

CABINET

**Provisional Revenue, Capital and Treasury Management
Outturn 2012/13
23 July 2013
Report of Head of Resources**

PURPOSE OF REPORT				
This report provides summary information regarding the provisional outturn for 2012/13. It sets out information regarding the carry forward of revenue budgets and capital slippage for Members' consideration. It also incorporates the treasury management outturn report and related matters.				
Key Decision	X	Non-Key Decision		Referral from Cabinet Member
Date of Notice of Forthcoming Key Decision			24 June 2013	
This report is public, with the exception of Appendix K, which is exempt from publication by virtue of paragraph 3, of Schedule 12a of the Local Government Act 1972.				

RECOMMENDATIONS OF COUNCILLOR BRYNING:

1. That the provisional outturn for 2012/13 be noted, including the transfers to provisions and reserves actioned by the Head of Resources.
2. That Cabinet approves that no overspendings be carried forward, as reflected in Appendix E.
3. That Cabinet approves the requests to carry forward underspent revenue budgets as set out in Appendix F, for referral on to Council where appropriate.
4. That Cabinet approves the requests for capital slippage as set out at Appendix H.
5. That the Annual Treasury Management report and Prudential Indicators as set out at Appendix J and be noted and referred on to Council.
6. That Cabinet endorses the actions of the Head of Resources, as set out in exempt Appendix K.

1 BACKGROUND

All local authorities have a legal duty to produce annual accounts, in support of openness and accountability. The work required to close the 2012/13 accounts has now been completed and the draft Statement of Accounts were signed off (by the Head of Resources) on 28 June, to meet the statutory deadline. The draft Statement will be freely available on the Council's website.

This report provides Cabinet with an update on issues arising from the outturn, including treasury management, and seeks Cabinet approval for various matters. Councils' financial performance is integral to its service performance overall and Members are advised to consider this report in that context. A report elsewhere on the agenda provides an overview of the Council's performance during 2012/13.

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

2 PROVISIONAL REVENUE OUTTURN

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

	Revised Budget Position	Provisional Outturn	Variance (Favourable) / Adverse
	£000	£000	£000
Housing Revenue Account (HRA) – relates to Council Housing services	854	428	(426)
General Fund Net Budget – covers all other Council services (but excludes parish precepts)	20,190	19,643	(547)

3 HOUSING REVENUE ACCOUNT (HRA)

- 3.1 The Housing Revenue Account was underspent in last year by approximately £426K (2011/12 comparative: £502K underspend).
- 3.2 A summary of the HRA provisional outturn is included at **Appendix A**. Discounting any notional variances, the main reasons for underspending are as follows:
- The level of arrears as at 31 March has resulted in an £80K lower contribution to the bad debt provision in last year. This is encouraging, although any impact from the recent welfare reforms will become apparent in the current year and so it is too early to form any view on future expectations.
 - Savings in capital investment have resulted in £280K less revenue financing being needed.
- 3.3 Overall therefore, the outturn position for the HRA is favourable and as at 31 March, its Balances stood at £776K, or £426K higher than budgeted.

4 GENERAL FUND

4.1 Revenue Outturn

- 4.1.1 The 2012/13 financial year was the second in which the Council experienced significant reductions in Government support, as well as a second freeze in City Council tax rates. The outturn for General Fund should be considered in this context.
- 4.1.2 Nonetheless, after allowing for various year end adjustments, there has been a net underspending of £547K during 2012/13 and a summary statement is included at **Appendix B**. The underspending represents 2.7% of the Council's net budget requirement (2011/12 comparative: £653K underspend, 3% of budget).
- 4.1.3 On closer analysis, however, the bulk of the net underspending can be attributed to a small number of key variances, most of which are one-off and/or relate to circumstances arising after setting the Revised Budget. Variance analysis is provided at **Appendix C**, the key points of which are summarised below:

Main variances	Value (Favourable) / Adverse £'000
Employee savings	(123)
Leasing costs (new vehicles acquired outright)	(190)
Recoveries due from Housing Benefits Overpayments	(145)
Additional Planning Application Fees	(143)
General Supplies & Services (materials, software etc)	(147)
Delayed spending (carry forward requests submitted)	(65)
Additional contribution to Bad Debt Provision	338
Other minor variances	(72)
Net Total	(547)

- 4.1.4 All Service Heads have again committed to undertaking a full review of their underspendings over the summer, primarily as part of the current year's Quarter 1 reporting. The aim is still to draw out further savings and any service performance or financial improvements needed. Any budgetary matters arising will be reported through corporate monitoring and incorporated into the half-yearly Medium Term Financial Strategy (MTFS) review.
- 4.1.5 This process will lead into the 2014/15 budget and planning process, for which the timetable and other arrangements are due to be considered by Cabinet at its September meeting.

4.2 Provisions and Reserves

- 4.2.1 In closing the accounts for last year the Council's reserves and provision balances have been reviewed; this is in accordance with the policy and schedule approved by Council back in March. A full statement for General Fund and HRA is attached at **Appendix D** and the main issues and transfers regarding General Fund are highlighted specifically below:

- For insurance, an amount of £51K has been transferred into a new insurance reserve. This represents the initial levy in respect of very old claims administered under the former Municipal Mutual arrangements (prior to 1992). A provisional sum of £155K was included in the insurance provision as part of the 2011/12 closedown.
- For bad debts, an additional contribution of £338K has been made to cover extra calls on the provision following a reassessment of sundry debts and in particular, housing benefit overpayment recoveries. Part of this increase is directly linked to the higher than estimated income receivable from overpayments in last year.

4.2.2 The transfers have already been reflected in the General Fund summary position outlined earlier, hence Cabinet is asked only to note them.

5 CARRY FORWARD OF UNDERSPENDS AND OVERSPENDS

5.1 As set out in the Financial Regulations the aims of the Carry Forward Scheme are to:

- provide some flexibility in delivering the Council's stated objectives
- remove the incentive to spend up budgets unnecessarily by year end, and
- promote good financial management.

5.2 Under the Scheme, the carry forward of overspends on controllable budgets is generally automatic. Requests for the carry forward of underspends is subject to Member approval, however. Whilst there is a need to protect the overall financial position of the Council, it is recognised that there is also the need to be fair to services in dealing with carry forwards and to ensure that the process does not act as a disincentive to sound financial management (i.e. does not encourage managers simply to spend up, to avoid 'losing' budgets). That said, budgets exist for specific plans and purposes and the carry forward scheme is also designed to support this.

5.3 In view of the above, in previous years Cabinet has adopted the following approach to achieve a reasonable balance:

- Carry forwards of overspends were considered in view of the circumstance and level, but Cabinet exercised its discretion in waiving the carry forward requirement where the aggregate overspending of any service was less than £5,000.
- Cabinet considered certain requests for carrying forward underspendings but sought to approve only those where there were clear existing commitments against the appropriate budget and it was demonstrated that there was no scope for meeting such commitments from current year's allocations.

5.4 On the basis that Cabinet chooses to follow a similar approach for this year, details of overspends on controllable budgets (or net overspends, where applicable) are set out at **Appendix E**. As background, the determination of whether a budget is 'controllable' is not wholly objective, e.g. with income budgets, whilst the setting of fees and charges are controlled by the council the demand for those services is not controllable. That is why there is a need to consider each case on its merits.

5.5 With regard to the carry forward of underspends, Service Heads have submitted various proposals and these are attached at **Appendix F**. In total, they amount to

£101K for General Fund with none for the Housing Revenue Account; this is much lower than in recent years. If all requests were approved, it would have the following effect on revenue Balances at the end of the current year. This makes no allowance for the impact of any decisions regarding overspends, however:

Fund	Estimated Balances as at 31 March 2014:			Basic Minimum Balances Level £'000
	Per Approved Budget £'000	Assuming all requests approved £'000	Variance (Fav'rble) £'000	
Housing Revenue Account	350	776	(426)	350
General Fund	3,002	3,448	(446)	1,000

- 5.6 Cabinet could support all carry forward requests as set out in the Appendix and still stay within the approved budget framework. In considering each bid, Cabinet should be mindful of the Council's overall financial position and its prospects, as well as the impact on service delivery and what the request would achieve. It is also highlighted that because of their value, some bids would still need to be referred on to Council for final approval.

6 CAPITAL OUTTURN

- 6.1 In last year net underspending on the Capital Programme was significantly less than in previous years, before the effects of slippage are taken into account. **Appendix G** includes a provisional capital expenditure and financing statement for the year, which is summarised in the following table:

Capital Programme	Revised Budget	Expenditure (before slippage)	Overspend or (Underspend)	
	£'000	£'000	£'000	%
Council Housing	3,892	3,591	(301)	7.7
General Fund	5,698	5,323	(375)	6.6
Total Programme	9,590	8,914	(676)	7.0

- 6.2 Details of individual slippage requests from services have been received, a schedule of which is attached at **Appendix H**. In considering these, Cabinet is asked to note that many of the associated capital schemes are already underway and expenditure may already have been incurred in this year – the actual approval of slippage can be a formality. If Members have any questions on particular requests and/or are minded to refuse any, it would be useful to know prior to the meeting, to ensure that sufficient detailed information is available.

6.3 Information on recent years' slippage is also included below for comparison. Last year shows a significant reduction in slippage and work will continue in the current year to ensure this trend is maintained.

	2012/13 £'000	2011/12 £'000	2010/11 £'000	2009/10 £'000	2008/09 £'000
Council Housing	16	160	82	384	478
General Fund	<u>438</u>	<u>1,828</u>	<u>899</u>	<u>2,303</u>	<u>1,952</u>
Total Slippage Requested	<u>454</u>	<u>1,988</u>	<u>981</u>	<u>2,687</u>	<u>2,430</u>

6.4 The table below pulls together the financing position after allowing for slippage. The impact on resources for the HRA is favourable, whereas the General Fund is slightly adverse, although the latter would be funded from revenue and specific reserves. It should also be noted that due to lower capital receipts being received in last year, there has been an unbudgeted increase of £140K in the underlying borrowing need (or Capital Financing Requirement) for General Fund. Again, any implications for current or future years will be picked up as part of the mid-year review for the Medium Term Financial Strategy, although it is expected that this increase can be offset in the current or future years, once scheduled land sales are completed.

Capital Programme	Revised Estimate £'000	Forecast Expenditure (including slippage) £'000	Overspend Or (Underspend) - Rounded £'000	Impact on Council Resources (Fav) / Adv £'000
Council Housing	3,892	3,607	(285)	(285)
General Fund	5,698	5,761	(63)	16

7 TREASURY MANAGEMENT

7.1 The annual treasury management report is attached at **Appendix J** and sets out the performance of treasury operations for 2012/13 in terms of long and short term borrowing, investment activities and relevant borrowing limits and prudential indicators. This must be referred on to Council.

7.2 The attached report also provides an update on the recovery of Icelandic investments. As set out, recovery is progressing well.

7.3 Nonetheless, legal matters continue, linked to exchange rate valuation of claims and prospects for future transfer of ISK out of Iceland. An exempt briefing note is set out at **Appendix K** for Cabinet's information. This outlines various recommendations and following consultation with the Portfolio Holder, these are considered to be positive way forward and the Head of Resources has responded accordingly; this is also included within the exempt Appendix. Cabinet is requested to endorse these actions.

8 TIMETABLE FOR COMPLETION OF ACCOUNTS AND ASSOCIATED MATTERS

8.1 As in previous years, key aspects of the outturn will be made available to Members and other stakeholders for their due consideration, in line with the following timetable:

Monday 15 July	Commencement of audit of Accounts and 4 week public inspection period
Friday 09 August	Public inspection ends and public access to Auditor commences.
July – August	Quarter 1 Performance Review – to include consideration on services’ final outturn and implications for current and future years (in particular, identification of ongoing savings).
Tuesday 10 September	Budget and Performance Panel: consideration of outturn and Quarter 1 monitoring, as appropriate.
Wednesday 11 September	Council: referral of any issues as may be required, including carry forward requests and annual Treasury Management report.
Wednesday 18 September	Audit Committee: consideration of audited accounts.
October / November	Cabinet and referral on to Council: Medium Term Financial Strategy update, incorporating impact of outturn and current year’s monitoring to date

9 DETAILS OF CONSULTATION

As reflected in section 8 above, the statutory 4 week public inspection period commences in July. Information on the public’s rights is made available as part of this process.

10 OPTIONS AND OPTIONS ANALYSIS

The City Council has a legal requirement to ensure that its expenditure is fully funded and to produce a Statement of Accounts in accordance with proper accounting practice. In addition, the Prudential Indicators are a statutory requirement linked to the budgetary framework. For these aspects, therefore, there are no alternative options for Cabinet to consider. Members are being asked to endorse certain actions taken by the Head of Resources, and Cabinet should consider whether it has sufficient information to do so or whether it requires any further justification.

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

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

11 OFFICER PREFERRED OPTION AND JUSTIFICATION

On the assumption that the Council continues to support its previously approved spending plans and the Connecting Communities Funding opportunity elsewhere on the agenda, then the Officer preferred options are to approve the revenue budget carry forward requests as well as capital slippage (Appendices F and H), but to require no carry forward of the overspendings (Appendix E).

12 CONCLUSION

Although the Council's General Fund budget and the associated Government funding reduced significantly in 2012/13, it managed these reductions well, and has again improved its financial standing as at 31 March 2013. Balances for both General Fund and the HRA are higher than forecast, and the Council has other substantial earmarked further reserves to help respond to the tough financial challenges expected over the coming years, in shaping and delivering against future corporate priorities.

RELATIONSHIP TO POLICY FRAMEWORK	
The Outturn and Statement of Accounts report on all the financial resources generated and/or used by the Council in providing services or undertaking other activities under the Policy Framework.	
CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability etc)	
None directly identifiable, due to the high level nature of this report.	
FINANCIAL IMPLICATIONS	
As set out in the report.	
SECTION 151 OFFICER'S COMMENTS	
This report forms part of the section 151 officer responsibilities; clearly the outturn is also subject to external audit.	
LEGAL IMPLICATIONS	
Legal Services have been consulted and have no comments to add.	
MONITORING OFFICER'S COMMENTS	
The Monitoring Officer has been consulted and has no comments to add.	
BACKGROUND PAPERS	Contact Officer: Nadine Muschamp
None.	Telephone: 01524 582117
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APPENDIX A

HOUSING REVENUE ACCOUNT OUTTURN 2012/13

For Consideration by Cabinet 23 July 2013

	Original Budget £	Revised Budget £	Actual £	Variance £
INCOME				(Favourable) / Adverse
Rental Income - Council Housing	(13,476,400)	(13,474,400)	(13,458,752)	15,648
Rental Income - Other (Shops and Garages etc.)	(204,300)	(211,700)	(207,881)	3,819
Charges for Services & Facilities	(1,719,200)	(1,707,600)	(1,675,386)	32,214
Grant Income	(7,700)	(7,700)	(7,736)	(36)
Contributions from General Fund	(170,000)	(122,900)	(122,900)	0
Total Income	(15,577,600)	(15,524,300)	(15,472,655)	51,645
EXPENDITURE				
Repairs & Maintenance	4,252,900	4,130,700	4,153,274	22,574
Supervision & Management	3,105,900	3,097,200	2,950,939	(146,261)
Rents, Rates & Insurance	93,000	139,200	140,451	1,251
Settlement of Previous Year's HRA Subsidy	0	147,700	147,656	(44)
Increase in Provision for Bad and Doubtful Debts	190,400	193,900	112,923	(80,977)
Depreciation & Impairment of Fixed Assets	3,502,100	1,749,600	4,396,581	2,646,981
Debt Management Costs	1,100	1,100	1,100	0
Total Expenditure	11,145,400	9,459,400	11,902,924	2,443,524
NET COST OF HRA SERVICES	(4,432,200)	(6,064,900)	(3,569,731)	2,495,169
(Gain) or Loss on Sale of HRA Non-Current Assets	0	0	59,221	59,221
Interest Payable & Similar Charges	1,921,900	2,103,800	2,103,797	(3)
Premiums & Discounts from Earlier Debt Rescheduling	161,000	161,000	161,048	48
Interest & Investment Income	(44,700)	(30,600)	(67,005)	(36,405)
Self Financing Debt Repayment	1,280,000	1,041,400	1,041,367	(33)
(SURPLUS) OR DEFICIT FOR THE YEAR	(1,114,000)	(2,789,300)	(271,303)	2,517,997
Adjustments to reverse out Notional Charges included above	(32,100)	(32,100)	(2,670,424)	(2,638,324)
Transfers to/(from) Business Support Reserve	0	8,102,722	8,101,215	(1,507)
Transfers to/(from) Major Repairs Reserve	951,100	(4,914,422)	(4,931,324)	(16,902)
Transfer to/(from) Earmarked Reserves	187,900	144,700	137,404	(7,296)
Capital Expenditure funded from Revenue	360,000	343,000	62,630	(280,370)
TOTAL (SURPLUS) / DEFICIT FOR THE YEAR	352,900	854,600	428,198	(426,402)
Housing Revenue Account Balance brought forward	(702,900)	(1,204,600)	(1,204,600)	0
HRA BALANCE CARRIED FORWARD	(350,000)	(350,000)	(776,402)	(426,402)

GENERAL FUND REVENUE SUMMARY

For Consideration by Cabinet 23 July 2013

	Original Budget £	Revised Budget £	Actuals £	Variance £ Adverse or (Favourable)	True Variance £
Office of the Chief Executive	0	0	0	0	(3,004)
Community Engagement	5,534,100	5,467,900	5,228,602	(239,298)	(117,894)
Environmental Services	5,915,300	5,827,300	6,016,797	189,497	(316,820)
Governance	1,974,900	1,756,500	1,722,629	(33,871)	6,573
Health & Housing	2,670,300	2,684,100	2,566,782	(117,318)	(57,306)
Regeneration and Planning	4,698,000	4,477,000	4,139,857	(337,143)	(353,399)
Resources	3,023,100	2,702,800	(2,825,652)	(5,528,452)	139,864
Corporate Accounts	(3,625,700)	(2,725,600)	2,794,201	5,519,801	155,202
Total Budget Requirement	20,190,000	20,190,000	19,643,216	(546,784)	(546,784)
Parish Precepts	541,800	541,800	541,783	(17)	
Total Net Expenditure	20,731,800	20,731,800	20,184,999	(546,801)	

Note the underspend of approx £547K will be transferred to Unallocated balances to balance off the Fund accounts.

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

GENERAL FUND VARIANCE ANALYSIS

For Consideration by Cabinet 23 July 2013

	2012/13 Outturn Compared to Working Budget		PRT Q4 Projection £	Ongoing? £
	£	£		
WORKING BUDGET		20,190,000		
	(Favourable) / Adverse			
EXPENDITURE				
Employee Savings				
Environmental Services	(41,462)			
Governance	(26,583)			
Regeneration & Planning	(23,021)			
Resources	(5,666)			
Health & Housing	(26,503)	(123,235)		
Premises				
Energy Costs	29,369		(6,400)	
Service Charges and Rents Payable	(33,935)	(4,566)	(31,900)	(15,400)
Transport Expenses				
Fuel	(18,723)		(29,000)	(29,000)
Repair & Maintenance	(29,691)			
Vehicle Hire	27,795			
Leasing Costs (new vehicles acquired outright)	(190,031)			
Car Allowances (mainly Health & Housing)	11,687	(198,963)		
Supplies & Services				
Materials & Equipment (Street Cleansing)	(51,278)		(22,000)	(10,000)
Legal & Court Costs	15,919		15,000	
Corporate & Partnerships Initiatives	(10,569)		(10,600)	
Revenues & Benefits Shared Services costs	(31,650)			
Morecambe VIC	(10,190)			
Audit Fees / Bank Charges	(17,208)			
Software Licences / ICT Infrastructure	(42,366)	(147,342)		
INCOME				
Planning Application Fees	(143,096)		(137,800)	
Legal Costs Recovered (Revenues & Benefits)	72,298			75,000
Housing Benefit Overpayments - Recoveries Due	(145,390)		(216,000)	
De Minimis Capital Receipts	(12,461)			
Investment Interest	(33,342)			
Miscellaneous Interest (Luneside)	(47,750)	(309,741)		20,000
Other Net Service Variances		8,840		
Reserves & Provisions:				
Movement in capital financing from revenue/reserves	23,066			
Contribution from Restructuring Reserve	(31,717)			
Contribution to Bad Debt Provision	337,964	329,313		
Delayed Spending (Carry Forward Requested):				
Leasing Costs : Bins and Boxes	(35,800)			
Local Development Framework	(23,640)		(23,700)	
Morecambe Area Action Plan	(12,881)		(12,900)	
Townscape Heritage Initiative 2	(8,434)		(8,400)	
Morecambe Feasibility Study	(20,336)	(101,091)	(20,300)	
TOTAL VARIANCES		(546,784)	(504,000)	40,600
PROVISIONAL OUTTURN 2012-13		19,643,216		
Total Carry Forwards Requests		101,000		
TOTAL NET UNDERSPEND, ASSUMING ALL CARRY FORWARD REQUESTS APPROVED		(445,784)		

RESERVES AND PROVISIONS STATEMENT (INCLUDING BALANCES)- For Consideration by Cabinet 23 July 2013

GENERAL FUND

	31/03/12	Contributions to Reserve		Contribution from Reserve	31/03/13	Contributions to Reserve		Contribution from Reserve	31/03/14	Contributions to Reserve		Contribution from Reserve	31/03/15	Contributions to Reserve		Contribution from Reserve	31/03/16
	£	From Revenue £	To Capital £	To Revenue £		£	From Revenue £	To Capital £		To Revenue £	£	From Revenue £		To Capital £	To Revenue £	£	
General Fund Balance	2,673,735	546,784		-38,400	3,182,119	367,000			3,549,119				3,549,119				3,549,119
Earmarked Reserves:																	
Apprenticeships	0	63,300		-20,550	42,750	29,200		-19,600	52,350	29,200		-7,900	73,650	29,200		-7,900	94,950
Capital Support	1,004,714	78,284	-296,282	-361,000	425,717				425,717				425,717				425,717
City Lab	44,595			-29,608	14,987			-10,495	4,492				4,492				4,492
Highways	44,673	84,513			129,186				129,186				129,186				129,186
Homelessness Support	0	65,000			65,000			-35,000	30,000				30,000				30,000
Insurance	0	51,000			51,000												
Invest to Save	1,229,183	325,500	-7,334		1,547,350			-20,000	1,527,350				1,527,350				1,527,350
Job Evaluation	52,897			-49,000	3,897				3,897				3,897				3,897
Markets	647,549		-28,646		618,903	50,000			668,903				668,903				668,903
Municipal Buildings	464,152	180,000	-98,000	-159,854	386,298				386,298				386,298				386,298
Olympic Torch Event	0	40,000		-40,000	0				0				0				0
Open Spaces Commuted Sums	204,650	57,598		-57,822	204,426			-40,600	163,826			-35,400	128,426			-24,400	104,026
Performance Reward Grant	223,513			-98,470	125,043			-54,300	70,743				70,743				70,743
Planning Delivery Grant	26,705			-23,205	3,500			-3,300	200				200				200
Renewals (all services)	699,362	381,730	-172,952	-43,425	864,715	431,000	-347,000	-34,400	914,315	394,000	-70,000	-14,400	1,223,915	391,200	-170,000	-20,000	1,425,115
Restructuring	586,099			-153,426	432,673				432,673				432,673				432,673
S106 Commuted Sums - Affordable Housing	920,780	29,713	-250,000		700,493		-127,000		573,493				573,493				573,493
S106 Commuted Sums - Highways, crossing & cycle paths	715,185		-91,667	-1,747	621,771		-13,000	-5,000	603,771			-10,000	593,771			-10,000	583,771
Vacant Shops Fund	22,632		-19,000	-3,632	0				0				0				0
Welfare Reforms	200,000				200,000				200,000				200,000				200,000
Youth Games	18,500	18,500			37,000	18,500		-55,500	0	15,000			15,000	15,000			30,000
Reserves Held in Perpetuity:																	
Graves Maintenance	22,201				22,201				22,201				22,201				22,201
Marsh Capital	47,677				47,677				47,677				47,677				47,677
Total Earmarked Reserves	7,175,067	1,375,139	-963,880	-1,041,739	6,544,587	528,700	-487,000	-278,195	6,257,092	438,200	-70,000	-67,700	6,557,592	435,400	-170,000	-62,300	6,760,692

Note - For various provisions and reserves, not all spending needs are reflected (eg. the majority of the renewals balance will be applied for future vehicle replacements) and so over the period their balances will reduce from the levels shown above, as a

Provision	Contribution in	Contributions Out	Write-Offs / Payments	
Bad Debts	512,767	437,964	-291,236	659,495

Derelict Land Clawback	56,932				56,932
Insurance	416,479	113,868	-51,000	-113,868	365,479
Total Provisions	986,178				986,178

HOUSING REVENUE ACCOUNT

	31/03/12	Contributions to Reserve			31/03/13	Contribution from Reserve			31/03/14	Contributions to Reserve			31/03/15	Contribution from Reserve			31/03/16				
		From Revenue	To Capital			To Revenue	From Revenue	To Capital		To Revenue	From Revenue	To Capital		To Revenue	From Revenue	To Capital		To Revenue			
			£	£				£				£				£			£	£	£
HRA General Balances	1,204,603	426,402		-854,603	776,402				776,402				776,402				776,402				
Earmarked Reserves:																					
Business Plan Reserve	0	8,101,218			8,101,218	147,900			8,249,118	466,600			8,715,718	696,300			9,412,018				
Major Repairs Reserve	6,682,922	3,453,311	-3,434,817	-6,701,415	0	4,674,000	-4,674,000		0	4,467,500	-4,467,500		0	4,552,000	-4,552,000		0				
Flats - Planned Maintenance	996,513	136,000		-36,524	1,095,989	136,000	-50,000	-35,000	1,146,989	136,000	-50,000	-50,000	1,182,989	136,000	-50,000	-55,000	1,213,989				
Central Control Equipment/Telecare	118,089	15,000		0	133,089	15,000			148,089	15,000			163,089	15,000			178,089				
Non-Sheltered Scheme Equipment	46,865	15,000		-15,227	46,638	15,000		-19,000	42,638	15,000		-19,000	38,638	15,000		-19,000	34,638				
I T Replacement	357,635	57,000		-13,529	401,106	57,000			458,106	57,000			515,106	57,000			572,106				
Office Equipment Reserve	70,921	10,000			80,921	10,000			90,921	10,000			100,921	10,000			110,921				
Sheltered - Equipment	288,889	20,659		-19,047	290,501	1,400		-36,000	255,901	2,100		-22,000	236,001	3,900		-22,000	217,901				
Sheltered - Planned Maintenance	354,540	29,470	-53,907	-19,948	310,155	1,900	-60,000	-10,000	242,055	3,000	-60,000	-3,000	182,055	5,500	-60,000	-33,000	94,555				
Sheltered Support Grant Maintenance	184,728	12,456			197,185	800			197,985	1,200			199,185	2,300			201,485				
Total Earmarked Reserves	10,305,706	12,276,517	-3,488,724	-7,660,294	10,656,803	5,059,000	-4,784,000	-100,000	10,831,803	5,173,400	-4,577,500	-94,000	12,110,105	5,493,000	-4,662,000	-129,000	12,035,703				

Provision		Contribution in	Credits	Write-Offs	
Bad Debts	435,064	111,582	2,627	-72,448	476,824

**CONTROLLABLE OVERSPENDS GREATER THAN £5,000
For Consideration by Cabinet 23 July 2013**

SERVICE	DETAILS		BUDGET	ACTUAL	OVERSPEND	EXPLANATION / ACTION
Governance	Licensing Act 2003	Licensing Act 2003 Income - Premises	£ (138,500)	£ (115,019)	£ 23,481	Fewer Premises licence applications and variations than budgeted due to a reduction in the number of licences and a review of charging, and partly due to fewer new applications as a result of the continued economic downturn. No further action is recommended.
Health & Housing	Pest Control	Rodent Control Charges	(35,900)	(28,232)	7,668	This is a demand-led service very dependent on weather conditions. This years extremely wet and cold conditions led to a low number of pest infestations. No further action is recommended.

2012/13 REQUESTS FOR CARRY FORWARD

General Fund

Number	Service	Budget	Carry Forward Request £	
Requests in line with original budget purpose				
1	Environmental Services	Bins, Boxes Leasing	35,800	FC
2	Regeneration & Planning	Morecambe Area Action Plan	12,800	FC
3	Regeneration & Planning	Morecambe Feasibility Study	20,300	FC
4	Regeneration & Planning	Local Development Framework - General Services	17,400	FC
5	Regeneration & Planning	Local Development Framework - Consultancy	6,200	
6	Regeneration & Planning	Townscape Heritage Initiative	8,400	
Total General Fund Carry Forward Requests			<u>100,900</u>	

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

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

2012/13 REQUESTS FOR CARRY FORWARD

SERVICE	Environmental Services
BUDGET HEADING	Three Stream Waste Collection – Equipment Operating Leases (Bins & Boxes)
AMOUNT	£35,800

1

The reasons why the spend didn't occur during 2012/13 and why we still have a commitment for it in 2013/14.

As part of the Pilot Scheme (Phase 1 of the Waste Strategy), which started in September 2002, the Council entered into a 10 year leasing agreement to finance the purchase of 8,000 bins and 15,600 boxes with lids.

The annual lease was £19,791.09 per annum. This agreement ended on 28 March 2013 at which point the Council had 3 options available :-

- purchase the bins and boxes at a price of £35,800
- return the bins and boxes
- extend the leasing agreement.

The first option was deemed most appropriate sufficient budgetary provision was included in the 2012/13 revised revenue budget. However, the transaction could not be completed before the end of the financial year and there is insufficient budget in the current year to cover the additional cost.

Financial Services Comments

The exact accounting treatment of the 2013/14 transaction, in terms of whether it is revenue or capital, has still to be determined and therefore in due course, this may result in the carry forward being classed as direct revenue financing if approved (with a corresponding entry in the Capital Programme).

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

2012/13 REQUESTS FOR CARRY FORWARD

SERVICE	Regeneration & Planning
BUDGET HEADING	Morecambe Area Action Plan – Services General
AMOUNT	£12,800

2

The reasons why the spend didn't occur during 2012/13 and why we still have a commitment for it in 2013/14.

This budget relates to the development of the Morecambe Area Action Plan part of the Local Plan for the district. The Area Action Plan is at an advanced stage and is expected to be published in the summer and examined before the end of 2013/14.

The budget carry forward is required to finance the consultancy inputs necessary including final sustainability appraisal and to assure regulatory compliance and also provide for the costs of facilitating public examination by the planning inspectorate, including any legal costs.

Financial Services Comments

The amount requested is the full value of the underspent Morecambe Area Action Plan budget, and is the third year a carry forward has been requested on this budget. That said, this will be the last year that carry forward can apply to this budget, and lessons have been learned to improve budgeting for such initiatives in future.

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

2012/13 REQUESTS FOR CARRY FORWARD

3

SERVICE	Regeneration & Planning
BUDGET HEADING	Morecambe Feasibility Study – Services Consultants
AMOUNT	£20,300

The reasons why the spend didn't occur during 2012/13 and why we still have a commitment for it in 2013/14.

This budget relates to the balance of funding from the Morecambe Neighbourhood Management schemes in the West End and Poulton. The money is to be used to fund feasibility studies that inform regeneration activity in the town and support funding bids in line with the implementation of the Town Area Action Plan and West End Masterplan. Commissioning of feasibility work has been on hold pending the outcome of the Urban Splash planning application for the Central Promenade site. The planning application was refused by committee in January and the draft Morecambe Area Action Plan, identifying short and medium term actions, ended its consultation period soon after.

Regeneration and Planning are now reviewing and progressing opportunities via external funding sources (such as Coastal Communities Fund) to deliver stated actions in line with Corporate and MAAP policy and will be contracting work over the summer to utilise the funding. Without this resource it will not be possible to deliver worked up schemes to progress with initial funding applications and undertake further work to deliver "contract ready" schemes. The availability and synergy of external funding schemes with corporate priorities cannot be predicted with any great certainty and the availability of a flexible resource is essential in order to deliver against council's corporate priorities.

Financial Services Comments

The amount requested is the full value of the underspent Morecambe Feasibility Study Services General budget. (See also the comments on earlier MAAP request).

It should be noted that there is a separate report covering the Coastal Communities Fund Round 2 bid, elsewhere on the agenda, requesting that an estimated £10K of this carry forward is utilised in order to develop projects to the standard required to inform the bid.

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

2012/13 REQUESTS FOR CARRY FORWARD

4

SERVICE	Regeneration & Planning
BUDGET HEADING	Local Development Framework – Services General
AMOUNT	£17,400

The reasons why the spend didn't occur during 2012/13 and why we still have a commitment for it in 2013/14.
--

This budget relates to the development of the Local Plan for the district. Both the Development Management and Land Allocations DPD are at an advanced stage with the DM DPD expected to be taken to full Council to seek authority to publish in September, with examination, and possibly adoption before the end of financial year 2013/14.

The preparation of Development Plan Documents is a highly complex task that is greatly influenced by both changing circumstances and revisions on the approach on a national basis. The Land Allocations DPD will be brought forward separately and will be the subject of further consultation before publication is considered. Publication may be in the next financial year. The budget is required to be carried forward to match the revised timetable for the Development Plan Documents, including necessary monitoring works and costs of public examination by the planning inspectorate.

Financial Services Comments

This is the fourth year a carry forward on this budget has been requested. In addition, there is a budget of over £60K in 2013/14 and future years and clarification is being sought on whether these budgets can cover the costs relating to this carry forward. Any further information will be fed into the meeting. In any event, the budgeting arrangements and profiling will be reviewed in the forthcoming budget, to improve their robustness.

The amount requested is the full value of the unspent LDF Services General budget. As the request is in excess of £10,000 Full Council approval will be required.

2012/13 REQUESTS FOR CARRY FORWARD

5

SERVICE	Regeneration & Planning
BUDGET HEADING	Local Development Framework – Services Consultants
AMOUNT	£6,200

The reasons why the spend didn't occur during 2012/13 and why we still have a commitment for it in 2013/14.
--

This budget relates to the preparation of formal Sustainability Appraisal (SA) and Habitats Regulations (HRA) screening for the Local Plan for Lancaster District Development Plan Documents. Following consultation on the draft local plan from October to December 2012, the Land Allocations DPD and Development Management DPD the Planning Policy team have considered the consultation responses and have reported the outcome to the appropriate Member Group in February 2013.

The preparation of Development Plan Documents is a highly complex task and revisions now need to be made to the Development Plan Documents to take account of changing circumstances and the implications of revised national guidance. This budget is needed to be carried forward to match the current timetable for the preparation of documents to a slightly later timetable. The work covered by the Special Burdens money is mandatory given the European nature designations in the area. If the money is not carried forward then the work will still need to be funded from the mainstream budget.

Financial Services Comments

See comments on earlier LDF request.

The carry forward request is the balance of the 2012/13 underspend against the LDF consultancy budget.

2012/13 REQUESTS FOR CARRY FORWARD

SERVICE	Regeneration & Planning
BUDGET HEADING	Townscape Heritage Initiative 2 – Services General
AMOUNT	£8,400

6

The reasons why the spend didn't occur during 2012/13 and why we still have a commitment for it in 2013/14.

Progress on revenue elements of the initiative has been slower than anticipated due to other work priorities including establishing the Property Grant scheme for the THI.

The budget is part of the 5 year THI common fund which is funded in the majority by the Heritage Lottery Fund. The carry forward amount represents the LCC funded amount of the budget which is forecast to be spent in 2013/14. The money is required to be carried forward to match the current profile of spend over the next 4 years.

Financial Services Comments

The amount requested is the unspent balance of the THI2 budget.

Lancaster City Council - Capital Expenditure 2012/13

For consideration by Cabinet 23 July 2013

HOUSING REVENUE ACCOUNT	Revised Estimate	Expenditure in 2012/13	Expenditure to be financed in 2012/13	SCHEME FINANCING					TOTAL SCHEME SPECIFIC FINANCING / ITEMS	BALANCE FINANCED BY GENERAL CAPITAL RESOURCES
				GRANT	GRANTS UNAPPLIED	EARMARKED RESERVES / PROVISIONS	SPECIFIC REVENUE FINANCING	MAJOR REPAIRS ALLOWANCE (HRA only)		
	£	£	£	£	£	£	£	£	£	
COUNCIL HOUSING										
Bathroom Kitchen Refurbishment	919,000	768,310.06	768,310.06					768,310.06	768,310.06	0.00
External Refurbishment	660,000	651,148.95	651,148.95					651,148.95	651,148.95	0.00
Re-roofing / Window Renewals	422,000	420,766.13	420,766.13					420,766.13	420,766.13	0.00
Environmental / Crime Prevention Works	398,000	360,208.97	360,208.97					360,208.97	360,208.97	0.00
Energy Efficiency Works	450,000	459,471.23	459,471.23	13,673.01		53,906.78		311,698.50	379,278.29	80,192.94
Rewiring	290,000	244,878.60	244,878.60					244,878.60	244,878.60	0.00
Adaptations	300,000	269,285.96	269,285.96					269,285.96	269,285.96	0.00
Fire Precaution Works	184,000	161,396.35	161,396.35			8,723.00		152,673.35	161,396.35	0.00
Invest to Save - PV Solar Panels	147,000	143,482.89	143,482.89					143,482.89	143,482.89	0.00
Total Mobile	30,000	17,993.79	17,993.79					17,993.79	17,993.79	0.00
Choice Based Lettings : retention	0	787.50	787.50					787.50	787.50	0.00
Lift Replacement	52,000	49,831.76	49,831.76					49,831.76	49,831.76	0.00
Septic Tanks	40,000	43,750.69	43,750.69					43,750.69	43,750.69	0.00
TOTAL - HRA	3,892,000	3,591,312.88	3,591,312.88	13,673.01	0.00	62,629.78	0.00	3,434,817.15	3,511,119.94	80,192.94

GENERAL FUND	Revised Estimate	Expenditure in 2012/13	Expenditure to be financed in 2012/13	SCHEME FINANCING					TOTAL SCHEME SPECIFIC FINANCING / ITEMS	BALANCE FINANCED BY GENERAL CAPITAL RESOURCES
				GRANT	GRANTS UNAPPLIED	EARMARKED RESERVES / PROVISIONS	SPECIFIC REVENUE FINANCING	MAJOR REPAIRS ALLOWANCE (HRA only)		
	£	£	£	£	£	£	£	£	£	
ENVIRONMENTAL SERVICES										
Hala Park Playground Improvements	50,000	50,194.36	50,194.36	50,383.52					50,383.52	-189.16
Fairfield Play Area	10,000	9,952.95	9,952.95	9,952.95					9,952.95	0.00
Claypitts Recreation/Play Facilities Development	92,000	96,441.51	96,441.51	4,500.00		91,667.46			96,167.46	274.05
Priorsgate Playground Works	14,000	14,034.77	14,034.77	14,150.00					14,150.00	-115.23
Mainway Recycling Bins	4,000	0.00	0.00						0.00	0.00
Allotment Extension Scotforth	9,000	8,988.80	8,988.80						0.00	8,988.80
Allotments - Scotforth	5,000	0.00	0.00						0.00	0.00
Vehicle Renewals	1,365,000	1,365,353.87	1,365,353.87						0.00	1,365,353.87
Sub-Total	1,549,000	1,544,966.26	1,544,966.26	78,986.47	0.00	91,667.46	0.00	0.00	170,653.93	1,374,312.33
COMMUNITY ENGAGEMENT										
Warmer Homes Scheme (LDLSP PRG)	5,000	17,220.20	17,220.20	17,220.20					17,220.20	0.00
Williamson Park Woodland Improvement Grant	23,000	0.00	0.00						0.00	0.00
Williamson Park - Steps	183,000	171,039.43	171,039.43			171,039.43			171,039.43	0.00
Salt Ayre Sports Centre - Pool Hydraulic Floors	45,000	43,889.00	43,889.00			43,889.00			43,889.00	0.00
Salt Ayre Sports Centre - Athletics Track Fencing	6,000	6,245.82	6,245.82						0.00	6,245.82
Salt Ayre Sports Centre - Reception Refurbishment	38,000	39,763.19	39,763.19						0.00	39,763.19
Sub-Total	300,000	278,157.64	278,157.64	17,220.20	0.00	214,928.43	0.00	0.00	232,148.63	46,009.01
HEALTH & HOUSING										
YMCA Places of Change	52,000	32,643.43	32,643.43	32,643.43					32,643.43	0.00
Disabled Facilities Grants	802,000	637,542.78	637,542.78	637,542.78					637,542.78	0.00
Sub-Total	854,000	670,186.21	670,186.21	670,186.21	0.00	0.00	0.00	0.00	670,186.21	0.00
REGENERATION & PLANNING										
Artle Beck Improvements	33,000	33,428.80	33,428.80	31,885.80					31,885.80	1,543.00
West End Sea Wall Study	1,000	2,370.00	2,370.00	1,764.00					1,764.00	606.00
Morecambe Strategy Study - Heysham to Hest Bank	7,000	14,908.80	14,908.80	13,622.80					13,622.80	1,286.00
Strategic Monitoring (River & Sea Defences)	98,000	76,126.00	76,126.00	65,713.00					65,713.00	10,413.00
Wave Reflection Wall Refurbishment	17,000	24,746.83	24,746.83	21,831.83					21,831.83	2,915.00
Slyndale Culvert Project	2,000	1,899.00	1,899.00	1,536.00					1,536.00	363.00
Lunside East	78,000	58,182.87	58,182.87						0.00	58,182.87
Bold Street Renovation Scheme	262,000	238,300.69	238,300.69	62,676.75					62,676.75	175,623.94
Square Routes (Frances Passage)	7,000	3,291.61	3,291.61	3,291.61					3,291.61	0.00
Morecambe THI 2: A View for Eric	17,000	600.00	600.00	456.00			144.00		600.00	0.00
Greyhound Bridge Rd Affordable Housing	250,000	250,000.00	250,000.00			250,000.00			250,000.00	0.00
West End Temporary Car Park	19,000	19,582.00	19,582.00			19,000.00	582.00		19,582.00	0.00
Sub-Total	791,000	723,436.60	723,436.60	202,777.79	0.00	269,000.00	726.00	0.00	472,503.79	250,932.81
Resources										
ICT Infrastructure	140,000	137,666.50	137,666.50			51,367.01	4,000.00		55,367.01	82,299.49
ICT Application Systems Renewal	133,000	53,667.98	53,667.98				30,000.00		30,000.00	23,667.98
ICT Desktop Equipment	54,000	51,632.99	51,632.99			51,632.99			51,632.99	0.00
Invest to Save: Solar Panels to Municipal Buildings	20,000	7,333.50	7,333.50			7,333.50			7,333.50	0.00
Corporate Property Works : minor retentions	0	2,500.00	2,500.00						0.00	2,500.00
LTH Roof Replacement : retention	0	9,133.12	9,133.12						0.00	9,133.12
MTH Roof Replacement : retention	0	-5,417.96	-5,417.96						0.00	-5,417.96
Lancaster Indoor Market	1,168,000	1,196,645.76	1,196,645.76			28,645.76			28,645.76	1,168,000.00
5 Cheapside	49,000	35,000.00	35,000.00			35,000.00			35,000.00	0.00
Lancaster Bus Station	35,000	34,596.15	34,596.15	34,596.15					34,596.15	0.00
LTH Boiler Replacement	280,000	268,242.07	268,242.07			168,242.07	100,000.00		268,242.07	0.00
MTH Sound System	28,000	26,063.00	26,063.00			26,063.00			26,063.00	0.00
LTH Air Conditioning/Office Refurbishments	284,000	288,747.46	288,747.46			20,000.00	264,000.00		284,000.00	4,747.46
The Storey (Centre for Industries)	13,000	0.00	0.00						0.00	0.00
Sub-Total	2,204,000	2,105,810.57	2,105,810.57	34,596.15	0.00	388,284.33	398,000.00	0.00	820,880.48	1,284,930.09
TOTAL - GENERAL FUND	5,698,000	5,322,557.28	5,322,557.28	1,003,766.82	0.00	963,880.22	398,726.00	0.00	2,366,373.04	2,956,184.24

APPENDIX G

**GENERAL FUND
HOUSING REVENUE ACCOUNT**

TOTAL CAPITAL EXPENDITURE & FINANCING

Revised Estimate	Expenditure in 2012/13	Expenditure to be financed in 2012/13	SCHEME FINANCING					TOTAL SCHEME SPECIFIC FINANCING / ITEMS	BALANCE FINANCED BY GENERAL CAPITAL RESOURCES
			GRANT	GRANTS UNAPPLIED	EARMARKED RESERVES / PROVISIONS	SPECIFIC REVENUE FINANCING	MAJOR REPAIRS ALLOWANCE (HRA only)		
£	£	£	£	£	£	£	£	£	
5,698,000	5,322,557.28	5,322,557.28	1,003,766.82	0.00	963,880.22	398,726.00	0.00	2,366,373.04	2,956,184.24
3,892,000	3,591,312.88	3,591,312.88	13,673.01	0.00	62,629.78	0.00	3,434,817.15	3,511,119.94	80,192.94
9,590,000	8,913,870.16	8,913,870.16	1,017,439.83	0.00	1,026,510.00	398,726.00	3,434,817.15	5,877,492.98	3,036,377.18

2012/13 CAPITAL EXPENDITURE FINANCING	Housing Revenue Account	General Fund	Grand Total for all Funds
	£	£	£
Amounts to be financed by General Capital Resources	80,192.94	2,956,184.24	3,036,377.18
Financed by:			
Underlying Borrowing Need - Increase in Capital Financing Requirement	0.00	2,593,885.80	2,593,885.80
Usable Capital Receipts	80,192.94	362,298.44	442,491.38
General Grants Unapplied	0.00	0.00	0.00
Total Financing from General Capital Resources	80,192.94	2,956,184.24	3,036,377.18

APPENDIX H

CAPITAL SLIPPAGE - INTO FINANCIAL YEAR 2013/14 For consideration by Cabinet 23 July 2013

Slippage Requested	Source of Funding:		
	LCC Funded	Grant / Contributions	Total
	£	£	£
Environmental Services			
Allotments - Scotforth	5,000	5,000	5,000
	5,000	0	5,000
Community Engagement			
Warm Homes Scheme	31,000	2,000	29,000
Williamson Park Steps	12,000	12,000	12,000
Williamson Park Woodland Improvement Grant	23,000	23,000	23,000
	66,000	14,000	52,000
Health and Housing			
Disabled Facilities Grants	164,000	164,000	164,000
YMCA Places of Change	19,000	19,000	19,000
	183,000	0	183,000
Regeneration & Planning			
Luneside East Compensation	20,000	20,000	20,000
Lancaster Square Routes	4,000	4,000	4,000
West End Temporary Car Park	5,000	5,000	5,000
Morecambe THI 2: A View for Eric	16,000	3,000	13,000
Bold Street Renovation Scheme	32,000	32,000	32,000
	77,000	60,000	17,000
Resources			
Invest to Save: Solar Panels to Municipal Buildings	13,000	13,000	13,000
Application Systems renewal	79,000	79,000	79,000
I.S Desktop Equipment	2,000	2,000	2,000
The Storey	13,000	13,000	13,000
	107,000	94,000	13,000
GENERAL FUND TOTAL	438,000	168,000	270,000
Council Housing			
Invest to Save - PV Solar Panels	4,000	4,000	4,000
Total Mobile	12,000	12,000	12,000
COUNCIL HOUSING TOTAL	16,000	16,000	0

Note that the slippage on Disabled Facilities Grants relates to a supplementary award of funding coming through at year end.

Annual Treasury Management Report 2012/13

Cabinet 23 July 2013

1 Introduction

1.1 The Council's Treasury Management Strategy for 2012/13 was approved by Council on 29 February 2012. This report sets out the related performance of the treasury function by providing details of:

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

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

1.2 The aim of the Treasury Management Policy and associated activity is to ensure that the investment of surplus cash is managed in line with the guidance issued by both CIPFA and Government, as well as in line with the Council's appetite for risk. For 2012/13 the appetite for risk remained low given the continued volatility in the national economy and the Eurozone.

1.3 Treasury management is a technical area. Training has been provided in the past to Members and this continues to be an important part of the CIPFA code of practice (November 2009, further updated November 2011). To assist with the understanding of this report, a glossary of terms commonly used in Treasury Management is attached at **Annex B**. In addition, the Councillor's Guide to Local Government Finance also has a section on Treasury and Cash Management, and this is available through the Member Information section on the Intranet.

2 Summary: Headline Messages for 2012/13

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

- The Council has stayed within its Prudential limits for investments and has not breached any of the criteria set out in the approved Strategy.
- As a result of the downgrading of various banks during the year, the number of such counterparties on the Council's investment list diminished. Other investment options were put in place during the year to provide alternatives, and avoid reliance on using the Government's deposit facility (through the Debt Management Office).
- A further £468K was received during 2012/13 in relation to Icelandic investments. One final repayment (£154K) in relation to the KSF deposit is expected in January 2014 and repayments totalling £578K are expected to be received over the following five years in relation to the deposit with Landsbanki.

- A scheduled repayment of £1.04M has been made in relation to the HRA self-financing loan.
- Investment returns fell below the budgeted figure by £6K. This was, in-part, linked to changes in the Council's investment counterparty list, in order to protect investment security.
- No temporary borrowings have been required to support day to day cash flow. The Council ended the year with healthy cash balances. The exact timing of the surrender of the leasehold interest in Lancaster Market has been the major factor in terms of the Council's cashflow position.

3 **Economic Background (Supplied by Sector)**

The original expectation for 2012/13 was that the Bank Rate would not rise in 2012/13 or 2013/14 and for it to start gently rising from quarter 4 IN 2014. This forecast rise has now been pushed back to start in Quarter 1 2015 at the earliest. Economic growth (GDP) in the UK was virtually flat during 2012/13, due to the UK austerity programme, subdued domestic consumer expenditure, a lack of rebalancing of the UK economy to exporting and weak growth in our biggest export market - the European Union (EU). This weak UK growth resulted in the Monetary Policy Committee increasing quantitative easing (QE) by £50BN in July, to a total of £375BN. The Bank Rate, therefore, ended the year unchanged at 0.5%, while Consumer Price Index (CPI) inflation has remained stubbornly high and above the 2% target, starting the year at 3.0% and still being at 2.8% in March. It is, however, forecast to fall to 2% in three years' time. The EU sovereign debt crisis was an ongoing saga during the year, with an eventual very protracted agreement of a second bailout for Greece in December, followed by a second major crisis, this time over Cyprus, towards the end of the year.

Gilt yields fluctuated during the year as events in the ongoing Eurozone debt crisis ebbed and flowed, causing corresponding fluctuations in safe haven flows into and out of UK gilts. This, together with the further £50BN of QE in July and widely expected further QE still to come, combined to keep PWLB rates depressed for much of the year at historically low levels.

The Funding for Lending Scheme, announced in July, has resulted in a flood of cheap credit being made available to banks and this has resulted in money market investment rates falling drastically in the second half of the year. However, perceptions of counterparty risk have improved after the ECB statement in July that it would do "whatever it takes" to support struggling Eurozone countries. This has resulted in some return of confidence to move away from only very short term investing.

The UK Government maintained its tight fiscal policy stance, against a background of warnings from two credit rating agencies that the UK could lose its AAA credit rating. Moody's followed up this warning by actually downgrading the rating to AA+ in February 2013 and Fitch then placed their rating on negative watch, after the Budget in March.

4 Borrowing and Capital Expenditure

4.1 Capital Expenditure and Financing

4.1.1 Long term borrowing is an important part of the Council's capital financing. Under the Prudential Code a key indicator is the Capital Financing Requirement (CFR). This figure is calculated from the Council's balance sheet and represents, in broad terms, the gap between the value of fixed assets and that of capital reserves. In essence, this gap may be viewed as the cumulative amount of capital investment that may need to be funded through external borrowing (i.e. the amount of capital investment that has not been funded from other sources such as grants, revenue contributions and capital receipts). Borrowing should not then exceed the CFR on a long term basis, as this would indicate that borrowing is being used to fund expenditure other than capital. For 2012/13 the figures were as follows:

	£000
Opening CFR	83,188
Closing CFR	83,276
Average CFR	83,232
Weighted average borrowings*	69,935
Weighted average finance lease liability	5,790
Weighted average investments	24,541
Net borrowings	51,184

4.1.2 From this it is clear that net borrowings are well below the Council's CFR. This indicates that long term borrowing has not been used to fund revenue activities.

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

	2011/12 £000	2012/13 £000
Opening Capital Financing Requirement	50,819	83,188
<i>Capital investment</i>		
Property, Plant and Equipment	7,479	7,739
Re-assessment of finance lease liability	2,474	195
Investment Properties	20	90
Intangible Assets	67	54
Reversal of Icelandic bank impairment	(1,363)	0
HRA self financing payment	31,241	0
Revenue Expenditure Funded from Capital Under Statute	1,199	1,031
<i>Sources of financing</i>		
Capital receipts	(760)	(442)
Government Grants and other Contributions	(1,462)	(1,017)
Direct revenue contributions	(2,295)	(1,425)
Minimum Revenue Provision	(1,906)	(2,702)
Major Repairs Reserve	(2,325)	(3,435)
Closing Capital Financing Requirement	83,188	83,276

*A further summary of the capital expenditure is given in the prudential indicators in Annex C.

4.1.4 With regard to in-year capital investment, at outturn the increase required in the CFR amounted to £2.594M, which was £140K higher than budgeted, primarily due to delays in generating capital receipts. This variance should be offset in the new year. In terms of Minimum Revenue Provision (MRP) charged to revenue, the outturn was in line with the Revised Budget. The re-assessment of finance lease liabilities also affected the closing CFR.

4.2 Borrowing Levels

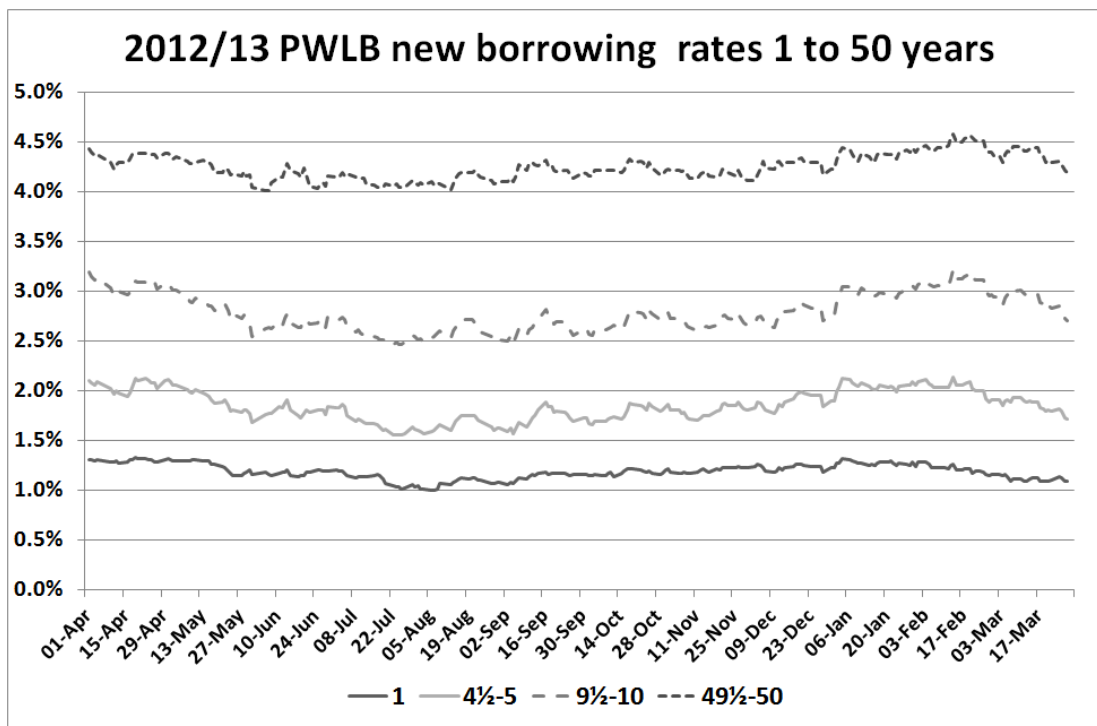
4.2.1 To control the actual level of borrowing, Prudential Indicators are set on both the absolute allowable amount of debt (the Authorised limit) and expected gross debt allowing for day to day cash management (Operational Boundary).

	Actual Debt 31/03/13	Operational Boundary	Authorised Limit
	£000's	£000's	£000's
Deferred Liabilities	223		
Long term Finance lease liability	5,327		
PWLB Debt	69,415		
Total	74,965	78,200	80,500

4.2.2 The actual debt, as calculated in accordance with the prudential code, includes the liability associated with finance leases. The operation boundary, when originally set in February 2012, did not include the finance lease element in relation to the Indoor Market building lease. The operational boundary and authorised limit has since been updated to reflect this.

4.3 PWLB Interest Rate Movements

4.3.1 All of the Council’s long term borrowings are held with the Public Works Loan Board (PWLB). The chart below illustrates the movement on PWLB fixed term rates over the year. This clearly shows the spread of rates depending on length of loan. It also shows a slight downward trend of all rates, from an already low starting point.



4.3.2 Repayment of PWLB debt is still an attractive option in the current climate, if the Council’s cashflow supports such action. This will, however be dependent on future expenditure plans, completing key land sales and future movement in interest rates.

4.4 Debt Maturity (or Repayment) Profile

4.4.1 The Council is exposed to “liquidity” risks if high value loans mature (i.e. become due for repayment) at the same time, making a large demand on cash. One Treasury Indicator which is used to manage this risk is the maturity structure of borrowing. This indicator introduces limits to help reduce the Council’s exposure to large fixed rate sums falling due for repayment (and potentially re-financing) all at once. The table overleaf shows these profiles at the beginning and end of the year. The only change is due to the scheduled repayment against the HRA self-financing loan.

	Treasury Indicator	Actual 31/3/12	Actual 31/3/13
Under 12 months	0 - 50%	1.5%	1.5%
12 – 24 Months	0 – 50%	1.5%	1.5%
3 – 5 years	0 – 50%	4.4%	4.5%
6 – 10 years	0 – 50%	7.4%	7.5%
11 -15 years	0 – 100%	7.4%	7.5%
16 – 25 years	0 - 100%	14.8%	15.0%
26 – 50 years	50 – 100%	63.0%	64.0%

4.4.2 Of the total loans outstanding, 44% are repayable through Equal Instalments of Principal (EIP), with the rest being maturity loans, hence the profiling shown above. The actual profile of the debt is well within the approved limits.

4.5 Interest Payable on Longer Term Borrowing

4.5.1 The average rate of interest payable on PWLB debt in 2012/13 was 4.53%, which is on budget. In addition, there was also £667K of interest in relation to finance leases under IFRS accounting. This is a cost that in previous years has been presented within service expenditure.

	£'000
2012/13 Estimate	3,166
2012/13 Actual	3,166 (of which £2,104K was re-charged to the HRA)
Variance	0

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

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

5 Investment Activities

5.1 Performance against Prudential Indicators

5.1.1 In 2012/13 all investments were placed in accordance with the approved Investment Strategy; there have been no breaches of the investment criteria.

5.1.2 The Council has made no investments and held no investments with a maturity of longer than 365 days from the end of 2012/13; the investment strategy prohibited such long term investments. All deposits have been made either to instant access call accounts and money market funds or have been placed as term deposits with the Debt Management Office (DMO), part of Her Majesty's Treasury. A summary of the average balances held during the year along with the year end position is given in **Annex A**.

5.2 Icelandic Investments

5.2.1 The following table summarises the recovery position for Icelandic investments, to 31 March 2013, taking account of very recent reassessments undertaken in closing last year's accounts.

	KSF £000	Glitnir £000	Landsbanki £000	Total £000
Deposit	2,000	3,000	1,000	6,000
Claim	2,048	3,173	1,121	6,342
GB £ Repayments received	1,556	2,508	529	4,593
Repayments held in ISK (£)		609	8	617
Total anticipated recovery (% of claim, excluding FX movement)	83.50%	100%	100%	
Further est. payments due (%)	7.51%	0%	52%	
Further est. payments due (£)	154	0	578	732
Total anticipated receipts	1,710	3,117	1,115	5,942

5.2.2 During 2012/13 the Council recovered a further £468K of its claim in respect of Icelandic investments and this is reflected in the above table. In very simple terms:

- The original claim was for £6.342M, made up of £6M originally invested plus £342K claimable interest.
- As at 31 March 2013, the Council had received back £4.593M of its claim and in addition, the equivalent of around £617K was held as Icelandic Krona (ISK) in escrow (see 5.2.4 below above).
- This gives total equivalent repayments of £5.210M to 31 March.

5.2.3 In the new financial year, the Council has received a further £61K to date. In total, it expects to recover around £5.942M of its total claim, resulting in losses of £400K or 6.3%.

5.2.4 The repayments from Landsbanki and Glitnir were made in a range of currencies reflecting the assets of the banks. Whilst this clearly involves foreign currency, the Council had no choice but to accept the arrangement. Of these, amounts paid in ISK cannot currently leave Iceland due to currency controls imposed by the Central Bank of Iceland. These amounts have been paid into escrow accounts (similar to client accounts held by solicitors) in Iceland. These are earning 3.4% interest but they are also subject to gains and losses due to fluctuations in the exchange rate between Sterling and ISK. Once the currency controls are removed, these amounts will be paid back into the Council's UK bank account, although there is currently no clear timeframe for this to happen. Due to a weakening of the Icelandic krona against the pound, £39K was recorded in the 2012/13 final accounts as an exchange rate gain.

5.2.5 Also, as repayments are still outstanding for KSF and Landsbanki, there may be small adjustments at subsequent year ends to reflect any changes to anticipated recoveries or repayment profiles, but it is not anticipated that these will be material.

5.3 Performance Against Budget and External Benchmarks

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

Indicator (mean value)	2011/12	2012/13
Base Rate	0.50%	0.50%
3 Month LIBID	0.97%	0.50%
Lancaster CC investment	0.63%	0.50%

5.3.2 The return is in line with the current Bank of England base rate. Money Market Funds now lag behind the underlying base rate as part of their funds are held in longer term deposits, for which returns are now reducing.

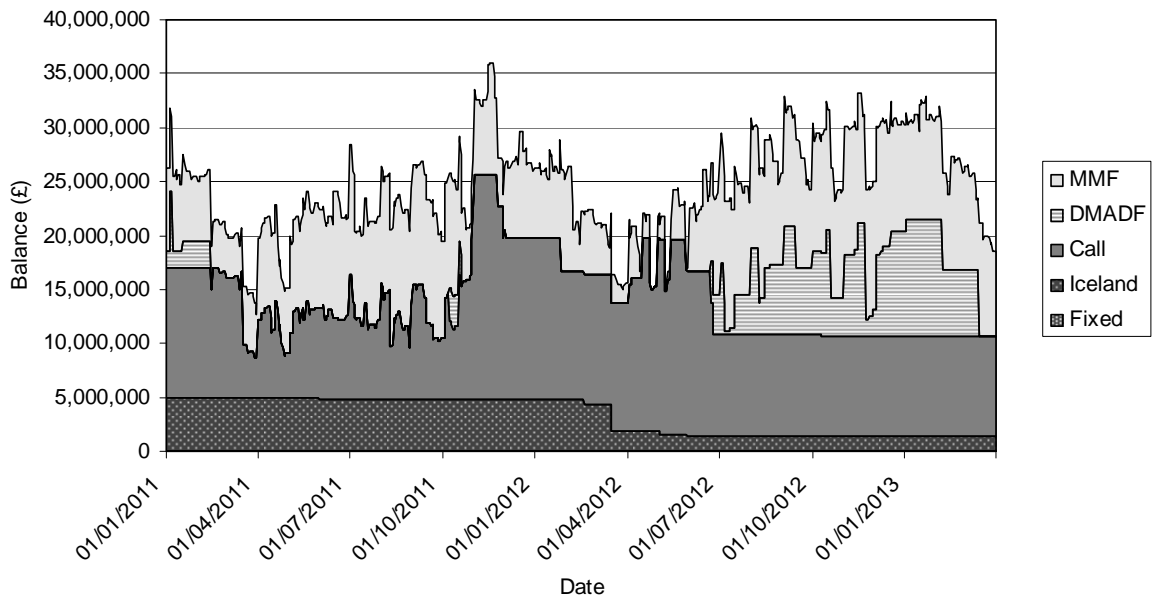
5.3.3 In terms of performance against budget, the details are as follows:

Annual budget	<u>£162K</u>
Actual investment interest	£121K
“Icelandic” interest	<u>£35K</u>
Total	<u>£156K</u>
Variance	£6K adverse

5.3.4 This lower than budgeted return is mainly due to the downgrading of several banks by the credit rating agencies, which has diminished the pool of approved counterparties. On average during the year, 18% of cash balances were deposited with the Government’s Debt Management Office (DMO), with an associated yield of 0.25%. However by the end of the financial year, the reliance on the DMO had been removed.

5.3.5 The Investment Strategy for 2012/13 continued with the more cautious approach to managing surplus cash; this approach has been in place since the banking crisis. The arrangements have restricted the term of deposits, reduced the counterparty limits and removed the option to make non EU deposits. In practice, deposits were placed on instant access in either call accounts or Money Market Funds (MMFs) with limit use of the DMO account. The pattern of these investments over 2011/12 and the prior year can be seen in more detail below.

Investment pattern for the prior 2 years



- 5.3.6 Looking forward, the short term projection for rates is flat; it is anticipated that the position on low investment interest rates will hold for the medium term.

Date	Bank rate projection (%)
01/06/2013	0.50
01/06/2014	0.60
01/03/2015	0.08
01/06/2015	1.10
01/09/2015	1.40

Source: Sector, June 2013

6 Other Risk Management Issues

- 6.1 Many of the risks in relation to treasury management are managed through the setting and monitoring performance against the relevant Prudential and Treasury Indicators and the approved investment strategy, as discussed above.
- 6.2 The Authority's Investment Strategy is designed to engineer risk management into investment activity largely by reference to credit ratings and length of deposit to generate a pool of counterparties, together with consideration of non credit rating information to refine investment decisions. This strategy is required under the CIPFA Treasury Management Code, the adoption of which is another Prudential Indicator. The strategy for 2012/13 complied with updated code (November 2011) of practice and DCLG investment guidance. The Code was updated again during 2011/12 although there were no material changes in terms of how the Authority approaches risk management for its Treasury activities.

7 Other Prudential Indicators

- 7.1 As required under the Prudential Code, certain other year end Prudential Indicators must be calculated. Those not included within the body of this report are presented at **Annex C** for noting by Cabinet and approval by Council.

Counterparties used during 2012/13

Counterparty	Type	Average	Max	Year End
DMO	Fixed Term	£ 5,026,506.85	£10,870,000.00	£ -
Blackrock (Gov)	MMF	£ 3,244,019.18	£ 6,000,000.00	£ -
Blackrock (Liquidity)	MMF	£ 5,304,863.01	£ 6,000,000.00	£3,595,000.00
Lancashire County Council	Call	£ 9,341,632.88	£12,000,000.00	£9,300,000.00
RBS	Call	£ 673,972.60	£ 3,000,000.00	£ -
Barclays	Call	£ 649,315.07	£ 3,000,000.00	£ -
Insight	MMF	£ 192,273.97	£ 4,370,000.00	£4,370,000.00

Treasury Management Glossary of Terms

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

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

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

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

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

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

29

**PROVISIONAL REVENUE, CAPITAL AND TREASURY MANAGEMENT OUTTURN
2012/2013****(Cabinet Member with Special Responsibility Councillor Bryning)**

Cabinet received a report from the Chief Officer (Resources) which provided summary information regarding the provisional outturn for 2012/13. It set out information regarding the carry forward of revenue budgets and capital slippage for Members' consideration. It also incorporated the treasury management outturn report and related matters.

The options, options analysis, including risk assessment and officer preferred option, were set out in the report as follows:

OPTIONS AND OPTIONS ANALYSIS

The City Council had a legal requirement to ensure that its expenditure was fully funded and to produce a Statement of Accounts in accordance with proper accounting practice. In addition, the Prudential Indicators were a statutory requirement linked to the budgetary framework. For these aspects, therefore, there were no alternative options for Cabinet to consider. Members were being asked to endorse certain actions taken by the Chief Officer (Resources), and Cabinet should consider whether it had sufficient information to do so or whether it required any further justification.

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

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

OFFICER PREFERRED OPTION AND JUSTIFICATION

On the assumption that the Council continued to support its previously approved spending plans then the Officer preferred options were to approve the revenue budget carry forward requests as well as capital slippage (Appendices F and H), but to require no carry forward of the overspendings (Appendix E).

Although the Council's General Fund budget and the associated Government funding reduced significantly in 2012/13, it managed these reductions well, and had again improved its financial standing as at 31 March 2013. Balances for both General Fund and the HRA were higher than forecast, and the Council had other substantial earmarked further reserves to help respond to the tough financial challenges expected over the coming years, in shaping and delivering against future corporate priorities.

Councillor Bryning proposed, seconded by Councillor Leytham:-

"That recommendations 1 to 5, as set out in the report, be approved."

Councillors then voted:-

Resolved unanimously:

- (1) That the provisional outturn for 2012/13 be noted, including the transfers to provisions and reserves actioned by the Chief Officer (Resources).
- (2) That Cabinet approve that no overspendings be carried forward, as reflected in Appendix E.
- (3) That Cabinet approve the requests to carry forward underspent revenue budgets as set out in Appendix F, for referral on to Council where appropriate.
- (4) That Cabinet approve the requests for capital slippage as set out at Appendix H.
- (5) That the Annual Treasury Management report and Prudential Indicators as set out at Appendix J be noted, and referred on to Council.

The press and public were excluded from the meeting at this point when it became necessary to refer to information in the exempt Appendix and in order for consideration to be given to recommendation (6).

It was moved by Councillor Barry and seconded by Councillor Hamilton-Cox:

Resolved unanimously:

That, in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business, on the grounds that it could involve the possible disclosure of exempt information as defined in paragraph 3 of Schedule 12A of that Act.

In relation to the exempt Appendix, the Chief Officer (Resources) outlined the intention that future decisions on this matter would be taken under existing officer delegations, following consultation with the portfolio holder, unless Cabinet indicated otherwise.

Following consideration of the exempt Appendix, Councillor Bryning proposed and Councillor Hanson seconded:

"That recommendation (6), as set out in the report, be approved."

Resolved unanimously:

- (6) That Cabinet endorse the actions of the Chief Officer (Resources), as set out in the exempt appendix to the report (Appendix K).

Officer responsible for effecting the decision:

Chief Officer (Resources)

Reasons for making the decision:

The Outturn and Statement of Accounts report on all the financial resources generated and/or used by the Council in providing services or undertaking other activities under the Policy Framework. The decision enabled Members to endorse certain actions taken by the Chief Officer (Resources) and with regard to reserves contributions there would be opportunities for these to be amended during the current financial year, as part of the usual arrangements.

Chairman

(The meeting ended at 10.50 a.m.)

**Any queries regarding these Minutes, please contact
Liz Bateson, Democratic Services - telephone (01524) 582047 or email
ebateson@lancaster.gov.uk**

MINUTES PUBLISHED ON THURSDAY 25 JULY, 2013.

**EFFECTIVE DATE FOR IMPLEMENTING THE DECISIONS CONTAINED IN THESE MINUTES:
FRIDAY 2 AUGUST, 2013.**