LANCASTER CITY COUNCIL

Promoting City, Coast & Countryside

URGENT BUSINESS and SUPPLEMENTARY INFORMATION

Cabinet

Tuesday, 11 February 2014

CABINET

URGENT BUSINESS
Appointment to an Outside Body – Lancaster Community Fund Grants Panel
11 February 2014

Report of Chief Officer (Governance)

PURPOSE OF REPORT					
To appoint the appropriate Cabinet Member to the Lancaster Community Fund Grants Panel.					
Key Decision		**Non-Key Decision**		**Referral from Council**	**X**
Date of notice of forthcoming key decision	N/A				
This report is public					

RECOMMENDATIONS

(1) That Councillor Jon Barry, as the portfolio holder for the Voluntary Sector, Older People and Markets, be appointed to the Community Fund Grants Panel.

1.0 Introduction

1.1 At its meeting on 5 February 2014, Council agreed that the basis of appointment to the two places for Members on the new Community Fund Grants Panel should be

- one place to be virtue of position as the relevant Cabinet Member
- the remaining place to be appointed by nomination and voting at full Council.

Council appointed Councillor Leytham at the meeting, and asked that the appointment of relevant Cabinet member be referred to Cabinet.

1.2 The reason for the urgency of the decision is that the Panel is scheduled to meet for the first time before the next meeting of Cabinet on 11 March 2014.

2.0 Proposal Details

2.1 That, in line with the basis of appointment agreed by Council, Cabinet appoints the relevant Cabinet Member to the Lancaster Community Fund Grants Panel.

3.0 Conclusion

3.1 Cabinet is asked to appoint the appropriate Cabinet Member to the Panel.

RELATIONSHIP TO POLICY FRAMEWORK

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

LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

FINANCIAL IMPLICATIONS

Members of outside bodies are entitled to travelling expenses. Any costs resulting from the appointment would be met from within existing democratic representation budgets.

OTHER RESOURCE IMPLICATIONS

Human Resources:

None.

Information Services:

None.

Property:

None.

Open Spaces:

None.

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has been consulted and has no further comments.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS	**Contact Officer:** Debbie Chambers **Telephone:** 01524 582057 **E-mail:** dchambers@lancaster.gov.uk **Ref:**

CABINET

Budget and Policy Framework Update – General Fund Revenue Budget and Capital Programme 11 February 2014

Report of Chief Officer (Resources)

PURPOSE OF REPORT To inform Cabinet of the latest position following Council's initial consideration of the Budget and Policy Framework, and to make recommendations back to Council in order to complete the budget setting process for 2014/15.					
Key Decision		**Non-Key Decision**		**Referral from Officer**	**X**
Date of notice of forthcoming key decision	13 January 2014				
This report is public, with the exception of Appendix C, which is exempt by virtue paragraph 3, of Schedule 12a of the Local Government Act 1972.					

OFFICER RECOMMENDATIONS:

(1) That subject to confirmation of the Local Government Finance Settlement (including associated matters) and any budget amendments arising in the Cabinet meeting, Council be recommended to approve:

- **a General Fund Revenue Budget of £19.585M for 2014/15, resulting in a Council Tax Requirement of £7.600M excluding parish precepts;**

- **the budget proposals as summarised at Appendix B;**

- **the resulting policy on provisions and reserves as included at Appendix D; and**

- **the resulting Capital Programme as set out at Appendix E.**

(2) That should any minor changes arise as part of Government approving the Settlement, the Leader and Finance Portfolio Holder be given delegated authority to update the budget proposals accordingly.

(3) That the Leader and Finance Portfolio Holder be given delegated authority to update the Medium Term Financial Strategy as outlined in section 8 of this report, for referral on to Budget Council.

1 INTRODUCTION

1.1 Cabinet's initial proposals regarding the Budget and Policy Framework were considered at Budget and Performance Panel on 28 January and at Council on 05 February. No specific feedback was received from the Panel, but it did thank Cabinet for the work done so far. The key points arising from Council are as follows:

– During the meeting, confirmation was received that Government had announced a 2% local referendum threshold.

– Accordingly a 2% (rounded) increase in the 2014/15 City Council tax rate was approved together with target increases of 2% for subsequent years, subject to local referendum thresholds.

– Council noted Cabinet's intention, in principle, to use surplus Balances to help maintain services to the public for a period, recognising that current Balances are healthy and can support this.

– No other specific feedback or resolutions were made by Council.

1.2 This report builds on these points and on other updated information in order that final budget recommendations can be made to Council on 26 February. Proposals for updating the Corporate Plan will be presented at a subsequent meeting, drawing on the approved budget and financial strategy to ensure a reasonable fit.

2 LOCAL GOVERNMENT SETTLEMENT AND COUNCIL TAX THRESHOLDS

2.1 Government has now announced the final Settlement for 2014/15, which is substantially unchanged from the provisional position. Similarly, the local referendum threshold for next year remains at 2%; council tax increases must be below this, to avoid the need to hold a local referendum.

2.2 Government has also confirmed the illustrative Settlement for 2015/16, which still forecasts a baseline funding reduction of almost £1.7M or 16% for that year.

2.3 These matters have been laid before the House of Commons and they are due to be considered on 12 February. It is highly unlikely that any adjustments will arise, but nonetheless provision for dealing with this situation is reflected in the recommendations.

2.4 Given the timing of the Settlement, there is insufficient time to provide any detailed meaningful analysis but the following is brought to Cabinet's attention:

- Government has made provision for building tax freeze compensation entitlement (for most years) into the spending review baseline. The exact impact of this is impossible to predict, especially in view of the many changes being made to the Local Government finance distribution system from one year to the next. The inference is though that authorities who freeze council tax will not see such a drop in funding once compensation grant ends. Nonetheless, and everything else remaining equal, authorities who have increased council tax will still be in a better position than they would otherwise have been. This is because generally compensation is based on a fixed percentage, rather than it being in full (so for example, currently compensation is based broadly on 1%, as compared with a council tax increase of 2%).

- The referendum principles have been amended to include the impact of levies. This does not affect the City Council, but Cabinet may recall that it has been a contentious issue in the past.

- Government has not set referendum thresholds for parishes and town councils, but it has put on notice that if necessary, it is prepared to apply thresholds to larger local councils from 2015/16 onwards. Alongside this, the Minister has reiterated Government's expectation that billing authorities (such as the City Council) will continue to pass funding on to local councils, to help offset the impact of localised council tax reduction schemes. Cabinet may recall that this was covered in the report to December Council. The budgetary position provides for no continuation of the one-off funding given to parishes in the current year.

2.5 With regard to business rates retention, in the Settlement Government assumes that over £5M of the Council's baseline funding is attributable to business rates, although the Council's 'Safety Net' threshold is around £400K lower each year. This threshold is the minimum level of income that the Council would retain if business rate yields fell in the district. This issue features strongly in the following sections.

3 COLLECTION FUND POSITION: BUSINESS RATES

3.1 As was reported to Cabinet in January, legislation now requires that separate estimates of any surpluses or deficits on the Collection Fund much be made each year for council tax (15 January) and business rates (31 January).

3.2 Council tax has already been calculated and reported. For business rates, the calculation of any surplus or deficit is new and very complicated, and it is understood that the legislative framework is not yet finalised. Nonetheless, more details of the calculations are included at ***Appendix A***.

3.3 In summary and when compared with previous years' average baseline position, the amount of income due from business rates in the current year has grown by £917K, but the need to put monies aside to cover potential successful appeals has increased by £13.482M. Overall therefore, the business rates element of the Collection Fund is estimated to be in deficit by £12.565M.

3.4 Most importantly, the City Council's share of this deficit is limited to £376K, taking account of the Authority's Safety Net as mentioned earlier. The bulk of the deficit will be recovered from Government. The County and Fire Authorities may be affected by their share of the deficit, depending on their own positions against their respective Safety Nets.

4 2014/15 GENERAL FUND REVENUE BUDGET

4.1 Updated revenue proposals are set out at ***Appendix B***. Aside from any minor changes, the key points to note are listed below:

- A report elsewhere on the agenda sets out updated revenue growth proposals in connection with Morecambe Area Action Plan, and these are now included within the draft budget.

- ***Appendix C*** (exempt) outlines provisional investment needs in connection with ICT security and Information Governance. Much work is ongoing in respect of the former. This involves significant one-off expenditure, which will be covered by a combination of existing revenue and capital budget provisions, as well as the Renewals Reserve. Much more consideration needs to be given to ongoing service needs and how these should be addressed, but there is insufficient time to complete this prior to Budget Council. To allow progress during next year, annual growth of £120K is proposed but the use of this would be subject to a future report to Cabinet. This reporting would also include an update on one-off spending.

- The future of the Assembly Rooms and also any warmth related works (i.e. automatic doors) to the Festival Market are yet to be decided. To ensure that some resources are in place to progress any such new developments, it is proposed to increase the Markets Reserve by £50K.

- Some queries have been made regarding the condition of playgrounds. Renewal / refurbishment of existing sites would be funded from the existing Renewals Reserve, without the need for budgetary growth.

- Savings proposals in connection with Sports and Leisure are currently out to consultation, in line with the report considered by Cabinet at its November meeting (minute 54 refers). The savings being considered relate primarily to efficiency measures and some trimming of activities that would not have a marked impact on service delivery to the public. As such, a specific report to Cabinet is not planned, but the staffing implications are due to be considered by Personnel Committee in due course. Although not yet finalised, a cautious indicative estimate of the annual savings achievable is £150K per year, and so this has been built into the budget.

- Similarly, savings within Environmental Services are also due to be considered by Personnel Committee later this month, covering wider service restructuring as well as Parks, Open Spaces and Public Realm, in line with the review outlined to Cabinet in November (minute 53 refers). Indicative annual savings of around £160K from this phase are now included in Cabinet's budget proposals; again, these are driven by efficiency and trimming of services. There is one aspect that is brought to Cabinet's attention, however. For bulky waste collections, in future the function will be provided by Furniture Matters using one team, rather than two. Alongside other proposals, it is expected that the service impact to the public will be minimal.

- The Licensing Regulatory Committee is due to consider licensing fees at its meeting on 13 February and this could result in further minor changes to the budget.

- Drawing on the business rates information provided at Appendix A, the budget projections now have some very large items incorporated. In summary, the draft budget for next year allows for Retained Business Rates income at a level of £6.154M. After allowing for Small Business Rate Relief funding adjustments, the net income position is some £1.122M higher than last reported and £1.505M higher than next year's Safety Net. Actual income to be retained will only be finalised in summer 2015, however, and the Authority could well see it fall to Safety Net levels as a result of successful rating appeals. To provide cover for this position, monies have now been set aside in a new Business Rate Retention (BRR) Reserve. The impact of this is summarised later in section 5.2, but in essence it worsens the 2014/15 budget position by £383K.

4.2 If the budget proposals were taken forward as listed, then this would now require a £458K contribution from Balances in next year, as shown at Appendix A. The movement from January's position is down to business rate changes, partly offset by additional service review savings coming through. Nonetheless, such a contribution is in line with Cabinet's stated intentions of using Balances to help protect key services for a period.

4.3 In order to fit with Council's approved council tax rate increase and the final Settlement, the General Fund Revenue Budget is expected to be £19.585M for 2014/15, excluding parish precepts, and Cabinet is requested to refer this on to Council for approval. The apparent increase in budget when compared with the January position is purely down to business rates income presentation, and it is possible that this presentation may change between now and Budget Council. The bottom line impact on council tax will remain constant, however.

4.4 Cabinet is now required to finalise its full savings and growth proposals and make recommendations to Council for a balanced budget.

4.5 Setting the Revenue Budget at £19.585M will result in a 2% increase in the basic City Council tax rate for the district, or 1.99% to be more accurate. The actual basic Band D City Council tax payable (excluding parish precepts) is expected to be £199.99, which will raise income of £7.600M for City Council services. It is stressed, however, that all these figures are subject to rounding adjustments, prior to them being finalised for Budget Council.

5 GENERAL FUND PROVISIONS, RESERVES AND BALANCES

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

5.2 For earmarked Reserves, some additional changes have been actioned by the Chief Officer (Resources) as s151 Officer, over and above those included in Cabinet's growth proposals:

Performance Reward Grant
The use of this Reserve has been amended to allow for approximately £15K to be used to support initiatives linked to the voluntary sector. This is in line with the Leader's decision taken back in December.

Elections
Looking forward, in 2016/17 an Elections Reserve has been created to smooth the future budget impact of local elections. An indicative contribution of £30K is provided for.

Business Rates Retention (BRR) Reserve

Whilst the Council's budget needs to account for a higher level of retained business rate income than previously assumed, there are enormous risks and uncertainties over whether, indeed, that additional income will materialise. Accordingly, a Reserve equal to the Council's exposure has now been provided for within the budget projections, demonstrated as follows. (Note that the current year position also has a bearing on Balances):

Changes Since January Cabinet	Revenue Budget £000	BRR Reserve £000
2013/14:		
Net Reduction in Retained Business Rates Income (Difference between Budget and lower Safety Net)	376	
Call on Revenue Balances	(376)	
Net Impact on Revenue Budget	**0**	
2014/15:		
Net Increase in Retained Business Rates Income (after levy payments etc)	(1,122)	
Contribution to BRR Reserve	1,505	(1,505)
Net Impact on Revenue Budget	**383**	
Total BRR Reserve Balance		**(1,505)**
Representing:		
2014/15 Budget Exposure (above Safety Net)		1,505

5.3 In terms of Balances, the s151 Officer will finalise her advice once Cabinet's full budget proposals are known. Her interim advice and comments are as follows:

- Balances are now expected to amount to around £3.4M by 31 March 2014. Based on Cabinet's budget proposals to date, Balances would fall to around £3.0M by 31 March 2015.

- Cabinet's intentions are to use surplus Balances to help maintain services to the public for a period, recognising that current Balances are healthy and can support this.

- This is an acceptable stance to take in the shorter term, alongside Council's approved approach for increasing council tax, and Cabinet's commitment to continue with the service review programme to make savings and develop the proposed ethos of an 'Ensuring Council'.

- In the longer term, it is apparent that there is some general acceptance of the more fundamental need to rethink, reshape and reduce services by 2016/17 at the latest, based on current forecasts.

- At this stage the Chief Officer (Resources) is comfortable to advise that the level of General Fund balances can be retained at no less than £1M on the basis that other provisions and reserves remain broadly as set out in this report, but this advice covers the longer term, not just the shorter term. Given future funding pressures and enormous uncertainties, advice is that ideally an additional £1M should be earmarked or left available for addressing the more fundamental budget challenges that are expected beyond 2015/16. On that basis, around £1M of Balances would be available to support the budget in 2015/16.

5.4 Allowing for the ongoing work on service reviews, this should give sufficient scope to manage the 2015/16 budget position in line with Cabinet's intentions – but it must be appreciated that this assumes that there will be no significant overspending in either the current or next financial year. It also assumes that the use of Balances in next year will not increase significantly above that already allowed for.

5.5 The s151 Officer's advice takes account of a number of other key risk considerations:

- The Council continues to demonstrate its ability to deliver ongoing savings through efficiencies, minor reductions to services, and income generation, as part of its financial strategy. In doing so, it accepts the associated increase in its risk appetite. Its communication and monitoring arrangements and organisational development plans are key tools in helping to manage these risks.

- The Council's decision-making regarding any fundamental service reduction proposals have not yet been tested, however. There is risk that the Council does not best use of the time available to develop, approve and implement major service reduction and reshaping measures.

- Capital financing risk exposure is significantly reduced, given progress in disposing of Lancaster Market leasehold, securing capital receipts, and the outcome of the Luneside East Lands Tribunal.

- Conversely, risks around future revenue funding prospects are as high as ever. These centre on future Government public spending plans and the ongoing viability and sustainability of the current Local Government finance system. It is still considered that at some point, local government may be wholly funded from local taxation. Drawing on more specific funding aspects, the Council has mainstreamed its New Home Bonus, but this scheme has a fixed life and its removal would worsen the funding outlook still further. Finally, as other public sector partners address their own budget shortfalls, this in turn may well add further pressure onto the City Council.

5.6 As a very simple measure, the inherent value of the risks referred to above exceeds by far the total of all General Fund reserves and balances. Whilst it is not the case that all these risks could fall due immediately, the information should help Members appreciate the need for holding Balances and reserves more generally. It is inappropriate to view simply the level of funds held, without considering the reasons as to why those funds might be needed.

5.7 The review of all Balances, provisions and reserves is reflected in the updated policy attached at ***Appendix D***. As well as showing the amounts held, the appendix also sets out the decision-making for their use. Cabinet is advised to consider this aspect carefully.

6 GENERAL FUND CAPITAL INVESTMENT

6.1 The current draft programme for the period to 2018/19 is included at ***Appendix E*** for Cabinet's consideration.

6.2 The draft includes a small number of adjustments made since the last Cabinet meeting. Other than any re-profiling of schemes, the only points to highlight are as follows:

- The surrender of Lancaster Market headlease is now included, in line with the report to Council last week.

- The lighting scheme for Salt Ayre cycle track is included in the current year, on the assumption that grant conditions can be met. This is in accordance with the decision taken at January Cabinet.

- Notification of future years' funding for coast protection and flood defence schemes is still awaited. Other than minor overheads, these schemes are assumed to be self financing. A Cabinet report will be produced once notification has been received, to consider any proposed updates to the capital programme.

6.3 The current year's Revised Programme now stands at £16.982M. It is estimated that there will be no capital receipts unapplied as at 31 March 2014. Over the next five years, a further £21.568M of investment is planned, giving a total 6 year programme of £38.550M.

6.4 Overall the programme is balanced, allowing for a net increase of £16.358M in the underlying need to borrow (known as the Capital Financing Requirement or CFR). This has increased by almost £10.9M when compared with the position reported to January Cabinet, but this is solely as a result of including the Lancaster Market leasehold surrender. The aim is still to reduce this underlying borrowing need, especially through property rationalisation.

6.5 Future reliance on capital receipts funding is now much more manageable, without the need to keep specific schemes on hold pending funding becoming available. Nonetheless, appropriate due diligence will be applied in progressing schemes, especially given the number of service reviews planned or underway.

7 BUDGET PROSPECTS FOR FUTURE YEARS (2015/16 AND BEYOND)

7.1 Indicative revenue spending and council tax forecasts for 2015/16 and 2016/17 have been reported and updated on an ongoing basis during the budget process.

7.2 The Council aims to keep basic City Council tax increases at no more than 2% year on year, subject to local referendum thresholds. As a consequence, the following table sets out the key financial targets that the Council will strive to work within for the next three years.

Target	2014/15	2015/16	2016/17
Budget Requirement	£19.585M	£16.480M	£16.401M
Council Tax Income	£7.600M	£7.792M	£7.999M
Council Tax Increase (subject to local referendum thresholds)	1.99%	1.99%	1.99%
Year on Year Net Savings Requirement (assumes recurring savings achieved)	-	£2.003M	£0.348M
Cumulative Net Savings Requirement	-	£2.003M	£2.351M
Forecast Balances used / available to support Budget (indicative split)	£0.4M	£1.0M	£1.0M

7.3 For 2015/16 and beyond, it is now assumed that Retained Business Rate income will be at Safety Net thresholds, but the position will only become clearer once key rating appeals have been processed.

7.4 The MTFS will be updated to reflect the above, as well Cabinet's full budget proposals. Delegated authority is sought to complete this task in order that the MTFS can be presented to Budget Council.

7.5 Once approved, as usual the Strategy and associated projections will continue to be reviewed and updated regularly. In this way the Council can maintain an informed view about its financial outlook and the implications for corporate priorities and service delivery.

8 DETAILS OF CONSULTATION

8.1 This is outlined in section 1 of the report.

9 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

9.1 Cabinet is now requested to finalise its preferred revenue budget and capital programme proposals for referral on to Council, using the latest information as set out in this report.

<u>Revenue Budget</u>
As Council has now determined the City Council tax rate for 2014/15, there are no options to change the total net revenue budget for next year but Cabinet now needs to put forward detailed budget proposals that add back to that amount. The Chief Officer (Resources) (as s151 Officer) continues to advise that wherever possible, emphasis should be on reducing future years' net spending.

<u>Capital Programme</u>
Cabinet may adjust its capital investment and financing proposals to reflect spending commitments and priorities but overall its proposals for 2013/14 and 2014/15 must balance. Whilst there is no legal requirement to have a programme balanced over the full 5-year period, it is considered good practice to do so – or at least have clear plans in place to manage the financing position over that time.

In deciding its final proposals, Cabinet is asked also to take into account the relevant basic principles of the Prudential Code, which are:

- *that the capital investment plans of local authorities are affordable, prudent and sustainable, and*
- *that local strategic planning, asset management planning and proper options appraisal are supported.*

<u>Budget Framework (Reserves and Provisions / MTFS)</u>
Given known commitments, risks and approved council tax targets there is little flexibility in financial terms, but Cabinet could consider different arrangements for approving the use of various reserves, or consider different approaches for addressing the medium term budget deficit.

10 OFFICER PREFERRED OPTION AND COMMENTS

10.1 For General Fund, 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.

11 CONCLUSION

11.1 This report outlines the actions required to complete the budget setting process for 2014/15 and put in place plans for tackling 2015/16 and beyond.

RELATIONSHIP TO POLICY FRAMEWORK

The budget should represent, in financial terms, what the Council is seeking to achieve through its Policy Framework.

CONCLUSION OF IMPACT ASSESSMENT
(including Diversity, Human Rights, Community Safety, Sustainability etc)

None directly arising in terms of the corporate nature of this report – any implications would be as a result of specific decisions on budget proposals affecting service delivery, etc.

FINANCIAL IMPLICATIONS

As set out in the report.

SECTION 151 OFFICER'S COMMENTS

The Local Government Act 2003 placed explicit requirements on the s151 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 s151 Officer's advice to date is provided below for information, but it should be noted that some of this is provisional until Cabinet's full budget proposals are known. At Budget Council, Members will be recommended to note formally the advice of the s151 Officer.

Provisions, Reserves and Balances

- Specific earmarked reserves and provisions are satisfactory at the levels currently proposed.
- Unallocated balances of £1M for General Fund are reasonable levels to safeguard the Council's overall financial position, given other measures and safeguards proposed.

Robustness of Estimates

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

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

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

Affordability of Spending Plans

In addition, the s151 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.

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

The factors that have been 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
- 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 a significant net increase in "prudential borrowing" over the period to 2018/19, but much of this is offset through the removal of other liabilities through the surrender of the market headlease.

LEGAL IMPLICATIONS

Legal Services have been consulted and have no comments to add..

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS **None.**	**Contact Officer: Nadine Muschamp** **Telephone: 01524 582117** **E-mail:nmuschamp@lancaster.gov.uk**

Appendix A

BUSINESS RATES RETENTION SCHEME

1. 2013/14 Settlement

The new Business Rates Retention Scheme came into effect on 01 April 2013. Prior to its introduction all business rate income collected by the Council was passed over to central Government. It received some of that income back, but this was fixed, and dependent wholly upon each year's Settlement. Under the new system the Council still collects the income but now retains a proportion itself and passes the remainder to the Government, the County Council and the Fire Authority. The basis of the split is determined by Government and the 2013/14 settlement figures are shown below.

Net Amount of Business Rates collectable	£60.083M
Central Government Share – 50%	-£30.042M
Lancashire County Council Share – 9%	-£5.407M
Fire Authority Share – 1%	-£0.601M
Amount Retained by City Council	£24.033M
Less Central Government Tariff*	-£19.021M
City Council Baseline Funding Level	**£5.012M**

* The Tariff is the difference between how much the Government determines the Council needs (its Baseline Funding Level) and the amount left after deducting the other shares.

2. Impact of Appeals

The system is however, susceptible to fluctuations in income levels, a key factor being that there are always appeals against rating valuations (RVs). At present, revaluations take place broadly every 5 years (2005 & 2010), which inevitably result in appeals as businesses dispute the amount they have to pay.

The current value of RVs under dispute in this district is £100M, of which £68M is in relation to two exceptionally large hereditaments. Success in appeals varies, but over the last 12 months on average 60% were successful, resulting in an average reduction in rateable value of 12.6%. Successful appeals result in refunds to the business, calculated by taking the RV reduction and multiplying it by the business rate multiplier for each year since the appeal was lodged, and then adding on lost interest. For this district, a reasonable estimate is that over £24M of rate refunds may need to be repaid. However, provisions are in place to limit the financial impact on the City Council (and County/Fire), as set out in section 3 below.

Clearly all appeals are not going to be settled at the same time and there is currently a 9 month backlog. However, the Government has pledged to clear 95% of the backlog by July 2015.

3. Levy Payments and Safety Nets

The success of any appeals and their timing can impact significantly on income projections, and clearly councils could not fund any such huge drops in income that may arise. For this reason, the Government has determined that no Council will suffer more than a 7.5% loss in income in any one year, if net business rates income falls. This cut off is known as the Safety Net and is equivalent to 92.5% of the Council's Baseline Funding Level.

Baseline Funding Level	£5.012M
Safety Net @ 92.5%	£4.636M
Limit of Financial Impact	£0.376M

Similarly, the Government has also determined that Councils experiencing significant growth in business rates income will only be able to keep 50%, with the other half going to Central Government. The idea behind this is that the 'excess' income from growth will go towards funding the losses in income over and above the individual Council safety nets.

4. Small Business Rate Relief

In the Autumn Statement, the Government pledged to continue the same level of Small Business Rate Relief (SBRR) for 2014/15 as well as adding some additional forms of support. As these reliefs directly impact on the income collected, the Government has confirmed it will reimburse all Councils for 100% of the lost income for 2013/14 and 2014/15. Initial forecasts show that this could be in the region of £600K for the current year and £1.2M for 2014/15. However, if this reimbursement, when added to the net income for business rates, takes the total over and above the Baseline Funding Level, then again 50% will go back to Central Government.

For information, the grant is being paid to Councils as a Section 31 General Fund grant.

5. Overall Financial Position

Based on the latest forecasts, it is estimated there will be a total deficit of £12.565M in 2013/14 on the Collection Fund in respect of Business Rates. The main reason for this is that under current accounting practices provision has to be made for the potential cost of outstanding appeals based on estimates of success. A breakdown of the position is shown below:

	Settlement £M	Original Forecast (NNDR1) £M	Latest Forecast £M	Difference: Original to Latest £M
Net Income excluding Appeals	N/A	67.892	68.809	0.917
Provision for Appeals	N/A	-6.030	-19.512	-13.482
Business Rates Collectable	**60.083**	**61.862**	**49.297**	**-12.565**
Less:				(Deficit)
Central Govt Share – 50%	-30.042	-30.931	-30.931	
County & Fire – 10%	-6.008	-6.186	-6.186	
Amount Retained by Lancaster	24.033	24.745	12.180	
Less Central Govt Tariff	-19.021	-19.021	-19.021	
Baseline Funding Level	**5.012**	**5.724**	**-6.841**	
Add SBRR S31 Grant			0.608	
Less Safety Net			-4.636	
Safety Net Payment Due			**-10.869**	

The table shows the changes in assumptions from the original forecast to the latest position. Overall there has been additional income of £917K but an increase of £13.482M in the provision for appeals. This increase is due to the fact that when the original provision for appeals was calculated, it was based on the Valuation Office (VO) national average success rate of 25%. As the year has progressed, Officers now have access to more detailed information from the VO, and therefore a more accurate percentage has been used based on the average success rate for the Lancaster district over the last 12 months. This has resulted in the success rate being increased from 25% to 60%, which therefore significantly increases the provision required.

The latest forecast column shows that after allowing for the SBRR grant the Council is due back a safety net payment of £10.869M. This will mean the Council's baseline funding is now capped at £4.636M compared to the Settlement figure of £5.012M, thus resulting in a loss in income of £367K.

6. **2014/15 Forecasts**

The position for 2014/15 is somewhat different as can be seen in the table below. The latest forecast shows that after allowing for the SBRR grant (£1.199M) and the 50% levy payment (£1.122M) the amount of additional income retained by the Council will be £1.122M. However, there is considerable uncertainty on whether this improved position will materialise, as highlighted in section 7.

	Provisional Settlement £M	**Forecast (NNDR1) £M**
Net Income excluding Appeals	N/A	68.438
Provision for Appeals	N/A	-5.145
Business Rates Collectable	**61.256**	**63.293**
Less:		
Central Govt Share – 50%	-30.628	-31.647
County & Fire – 10%	-6.126	-6.329
Amount Retained by Lancaster	24.502	25.546
Less Central Govt Tariff	-19.392	-19.392
Baseline Funding Level	**5.109**	**6.154**
Add SBRR S31 Grant		1.199
Less Settlement Baseline Funding		-5.109
Growth		**2.244**
Less Levy Payment of 50%		-1.122
Forecast Retained Growth		**1.122**

7. **Risks and Assumptions**

The major risk in all these calculations centres on the assumptions made about the appeals success rates. As the Council has the highest level of expected appeals in the County, it is highly vulnerable to significant changes in income. A change of only 8% in the forecast on the two largest appeals would result in the Council moving into a safety net position again. It is for this reason that funds will be set aside in a new reserve, to provide cover in the event that the Council falls into a safety net position for 2014/15. Furthermore, for 2015/16 and 2016/17 Government funding prospects are now £400K lower in the event that a similar situation arises. There are, however, many other changes that could arise regarding Local Government funding in the intervening period.

Appendix B

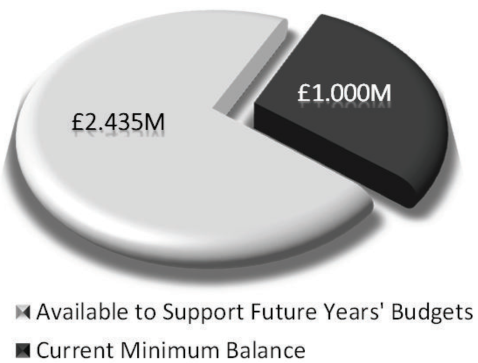
GENERAL FUND REVENUE BUDGET - 2013/14 TO 2016/17

For consideration by Cabinet 11 February 2014

Summary Budget Position

	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
Original Revenue Budget & Projections	**19,819**	**19,469**	**20,247**	**0**
Position as reported to Council 05 February 2014	**19,456**	**18,035**	**18,636**	**18,878**
Further Base Budget Changes	0	(30)	(48)	(49)
Savings Proposals:				
Sport and Leisure (subject to Personnel Cttee approval)	0	(150)	(153)	(156)
Environmental Services (subject to Personnel Cttee approval)	0	(160)	(163)	(166)
Growth Proposals Supported by Cabinet:				
PCSOs	0	99	0	0
Bold Street Capital Works (revenue financing)	0	391	0	0
Markets Reserve	0	50	0	0
Growth to be considered at February Cabinet:				
Bins & Boxes Administration Charge	0	85	89	91
Morecambe Area Action Plan	0	175	0	0
Information Governance / ICT Security	0	120	122	124
Net Changes in Retained Business Rates Transactions	0	(77)	0	0
Net Reserves Movements	0	1,505	0	30
Additional Contribution to/(from) Balances	(13)	(458)	0	0
Latest Net Revenue Budget	**19,443**	**19,585**	**18,483**	**18,752**
Revenue Support Grant	**(7,533)**	**(5,700)**	**(3,832)**	**(3,449)**
Retained Business Rates	**(4,636)**	**(6,154)**	**(4,856)**	**(4,953)**
Estimated Collection Fund Surplus	**0**	**(131)**	**0**	**0**
COUNCIL TAX REQUIREMENT	**7,274**	**7,600**	**9,795**	**10,350**
TARGET COUNCIL TAX REQUIREMENT	7,274	7,600	7,792	7,999
(To fit with a council tax increase of 1.99% per annum)				
Remaining Savings To Be Identified		**(0)**	**2,003**	**2,351**

General Fund Unallocated Balances



	£M
Original projected balance as at 31 March 2013	**2.635**
Add: 2012/13 underspend	0.547
Less: Carry forwards from 2012/13	-0.101
Add: Budgeted Contribution for 2013/14	0.367
Add: Current Projected Underspend	-0.013
Latest Projected Balance as at 31 March 2014	**3.435**
Current Minimum Level	1.000
Amount Available to Support Future Years' Budgets	**2.435**

Appendix B

Progress in Achieving Savings

	2014/15	2015/16	2016/17
	£000	£000	£000
Estimated Savings Requirements (October 2013)	**1,237**	**3,564**	**N/A**
Net Budget Changes (December 2013)	(1,087)	(715)	3,305
Net Budget Changes (January 2014)	(478)	(895)	(1,270)
Latest Base Budget Changes	(30)	(48)	(49)
Savings Proposals	(310)	(316)	(322)
Growth Proposals Supported by Cabinet	540	0	0
Growth to be considered at February Cabinet	380	211	215
Net Reserves Movements	1,505	0	30
Changes in Contribution from Balances	(458)	0	0
Settlement Funding Changes/Projections (February 2014)	(1,129)	406	692
Increase in Tax Base (January 2014)	(170)	(204)	(250)
Total Net Changes	**(1,237)**	**(1,561)**	**2,351**
Remaining Savings to be Identified	**(0)**	**2,003**	**2,351**

Note that for 2016/17 "Total Net Changes" represents progress since December only.

Impact on Council Tax

	2013/14	2014/15	2015/16	2016/17
Indicative Tax Base	*37,100*	*38,000*	*38,200*	*38,450*
Band D City Council Tax Rate				
Updated Target Council Tax	**£196.08**	**£199.99**	**£203.97**	**£208.03**
Percentage Increase Year on Year	*1.99%*	*1.99%*	*1.99%*	*1.99%*
Current Council Tax Projections (Based on latest Budget Projections)	**£196.08**	**£199.99**	**£256.41**	**£269.18**
Percentage Increase Year on Year	*1.99%*	*1.99%*	*28.2%*	*5.0%*

Appendix D (i)

RESERVES AND PROVISIONS STATEMENT (INCLUDING BALANCES) - For consideration by Cabinet 11 February 2014

GENERAL FUND

	31/03/13	Contributions to Reserve	Contribution from Reserve		31/03/14	Contributions to Reserve	Contribution from Reserve		31/03/15	Contributions to Reserve	Contribution from Reserve		31/03/16	Contributions to Reserve	Contribution from Reserve		31/03/17
		From Revenue	To Capital	To Revenue		From Revenue	To Capital	To Revenue		From Revenue	To Capital	To Revenue		From Revenue	To Capital	To Revenue	
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
General Fund Balance	**3,182,119**	730,000		-476,900	**3,435,219**			-458,400	**2,976,819**				**2,976,819**				**2,976,819**
Earmarked Reserves:																	
Apprenticeships	**42,750**	29,200		-44,700	**27,250**	29,200		-32,200	**24,250**	29,200		-7,900	**45,550**	29,200		-7,900	**66,850**
Business Rates Retention	**0**	232,000			**232,000**	1,284,000			**1,516,000**				**1,516,000**				**1,516,000**
Capital Support	**425,717**	230,000		-125,700	**530,017**				**530,017**				**530,017**				**530,017**
City Lab	**14,987**			0	**14,987**			-12,100	**2,887**			-2,887	**0**				**0**
Elections	**0**				**0**				**0**				**0**	30,000			**30,000**
Highways	**129,186**	100,000			**229,186**				**229,186**				**229,186**				**229,186**
Homelessness Support	**65,000**			-30,000	**35,000**			-35,000	**0**				**0**				**0**
Insurance	**51,000**			-51,000	**0**				**0**				**0**				**0**
Invest to Save	**1,547,350**			-33,000	**1,514,350**				**1,514,350**				**1,514,350**				**1,514,350**
Job Evaluation	**3,897**			-3,897	**0**				**0**				**0**				**0**
Markets	**618,903**	50,000	-619,000	-37,500	**12,403**	50,000			**62,403**				**62,403**				**62,403**
Municipal Buildings	**386,298**				**386,298**				**386,298**				**386,298**				**386,298**
Open Spaces Commuted Sums	**204,426**			-40,600	**163,826**			-35,400	**128,426**			-24,400	**104,026**			-22,500	**81,526**
Performance Reward Grant	**125,043**			-80,300	**44,743**			-12,000	**32,743**			-12,000	**20,743**				**20,743**
Planning Delivery Grant	**3,500**			-3,500	**0**				**0**				**0**				**0**
Renewals (all services)	**864,715**	428,700	-247,400	-195,700	**850,315**	391,200	-360,000	-30,400	**851,115**	394,800	-184,000	-36,000	**1,025,915**	395,200	-70,000	-29,500	**1,321,615**
Restructuring	**432,673**	569,800			**1,002,473**				**1,002,473**				**1,002,473**				**1,002,473**
S106 Commuted Sums - Affordable Housing	**700,493**	74,000	-323,800		**450,693**	110,000	-137,000		**423,693**				**423,693**				**423,693**
S106 Commuted Sums - Highways, crossing & cycle paths	**621,771**		-13,000	-5,000	**603,771**			-10,000	**593,771**			-19,000	**574,771**			-3,500	**571,271**
Welfare Reforms	**200,000**				**200,000**				**200,000**				**200,000**				**200,000**
Youth Games	**37,000**	18,500		-54,500	**1,000**	15,000			**16,000**	15,000			**31,000**	15,000			**46,000**
Reserves Held in Perpetuity:																	
Graves Maintenance	**22,201**				**22,201**				**22,201**				**22,201**				**22,201**
Marsh Capital	**47,677**				**47,677**				**47,677**				**47,677**				**47,677**
Total Earmarked Reserves	**6,544,587**	**1,732,200**	**-1,203,200**	**-705,397**	**6,368,190**	**1,879,400**	**-497,000**	**-167,100**	**7,583,490**	**439,000**	**-184,000**	**-102,187**	**7,736,303**	**469,400**	**-70,000**	**-63,400**	**8,072,303**

Note - For various provisions and reserves, not all spending needs are reflected and so over the period their balances will reduce from the levels shown above, as and when spending commitments and their timing are confirmed.

Provision

Bad Debts	**659,495**
Derelict Land Clawback	**56,932**
Insurance	**365,479**
Total Provisions	**986,178**

LANCASTER CITY COUNCIL

Promoting City, Coast & Countryside

PROVISIONS AND RESERVES POLICY 2014/15

(Including Balances)

Provisions & Reserves Policy

1. Legislative/Regulatory Framework

1.1 The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 (as amended) require billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget / council tax requirement.

1.2 There is also a requirement reinforced by section 114 of the Local Government Finance Act 1988 which requires the chief financial officer to report to all the authority's councillors if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year.

1.3 Furthermore, sections 26 and 27 of the Local Government Act 2003 set out the requirements regarding the determination of minimum levels of controlled reserves (i.e. currently unallocated balances), and actions required should they fall below such minimum levels.

2. Role of the Chief Financial Officer

2.1 Within the existing statutory and regulatory framework, it is the responsibility of the Chief Financial Officer (at Lancaster this is the Chief Officer (Resources)) to advise local authorities about the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use.

2.2 For clarity, within the legislation the minimum level of any reserve is not quantified, and it is not considered appropriate or practical for the Chartered Institute of Public Finance and Accountancy (CIPFA), or other external agencies, to give prescriptive guidance on the minimum, or maximum, level of reserves required either as an absolute amount or a percentage of the budget.

3. Purpose of Reserves and Balances

3.1 Reserves and balances can be held for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of what is commonly referred to as 'general balances';
- A contingency to cushion the impact of unexpected events or emergencies – this also forms part of 'general balances';
- A means of building up funds, commonly referred to as earmarked reserves, to meet known or predicted liabilities.

3.2 For each earmarked reserve held by a local authority there should be a clear protocol setting out:

- The reason for/purpose of the reserve;
- How and when the reserve can be used;
- Procedures for the reserve's management and control; and
- A process and timescale for review of the reserve to ensure continuing relevance and adequacy.

4. Principles to Assess Adequacy

4.1 Setting the level of reserves and balances is just one of several related decisions in the formulation of the medium term financial strategy and the budget for a particular year. Account should be taken of the key financial assumptions underpinning the budget alongside a consideration of the authority's financial management arrangements. In addition to the cash flow requirements of the authority the following factors should be considered:

Budget Assumptions

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

Financial Standing and Management

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

4.2 The minimum level of general balances considered appropriate for the Council is reviewed annually as part of the budget process and Medium Term Financial Strategy. At present, the minimum level of general reserves is set at £1M for the General Fund and £350K for the Housing Revenue Account.

4.3 The Council's external auditors recommend the use of a risk based approach when setting the level of reserves. As far as reasonably practical this approach is used, although for many reserves the balance is being held to meet a specific budgeted need, or alternatively future spending needs can be restricted to tie in with monies available. For others, whilst the risk of financial liabilities arising is acknowledged, it may be impossible to assess accurately (or quantify) the financial risks involved, and the balances of such reserves are determined initially based on informed judgement. Their future levels will be further reviewed as more information becomes available.

5. Reporting Framework

5.1 The level and utilisation of reserves will be determined formally by Council through this policy, informed by the advice and judgement of the Chief Officer (Resources).

5.2 The Council's annual budget report includes a statement showing the estimated opening general fund balances for the year ahead, the addition to/withdrawal from balances, and the estimated end of year balance. A statement is also included commenting on the adequacy of general balances and provisions in respect of the forthcoming financial year and the authority's medium term financial strategy.

5.3 Similarly, a statement is also included, as part of the budget report, identifying earmarked reserves, the opening balances for the year, planned additions/withdrawals and the estimated closing balances.

6 Provisions & Reserves Protocol : General Fund

Reserve	Purpose	How and When Used	Procedures for management and control	Timescale for review
Apprenticeships	Established to pump prime an apprenticeship scheme within services, to provide recruitment and development opportunities.	Use of the reserve to be approved by Chief Officer (Governance) with top up contributions being approved also by the Chief Officer (Resources) (or their nominated representatives).	Governance / Resources Any change in use to be approved by Cabinet.	Budget & Outturn, and mid-year MTFS review
Business Rates Retention	This reserve has been established to support the budget in the event that Business Rates Income does not achieve projected growth estimates or reaches the safety net threshold.	Use of the Reserve to be determined and reported to Cabinet by Chief Officer (Resources) approval.	Resources	Budget & Outturn & mid-year MTFS review
Capital Support	To cover contractual liabilities as at 31 March 2011 on West End properties and to provide cover for any revenue costs arising through shortfalls in capital financing (i.e. from capital receipts).	Any use to be determined and reported to Cabinet by Chief Officer (Resources).	Resources Any change in use to be approved by Cabinet, but permitted only where surplus balances exist.	Budget & Outturn, & mid-year MTFS review
City Lab	Surpluses on the operation of the building to be used to support any future losses / economic development in the district.	Any contributions to or from the reserve to be approved by Cabinet.	Regeneration & Planning / Resources. Any change in use to be approved by Cabinet.	Budget & Outturn
Elections	The reserve has been established to even out the cost of holding City Council elections every four years.	Contributions to and from reserve to be approved by Cabinet (generally as part of annual budget process, rather than specifically).	Governance / Resources.	Budget & Outturn
Highways	Created from previous years' surpluses, to provide support for anticipated additional cost pressures arising from the new Highways Partnership contract.	Any contributions to or from the reserve to be approved by Cabinet (as part of the budget or outturn reporting).	Environmental Services / Resources.	Budget and Outturn.
Homelessness	Established at 2011/12 outturn from additional government grant, for additional homelessness prevention measures.	Use of Reserve to be approved by Chief Officer (Health & Housing), in consultation with Chief Officer (Resources) (or her nominated representative). To be closed once used.	Health & Housing / Resources.	Budget and Outturn.

Reserve	Purpose	How and When Used	Procedures for management and control	Timescale for review
Invest to Save	The reserve has been established to finance any Invest to Save initiatives.	Use linked to capital or revenue schemes that can generate future savings in the medium term. In particular, those linked with the Renewable Energy Strategy. Contributions to or from reserve to be approved by Cabinet.	Resources. Pay back periods must be in accordance with MTFS, and as advised by Chief Officer (Resources) (or her nominated representative). Any change of use to be approved by Cabinet, should the reserve balance exceed spending needs.	Budget & Outturn, and mid year MTFS review
Markets Reserve	The funding will be used to make improvements to the existing markets in operation.	Use of the reserve to be approved by Chief Officer (Environment) in consultation with Portfolio Holder and Chief Officer (Resources) (or her nominated representative).	Environmental Services / Resources	Budget & Outturn
Municipal Buildings	To provide for 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).	Use of the reserve to be approved by Chief Officer (Resources) (or her nominated representative), subsequent to Cabinet report on investment programme.	Resources. Any change of use to be approved by Cabinet, should the reserve balance exceed spending needs.	Quarterly reporting, Budget & Outturn
Open Spaces – Commuted Sums	This reserve receives all sums paid to the Council from third parties for the maintenance of open spaces adopted by the City Council.	Lump sums are credited to the reserve, and an annual contribution is made from the reserve to cover the additional grounds maintenance costs. The value of commuted sums due is to be agreed with Resources (Financial Services) prior to the development agreement being completed. Budgets to be updated by Resources (Financial Services) in consultation with Environmental Services as sums received.	Environmental Services / Resources Any use of reserve must be in accordance with specific s106 agreements.	Budget & Outturn

Reserve	Purpose	How and When Used	Procedures for management and control	Timescale for review
Performance Reward Grant	Funding to support Domestic Abuse Outreach Service, commissioning of mainstream domestic abuse services (3 yrs) and voluntary sector initiatives (up to £15K).	Any contributions to or from the reserve to be approved by Cabinet.	Resources	Budget & Outturn
Planning Delivery Grant (PDG)	To enable grant monies committed against approved spend to be rolled forward between financial years.	Reserve to be closed in 2013/14.		
Renewals (Including Williamson Park, ICT, AONB Vehicle, Car Park Equipment, Courier Vehicle, Parks vehicles & Salt Ayre Sports Centre renewals)	Contributions are made into the fund to provide for renewal of major assets such as vehicles, plant and equipment.	Contributions are made into the reserve on an annual basis, and transferred to revenue or capital as and when renewals are undertaken. Contributions to the reserve are to be approved by Cabinet. Use of the reserve to be agreed by Chief Officer (Resources) (or her nominated representative).	Resources. Any change of use to be approved by Cabinet, should the reserve balance exceed spending needs.	Budget & Outturn
Restructuring Reserve	To fund the costs associated with early termination of staff (in the interests of efficiency / redundancy) / Pay and Grading Review.	Use (in line with relevant approved HR policies) to be agreed with Chief Officers (Governance) & (Resources) (or their nominated representatives). Any further contributions to the reserve to be approved by Cabinet.	Governance Services / Resources Any change of use to be approved by Cabinet, should the reserve balance exceed spending needs.	Budget & Outturn, and mid-year MTFS review
S106 Commuted Sums – Affordable Housing	This reserve receives all sums paid to the Council from third parties in respect of affordable housing schemes.	Lump sums are credited to the reserve and appropriated either to revenue or capital dependent upon the nature of the agreement and subject to approved policy for use (Cabinet: November 2009).	Regeneration & Planning / Resources Any use of reserve must be in accordance with specific s106 agreements.	Budget & Outturn
S106 Commuted Sums – Highways, cycle paths and crossings.	This reserve receives all sums paid to the Council from third parties other than for affordable housing and grounds maintenance.	Lump sums are credited to the reserve and appropriated either to revenue or capital dependent upon the nature of the agreement.	Regeneration & Planning / Resources Any use of reserve must be in accordance with specific s106 agreements.	Budget & Outturn

Reserve	Purpose	How and When Used	Procedures for management and control	Timescale for review
Welfare Reforms	To help manage the cost pressures of any welfare reforms (in particular, localisation of council tax support).	Contributions to and from the reserve to be approved by Cabinet.	Resources. Any change in use to be approved by Cabinet, should the reserve balance exceed spending needs.	Budget & Outturn, and mid-year MTFS review
Youth Games	The reserve has been established to even out the cost of hosting the games every four years.	Contributions to and from reserve to be approved by Cabinet (generally as part of annual budget process, rather than specifically).	Health & Housing / Resources Any change in use to be approved by Cabinet, should the reserve balance exceed spending needs.	Budget & Outturn

Reserves held in perpetuity:

Provision	Purpose	How and When Used	Procedures for management and control	Timescale for review
Graves Maintenance	This reserve holds monies donated to the City Council by individuals, specifically for the maintenance of graves.	The capital sum must be maintained at the original level of contribution, with interest earned being appropriated to revenue to offset maintenance costs.	Health & Housing / Resources. No changes to its use are permitted.	Outturn
Marsh Capital	The monies held in this reserve came from the proceeds of land sold at Willow Lane on the Marsh, as set out by the Lancaster Corporation Act 1900. The Act determines that the interest generated on this reserve be applied in perpetuity to the payment to the freemen of the City.	Investment interest generated on the reserve is used to make annual payments to the freemen of the City.	Resources. No changes to its use are permitted.	Outturn

Provision	Purpose	How and When Used	Procedures for management and control	Timescale for review
PROVISIONS				
Bad & Doubtful Debts	This provision is used to write off all General Fund bad debts that have been approved.	The provision is funded by an annual contribution based on assessment of the level of debt outstanding.	Resources.	Budget, Outturn & mid-year MTFS review
Derelict Land Grant	This provision covers the cost of anticipated grant clawback in respect of land sales, previously financed from grant.	The provision will be closed in 2013/14.		
Insurance	The cost of insurance claims, premiums and brokerage are charged to the provision.	Contributions are made to the provision from individual services at a level sufficient to cover the anticipated claims experience and premiums.	Resources.	Budget & Outturn, and mid-year MTFS review

All provisions will be applied by the Chief Officer (Resources) (or her nominated representative) and reported through to Members, primarily as part of outturn.

GENERAL FUND CAPITAL PROGRAMME - For consideration by Cabinet 11 February 2014

Appendix E

Service / Scheme	2013/14			2014/15			2015/16			2016/17			2017/18			2018/19			6 YEAR PROGRAMME		
	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Total Gross Programme	Total External Funding	Total Net Programme
Environmental Services	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£		£
Allotments	47,000		47,000	45,000	5,000	40,000			0			0			0			0	92,000	5,000	87,000
Vehicle Renewals	1,355,000		1,355,000	632,000		632,000	588,000		588,000	683,000		683,000	1,361,000		1,361,000	81,000		81,000	4,700,000	0	4,700,000
Bins & Boxes Scheduled Buy-Outs	51,000		51,000	12,000		12,000	21,000		21,000	74,000		74,000	50,000		50,000			0	208,000	0	208,000
Toilet Works	105,000		105,000	130,000		130,000			0			0			0			0	235,000	0	235,000
Car Parks Improvement Programme	120,000		120,000	240,000		240,000	135,000		135,000			0			0			0	495,000	0	495,000
Market Improvement Works	36,000		36,000																36,000		36,000
District Playground Improvements	10,000	10,000	0	125,000	125,000	0													135,000		0
Williamson Park Improvements & Enhancements	23,000	23,000	0	75,000		75,000			0			0			0			0	98,000	23,000	75,000
Health and Housing																					
YMCA Places of Change	19,000	19,000	0			0			0			0			0			0	19,000	19,000	0
Disabled Facilities Grants (future years funding to be confirmed)	957,000	957,000	0	673,000	673,000	0	783,000	783,000	0	783,000	783,000	0	783,000	783,000	0	783,000	783,000	0	4,762,000	4,762,000	0
Warm Homes Scheme	79,000	79,000	0			0			0			0			0			0	79,000	79,000	0
Salt Ayre Sports Centre - Replacements & Refurbishments	0		0	30,000		30,000			0			0			0			0	30,000	0	30,000
Salt Ayre Cycle Circuit Lighting	150,000	150,000	0			0			0			0			0			0	150,000	150,000	0
Regeneration and Planning																					
Toucan Crossing - King Street	13,000		13,000			0			0			0			0			0	13,000	0	13,000
Sea & River Defence Works & Studies	277,000	253,000	24,000	74,000	45,000	29,000	74,000	45,000	29,000	74,000	45,000	29,000	74,000	45,000	29,000	74,000	45,000	29,000	647,000	478,000	169,000
Amenity Improvements (Morecambe Promenade)	33,000		33,000	3,000	3,000	0			0			0			0			0	36,000	3,000	33,000
Luneside East	70,000	38,000	32,000			0			0			0			0			0	70,000	38,000	32,000
Lancaster Square Routes	255,000	165,000	90,000	1,183,000	923,000	260,000			0			0			0			0	1,438,000	1,088,000	350,000
Ffrances Passage	4,000		4,000			0			0			0			0			0	4,000	0	4,000
Morecambe THI2: A View for Eric	218,000	165,000	53,000	425,000	318,000	107,000	219,000	166,000	53,000	262,000	200,000	62,000			0			0	1,124,000	849,000	275,000
Improving Morecambe's Main Streets	4,000	0	4,000	356,000		356,000			0			0			0			0	360,000	0	360,000
West End Temporary Car Park	5,000		5,000			0			0			0			0			0	5,000	0	5,000
Great Places Affordable Housing s106 scheme	42,000		42,000			0			0			0			0			0	42,000	0	42,000
Albion Mills Affordable Housing s106 scheme	260,000		260,000			0			0			0			0			0	260,000	0	260,000
Middleton Nature Reserve S106 Scheme	19,000		19,000	10,000		10,000	9,000		9,000	4,000		4,000			0			0	42,000	0	42,000
Arnside & Silverdale AONB Improvement Scheme	144,000	144,000	0																144,000	144,000	0
Bold Street Housing Regeneration Site Works	0		0	391,000		391,000			0			0			0			0	391,000	0	391,000
Chatsworth Gardens	66,000	44,000	22,000	1,878,000	0	1,878,000			0			0			0			0	1,944,000	44,000	1,900,000
Resources																					
ICT Systems, Infrastructure & Equipment	320,000		320,000	360,000		360,000	184,000		184,000	70,000		70,000	60,000		60,000	170,000		170,000	1,164,000	0	1,164,000
Corporate Property Works	1,244,000	1,913,000	-669,000	3,530,000		3,530,000	1,893,000		1,893,000	2,075,000		2,075,000	29,000		29,000			0	8,771,000	1,913,000	6,858,000
Lancaster Market	11,056,000		11,056,000			0			0			0			0			0	11,056,000		11,056,000
GENERAL FUND CAPITAL PROGRAMME	16,982,000	3,960,000	13,022,000	10,172,000	2,092,000	8,080,000	3,906,000	994,000	2,912,000	4,025,000	1,028,000	2,997,000	2,357,000	828,000	1,529,000	1,108,000	828,000	280,000	38,550,000	9,595,000	28,820,000
Financing :																					
Specific Grants and Contributions	2,012,000			2,092,000			994,000			1,028,000			828,000			828,000			7,782,000		
General Capital Grants	1,948,000																		1,948,000		
Capital Receipts	8,045,000			935,000			630,000			370,000			63,000			29,000			10,072,000		
Direct Revenue Funding	128,000			462,000			51,000			104,000			50,000						795,000		
Earmarked Reserves	587,000			501,000			193,000			74,000			60,000			170,000			1,585,000		
	12,720,000			3,990,000			1,868,000			1,576,000			1,001,000			1,027,000			22,182,000		
Increase / Reduction (-) in Capital Financing Requirement (CFR) (Underlying Change in Borrowing Need)	4,262,000			6,182,000			2,038,000			2,449,000			1,356,000			81,000			16,368,000		
TOTAL FINANCING	16,982,000			10,172,000			3,906,000			4,025,000			2,357,000			1,108,000			38,550,000		
SHORTFALL / SURPLUS (-)	0			0			0			0			0			0			0		

CABINET

Budget and Policy Framework 2014/15 – Treasury Management 11 February 2014

Report of Chief Officer (Resources)

PURPOSE OF REPORT					
This report sets out the 2014/15 Treasury Management framework for Cabinet's approval and referral on to Council.					
Key Decision	x	**Non-Key Decision**		**Referral**	
Date of notice of forthcoming Key Decision	**13 January 2014**				
This report is public.					

OFFICER RECOMMENDATIONS:

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

1 **INTRODUCTION**

1.1 The CIPFA 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 cover various forecasts and activities.

1.2 To give context, the Quarter 3 monitoring report for the current year is included at ***Appendix A*** for information.

2 **TREASURY MANAGEMENT FRAMEWORK**

2.1 The proposed Strategy for 2014/15 to 2016/17 is set out at ***Appendix B*** for Cabinet's consideration. This document contains the necessary details to comply with both the Code and Government investment guidance. Responsibilities for treasury management are set out at ***Appendix C*** and the policy statement is presented at ***Appendix D***.

2.2 Key elements and assumptions feeding into the proposals are outlined below. These take account of Cabinet's existing budget proposals, as far as possible at this stage, but there has been only limited time available to update the framework following the last Council meeting Should there be any changes to the budget, then the treasury framework would need to be updated accordingly before being referred on to Council. For these reasons, delegated arrangements are being sought for finalising the framework, prior to it being referred on to Budget Council.

2.3 **Borrowing Aspects of the Strategy**

2.3.1 Based on the draft budget, for now the physical borrowing position of the Council is projected to reduce over the next three years for the General Fund capital programme. It is also projected that the HRA capital programme will not require any additional borrowing.

2.4 **Investment Aspects of the Strategy**

2.4.1 Although Eurozone concerns have subsided in 2013, Eurozone sovereign debt difficulties have not gone away and there are major concerns as to how these will be managed over the next few years as levels of government debt to GDP ratios, in some countries, continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods. There is the need, however, to ensure sufficient flexibility in managing investments without undermining security, and to ensure that risk appetite is appropriate.

2.4.2 Overall, the strategy put forward follows on from 2013/14 in that it is based on the Council having a low risk appetite with focus on high quality deposits.

2.4.3 There is a cost linked to a very low risk strategy as instant access accounts with good quality counterparties have relatively low yields. Markets are starting to offer significantly improved rates for longer term deposits with rates of 1.10% for a 12 month deposit (offered by Lloyds TSB as at 08/01/2013). This is in comparison to 0.54% being the average return for the Council's balances overall. To illustrate, placing a £6M deposit for 1 year would have a marginal yield of £41K above that for the Council 'average' investment. A reasonable balance needs to be made.

3 **CONSULTATION**

3.1 Officers have liaised with Capita Asset Finance, the Council's Treasury Advisors, in developing the proposed framework.

4 **OPTIONS AND OPTIONS ANALYSIS**

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

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

5 OFFICER PREFERRED OPTION AND JUSTIFICATION

5.1 To approve the framework as attached, allowing for any amendments being made under delegated authority prior to referral to Council. This is based on the Council continuing to have a low risk appetite regarding investments. It is stressed in terms of treasury activity, there is no risk free approach. It is felt though that the measures set out above provide a sound framework within which to work over the coming year.

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

APPENDIX A

2013/14 Treasury Management Progress Report to 31 December 2013

Report of Chief Officer (Resources)

1. Introduction

The CIPFA Code of Practice on Treasury Management requires that regular monitoring reports be presented to Members on treasury activities. These reports will normally be presented after the end of June, September, December and March as part of the Council's performance management framework.

Council approved the 2013/14 Treasury Strategy, which incorporates the Investment Strategy, at its meeting on 27 February 2013. This report outlines activities undertaken in pursuance of those strategies during the financial year up to the end of Quarter 3.

Treasury management is a technical area. To assist with the understanding of this report, a glossary of terms commonly used in Treasury Management is attached to the Treasury Management Strategy. In addition, the Councillor's Guide to Local Government Finance also has a section on treasury and cash management and an updated Guide is now available through the Member Information section on the Intranet.

2. Economic Update (provided by Capita Asset Services)

After strong UK growth of 0.7% in Quarter 2 and 0.8% in Quarter 3, it appears that UK GDP is likely to have grown at an even faster pace in Quarter 4 of 2013. Forward surveys are also very encouraging in terms of strong growth and there are positive indications that recovery is broadening away from reliance on consumer spending and the housing market into construction, manufacturing, business investment and exporting. This strong growth has resulted in unemployment falling much faster towards the threshold of 7%, set by the MPC before it said it would consider any increases in Bank Rate, than it expected last August when that threshold was initially set. Accordingly, markets are expecting a first increase in early 2015 though recent comments from MPC members have emphasised they would want to see strong growth well established, and an increase in real incomes, before they would consider raising the Bank Rate.

Also encouraging has been a sharp fall in inflation (CPI) to 2.1% in November and forward indications are that inflation will continue to be subdued. The return to strong growth has also helped lower forecasts for the increase in Government debt by £73bn over the next five years, as announced in the Autumn Statement, and fostered optimism for achieving a balance in the cyclically adjusted budget within five years, a year earlier than previously forecast.

The big news in financial markets was that the Federal Reserve, in December, felt sufficiently confident that the premise for strong growth had been established in America that it could start to taper its asset purchases by reducing them by $10bn per month from January 2014. These encouraging growth scenarios in the USA and UK led to a sharp jump up, in December, in short dated gilts; this, accordingly, impacted on 5 and 10 year PWLB rates.

3. Icelandic Investments Update

There was an eleventh dividend paid on the 20 December 2013 in relation to the Council's investment with KSF which represented 3% of the original claim. The total amount of the claim that has been recovered to date equates to 82%. According to the Administrators Progress Report the estimate of the total dividends to non-preferential creditors, which includes the Council, remains at 85-86%.

Lancaster City Council's remaining investment with Glitnir was repaid in full on 17 March 2012. Part of this repayment was in Icelandic Krona and is currently held within an escrow account. These funds have been accruing interest, net of tax charged by the Icelandic Tax Authority. Officers have been successful in reclaiming this tax, which amounted to £3,626. The Council will be exempt from paying this tax in the future and will continue to accrue interest at a rate of 4.2%.

Officers have instructed Bevan Brittan to include Lancaster City Council's claim with Landsbanki, which currently has a value of £519K, within an auction held by Deutsche Bank. A reserve price has been specified so proceeds cannot fall below a certain price. This sale (in Quarter 4) would ensure certainty of the recovery of the majority of our claim.

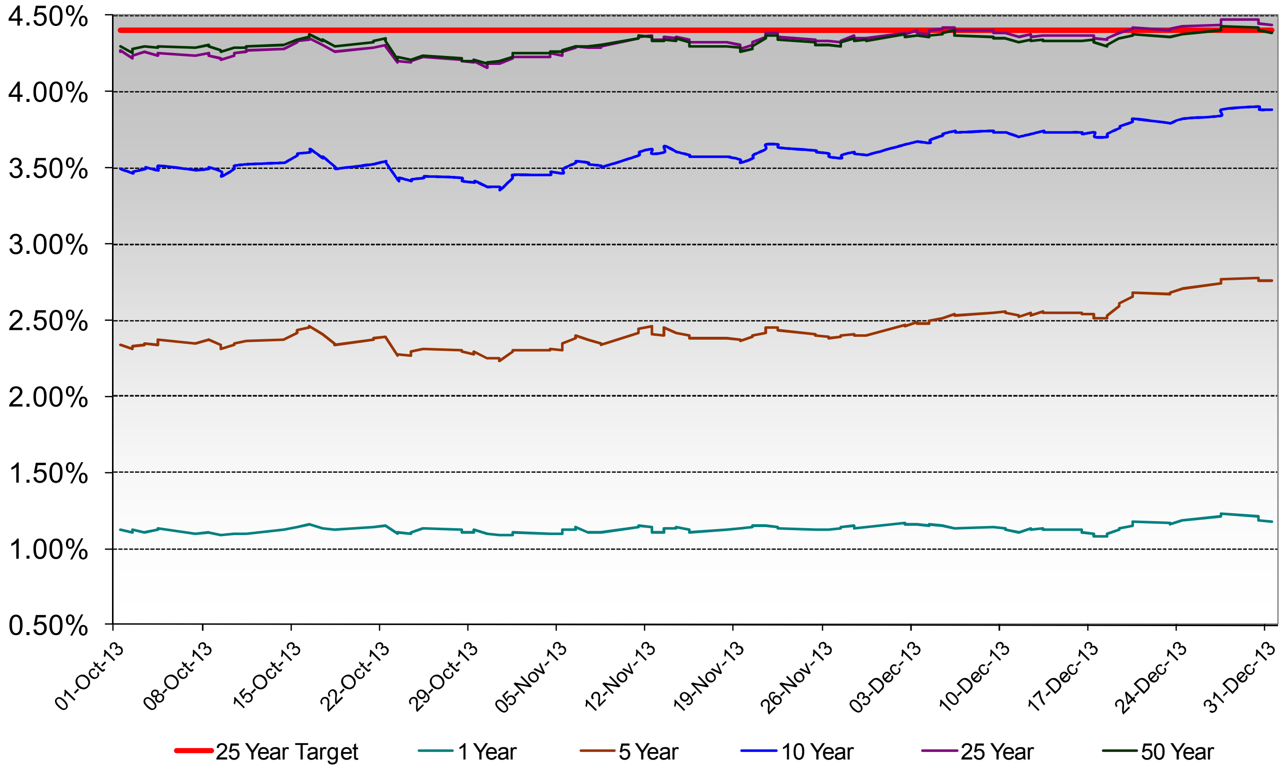
The following table shows the outstanding balances:

	KSF £000	**Glitnir £000**	**Landsbanki £000**	**Total £000**
Deposit	2,000	3,000	1,000	6,000
Claim	2,048	3,173	1,121	6,342
GBP Payments received	1,669	2,508	585	4,762
Amounts still held in ISK		604	8	612
Total anticipated recovery (%)	86.50%	100%	92%	
Further payments due (%)	4.50%	0%	38%	
Further payments due (£000)	92	0	429	521
Total anticipated receipts	**1,761**	**3,112**	**1,022**	**5,895**

*These are earning interest but are also subject to currency fluctuations, these sums will be repatriated once Icelandic currency controls allow.

4. Current Borrowing Rates.

No new borrowing was undertaken during Quarter 3. The following graph shows the PWLB rates for the last three months ending 31 December 2013.

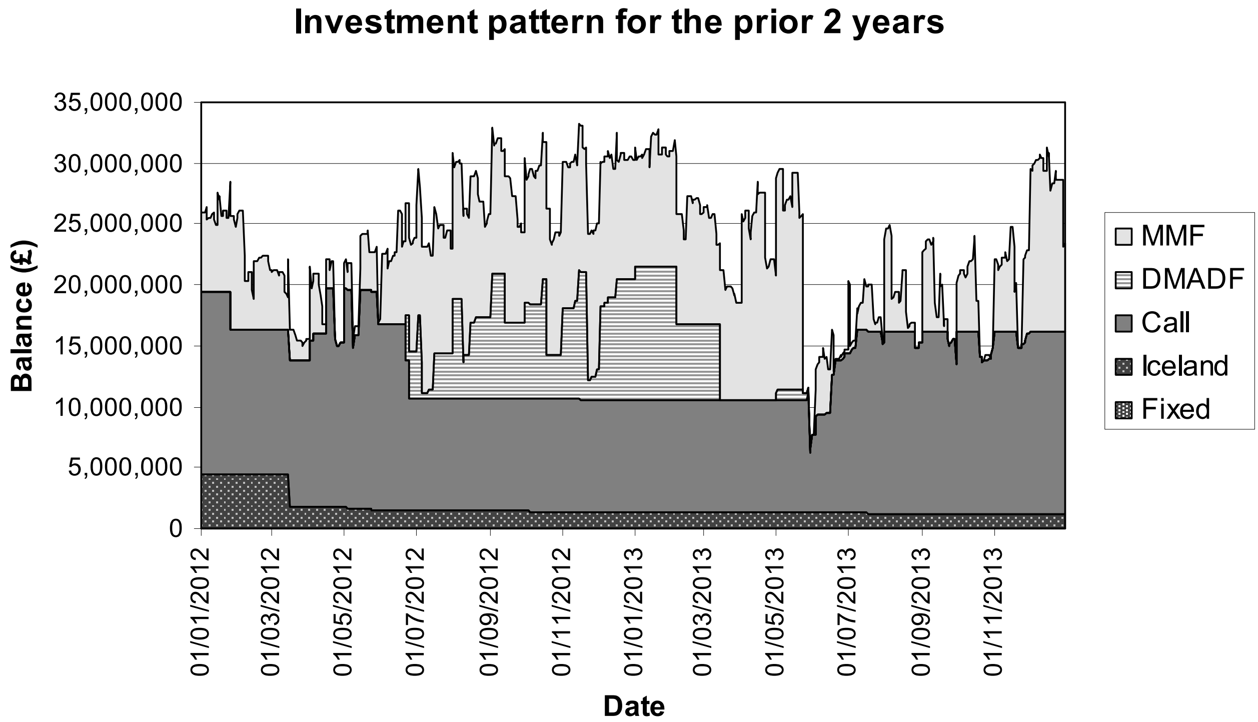


Officers continue to monitor potential saving opportunities associated with the early repayment of existing debt. This takes into account the premiums or discounts associated with early repayment and the projected cost of refinancing or loss in investment interest. At present, there are no opportunities that could generate long term savings.

5. Investing Activities

As laid down in the approved Investment Strategy, the aim is to prioritise security and liquidity of the Council's investments. This is to ensure that the Council has sufficient cash to support its business, but also to minimise any further chance of a counterparty failing and the Council not being able to remove any cash deposited.

All investment activity has been in line with the approved Treasury Strategy for 2013/14. No fixed term investments have been placed; surplus cash has been managed on a day to day basis using the call accounts and Money Market Funds (MMF). A full list of the investments at the end of Quarter 3 is shown in **ANNEX A**.



During the third quarter the Council has maximised its investment in the county call account, as far as possible. Furthermore, the account with RBS has been given preference, particularly over MMFs, due to the higher interest rate available. This consideration of return is in view of the extent of RBS' Government backing and the impact on security; it remains part-nationalised but the position is closely monitored. If backing by the Bank of England is removed, the bank's associated credit ratings and other relevant information would take precedence.

6. Summary of Budget Position and Performance

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:

Base Rate	0.500%
7 day LIBID	0.464%
Lancaster City Council investments	0.482%

In terms of performance against budget, the details are as follows:

Budget to date:	
Icelandic interest	£29K
Interest on investments	£69K
Total	£98K
Actual to date:	
Icelandic interest	£27K
Interest on investments	£71K
Total	£98K
Variance	£ 0K

The adverse variance on the Icelandic credits is due to the distributions in relation to Lancaster City Council's Landsbanki claim being less than was expected and therefore less interest has been accrued. The cash credits are slightly higher than expected as cash balances are slightly higher than expected due to operational delays associated with the capital programme.

The return is just below base rate but is better than the 7 day LIBID benchmark, which is positive given that the Council's investments are in the main on instant access. In absolute terms, the rate of return is very modest but given that the Council has continued to focus on secure and highly liquid deposits, it is considered reasonable.

7. Risk Management

There has been no material change in the policy or operation of the treasury function over the Quarter, in recognition of the considerable uncertainty that exists within the economy and financial sector. The view is, therefore, that residual counterparty risk exposure for investment remains low.

The majority of outstanding Icelandic investments relate to money held with Landsbanki, where approximately 46% is yet to be distributed. Our claim is registered in Icelandic Krona and is therefore subject to exchange rate risk. If the Icelandic Krona weakens against the British pound, less money will be recovered. There is also uncertainty over the timing of dividend payments so there is a risk of our claim being devalued due to the time value of money. There is also a large amount of money held in an escrow account relating to our investment with Glitnir. These funds again expose the Council to the above risks, however these funds are subject to the Icelandic currency controls rather than the activities of the LBI Winding up board.

There is financial risk attached to the longer term debt portfolio, associated with interest rate exposure but all of the debt is on fixed interest and there has been no change to this over the Quarter. Low investment returns mean that using cash invested to repay debt can appear more attractive, but the Council is not yet in a position to be following such a strategy.

Cash balances held with The Cooperative Bank continue to be monitored on a daily basis following the banks crisis in relation to a £1.5bn funding gap. The bank falls short of the council credit rating criteria and has not been on our approved lending list for some time. The Cooperative Bank was initially downgraded then immediately upgraded following the vote between junior bondholders to undergo a recapitalisation exercise.

8. Prudential Indicators

These indicators are prescribed by the Prudential Code to help demonstrate that the Council can finance its debt and have funds available when needed. The prudential indicators are listed in ***Appendix B*;** and have been updated to reflect the current capital position and they will be referred on to Council in due course, allowing for further updates as need be to reflect other budget changes.

9. Conclusion

Treasury activity during Quarter 3 followed in the same vein as Quarter 2. Monitoring developments linked to transactional services (and the Co-op Bank) are high on the agenda. Although the Cooperative Banks' recapitalisation has improved their credit rating viability score their control has been shifted and investors may move through a fear of ethical change within the bank.

ANNEX A

Investment Interest Earned 31 December 2013

Icelandic Investments	Opening	Closing	Rate	Cumulative Interest
Deposited 2007/08				
Landsbanki Islands	£ 465,329	£ 519,265	6.25%	£ 21,882
Glitnir	£ 629,429	£ 629,429	4.22%	£ 19,918
Deposited 2008/09				
Kaupthing, Singer & Friedlander	£ 146,104	£ 41,240	6.00%	£ 6,708
Sub total	£ 1,240,861.50	£ 1,189,933.82		£ 48,507.72

Other Investments	Opening	Min	Max	Closing	Indicative rate	Cumulative Interest £
Call: RBS	£ 3,000,000	£ 3,000,000	£ 3,000,000	£ 3,000,000	0.70%	£ 13,659
Call: Barclays	£ -	£ -	£ -	£ -	0.55%	£ 185
Call: Lancashire County Council	£ 12,000,000	£ 9,538,000	£ 12,000,000	£ 12,000,000	0.50%	£ 40,057
DMADF	£ -	£ -	£ -	£ -	0.25%	£ -
Government Liquidity MMF	£ -	£ -	£ 3,114,000	£ -	0.30%	£ 1,723
Liquidity First MMF .	£ 4,089,000	£ -	£ 6,000,000	£ 6,000,000	0.39%	£ 10,310
Insight MMF	£ -	£ -	£ 6,000,000	£ 1,274,000	0.33%	£ 5,820
Sub-total	£ 19,089,000			£ 22,274,000		£ 71,753
					Budgeted income	£ 101,336

*Under 2009 accounting guidance, interest continues to be accrued whilst Icelandic investments are on the councils balance sheet. To counter the, however, the provisions made to cover any losses take account of this accrued interest, as well as principle sums (£4.84m invested).

APPENDIX B

Treasury Management Strategy 2014/15 to 2016/17

Draft for Consideration by Cabinet 11 February 2014

1 INTRODUCTION

1.1 Background

The Council operates using detailed Revenue and Capital budgets which inform and control expenditure in line with expected income streams. Part of the treasury management operation is to ensure that this 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.

CIPFA defines treasury management as:

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

1.2 Reporting requirements

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

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

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

A mid year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision. In addition, Cabinet will receive quarterly update reports.

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.

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

1.3 Treasury Management Strategy for 2014/15

The strategy for 2014/15 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, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsibe for scrutiny. The training has been arranged to be undertaken by members on the 04 March 2014 and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

1.5 Treasury management consultants

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

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

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

2 THE CAPITAL PRUDENTIAL INDICATORS 2014/15 – 2016/17

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

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. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £m	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Non-HRA	5.32	16.98	10.17	3.91	4.03
HRA	3.89	4.87	4.79	4.93	4.66
Total	**9.21**	**21.85**	**14.96**	**8.84**	**8.69**

Other long term liabilities - the above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a borrowing need.

Capital expenditure £m	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Non-HRA	5.32	16.98	10.17	3.91	4.03
HRA	3.59	4.87	4.79	4.93	4.66
Total	8.91	21.85	14.96	8.84	8.69
Financed by:					
Capital receipts	0.44	8.10	0.99	0.68	0.42
Capital grants	1.01	3.81	1.56	0.99	1.03
Capital reserves	4.45	5.41	5.24	5.08	4.68
Revenue	0.40	0.13	0.43	0.05	0.10
Net financing need for the year	**2.60**	**4.40**	**6.18**	**2.04**	**2.46**

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 historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long term liabilities (e.g. PFI schemes, 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 £425K of vehicle leases within the CFR.

The Council is asked to approve the CFR projections below:

£m	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Capital Financing Requirement					
CFR – non housing	37.57	40.43	45.25	45.80	46.70
CFR – housing	45.51	44.47	43.43	42.39	41.35
Total CFR	83.08	84.90	88.68	88.19	88.05
Movement in CFR	-0.04	1.82	3.78	-0.49	-0.14

Movement in CFR represented by					
Net financing need for the year (above)	2.60	4.40	6.18	2.04	2.46
Less MRP/VRP and other financing movements	-2.64	-2.57	-2.40	-2.53	-2.60
Movement in CFR	-0.04	1.82	3.78	-0.49	-0.14

2.3 Minimum revenue provision (MRP) policy statement

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

CLG regulations have been issued which require the 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. The Council is recommended to approve the following MRP Statement*:*

For capital expenditure incurred before 01 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);

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

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 PFI or finance leases are applied as MRP.

2.4 Core funds and expected investment balances

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

Year End Resources £m	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Fund balances/reserves	21.42	21.16	21.30	22.02	21.45
Capital receipts	0.11	0.09	0.09	0.12	0.15
Provisions	0.51	0.42	0.42	0.42	0.42
Other					
Total core funds					
Working capital*	3.35	3.35	3.35	3.35	3.35
Under/over borrowing**	-6.59	-8.41	-12.19	-11.70	-11.56
Expected investments	18.80	16.61	12.97	14.21	13.81

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

2.5 Affordability prudential indicators

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

2.6 Ratio of financing costs to net revenue stream

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

%	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Non-HRA	16%	13%	12%	12%	13%
HRA	24%	23%	22%	22%	21%

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

2.7 Incremental impact of capital investment decisions on Council Tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

Incremental impact of capital investment decisions on the band D Council Tax

£	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Council Tax - Band D	1.46%	0.88%	5.72%	1.71%	0.47%

2.8 Estimates of the incremental impact of capital investment decisions on housing rent levels

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

Incremental impact of capital investment decisions on housing rent levels

£	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Weekly housing rent levels	0.62	0.32	2.20	0.67	0.19

This indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls.

3 BORROWING

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

3.1 Current portfolio position

The Council's treasury portfolio position at 31 March 2013, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£m	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
External Debt					
Debt at 1 April	76.11	74.43	72.59	76.94	76.63
Expected change in Debt	-0.04	1.82	3.78	-0.49	-0.14
Other long-term liabilities (OLTL)	5.49	0.42	0.24	0.13	0.04
Expected change in OLTL	-5.06	-0.19	-0.11	-0.09	-0.04
Actual gross debt at 31 March	76.49	76.49	76.50	76.49	76.49
The Capital Financing Requirement	83.08	84.90	88.68	88.19	88.05
Under / (over) borrowing	6.59	8.41	12.19	11.70	11.56

Within the prudential indicators 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 2014/15 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

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

3.2 Treasury Indicators: limits to borrowing activity

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

Operational boundary £m	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Debt	84.26	88.22	88.33	87.93
Other long term liabilities	0.42	0.24	0.13	0.04
Total	84.68	88.46	88.46	87.97

The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, whilst 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. The Council is asked to approve the following authorised limits:

Authorised limit £m	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Debt	101.00	104.00	104.00	104.00
Other long term liabilities	1.00	1.00	1.00	1.00
Total	102.00	105.00	105.00	105.00

3.3 Prospects for interest rates

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

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2013	0.50	2.50	4.40	4.40
Mar 2014	0.50	2.50	4.40	4.40
Jun 2014	0.50	2.60	4.50	4.50
Sep 2014	0.50	2.70	4.50	4.50
Dec 2014	0.50	2.70	4.60	4.60
Mar 2015	0.50	2.80	4.60	4.70
Jun 2015	0.50	2.80	4.70	4.80
Sep 2015	0.50	2.90	4.80	4.90
Dec 2015	0.50	3.00	4.90	5.00
Mar 2016	0.50	3.10	5.00	5.10
Jun 2016	0.75	3.20	5.10	5.20
Sep 2016	1.00	3.30	5.10	5.20
Dec 2016	1.00	3.40	5.10	5.20
Mar 2017	1.25	3.40	5.10	5.20

Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth has rebounded during 2013 to surpass all expectations. Growth prospects remain strong for 2014, not only in the UK economy as a whole, but in all three main sectors of services, manufacturing and construction. One downside is that wage inflation continues to remain significantly below CPI inflation so disposbale income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. A rebalancing of the economy towards exports has started but as 40% of UK exports go to the Eurozone, the difficulties in this area are likely to continue to dampen UK growth. There are, therefore, concerns that a UK recovery currently based mainly on consumer spending and the housing market, may not endure much beyond 2014. The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- Although Eurozone concerns have subsided in 2013, Eurozone sovereign debt difficulties have not gone away and there are major concerns as to how these will be managed over the next few years as levels of government debt to GDP ratios, in some countries, continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2014/15 and beyond;
- Borrowing interest rates have risen significantly during 2013 and are on a rising trend. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring even higher borrowing costs, which are now looming ever closer, where authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt, in the near future;
- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

3.4 Borrowing strategy

The Chief Officer (Resources), under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, if need be, taking into account the risks shown in the forecast above. It is likely that shorter term fixed rates may provide lower cost opportunities in the short term.

Borrowing will only be taken on once a liability has been established although the timing of the borrowing may precede the point at which the liability actually falls due for payment. This would only be done to secure a preferential position for the Council, for example to benefit from lower interest rates.

With the likelihood of rates increasing, any debt restructuring is likely to focus on switching from longer term fixed rates to cheaper shorter term debt, although the Head of Resources and treasury consultants will monitor prevailing rates for any opportunities during the year. The benefit of this will be balanced against the risks attached to the more frequent refinancing that would be required.

The option of postponing borrowing and running down investment balances will also be considered, this would have the added benefit of further reducing counterparty risk and also could improve the revenue situation with the cost of loans currently far outweighing the return on investments.

3.5 Policy on borrowing in advance of need

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

3.6 Debt rescheduling

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

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

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

All rescheduling will be reported to Cabinet at the earliest meeting following its action.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy

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

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of these reflect in the eyes of each agengy. Using our ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Furthermore, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

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

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable divesification and thus avoidance of concentration risk.

The intention of the strategy is to provide security of investment and minimisation of risk.

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

4.2 Creditworthiness policy

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Chief Officer (Resources) – S151 Officer, will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending criteria. Credit rating information is supplied by Capita Asset Services our treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

Banks 1 - Good Credit Quality

The Council will only use banks that:

- are UK banks; or
- are non-UK but are domiciled in an EU country with a long term sovereignty rating of AAA,

and have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated, as is consistent with the middle limit as per table 3):

i. Short Term: F1/P-1/A-1

ii. Long Term: A/A2/A

iii. Individual Viability / Financial Strength: bb+/C (Fitch / Moody's only)

iv. Support: 3 (Fitch only)

The ranking of these ratings is given in ANNEX B.

Banks 2 – Part nationalised UK banks

Lloyds Bank and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or if they meet the ratings in Banks 1 above. Limits on the investment term will be set at £3M for 100 days.

Banks 3 – The Council's own Banker

The bank may be used for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.

Building Societies – all Societies that meet the ratings for banks outlined above.

Money Market Funds – AAA-rated sterling funds with constant unit value.

UK Government – Debt Management Account Deposit Facility (DMADF)

Local Authorities (including Police and Fire Authorities), Parish Councils

Supranational institutions (e.g. European Central Bank)

Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part the country selection will be chosen by the credit rating of the Sovereign state in *Banks 1* above. In addition:

- no more than 25% will be placed with any one non-UK country at any time;
- limits in place above will apply to Group companies (e.g. Natwest and RBS count as a single counterparty);
- Capita Asset Services limits will be monitored.

Use of additional information other than credit ratings.

Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to investments.

The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified investments):

	Minimum across all three ratings				
	Fitch	Moody's	Standard & Poors	Money Limit[8]	Time Limiit[9]
Upper Limit[1]	F1+/AA-	P-1/AA3	A-1+/AA-	£6M	Instant access only
				£6M	100 days
Middle Limit[2]	F1/A	P-1/A2	A-1/A	£3M	Instant access only
Other Institutions[3]	N/A	N/A	N/A	£6M	1 Year
Lancashire County[4]	N/A	N/A	N/A	£12M	1 Year
Money Market Funds[5]	AAA	AAA	AAA	£6M	Instant Access Only
DMADF deposit[6]	N/A	N/A	N/A	No limit	1 Year
Sovereign rating to apply to all non UK counterparties[7]	AAA	AAA	AAA	N/A	N/A

Notes:

1 & 2: **The Upper and Middle Limits apply to appropriately rated banks and building societies.**
3: **The Other Institutions limit applies to other local authorities and supranational institutions (i.e. ECB), and part-nationalised banks.**
4: **This recognises the special status of Lancashire County Council as the City Council's upper tier authority.**
5: **Sterling, constant net asset value funds only.**
6: **The DMADF facility is direct with the UK government; it is extremely low risk.**
7: **UK counterparties are defined as those listed under UK banks or building societies in the Capita Asset Services counterparty listing.**
8: **Money limits apply to principal invested and do not include accrued interest.**
9: **Time Limits start on the trade date for the investment.**

4.3 Investment strategy

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

Investment returns expectations. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from Quarter 2 of 2016. Bank Rate forecasts for financial year ends (March) are:

- 2013/14 0.50%
- 2014/15 0.50%
- 2015/16 0.50%
- 2016/17 1.25%

There are upside risks to these forecasts (i.e. start of increases in Bank Rate occurs sooner) if economic growth remains strong and unemployment falls faster than expected. However, should the pace of growth fall back, there could be downside risk, particularly if Bank of England inflation forecasts for the rate of fall of unemployment were to prove to be too optimistic.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next four years are as follows:

2014/15	0.50%
2015/16	0.50%
2016/17	0.69%
2017/18	2.00%

4.4 Icelandic bank investments

Officers will continue to report to Cabinet on the outstanding claim balances with the failed Icelandic banks (Lansbanki and KSF). Alternative methods for recovering the outstanding claims, such as a sale of claim to a third party, will be considered and reported when required.

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 analyse credit worthiness under four headings:

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

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

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

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

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

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

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

- **Gilts** – the name given to bonds issued by the U K Government. Gilts are issued bearing interest at a specified rate, however they are then traded on the markets like shares and their value rises or falls accordingly. The Yield on a gilt is the interest paid divided by the Market Value of that gilt.

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

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

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

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

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

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

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

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

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

- **Yield** – see Gilts

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

ANNEX A2

Definitions of Specified and Non Specified Investments

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

1. Specified Investments are defined as follows.

SPECIFIED INVESTMENTS

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

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

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

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

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

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

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

2. Non-specified Investments are defined as follows:

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

Ref	Non Specified Investment Category	Limit
(i)	A body which has been provided with a government issued guarantee for wholesale deposits within specific timeframes. Where these guarantees are in place and the government has an AAA sovereign long term rating these institutions will be included within the Council's criteria temporarily until such time as the ratings improve or the guarantees are withdrawn. Monies will only be deposited within the timeframe of the guarantee.	Included as per section 4.2
(ii)	Lloyds Bank and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised.	Included as per section 4.2
(iii)	The Council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	Included as per section 4.2

ANNEX B

Background information on credit ratings

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

<u>What is a Credit Rating?</u>

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 <u>opinion</u>, not statement of fact;
- They help to measure the risk associated with investing with a counterparty;

<u>Who Provides / Uses Credit Ratings?</u>

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

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

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;

<u>Rating Criteria</u>

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.

<u>Rating Scales (Fitch, Moody's and Standard & Poors)</u>

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 C

TREASURY MANAGEMENT FRAMEWORK DOCUMENTS AND RESPONSIBILITIES
For Consideration by Cabinet 11 February 2014

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

APPENDIX D

LANCASTER CITY COUNCIL
TREASURY MANAGEMENT POLICY STATEMENT

For noting by Cabinet 11 February 2014

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

1. This organisation defines its treasury management activities as:

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

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

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