LANCASTER CITY COUNCIL

Promoting City, Coast & Countryside

Committee: **BUDGET AND PERFORMANCE PANEL**

Date: **TUESDAY, 21 FEBRUARY 2017**

Venue: **LANCASTER TOWN HALL**

Time: **6.10 P.M.**

A G E N D A

1. **Apologies for Absence**

2. **Appointment of Vice-Chairman**

   To appoint a Vice-Chairman for the remainder of the 2016/17 Municipal Year.

   In accordance with Part 3, Section 11 of the Constitution, the holder of this appointment may not come from the largest political group with seats on the Cabinet.

3. **Minutes**

   Minutes of the Meeting held on 24th January 2017 (previously circulated).

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

5. **Declaration of Interests**

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

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

   Whilst not a legal requirement, in accordance with Council Procedure Rule 9 and in the interests of clarity and transparency, Members should declare any disclosable pecuniary interests which they have already declared in the Register, at this point in the meeting.

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

6. **Corporate Financial Monitoring Qtr3 2016/17** (Pages 1 - 21)

   Report of the Chief Officer (Resources).

7. **Treasury Management Strategy 2017/18** (Pages 22 - 48)

   Report of the Chief Officer (Resources).

8. **Work Programme Report** (Pages 49 - 52)

Report of the Chief Executive.

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

Councillors Dave Brookes (Chairman), Sam Armstrong, Andrew Gardiner, Janet Hall, Tim Hamilton-Cox, John Reynolds, Roger Sherlock, Susan Sykes and Oscar Thynne

(ii) Substitute Membership

Councillors Ron Sands, Andrew Warriner, John Wild, Nicholas Wilkinson and Peter Williamson

(iii) Queries regarding this Agenda

Please contact Sarah Moorghen, Democratic Services - telephone 01524 582132 or email smoorghen@lancaster.gov.uk.

(iv) Changes to Membership, substitutions or apologies

Please contact Democratic Support, telephone 582170, or alternatively email democraticsupport@lancaster.gov.uk.

SUSAN PARSONAGE,
CHIEF EXECUTIVE,
TOWN HALL,
DALTON SQUARE,
LANCASTER LA1 1PJ

Published on Friday 10th February, 2017.

BUDGET AND PERFORMANCE PANEL

Corporate Financial Monitoring 2016/17 – Quarter 3

21 February 2017

Report of Chief Officer (Resources)

PURPOSE OF REPORT
To present the corporate financial monitoring report for Quarter 3 of the 2016/17 monitoring cycle.
This report is public

OFFICER RECOMMENDATIONS

(1) That Budget and Performance Panel considers the Cabinet Report dated 14 February 2017 and attached appendices, making any comments and recommendations considered necessary.

1. CORPORATE FINANCIAL MONITORING 2016/17 - QUARTER 3

1.1. The report attached at ***Appendix 1***, presented to Cabinet on 14 February 2017, provides a summary of financial monitoring for Quarter 3 of the 2016/17 performance monitoring cycle.

1.2. In addition, as requested at the last meeting of the Panel, an update on Salt Ayre Leisure Centre is also provided at ***Appendix 2***.

1.3. Budget and Performance Panel are asked to consider the Cabinet report and attachments in line with their Terms of Reference within the Constitution relating to the monitoring and review of the council's performance.

OTHER RESOURCE IMPLICATIONS
Human Resources / Information Services / Property / Open Spaces: As set out in the relevant appendices.
SECTION 151 OFFICER'S COMMENTS
The Section 151 Officer has been consulted and has no further comments.
MONITORING OFFICER'S COMMENTS
The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS None.	**Contact Officer:** Andrew Clarke, Financial Services Manager **Telephone:** 01524 582138 **E-mail:** aclarke@lancaster.gov.uk **Ref:** N/A

CABINET

Appendix 1

Corporate Financial Monitoring 2016/17 – Quarter 3
14 February 2017
Report of the Chief Officer (Resources)

PURPOSE OF REPORT					
To provide an overview of the Council's financial position for Quarter 3 of the 2016/17 monitoring cycle, and the supporting actions underway.					
Key Decision		**Non-Key Decision**	**X**	**Referral from Cabinet Member**	
Date of notice of forthcoming key decision	N/A				
This report is public.					

OFFICER RECOMMENDATIONS:

(1) That Cabinet notes the report and the supporting actions set out.

1. Overview

1.1. The corporate financial monitoring report for Quarter 3 is attached at ***Appendix A***. Members should note that monitoring for this quarter is now against the revised budget. The headline projections are as follows:

- A current General Fund net underspending of £34K, but expected to be in line with the budget by the year end.
- The Housing Revenue Account is currently in line with the revised budget, but an underspend of £17K is expected by the year end.

1.2. There are no other key issues to highlight as a result of the monitoring work undertaken to date.

1.3. In support of corporate financial monitoring, the latest Treasury Management update report is included at ***Appendix B***. The Property update report is not included as it is currently being re-worked following changes requested by Budget and Performance Panel. It is envisaged that an updated version of the report will be available for Qtr 4, as part of wider performance reporting.

2. Performance Monitoring

In terms of performance monitoring, the Organisational Development Manager has been working with Management Team and officers across the Council to produce a portfolio of key indicators and projects that will provide management information on the performance and delivery of core services and corporate priorities and outcomes. The work is nearing completion and the outcome will be reported in due course.

RELATIONSHIP TO POLICY FRAMEWORK

This report is in support of the delivery of the Council's overall policy framework, and more specifically its Corporate Plan.

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

None directly arising from this report. Any additional implications linked to or arising from the various financial matters raised will be addressed in taking any relevant actions forward.

LEGAL IMPLICATIONS

None directly arising from this report. Any additional implications linked to or arising from the various financial matters raised will be addressed in taking any relevant actions forward.

FINANCIAL IMPLICATIONS

As set out in the attached.

OTHER RESOURCE IMPLICATIONS

Human Resources / Information Services / Property / Open Spaces:

References and any related implications are contained within the report and related appendices.

SECTION 151 OFFICER'S COMMENTS

This report is in the name of the s151 Officer, albeit in her capacity as Chief Officer (Resources).

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS None.	**Contact Officers:** Andrew Clarke, Financial Services Manager **Telephone: 01524 582138** **E-mail:** aclarke@lancaster.gov.uk **Ref:**

CORPORATE FINANCIAL MONITORING — Appendix A

QUARTER 3 (October to December)

INTRODUCTION

This report provides the key variances to note at the end of quarter 3, in terms of the revenue and capital budgets and local taxation. Please note that monitoring is against the revised budget for the purposes of this update.

REVENUE BUDGET

General Fund – Current underspend of **£34K**, forecast to be in line with budget by year end. Main areas are:

- Employee savings currently -£23K
- Supplies & services currently +£4K
- Income currently -£15K

Housing Revenue Account – Currently in line with budget, but forecast to be an underspend of **£17K** by year end as a result of staff vacancy savings.

CAPITAL PROGRAMME

General Fund – Latest revised programme as reported to Cabinet on 06 December was £16.603M. Spend and commitments at the end of December totalled £7.946M leaving £8.656M still to spend. Further reviews of the programme will be undertaken before the final programme is presented to Budget Council on 01 March.

Housing Revenue Account – Latest revised programme as reported to Cabinet on 17 January was £4.314M. Spend and commitments at the end of December totalled £2.430M leaving £1.884M still to spend.

LOCAL TAXATION

Council Tax – Current deficit of £20K which is a reduction of £89K on the Qtr2 surplus of £69K. Main changes are:

- Reduced cost of Council Tax Support -£133K
- Reduced charge for Second/Empty Homes +£11K
- Other Movements in Tax Base +£211K

The formal calculations of the Council Tax surplus or deficit will be reported to Cabinet in February.

Retained Business Rates – The latest position on business rates will be formalised at the end of January, in line with the statutory deadline, and reported to Cabinet in February.

Collection Performance

	Full Year Target	Target / Actual To Date	
Council Tax	96.8%	84.9%	84.7%
Business Rates	98.8%	80.2%	80.0%

Both slightly behind target, but only marginally so no cause for concern at this point in the year.

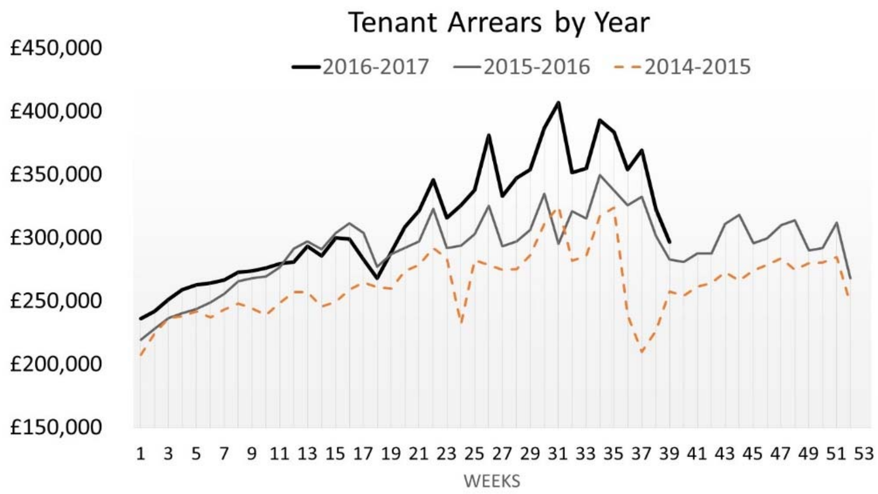
INCOME COLLECTION

Sundry Debts – At the end of December the level of debt was £2.805M which is a reduction of £576K from Qtr2 (£3.381M). The bad debt provision is due to be reassessed in January and the outcome will be reported to Cabinet in February.

SERVICE	< 28 Days	28-59 Days	60-91 Days	92-183 Days	184-364 Days	365+ Days	2016/17 QUARTER 3 TOTALS	*Compared to 2015/16 Quarter 3 Totals*
	£	£	£	£	£	£	£	*£*
Enviromental Services	82,246	50,076	8,083	11,126	80,283	20,400	252,213	*697,429*
Regeneration & Planning	14,174	19,594	627	-	6,553	7,660	48,607	*32,557*
Resources	233,106	22,294	18,550	43,555	45,887	104,946	468,339	*384,956*
Health & Housing	36,054	18,941	170	18,527	5,136	900	79,727	*59,214*
Goverance	500	-	-	-	-	-	500	*-*
Hsg Benefits (Revenues)	39,672	53,899	55,540	169,695	340,057	1,296,720	1,955,584	*1,899,019*
2016/17 Quarter 3 Totals	**405,751**	**164,804**	**82,970**	**242,903**	**477,916**	**1,430,627**	**2,804,970**	***3,073,176***
2016/17 Quarter 2 Totals	***767,692***	***190,005***	***90,227***	***489,819***	***436,395***	***1,406,510***	***3,380,648***	

INCOME COLLECTION

Council Housing Rent Arrears – At the end of December the level of arrears was £297K (*2015/16 Qtr 3 £283K*) which is a reduction of £40K from Qtr2 (£3.381M), and in line with previous years fluctuations. Given this, no specific actions are proposed at this time.



CONTRACT PROCEDURE RULES AND OTHER EXCEPTIONS TO TENDER

Exceptions to Tender – There were two exceptions to tender in quarter 3:

- Use of Hays Recruitment Agency as recommended supplier for recruitment to specific roles, for a period of 2 years. Exception granted due to the need to formalise the current arrangements, and also provide sufficient time to develop a specification and evaluation criteria for undertaking a full tendering process at the end of 2 years.
- Extension granted for current contracts with VCFS providers for a further year (2017/18), to allow sufficient time to undertake specific service specifications and procure services accordingly.

Appendix B

Treasury Management Update

Quarter Ended 31 December 2016

Report of Chief Officer (Resources)

2016/17 Treasury Management Update

Quarter Ended 31 December 2016

1. Introduction

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (through the reporting of the Treasury Management Strategy, and annual and midyear reports). This report is in line with best practice in accordance with that Code, to help demonstrate transparency and promote accountability.

2. Economic update (provided by Capita Asset Services)

Growth has been fairly robust at +0.6% qtr/qtr, +2.2% yr/yr in quarter 3 of 2016 to confound the pessimistic forecasts by the Bank of England in August and by other forecasters, which expected to see near zero growth during 2016 after the referendum. Prior to the referendum, the UK economy had been facing headwinds for exporters from the appreciation of sterling against the Euro plus weak growth in the EU, China and emerging markets, and the dampening effect of the Government's continuing austerity programme. The referendum vote for Brexit in June this year delivered an immediate shock fall in confidence indicators and business surveys, pointing to an impending sharp slowdown in the economy. However, there was then a sharp recovery in confidence and business surveys and the fall in the value of sterling has had a positive effect in boosting manufacturing in the UK due to improved competitiveness in world markets.

The Bank of England meeting on 4th August addressed its forecast of a slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25%. The Inflation Report cut the forecast for growth in 2017 from 2.3% to just 0.8%. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. While the MPC was prepared to cut Bank Rate again by the end of 2016, Carney also warned that the Bank could not do all the heavy lifting and suggested that the Government would need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation). The new Chancellor Phillip Hammond announced after the referendum result, that the target of achieving a budget surplus in 2020 would be eased in the Autumn Statement on November 23 and which he duly delivered.

The robust growth in quarter 3 of +0.6%, plus forward indicating business surveys also being very positive on growth, caused the MPC in November to pull back from another cut in Bank Rate. The November Inflation Report also included a forecast for inflation to rise to around 2.7% in 2018 and 2019, well above its 2% target, due to a sharp rise in the cost of imports as a result of the sharp fall in the value of sterling after the referendum. However, the MPC is expected to look through a one off upward blip from this devaluation of sterling in order to support economic growth, especially if pay increases continue to remain subdued and therefore pose little danger of stoking core inflationary price pressures within the UK economy.

In the Eurozone, the ECB commenced in March 2015 its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month; this was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December 2015 and March 2016 meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. In December 2016, it extended its QE programme;

monthly purchases at €80bn will continue to March 2017 and then continue at €60bn until December 2017. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise from around zero towards the target of 2%. GDP growth rose by 0.6% in quarter 3 2016 (1.7% y/y) but forward surveys are, at last, positive about a modest upturn to growth while inflation has also started to increase significantly. There have been many comments from forecasters that central banks around the world are running out of ammunition to stimulate economic growth and to boost inflation. They stress that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand in the their economies and economic growth.

3. Interest Rate Forecast

The council's treasury advisor, Capita Asset Services has provided the following forecast:

	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half of 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling after early August. Consequently, Bank Rate was not cut again in November or December and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

4. Investing Activities

The Treasury Management Strategy Statement (TMSS) for 2016/17, which includes the Annual Investment Strategy, was approved by the Council on 2 March 2016. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

The Council aims to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also, if and where appropriate, to seek out value available in periods up to 12 months with highly credit rated financial institutions, using the adopted creditworthiness approach, including a minimum sovereign credit rating, and Credit Default Swap (CDS) overlay information.

Officers confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 31 December 2016.

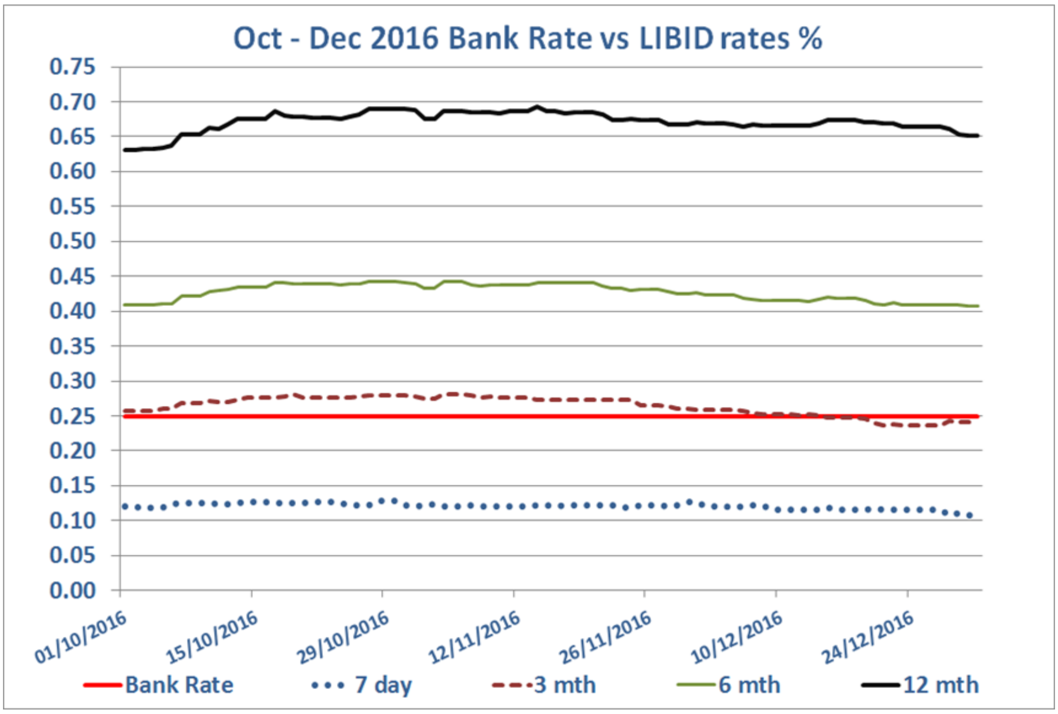
The average level of funds available for temporary investment purposes during the quarter was £54M, falling to £40M by 31 December. The level of funds available was mainly dependent on the timing of precept and business rate related payments, the receipt of grants and progress on the Capital Programme.

In terms of performance against external benchmarks, the return on investments compared to the 7 day LIBID and bank rates at the end of the period is shown below. This is viewed as reasonable performance given the need to prioritise the investments and liquidity (i.e. making sure that the Council's cash flow meets its needs). During the current quarter liquidity has been a particular issue, due to the uncertainty over the timing of a repayment due to central Government in respect of the outcome of a substantial business rates refund.

Base Rate	0.25%
7 day LIBID	0.11%
Lancaster City Council investments	0.25%

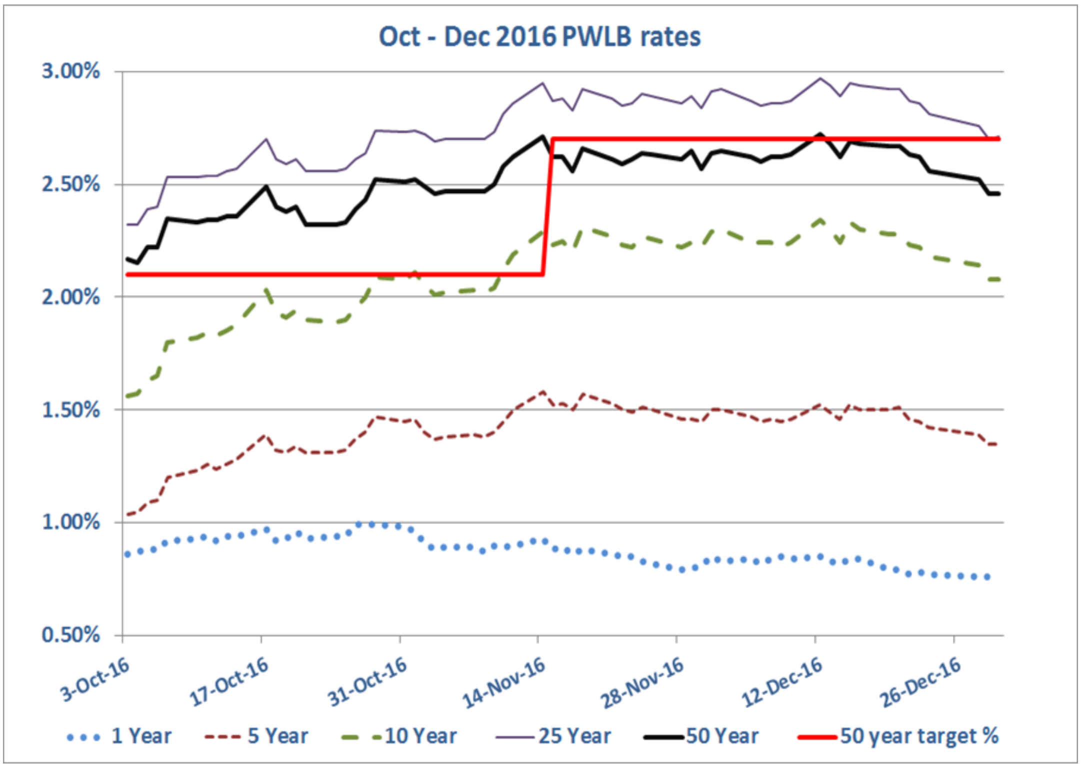
Investment performance against budget for quarter ended 31 December 2016:

Other Investments	Term	Maturity Date	Opening £	Closing £	Indicative Rate (YTD)	Current Fixed Rate	Interest to Date £
Call Accounts							
Natwest (Cash Manager Plus)			70,444	294,879		0.01%	263
Santander			0	0		0.15%	281
Lancashire County Council			0	0		0.15%	2,327
Notice Accounts							
Svenska Handelsbanken (35 day)			6,000,000	6,000,000		0.10%	14,387
Money Market Funds							
Insight			6,000,000	4,185,000	0.23%		13,144
Blackrock Liquidity First			4,800,000	6,000,000	0.29%		17,558
Blackrock Sterling Govt Liquidity Fund			60,000	0	0.10%		1,552
Goldman Sachs			6,000,000	0	0.24%		6,954
LGIM			6,000,000	6,000,000	0.32%		18,976
Ignis			6,000,000	6,000,000	0.30%		19,507
Fixed Term Deposits							
Barclays	6 months	15/04/2016	0	0		0.69%	529
Barclays	3 months	01/07/2016	0	0		0.48%	1,197
Barclays	3 months	15/07/2016	0	0		0.48%	2,393
Lloyds	6 months	20/07/2016	0	0		0.75%	4,521
Lloyds	3 months	30/06/2016	0	0		0.57%	1,405
Cambridgeshire County Council	66 days	05/01/2017	0	12,000,000		0.27%	5,859
Birmingham City Council	6 months	29/04/2016	0	0		0.47%	4,326
Birmingham City Council	6 months	28/10/2016	12,000,000	0		0.48%	28,722
Sub-total			**46,930,444**	**40,479,879**			**143,901**
						Budgeted income	**133,543**
							10,358



5. Borrowing Activities

As depicted in the graph below, there has been significant volatility in PWLB rates during Quarter 3 as rates rose from historically very low levels at the beginning of the quarter but then fell back somewhat towards the end of December. During the quarter ended 31 December 2016, the 50 year PWLB target (certainty) rate for new long term borrowing started at 2.10% and ended at 2.70%.



Due to the overall financial position there is no new underlying need to borrow for capital purposes (the Capital Financing Requirement – CFR), therefore no new borrowing was undertaken.

6. Debt Rescheduling

Officers continue to monitor potential saving opportunities associated with the early repayment of existing debt. This takes into account the premiums or discounts associated with early repayment and the projected cost of refinancing or loss in investment interest. Debt rescheduling opportunities have been limited in the current economic climate and at present it would not be financially prudent to repay any debt because of the high penalties associated with early repayment.

7. Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review its affordable borrowing limits. The Council's approved Treasury and Prudential Indicators are included in the approved Treasury Management Strategy.

8. Risk management (Key Aspects)

Investment Security:
There is still significant inherent risk generally affecting counterparties (i.e. who investments are placed with). These are considered to be managed effectively through the creditworthiness framework currently applied.

Liquidity:
The Council has had higher risk than might have been considered normal for a council of its size with cash balances having been extraordinarily high. On 30 December the significant reduction in balances linked to business rates which had been anticipated crystallised, levelling out this particular risk. Liquidity risks are further managed through cash flow monitoring and forecasting together with the periods chosen for investment. This arrangement helps to ensure that the Council will have sufficient cash available to meet its payment obligations.

Interest Risk:
Investment Returns are low and have been reducing during the year. As has been previously reported the Council has risk exposure because all of its borrowings are long term at fixed rates whilst investments are inevitably shorter term to maintain liquidity. Investments are, therefore, more influenced by movements in the Bank Rate. Although little can be done to mitigate this risk, the Bank Rate is so low that there is little scope for the Council's net interest rate exposure (i.e. the difference between its borrowing and investment interest rates) to increase significantly.

Other:
Counterparty investment capacity (the counterparties and their combined investment limits currently available to the Council) had been tight for much of the quarter. The expected reduction in cash balances at the end of December means that this risk has eased.

Annex A

Treasury Management Glossary of Terms

- **Annuity –** method of repaying a loan where the payment amount remains uniform throughout the life of the loan, therefore the split varies such that the proportion of the payment relating to the principal increases as the amount of interest decreases.

- **CIPFA** – the Chartered Institute of Public Finance and Accountancy, is the professional body for accountants working in Local Government and other public sector organisations, also the standard setting organisation for Local Government Finance.

- **Call account** – instant access deposit account.

- **Counterparty** – an institution (e.g. a bank) with whom a borrowing or investment transaction is made.

- **Credit Rating** – is an opinion on the credit-worthiness of an institution, based on judgements about the future status of that institution. It is based on any information available regarding the institution: published results, Shareholders' reports, reports from trading partners, and also an analysis of the environment in which the institution operates (e.g. its home economy, and its market sector). The main rating agencies are Fitch, Standard and Poor's, and Moody's. They analyse credit worthiness under four headings:

    - **Short Term Rating** – the perceived ability of the organisation to meet its obligations in the short term, this will be based on measures of liquidity.

    - **Long Term Rating** – the ability of the organisation to repay its debts in the long term, based on opinions regarding future stability, e.g. its exposure to 'risky' markets.

    - **Individual/Financial Strength Rating** – a measure of an institution's soundness on a stand-alone basis based on its structure, past performance and credit profile.

    - **Legal Support Rating** – a view of the likelihood, in the case of a financial institution failing, that its obligations would be met, in whole or part, by its shareholders, central bank, or national government.

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

- **DMADF and the DMO –** The DMADF is the 'Debt Management Account Deposit Facility'; this is highly secure fixed term deposit account with the Debt Management Office (DMO), part of Her Majesty's Treasury.

- **EIP –** Equal Instalments of Principal, a type of loan where each payment includes an equal amount in respect of loan principal, therefore the interest due with each payment reduces as the principal is eroded, and so the total amount reduces with each instalment.

- **Gilts** – the name given to bonds issued by the 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.

- **Nonfarm Payroll Employment** - is a compiled name for goods, construction and manufacturing companies in the US. It does not include farm workers, private household employees, or non-profit organization employees.

- **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.

- **Capita 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.*

Appendix 2

Briefing Note

Update on Salt Ayre Leisure Centre

Chief Officer (Health and Housing) & Chief Officer (Resources)

Date: 09 February 2017

Salt Ayre Leisure Centre

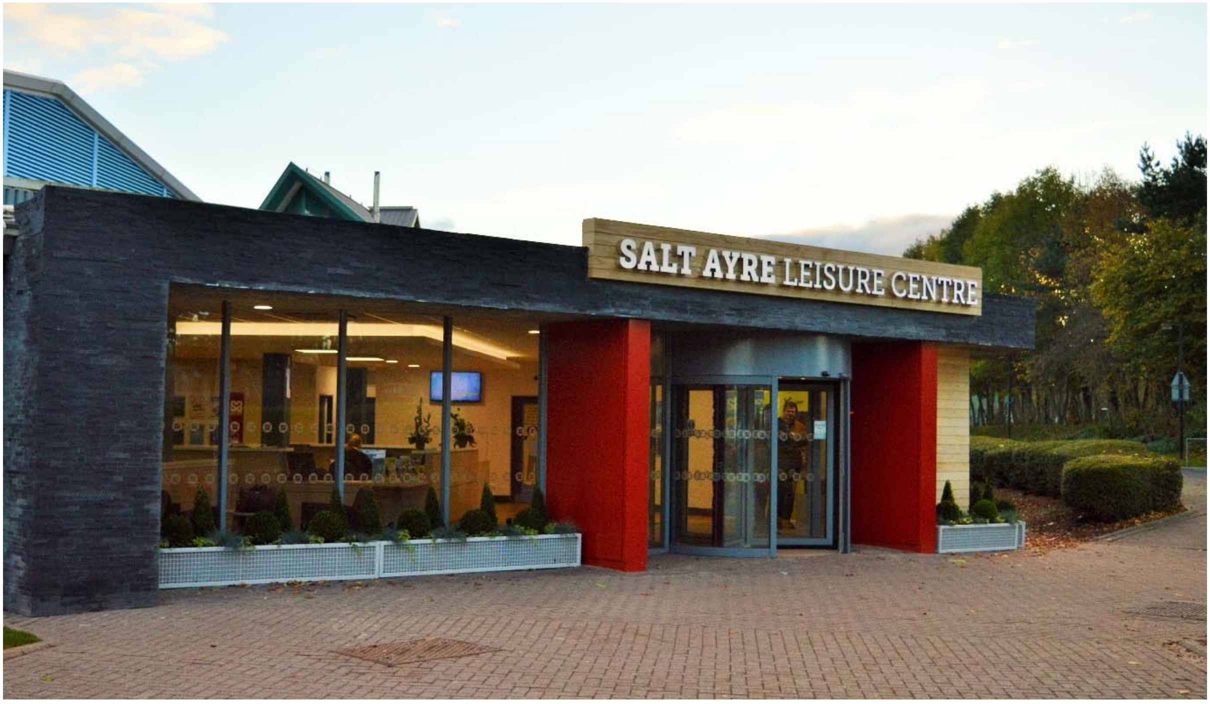
1. Background

The Council took the decision to invest in the refurbishment of existing facilities, provision of an alternative leisure offer and new build of a spa/community hub complex for a cost of £5M. Work commenced in May 2016 with a number of building condition surveys undertaken and refinement of the final design proposals as submitted by the appointed Leisure Development Partner, Alliance Leisure.

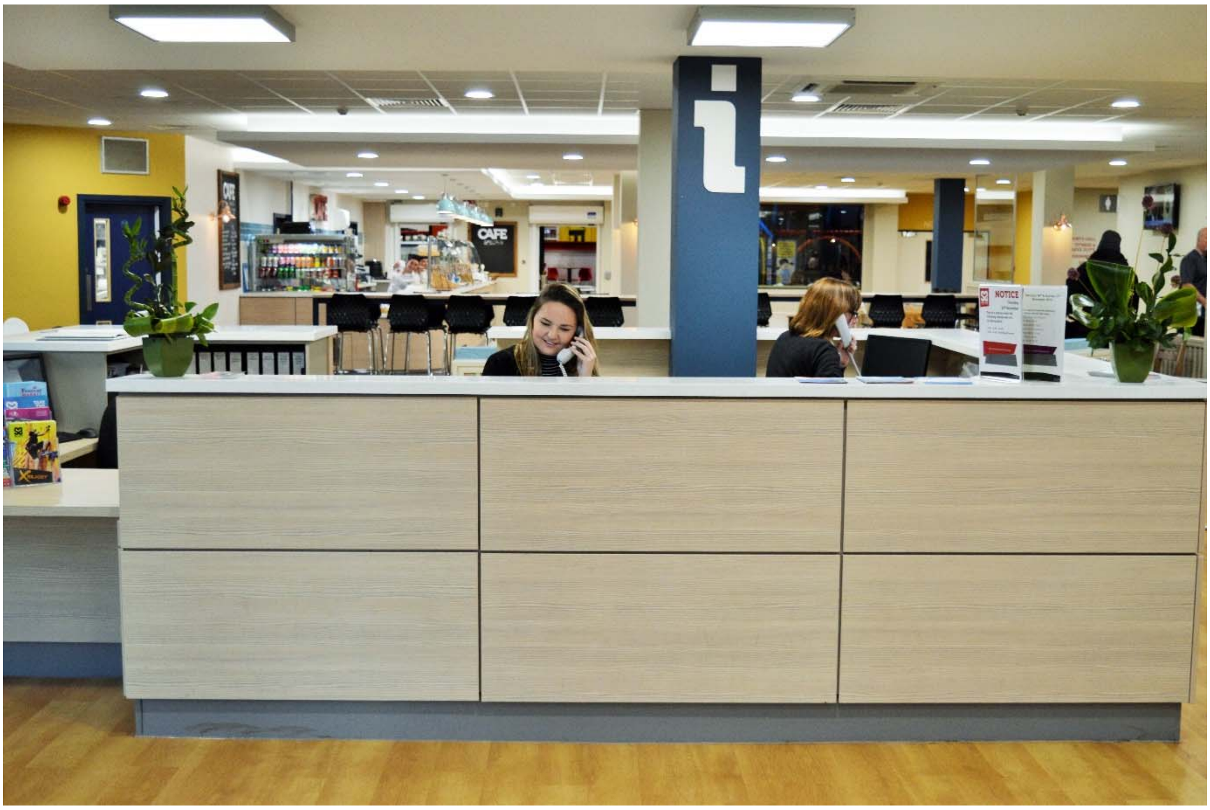
2. Redevelopment - Current Position

To date, the completed work has briefly comprised:

- Redesign of front entrance including new revolving door and L E D sign.



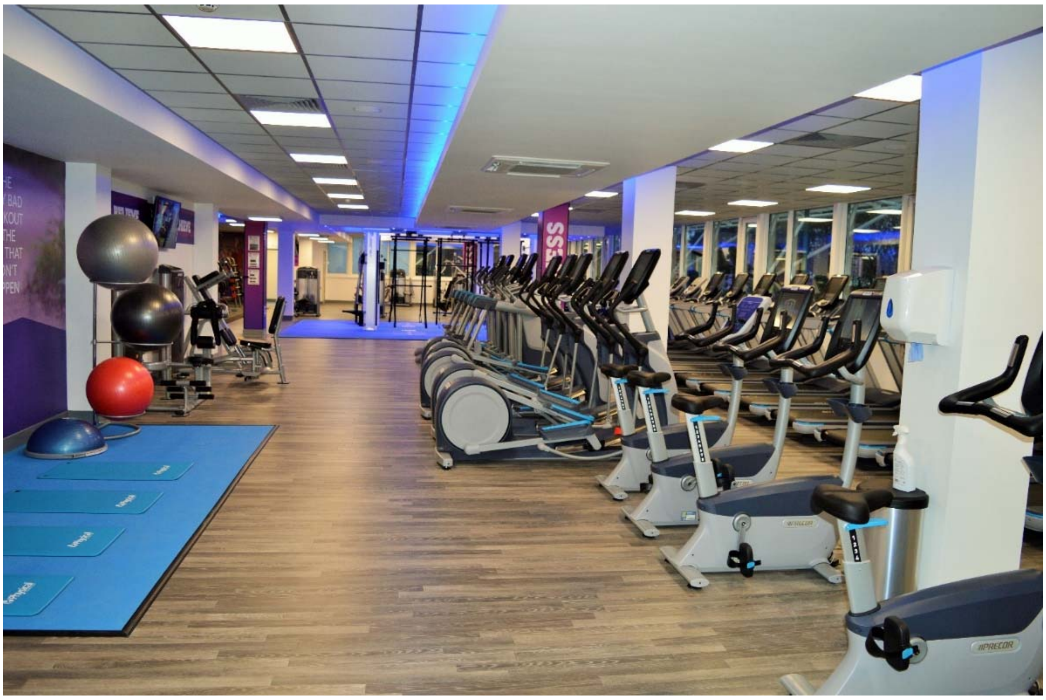
- Redesign and refurbishment of reception.



- Redesign and refurbishment of café and kitchen facilities.

- Installation of new XHeight indoor climbing facility.

- Installation of new 'Energy' soft play facility.
- Provision of two birthday party rooms.
- Refurbishment of changing rooms and toilets.
- Replacement of previous lighting systems to LED low energy.
- Replacement / improvement of heating and ventilation systems.
- Resurfacing of car park and introduction of traffic calming measures.
- New state of the art gym.



- New immersive spinning studio – largest in the country operated by a local authority.

- Work commenced to 'Gravity' new flight tower (due to open February 2017).

Preparation of new Customer Relationship management system including fast track access and on line booking capability.

The new facilities, Energy (soft play), XHeight (Indoor climbing) and Refuel (Café) opened in October and the gym and immersive studio in January – all have received numerous positive / glowing comments from customers of all ages (see customer feedback section).

3. Financial Performance

The table below sets out the latest financial projections for the year, compared to the revised budget, for each of the areas operated by the centre.

2016/17 Summary Financial Forecast	EXPENDITURE			INCOME			NET POSITION		
	Full Year Revised Budget	Forecast Outturn	Variance	Full Year Revised Budget	Forecast Outturn	Variance	Full Year Revised Budget	Forecast Outturn	Variance
	£	£	£	£	£	£	£	£	£
Mgmnt & Admin	2,348,600	2,348,600	0	(11,700)	(10,966)	734	2,336,900	2,337,634	734
Shop	5,800	4,090	(1,710)	(9,700)	(5,594)	4,106	(3,900)	(1,504)	2,396
Heatwaves	400	834	434	(2,400)	(2,572)	(172)	(2,000)	(1,738)	262
Aquarius Health & Beauty	0	0	0	(300)	(258)	42	(300)	(258)	42
Health & Fitness	154,400	140,040	(14,360)	(410,100)	(394,903)	15,197	(255,700)	(254,863)	837
Outdoor Synthestic Pitch	0	0	0	(2,500)	(2,621)	(121)	(2,500)	(2,621)	(121)
Outdoor Tracks	1,700	1,966	266	(18,500)	(15,282)	3,218	(16,800)	(13,316)	3,484
Main Hall	44,100	33,600	(10,500)	(116,300)	(110,513)	5,787	(72,200)	(76,913)	(4,713)
Projectile Hall	3,100	3,403	303	(4,300)	(5,483)	(1,183)	(1,200)	(2,080)	(880)
Studio	35,600	36,287	687	(54,100)	(46,391)	7,709	(18,500)	(10,104)	8,396
Swimming	57,700	57,340	(360)	(318,000)	(306,722)	11,278	(260,300)	(249,382)	10,918
Café	301,600	297,000	(4,600)	(202,400)	(213,879)	(11,479)	99,200	83,121	(16,079)
XHeight	17,900	17,900	0	(26,700)	(37,776)	(11,076)	(8,800)	(19,876)	(11,076)
Energy	6,400	6,448	48	(38,500)	(51,723)	(13,223)	(32,100)	(45,275)	(13,175)
Gravity	30,100	35,100	5,000	(16,000)	(16,000)	0	14,100	19,100	5,000
	3,007,400	**2,982,608**	**(24,792)**	**(1,231,500)**	**(1,220,683)**	**10,817**	**1,775,900**	**1,761,925**	**(13,975)**

The table above shows that overall budget projections are broadly in line with the current forecast, showing a net underspending of just under £14K by the end of the year. The new / refurbished features such as the Café, Xheight and Energy are all expected to outperform the revised income targets – see following comments.

Swimming in contrast has seen a downturn in income, which seems to be in line with national trends. To help counter this, a relaunch of the direct debit scheme for lessons is planned. The studio is the other area that has seen income fall below expectations, which is because more people are switching to memberships and as a result pay as you go income has reduced – overall participation levels are up though.

Café: The refurbishment of the café (Refuel) has seen one of the greater transformational impacts of the project with customers commenting on how the place is unrecognisable. During the period of refurbishment officers took the decision to install a temporary café in order to maintain a level of service to existing customers and continue with the social and wellbeing benefits many people derive from meeting in such surroundings. It was always recognised that this would not be particularly commercially successful and would rather ensure some people remained in the habit of visiting Salt Ayre. This has proved successful in the longer term as customers seem to have stayed and are now enjoying the benefits of a hugely improved setting.

Xheight: Similarly with XHeight, officers took into consideration feasibility studies and soft market testing when estimating future performance. A further note of caution with XHeight was added for this financial year which reduced projected demand by 50% as feedback from other Councils / operators was that this activity can be slower to meet expectations. However, the latest projections are again positive and it is expected the revised income estimate will be exceeded.

Energy: The basis of the estimates for Energy were formed from a combination of independent feasibility reports and the soft market testing by officers which set out actual performance by other facilities who had introduced similar facilities. Whilst it is sensible to be cautious when setting targets pre-opening, officers are now confident that the actual financial performance will result in an increase on the revised budget as shown above.

Gravity: This feature is due to open in February, however additional fencing has been required at an extra cost of £5K.

Gym: Since opening in early January, the new memberships target is on track.

4. Customer feedback

The new facilities have been very successful and there has been a great deal of positive customer feedback following the opening:

> *'Money well spent, All the guys are great on XHeight, thanks so much'*
>
> *'We have had a cappuccino with a breakfast sandwich, it is a lovely treat after an early swim, friendly and courteous staff too'*
>
> *'The Café environment is much nicer, light, airy and open'*
>
> *'Such a pleasant experience, lovely staff, great seating area, I could not suggest anything else to improve'*
>
> *'we think the climbing wall and play area are fab'*
>
> *'Salt Ayre must now be one of the best sport and leisure places in the area, its brilliant and all the staff are so helpful and warm'*

5. Next Phases

Work is well under way with 'Gravity', the new Flight Tower and will be ready to open in February, with a stronger promotional push when the weather improves and daylight hours increase (although there is a flood light option!).

The functional training facility will open in March with plans for the outdoor gym scheduled for July opening.

Work has commenced on the new build of spa and community hub with opening planned for September next year.

Officers are still working on refinement of other aspects of the proposals such as BMX circuit, outdoor catering offer, outdoor family play offer and the possibility of a new phase (subject to formal Council approval) which would generate additional net revenue for the Council. Officers are currently working on these details with Alliance Leisure.

6. Summary

The new facilities have made a hugely positive impact introducing a completely new customer demographic and has clearly been a significant addition to the districts leisure portfolio. Initial indications from data capture are showing a number of people are traveling from outside the district to make use of the facilities and one would imagine the new link road has helped with this position. It is expected that the introduction of the spa will further add to the appeal for both residents and people visiting from outside the district to visit Salt Ayre Leisure Centre and will provide greater ‘leisure’ appeal for people considering moving to the area to live/work.

Budget and Performance Panel

Treasury Management Strategy 2017/18
21 February 2017

Report of Chief Officer (Resources)

PURPOSE OF REPORT
To seek the Panel's views regarding the proposed treasury management framework for 2017/18.
This report is public

RECOMMENDATIONS

1. That Budget and Performance Panel considers the attached Treasury Management framework documents for 2017/18 and makes recommendations as appropriate.

1 **Introduction**

1.1 At its meeting on 14 February Cabinet will consider the attached report, including the treasury management framework proposals for 2017/18. In line with the (2011) CIPFA Treasury Management Code of Practice, Budget and Performance Panel have been explicitly named as responsible for scrutiny of the Treasury Management function, including review of the Annual Strategy.

1.2 Unfortunately it has not been possible to provide for scrutiny of the treasury proposals prior to them being considered by Cabinet. However, any recommendations arising from this Panel meeting will be fed into Budget Council on 01 March, when Members will be asked formally to approve the framework.

CONCLUSION OF IMPACT ASSESSMENT **(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)** As set out in the attached report.
FINANCIAL IMPLICATIONS As set out in the attached report.
LEGAL IMPLICATIONS As set out in the attached report.
S151 and MONITORING OFFICER'S COMMENTS As set out in the attached report.

BACKGROUND PAPERS None.	**Contact Officer: Nadine Muschamp** **Telephone: 01524 582122** **E-mail: nmuschamp@lancaster.gov.uk** **Ref:**

CABINET

Treasury Management Strategy 2017/18
14 February 2017

Report of Chief Officer (Resources)

PURPOSE OF REPORT					
This report sets out the 2017/18 treasury management framework for Cabinet's approval and referral on to Council.					
Key Decision	√	**Non-Key Decision**		**Referral**	
Date of notice of forthcoming Key Decision	16 January 2017				
This report is public.					

OFFICER RECOMMENDATIONS:

1) 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.

1 **INTRODUCTION**

1.1 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.

1.2 To give context, and for information, the Quarter 3 monitoring report for the current year is included as part of the Corporate Financial Monitoring report elsewhere on this agenda.

2 **TREASURY MANAGEMENT FRAMEWORK**

2.1 The proposed Strategy for 2017/18 to 2020/21 is set out at ***Appendix A*** for Cabinet's consideration. The document contains the necessary details to comply with both the Code and Government investment guidance. Responsibilities for treasury management are set out at ***Appendix B*** and the policy statement is presented at ***Appendix C***.

2.2 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, but there has been no time available to update the framework following the February Council meeting. 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.

2.3 **Borrowing Aspects of the Strategy**

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

2.4 **Investment Aspects of the Strategy**

2.4.1 Overall, the strategy put forward follows on from 2016/17 in that it is based on the Council having a comparatively low risk appetite with focus on high quality deposits. The 2017/18 strategy continues to use the same investment criteria as approved by Members in 2016/17.

2.4.2 The proposed Investment Strategy 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.

3 CONSULTATION

3.1 Officers have liaised with Capita Asset Services, the Council's Treasury Advisors, in developing the proposed framework. The framework is to be considered by Budget and Performance Panel at its meeting on 21 February.

4 OPTIONS AND OPTIONS ANALYSIS

4.1 Cabinet may put forward alternative proposals or amendments to the proposed Strategy in Appendix A, 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.

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

5 OFFICER PREFERRED OPTION AND JUSTIFICATION

5.1 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 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 over the coming year.

RELATIONSHIP TO POLICY FRAMEWORK The proposed Treasury Management framework forms part of the Council's budget and policy framework, and fits into the Medium Term Financial Strategy.	
CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability etc) No direct implications arising.	
FINANCIAL IMPLICATIONS The Strategy is in support of achieving the borrowing cost and investment interest estimates included in the budget.	
OTHER RESOURCE IMPLICATIONS None directly arising.	
SECTION 151 OFFICER'S COMMENTS This report is in the name of the s151 Officer (as Chief Officer (Resources). Her comments and advice are reflected in the report.	
LEGAL IMPLICATIONS Legal Services have been consulted and have no further comments.	
MONITORING OFFICER'S COMMENTS The Monitoring Officer has been consulted and has no further comments.	
BACKGROUND PAPERS None**.**	**Contact Officer: Nadine Muschamp** **Telephone: 01524 582117** **E-mail:nmuschamp@lancaster.gov.uk**

Appendix A

Treasury Management Strategy 2017/18 to 2020/21

For Consideration by Cabinet 14 February 2017

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 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

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.

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 2017/18

The strategy for 2017/18 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 Chief Officer (Resources) to ensure that Members with responsibility for treasury management receive adequate asssociated training. This especially applies to Members responsibe for scrutiny. A training session will be arranged during 2017 accordingly with further training provided as required. The training needs of treasury management Officers are periodically reviewed.

1.5 Treasury Management Consultants

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

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

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

2 CAPITAL PRUDENTIAL INDICATORS 2017/18 – 2020/21

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	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
General Fund	7.52	14.50	13.18	6.00	2.72	3.29
Housing Revenue Account (HRA)	4.88	4.31	4.08	4.16	4.11	4.16
Total	**12.4**	**18.81**	**17.26**	**10.16**	**6.83**	**7.45**
Financed by:						
Capital receipts	-0.86	-1.51	-1.13	-0.26	-0.27	-0.27
Capital grants	-1.90	-5.03	-5.59	-2.79	-1.49	-1.49
Capital reserves	-5.11	-5.12	-4.30	-4.34	-4.01	-3.93
Revenue	-0.11	-0.23	-0.18	0.00	0.00	0.00
Net financing need for the year	**4.42**	**6.92**	**6.06**	**2.77**	**1.06**	**1.76**

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

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

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

The CFR includes any other long term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £127K of leases within the CFR.

Council is asked to approve the following CFR projections:

	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Capital Financing Requirement						
General Fund HRA	50.89 27.00	56.60 25.96	61.13 24.92	61.89 23.88	60.85 22.84	60.35 21.79
Total CFR	**77.89**	**82.56**	**86.05**	**85.77**	**83.69**	**82.14**
Movement in CFR	**1.78**	**4.67**	**3.49**	**-0.28**	**-2.08**	**1.55**
Movement in CFR represented by						
Net financing need for the year (above)	4.42	6.92	6.06	2.77	1.06	1.76
Less MRP/VRP and other financing movements	-2.64	-2.25	-2.57	-3.05	-3.14	-3.31
Movement in CFR	**1.78**	**4.67**	**3.49**	**-0.28**	**-2.08**	**-1.55**

2.3 Minimum Revenue Provision (MRP) Policy Statement

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

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

For capital expenditure incurred after 01 April 2008, MRP will be based on:

- 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.

2.4 Core Funds and Expected Investment Balances

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

Year End Resources	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Fund balances / reserves	23.23	22.09	22.87	22.85	22.51	22.24
Capital receipts	0.00	0.00	0.00	0.00	0.00	0.00
Provisions	14.54	5.16	5.16	5.16	5.16	5.16
Total core funds	**37.77**	**27.25**	**28.03**	**28.01**	**27.67**	**27.40**
Working capital*	11.57	11.57	5.57	8.57	11.57	11.57
Under borrowing	-11.47	-17.27	-21.84	-22.60	-21.56	-21.06
Expected investments	**37.87**	**21.55**	**11.76**	**13.98**	**17.68**	**17.91**

*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. The Council is 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.

	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
General Fund	15.8%	14.5%	16.2%	18.9%	19.3%	18.9%
HRA	21.9%	21.6%	21.6%	21.5%	21.5%	18.9%

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

2.7 Incremental Impact of Capital Investment Decisions on Band D Council Tax

This indicator identifies the revenue costs associated with proposed changes to the five year capital programme recommended in the budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates.

Council Tax	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Band D Impact	-£0.07	£0.07	£0.56	£1.88	£1.75

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

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

	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Weekly housing rent levels	-£0.00	-£0.01	-£0.01	-£0.03	£0.09

3 BORROWING

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

3.1 Current Portfolio Position

The Council's treasury portfolio position at 31 March 2016 and forward projections are summarised below. The table shows the actual external debt from treasury management operations, against the underlying capital borrowing need (the Capital Financing Requirement or CFR), highlighting any over or under borrowing.

	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
External Debt						
Debt at 1 April	67.33	66.29	65.25	64.21	63.17	62.12
Expected change in Debt	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04
Other long-term liabilities (OLTL)	0.24	0.13	0.04	0.00	0.00	0.00
Expected change in OLTL	-0.11	-0.09	--0.04	0.00	0.00	0.00
Actual gross debt at 31 March	**66.42**	**65.29**	**64.21**	**63.17**	**62.13**	**61.08**
The Capital Financing Requirement	**77.89**	**82.56**	**86.05**	**85.77**	**83.69**	**82.14**
Under Borrowing	**-11.47**	**-17.27**	**-21.84**	**-22.60**	**-21.56**	**-21.06**

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 the current year and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

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

3.2 Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary

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

Operational boundary	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Debt*	82.52	86.05	85.76	83.69	82.14
Other long term liabilities	0.04	0.00	0.00	0.00	0.00
Total	**82.56**	**86.05**	**85.76**	**83.69**	**82.14**

- *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 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	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Debt	98.00	101.00	101.00	99.00	97.00
Other long term liabilities	1.00	1.00	1.00	1.00	1.00
Total	**99.00**	**102.00**	**102.00**	**100.00**	**98.00**

3.3 Prospects for Interest Rates

The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view *(January 2017)*.

	Mar-17	Mar-18	Mar-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.75%
5yr PWLB rate	1.60%	1.70%	1.80%	2.00%
10yr PWLB rate	2.30%	2.30%	2.50%	2.70%
25yr PWLB rate	2.90%	3.00%	3.20%	3.40%
50yr PWLB rate	2.70%	2.80%	3.00%	3.20%

The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, Bank Rate was not cut again in November or December and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. 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.

The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

Investment and borrowing rates

- *Investment returns are likely to remain low during 2017/18 and beyond;*
- *Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically phenomenally low levels after the referendum and then even further after the MPC meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have since risen sharply due to a rise in concerns around a 'hard Brexit', the fall in*

the value of sterling, and an increase in inflation expectations. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times when authorities will not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt;

- *There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.*

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 2017/18 treasury operations. The Chief Officer (Resources), 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 long and short term rates* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates* than that currently forecast, perhaps arising from an acceleration in the start date and 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 will be re-appraised. Most likely, fixed rate funding would be drawn if interest rates are lower than they are projected to be in the next few years.

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

Treasury Management Limits on Activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set at a level which is too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;

- 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 treasury indicators and limits:

	2016/17	2017/18	2018/19	2019/20	2020/2021
Interest rate exposures					
	Upper	**Upper**	**Upper**	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%	100%	100%
Limits on variable interest rates based on net debt	30%	30%	30%	30%	30%

Maturity structure of fixed interest rate borrowing 2017/18	£m	
Under 12 months	1.04	1.6%
12 months and within 24 months	1.04	1.6%
24 months and within 5 years	3.12	4.79%
5 years and within 10 years	5.21	7.98%
10 years and within 15 years	5.21	7.98%
15 years and within 25 years	10.41	15.96%
25 years and within 50 years	39.22	60.10%

3.5 Policy on Borrowing in Advance of Need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, 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.

3.6 Debt Rescheduling

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

The reasons for any rescheduling to take place will include:

* the generation of cash savings and / or discounted cash flow savings;
* helping to fulfil the treasury strategy;

* enhance the balance of the portfolio (amend the maturity profile and / or the balance of volatility).

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

Any rescheduling will be reported to Cabinet at the earliest meeting following any action.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment Policy

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

In accordance with the above guidance, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties that also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor cournerparties are the Short Term and Long Term ratings.

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 this end the Council will engage with its advisors to maintian a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

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

Investment instruments identified for use in the financial year are listed in Annex A2 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices, applying the creditworthiness policy set out below.

4.2 Creditworthiness Policy

This Council will apply the creditworthiness service provided by Capita 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*:*
(Enhanced Money Market Funds = EMMFs)

- **Yellow (Y)** up to but less than 1 year
- ***Dark pink (Pi1)*** *liquid - for EMMFs with a credit score of 1.25*
- ***Light pink (Pi2)*** *liquid - for EMMFs 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*

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7

	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	£500K	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	AAA	£6m	liquid
Enhanced money market funds with a credit score of 1.25	Dark pink / AAA	£6m	liquid
Enhanced money market funds with a credit score of 1.5	Light pink / AAA	£6m	liquid

** the yellow colour category is for UK Government debt, or its equivalent, collateralised deposits where the collateral is UK Government debt –see Annex A2.*

*** 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 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.

4.3 Country Limits

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.

4.5 Other Investment Matters

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

Investment Returns Expectations: Bank Rate is forecast to stay flat at 0.25% until Quarter 2 2019 and not to rise above 0.75% by Quarter 1 2020. Bank Rate forecasts for financial year ends (March) are:

- 2016/17 0.25%
- 2017/18 0.25%
- 2018/19 0.25%
- 2019/20 0.75%

The overall balance of risks to these forecasts is currently probably slightly skewed to the downside in view of the uncertaintly over the final terms of Brexit. If growth expectations disappoint and inflationary pressures are minimal, the start of increases in Bank Rate could be pushed back. On the other hand, should the pace of growth quicken and/or forecasts for increases in inflation rise, there could be an upside risk i.e. Bank Rate increases occur earlier and/or at a quicker pace.

4.6 Investment Treasury Indicator and Limit

This determines the total principal funds that can be invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of any investment, and are based on the availability of funds after each year-end. Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested > 364 days					
	2016/17	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Principal sums invested > 364 days	Nil	Nil	Nil	Nil	Nil

4.7 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.

ANNEX A1

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.

- **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.

- **Capita Asset Services** – Capita 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 A2

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**
DMADF – UK Government	N/A	**100%**	**N/A**	**6 months**
UK Government gilts	UK sovereign rating	100%	**N/A**	1 year
UK Government Treasury blls	UK sovereign rating	100%	**N/A**	1 year
Bonds issued by multilateral development banks	AAA	100%	**N/A**	6 months
Money market funds	AAA	100%	**N/A**	Liquid
Enhanced money market funds with a credit score of 1.25	AAA	100%	**N/A**	Liquid
Enhanced money market funds with a credit score of 1.5	AAA	100%	**N/A**	Liquid
Local authorities	N/A	100%	**N/A**	1 year
Term deposits with banks and building societies	Yellow Purple Blue Orange Red Green No Colour	100% 100% 100% 100% 100% 100% 0%	10% 10% 10% 10% 10% 10% 0%	Up to 1 year Up to 1 year Up to 1 year Up to 1 year Up to 6 Months Up to 100 days Not for use
CDs or corporate bonds with banks and building societies	Yellow Purple Blue Orange Red Green No Colour	100% 100% 100% 100% 100% 100% 0%	10% 10% 10% 10% 10% 10% 0%	Up to 1 year Up to 1 year Up to 1 year Up to 1 year Up to 6 Months Up to 100 days 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 10% ** will be held in aggregate in non-specified investments.

ANNEX A3

Definitions of Specified and Non Specified Investments

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

1. Specified Investments are defined as follows.

SPECIFIED INVESTMENTS

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

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

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

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

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

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

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

2. Non-specified Investments are defined as follows:

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

Ref	Non Specified Investment Category	Limit
(i)	An investment with a non-UK bank, for a term of less than 1 year and in a product which falls within one of the criteria stated with the table in Annex A2	Annex A2
(ii)	The Council's own banker if it fails to meet the credit criteria attached to other bandings.	Table in 4.2

ANNEX B

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

Appendix B

TREASURY MANAGEMENT FRAMEWORK DOCUMENTS AND RESPONSIBILITIES

For Consideration by Cabinet 14 February 2017

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

Appendix C

LANCASTER CITY COUNCIL
TREASURY MANAGEMENT POLICY STATEMENT

For consideration by Cabinet 14 February 2017

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

1. This organisation defines its treasury management activities as:

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

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

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

BUDGET AND PERFORMANCE PANEL

Work Programme Report

21st February 2017

Report of the Chief Executive

PURPOSE OF REPORT
To update Members on the Panel's Work Programme.
This report is public.

RECOMMENDATIONS

(1) That Members note the Work Programme as detailed in Appendix A to the report.

(2) That Members consider whether they would like to include any further items in the Work Programme.

1.0 Introduction

1.1 Members are requested to consider the updated Work Programme.

1.2 The Budget and Performance Panel is responsible for setting its own annual Work Programme within the terms of reference, as set out in Part 3, Section 12 of the Constitution.

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

2.0 Updates

2.1 The Budget and Performance Panel at its meeting on the 8th November 2016 agreed:-

"That the Customer Services Strategy and any future complaints policy issues be referred to the Overview and Scrutiny Committee to consider".

At the meeting on the 21st December 2016 the Overview and Scrutiny Committee agreed to add this item to its Work Programme.

2.2 At its meeting on the 24th January 2017 the Panel requested regular updates on Salt Ayre be provided as part of quarterly monitoring reporting. This will be done as part of future quarterly monitoring and in the interim, a briefing note update has been provided for this meeting. The Chief Officer (Health and Housing) will also attend the next meeting to present a summary of progress to date to include financial performance, customer and partner feedback and the next steps.

2.3 At its meeting on the 24th January 2017 the Panel requested that the Lancashire Police and Crime Commissioner be invited to the next meeting of the Panel to answer questions on his budget proposals. The Commissioner has been invited and the Office of the Police and Crime Commissioner for Lancashire has responded as follows:

"The Commissioner has asked me to pass on his apologies to the panel that he won't be able to attend. The precept report which was shared with the panel has been presented to the Police and Crime Panel for Lancashire on which Lancaster is represented and as the report has been approved by the panel in their meeting of 23 January, this has passed through the appropriate forum.

The Commissioner appreciates that members of the panel may have specific questions on the report and the resource challenges facing the police and partners. If the panel wish to raise these collectively or individually the Commissioner would be happy to look into these concerns and respond to the panel members."

2.4 The Panel's Work Programme is attached.

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

APPENDIX A

BUDGET & PERFORMANCE PANEL WORK PROGRAMME 2016/17

Matter for consideration	**Detail**	**Officer responsible/ External**	**Expected date of meeting**
Compliments and Complaints Half Yearly Report. To form part of the Corporate Performance Monitoring Report.	To include detail on the complaints made against the Council and upheld by the LGO. (min. 12 refers – 13th September 2016)	Chief Officer (Environment)	(Twice yearly).
Financial Monitoring	(min.8 refers)	Chief Officer (Resources)	Quarter 3 – February 2017.
Corporate Performance Monitoring- **NOTE- this report will be combined with report above as appropriate**	(min.8 refers)	Chief Officer (Environment)	Quarter 3 – February 2017.
Pensions	Information requested 13th September 2016. (min.14 and 19 refers)	Representative of Lancashire County Council invited to address the Panel on Pensions.	TBC.
Treasury Management Strategy	The Panels views to be sought regarding the proposed treasury management framework for 2017/18. (min.8 refers)	Chief Officer (Resources)	21st February 2017.
Budget Overspends/Variance	Consideration of budget variances which may be identified when considering annual outturn report. (min. 8 refers)	Chief Officer (Resources)	As required.
Procurement Strategy	Further pre-scrutiny prior to the updated Procurement Strategy being presented to Cabinet. (min. 8 and 19 refers – Action – briefing note to be provided)	Chief Officer (Resources)	Prior to the updated Strategy being presented to Cabinet.
Update on wider implementation of the CorVu System	Update requested 8th November 2016. (min. 19 refers)	Chief Officer (Environment)	As required.

Commercial Properties	Report on Commercial Properties to be part of the Work Programme. (min 8 refers)	Chief Officer (Resources)	Also covered in quarterly reporting, the content of which will continue to be reviewed and updated.
Litter Enforcement Service	Report on Litter Enforcement Service to be included in the Work Programme. (min. 8 refers)	Chief Officer (Environment)	TBC.
Repairs and Maintenance Service (RMS) (previously on the Work Programme as the APSE Report)	Overview and Scrutiny Members to be invited to ask questions. (min. 19 refers – 8th November 2016)	Chief Officer (Environment)	As required.

Invitations to Cabinet Members

Cabinet Member and area of responsibility	**Issue**	**Expected date of meeting**
Councillor Blamire, Leader of the Council	Corporate Performance Monitoring.	Various – as set out in the Work Programme Report.
All Members of Cabinet	Various. Invitations to be extended to Cabinet Members to coincide with issues relevant to their respective portfolios.	Various.
Councillor James Leyshon, Cabinet Member with responsibility for Property Services, Car Parking, ICT, Digital Services and Customer Services.	Property Group Update.	Various – as set out in the Work Programme Report.

Briefing Notes

Matter for Consideration	**Date Requested/additional detail**	**Officer Responsible**	**Date Circulated**
ICT – Bring Your Own Device	13.09.2016	ICT Manager	Circulated to all Members on 06.02.2017.
Procurement and Tendering	08.11.2016 The briefing note to include reference to Council Resolutions and what has been undertaken to action these.	Chief Officer (Resources)	TBC.
Out of Hours ICT Support Service	08.11.2016	Chief Officer (Resources)	TBC.