LANCASTER
CITY COUNCIL

Promoting City, Coast & Countryside

Committee: **BUDGET AND PERFORMANCE PANEL**

Date: **TUESDAY, 19TH FEBRUARY 2019**

Venue: **LANCASTER TOWN HALL**

Time: **6.10 P.M.**

A G E N D A

1. **Apologies for Absence**

2. **Minutes**

   Minutes of the meetings held on 13th November 2018 and 22nd January 2019 (previously circulated).

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

4. **Declaration of Interests**

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

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

   Whilst not a legal requirement, in accordance with Council Procedure Rule 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.

5. **Delivering Our Ambitions Performance Monitoring: Quarter 3 2018-19** (Pages 1 - 5)

   Report of Executive Support Manager.

6. **Corporate Financial Monitoring 2018/19 - Quarter 3** (Pages 6 - 33)

   Report of the Interim Financial Services Manager

7. **Treasury Management Strategy** (Pages 34 - 56)

   The Treasury Management Strategy 2019/20 to 2022/23 documents to be considered by Cabinet, at its meeting on 12th February 2019, are attached.

The Interim Financial Services Manager will present to the Panel.

8. **Work Programme Report** (Pages 57 - 60)

Report of the Interim Head of Legal and Democratic Services and Monitoring Officer.

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

Councillors Dave Brookes (Chairman), Peter Yates (Vice-Chairman), Tracy Brown, Kevin Frea, John Reynolds, Oliver Robinson, Susan Sykes, David Whitaker and Peter Williamson

(ii) Substitute Membership

Councillors Tim Hamilton-Cox, Nicholas Wilkinson and Phillippa Williamson

(iii) Queries regarding this Agenda

Please contact Stephen Metcalfe, Democratic Services - telephone 01524 582073 or email sjmetcalfe@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 Monday, 11th February 2019.

BUDGET & PERFORMANCE PANEL

Delivering Our Ambitions
Performance Monitoring: Quarter 3 2018-19
19 February 2019

Report of Executive Support Manager

PURPOSE OF REPORT					
To report on the performance of key indicators for October-December 2018 (Quarter 3).					
Key Decision		**Non-Key Decision**	X	**Referral from Cabinet Member**	
This report is public					

OFFICER RECOMMENDATIONS

(1) That Budget & Performance Panel note the performance of key indicators during Quarter 3.

1.0 Performance Monitoring Quarter 3 2018-19

1.1 A breakdown of performance against key corporate indicators for the period October-December 2018 is contained in the appendix to this report.

2.0 Changes to Corporate Indicators

2.1 Indicator A2.2 (Number of fly-tipping enforcement notices issued) has been removed from the scorecard for Quarter 3, in anticipation of the development of a new set of indicators covering Clean, Green and Safe Neighbourhoods for future measurement.

3.0 Project Reporting

3.1 The Delivering Our Ambitions report for Quarter 2 included summarised updates on key corporate projects. It is proposed that future Delivering Our Ambitions reports include a more developed report on progress of key projects, in line with the development during Quarter 4 of a full portfolio of documentation for use on future projects.

4.0 Significant Achievements

- Percentage of minor, other and major planning applications determined within statutory timescales (A1.1, A1.2 and A1.3) continue to perform strongly, with Lancaster City Council ranked 7th of 330 authorities in England for non-major applications, and 23rd of 330 authorities in England for major applications.
- Residual waste collected (A2.3) has decreased by 8.3% in comparison with the same quarter last year, partly as a result of the warm weather and its impact on garden waste; this is a 'lagging' measure so data is provided in respect of the period July-September 2018.

- Diesel consumption (A2.5) has decreased by 3% in comparison with the same quarter last year, as a result of initiatives to reduce business travel and increase usage of electric vehicles.

5.0 Areas for Improvement

- Admissions to Salt Ayre Leisure Centre (A3.6) were below target for this quarter, but anticipated to exceed target across the whole year 2018-19; income for the Centre is also ahead of target despite the decrease in admissions.
- Average number of days of sickness absence per full-time employee (A4.2) has increased in comparison with the same quarter in previous years. The Human Resources team continue to support managers in proactively managing sickness absence to ensure a successful return to work at the earliest opportunity.

RELATIONSHIP TO POLICY FRAMEWORK

Performance and project monitoring provides a link between the Council Plan and operational achievement, by providing regular updates on the impact of operational initiatives against strategic aims.

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

The content of this report has no impact in itself.

LEGAL IMPLICATIONS

No legal implications directly arising from this report.

FINANCIAL IMPLICATIONS

No financial implications directly arising from this report.

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

No other implications directly arising from this report.

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	**Contact Officer:** Jez Bebbington
None.	Executive Support Manager **Telephone:** 01524 582011 **E-mail:** jbebbington@lancaster.gov.uk

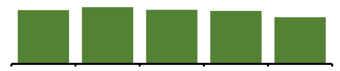
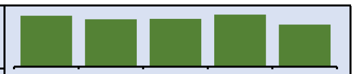
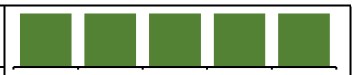
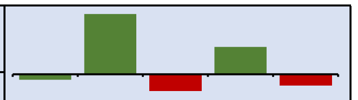
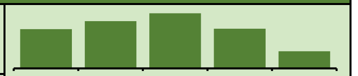
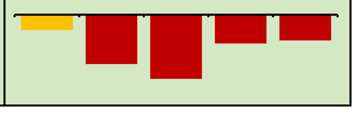
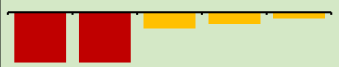
Appendix A

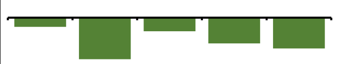
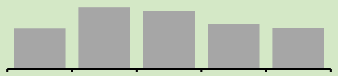
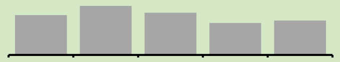
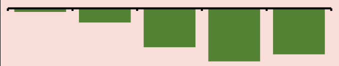
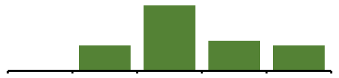
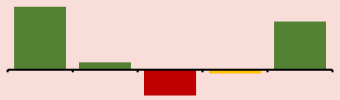
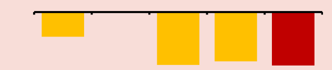
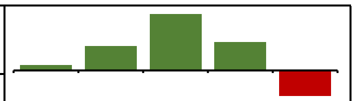
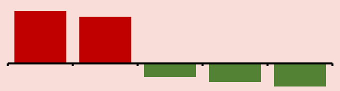
Lancaster City Council

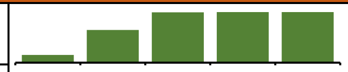
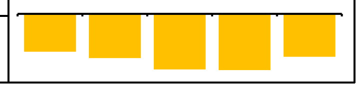
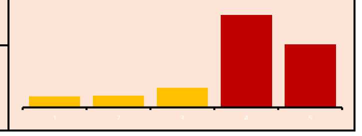
Delivering Our Ambitions: Quarter 3 Performance Scorecard

Quarter 3 - Overall Performance

12	2	5	3
On or above Target	Within 10% of Target	Below 10% of Target	Baseline/No Target

Performance Information		Year 2017/18						Year 2018/19						High Low Neutral	Trend
		Quarter 3		Quarter 4		End of Year 2017/18		Quarter 1		Quarter 2		Quarter 3			
Reference Code	Indicator	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual		
A Thriving and Prosperous Economy															
A1.1	Percentage of minor planning applications determined within 8 weeks or agreed time (Speed of Decision)	70%	98.41%	70%	100%	70%	99.1%	70%	98.61%	70%	98%	70%	94.67%	High is Good	
	Green: 75 applications in the Minor Category were determined in the quarter, with 71 of these being determined either within the statutory planning application timescale, or within a mutually-agreed timeframe with the applicant.														
A1.2	Percentage of other planning applications determined within 8 weeks or agreed time (Speed of Decision)	70%	99.32%	70%	97.30%	70%	98.82%	70%	97.52%	70%	100%	70%	94.25%	High is Good	
	Green: 174 applications in the Minor Category were determined in the quarter, with 164 of these being determined either within the statutory planning application timescale, or within a mutually-agreed timeframe with the applicant.														
A1.3	Percentage of major planning applications determined within 13 weeks or agreed time (Speed of Decision)	60%	100%	60%	100%	60%	100%	60%	100%	60%	100%	60%	100%	High is Good	
	Green: All 8 major applications determined within the quarter were determined either within the statutory planning application timescale, or within a mutually-agreed timeframe with the applicant.														
A1.4	Number of empty properties brought back into use	15	14	15	26	60	76	15	12	15	20	15	13	High is Good	
	Red: 13 empty homes were brought back into use with Council Involvement in the third quarter. So of the 212 properties being monitored 6% were brought back into use. The number of empty homes brought back into use each quarter is likely to fluctuate given the nature of the work, as it is dependent on the home owners willingness to work with the Council and the amount of work required to bring a home back into use. It is expected that the target of 15 properties will be met again in Q4.														
Clean, Green and Safe Neighbourhoods															
A2.1	Number of fly tipping reports actioned within 5 days	125	313	125	351	500	1,220	125	389	125	315	125	207	High is Good	
	Green: Between 1st Oct and 31st Dec, Public Realm dealt with 403 service requests around Fly Tipping, of which 207 had been fully dealt with and closed on the LAGAN system within 5 working days. This equates to 51.3% of all cases.														
A2.2	Percentage of household waste recycled (Quarter Behind)	45%	41.40%	45%	33.5%	45%	35.6%	45%	30.07%	45%	38.30%	45%	39%	High is Good	
	Red: This lagging performance percentage refers to Q2 and denotes the total amount of household waste recycled and composted. This overall percentage figure is made up of 20.82% Dry Materials and 18.14% Composted (Garden Waste). Dry materials have marginally increased on the previous year (2017/18) by +0.02% whilst composting has reduced by -2.49% (528 tonnes) likely as a result of the long hot summer with little garden growth.														
A2.3	Kilogrammes of residual waste per household (Quarter Behind)	87.17	88.4	87.17	82.2	348.68	334.58	87.17	75.9	87.17	88.3	87.17	81	Low is Good	
	Green: This lagging figure represents weights in Q2. This figure is low in comparison to previous Q2 figures and what we'd expect to see as a consequence of the low composting tonnage. However Q2 has also seen a reduction in household waste not sent for recycling, reuse or composting of 335 tonnes compared to the same quarter in 2017/18, notionally this reduction could also have resulted from less garden waste in the residual collection.														
A2.4	Total number of subscriptions to the Garden Waste Scheme	30,000	23,971	30,000	23,967	30,000	23,967	24,000	22,042	24,000	22,594	24,000	23,265	High is Good	
	Amber: The final figure for 2018/19. Subscriptions closed at the end of November 2018. Subscriptions will open for 2019/20 late January 2019.														

Performance Information		Quarter 3		Quarter 4		End of Year 2017/18		Quarter 1		Quarter 2		Quarter 3		High Low Neutral	Trend
Reference Code	Indicator	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual		
A2.5	Diesel Consumption - Council Vehicle Fleet (Litres)	121,728	120,321.5	121,728	115,342	486,912	484,805.5	121,728	119,639.5	121,728	117,762	121,728	117,001	Low is Good	
Green															
A2.6	Cost/M2 spent on energy across corporate buildings (Quarter Behind)	Baseline	£3.31	Baseline	£5.02	Baseline	£16.31	Baseline	£4.71	Baseline	£3.65	Baseline	£3.35	Low is Good	
Baseline: This figure has stabilised compared to the previous quarter, as we predicted, although it is up slightly on last year (£3.31) as the project to install smart meters and bring all billing up to date was still ongoing during this quarter. Further investigation also showed that the temperature was warmer on average for the quarter, but the drop in temperature from August to September was more severe and caused an influx of requests for heating to be brought online.															
A2.7	Amount of energy usage in council buildings (Gas/KWH) (Quarter Behind)	Baseline	809,376	Baseline	1,838,504	Baseline	5,591,719	Baseline	2,204,958	Baseline	1,250,679	Baseline	682,533	Low is Good	
Baseline: This figure is more stable and inline compared with the previous quarter, but is higher than last year for the same reasons as shown in the Cost M2 update.															
A2.8	Amount of energy usage in council buildings (Electricity/KWH) (Quarter Behind)	Baseline	656,213	Baseline	807,951	Baseline	2,754,790	Baseline	695,231	Baseline	527,235	Baseline	566,849	Low is Good	
Baseline: This is a drop in consumption when comparing year on year and Salt Ayre, Lancaster Town Hall and The Storey all seem to be contributing to this with the gradual introduction of LED lighting across sites.															
Healthy and Happy Communities															
A3.1	Number of people statutorily homeless	25	24	25	21	100	75	25	14	25	10	25	12	Low is Good	
Green															
A3.2	Number of Disabled Facilities Grants completed	50	50	50	78	200	232	50	122	50	83	50	78	High is Good	
Green: The average no of grants completed per month in 2017/18 was 19. The average no of grants completed per month at the end of Q3 2018/19 is 31.															
A3.3	Number of properties where 'category 1 hazards' have been eliminated	25	42	25	27	100	112	25	18	25	24	25	38	High is Good	
Green: In total, 95 properties were improved this quarter through the reduction of both/either category 1 (38) and category 2 (80) hazards. This compares with 70 for quarter 3 in 2017/18. The Housing Standards Team received a significant increase in applications for HMO licences following the change in legislation on the 1st October – 87 applications received in this quarter compared with 16 in quarter 3 2017/8.															
A3.4	Percentage of premises scoring 4 or higher on the food hygiene rating scheme	90%	88.49%	90%	88.52%	90%	88.52%	90%	88.36%	90%	87.80%	90%	90.70%	High is Good	
Green: The figure is calculated from Published figures available to the public, and has been adjusted for business currently not showing a food rating because they are new businesses awaiting inspection. Total number of rated businesses is 1132, and 1028 are rated 4 or 5.															
A3.5	Percentage of high risk food hygiene inspections completed	100%	93%	100%	100%	100%	100%	100%	85%	100%	86%	100%	75%	High is Good	
Red: High risk inspections are businesses that have either been given a poor food hygiene rating from their last inspection or businesses that produce high risk foods or cater for vulnerable customers. There were 12 businesses due for inspection in the quarter including 4 carried forward from the previous quarter. 9 businesses were inspected and 1 business was closed for refurbishment during the quarter and could not be inspected. The closed business reopened in January and has now been re-inspected. The two remaining businesses will be inspected in this quarter.															
A3.6	Total number of admissions to Salt Ayre Leisure Centre	230,000	237,222	197,740	232,554	737,740	747,301	130,000	210,621	180,000	220,521	230,000	193,561	High is Good	
Red: Oct to Dec is traditionally a quieter period for gym visits and new memberships. Although slightly behind target for Q3, we anticipate visitor numbers for Q4 to achieve target and in fact the outturn for the whole year 2018/19 is expected to slightly exceed the target.															
A3.7	Time taken to re-let council houses (Days)	38	66.31	38	63.13	38	63.13	38	30.80	38	27.92	38	25.68	Low is Good	
Green: The progress made in recent months has been sustained, and improved further, during Q.3. 73 properties were re-let during the period which equates to 207 re-lets cumulatively YTD. The void action plan remains in place with the aim of realising any additional gains.															

Performance Information		Quarter 3		Quarter 4		End of Year 2017/18		Quarter 1		Quarter 2		Quarter 3		High Low Neutral	Trend
Reference Code	Indicator	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual		
A Smart and Forward - Thinking Council															
A4.1	Number of followers on Lancaster City Council's Twitter Page (Cumulative Indicator)	9000	**9,295**	9000	**10,250**	9000	**10,250**	9000	**10,923**	9000	**11,295**	9,000	**11,858**	High is Good	
	Green: Number of followers has increased, despite Twitter removing dormant/fake accounts during the quarter which initially saw a dip in followers but which has since rebounded.														
A4.2	Average number of days of sickness absence per full time employee	1.75	**1.79**	1.75	**1.64**	7	**6.05**	1.75	**1.73**	1.75	**1.78**	1.75	**2.2**	Low is Good	
	Red: At the end of Q3 sickness rates were 0.45 above the QTD target. There is often a higher level of absence in Q3 due to seasonal viruses. The current financial year has also seen a higher level of long term absence. HR is working with managers to resolve long term absence, wherever possible. The Council has a challenging sickness absence target of 7.0 days or less per employee, well below the Public Sector average absence levels of 8.5 days per employee* (CIPD 2018)														
A4.3	Occupancy rates for all commercial properties (including estate shops)	100%	**97%**	100%	**96.5%**	100%	**96.50%**	100%	**95.60%**	100%	**95.30%**	100%	**96.60%**	High is Good	
	Amber: The total level of occupancy has increased by 1.3% following a tenant in CityLab expanding from one office to two and that vacant office being immediately relet during this quarter. In general terms 96.6% represents a good level of occupancy in the current climate.														
A4.4	Average time taken to process new Housing Benefit and Council Tax claims (Days)	23	**26**	23	**26.2**	23	**26.2**	23	**28.3**	23	**48**	23	**40**	Low is Good	
	Red: As reported for Q2 (48 days), the current Q3 performance is considered skewed, as a consequence of addressing a problem in claimants not applying for Council Tax Support at the right time, resulting in arrears. To counteract this issue the Council changed the Scheme, to allow backdating of Support to the Universal Credit start date, which in turn distorts the indicator in the short term. The PI is slowly returning towards target and is expected to recover over the coming months.														

BUDGET AND PERFORMANCE PANEL

Corporate Financial Monitoring 2018/19 – Quarter 3
19 February 2019
Report of the Interim Financial Services Manager

PURPOSE OF REPORT
To present the corporate financial monitoring report for Quarter 3 of the 2018/19 monitoring cycle.
This report is public

OFFICER RECOMMENDATIONS

(1) That Budget and Performance Panel considers the Cabinet Report dated 12 February 2019 and attached appendices, making any comments and recommendations considered necessary.

1.0 CORPORATE FINANCIAL MONITORING 2018/19 - QUARTER 3

1.1 The report attached at ***Appendix 1***, presented to Cabinet on 12 February 2019, provides a summary of financial monitoring for Quarter 3 of the 2018/19 performance monitoring cycle.

1.2 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.

CONCLUSION OF IMPACT ASSESSMENT (including Health & Safety, Equality & Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing): As set out in the relevant appendices.
LEGAL IMPLICATIONS As set out in the relevant appendices.
FINANCIAL IMPLICATIONS As set out in the relevant appendices.
OTHER RESOURCE IMPLICATIONS, such as Human Resources, Information Services, Property, Open Spaces: As set out in the relevant appendices.

SECTION 151 OFFICER'S COMMENTS This report is in the name of the s151 Officer, albeit in the capacity as Interim Financial Services Manager	
MONITORING OFFICER'S COMMENTS The Monitoring Officer has been consulted and has no further comments.	
BACKGROUND PAPERS None.	**Contact Officers:** Danial Bates, Interim Financial Services Manager **Telephone: 01524 582138** **E-mail:** **dbates@lancaster.gov.uk** **Ref:**

Appendix 1

CABINET

Corporate Financial Monitoring 2018/19 – Quarter 3

12 February 2019

Report of the Interim Financial Services Manager

PURPOSE OF REPORT					
To provide an overview of the Council's financial position for Quarter 3 of the 2018/19 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 endorses the supporting actions as set out in Appendix A.**

1. Overview

1.1. The corporate financial monitoring report for Quarter 3 is attached at **Appendix A**. The headline messages are as follows:

- Quarter 3 monitoring is against the original budget as approved by Council 28th February 2018 and not a revised position as has been the case in previously
- As at 31st December a slight net overspend of **£17K** existed. Should spending progress as currently forecast, a net overspend in the region of **£13K** could be experienced by year-end, once agreed funding from the Council's reserves is applied. Although officers are currently taking action to address each area of overspending, an amount of **£13K** would equate to approximately **0.08%** of the Councils Net Revenue Budget for 2018/19... However, should a net overspending still be forecast then General Fund unallocated balances would need to be used to fund it
- The Housing Revenue Account is currently underspent by **£87K**, and this is expected to increase to **£143K** by the year-end. The key message relates to the significant improvement in void property turnaround times, which has led to forecast additional rental income of **£100K**.

1.2. Lower level analysis to support the values above is included at **Appendix B.**

1.3. An update and supporting commentary on Salt Ayre financial and non-financial performance is included at **Appendix C**

1.4. Details of the Councils General Fund and HRA Capital Programme, expenditure to date and forecast year-end outturn is included at **Appendix D** and **Appendix E.**

1.5. A full list of General Fund reserves and current forecast year-end balances are included at **Appendix F.**

1.6. Progress against the savings measures approved as part of the 2018/19 budget is detailed within **Appendix G*.*** Progress is allowed for in the overall headline figures quoted above.

1.7. To support corporate financial monitoring, the latest Treasury Management update report is included at **Appendix H**.

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 the capacity as Interim Financial Services Manager

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comment

BACKGROUND PAPERS	**Contact Officers:** Danial Bates, Interim Financial Services Manager **Telephone: 01524 582138** **E-mail:** dbates@lancaster.gov.uk **Ref:**
None.	

Appendix A

CORPORATE FINANCIAL MONITORING 2018/19

QUARTER 3: October to December 2018

INTRODUCTION

This report provides an overview of the Council's financial position and key budgetary variances as at the end of December 2018, in terms of the revenue and capital budgets and local taxation. It also includes updates on key reserves and income collection. Please note that Quarter 3 monitoring is against the original budget as approved by Council 28th February 2018 and not a revised position as has been the case in previously.

REVENUE BUDGET

General Fund – As at 31st December a slight net overspend of **£17K** existed. Should spending progress as currently forecast, a net overspend in the region of **£13K** could be experienced by year-end, once agreed funding from the Council's reserves is applied. Although officers are currently taking action to address each area of overspending, an amount of **£13K** would equate to approximately **0.08%** of the Councils Net Revenue Budget for 2018/19.

The main variances are summarised in the table below and provided in more detail at **Appendix B**. In addition, a separate monitoring statement on Salt Ayre Leisure Centre is included at **Appendix C.**

	Qrt 3 £000's	**Full Year Forecast £000's**
General Fund Revenue Budget	**16,204**	**16,204**
	(Favourable)/ Adverse	
Employees	122	179
Premises	10	86
Transport	28	44
Supplies & Services	(50)	56
Fees & Charges	(187)	(231)
Minor Variances	33	26
Other Variances	61	(148)
Update Revenue Budget	**16,221**	**16,217**
(Under)/ Overspend	**17**	**13**
Percentage of Net Revenue Budget	**0.10%**	**0.08%**

Movement September (Q2) to December 2018 (Q3)

The Council's overall projected position has improved since Qtr. 2 (**+£93K**). This is because of several variances the most significant being, a reduction in the forecast over spend of employee expenses of (**£58K)**, together with increased parking fees, and investment income of (**£30K)** and **(£14K)** respectively.

These favourable variances are offset by the areas such as the impact of reduction in demand for Gravity at Salt Ayre **£26K** and a reduction in the amount reclaimed for engineers salaries for the Caton Road Flood Defence project **£13K.**

Movement in Year

As previously reported the significant movements for the year to date are, Salt Ayre's contract with the University of Cumbria **(£83K),** additional grant funding **(£88K)** being received in relation to Disabled Facilities Grants, additional licence fee income as a result of legislative changes in regard to Houses of Multiple Occupancy (HMO) **(£74K).** In addition, we have identified a saving on the Councils

Minimum Revenue Provision (MRP) (**£103K**) and have been allocated (**£35K)** from Central Government over the next 2 financial years in order to prepare for Brexit, (**£17.5K)** has been included in the full year forecast.

Conversely, budget pressures remain evident within several service areas, additional air quality and traffic count reports are required as part the Council's Local Plan **+£117k**, reduced occupancy levels on the markets continue +**£15K**, as is reduced activity within Building Control **+£62K**.

Although the corporate staff turnover provision was removed as part of PRT 2 and budgets realigned based on projected phasing of recruitment, the funding of temporary appointments to fill various positions within the Council continues to place pressure in the area.

Garden Waste Collection - The Council's garden waste collection service has generated £904K of income, but a shortfall (+£57K) is still forecast.

The following table illustrates the number of subscriptions gained in 2018/19 and the corresponding financial impact

	Estimated Subscriptions	**Actual Subscriptions**	**Variance**	**Original Budget £**	**Actual £**	**Variance £**
Paid prior to 01 April 2018	20,841	17,839	-3,002	833,640	713,560	-120,080
Paid during 2018/19	3,159	4,749	1,590	126,360	189,960	63,600
TOTAL	**24,000**	**22,588**	**-1,412**	**960,000**	**903,520**	**-56,480**

Housing Revenue Account (HRA) – Current underspent by **£87K,** which is forecast to increase to **£143K** by year-end. As reported previously a significant improvement in void property turnaround times which has led to forecast additional rental income **(£100K)**. However, additional contributions have been made in respect of staff turnover savings **(£27K)** and direct revenue financing because of slippages within the HRA capital programme.

CAPITAL

Expenditure

General Fund – The Capital Programme remains unchanged from that reported at Quarter 2 totalling £15.251M.

Capital Movements		
Original Capital Programme		**£11.400M**
Slippage 2017/18	Slippage & accelerated expenditure from 2017/18	**£0.515M**
Quarter 1 Movements		**£0.204M**
Quarter 2 Movements		**£3.132M**
Quarter 3 Movement		**£0.000M**
	Total Movements	**£3.851M**
Revised Capital Programme		**£15.251M**

Total spend and commitments to the end of December totalled **£5.191M** leaving **£10.060M** still to spend. A review of the programme has highlighted potential slippage of **£8.510M**. Details of variances over £500K are included below.
General Fund Capital Programme expenditure to date and forecast year-end outturn is included at **Appendix D.**

Service	Scheme	Forecast Year End Variance £	Comments
Environmental Services	Vehicle Renewals	(562,000)	The replacement of some vehicles have been deferred
Health and Housing	Disabled Facilities Grants	(1,178,000)	Forecast based on performance to date
Regeneration & Planning	Morecambe THI2: A View for Eric	(522,000)	Due to the late withdrawal of a partner, it has not been possible to identify an alternative suitable project before the end of the financial year. The remaining expenditure and related grant will therefore lapse.
	Canal Quarter	(2,000,000)	Amount originally allocated to make a bid to purchase land owned by British Land is no longer required. A bid for £550k to facilitate the purchase of alternative strategic land acquisition in Canal Quarter has been put forward for 2019/20
Resources	Corporate Property Works	(2,598,939)	Several schemes within this programme of works have been held back pending review as part of 2019/20 budget round.

Housing Revenue Account (HRA) – The HRA Capital Programme remains unchanged from that reported at Quarter 2 totalling **£4.481M**. Spend and commitments to the end of December totalled **£2.431M** leaving **£2.050M** still to spend. A review of the programme has highlighted potential slippage of **£114K**.
Details of the HRA Capital Programme expenditure to date and forecast year end performance is included at **Appendix E.**

Financing

General Fund

£5.713M of grants and contributions have been received against a revised budget of £6.328M, with capital receipts at the end of December 2018 of £41k; all of these receipts will be utilised in support of the Minimum Revenue Provision.

RESERVES

Details of movements in reserves totalling **£53K** are below. A full list of reserves

Budget Support Reserve – Approved allocations are below, which leave a current balance of **£1.729M** on the reserve.

	£000's
Opening Balance	**1,734**
ICT Azure Business Case	(5)
Closing Balance	**1,729**

Renewals Reserve – Approved allocation are below which leave a current balance of **£208K** on the reserve.

	£000's
Opening Balance	**257k**
SALC Swimming Pool Heating Control	(30)
Pool Car replacement	(19)
Closing Balance	**208**

General Fund Unallocated Balances

Unallocated General Fund Balances remains unchanged from Quarter 2 at **£5.046M**

A full list of reserves and current forecast year-end balances are included at **Appendix F.** As part of the annual budget setting process, the s151 Officer is required to review the level and purpose of the Councils reserves to ensure they are appropriate for both the internal and external risks to which it is exposed.

LOCAL TAXATION

Council Tax – Current deficit of £599K (£94K deficit as at 31 March 2018). Main changes are:

- Deficit from previous year +£94K
- Reduced cost of Council Tax Support (£107K)
- Reduced charge for Second/Empty Homes +£107K
- Other Movements in Tax Base +£504K

In tax base terms, this equates to approximately 335 net chargeable Band D equivalent properties, bringing the total tax base to 41,417 gross properties.

Retained Business Rates – The latest position on business rates shows net income down by £1.171M when compared to the original estimate, after allowing for an increase in estimated appeals of £1.130M.

	Original £000's	**Qrt 1 (June 18) £000's**	**Qrt 2 (Sept 18) £000's**	**Qrt 3 (Dec 18) £000's**	**Movement From Original Fav (-) / Adverse (+) £000's**
Net Rates Payable	(64,487)	(65,398)	(64,767)	(64,446)	41
Appeals	3,123	4,132	3,821	4,253	1,130
Business Rates Income	**(61,364)**	**(61,266)**	**(60,946)**	**(60,193)**	**1,171**
City Council Retained Income (40%)	(24,546)	(24,506)	(24,378)	(24,077)	469
Less Tariff	18,848	18,848	18,848	18,848	-
Add Net Small Business Rates Relief Grant	(1,102)	(1,042)	(1,054)	(1,069)	33
Net Retained Income	**(6,800)**	**(6,700)**	**(6,584)**	**(6,293)**	**507**
Safety Net Payment	-	-	-	-	-
Baseline	(5,518)	(5,518)	(5,518)	(5,518)	-
Growth Above Baseline	(1,282)	(1,118)	(1,066)	(775)	507
50% Levy Payment	616	589	531	387	(229)
Total Retained Income	**(6,184)**	**(6,111)**	**(6,053)**	**(5,906)**	**278**

Overall, the total estimated Retained Income is **£278K** down on the original forecast due to the impact of the increase in appeals. This position will inevitably fluctuate during the year. The Business Rates Reserve will be used to negate the impact on the General Fund.

<u>Appeals</u>
Analyse Local currently provide our appeals data and suggest our exposure has increase by **£1.130M** to **£4.253M** from the original budget figure of **£3.123M**, a movement of **£432K** from Qrt 2. The reasons are due to an increase in general appeals, and a volume of specific appeals, regarding Automatic Teller Machines (ATMs) totalling **£517K**.

The s151 Officer is currently reviewing our provision for 2019/20 to ensure it is adequate to address the risk of successful appeals with particular reference to outages at Heysham Power Station and ATM's.

<u>Future Risks</u>
A legal challenge by 20 NHS Foundation Trust to allow them to claim charitable status, which attracts an 80% reduction in their Business Rates. The Council is not party to the initial action but should the case be successful its liability regarding Lancaster Royal Infirmary (LRI), if backdated to 2010 would be approximately **£925K.**

The Council opted out of joining the Lancashire 75% Business Rate Pooling pilot and so continues to enjoy the protection of the Governments Safety Net arrangements for any significant income loss, such as outages at Heysham Power Stations. From 2020/21 when the 75% Business Rate Retention Scheme is introduced nationally there is a risk that without a Safety Net arrangement the other Lancashire Pool members may continue not to propose suitable risk sharing arrangements and the Council may have to bear the full impact of the of the significant risk imposed by Heysham Power Station. This issue is not unique to Lancaster and the Council along with other Councils with nationally strategic assets such as Power Stations are continuing to raise this issue with Central Government.

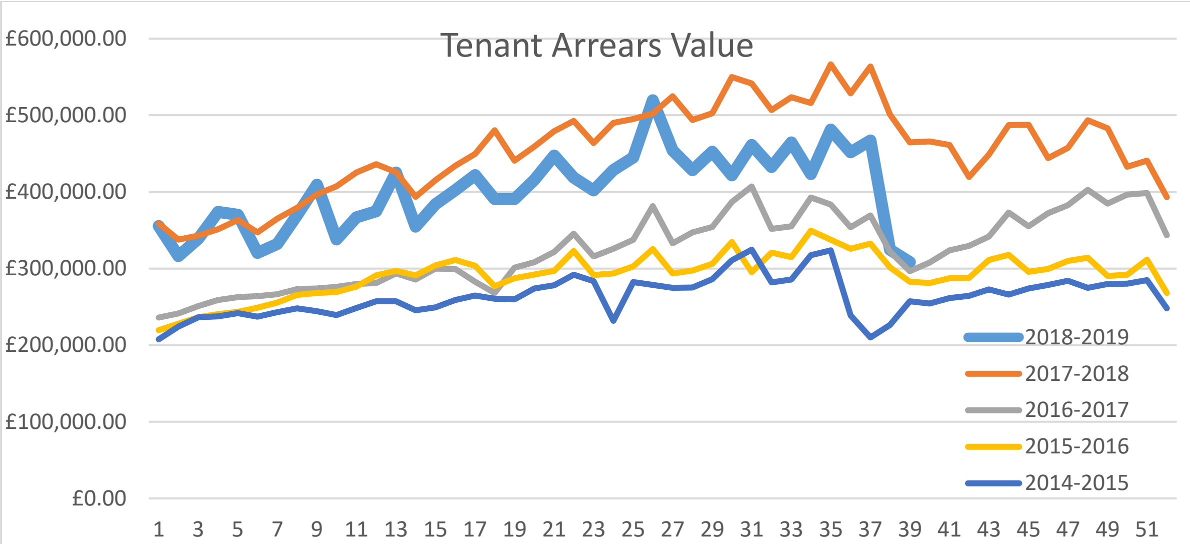
Collection Performance

	Full Year Target	**Qrt 3 Target**	**Qrt 3 Actual**	**Variance Fav (-) / Adverse (+)**
Council Tax	96.1%	84.3	84.4	(0.1)
Business Rates	98.7%	79.9	79.9	0

Both Council Tax and Business Rates collection rates are in line with the annual profile, with the expectation the full year targets will be achieved.
No specific action is required at this point.

INCOME COLLECTION

Council Housing Rent Arrears – At the end of week 39 the level of current council housing rent arrears was **£308K** (2.3% of **£13.337M** rent debit). This represents a decrease of **£212K** on the previously reported Qtr2 figure of **£520K**, and a **£156K** (34%) reduction against 2017/18 Q3 arrears values **(£465K).** This reflects Council Housings increased focus on intervention, and a more intensive approach to income management.



Sundry Debts – At the end of December, the level of debt was **£2.671M**, which is a decrease of **£339K** from Qtr2. The bad debt provision (BDP) currently stands at **£2.491M**, which is **£57K** higher than the required level. No action is required at present. We will review our BDP as part of our year-end assessment.

SERVICE	< 28 Days	28-59 Days	60-91 Days	92-183 Days	184-364 Days	365+ Days	2018/19 QUARTER 3 TOTALS	*Compared to 2017/18 Quarter 3 totals*
	£	£	£	£	£	£	£	
Enviromental Services	63,236	63,243	7,504	24,772	113,578	15,407	287,740	*252,213*
Regeneration & Planning	10,727	170	32,500	1,267	342	26,807	71,812	*48,607*
Resources	135,911	25,076	65,018	49,210	46,392	49,909	371,516	*468,340*
Health & Housing	24,251	1,338	20,296	11,707	26,791	23,795	108,178	*79,727*
Governance	-	225	-	885	-	967	2,077	*500*
Hsg Benefits (Revenues)	25,361	43,386	38,970	65,046	174,029	1,482,919	1,829,711	*1,955,584*
2018/19 Quarter 3 Totals	**259,485**	**133,439**	**164,287**	**152,887**	**361,133**	**1,599,804**	**2,671,035**	***2,804,971***
2018/19 Quarter 2 Totals	***351,592***	***151,079***	***109,769***	***497,851***	***250,150***	***1,649,672***	***3,010,113***	

CONTRACT PROCEDURE RULES AND OTHER EXCEPTIONS TO TENDER

<u>Exceptions to Tender – There were two exceptions to tender in Quarter 3:</u>

Microsoft Enterprise Agreement Renewal.
Renewal of the Councils Microsoft Enterprise licences via a direct award using the KCS framework in order to secure current prices.

Lancaster Canal Quarter Regeneration Preparation of a Strategic Regeneration.
Use of Homes England Framework, competition was carried out but from select list of suppliers.

2018/19 QUARTER 3 REVENUE MONITORING - GENERAL FUND

Appendix B

Subjective Area	Service	Reason for Variance	Current Variances		Projection for Year	
			Adverse / (Favourable)		Adverse / (Favourable)	
			£	£	£	£
Employees	Environmental Services	Salaries - turnover savings	(101,966)		(139,700)	
	Environmental Services	Provision for staff turnover	123,163		164,200	
	Environmental Services	Approved Revenue Savings	42,800		42,800	
				63,997		67,300
	Governance	Additional Staff Costs	29,333		58,722	
	Governance	Provision for staff turnover	11,627		15,500	
	Governance	Minor Employee variances	1,727		1,800	
				42,687		76,022
	Health & Housing	Staff Turnover	(32,200)		(25,200)	
	Health & Housing	Provision for staff turnover	38,100		50,800	
	Health & Housing	Additional overtime due to new HR standby policies	3,500		4,700	
				9,400		30,300
	Health & Housing - Leisure	Provision for staff turnover	27,602		36,800	
	Health & Housing - Leisure	SALC Sals - Various vacant posts	(38,041)		(66,591)	
	Health & Housing - Leisure	Minor Employee variances	(4,020)		(4,200)	
				(14,459)		(33,991)
	OCE	Various additional staffing costs	15,107		2,200	
	OCE	Provision for staff turnover	25,352		33,800	
				40,459		36,000
	Regeneration & Planning	Provision for staff turnover	33,078		65,900	
	Regeneration & Planning	Regen & Planning salary variances due to vacant posts and lower SCP's.	(14,806)		(10,708)	
	Regeneration & Planning	VIC additional costs due to TUPE of County staff	5,794		12,290	
				24,065		67,482
	Resources	Various turnover savings including vacant CSC, Finance, Property and ICT posts	(73,044)		(102,336)	
	Resources	Provision for staff turnover	30,004		40,000	
	Resources	Revised EL&TP Insurance Recharges	(1,401)		(1,500)	
				(44,441)		(63,836)
		Employees Total		**121,709**		**179,277**
Premises	Environmental Services	Williamson Park - bringing electricity budget in-line with previous year spend based on current usage	(987)		7,000	
	Environmental Services	Markets - New lighting required, not included in original Property Services schedule	4,617		5,700	
				3,630		12,700
	Health & Housing - Leisure	SALC - Additional costs associated with NNDR, installation of CHP unit and increased usage by SPA	35,250		68,800	
	Regeneration & Planning	Middleton Wood Pumping Station fault investigation and repair	-		25,000	
				35,250		93,800
	Resources	Net savings on Repairs & Maintenance	(20,553)		(7,500)	
	Resources	Rates savings at Storey/Lansil Water Treatment Plant	(8,454)		(13,000)	
	Resources	Revised Premises Insurance Recharges	5		(300)	
				(29,002)		(20,800)
		Premises Total		**9,878**		**85,700**
Transport	Environmental Services	Diesel prices - 7.5% increase in first six months of the year	19,243		19,300	
	Environmental Services	Vehicle Maintenance Unit Stock Write-Off. New systems of management and control to be introduced	(385)		14,900	
	Environmental Services	Pooled vehicles - Delays in receiving vehicles resulted in additional hire costs	8,817		8,600	
				27,675		42,800
	Health & Housing	Reduction in Car Allowances rate from October 18	(2,500)		(2,500)	
	Health & Housing	Additional Van costs for Pest control	3,300		3,800	
				800		1,300
		Transport Total		**28,475**		**44,100**
Supplies & Services	Environmental Services	Nursery - Correction of year end stocktake	20,191		5,700	
	Environmental Services	Waste Collection approved savings not achieved	22,953		30,600	
				43,144		36,300
	Governance	Legal Case Management System - project to be delayed until 2019/20	(20,000)		(20,000)	
	Governance	Reduction in Members Allowances in year	(2,815)		(3,100)	
	Governance	Reduction in demand for Community Governance Review	(20,494)		(20,000)	
	Governance	Various minor legal increases	684		5,110	
				(42,625)		(37,990)
	Health & Housing	Licensing - Increased use of Agency staff	10,300	10,300	10,300	10,300
	Health & Housing - Leisure	Inclusion of Management Fee expenditure	3,297	3,297	5,000	5,000
	OCE	ICT Software - Reduction in costs in year	15,954		3,200	
	OCE	Mobile Phone - Reduced recharges	(4,147)		(5,100)	
	OCE	Reduced Insurance Recharges	(2,999)		(3,000)	
	OCE	Increased HR demand for legal advice	-		2,000	
				8,808		(2,900)
	Regeneration & Planning	Reduction to IDOX subscriptions	(18,600)		(18,600)	
	Regeneration & Planning	Additional Local Plan reports required	26,258		117,300	
	Regeneration & Planning	Additional Planning legal costs and support for upcoming court cases	(10,000)		36,000	
	Regeneration & Planning	Increase to numbers of statutory advertising regarding certain planning application	2,157		7,000	
	Regeneration & Planning	Economic Growth initiatives slipped to 2019/20	(40,934)		(55,000)	
				(41,120)		86,700
	Resources	DWP Housing Benefit Grant - Additional monies received	(25,000)		(35,800)	
	Resources	Reduced Property Services Consultancy requirement	(6,668)		(5,000)	
				(31,668)		(40,800)
		Supplies & Services Total		**(49,863)**		**56,610**
Fees & Charges	Environmental Services	Car Parking - Increased pay and display income expected	(16,633)		(77,800)	
	Environmental Services	Markets - Reduced occupancy levels resulting in lower rent income	14,845		14,600	
	Environmental Services	Williamson Park - Increase in visitor numbers	(32,738)		(22,100)	
	Environmental Services	Splash Park - Lower than expected user numbers	18,108		17,800	
	Environmental Services	Happy Mount Park - Additional profit share from café concession	(7,925)		(7,900)	
	Environmental Services	Garden Waste - Subscription levels currently in excess of 22,500 against projected 24,000	55,030		57,000	
	Environmental Services	Trade Waste - Additional income	(150,890)		(35,300)	
	Environmental Services	Waste Collection - Income budget for bins and boxes realigned with previous year outturn	15,299		14,300	
				(104,904)		**(39,400)**
	Governance	Additional court costs awarded	(24,852)		(30,000)	
	Governance	Reduction in the predicted number of searches for year	10,039		9,000	
				(14,813)		**(21,000)**
	Health & Housing	Increase in HMO Income	(55,300)		(73,700)	
	Health & Housing	Additional income from externally funded staff time recharges	(18,800)		(25,000)	
	Health & Housing	Pest Control - Increase in charges	14,700		15,900	
	Health & Housing	Add Income from disclosure training & £1600 inc from CSP for statement taking	(3,100)		(5,600)	
	Health & Housing	Lancashire County Council DFG grant completions	(81,800)		(110,200)	
	Health & Housing	Reduced Licensing Income	900		2,500	
				(143,400)		**(196,100)**
	Health & Housing - Leisure	University of Cumbria Contract 2018/19	(41,499)		(83,400)	
	Health & Housing - Leisure	Reduced demand for Gravity	14,459		39,300	
				(27,040)		**(44,100)**
	OCE	Costs of staff advertisements	2,986	**2,986**	3,000	**3,000**
	Regeneration & Planning	Planning fee - Additional income	31,425		7,500	
	Regeneration & Planning	Income to be recovered against Viability work from developers	-		(10,000)	
	Regeneration & Planning	Platform - Additional income from increased numbers of shows	(14,000)		(14,611)	
	Regeneration & Planning	Building Control reduced application volumnes	46,484		62,000	
	Regeneration & Planning	Light up Lancaster and Vintage revenue savings target removed.	17,039		19,500	
	Regeneration & Planning	Engineers Capital Salaries adjustment	6,527		(8,600)	
				87,475		**55,789**
	Resources	Reduction in Printrooms Café income target	13,025		23,100	
	Resources	Additional Rent & Service Charge income at CityLab/Storey	-		(12,500)	
				13,025		**10,600**
		Fees & Charges Total		**(186,671)**		**(231,211)**
Minor Variances	Environmental Services	Minor variances	30,373		20,700	
	Governance	Minor	(4,005)		(2,700)	
	Health & Housing	Minor & ASB	(2,300)		8,500	
	Health & Housing - Leisure	Minor Leisure variance Cumulative total of minor variances within service	(2,900)		(10,200)	
	OCE	Minor	(300)		700	
	Regeneration & Planning	Minor R&P income variances	(1,316)		(8,929)	
	Resources	Minor Resources variances	13,408		17,870	
		Minor Variances Total		**32,960**		**25,941**
Other Variances	Environmental Services	RMS (recharges into account)	(46,597)		(20,200)	
	Environmental Services	GM Contract (outside service)	67,678		(2,600)	
	Environmental Services	On-Street P&D	5,828		-	
	Environmental Services	WLD recharges	(2,623)		200	
	Environmental Services	Building Cleaning recharges	5,131		6,200	
	Environmental Services	Commuted Sums - budget correction for S106 contribution to Bolton-le-Sands young peoples facilities	-		15,000	
	Governance	Changes in recharges to HRA	-		(24,100)	
	OCE	HRA recharges	-		(6,500)	
	Other Income & Expenditure	Minimum Revenue Provision Saving	-		(103,800)	
	Resources	Revised HRA recharges	-		(11,200)	
	Other Income & Expenditure	MHCLG Brexit Funding			(17,500)	
	Other Income & Expenditure	Reduction in investment income	31,500		16,900	
		Other Variances Total		**60,917**		**(147,600)**
		Total Forecast (Under)/ Over Spend		**17,404**		**12,817**

Appendix C

SALT AYRE LEISURE CENTRE

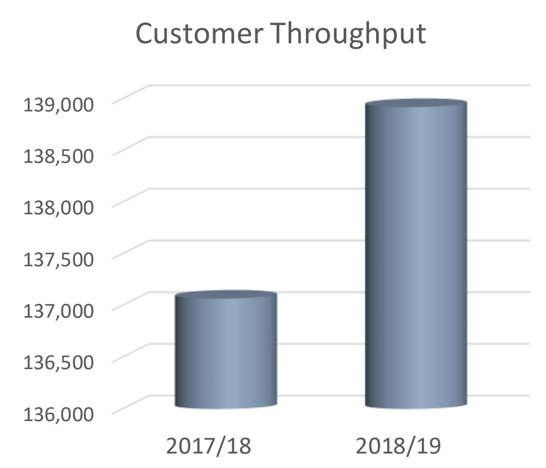
2018/19 QUARTER 3 PERFORMANCE MONITORING

Key messages

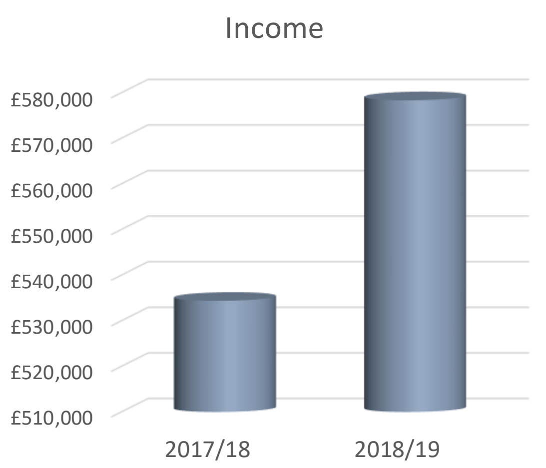
- **This years predicted operating subsidy for Salt Ayre Leisure Centre (SALC) has reduced by £500K to £200K- (It was £700k pre development). Year to date Income exceeds budget by £50k.**
- Quarter 3 financial performance is showing a net surplus of **£2791**
- Salt Ayre has sustained and is continuing to grow throughput. Pre development figures of circa 300,000 visits increasing to circa 750,000 post development, the centre still manages to gain in key areas such as the gym and Spa. **1800 i**ncrease for Quarter 3
- Salt Ayre won Health & Fitness Venue of the Year at the Bay Business Awards
- Swimming income continues to increase as a result of a number of improvements in the way lessons are managed. Introducing the direct debit option has resulted in easier payment options for customers and a more regular flow of income to the Centre. The income target has been increased by £112k.
- Health and Fitness similarly continues to perform exceeding original targets with an increase of £56k being added to original budget expectations.
- The increase in premises costs has been previously reported and due to an increase in National Non Domestic Rates (NNDR) of £21k and the installation of the new CHP led to an over optimistic energy budget reduction. Both these were outside the control of SALC. Winter data is now showing the CHP is delivering savings and with more energy efficient practices across the centre, there is a £20k of savings expected. Further adjustments will take place once a fully year of actual performance has been established.
- The building heating management system in the Swimming Pool Hall failed. Cost of work circa £30k funded from council reserves. This quarter has been very challenging in terms of repairs and maintenance with unexpected and unplanned repairs needed for the centre which has resulted in a small increase in premises costs.
- Additions to budget forecast include £37k for staff turnover, which is a figure the Council sets across all services. General reductions as a result of staff turnover are already included within management of wages and salaries.
- The café continues to perform well and is on track to meet or exceed the target of £413k.

	2017/18 Full Year Actuals	2018/19 Original Full Year Budget	Qtr3 Budget	Qtr3 Actual	Qtr3 Variance	Full Year Projection	Variance to Original Budget	Percentage of Original Budget
	£	£	£	£	(Favourable) / Adverse £	£	(Favourable) / Adverse £	
Expenditure								
Employees	1,259,787	1,396,400	1,011,040	981,849	**(29,191)**	1,367,209	**(29,191)**	-2%
Premises Costs	589,995	548,900	446,592	545,392	**98,800**	647,700	**98,800**	18%
Transport Costs	23,000	14,600	17,807	17,407	**(400)**	14,200	**(400)**	-3%
Supplies and Services	538,632	539,000	429,764	438,464	**8,700**	547,700	**8,700**	0%
Funding from Renewals Reserve	(89,814)	0	0	(30,000)	**(30,000)**	(30,000)	**(30,000)**	
Income								
Fees and Charges	(2,123,387)	(2,354,500)	(1,765,625)	(1,816,325)	**(50,700)**	(2,405,200)	**(50,700)**	2%
Direct Net Operating Cost/(-) Surplus	**198,213**	**144,400**	**139,578**	**136,787**	**(2,791)**	**141,609**	**(2,791)**	
Support Service Costs	399,292	361,800	271,350	271,350	**0**	361,800	**0**	
Total Net Operating Cost	**597,505**	**506,200**	**410,928**	**408,137**	**(2,791)**	**503,409**	**(2,791)**	
Renewals Reserve Contribution	150,000	150,000	0	0	**0**	150,000	**0**	
Capital Financing Costs - MRP re £5M development	177,973	218,500	163,875	163,875	**0**	218,500	**0**	
Total Net Cost	**925,478**	**874,700**	**574,803**	**572,012**	**(2,791)**	**871,909**	**(2,791)**	

Customer Throughput	**2017/18 £**	**2018/19 £**	**(Favourable) / Adverse**	**(Favourable) / Adverse %**
Shop	771	465	306	39.69%
Health & Fitness	30,173	37,462	(7,289)	(24.16%)
SASC Café	54,876	50,252	4,624	8.43%
Sports Hall	5,743	6,149	(406)	(7.07%)
Studio	9,468	9,031	437	4.62%
Swimming	16,942	16,299	643	3.80%
Spa	3,193	5,949	(2,756)	(86.31%)
Gravity	202	135	67	33.17%
Xheight	2,752	2,199	553	20.09%
Energy	12,947	10,978	1,969	15.21%
	137,067	**138,919**	**(1,852)**	**0.00%**



Income	**2017/18 £**	**2018/19 £**	**(Favourable) / Adverse £**	**(Favourable) / Adverse %**
Shop	3,300	2,551	749	22.70%
Health & Fitness	186,840	244,085	(57,245)	(30.64%)
SASC Café	112,782	97,937	14,845	13.16%
Sports Hall	46,528	40,993	5,535	11.90%
Studio	7,091	4,367	2,724	38.41%
Swimming	111,954	96,132	15,822	14.13%
Spa	17,019	52,458	(35,439)	(208.23%)
Gravity	2,111	908	1,203	56.99%
Xheight	17,771	18,535	(764)	(4.30%)
Energy	28,974	20,380	8,594	29.66%
	534,370	**578,346**	**(43,976)**	**(8.23%)**



Comments from Sports Development & Facilities Manager

- Staff turnover in key cost centres (Health & Fitness / Spa) has been a challenge in Q3. In spite of this December 2018 was the best performing month since opening.
- Significant contribution to the Spa throughput has been the success of The Feel Good Suite in this quarter.
- Salt Ayre worked collaboratively with 'Lancaster on Ice by' providing reduced entry fee on production of ticket. The success of 'Lancaster on Ice' may have contributed to a decrease in 'Energy' admissions as we have seen 500 less admissions compared to the same period in December last year.
- 16 Staff undertook group exercise training delivered by the Precor Master Trainer in preparation for the launch of the new class timetable in January.
- Active Lives Team is now back up to full strength and ready to deliver for the final 15 months of the contract.

Education

- Work continues to grow with the School Sport Partnership. 12 schools attended in the quarter which was an increase on Q2.
- CPD workshops continue to be delivered at Salt Ayre for primary and secondary school teachers.
- Schools Sports Partnership Conference took place in December with over 80 local school teachers attending.
- The Chadwick Centre for excluded children have been attending regularly and have increased their number of sessions per week. Positive feedback received from teachers, pupils and County Council inspectors.
- Work experience opportunities have been created with the local college and high schools and the team at SALC also provide tours and workshops on health & safety, facility management and Spa operation

Disability sessions

- The ongoing programme continues to grow. Around 150 visits per week attending the regular programme.
- Piccadilly Gardens, centre for adults with learning disabilities, now access SALC on a weekly basis taking part in a range of activities.

Partnership working / Community Support

- The Midwives continue with 4 clinics per week. This has been very well received due to the closure of community venues such as Children's Centres. The Centre also provides a venue for health visitors to see clients.
- University Of Cumbria are delivering their Rehabilitation Clinics running 2 days per week. This enables 3rd year students to hone their skills for the benefit of Centre users and the general public. To date over 100 have benefited from this service.
- LFX and Les Mills annual seminars took place in The Hub for the first time and repeat bookings have been secured.

Programme development

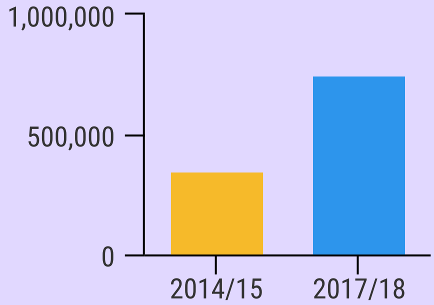
- SALC have developed some new holiday activities to stimulate the creative side of child development. Creation station and Pyjama Drama have been successful in attracting a new audience. Breakfast with Santa and Christmas Disco in Energy were both sold out events, as were the Learn to Cycle sessions. Roller disco was added to October half term which proved successful
- SALC now has pre-school offer every day. The introduction of a new pre-school swim to complement our children's play Zappers sessions.
  Similarly the Centre contributes greatly to the Council's 'Ambitions' plan and has this new vibrant ethos at its heart.

Salt Ayre

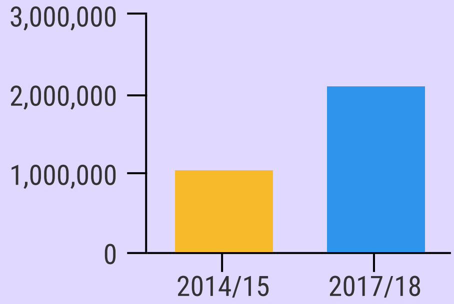
Directorate for Communities and the Environment

How did the development affect performance?

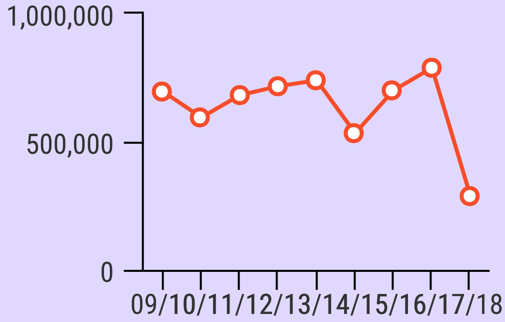
Increase in Customer Throughput



Increase in Overall Net Income



Net Operating Subsidy



From October 2017 - October 2018 Salt Ayre has ....

Helped 15 families from Safe attend sessions (domestic violence charity)

Served 57,532 hot drinks

Welcomed 1,152 babies via midwife clinics at SALC

Had over 3,500 visitors to our disability sports programme

Relaxed 13,500 visitors in our Spa

Tired out 32,000 children in soft play

Let 8,300 children climb the walls

Sang Happy Birthday 730 times

- APSE - Best public/private sector partnership
- APSE - Efficiency & transformation initiative
- National Fitness Awards - Functional Training
- National Fitness Awards - Gym of the year
- Innovation Award - Procurement & commissioning
- Bay Business Awards - Leisure Venue of the year
- Bay Business Awards - Health & Fitness Centre
- Bay Business Awards - Health & Beauty
- Celebrating Success - LCC Award
- Celebrating Success - Team of the Year
- Celebrating Success - Innovation & Enterprise
- SLC - Catering Team of the Year

Appendix D

General Fund Capital Programme 2018/19

SERVICE	SCHEME	2018/19 Gross Budget	Actual to Date	Actual Variance + Overspend/ (Underspend)	Forecast Year End Variance	Commentary
		£	£	£	£	
Environmental Services	Vehicle Renewals	1,224,000	56,673	(1,167,327)	(562,000)	The replacement of some vehicles have been deferred. This has been factored in to future years budgets.
	Car Parks Improvement Programme/Electric Vehicle Charging Points	7,000	4,526	(2,474)	47,000	Expenditure to be grossed up by grant awarded for Electronic Vehicle Charging Points. Scheme must be completed by 31.3.19
	CCTV Extension to White Lund Depot	53,000	33,490	(19,510)	0	Expected to spend in full
	Cable Street Car Park Extension	35,000	23,455	(11,545)	0	Expected to spend in full
	Half Moon Bay Car Park Extension	60,000	0	(60,000)	(60,000)	Scheme to be deferred until 2019/20 pending completion of Parking Strategy
	Vehicle Fleet Review	107,000	56,253	(50,747)	(48,000)	Saving arising from better prices being negotiated for new vehicles
	Vehicle Maintenance Unit Replacement Ramp	34,000	34,485	485	485	Minor overspend
	Bolton-Le-Sands Young Peoples' Facility	15,000	14,920	(80)	0	Spent in full
Health and Housing	Disabled Facilities Grants	3,190,000	1,669,857	(1,520,143)	(1,178,000)	£1,178k expected to slip based on performance to date
	Salt Ayre Sports Centre Redevelopment	174,000	111,000	(63,000)	(10,000)	£10,000 expected to slip into 2019/20
	Heysham School Capital Funding	36,000	36,000	0	0	Spent in full
	Coastal Revival Fund - Morecambe Co-op Building	37,000	0	(37,000)	13,000	Scheme to be grossed up by additional £40k in respect of additional funding from Coastal Revival Fund bringing scheme total to £77k. £50k expected to be spent this year.
Regeneration and Planning	Sea & River Defence Works & Studies	2,432,000	2,354,682	(77,318)	(5,000)	Schemes are complete. A minor underspending is expected
	Amenity Improvements (Morecambe Promenade)	16,000	4,259	(11,741)	(10,000)	£10k will not be spent in year but will be used to establish a reserve which will facilitate the continuation of works in future years.
	Lancaster Square Routes	45,000	12,060	(32,940)	(24,000)	£21k expected to be spent in year. Scheme to be grossed up by additional £5k in respect of a contribution from Lancaster BID for city centre ginnel improvements.
	Morecambe THI2: A View for Eric	537,000	14,642	(522,358)	(522,000)	Final year of THI programme. £15k expected to be spent in year. Due to the late withdrawal of a partner it has not been possible to identify an alternative suitable project before the end of t he financial year, the remaining expenditure and related grant will therefore lapse.
	MAAP Improving Morecambe's Main Streets	185,000	10,658	(174,342)	(141,000)	Phase 2 Wayfinding project will slip into 2019/20 as s106 contribution which funds the majority of this project is not expected to be received this financial year
	Lancaster District Empty Homes Partnership	101,000	0	(101,000)	(65,000)	£36k in respect of schemes currently in the pipeline expected to spend in the year with the £65k expected to slip into 2019/20
	Cable Street Christmas Lights	30,000	0	(30,000)	(30,000)	£15k in respect of Cable Street lights will slip into 2019/20 as supplier is unable to schedule work in 2018/19. £14k financed from Renewals Reserve to be transferred to revenue for maintenance of Dalton Square lights
	S106 Highways Works	200,000	149,866	(50,134)	(50,000)	£18k additional public right of way contribution to be added to 2018/19 programme. £70k contribution can not be spent until 2019/20 as a legal variation is required to allocate it to an alternative project
	Heysham Gateway - Demolition & Removal of Tanks	1,048,000	105,643	(942,357)	(916,000)	Original scheme for remediating and developing out site has changed substantially. £132k is expected to be spent in year. A new capital bid is being developed outlining an alternative scheme.
	Canal Quarter	2,000,000	0	(2,000,000)	(2,000,000)	Amount originally allocated to make a bid to purchase land owned by British Land is no longer required. A bid for £550k to facilitate the purchase of alternative strategic land acquisition in Canal Quarter has been put forward for 2019/20
Resources	ICT Systems, Infrastructure & Equipment	333,000	168,331	(164,669)	(40,000)	£40k set aside for a document management system is not required in year. Future options for replacement are under review.
	Corporate Property Works	3,041,000	329,966	(2,711,034)	(2,598,939)	Several schemes within this programme of works have been held back pending review as part of 19/20 budget round.
	Energy Efficiency Works	311,000	0	(311,000)	(311,000)	Scheme delayed by uncertainty of timing regarding plans for a new conference centre at Williamson Park. It is expected that the £311k allocation for a replacement boiler serving the existing buildings at the park will slip in to 2019/20
Total Gross Programme		**15,251,000**	**5,190,765**	**(10,060,235)**	**(8,510,454)**	
Note: The Capital Programme remains unchanged from that reported at Quarter 2						

Council Housing Capital Programme 2018/19

Appendix E

	2018/19 Original Budget £	2018/19 Revised Budget £	2018/19 Projected Outturn £	2018/19 Variance (Revised v Projected) £	Comments (Revised Budget to Projected Outturn)
EXPENDITURE					
Adaptations	250,000	250,000	250,000	0	Expenditure on track
Energy Efficiency/Boiler Replacement	635,000	721,000	721,000	0	Expenditure on track
Internal Refurbishment	1,032,000	927,000	892,000	-35,000	Less works required following full property surveys and works commencing on site
External Refurbishment	632,000	677,000	694,000	17,000	Extra monies required over original budget on render/door contract to replace damaged cills on Higher Heysham and throughout Yealand - additional painting commisioned to offer 'completed' works once contractor finished on site
Environmental Improvements	405,000	340,000	323,600	-16,400	Tender figure received for final phase of Ripley Ct - lower than expected
Re-roofing/Window Renewals	641,000	571,000	559,000	-12,000	Works completed on site - final valuation received and savings reported
Rewiring	86,000	78,000	10,000	-68,000	Labour element undertaken whilst kitchen renewal programme, therefore taken into account via that budget. Costs are only materials which are atributed to replacement of consumer units.
Lift Replacements	70,000	70,000	70,000	0	Expenditure on track
Fire Precaution Works	180,000	190,000	190,000	0	Expenditure on track
Housing Renewal and Renovation	490,000	335,000	335,000	0	Expenditure on track
TOTAL EXPENDITURE	**4,421,000**	**4,159,000**	**4,044,600**	**-114,400**	

Reserves Statement (Including Unallocated Balances)

	31 March 2018 £	From Revenue £	To / (From) Capital £	To Revenue £	31 March 2019 £	From Revenue £	To / (From) Capital £	To Revenue £	31 March 2020 £	From Revenue £	To / (From) Capital £	To Revenue £	31 March 2021 £	From Revenue £	To / (From) Capital £	To Revenue £	31 March 2022 £	From Revenue £	To / (From) Capital £	To Revenue £	31 March 2023 £
Unallocated Balances	(5,067,000)			21,400	(5,045,600)				(5,045,600)				(5,045,600)				(5,045,600)				(5,045,600)
Earmarked Reserves:																					
Business Rates Retention	(4,602,000)	(4,347,700)		2,666,300	(6,283,400)				(6,283,400)				(6,283,400)				(6,283,400)				(6,283,400)
Budget Support	(710,800)	(2,666,300)	356,000	1,292,300	(1,728,800)			421,300	(1,307,500)			93,000	(1,214,500)			46,600	(1,167,900)				(1,167,900)
Canal Quarter	(214,200)	(186,000)		216,400	(183,800)			103,500	(80,300)			23,200	(57,100)				(57,100)				(57,100)
Capital Support	(485,200)		36,000	379,000	(70,200)		65,000		(5,200)				(5,200)				(5,200)				(5,200)
Corporate Property	(411,700)			40,000	(371,700)				(371,700)				(371,700)				(371,700)				(371,700)
Economic Growth	(358,700)		25,000	140,900	(192,800)			109,100	(83,700)			41,900	(41,800)			1,500	(40,300)				(40,300)
Elections	(80,000)	(40,000)			(120,000)	(40,000)		160,000		(40,000)			(40,000)	(40,000)			(80,000)	(40,000)			(120,000)
Homelessness Support	(101,600)	(6,600)			(108,200)	(6,600)			(114,800)	(6,600)			(121,400)	(6,600)			(128,000)	(6,600)			(134,600)
Invest to Save	(1,506,000)		53,000		(1,453,000)			143,800	(1,309,200)	(60,800)			(1,370,000)	(55,100)			(1,425,100)	(27,900)			(1,453,000)
Local Plan	(124,900)			124,900																	
Morecambe Area Action Plan	(27,300)				(27,300)		11,000		(16,300)				(16,300)				(16,300)				(16,300)
Planning Fee Income		(61,800)			(61,800)	(14,400)			(76,200)			31,200	(45,000)			39,600	(5,400)				(5,400)
Renewals Reserves	(451,400)	(479,300)	480,000	243,100	(207,600)	(479,300)	253,000	122,400	(311,500)	(479,300)	63,000	34,200	(693,600)	(479,300)	60,000	34,200	(1,078,700)	(479,300)		34,200	(1,523,800)
Restructure	(565,700)			33,500	(532,200)				(532,200)				(532,200)				(532,200)				(532,200)
Revenue Grants Unapplied	(744,100)	(30,000)		125,900	(648,200)	(15,000)		47,200	(616,000)	(5,300)		13,500	(607,800)				(607,800)				(607,800)
S106 Commuted Sums - Open Spaces	(60,600)			16,600	(44,000)			15,600	(28,400)			11,800	(16,600)			11,800	(4,800)			4,700	(100)
S106 Commuted Sums - Affordable Housing	(687,300)				(687,300)				(687,300)				(687,300)				(687,300)				(687,300)
S106 Commuted Sums - Highways, Cycle Paths etc.	(444,200)	(300,000)	237,000	9,300	(497,900)	(200,000)	120,000		(577,900)	(200,000)			(777,900)	(200,000)			(977,900)	(200,000)			(1,177,900)
Welfare Reforms	(223,500)	(154,100)		25,000	(352,600)			25,000	(327,600)				(327,600)				(327,600)				(327,600)
Amenity Improvements		(29,000)			(29,000)				(29,000)				(29,000)				(29,000)				(29,000)
Reserves Held in Perpetuity:																					
Graves Maintenance	(22,200)				(22,200)				(22,200)				(22,200)				(22,200)				(22,200)
Marsh Capital	(47,700)				(47,700)				(47,700)				(47,700)				(47,700)				(47,700)
Total Earmarked Reserves	(11,869,100)	(8,300,800)	1,187,000	5,313,200	(13,669,700)	(755,300)	449,000	1,147,900	(12,828,100)	(792,000)	63,000	248,800	(13,308,300)	(781,000)	60,000	133,700	(13,895,600)	(753,800)		38,900	(14,610,500)
Total Combined Reserves	(16,936,100)				(18,715,300)				(17,873,700)				(18,353,900)				(18,941,200)				(19,656,100)

GENERAL FUND - 2018/19 SAVINGS MONITORING (PERIOD 9)

Appendix G

Initiative	Type	Budget	Profiled Budget	Actual to Date	Variance	R A G	Progress
PHASE 1 - 2018/19 APPROVED SAVINGS		£	£	£	£		
Environmental Services							
Solar Farm Design and Business Case Development	Inc Generation	50,000	4,440	4,440	0		Funded from Business Support Reserve. Business case for three additional installations at SALC developed. Feasibility of a solar farm currently being worked on. SALC options to be assessed as part of 19/20 capital programme which will allow Elected Members to make an informed decision on whether to proceed. The farm option will be assessed once completed.
Waste Collection Management Systems	Efficiency	138,000	3,364	3,364	0		Funded from Business Support Reserve. Preferred supplier has been identified, delays commissioning due to lack of resources in Waste Collection and ICT. Scheme likely to slip into next financial year.
Extension of CCTV to Public Buildings	Efficiency	(17,000)	(17,000)	(17,000)	0		Nearing completion. £14k project overspend offset by contributions from BIDs and Morecambe Town Council to public CCTV system.
Extension of Cable Street Car Park	Inc Generation	(9,000)	(4,500)	(1,436)	3,064		Project now complete, delayed by 2 months resulting in profiled budget not being met. Overall, car parking income has performed well in year.
Management of St. George's Quay Car Park	Inc Generation	(10,000)	(5,000)	(2,229)	2,771		Project completed in September with P&D income being taken from 1st October.
Vehicle Fleet Review	Inc Generation	(27,000)	(20,250)	(11,434)	8,816		All pool cars have now been purchased, variance relates to extended hire due to delays in scheme and repair of damage prior to returning hired vehicles.
Williamson Park Facilities Expansion - Design and Business Case Development	Inc Generation	210,000	0	0	0		Funded from Business Support Reserve. Tender has been awarded and likely spend for this financial year is c.£50k with remaining amount to be carried forward into 2019/20. Tender feeding into business plan which is being written. On completion, design brief for the Café/Wedding Conference Centre will be formulated.
Bulky Waste Collection - Service and Charging Review	Inc Generation	(20,000)	(15,000)	(14,105)	895		Review built into budget and broadly in line to date.
Health & Housing							
Development of Business Case for Local Authority Trading Company (LATC)	Inc Generation	75,000	65,000	65,000	0		£65k order raised P03 with the remainder to be spent during the year.
Management Team							
Rationalisation of Organisational Development Capacity	Efficiency	(77,000)	(57,750)	(57,750)	0		Staff Changes actioned and built into budget.
Regeneration & Planning							
Heysham Gateway - Site Improvement Works		320,000	100,000	100,000	0		£132k to be spent in year on site surveys, drainage studies and master planning work and the majority of this is now spent. A capital bid has been made to spend £479k on land remediation on the site for 2019/20
Extension of Charging for Planning Services	Inc Generation	(5,000)		0	0		Delayed start with tree-related working charges. This remains low priority given the changing operational needs of the Service during 2018. The Service will be reviewing its non-statutory chargeable services to inform the Annual Fees and Charges Report shortly.
Resources							
ICT Network Performance Monitoring and Improvement	Efficiency	30,000	30,000	10,000	(20,000)		ICT used £10k for SSD Drives - remaining allocation to be utilised by the end of March.
Repair and Maintenance of Corporate Property	Efficiency	(82,000)	(61,500)	(61,500)	0		Built into budget and expected to be managed within overall R&M allocation.
Continuation of Internal Audit Collaboration and Restructure	Efficiency	(26,000)	(19,500)	(19,500)	0		Savings already incorporated into budget and expected to be achieved.
Revenues & Benefits Shared Service Savings	Efficiency	(45,000)	0	0	0		Savings achieved in Shared Service Budget and recharge will be reduced in Quarter 4.
Total		**505,000**	**2,304**	**(2,150)**	**(4,454)**		

Appendix H

Treasury Management Update

Quarter Ended 31 December 2018

Report of Interim Head of Financial Services

2018/19 Treasury Management Update

Quarter Ended 31 December 2018

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 Link Asset Services)

*After weak **economic growth** of only 0.1% in quarter one, growth picked up to 0.4% in quarter 2 and to 0.6% in quarter 3. However, uncertainties over Brexit look likely to cause growth to have weakened again in quarter four. After the Monetary Policy Committee raised the Bank Rate from 0.5% to 0.75% in August, it is little surprise that they have abstained from any further increases since then. We are unlikely to see any further action from the MPC until the uncertainties over Brexit clear. In the event of a disorderly exit, the MPC have said that rates could go up or down, though it is probably much more likely to be down so as to support growth. Nevertheless, the MPC does have concerns over the trend in **wage inflation** which peaked at a new post financial crisis high of 3.3%, (excluding bonuses), in the three months to October. The main issue causing this is a lack of suitably skilled people due to the continuing increase in total employment and unemployment being near to 43 year lows. Correspondingly, the total level of vacancies has risen to new highs.*

*As for **CPI inflation** itself, this has been on a falling trend, reaching 2.3% in November. However, in the November Bank of England Inflation Report, the latest forecast for inflation over the two year time horizon was raised to being marginally above the MPC's target of 2%, indicating a slight build up in inflationary pressures.*

*The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving in this scenario as the difference between the two figures is now around 1%, i.e. a real terms increase. Given the UK economy is very much services sector driven, an increase in **household spending power** is likely to feed through into providing some support to the overall rate of economic growth in the coming months.*

*In the **political arena**, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to Brexit in March 2019. If, however, the UK faces a general election in 2019, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.*

3. Interest Rate Forecast

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

Link Asset Services Interest Rate View	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%

After the August increase in the Bank Rate to 0.75%, the first above 0.5% since the financial crash, the MPC has since then put any further action on hold, probably until such time as the fog of Brexit clears and there is some degree of certainty of what the UK will be heading into. It is particularly unlikely that the MPC would increase Bank Rate in February 2019 ahead of the deadline in March for Brexit, if no agreement on Brexit has been reached by then. ***The above forecast, and other comments in this report, are based on a central assumption that there is an agreement on a reasonable form of Brexit.*** *In that case, then we think that the MPC could return to increasing Bank Rate in May 2019 but then hold fire again until February 2020. However, this is obviously based on making huge assumptions which could be confounded. In the event of a disorderly Brexit, then cuts in the Bank Rate could well be the next move.*

The balance of risks to the UK

- *The overall balance of risks to economic growth in the UK is probably neutral.*
- *The balance of risks to increases in the Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.*

4. Investing Activities

The Treasury Management Strategy Statement (TMSS) for 2018/19, which includes the Annual Investment Strategy, was approved by the Council on 28 February 2018. 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 2018.

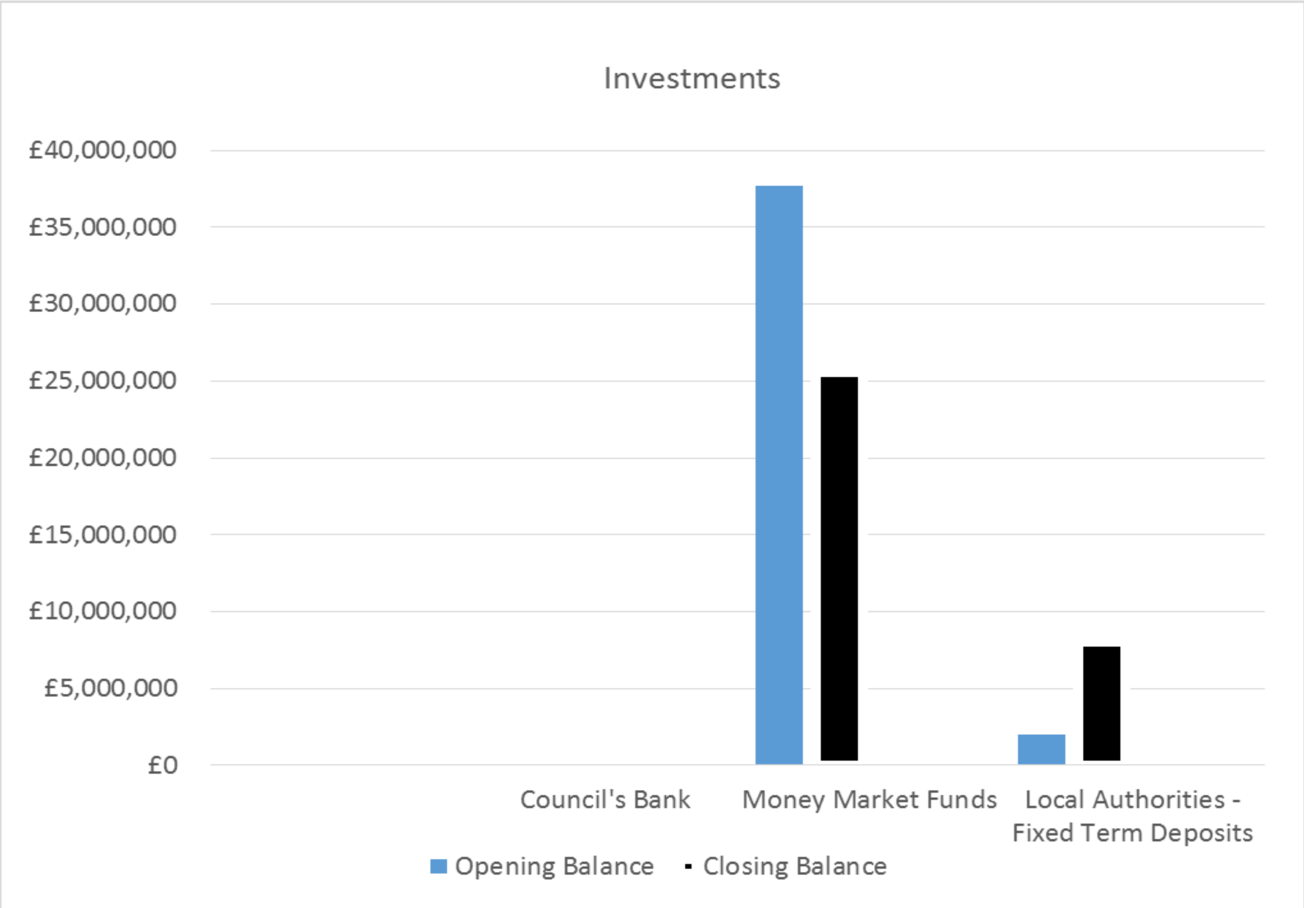
The average level of funds available for temporary investment purposes during the quarter was £37M. The level of funds available was mainly dependent on the timing of precept and business rate related payments, the receipt of grants and progress on the Capital Programme.

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).

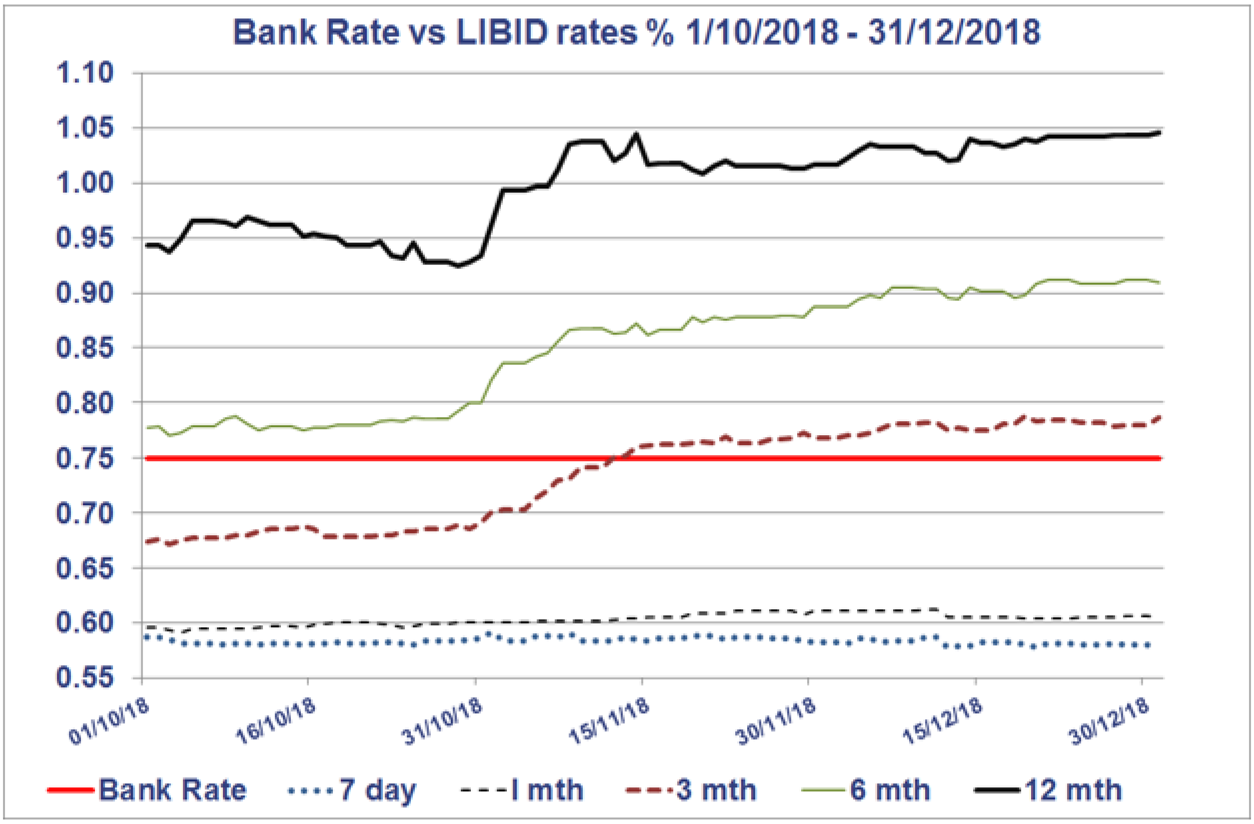
Base Rate	0.75%
7 day LIBID	0.58%
Lancaster City Council investments	0.70%

Investment Balances – quarter ended 31 December 2018

At the start of the quarter investments totalled £40m falling to £33m by 31 December. Fixed term investment with local authorities at 31 December were £25m whilst Money Market Fund balances were £8m



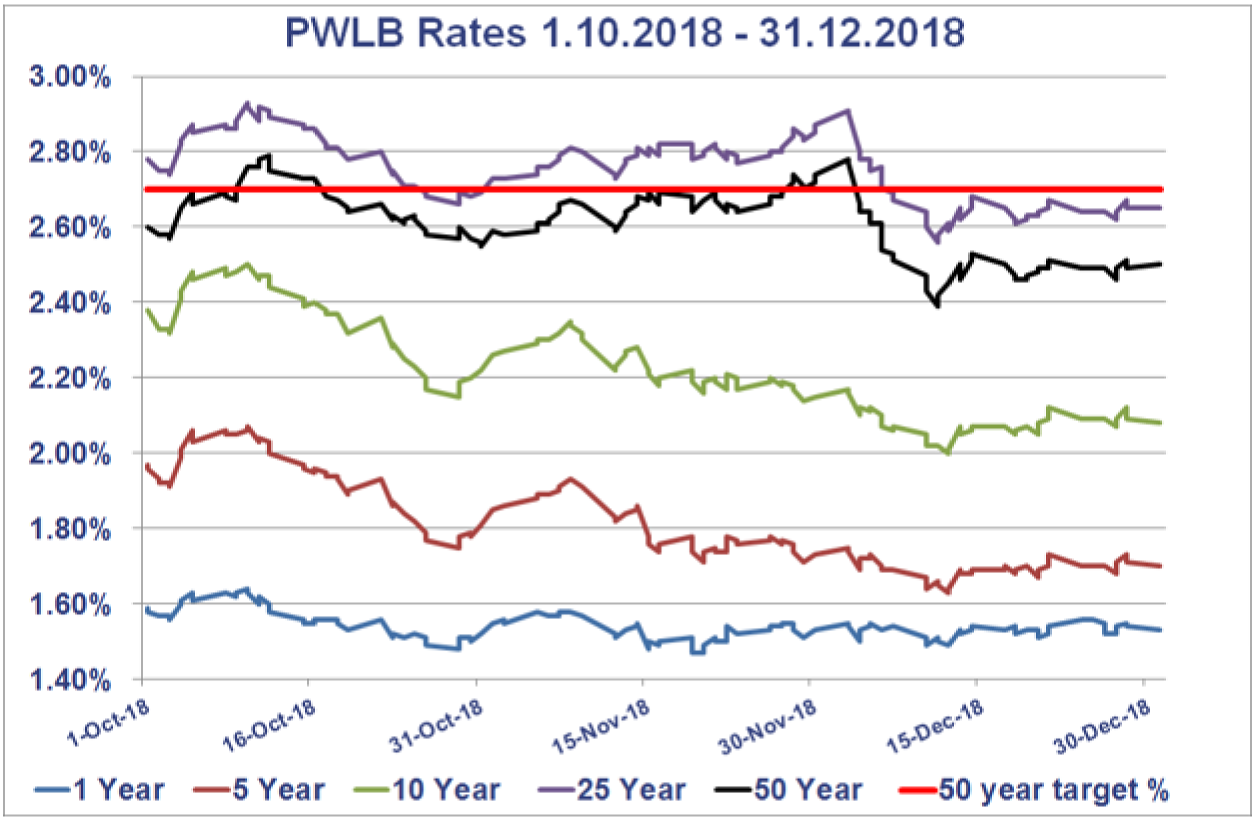
Other Investments	Term	Maturity Date	Opening £	Closing £	Indicative Rate (YTD)	Current Fixed Rate	Interest to Date £
Call Accounts							
Natwest (Cash Manager Plus)			71,193	61,900		0.01%	189
Money Market Funds							
Blackrock Sterling Liquidity First Fund			6,000,000	6,000,000	0.71%		24,632
Blackrock Sterling Government Liquidity Fund			6,000,000	0	0.58%		8,116
LGIM			6,000,000	6,000,000	0.73%		23,704
Aberdeen Life Investments			6,000,000	6,000,000	0.74%		27,392
Insight			6,000,000	1,550,000	0.68%		14,498
Goldman Sachs			6,000,000	6,000,000	0.69%		10,892
Lancashire County Council Call Account			1,680,000	0	0.50%		1,168
Fixed Term Deposits							
Guildford Borough Council	364 days	17/07/2018	0	0		0.53%	7,768
Rugby Borough Council	11 months	29/06/2018	0	0		0.35%	853
Antrim & Newtown Abbey BC	364 days	06/08/2018	0	0		0.37%	3,862
Broxtowe Borough Council	364 days	28/09/2018	0	0		0.40%	1,973
London Borough of Islington	364 days	01/10/2018	0	0		0.40%	4,011
Telford & Wrekin Council	123 days	25/09/2018	0	0		0.55%	7,414
Surrey Heath Borough Council	183 days	16/11/2018	1,000,000	0		0.75%	6,774
Northamptonshire County Council	363 days	01/04/2019	1,000,000	1,000,000		0.70%	5,235
Midlothian Council	31 days	03/01/2019	0	7,000,000		0.63%	3,383
Sub-total			**39,751,193**	**33,611,900**			**151,864**
						Budgeted income	179,250
							(27,386)



5. Borrowing Activities

PWLB rates have not been on any consistent trend during this period.

During the quarter, the 50 year PWLB target (certainty) rate for new long term borrowing varied between 2.40% and 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 following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. At present it would not be financially prudent to repay any debt because of the high penalties associated with early repayment. No debt rescheduling was, therefore undertaken during the quarter.

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.

During the quarter ended 31 December 2018 the Council has operated within the approved treasury and prudential indicators and in compliance with the Council's Treasury Management Practices.

8. Other Issues

Changes in risk appetite

The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite this change in risk appetite and policy should be brought to members' attention in treasury management update reports.

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.

- **Policy and Strategy Documents –** documents required by the CIPFA Code of Practice on Treasury Management in Local Authorities. These set out the framework for treasury management operations during the year.

- **Public Works Loans Board (PWLB)** – a central government agency providing long and short term loans to Local Authorities. Rates are set daily at a margin over the Gilt yield (see Gilts above). Loans may be taken at fixed or variable rates and as Annuity, Maturity, or EIP loans (see separate definitions) over periods of up to fifty years. Financing is also available from the money markets, however because of its nature the PWLB is generally able to offer better terms.

- **Link Asset Services –** 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 E

TREASURY MANAGEMENT FRAMEWORK DOCUMENTS AND RESPONSIBILITIES

For consideration by Cabinet 12 February 2019

DOCUMENT	RESPONSIBILITY
CODE of PRACTICE	To be adopted by Council (as updated 2017).
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 issued in 2017.
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. It is the Section 151 Officer's'responsibility to maintain detailed working documents and to ensure their compliance with the main principles. The content of the TMPs will be reviewed during 2018/19, in view of the recent changes to the treasury management regulatory framework.
FINANCIAL REGULATIONS	The Financial Regulations must contain four specific clauses. These are substantially unchanged in the 2017 Code; it is the Section 151 Officer's responsibility to ensure their inclusion.

Appendix F

LANCASTER CITY COUNCIL

TREASURY MANAGEMENT POLICY STATEMENT

For consideration by Cabinet
12 February 2019

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

1. This organisation defines its treasury management activities as:

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

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

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

Appendix G

Treasury Management Strategy 2019/20 to 2022/23

For Consideration by Cabinet 12 February 2019

1 INTRODUCTION

1.1 Background

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

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

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

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

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

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

Revised reporting is required for the 2019/20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is being reported separately.

1.2 Reporting Requirements

Capital Strategy

The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, all local authorities to prepare an additional report, a capital strategy report, which will provide the following:

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

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

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

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

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

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

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

Treasury Management Reporting

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

Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report covers:
- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

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

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

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

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

1.3 Treasury Management Strategy for 2019/20

The strategy for 2019/20 covers two main areas:

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

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

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

1.4 Training

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate asssociated training. This especially applies to Members responsibe for scrutiny. A training session will be arranged during 2019 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 Link Asset Services, Treasury solutions as its external treasury management advisors.

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

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 2018/19 – 2021/22

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	2017/18 Actual £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
General Fund	11.64	7.44	9.20	5.99	2.23	2.73
Housing Revenue Account (HRA)	4.03	4.16	4.77	4.15	4.25	4.16
Total	**15.67**	**11.60**	**13.97**	**10.14**	**6.48**	**6.89**
Financed by:						
Capital receipts	-1.28	-0.69	-0.49	-0.49	-0.49	-0.49
Capital grants	-5.59	-5.22	-2.44	-1.61	-1.61	-1.61
Capital reserves	-4.26	-3.67	5.13	-3.78	-3.82	-3.67
Revenue	-0.13	-0.86	0.00	0.00	0.00	0.00
Net financing need for the year	**4.41**	**1.16**	**5.91**	**4.26**	**0.56**	**1.12**

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 that 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 asset's life.

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

Members are asked to approve the CFR projections below:

£m	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Capital Financing Requirement						
CFR – Non Housing	43.65	43.15	47.49	49.87	48.25	47.24
CFR – Housing	40.40	39.35	38.31	37.27	36.23	35.19
Total CFR	**84.05**	**82.50**	**85.80**	**87.15**	**84.48**	**82.43**
Movement in CFR						
Non Housing	3.00	-0.51	4.34	2.38	-1.63	-1.01
Housing	-1.06	-1.04	-1.04	-1.04	-1.04	-1.04
Net Movement in CFR	**1.98**	**-1.55**	**3.30**	**1.34**	**-2.67**	**-2.05**

Movement in CFR represented by						
Net financing need for the year (above) re Non Housing	4.41	1.16	5.91	4.26	0.56	1.12
Less MRP/VRP and other financing movements	-2.43	-2.71	-2.61	-2.92	-3.23	-3.17
Net Movement in CFR	**1.98**	**-1.55**	**3.30**	**1.34**	**-2.67**	**-2.05**

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 year end cash flow balances from other day to day activities:

Year End Resources	2017/18 Actual £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Fund balances / reserves	29.52	29.43	27.94	28.45	29.11	29.90
Capital receipts	0.00	0.00	0.00	0.00	0.00	0.00
Provisions	0.58	0.50	0.50	0.50	0.50	0.50
Total core funds	**30.10**	**29.93**	**28.44**	**28.95**	**29.61**	**30.14**
Working capital*	14.81	22.70	22.70	22.70	22.70	22.70
Under borrowing	-19.84	-19.34	-23.68	-26.06	-24.43	-23.43
Expected investments	**25.07**	**33.29**	**27.46**	**25.59**	**27.88**	**29.67**

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

2.5 Affordability Prudential Indicators

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

2.6 Ratio of Financing Costs to Net Revenue Stream

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

	2017/18 Actual £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
General Fund	15.5%	16.8%	16.8%	16.6%	17.4%	16.9%
HRA	21.7%	21.5%	20.9%	20.3%	19.5%	18.7%

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

3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital stragegy. 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 forward projections for borrowing 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.

	2017/18 Actual £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
External Debt						
Debt at 1 April	65.25	64.21	63.17	62.13	61.08	60.04
Expected change in Debt	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04
Other long-term liabilities (OLTL)	0.00	0.00	0.00	0.00	0.00	0.00
Expected change in OLTL	0.00	-0.00	0.00	0.00	0.00	0.00
Actual gross debt at 31 March	**64.21**	**63.17**	**62.13**	**61.08**	**60.04**	**59.00**
The Capital Financing Requirement	**84.05**	**82.50**	**85.80**	**87.15**	**84.48**	**82.43**
Under Borrowing	**-19.84**	**-19.34**	**-23.68**	**-26.06**	**-24.43**	**-23.43**

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 or speculative purposes.

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

3.2 Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary

This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources..

Operational boundary	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Debt*	82.50	85.80	87.15	84.48	82.43
Other long term liabilities	0.00	0.00	0.00	0.00	0.00
Total	**84.05**	**85.80**	**87.15**	**84.48**	**82.43**

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

The Authorised Limit for External Debt

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

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

Authorised Limit	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Debt	98.00	101.00	102.00	99.00	97.00
Other long term liabilities	1.00	1.00	1.00	1.00	1.00
Total	**99.00**	**102.00**	**103.00**	**100.00**	**98.00**

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

HRA Debt Limit	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
HRA debt cap*	60.19	60.19	60.19	60.19	60.19
HRA CFR	39.35	38.31	37.27	36.23	35.19
HRA headroom	**20.84**	**21.88**	**22.92**	**23.96**	**25.01**

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

3.3 Prospects for Interest Rates

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

	Mar-19	Mar-20	Mar-21	Mar-22
Bank Rate	0.75%	1.25%	1.50%	2.00%
3 Month LIBID	0.90%	1.30%	1.60%	2.00%
6 Month LIBID	1.00%	1.50%	1.80%	2.20%
12 Month LIBID	1.20%	1.60%	2.00%	2.40%
5yr PWLB rate	2.10%	2.30%	2.60%	2.80%
10yr PWLB rate	2.50%	2.80%	3.00%	3.20%
25yr PWLB rate	2.90%	3.20%	3.40%	3.60%
50yr PWLB rate	2.70%	3.00%	3.20%	3.40%

The flow of generally positive economic statistics after the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, from 0.5% to 0.75%. Growth became increasingly strong during 2018 until slowing significantly during the last quarter. At their November quarterly Inflation Report meeting, the MPC left Bank Rate unchanged, but expressed some concern at the Chancellor's fiscal stimulus in his Budget, which could increase inflationary pressures. However, it is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. On a major assumption that Parliament and the EU agree a Brexit deal in the first quarter of 2019, then the next increase in Bank Rate is forecast to be in May 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.

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.

Investment and borrowing rates

- *Investment returns are likely to remain low during 2019/20 but be on a gently rising trend over the next few years;*
- *Borrowing interest rates have been volatile so far in 2018-19 and while they were on a rising trend during the first half of the year, they have backtracked since then until early January. 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 the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt;*
- *There will remain a cost of carry, (the difference between higher borrowing costs and lower investment returns) to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost..*

3.4 Borrowing Strategy

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

Against this background and the risks within the economic forecast, caution will be adopted with the 2019/20 treasury operations. The Section 151 Officer, under delegated powers will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then any long term borrowings would be postponed, and potential rescheduling from fixed rate funding into short term borrowing would 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 rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would be re-appraised. Most likely, if need be, fixed rate funding would be drawn if interest rates were lower than projected to be in the next few years.

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

3.5 Maturity Structure of Borrowing

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

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

	2018/19	2019/20	2020/21	2021/22	2022/2023
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 2019/20	£m	
Under 12 months	1.04	1.65%
12 months and within 24 months	1.04	1.65%
24 months and within 5 years	3.12	4.94%
5 years and within 10 years	5.20	8.23%
10 years and within 15 years	5.20	8.23%
15 years and within 25 years	8.35	13.22%
25 years and within 50 years	39.22	62.08%

3.6 Policy on Borrowing in Advance of Need

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

3.7 Debt Rescheduling

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

Council's investment policy has regard to the following:

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

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

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

1. Minimum acceptable **credit criteria** are appliedin order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor cournerparties are the short term and long term ratings.

2. **Other Information**: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this the council I 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.

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

4. The authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in **annex B2** under the categories of 'specified' and 'non-specified' investments.

- **Specified investments** are those with a high level of credit quality and subject ot a maturity limit of one year.

- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Non-specified investments limit**. The Council has determined that it will limit the maximum total exposure to non-specified investments as being 20% of the total investment portfolio. (see paragraph 4.3)

6. **Lending limits** (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2

7. **Transaction limits** are set for each type of investment in 4.2

8. The Council will set a limit for the amount of its investments which are invested for **longer than 365 days** (see paragraph 4.4)

9. Investments will only be placed with counterparties from countries with a specified minimum sovereign rating (see paragraph 4.3)

10. The Council has engaged **external consultants** (see paragraph 1.5), to provided expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in **sterling.**

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

Changes in risk management policy from last year.
The above criteria are unchanged from last year

4.2 Creditworthiness Policy

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

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

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands*:*

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

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**	**£1m**	**1 day**
DMADF	**AAA**	**unlimited**	**≤6 months**
Local authorities**	**n/a**	**£12m**	**≤1 year**
	Fund rating	**Money and/or % Limit**	**Time Limit**
Money Market Funds CNAV	**AAA**	**£6m**	**liquid**

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

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

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

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

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

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

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

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

UK banks – ring fencing

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

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

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

4.3 Country Limits

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

a) **Non-specified investment limit.** The Council has determined that it will limit the maximum total exposure to non-specified invesments as being 20% of the total investment portfolio.

b) **Country limit.** The Council has determined that it will only use approved counterparties from other countries with a minimum sovereign credit rating of AAA (Fitch) or equivalent from each of the credit rating agencies. This list will be added to, or deducted from, by Officers should ratings change in accordance with this policy.

4.4 Investment Strategy

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

Investment Returns Expectations: On the assumption that the UK and EU agree a Brexit deal in spring 2019, the Bank Rate is forecast to increase steadily but slowly over the next few years to reach 2.00% by quarter 1 2022. Bank Rate forecasts for financial year ends (March) are:

- 2018/19 0.75%
- 2019/20 1.25%
- 2020/21 1.50%
- 2021/22 2.00%

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

- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.50%
- 2021/22 1.75%
- 2022/23 2.00%

The overall balance of risks to economic growth in the UK is probably neutral. The balance of risks to increases in Bank Rate and shorter term PWLB rates are probably also even and are dependent on how strong GDP growth turns out, how slowly inflation pressures subside and how quickly the Brexit negotiations move forward positively.

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

Maximum principal sums invested > 365 days					
	2018/19	**2019/20**	**2020/21**	**2021/22**	**2022/22**
Principal sums invested > 365 days	Nil	Nil	Nil	Nil	Nil

4.5 End of year investment report

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

ANNEX B1

Treasury Management Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

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

- **Gilts** – the name given to bonds issued by the U K Government. Gilts are issued bearing interest at a specified rate, however they are then traded on the markets like

shares and their value rises or falls accordingly. The Yield on a gilt is the interest paid divided by the Market Value of that gilt.
E.g. a 30 year gilt is issued in 1994 at £1, bearing interest of 8%. In 1999 the market value of the gilt is £1.45. The yield on that gilt is calculated as 8%/1.45 = 5.5%.
See also PWLB.

- **LIBID** – The London Inter-Bank Bid Rate, the rate which banks would have to bid to borrow funds from other banks for a given period. The official rate is published by the Bank of England at 11am each day based on trades up to that time.

- **LIBOR** – The London Inter-Bank Offer Rate, the rate at which banks with surplus funds are offering to lend them to other banks, again published at 11am each day.

- **Liquidity** – Relates to the amount of readily available or short term investment money which can be used for either day to day or unforeseen expenses. For example Call Accounts allow instant daily access to invested funds.

- **Maturity** – Type of loan where only payments of interest are made during the life of the loan, with the total amount of principal falling due at the end of the loan period.

- **Money Market Fund (MMF)** – Type of investment where the Council purchases a share of a cash fund that makes short term deposits with a broad range of high quality counterparties. These are highly regulated in terms of average length of deposit and counterparty quality, to ensure AAA rated status. As from 21 July 2018 there will be three structural options for existing money market funds – Public Debt Constant Net Asset Value (CNAV), Low Volatility Net Asset Value (LVNAV) and Variable Net Asset Value (VNAV)

- **Policy and Strategy Documents** – documents required by the CIPFA Code of Practice on Treasury Management in Local Authorities. These set out the framework for treasury management operations during the year.

- **Public Works Loans Board (PWLB)** – a central government agency providing long and short term loans to Local Authorities. Rates are set daily at a margin over the Gilt yield (see Gilts above). Loans may be taken at fixed or variable rates and as Annuity, Maturity, or EIP loans (see separate definitions) over periods of up to fifty years. Financing is also available from the money markets, however because of its nature the PWLB is generally able to offer better terms.

- **Link Asset Services** – Link Asset Services are the City Council's Treasury Management advisors. They provide advice on borrowing strategy, investment strategy, and vetting of investment counterparties, in addition to ad hoc guidance throughout the year.

- **Yield** – see Gilts

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

ANNEX B2

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

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

	Minimum credit criteria / colour band	**Max % of counterparty limit - *Specified**	**Max % of counterparty limit – **Non - Specified**	**Max. maturity period**
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 CNAV	AAA	100%	**N/A**	Liquid
Money Market Funds LVNAV	AAA	100%	**N/A**	Liquid
Money Market Funds VNAV	AAA	100%	**N/A**	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	100%	**N/A**	Liquid
Ultra-Short Dated Bond 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%	20% 20% N/A 20% 20% 20% 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
Certificates of Deposit and corporate bonds with banks and building societies	Yellow Purple Blue Orange Red Green No Colour	20% 20% 20% 20% 0% 0% 0%	0% 0% 0% 0% 0% 0% 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 up to 20% ** will be held in aggregate in relevant non-specified investments (as at the trade date of investing).

ANNEX B3

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

Agenda Item 8

BUDGET AND PERFORMANCE PANEL

Work Programme Report

19th February 2019

Report of the Interim Head of Legal and Democratic Services and Monitoring Officer

PURPOSE OF REPORT
To consider the Work Programme report for the Panel.
This report is public.

RECOMMENDATIONS

(1) That the Panel considers its Work Programme.

1.0 Introduction

1.1 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.

1.2 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 Report

2.1 At its meeting, held on 9th January 2019, the Overview and Scrutiny Committee considered an update report on the Peer Review. The Committee agreed: -

That the Overview and Scrutiny Committee refer future monitoring of key outcomes, identified through the LGA Peer Review or other strategic analysis, to be reported via "Delivering our Ambitions" performance and project reporting.

The Panel is asked to note the resolution of the Committee.

2.2 Appendix A sets out the Panel's current Work Programme.

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:** Stephen Metcalfe **Telephone:** 01524 582073 **E-mail**: sjmetcalfe@lancaster.gov.uk

APPENDIX A

BUDGET AND PERFORMANCE PANEL - WORK PROGRAMME

Matter for consideration	Details	Officer(s) responsible/ External	Expected date(s) of meeting
Financial Monitoring (to include an update on the financial position of Salt Ayre as well as Commercial Properties & Canal Quarter (for Budget and Treasury Management issues).	Work Programme reported to the Panel.	Resources.	Quarter 1 – 11th September 2018 Quarter 2 – 13th November 2018 Quarter 3 – 19th February 2019.
Corporate Performance Monitoring/ Key Performance Measures (to include Compliments and Complaints Half Yearly Report as appropriate)	Work Programme Report 10th July 2018.	Executive Support Manager. Director for Communities and the Environment.	Quarter 1 – 11th September 2018 Quarter 2 – 13th November 2018 Quarter 3 – 19th February 2019.
Treasury Management Strategy	The Panel's views to be sought regarding the proposed treasury management framework for 2019/2020.	Resources.	19th February 2019.

Invitations to Cabinet Members

Cabinet Member and area of responsibility	Issue	Expected date of meeting
Councillor Blamire, Leader of the Council.	Corporate Performance Monitoring. Financial Monitoring. Key Performance Measures.	Quarter 1 – 11th September 2018. Quarter 2 – 13th November 2018. Quarter 3 – 5th February 2019.
Councillor Whitehead, Cabinet portfolio holder for Finance, Revenues and Benefits, Performance Management and Community Wealth Building.	Corporate Performance Monitoring. Financial Monitoring. Key Performance Measures.	Quarter 1 – 11th September 2018. Quarter 2 – 13th November 2018. Quarter 3 – 19th February 2019.

Outstanding Briefing Notes

Matter for Consideration	Date Requested/additional detail	Officer Responsible	Date Circulated
Procurement Strategy.	Further pre-scrutiny prior to the updated Procurement Strategy being presented to Cabinet. (Min. 8 (12th July 2016) and 19 refers (8th November 2016) – Action – briefing note to be provided).	Resources.	To be considered in the new municipal year 2018/19.