



## LATE REPORT

Budget and Performance Panel

Tuesday, 18 February 2020

The following report was received too late to be included on the main agenda for this meeting and was marked 'to follow'. It is now enclosed, as follows:

Agenda Item Number	Page	Title
5	2 - 56	BUDGET AND POLICY FRAMEWORK UPDATE 2020/21 TO 2024 (INCLUDING MANAGEMENT AND CAPITAL STRATEGY)

**BUDGET AND PERFORMANCE PANEL****Budget and Policy Framework 2020 – 2024  
18 February 2020****Report of Chief Finance Officer****PURPOSE OF REPORT**

The report provides Members with information on the Council's latest General Fund Revenue budget proposals and resulting Council Tax requirement. Further information is provided regarding the Council's proposed 5 year Capital Programme as well as the Section 151 Officer's statement on the adequacy of reserves. The Panel has explicit responsibility for scrutiny of the treasury management function, including a review of the proposed annual strategy.

**This report is public**

**OFFICER RECOMMENDATIONS**

- (1) **That Budget and Performance Panel considers the Cabinet Report dated 11 February 2020 Budget and Policy Framework 2020 – 2024 and attached appendices, making any comments considered necessary.**
- (2) **That Budget and Performance Panel considers the attached Treasury Management framework documents and strategy for 2020/21 and makes recommendations as appropriate.**

**1.0 Budget and Policy Framework 2020 – 2024**

- 1.1 The report attached at **Appendix 1**, presented to Cabinet on 11 February 2020 sets out the latest position in respect of the budget and policy framework including Cabinet's proposed revenue budget for 2020/21 and Capital Programme for 2020/21 to 2023/24.
- 1.2 Budget and Performance Panel has specific responsibility for scrutiny of the treasury management function, including a review of the proposed annual strategy attached at **Appendix 2**.
- 1.3 The Panel are asked to consider the Cabinet report and attachments in line with their Terms of Reference within the Constitution

**CONCLUSION OF IMPACT ASSESSMENT**

(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing): As set out in the relevant appendices.

**LEGAL IMPLICATIONS**

As set out in the relevant appendices.

**FINANCIAL IMPLICATIONS**

As set out in the relevant appendices.

**OTHER RESOURCE IMPLICATIONS, such as Human Resources, Information Services, Property, Open Spaces:**

As set out in the relevant appendices.

**SECTION 151 OFFICER'S COMMENTS**

The Section 151 Officer has authored this report

**MONITORING OFFICER'S COMMENTS**

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

**BACKGROUND PAPERS**

None.

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## Lancaster City Council | Report Cover Sheet

<b>Meeting</b>	Cabinet	<b>Date</b>	11 February 2020		
<b>Report of</b>	Chief Finance Officer				
<b>Purpose of Report</b>					
This report sets out the latest position in respect of the budget and policy framework including Cabinet's proposed revenue budget for 2020/21 and Capital Programme for 2020/21 to 2023/24. The report also sets out the Treasury Management Framework for Cabinet adoption.					
<b>Key Decision (Y/N)</b>	<b>Y</b>	<b>Date of Notice</b>	13 January 2020	<b>Exempt (Y/N)</b>	<b>N</b>

### Report Summary

The report provides Cabinet with information on the Council's latest General Fund Revenue budget proposals and resulting Council Tax requirement. Further information is provided regarding the Council's proposed 5 year Capital Programme as well as its Treasury Management Strategy and the Section 151 Officer's statement on the adequacy of reserves.

The report seeks Cabinet's approval and recommendations to Full Council.

### Recommendations of Councillor Whitehead

1) That Cabinet recommend the following for approval to Budget Council:

- The 2020/21 General Fund Net Revenue Budget and resulting Council Tax Requirement excluding parish precepts (Appendix A) and supporting budget proposals (Appendix B).
- The Section 151 Officer's statement on the adequacy of reserves and advice that the minimum level of balances be increased to £2.5m, subject to annual review.
  - the resulting position on provisions and reserves (Appendix C).
  - the updated Reserves Strategy (Appendix D).
  - the updated five year Capital Programme covering financial years 2020/21 to 2023/24 (Appendix E).

2) That the Finance Portfolio Holder be given delegated authority to agree the Treasury Management Framework, as updated for Cabinet's final budget proposals, for referral on to Council.

3) That the Finance Portfolio Holder be given delegated authority to agree the revision of the Medium Term Financial Strategy, as updated for Cabinet's final budget proposals, for referral on to Council.

<b>Relationship to Policy Framework</b>	
<p>The budget should represent, in financial terms what the Council is seeking to achieve through its Policy Framework.</p> <p>The proposed Treasury Management framework forms part of the Council's budget and policy framework, and fits into the Medium Term Financial Strategy.</p>	
<b>Conclusion of Impact Assessment(s) where applicable</b>	
Climate	Wellbeing & Social Value
Digital	Health & Safety
Equality	Community Safety
<p>A number of budget proposals address the climate emergency and digital improvements as well as wellbeing improvements. The budget framework in general sets out a financial plan for achieving the Council's corporate priorities which incorporate the above cross cutting themes.</p>	
<b>Details of Consultation</b>	
<b>Revenue Budget Proposals</b>	
<p>Cabinet's initial budget proposals were presented to the January meetings of Budget and Performance Panel and Council.</p>	
<b>Treasury Management Framework</b>	
<p>Officers have liaised with Link Asset Services, the Council's Treasury Advisors, in developing the proposed framework. The framework will be considered by Budget and Performance Panel at its meeting on 18 February.</p>	
<b>Legal Implications</b>	
<p>Legal Services have been consulted and have no further comments.</p>	
<b>Financial Implications</b>	
<p>As set out in the report and supporting Appendices</p>	
<b>Other Resource or Risk Implications</b>	
<p>None directly arising from this report.</p>	
<b>Section 151 Officer's Comments</b>	
<p>The Local Government Act 2003 placed explicit requirements on the Section 151 Officer to report on the robustness of the estimates included in the budget and on the adequacy of the Council's reserves. A summary of the Section 151 Officer's advice to date is provided below for information, but it should be noted that some of this is provisional until Cabinet's final budget proposals are confirmed. At Budget Council, Members will be recommended to note formally the advice of the Section 151 Officer.</p>	
<b>Provisions, Reserves and Balances</b>	
<ul style="list-style-type: none"> <li>· Specific earmarked reserves and provisions are satisfactory at the levels currently proposed.</li> <li>· Unallocated balances of £2.5M for General Fund are reasonable levels to safeguard the Council's overall financial position, given other measures and safeguards proposed, and taking a medium to longer term view. This level has been increased by £0.5M compared with last year to reflect increased uncertainty with respect to government funding after the Fair Funding review and Brexit and reflects the sensitivity of some of the underlying savings and income targets within the budget.</li> </ul>	

**Robustness of Estimates**

A variety of exercises have been undertaken to establish a robust budget for the forthcoming year. These include:

- producing a base budget, taking account of service commitments, pay and price increases and expected demand / activity levels as appropriate, and the consideration of key assumptions and risks.
- reviewing the Council's services and activities, making provision for expected changes;
- reviewing the Council's MTFS, together with other corporate monitoring information produced during the year;
- undertaking a review of the Council's borrowing needs to support capital investment, in line with the Prudential Code.

These measures ensure that as far as is practical, the estimates and assumptions underpinning the base budget are robust.

**Affordability of Spending Plans**

In addition, the Section 151 Officer is responsible for ensuring that when setting and revising Prudential Indicators, including borrowing limits, all matters to be taken into account are reported to Council for consideration as part of the Treasury Management Framework.

In considering affordability, the fundamental objective is to ensure that the Council's capital investment remains within sustainable limits, having particular regard to the impact on council tax (for General Fund). Affordability is ultimately determined by judgements on what is 'acceptable' - this will be influenced by public, political and national influences.

The factors that have been (and should be) taken into account in considering capital investment plans include the following.

- availability of capital resources, including capital grants, capital receipts, etc
- existing commitments and planned service / priority changes
- options appraisal arrangements and robust business cases for the chosen options
- revenue consequences of any proposed capital schemes, including interest and debt repayment costs of any borrowing
- future years' revenue budget projections, and the scope to meet borrowing costs
- the likely level of government support for revenue generally
- the extent to which other liabilities can be avoided, through investment decisions.

In considering and balancing these factors, the capital proposals to date are based on an increase in "prudential borrowing" or CFR over the period to 2023/24. The bulk of this relates to schemes to support delivery of the Council's key Strategic Priorities as outlined in the Capital Programme.

**Monitoring Officer's Comments**

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

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<b>Links to Background Papers</b>	None.
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## **1.0 Introduction**

- 1.1 Under the Council's Constitution, Cabinet has responsibility for developing corporate planning processes and a balanced revenue budget and capital programme for Council's consideration.
- 1.2 The Council meeting on 29 January 2020 considered Cabinet's proposed revenue budget for 2020/21 and approved a City Council Tax increase of £5 together with a year on year target of the maximum allowable under the Government's local referendum thresholds for future years.
- 1.3 Cabinet has also considered capital programme bids for 2020/21 to 2023/24 and this report provides a proposed capital programme for consideration and recommendation to Budget Council. The Treasury Management Strategy takes account of the proposed capital programme.
- 1.4 The report seeks delegated authority for the Finance Portfolio Holder to agree the Treasury Management Framework, subject to any changes made to capital programme proposals before it is referred to Budget Council.

## **2.0 Revenue Budget 2020/21**

- 2.1 A general fund revenue budget for 2020/21 is included at Appendix A with more detailed budget proposals in Appendix B. The proposed budget is balanced, in line with statutory requirements, and takes account of the Final Local Government Settlement published 6 February 2020.
- 2.2 Cabinet is now required to finalise its full budget proposals and make recommendations to Budget Council.
- 2.3 The proposed revenue budget was agreed by Cabinet at its meeting on 28 January 2020 and this was subject to the local government settlement and calculations of annual estimates for collection fund surpluses or deficits in respect of council tax and business rates which are considered below.

### **Local Government Settlement**

- 2.4 The Provisional Local Government Settlement was announced 20 December 2019 and revised Council Tax threshold principles which for districts, reduced the maximum increase in precept from 2.99% to 1.99% or £5, whichever is higher. The allocations published in Final Local Government Settlement remain unchanged from the Provisional Settlement and so has no impact on the Council.

### **Council Tax**

- 2.5 Legislation requires that separate estimates be made for any Collection Fund surpluses or deficits on the Collection Fund relating to the council tax and business rates.
- 2.6 For council tax, it is confirmed that the Collection Fund is expected to generate a small surplus for the year and with the overall fund position remaining in deficit.

2.7 As a result of the changes to council tax referendum thresholds, the Council Tax increase of £5 agreed by Council on 29 January 2020 means that the City element of Council Tax for a band D property will be £231.95.

#### **Business Rates**

2.8 The Council is required to submit its annual business rates return to the Government by the end of January in which it estimates business rates income for 2020/21 and the estimated deficit / surplus as at the end of 2019/20.

2.9 The estimated surplus for 2019/20 is £2,958K as shown in Table 1 below.

Table 1: Business Rates

	<b>2019/20 £000</b>
Actual surplus brought forward (from collection fund statement)	(1,497)
Transfer to other precepting authorities in respect of last year forecast surplus (arising from calculations done a year ago)	739
Forecast Business Rates Income for 2019/20	(65,548)
Rate Retention Scheme Charges for 2019/20	63,348
<b>Estimated Surplus for 2019/20 as at 31 January 2020</b>	<b>(2,958)</b>
City Council Share of the surplus at 40%	(1,183)

2.10 Business rates continues to be an area of uncertainty in respect of predicting income for two primary reasons set out below:

The potential for a shutdown at Heysham Nuclear Power Station continues to be a risk which the Council has to monitor, as such an event would significantly reduce retention from business rates. Central Government operates a “safety net” system to protect those councils which see their year-on-year business rate income fall by more than 7.5 per cent. The Section 151 Officer has allowed for this arrangement when considering the level of balances held within the Business Rates reserve.

The Council receives a ‘disregard’ for renewable energy hereditaments which means that 100% of the business rates for these properties is retained by the authority. It is estimated that in 2020/21, this will be worth £907K to Lancaster City Council. Whilst it is evident that this 100% disregard will continue into 2020/21, there is a risk that the Government will discontinue this advantageous arrangement at some point in the future.

### **3.0 Provisions, Reserves and Balances**

3.1 Under current legislation the Section 151 Officer is required to give explicit advice to Council on the minimum level of reserves and balances.

#### **Provisions**

3.2 The bad debt and insurance provisions have been reviewed and are considered adequate at this time.

#### **Reserves & Balances**



- 3.3 Reserve levels and use of reserves are an important part of the budget framework. It is important that the Council maintains a healthy level of reserves in order to maintain financial resilience but balances this with the careful use of those reserves, usually on 'one-off' items in order to support corporate priority projects.
- 3.4 The balance described above is managed via the Reserves Strategy which is set out in Appendix D but which, in summary, is covered below:
- The Section 151 Officer is statutorily required to undertake an annual assessment on the adequacy of the Council's reserve levels.
  - The reorganisation of earmarked revenue reserves in order to better reflect corporate priorities.
  - The planned use of reserves over the next four years and forecast reserves balances over that period.
  - The governance arrangements for the use of reserves to ensure that they are used effectively in accordance with corporate priorities.

#### **Annual Assessment of Reserves Levels**

- 3.5 The Reserves Strategy covers the Section 151 Officer's annual review of the adequacy of reserve balances which is a statutory requirement. Although usable revenue reserve levels have increased significantly in the last two years, continuing uncertainties with respect to Local Government funding remain. **Taking this additional risk into account, the Section 151 Officer's advice is that the minimum level of balances held in the General Fund should be set at £2.5M, an increase of £0.5M.**
- 3.6 The Section 151 Officer's latest advice on the adequacy of balances is based on the following observations:

The General Fund Balance at 31/03/19 was £5.714M.

Latest revenue budget monitoring forecasts an overspend of £322K in 2019/20. This would reduce the General Fund Balance to £5.392M.

The Council's MTFs suggests a budget gap in 2021/22 onwards of approximately £1.5M. If this is not closed then balances will be required to make up the difference.

There is a significant level of uncertainty with respect to Council funding particularly in respect of both retained rates and New Homes Bonus and there is a possibility that the Council's funding will be reduced as a result of the Fair Funding Review.

Business rates retention volatility remains a risk to the Council but this is now managed via the Business Rates Reserve considered in the next section and therefore should not impact on the General Fund balance.

There is continuing uncertainty with respect to Brexit and how this will impact, directly or indirectly, Council finances.

The MTFs provides forecasts on funding and on net expenditure and sensitivities associated with these forecasts. The Treasury Management Strategy documents collectively provide assurance with respect to the affordability, sustainability and prudence of capital expenditure.

- 3.7 In calculating the minimum level of General Fund balance, an assessment of the risks that give rise to unanticipated expenditure or loss of income has been made and these are shown in Table 2 below.

Table 2: Risk Assessment

<b>Risk</b>	<b>Symptom of risk</b>	<b>Balance required £000</b>
Increased demand for services	3% increase in net revenue expenditure	530
Recession results in reduced fees and charges income	10% reduction in major fees and charges income	1,300
Recession results in reduced council tax collection rates	3% reduction in collection rate	300
New Homes Bonus scrapped	Significant reduction in funding income	1,300
Next year's budget savings not achieved	50% under achievement	250
Next year's commercial income target not achieved	30% under achievement	120
Natural disaster such as flood	Additional unanticipated expenditure	500
Uncertainty with respect to Brexit	Additional unanticipated expenditure	500
<b>Aggregate overspend if all above risks were to happen</b>		<b>4,800</b>
<b>Estimated General Fund Balance as at 31/03/20</b>		<b>5,392</b>

3.8 The analysis shows that, in the unlikely event of a 'Perfect Storm' of risks happening all within the next year, there are sufficient balances to meet all these risks in the short term which would give the Council time to adapt in the longer term

3.9 Usable revenue reserves have increased significantly over the last two years, mainly due to business rates growth. The strategy sets out the change in reserves and compares this with other districts as a benchmark. As at 31 March 2019, Lancaster had 114% of its net revenue expenditure held in reserve (increased from 62% 31 March 2017) which is equal to the Lancashire districts average.

3.10 The minimum level of balances will be kept under review as part of the MTFs and reported to Cabinet on a regular basis.

#### **Re-organisation of Earmarked Reserves**

3.11 Cabinet adopted a revised Reserves Strategy on 1 October 2019 following on from a review by the Financial Resilience Group. The revised Strategy set out the key changes:

- The transfer of the Budget Support Reserve balance into a new Corporate Priorities Reserve and the transfer of any committed balances from the Canal Quarter, Capital Support, Economic Growth, Welfare Reforms, Morecambe Area Action Plan and Amenity Improvements into this reserve.
- The calculation of the level of Business Rates Reserve required to support the budget, over the medium term, should business rates income fall to safety net

levels and the transfer of any surplus funds to the new Corporate Priorities Reserve.

- 3.12 The updated Reserves Strategy included in Appendix D calculates a requirement of £3.569M to support the budget over the next four years should business rates fall to safety net levels. This means that £2.348M can be transferred to the Corporate Priorities reserve. It is also recommended that the balances of the Canal Quarter, Capital Support, Economic Growth, Welfare Reforms, Morecambe Area Action Plan and Amenity Improvements are transferred to the Corporate Priorities reserve at the financial year end.

#### **Planned use of reserves and estimated reserve balances over the medium term**

- 3.13 The estimated reserves balances are shown in Appendix C and are summarised in table 3 below

Table 3: Estimated Reserves

	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
Balance brought forward	20,557	18,560	15,917	15,189	14,764
Impact of 2020/21 budget decisions		(1,869)	(1,095)	(874)	(829)
Impact of previous budget decisions	(1,997)	(775)	367	448	408
<b>Balance carried forward</b>	<b>18,560</b>	<b>15,917</b>	<b>15,189</b>	<b>14,764</b>	<b>14,343</b>

- 3.14 It should be noted that the above analysis reflects allocated use of reserves which are subject to the completion and authorisation of a reserves bid template to ensure the effective use of resources to meet corporate priorities. If no bid is made or the bid is rejected then allocations will not be used.
- 3.15 It should also be noted that any business rates growth above budget and/or returns from invest to save projects will, all other things being equal, increase reserves balances from those set out in the above analysis.

#### **Governance Arrangements**

- 3.16 The Reserves Strategy sets out improved arrangements for the approval of reserves expenditure which include:
- a requirement to complete a bid document setting out how reserves expenditure will deliver corporate priorities with a clear costing statement and schedule of outcome measures
  - a process to ensure that all use of reserves are approved by Cabinet either as part of the annual budget or via consideration of bids during the year, usually as part of strategy or project approval Cabinet report
  - decision limits to ensure that Cabinet approval of reserves bids is delegated appropriately

#### **4.0 General Fund Capital Programme**

- 4.1 The Capital Programme for 2020/21 to 2023/24 is set out in Appendix E and is summarised in table 4 below

Table 4: Capital Programme

	2019/20	2020/21	2021/22	2022/23	2023/24
Approved Schemes	1,797	8,472	2,024	1,935	424
Development Pool	15,022	24,687	27,306	27,285	22,608
<b>Total</b>	<b>16,819</b>	<b>33,159</b>	<b>29,330</b>	<b>29,220</b>	<b>23,032</b>

- 4.2 Development pool schemes have had strategic outline business cases approved in principle by the Cabinet but **cannot** commence until full business cases have been considered and approved, first by the Capital Strategy Group, and then by Cabinet.
- 4.3 A number of significant schemes are included in the Development Pool including Canal Quarter, general fund housing schemes, Heysham Gateway development and investment property acquisitions. All of these schemes will require significant capital expenditures and borrowing but each business case will have to show that income arising from the capital investment is capable of covering all borrowing costs and delivering a positive return to the Council's revenue budget.
- 4.4 In setting the capital programme the Council must have regard to affordability and the Treasury Management Strategy sets out the impact of the Council's Capital Programme on its borrowing to ensure that all borrowing is affordable, prudent and sustainable.

## 5.0 Treasury Management Strategy

- 5.1 The Code of Practice on Treasury Management ("the Code") requires that a strategy outlining the expected treasury activity for the forthcoming 3 years be adopted, but that it be reviewed at least annually. It needs to reflect treasury policy and cover various forecasts and activities, in order to integrate the Council's spending and income plans with decisions about investing and borrowing.
- 5.2 Over the years, the regulatory and economic environment has changed significantly and this has led the sector to consider more innovative types of investment activity. Reflecting this, Members will be aware that changes have been made regarding the capital and treasury management framework.
- 5.3 The main objective of these changes was to respond to the major expansion of local authority investment activity over the last few years into the purchase of non-financial investments, particularly property. The updated framework distinguishes between treasury management activities and investment in non-financial investments.
- 5.4 Treasury management activities represent the placement of residual cash held in the bank resulting from the authority's day to day activities in relation to s12 Local Government Act investment powers. The Treasury Management Strategy, therefore deals principally with investments and borrowing.

- 5.5 Non-treasury investments include commercial investments where the objective is primarily to generate capital or revenue resources. The resources generated help facilitate the delivery of council services.
- 5.6 The Prudential Code 2017 also introduced a new requirement to produce an annual capital strategy. This is an over-arching corporate document which deals with the key areas of strategic context, corporate priorities, capital investment ambition, available resources, affordability, capacity to deliver, risk appetite, risk management and determining an appropriate split between non-financial and treasury management investments in the context of ensuring the long term financial sustainability of the authority. It sets the context for the Treasury Management and Investment Strategies.

#### **Treasury Management Framework**

- 5.7 The proposed Strategy for 2020/21 to 2023/24 is set out at Appendix H for Cabinet's consideration. The document contains the necessary details to comply with both the Code and Government investment guidance. The strategy put forward reflects the more ambitious nature of the Council and facilitates the principles outlined in both the Funding the Future and Property Investment Strategies. Responsibilities for treasury management are set out at Appendix F and the policy statement is presented at Appendix G.
- 5.8 Key elements and assumptions feeding into the proposals are outlined below. These take account of Cabinet's existing budget proposals as far as possible at this stage. Should there be any changes to the budget, then the treasury framework would need to be updated accordingly before being referred on to Budget Council. For these reasons, delegated arrangements are being sought for finalising the framework.

#### **Borrowing Aspects of the Strategy**

- 5.9 Based on the draft budget, the overall physical borrowing position of the Council is projected to increase significantly over the next three to five years from its current position of £62M to £118M (2021/22) potentially raising to £162M (2023/24) as the Council looks to move forward with several ambitious schemes to enable delivery of its Strategic Priorities.
- 5.10 This level of borrowing is assessed for affordability, sustainability and prudence in line with the Council's Treasury Management Strategy and requires annual approval by Council. Changes in the Council's Capital Financing Requirement and forward borrowing projections are summarised in tables 5 and 6 below

Table 5: Capital Financing Requirement

	2018/19 Actual £M	2019/20 Estimate £M	2020/21 Estimate £M	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M
<b>Capital Financing Requirement</b>						
CFR – Non Housing	43.55	43.33	57.67	68.00	77.91	81.25
CFR – Housing	39.34	38.29	37.25	36.21	35.17	34.13
CFR – Commercial activities/non-financial investments	0.00	15.00	30.75	46.19	61.62	77.06
<b>Total CFR</b>	<b>82.89</b>	<b>96.62</b>	<b>125.67</b>	<b>150.40</b>	<b>174.70</b>	<b>192.44</b>
<b>Movement in CFR</b>						
Non Housing	(0.06)	(0.22)	14.34	10.33	9.91	3.34
Housing	(1.06)	(1.04)	(1.04)	(1.04)	(1.04)	(1.04)
Commercial activities/non-financial investments	0.00	15.00	15.75	15.43	15.43	15.43
<b>Net Movement in CFR</b>	<b>(1.12)</b>	<b>13.74</b>	<b>29.05</b>	<b>24.72</b>	<b>24.30</b>	<b>17.73</b>

<b>Movement in CFR represented by</b>						
Net financing need for the year (above) re Non Housing	1.60	16.13	32.20	28.87	28.82	22.66
Less MRP/VRP and other financing movements	(2.72)	(2.39)	(3.15)	(4.14)	(4.52)	(4.93)
<b>Net Movement in CFR</b>	<b>(1.12)</b>	<b>13.74</b>	<b>29.05</b>	<b>24.73</b>	<b>24.30</b>	<b>17.73</b>

Table 6: Borrowing Projections

	2018/19 Actual £M	2019/20 Estimate £M	2020/21 Estimate £M	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M
<b>External Debt</b>						
Debt at 1 April	64.21	63.17	62.13	94.09	118.05	143.01
Expected change in Debt	(1.04)	(1.04)	(1.04)	(1.04)	(1.04)	(1.04)
Other long-term liabilities (OLTL)	0.00	0.00	0.00	0.00	0.00	0.00
Expected change in OLTL	0.00	0.00	33.00	25.00	26.00	20.00
<b>Actual gross debt at 31 March</b>	<b>63.17</b>	<b>62.13</b>	<b>94.09</b>	<b>118.05</b>	<b>143.01</b>	<b>161.97</b>
<b>The Capital Financing Requirement</b>	<b>82.89</b>	<b>96.62</b>	<b>125.68</b>	<b>150.40</b>	<b>174.70</b>	<b>192.43</b>
<b>Under Borrowing</b>	<b>(19.72)</b>	<b>(34.50)</b>	<b>(31.59)</b>	<b>(32.35)</b>	<b>(31.69)</b>	<b>(30.46)</b>

### Investment Aspects of the Strategy

5.10 Where short term treasury management investments are required the Council retains a comparatively low risk appetite with focus on high quality deposits. The 2020/21 strategy continues to use the same short term investment criteria as approved by Members in 2019/20.

- 5.11 The proposed investment aspects of the strategy for treasury activities continues to provide for investing with other local authorities given that these, in effect, are as secure as investing with the Government but they offer greater returns, and from an Officer perspective, it makes sense to keep the benefits of such temporary cash investing/ borrowing wholly within the local authority family. Where this is not possible for liquidity reasons the Council is looking to place more emphasis on investment counterparties that are consistent with its own Priorities in particularly around climate change and ethical investments.

## **6.0 Medium Term Financial Strategy**

- 6.1 The proposals set out in this report will be incorporated into the refresh of the Medium Term Financial Strategy (MTFS) so that this can be presented to Budget Council. The MTFS covers the following areas:

Using the balanced revenue budget for 2020/21 as a base, a forecast of funding and net revenue expenditure for the next four years has been undertaken to understand the future funding gap.

Initial high level plans for bridging the gap are explored which include actions arising from the Funding the Future strategy.

A new Capital Strategy; an overarching document which sets the policy framework for the development, management and monitoring of capital investment. It incorporates the Property Investment Strategy, Asset Management Plan and Treasury Management Framework. The Strategy which sets out revised management and governance arrangements which will be key as ambitious economic development, property investment and proactive asset management projects come forward for consideration.

A MTFS Action Plan to be agreed by Cabinet and monitored by Budget and Performance Panel in order to ensure that the authority focuses on the budget gap in a timely and effective manner.

## **7 Options and Options Analysis**

### **Revenue Budget**

- 7.1 Cabinet may adjust its revenue budget proposals, as long as the overall budget for 2019/20 balances and fits with the proposed council tax level.

### **Capital Programme**

- 7.2 Cabinet may adjust its capital investment and financing proposals to reflect spending commitments and priorities but in deciding its final proposals should have regard to the prudential code requirements that all capital expenditure should be prudent, affordable and sustainable.

### **Treasury Management Framework**

- 7.3 Cabinet may put forward alternative proposals or amendments to the proposed Strategy in Appendix H, but these would have to be considered in light of legislative, professional and economic factors, and importantly, any alternative views regarding the Council's risk appetite. As such no further options analysis is available at this time.

- 7.4 Furthermore, the Strategy must fit with other aspects of Cabinet's budget proposals, such as commercial investments together with traditional deposit interest estimates and underlying prudential borrowing assumptions, feeding into Prudential and Treasury Management Indicators. There are no options available regarding other components of the overall framework,

## **8. Officer Preferred Option (and comments)**

### **8.1 Revenue Budget, Capital Programme and Reserves Position**

Proposals to be put forward by Cabinet should fit with any external constraints and the budgetary framework already approved. The recommendations as set out meet these requirements; the detailed supporting budget proposals are then a matter for Members.

### **Treasury Management Strategy**

- 8.2 To approve the framework as attached, allowing for any amendments being made under delegated authority prior to referral to Council. This is based on the Council continuing to have a comparatively low risk appetite regarding the security and liquidity of investments particularly, but recognising that some flexibility should help improve returns, whilst still effectively mitigating risk. It is stressed that in terms of treasury activity, there is no risk free approach. It is felt, however, that the measures set out above provide a fit for purpose framework within which to work, pending any update during the course of next year.
- 8.3 If Cabinet or Budget Council changes its Capital Programme from that which is proposed in this report then this would require a change in the prudential indicators which are part of the Treasury Management Strategy. Delegation to the Finance Portfolio Holder is therefore requested in order to ensure that Cabinet's final capital programme proposals are reflected in the Treasury Management Strategy



## General Fund Revenue Budget Projections 2019/20 to 2023/24

For Consideration by Cabinet 11 February 2020

BUDGET PROJECTIONS	2019/20	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000	£'000
<b>Revenue Budget/Forecast as at 5 November 2019</b>	15,937	17,700	18,493	19,066	20,091
<b>Base Budget Changes after Cabinet 15 January</b>					
Increased LCTS & HB Admin Grant	-	(40)	(48)	(56)	(41)
Further Job Evaluation Changes	-	268	103	(4)	(19)
<b>Cabinet Budget Proposals:</b>					
Savings Proposals	-	(511)	(408)	(605)	(845)
Growth Proposals	-	2,356	890	399	(63)
Contributions from Reserves re Budget Proposals	-	(2,096)	(1,206)	(927)	(829)
Revenue Implication of New Capital Schemes	-	-	307	449	589
Contribution to GF Unallocated Reserve	-	226	-	-	-
<b>General Fund Revenue Budget</b>	15,937	17,903	18,131	18,322	18,883
<b>Core Funding:</b>					
Revenue Support Grant	(200)	(203)	-	-	-
Net Business Rates Income	(6,341)	(8,028)	(6,593)	(6,797)	(7,006)
<b>Council Tax Requirement</b>	9,396	9,672	11,538	11,525	11,877
<b>Estimated Council Tax Income - (Increases based on £5 for 20/21 then max allowable)</b>	9,396	9,672	9,980	10,291	10,607
<b>Resulting Base Budget Deficit</b>	0	0	1,558	1,234	1,270
<i>Original MTFS Savings Requirement</i>	-	2,253	2,835	2,630	N/A
<i>Change</i>	+0	(2,253)	(1,277)	(1,396)	N/A

<b>General Fund Unallocated Balance</b>	
	£M
<b>Original Projected Balance as at 31 March 2019</b>	<b>(5.054)</b>
2018/19 Reverse Forecast Under/(Overspend)	(0.013)
2018/19 Actual (Under)/Overspend	(0.647)
2019/20 Budgeted Contribution	+0.000
2019/20 Forecast (Under)/Overspend	+0.322
<b>Projected Balance as at 31 March 2020</b>	<b>(5.392)</b>
<b>Less Agreed Minimum Level of Balances</b>	<b>2.500</b>
<b>Available Balances</b>	<b>(2.892)</b>

## Summary of Cabinet's Budget Proposals 2020/21 to 2023/24

		2020/21	2021/22	2022/23	2023/24	
		£'000	£'000	£'000	£'000	
<b>SAVINGS PROPOSALS</b>	<b>Non-Reserve Savings</b>					
	Minimum Revenue Provision	-	-	-	-	
	Refuse/Recycling (delay of additional round)	(200)	-	-	-	
	Inflation Savings	-	(129)	(194)	(273)	
	Increase in Income Achieved - Car Parking	(160)	-	-	-	
	Increase in Income Achieved - Williamson Park	(17)	-	-	-	
	Annual non pay inflation uplifts and increase in other incomes					
	- Trade Refuse	(29)	(62)	(78)	(108)	
	- Other Incomes	(7)	(15)	(23)	(39)	
	- Improved venues management	(51)	(108)	(170)	(238)	
- Co-ordinated approach to catering	(12)	(24)	(36)	(48)		
- Support Services Efficiencies	(21)	(42)	(63)	(84)		
- Reducing general office supplies	(14)	(28)	(41)	(55)		
<b>Sub Total</b>	<b>£0K</b>	<b>(511)</b>	<b>(408)</b>	<b>(605)</b>	<b>(845)</b>	
<b>Funding From Reserves</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>Net Savings</b>		<b>(511)</b>	<b>(408)</b>	<b>(605)</b>	<b>(845)</b>	
<b>GROWTH PROPOSALS</b>	<b>Non-Reserve Growth</b>					
	<b>Unavoidable</b>					
	Job Evaluation	218	438	615	705	
	<b>Communities &amp; the Environment</b>					
	Energy including Phase 1 Solar	36	(94)	(94)	(95)	
	Salt Ayre Boiler Replacement	10	(2)	(2)	(3)	
	Two Electric Refuse Vehicles	46	41	40	40	
	Electric Fleet Replacement Programme	31	10	10	10	
	Pool Cars	18	(3)	(4)	(4)	
	Salt Ayre Leisure Centre	(4)	(114)	(108)	(135)	
	Mellishaw Park	37	-	-	-	
	<b>Economic Growth &amp; Regeneration</b>					
	Development Management	20	24	28	32	
	Planning Policy & Local Plan: Staff	96	102	108	115	
	Building Control	77	(47)	(46)	(50)	
	Prosperity Skills Wealth Building	55	56	57	58	
	Regeneration	(93)	8	47	57	
	Cultural Development					
	- Arts, Festivals and Events Development	15	29	29	29	
	Property Investment	(383)	(832)	(1,264)	(1,696)	
	<b>Corporate Services</b>					
	Staff Development	50	40	30	10	
	Member Training	11	8	6	15	
	Digital Strategy MRP	14	14	14	14	
	<b>Office of the Chief Executive</b>					
	VCSE Miscellaneous Grants	6	6	6	6	
	<b>Growth funded from Reserves</b>					
	Job Evaluation	£293K	293	147	73	-
	Digital Strategy	£90K	90	-	-	-
	Cultural Development	£99K	99	43	23	23
	Economic Prosperity Plan	£40K	40	-	-	-
	Economic Development	£110K	110	110	110	85
Housing Feasibility (Housing Co and PS Stock Survey)	£107K	107	7	7	7	
Committee System Investigation	£30K	30	-	-	-	
Energy Management Hardware and Software	£50K	50	-	-	-	
RCCO Mellishaw Park	£240K	240	240	240	240	
CE recruitment and consultant costs	£30K	30	-	-	-	
Planning Policy & Local Plan: Commissioning Advice	£148K	148	148	148	148	
Future High Streets Fund (delivery capacity) (if successful)	£76K	76	76	76	76	
Canal Quarter	£124K	124	150	-	-	
Heysham Gateway	£279K	279	35	-	-	
Bailrigg Garden Village / Morecambe High Streets	£280K	280	250	250	250	
Housing Feasibility Invest to Save	£100K	100	-	-	-	
<b>Total Growth</b>	<b>£2,096K</b>	<b>2,356</b>	<b>890</b>	<b>399</b>	<b>(63)</b>	
<b>Less Funding from Reserves</b>		<b>(2,096)</b>	<b>(1,206)</b>	<b>(927)</b>	<b>(829)</b>	
<b>Add Payback to Reserves</b>						
<b>Net Cost of Growth</b>		<b>260</b>	<b>(316)</b>	<b>(528)</b>	<b>(892)</b>	

## Reserves Statement (Including Unallocated Balances)

	31 March 2019	From Revenue	To / (From) Capital	To Revenue	31 March 2020	From Revenue	To / (From) Capital	To Revenue	31 March 2021	From Revenue	To / (From) Capital	To Revenue	31 March 2022	From Revenue	To / (From) Capital	To Revenue	31 March 2023	From Revenue	To / (From) Capital	To Revenue	31 March 2024
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
<b>Unallocated Balances</b>	<b>(5,713,800)</b>				<b>(5,713,800)</b>	226,000			<b>(5,487,800)</b>				<b>(5,487,800)</b>				<b>(5,487,800)</b>				<b>(5,487,800)</b>
<b>Earmarked Reserves:</b>																					
<a href="#">Business Rates Reserve\IA1</a> <b>Business Rates Retention</b>	<b>(6,283,400)</b>			367,000	<b>(5,916,400)</b>			815,100	<b>(5,101,300)</b>			96,500	<b>(5,004,800)</b>			604,500	<b>(4,400,300)</b>			831,300	<b>(3,569,000)</b>
<a href="#">Budget Support Reserve\Print Area</a> <b>Corporate Priorities</b>	<b>(2,532,100)</b>			844,000	<b>(1,688,100)</b>	(882,800)	444,000	930,800	<b>(1,196,100)</b>		240,000	384,900	<b>(571,200)</b>	(491,300)	240,000	364,900	<b>(457,600)</b>	(579,800)	240,000	339,800	<b>(457,600)</b>
<a href="#">Canal Corridor Reserve\Print Area</a> <b>Canal Quarter</b>	<b>(237,400)</b>			213,000	<b>(24,400)</b>			24,400													
<a href="#">Capital Support Reserve\IA1</a> <b>Capital Support</b>	<b>(262,200)</b>		4,000		<b>(258,200)</b>		73,000	185,200													
<a href="#">Corporate Property Reserve\IA1</a> <b>Corporate Property</b>	<b>(371,800)</b>			36,600	<b>(335,200)</b>				<b>(335,200)</b>				<b>(335,200)</b>				<b>(335,200)</b>				<b>(335,200)</b>
<a href="#">Economic Growth Reserve\Print Area</a> <b>Economic Growth</b>	<b>(203,500)</b>	(367,000)		551,100	<b>(19,400)</b>	(117,500)		136,900		(96,500)		96,500		(96,500)		96,500		(96,500)		96,500	
<a href="#">Elections Reserve\IA1</a> <b>Elections</b>	<b>(108,800)</b>	(40,000)		148,800		(40,000)			<b>(40,000)</b>	(40,000)			<b>(80,000)</b>	(40,000)			<b>(120,000)</b>	(40,000)		160,000	
<a href="#">Homelessness Reserve\IA1</a> <b>Homelessness Support</b>	<b>(101,300)</b>	(6,600)			<b>(107,900)</b>	(6,600)			<b>(114,500)</b>	(6,600)			<b>(121,100)</b>	(6,600)			<b>(127,700)</b>	(6,600)			<b>(134,300)</b>
<a href="#">Invest to Save Reserve\IA1</a> <b>Invest to Save</b>	<b>(1,450,400)</b>			139,800	<b>(1,310,600)</b>	(60,800)		782,600	<b>(588,800)</b>	(55,100)		434,500	<b>(209,400)</b>	(40,600)		250,000		(250,000)		250,000	
<a href="#">Local Plan Reserve\IA1</a> <b>Local Plan</b>	<b>(23,700)</b>			23,700																	
<a href="#">MAAP Reserve\IA1</a> <b>Morecambe Area Action Plan</b>	<b>(27,300)</b>				<b>(27,300)</b>			27,300													
<a href="#">Museums Acquisitions\Print Area</a> <b>Museums Acquisitions</b>	<b>(16,500)</b>	(3,000)			<b>(19,500)</b>	(3,000)			<b>(22,500)</b>	(3,000)			<b>(25,500)</b>				<b>(25,500)</b>				<b>(25,500)</b>
<a href="#">Planning Fee Income Reserve\Print Area</a> <b>Planning Fee Income</b>	<b>(74,600)</b>	(14,400)			<b>(89,000)</b>			31,200	<b>(57,800)</b>			39,600	<b>(18,200)</b>			18,200					
<b>Renewals Reserves</b>	<b>(330,400)</b>	(479,300)	493,000	122,400	<b>(194,300)</b>	(481,800)	356,000	42,100	<b>(278,000)</b>	(481,800)	210,000	34,200	<b>(515,600)</b>	(481,800)	150,000	34,200	<b>(813,200)</b>	(481,800)	124,000	34,200	<b>(1,136,800)</b>
<a href="#">Restructure (BS) Reserve\IA1</a> <b>Restructure</b>	<b>(530,700)</b>				<b>(530,700)</b>			66,000	<b>(464,700)</b>			36,000	<b>(428,700)</b>			19,000	<b>(409,700)</b>				<b>(409,700)</b>
<a href="#">Revenue Grants Unapplied\Print Area</a> <b>Revenue Grants Unapplied</b>	<b>(693,900)</b>	(15,000)		47,200	<b>(661,700)</b>	(5,300)		189,300	<b>(477,700)</b>			27,100	<b>(450,600)</b>				<b>(450,600)</b>				<b>(450,600)</b>
<a href="#">s106 Reserves\IA1</a> <b>S106 Commuted Sums - Open Spaces</b>	<b>(44,000)</b>			15,600	<b>(28,400)</b>			11,800	<b>(16,600)</b>			11,800	<b>(4,800)</b>			4,700	<b>(100)</b>				<b>(100)</b>
<a href="#">s106 Reserves\IA1</a> <b>S106 Commuted Sums - Affordable Housing</b>	<b>(897,400)</b>				<b>(897,400)</b>				<b>(897,400)</b>				<b>(897,400)</b>				<b>(897,400)</b>				<b>(897,400)</b>
<a href="#">s106 Reserves\IA1</a> <b>S106 Commuted Sums - Highways, Cycle Paths etc.</b>	<b>(206,000)</b>	(200,000)	91,000		<b>(315,000)</b>	(200,000)	70,000		<b>(445,000)</b>	(200,000)			<b>(645,000)</b>	(200,000)			<b>(845,000)</b>	(200,000)			<b>(1,045,000)</b>
<a href="#">Welfare Reforms Reserve\IA1</a> <b>Welfare Reforms</b>	<b>(349,000)</b>			25,000	<b>(324,000)</b>				<b>(324,000)</b>				<b>(324,000)</b>				<b>(324,000)</b>				<b>(324,000)</b>
<a href="#">Amenity Improvement Reserve\Print Area</a> <b>Amenity Improvements</b>	<b>(29,000)</b>				<b>(29,000)</b>			29,000													
<b>Reserves Held in Perpetuity:</b>																					
<a href="#">Reserves held in perpetuity\IA1</a> <b>Graves Maintenance</b>	<b>(22,200)</b>				<b>(22,200)</b>				<b>(22,200)</b>				<b>(22,200)</b>				<b>(22,200)</b>				<b>(22,200)</b>
<a href="#">Reserves held in perpetuity\IA1</a> <b>Marsh Capital</b>	<b>(47,700)</b>				<b>(47,700)</b>				<b>(47,700)</b>				<b>(47,700)</b>				<b>(47,700)</b>				<b>(47,700)</b>
<b>Total Earmarked Reserves</b>	<b>(14,843,300)</b>	<b>(1,125,300)</b>	<b>588,000</b>	<b>2,534,200</b>	<b>(12,846,400)</b>	<b>(1,797,800)</b>	<b>943,000</b>	<b>3,271,700</b>	<b>(10,429,500)</b>	<b>(883,000)</b>	<b>450,000</b>	<b>1,161,100</b>	<b>(9,701,400)</b>	<b>(1,356,800)</b>	<b>390,000</b>	<b>1,392,000</b>	<b>(9,276,200)</b>	<b>(1,654,700)</b>	<b>364,000</b>	<b>1,711,800</b>	<b>(8,855,100)</b>
<b>Total Combined Reserves</b>	<b>(20,557,100)</b>				<b>(18,560,200)</b>				<b>(15,917,300)</b>				<b>(15,189,200)</b>				<b>(14,764,000)</b>				<b>(14,342,900)</b>

## Reserves Strategy

### Introduction

1. Reserves are an essential part of good financial management. They help the Council to cope with unpredictable financial pressures and plan for future spending commitments. The level, purpose and planned use of reserves are important factors for the Council as part of the Medium Term Financial Strategy (MTFS).
2. The Council may choose to fund some of its spending from its reserves, or set aside some of its income to increase reserves for future spending.
3. Lancaster City Council, in common with most local authorities, face significant financial challenges. The unprecedented reduction in government funding from 2010/11 to 2019/20 and continuing uncertainties with respect to funding as well as, rising costs and growing demand for many services are all testing the Councils' financial management and resilience.
4. The introduction of local business rates retention in particular has created additional risks to all Councils' finances and particularly for Lancaster as it is one of a handful of authorities which has a nuclear power station within its area. The Council, therefore, bears a significant risk of a temporary or permanent shut down at the power station which would immediately and significantly reduce funding from business rates. The magnitude of such a financial shock is sufficient that the Council must hold a reserve to provide resilience in the event that this happens.
5. Current and future financial challenges pose significant risks for the Council. The Council will continue to use reserves to balance competing pressures for example:
  - Using reserves to offset funding reductions and protect services – although this can only be a short-term strategy as reserves are a one-off funding resource.
  - Using reserves to provide 'one-off' expenditure to meet corporate priorities.
  - Investing in making changes that reduce the cost of providing services in the longer-term.
  - Increasing reserves to strengthen resilience against future, uncertain cost pressures.

### The approach to setting the Reserves Strategy.

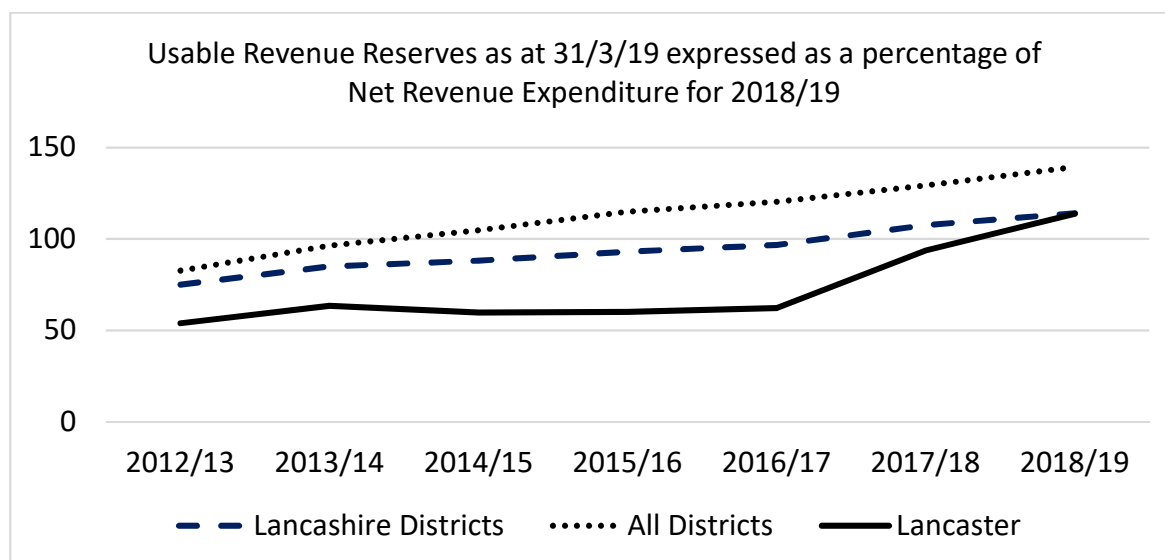
6. The Reserves Strategy covers the following aspects:
  - Information showing the current level of reserves, individually and in aggregate and an assessment of the adequacy of reserve levels.
  - A summary of the financial risks facing the Council, how it will mitigate these risks, and the minimum and maximum level of residual risk for which the council may need to hold funds in its reserves, particularly its General Fund and HRA reserves.
  - Consideration of the forward strategy for reserves needed to support the Medium Term Financial Strategy.
  - Summary of each individual reserve covering its purpose and governance arrangements for its use.
7. Reserves will be monitored throughout the year as part of the quarterly financial monitoring and the level of reserves reported as part of the year-end accounting processes.

**Level of reserves and principles to assess adequacy**

8. Within the existing statutory and regulatory framework, it is the responsibility of the Chief Financial Officer (at Lancaster this is the Financial Services Manager who is the Section 151 Officer) to advise the Council about the level of reserves that it should hold and to ensure that there are clear protocols for their establishment and use.
9. For clarity, within the legislation the minimum level of any reserve is not quantified. It is not considered appropriate or practical for the Chartered Institute of Public Finance and Accountancy (CIPFA), or other external agencies, to give prescriptive guidance on the minimum, or maximum, level of reserves required either as an absolute amount or a percentage of the budget. This is an assessment which the Council should make with advice from the Section 151 Officer.
10. At the end of the 2018/19 financial year, Lancaster City Council had levels of usable reserves as set out in the table below.

	2017/18 £000s	2018/19 £000s	Change £000
General Fund Reserve	5,067	5,714	647
Earmarked Revenue Reserves	11,869	14,843	2,974
Usable Capital Receipts	0	0	0
Capital Grants Unapplied	103	103	0
<b>Total General Fund Reserves</b>	<b>17,039</b>	<b>20,566</b>	<b>3,527</b>
HRA balance	2,017	2,235	218
Earmarked HRA Reserves	10,561	10,537	(24)
<b>Total HRA Reserves</b>	<b>12,578</b>	<b>12,772</b>	<b>194</b>

11. The table shows that reserves increased during 2018/19. This was mainly due to an increase in the business rates reserve from the Council's share of retained rates associated with business rates growth in the district. The increase in reserves is a significant boost to the Council's financial resilience.
12. Media focus on reserves has tended to focus on General Fund revenue reserves as it is these which provide the financial resilience to guard against unanticipated increases in expenditure or reductions in income.
13. The graph below shows the level of reserves at Lancaster City Council expressed as a percentage of net revenue expenditure compared with all other district councils.



14. Lancaster City Council has the equivalent of about one year's net revenue expenditure held in usable revenue reserves. In general terms, reserve levels should be adequate to meet any short term unanticipated financial shock.
15. In specific terms, it is important to assess the adequacy of reserves taking account of the financial assumptions underpinning the budget alongside a consideration of the authority's financial management arrangements. These include:

*Budget Assumptions*

- Levels of Government funding, council tax and business rates.
- The treatment of inflation and interest rates.
- Estimates of the level and timing of capital receipts.
- The treatment of demand led pressures.
- The treatment of planned efficiency savings/gains.
- The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments.
- The availability of other funds to deal with major contingencies and the adequacy of provisions.

*Financial Standing and Management*

- The overall financial standing of the authority (level of borrowing, debt outstanding, council tax collection rates, etc.).
- The authority's track record in budget and financial management including the robustness of the medium term financial plans.
- The authority's capacity to manage in-year budget pressures.
- The strength of the financial information and reporting arrangements.
- The adequacy of the authority's insurance arrangements to cover major unforeseen risks.

**General Fund Balance**

16. The general fund balance is an un earmarked revenue reserve and as such should be sufficient to cover all unanticipated expenditures or reductions in income that may arise so that the authority has sufficient balances to meet these in the medium term.
17. In calculating the minimum level of General Fund balance, an assessment of the risks that give rise to unanticipated expenditure or loss of income has been made and these are shown in the table below. The analysis shows that in the unlikely event of a 'perfect storm' of risks happening all within the next year then there are sufficient balances to meet all these risks. This would give the Council time to adapt to such risks in the medium term.

## APPENDIX D

Risk	Symptom of risk	Balance required £000
Increased demand for services	3% increase in net revenue expenditure	530
Recession results in reduced fees and charges income	10% reduction in major fees and charges income	1,300
Recession results in reduced council tax collection rates	3% reduction in collection rate	300
New Homes Bonus Scrapped	Significant reduction in funding income	1,300
Next year's budget savings not achieved	50% under achievement	250
Next year's commercial income target not achieved	30% under achievement	120
Natural disaster such as flood	Additional unanticipated expenditure	500
Uncertainty with respect to Brexit	Additional unanticipated expenditure	500
Aggregate overspend if all above risks were to happen		4,800
General Fund Balance as at 31/03/20		5,392

**HRA Balance**

18. The HRA balance and earmarked reserves are considered each year in conjunction with the annual budget at update of the 30 year business plan.

**Earmarked Reserves**

19. The Council holds a number of earmarked reserves, which it has chosen to set aside for one of the following purposes:

- To manage fluctuations in income or funding.
- To provide for some future anticipated expenditure for identified projects, particularly in respect of corporate priorities.
- To provide up-front costs which specifically result in future efficiencies, cost savings or increased income.
- To hold funding from other bodies, mainly Government, for specified purposes.

20. A schedule of earmarked reserves is included at the end of this document with details, for each reserve, showing its purpose. Specific issues arising from a review of earmarked reserves (see para. 21) are detailed in a reserves action plan shown below (para. 22).

21. The Financial Resilience Advisory Group (FRAG) has undertaken a review of usable reserves which has looked at each of the following areas:

- The reasons for holding reserves, ensuring that each reserve has a clear and unambiguous purpose which relates to the Council's operations and priorities.
- The appropriate level of reserves, both collectively and individually, ensuring that there is sufficient to cover future commitments and priorities whilst maintaining good levels of financial resilience.
- Authorisation processes for the use of reserves including the adequacy of reserve bid documents, Cabinet and Portfolio Holder as well as Officer accountabilities and the timing of reserve bids.
- Reporting on the levels of reserves in terms of financial reporting and performance reporting in respect of the effectiveness of reserves use.

22. The following actions are now proposed.

*Budget Support Reserve*

It is proposed that the reserve be named the Corporate Priorities reserve and its purpose be expanded to provide resources to help finance capacity or development and feasibility work in support of the Council's priorities as adopted by Council in January 2020. Furthermore, it is proposed to transfer the year end balances (and any future allocations) of the Canal Quarter, Capital Support, Economic Growth, Welfare Reforms, Morecambe Bay Area Action Plan, Amenity Improvements and Museums Acquisitions into the Corporate Priorities reserve. The rationale behind this is to ensure that all reserve bids are considered equally through the lens of the corporate priorities and are subjected to consistent rigour in the consideration and approval process.

*Business Rates Reserve*

The business rates reserve has collected all the gains from business rate growth which have accrued since the commencement of the localised business rates scheme. Its balance as at 31/3/19, at nearly £6.3m, now exceeds the amount required to support the budget over the medium term should business rates income fall to safety net levels. The calculation below shows the level of reserves that should be held to protect business rates income over the next four years.

	2020/21	2021/22	2022/23	2023/24
Difference between Safety Net and Baseline	430,556	409,227	417,412	425,760
Business Rates Growth	1,067,743	195,850	271,610	350,689
Total	1,498,300	605,077	689,022	776,449
Total over four-year period	3,568,848			

The difference between the existing balance on the Business Rates Reserve and the amount calculated above is £2,714,505. It is proposed to transfer this to the Corporate Priorities reserve. An annual review of the balance on the business rates reserve will take place at year end to determine adequacy of balances in the context of expected business rates incomes and calculated risks.

*Invest to Save Reserve*

It is proposed that the Invest to Save Reserve should be used for all projects which arise from the Funding the Future Strategy (incorporating efficiency reviews, commercialisation and property investment) and any other project which is aimed at delivering efficiencies, reducing costs or increasing income. The bid document (covered in paragraph 23 and appendix two) requires a financial yield/return calculation to be appended to the bid document.



*Reserves Bid Document*

23. All future bids for reserves use will be supported by a bid document (included as appendix two) which sets out in detail the resources required, an action plan and outcomes and measures which reconcile to corporate priorities.

*Reserves Bid Authorisation*

24. Reserve bids decision limits will be as follows:
- Up to £25k – to be agreed by Portfolio Holder in consultation with relevant Director. Bid should have been pre-approved by Cabinet.
  - £25k to £100k – to be agreed by Portfolio Holder in consultation with relevant Director. Individual Cabinet Member Decision to be published. Bid should have been pre-approved by Cabinet.
  - Over £100k – to be agreed by Cabinet Meeting.

The pre-approval concept, which should apply to all financial bids is explained overleaf.

*Reserves Expenditure Monitoring*

25. The monitoring of reserves will be incorporated into the quarterly performance and financial monitoring reporting process.

**Pre-Approval**

The annual budget framework process will consider revenue, capital and reserves bids in the context of corporate priorities. Where bids are considered at times other than the annual Budget Council it is just as important that these can show that they meet these priorities. This will be achieved if the projects are 'pre-approved' by Cabinet, usually when corporate strategies are considered and approved. Any financial bids made during the financial year (up to £100k in the case of reserves) can be approved by the relevant Portfolio Holder, supported by the relevant bid document, as long as the project has been previously identified and pre-approved in a report to Cabinet.

This will ensure that governance transparency is balanced with speed of decision.

It is important to note that the pre-approval process is not an approval to spend but rather an approval to bring forward a reserves bid which is subject to the process set out within paragraphs 23 and 24 above.

## Schedule of Earmarked Reserves

Reserve	Purpose of the Reserve
Business Rates Retention	To support the budget in the event that Business Rates Income does not reach budgeted levels or falls to Safety Net, due to fluctuations in appeals or other reductions in net income, and to hold any unbudgeted (surplus) rating income prior to use.
Planning Income	To hold surplus income generated as a result of the Government's 20% increase in planning fee income. To be used to fund additional costs/growth relating to Planning functions (in line with any regulatory guidance).
<b>Canal Quarter</b>	<b>To cover commissioning costs relating to external support and advice for the CCN development.</b>
<b>Capital Support</b>	<b>To cover contractual liabilities on West End properties and to provide cover for any revenue costs arising through shortfalls in capital financing (i.e. from capital receipts).</b>
<b>Economic Growth</b>	<b>To support economic growth activities in the district.</b>
Elections	To even out the cost of holding City Council elections every four years.
Local Plan	To support the adoption of the Local Plan.
<b>Morecambe Area Action Plan</b>	<b>To support implementation of the MAAP (Cabinet report 11 February 2014).</b>
Renewals	To provide for the renewal (replacement or upgrade) of existing facilities and infrastructure needed for service delivery, such as vehicles, plant and equipment.
<b>Welfare Reforms</b>	<b>To help manage the cost and administration pressures of any welfare reforms (in particular, localisation of council tax support and Universal Credit).</b>
<b>Amenity Improvements</b>	<b>To provide public realm amenity improvements.</b>
Corporate Priorities (previously Budget Support)	To provide resources to help finance capacity / feasibility / review and other development work in support of the Council's corporate priorities as adopted by Council in January 2020.
Corporate Property	To provide for feasibility studies, surveys and repair works to municipal buildings and facilities (in particular, for those that cannot be capitalised as part of the current works programme or are not otherwise budgeted for). In addition, to provide cover for any in-year rental shortfalls.
Invest to Save	To help finance any Invest to Save initiatives.
Restructure	To fund the costs associated with early termination of staff (in the interests of efficiency / redundancy) / Pay and Grading Review.
Revenue Grants Unapplied	Grants, usually for Government, which are provided for an expressed purpose.
Homelessness Support	To hold related government grants or other specific external funding until needed for homelessness prevention measures.

## APPENDIX D

Reserve	Purpose of the Reserve
S106 Commuted Sums	Three separate reserves to receive all sums paid to the Council from third parties for the maintenance of (1) open spaces adopted by the City Council (2) affordable housing schemes (3) other amenities such as cycle paths.
<b><i>Museums Acquisitions</i></b>	<b><i>To acquire exhibition pieces for the City's museums.</i></b>
Held in Perpetuity	Two small reserves that have a specific purpose which are administered by the Council. These are Graves Maintenance and Marsh Capital

***It is proposed (see para 22) to transfer the year end balances (and any future allocations) of those reserves in bold italics into the Corporate Priorities reserve***

## Appendix Two – Reserves Bid Document (project is for illustrative purposes)

<b>Description of Project</b>	<p>Pilot project for ‘proof of concept’ to test agile working.</p> <p>To set up the old telephony room in Lancaster Town Hall as an agile working space.</p> <p>Project will deliver new ICT, furniture, decoration, electrics, lighting in order to test prior to larger whole building project. It will also allow for new policies, procedures and cultural factors to be tested. These include managing by results (as opposed to presence) which allow for working from home.</p>
<b>Amount of Reserve Bid Reserve</b>	<p>Circa £36k</p> <p>Budget Support – project will support key corporate project which will address the A Smart and Forward Thinking and Climate Change Emergency priorities</p>
<b>Strategy Link</b>	Smart and Forward Thinking Council
<b>Corporate Project Link</b>	CS14 – Agile Project

<b>Type of Expenditure (and budget code)</b>	<b>Amount</b>	<b>Details</b>
Furniture Costs	£19,500	Quote from Senator
ICT costs	£7,989	8 x Dell Latitude 5290 with travel keyboard and active pen
Redecoration Costs	£5,000 (est)	To make good after lighting and electrical works, including new flooring
Electrical Works	£2,880 + £2,500 (est)	Additional network cabling and power sockets added to pilot room
Lighting Costs	£12,000	New lighting in pilot room, as proposed for many areas of LTH
<b>Total</b>	<b>£49,869</b>	
Income	(£14,000)	Funding From Existing Budgets
<b>Net Expenditure</b>	<b>£35,869</b>	

**Action Plan**

<b>What</b>	<b>Who</b>	<b>When</b>
Detailed Agile action plan has been produced as part of the project including HR agile policies and intranet page and staff engagement		
Electrics completed	Sarah	September 2019
Lighting completed	Sarah	September 2019
Furniture procurement exercise completed	Sarah	September 2019
Additional agile ICT for pilot users	Joe	September 2019
Decoration completed	Sarah	October 2019
Furniture delivered and installed	Sarah	October 2019
Pilot space opens for use	Claire / Sarah	November 2019
Business Case for whole of LTH completed based on pilot findings	Claire / Sarah / Elaine	February 2020

**Outcomes and Impacts arising from Project**

<b>Measure</b>	<b>Baseline</b>	<b>Target</b>
Reduced travel from home to office (time spent for each individual)	Survey of those involved to find out their current travel time (to be carried out in Sept/Oct 2019)	20% reduction
Reduced travel from home to office (CO2 reduction)	Calculation based on km travelled to work currently (where using motor vehicle)	20% reduction
Reduced amount of printing and paper	TBD	20% reduction in printing and reduced paper storage (TBC)
Energy Savings	Calculated from average cost per square meter in LTH	Reduced heating and electricity (assuming 2 offices are merged into 1)
Contentment with technology set up	Determined by individuals using sliding scale	More contented
Productivity increased	Determined by individuals using sliding scale	More productive
Staff Wellbeing – reduced stress (through more empowerment)	Determined by individuals using sliding scale	Reduced stress
Contentment with working environment	Determined by individuals using sliding scale	More contented

**Has Social Value matrix been completed (attach to bid form)?** YES / NO

**For Invest to Save projects has the financial yield return schedule been completed (attach to bid form)** YES / NO

**Project Officer Sign Off:**

**Director Sign Off:**

**Portfolio Holder Sign Off:**  
**Finance Portfolio Sign Off:**

# General Fund Capital Programme

Cabinet 11 February 2020

Service / Scheme	2019/20			2020/21			2021/22			2022/23			2023/24			2024/25			5 YEAR PROGRAMME		
	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Total Gross Programme	Total External Funding	Total Net Programme
<b>Communities and Environment</b>	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Vehicle Renewals	94,000		94,000	3,595,000		3,595,000	515,000		515,000	787,000		787,000							4,991,000		4,991,000
Electronic Vehicle Charging Points	14,000	(14,000)																	14,000	(14,000)	0
Happy Mount Park Pathway Replacements	112,000		112,000																112,000		112,000
Cable Street Car Park Extension	4,000		4,000																4,000		4,000
Solar installation Salt Ayre Phase 1				1,400,000		1,400,000													1,400,000		1,400,000
Vehicle Maintenance Unit Plant	75,000		75,000																75,000		75,000
Beech Avenue Play Area	58,000	(37,000)	21,000																58,000	(37,000)	21,000
Far Moor Playing Fields s106 Scheme				70,000		70,000													70,000		70,000
Disabled Facilities Grants	2,208,000	(2,208,000)	0	2,600,000	(2,600,000)	0	1,890,000	(1,890,000)	0	1,890,000	(1,890,000)	0	1,890,000	(1,890,000)	0	1,890,000	(1,890,000)	0	12,368,000	(12,368,000)	0
Salt Ayre Play Area and Outdoor Café	152,000		152,000																152,000		152,000
Half Moon Bay Car Park Extension				60,000		60,000													60,000		60,000
Salt Ayre Boiler Replacement				300,000		300,000													300,000		300,000
2 x Electric Refuse Vehicles				400,000		400,000													400,000		400,000
Pool Cars				174,000		174,000													174,000		174,000
Salt Ayre Replacement Equipment				648,000		648,000	1,109,000		1,109,000	511,000		511,000	124,000		124,000	38,000		38,000	2,430,000		2,430,000
One Million Trees				25,000		25,000	25,000		25,000	30,000		30,000	30,000		30,000				110,000		110,000
Mellishaw Park				240,000		240,000	240,000		240,000	240,000		240,000	240,000		240,000				960,000		960,000
Electronic Vehicle Charging Points - Phase 2				58,000	(30,000)	28,000													58,000	(30,000)	28,000
<b>Economic Growth and Regeneration</b>																					
Sea & River Defence Works & Studies	4,350,000	(3,845,000)	505,000	5,189,000	(4,766,000)	423,000	3,000	(3,000)	0										9,542,000	(8,614,000)	928,000
Amenity Improvements (Morecambe Promenade)	1,000		1,000																1,000		1,000
Lancaster Square Routes	8,000	(3,000)	5,000	26,000	(26,000)	0													34,000	(29,000)	5,000
Lancaster District Empty Homes Partnership	4,000		4,000	73,000		73,000													77,000		77,000
S106 Highways Works	70,000		70,000																70,000		70,000
Coastal Revival Fund - Morecambe Co-Op Building	41,000	(41,000)	0																41,000	(41,000)	0
Coastal Revival Fund - Morecambe Winter Gardens	9,000	(9,000)	0	86,000	(86,000)	0													95,000	(95,000)	0
Hale Carr Lane Cemetery Chapel	260,000		260,000	290,000		290,000													550,000		550,000
City Museum Roof & Boiler	126,000		126,000	6,000		6,000													132,000		132,000
Lancaster Town Hall Steps	40,000		40,000																40,000		40,000
Palatine Recreation Ground Pavillion	11,000		11,000	114,000		114,000													125,000		125,000
Queen Victoria Memorial	81,000		81,000	169,000		169,000													250,000		250,000
Royal Albert Playing Field Pavillion	7,000		7,000	75,000		75,000													82,000		82,000
Ryelands Park - Ryelands House	32,000		32,000																32,000		32,000
Winter Gardens Loan				103,000		103,000													103,000		103,000
<b>Corporate Services</b>																					
ICT Systems, Infrastructure & Equipment	197,000		197,000	219,000		219,000	105,000		105,000	337,000		337,000							858,000		858,000
ICT Laptop replacement & e-campus screens				60,000		60,000	30,000		30,000	30,000		30,000	30,000		30,000				150,000		150,000

# General Fund Capital Programme

Cabinet 11 February 2020

Service / Scheme	2019/20			2020/21			2021/22			2022/23			2023/24			2024/25			5 YEAR PROGRAMME		
	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Total Gross Programme	Total External Funding	Total Net Programme
<b>Development Pool</b>																					
Lancaster Town Hall Phase 3				485,000		485,000													485,000		485,000
Lancaster Town Hall Second Lift & Associated Works				622,000		622,000													622,000		622,000
Palatine Hall				122,000		122,000													122,000		122,000
Cable Street Christmas Lights				24,000		24,000													24,000		24,000
Heysham Gateway - Demolition & Removal of Tanks				487,000		487,000													487,000		487,000
Demolition of Edward Street Dance Studio	19,000		19,000	90,000		90,000													109,000		109,000
ICT Telephony				200,000		200,000													200,000		200,000
Williamson Park				1,000,000		1,000,000													1,000,000		1,000,000
Energy Efficiency Works - Williamson Park Boiler				311,000		311,000													311,000		311,000
Investment Acquisitions (Council December 2019)	15,000,000		15,000,000																15,000,000		15,000,000
1 Lodge Street Urgent Structural Repairs	3,000		3,000	497,000		497,000													500,000		500,000
Customer Contact System				115,000		115,000	85,000		85,000										200,000		200,000
Morecambe Co-op Building Renovation				250,000		250,000	175,000		175,000										425,000		425,000
Lancaster Heritage Action Zone				132,000		132,000	348,000		348,000	962,000		962,000	208,000		208,000				1,650,000		1,650,000
Museums Redevelopment				142,000		142,000	140,000		140,000	110,000		110,000	400,000		400,000				792,000		792,000
LLFN network bids				5,350,000	(4,547,000)	803,000	5,785,000	(4,917,000)	868,000	421,000	(358,000)	63,000							11,556,000	(9,822,000)	1,734,000
Digital Strategy Collaboration Space							300,000		300,000										300,000		300,000
Future High Streets				274,000		274,000	750,000		750,000	1,000,000		1,000,000	1,000,000		1,000,000	1,000,000		1,000,000	4,024,000		4,024,000
Improvements to Ashton Hall				150,000	(30,000)	120,000	150,000	(10,000)	140,000	150,000		150,000							450,000	(40,000)	410,000
Canal Quarter							4,000,000		4,000,000	4,000,000		4,000,000							8,000,000		8,000,000
Heysham Gateway Development				13,000		13,000	1,500,000		1,500,000										1,513,000		1,513,000
General Fund Housing including Canal Quarter				3,000,000		3,000,000	3,000,000		3,000,000	5,000,000		5,000,000	5,000,000		5,000,000				16,000,000		16,000,000
Property Investment Acquisitions				16,000,000		16,000,000	16,000,000		16,000,000	16,000,000		16,000,000	16,000,000		16,000,000				64,000,000		64,000,000
<b>GENERAL FUND CAPITAL PROGRAMME</b>	<b>22,976,000</b>	<b>(6,157,000)</b>	<b>16,819,000</b>	<b>45,244,000</b>	<b>(12,085,000)</b>	<b>33,159,000</b>	<b>36,150,000</b>	<b>(6,820,000)</b>	<b>29,330,000</b>	<b>31,468,000</b>	<b>(2,248,000)</b>	<b>29,220,000</b>	<b>24,922,000</b>	<b>(1,890,000)</b>	<b>23,032,000</b>	<b>2,928,000</b>	<b>(1,890,000)</b>	<b>1,038,000</b>	<b>163,688,000</b>	<b>(31,090,000)</b>	<b>132,598,000</b>
<b>Financing :</b>																					
Capital Receipts			(100,000)			(13,000)			(13,000)			(13,000)			(13,000)			(13,000)			(152,000)
Direct Revenue Financing			0			0			0			0			0			0			0
Earmarked Reserves			(588,000)			(943,000)			(450,000)			(390,000)			(364,000)			(38,000)			(2,735,000)
<b>Increase / (Reduction) in Capital Financing Requirement (CFR) (Underlying Change in Borrowing Need)</b>			<b>16,131,000</b>			<b>32,203,000</b>			<b>28,867,000</b>			<b>28,817,000</b>			<b>22,655,000</b>			<b>987,000</b>			<b>129,711,000</b>

## TREASURY MANAGEMENT FRAMEWORK DOCUMENTS AND RESPONSIBILITIES

For consideration by Cabinet 11 February 2020

DOCUMENT	RESPONSIBILITY
<b>CODE of PRACTICE</b>	To be adopted by Council (as updated 2017).
<b>POLICY STATEMENT</b>	The Code of Practice recommends a specific form of words to be used, to set out the Council's objectives within the Policy Statement for its Treasury Management activities. It is the responsibility of Council to approve this document, and then note it each year thereafter if unchanged. This reflects the revised code issued in 2017.
<b>TREASURY MANAGEMENT STRATEGY</b>	The Strategy document breaks down the Policy Statement into detailed activities and sets out the objectives and expected market forecasts for the coming year. This also contains all the elements of an Investment Strategy as set out in the Government guidance; it is the responsibility of Council to approve this document, following referral from Cabinet.
<b>TREASURY MANAGEMENT INDICATORS</b>	These are included within the Strategy Statement as part of the framework within which treasury activities will be undertaken. It is the responsibility of Council to approve these limits.
<b>INVESTMENT STRATEGY</b>	The Investment Strategy is included within the Treasury Management Strategy. It states which types of investments the Council may use for the prudent management of its treasury balances during the financial year. Under existing guidance the Secretary of State recommends that the Strategy should be approved by Council.
<b>TREASURY MANAGEMENT PRACTICES</b>	<p>These are documents that set out the procedures that are in place for the Treasury Management function within the Council. The main principles were approved by Cabinet following initial adoption of the Code of Practice; they include:</p> <ul style="list-style-type: none"> <li>TMP 1: Risk management</li> <li>TMP 2: Performance measurement.</li> <li>TMP 3: Decision-making and analysis.</li> <li>TMP 4: Approved instruments, methods &amp; techniques.</li> <li>TMP 5: Organisation, clarity and segregation of responsibilities, and dealing arrangements.</li> <li>TMP 6: Reporting requirements &amp; management information requirements.</li> <li>TMP 7: Budgeting, accounting &amp; audit.</li> <li>TMP 8: Cash &amp; cash flow management.</li> <li>TMP 9: Money laundering.</li> <li>TMP 10: Staff training &amp; qualifications.</li> <li>TMP 11: Use of external service providers.</li> <li>TMP 12: Corporate governance.</li> </ul> <p>It is the Section 151 Officer's responsibility to maintain detailed working documents and to ensure their compliance with the main principles. The content of the TMPs will be reviewed during 2020/21, in view of the recent changes to the treasury management regulatory framework.</p>
<b>FINANCIAL REGULATIONS</b>	The Financial Regulations must contain four specific clauses. These are substantially unchanged in the 2017 Code; it is the Section 151 Officer's responsibility to ensure their inclusion.



**LANCASTER CITY COUNCIL**  
**TREASURY MANAGEMENT POLICY STATEMENT**

**For consideration by Cabinet**  
**11 February 2020**

This reflects the revised CIPFA Treasury Management Code of Practice (Code updated in 2017).

1. This organisation defines its treasury management activities as:  
  
“The management of the authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.
  
2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation and any financial instruments entered into to manage these risks.
  
3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

## Treasury Management Strategy 2020/21 to 2023/24

For Consideration by Cabinet 11 February 2020

### 1 INTRODUCTION

#### 1.1 Background

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

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

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure) and are separate from the day to day treasury management activities.

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

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

## 1.2 Reporting Requirements

### Capital Strategy

The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2020-21, all local authorities to prepare an additional report, a capital strategy report, which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy will show:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (MRP policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.

If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are show throughout this report.

## **Treasury Management Reporting**

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

**Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report covers:

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

**A mid-year treasury management report** – This will update Members with the progress of the treasury position, amending prudential indicators as necessary, and whether any policies require revision.

**An annual treasury report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

In addition, Members will receive high level update reports for Quarters 1 and 3.

**Scrutiny** - The above reports are required to be adequately considered and scrutinised before being presented to Council. This is undertaken by Cabinet and the Budget and Performance Panel.

### **1.3 Treasury Management Strategy for 2020/21**

The strategy for 2020/21 covers two main areas:

#### **Capital Issues**

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

#### **Treasury Management Issues**

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

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, Government MRP Guidance, the CIPFA Treasury Management Code and Government Investment Guidance.

## **1.4 Training**

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate associated training. This especially applies to Members responsible for scrutiny. A training session was held for members on 5 December 2019 supplemented by further internal briefings on 16 and 22 January 2020. The training needs of treasury management Officers are periodically reviewed.

## **1.5 Treasury Management Consultants**

The Council uses Link Asset Services, Treasury solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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

The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments such as investment properties. The commercial type investments require specialist advisers. The Council used Carigiet Cowan Chartered Surveyors in relation to this activity.

## **2 CAPITAL PRUDENTIAL INDICATORS 2019/20 – 2023/24**

The Council's capital expenditure plans are the key driver of treasury management activity. The plans are reflected in various prudential indicators, as determined under regulation, to assist Members in their overview of such capital expenditure planning.

### **2.1 Capital Expenditure**

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

The table below provides that summary, showing how the plans are being financed by capital or revenue resources. Any shortfall of resources results in an underlying borrowing or financing need.

Capital expenditure	2018/19 Actual £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
General Fund	7.27	7.98	29.24	20.15	15.47	8.92
Housing Revenue Account (HRA)	3.99	4.77	4.12	4.21	4.23	4.06
Commercial activities/non-financial investments*	0.00	15.00	16.00	16.00	16.00	16.00
<b>Total</b>	<b>11.26</b>	<b>27.75</b>	<b>49.36</b>	<b>40.36</b>	<b>35.70</b>	<b>28.98</b>
<b>Financed by:</b>						
Capital receipts	(0.37)	(0.59)	(0.57)	(0.57)	(0.57)	(0.57)
Capital grants	(4.86)	(6.17)	(12.09)	(6.82)	(2.25)	(1.89)
Capital reserves	(4.43)	(4.86)	(4.51)	(4.10)	(4.06)	(3.86)
Revenue	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
<b>Net financing need for the year</b>	<b>1.60</b>	<b>16.13</b>	<b>32.19</b>	<b>28.87</b>	<b>28.82</b>	<b>22.66</b>

\*Commercial activities/non-financial investments related to areas such as capital expenditure on property investments

The net financing need for commercial activities/non-financial investments included in the above table against expenditure is shown below:

Commercial activities/non-financial	2018/19 Actual £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2022/23 Estimate £m
Capital Expenditure	0.00	15.00	16.00	16.00	16.00	16.00
Financing Costs	0.00	0.00	0.72	1.04	1.04	1.04
<b>Net financing need for the year</b>	<b>0.00</b>	<b>15.00</b>	<b>16.72</b>	<b>17.04</b>	<b>17.04</b>	<b>17.04</b>
Percentage of total net financing need %	<b>0.00</b>	<b>92.99</b>	<b>51.92</b>	<b>59.02</b>	<b>59.13</b>	<b>75.20</b>

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

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total amount of capital expenditure (including that from prior years) that has not yet been paid for from either revenue or capital

resources. It is essentially a measure of the Council's underlying need to borrow. Any capital expenditure, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely. This is because the Minimum Revenue Provision (MRP), which is a statutory annual charge to revenue, broadly reduces the borrowing need in line with each asset's life.

The CFR includes any other long term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no leases within the CFR.

Members are asked to approve the CFR projections below:

£m	2018/19 Actual £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
<b>Capital Financing Requirement</b>						
CFR – Non Housing	43.55	43.33	57.67	68.00	77.91	81.25
CFR – Housing	39.34	38.29	37.25	36.21	35.17	34.13
CFR – Commercial activities/non-financial investments	0.00	15.00	30.75	46.19	61.62	77.06
<b>Total CFR</b>	<b>82.89</b>	<b>96.62</b>	<b>125.67</b>	<b>150.40</b>	<b>174.70</b>	<b>192.44</b>
<b>Movement in CFR</b>						
Non Housing	(0.06)	(0.22)	14.34	10.33	9.91	3.34
Housing	(1.06)	(1.04)	(1.04)	(1.04)	(1.04)	(1.04)
Commercial activities/non-financial investments	0.00	15.00	15.75	15.43	15.43	15.43
<b>Net Movement in CFR</b>	<b>(1.12)</b>	<b>13.74</b>	<b>29.05</b>	<b>24.72</b>	<b>24.30</b>	<b>17.73</b>

<b>Movement in CFR represented by</b>						
Net financing need for the year (above) re Non Housing	1.60	16.13	32.20	28.87	28.82	22.66
Less MRP/VRP and other financing movements	(2.72)	(2.39)	(3.15)	(4.14)	(4.52)	(4.93)
<b>Net Movement in CFR</b>	<b>(1.12)</b>	<b>13.74</b>	<b>29.05</b>	<b>24.73</b>	<b>24.30</b>	<b>17.73</b>

.A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures and details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Authority's remaining activity.

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

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

Government Regulations require full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision being made. In approving this Strategy, Council approves the following MRP Statement:

From 1 April 2008 for all unsupported borrowing the MRP will be:

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

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

In line with Government guidance, the MRP in respect of capital expenditure incurred before 01 April 2008 will be charged over a period of 60 years.

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

Repayments included in annual finance leases are applied as MRP.

**MRP Overpayments** – A change introduced by the revised Government MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision, voluntary revenue provision or overpayments, can, if needed be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until 31 March 2019 the total VRP overpayments were £7.28m

### 2.4 Core Funds and Expected Investment Balances

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



Year End Resources	2018/19 Actual £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Fund balances / reserves	33.33	30.67	28.09	27.79	27.71	28.06
Capital receipts	0.00	0.00	0.00	0.00	0.00	0.00
Provisions	4.04	4.04	4.04	4.04	4.04	4.04
<b>Total core funds</b>	<b>37.37</b>	<b>34.71</b>	<b>32.13</b>	<b>31.83</b>	<b>31.75</b>	<b>32.10</b>
Working capital*	9.18	9.18	9.18	9.18	9.18	9.18
Under borrowing	(19.72)	(34.50)	(31.59)	(32.35)	(31.69)	(30.46)
<b>Expected investments</b>	<b>26.83</b>	<b>9.39</b>	<b>9.72</b>	<b>8.66</b>	<b>9.24</b>	<b>10.82</b>

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

## 2.5 Affordability Prudential Indicators

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

## 2.6 Ratio of Financing Costs to Net Revenue Stream

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

	2018/19 Actual %	2019/20 Estimate %	2020/21 Estimate %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %
General Fund	17.04	16.53	20.11	26.31	30.05	32.88
HRA	21.26	20.88	19.96	19.11	18.31	17.56
Commercial activities/non-financial investments	0.00	0.00	64.27	79.09	83.24	86.02

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

## 3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

### 3.1 Current Portfolio Position

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need (the Capital Financing Requirement or CFR), highlighting any over or under borrowing.

	2018/19 Actual £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
<b>External Debt</b>						
Debt at 1 April	64.21	63.17	62.13	94.09	118.05	143.01
Expected change in Debt	(1.04)	(1.04)	(1.04)	(1.04)	(1.04)	(1.04)
Other long-term liabilities (OLTL)	0.00	0.00	0.00	0.00	0.00	0.00
Expected change in OLTL	0.00	0.00	33.00	25.00	26.00	20.00
<b>Actual gross debt at 31 March</b>	<b>63.17</b>	<b>62.13</b>	<b>94.09</b>	<b>118.05</b>	<b>143.01</b>	<b>161.97</b>
<b>The Capital Financing Requirement</b>	<b>82.89</b>	<b>96.62</b>	<b>125.68</b>	<b>150.40</b>	<b>174.70</b>	<b>192.43</b>
<b>Under Borrowing</b>	<b>(19.72)</b>	<b>(34.50)</b>	<b>(31.59)</b>	<b>(32.35)</b>	<b>(31.69)</b>	<b>(30.46)</b>

Within the above figures the level of debt relating to commercial activities/non financial investment is:

	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
<b>External Debt for commercial activities / non-financial investments</b>						
Actual debt at 31 March £m	0.00	0.00	16.00	32.00	48.00	64.00
Percentage of total external debt %	0.00	0.00	17.01	27.11	33.57	39.52

There are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2020/21 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

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

### 3.2 Treasury Indicators: Limits to Borrowing Activity

#### The Operational Boundary

This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher

depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Debt*	81.62	94.92	104.21	113.08	115.37
Other long term liabilities	0.00	0.00	0.00	0.00	0.00
Commercial activities/non-financial investments	15.00	30.75	46.19	61.62	77.06
<b>Total</b>	<b>96.62</b>	<b>125.67</b>	<b>150.40</b>	<b>174.70</b>	<b>192.43</b>

- *The term debt in this instance is CFR minus the effect of leases*

### The Authorised Limit for External Debt

A further key prudential indicator represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. Council is asked to approve the following authorised limit:

Authorised Limit	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Debt	97.00	110.00	119.00	128.00	130.00
Other long term liabilities	1.00	1.00	1.00	1.00	1.00
Commercial activities/non-financial investments	15.00	31.00	46.00	62.00	77.00
<b>Total</b>	<b>113.00</b>	<b>142.00</b>	<b>166.00</b>	<b>191.00</b>	<b>208.00</b>

Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This limit is currently:

HRA Debt Limit	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
HRA debt cap*	60.19	60.19	60.19	60.19	60.19
HRA CFR	38.29	37.25	36.21	35.17	34.13
<b>HRA headroom</b>	<b>21.90</b>	<b>22.94</b>	<b>23.98</b>	<b>25.02</b>	<b>26.07</b>

- **Abolition of the HRA debt cap.** In October 2018 prime Minister Theresa May announced a policy change of abolition of the HRA debt cap. The Chancellor announced in the Budget that the applicable date was 29.10.18

### 3.3 Prospects for Interest Rates

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

	Mar-20	Mar-21	Mar-22	Mar-23
Bank Rate	0.75	0.75	1.00	1.25
3 Month LIBID	0.70	0.90	1.20	1.30
6 Month LIBID	0.80	1.00	1.40	1.50
12 Month LIBID	0.90	1.20	1.60	1.70
5yr PWLB rate	2.30	2.50	2.90	3.10
10yr PWLB rate	2.50	2.70	3.10	3.30
25yr PWLB rate	3.00	3.30	3.70	3.90
50yr PWLB rate	2.90	3.20	3.60	3.80

*The above forecasts have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the prime minister has pledged.*

*2019 was a weak year for UK economic growth as political and Brexit uncertainty depressed confidence. It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% during the year. However, during January 2020, financial markets were predicting a 50:50 chance of a cut in Bank Rate at the time of the 30 January MPC meeting. Admittedly, there had been plenty of downbeat UK economic news in December and January which showed that all the political uncertainty leading up to the general election, together with uncertainty over where Brexit would be going after that election, had depressed economic growth in quarter 4 of 2019. However, that downbeat news was backward looking; more recent economic statistics and forward looking business surveys, all pointed in the direction of a robust bounce in economic activity and a recovery of confidence after the decisive result of the general election removed political and Brexit uncertainty. The MPC clearly decided to focus on the more recent forward-looking news, rather than the earlier downbeat news, and so left Bank Rate unchanged. Provided that the forward-looking surveys are borne out in practice in the coming months, and the march Budget delivers*

*With a fiscal boost, then it is expected that Bank Rate will be left unchanged until after the December trade deal deadline. However, the MPC is on alert that if the surveys prove optimistic and/or the Budget disappoints, then they may still take action and cut Bank Rate in order to stimulate growth.*

*Economic and interest rate forecasting remains difficult with so many external influences weighing on UK gilt yields and PWLB rates. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.*

### **Investment and borrowing rates**

- *Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with and agreed Brexit, then there is upside potential for earnings.*
- *Borrowing interest rates were on a major falling trend during the first half of 2019-20 but then jumped up by 100bps on 9.10.19. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, the unexpected increase of 100bps in PWLB rates requires a major rethink of local authority treasury management strategy and risk management. As Link Asset Services' long-term forecast for Bank Rate is 2.25%, and all PWLB certainty rates are close to or above 2.25%, there is little value in borrowing from the PWLB at present. Accordingly the Council will reassess its risk appetite in terms of either seeking cheaper alternative sources of borrowing or switching to short term borrowing in the money markets until such time as the Government might possibly reconsider the margins charged over gilt yields. Longer term borrowing could also be undertaken for the purposes of certainty where that is desirable.*
- *While this authority will not be able to avoid borrowing to finance £104m, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns) to any new short or medium-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.*

### **3.4 Borrowing Strategy**

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's provisions, reserves, balances and working capital has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Section 151 Officer, under delegated powers will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then borrowing would be postponed.*
- *if it was felt that there was a significant risk of a much sharper RISE borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would be re-appraised*

Any decisions will be reported to Cabinet at the next available opportunity.

### 3.5 Maturity Structure of Borrowing

These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.

The Council is asked to approve the following indicators and limits:

<b>Maturity structure of fixed interest rate borrowing 2019/20</b>	<b>£m</b>	<b>Current %</b>	<b>Lower %</b>	<b>Upper %</b>
Under 12 months	1.04	1.68	0	100
12 months and within 24 months	1.04	1.68	0	100
24 months and within 5 years	3.12	5.02	0	100
5 years and within 10 years	5.20	8.37	0	100
10 years and within 20 years	10.40	16.74	0	100
20 years and within 30 years	2.12	3.40	0	100
30 years and within 40 years	39.20	63.11	0	100
40 years and within 50 years	0.00	0.00	0	100

### 3.6 Policy on Borrowing in Advance of Need

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

### 3.7 Debt Rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100b ps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.

If rescheduling was done it would be reported to Cabinet at the earliest meeting following its action.

## 4 ANNUAL INVESTMENT STRATEGY

### 4.1 Investment Policy

The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy (a separate report).

Council's investment policy has regard to the following:

- MHCLG Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities will be security first, liquidity second, then return.

The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long term ratings.
2. **Other Information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this the council will engage with its advisors to maintain a monitor on market pricing such as "**credit default swaps**" and overlay that information on top of the credit ratings.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. The authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in **annex B2** under the categories of 'specified' and 'non-specified' investments.
  - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
  - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being 20% of the total investment portfolio. (see paragraph 4.3)
6. **Lending limits** (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2
7. **Transaction limits** are set for each type of investment in 4.2
8. The Council will set a limit for the amount of its investments which are invested for **longer than 365 days** (see paragraph 4.4)
9. Investments will only be placed with counterparties from countries with a specified minimum sovereign rating (see paragraph 4.3)
10. The Council has engaged **external consultants** (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
11. All investments will be denominated in **sterling**.
12. As a result of the change in accounting standards for 2019/20 under IFRS9, the authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund

The Council will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

#### **Changes in risk management policy from last year.**

The above criteria are unchanged from last year

## **4.2 Creditworthiness Policy**

This Council will apply the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to



determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- **Yellow (Y)** up to but less than 1 year
- **Dark pink (Pi1)** liquid - Ultra-Short Dated Bond Funds with a credit score of 1.25
- **Light pink (Pi2)** liquid – Ultra-Short Dated Bond Funds with a credit score of 1.5
- **Purple (P)** up to but less than 1 year
- **Blue (B)** up to but less than 1 year (only applies to nationalised or part- nationalised UK Banks)
- **Orange (O)** up to but less than 1 year
- **Red (R)** 6 months
- **Green (G)** 100 days
- **No colour (N/C)** not to be used



	Colour (and long term rating where applicable)	Money Limit	Time Limit
Banks /UK Govt. backed instruments*	yellow	£12m	≤1 year
Banks	purple	£6m	≤1 year
Banks	orange	£6m	≤1 year
Banks – part nationalised	blue	£12m	≤1 year
Banks	red	£6m	≤6 mths
Banks	green	£3m	≤100 days
Banks	No colour	Not to be used	
Limit 3 category – Council’s banker (for non-specified investments)	n/a	£1m	1 day
DMADF	AAA	unlimited	≤6 months
Local authorities**	n/a	£12m	≤1 year
	Fund rating	Money and/or % Limit	Time Limit
Money Market Funds CNAV	AAA	£6m	liquid
Money Market Funds LVNAV	AAA	£6m	liquid
Money Market Funds VNAV	AAA	£6m	liquid

Ultra-Short Dated Bond Funds with a credit score of 1.25	Dark pink / AAA	£6m	liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	Light pink / AAA	£6m	liquid

\* the yellow colour category includes UK Government debt, or its equivalent, collateralised deposits where the collateral is UK Government debt –see Annex B2.

\*\* Under UK Statute the loans to any Council have priority and first call over the revenues of the authority, which under-writes any concerns over the ability of a local authority to repay its debt. As the UK Government also acts as a lender of last resort, the ranking of UK local authorities is usually considered equivalent to that of the UK Government. As the UK Government has a long term rating of AA+, this is usually applied to local authorities and as such all local authorities have equal rating.

The creditworthiness service uses a wider array of information other than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria (built in) that the Council use will be a Short Term rating of F1 and a Long Term rating of A- (Fitch, or equivalents). There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the creditworthiness service.

- If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- In addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition, the Council will also use to some limited extent market data and market information, information on sovereign support for banks and the credit ratings of that supporting government to help support its decision making process.

### **UK banks – ring fencing**

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure.

In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

### 4.3 Country Limits

Due care will be taken to consider the exposure of the Council’s total investment portfolio to non-specified investments, countries, groups and sectors

- a) **Non-specified investment limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being 20% of the total investment portfolio.
- b) **Country limit.** The Council has determined that it will only use approved counterparties from other countries with a minimum sovereign credit rating of AAA (Fitch) or equivalent from each of the credit rating agencies. This list will be added to, or deducted from, by Officers should ratings change in accordance with this policy.

### 4.4 Investment Strategy

**In-house Funds:** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (iup to 12 months).

**Investment Returns Expectations:** On the assumption that the UK and EU agree a Brexit deal including the terms of trade by the end of 2020 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.25% by quarter 1 2023. Bank Rate forecasts for financial year ends (March) are:

- Q1 2020/21 0.75%
- Q1 2021/22 1.00%
- Q1 2022/23 1.25%

The suggested budgeted investment earnings rates for returns on investments place for periods up to about three months during each financial year are:

- 2019/20 0.75%
- 2020/21 0.75%

- 2021/22 1.00%
- 2022/23 1.25%
- 2023/24 1.50%
- 2024/25 1.75%

The overall balance of risks to economic growth in the UK is probably relatively even due to the weight of all the uncertainties over post-Brexit trade arrangements and the impact of an expansionary government spending policy (as expected in the Budget on 11 March).

The balance of risks to increases or decreases in Bank Rate and shorter term PwLB rates are also broadly even..

**Investment treasury indicator and limit** - the total principal funds that can be invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end. Council is asked to approve the following treasury indicator and limit:

<b>Maximum principal sums invested &gt; 365 days</b>					
	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
Principal sums invested > 365 days	Nil	Nil	Nil	Nil	Nil

#### **4.5 End of year investment report**

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

## Treasury Management Glossary of Terms

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

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

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

shares and their value rises or falls accordingly. The Yield on a gilt is the interest paid divided by the Market Value of that gilt.

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

See also PWLB.

- **LIBID** – The London Inter-Bank Bid Rate, the rate which banks would have to bid to borrow funds from other banks for a given period. The official rate is published by the Bank of England at 11am each day based on trades up to that time.
- **LIBOR** – The London Inter-Bank Offer Rate, the rate at which banks with surplus funds are offering to lend them to other banks, again published at 11am each day.
- **Liquidity** – Relates to the amount of readily available or short term investment money which can be used for either day to day or unforeseen expenses. For example Call Accounts allow instant daily access to invested funds.
- **Maturity** – Type of loan where only payments of interest are made during the life of the loan, with the total amount of principal falling due at the end of the loan period.
- **Money Market Fund (MMF)** – Type of investment where the Council purchases a share of a cash fund that makes short term deposits with a broad range of high quality counterparties. These are highly regulated in terms of average length of deposit and counterparty quality, to ensure AAA rated status. As from 21 July 2018 there will be three structural options for existing money market funds – Public Debt Constant Net Asset Value (CNAV), Low Volatility Net Asset Value (LVNAV) and Variable Net Asset Value (VNAV)
- **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.
- **Link Asset Services** – Link Asset Services are the City Council's Treasury Management advisors. They provide advice on borrowing strategy, investment strategy, and vetting of investment counterparties, in addition to ad hoc guidance throughout the year.
- **Yield** – see Gilts

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

## ANNEX B2

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria / colour band	Max % of counterparty limit - *Specified	Max % of counterparty limit – **Non - Specified	Max. maturity period
<b>DMADF – UK Government</b>	N/A	<b>100%</b>	<b>N/A</b>	<b>6 months</b>
UK Government gilts	UK sovereign rating	100%	<b>N/A</b>	1 year
UK Government Treasury bills	UK sovereign rating	100%	<b>N/A</b>	1 year
Bonds issued by multilateral development banks	AAA	100%	<b>N/A</b>	6 months
Money Market Funds CNAV	AAA	100%	<b>N/A</b>	Liquid
Money Market Funds LVNAV	AAA	100%	<b>N/A</b>	Liquid
Money Market Funds VNAV	AAA	100%	<b>N/A</b>	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	100%	<b>N/A</b>	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	100%	<b>N/A</b>	Liquid
Local authorities	N/A	100%	<b>N/A</b>	1 year
Term deposits with banks and building societies	Yellow	100%	20%	Up to 1 year
	Purple	100%	20%	Up to 1 year
	Blue	100%	N/A	Up to 1 year
	Orange	100%	20%	Up to 1 year
	Red	100%	20%	Up to 6 Months
	Green	100%	20%	Up to 100 days
	No Colour	0%	0%	Not for use
Certificates of Deposit and corporate bonds with banks and building societies	Yellow	20%	0%	Up to 1 year
	Purple	20%	0%	Up to 1 year
	Blue	20%	0%	Up to 1 year
	Orange	20%	0%	Up to 1 year
	Red	0%	0%	Up to 6 Months
	Green	0%	0%	Up to 100 days
	No Colour	0%	0%	Not for use

**\*SPECIFIED INVESTMENTS:** All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the quality criteria as applicable.

**\*\*NON-SPECIFIED INVESTMENTS:** These are any investments which do not meet the specified investment criteria. A maximum of up to 20% \*\* will be held in aggregate in relevant non-specified investments (as at the trade date of investing).

## Background information on credit ratings

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

### What is a Credit Rating?

A credit rating is:

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

### Who Provides / Uses Credit Ratings?

There are three main ratings agencies, all of which are used in the Authority's treasury strategy.

- Fitch
- Moody's Investor Services
- Standard & Poor's

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

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

### Rating Criteria

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

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

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

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

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

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