | 13.96 |

*Working capital balances shown are estimated year end; these may be higher mid year

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.

| % | 2012/13 Actual | 2013/14 Estimate | 2014/15 Estimate | 2015/16 Estimate | 2016/17 Estimate |
|--------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| General Fund | 16% | 13% | 12% | 12% | 13% |
| HRA | 24% | 23% | 22% | 22% | 21% |

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 the five year capital programme recommended in the budget report as compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not provided for the same period of time.

| Council Tax | 2012/13 Actual | 2013/14 Estimate | 2014/15 Estimate | 2015/16 Estimate | 2016/17 Estimate |
|----------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| Band D Impact | 1.46% | -3.42% | 5.64% | 1.71% | 0.47% |

2.8 Estimates of the Incremental Impact of Capital Investment Decisions on Housing Rent Levels

Similar to the council tax calculation, this indicator identifies the trend in the cost the council housing capital programme recommended in this budget report, compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

| £ | 2012/13 Actual | 2013/14 Estimate | 2014/15 Estimate | 2015/16 Estimate | 2016/17 Estimate |
|-----------------------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| Weekly housing rent levels | £0.62 | -£1.26 | £2.17 | £0.67 | £0.19 |

3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate 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 2013 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.

| | 2012/13 Actual £M | 2013/14 Estimate £M | 2014/15 Estimate £M | 2015/16 Estimate £M | 2016/17 Estimate £M |
|--|-------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| External Debt | | | | | |
| Debt at 1 April | 76.11 | 74.58 | 72.59 | 76.94 | 76.63 |
| Expected change in Debt | -0.04 | 1.67 | 3.78 | -0.49 | -0.14 |
| Other long-term liabilities (OLTL) | 5.49 | 0.42 | 0.24 | 0.13 | 0.04 |
| Expected change in OLTL | -5.06 | -0.19 | -0.11 | -0.09 | -0.04 |
| Actual gross debt at 31 March | 76.50 | 76.48 | 76.50 | 76.49 | 76.49 |
| The Capital Financing Requirement | 83.08 | 84.75 | 88.53 | 88.04 | 87.90 |
| Under- borrowing | 6.58 | 8.27 | 12.03 | 11.55 | 11.41 |

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 2014/15 and the following two financial years. This allows some

flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Chief Officer (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 the budget report.

3.2 Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary

This is the limit beyond which 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 | 2013/14 Estimate £M | 2014/15 Estimate £M | 2015/16 Estimate £M | 2016/17 Estimate £M |
|-----------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Debt | 84.11 | 88.07 | 88.18 | 87.78 |
| Other long term liabilities | 0.42 | 0.24 | 0.13 | 0.04 |
| Total | 84.53 | 88.31 | 88.31 | 87.82 |

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, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, whilst not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This 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.
2. Council approves the following authorised limits:

| Authorised Limit | 2013/14 Estimate £M | 2014/15 Estimate £M | 2015/16 Estimate £M | 2016/17 Estimate £M |
|-----------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Debt | 101.00 | 104.00 | 104.00 | 104.00 |
| Other long term liabilities | 1.00 | 1.00 | 1.00 | 1.00 |
| Total | 102.00 | 105.00 | 105.00 | 105.00 |

3.3 Prospects for interest rates

The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council in formulating a view on interest rates. The following table gives the central view.

| Annual Average % | Bank Rate % | PWLB Borrowing Rates % (including certainty rate adjustment) | | |
|------------------|-------------|---|---------|---------|
| | | 5 year | 25 year | 50 year |
| Dec 2013 | 0.50 | 2.50 | 4.40 | 4.40 |
| Mar 2014 | 0.50 | 2.50 | 4.40 | 4.40 |
| Jun 2014 | 0.50 | 2.60 | 4.50 | 4.50 |
| Sep 2014 | 0.50 | 2.70 | 4.50 | 4.50 |
| Dec 2014 | 0.50 | 2.70 | 4.60 | 4.60 |
| Mar 2015 | 0.50 | 2.80 | 4.60 | 4.70 |
| Jun 2015 | 0.50 | 2.80 | 4.70 | 4.80 |
| Sep 2015 | 0.50 | 2.90 | 4.80 | 4.90 |
| Dec 2015 | 0.50 | 3.00 | 4.90 | 5.00 |
| Mar 2016 | 0.50 | 3.10 | 5.00 | 5.10 |
| Jun 2016 | 0.75 | 3.20 | 5.10 | 5.20 |
| Sep 2016 | 1.00 | 3.30 | 5.10 | 5.20 |
| Dec 2016 | 1.00 | 3.40 | 5.10 | 5.20 |
| Mar 2017 | 1.25 | 3.40 | 5.10 | 5.20 |

Commentary:

Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth has rebounded during 2013 to surpass all expectations. Growth prospects remain strong for 2014, not only in the UK economy as a whole, but in all three main sectors of services, manufacturing and construction. One downside is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax reductions have offset this to some extent. A rebalancing of the economy towards exports has started but as 40% of UK exports go to the Eurozone, the difficulties in this area are likely to continue to dampen UK growth. There are, therefore, concerns that a UK recovery currently based mainly on consumer spending and the housing market, may not continue much beyond 2014. The US, the main world economy, faces similar debt problems to the UK, but with reasonable growth, reductions in government expenditure and tax rises, its annual government deficit has been halved from its peak, without appearing to do too much damage to growth.

The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- Although Eurozone concerns have subsided in 2013, Eurozone sovereign debt difficulties have not gone away and there are major concerns as to how these will be managed over the next few years as levels of government debt to GDP ratios, in some countries, continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods.
- Investment returns are likely to remain relatively low during 2014/15 and beyond.
- Borrowing interest rates have risen significantly during 2013 and are on a rising trend. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring even higher borrowing costs, which are now looming ever closer, where authorities will not be able to avoid new

borrowing to finance new capital expenditure and/or to refinance maturing debt, in the relatively near future.

- There remains a cost of carry to any new borrowing that causes an increase in investments, as this would incur a revenue loss (the difference between higher borrowing costs and lower investment returns).

3.4 Borrowing Strategy

The Chief Officer (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 Chief Officer (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 also continue to be considered. This has the added benefit of further reducing counterparty risk and could continue help the revenue budget, with the cost of loans currently far outweighing the return on investments.

3.5 Policy on Borrowing in Advance of Need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

3.6 Debt Rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and / or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to Cabinet at the earliest meeting following its action.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment Policy

The Council's investment policy has regard to the Government's guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

In accordance with the above, and in order to minimise the risk to investments, the Council clearly stipulates (as set out below) the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies. Using our advisor's ratings service, potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Furthermore, Council Officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to assess and monitor continually the financial sector on both a micro and macro basis, and in relation to the economic and political environments in which institutions operate. Assessments will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to keep a monitor on market pricing, such as "credit default swaps", and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector, in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

The aim of the strategy is to generate a list of highly creditworthy counterparties, which will also enable diversification and thus avoidance of concentrated risk.

The intention of the strategy is to provide security of investment and minimisation of risk.

Investment instruments identified for use in the financial year are listed in **Annex B** under the 'specified' and 'non-specified' investments categories.

4.2 Creditworthiness policy

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Chief Officer (Resources), as s151 Officer, 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. These criteria are separate to those that determine which types of investment instrument are either specified or non-specified. The following criteria provide an overall pool of counterparties considered high quality that the Council may use, rather than defining what types of investment instruments are to be used.

The minimum 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 the lending criteria. Credit rating information is supplied by Capita Asset Services on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to Officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

The criteria for providing a pool of high quality investment counterparties (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.

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 (e.g. Natwest and RBS count as a single counterparty);
- Capita Asset Services' limits will be monitored.

Use of Additional Information other than Credit Ratings

Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria 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 (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and Monetary Limits Applying to Investments

The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified investments):

| | Minimum across all three ratings | | | Money Limit ⁸ | Time Limit ⁹ |
|---|----------------------------------|---------|------------------|--------------------------|-------------------------|
| | Fitch | Moody's | Standard & Poors | | |
| Upper Limit ¹ | F1+/AA- | P-1/AA3 | A-1+/AA- | £6M | Instant access only |
| | | | | £6M | 364 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 | 364 days |
| Lancashire County Council ⁴ | N/A | N/A | N/A | £12M | 364 days |
| Money Market Funds ⁵ | AAA | AAA | AAA | £6M | Instant Access Only |
| DMADF deposit ⁶ | N/A | N/A | N/A | No limit | 364 days |
| 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 (e.g. European Central Bank), and 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 Capita Asset Services 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.

4.3 Investment Strategy

In-house funds: Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment returns expectations: The Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from Quarter 2 of 2016. Bank Rate forecasts for financial year ends (March) are:

| | |
|---------|-------|
| 2013/14 | 0.50% |
| 2014/15 | 0.50% |
| 2015/16 | 0.50% |
| 2016/17 | 1.25% |

There are upside risks to these forecasts (i.e. start of increases in Bank Rate occurs sooner) if economic growth remains strong and unemployment falls faster than expected. However, should the pace of growth fall back, there could be downside risk, particularly if the Bank of England inflation forecasts / the rate of fall of unemployment were to prove too optimistic.

The assumed investment rates for investments placed for periods up to 100 days during each financial year for the next four years are as follows:

| | |
|---------|-------|
| 2014/15 | 0.50% |
| 2015/16 | 0.50% |
| 2016/17 | 0.69% |
| 2017/18 | 2.00% |

4.4 Icelandic Bank Investments

Officers will continue to report to Cabinet on the outstanding claim balances (Glitnir escrow account, and KSF). Alternative methods for recuperating the outstanding claims, such as a sale of claim to a third party, will be considered and as required.

4.5 End of Year Investment Report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

Treasury Management Glossary of Terms

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

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

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

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

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

Definitions of Specified and Non Specified Investments

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

1. Specified Investments are defined as follows.

| Specified Investments |
|---|
| <p>These are to be sterling investments of a maturity period of not more than 364 days, or those which could be for a longer period but where the Council has the right to be repaid within 364 days if it wishes. These are low risk assets where the possibility of loss of principal or investment income is considered negligible. These include investments with:</p> <ul style="list-style-type: none"> (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). <p>For category (iv) this covers a money market fund AAA rated by Standard and Poor's, Moody's or Fitch rating agencies.</p> |

2. Non-specified Investments are defined as follows:

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

| Ref | Non Specified Investment Category | Limit |
|------------|--|-----------------------------|
| (i) | <p>A body which has been provided with a government issued guarantee for wholesale deposits within specific timeframes.</p> <p>Where these guarantees are in place and the government has an AAA sovereign long term rating these institutions will be included within the Council's criteria temporarily until such time as the ratings improve or the guarantees are withdrawn. Monies will only be deposited within the timeframe of the guarantee.</p> | Included as per section 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 section 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 section 4.2 |

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 |

LANCASTER CITY COUNCIL
TREASURY MANAGEMENT POLICY STATEMENT

For noting by Cabinet 11 February 2014

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.

BUDGET AND PERFORMANCE PANEL

Corporate Performance Monitoring 2013/14

04 March 2014

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

PURPOSE OF REPORT

To present the corporate performance and financial monitoring reports at Quarter 3 of the 2013/14 performance monitoring cycle.

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 2013/14 – QUARTER 3


- 1.1 The full Corporate Plan Performance Review Report is attached as **Appendix A**. This report provides a summary of overall performance, across all services and portfolios, in relation the Council's Corporate Plan for Quarter 3 of the current year.
- 1.2 As at Quarter 3, there are no Corporate Plan success measures with a **Red** status when comparing actual performance against target.
- 1.3 Throughout the report commentary provided by officers responsible for each success measure highlight achievements, adds contextual information, identifies issues and outlines actions being taken / planned to get performance back on track, where appropriate.
- 1.4 Attached as **Appendix B** is the Corporate Plan Quarterly Trend Report. This report sets out, at a high level, the **actual** quarterly performance of each Corporate Plan success measure since Quarter 3 in 2012/13. This provides both a year-on-year and quarter-by-quarter trending comparison of data / information affording more insight on overall performance and supporting informed decision-making. Commentary on the reasons for any variance is provided.
- 1.5 The **Key** below sets out the meaning of the 'direction of travel' of the data trending arrows dependent on whether '*High is Good*' or '*Low is Good*' is an indicator of performance improving.

Key:

Polarity: High is good


 (Green) Actual has increased from the previous Quarter [positive trend]


 (Amber) Actual has not changed from the previous Quarter

 (Red) Actual has decreased from the previous Quarter [negative trend]

Polarity: Low is good

 (Green) Actual has decreased from the previous Quarter [positive trend]

 (Amber) Actual has not changed from the previous Quarter

 (Red) Actual has increased from the previous Quarter [negative trend]

- 1.6 The Corporate Financial Monitoring report for Quarter 3 is attached at **Appendix C** and shows that there is a current underspend of £46K on the General Fund budget and an overspend of £10K on the Housing Revenue Account Budget. For information, monitoring has been against the revised budget for this quarter

| | |
|---|--|
| <p>CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</p> <p>None arising from this report</p> | |
| <p>LEGAL IMPLICATIONS</p> <p>None arising from this report</p> | |
| <p>FINANCIAL IMPLICATIONS</p> <p>As set out in the attached Appendices</p> | |
| <p>OTHER RESOURCE IMPLICATIONS: Human Resources / Information Services / Property / Open Spaces: None arising from this report</p> | |
| <p>SECTION 151 OFFICER'S COMMENTS</p> <p>The Section 151 Officer has been consulted and has no further comments.</p> | |
| <p>MONITORING OFFICER'S COMMENTS</p> <p>The Monitoring Officer has been consulted and has no further comments.</p> | |
| <p>BACKGROUND PAPERS</p> | <p>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: Performance Review Cycle 2013/14 Qtr 3</p> |

Corporate Plan Performance Review Report

Portfolio: All Portfolio Holders
Quarter 3 2013



| Outcome | Success Measure | Measure Frequency | Portfolio Holder | Polarity | Latest Data (Quarter 3) | | | Report Comments |
|--|--|-------------------|------------------|--------------|-------------------------|------------|-------|---|
| | | | | | Target | Actual | RAG | |
| Clean, Green and Safe Places | | | | | | | | |
| Income generated from energy, including solar technology and climate change projects | % of household waste reused, recycled or composted | Quarterly | David Smith | High is Good | 40.00% | 46.40% | Green | This quarter saw a further increase in the amount of household waste being reused, recycled or composted. This demonstrates a positive result at a time when nationally the overall trend is downwards This measure shows the cumulative income generated from photovoltaic installations at council municipal buildings. A number of diversionary activities have been provided for young people during Quarter 3 including National Play Day and the provision of £1 swimming at SASC that was very popular |
| | Increase income from energy and recycling projects | Quarterly | Tim Hamilton-Cox | High is Good | £44,000.00 | £44,497.50 | Green | |
| Our district is safe | Increased number of diversionary activities for young people | Quarterly | Ron Sands | High is Good | 3,120 | 4,704 | Green | |
| | | | | | | | | |

Corporate Plan Performance Review Report

Portfolio: All Portfolio Holders
Quarter 3 2013



| Outcome | Success Measure | Measure Frequency | Portfolio Holder | Polarity | Latest Data (Quarter 3) | | Report Comments |
|--|--|-------------------|------------------|--------------|-------------------------|-----------|--|
| | | | | | Target | Actual | |
| Community Leadership | | | | | | | |
| Council's operations are delivered and managed efficiently and effectively to achieve better value for money | Council Tax as a % of Council Tax due | Monthly | Abbott Bryning | High is Good | 28.00% | 27.80% | Amber |
| | Non-Domestic rates as a % of Non-Domestic rates due | Monthly | Abbott Bryning | High is Good | 28.60% | 28.60% | Green |
| | Robust and tested arrangements are in place for emergency planning | Quarterly | Karen Leytham | High is Good | On target | On target | Green |
| | Clean bill of health given through annual governance and audit reviews | Quarterly | Eileen Blamire | Low is Good | 0.00 | 0.50 | Amber |
| | | | | | | | <p>The % amount of Council Tax collected remains broadly in line with expectations.</p> <p>The % amount of non-domestic rates collected is broadly in line with expectations at the end of Quarter 3.</p> <p>During this quarter exercises testing the Tradebe Chemicals and Lancaster District Flooding emergency plans were undertaken. The Flooding Plan being activated for tidal flooding at Morecambe and Sunderland Point. These major exercises provided useful training opportunities for a large number of council staff.</p> <p>Requirements in relation to the Government's Public Services Network continue to change. A number of actions have been taken in response to recently identified IT security issues and a programme is being developed to address ongoing ICT and the wider information governance issues.</p> |

Corporate Plan Performance Review Report

Portfolio: All Portfolio Holders
Quarter 3 2013



| Outcome | Success Measure | Measure Frequency | Portfolio Holder | Polarity | Latest Data (Quarter 3) | | Report Comments |
|--|---|-------------------|------------------|--------------|-------------------------|-----------|--|
| | | | | | Target | Actual | |
| Economic Growth | | | | | | | |
| Lancaster district's recognition as a visitor destination is enhanced | A future approach for the provision of a Museums service is in place and working effectively | Quarterly | Ron Sands | High is Good | On target | On target | Proposals for a shared service with Lancashire County Council and Preston City Council for the future management of the Museums Service continue to be developed. In Qtr 3 a workshop facilitated by the Local Government Association tested the feasibility of the proposals for consideration by Cabinet in January 2014 |
| Local authority partners working together to develop plans for economic growth aligned to nationally important energy and Heysham M6 transport links | Major Government targets for determining Major Planning Applications | Quarterly | Janice Hanson | High is Good | 50.00% | 56.00% | The percentage number of major planning applications determined within statutory deadlines continues to favourably exceed the Government set target (30%) |
| More tourists coming to the district and tourist income is maximised | Major Government targets for Special measures on Major Appeals | Quarterly | Janice Hanson | Low is Good | 10.00% | 3.00% | This is a measure of the average percentage of decisions on major development applications that have been overturned at appeal. The council's performance is significantly better than the target set by Government (20%) |
| The attractiveness of the district as a place to visit and invest in is improved | Number of people participating in arts, culture, entertainment and community events in the district | Quarterly | Ron Sands | High is Good | 18,000 | 35,960 | Quarter 3 saw a significant increase in admissions at the City Museum with a high level of interest in the "Silverdale Horde" Exhibition. There was also a higher than expected increase in the number of people attending activities at The Platform |
| | Number of heritage assets improved | Quarterly | Janice Hanson | High is Good | 20 | 24 | Measure shows the number of Listed Building Applications approved (excluding demolitions) that are likely to result in the asset being enhanced |

Corporate Plan Performance Review Report

Portfolio: All Portfolio Holders
Quarter 3 2013



| Outcome | Success Measure | Measure Frequency | Portfolio Holder | Polarity | Latest Data (Quarter 3) | | Report Comments |
|---|--|-------------------|------------------|--------------|-------------------------|---------|---|
| | | | | | Target | Actual | |
| Health & Wellbeing | | | | | | | |
| Enhanced quality of life of local residents through access to good quality housing | Number of improved homes | Quarterly | Karen Leytham | High is Good | 438 | 480 | Green This measure indicates the council's performance in ensuring that owner occupied and private rented homes are improved so as to enhance the quality of life of their occupants. Performance as at Quarter 3 indicates the number of homes that have been improved through the council's intervention |
| Health and wellbeing improved and mortality rates reduced for vulnerable people in the district | Reduction in number of homeless people in the district | Quarterly | Karen Leytham | Low is Good | 30 | 25 | Green Measure indicates the number of individuals accepted as 'statutory homeless' in Quarter 3. Overall, the current difficult economic climate is having a negative impact on the number of people who find themselves homeless |
| | Increased number of vulnerable households benefiting from Warm Homes initiatives | Quarterly | Karen Leytham | High is Good | 175 | 321 | Green Measure indicates an increased number of households received Warm Homes assistance through the Home Improvement Agency, Housing Standards and Warm Homes Healthy People project in Qtr 3 |
| The health and wellbeing of local residents of all ages is improved by participation in sports and leisure activities | Increased number of people participating in sports and leisure activities | Quarterly | Ron Sands | High is Good | 60,003 | 163,114 | Green Measure indicates the number of people participating in sports and leisure activities run by the council in schools and at council facilities. The measure has been developed during 2013/14 with a view to providing data going forward that will inform future decision making |

Corporate Plan Quarterly Trend Report
Quarter 3 2013/2014

| Measure Information | | Quarter 3 2012/2013 | | Quarter 4 2012/2013 | | Quarter 1 2013/2014 | | Quarter 2 2013/2014 | | Quarter 3 2013/2014 | | Comments |
|--|---|---------------------|-----------|---------------------|-----------|---------------------|-----------|---------------------|-----------|---------------------|-----------|--|
| Outcome | Measure | Actual | Trend | Actual | Trend | Actual | Trend | Actual | Trend | Actual | Trend | |
| Community Leadership | | | | | | | | | | | | |
| | Clean bill of health given through annual governance and audit reviews | 0.00 | ↑ | 0.00 | ↑ | 1.00 | ↓ (Red) | 0.50 | ↑ (Green) | 0.50 | ↑ | The council seeks to demonstrate a 'clean bill of health' through the absence of any major governance failures or shortcomings. In this year, IT security issues have been identified that need to be addressed in order to meet requirements on information governance and other arrangements relating to the Government Public Services Network which continue to change. Trending in Quarters 2 and 3 reflects the ongoing positive action that is being taken through a programme of works to address these matters. |
| Economic Growth | | | | | | | | | | | | |
| Lancaster district's recognition as a visitor destination is enhanced | A future approach for the provision of a Museums service in place and working effectively | | | | | On target | | On target | ↑ | On target | ↑ | This is a new measure in the 2013-14 Corporate Plan indicating progress on the ongoing discussions for a shared Museums Service in partnership with Lancashire County Council and Preston City Council. Milestones in Quarter 3 have been achieved including a workshop testing the feasibility of a shared approach. A report on the conclusions drawn from this workshop will be considered by Cabinet in January. |
| Local authority partners working together to develop plans for economic growth aligned to nationally important energy and Heysham M6 transport links | Major Government targets for determining Major Planning Applications | 50.00% | ↑ (Green) | 56.25% | ↑ (Green) | 57.14% | ↑ (Green) | 52.00% | ↓ (Red) | 56.00% | ↑ (Green) | In Quarter 3, the percentage of major applications determined within statutory deadlines has increased by 4% on Quarter 2 and is 6% higher than the same period in 2012/13. The council is consistently performing significantly above the target set by Government of 30%. |
| | Major Government targets for Special measures on Major Appeals | | | | | 0.00% | | | | 3.00% | | This is a measure of the average percentage of decisions on major development applications overturned on appeal (i.e low % is good). No previous data has been available but performance in Quarter 3 is significantly below the Government set target of 20%, indicating good performance. |
| More tourists coming to the district and tourist income is maximised | Number of people participating in arts, culture, entertainment and community events in the district | | | | | 25,862 | | 34,521 | ↑ (Green) | 35,960 | ↑ (Green) | This is a measure of the shortfall at the City Museums and The Platform. This has shown a steady increase quarter-on-quarter in 2013/14 (Data in the previous year was not available). Quarter 3 saw a substantial increase in admissions at the City Museum compared to Quarter 2, and better than expected attendance at The Platform. |
| The attractiveness of the district as a place to visit and invest in is improved | Number of heritage assets improved | 21 | ↓ (Red) | 17 | ↓ (Red) | 28 | ↑ (Green) | 8 | ↓ (Red) | 24 | ↑ (Green) | This is a measure of the number of Listed Building Applications approved leading to an enhancement of the asset. The number of these applications can fluctuate widely over the course of the year and, as such, can be difficult to predict. |
| Health & Wellbeing | | | | | | | | | | | | |

Corporate Plan Quarterly Trend Report

Quarter 3 2013/2014

| Measure Information | | Quarter 3 2012/2013 | | Quarter 4 2012/2013 | | Quarter 1 2013/2014 | | Quarter 2 2013/2014 | | Quarter 3 2013/2014 | | Comments | |
|---|--|---------------------|--------|---------------------|--------|---------------------|---------|---------------------|---------|---------------------|---------|-----------|--|
| | | Actual | Trend | Actual | Trend | Actual | Trend | Actual | Trend | Actual | Trend | | |
| Outcome | Measure | Polarity | Actual | Trend | Actual | Trend | Actual | Trend | Actual | Trend | Actual | Trend | Comments |
| Health & Wellbeing | | | | | | | | | | | | | |
| Enhanced quality of life of local residents through access to good quality housing | Number of improved homes | High is good | 554 | (Red) ↘ | 538 | (Red) ↘ | 575 | (Green) ↗ | 492 | (Red) ↘ | 480 | (Red) ↘ | Performance as at Quarter 3 indicates the number of owner occupied and private rented homes that have been improved through the council's intervention, enhancing the quality of life of vulnerable people. The number of properties improved in the quarter remains high, despite being slightly less than in Quarter 2. As at Quarter 3 a total of 1,549 properties have been improved and the total expected to have been repaired at the end of the year is on track to be achieved. |
| Health and wellbeing improved and mortality rates reduced for vulnerable people in the district | Reduction in number of homeless people in the district | Low is good | 17 | (Red) ↘ | 21 | (Red) ↘ | 29 | (Red) ↘ | 16 | (Green) ↗ | 25 | (Red) ↘ | Measure indicates the number of people determined as 'statutory homeless' (i.e. low is good). Compared to Quarter 2 the number of people homeless has increased. With the exception of Quarter 2, performance across the year is an indication of the general negative impact that the current economic climate is having on people becoming homeless. |
| | Increased number of vulnerable households benefiting from Warm Homes initiatives | High is good | 232 | (Red) ↘ | 75 | (Red) ↘ | 198 | (Green) ↗ | 210 | (Green) ↗ | 321 | (Green) ↗ | Performance across the year shows a steady increase quarter-on-quarter of the number of vulnerable people that have been helped through the council's warm home initiatives. Comparison of Quarter 3 with the same period in 2012/13 also demonstrates improved performance. |
| The health and wellbeing of local residents of all ages is improved by participation in sports and leisure activities | Increased number of people participating in sports and leisure activities | High is good | 0 | (Yellow) ↗ | 0 | (Yellow) ↗ | 195,655 | (Green) ↗ | 233,536 | (Green) ↗ | 163,114 | (Red) ↘ | This is a new measure in 2013/14. There has been a reduction in the number of people participating in sports and leisure activities in Quarter 3 compared with Quarter 2, largely as a result of seasonal fluctuations and much better than expected performance during the summer. As data continues to be collected useful year-on-year comparisons and management information will be available. |

Corporate Financial Monitoring

Quarter 3: October – December 2013

Report of: Financial Services Manager

1 Introduction

This monitoring report for 2013/14 sets out an indicative corporate picture of the Council's financial performance for the period ending 31 December 2013.

The report summarises the budgetary variances arising through services' monitoring, and also identifies any omissions, updates and/or actions required. In addition there are various other specific sections for salary monitoring, capital expenditure and financing, the Housing Revenue Account (HRA), revenue collection performance and various reserves. The content and format of this report will continue to evolve, to draw on both national and local finance matters.

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

2 General Fund Revenue Monitoring

1.1 General Fund Summary Position



The current overall General Fund summary position shows that at the end of December there is a net underspend of **£51K** against the revised budget. This is currently forecast to increase to **£81K** by the end of the year.

| | <i>Annual Budget £000's</i> | <i>Profiled Budget £000's</i> | <i>Actual £000's</i> | <i>Current Underspend £000's</i> |
|-------------------|-------------------------------------|---------------------------------------|-----------------------------|--|
| Salaries | 15,776 | 11,896 | 11,854 | (42) |
| Other Net Budgets | 4,043 | 2,699 | 2,690 | (9) |
| Total | 19,819 | 14,595 | 14,544 | (51) |
| | | | <i>Full Year Projection</i> | (81) |

1.2 Main Budget Variances

Annex A details the major true variances identified to date that have been included within individual services' monitoring 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.

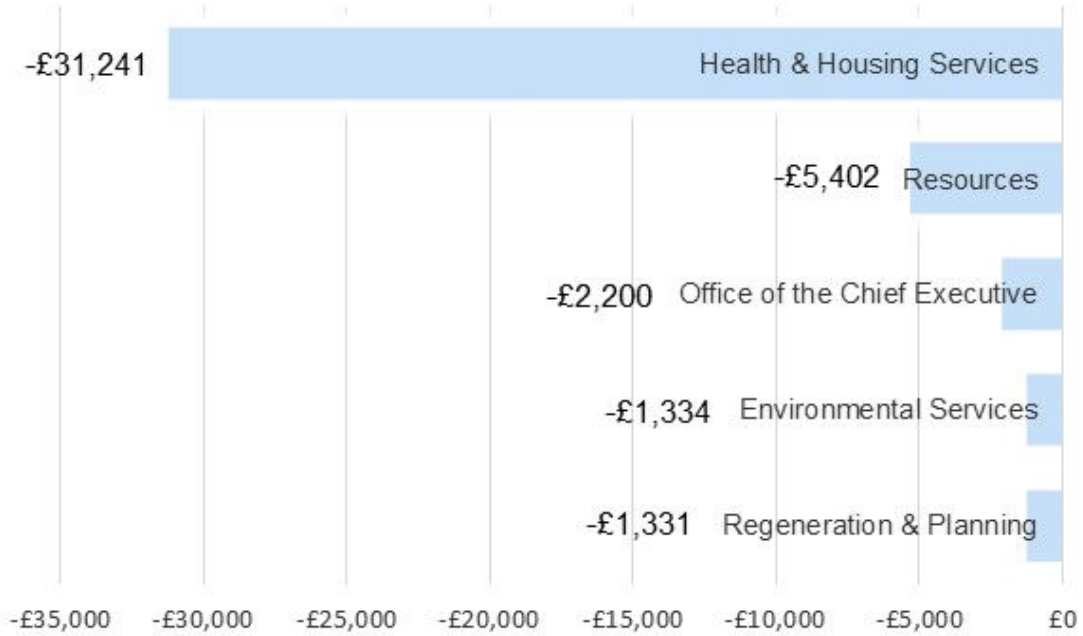
| SUMMARY BY SERVICE | Current £000's | Current Year Projection £000's | Future Years Projection £000's |
|---------------------------|----------------------------|---|---|
| | () Favourable / + Adverse | | |
| Environmental Services | +33 | +7 | (9) |
| Health & Housing | +8 | +27 | 0 |
| Regeneration & Planning | (53) | (40) | 0 |
| Resources | +3 | +10 | 0 |
| TOTAL VARIANCES | (9) | +4 | (9) |

1.3 General Fund Salary Monitoring

Salary monitoring is reported separately, as in aggregate terms any variances can have significant effect.

Savings of £42K have been achieved against the revised budget, and these are estimated to increase to £85K by the end of the year.

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



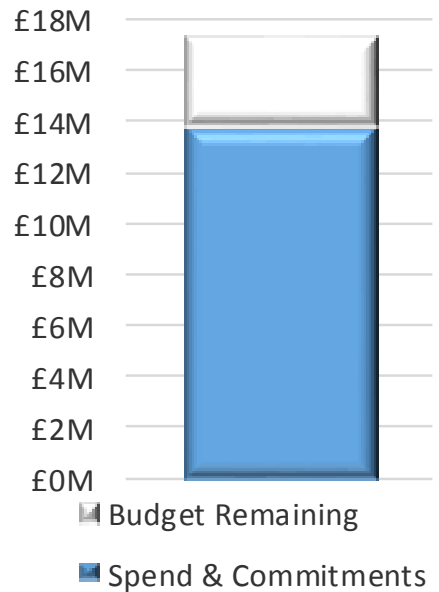
2 General Fund Capital Programme

2.1 Capital Expenditure & Financing

At the end of December there were spend and commitments of £13.128M against the revised programme of £17.294M. Details of spend against each scheme is shown at **Annex B**.

All updates to the programme have been reported to Cabinet and Council as part of the budget process.

The performance of the Council's property portfolio has strong linkages with capital investment and financing, and therefore at this point attention is drawn to the Property Group report at **Appendix D**, provided alongside this financial monitoring report.



3 Revenue Collection Performance

3.1 Collection Fund Monitoring

3.1.1 Council Tax Yield (Total Collectable)

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

The table goes on to compare budgeted council tax yield, or total amount collectable, with the yield position as at 31 December:

| | | | | £000's |
|--|---|---------------------------------------|-------|----------------|
| Collection Fund Surplus (December 2013) | | | | (1,192) |
| Represented by: | | | | |
| Collection Fund Surplus b/fwd | | | | (365) |
| <i>In-Year Movements to Date:</i> | | | | |
| Lower Council Tax Support than estimated | (£955K) total in-year | surplus | } | (496) |
| Higher Second/Empty Homes income | | | | (261) |
| Other Movements in Tax Base | | | | (70) |
| | | | | (1,192) |
| Compared to: | | | | |
| | Budgeted Projection £000's | Actual Position £000's | | |
| Total Council Tax Collectable (Yield) | 57,030 | 57,942 | | |
| Actual amount collected | (49,445) | (49,445) | 85.3% | |
| Amount Outstanding | 7,585 | 8,497 | | (912) |

As at 31 December, an estimated surplus of £1.192M (*Qtr2* £1.320M) is apparent, which is significantly higher than for the same period last year, and a reduction of £128K on the *Qtr2* position.

This year's position is made up of:

- a surplus brought forward from 2012/13 of £365K;
- £496K lower than estimated council tax support. This will continue to fluctuate as claimants' circumstances change, but since establishing the scheme proposals back in the autumn/winter of 2012, the trend is still that the total support being claimed is lower than expected;
- £261K higher than estimated income from second/empty homes. There is still no clear analysis as yet to show how much of this relates to empty homes being brought back into use, and how much is due to other changes in circumstances.
- a balance of £70K (*Qtr2* £631K) relating to other movements in the tax base or other factors which have still to be substantiated.

More detailed analysis of the tax base has been undertaken during the last quarter in order to understand the movements and to calculate the 2014/15 tax base. As a result, an

estimated surplus of £1M was formally declared for 2013/14 of which the City Council will receive £131K (13%) to go towards the 2014/15 General Fund revenue budget.

The higher yield being experienced in the current year has also been projected into next years' tax base and has resulted in an addition 900 Band D equivalent properties being added.

3.1.2 Business Rates Retention

More detailed analysis of the Business Rates Retention system and accounting requirements has also been undertaken, and an explanation of how the system works and the financial implications for the Council is attached at **Annex C**.

3.2 Council Tax and Business Rates Collection

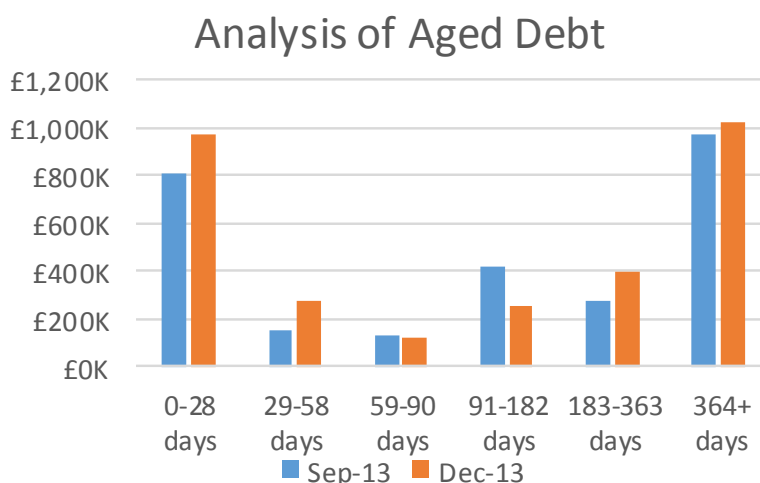
The council tax collected is slightly below target but expected to recover by the year end. This is considered more a reflection of the opportunity for taxpayers to pay by 12 rather than 10 instalments and the levy of additional charges on long term empty properties, rather than any direct impact resulting from welfare reform changes. The percentage of NNDR collected is on target.

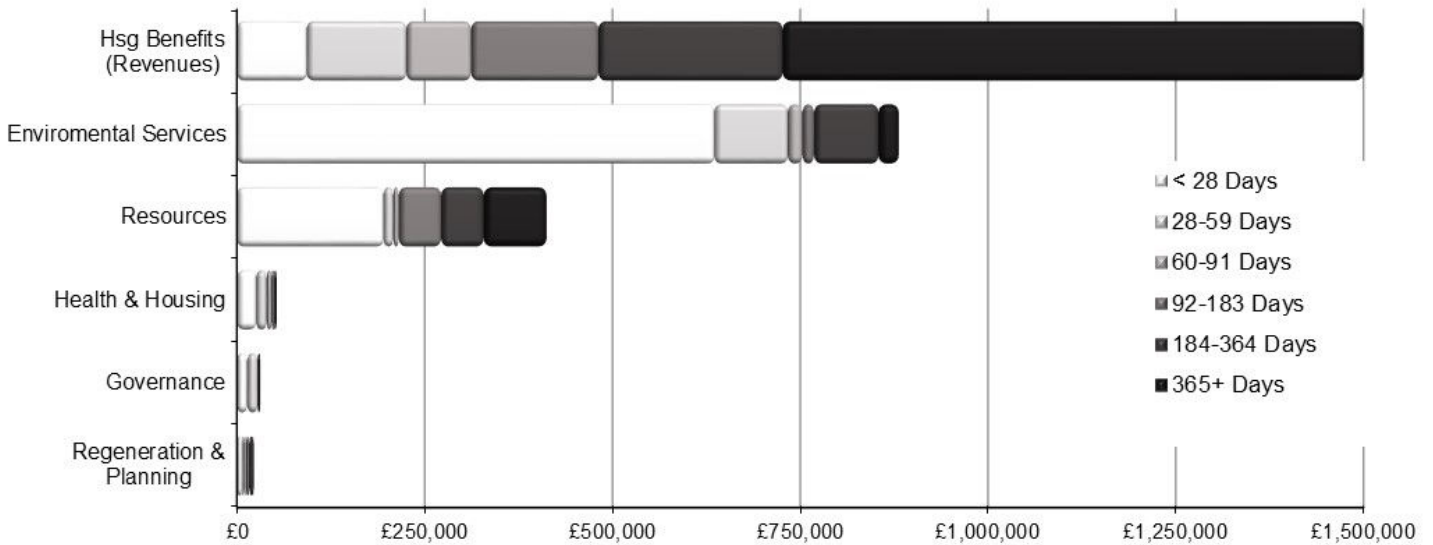
| Percentage Collected | 2012/13 | 2013/14 | 2013/14 Target | 2013/14 Actual | Status |
|----------------------|-----------|---------|----------------|----------------|------------------------|
| | All Years | | In Year | | |
| Council Tax | 79.3% | 78.3% | 86.2% | 85.3% | Slightly behind Target |
| Business Rates | 87.8% | 89.1% | 88.9% | 88.9% | On Target |

3.3 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 over £3M, which is £300K more than the previous quarter. This is mainly due to new debts (£266K) being raised by Environmental Services.

| | Sept 13 | Dec 13 |
|---------------|---------|--------|
| | £000's | £000's |
| 0-28 days | 808 | 969 |
| 29-58 days | 152 | 274 |
| 59-90 days | 128 | 123 |
| 91-182 days | 415 | 249 |
| 183-363 days | 274 | 396 |
| 364+ days | 976 | 1,024 |
| | 2,753 | 3,035 |
| Previous Year | 2,748 | 2,124 |





Attached at **Annex D** is an update on the status of debt greater than 90 days old. This shows what action is being taken in relation to the debt and at what stage the recovery is at.

4 Housing Revenue Account (HRA)

4.1 HRA Revenue Position

i At the end of December the position for the HRA shows an overspend of **£10K** against the revised budget, which is currently projected to increase to **£28K** by the end of the year. Details of the variances are as follows:

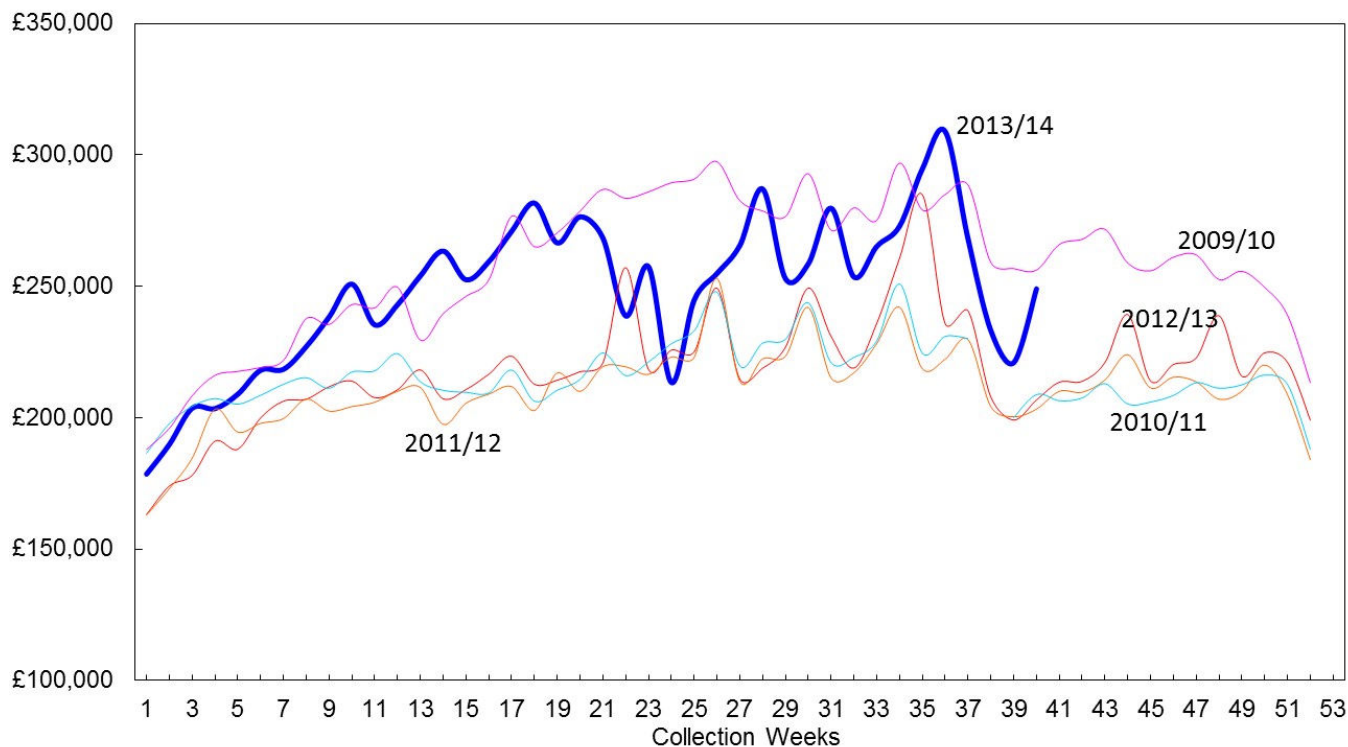
The variance relates to rental income from council houses which is projected to be down slightly (0.2%) as a result of higher than anticipated voids. The level has increased from 1.63% to 1.87%.

4.2 Council Housing Rent Arrears

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

The following chart shows the current level of arrears compared to the previous 4 years. At the end of December, the level of arrears for 2013/14 is £249K (*Qtr 2 £254K*) which is slightly lower than previous quarter again despite several fluctuations.

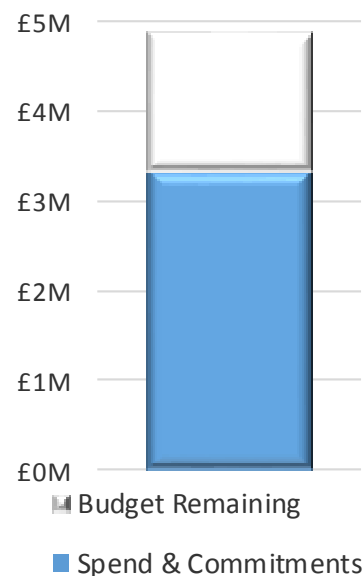
Tenants Arrears by Year



4.3 HRA Capital Programme

This section analyses actual spend and commitments against the Council Housing Capital Programme at the end of December. To date spend and commitments total £3.4M against the revised programme of £4.9M leaving a balance of £1.5M.

| | Current Approved Programme £000's | Spend & Commitments to Date £000's | Budget Remaining £000's |
|--|--------------------------------------|---------------------------------------|----------------------------|
| Adaptations | 300 | 147 | 153 |
| Energy Efficiency / Boiler Replacement | 633 | 243 | 390 |
| Bathroom / Kitchen Refurbishment | 638 | 546 | 92 |
| External Refurbishments | 1,359 | 1,185 | 174 |
| Environmental Improvements | 886 | 517 | 369 |
| Rewiring | 92 | 33 | 59 |
| Fire Precaution Works | 267 | 114 | 153 |
| Lift Replacement | 105 | 50 | 55 |
| Re-roofing / Window Renewals | 544 | 495 | 49 |
| PV Solar Panels | 21 | 3 | 18 |
| Septic Tanks Renewal | 8 | 7 | 1 |
| Total Mobile Upgrade | 12 | 11 | 1 |
| TOTAL | 4,865 | 3,351 | 1,514 |



5 Provisions and Reserves

This section provides an update on key provisions and reserves, and balances.

5.1 General Fund Unallocated Balance

The current position with regards to unallocated Balances is set out below.

| | £000's |
|---|--------------|
| Original projected balance as at 31 March 2013 | 2,635 |
| Add: 2012/13 underspend | 547 |
| Less: Carry forwards (subject to full approval) | (101) |
| Add: Revised Budgeted Contribution for 2013/14 | 354 |
| Add: Current Projected In-Year Underspend | 81 |
| Latest Projected Unallocated Balance as at 31 March 2014 | 3,516 |
| Minimum Level | 1,000 |
| Amount Available to Support Future Years' Budgets | 2,516 |

The table shows that if the current projected net underspending materialises Balances would be £3.516M by the end of the financial year, which leaves £2.516M to support future years' budgets, after allowing for the minimum approved levels. It should be noted that £1.4M has already been applied to support the future years budgets, subject to approval by Council on 26 February.

5.2 Insurance Provision

The current balance on the insurance provision is £200K, after making net payments of £113K in settlement of claims made. The estimated value of claims outstanding is £198K, which is £2K less than the current provision.

5.3 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 in simple terms based on assumed levels of write-off as a proportion of debt outstanding. Based on the figures shown in section 3.3 the level of provision would be as follows:

| Period | Debt £000's | % Cover Required | Value £000's |
|-------------------------|----------------|---------------------|-----------------|
| Up to 1 Month | 969 | 1% | 10 |
| 1 Month to 3 Months | 397 | 5% | 20 |
| 3 Months to 365 Days | 645 | 10% | 64 |
| Over 365 Days | 1,024 | 50% | 512 |
| TOTAL | 2,753 | | 606 |

The current balance on the General Fund Bad Debt provision is £585K (*Qtr2 £589K*) which is £21K (*Qtr2 £10K more*) less than the requirement indicated, that is after allowing for this year's contribution of £100K and write-offs of £174K. Currently, therefore, the balance is just under the required level, however a detailed assessment will be undertaken as part of the 2013/14 closedown process.

6 Exceptions to Tender

In accordance with the latest approved contract procedure rules (updated January 2013), all exceptions to tender will be reported as part of the quarterly corporate monitoring process. However, there have been no exceptions to tender during quarter 3.

7 Risk Management

There have been positive developments regarding Luneside East and key asset sales, during the period. However, the work undertaken in respect of the Business Rates Retention Scheme has highlighted the key risks associated with projecting potential growth and the impact outstanding rating appeals can have. As a result, the budgets for all years have been produced on the basis that funding will fall to the Safety Net level as opposed to the Baseline Funding Level as determined by the Government. Further details on this are set out in Annex C.

In December the Council received the provisional settlement from the Government which provided provisional figures for 2014/15 and illustrative figures for 2015/16. For next year the position was only £110K less than originally projected in the Medium Term Financial Strategy, but almost £1.1M less for 2015/16. This highlights the fact that the Council's main risk is still linked to meeting its future financial challenges. More information on this is provided in the Budget reports presented to Cabinet and Council.

| Services & Service Area | Variance to Date | Current Year Projection | Future Years Projection | Reason for Variance & Action being taken |
|--|------------------|-------------------------|-------------------------|--|
| | | | | |
| Environment Services | | | | |
| Off-Street Car Parks - Services - St Nicholas Arcade | +0 | +5,100 | +0 | Additional contribution to service charge due to non-recurring necessary expenditure on Shopping Centre Service Charge 11.72% payable by the City Council. |
| Off-Street Car Parks - Fees and Evening Parking | +4,000 | +10,000 | +0 | Since the Revised Budget was set, November and December's income is £4K below target. Q4 is difficult to predict due to large differences in income compared with 2012/13, however the variance could increase to £10K. |
| Trade Refuse - Income | (8,400) | (8,400) | (8,500) | Additional income generated. |
| Highways | +37,000 | +0 | +0 | There was a reduced level of work during the Christmas and New Year period. Any year-end deficit will be offset by a contribution from the highways reserve as part of the closedown process. |
| Health & Housing | | | | |
| Main Hall Income - Salt Ayre | +6,300 | +13,300 | +0 | Underachievement of income from events, activities and private hires. Service to cut back to try and cover the shortfall from within existing budgets, however, this is not guaranteed. |
| Williamson Park - Gas | +1,800 | +13,500 | +0 | Budgets were based on a contract end date of May 13 with a subsequent transfer onto the Council's YPO contract, however the contract end day has now been confirmed as May 14. If the Park performs as well as it did in 2012/13 Q4 it is likely that some of this overspend can be offset by additional income. |
| Regeneration & Policy | | | | |
| Planning Application Fee Income | (53,500) | (40,000) | +0 | Major applications submitted in advance of anticipated date including a number of applications not subject to pre-application advice (hence unpredicted). |
| Resources | | | | |
| Storey Institute Rent & Service Charges | +3,400 | +10,200 | +0 | Loss of tenant resulting in reduced income. |
| TOTAL VARIANCES | (9,400) | +3,700 | (8,500) | |
| Overall Salary Savings | (41,700) | (85,000) | +0 | |
| OVERALL VARIANCES | (51,100) | (81,300) | (8,500) | |

Annex B

GENERAL FUND CAPITAL PROGRAMME MONITORING REPORT

| SERVICE | | 2013/14 | Actual to | Commitments | Variance | Total |
|-----------------------------------|--|--------------------|-------------------|----------------------|---------------------------|--------------------|
| | | Gross Budget | Date | (Outstanding Orders) | +Overspend / (Underspend) | |
| | | £ | £ | £ | £ | £ |
| Environmental Services | Allotment Improvements | 47,000 | 0 | 0 | 0 | (47,000) |
| | Bins & Boxes Lease Buy-out | 51,000 | 35,784 | 0 | 35,784 | (15,216) |
| | Car Park Improvements | 120,000 | 0 | 0 | 0 | (120,000) |
| | District Playground Improvements | 10,000 | 0 | 0 | 0 | (10,000) |
| | Market Improvement Works | 36,000 | 0 | 0 | 0 | (36,000) |
| | Playground Improvements/Facilities | 0 | (5,222) | 100 | (5,122) | (5,122) |
| | Purchase of Vehicles | 1,355,000 | 816,542 | (341,491) | 475,051 | (879,949) |
| | Toilet Works | 105,000 | 0 | 96,840 | 96,840 | (8,160) |
| | Williamson Park Imps & Enhancements | 23,000 | 14,050 | 0 | 14,050 | (8,950) |
| Governance Services | Warm Homes Scheme | 79,000 | 36,020 | 0 | 36,020 | (42,980) |
| Health & Housing Services | Disabled Facilities Grants | 957,000 | 582,693 | 1,160 | 583,853 | (373,147) |
| | Salt Ayre Cycle Circuit Lighting | 150,000 | 0 | 0 | 0 | (150,000) |
| | YMCA Places of Change | 19,000 | 18,023 | 0 | 18,023 | (977) |
| Regeneration & Planning | Albion Mills S106 Scheme | 260,000 | 260,000 | 0 | 260,000 | 0 |
| | Amenity Improvements | 33,000 | 0 | 5,278 | 5,278 | (27,722) |
| | Bold Street Housing Regeneration | 0 | 4,750 | 0 | 4,750 | 4,750 |
| | Brindle Close Affordable Hsg S106 Scheme | 80,000 | 0 | 0 | 0 | (80,000) |
| | Chatsworth Gardens | 66,000 | 65,500 | 0 | 65,500 | (500) |
| | Ffrances Passage | 4,000 | 3,157 | 0 | 3,157 | (843) |
| | Heysham Mossgate Affordable Hsg S106 Scheme | 42,000 | 0 | 0 | 0 | (42,000) |
| | Improving Morecambe's Main Streets | 4,000 | 0 | 3,635 | 3,635 | (365) |
| | Lancaster Square Routes P1 P2 | 255,000 | 19,299 | 34,152 | 53,451 | (201,549) |
| | Luneside East | 70,000 | 45,371 | 0 | 45,371 | (24,629) |
| | Middleton Nature Reserve | 19,000 | 3,685 | 0 | 3,685 | (15,315) |
| | Morecambe TH12 A View for Eric | 218,000 | 0 | 0 | 0 | (218,000) |
| | Riversview Affordable Hsg S106 Scheme | 232,000 | 0 | 0 | 0 | (232,000) |
| | Sea & River Defence Works | 421,000 | 133,754 | 53,692 | 187,446 | (233,554) |
| | Toucan Crossing King Street | 13,000 | 0 | 0 | 0 | (13,000) |
| | West End Temporary Car Park | 5,000 | 5,000 | 0 | 5,000 | 0 |
| Resources | Corporate Property Works | 1,244,000 | (8,096) | 70,353 | 62,257 | (1,181,743) |
| | Lancaster Market - Surrender of Headlease | 11,056,000 | 11,056,000 | 0 | 11,056,000 | 0 |
| | ICT Systems, Infrastructure & Equipment | 320,000 | 67,875 | 49,782 | 117,657 | (202,343) |
| Total Gross Programme | | 17,294,000 | 13,154,184 | -26,498 | 13,127,686 | -4,166,314 |
| Grants & Contributions | | | | | | |
| | Capital Contributions Income | (2,060,000) | (391,555) | 0 | (391,555) | (159,555) |
| | Total External Income from Grants & Contributions | (2,060,000) | (391,555) | 0 | (391,555) | (159,555) |
| Total Net Programme | | 15,234,000 | 12,762,629 | (26,498) | 12,736,131 | (4,325,869) |

BUSINESS RATES RETENTION SCHEME

1. 2013/14 Settlement

The new Business Rates Retention Scheme came into effect on 01 April 2013. Prior to its introduction all business rate income collected by the Council was passed over to central Government. It received some of that income back, but this was fixed, and dependent wholly upon each year's Settlement. Under the new system the Council still collects the income but now retains a proportion itself and passes the remainder to the Government, the County Council and the Fire Authority. The basis of the split is determined by Government and the 2013/14 settlement figures are shown below.

| | |
|--|------------------|
| Net Amount of Business Rates collectable | £60.083M |
| Central Government Share – 50% | -£30.042M |
| LancashireCounty Council Share – 9% | -£5.407M |
| Fire Authority Share – 1% | <u>-£0.601M</u> |
| Amount Retained by City Council | £24.033M |
| Less Central Government Tariff* | <u>-£19.021M</u> |
| City Council Baseline Funding Level | £5.012M |

* The Tariff is the difference between how much the Government determines the Council needs (its Baseline Funding Level) and the amount left after deducting the other shares.

2. Impact of Appeals

The system is however, susceptible to fluctuations in income levels, a key factor being that there are always appeals against rating valuations (RVs). At present, revaluations take place broadly every 5 years (2005 & 2010), which inevitably result in appeals as businesses dispute the amount they have to pay.

The current value of RVs under dispute in this district is £100M, of which £68M is in relation to two exceptionally large hereditaments. Success in appeals varies, but over the last 12 months on average 60% were successful, resulting in an average reduction in rateable value of 12.6%. Successful appeals result in refunds to the business, calculated by taking the RV reduction and multiplying it by the business rate multiplier for each year since the appeal was lodged, and then adding on lost interest. For this district, a reasonable estimate is that over £24M of rate refunds may need to be repaid. However, provisions are in place to limit the financial impact on the City Council (and County/Fire), as set out in section 3 below.

Clearly all appeals are not going to be settled at the same time and there is currently a 9 month backlog. However, the Government has pledged to clear 95% of the backlog by July 2015.

3. Levy Payments and Safety Nets

The success of any appeals and their timing can impact significantly on income projections, and clearly councils could not fund any such huge drops in income that may arise. For this reason, the Government has determined that no Council will suffer more than a 7.5% loss in income in any one year, if net business rates income falls. This cut off is known as the Safety Net and is equivalent to 92.5% of the Council's Baseline Funding Level.

| | |
|---------------------------|----------------|
| Baseline Funding Level | £5.012M |
| Safety Net @ 92.5% | <u>£4.636M</u> |
| Limit of Financial Impact | £0.376M |

Similarly, the Government has also determined that Councils experiencing significant growth in business rates income will only be able to keep 50%, with the other half going to Central Government. The idea behind this is that the 'excess' income from growth will go towards funding the losses in income over and above the individual Council safety nets.

4. Small Business Rate Relief

In the Autumn Statement, the Government pledged to continue the same level of Small Business Rate Relief (SBRR) for 2014/15 as well as adding some additional forms of support. As these reliefs directly impact on the income collected, the Government has confirmed it will reimburse all Councils for 100% of the lost income for 2013/14 and 2014/15. Initial forecasts show that this could be in the region of £600K for the current year and £1.2M for 2014/15. However, if this reimbursement, when added to the net income for business rates, takes the total over and above the Baseline Funding Level, then again 50% will go back to Central Government.

For information, the grant is being paid to Councils as a Section 31 General Fund grant.

5. Overall Financial Position

Based on the latest forecasts, it is estimated there will be a total deficit of £12.565M in 2013/14 on the Collection Fund in respect of Business Rates. The main reason for this is that under current accounting practices provision has to be made for the potential cost of outstanding appeals based on estimates of success. A breakdown of the position is shown below:

| | Settlement £M | Original Forecast (NDR1) £M | Latest Forecast £M | Difference: Original to Latest £M |
|-----------------------------------|------------------|--------------------------------------|--------------------------|--|
| Net Income excluding Appeals | N/A | 67.892 | 68.809 | 0.917 |
| Provision for Appeals | N/A | -6.030 | -19.512 | -13.482 |
| Business Rates Collectable | 60.083 | 61.862 | 49.297 | -12.565 |
| Less: | | | | (Deficit) |
| Central Govt Share – 50% | -30.042 | -30.931 | -24.648 | -6.283 |
| County & Fire – 10% | -6.008 | -6.186 | -4.930 | -1.256 |
| Amount Retained by Lancaster | 24.033 | 24.745 | 19.719 | -5.026 |
| Less Central Govt Tariff | -19.021 | -19.021 | -19.021 | 0.000 |
| Baseline Funding Level | 5.012 | 5.724 | 0.698 | -5.026 |
| Add SBRR S31 Grant | | | 0.608 | |
| Less Safety Net | | | -4.636 | |
| Safety Net Payment Due | | | 3.330 | |

The table shows the changes in assumptions from the original forecast to the latest position. Overall there has been additional income of £917K but an increase of £13.482M in the provision for appeals. This increase is due to the fact that when the original provision for appeals was calculated, it was based on the Valuation Office (VO) national average success rate of 25%. As the year has progressed, Officers now have access to more detailed information from the VO, and therefore a more accurate percentage has been used based on the average success rate for the Lancaster district over the last 12 months. This has resulted in the success rate being increased from 25% to 60%, which therefore significantly increases the provision required.

The latest forecast column shows that after allowing for the SBRR grant the Council is due back a safety net payment of £10.869M. This will mean the Council's baseline funding is now capped at £4.636M compared to the Settlement figure of £5.012M, thus resulting in a loss in income of £367K.

6. 2014/15 Forecasts

The position for 2014/15 is somewhat different as can be seen in the table below. The latest forecast shows that after allowing for the SBRR grant (£1.199M) and the 50% levy payment (£1.122M) the amount of additional income retained by the Council will be £1.122M. However, there is considerable uncertainty on whether this improved position will materialise, as highlighted in section 7.

| | Provisional Settlement £M | Forecast (NDR1) £M |
|-----------------------------------|--------------------------------------|-------------------------------|
| Net Income excluding Appeals | N/A | 68.438 |
| Provision for Appeals | N/A | -5.145 |
| Business Rates Collectable | 61.256 | 63.293 |
| Less: | | |
| Central Govt Share – 50% | -30.628 | -31.647 |
| County & Fire – 10% | -6.126 | -6.329 |
| Add: Cost of Collection | N/A | 0.229 |
| Amount Retained by Lancaster | 24.502 | 25.546 |
| Less Central Govt Tariff | -19.392 | -19.392 |
| Baseline Funding Level | 5.109 | 6.154 |
| Add SBRR S31 Grant | | 1.199 |
| Less Settlement Baseline Funding | | -5.109 |
| Growth | | 2.244 |
| Less Levy Payment of 50% | | -1.122 |
| Forecast Retained Growth | | 1.122 |

7. Risks and Assumptions

The major risk in all these calculations centres on the assumptions made about the appeals success rates. As the Council has the highest level of expected appeals in the County, it is highly vulnerable to significant changes in income. A change of only 8% in the forecast on the two largest appeals would result in the Council moving into a safety net position again. It is for this reason that funds will be set aside in a new reserve, to provide cover in the event that the Council falls into a safety net position for 2014/15. Furthermore, for 2015/16 and 2016/17 Government funding prospects are now £400K lower in the event that a similar situation arises. There are, however, many other changes that could arise regarding Local Government funding in the intervening period.

ACTION BEING TAKEN BY SERVICES

| Service | Total Outstanding Debt (over 90 days old) | Debt to be Written Off | Refer(red) to Debt Collection Agents | Refer(red) for Legal recovery | Debt still being pursued | Payment Received / Instalment Agreed | Other Action / Reasons |
|--|---|------------------------|--------------------------------------|-------------------------------|--------------------------|--------------------------------------|------------------------|
| | £ | £ | £ | £ | £ | £ | £ |
| Health & Housing | 5,923 | | 2,355 | | 3,015 | 553 | |
| Health & Housing - Salt Ayre | 425 | 1 | | | 424 | | |
| Regeneration and Policy | 9,328 | | | | 3,900 | 5,428 | |
| Regeneration and Policy (Building Control) | 386 | | | 297 | 89 | | |
| Environmental Services | 85,031 | 32 | 898 | 8,368 | 25,743 | 49,989 | |
| Property Services | 235,905 | | 4,906 | 64,493 | 48,290 | 118,215 | |
| Governance | 3,277 | | | | 3,277 | | |
| Housing Benefits | 1,328,939 | 142 | | 13,274 | | 1,178,282 | 137,241 * |
| Total Outstanding | 1,669,214 | 176 | 8,160 | 86,432 | 84,739 | 1,352,466 | 137,241 |

* Actions relating to Housing Benefit Debt

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

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

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

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

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

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

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

Property Group Update

Quarter 3: October –
December 2013

Report from: Senior Property Officer

1.0 Introduction and Background

It was reported in Quarter 2 that as the first two quarterly updates have now set the scene future updates would be condensed to highlight any key changes and emerging property issues in a bid to prevent repetition.

This Quarter 3 report is the first update in this new format although the intention remains not to provide in depth updates on all ongoing individual property cases but rather to provide a general overview of Property Group's progress in certain high profile areas and flag up any other important issues relevant at the time of writing.

2.0 Corporate Non-Housing Property Portfolio 1st Year Delivery Programme

Projects included within the 1st year delivery programme fall into three procurement groups i.e. Minor Works (MW), Intermediate Works (IW) and Projects (P). Property Group has been allocated a budget of £2.402M for the current financial year (2013/14) to fund the implementation of the 1st year delivery programme. The intention is to manage the programme of work within this sum by reallocating funding between the projects as the scope and cost of each individual project is determined.

A summary of progress to date follows:

2.1 Minor Works (MW) Project Progress

| Property/Project | Total Indicative Works for Year 1 | Indicative Works Brought Forward from Year 2 | Total Approved Tender (AMP) |
|------------------|-----------------------------------|--|-----------------------------|
| 14 Buildings | £49k | £49k | £103k |

At the time of writing it is anticipated that 100% of the Minor Works projects will be funded from the current 2013/14 Revenue Budget

All 14 of the minor works (MW) projects have now been finalised. As detailed above, the agreed maximum price (AMP) includes works brought forward from the 2nd year delivery programme as it was deemed economically prudent to undertake this work at the same time.

These individual minor works projects have commenced on site and the whole project is currently around 85% complete.

2.2 Intermediate Works (IW) Project Progress

| Property/Project | Submit Design /tender | Approve Tender (AMP) | Original Indicative Works 1 st Year | Total Approved AMP & Fees | Proposed /Actual Start Date |
|----------------------------------|-----------------------|----------------------|--|---------------------------|-----------------------------|
| White Lund Depot (1) | 12/11/13 | 28/11/13 | £231k | £113k | 27/1/14 |
| Lancaster Cemetery Chapels (2) | 12/11/13 | 24/12/13 | £80k | £175k | 27/1/14 |
| Lancaster Town Hall Railings (3) | 23/09/13 | 30/09/13 | £50k | £47k | 02/10/13 |
| Lancaster Town Hall Paving (4) | 23/09/13 | 30/09/13 | £30k | £28k | 07/10/13 |

| | | | | | |
|--|----------|----------|----------------|--------------|----------|
| Morecambe Town Hall (5) | 03/02/14 | TBA | £53k | TBA | TBA |
| The Dukes Playhouse (6) | 03/02/14 | TBA | £39k | TBA | TBA |
| Williamson Park (Intermediate) (7) | 12/11/13 | 27/11/13 | £90k | £80k | 27/11/13 |
| Assembly Rooms (8) | 14/11/13 | 28/11/13 | £158k | £100k | 9/12/13 |
| Storey Building (9) | 26/11/13 | 24/12/13 | £233k | £323k | 3/2/14 |
| Maritime Museum (10) | 31/01/14 | 10/02/14 | £253k | TBA | 3/3/14 |
| Intermediate General Projects (60 Euston Road, Regent Road PC) (11) | 31/01/14 | 10/02/14 | £36K | TBA | 3/3/14 |
| Intermediate Demolition Projects (Ryelands Park Pavilion, Palatine Recreation Ground. (12) | 31/01/14 | 10/02/14 | £60K | TBA | 3/3/14 |
| Totals | | | £1,313k | £866k | |

Notes:

- (1) The work has reduced in year 1 as the site is under review.
- (2) The work has increased due to the advanced deterioration of the east chapel roof necessitating full replacement.
- (3) Complete apart from refurbishment of entrance lamps.
- (4) Complete.
- (5) AMP currently being finalised.
- (6) AMP being finalised.
- (7) Progressing on site.
- (8) Progressing on site.
- (9) AMP has increased due to the additional safety works to the garden walls.
- (10) AMP currently being finalised.
- (11) AMPs currently being finalised.
- (12) AMPs currently being finalised.

2.3 Projects (P) Project Progress

| Property/Project | Submit Design /Tender | Approve Tender (AMP) | Total Indicative Works 1 st Year | Total Approved Tender (AMP) | Proposed Start Date |
|-------------------------------|-----------------------|----------------------|---|-----------------------------|---------------------|
| Williamson Park (Project) (1) | 03/02/14 | 17/02/14 | £383k | TBA | TBA |
| The Platform (2) | 06/12/13 | 24/12/13 | £318k | £413K | 10/02/14 |
| City Museum (3) | 03/02/14 | 17/02/14 | £258k | TBA | TBA |
| Salt Ayre Sports Centre (4) | 03/02/14 | 17/02/14 | £21k | TBA | TBA |
| Mitre House Car Park (5) | 05/06/13 | 08/08/13 | £60k | £115k | 30/09/13 |
| Banqueting Suite Ceilings (6) | TBA | TBA | TBA | TBA | TBA |
| | | | £1,040m | £528k | |

Notes:

- (1) AMP currently being finalised.
- (2) The work has increased due to requirement for additional roofing work and the addition of an air cooling system.
- (3) AMP currently being finalised.
- (4) AMP currently being finalised.
- (5) This work was undertaken outside the shared service by an external consultant. Additional cost largely due to the discovery that a base coat was required following removal of the existing road surface.
- (6) A conservation & structural survey was completed in September 2013 and the full extent of the deterioration is currently being quantified and estimated. Progress on this project will be reported once full details are known.

2.4 Overall Position

As at Quarter 3 the indicative programmes and spend profiles suggest expected spend in this financial year will be circa £1.218M. At this stage the potential slippage into year 2 is estimated to be in the region of £1.359M. *(Slightly more up to date figures have since been built into the Capital Programme for consideration at Budget Council).*

3.0 Capital Receipts

Capital receipts totalling £9.443M were budgeted in the current year.

Against this, the capital receipts received to date are as follows:

- £20K for the Oxford Street garage, received in May 2013.
- £7.25M for Land at South Lancaster (Booths), received in November 2013
- £711K for Land at Heysham Mossgate, received in December 2013.

Budgeted receipts in the updated Capital Programme now stand at £8.045M, taking account of the above sale proceeds for land at Heysham Mossgate, and the expected timing of other land and property sales.

4.0 Performance of Commercial Buildings

As can be seen from the table below there have only been minor changes to the occupation of the commercial property portfolio since the Quarter 2 update.

| | Quarter 1 | Quarter 2 | Quarter 3 | Quarter 4 |
|--------------------------|------------|------------|------------|-----------|
| Number of Properties | 62 | 61 | 61 | |
| Occupation by Floor Area | | | | |
| • Total Let (m2) | 18,022 | 17,749 | 17,917 | |
| • Total Vacant (m2) | 3,961 | 3,962 | 3,794 | |
| • Total Area (m2) | 21,983 | 21,711 | 21,711 | |
| Income | | | | |
| • Rent (£) | -955,350 | -931,750 | -931,750 | |
| • Service Charge (£) | -302,750 | -302,750 | -302,750 | |
| • Total Income (£) | -1,258,100 | -1,234,500 | -1,234,500 | |
| Running Costs (£) | 793,500 | 782,700 | 782,700 | |
| Annual Balance (£) | -464,600 | -451,800 | -451,800 | |
| Condition Survey (£) | 5,004,498 | 5,004,498 | 5,004,498 | |

The current occupation across the City Council's total commercial property portfolio is now 83% which represents a slight improvement on the 82% reported in Quarter 2. The remaining 17% of vacant space now amounts to the equivalent of 3794m², the majority of which is attributable to:

- The Storey, which returned to City Council control in October 2012, has a vacant floor area of 708m². This is an increase of 163m² from Quarter 2, mainly due to the vacation of a suite of offices previously used by a large single tenant that went into administration.
- St. Leonard's House currently has 1862m² of vacant space which is slightly less than Quarter 2 due to a new short term letting but as reported previously, the building requires considerable investment. Officers have now received Cabinet approval to proceed with plans to develop the building into student and young worker accommodation with strategic partners. As vacant possession is gained, vacant space will clearly increase, but in due course the building should cease to be classified as a commercial property.
- The vacancy rate at Citylab is currently running at 33% (or 326m²). This represents a 14% improvement over the 47% vacancy rate reported in the Quarter 2 update. This is mainly due to the letting of House No.4 together with a letting of some accommodation on the ground floor.

Despite some progress the 3 buildings above still account for 78% of the total vacant commercial portfolio. As mentioned above, the recent developments at St. Leonard's House are encouraging and further options are being explored as part of the joint property review. The remaining 22% is made up of a small number of buildings that are currently between lets or to be sold. In general terms, while Property Group will continue in its efforts to minimise vacancy rates, it should be remembered that supply is currently outstripping demand in the commercial office rental market.

5.0 Heysham Gateway Regeneration Initiative

As a direct result of the construction of the new M6 link road commuting times into the Morecambe and Heysham areas will dramatically improve. Combined with the investment in energy generation in the area and improved access to the port, there is a good opportunity to regenerate the area attracting new businesses and industry which in turn will bring jobs and economic growth.

Both the City Council and County Council hold a considerable amount of land around the Middleton Waste Transfer Station and both authorities have been working with the Lancashire Regeneration Property Partnership to develop a strategy for these currently underused assets to ascertain how they can deliver the greatest beneficial impact to the Lancaster district.

A 'Stage 1' report has been prepared and full details will be reported to Cabinet for consideration in due course.

BUDGET AND PERFORMANCE PANEL

Work Programme Report

4 March 2014

Report of Chief Officer (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.
- 1.3 Members of the Budget and Performance Panel are entitled to give notice to the Chief Executive that they wish an item relevant to the Terms of Reference of the meeting to be included on the agenda for the first available meeting, and the meeting will determine whether the issue should be included in its Work Programme based on its relevance as compared to the priorities as set out in the scrutiny work programme (Part 4, Section 5 of the Constitution).

2.0 Report

2.1 Impact on the Council of Welfare Reforms

Members are advised that at its meeting on 4 September 2013, Overview and Scrutiny Committee had requested a report on the Impact on the Council of Welfare Reforms. Subsequently at its meeting on 9 October 2013 the committee had agreed that this report should be referred to the Budget and Performance Panel to avoid duplication.

At its meeting on 5 November 2013 the panel received this information as part of the Corporate Performance Monitoring 2013/14 Quarter 2 Report.

Members are advised that updates regarding this matter will be provided as part of future Corporate Performance Monitoring reports.

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.

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APPENDIX A

BUDGET & PERFORMANCE PANEL WORK PROGRAMME
2013/14

| Matter for consideration | Officer responsible / External | Date of meeting |
|---|---------------------------------------|------------------------|
| Monitoring of Service Level Agreements with Voluntary, Community and Faith Sector Partners, and Arts/leisure Partners | Chief Officer (Governance) | 22 July 2014 |
| Budget Overspends/Variances | As required | As required |