LANCASTER
CITY COUNCIL

Promoting City, Coast & Countryside

Committee:	**BUDGET AND PERFORMANCE PANEL**
Date:	**TUESDAY, 16 FEBRUARY 2021**
Venue:	**THIS WILL BE A VIRTUAL MEETING**
Time:	**6.30 P.M.**

A G E N D A

PLEASE NOTE THE CHANGE IN COMMENCEMENT TIME OF THE MEETING.

1. **Apologies for Absence**

2. **Minutes**

   Minutes of the Meeting held on 26TH January 2021.

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

4. **Declaration of Interests**

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

   Councillors 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, Councillors 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, Councillors 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. **Treasury Management Strategy 2021/22** (Pages 3 - 71)

   Appendices are attached.

   Report of Chief Finance Officer.

   Report and Appendix 1 published on 15th February 2021.

6. **Capital Strategy 2021/22**

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

Councillors Adrian Duggan (Chair), Tim Dant (Vice-Chair), Roger Dennison, Joan Jackson, Debbie Jenkins, Mandy King, Jack O'Dwyer-Henry, Jason Wood and Joanna Young

(ii) Substitute Membership

Councillors Tony Anderson, Mandy Bannon, Abbott Bryning, Colin Hartley, Tricia Heath, Cary Matthews, Stewart Scothern and Alistair Sinclair

(iii) Queries regarding this Agenda

Please contact Stephen Metcalfe, Democratic Services - email sjmetcalfe@lancaster.gov.uk.

(iv) Changes to Membership, substitutions or apologies

Please contact Democratic Support email democracy@lancaster.gov.uk.

KIERAN KEANE,
CHIEF EXECUTIVE,
TOWN HALL,
DALTON SQUARE,
LANCASTER LA1 1PJ

Published on Monday 8th February 2021.

BUDGET AND PERFORMANCE PANEL

Treasury Management & Capital Strategies 2021/22
16 February 2021

Report of Chief Finance Officer

PURPOSE OF REPORT
To present to Budget and Performance Panel the draft Treasury Management and Capital Strategy and associated documents for 2021/22 and to provide an opportunity for consideration and comment ahead of formal presentation to Council in accordance with the Council's constitution.
This report is public

OFFICER RECOMMENDATIONS

That Budget and Performance Panel considers the

(1) Treasury Management framework documents and strategy for 2021/22 and makes comments or recommendations as appropriate.

(2) Capital Strategy for 2021/22 and makes comments or recommendations as appropriate.

1.0 INTRODUCTION

1.1 The report attached at **Appendix 1** was presented to Cabinet on 09 February 2021 is included to provide overall context for strategies and to better inform the panel's considerations.

1.3 The Panel are asked to limit their consideration to the Treasury Management & Capital strategies and associated attachments contained within Appendix 1 (Appendices E, F, G and H) in line with their Terms of Reference within the Constitution.

2.0 TREASURY MANAGEMENT STRATEGY 2021/22

2.1 The Council's Treasury Management Activities are regulated the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) issued under the Local Government Act 2003.

2.2 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. During 2021/22 the minimum reporting requirements are that the Full Council should receive the following reports:

- an annual treasury strategy in advance of the year
- a mid-year (minimum) treasury update report
- an annual review following the end of the year describing the activity compared to the strategy

2.3 In addition, Members will receive treasury management update reports on which are presented to Cabinet and Budget and Performance Panel.

2.4 Details of the proposed Treasury Management strategy and associated appendices are included within the attached Cabinet papers as appendices F, G and H

3.0 CAPITAL STRATEGY 2021/22

3.1 The Capital strategy is set within the framework of The Prudential Code for Capital Finance in Local Authorities and the Treasury Management Code, both of which were updated in 2017. Key objectives are to demonstrate that the Council's capital investment plans are affordable, prudent, and sustainable; that local strategic planning, asset management planning and proper option appraisal are supported; and that treasury management decisions are taken in accordance with good professional practice.

3.2 The Strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local services. It also outlines how associated risk is managed and the implications for future financial sustainability.

3.3 Details of the proposed Capital strategy is included within the attached Cabinet papers as appendix E.

4.0 CONSULTATION

4.1 The Council's Constitution requires that when a new or existing strategy is being considered, the Overview and Scrutiny Committee or Budget and Performance Panel have an opportunity to comment. If it considers it appropriate, Cabinet may then amend its proposals before submitting them to Council for formal adoption.

CONCLUSION OF IMPACT ASSESSMENT **(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing):** As set out in the relevant appendices.	
LEGAL IMPLICATIONS As set out in the relevant appendices.	
FINANCIAL IMPLICATIONS As set out in the relevant appendices.	
OTHER RESOURCE IMPLICATIONS, such as Human Resources, Information Services, Property, Open Spaces: As set out in the relevant appendices.	
SECTION 151 OFFICER'S COMMENTS The Section 151 Officer has authored this report	
MONITORING OFFICER'S COMMENTS The Monitoring Officer has been consulted and has no further comments.	
BACKGROUND PAPERS Cabinet 09/02/2021 Budget & Policy Framework Update 2021/22 – 2024/25	**Contact Officer:** Paul Thompson Chief Finance Officer **Telephone:** 01524 582603 **E-mail:** pthompson@lancaster.gov.uk **Ref:** N/A

Lancaster City Council | Report Cover Sheet

Meeting	Cabinet			**Date**	09 February 2021
Report of	Chief Finance Officer				
Purpose of Report					
This report sets out the latest position in respect of the budget and policy framework including Cabinet's proposed revenue budget for 2021/22 and Capital Programme for 2021/22. 2022/23 and 2023/24.					

Key Decision (Y/N)	**Y**	**Date of Notice**	**11/01/2021**	**Exempt (Y/N)**	**N**

Report Summary

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

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

Recommendations of Councillor Anne Whitehead

1. That Cabinet recommends the following for approval to Budget Council:

   - The 2021/22 General Fund Net Revenue Budget and resulting Council Tax Requirement excluding parish precepts (Appendix A) and supporting budget proposals (Appendix B).

   - The Section 151 Officer's statement on the adequacy of reserves and advice that the minimum level of balances be increased to £3.5M, subject to annual review.

   - the resulting position on reserves (Appendix C).

   - the updated Capital Programme covering financial years 2021/22 to 2024/25 (Appendix D).

   - the updated position on budget transfers (Appendix I)

2. That the Finance Portfolio Holder be given delegated authority to finalise the Revenue & Capital Budgets and Treasury Management Framework, as updated for Cabinet's final budget proposals, and outcomes of the Final Local Government Settlement for referral on to Budget & Performance Panel and Council.

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

Relationship to Policy Framework	
The budget should represent, in financial terms what the Council is seeking to achieve through its Policy Framework. The proposed Treasury Management framework forms part of the Council's budget and policy framework, and fits into the Medium Term Financial Strategy	
Conclusion of Impact Assessment(s) where applicable	
Climate	**Wellbeing & Social Value**
Digital	**Health & Safety**
Equality	**Community Safety**
The budget incorporates measures to make progress in addressing the climate emergency and digital improvements as well as activities to address wellbeing, health and community safety. The budget framework in general sets out a financial plan for achieving the Council's corporate priorities which incorporate the above cross cutting themes. Equalities impact assessments are undertaken for the relevant activities which are reflected in the budget.	
Details of Consultation	
Revenue Budget Proposals Cabinet's initial budget proposals were presented to the January meetings of Budget and Performance Panel and Council. **Treasury Management Framework** Officers have liaised with Link Asset Services, the Council's Treasury Advisors, in developing the proposed framework. The framework will be considered by Budget and Performance Panel at its meeting on 16 February 2021	
Legal Implications	
Legal Services have been consulted and have no further comments.	
Financial Implications	
As set out in the report and supporting Appendices	
Other Resource or Risk Implications	
No other implications directly arising from this report.	
Section 151 Officer's Comments	
<u>**Robustness of Estimates and Adequacy of Council's Reserves**</u> The Local Government Act 2003 placed explicit requirements on the Section 151 Officer to report on the robustness of the estimates included in the budget and on the adequacy of the Council's reserves. A summary of the Section 151 Officer's advice to date is provided below for information, but it should be noted that some of this is provisional until Cabinet's final budget proposals are confirmed.	

At Budget Council, Members will be recommended to note formally the advice of the Section 151 Officer.

Provisions, Reserves and Balances

Specific earmarked reserves and provisions are satisfactory at the levels currently proposed.

Unallocated balances of £3.5M for General Fund are reasonable levels to safeguard the Council's overall financial position, given other measures and safeguards proposed. This level has been increased by £1.0M compared with last year to reflect increased uncertainty with respect to the on-going COVID -19 pandemic, Brexit and reflects the sensitivity of some of the underlying savings and income levels within the budget.

Robustness of Estimates

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

- producing a base budget, taking account of service commitments, pay and price increases and expected demand/ activity levels as appropriate, and the consideration of key assumptions and risks such as levels of future Government funding for the pandemic and other areas.

- reviewing the Council's services and activities, making provision for expected changes;

- reviewing the Council's MTFS, together with other corporate monitoring information produced during the year;

- undertaking a review of the Council's borrowing needs to support capital investment, in line with the Prudential Code.

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

Affordability of Spending Plans

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

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

The factors that have been taken into account in considering capital investment plans include the following.

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

In considering and balancing these factors, the capital proposals to date are based on levels of "prudential borrowing" or CFR over the period to 2024/25. The bulk of this relates to schemes to support delivery of the Council's key Strategic Priorities and Outcomes such as Climate Emergency, Economic Prosperity and Regeneration and Housing as outlined in the Capital Programme.

Like all Councils, Lancaster City faces increased financial pressures and uncertainty because of the impact of COVID-19 and Brexit. Over several years, the Council has managed to build up a level of reserves and will benefit from the significant green energy disregard, both of which offers a degree of protection from volatilities.

An underlying structural budget deficit was identified several years ago and although this deficit has increased, current spending plans are sustainable in the short term through the prudent allocation of funding from reserves.

However, in the medium term based on current projections they are not sustainable, and it is of the utmost importance that Members and Officers work together to support the Council's Funding the Future Strategy. Outcomes Based Resourcing is a core priority for all Officers in the coming financial year, and it will be expected to deliver significant inroads into the deficit.

Monitoring Officer's Comments

The Monitoring Officer has been consulted and has no comments on this report.

Contact Officer	Paul Thompson Chief Finance Officer/ s151 Officer
Tel	01524 582603
Email	pthompson@lancaster.gov.uk

Links to Background Papers

1.0 INTRODUCTION

1.1 Under the Constitution, Cabinet has responsibility for developing corporate planning proposals and a balanced budget for Council's consideration.

1.1 The Council meeting on 27 January 2021 considered Cabinet's proposed revenue budget for 2021/22 and approved a City Council Tax increase of £5 together with a year-on-year target of the maximum allowable under the Government's local referendum thresholds for future years.

1.2 Cabinet has also considered a capital programme for 2021/24 to 2024/25 and this report provides a proposed capital programme for consideration and recommendation to Budget Council. The Treasury Management Strategy takes account of the proposed capital programme.

1.4 The report seeks delegated authority for the Finance Portfolio Holder to agree the Revenue and Capital Budgets together with the Treasury Management Framework, subject to any changes made resulting from the Final Local Government Settlement proposals before it is referred to Budget Council.

2.0 REVENUE BUDGET 2021/22

STRATEGIC CONTEXT

2.1 All Members will appreciate that the 2021/22 budget has been set at a time of unprecedented change and uncertainty, which has seen the Council react to address the pandemic resulting in significant shifts in capacity and priority. These levels of uncertainty put significant pressure on the ability to forecast. External factors such as the pandemic and EU Exit fundamentally alter both the priorities for and use of council resources and the context of our income from taxation, rates, fees and charges are expected to continue to be factors in coming years.

2.2 The proposed revenue budget includes a small range of Outcomes Based Resourcing (OBR) based savings, and growth proposals have been limited to those which are vital to the successful operation of the Council in continuing to secure income and fees, support efficient and effective service delivery and reporting, offering statutory services at viable levels, and progressing the capital programme. The proposed budget is balanced, in line with statutory requirements, but is subject to the outcome of the Final Local Government Settlement.

2.3 Cabinet is now required to finalise its full budget proposals and make recommendations to Budget Council. The planned revenue budget for 2021/22 is included at ***Appendix A*** with more detailed budget proposals in ***Appendix B***.

2.4 The proposed revenue budget was agreed by Cabinet at its meeting on 27 January 2021 and this was subject to the Local Government Settlement and calculations of annual estimates for collection fund surpluses or deficits in respect of Council Tax and Business Rates which are considered below.

LOCAL GOVERNMENT SETTLEMENT

2.5 The Provisional Local Government Settlement was announced 17 December 2020 and retained Council Tax threshold principles for districts at 1.99% or £5, whichever is higher. The Final Local Government Settlement is yet to be laid before parliament; however, it is expected that these thresholds will remain unchanged.

COUNCIL TAX

2.6 Legislation requires that separate estimates be made for any Collection Fund surpluses or deficits on the Collection Fund relating to the Council Tax and Business Rates.

2.7 For Council Tax, it is confirmed that the Collection Fund is expected to generate a small surplus for the year and with the overall fund position remaining in deficit.

2.8 The Council Tax increase of £5 agreed by Council on 27 January 2021 means that the City element of Council Tax for a band D property will be £236.95.

BUSINESS RATES

2.9 The Council is required to submit its annual business rates return to the Government by the end of January in which it estimates business rates income for 2021/22 and the estimated deficit / surplus as at the end of 2020/21.

2.10 The estimated deficit for 2020/21 is £26.279M as shown in Table 1 below and the City Council's share of this is £10.512M

2.11 The table below shows that of the City Council's share of the £10.512M deficit £9.625M will be recognised during 2021/22 and it is estimated that £6.914M of this will be offset by Section 31 grant leaving a charge against the General Fund of £2.711M. An amount of £0.887M relating to the residual in-year deficit will be spread equally between 2022/23 and 2023/24 and budgetary provision for this has been made.

Table 1: Business Rates

	2020/21 £M
Actual deficit brought forward (from collection fund statement)	2.712
Transfer to other precepting authorities in respect of last year forecast surplus (arising from calculations done a year ago)	2.958
Forecast Business Rates Income for 2020/21	-51.990
Rate Retention Scheme Charges for 2020/21	72.599
Estimated Deficit for 2020/21 as at 31 January 2021	26.279
City Council Share of the deficit at 40%	10.512
City Council Share of the deficit to be recognised in 2021/22	9.625
Share of deficit to be offset by S31 additional grant reliefs in respect of retail discount & nursery discount	-6.914
Charge against the General Fund in 2021/22	2.711
City Council Share of the deficit to be recognised during 2022/23 – 2023/24	0.887

2.12 The position for 2020/21 is a particularly complex one in light of the COVID-19 pandemic. As a result of the pandemic Central Government significantly amended and extended the reliefs that could be given to ratepayers. In light of this, in the national context, business rates collectible from ratepayers is more than £10billion lower than that forecast last January on which payments from the Collection Fund in 2020/21 were based. Authorities are being compensated for this through payments of

Section 31 grant so that this element of the deficit will not impact on local authority budgets for 2021/22.

2.13 In addition the pandemic has impacted levels of business rates receivable during the year. To prevent spending on local services being significantly curtailed during 2021/22 as a result of this Regulations were amended to allow the spreading of any in-year deficit over three years.

2.14 The severe impact of the pandemic and the restrictions placed on business means that business rates continue to be an area of significant uncertainty in respect of predicting income for the reasons set out below:

2.15 Appeals by businesses against their Rateable Value (RV). Notification has been provided by the Valuation Office that the current pandemic represents a material change and they are considering RV reductions via check and challenge process. Councils make provision against future levels of appeals; however, the timing and value of potential appeals remains unclear.

2.16 The potential for a shutdown at Heysham Nuclear Power Station continues to be a risk which the Council must monitor, as such an event would significantly reduce retention from business rates.

2.17 The Council receives a 'disregard' for renewable energy hereditaments which means that 100% of the business rates for these properties is retained by the authority. It is estimated that in 2021/22, this will be worth £3M to Lancaster City Council, making a significant contribution towards mitigating the City Council's share of any deficit on the Collection Fund in respect of Business Rates. Whilst it is evident that this 100% disregard will continue into 2021/22, there is a risk that the Government will discontinue this advantageous arrangement at some point in the future.

2.18 Central Government operates a "safety net" system to protect those Councils which see their year-on-year business rate income fall by more than 7.5 per cent. The Section 151 Officer has allowed for this arrangement when considering the level of balances held within the Business Rates reserve.

3.0 PROVISIONS, RESERVES & BALANCES

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

Provisions

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

Reserves & Balances

3.3 Reserve levels and use of reserves are an important part of the budget framework. It is important that the Council maintains a healthy level of reserves in order to maintain financial resilience but balances this with the careful use of those reserves, usually on 'one-off' items in order to support corporate priority projects.

Annual Assessment of Reserves Levels

3.4 The Section 151 Officer's annual review of the adequacy of reserve balances is a statutory requirement. Although usable revenue reserve levels have increased in the last two years, continuing uncertainties with respect to COVID-19, BREXIT and Local Government Funding remain. **Taking this additional risk into account, the Section 151 Officer's advice is that the minimum level of balances held in the General Fund should be set at £3.5M, an increase of £1M.**

3.5 The Section 151 Officer's latest advice on the adequacy of balances is based on the following observations:

- The General Fund Balance at 31/03/20 was £5.045M, with net in year allocations of £2M. Latest revenue budget monitoring forecasts an underspend of £3.271M in 2020/21. The proposed 2021/22 budget will require £2.267M of funding from unallocated reserves leaving a forecast balance of £4.529M at 31/03/21. Allowing for the s151 Officers recommended minimum level of £3.5M this provides for £1.029M of available balances.

- The Council's MTFS suggests a structural budget gap in 2022/23 onwards of approximately £2.183M raising to £4.668M. If this is not closed, then balances will be required to make up the difference.

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

- There is continuing uncertainty with respect to COVID-19 and BREXIT and how this will impact, directly or indirectly, Council finances.

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

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

Table 2

Risk	**Symptom of Risk**	**Balance Required £M**
Increased demand for services	3% increase in net revenue expenditure	0.600
Recession results in additional uncompensated reduction in fees and charges income than budget	5% reduction in major fees and charges income	0.800
Recession results in additional reduction in Council Tax collection rates than budget	3% reduction in collection rate	0.350
Next years budget savings not achieved	50% under achievement	0.225
Natural disaster such as flood	Additional unexpected expenditure	0.500

Additional uncertainty with respect to Brexit/ COVID	Additional unexpected expenditure	1.000
Aggregate overspend if all of the above risks were to happen		**3.475**
Estimated General Fund Balance as at 31/03/22		**4.529**

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

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

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

3.9 The estimated combined reserves balances are shown in Appendix C and are summarised in table 3 below

Table 3

	2020/21 £M	**2021/22 £M**	**2022/23 £M**	**2023/24 £M**	**2024/25 £M**
Balance brought forward	(20.365)	(19.681)	(15.596)	(14.563)	(13,413)
Impact of 2021/22 budget decisions	0	2.267	0.104	0.010	0.010
Impact of previous decisions	0.684	1.818	0.929	1.140	(0.374)
Balance carried forward	**(19.681)**	**(15.596)**	**(14.563)**	**(13.413)**	**(13.777)**

3.10 It should be noted that the above analysis reflects allocated use of reserves which are subject to the completion and authorisation of a reserves bid template to ensure the effective use of resources to meet corporate priorities. If no bid is made or the bid is rejected then allocations will not be used.

3.11 It should also be noted that any business rates growth above budget and/or returns from invest to save projects will, all other things being equal, increase reserves balances from those set out in the above analysis.

Governance Arrangements on the Use of Reserves

3.12 The Reserves Strategy sets out improved arrangements for the approval of reserves expenditure which include:

- a requirement to complete a bid document setting out how reserves expenditure will deliver corporate priorities with a clear costing statement and schedule of outcome measures

- a process to ensure that all use of reserves are approved by Cabinet either as part of the annual budget or via consideration of bids during the year, usually as part of strategy or project approval Cabinet report

- decision limits to ensure that Cabinet approval of reserves bids is delegated appropriately.

4.0 GENERAL FUND CAPITAL PROGRAMME

4.1 The proposed General Fund investment programme for the period to 2024/25 is included at ***Appendix D*** and summarised in table 4 below.

Table 4

	2020/21 £M	**2021/22 £M**	**2022/23 £M**	**2023/24 £M**	**2024/25 £M**
Approved Schemes	11.968	9.768	3.227	0.755	2.246
Development Pool	0.298	33.570	22.523	6.900	4.840
Total	**12.266**	**43.338**	**25.750**	**7.655**	**7.086**

4.2 The current year's revised net programme now stands at £12.266M. During the next 4 years, a further £83.829M of investment is currently planned, giving a total net 5-year programme from 2020/21 to 2024/25 of £96.095M.

4.3 Recent changes to Public Works Loan Board (PWLB) borrowing have had significant implications for the Capital Programme, with investment primarily for yield now being constrained. These changes may require a different approach to capital investment, and while, given the social motives of the Council, the majority of the planned schemes appear eligible, further work is being undertaken to ensure the alignment of the programme with the new criteria. Should any revisions to the programme, or supporting strategies be required these will be brought forward for approval in line with the Council's constitutional requirements.

4.4 Development pool schemes provision is included where work is being undertaken to develop schemes, but the provision will not be dispersed until full business cases have been considered and approved via the relevant decision-making governance

4.5 A number of significant schemes are included in the development pool including Canal Quarter, general fund housing schemes, Heysham Gateway development as well as investment in solar and renewable energy. All of these schemes will require significant capital expenditures and borrowing but each business case will have to show that income arising from the capital investment is capable of covering all borrowing costs and delivering a positive return to the Council.

4.6 Overall the programme is balanced, allowing for a decrease in the underlying need to borrow (known as the Capital Financing Requirement or CFR), over the period to 2024/25. The Council makes a revenue provision for the repayment of borrowing known as Minimum Revenue Provision (MRP) which reduces the CFR.

4.6 In setting the capital programme the Council must have regard to affordability and the Treasury Management Strategy sets out through a series of prudential indicators the impact of the Council's Capital Programme on its borrowing to ensure that all borrowing is affordable, prudent and sustainable.

5.0 TREASURY MANAGEMENT STRATEGY

5.1 The Code of Practice on Treasury Management ("the Code") requires that a strategy outlining the expected treasury activity for the forthcoming 3 years be adopted, but that it be reviewed at least annually. It needs to reflect treasury policy and cover various forecasts and activities, in order to integrate the Council's spending and income plans with decisions about investing and borrowing

5.2 Treasury management activities represent the placement of residual cash held in the bank resulting from the authority's day to day activities in relation to s12 Local Government Act investment powers. The Treasury Management Strategy, therefore deals principally with investments and borrowing which are considered below.

5.3 In February 2020 Parliament reformed the statutory basis of the PWLB, transferring its lending powers to HM Treasury. In March 2020 the government consulted on revising the PWLB's lending terms to reflect these new governance arrangements. The government published its response to this consultation and implemented reforms in November 2020.

5.4 The main objective of these reforms was to respond to the major expansion of local authority investment activity over the last few years into the purchase of non-financial investments, particularly property held for primarily for yield. As noted in section 4 above this has impacted the Council's capital programme and elements of its Funding the Future Strategy. The proposed Treasury Management Strategy fully complies current regulation and guidance. However, officers are exploring options around future funding of capital schemes and any revisions to the programme or supporting strategies will be brought forward for approval in line with the Council's constitution.

Treasury Management Framework

5.5 The proposed Strategy for 2021/22 to 2024/25 is set out at ***Appendix H***. The document contains the necessary details to comply with both the Code and Government investment guidance. Responsibilities for treasury management are set out at ***Appendix F*** and the policy statement is presented at ***Appendix G.***

5.6 Key elements and assumptions feeding into the proposals are outlined below. These take account of Cabinet's existing budget proposals as far as possible at this stage. Should there be any changes to the budget, then the treasury framework would need to be updated accordingly before being referred on to Budget Council. For these reasons, delegated arrangements are being sought for finalising the framework.

Borrowing Aspects of the Strategy

5.7 Based on the draft budget, the overall physical borrowing position of the Council is projected to increase significantly over the next three to five years from its current position of £62M to £102M (2021/22) potentially raising to £126M (2024/25) as the Council looks to move forward with several ambitious schemes to enable delivery of its Strategic Priorities.

5.8 This level of borrowing is assessed for affordability, sustainability and prudence in line with the Council's Treasury Management Strategy and requires annual approval by Council following consultation with Budget & Performance Panel. Changes in the Council's Capital Financing Requirement and forward borrowing projections are summarised in tables 5 and 6 below.

Table 5: Capital Financing Requirement

£m	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Capital Financing Requirement						
CFR – Non Housing	43.50	44.71	85.04	106.95	110.08	112.82
CFR – Housing	38.28	37.23	36.19	35.15	34.11	33.07
CFR – Commercial activities/non-financial investments	4.92	13.93	13.65	13.37	13.09	12.81
Total CFR	**86.70**	**95.87**	**134.88**	**155.47**	**157.28**	**158.70**

Table 6: Borrowing Projections

	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
External Debt						
Debt at 1 April	63.17	62.13	102.09	122.67	125.60	126.66
Expected change in Debt	(1.04)	(1.04)	(1.04)	(1.04)	(1.04)	(1.04)
Actual gross debt at 31 March	62.13	61.08	101.05	121.63	124.56	125.62
The Capital Financing Requirement	86.70	95.87	134.88	155.47	157.28	158.70
Under Borrowing	(24.57)	(34.79)	(33.83)	(33.84)	(32.72)	(33.08)

Investment Aspects of the Strategy

5.9 Where short term treasury management investments are required the Council retains a comparatively low risk appetite with focus on high quality deposits. The 2021/22 strategy continues to use the same short term investment criteria as approved by Members in 2020/21.

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

5.11 The Prudential Code 2017 also introduced a new requirement to produce an annual capital strategy ***Appendix E***. This is an over-arching corporate document which deals with the key areas of strategic context, corporate priorities, capital investment ambition, available resources, affordability, capacity to deliver, risk appetite, risk management and determining an appropriate split between non-financial and treasury management investments in the context of ensuring the long term financial sustainability of the authority.

6.0 MEDIUM TERM FINANCIAL STRATEGY

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

6.2 Work has commenced to support opportunities to address the underlying structural deficit, by:

- Increasing and diversifying income
- Improving productivity and securing efficiencies via new ways of working (e.g., Outcomes Based Resourcing)
- Developing alternative ways to achieve priority outcomes (e.g., partnership)

6.2 While Local Government Reorganisation (LGR) presents an opportunity to think longer term about the design of services and the budget, work continues to identify and implement transformation opportunities which place Lancaster in a position of strength irrespective of future scenarios and plans.

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

7.0 OPTIONS & OPTIONS ANALYSIS

Revenue Budget

7.1 Cabinet may adjust its revenue budget proposals, so long as the overall budget for 2021/22 balances and fits with the proposed Council Tax level.

Capital Programme

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

Treasury Management Framework

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

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

8.0 OFFICER PREFERRED OPTION (AND COMMENTS)

Revenue Budget, Capital Programme and Reserves Position

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

Treasury Management Strategy

8.2 To approve the framework as attached, allowing for any amendments being made under delegated authority prior to referral to Council. This is based on the Council continuing to have a comparatively low risk appetite regarding the security and liquidity of investments particularly, but recognising that some flexibility should help improve returns, whilst still effectively mitigating risk. It is stressed that in terms of treasury activity, there is no risk free approach. It is felt, however, that the measures set out above provide a fit for purpose framework within which to work, pending any update during the course of next year.

8.3 If Cabinet or Budget Council changes its Capital Programme from that which is proposed in this report then this would require a change in the prudential indicators which are part of the Treasury Management Strategy. Delegation to the Finance Portfolio Holder is therefore requested in order to ensure that Cabinet's final capital programme proposals are reflected in the Treasury Management Strategy

APPENDICES

Appendix A: General Fund Summary
Appendix B: Savings & Growth
Appendix C: Reserves Summary
Appendix D: Capital Programme
Appendix E: Capital Strategy
Appendix F: Treasury Management Responsibilities
Appendix G: Treasury Management Statement
Appendix H: Treasury Management Strategy
Appendix I: Budget Transfers (Virements, Carry Forwards & Reserves)

General Fund Revenue Budget Projections 2020/21 to 2024/25

For Consideration by Cabinet 9 February 2021

BUDGET PROJECTIONS

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Revenue Budget/Forecast as at 26 February 2020	**17,903**	**18,131**	**18,322**	**18,883**	**19,261**
Base Budget Changes					
Operational Changes @ Cabinet 24/11/20	1,494	2,538	1,205	1,891	2,289
Operational Changes @ Cabinet 19/01/21		(825)	1,206	1,806	1,882
Latest Budgetary Position	**19,397**	**19,844**	**20,733**	**22,580**	**23,432**
Outcomes Based Resourcing Proposals:					
Savings Proposals	0	(444)	(727)	(521)	(534)
Redirection Proposals	0	0	0	0	0
Additional Resource Requirements	0	559	632	651	676
Revenue Implication of New Capital Schemes	-	82	472	839	826
Contribution to/(from) Reserves	3,751	(2,267)	0	0	0
General Fund Revenue Budget	**23,148**	**17,774**	**21,110**	**23,550**	**24,400**
Core Funding:					
Revenue Support Grant	(203)	(204)	-	-	-
Net Business Rates Income	(13,273)	(7,737)	(8,836)	(8,924)	(9,013)
Council Tax Requirement	**9,672**	**9,833**	**12,274**	**14,626**	**15,387**
Estimated Council Tax Income - **(Increases based on £5 for 2021/22 then max allowable)**	**9,672**	**9,833**	**10,091**	**10,403**	**10,719**
Resulting Base Budget (Surplus)/Deficit	**0**	**0**	**2,183**	**4,223**	**4,668**
Original MTFS Savings Requirement	***0***	***1,558***	***1,234***	***1,270***	***N/A***
Change	***+0***	***(1,558)***	***+949***	***+2,953***	***N/A***

BALANCES

General Fund Unallocated Balance	£M
Original Projected Balance as at 31 March 2020	**(5.045)**
2020/21 In Year allocations	**+2.000**
2020/21 Forecast (Under)/Overspend	(3.751)
Projected Balance as at 31 March 2021	(6.796)
2021/22 Forecast Budgeted Contribution	+2.267
Projected Balance as at 31 March 2022	**(4.529)**
Less Recomended Minimum Level of Balances	**3.500**
Available Balances	**(1.029)**

APPENDIX B

Saving and Budget Proposals 2020/21 to 2024/25

SAVINGS PROPOSALS

	Reserves Funding 2021/22	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Non-Reserve Savings						
Communities & the Environment						
Public Protection						
Savings from combined post and reduction in hours		-	(16)	(32)	(38)	(38)
Selective Licensing part Savings part Growth but will net nil over 5 years		-	(35)	(85)	34	34
Public Realm & Business Support						
Service restructure Phase 2		-	(10)	(10)	(10)	(9)
Deletion of vacant posts		-	(29)	(29)	(33)	(33)
Increase trade waste capacity, via route optimisation		-	(50)	(100)	(100)	(100)
Drainage / pressure jetting service		-	(4)	(28)	(28)	(28)
Customer Involvement & Leisure						
Salt Ayre Vacant Post		-	(44)	(46)	(47)	(48)
Customer Services Restructure		80	(40)	(38)	(35)	(33)
Customer Services Restructure (funded by restructuring reserve)		(80)	-	-	-	-
Customer Services Vacant Post		-	-	(31)	(32)	(33)
Economic Growth & Regeneration						
Planning & Place						
DM- Planning pre-application fee review		-	(10)	(15)	(20)	(25)
Building Control - Fee Review		-	(10)	(20)	(30)	(40)
Property, Investment & Regen						
Reduced staff activity and increased community use (LTH/MTH)		-	(111)	(82)	-	-
R&M Future savings (2021/22 from Corporate Property Reserve)	(25)	-	25	(56)	(56)	(56)
Relocate ICT		-	21	(28)	-	-
Printing & Postage		-	(30)	(30)	(30)	(30)
Centralisation of budgets		-	(5)	(5)	(5)	(5)
Corporate Services						
Legal Services						
Legal Fee Increases		-	(40)	(40)	(40)	(40)
ICT						
ICT Mobile Telephone / Fixed Lines Review		-	(11)	(11)	(11)	(11)
ICT Review Length of Software Licences		-	-	(10)	(10)	(10)
ICT Structural Change / Shared Resource		-	-	(10)	(10)	(10)
ICT Review and Consolidation of Printers		-	(5)	(5)	(5)	(5)
ICT Recharging for Street Naming/Numbering		-	(15)	(15)	(15)	(15)
Sub Total	(25)	**0**	**(419)**	**(727)**	**(521)**	**(534)**
Funding From Reserves		**0**	**(25)**	**0**	**0**	**0**
Net Savings		**0**	**(444)**	**(727)**	**(521)**	**(534)**

REDIRECTION PROPOSALS

	Reserves Funding	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Redirection						
Salt Ayre Restructure		-	(87)	(90)	(92)	(95)
Property Services Restructure		-	87	90	92	95
		-	-	-	-	-
Redirection requested to be funded from Reserves						
		-	-	-	-	-
		-	-	-	-	-
Total Redirection (expected to be minimal)	**£0K**	**0**	**0**	**0**	**0**	**0**
Less Funding from Reserves		**0**	**0**	**0**	**0**	**0**
Add Payback to Reserves						
Net Cost of Redirection		**0**	**0**	**0**	**0**	**0**

ADDITIONAL RESOURCE REQUIREMENTS

	Reserves Funding	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Non-Reserve Growth						
Communities & the Environment						
Public Realm						
HMP Splash Park Renewal Programme	(60)	-	70	10	10	10
Housing Services						
Stock condition survey module for PRS (Corporate Priorities Reserve)	(60)	-	60	-	-	-
Economic Growth & Regeneration						
Planning & Place						
DM Planning Enforcement - Team Restructure		-	4	3	2	4
DM Planning applications - Service continuity and restructure		-	230	327	336	348
Planning and Housing Strategy - Conservation Graduate		-	26	26	27	28
Economic Development						
Business Support & Skills expand Local wealth Building Officer post		-	5	1	1	1
Business Engagement (COVID Recovery) - 3 temporary officers	(90)	-	90	94	0	0
Property, Investment & Regen						
Strategic Project Management		-	55	56	58	59
Capital Programme Development	(80)	-	80	-	-	-
Corporate Services						
Financial Services						
HR/Payroll Software move to Cloud			23	10	10	10
Financial Services Staffing		-	60	61	65	69
Human Resources						
HR & OD Project Teams		-	40	41	42	43
Democratic Services						
Democratic Services (re-establisment)		-	26	26	27	28
		-	-	-	-	-
Office of the Chief Executive						
Head of Policy		-	68	69	71	74
Local Government Reorganisation	(200)	-	200			
Wellbeing			12	12	12	12
Approved Growth funded from Reserves						
		-	-	-	-	-
		-	-	-	-	-
Growth funded from Reserves (Subject to Business Case Approval)						
		-	-	-	-	-
		-	-	-	-	-
		-	-	-	-	-
Total Growth	(490)	**0**	**1,049**	**736**	**661**	**686**
Less Funding from Reserves		**0**	**(490)**	**(104)**	**(10)**	**(10)**
Add Payback to Reserves						
Net Cost of Growth		**0**	**559**	**632**	**651**	**676**

Reserves Statement (Including Unallocated Balances)

	31 March 2020	From Revenue	To / (From) Capital	To Revenue	31 March 2021	From Revenue	To / (From) Capital	To Revenue	31 March 2022	From Revenue	To / (From) Capital	To Revenue	31 March 2023	From Revenue	To / (From) Capital	To Revenue	31 March 2024	From Revenue	To / (From) Capital	To Revenue	31 March 2025
	£	£	£	£	**£**	£	£	£	**£**	£	£	£	**£**	£	£	£	**£**	£	£	£	**£**
Unallocated Balances	**(5,045,000)**	(3,751,000)		2,000,000	**(6,796,000)**			2,267,000	**(4,529,000)**				**(4,529,000)**				**(4,529,000)**				**(4,529,000)**
Earmarked Reserves:																					
Business Rates Retention	**(7,376,900)**			814,500	**(6,562,400)**	(886,386)		96,500	**(7,352,286)**			1,172,193	**(6,180,093)**	363,600		1,369,493	**(4,447,000)**				**(4,447,000)**
Corporate Priorities	**(2,152,700)**	(882,200)		1,105,000	**(1,929,900)**		684,000	867,600	**(378,300)**	(491,300)	240,000	529,100	**(100,500)**	(943,400)	240,000	524,800	**(279,100)**			278,800	**(300)**
Canal Quarter	**(69,100)**			26,200	**(42,900)**																
Capital Support	**(258,200)**		4,000	185,200	**(69,000)**		69,000														
Corporate Property	**(338,500)**				**(338,500)**			25,000	**(313,500)**				**(313,500)**				**(313,500)**				**(313,500)**
Covid 19 Support Reserve		(2,000,000)		1,775,000	**(225,000)**			225,000													
Economic Growth	**(126,000)**	(117,500)		35,900	**(207,600)**	(96,500)		166,500	**(137,600)**	(96,500)		96,500	**(137,600)**	(96,500)		96,500	**(137,600)**				**(137,600)**
Elections		(40,000)			**(40,000)**	(40,000)			**(80,000)**	(40,000)			**(120,000)**	(40,000)		160,000		(40,000)			**(40,000)**
Homelessness Support	**(110,800)**	(23,000)			**(133,800)**	(6,600)			**(140,400)**	(6,600)			**(147,000)**	(6,600)			**(153,600)**				**(153,600)**
Invest to Save	**(1,397,000)**	(29,400)		842,300	**(584,100)**	(92,200)		624,500	**(51,800)**	(148,200)		200,000		(250,000)		239,000	**(11,000)**				**(11,000)**
Local Plan																					
Morecambe Area Action Plan	**(27,300)**			27,300																	
Museums Acquisitions	**(21,300)**	(3,000)			**(24,300)**	(4,500)			**(28,800)**	(4,500)			**(33,300)**	(4,500)			**(37,800)**	(4,500)			**(42,300)**
Planning Fee Income	**(74,600)**				**(74,600)**				**(74,600)**				**(74,600)**				**(74,600)**				**(74,600)**
Renewals Reserves	**(380,600)**	(481,800)	149,000	155,200	**(558,200)**	(481,800)	360,000	102,100	**(577,900)**	(481,800)	150,000	38,700	**(871,000)**	(481,800)	124,000	36,200	**(1,192,600)**	(481,800)	38,000	44,200	**(1,592,200)**
Restructure	**(530,700)**			80,000	**(450,700)**			262,500	**(188,200)**			31,700	**(156,500)**			17,800	**(138,700)**				**(138,700)**
Revenue Grants Unapplied	**(827,400)**	(4,700)		415,700	**(416,400)**			82,800	**(333,600)**			39,000	**(294,600)**			1,800	**(292,800)**			1,500	**(291,300)**
S106 Commuted Sums - Open Spaces	**(28,400)**			11,800	**(16,600)**			11,800	**(4,800)**			4,700	**(100)**				**(100)**				**(100)**
S106 Commuted Sums - Affordable Housing	**(564,800)**			375,000	**(189,800)**				**(189,800)**				**(189,800)**				**(189,800)**				**(189,800)**
S106 Commuted Sums - Highways, Cycle Paths etc.	**(611,600)**	(161,600)	142,000	4,700	**(626,500)**	(200,000)		5,700	**(820,800)**	(200,000)			**(1,020,800)**	(200,000)			**(1,220,800)**	(200,000)			**(1,420,800)**
Welfare Reforms	**(324,900)**				**(324,900)**				**(324,900)**				**(324,900)**				**(324,900)**				**(324,900)**
Amenity Improvements	**(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	**(15,319,700)**	**(3,743,200)**	**295,000**	**5,882,800**	**(12,885,100)**	**(1,807,986)**	**1,113,000**	**2,470,000**	**(11,067,186)**	**(1,468,900)**	**390,000**	**2,111,893**	**(10,034,193)**	**(1,659,200)**	**364,000**	**2,445,593**	**(8,883,800)**	**(726,300)**	**38,000**	**324,500**	**(9,247,600)**
Total Combined Reserves	**(20,364,700)**				**(19,681,100)**				**(15,596,186)**				**(14,563,193)**				**(13,412,800)**				**(13,776,600)**

Appendix D

General Fund Capital Programme

Cabinet 09/02/21

Service / Scheme	2020/21 Gross Budget	2020/21 External Funding	2020/21 Net Programme	2021/22 Gross Budget	2021/22 External Funding	2021/22 Net Programme	2022/23 Gross Budget	2022/23 External Funding	2022/23 Net Programme	2023/24 Gross Budget	2023/24 External Funding	2023/24 Net Programme	2024/25 Gross Budget	2024/25 External Funding	2024/25 Net Programme	5 YEAR PROGRAMME Total Gross Programme	5 YEAR PROGRAMME Total External Funding	5 YEAR PROGRAMME Total Net Programme
Communities and Environment	£	£	£	£	£	£		£	£	£	£	£	£	£	£	£	£	£
Vehicle Renewals	1,505,000		1,505,000	2,684,000		2,684,000	1,167,000		1,167,000	184,000		184,000	1,983,000		1,983,000	7,523,000	0	7,523,000
2 x Electric Refuse Vehicles			0	400,000		400,000			0			0			0	400,000	0	400,000
Pool Cars	174,000		174,000			0			0			0			0	174,000	0	174,000
Electronic Vehicle Charging Points - Phase 2	58,000	(30,000)	28,000			0			0			0			0	58,000	(30,000)	28,000
Phase 1 1MW Solar Farm	50,000		50,000	1,350,000		1,350,000			0			0			0	1,400,000	0	1,400,000
One Million Trees	25,000		25,000	25,000		25,000	30,000		30,000	30,000		30,000			0	110,000	0	110,000
Happy Mount Park Pathway Replacements	112,000		112,000			0			0			0			0	112,000	0	112,000
Far Moor Playing Fields s106 Scheme	72,000		72,000			0			0			0			0	72,000	0	72,000
Disabled Facilities Grants	1,724,000	(1,724,000)	0	2,939,000	(2,939,000)	0	1,890,000	(1,890,000)	0	1,890,000	(1,890,000)	0	1,890,000	(1,890,000)	0	10,333,000	(10,333,000)	0
Half Moon Bay Car Park Extension			0	60,000		60,000			0			0			0	60,000	0	60,000
Salt Ayre Boiler Replacement			0	300,000		300,000			0			0			0	300,000	0	300,000
Salt Ayre Asset Management Plan			0	1,757,000		1,757,000	511,000		511,000	124,000		124,000	38,000		38,000	2,430,000	0	2,430,000
Customer Contact System	115,000		115,000	85,000		85,000			0			0			0	200,000	0	200,000
Mellishaw Park			0	480,000		480,000	240,000		240,000	240,000		240,000			0	960,000	0	960,000
Economic Growth and Regeneration																		
Sea & River Defence Works & Studies	6,034,000	(5,846,000)	188,000	3,000	(3,000)	0			0			0			0	6,037,000	(5,849,000)	188,000
Units at White Lund Industrial Estate	9,100,000		9,100,000			0			0			0			0	9,100,000	0	9,100,000
Lancaster Heritage Action Zone	193,000	(88,000)	105,000	850,000	(294,000)	556,000	1,558,000	(646,000)	912,000	274,000	(127,000)	147,000			0	2,875,000	(1,155,000)	1,720,000
Coastal Revival Fund - Morecambe Co-Op Building	11,000	(11,000)	0			0			0			0			0	11,000	(11,000)	0
Morecambe Co-Op Building Renovation	0		0	425,000		425,000			0			0			0	425,000	0	425,000
Coastal Revival Fund - Morecambe Winter Gardens	92,000	(92,000)	0			0			0			0			0	92,000	(92,000)	0
Morecambe Winter Gardens Loan	103,000		103,000			0			0			0			0	103,000	0	103,000
Canal Quarter Site Acquisition			0	290,000		290,000			0			0			0	290,000	0	290,000
Lancaster Square Routes	26,000	(21,000)	5,000			0			0			0			0	26,000	(21,000)	5,000
Lancaster District Empty Homes Partnership	4,000		4,000	69,000		69,000			0			0			0	73,000	0	73,000
S106 Highways Works	70,000		70,000			0			0			0			0	70,000	0	70,000
Hale Carr Lane Cemetery Chapel	8,000		8,000			0			0			0			0	8,000	0	8,000
Lancaster City Museum Boiler			0	127,000		127,000			0			0			0	127,000	0	127,000
1 Lodge Street Urgent Structural Repairs	6,000		6,000	490,000		490,000			0			0			0	496,000	0	496,000
Palatine Recreation Ground Pavillion			0	116,000		116,000			0			0			0	116,000	0	116,000
Dalton Square			0	169,000		169,000			0			0			0	169,000	0	169,000
Corporate Services																		
ICT Systems, Infrastructure & Equipment	123,000		123,000	105,000		105,000	337,000		337,000			0			0	565,000	0	565,000
ICT Laptop Replacement & e-campus screens	60,000		60,000	30,000		30,000	30,000		30,000	30,000		30,000			0	150,000	0	150,000
ICT Telephony	115,000		115,000			0			0			0			0	115,000	0	115,000
Development Pool																		
Palatine Hall			0	150,000		150,000			0			0			0	150,000	0	150,000
Old Fire Station Development Works			0	250,000		250,000			0			0			0	250,000	0	250,000
Williamson Park Ashton Memorial			0			0			0			0	225,000		225,000	225,000	0	225,000
Improvements to Ashton Hall			0	300,000	(40,000)	260,000	150,000		150,000			0			0	450,000	(40,000)	410,000
Cable Street Christmas Lights	24,000		24,000			0			0			0			0	24,000	0	24,000

General Fund Capital Programme

Cabinet 09/02/21

Service / Scheme	2020/21 Gross Budget	2020/21 External Funding	2020/21 Net Programme	2021/22 Gross Budget	2021/22 External Funding	2021/22 Net Programme	2022/23 Gross Budget	2022/23 External Funding	2022/23 Net Programme	2023/24 Gross Budget	2023/24 External Funding	2023/24 Net Programme	2024/25 Gross Budget	2024/25 External Funding	2024/25 Net Programme	5 YEAR PROGRAMME Total Gross Programme	5 YEAR PROGRAMME Total External Funding	5 YEAR PROGRAMME Total Net Programme
Heysham Gateway - Demolition & Removal of Tanks			0	487,000		487,000			0			0			0	487,000	0	487,000
Heysham Gateway Development			0	1,513,000		1,513,000			0			0			0	1,513,000	0	1,513,000
Canal Quarter (including General Fund Housing)			0	10,000,000		10,000,000	9,000,000		9,000,000	5,000,000		5,000,000			0	24,000,000	0	24,000,000
Flood Resilience and coastal defence projects			0			0	300,000		300,000			0			0	300,000	0	300,000
BGV - Contribution			0	300,000		300,000	300,000		300,000	300,000		300,000	300,000		300,000	1,200,000	0	1,200,000
BGV - Project Development/ Acquistions			0	4,000,000		4,000,000	4,000,000		4,000,000			0			0	8,000,000	0	8,000,000
Morecambe Regeneration			0	2,500,000		2,500,000			0			0			0	2,500,000	0	2,500,000
Caton Road Surface Water (Engineers)			0	300,000		300,000			0			0			0	300,000		300,000
Burrow Beck 2.5MW Solar Farm & Battery			0	3,600,000		3,600,000			0			0			0	3,600,000	0	3,600,000
Roof Mounted Solar Array - Gateway, White Lund			0	1,400,000		1,400,000			0			0			0	1,400,000	0	1,400,000
Roof Mounted Solar Array - City Labs			0	23,000		23,000			0			0			0	23,000	0	23,000
SALC - optimised solar farm, air source heating pumps & glazing efficiency				6,828,000	(6,828,000)	0			0			0			0	6,828,000	(6,828,000)	0
Potential Contribution SALC bid (see above)				3,845,000		3,845,000			0			0			0	3,845,000	0	3,845,000
Next Steps Accommodation Programme Property Purchases			0			0	1,000,000		1,000,000			0			0	1,000,000	0	1,000,000
VMU Brake Rollers			0	36,000		36,000			0			0			0	36,000	0	36,000
Engineers Electric Vehicle			0	15,000		15,000			0			0			0	15,000	0	15,000
Platform reinvestment			0			0			0			0	200,000		200,000	200,000	0	200,000
Salt Ayre Leisure Centre reinvestment			0			0			0			0	375,000		375,000	375,000	0	375,000
Lancaster Town Hall reinvestment			0			0	100,000		100,000			0	2,400,000		2,400,000	2,500,000	0	2,500,000
CityLab reinvestment			0			0			0			0	165,000		165,000	165,000	0	165,000
The Storey reinvestment			0			0	300,000		300,000	200,000		200,000			0	500,000	0	500,000
Ryelands Park - Ryelands House			0	500,000		500,000	200,000		200,000			0			0	700,000	0	700,000
Williamson Park Pavilion Replacement			0			0	3,500,000		3,500,000			0			0	3,500,000	0	3,500,000
White Lund Depot Project			0	1,000,000		1,000,000	2,000,000		2,000,000			0			0	3,000,000	0	3,000,000
Morecambe Town Hall reinvestment			0			0			0			0	400,000		400,000	400,000	0	400,000
Edward St Coach House Area Improvement			0	84,000		84,000			0			0			0	84,000	0	84,000
Lancaster Heritage Action Zone - St John's Church			0			0	500,000		500,000			0			0	500,000	0	500,000
Morecambe High Streets Provision	274,000		274,000	750,000		750,000	1,000,000		1,000,000	1,000,000		1,000,000	1,000,000		1,000,000	4,024,000	0	4,024,000
Museums Redevelopment			0	136,000		136,000	110,000		110,000	400,000		400,000			0	646,000	0	646,000
Williamson Park Development			0	1,000,000		1,000,000			0			0			0	1,000,000	0	1,000,000
LLFN Network Bids			0	11,135,000	(9,464,000)	1,671,000	421,000	(358,000)	63,000			0			0	11,556,000	(9,822,000)	1,734,000
GENERAL FUND CAPITAL PROGRAMME	**20,078,000**	**(7,812,000)**	**12,266,000**	**62,906,000**	**(19,568,000)**	**43,338,000**	**28,644,000**	**(2,894,000)**	**25,750,000**	**9,672,000**	**(2,017,000)**	**7,655,000**	**8,976,000**	**(1,890,000)**	**7,086,000**	**130,276,000**	**(34,181,000)**	**96,095,000**

Lancaster City Council

Capital Strategy 2021/22
February 2021

To be reviewed and approved annually by Council

Contents

1. Introduction

1.1 The Capital Strategy gives a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local services. It also outlines how associated risk is managed and the implications for future financial sustainability.

1.2 The Strategy is set within the framework of The Prudential Code for Capital Finance in Local Authorities and the Treasury Management Code, both of which were updated in 2017. Key objectives are to demonstrate that the Council's capital investment plans are affordable, prudent and sustainable; that local strategic planning, asset management planning and proper option appraisal are supported; and that treasury management decisions are taken in accordance with good professional practice.

The District

1.3 Lancaster City and District is unique in containing a diverse mix of City, Coast and Countryside locations, including Lancaster, Morecambe, Heysham and Carnforth and coastal and rural villages.

The Council

1.4 The Council is a highly complex organisation that has to meet a variety of needs and objectives. It has a gross general fund revenue budget approaching circa £45M and has a capital programme that can vary in size but typically can be around c£25M per annum.

1.5 Whilst the Council is one entity, financially it has two elements – the General Fund, which is financed by Council Tax and the Housing Revenue Account, which is financed by tenant's rents, service charges and other smaller income streams. The Council is only one of two in Lancashire that has retained its housing stock and as such the approach and capital financing arrangements around this part of the organisation are more distinct than the General Fund. This is partly due to regulation and legislation but also the differing financial challenges that each of these sections face. Primarily the General Fund is subject to a reduction in financial resources due to the challenges that central government is setting in order to reduce the Country's financial debt obligations.

2. Context

Strategic Aims, Objectives and Priorities

2.1 The Council Plan sets out the authority's key priorities and its ambitions to optimise opportunities to ensure that the district is a great place to live, work and visit. Our strategic priorities are detailed in the diagram overleaf.

2.2 The Medium Term Financial Strategy supports and informs the Council's vision and strategic priorities as set out over the next four years. It also incorporates the key principles of the "Funding the Future" strategy which takes a proactive approach to building the future financial resilience of the Council by:

- Developing and implementing a commercial strategy
- Focusing efforts around efficiency
- Adopting an outcomes approach to budgeting

2.3 The Council's Asset Management Strategy sets out the strategic direction for the management of the Council's property portfolio. It seeks to align the asset portfolio with corporate objectives and informs the Capital Strategy.

2.4 The Capital Strategy sets out how the Council determines its priorities for capital investment, decides how much it can afford to borrow and sets its risk appetite within the overarching context outlined above. Its aim is to ensure that all elected Members fully understand the overall long-term policy objectives and resulting strategy requirements, governance procedures and risk appetite.

Council Priorities Update 2020

Priorities Themes	A Sustainable District	An Inclusive and Prosperous Local Economy	Healthy and Happy Communities	A Co-operative, Kind and Responsible Council
Climate Emergency *Taking action to meet the challenges of the climate emergency* **Community Wealth-Building** *Building a sustainable and just local economy that benefits people and organisations* **Community Engagement** *Drawing on the wealth of skills and knowledge in the community and working in partnership*	➢ net zero carbon by 2030 while supporting other individuals, businesses and organisations across the district to reach the same goal ➢ moving towards zero residual waste to landfill and incineration ➢ increasing the amount of sustainable energy produced in the district and decreasing the district's energy use ➢ transitioning to an accessible and inclusive low-carbon and active transport system ➢ supporting our communities to be resilient to flooding and adapt to the wider effects of climate change ➢ increasing the biodiversity of our district	➢ supporting the development of new skills and improved prospects for our residents within an environmentally sustainable local economy ➢ advocating for fair employment and just labour markets that increase prosperity and reduce income inequality ➢ supporting new and existing enterprises in sustainable innovation and the strengthening of local supply networks ➢ using our land, property, finance and procurement to benefit local communities and encouraging residents, businesses, organisations and institutions to do the same ➢ securing investment and regeneration across the Lancaster and South Cumbria Economic Region	➢ supporting wellbeing and ensuring local communities are engaged, involved and connected ➢ addressing health and income inequality, food and fuel poverty, mental health needs, and loneliness ➢ focused on early-intervention approaches and involving our communities in service design and delivery ➢ (re)developing housing to ensure people of all incomes are comfortable, warm and able to maintain their independence ➢ improving access to the arts, culture, leisure and recreation, supporting our thriving arts and culture sector ➢ keeping our district's neighbourhoods, parks, beaches and open space clean, well-maintained and safe	➢ listening to our communities and treating everyone with equal respect, being friendly, honest, and empathetic ➢ working in partnership with residents, local organisations and partners recognising the strengths and skills in our community ➢ investing in developing the strengths and skills of our staff and councillors ➢ focused on serving our residents, local organisations and district ➢ embracing innovative ways of working to improve service delivery and the operations of the council ➢ providing value for money and ensuring that we are financially resilient and sustainable

3. Our Assets

3.1 The Council has a range of assets which it utilises to deliver its wide range of services throughout the District. The total valuation of these at the start of the financial year 2020/21 was £278.68M. The main constituents of these assets are as follows

Asset Type	£M
Council Housing & Other Assets	131.42
Property Plant & Equipment	100.62
Community Assets	8.58
Investment Property	28.36
Heritage Assets	9.52
Intangible Assets	0.18
Total	**278.68**

Council Housing

3.2 At the start of the financial year the Council held 3,677 dwellings in total within its Housing Revenue Account. These dwellings include 1, 2, 3 & 4 bedroomed, houses, bungalows, flats maisonettes and bedsits.

Number and Type of Dwellings		
Bedsits		77
1 Bedroom	Houses & Bungalows	654
	Flats & Maisonettes	548
2 Bedroom	Houses & Bungalows	480
	Flats & Maisonettes	665
3 Bedroom	Houses & Bungalows	1,163
	Flats & Maisonettes	6
4 or more bedroomed dwellings		84
Total Dwellings		**3,677**

Property Plant & Equipment

3.3 These are assets which the Council predominately uses to deliver its services. These assets include Municipal Buildings, works depot, leisure centre and car parks. It also includes its refuse collection and vehicle fleet as well as various land holdings. The value of these assets at the start of 2020/21 financial year is provided in the table below

Land & Buildings £M	Vehicles, Plant Furniture & Equipment £M	Infrastructure Assets £M	Surplus Assets £M	Assets Under Construction £M	Total £M
56.76	6.26	32.63	0.95	4.02	100.62

Investment Assets

3.3 This type of Council asset is held primarily to generate income and comprise a mix of office and retail lets together with agricultural and commercial land and commercial buildings. Further detail in respect of the Council's investment properties is given in section 6.

Investment Asset Type	£M
Office	4.14
Retail	2.85
Agriculture & Allotments	1.47
Commercial Land	4.83
Commercial Building	6.76
Mixed Commercial	8.31
Total	**28.36**

Heritage Assets

3.4 The Council's heritage assets include 82 pieces of civic regalia, its museums' collections at the Maritime, Cottage and City museums in Lancaster, pieces of artwork, items of Gillow furniture and public artwork including the statue of Eric Morecambe on Morecambe promenade.

Intangible Assets

3.5 These comprise software and software licenses held for the Council's key systems.

Asset Management

3.6 The key objectives of the Councils' Asset Management Policy are to:

- Provide the right buildings in the right place and at the right time and cost to meet the current and future aims, objectives, policies and plans of the Council.

- Optimise and prioritise the level of investment in property assets to minimise maintenance backlog, improve fitness for purpose and optimise occupancy levels.

- Maximise the value received from our non-operational commercial portfolio.

- Continue to improve the environmental sustainability of the Council's property portfolio.

- Promote the innovative use of property by enabling urban regeneration and facilitating joint working with our partners and stakeholders.

- Challenge the use of land and buildings held by the Council to minimise revenue expenditure and maximise the generation of capital receipts.

Valuations

3.7 The Council is required by accounting regulations to value its assets on a regular basis and currently values its General Fund assets on a rolling 3 year cycle. It is required to undertake a formal valuation of is HRA assets every 5 years in line with Ministry of Housing Communities and Local Government (MHCLG) requirements. The last formal valuation was undertaken 1 April 2016 and so is not due until 1 April 2021. A desktop revaluation is undertaken for HRA assets in the intervening years to ensure that values are current.

3.8 All valuations are performed “in house” by qualified valuer’s within the Council’s Property Services Team. The valuations are performed using appropriate stipulations as detailed by the Royal Institute of Chartered Surveyors (RICS) and presented in the Council's Statement of Accounts within accord of the Statement of Recommended Practice (SORP).

3.9 The details of the assets are held and recorded in a variety of sources in order to meet the operational and management requirements of the Council. This enables a bespoke management system of operation so that maximum utilisation of the asset can be developed. Whilst services have bespoke arrangements for the assets held under their responsibility the Financial Services maintains the prime records that are used for the production of the Council's Statement of Accounts. These are reconciled on a regular basis to ensure accuracy and relevance

4. Capital Expenditure

Capital Programme

4.1 The Council plans to spend approximately £130.28M on General Fund and £21.90M on HRA capital schemes between 2020/21 – 2024/25.

Capital expenditure	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
General Fund	7.16	10.98	62.91	28.64	9.67	8.98
Housing Revenue Account (HRA)	4.08	3.54	4.78	4.74	4.44	4.40
Commercial activities/non-financial investments*	4.92	9.10	0.00	0.00	0.00	0.00
Total	**16.16**	**23.62**	**67.69**	**33.38**	**14.11**	**13.38**

Affordability & Financing

4.2 The Council’s Capital Programme is financed by a mixture of external grants, capital receipts generated from property and right to buy disposals, contributions from reserves and unsupported borrowing. The planned application of resources to capital projects is set out below:

Capital expenditure	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Financed by						
Capital receipts	(0.72)	(0.49)	(0.64)	(0.64)	(0.64)	(0.64)
Capital grants	(5.22)	(7.81)	(19.57)	(2.89)	(2.02)	(1.89)
Capital reserves	(3.13)	(2.77)	(4.14)	(4.09)	(3.80)	(3.76)
Revenue	(0.62)	(0.58)	(1.11)	(0.39)	(0.36)	(0.04)
Net financing need for the year	**6.47**	**11.97**	**42.23**	**25.37**	**7.29**	**7.05**

4.3 This table shows a net need for financing the Capital Programme of £93.91M which would require the Council to undertake additional borrowing. Additional borrowing would only be used only to finance capital expenditure in respect of General Fund.

4.4 The Council sets its level of capital investment in line with the statutory requirements of prudence, affordability and sustainability as set out in the Prudential Code for Capital Finance issued by CIPFA.

4.5 The Council assesses the affordability of the General Fund programme by looking at the financing costs of borrowing (interest and loan repayments) as a proportion of its net revenue stream. For general fund these are expected to increase over the life of the capital programme.

4.6 The Housing Revenue Account capital programme has its prudence, affordability and sustainability set out in a thirty year business plan.

4.7 Further details on the impact of the Capital Programme on the Council's borrowing is included within Section 5

Decision Making & Governance

Property Transactions Team (PTT)

4.8 An officer group with relevant expertise from economic development, property, legal and finance supported by external expertise which considers all potential capital investments in the first instance and brings forward proposals for consideration of the Capital Strategy Group.

Capital Strategy Group (CSG)

4.9 Constituted with representation from Cabinet, Executive, Property Transactions Team (PTT) and the Chairs of both Budget & Performance Panel (B&PP) and Overview & Scrutiny (O&S). CSG is a Member and Officer working group and as such is only advisory and does not have any formal decision-making authority. The group has priority areas of work which although distinct from one another should be considered in an integrated manner. These are:

a) Capital Programme – overseeing the Council's capital programme which includes assessing initial bids all the way through to delivering the programme and assessing its effectiveness in respect of corporate priorities.

b) Asset Management – overseeing the implementation of the Asset Management Plan (AMP) to ensure that the Council gets the most from its asset inventory having regard to effective utilisation and ongoing maintenance and investment needs.

Following consideration of each business case it may make recommendations to budget holders in relation to due diligence costs and other matters. It may also make final recommendations to Cabinet regarding each proposal and, will determine whether projects will be admitted into the full capital programme or placed into the development pool.

Cabinet

4.10 Is responsible for submitting the Budget Framework to Council which includes this Capital Strategy and capital programme. It is responsible for considering and making decision within the Budget & Policy Framework for all capital investment on receipt of a full business case which takes account of the due diligence and which shows compliance with the prudential code and investment guidance provisions.

Overview and Scrutiny

4.11 Is represented on the CSG via the Chair's membership of this group. The early involvement of scrutiny at the pre-decision stage will allow them to add value by informing a decision rather than an after-the-event critique under the traditional process. This intention and their active involvement does not remove or negate the right to call in any decision made by Cabinet in this area.

Budget and Performance Panel

4.12 Will review the financial and operational performance of this strategy as part of their budget framework scrutiny role

Council

4.13 Is responsible for agreeing the Capital Programme as part of the Budget Framework each February and will be required to approve any material changes. Council will also receive half yearly reports on the performance of the strategy.

Capital Investment Priorities and compilation of Capital Bids

4.14 The Council's capital investment priorities are to:

- deliver the Council's Priorities as set out in 'Ambitions' Council Plan
- ensure that council services can be effectively and efficiently delivered
- support the Asset Management Plan by ensuring that assets are effectively utilised and maintained
- identify opportunities for using capital investment to provide more effective arrangements as set out in Funding the Future
- ensure that the Council meets statutory, legal and health and safety requirements

4.15 All bids for capital resources are put forward on a standard capital bid template, based upon the HM Treasury Business Case Guidance covering strategic, economic, commercial, financial and management dimensions. The bid template has been designed to draw out the proposal's strategic fit against the capital investment priorities and facilitate the scoring of schemes against each other using a scoring matrix. The template also considers:

- whether staff and project resources are available to start the project,
- alternative options for delivery,
- scheme phasing,
- cost (including estimated revenue consequences)
- procurement.

4.16 Given the diverse nature of potential capital schemes four separate scores are developed separately assessing:

Fit against statutory, legal and health and safety requirements

Determining whether the scheme is required to fulfil a statutory obligation, prevent a failure to meet a legislative or health and safety requirement. The main focus being on what would be the impact of not progressing the proposal.

Fit against Corporate Priorities
Determining which priority or priorities in the 'Ambitions' corporate plan the proposal contributes to and to what extent ascertaining measurable outcomes and impacts.

Contribution to Funding the Future strategy
Identifying whether the proposal will achieve financial efficiencies, contribute to the Council's commercial strategy, levering in funding from other organisations or create an "invest to save" opportunity.

Project Risk & Risk Mitigation
Establishes to what extent risks have been realistically identified and what steps have been taken to mitigate these. It focuses on factors which may cause the project to fail or be delayed, any internal or external factors which may impact the project and considers how sensitive the forecast costs are to both internal and external risk.

Future Plans

4.17 The Council recognises that it will play a pivotal role in key projects which will enable to district to thrive and grow. Further development of the Capital Programme is needed particularly in years 3 – 5 in order to properly encapsulate these major local development projects. An Economic Growth Plan is currently being developed by the Director of Economic Growth and Regeneration setting out an overarching coherent medium term plan for the district. As the plan develops individual capital schemes contributing to its delivery will be identified and brought forward to Capital Strategy Group for its assessment. Similarly other strategies under development in the coming months which have capital expenditure implications will also be considered by the group.

5. Treasury Management

5.1 Treasury management deals with the management of cash flows resulting from the Council's day to day operations. It ensures that the cash flows are 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.

5.2 The Treasury management service also covers the funding of the Council's capital plans which provide a guide to the borrowing need of the Authority.

Governance & Scrutiny

5.3 The Council's Treasury Management Strategy including its Prudential and Treasury indicators is approved annually by full Council. Council also receives and approves a mid-year treasury management report which sets out in year progress of the treasury position and an annual treasury report which sets out how actual treasury operation compared to the estimates within the strategy.

5.4 Both Cabinet and Budget and Performance Panel scrutinise the above reports before they are presented to and approved by Council.

5.5 The Section 151 officer and his staff have delegated authority to make decisions in respect of detailed investment and borrowing acting in line with the framework set out in the treasury management strategy.

Investment

5.6 The Council's investment strategy prioritises firstly security, secondly liquidity and then return. This maintains a firm focus on minimising risk rather than on maximising returns.

5.7 The Treasury Management Strategy sets out the authority's approach to managing investment risk in line with the following principles:

- Using minimum acceptable credit criteria to generate a list of highly creditworthy counterparties, facilitate diversification and avoid concentration of risk

- Defining the list of types of investment instruments that the treasury management team are authorised to use

- Setting lending limits for each counterparty and transaction limits for each type of investment

- Setting the limit for the amount of its investments which are invested for longer than 365 days at nil

- Specifying that investments will only be placed with counterparties with a minimum sovereign rating of AAA (Fitch)

5.8 The Council's Investments at 31.03.2020 were:

Balance 31.03.2020	£M	Liquidity
Money Market Funds	16.00	Instant Access
Other Local Authorities	24.00	Fixed Term
Total Investments	**40.00**	

Borrowing

5.10 As part of its treasury management activities the Council considers forward projections for borrowing to fund its capital expenditure plans working within the self-regulating framework of the Prudential Code for Capital Finance.

5.11 The framework requires authorities to determine that capital expenditure and investment decisions are affordable, prudent and sustainable and to set limits on the amount they can afford to borrow in the context of wider capital planning.

5.12 The Council's underlying need to borrow is represented by it's Capital Financing Requirement (CFR). The CFR is the total amount of capital expenditure (including that from prior years) that has not yet been paid for from either revenue of capital resources.

£m	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Capital Financing Requirement						
CFR – Non Housing	43.50	44.71	85.04	106.95	110.08	112.82
CFR – Housing	38.28	37.23	36.19	35.15	34.11	33.07
CFR – Commercial activities/non-financial investments	4.92	13.93	13.65	13.37	13.09	12.81
Total CFR	**86.70**	**95.87**	**134.88**	**155.47**	**157.28**	**158.70**

5.13 The authority currently maintains an under-borrowed position meaning that it uses cash backed reserves to defer the need to externally borrow for capital investment. Forecasting of cash backed reserves facilitates a long term view of the level of risk associated with borrowing internally.

5.14 The table below shows the projection of external debt and internal borrowing using cash backed reserves:

	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
External Debt						
Actual gross debt at 31 March	62.13	61.08	101.05	121.63	124.56	125.62
The Capital Financing Requirement	86.70	95.87	134.88	155.47	157.28	158.70
Under Borrowing	**(24.57)**	**(34.79)**	**(33.83)**	**(33.84)**	**(32.72)**	**(33.08)**

5.15 The council is required to "repay" an element of its General Fund CFR each year through a revenue charge, the minimum revenue provision (MRP). The Treasury Management Strategy sets out the MRP policy adopted by the authority. The Council also makes physical cash repayments on a loan taken out to purchase the authority's housing stock in 2012 which are counted as MRP.

5.16 The following table sets out how MRP will be used to repay the underlying debt:

	2019/20 Actual £M	2020/21 Estimate £M	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M
General Fund MRP	(1.60)	(1.76)	(2.18)	(3.73)	(4.44)	(4.58)
HRA MRP	(1.04)	(1.04)	(1.04)	(1.04)	(1.04)	(1.04)
Total	**(2.64)**	**(2.80)**	**(3.22)**	**(4.77)**	**(5.48)**	**(5.62)**

5.17 The Council sets an authorised limit for external debt. This represents a limit beyond which a local authority must not borrow unless prudential indicators have been renewed or amended. It also sets an operational boundary for external debt. This represents a limit that is based on the maximum external debt of the authority based on expectations. The expectation is that there would be no sustained breach of the operational boundary.

5.18 The Treasury Management Strategy sets out the following operational boundary and authorised limit for borrowing:

	2020/21 Estimate £M	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M
Operational Boundary	86.70	95.87	134.88	155.47	157.28
Authorised Limit	103.00	112.00	151.00	171.00	173.00

6. Commercial Activity

Current Position

6.1 The Council's existing investment property portfolio generates approximately £0.842M per annum to support the General Fund Revenue Budget. It is comprised of a mix of office and retail lets together with agricultural and commercial land and commercial buildings as set out below:

Investment Asset Type	£M
Office	4.14
Retail	2.85
Agriculture & Allotments	1.47
Commercial Land	4.83
Commercial Building	6.76
Mixed Commercial	8.31
Total	**28.36**

6.2 The majority of this portfolio has been accumulated by the Council rover a number of years rather than actively acquired. Tenancy agreements are produced by the Council's Estates Management Team in consultation with Legal Services and range from leases, licences and other agreements such as easements, wayleaves and rights of way

6.3 The Council is obliged to obtain the best price it reasonably can for its commercial lets. Most properties have rents which are set based upon market conditions and comparable evidence to support the decision making process includes that from local agents, rents associated with other Council properties, recent transactions, inflation etc.

Performance Monitoring

6.4 Performance monitoring will be developed to ensure that investments are monitored on a routine and exception basis and will determine what performance measures will trigger an exception report so that full council is aware at the earliest opportunity of any material increase in risk or threat to ongoing yield. The Capital Strategy will be updated with this information in due course.

Future Plans

6.5 Recent changes to Public Works Loan Board (PWLB) borrowing have had significant implications for the Capital Programme, with investment primarily for yield now being constrained. These changes may require a different approach to capital investment, further work is being undertaken to ensure the alignment of the programme with the new criteria.

7. Knowledge & Skills

7.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions.

7.2 The key decision-making officers within the Executive Team include Kieran Keane, Chief Executive and the Council's, Section 151 Officer Paul Thompson are qualified accountants with many years' experience. The Director for Economic Growth & Regeneration, Jason Syers is a qualified Chartered Surveyor and Town Planner with over 20 years' public and private sector experience of delivering complex development and regeneration projects in the UK and internationally.

7.3 Underpinning the Executive Team are teams of experienced finance, property and legal professionals.

7.4 Where the appropriate level of knowledge and skills required is not available in-house the Council will use external advisers and consultants that are specialists in their field. The Council currently uses Link Asset Services, Treasury solutions as treasury management advisors.

APPENDIX F

TREASURY MANAGEMENT FRAMEWORK DOCUMENTS AND RESPONSIBILITIES

For consideration by Cabinet 09 February 2021

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 2021/22, 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 G

LANCASTER CITY COUNCIL

TREASURY MANAGEMENT POLICY STATEMENT

For consideration by Cabinet
09 February 2021

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 H

Treasury Management Strategy 2021/22 to 2024/25

For Consideration by Cabinet 9 February 2021

1 INTRODUCTION

1.1 Background

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

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

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

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

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

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

1.2 Reporting Requirements

Capital Strategy

The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2021-22, 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 are reported through the former. This ensured 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.

On 26 November 2020 a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had the purchase of assets for yield in its three-year capital programme. Following this prohibition commercial assets were removed from the Authority's capital programme. Any such assets referred to in the following report were purchased in 2019/20 and in 2020/21 before the restriction was introduced.

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

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

Treasury Management Reporting

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

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

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

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

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

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

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

1.3 Treasury Management Strategy for 2021/22

The strategy for 2021/22 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 was held for members on 5 December 2019 supplemented by further internal briefings on 16 and 22 January 2020 and further training will be arranged during 2021/22. The training needs of treasury management Officers are periodically reviewed.

1.5 Treasury Management Consultants

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

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

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

The scope of investments within the Council's operations has included, up until November 2020, both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments such as investment properties. The commercial type investments require specialist advisers. The Council used Carigiet Cowan Chartered Surveyors in relation to this activity.

2 CAPITAL PRUDENTIAL INDICATORS 2020/21 – 2024/25

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	**2019/20 Actual £m**	**2020/21 Estimate £m**	**2021/22 Estimate £m**	**2022/23 Estimate £m**	**2023/24 Estimate £m**	**2024/25 Estimate £m**
General Fund	7.16	10.98	62.91	28.64	9.67	8.98
Housing Revenue Account (HRA)	4.08	3.54	4.78	4.74	4.44	4.40
Commercial activities/non-financial investments*	4.92	9.10	0.00	0.00	0.00	0.00
Total	**16.16**	**23.62**	**67.69**	**33.38**	**14.11**	**13.38**
Financed by:						
Capital receipts	(0.72)	(0.49)	(0.64)	(0.64)	(0.64)	(0.64)
Capital grants	(5.22)	(7.81)	(19.57)	(2.89)	(2.02)	(1.89)
Capital reserves	(3.13)	(2.77)	(4.14)	(4.09)	(3.80)	(3.76)
Revenue	(0.62)	(0.58)	(1.11)	(0.39)	(0.36)	(0.04)
Net financing need for the year	**6.47**	**11.97**	**42.23**	**25.37**	**7.29**	**7.05**

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

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

Commercial activities/non-financial investments	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Capital Expenditure	4.92	9.10	0.00	0.00	0.00	0.00
Financing Costs	0.00	0.00	0.00	0.00	0.00	0.00
Net financing need for the year	**4.92**	**9.10**	**0.00**	**0.00**	**0.00**	**0.00**
Percentage of total net financing need %	**76.04**	**76.02**	**0.00**	**0.00**	**0.00**	**0.00**

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

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

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

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

Members are asked to approve the CFR projections below:

£m	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Capital Financing Requirement						
CFR – Non Housing	43.50	44.71	85.04	106.95	110.08	112.82
CFR – Housing	38.28	37.23	36.19	35.15	34.11	33.07
CFR – Commercial activities/non-financial investments	4.92	13.93	13.65	13.37	13.09	12.81
Total CFR	**86.70**	**95.87**	**134.88**	**155.47**	**157.28**	**158.70**

Movement in CFR Non Housing Housing	 (0.05) (1.06)	 1.21 (1.04)	 40.33 (1.04)	 21.91 (1.04)	 3.13 (1.04)	 2.75 (1.04)
Commercial activities/non-financial investments	4.92	9.00	(0.28)	(0.28)	(0.28)	(0.28)
Net Movement in CFR	**3.81**	**9.17**	**39.01**	**20.59**	**1.81**	**1.42**

Movement in CFR represented by						
Net financing need for the year (above) re Non Housing	6.47	11.97	42.23	25.37	7.29	7.05
Less MRP/VRP and other financing movements	(2.66)	(2.80)	(3.22)	(4.78)	(5.48)	(5.63)
Net Movement in CFR	**3.81**	**9.17**	**39.01**	**20.59**	**1.81**	**1.42**

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

2.3 Minimum Revenue Provision (MRP) Policy Statement

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

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

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

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

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

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

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).
Repayments included in annual finance leases are applied as MRP.

MRP Overpayments – A change introduced by the revised Government MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision, voluntary revenue provision or overpayments, can, if needed be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until 31 March 2020 the total VRP overpayments were £8.33m

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	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Fund balances / reserves	33.82	26.02	25.05	25.07	23.94	24.29
Capital receipts	0.00	0.00	0.00	0.00	0.00	0.00
Provisions	6.23	6.00	6.00	6.00	6.00	6.00
Total core funds	**40.05**	**32.02**	**31.05**	**31.07**	**29.94**	**30.29**
Working capital*	23.95	9.18	9.18	9.18	9.18	9.18
Under borrowing	(24.57)	(34.79)	(33.83)	(33.84)	(32.72)	(33.08)
Expected investments	**39.43**	**6.41**	**6.40**	**6.41**	**6.40**	**6.39**

*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.

	2019/20 Actual %	2020/21 Estimate %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %	2024/25 Estimate %
General Fund	17.42	12.87	19.97	27.75	29.45	29.24
HRA	21.05	20.18	19.41	18.61	17.86	17.41
Commercial activities/non-financial investments	0.00	20.15	24.40	23.79	23.58	23.58

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 appoporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current Portfolio Position

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

	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
External Debt						
Debt at 1 April	63.17	62.13	102.09	122.67	125.60	126.66
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	**62.13**	**61.08**	**101.05**	**121.63**	**124.56**	**125.62**
The Capital Financing Requirement	**86.70**	**95.87**	**134.88**	**155.47**	**157.28**	**158.70**
Under Borrowing	**(24.57)**	**(34.79)**	**(33.83)**	**(33.84)**	**(32.72)**	**(33.08)**

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

	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
External Debt for commercial activities / non-financial investments						
Actual debt at 31 March £m	0.00	0.00	0.00	0.00	0.00	0.00
Percentage of total external debt %	0.00	0.00	0.00	0.00	0.00	0.00

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 2021/22 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.
The Head of Financial Services reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

3.2 Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary

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

Operational boundary	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Debt*	81.78	81.94	121.23	142.10	144.19
Other long term liabilities	0.00	0.00	0.00	0.00	0.00
Commercial activities/non-financial investments	4.92	13.93	13.65	13.37	13.09
Total	**86.70**	**95.87**	**134.88**	**155.47**	**157.28**

- *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	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Debt	97.00	97.00	136.00	157.00	159.00
Other long term liabilities	1.00	1.00	1.00	1.00	1.00
Commercial activities/non-financial investments	5.00	14.00	14.00	13.00	13.00
Total	**103.00**	**112.00**	**151.00**	**171.00**	**173.00**

3.3 Prospects for Interest Rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided forecasts on 11.08.2020. However, following the conclusion of the review of PWLB margins over gilt yields on 25.11.20, all forecasts have been reduced by 1%. These are forecasts for certainty rates, gilt yields plus 80 bps:

	Mar-21	Mar-22	Mar-23	Mar-24
Bank Rate	0.10	0.10	0.10	0.10
3 Month average earnings	0.10	0.10	0.10	0.10
6 Month average earnings	0.10	0.10	0.10	0.10
12 Month average earnings	0.20	0.20	0.20	0.20
5yr PWLB rate	0.80	0.90	0.90	1.00
10yr PWLB rate	1.10	1.20	1.20	1.30
25yr PWLB rate	1.50	1.60	1.70	1.80
50yr PWLB rate	1.30	1.40	1.50	1.60

Additional notes by Link on this forecast table: -

- *Please note that we have made a slight change to our interest rate forecasts table above for forecasts for 3, 6 and 12 months. Traditionally, we have used LIBID forecasts, with the rate calculated using market convention of 1/8th (0.125%) taken off the LIBOR figure. Given that all LIBOR rates up to 6m are currently running below 10bps, using that convention would give negative figures as forecasts for those periods. However, the liquidity premium that is still in evidence at the short end of the curve means that the rates actually being achieved by local authority investors are still modestly in positive territory. While there are differences between counterparty offer rates, our analysis would suggest that an average rate of around 10 bps is achievable for 3 months, 10bps for 6 months and 20 bps for 12 months.*
- *During 2021, Link will be continuing to look at market developments in this area and will monitor these with a view to communicating with clients when full financial market agreement is reached on how to replace LIBOR. This is likely to be an iteration of the overnight SONIA rate and the use of compounded rates and Overnight Index Swap (OIS) rates for forecasting purposes.*
- *We will maintain continuity by providing clients with LIBID investment benchmark rates on the current basis.*

Further commentary on economic prospects provided by Link: -

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 16th December, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected in the near-term as economic recovery is expected to be only gradual and, therefore, prolonged. These forecasts were based on an assumption that a Brexit trade deal would be agreed by 31.12.20: as this has now occurred, these forecasts do not need to be revised.

As the interest forecast table for PWLB certainty rates above shows, there is expected to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment, (as shown on 9th November when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

Investment and borrowing rates

- **Investment returns** are likely to remain exceptionally low during 2020/21 with little increase in the following two years.

- **Borrowing interest rates** fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England; indeed gilt yields up to six years were negative during most of the first half of 2020/21. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. The unexpected increase of 100 bps in PWLB rates on top of the then current margin over gilt yields of 80 bps in October 2019, required an initial major rethink of local authority treasury management strategy and risk management. However, in March 2020, the Government started a consultation process for reviewing the margins over gilt rates for PWLB borrowing for different types of local authority capital expenditure

- As a consequence of these increases in margins, many local authorities decided to refrain from PWLB borrowing unless it was for HRA or local infrastructure financing, until such time as the review of margins was concluded.

- On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three-year capital programme

- While this authority will not be able to avoid borrowing to finance £68.7m, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns) to any new short or medium-term borrowing that causes a temporary increase in cash balances

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 2021/22 treasury operations. The Section 151 Officer, under delegated powers will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then borrowing would be postponed.

- *if it was felt that there was a significant risk of a much sharper RISE borrowing rates* than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would be re-appraised

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

3.5 Maturity Structure of Borrowing

These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.
The Council is asked to approve the following indicators and limits:

Maturity structure of fixed interest rate borrowing 2020/21	£m	Current %	Lower %	Upper %
Under 12 months	1.04	1.70	0	100
12 months and within 24 months	1.04	1.70	0	100
24 months and within 5 years	3.12	5.11	0	100
5 years and within 10 years	5.20	8.51	0	100
10 years and within 20 years	10.40	17.03	0	100
20 years and within 30 years	1.08	1.08	0	100
30 years and within 40 years	39.20	64.18	0	100
40 years and within 50 years	0.00	0.00	0	100

3.6 Policy on Borrowing in Advance of Need

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

3.7 Debt Rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates, even though the general margin of PWLB rates over gilt yields was reduced by 100bps in November 2020.

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

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment Policy

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

Council's investment policy has regard to the following:

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

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

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options.

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.

12. As a result of the change in accounting standards for 2020/21 under IFRS9, the authority will consider the implications of investment instruments which could result in in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund

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

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

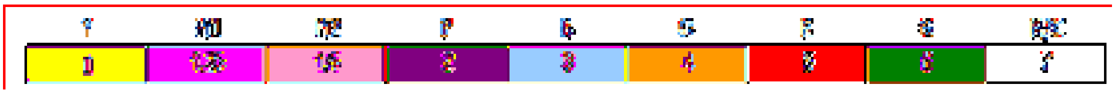
4.2 Creditworthiness Policy

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

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

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

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



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

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

** the yellow colour category includes UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt –see Annex A2.*

*** "fund" ratings are different to individual counterparty ratings, coming under either specific "MMF" or "Bond Fund" rating criteria.*

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.

Creditworthiness

Although the credit rating agencies changed their outlook on many UK banks from Stable to Negative during the quarter ended 30.6.20 due to upcoming risks to banks' earnings and asset quality during the economic downturn caused by the pandemic, the majority of ratings were affirmed due to the continuing strong credit profiles of major financial institutions, including UK banks. However, during Q1 and Q2 2020, banks made provisions for *expected* credit losses and the rating changes reflected these provisions. As we move into future quarters, more information will emerge on *actual* levels of credit losses. (Quarterly earnings reports are normally announced in the second half of the month following the end of the quarter.) This has the potential to cause rating agencies to revisit their initial rating adjustments earlier in the current year. These adjustments could be negative or positive, although it should also be borne in mind that banks went into this pandemic with strong balance sheets. This is predominantly a result of regulatory changes imposed on banks following the Great Financial Crisis. Indeed, the Financial Policy Committee (FPC) report on 6th August revised down their expected credit losses for the UK banking sector to "somewhat less than £80bn". It stated that in its assessment, "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

All three rating agencies have reviewed banks around the world with similar results in many countries of most banks being placed on Negative Outlook, but with a small number of actual downgrades.

CDS prices
Although bank CDS prices, (these are market indicators of credit risk), spiked upwards at the end of March / early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. Nevertheless, prices are still elevated compared to end-February 2020. Pricing is likely to remain volatile as uncertainty continues. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information via its Link-provided Passport portal.

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

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 (up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are requried in order to manage the ups and downs of cash flow, where cash sums can be reliably identified that could be invested for longer periods the value to be obtained from longer term investments will be carefully assessed.

Investment Returns Expectations: Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it may be best to assume that investment earnings from money marke-related instsruments will be sub 0.50% for the foreseeable future.

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

- 2020/21 0.10%
- 2021/22 0.10%
- 2022/23 0.10%
- 2023/24 0.10%
- 2024/25 0.25%

The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered to the population. It may also be affected by the deal agreed as part of Brexit.

There is relatively little UK domestic risk of increases or decreases in Bank Rate and significatn changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations.

Negative investment rates

While the Bank of England said in August/ September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, and in November omitted any mention of negative rates in the minutes of the meeting of the Monetary Policy Committee, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the COVID crisis; this has caused some local authorities to have sudden large increases in cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

As for money market funds (MMFs), yields have continued to drift lower. Some managers have already resorted to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a surfeit of money swilling around at the very short end of the market. This has seen a number of market operators, now including the DMADF, offer nil or negative rates for very short term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions for investments at the very short end of the yield curve.

Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

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					
	2020/21	**2021/22**	**2022/23**	**2023/24**	**2024/25**
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 A1

Treasury Management Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

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

- **Gilts** – the name given to bonds issued by the U K Government. Gilts are issued bearing interest at a specified rate, however they are then traded on the markets like shares and their value rises or falls accordingly. The Yield on a gilt is the interest paid divided by the Market Value of that gilt.
  E.g. a 30 year gilt is issued in 1994 at £1, bearing interest of 8%. In 1999 the market value of the gilt is £1.45. The yield on that gilt is calculated as 8%/1.45 = 5.5%.

See also PWLB.

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

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

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

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

- **Money Market Fund (MMF)** – Type of investment where the Council purchases a share of a cash fund that makes short term deposits with a broad range of high quality counterparties. These are highly regulated in terms of average length of deposit and counterparty quality, to ensure AAA rated status. 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 A2

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

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

	Minimum credit criteria / colour band	**Max % of counterparty limit - *Specified**	**Max % of counterparty limit – **Non - Specified**	**Max. maturity period**
DMADF – UK Government	N/A	**100%**	**N/A**	**6 months**
UK Government gilts	UK sovereign rating	100%	**N/A**	1 year
UK Government Treasury blls	UK sovereign rating	100%	**N/A**	1 year
Bonds issued by multilateral development banks	AAA	100%	**N/A**	6 months
Money Market Funds 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 A3

Background information on credit ratings

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

What is a Credit Rating?
A credit rating is:

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

Who Provides / Uses Credit Ratings?
There are three main ratings agencies, all of which are used in the Authority's treasury strategy.

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

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

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

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

– 'Short Term' ratings for time horizons of 12 months or less. These may be considered as the most important for local authorities.

– 'Long Term' ratings for time horizons of over 12 months. These may be considered as less important in the current climate.

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

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

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

APPENDIX I

Budget Transfers (Virements, Carry Forwards & Reserves) 2021/22 Limits

Budget Cabinet 09 February 2021

1 **Purpose and Scope**

1.1 Budget transfers (virements and carry forwards) enable the Cabinet and Chief Officers to manage budgets with a degree of flexibility within the overall policy framework determined by full Council, to optimise the use of resources and promote good financial management.

1.2 Other detailed operational guidance will be provided to budget holders, but Council approval is required for the basic limits, as proposed below.

2 **Virements**

2.1 The term covers in-year transfers between budget headings.

2.2 The Scheme of virement applies to revenue and capital budgets, and it allows only in-year, non-recurring budget adjustments.

2.3 Virement must not increase the Council's net budget; the first priority for any virements must be to address any expected budget overspendings.

2.4 Chief Officers (or their nominated representatives) may approve virements up to any limit within the specific cost centres in their control (or the equivalent level as set out in the budget book), as long as the virement does not substantially change how the activity is to be delivered, or have adverse impact on performance. For example, high staff turnover in a service area may result in an interim need to buy in additional external support or services. This would require a virement from the salaries budget, into the relevant supplies & services budget, as long as the virement does not increase the overall net cost for the service area.

2.5 With the agreement of the s151 Officer, Chief Officers (or their nominated representatives) may approve virements in budgets under their control, between cost centres (or the equivalent level as set out in the budget book), subject to the following limits:

Delegated limit	**2021/22**
Total virement on any **expenditure** heading in any one financial year must not exceed:	£10,000
Total virement on any **income** heading in any one financial year must not exceed:	£10,000

2.6 Proposed virements above these limits, that otherwise fall within the approved budget and policy framework, must be considered by Cabinet Members (relevant Individual Cabinet Member/s for any virements up to key decision threshold, and full Cabinet for virements above the key decision threshold).

2.7 Virement is not possible where the impact would fall outside of the policy framework.

3 **Treatment of Year-end Balances**

3.1 At the end of each accounting year, actual expenditure or income for the year may well vary from that budgeted, for a number of reasons. For example, a particular project may not have progressed as originally planned, meaning that the budget shows an underspending but only because some expenditure will be incurred later, and will slip into the next year. Alternatively, a budget may show an apparent overspending, but only because a project is ahead of schedule, with costs being incurred earlier than expected.

3.2 The following arrangements are proposed to help manage such situations. Again, these are based on previous practices, drawing on experience and streamlining the decision-making where appropriate. They apply to both revenue and capital budgets.

Overspends

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

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

Underspends

As part of year-end reporting, Cabinet may approve the carry forward of underspendings on expenditure budgets, as requested by Chief Officers, subject to:

- the carry forward amount being used for the same purpose as budgeted; and
- the total value of any such approved amounts being met within the approved budget framework. (In effect, this means that there should be no bottom-line net overspending arising, as a result of approving carry forward requests.)

4.0 Reserves

4.1 All bids for reserves use will be supported by a bid document which sets out in detail the resources required, an action plan and outcomes and measures which reconcile to corporate priorities. All bid documents should be approved, in the first instance, by the Section 151 Officer and Finance Portfolio Holder in addition to the authorisation limits set out in paragraph below.

Reserves Bid Authorisation

4.2 Reserve bids decision limits will be as follows:

- Up to £25k – to be agreed by Portfolio Holder in consultation with relevant Director. Bid should have been pre-approved by Cabinet.
- £25k to £100k – to be agreed by Portfolio Holder in consultation with relevant Director. Individual Cabinet Member Decision to be published. Bid should have been pre-approved by Cabinet.
- Over £100k – to be agreed by Cabinet Meeting.

4.3 The pre-approval concept, which should apply to all financial bids is explained below All reserve bids should also be approved and signed off by the Section 151 Officer and the Finance Portfolio Holder.

Reserves Expenditure Monitoring

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

Pre-Approval

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

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

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

APPENDIX I

Schedule of Earmarked Reserves

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

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

APPENDIX I

Reserves Bid Document

Description of Project	
Amount of Reserve Bid	
Reserve	
Strategy Link	
Corporate Project Link	

Type of Expenditure (and budget code)	Amount	Details
Total		
Income		
Net Expenditure		

Action Plan

What	Who	When

Outcomes and Impacts arising from Project

Measure	Baseline	Target

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

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

APPENDIX I

Project Officer Sign Off:

Director Sign Off:
Section 151 Officer Sign Off:

Portfolio Holder Sign Off:
Finance Portfolio Sign Off:

Cabinet Minute (if app):