

CABINET

**Provisional Revenue, Capital and Treasury Management
Outturn 2015/16
28 June 2016
Chief Officer (Resources)**

PURPOSE OF REPORT			
This report provides summary information regarding the provisional outturn for 2015/16, including treasury management. It also sets out information regarding the carry forward of capital slippage and other matters for Members' consideration.			
Key Decision	X	Non-Key Decision	Referral from Cabinet Member
Date of Notice of Forthcoming Key Decision		27 May 2016	
This report is public.			

RECOMMENDATIONS:

1. That the provisional outturn for 2015/16 be endorsed, including the transfers to provisions and Balances actioned by the Chief Officer (Resources), and the position regarding overspendings.
2. That the requests for capital slippage and the adjustments to reflect accelerated capital spending on projects as set out at Appendix G be approved.
3. That the Annual Treasury Management report and Prudential Indicators as set out at Appendix H be noted and referred on to Council for information.
4. That the implications of renewable energy business rate income be noted, with them being fed into the next update of the Council's Medium Term Financial Strategy (MTFS).

1 BACKGROUND

- 1.1 All local authorities have a legal duty to produce annual accounts, in support of openness and accountability. By the time of the Cabinet meeting, the work required to close the Council's 2015/16 accounts will be substantially complete and the draft Statement of Accounts is expected to be signed off by the Chief Officer (Resources) on 30 June, to meet the statutory deadline. The draft Statement will be freely available on the Council's website.
- 1.2 This report provides Cabinet with an update on the provisional outturn, including treasury management, and seeks approval for certain matters. If there are any further updates to the position these will be fed into the Cabinet meeting. The Council's

financial performance is integral to its service performance overall and Members are advised to consider this report in that context.

1.3 Note that larger copies of the appendices are available on request.

2 PROVISIONAL REVENUE OUTTURN: SUMMARY

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

	Revised Budget Position £000	Provisional Outturn £000	Variance (Favourable) / Adverse £000
Housing Revenue Account (HRA) – relates to Council Housing services	(303)	(651)	(348)
General Fund Council Tax Requirement – covers all other Council services (but excludes parish precepts)	7,853	7,522	(331)

3 HOUSING REVENUE ACCOUNT (HRA)

3.1 The Housing Revenue Account was underspent in last year by approximately £348K net (2014/15 comparative: £536K underspend).

3.2 A summary of the HRA provisional outturn is included at **Appendix A**. Discounting any notional and presentational variances, the main items of interest are as follows:

- reduced revenue funding requirement for capital, mainly shown as a lower call on the Major Repairs Reserve (£47K net saving overall);
- reduced spend on repairs and maintenance of £242K;
- additional contribution to bad debt provision of £20K;
- a variety of underspendings on supervision and management, amounting to £79K. These include salaries and reduced flood recovery costs relating to Cable Street, plus additional income from fees and charges.

3.3 With regard to repair and maintenance, Members will be aware that various actions are underway to understand and improve the service's performance and management reporting. Budget and Performance Panel are due to consider a recent external review (undertaken by APSE) and it is intended that proposals for further commissioning of external advice will be brought forward for Cabinet's consideration in due course.

3.4 At outturn the HRA's financial standing remains sound. As at 31 March its Balances stood at £1.692M, this being £348K higher than budgeted. A summary of all its Balances, reserves and provisions is included at **Appendix D**.

4 GENERAL FUND

4.1 Revenue Outturn

4.1.1 The 2015/16 financial year saw further substantial reductions in Government funding, amounting to around £1.7M or 16%. The outturn for General Fund should be considered in this context.

4.1.2 After allowing for various year-end adjustments, there has been a net underspending of £331K against the Revised Budget for 2015/16 and a summary statement is included at **Appendix B**. The underspending represents 1.9% of the Council's net revenue budget (2014/15 comparative: £553K underspend, 3% of budget) or 4.2% of the council tax requirement (i.e. the amount raised from council tax; this measure is growing in prominence). If compared with the Council's gross budget, however, which is in the region of £100M+, the level of net underspending is very minor.

4.1.3 Variance analysis is provided at **Appendix C**, the key elements of which are summarised below:

Main Areas for variances	Gross Budget (For comparison) £'000	Value (Favourable) / Adverse £'000
Operational:		
Employee Related	19,599	(79)
Premises Related	9,677	(95)
Transport and other Supplies and Services	14,170	(15)
General Income	(16,185)	(164)
Other minor variances		19
Other Areas:		
Capital Financing Costs		(57)
Extra Contributions to Provisions		60
Net Total		(331)

4.1.4 Underspending is encouraged where it does not damage performance; indeed current financial strategy is still based on taking proactive management decisions to save money during the year. Other reasons for underspending do occur though and so it is important that appropriate analysis is undertaken. This will be undertaken as normal alongside monitoring arrangements, with the aim of drawing 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 2017/18 budget and planning process, for which the timetable and other arrangements are due to be considered by Cabinet over the summer.

4.2 Provisions, Reserves and Balances

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

- An additional contribution of £60K has been made into the Bad Debts provision following a reassessment of sundry debts – particularly those in relation to housing benefit (HB) overpayment recoveries. Typically the Council deals with HB recoveries in excess of £1.2M per year, not all of which prove collectable. Currently £1.9M remain outstanding (cumulatively, covering many previous years) and the Bad Debts provision now provides cover for 70% of this, as well as covering other sundry debts.
- Following the outcome of appeals regarding Luneside East, the Council must recognise any estimated income due to it in relation to the recovery of costs, but the associated risks of recovery also need to be recognised and therefore the net estimated income of £544K has been used to increase the Bad Debts provision for the time being. As these items offset each other, there is no bottom-line impact on the outturn position. This does not reflect the outcome of recovery action, however, as this has not yet been concluded.

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

4.2.3 After allowing for these transfers, the General Fund net underspending of £331K has been transferred into Balances by the Chief Officer (Resources). This means that as at 31 March 2016 Balances amount to £4.459M, as compared with the budgeted figure of £4.128M. Similar to the HRA, the General Fund's financial standing is currently sound but as Members know, General Fund still has big challenges and much uncertainty ahead.

5 'CARRY FORWARD' OF UNDERSPENDINGS AND OVERSPENDINGS

5.1 Under the financial strategy, provisions exist to adjust budgets between years by carrying forward under- or over-spending. These arrangements help 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 With regard to the carry forward of revenue underspend, there are no requests for Cabinet to consider.

5.3 With regard to overspendings, arrangements require that:

- any overspending on any expenditure budget, or shortfall on any income budget, under the control of a Chief Officer (or their nominated representative) will be automatically carried forward to the following year as part of the closure of accounts process except where the relevant Chief Officer and the s151 Officer agree that it does not make operational sense to do so, or where the overspending is trifling in value.

- The s151 Officer will report to Cabinet on overspendings and their treatment as part of year-end reporting. Such reporting will also include the reasons for any overspendings occurring and details of any actions taken to prevent the situation recurring.

5.4 There are only a small number of revenue overspendings occurring and given their nature, Officers have agreed that there is no case for carrying these forward to reduce the current year's budgets. **Appendix E** sets out the relevant details, for Cabinet's consideration and endorsement.

5.5 Capital related carry forward matters are covered later in section 7 of this report.

6 **COLLECTION FUND**

6.1 The Collection Fund deals with local taxation matters and as such, its performance has a direct bearing on General Fund services. For this reason, a high level review of its outturn is presented for Members' information.

6.2 **Council Tax**

6.2.1 At the end of the financial year there was a surplus of £219K in relation to council tax, which is less than the £500K estimated surplus declared in January earlier this year. This has resulted from a reduction of approximately 177 chargeable dwellings (*0.5% of the estimated Tax Base*) from when the estimate was set to the end of March. As the City Council retains 13% of the surplus this would mean a potential shortfall of £32K in 2016/17 from the budgeted position. This will be monitored and reported to Members as part of the quarterly financial monitoring process.

6.3 **Retained Business Rates**

6.3.1 The position for business rates is again somewhat more complicated. A further major appeal has been made together with increases in estimated settlements on other appeals. This has meant that the overall position has gone from an estimated surplus of £8M to a deficit of £35M at the end of 2015/16.

6.3.2 Of the £35M deficit, the City Council's share is £14M. The complexities of the Business Rates Retention Scheme mean that this will not be recouped for some time but very importantly, any adverse impact is restricted through the operation of a 'safety net'. This guarantees a minimum level of rating income for General Fund services each year.

6.3.3 In terms of the 2015/16 General Fund outturn therefore, fortunately there is no bottom-line impact as the City Council is now due £9.8M back from the Government to bring net income back up to the safety net. Unfortunately, however, the settlement of the appeals does mean that the City Council has again lost the opportunity to retain growth in other business rate income, originally estimated to be £459K in last year.

6.3.4 Furthermore, an increase of £288K to the tariff payment to the Government has had to be allowed for.

- 6.3.5 On a much more positive note, however, last year's outturn has seen the realisation of some renewable energy business rate income from 2014/15, amounting to £662K. For renewable energy schemes approved by the Council as planning authority, the current regulatory framework provides for the City Council retaining 100% of such business rate income, outside of the operation of the main rates retention system and the safety net. The realisation of income regarding 2014/15 (albeit with a year's delay before recognition, as required by the accounting framework) is very important, as it should also feed into subsequent years for the medium term at least.
- 6.3.6 With regard to 2015/16, renewable energy rates income of over £900K has been identified, and subject to the provisional outturn being confirmed and there being no successful rating appeals coming through, this income should become available for use during the current financial year, as flagged within the latest Medium Term Financial Strategy (MTFS).
- 6.3.7 Furthermore, subject to the same caveats and Government not changing the current regulatory framework, this income stream should remain until at least 2020 and this would help significantly with addressing the Council's budget gap. Beyond 2020, it is not known whether the current renewable energy scheme provisions will still apply under the wider reforms regarding full business rates retention. From a professional viewpoint it is difficult to envisage that they will be retained fully in their current form, but clearly this is an area to keep under close review. Whatever the longer term position, the scheme should deliver significant financial benefits for the medium term. Cabinet is recommended to note this positive development.
- 6.3.8 In summary, the main business rate transactions are presented below.

	2015/16 Estimate £'000	2015/16 Outturn £'000	Variance £'000
Retained Business Rates	(24,480)	(24,480)	0
Central Government Tariff	19,763	20,051	288
Net Retained Business Rates	(4,717)	(4,429)	288
Small Business Rate Relief Grant	(1,408)	(1,240)	168
2015/16 Estimated Surplus	(3,123)	(3,123)	0
2015/16 Actual Deficit (in total)	-	14,008	14,008
Transfer Estimated Surplus & Growth to Reserves	3,582	0	(3,582)
2014/15 Renewable Energy realised in 2015/16	0	(662)	(662)
Growth Levy payable to Central Government	459	0	(459)
Safety Net Payment from Central Government	0	(9,766)	(9,766)
Net Revenue Funding from Business Rates	(5,207)	(5,212)	(5)

- 6.3.9 The upshot from all of the above is that whilst the Council had budgeted for business rate income at the higher baseline level, even though that income has fallen to safety net, it has not had to draw on the Business Rates Retention Reserve in order to cover the shortfall (of approaching £400K).

7 CAPITAL OUTTURN

7.1 **Appendix F** 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	4,831	4,875	44	0.9
General Fund	7,695	7,522	(173)	(2.2)
Total Programme	12,526	12,397	(129)	1.0

7.2 Capital Slippage

7.2.1 Details of individual slippage (i.e. carry forward) requests from services have been received, a schedule of which is attached at **Appendix G**. 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 carry forward 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.

7.2.2 Information on recent years' slippage is also included below for comparison. It is pleasing to note that slippage has significantly reduced when compared to the previous two years.

	2015/16 £'000	2014/15 £'000	2013/14 £'000	2012/13 £'000	2011/12 £'000
Council Housing	36	95	0	16	160
General Fund	<u>576</u>	<u>2,526</u>	<u>1,706</u>	<u>438</u>	<u>1,828</u>
Total Slippage Requested	<u>612</u>	<u>2,621</u>	<u>1,706</u>	<u>454</u>	<u>1,988</u>

7.3 Capital Overspends / Accelerated Spending

7.3.1 The requirements relating to revenue overspends (as set out in section 5) also apply to capital overspends. At the end of 2015/16 there were two HRA schemes and three General Fund schemes where overspends exceeded £10K:

Housing Revenue Account	
– External Refurbishments	£31K
– Fire Precaution Works	£29K
General Fund	
– Salt Ayre Sports Centre	£255K
– Wave Reflection Wall	£126K
– Corporate Property Works	£55K

- 7.3.2 The HRA overspends are due to slippage from 2014/15 schemes being removed (in error) from last year's revised budget. This has been addressed in terms of monitoring arrangements, but other than that no further budget adjustments are warranted.
- 7.3.3 The Salt Ayre Sports Centre apparent overspending is actually accelerated spending (ahead of schedule) on the main £5M redevelopment project, which therefore needs a corresponding reduction in the 2016/17 budget. The same applies to the Wave Reflection Wall and again a corresponding reduction will be made to the 2016/17 budget. Other than these adjustments, which are reflected in Appendix G, no further action is required.
- 7.3.4 The overspending on corporate property works is reflective of the fact that the estimates are based on surveys undertaken in 2012. As a result, there will inevitably be changes in pricing and further deterioration and/or further works required following more intrusive surveys being undertaken. Given this and the comparatively small scale of overspending against the overall budget of £1.843M, no further action is recommended.

7.4 Summary Position

- 7.4.1 The following table pulls together the financing position after allowing for slippage and budget adjustments in respect of accelerated spending. Overall, the overspendings are minor when compared with the programme as a whole.

Capital Programme	Revised Estimate	Comparative Adjusted Expenditure	Overspend Or (Underspend) - Rounded
	£'000	£'000	£'000
Council Housing	4,831	4,911	80
General Fund	7,695	7,717	22

8 TREASURY MANAGEMENT

- 8.1 The annual treasury management report is attached at **Appendix H** and sets out the performance of treasury operations for 2015/16 in terms of long and short term borrowing, investment activities and relevant borrowing limits and prudential indicators. This must be referred on to Council for information.
- 8.2 Whilst the topic is complex, it does have strong linkages with other aspects of the outturn, for example the capital position and business rates income.

9 **TIMETABLE FOR COMPLETION OF ACCOUNTS AND ASSOCIATED MATTERS**

9.1 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:

Friday 01 July	Commencement of 30 working day period for public inspection, questioning and objecting to unaudited accounts (change to previous requirements).
Monday 11 July	Audit of accounts commences.
Tuesday 12 July	Budget and Performance Panel: consideration of outturn.
Wednesday 13 July	Council: annual Treasury Management report for information.
Wednesday 07 September	Audit Committee: consideration of audited accounts.

During July the first quarterly monitoring report for 2016/17 will be produced. This will draw on the outturn for last year, to identify any implications for current and future years.

10 **DETAILS OF CONSULTATION**

10.1 As reflected in section 9 above, the statutory arrangements regarding the public's rights in relation to the accounts have now changed. Legislation now requires a fixed 30 working day period, to commence on 01 July for this year.

11 **OPTIONS AND OPTIONS ANALYSIS**

11.1 The City Council has a legal requirement to ensure that its expenditure is fully funded and to produce 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 Chief Officer (Resources), and Cabinet should consider whether it has sufficient information to do so or whether it requires any further justification.

11.2 The report requests Cabinet to consider a number of revenue overspending, capital slippage and other budget adjustment matters. 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 various 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.

12 **OFFICER PREFERRED OPTION AND JUSTIFICATION**

12.1 The Officer preferred options are as set out in the recommendations, on the assumption that Members continue to support their previously approved spending plans.

13 **CONCLUSION**

13.1 Although the General Fund budget and associated Government funding reduced again in 2015/16, the Council continued to manage the financial pressures well, and has again improved the Fund's overall financial standing as at 31 March 2016. Similarly, the HRA's standing is sound. Whilst net revenue underspendings were experienced on both General Fund and HRA, their scale was lower than in previous years, perhaps reflecting the much tighter financial environment within which the Council is working. Although various actions have been outlined in the report, there are no wholly new matters arising that have not previously been reported or highlighted in some form, and this should give some comfort with regard to the Council's financial planning and monitoring arrangements. This is especially so, given that local government finance appears to be getting more complex. It will be important that capacity is in place to address the various actions highlighted, however, and this is becoming increasingly difficult given the resource pressures that exist.

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, with the outturn being subject to external audit.

LEGAL IMPLICATIONS

There are no legal implications directly arising.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

None.

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HOUSING REVENUE ACCOUNT OUTTURN 2015/16

For Consideration by Cabinet 28 June 2016

	Original Budget £	Revised Budget £	Actual £	Variance £	Adjusted Variance £
INCOME				(Favourable) / Adverse	(Favourable) / Adverse
Rental Income - Council Housing	(13,707,200)	(13,681,200)	(13,685,589)	(4,389)	(4,389)
Rental Income - Other (Shops and Garages etc.)	(203,600)	(213,100)	(209,866)	3,234	3,234
Charges for Services & Facilities	(1,866,900)	(1,810,400)	(1,780,133)	30,267	30,267
Grant Income	(7,700)	(7,700)	(7,736)	(36)	(36)
Contributions from General Fund	(80,700)	(88,100)	(88,644)	(544)	(544)
Total Income	(15,866,100)	(15,800,500)	(15,771,968)	28,532	28,532
EXPENDITURE					
Repairs & Maintenance	4,697,000	4,736,800	4,494,560	(242,240)	(242,240)
Supervision & Management	3,208,100	3,175,200	3,114,537	(60,663)	(95,959)
Rents, Rates & Insurance	170,500	175,100	179,345	4,245	4,245
Contribution to Provision for Bad and Doubtful Debts	190,400	144,800	164,741	19,941	19,941
Depreciation & Impairment of Fixed Assets	1,984,000	2,015,300	8,612,836	6,597,536	846,871
Debt Management Costs	1,100	1,100	1,100	0	0
Total Expenditure	10,251,100	10,248,300	16,567,119	6,318,819	532,858
NET COST OF HRA SERVICES	(5,615,000)	(5,552,200)	795,151	6,347,351	561,390
Capital Grants and Contributions Receivable	0	0	(116,352)	(116,352)	(116,352)
Interest Payable & Similar Charges	2,006,600	2,006,600	2,004,510	(2,090)	(2,090)
Premiums & Discounts from Earlier Debt Rescheduling	(600)	(600)	(573)	27	27
Interest & Investment Income	(33,300)	(63,600)	(76,974)	(13,374)	(13,374)
Pensions Interest Costs & Expected Return on Pensions Assets	178,000	178,000	448,546	270,546	0
Self Financing Debt Repayment	1,041,400	1,041,400	1,041,367	(33)	(33)
(SURPLUS) OR DEFICIT FOR THE YEAR	(2,422,900)	(2,390,400)	4,095,675	6,486,075	429,568
Adjustments to reverse out Notional Charges included above	(27,500)	(27,600)	(6,580,533)	(6,552,933)	0
Net Charges made for Retirement Benefits	0	0	496,426	496,426	0
Transfer to/(from) Earmarked Reserves - for Revenue Purposes	(47,000)	0	0	0	0
Capital Expenditure funded from Major Repairs Reserve	2,517,500	2,333,500	1,490,721	(842,779)	(842,779)
Transfer from Earmarked Reserves - for Capital Purposes	(386,600)	(544,300)	(525,837)	18,463	18,463
Financing of Capital Expenditure from Earmarked Reserves	366,500	325,400	372,501	47,101	47,101
TOTAL (SURPLUS) / DEFICIT FOR THE YEAR	0	(303,400)	(651,047)	(347,647)	(347,647)
Housing Revenue Account Balance brought forward	(1,041,017)	(1,041,017)	(1,041,017)	0	0
HRA BALANCE CARRIED FORWARD	(1,041,017)	(1,344,417)	(1,692,064)	(347,647)	(347,647)

Note: The shaded items relate directly to financing the capital programme, and comprise depreciation on Council Dwellings, grants and contributions, use of the Major Repairs Reserve and specific Earmarked Reserves.

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

GENERAL FUND REVENUE BUDGET SUMMARY

For Consideration by Cabinet 28 June 2016

	Original Budget £	Revised Budget £	Actuals £	Variance £ (Favourable) / Adverse	Adjusted Variance £ (Favourable) / Adverse
Management Team	0	0	0	0	(966)
Environmental Services					
Service Support	0	0	0	0	32,736
Public Realm	2,523,800	2,265,700	2,372,634	106,934	14,670
Repairs & Maintenance	0	0	0	0	(25,738)
Safety	170,100	188,300	187,437	(863)	(9,347)
Waste / Recycling	2,857,200	2,676,100	2,711,340	35,240	(35,828)
	5,551,100	5,130,100	5,271,411	141,311	(23,507)
Governance Services					
Democratic Services	1,592,900	1,574,900	1,590,294	15,394	7,813
Human Resources & Organisational Development	263,800	259,700	256,428	(3,272)	(17,792)
Legal	(70,700)	(89,400)	(98,226)	(8,826)	(9,776)
Licensing	(5,300)	14,000	13,057	(943)	(3,595)
	1,780,700	1,759,200	1,761,553	2,353	(23,350)
Health & Housing Services					
Environmental Health	1,412,500	1,344,200	1,374,379	30,179	(5,033)
General Fund Housing	152,600	190,700	178,215	(12,485)	(13,769)
Sport and Leisure	1,871,900	2,104,400	2,186,879	82,479	41,645
Strategic Housing	874,600	841,600	773,903	(67,697)	(44,666)
	4,311,600	4,480,900	4,513,376	32,476	(21,823)
Regeneration & Planning					
Development Management	764,600	454,900	430,916	(23,984)	(49,590)
Economic Development	1,749,500	1,783,200	1,777,294	(5,906)	(20,091)
Regeneration	3,154,900	3,341,300	4,434,191	1,092,891	(670,274)
Service Support	66,600	51,900	50,791	(1,109)	(9,299)
	5,735,600	5,631,300	6,693,192	1,061,892	(749,254)
Resources					
Audit	69,100	65,600	62,121	(3,479)	(27,789)
Financial Services	0	0	13,684,955	13,684,955	(22,607)
ICT	0	0	0	0	(15,209)
Property Group	(237,700)	(191,700)	(158,537)	33,163	(9,336)
Revenues and Benefits	1,228,800	1,057,600	917,656	(139,944)	(122,058)
	1,060,200	931,500	14,506,195	13,574,695	(196,999)
Corporate Accounts					
Capital Financing	2,730,100	2,415,000	2,358,033	(56,967)	(56,967)
Other Corporate Costs	1,594,800	1,869,500	(13,799,229)	(15,668,729)	616,617
Reversal of Notional Charges	(3,896,700)	(4,161,000)	(4,569,665)	(408,665)	0
Treasury Management	1,018,400	1,062,800	1,898,464	835,664	(29,721)
Other Government Grants	(1,380,400)	(1,427,200)	(1,419,665)	7,535	7,535
Appropriations (to / (-) from Reserves)	(453,300)	(143,000)	9,625	152,625	152,625
Appropriations (to / (-) from Balances)	(1,000,000)	(497,000)	(497,000)	0	0
	(1,387,100)	(880,900)	(16,019,437)	(15,138,537)	690,089
Net Revenue Budget	17,052,100	17,052,100	16,726,290	(325,810)	(325,810)
Financed by:					
Retained Business Rates	(24,969,700)	(24,969,700)	(24,974,765)	(5,065)	(5,065)
Less Business Rates Tariff	19,762,900	19,762,900	19,762,945	45	45
Baseline Funding Level	(5,206,800)	(5,206,800)	(5,211,820)	(5,020)	(5,020)
Revenue Support Grant	(3,861,500)	(3,861,500)	(3,861,474)	26	26
Total Settlement Funding	(9,068,300)	(9,068,300)	(9,073,294)	(4,994)	(4,994)
Council Tax Surplus	(131,000)	(131,000)	(131,000)	0	0
Council Tax Requirement	7,852,800	7,852,800	7,521,996	(330,804)	(330,804)

Note the underspend of approx £331K 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 adjusted variance column excludes these items and therefore shows a clearer outturn position - the full analysis of this is shown at Appendix C.

GENERAL FUND VARIANCE ANALYSIS

For Consideration by Cabinet 28 June 2016

2015/16 Outturn
Compared to Working
Budget

(Favourable) / Adverse
£ £

COUNCIL TAX REQUIREMENT		7,852,800
EXPENDITURE		
Employee Savings		
Management Team	(5,445)	
Environmental Services	(4,475)	
Governance	(15,157)	
Health & Housing - Redundancy Costs, Additional Training and Swimming/Lifeguard Costs	43,436	
Regeneration & Planning	(30,890)	
Resources	(66,430)	(78,961)
Premises		
Williamson Park - Grounds Maintenance	(16,088)	
Public Realm - Repair and Maintenance	(15,068)	
Middleton Reserve Pumping Station - Repair and Maintenance	(16,324)	
Salt Ayre - Energy Savings	(30,331)	
White Lund Depot - Repair and Maintenance, Utility Savings	(17,059)	(94,870)
Transport Expenses		
Three Stream Waste - Increased Repair and Maintenance Costs	31,244	
Grounds Maintenance - Reduced Repair and Maintenance Costs	(20,842)	
Street Cleansing - Reduced Repair and Maintenance Costs	(8,348)	2,054
Supplies & Services		
Three Stream Waste - Mainly Less Requirement for Bins and Boxes	(25,993)	
Waste Disposal Charges	40,678	
Townscape Heritage Initiative 2 - Reduced take up of scheme by Property Owners	(26,123)	
Environmental Protection - Delay in partnership agreement for Air Quality Assessments	(12,625)	
St. Leonard's House - Development Fees (to be offset by capital receipt in 2016/17)	80,815	
Property Services - Reduced need for external surveyors and other professional fees	(21,343)	
Benefits Administration - Grant towards web serve software	(6,237)	
Council Tax Administration - Reduced legal fees	(18,137)	
Housing Benefits	(27,825)	(16,790)
INCOME		
Net Investment Interest and Bank Charges	(38,148)	
Waste Collection - new properties bins/boxes, special collections	(16,501)	
Bulky Waste Collections	(7,991)	
Off Street Parking	44,294	
Williamson Park Café	(18,665)	
Development Control - Planning Application Fees	(27,849)	
Cemeteries	31,110	
Salt Ayre Sports Centre - Swimming	18,773	
Legal Services - Additional Court Costs Recovered	(8,695)	
Search Fees	(12,050)	
Commercial Properties - Rental Income	(56,666)	
Council Tax Administration - Additional Court Costs Recovered	(25,199)	
Housing Benefit Overpayment Recoveries	(46,529)	(164,116)
Other Net Service Variances		18,846
SPECIFIC VARIANCES NOT INCLUDED ABOVE:		
Bad Debt Provision - Additional Contribution		60,000
Capital Financing - Minimum Revenue Provision		(56,967)
TOTAL VARIANCES		(330,804)
PROVISIONAL OUTTURN 2015-16		7,521,996

RESERVES AND PROVISIONS STATEMENT (INCLUDING BALANCES)

For consideration by Cabinet 28 June 2016

GENERAL FUND	OUTTURN					AS CURRENTLY BUDGETED																
	31/03/15	Contributions to Reserve		Contribution from Reserve		31/03/16	Contributions to Reserve	Contribution from Reserve			31/03/17	Contributions to Reserve	Contribution from Reserve			31/03/18	Contributions to Reserve	Contribution from Reserve			31/03/19	
		From Revenue	To Capital	To Revenue	To Revenue			From Revenue	To Capital	To Revenue			From Revenue	To Capital	To Revenue			From Revenue	To Capital	To Revenue		
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£		
General Fund Balance	4,625,207				(166,196)	4,459,011	56,400				4,515,411	164,900				4,680,311					4,680,311	
Earmarked Reserves:																						
Apprenticeships	38,054	21,200			(19,600)	39,654					0				0						0	
Business Rates Retention	381,458					381,458				381,458					381,458						381,458	
Capital Support	298,767	235,687			(8,000)	526,454				277,654					277,654						277,654	
Corporate Property	342,585				(14,479)	328,106	54,600	(59,000)		323,706					323,706						323,706	
Elections	0					0	40,000			40,000	40,000				80,000	40,000					120,000	
Highways	279,390				(59,787)	219,603				10,203					10,203						10,203	
Homelessness Support	16,285	60,175				76,460				66,260					66,260						66,260	
Invest to Save	1,501,412				(23,855)	1,469,557	350,700	(6,000)		1,814,257					1,814,257						1,814,257	
Local Plan	42,167	29,407				71,574				55,174					16,574						16,574	
Markets	59,599	23,855			(29,355)	54,099				0				0							0	
Morecambe Area Action Plan (MAAP)	223,803				(90,000)	114,469				54,469					54,469						54,469	
Performance Reward Grant	19,000				(19,000)	0				0				0							0	
Renewals (all services)	707,601	605,400	(256,281)		(244,459)	812,262	402,800	(492,000)	(69,500)	653,562	479,300	(230,000)	(43,100)	859,762	479,300	(280,000)	(48,300)				1,010,762	
Restructuring/Budget Support Reserve	602,922					602,922	333,600		(186,500)	750,022				750,022							750,022	
S106 Commuted Sums - Open Spaces	128,448				(24,438)	104,010				81,510				60,610							(16,600)	44,010
S106 Commuted Sums - Affordable Housing	235,682	109,250	(148,857)			196,075				196,075				196,075							196,075	
S106 Commuted Sums - Highways, crossing & cycle paths	883,680	66,909	(40,814)			909,775				331,775				281,775	75,000	(75,000)					281,775	
Welfare Reforms	307,996	107,315			(19,027)	396,284	23,500		(190,000)	229,784				229,784							229,784	
Youth Games	21,514	15,000			(3,600)	32,914				0				0							0	
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	6,160,242	1,274,198	(559,807)	(469,079)		6,405,554	1,205,200	(1,180,000)	(1,094,967)	5,335,788	519,300	(280,000)	(102,600)	5,472,488	594,300	(355,000)	(64,900)				5,646,888	

Note - For various provisions and reserves, not all spending needs are reflected and so over the period their balances will reduce from the levels shown above, as and when spending commitments and their timing are confirmed.

Provisions	31/03/15	Contributions to Reserve	Payments from Reserve	31/03/16
	£	£	£	£
Bad Debts	1,174,523	954,096	(168,704)	1,959,915
Legal	175,000	147,506	(158,038)	164,468
Insurance	359,608	149,216	(109,207)	399,617
Total Provisions	1,709,131	1,250,818	(435,949)	2,524,000

**HOUSING REVENUE
ACCOUNT**

	OUTTURN					
	31/03/15	Contributions to Reserve		Contribution from Reserve		31/03/16
		From Revenue	To Capital	To Revenue	To Revenue	
£	£	£	£	£	£	
HRA General Balance	1,041,017	651,049			1,692,066	
Earmarked Reserves:						
Business Support Reserve	8,612,720			(175,839)	8,436,881	
Major Repairs Reserve	0	4,339,300	(4,339,300)		0	
Flats - Planned Maintenance	922,460		(231,723)		690,737	
Central Control Equipment / Telecare	40,000			(40,000)	0	
Non-Sheltered Scheme Equipment	16,260	4,447		(20,707)	0	
I T Replacement	591,195				591,195	
Office Equipment Reserve	40,271	3,000		(7,262)	36,009	
Sheltered - Equipment	366,021			(125,067)	240,953	
Sheltered - Planned Maintenance	224,475	42,318	(140,779)		126,014	
Sheltered Support Grant Maintenance	279,299	165,776			445,075	
Total Earmarked Reserves	11,092,701	4,554,840	(4,711,802)	(368,876)	10,566,864	

Provison	
Bad Debts	515,987

AS CURRENTLY BUDGETED											
Contributions to Reserve	Contribution from Reserve		31/03/17	Contributions to Reserve		Contribution from Reserve		31/03/18	Contributions to Reserve		31/03/19
	From Revenue	To Capital		To Revenue	From Revenue	To Capital	To Revenue		From Revenue	To Capital	
£	£	£	£	£	£	£	£	£	£	£	
275,700			1,967,766	120,900			2,088,666			(338,500)	1,750,166
		(39,400)	8,397,481			(39,500)	8,357,981				8,357,981
4,152,400	(4,152,400)		0	3,988,500	(3,988,500)		0	4,171,400	(4,171,400)		0
133,000	(167,000)		656,737	133,000	(200,000)		589,737	133,000	(200,000)		522,737
			0				0				0
			0				0				0
57,000			648,195	57,000			705,195				705,195
3,000			39,009				39,009				39,009
		(51,200)	189,753	28,000		(38,000)	179,753	28,100		(40,700)	167,153
80,700	(50,000)	(20,000)	136,714	56,800	(55,000)	(20,000)	118,514	57,200		(20,000)	155,714
27,100			472,175	28,000			500,175	28,100			528,275
4,453,200	(4,369,400)	(110,600)	10,540,064	4,291,300	(4,243,500)	(97,500)	10,490,364	4,417,800	(4,371,400)	(60,700)	10,476,064

Carry Forward of Controllable Overspends

For Consideration by Cabinet 28 June 2016

Services and Detail of Overspend		Revised Budget £	Actual £	Variance £	Comments
GENERAL FUND REVENUE					
Environmental Services					
Waste Collection	Vehicle R&M	223,200	257,811	34,611	Higher levels of repairs were required in year due to an ageing fleet following the rescheduling of renewals due to the uncertain direction of the service. This was partly offset by £17K savings within other vehicle R&M areas of the service. This may be ongoing whilst ongoing budget reviews are underway.
Nurseries	Nursery Income	-75,200	-66,390	8,810	The nursery has previously supplied plants, hanging baskets etc. to other local authorities but this has reduced significantly in the last year due to the budget pressures faced within local government. This was managed through an £8K reduction in materials purchased. The future income projections of the nursery have been reduced due to the cessation of winter bedding and this will be monitored closely.
Street Cleaning	Salaries - Overtime	84,700	94,622	9,922	Increased overtime to clean up after floods, events, one offs. Shift patterns to be reviewed during 2016/17 and organisers of events to be responsible for cost of any additional cleansing.
	Materials	30,400	36,944	6,544	
Car Parking	Off Street Car Park Income	(2,251,700)	(2,207,940)	43,760	Income ahead of target to December allowing 2 free Saturdays post floods, however impact of flooding period greater than anticipated compounded with poor Christmas and winter thereafter. The flooding was an exceptional one-off event and it is difficult to predict the impact of weather conditions, therefore no future budgetary action is required.
Markets	Charter Market Income	-78,200	-70,593	7,607	Fewer adhoc bookings taken following floods compounded with poor weather combined with essential works on museum resulting in 5 "out of action" pitches. As above no future budgetary action is required.
Resources					
Information, Communications & Technology	Infrastructure - Update & Maintenance	66,600	80,186	13,586	Offset by underspends on consultancy. Pilot scheme in partnership with Lancaster University for free Public Wi-Fi to determine whether to roll out on a permanent basis. Storage support extension costs arising from delay in capital project to take advantage of rapidly reducing storage costs. These are one-off overspends and therefore no future budgetary action is required.
Governance					
City Council Elections	Printing & Stationery / Election Fees / Postages	179,300	192,496	13,196	Additional costs mainly relating to Carnforth Bye-Election due to death of Councillor. This was a one-off cost and therefore no further budgetary action is required.

Officer Decisions: That no further action be taken as all overspends are offset by other savings. On-going implications still being reviewed as appropriate, as referred to above.

Appendix F

Lancaster City Council - Capital Expenditure 2015/16

For consideration by Cabinet 28 June 2016

HOUSING REVENUE ACCOUNT	Revised Estimate	Expenditure in 2015/16	Expenditure to be financed in 2015/16	SCHEME FINANCING					TOTAL SCHEME SPECIFIC FINANCING / ITEMS	BALANCE FINANCED BY GENERAL CAPITAL RESOURCES
				GRANTS & CONTRIBUTIONS	GRANTS UNAPPLIED	EARMARKED RESERVES / PROVISIONS	SPECIFIC REVENUE FINANCING	MAJOR REPAIRS ALLOWANCE (HRA only)		
	£	£	£	£	£	£	£	£	£	
COUNCIL HOUSING										
Bathroom Kitchen Refurbishment	1,018,000	996,073.97	996,073.97					791,427.74	791,427.74	204,646.23
External Refurbishment	903,000	1,002,689.97	1,002,689.97	68,247.29				934,442.68	1,002,689.97	0.00
Re-roofing / Window Renewals	797,000	822,220.08	822,220.08	16,183.75				806,036.33	822,220.08	0.00
Environmental / Crime Prevention Works	839,000	851,522.77	851,522.77	21,839.02		166,745.00		662,938.75	851,522.77	0.00
Energy Efficiency Works	655,000	650,566.21	650,566.21	1,215.79		121,698.72		527,651.70	650,566.21	0.00
Rewiring	83,000	90,216.54	90,216.54					90,216.54	90,216.54	0.00
Adaptations	250,000	138,383.11	138,383.11					138,383.11	138,383.11	0.00
Fire Precaution Works	178,000	216,348.97	216,348.97	8,865.90		84,057.52		123,425.55	216,348.97	0.00
Lift Replacement	96,000	94,529.81	94,529.81					94,529.81	94,529.81	0.00
Communication Equipment - High Rise Flats	12,000	12,173.12	12,173.12					12,173.12	12,173.12	0.00
TOTAL - HRA	4,831,000	4,874,724.55	4,874,724.55	116,351.75	0.00	372,501.24	0.00	4,181,225.33	4,670,078.32	204,646.23

GENERAL FUND	Revised Estimate	Expenditure in 2015/16	Expenditure to be financed in 2015/16	SCHEME FINANCING					TOTAL SCHEME SPECIFIC FINANCING / ITEMS	BALANCE FINANCED BY GENERAL CAPITAL RESOURCES
				GRANTS & CONTRIBUTIONS	GRANTS UNAPPLIED	EARMARKED RESERVES / PROVISIONS	SPECIFIC REVENUE FINANCING	MAJOR REPAIRS ALLOWANCE (HRA only)		
	£	£	£	£	£	£	£	£	£	
ENVIRONMENTAL SERVICES										
Allotments	5,000	5,028.00	5,028.00						0.00	5,028.00
Vehicle Renewals	697,000	625,740.89	625,740.89						0.00	625,740.89
Vehicle Tracking System	24,000	15,378.00	15,378.00			15,378.00			15,378.00	0.00
Bins & Boxes Scheduled Buy-Outs	21,000	21,556.42	21,556.42				21,556.42		21,556.42	0.00
Car Park Improvement Programme	82,000	80,171.84	80,171.84						0.00	80,171.84
Middleton Solar Farm	24,000	23,855.30	23,855.30			23,855.30			23,855.30	0.00
Williamson Park Improvements & Enhancements	107,000	109,876.79	109,876.79	30,000.00			2,876.79		32,876.79	77,000.00
Sub-Total	960,000	881,607.24	881,607.24	30,000.00	0.00	39,233.30	24,433.21	0.00	93,666.51	787,940.73
HEALTH & HOUSING										
Disabled Facilities Grants	600,000	557,436.69	557,436.69	557,436.69					557,436.69	0.00
Warmer Homes Scheme	6,000	4,278.41	4,278.41		4,278.41				4,278.41	0.00
Salt Ayre Sports Centre - Redevelopment	0	254,885.41	254,885.41						0.00	254,885.41
Sub-Total	606,000	816,600.51	816,600.51	557,436.69	4,278.41	0.00	0.00	0.00	561,715.10	254,885.41
REGENERATION & PLANNING										
Toucan Crossing - King Street	3,000	3,000.00	3,000.00			3,000.00			3,000.00	0.00
Dalton Square Christmas Lights (Renewal)	29,000	28,960.00	28,960.00			27,960.00	1,000.00		28,960.00	0.00
Sea & River Defence Works & Studies	905,000	1,017,371.88	1,017,371.88	1,014,371.88			3,000.00		1,017,371.88	0.00
Amenity Improvements (Morecambe Promenade)	7,000	7,107.86	7,107.86	3,107.86					3,107.86	4,000.00
Luneside East	50,000	42,552.89	42,552.89						0.00	42,552.89
Lancaster Square Routes	103,000	86,712.75	86,712.75	26,307.40					26,307.40	60,405.35
Morecambe THI 2: A View for Eric	313,300	192,893.93	192,893.93	145,183.92			47,710.01		192,893.93	0.00
MAAP - Improving Morecambe's Main Streets	127,000	112,680.62	112,680.62			42,000.00	3,623.18		45,623.18	67,057.44
MAAP - Connecting Eric	158,000	159,383.70	159,383.70			90,000.00	1,000.00		91,000.00	68,383.70
Albion Mills Affordable Housing s106 Scheme	40,000	39,750.00	39,750.00			39,750.00			39,750.00	0.00
King St/Wellington Terrace Affordable Housing s106 Scheme	90,000	0.00	0.00						0.00	0.00
Middleton Nature Reserve s106 Scheme	17,000	17,056.76	17,056.76			17,056.76			17,056.76	0.00
Pedestrian/Cycle Links - Sainsbury's Morecambe s106 Scheme	59,000	57,692.89	57,692.89			55,000.00			55,000.00	2,692.89
Bold Street Housing Regeneration Site Works	24,000	26,603.30	26,603.30				26,603.30		26,603.30	0.00
Chatsworth Gardens	1,878,000	1,878,287.00	1,878,287.00	287.00					287.00	1,878,000.00
Lancaster District Empty Homes Partnership	50,000	0.00	0.00						0.00	0.00
AONB Vehicle Replacement	25,000	25,388.00	25,388.00			14,388.00			14,388.00	11,000.00
S106 Highways Works	32,000	31,800.00	31,800.00			31,800.00			31,800.00	0.00
Sub-Total	3,910,300	3,727,241.58	3,727,241.58	1,189,258.06	0.00	320,954.76	82,936.49	0.00	1,593,149.31	2,134,092.27
Resources										
ICT Systems, Infrastructure & Equipment	376,000	198,554.51	198,554.51			198,554.51			198,554.51	0.00
Corporate Property Works	1,842,600	1,898,006.14	1,898,006.14	1,691					1,691.25	1,896,314.89
Sub-Total	2,218,600	2,096,560.65	2,096,560.65	1,691.25	0.00	198,554.51	0.00	0.00	200,245.76	1,896,314.89
TOTAL - GENERAL FUND	7,694,900	7,522,010	7,522,010	1,778,386.00	4,278.41	558,742.57	107,369.70	0.00	2,448,776.68	5,073,233.30

GENERAL FUND HOUSING REVENUE ACCOUNT	Revised Estimate	Expenditure in 2015/16	Expenditure to be financed in 2015/16	SCHEME FINANCING					TOTAL SCHEME SPECIFIC FINANCING / ITEMS	BALANCE FINANCED BY GENERAL CAPITAL RESOURCES
				GRANT	GRANTS UNAPPLIED	EARMARKED RESERVES / PROVISIONS	SPECIFIC REVENUE FINANCING	MAJOR REPAIRS ALLOWANCE (HRA only)		
	£	£	£	£	£	£	£	£	£	
GENERAL FUND	7,694,900	7,522,009.98	7,522,009.98	1,778,386.00	4,278.41	558,742.57	107,369.70	0.00	2,448,776.68	5,073,233.30
HOUSING REVENUE ACCOUNT	4,831,000	4,874,724.55	4,874,724.55	116,351.75	0.00	372,501.24	0.00	4,181,225.33	4,670,078.32	204,646.23
TOTAL CAPITAL EXPENDITURE & FINANCING	12,525,900	12,396,734.53	12,396,734.53	1,894,737.75	4,278.41	931,243.81	107,369.70	4,181,225.33	7,118,855.00	5,277,879.53

2015/16 CAPITAL EXPENDITURE FINANCING			Housing Revenue Account	General Fund	Grand Total for all Funds
			£	£	£
Amounts to be financed by General Capital Resources			204,646.23	5,073,233.30	5,277,879.53
Financed by:					
Underlying Borrowing Need - Increase in Capital Financing Requirement			0.00	4,417,305.92	4,417,305.92
Usable Capital Receipts			204,646.23	655,927.38	860,573.61
General Grants Unapplied			0.00	0.00	0.00
Total Financing from General Capital Resources			204,646.23	5,073,233.30	5,277,879.53

CAPITAL SLIPPAGE - INTO FINANCIAL YEAR 2016/17
For Consideration by Cabinet 28 June 2016

	Slippage Requested	Percentage of Revised budget	Source of Funding			Reasons for Slippage Requests
			LCC Funded	Grants & Contributions	Total	
	£		£	£	£	
GENERAL FUND						
Environmental Services						
Vehicle Renewals	63,000	9%	63,000		63,000	£20,000 in respect of a tractor delivered but not in Council ownership on 31 March 2016, balance relates to a JCB loadall on which the lease was extended pending a service review in 2016/17
Car Parks Improvement Programme	2,000	2%	2,000		2,000	
	65,000		65,000	0	65,000	Minor variation in the timing of improvement works
Health and Housing						
Disabled Facilities Grants	42,000	7%		42,000	42,000	Represents commitments entered into but not discharged by 31 March 2016
Warmer Homes Scheme	1,000	28%	1,000		1,000	Represents commitments entered into but not discharged by 31 March 2016
	43,000		1,000	42,000	43,000	
Regeneration and Planning						
Sea & River Defence Works & Studies	5,000	1%	5,000		5,000	Land compensation and easement in respect of Artle Beck Scheme not yet completed
Amenity Improvements (Morecambe Promenade)	3,000	37%		3,000	3,000	Additional income received during 2015/16 will be used to carry out further improvements during 2016/17
Luneside East	7,000	15%	7,000		7,000	Anticipated cost of concluding scheme following outcome of hearing
Lancaster Square Routes	11,000	11%		11,000	11,000	Represents the cost of completing the externally funded Wayfinding element of the scheme
MAAP Improving Morecambe's Main Streets	18,000	14%	18,000		18,000	Required to support the Wayfinding element of the scheme which is currently out to tender
THI 2 - A View for Eric	120,000	38%		120,000	120,000	Represents commitments in respect of grants to properties
King St/Wellington Terrace Affordable Housing s106 Scheme	90,000	100%	90,000		90,000	The trigger point for payment on this scheme was not reached in 2015/16
Pedestrian/cycle links Sainsbury's Morecambe s106 Scheme	1,000	2%	1,000		1,000	Minor works required to complete scheme
Lancaster District Empty Homes Partnership	50,000	100%	50,000		50,000	Delays cause by the withdrawal of a large scheme part way through 2015/16
	305,000		171,000	134,000	305,000	
Resources						
ICT Systems, Infrastructure & Equipment	163,000	43%	163,000		163,000	Relates to a delay in the Customer Relationship Management system replacement project
	163,000		163,000	0	163,000	
GENERAL FUND TOTAL	576,000		400,000	176,000	576,000	
Council Housing						
Environmental / Crime Prevention Works	36,000	4%	36,000		36,000	Start on site delayed to undertake entrance doors to Arcon & Heaton
	36,000		36,000	0	36,000	
HOUSING REVENUE ACCOUNT TOTAL	36,000		36,000	0	36,000	
Accelerated Spend						
GENERAL FUND						
Health and Housing						
Salt Ayre Sports Centre - Redevelopment	-255,000		-255,000		-255,000	Accelerated spend on main £5M redevelopment project
Regeneration and Planning						
Wave Reflection Wall	-126,000			-126,000	-126,000	Accelerated spend on 2016/17 scheme
	-381,000		-255,000	-126,000	-381,000	
OVERALL NET SLIPPAGE	231,000		181,000	50,000	231,000	

Appendix H

Annual Treasury Management Report 2015/16

For Noting by Cabinet 28 June 2016

Annual Treasury Management Review 2015/16

Purpose

The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2015/16. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2015/16 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 04 March 2015)
- a mid-year (minimum) treasury update report (Council 16 December 2015)
- an annual review following the end of the year describing the activity compared to the strategy (this report).

In addition, Members have received quarterly treasury management update reports on which were presented to Cabinet and Budget and Performance Panel.

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

The Council confirms that it has complied with the requirement under the Code to give prior scrutiny (by Budget and Performance Panel) to all of the above treasury management reports before they were reported to the full Council. Member training on treasury management issues was undertaken in February 2016 in order to support the scrutiny role.

Introduction and Background

This report summarises the following:-

- Capital activity during the year;
 - Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
 - The actual prudential and treasury indicators;
 - Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
 - Summary of interest rate movements in the year;
 - Detailed debt activity; and
 - Detailed investment activity.
-

1. The Council's Capital Expenditure and Financing 2015/16

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- if insufficient financing is available from the above sources, or a decision is taken not to apply such resources, the capital expenditure will give rise to a borrowing need (also referred to as "unfinanced", within the tables and sections below).

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

General Fund (GF) £M	2014/15 Actual	2015/16 Estimate	2015/16 Actual
Capital expenditure	5.717	7.695	7.522
Financed in year	5.424	3.373	3.105
Unfinanced capital expenditure (i.e. reliant on an increase in underlying borrowing need)	0.293	4.322	4.417

HRA £M	2014/15 Actual	2015/16 Estimate	2015/16 Actual
Capital expenditure	4.709	4.831	4.875
Financed in year	4.709	4.831	4.875
Unfinanced capital expenditure (i.e. reliant on an increase in underlying borrowing need)	0.000	0.000	0.000

2. The Council's Capital Expenditure and Financing 2015/16

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2015/16 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury function organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWL] or the money markets), or utilising temporary cash resources within the Council.

Reducing the CFR – the Council's (non HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to

make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the non-Housing Revenue Account (HRA) borrowing need (there is no statutory requirement to reduce the HRA CFR). This differs in purpose from other treasury management arrangements, which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Council's 2015/16 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2015/16 on 04 March 2015.

The Council's CFR for the year is shown below, and represents a key prudential indicator. It includes leasing schemes on the balance sheet, which effectively increase the Council's borrowing need. No borrowing is actually required against these schemes, however, as a borrowing facility is included in the contract (if applicable).

CFR (£M): General Fund	31 March 2015 Actual	31 March 2016 Budget	31 March 2016 Actual
Opening balance	33.975	32.681	32.681
Add unfinanced capital expenditure (as above)	0.293	4.322	4.417
Less MRP	(1.383)	(1.513)	(1.456)
Less finance lease repayments	(0.204)	(0.095)	(0.113)
Closing balance	32.681	35.395	35.529

CFR (£M): HRA	31 March 2015 Actual	31 March 2016 Budget	31 March 2016 Actual
Opening balance	44.473	43.432	43.432
Add unfinanced capital expenditure (as above)	0.000	0.000	0.000
Less Debt Repayment	(1.041)	(1.041)	(1.041)
Closing balance	43.432	42.391	42.391

CFR (£M): Combined	31 March 2015 Actual	31 March 2016 Budget	31 March 2016 Actual
Opening balance	78.448	76.113	76.113
Add unfinanced capital expenditure (as above)	0.293	4.322	4.417
Less Debt Repayment, Finance Leases and MRP	(2.628)	(2.649)	(2.610)
Closing balance	76.113	77.786	77.920

Borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2015/16) plus the estimates of any additional capital financing requirement for the current (2016/17) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2015/16. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2015 Actual	31 March 2016 Budget	31 March 2016 Actual
Gross borrowing position	£67.572M	£66.659M	£66.418M
CFR	£76.113M	£77.786M	£77.920M

The authorised limit - the authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2015/16 the Council has maintained gross borrowing within its authorised limit.

The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

Actual financing costs as a proportion of 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.

	2015/16
Authorised limit	£104.000M
Maximum gross borrowing position	£67.572M
Operational boundary	£87.020M
Average gross borrowing position	£66.995M
Financing costs as a proportion of net revenue stream - GF	15.8%
Financing costs as a proportion of net revenue stream - HRA	21.9%

3. Treasury Position as at 31 March 2016

The Council's debt and investment position is administered to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the end of 2015/16 the Council's treasury (excluding borrowing relating to finance leases) position was as follows:

	31 March 2015 Principal	Average Rate	Average Life yrs	31 March 2016 Principal	Average Rate	Average Life yrs
Fixed rate funding:						
PWLB	£67.332M	4.56%	38	£66.291m	4.59%	37
Total debt	£67.332M			£66.291M		
CFR	£76.113M			£77.920M		
Over / (under) borrowing	(£8.781M)			(£11.629M)		
Total investments	£35.800M	0.39%		£39.216M	0.47%	

All investments were placed for under one year.

The loan repayment schedule is as follows:

	31 March 2015 actual	31 March 2016 actual
Under 12 months	£1.041M	£1.041M
12 months and within 24 months	£1.041M	£1.041M
24 months and within 5 years	£3.124M	£3.124M
5 years and within 10 years	£5.207M	£5.207M
10 years and within 20 years	£10.414M	£10.414M
20 years and within 30 years	£7.290M	£6.249M
More than 30 years	£39.215M	£39.215M

The average rate of interest payable on PWLB debt in 2015/16 was 4.59%. A total of £3.071M interest was incurred during the year, of which £2.004M was recharged to the HRA.

Interest Payable

	2015/16
Estimate	£3.071M
Actual	£3.071M

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

Fixed/Variable rate limits

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

4. The Strategy for 2015/16

The expectation for interest rates within the treasury management strategy for 2015/16 anticipated a low but rising Bank Rate, and gradual rises in medium and longer term fixed borrowing rates during 2016/17. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

5. The Economy and Interest Rates (supplied by Capita Asset Services)

Market expectations for the first increase in Bank Rate moved considerably during 2015/16, starting at quarter 3 2015 but soon moving back to quarter 1 2016. However, by the end of the year, market expectations had moved back radically to quarter 2 2018 due to many fears including concerns that China's economic growth could be heading towards a hard landing; the potential destabilisation of some emerging market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015 together with continuing Eurozone growth uncertainties.

These concerns have caused sharp market volatility in equity prices during the year with corresponding impacts on bond prices and bond yields due to safe haven flows. Bank Rate, therefore, remained unchanged at 0.5% for the seventh successive year. Economic growth (GDP) in the UK surged strongly during both 2013/14 and 2014/15 to make the UK the top performing advanced economy in 2014. However, 2015 has been disappointing with growth falling steadily from an annual rate of 2.9% in quarter 1 2015 to 2.1% in quarter 4.

The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling materially. These rates continued at very low levels during 2015/16.

The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. However, the overall dominant trend in bond yields since July 2015 has been for yields to fall to historically low levels as forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back. In addition, a notable trend in the year was that several central banks introduced negative interest rates as a measure to stimulate the creation of credit and hence economic growth.

The ECB had announced in January 2015 that it would undertake a full blown quantitative easing programme of purchases of Eurozone government and other bonds starting in March at €60bn per month. This put downward pressure on Eurozone bond yields. There was a further increase in this programme of QE in December 2015. The anti-austerity government in Greece, elected in January 2015 eventually agreed to implement an acceptable programme of cuts to meet EU demands after causing major fears of a breakup of the Eurozone. Nevertheless, there are continuing concerns that a Greek exit has only been delayed.

As for America, the economy has continued to grow healthily on the back of resilient consumer demand. The first increase in the central rate occurred in December 2015 since when there has been a return to caution as to the speed of further increases due to concerns around the risks to world growth.

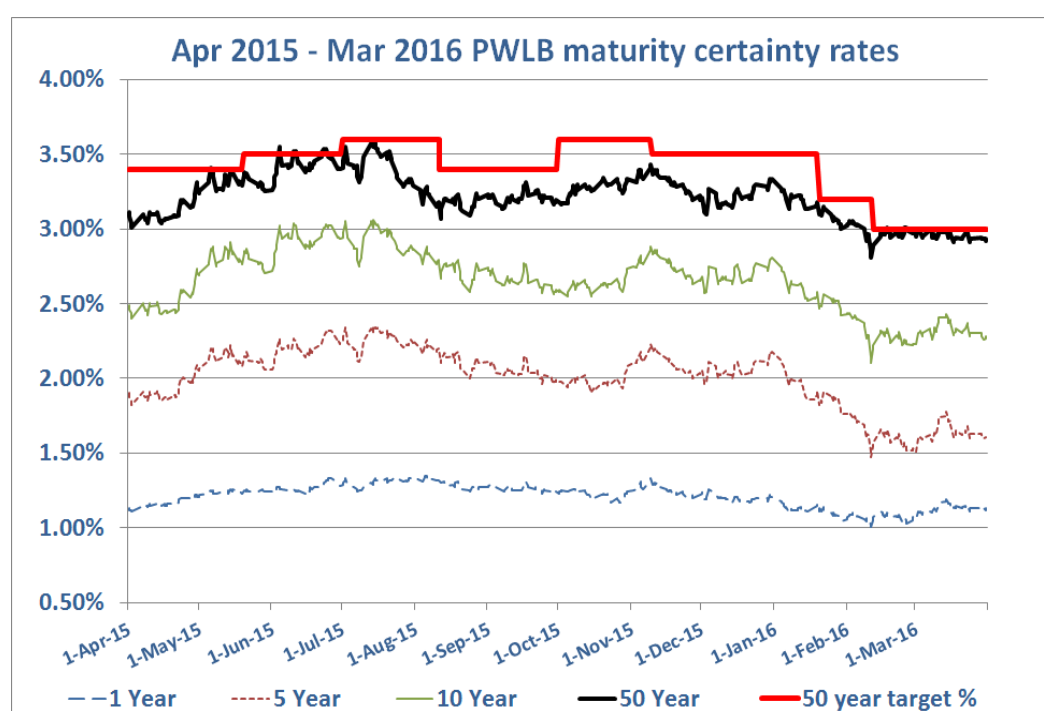
On the international scene, concerns have increased about the slowing of the Chinese economy and also its potential vulnerability to both the bursting of a property bubble and major exposure of its banking system to bad debts. The Japanese economy has also suffered disappointing growth in this financial year despite a huge programme of quantitative

easing, while two of the major emerging market economies, Russia and Brazil, are in recession. The situations in Ukraine, and in the Middle East with ISIS, have also contributed to volatility.

The UK elected a majority Conservative Government in May 2015, removing one potential concern but introducing another due to the promise of a referendum on the UK remaining part of the EU. The government maintained its tight fiscal policy stance but the more recent downturn in expectations for economic growth has made it more difficult to return the public sector net borrowing to a balanced annual position within the period of this parliament.

6. Borrowing Rates in 2015/16

PWLB certainty maturity borrowing rates - the graphs and table for PWLB rates below show, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.



7. Borrowing Outturn for 2015/16

Borrowing

No actual borrowing was undertaken during the year.

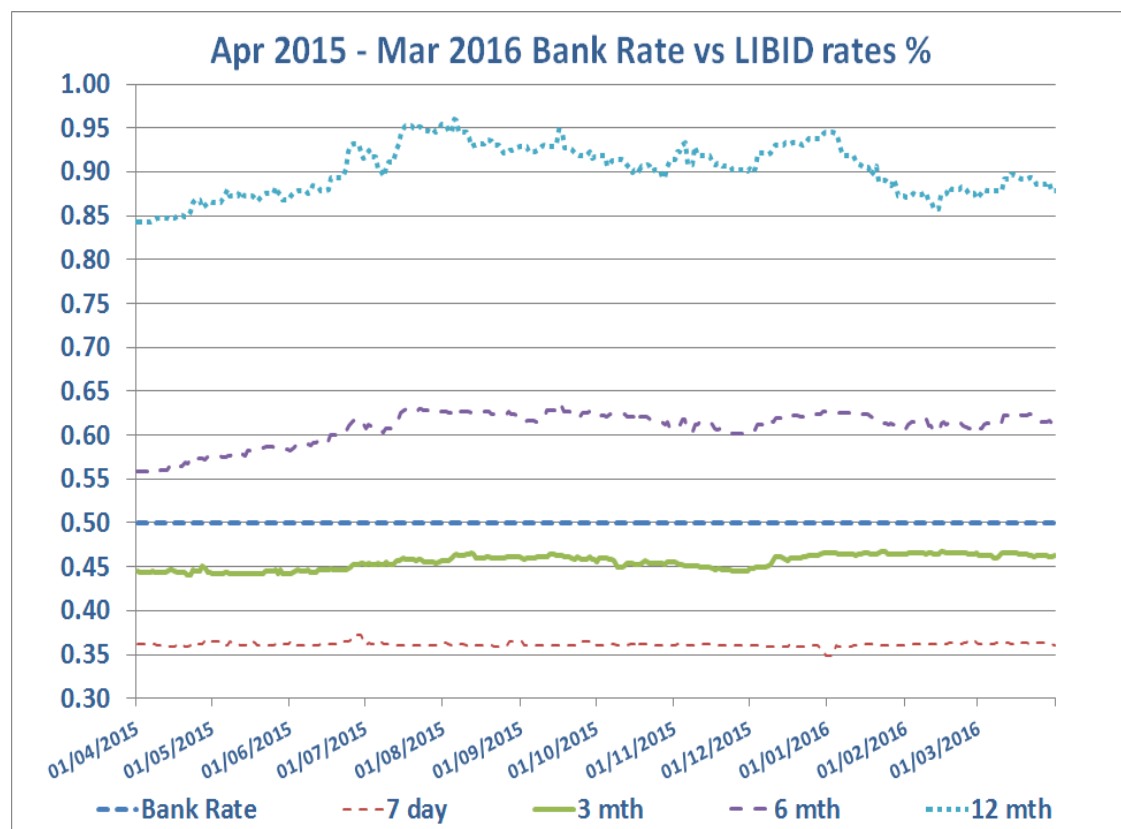
Rescheduling

No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

8. Investment Rates in 2015/16

Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for seven years. Market expectations as to the timing of the start of monetary tightening started the year at Quarter 1 2016 but then moved back to around Quarter 2 2018 by the end of the year. Deposit rates remained depressed during the whole of the year,

primarily due to the effects of the Funding for Lending Scheme and due to the continuing weak expectations as to when Bank Rate would start rising.



9. Investment Outturn for 2015/16

Investment Policy – the Council’s investment policy is governed by CLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 04 March 2015. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Resources – the Council’s cash balances comprise revenue and capital resources and cash flow monies. The Council’s core cash resources comprised as follows:

Balance Sheet Resources (£M)	General Fund		HRA	
	31/03/15	31/03/16	31/03/15	31/03/16
Balances	4.625	4.459	1.041	1.692
Earmarked reserves	6.160	6.406	11.093	10.567
Provisions	1.709	2.524	0.495	0.516
Usable capital receipts	0.000	0.000	0.000	0.000
Total	12.494	13.389	12.629	12.775

Investments held by the Council - the Council maintained an average investment balance of £46.7M of internally managed funds. The average interest earned is compared to the base rate and average 3-month LIBID rate.

	2014/15	2015/16
Lancaster CC Investments	0.39%	0.47%
Base Rate	0.50%	0.50%
3 Month LIBID	0.40%	0.46%

In terms of performance against budget the actual interest earned in 2015/16 was £214K compared to a budget of £179K.

10. Other Risk Management Issues

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

The Authority's Investment Strategy is designed to engineer risk management into investment activity by reference to credit ratings and the length of deposit to generate a pool of counterparties, together with consideration of other creditworthiness information to refine investment decisions. The Council is required to have a strategy is required under the CIPFA Treasury Management Code, the adoption of which is another Prudential Indicator. The strategy for 2015/16 complied with the latest Code of Practice (November 2011) and relevant Government investment guidance.

11. Conclusion

The Council's treasury activities were in line with its approved policies and strategies. Last year was very quiet in terms of borrowing activity. With respect to investments, longer fixed term investments were placed which helped to increase the average yield for the year. Cash balances will however reduce significantly during 2016/17 with the completion of transactions relating to business rate appeals. This in turn will reduce investment interest, which has already been reflected in future forecasts.

LANCASTER CITY COUNCIL
TREASURY MANAGEMENT POLICY STATEMENT

Last reported to Council on 04 March 2015

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.
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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, and it is 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 over up to 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.
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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 money markets, however because of its nature, currently the PWLB is generally able to offer better terms.
- **Capita Asset Services** – they 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*.
