

Corporate Financial Monitoring 2017/18 – Quarter 1
05 September 2017
Report of the Chief Officer (Resources)

PURPOSE OF REPORT				
To provide an overview of the Council's financial position for Quarter 1 of the 2017/18 monitoring cycle, and the supporting actions underway.				
Key Decision	<input type="checkbox"/>	Non-Key Decision	<input checked="" type="checkbox"/>	Referral from Cabinet Member
Date of notice of forthcoming key decision		N/A		
This report is public.				

OFFICER RECOMMENDATIONS:

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

1. Overview

- 1.1. The corporate financial monitoring report for Quarter 1 is attached at **Appendix A**. The headline projections are as follows:
- A current General Fund net overspending of £47K, forecast to become an underspend of £6K by the year end.
 - The Housing Revenue Account is currently overspent by £26K, but this is expected to increase to £204K by the year end.
- 1.2. In terms of the General Fund, income from Green Waste collection is projected to be down by a net £280K by the end of the year – see **Annex B** for more details. An update on Salt Ayre is also included at **Annex C**.
- 1.3. In terms of the Housing Revenue Account, the most significant variance relates to the increase in voids from an estimated position of 1.9% to 2.9%, which if maintained would result in a shortfall in income of £176K. A consultant from APSE, acting as interim RMS manager, has already been engaged to undertake a review of RMS with one of the key aims being the reduction in void losses.
- 1.4. In support of corporate financial monitoring, the latest Treasury Management update report is included at **Appendix B**.

2. Performance Monitoring

In terms of performance monitoring details are contained in a separate report elsewhere on this agenda.

RELATIONSHIP TO POLICY FRAMEWORK

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

CONCLUSION OF IMPACT ASSESSMENT

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

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

LEGAL IMPLICATIONS

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

FINANCIAL IMPLICATIONS

As set out in the attached.

OTHER RESOURCE IMPLICATIONS

Human Resources / Information Services / Property / Open Spaces:

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

SECTION 151 OFFICER'S COMMENTS

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

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

None.

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Ref:

CORPORATE FINANCIAL MONITORING

QUARTER 1 (April to June)

INTRODUCTION

This report provides the key variances to note at the end of quarter 1, in terms of the revenue and capital budgets and local taxation. It also includes updates on key reserves and income collection.

REVENUE BUDGET

General Fund – Current overspend of **£47K**, forecast to become an underspend of **£6K** by year end, taking account of various assumptions drawing on last year's outturn. **Annex A** provides a breakdown of the main variances which are summarised in the table below.

	Qtr 1 £000's	Full Year Forecast £000's
Employees	-87	-150
Premises	+20	-16
Supplies & Services	+5	-6
Income	+109	+166
Net Overspend (+)	+47	-6

The most significant variance relates to Green Waste which is forecast to be down by £280K by year end. More details have been provided by the Chief Officer (Environmental Services) at **Annex B**.

In addition, a more detailed monitoring statement on Salt Ayre Leisure Centre is included at **Annex C**.

Housing Revenue Account – Current overspend of **£26K**, but forecast to increase to **£204K** by year end. The main reason is that void losses (£176K) have increased to 2.9% whilst the budget was based on 1.9%. A consultant from APSE, acting as interim manager, is currently reviewing operations at RMS with the aim of bringing in changes to improve the position.

ACTIONS:

The Chief Officer (Environmental Services) reports back on actions/improvements being taken to reduce void losses and secure other operational improvements within RMS.

CAPITAL

Expenditure

General Fund – Original approved programme of £13.181M has been increased by £1.924M slippage from 2016/17 to give an updated programme of £15.105M. Spend and commitments at the end of June totalled £4.249M leaving £10.856M still to spend.

Housing Revenue Account – Original approved programme was £4.077M. Spend and commitments at the end of June totalled £512K leaving £3.565M still to spend.

Financing

General Fund – To date £2.844M has been received in grants and contributions against a budget of £6.225M (updated for slippage from 2016/17) – no variances are expected. Of the estimated £870K capital receipts funding, one amount of £370K is expected towards the end of November and a further £475K due in the next 6 to 12 months. In addition, further receipts totalling £54K have also been receiving from the sale of a vehicle and one grant repayment.

Further updates will be incorporated into the next review of the capital programme as part of the forthcoming 2018/19 budget setting process.

LOCAL TAXATION

Council Tax – Current surplus of £59K. Main changes are:

- Deficit from previous year +£197K
- Reduced cost of Council Tax Support -£185K
- Reduced charge for Second/Empty Homes +£57K
- Other Movements in Tax Base -£128K

In tax base terms this equates to approximately 34 additional net chargeable Band D equivalent properties, bringing the total tax base to 40,840 gross properties.

Retained Business Rates – The latest position on business rates shows net income up by £220K when compared to the original estimate. The Net Rates Payable is down by £945K mainly due to additional reliefs and transitional protection being awarded. However, this is offset by a reduction in appeals of £1.165M.

	Original £000's	June £000's	Movement £000's
Net Rates Payable	-63,377	-62,432	+945
Appeals	6,759	5,594	-1,165
Business Rates Income	-56,618	-56,838	-220
City Council Retained Income (40%)	-22,647	-22,735	
Less Tariff	19,662	19,662	
Add Small Business Rates Relief Grant	-1,251	-1,259	
Net Retained Income	-4,236	-4,332	
Safety Net Payment	-720	-624	
Total Retained Income	-4,956	-4,956	

Overall, this does not change the Council's budgeted position as it is still in safety net.

Pooling – Consideration of joining the Lancashire Business Rates Pool is still not considered a feasible option for the Council at this point in time. Under current arrangements, participants of the pool retain 100% of their own gains, but more importantly also have to stand 100% of their own losses, as the protection afforded by the Safety Net mechanism is no longer available. At present, there is some uncertainty about Government's future intentions regarding pooling arrangements going forward. Unfortunately though, if nothing changed, the Council would still not be in a position to be able to benefit financially from joining any pool arrangement. Instead, it would expose itself to £multi-million risk from potentially large appeals, as has been experienced in previous years. There may be other aspects to consider, however, depending on Government's plans, and these will be picked up later in September.

Prior Year Surpluses – As reported at outturn, the Council could benefit from surpluses of up to £4M generated in 2016/17, however, these would not be available until 2018/19 and would still be subject to movements in income and appeals. A formal review of this position will be undertaken in December as part of the 2018/19 Business Rates estimate process.

Collection Performance

Council Tax is slightly ahead and Business Rates slightly behind, but nothing to cause concern at this point in the year.

	Full Year Target	Target to Date	Actual to Date
Council Tax	96.4%	29.4%	29.3%
Business Rates	98.8%	28.3%	28.4%

RESERVES

Economic Growth Reserve – Approved allocations are shown below which leave a current balance of **£28.8K** on the reserve.

Opening Balance	£500.0K
Cabinet 26 June 2017 – Exempt Report	£150.0K
Officer Delegated Decisions (31 July 2017)	
Economic Growth Strategy	£15.0K
Economic Development Staff Resource (2 years)	£101.7K
Marketing & Communications Staff Resource (2 years)	£111.4K
Growth Lancashire (2 years)	£30.0K
Business Events / Sponsorship	£13.1K
Marketing Materials	£5.0K
Place Narrative & Perspective	£20.0K
Signage (Central Morecambe’s Main Roads)	£25.0K
Balance Remaining	£28.8K

Budget Support Reserve

Opening Balance	£1,000K
Cabinet 14 February 2017 - Senior Leadership Team	£85K
Council 19 July 2017 – Community Pools	£96K
Balance Remaining	£819K

Regarding the Senior Leadership Team, the allocation is in line with the report to Cabinet in February 2017. The phasing between years has been updated (to reflect the actual start date of the Assistant Chief Executive post) and the Chief Executive will report on any further implications in due course, with the annual Pay Policy Statement due for reporting at Budget Council. A further allocation for Community Pools was approved by Council on 19 July 2017 leaving a current balance of **£819K** on the reserve.

Other minor allocations (below the Key Decision threshold) are expected in due course in connection with Investors in People and external facilitation to support Cabinet’s strategic review, and these will be reported on in due course.

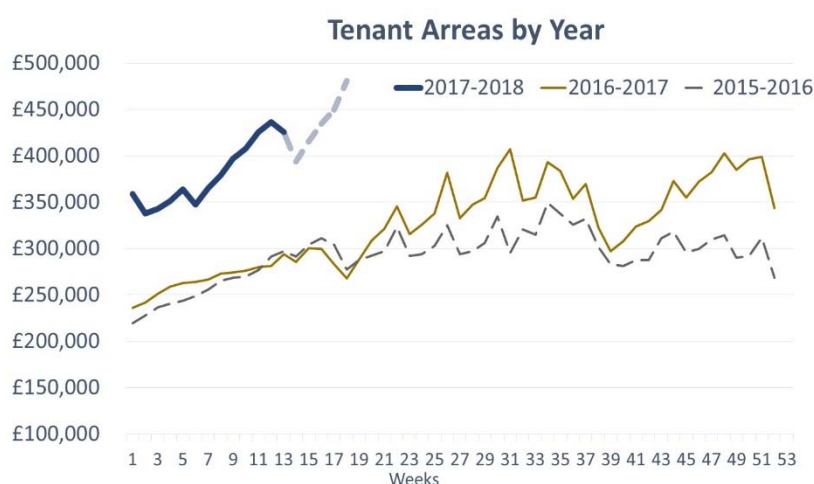
General Fund Unallocated Reserve

The current balance on the General Fund Unallocated Reserve stands at £4.890M which is £249K more than originally estimated due to the revenue underspend in 2016/17.

INCOME COLLECTION

Council Housing Rent Arrears – At

the end of June the level of arrears was £425K (2015/16 Qtr 3 £294K) which is a significant increase on the previous year. As expected the impact of the Universal Credit introduction has had a detrimental impact on collection. Officers predict the position will worsen and may peak at £500K. A new income manager has recently been appointed who will be working to improve the position.



ACTION: Chief Officer (Health & Housing) to report back on the actions being taken to reduce arrears and improve collection.

Sundry Debts – At the end of June the level of debt was £3.436M which is a reduction of £601K from Qtr4 last year (£4.037M). The bad debt provision currently stands at £2.455M which is £56K more than the required level. No action is required at present but a further review of the provision will be made at Qtr2.

SERVICE	< 28 Days	28-59 Days	60-91 Days	92-183 Days	184-364 Days	365+ Days	2017/18 QUARTER 1 TOTALS	Compared to 2016/17 Quarter 1 Totals
	£	£	£	£	£	£	£	£
Environmental Services	407,463	43,371	26,266	421,839	4,645	20,876	924,460	962,247
Regeneration & Planning	15,531	5,084	-	7,827	240	3,356	32,039	-
Resources	125,448	30,717	39,988	62,216	74,098	79,433	411,901	36,419
Health & Housing	31,429	13,177	5,629	8,937	25,713	2,800	87,685	384,029
Governance	-	693	-	1,000	-	-	1,693	193,098
Hsg Benefits (Revenues)	113,590	59,617	31,907	115,932	235,229	1,422,118	1,978,393	1,990,796
2017/18 Quarter 1 Totals	693,461	152,659	103,790	617,752	339,925	1,528,584	3,436,171	3,566,588
2016/17 Quarter 4 Totals	1,777,042	131,008	106,156	203,018	352,008	1,468,389	4,037,621	

The debt of £421K shown against Environmental Services (92-183 Days) relates mainly to trade waste debtors, and instalment arrangements are already in place for virtually all of it (92%). The remainder is being actively pursued either by officers, legal processes or has been referred to bailiffs.

CONTRACT PROCEDURE RULES AND OTHER EXCEPTIONS TO TENDER

Exceptions to Tender – There were three exceptions to tender in Qtr 1:

- Bailrigg Garden Village – delivery planning. Approval was given to use the Homes and Communities Agency Property Panel to provide the required consultancy. This was on the basis that the Panel had already provided competition in their selection process, and that it would ensure provision of an appropriately qualified and experienced consultant.
- School transportation for swimming lessons. Approval was given as there was uncertainty regarding the service required due to the withdrawal from community pools, in addition to the lack of providers within the district.
- ICT firewall protection between Salt Ayre Leisure Centre and the Old Fire Station. Approval was given to use the current network support provider as they could deal directly with the hardware provider thus ensuring lowest price, and also to expedite the process to ensure works were completed as quickly as possible.

It should also be noted that one contract let by RMS for the provision of works to major voids was terminated by mutual agreement at the request of the contractor.

QUARTER 1 CORPORATE FINANCIAL MONITORING: General Fund Revenue

Subjective Are Service		Reason for Variance	Current Variances Adverse / (Favourable)		Projection for Year Adverse / (Favourable)	
			£	£	£	£
Employees	Environmental Services	Salaries - turnover savings net of turnover target	(23,269)			
	Governance		(6,762)			
	Health & Housing		(53,623)			
	Regeneration & Planning		9,999			
	Resources		(13,306)			
				(86,961)		(150,000)
Premises	All services	Additional Business Rates costs following 2017 revaluation.	34,209		34,209	
	All Services	Energy and Repair & Maintenance savings	(14,808)		(50,000)	
				19,401		(15,791)
Supplies & Services	Regeneration & Planning	Development control - planning appeal relating to 2004 . Planning Inspectorate awarded costs against us; asked to provide evidence of costs but didn't do this until this year.	8,785		8,785	
	Regeneration & Planning	Expected underspend on Xmas lights as renewals postponed until next year & reduced lighting due to streetworks in Morecambe.	(3,800)		(15,200)	
				4,985		(6,415)
Fees & Charges	Environmental Services	Car Parks - Increased income from off street pay and display during first quarter, mainly June which experienced good weather and a higher number of festivals.	(29,300)		(29,300)	
	Environmental Services	Waste Collection, notably Garden Waste - report on this made clear it would be difficult to predict take-up. The estimated income was based on 31,000 subscriptions (currently 75% achieved). Work is currently being undertaken to assess the impact going forward into future years.	197,552		280,600	
	Environmental Services	Happy Mount Park - additional profit share from 16/17 invoiced following receipt of the accounts from the café concession.	(6,865)		(6,865)	
	Health & Housing	Salt Ayre Leisure Centre - Overall income is down £100K but after taking account of other savings this reduces to £28K (See Appendix B for more details).	28,184		28,276	
	Regeneration & Planning	Planning application fees - steady applications but no large schemes expected.	(63,647)		(40,851)	
	Resources	Council Tax - Legal Costs Recovered. In line with the 2016/17 outturn, income is again exceeding the original estimate.	(16,524)		(66,000)	
					109,400	
TOTAL				46,825		(6,346)

GARDEN WASTE COLLECTION CHARGING: INCOME MONITORING TO 30 JUNE 2017



Garden Waste Collection was launched in November 2016 with collections starting from January 2017.

The table below shows the number of subscriptions and income received to the end of June.

	Subscriptions	Split of Income		Total	
		2016/17	2017/18		
November	4,401	£26,406	£105,624	£132,030	
December	7,116	£42,696	£170,784	£213,480	
January	4,619	£27,714	£110,856	£138,570	
February	1,929	£11,574	£46,296	£57,870	
March	2,751	£16,506	£66,024	£82,530	
April	959		£33,720	£33,720	
May	724		£27,143	£27,143	
June	556		£20,851	£20,851	
	23,055	£124,896	£581,298	£706,194	71% Of total budget since launch
Budgeted Income		£130,300	£870,408	£1,000,708	
Shortfall		-£5,404	-£289,110		

Within the context of the approved budget the current shortfall in this financial year is £289K and based on current expectations this will reduce to £250K by year end. In addition to this, expected efficiency savings of £30K have been negated by additional costs associated with increases in residual waste collected meaning an overall potential shortfall of £280K.

The report prior to the launch of the garden waste service (Oct 16) made clear that:

... the financial projections for this service are based on a number of assumptions, therefore the risks in this regard are significant. This is clearly important in terms of potential impact on the Council's budget. At this stage we can provide estimates based on assumptions and information from elsewhere. Only when the service is up and running we will have an idea of what the reality is and what impact that will have on the wider budget. This means that the performance of the service will be closely monitored and taken into account when we bring forward budget plans for future years.

Whilst the report set out a range of potential take up scenarios, for the purposes of 17/18 budget a take up of 53.5% was assumed (31,000 subscriptions). This was based on actual take up from Wyre BC.

To Qtr1 of 17/18 a total of 23,055 subscriptions had been taken up (see above).

Whilst this falls short of the budgeted income taken, on its own increased income of £706,000 is a significant and positive contribution to the Council's budget.

NOTE -To the end of July the number of subscriptions had risen to 23,469. This equates to just over 75% progress towards the figure used in the budget. Subscriptions continue to be made on a daily basis but as would be expected these are slowing down.

In terms of maximising take up the following actions are noteworthy-

- Every household was leafletted prior to the start of the new collection service
- The service was publicised on the website, media and social media
- Since the launch of the service every the service has been promoted to every household via Your District Council Matters and on the waste / recycling collection calendar
- The service has been promoted on the side of waste collection / recycling vehicles
- Householders can subscribe online or over the phone. 75% of subscriptions have been made online.

The next cycle of the scheme will commence in April 2018. Planning is already underway to maximise take up and increase the existing number of subscriptions. As an example new developments are being targeted as occupants move in.

In terms of the overall budget for household waste / trade waste collection this is one piece of the jigsaw. Work is also underway to –

- Maximise take up of the trade waste collection service
- Factor in the impact of increased housing in the District in the most efficient and economic way
- Generate efficiencies from the way the service is delivered
- Improve the way the service is delivered in the future – with a focus on minimising residual waste.

SALT AYRE LEISURE CENTRE

2017/18 QTR 1 PERFORMANCE MONITORING

	2016/17 Full Year Actuals	2017/18 Original Full Year Budget	Qtr 1 Budget	Qtr1 Actual	Qtr1 Variance	Full Year Projection	Variance to Original Budget	Percentage of Original Budget
	£	£	£	£	£	£	£	
Expenditure								
Employees	1,000,255	1,256,400	288,901	265,235	(23,666)	1,240,558	(15,842)	-1%
Premises Costs	613,613	603,900	314,266	265,121	(49,145)	592,288	(11,612)	-2%
Transport Costs	14,714	13,300	1,778	5,515	3,737	13,300	0	0%
Supplies and Services	424,726	449,500	116,632	112,574	(4,058)	441,481	(8,019)	-2%
Income								
Fees and Charges	(1,263,912)	(2,383,800)	(540,827)	(439,511)	101,316	(2,320,051)	63,749	-3%
Direct Net Operating Cost/(-) Surplus	789,396	(60,700)	180,750	208,934	28,184	(32,424)	28,276	
Support Service Costs	325,388	349,900	87,475	87,475	0	349,900	0	
Total Net Operating Cost	1,114,784	289,200	268,225	296,409	28,184	317,476	28,276	
Capital Charges (Notional)	694,666	973,900	243,475	243,475	0	973,900	0	
Total Net Cost	1,809,449	1,263,100	511,700	539,884	28,184	1,291,376	28,276	

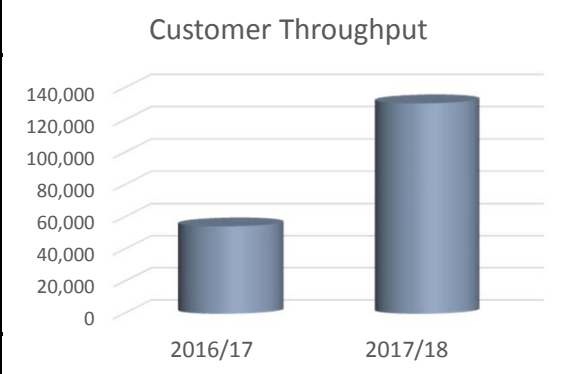
At present, income is down on original expectations by some £100K, but is expected to improve by the year end through additional marketing campaigns/resources, and officers will be working closely with Alliance Leisure to maximise income across all areas. This will be monitored closely and seasonal promotions implemented to encourage takeup of new facilities. Overall, it is anticipated there will be a 3% shortfall in income this year. In addition, there are savings in other areas to draw on which mean the overall shortfall is expected to be in the region of £30K.

It should be noted however, that when compared to the 2016/17 outturn position, this is still a net reduction of £821K on the **direct net operating cost** of the centre. This does obviously exclude the cost of recharges from other service areas and the notional cost of capital charges and capital financing charges, but taking account of these, the net reduction is still some £518K.

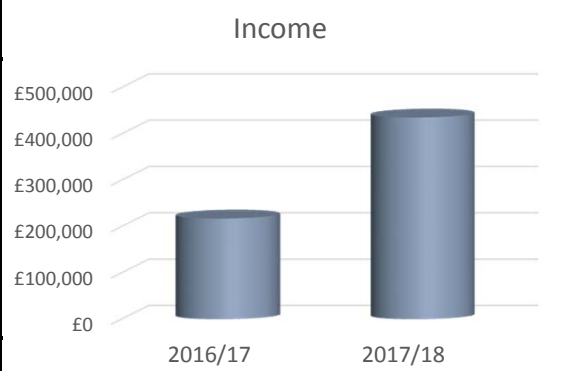
Analysis of Throughput & Income - April to June

The following tables show how Phase 1 of the redevelopment has impacted on the number of customers now visiting the centre and the income being generated. As can be seen customer numbers are up by 140% and income up by 100% when compared to Qtr1 2016/17.

Customer Throughput	2016/17	2017/18	Increase	% Increase
Shop	329	1,089	760	231.0%
Health & Fitness	9,768	29,494	19,726	201.9%
SASC Cafe	12,658	48,809	36,151	285.6%
Sports Hall	1,497	6,741	5,244	350.3%
Studio	10,527	9,787	-740	-7.0%
Swimming	19,453	22,483	3,030	15.6%
Gravity	127	286	159	125.2%
Xheight	N/A	1,759	-	-
Energy	N/A	10,154	-	-
	54,359	130,602	64,330	140.3%



Income	2016/17 £	2017/18 £	Increase £	% Increase
Shop	1,711	4,056	2,345	137.1%
Health & Fitness	71,169	175,299	104,130	146.3%
SASC Cafe	21,219	83,298	62,079	292.6%
Sports Hall	25,483	31,708	6,225	24.4%
Studio	13,639	6,927	-6,712	-49.2%
Swimming	81,702	86,082	4,380	5.4%
Gravity	2,285	6,834	4,549	199.1%
Xheight	N/A	18,265	-	-
Energy	N/A	22,974	-	-
	217,208	435,443	176,996	100.5%



Appendix B

**Treasury Management Update
Quarter Ended 30 June 2017
Report of Chief Officer (Resources)**

Treasury Management Update

Quarter Ended 30 June 2017

1. Introduction

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

2. Economic Background (provided by Capita Asset Services)

The UK GDP annual growth rates in each calendar year 2013 – 2016 of 1.9%, 3.1%, 2.2% and 1.8%, have all been the top rate, or near top rate, of any of the G7 countries in every year. It is particularly notable that the UK performance was repeated in 2016, a year in which the Bank of England had forecast in August 2016 that growth would be near to zero in the second half of the year due to the economic shock it expected from the result of the Brexit referendum in June. However, it has had to change its mind and in its February and May 2017 Inflation Reports, the Bank upgraded its forecasts for growth (May Report - 2017 1.9%, 2018 and 2019 1.9%). However over these years, it also expects inflation to accelerate towards nearly 3% as increases in costs as a result of the fall in the value of sterling since the referendum, gradually feeds through into the economy, though it should fall back to 2.2% in 2019. Provided those cost pressures do not feed through into significantly higher domestically generated inflation within the UK, the MPC is expected to 'look through' this one off blip upwards in inflation. Wage inflation, which is a key driver of domestically generated price pressures, is currently subdued. There is, though, a potential risk that the MPC might muster a majority to reverse the emergency 0.25% rate cut before embarking on a progressive trend of increases in Bank Rate at a later time.

Growth in the EU improved in 2016, to 1.7%, after the ECB cut rates into negative territory and embarked on massive quantitative easing during the year. The ECB is now forecasting growth of 1.9% in 2017, 1.8% in 2018 and 1.7% in 2019. It has committed to continuing major monthly quantitative easing purchases of debt instruments, though in April 2017 it reduced the rate from €80bn per month to €60bn, to continue until the end of 2017, in order to stimulate growth and to get inflation up to its 2% target.

There are major concerns about various stresses within the EU; these could even have the potential to call into question the EU project. The Dutch and French elections passed off without creating any waves for the EU but we still have a national election in Germany on 22 October; this is not currently expected to cause any significant change. What could be more problematic is the general election in Austria on 15 October where a major front runner is the Freedom Party which is strongly anti-immigration and anti EU. There is also a risk of a snap general election in Italy before the final end possible date of 20 May 2018. A continuing major stress point is dealing with the unsustainable level of national debt in Greece in the face of implacable opposition from Germany to any further bail out. High levels of unemployment in some EU countries and the free movement of people within the EU, together with the EU's fraught relationship with Turkey in controlling such people movements, are also major stress issues. On top of which the EU also now has to deal with Brexit negotiations with the UK.

3. Interest Rate Forecast

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

	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.10%	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%
50yr PWLB rate	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%

The Monetary Policy Committee, (MPC), cut the Bank Rate from 0.50% to 0.25% on 4th August 2016 in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. However, since then, growth has been robust until dipping in quarter 1 of 2017 to 0.2%. Also, CPI inflation has risen substantially as a result of the sharp fall in the value of sterling since the referendum. Consequently, the Bank Rate has not been cut again, and market concern has switched to whether the MPC could get together a majority to reverse the August emergency 0.25% rate cut before embarking on a progressive trend of increases at a later time when the economic and political / Brexit situation is more robust to withstand such increases. There is much uncertainty at this time over the slender majority the Conservative Government has, which is dependent on DUP support, and also over what form of Brexit will transpire and how difficult the EU could be in setting terms. There are, therefore, a multiplicity of ifs and buts at the current time and depending on how things transpire, then this will materially influence MPC decision making as to when Bank Rate will rise.

Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after the Brexit negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

4. Annual Investment Strategy

The Treasury Management Strategy (TMS) for 2017/18, which includes the Annual Investment Strategy, was approved by the Council on 01 March 2017. It sets out the Council's investment priorities as being:

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

The Council will also aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate

it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with highly credit rated financial institutions, using Capita's suggested creditworthiness approach, including a minimum sovereign credit rating, and Credit Default Swap (CDS) overlay information.

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30 June 2017.

Investment rates available in the market were on a slight declining trend during the quarter but over 3 month rates rose during the last half of June.

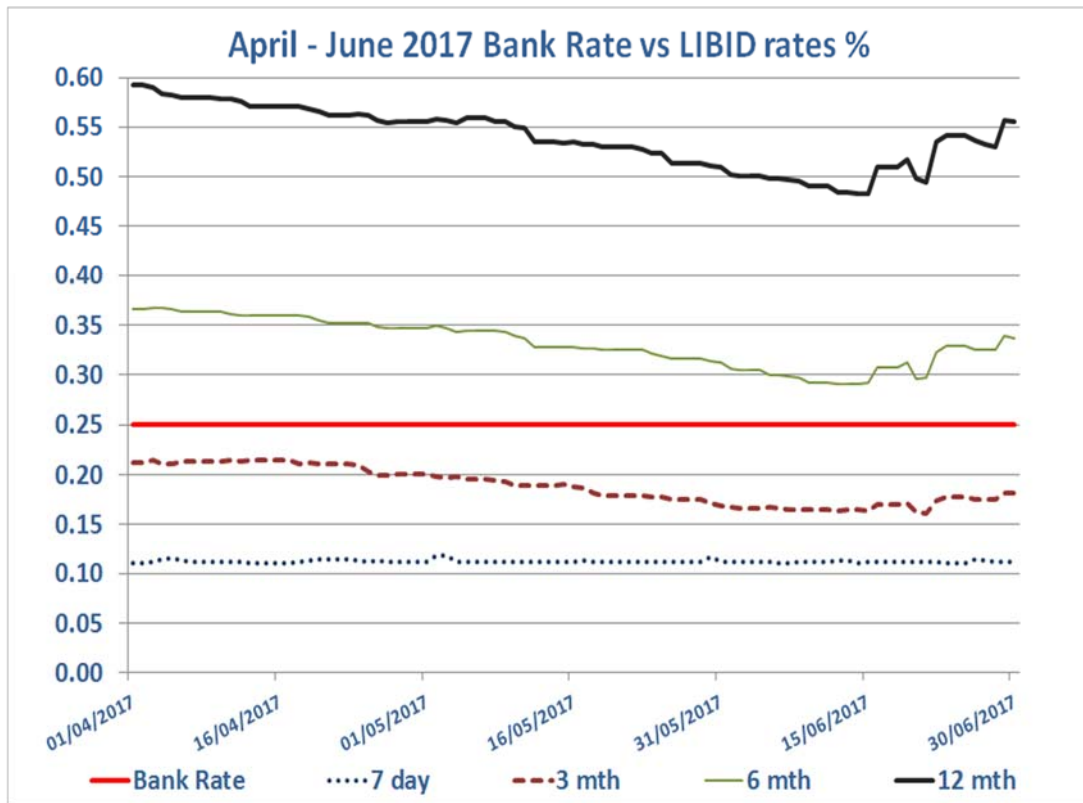
The average level of funds available for investment purposes during the quarter was £28.7M. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept and business rate related payments, the receipt of grants and progress on the Capital Programme.

In terms of performance against external benchmarks, the return on investments compared to the 7 day LIBID and bank rates over the year to date is as follows. This is viewed as reasonable performance, given the need to prioritise security of investments, and liquidity (i.e. making sure that the Council's cashflow meets its needs):

Base Rate	0.25%
7 day LIBID	0.11%
Lancaster City Council investments	0.30%

Investment performance against budget for quarter ended 30 June 2017

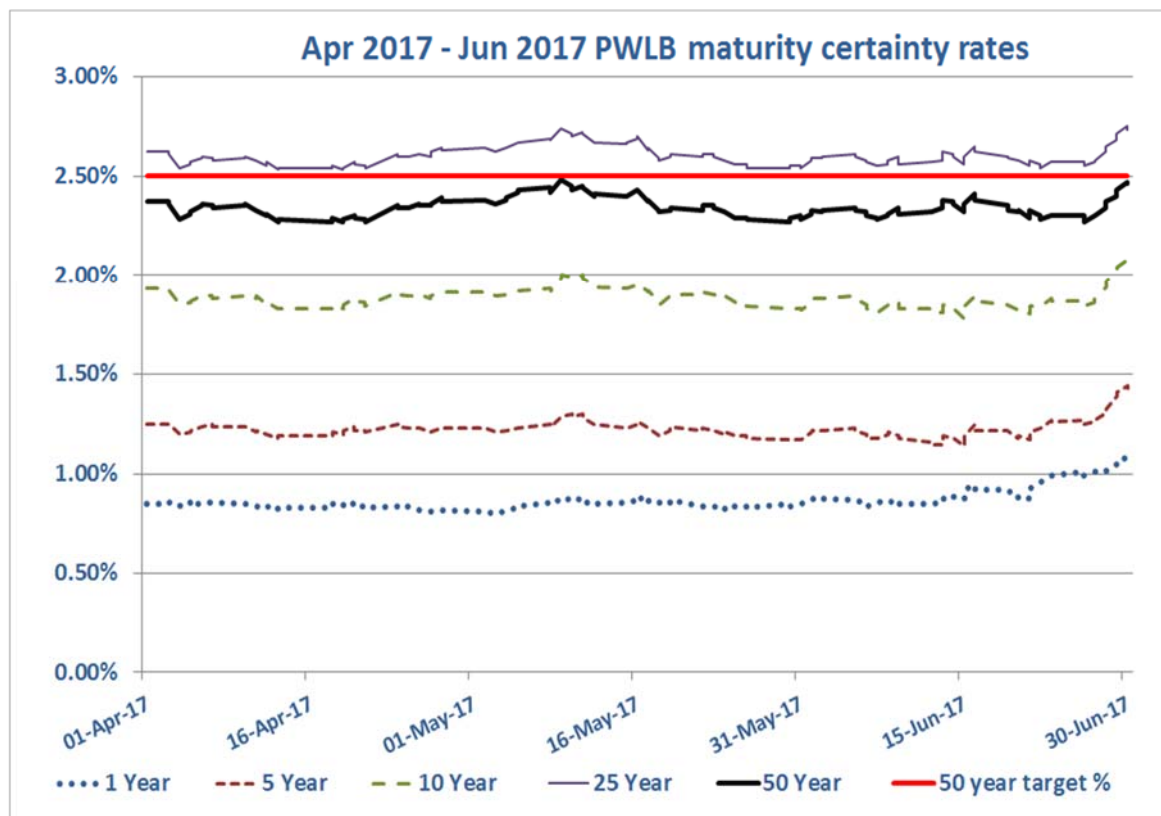
Other Investments	Term	Maturity Date	Opening £	Closing £	Indicative Rate (YTD)	Current Fixed Rate	Interest to Date £	
Call Accounts								
Natwest (Cash Manager Plus)			123,961	125,321		0.01%	2	
Money Market Funds								
Goldman Sachs			0	0			305	
Blackrock Sterling Govt Liquidity Fund			1,250,000	500,000	0.20%		1,093	
LGIM			6,000,000	5,200,000	0.23%		3,271	
Ignis			6,000,000	6,000,000	0.24%		3,766	
Fixed Term Deposits								
Cambridgeshire County Council	6 months	04/07/2017	12,000,000	12,000,000		0.35%	10,583	
Leeds City Council	6 months	16/07/2017	5,000,000	5,000,000		0.36%	4,438	
Sub-total			30,373,961	28,825,321			23,458	
							Budgeted income	21,725
								1,733



5. Borrowing (commentary provided by Capita Asset Services)

As depicted in the graph(s) below, PWLB rates varied little during the quarter until rising sharply in the last week of June.

During the quarter ended 30 June 2017, the 50 year PWLB target (certainty) rate for new long term borrowing was 2.5%.



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

6. Debt Rescheduling

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

7. Compliance with Treasury and Prudential Limits

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

During the financial year to date the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy and in compliance with the Council's Treasury Management Practices.

8. Risk Management

Many of the risks in relation to treasury management are managed through the setting and monitoring of performance against the relevant Prudential and Treasury Indicators and the approved investment strategy.

The Authority's Investment Strategy is designed to engineer risk management into investment activity by reference to credit ratings and the length of deposit to generate a pool of counterparties, together with consideration of other creditworthiness information to refine investment decisions.