LANCASTER
CITY COUNCIL

Promoting City, Coast & Countryside

Cabinet

Tuesday, 17 February 2015

The following reports were received too late to be included on the main agenda for this meeting and were marked 'to follow'. They are now enclosed, as follows:

CABINET

Budget and Policy Framework Update – General Fund Revenue Budget and Capital Programme 17 February 2015

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 2015/16.					
Key Decision		**Non-Key Decision**		**Referral from Officer**	**X**
Date of notice of forthcoming key decision	20 January 2015				
This report is public.					

OFFICER RECOMMENDATIONS:

(1) **That Council be recommended to amend Article 4.01 of the Constitution, to read as follows:**

a) **"The Policy Framework means the following plans and strategies:**

- **Corporate Plan**
- **Community Safety Agreement**
- **Local Development Plan Documents**
- **Licensing Act 2003 Policy Statement**
- **Gambling Act 2005 Policy Statement**

- **Any other plan or strategy (whether statutory or non-statutory) in respect of which Council from time to time determines that the decision on its adoption or approval should be taken by it rather than the Cabinet.**

b) **The Budget Framework includes the allocation of financial resources to different services and projects, the setting of virement and carry forward limits for budgets, proposed contingency funds and other provisions and reserves, council tax setting and other local taxation matters, and decisions relating to the Council's treasury management activities including investments, borrowing limits and the control of capital expenditure. The Budget Framework is set out in the following:**

- **Medium Term Financial Strategy**
- **Treasury Management Framework (including relevant policies and strategies)".**

(2) That Council be recommended to approve a General Fund Revenue Budget of £17.052M for 2015/16, resulting in a Council Tax Requirement of £7.853M excluding parish precepts.

(3) That subject to any budget amendments arising in the Cabinet meeting, Council be recommended to approve:

- **the supporting budget proposals as summarised at Appendix A;**
- **the resulting position on provisions and reserves as included at Appendix B;**
- **the resulting Capital Programme as set out at Appendix C; and**
- **budget transfer (virements and carry forward) limits as set out in Appendix D.**

(4) 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 27 January and at Council on 04 February. Numerous questions were raised at both meetings but neither the Panel nor Council gave any specific feedback on budgetary matters.

1.2 Council did support Cabinet's recommendations, however, and it was resolved:

- that the 2014/15 Revised Budget be approved, with the net underspending of £816K being transferred into Balances; and
- that Council approves a City Council tax increase of 1.99% for 2015/16 together with a year on year target of 1.99% for future years, subject to local referendum thresholds.

1.3 This report builds on these points and on other updated information in order that final budget and policy framework recommendations can be made to Council on 04 March, alongside consideration of the Corporate Plan.

A <u>POLICY MATTERS</u>

2 POLICY FRAMEWORK UPDATE

2.1 By its nature, the Corporate Plan is the most significant component of the Council's policy framework and an update report is included elsewhere on the agenda.

2.2 Back in September 2014 it was reported that as part of this budget and planning exercise, proposals would also be brought forward to rationalise the policy framework listing, primarily to reflect the Council's current operations and legal obligations, whilst maintaining sound governance. Any changes arising would require full Council's approval.

2.3 This exercise has now been completed by the Monitoring Officer, with appropriate input from the rest of Management Team.

2.4 As a recap, the Council's current policy framework, as set out in Article 4 of the Constitution, comprises the following:

Annual Report (Best Value Performance Plan)	Sustainable Community Strategy
Community Safety Partnership Strategy	Community Safety Plan
Housing Strategy	Sustainability (LA21) Strategy
Local Development Plan Documents	Vision Board Strategy
Improvement Plan	Medium Term Financial Strategy
Capital Investment Strategy	

2.5 The list dates from 2001, when the new Constitution was adopted, and was based on regulations and government guidance in place at that time. It is some years since it was updated, therefore, and a number of the policies or strategies listed are either no longer required or have been subsumed into other policy or budget documents. Furthermore statutory changes are underway to remove the requirement for having a Sustainable Community Strategy.

2.6 Accordingly, the Monitoring Officer advises that, in order to update the definition of the Council's budget and policy framework, Council be recommended to amend Article 4.01 of the Constitution, to read as follows:

The Policy Framework means the following plans and strategies:

- *Corporate Plan*
- *Community Safety Agreement*
- *Local Development Plan Documents*
- *Licensing Act 2003 Policy Statement*
- *Gambling Act 2005 Policy Statement*

- *Any other plan or strategy (whether statutory or non-statutory) in respect of which Council from time to time determines that the decision on its adoption or approval should be taken by it rather than the Cabinet.*

[After Budget Framework definition] …The Budget Framework is set out in the following:

Medium Term Financial Strategy
Treasury Management Framework (including relevant policies and strategies)".

2.7 This proposed wording confirms that flexibility needs to be retained to make it clear that Council may amend the policy framework again at some point in the future. Also, the proposed wording updates the outline scope of what constitutes the budget.

B <u>BUDGET MATTERS</u>

3 LOCAL GOVERNMENT SETTLEMENT AND COUNCIL TAX THRESHOLDS

3.1 Government has now announced the final Settlement for 2015/16, which is substantially unchanged from the provisional position. Similarly the local referendum threshold for next year remains at 1.99%; council tax increases must be below this, to avoid the need to hold a local referendum.

3.2 There is one other point worthy of note. Cabinet may recall that under the provisional Settlement, its year on year reduction in spending power into 2015/16 was shown as 6.4%. This was after allowing for an adjustment in relation to Efficiency Support Grant (ESG) of around £80K. It was previously very unclear as to whether this would result in actual extra funding for the City Council, but it remains within the final Settlement and Government has now confirmed that the grant scheme will continue. In light of this, an additional £84K of Government funding has now been built into next year's budget, but as a one-off only. Like many other funding aspects, the future of ESG is not clear.

3.3 With regard to business rates retention, in the Settlement Government has attributed over £5M of the Council's baseline funding 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.

4 COLLECTION FUND POSITION: BUSINESS RATES

4.1 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).

4.2 Council tax has already been calculated and reported. For business rates, the calculation of any surplus or deficit is still very complicated, but the results can now be reported.

4.3 The estimated 2014/15 surplus on the Collection Fund in relation to business rates has been determined as £7.8M. This is mainly due to the final 2013/14 outturn being £9.3M better than originally forecast, following the re-assessment of outstanding appeals as at 31 March 2014. This was audited as part of the closure of accounts. During the current year, however, net income is expected to be around £1.5M down, and again this is due to the estimated impact of rating appeals and other income adjustments.

4.4 Even after these changes, the surplus position still allows for making provision of £15.2M for successful appeals, as at 31 March 2014. This provision is based on national average settlement figures but nonetheless, there is enormous scope for the actual settlement values to be different. This is because of the very large appeals outstanding, and the fact that some go back to the last revaluation done in 2010 and so they cover a number of years. The Valuation Office Agency, or VOA, is responsible for determining appeals. Some time ago, the Chancellor set a target of clearing 95% of outstanding appeals by July of this year and that date is fast approaching.

4.5 Now that it has been finalised, the surplus will be split between the Government and relevant precepting bodies as follows:

	£
Government Share (50%)	3,904
County (9%)	703
Fire (1%)	78
City Council (40%)	3,123
Total	**7,808**

4.6 The City Council's surplus of £3.1M must be transferred into the Revenue Budget during 2015/16, but unfortunately those monies are by no means certain. They could simply disappear, if settlement values for appeals are much higher than estimated.

4.7 The only positives to recognise are that it seems likely that the very large appeals will be settled in the coming months, rather than the 2017 timescale indicated by the VOA back in December. This shortens the period of huge uncertainty. Also, and as reported previously, if the appeals are settled at or below estimate, the City Council should have a far greater level of funds available to help with future budget setting. This is explained more in section 6.

5 2015/16 GENERAL FUND REVENUE BUDGET

5.1 Updated revenue proposals are set out at ***Appendix A***. Aside from any minor changes, the key points are listed below:

- Reports elsewhere on the agenda set out proposals in connection with Renewable Energy and with St. Leonard's House. At this stage no adjustments have been built into the revenue budget projections regarding their progression and future potential financial impact. This would be addressed later, as and when the relevant Member body makes any final decisions. On the assumption that Cabinet would wish to progress the proposals, however, some adjustments have been made to the capital programme and use of reserves, and these are touched on later.

- Separate to the above two potential initiatives, other adjustments have been made in respect of capital financing costs and earmarked reserves and these are covered in sections 6 and 8.

- Since the last Council meeting, Cabinet has given further consideration to the proposed growth in connection with the public satisfaction survey. Although the Council has various statutory obligations regarding consultation and equality, on reflection it is understood that Cabinet now wishes to meet these without the need for a comprehensive survey. Instead, other means would be used to meet any statutory obligations, and the £10K growth is to be redirected into street cleansing, but on an annual basis. This will not give the same breadth or quality of output in satisfaction survey terms, but it does give some additional resources to help maintain levels of direct service provision to the public. This change has been reflected within Cabinet's budget proposals and Cabinet is requested to ensure that the changes do indeed reflect its latest considerations.

5.2 The current budget position for 2015/16 is now balanced. 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 £17.052M for 2015/16, excluding parish precepts, and Cabinet is requested to refer this on to Council for approval.

5.3 Cabinet is now required to finalise its full budget proposals, allowing for growth, and make recommendations to Council for a balanced budget.

5.4 Setting the Revenue Budget at £17.052M will result in a 1.99% increase in the basic City Council tax rate for the district. The actual basic Band D City Council tax payable (excluding parish precepts) is expected to be £203.97, which will raise income of £7.853M 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.

6 GENERAL FUND PROVISIONS, RESERVES AND BALANCES

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

Earmarked Reserves

6.2 For earmarked Reserves, some additional changes have been actioned by the Chief Officer (Resources) as s151 Officer:

Municipal Buildings (or Corporate Property) Reserve
The Council has a number of significant property leases up for review and/or renewal in the next year or so and for some, there is uncertainty regarding the outcome. Strategic considerations are informing negotiations; this is to avoid any difficulties in ending up with short term lease arrangements to the detriment of the long term future of relevant property. To recognise this, the use of the Municipal Buildings Reserve (now to be known as the Corporate Property Reserve) has been amended slightly to allow it to be called upon to cover any in-year rental shortfalls if needed. Where this is the case, any use would be reported through normal monitoring arrangements.

Renewals Reserve
During the last year there has been more active consideration and planning in relation to the use of the Renewals Reserve; this good practice looks set to continue. As a result though the reserve balance has reduced, at least for a period. To ensure that sufficient funds are available for measures such as Salt Ayre redevelopment as an example, an extra £189K has been transferred into the reserve during 2015/16. Furthermore, funds of almost £300K are expected to remain available in the Capital Support Reserve at the end of this financial year, and so they too may be transferred into Renewals at that time.

Business Rates Retention (BRR) Reserve
This reserve is being used to manage the Council's exposure to fluctuations in business rate income. From earlier reports and comments, it is well recognised that there are enormous risks, uncertainties and potential opportunities attached to the retention scheme. The principles that drive the balance on this reserve are as follows:

- Any provisional growth and any business rate Collection Fund surpluses (due to the City Council) will be transferred into the reserve.

- Any business rate Collection Fund deficits (to be met by the City Council) will be financed from the reserve.

- Future years' budgets are based on baseline income levels as set by Government, rather than the safety net. Should income levels fall, the Reserve will be used to meet the funding gap, which is in the region of £400K per year.

- Once major appeals are settled, and as each year's accounts are finalised, any surplus funds will be transferred into Balances, and its use can then be considered in future budget setting processes.

In line with these principles, the movements on the reserve are currently estimated as follows:

	BRR Reserve	
	£000	**£000**
Balance as at 31 March 2014		1,699
2014/15:		
Less Collection Fund deficit declared in 2013/14	(1,318)	
Add net increase in retained income over safety net (after levy payments etc)	1,211	(107)
Estimated balance as at 31 March 2015		1,592
2015/16:		
Add Collection Fund surplus declared in 2014/15	3,123	
Add net increase in retained income over baseline (after levy payments etc)	576	3,699
Forecast Reserve Balance as at 31 March 2016		**5,291**
Representing:		
2015/16 Budget Exposure (above safety net)		391
2016/17 Budget Exposure (above safety net)		398
2017/18 Budget Exposure (above safety net)		406
Potential Surplus (available to support future budgets)		4,096

The level of apparent funds is huge but to put the uncertainty into context, currently the assumed success rate for appeals is based on a little under 6%. If this were to increase to 12%, then the balance on the BRR reserve would be virtually wiped out and in future years income levels would fall to safety net, meaning that budget savings requirements would increase by around £400K per year. Alternatively, it follows that is the appeals success rate is lower, then more funds would become available to the Council.

This helps to show the extremely sensitive, unusual and complex position that the Council is in – and it has little choice, other than being prudent and patient. Over time Officers have raised the difficulties through various channels with Government, but the reality is that there is no easy, straight forward fix.

Revenue Balances

6.3 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 £4.1M by the end of this financial year.

- As was adopted a year ago, the Council's policy is to use some surplus Balances to help maintain services to the public for a period, recognising that currently they are healthy and can support this. As a result, and based on Cabinet's budget proposals to date, Balances would fall by £1M to around £3.1M by 31 March 2016.

- The position assumes that that there will be no significant overspending occurring in either the current or next financial years.

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

6.5 At this stage therefore, the Chief Officer (Resources), as s151 Officer, is comfortable to advise that the level of General Fund Balances should be retained at no less than £1M on the basis that other provisions and reserves remain broadly as set out in this report. This advice covers the longer term, however, and not just the shorter term. Given future funding pressures and risks, it is expected that surplus funds above that minimum level will be needed to help address (but not resolve) the more fundamental budget challenges that are expected beyond 2015/16.

6.6 To help demonstrate this, the Council needs to make estimated savings of £3.5M of savings over two years, in very simple terms - this is just the combined total of 2016/17 and 2017/18 savings requirements. This is £1.4M more than the estimated surplus balances of £2.1M.

6.7 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.

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

- Capital financing risk exposure is manageable given progress securing capital receipts, the latest position on Luneside East Lands Tribunal, the arrangements in place to appraise fully any potential developments for renewable energy and St. Leonard's House, and future property rationalisation.

- On the other hand, risks around future revenue funding prospects are still as high and as uncertain 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 currently has a fixed life and its removal would worsen the funding outlook still further. Finally, on the downside, as other public sector partners address their own budget shortfalls, this in turn may well add further pressure onto the City Council. On the upside, however, significant additional income could arise from business rates growth.

6.8 As a very simple measure, the inherent value of the risks referred to above exceeds by far the total of all available 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.

6.9 The review of all Balances, provisions and reserves is reflected in ***Appendix B*** for Cabinet's consideration. The full policy will be presented to Budget Council.

7 GENERAL FUND CAPITAL INVESTMENT

7.1 The current draft programme for the period to 2019/20 is included at ***Appendix C.***

7.2 The draft includes a number of adjustments made since the last Cabinet meeting:

	Gross Programme	Underlying Borrowing Need: CFR
	£000	**£000**
6 Year Programme (to 2019/20) as reported to January	**36,922**	**14,337**
Key Changes:		
Albion Mills Affordable Housing s106 scheme *(delegation)*	+40	
Sainsbury's s106 pedestrian/cycle link scheme *(see agenda)*	+55	
Lancaster Square Routes Wayfinder scheme *(external funding)*	+5	
Renewable Energy Preliminary Works *(see agenda)*	+80	
Repair & Renew flood defence grants *(external funding)*	+15	
Happy Mount Park resurfacing works *(see agenda)*	+100	
Vehicle Renewals	+28	
ICT Infrastructure/software upgrades	+20	
ICT Telephony system replacement	+150	
Corporate Property Works	+637	+322
Total Changes	**+1,130**	**+322**
Resulting Draft 6 Year Capital Programme	**38,052**	**14,659**

7.3 The main points arising are as listed:

- In line with earlier comments, on the assumption that Cabinet wish to support the proposals for developing a solar farm at Middleton, preliminary costs are now included in the programme, to be financed from the Invest to Save Reserve. These would be removed if Cabinet does not approve the project.

- For St. Leonard’s House, it would be inappropriate to make any preliminary capital programme provisions at this stage.

- Both potential schemes have been covered within the supporting Prudential Indicators and Treasury Strategy included elsewhere on the agenda, however, on the assumption that Cabinet supports options for the projects and wishes to have the final decision-making role during the course of next year, rather than it being a matter for referral to Council.

- Updates have been made to the programme to reflect other items on the agenda, as well as various renewals and replacements. It is pleasing to report that the Council has just received Public Services Network (PSN) accreditation again, with far less pain than last time, and the next assessment is not due for another year. This gives space to complete some key projects, a newly scheduled one of which is the replacement of the old telephony system, which will no longer be supported after March 2016.

- The biggest change is in respect of corporate property. Additional cost pressures are being incurred for aspects such as an additional boiler for 26 St. Georges Quay (243K), the Platform roof replacement (£99K), and the Banqueting Ceiling / Accessibility improvements to Lancaster Town Hall (£200K). Many of the City Council’s buildings require specialist conservation that is complex, costly, time-consuming and therefore difficult to estimate. With the best will in the world, there will be disruption and unforeseen difficulties to be managed. Further property rationalisation should ultimately enable savings to be delivered, but at present the focus is on stabilising the condition of key buildings and facilities; the schedule of works planned in 2015/16 is included at ***Appendix D***. Consideration has been given to assuming that the works programme will reduce in the latter years, to offset the additional cost pressures, but on balance this may only store up difficulties in future and it is less than transparent.

7.4 The current year’s Revised Programme now stands at £5.531M. During the next five years, a further £32.521M of investment is planned, giving a total 6 year programme of £38.052M.

7.5 Overall the programme is balanced, allowing for a net increase of £14.659M in the underlying need to borrow (known as the Capital Financing Requirement or CFR). This has increased by £322K when compared with the position reported to January Cabinet. Other programme changes are financed by a combination of:

Section 106 monies	£95K
Invest to Save Reserve	£80K
Renewals Reserve	£613K
External Funding	£20K

7.6 As is highlighted each year, appropriate arrangements will be put in place to progress schemes, especially given the extent of further organisational change and service reviews that are either planned or underway. Inevitably though, there will be some disruption and disturbance to services and facilities.

8 BUDGET PROSPECTS FOR FUTURE YEARS (2016/17 AND BEYOND)

8.1 Indicative revenue spending and council tax forecasts for 2016/17 and 2017/18 have been reported and updated on an ongoing basis during the budget process.

8.2 The Council aims to keep basic City Council tax increases at 1.99% year on year, subject to local referendum thresholds. As a consequence, the following table sets out the key financial targets for the next three years.

Target	2015/16	2016/17	2017/18
Budget Requirement	£17.052M	£16.742M	£16.594M
Council Tax Income	£7.853M	£8.134M	£8.423M
Council Tax Increase (subject to local referendum thresholds)	1.99%	1.99%	1.99%
Year on Year Net Savings Requirement (assumes recurring savings achieved)	-	£1.476M	£0.520M
Cumulative Net Savings Requirement	-	£1.476M	£1.996M

8.3 To put the level of Balances in perspective, allowing for Cabinet's budget proposals there is almost £2.1M of balances available for use. These would run out part way through 2017/18, based on current projections and if no more savings were achieved. In this situation, the Council would have to resort to drastic, reactive service reductions, rather than having the time and funds available to deliver a planned, well-structured approach. It is possible that, for example, the business rates position goes in favour of the Council and provides much needed additional finances, but unfortunately this cannot be relied upon.

8.4 The MTFS will be updated to reflect the updated financial targets (including 2018/19 pressures), as well Cabinet's full budget proposals. Delegated authority is sought to complete this task in order that the full MTFS can be presented to Budget Council. There are no other substantive changes proposed to the MTFS, other than ensure that they include budget transfer (virement and carry forward) limits, as required under new Financial Regulations. Proposals have been drafted based on existing levels and these are attached at ***Appendix E*** for Cabinet's consideration.

8.5 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.

9 DETAILS OF CONSULTATION

9.1 This is outlined in section 1 of the report.

10 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

10.1 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.

Budget and Policy Framework
The proposals reflect minimum statutory requirements. Cabinet may request that other policies or strategies be considered as part of the policy framework, but Officers may need more time to ascertain and advise on the implications.

Revenue Budget
As Council has now determined the City Council tax rate for 2015/16, 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.

Capital Programme
Cabinet may adjust its capital investment and financing proposals to reflect spending commitments and priorities but overall its proposals for 2014/15 and 2015/16 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.*

Other Budget Framework Matters (Reserves and Provisions / MTFS)
Given known commitments, risks and approved council tax targets there is little flexibility in financial terms, but depending on their Cabinet may consider putting forward alternatives for various reserves, or different approaches for addressing the medium term budget deficit, or consider different virement and/or carry forward limits.

11 OFFICER PREFERRED OPTION AND COMMENTS

11.1 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.

12 **CONCLUSION**

12.1 This report outlines the actions required to complete the budget setting process for 2015/16 and put in place plans for tackling 2016/17 and beyond.

RELATIONSHIP TO POLICY FRAMEWORK

As covered in the report; 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, and taking a medium to longer term view.

Robustness of Estimates

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

1 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.
2 reviewing the Council's services and activities, making provision for expected changes;
3 reviewing the Council's MTFS, together with other corporate monitoring information produced during the year;
4 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 (and should be) taken into account in considering capital investment plans include the following.

- availability of capital resources, including capital grants, capital receipts, etc
- existing commitments and planned service / priority changes
- options appraisal arrangements
- 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. This could increase further than currently shown in the capital programme, if renewable energy and potentially St.Leonard's House options are taken forward, but the focus of these would be as Invest to Save initiatives, and comprehensive appraisal arrangements are in place to help ensure sound decision-making.

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**

GENERAL FUND REVENUE BUDGET : 2014/15 TO 2017/18

For Consideration by Cabinet 17 February 2015

Summary Budget Position

	2014/15	2015/16	2016/17	2017/18
	£000	£000	£000	£000
Original Revenue Budget & Projections	**18,540**	**17,877**	**19,154**	**0**
Allowing for budgeted use of Balances	*(458)*	*(1,000)*	*0*	*0*
Base Budget Changes previously reported	(816)	(1,180)	(904)	18,613
Latest Base Budget Changes:				
Capital Programme financing - reprofiling & scheme updates	0	(92)	(77)	(34)
Efficiency Support Grant - see report	0	(84)	0	0
Employee Costs - further staffing changes	0	(11)	(11)	(11)
Other minor adjustments	0	(7)	(14)	(16)
Growth Proposals for Consideration				
PCSO's	0	99	0	0
Fees & Charges - Car Parking: Charging Freeze	0	18	19	19
Beyond the Castle - Maintenance	0	8	8	8
Empty Homes Officer	0	25	34	0
Empty Homes Improvements Funding	0	200	0	0
Street Cleansing	0	10	10	10
Renewable Energy		See reports elsewhere on agenda		
St.Leonard's House				
Provisions and Reserves Review	0	189	0	0
Additional Contribution to/(from) Balances	816	0	0	0
Latest Net Revenue Budget Forecast	**18,540**	**17,052**	**18,218**	**18,590**
Funding Assumptions:				
Revenue Support Grant	**(5,700)**	**(3,861)**	**(3,298)**	**(2,754)**
Retained Business Rates - Baseline Funding Level	**(5,110)**	**(5,207)**	**(5,311)**	**(5,417)**
Estimated Collection Fund Surplus	**(131)**	**(131)**	**0**	**0**
COUNCIL TAX REQUIREMENT	**7,599**	**7,853**	**9,610**	**10,419**
TARGET COUNCIL TAX REQUIREMENT *(To fit with a council tax increase of 1.99% per year)*	7,599	7,853	8,134	8,423
Potential Savings Requirement	**0**	**0**	**1,476**	**1,996**

Impact on Council Tax

	2014/15	2015/16	2016/17	2017/18
Tax Base Projections	***38,000***	***38,500***	***39,100***	***39,700***
Band D City Council Tax Rate - MTFS Targets	**£199.99**	**£203.97**	**£208.03**	**£212.17**
Percentage Increase Year on Year	*1.99%*	*1.99%*	*1.99%*	*1.99%*
Current Council Tax Projections	**£199.99**	**£203.97**	**£245.77**	**£262.44**
Percentage Increase Year on Year	*1.99%*	*1.99%*	*20.49%*	*6.78%*

General Fund Unallocated Balances

	£M
Original projected balance as at 31 March 2014	**3.436**
Add: 2013/14 underspend	0.277
Less: Budgeted Contribution for 2014/15	(0.458)
Add: Current Projected Underspend	0.816
Latest Projected Balance as at 31 March 2015	**4.071**
Less: Current Minimum Level	(1.000)
Less: Budgeted Contribution for 2015/16	(1.000)
Amount Available to Support Future Years' Budgets	**2.071**

	£M
Amount available	**2.071**
Less 2016/17 savings requirement	(1.476)
Amount still available at 31/03/17	**0.596**
Less 2017/18 savings requirement	(1.996)
Savings still to be found in 2017/18	**(1.400)**

Note: If balances are simply applied to future savings requirements then they will effectively run out before the end of 2017/18.

Appendix B

RESERVES AND PROVISIONS STATEMENT (INCLUDING BALANCES)

For Consideration by Cabinet 17 February 2015

GENERAL FUND	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	Contributions to Reserve	Contribution from Reserve		31/03/18
		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	**3,713,249**	358,000			**4,071,249**			(1,000,000)	**3,071,249**				**3,071,249**				**3,071,249**
Earmarked Reserves:																	
Apprenticeships	**34,873**	29,200		(29,100)	**34,973**	21,200		(19,600)	**36,573**	21,200		(4,500)	**53,273**	21,200			**74,473**
Business Rates Retention	**1,699,258**	1,210,500		(1,317,800)	**1,591,958**	3,699,300			**5,291,258**				**5,291,258**				**5,291,258**
Capital Support	**469,104**		(159,000)		**310,104**				**310,104**				**310,104**				**310,104**
City Lab	**14,987**			(14,987)	**0**				**0**				**0**				**0**
Elections	**0**				**0**				**0**	30,000			**30,000**	30,000			**60,000**
Highways	**213,283**				**213,283**				**213,283**				**213,283**				**213,283**
Homelessness Support	**50,956**			(38,100)	**12,856**				**12,856**				**12,856**				**12,856**
Invest to Save	**1,514,350**		(20,000)	(18,800)	**1,475,550**		(60,000)		**1,415,550**				**1,415,550**				**1,415,550**
Local Plan	**23,160**			(23,160)	**0**				**0**				**0**				**0**
Markets	**9,599**	50,000			**59,599**				**59,599**				**59,599**				**59,599**
Morecambe Area Action Plan (MAAP)	**15,893**	215,000	(90,000)	(15,000)	**125,893**			(35,000)	**90,893**				**90,893**				**90,893**
Municipal Buildings	**386,298**			(44,000)	**342,298**				**342,298**				**342,298**				**342,298**
Open Spaces Commuted Sums	**163,828**			(35,400)	**128,428**			(24,400)	**104,028**			(22,500)	**81,528**			(22,500)	**59,028**
Performance Reward Grant	**39,670**			(27,670)	**12,000**			(12,000)	**0**				**0**				**0**
Renewals (all services)	**930,484**	401,500	(686,900)	(204,900)	**440,184**	605,400	(626,500)	(101,300)	**317,784**	402,800	(96,000)	(37,000)	**587,584**	402,300	(230,000)	(23,400)	**736,484**
Restructuring	**602,922**				**602,922**				**602,922**				**602,922**				**602,922**
S106 Commuted Sums - Affordable Housing	**700,493**	231,800	(302,400)		**629,893**		(90,000)		**539,893**				**539,893**				**539,893**
S106 Commuted Sums - Highways, crossing & cycle paths	**532,688**		(52,700)	(13,700)	**466,288**		(194,500)	(12,700)	**259,088**		(4,000)	(500)	**254,588**				**254,588**
Welfare Reforms	**257,000**	26,900			**283,900**			(18,900)	**265,000**				**265,000**				**265,000**
Youth Games	**2,914**	15,000			**17,914**	15,000			**32,914**	15,000			**47,914**	15,000			**62,914**
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	**7,731,639**	**2,179,900**	**(1,311,000)**	**(1,782,617)**	**6,817,922**	**4,340,900**	**(971,000)**	**(223,900)**	**9,963,922**	**469,000**	**(100,000)**	**(64,500)**	**10,268,422**	**468,500**	**(230,000)**	**(45,900)**	**10,461,022**

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	31/03/14	Contributions to Reserve	Payments from Reserve	31/03/15
	£	£	£	£
Bad Debts	**1,102,243**	200,000	(250,000)	**1,052,243**
Legal	**175,000**			**175,000**
Insurance	**318,828**	126,750	(199,174)	**246,404**
Total Provisions	**1,596,071**	**326,750**	**(449,174)**	**1,473,647**

Appendix C

GENERAL FUND CAPITAL PROGRAMME - For consideration by Cabinet 17 February 2015

Service / Scheme	2014/15 Gross Budget	2014/15 External Funding	2014/15 Net Programme	2015/16 Gross Budget	2015/16 External Funding	2015/16 Net Programme	2016/17 Gross Budget	2016/17 External Funding	2016/17 Net Programme	2017/18 Gross Budget	2017/18 External Funding	2017/18 Net Programme	2018/19 Gross Budget	2018/19 External Funding	2018/19 Net Programme	2019/20 Gross Budget	2019/20 External Funding	2019/20 Net Programme	6 YEAR PROGRAMME Total Gross Programme	6 YEAR PROGRAMME Total External Funding	6 YEAR PROGRAMME Total Net Programme
Environmental Services	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Allotments	27,000		27,000			0			0			0			0			0	27,000	0	27,000
Vehicle Renewals	812,000		812,000	780,000		780,000	922,000		922,000	1,531,000		1,531,000	126,000		126,000	2,147,000		2,147,000	6,318,000	0	6,318,000
Vehicle Tracking System	105,000		105,000			0			0			0			0			0	105,000	0	105,000
Bins & Boxes Scheduled Buy-Outs	12,000		12,000	21,000		21,000	74,000		74,000	50,000		50,000			0			0	157,000	0	157,000
Toilet Works	126,000		126,000			0			0			0			0			0	126,000	0	126,000
Car Parks Improvement Programme	320,000	25,000	295,000	200,000		200,000			0			0			0			0	520,000	25,000	495,000
District Playground Improvements	125,000	125,000	0			0			0			0			0			0	125,000	125,000	0
Middleton Solar Farm Feasibility Study	20,000		20,000	60,000		60,000													80,000	0	80,000
Happy Mount Park - Pathway Replacements			0	20,000		20,000	20,000		20,000	20,000		20,000	20,000		20,000	20,000		20,000	100,000		100,000
Williamson Park Improvements & Enhancements			0	75,000		75,000			0			0			0			0	75,000	0	75,000
Health and Housing																					
Disabled Facilities Grants (2015/16 onwards to be confirmed)	869,000	869,000	0	783,000	783,000	0	783,000	783,000	0	783,000	783,000	0	783,000	783,000	0	783,000	783,000	0	4,784,000	4,784,000	0
Warmer Homes Scheme	37,000		37,000			0			0			0			0			0	37,000	0	37,000
Salt Ayre Sports Centre - Replacements & Refurbishments			0	30,000		30,000			0			0			0			0	30,000	0	30,000
Regeneration and Planning																					
Toucan Crossing - King Street	13,000		13,000			0			0			0			0			0	13,000	0	13,000
Dalton Square Christmas Lights (Renewal)			0	28,000		28,000			0			0			0			0	28,000	0	28,000
Sea & River Defence Works & Studies	340,000	325,000	15,000	1,020,000	989,000	31,000	1,709,000	1,679,000	30,000	2,122,000	2,092,000	30,000	1,652,000	1,622,000	30,000	2,711,000	2,690,000	21,000	9,554,000	9,397,000	157,000
Amenity Improvements (Morecambe Promenade)	31,000	3,000	28,000			0			0			0			0			0	31,000	3,000	28,000
Luneside East	25,000		25,000			0			0			0			0			0	25,000	0	25,000
Lancaster Square Routes	1,317,000	1,010,000	307,000	5,000	5,000	0			0			0			0			0	1,322,000	1,015,000	307,000
Morecambe THI2: A View for Eric	432,000	328,000	104,000	471,000	353,000	118,000	219,000	166,000	53,000			0			0			0	1,122,000	847,000	275,000
Improving Morecambe's Main Streets	120,000		120,000	330,000		330,000			0			0			0			0	450,000	0	450,000
Aldcliffe Road Canal Side Access Improvements s106 scheme	20,000		20,000			0			0			0			0			0	20,000	0	20,000
Albion Mills Affordable Housing s106 scheme	40,000		40,000			0			0			0			0			0	40,000		40,000
Brindle Close Affordable Housing s106 scheme	80,000		80,000			0			0			0			0			0	80,000	0	80,000
Riversview Hostel Affordable Housing s106 scheme	132,000		132,000			0			0			0			0			0	132,000	0	132,000
King St/Wellington Terrace Affordable Housing s106 Scheme	90,000		90,000	90,000		90,000			0			0			0			0	180,000	0	180,000
Middleton Nature Reserve S106 Scheme	11,000		11,000	17,000		17,000	4,000		4,000			0			0			0	32,000	0	32,000
Sainsbury's section 106 pedestrian/cycle links Morcambe	5,000		5,000	50,000		50,000			0			0			0			0	55,000	0	55,000
Adactus Top up Grants	159,000		159,000			0			0			0			0			0	159,000	0	159,000
Bold Street Housing Regeneration Site Works	391,000		391,000			0			0			0			0			0	391,000	0	391,000
Chatsworth Gardens	300,000		300,000	1,578,000		1,578,000			0			0			0			0	1,878,000	0	1,878,000
Resources																					
ICT Systems, Infrastructure & Equipment	404,000		404,000	479,000		479,000	76,000		76,000	210,000		210,000	226,000		226,000	84,000		84,000	1,479,000	0	1,479,000
Corporate Property Works	1,903,000	10,000	1,893,000	2,771,000		2,771,000	1,925,000		1,925,000	1,978,000		1,978,000			0			0	8,577,000	10,000	8,567,000
GENERAL FUND CAPITAL PROGRAMME	8,266,000	2,695,000	5,571,000	8,808,000	2,130,000	6,678,000	5,732,000	2,628,000	3,104,000	6,694,000	2,875,000	3,819,000	2,807,000	2,405,000	402,000	5,745,000	3,473,000	2,272,000	38,052,000	16,206,000	21,846,000
Financing :																					
Specific Grants and Contributions	2,695,000			2,130,000			2,628,000			2,875,000			2,405,000			3,473,000			16,206,000		
General Capital Grants	37,000			0			0			0			0			0			37,000		
Capital Receipts	2,078,000			630,000			370,000			370,000			0			0			3,448,000		
Direct Revenue Funding	495,000			51,000			104,000			50,000			0			0			700,000		
Earmarked Reserves	1,351,000			971,000			100,000			230,000			246,000			104,000			3,002,000		
	6,656,000			3,782,000			3,202,000			3,525,000			2,651,000			3,577,000			23,393,000		
Increase / Reduction (-) in Capital Financing Requirement (CFR) (Underlying Change in Borrowing Need)	1,610,000			5,026,000			2,530,000			3,169,000			156,000			2,168,000			14,659,000		
TOTAL FINANCING	8,266,000			8,808,000			5,732,000			6,694,000			2,807,000			5,745,000			38,052,000		
SHORTFALL / SURPLUS (-)	0			0			0			0			0			0			0		

Appendix D

Corporate Property Works Programme - 2015/16

	2015/16 £	Summary of Works
Morecambe Festival Market	28,000	General building works, damaged ceilings, electrical services, floor works, redecoration and minor roof works.
City Museum	186,000	Urgent works only at this stage: roof works, redirection of internal rain water system to external, stone pointing and plaster works. The remaining identified works will be completed following result of HLF bid.
CityLab, 4-5 Dalton Square	49,000	General building works, decoration, floor surfaces, external stone lime based pointing.
Customs House, St. George's Quay	149,000	General building works, plaster walls & ceilings, internal & external decoration, plywood panelling, floor tiles, external stone lime based pointing, roof works - flashings, fascias & barge boards.
60 Euston Road	27,000	Sanitary services, external walls & doors, decorations & roof works.
Platform	138,000	Internal walls & doors, floor stairs & surface, roof valley lead replacement.
Lancaster Cemetery - West Chapel	6,000	Internal walls & doors, floor, stairs, surface & electrical .
Lancaster Town Hall	500,000	Disabled access, general building works, rewire ground floor lighting, remove & replace loose marble, re-plaster walls and cracked ceilings, redecoration.
Lancaster Town Hall - Walls, Gate Piers and Gates	3,000	Retention.
Stone Jetty Café	23,000	Sanitary services, external walls & doors, decorations & roof works.
Ryelands Park - Former Old Man's Rest Building	12,000	Painting windows, pointing, brick work and replacement fascias.
Ryelands Park - Pavilion	35,000	Building works, roof and gutters works.
Ryelands Park - Ryelands house	121,000	General building works, internal and external walls, doors and windows works, roof works & sanitary services.
Salt Ayre Sports Centre	391,000	Air conditioning replacement, roof works internal floor walls doors replacement works, external areas.
26 St. George's Quay	37,000	Internal walls & doors, floor, stairs, surface and electrical works.
Storey Institute	123,000	General building works, plaster walls & ceilings, internal & external decoration, plywood panelling, floor tiles, external stone works, lime based pointing, roof works - flashings fascias barge boards.
Storey Institute - Back Entrance	12,000	External walls doors & window works, paving.
Storey Institute - Gate Piers, Steps & Wall	10,000	External areas.
White Lund Depot - Garden Centre	39,000	Electrical services, external walls door & window works.
White Lund Depot - Lawn Mower Stores	15,000	External areas, roof works.
Williamson Park - Ashton Memorial	533,000	External areas, walls, doors & window works, decoration, pointing and roof works.
Williamson Park - Butterfly House	124,000	External works, emergency roof works, fascias gutters etc
Williamson Park - Perimeter Wall	198,000	External areas, rebuild & repointing walls.
Williamson Park - Shelters	12,000	External areas, re-pointing walls, fascias gutters decorations.
	2,771,000	

Appendix E

Budget Transfers (Virements and Carry Forwards)

Proposed 2015/16 Limits for Consideration by Cabinet

1 **Purpose and Scope**

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

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

2 **Virements**

2.1 The term covers in-year transfers between budget headings. For example, high staff turnover may result in an interim need to buy in additional external support or services. This would require a virement from the salaries budget, into the relevant supplies & services budget.

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

2.3 Following changes to the Financial Regulations, this is the first year that annual virement limits are to be se. To keep matters simple, the limits proposed mirror the basic limits set out under the old Financial Regulations, but they have been simplified.

2.4 With the agreement of the s151 Officer, Chief Officers (or their nominated representatives) may approve virements between budgets under their control, subject to the following limits:

Delegated limit	2015/16
Total virement on any **expenditure** heading in any one financial year must not exceed:	£10,000
Total virement on any **income** heading in any one financial year must not exceed the following percentage of any additional income generated (over the approved budget); and must not exceed:	50% £10,000

2.5 Proposed virements above these limits, that otherwise fall within the approved budget and policy framework, must be considered by Cabinet.

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

3 Treatment of Year-end Balances

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

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

Overspends

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

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

Underspends

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

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

CABINET

Treasury Management Strategy 2015/16
17 February 2015

Report of Chief Officer (Resources)

PURPOSE OF REPORT					
This report sets out the 2015/16 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	20 January 2015				
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 Code of Practice on Treasury Management ("the Code") requires that a strategy outlining the expected Treasury activity for the forthcoming 3 years be adopted, but that it be reviewed at least annually. It needs to reflect treasury policy and cover various forecasts and activities, in order to integrate the Council's spending and income plans with decisions about investing and borrowing.

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

2 **TREASURY MANAGEMENT FRAMEWORK**

2.1 The proposed Strategy for 2015/16 to 2017/18 is set out at ***Appendix A*** 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 B*** and the policy statement is presented at ***Appendix C***.

2.2 Key elements and assumptions feeding into the proposals are outlined below. These take account of Cabinet's existing budget proposals, as far as possible at this stage, but there has been 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 remain fairly constant over the next three years, allowing for scheduled repayments. It is also projected that the HRA capital programme will not require any additional borrowing.

2.3.2 This position is based on the Council's capital spending and its provisions, reserves and balances being in line with forecasts. If cash payments increase significantly beyond this – for example, if key rating appeals are successful, and early additional demands on reserves such as Invest to Save/Council Housing business support come through - then the debt position may need to be varied accordingly. If so, additional Council approval would be sought if appropriate.

2.4 Investment Aspects of the Strategy

2.4.1 Overall, the strategy put forward follows on from 2014/15 in that it is based on the Council having a comparatively low risk appetite with focus on high quality deposits. However, the parameters that are used to appraise the quality of deposits has been broadened. The 2014/15 strategy included a matrix that stated a minimum credit criteria based on the three main credit rating agencies. Therefore in order to give more flexibility whilst still maintaining security, a new system is now being proposed, which is provided by the Council's treasury advisors (Capita Asset Services). This ranks counterparties creditworthiness using the scores given by the agencies but supplements these with the following overlays:

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

Considering more parameters, in particular Credit Default Swaps (CDS), gives an insight into the wider market opinion on the quality of a deposit as a CDS can be viewed as an insurance policy against a counterparty defaulting on a deposit agreement.

2.4.2 The investment policy also extends the maximum term available for fixed term deposits, which runs in tandem with the suggested durations published by Capita Asset Services. Risks attached to security will be mitigated through the system outlined above. Liquidity risks will be mitigated through a limit on the percentage of the investment portfolio that can be invested for longer than 1 day. In terms of the returns, currently the opportunity cost of keeping investments in overnight deposit accounts currently stands at around £36K (based on a £6m investment with Lloyds vs the best performing Money Market Fund during 14/15).

3 CONSULTATION

3.1 Officers have liaised with Capita Asset Services, 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 A, but these would have to be considered in light of legislative, professional and economic factors, and importantly, any alternative views regarding the Council's risk appetite. As such no further options analysis is available at this time.

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

5 OFFICER PREFERRED OPTION AND JUSTIFICATION

5.1 To approve the framework as attached, allowing for any amendments being made under delegated authority prior to referral to Council. This is based on the Council continuing to have a low risk appetite regarding the security and liquidity of investments particularly, but recognising that more flexibility should help improve returns, whilst still effectively mitigating risk. 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 better, more flexible framework within which to work over the coming year.

RELATIONSHIP TO POLICY FRAMEWORK This report seeks minor changes to the Council's Treasury Management Policy, and fits with the proposed Medium Term Financial Strategy.	
CONCLUSION OF IMPACT ASSESSMENT **(including Diversity, Human Rights, Community Safety, Sustainability etc)** No direct implications arising.	
FINANCIAL IMPLICATIONS The Strategy is in support of achieving the borrowing cost and investment interest estimates included in the budget.	
SECTION 151 OFFICER'S COMMENTS The section 151 Officer has produced this report, on behalf of Cabinet. Her comments and advice are reflected accordingly.	
LEGAL IMPLICATIONS There are no legal implications arising from this report.	
MONITORING OFFICER'S COMMENTS The Monitoring Officer has been consulted and has no further comments to add.	
BACKGROUND PAPERS None	**Contact Officer: Nadine Muschamp** **Telephone:01524 582117** **E-mail:nmuschamp@lancaster.gov.uk**

Appendix A

Treasury Management Strategy 2015/16 to 2017/18

For Consideration by Cabinet 17 February 2015

1 INTRODUCTION

1.1 Background

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

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

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

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

1.2 Reporting requirements

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

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

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

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

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

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

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

1.3 Treasury Management Strategy for 2015/16

The strategy for 2015/16 covers two main areas:

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

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

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

1.4 Training

The CIPFA Code requires the Chief Officer (Resources) to ensure that Members with responsibility for treasury management receive adequate asssociated training. This especially applies to Members responsibe for scrutiny. The first training session has been arranged for Members on 21 July 2015 (linked to the Budget and Performance Panel meeting) 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 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 2015/16 – 2017/18

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.

The table below provides that summary, showing how the plans are being financed by capital or revenue resources. Any shortfall of resources results in a borrowing need.

Capital expenditure	2013/14 Actual £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
Non-HRA	15.95	8.27	8.81	5.73	6.69
HRA	4.28	4.97	5.12	4.88	4.88
Total	**20.23**	**13.24**	**13.93**	**10.61**	**11.57**
Financed by:					
Capital receipts	8.25	2.13	0.68	0.42	0.42
Capital grants	3.33	2.73	2.13	2.63	2.88
Capital reserves	5.53	6.27	6.05	4.94	5.07
Revenue	0.1	0.50	0.05	0.10	0.05
Net financing need for the year	**3.02**	**1.61**	**5.03**	**2.53**	**3.16**

2.2 The Council's borrowing need (the Capital Financing Requirement)

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

The CFR does not increase indefinitely. This is because the Minimum Revenue Provision (MRP), which is a statutory annual charge to revenue, helps offset any annual increases.

The CFR includes any other long term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £427K of vehicle leases within the CFR.

The Council is asked to approve the following CFR projections:

	2013/14 Actual £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
Capital Financing Requirement					
CFR – non housing	33.98	34.02	37.25	37.74	38.68
CFR – housing	44.47	43.43	42.39	41.35	40.31
Total CFR	**78.45**	**77.45**	**79.64**	**79.09**	**78.98**
Movement in CFR	**(0.88)**	**(0.99)**	**2.19**	**(0.55)**	**(0.11)**

Movement in CFR represented by					
Net financing need for the year (above)	3.02	1.61	5.03	2.53	3.16
Less MRP/VRP and other financing movements	(3.90)	(2.60)	(2.84)	(3.08)	(3.27)
Movement in CFR	**(0.88)**	**(0.99)**	**2.19**	**(0.55)**	**(0.11)**

2.3 Minimum revenue provision (MRP) policy statement

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

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

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

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

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

For capital expenditure incurred before 01 April 2008, MRP was generally based on a 4% charge on revenue except for vehicles, which had MRP calculated using an asset life basis.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

Repayments included in annual finance leases are applied as MRP.

2.4 Core funds and expected investment balances

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

Year End Resources	2013/14 Actual £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
Fund balances / reserves	23.40	22.45	23.70	23.94	24.13
Capital receipts	0.00	0.00	0.00	0.00	0.00
Provisions	2.05	1.96	1.96	1.96	1.96
Other					
Total core funds	**25.45**	**24.41**	**25.66**	**25.90**	**26.09**
Working capital*	6.41	6.41	6.41	6.41	6.41
Under/over borrowing	(9.65)	(9.88)	(13.23)	(13.84)	(14.78)
Expected investments	**22.21**	**20.94**	**18.85**	**18.47**	**17.73**

*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.

	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Non-HRA	64%	15%	17%	17%	18%
HRA	23%	23%	22%	21%	20%

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 five 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

	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Council tax -	(9.36)%	(4.87)%	(13.43)%	3.36%	1.47%

band D					

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

	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Weekly housing rent levels	£(3.45)	£(1.88)	£(5.34)	£1.38	£0.63

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 2014 and 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.

	2013/14 Actual £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
External Debt					
Debt at 1 April	69.41	68.37	67.33	66.29	65.24
Expected change in Debt	(1.04)	(1.04)	(1.04)	(1.04)	(1.04)
Other long-term liabilities (OLTL)	5.67	0.43	0.24	0.13	0.04
Expected change in OLTL	(5.25)	(0.19)	(0.11)	(0.13)	(0.04)
Actual gross debt at 31 March	**68.80**	**67.57**	**66.42**	**65.25**	**64.20**
The Capital Financing	**78.45**	**77.45**	**79.64**	**79.09**	**78.98**

Requirement					
Under / (over) borrowing	**9.65**	**9.88**	**13.22**	**13.84**	**14.78**

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 the budget report.

3.2 Treasury Indicators: limits to borrowing activity

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

Operational boundary	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
Debt	76.99	86.89	86.43	86.36
Other long term liabilities	0.24	0.13	0.04	0.00
Total	77.23	87.02	86.47	86.36

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

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

Authorised limit	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
Debt	93.00	103.00	102.00	102.00
Other long term liabilities	1.00	1.00	1.00	1.00
Total	94.00	104.00	103.00	103.00

3.3 Prospects for interest rates

The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the central view *(January 2015).*

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Mar 2015	0.50	2.20	3.40	3.40
Jun 2015	0.50	2.20	3.50	3.50
Sep 2015	0.50	2.30	3.70	3.70
Dec 2015	0.75	2.50	3.80	3.80
Mar 2016	0.75	2.60	4.00	4.00
Jun 2016	1.00	2.80	4.20	4.20
Sep 2016	1.00	2.90	4.30	4.30
Dec 2016	1.25	3.00	4.40	4.40
Mar 2017	1.25	3.20	4.50	4.50
Jun 2017	1.50	3.30	4.60	4.60
Sep 2017	1.75	3.40	4.70	4.70
Dec 2017	1.75	3.50	4.70	4.70
Mar 2018	2.00	3.60	4.80	4.80

UK GDP growth surged during 2013 and the first half of 2014. Since then it appears to have subsided somewhat but still remains strong by UK standards and is expected to continue likewise into 2015 and 2016. There needs to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this recovery to become more firmly established. One drag on the economy has been that wage inflation has only recently started to exceed CPI inflation, so enabling disposable income and living standards to start improving. The plunge in the price of oil brought CPI inflation down to a low of 1.0% in November, the lowest rate since September 2002. Inflation is expected to stay around or below 1.0% for the best part of a year; this will help improve consumer disposable income and so underpin economic growth during 2015. However, labour productivity needs to improve substantially to enable wage rates to increase and further support consumer disposable income and economic growth. In addition, the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases, though current views on the amount of hidden slack in the labour market probably means that this is unlikely to happen early in 2015.

The US, the biggest world economy, has generated stunning growth rates of 4.6% (annualised) in Q2 2014 and 5.0% in Q3. This is hugely promising for the outlook for strong growth going forwards and it very much looks as if the US is now firmly on the path of full recovery from the financial crisis of 2008. Consequently, it is now confidently expected that the US will be the first major western economy to start on central rate increases by mid 2015.

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

- Greece: the general election on 25 January 2015 brought a government to power which is anti EU and anti austerity. However, if this eventually results in Greece leaving the Euro, it is unlikely that this will directly destabilise the Eurozone as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece. However, the indirect effects of the likely strenthening of anti EU and anti austerity political parties throughout the EU is much more difficult to quantify.

- As for the Eurozone in general, concerns in respect of a major crisis subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, and worries over the Ukraine situation, Middle East and Ebola, have led to a resurgence of those concerns as risks increase that it could be heading into deflation and prolonged very weak growth. Sovereign debt difficulties have not gone away and major concerns could return in respect of individual countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could 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 2015/16 and beyond.

- Borrowing interest rates have been volatile during 2014 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. The closing weeks of 2014 saw gilt yields dip to historically remarkably low levels after inflation plunged, a flight to quality from equities (especially in the oil sector), and from the debt and equities of oil producing emerging market countries, and an increase in the likelihood that the ECB will commence quantitative easing (purchase of EZ government debt) in early 2015. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt.

- 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 Chief Officer (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 continue to be considered. This has the added benefit of further reducing counterparty risk and could continue help the revenue budget, with the cost of loans currently far outweighing the return on investments.

Treasury management limits on activity

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

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

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

	2015/16	2016/17	2017/18
Interest rate exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	30%	30%	30%

Maturity structure of fixed interest rate borrowing 2015/16	
Under 12 months	2%
12 months and within 24 months	2%
24 months and within 5 years	3%
5 years and within 10 years	8%
10 years and within 15 years	8%
15 years and within 25 years	15%
25 years and within 50 years	63%

3.5 Policy on borrowing in advance of need

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

3.6 Debt rescheduling

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

The reasons for any rescheduling to take place will include:

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

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

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

4 ANNUAL INVESTMENT STRATEGY

4.1 Introduction: changes to credit rating methodology

The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. More recently, in response to the evolving regulatory regime, the agencies have indicated they may remove these "uplifts". This process may commence during 2014/15 or 2015/16. The actual timing of the changes is still subject to discussion, but this does mean immediate changes to the credit methodology are required.

It is important to stress that the rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, merely the implied level of sovereign support that has been built into ratings through the financial crisis. The eventual removal of implied sovereign support will only take place when the regulatory and economic environments have ensured that financial institutions are much stronger and less prone to failure in a financial crisis.

Both Fitch and Moody's provide "standalone" credit ratings for financial institutions. For Fitch, it is the Viability Rating, while Moody's has the Financial Strength Rating. Due to the future removal of sovereign support from institution assessments, both agencies have suggested going forward that these will be in line with their respective Long Term ratings. As such, there is no point monitoring both Long Term and these "standalone" ratings.

Furthermore, Fitch has already begun assessing its support ratings, with a clear expectation that these will be lowered to 5, which is defined as "A bank for which there is a possibility of external support, but it cannot be relied upon." With all institutions likely to drop to these levels, there is little to no differentiation to be had by assessing Support ratings.

4.2 Investment policy

The Council's investment policy has regard to Central Government'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, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties that also enables diversification and thus avoidance of concentration risk.

Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to institutions. In future therefore, the key ratings to be used to monitor counterparties will be Short Term and Long Term ratings only. Viability, Financial Strength and Support Ratings previously applied will effectively become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.

As with previous practice, ratings will 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" (CDS) 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.

Investment instruments identified for use in the financial year are listed in appendix 5.3 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices.

4.3 Creditworthiness policy

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

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

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

- **Yellow** 1 years
- **Dark pink** 1 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- **Light pink** 1 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- **Purple** 1 year
- **Blue** 1 year (only applies to nationalised or semi nationalised UK Banks)
- **Orange** 1 year
- **Red** 6 months
- **Green** 100 days
- **No colour** not to be used

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long term rating where applicable)	**Money Limit**	**Time Limit**
Banks /UK Govt. backed instruments*	**yellow**	**£12m**	**1 yr**
Banks	**purple**	**£6m**	**1 yr**
Banks	**orange**	**£3m**	**1 yr**
Banks – part nationalised	**blue**	**£10m**	**1 yr**
Banks	**red**	**£2m**	**6 mths**
Banks	**green**	**£1m**	**100 days**
Banks	**No colour**	**Not to be used**	
Limit 3 category – Council's banker (for non-specified investments)	**n/a**	**£500K**	**1 day**
DMADF	**AAA**	**unlimited**	**6 months**
Local authorities	**n/a**	**£12m**	**1 yr**
	Fund rating	**Money and/or % Limit**	**Time Limit**
Money market funds	**AAA**	**£6m**	**liquid**
Enhanced money market funds with a credit score of 1.25	**Dark pink / AAA**	**£6m**	**liquid**

Enhanced money market funds with a credit score of 1.5	**Light pink / AAA**	**£6m**	**liquid**

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

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

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

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

- If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

- In addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

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

4.4 Country limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of *AAA* **(Fitch)** or equivalent from each of the credit rating agencies. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5.5. This list will be added to, or deducted from, by Officers should ratings change in accordance with this policy.

4.4 Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (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 4 of 2015. Bank Rate forecasts for financial year ends (March) are:

- 2015/16 0.75%
- 2016/17 1.25%

- 2017/18 2.00%

There are downside risks to these forecasts (i.e. start of increases in Bank Rate occurs later) if economic growth weakens. However, should the pace of growth quicken, there could be an upside risk.

Investment treasury indicator and limit - total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested > 364 days			
	2015/16	**2016/17**	**2017/18**
Principal sums invested > 364 days	Nil	Nil	Nil

4.5 Icelandic bank investments

Officers will continue to report on any outstanding claim balances (Glitnir escrow account, and KSF). Alternative methods for recuperating any outstanding claims, such as a sale of claim to a third party, will be considered and as required.

4.7 End of year investment report

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

ANNEX A1

Treasury Management Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- **Yield** – see Gilts

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

ANNEX A2

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

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

	Minimum credit criteria / colour band	**Max % of counterparty limit - *Specified**	**Max % of counterparty limit – **Non - Specified**	**Max. maturity period**
DMADF – UK Government	N/A	**100%**	**N/A**	**6 months**
UK Government gilts	UK sovereign rating	100%	10%	1 year
UK Government Treasury blls	UK sovereign rating	100%	10%	1 year
Bonds issued by multilateral development banks	AAA (or state your criteria if different)	10%	10%	6 months
Money market funds	AAA	100%	**N/A**	Liquid
Enhanced money market funds with a credit score of 1.25	AAA	100%	**N/A**	Liquid
Enhanced money market funds with a credit score of 1.5	AAA	100%	**N/A**	Liquid
Local authorities	N/A	100%	**N/A**	1 year
Term deposits with banks and building societies	Yellow Purple Blue Orange Red Green No Colour	100% 100% 100% 100% 100% 100% 0%	10% 10% 10% 10% 10% 10% 0%	Up to 1 year Up to 1 year Up to 1 year Up to 1 year Up to 6 Months Up to 100 days Not for use
CDs or corporate bonds with banks and building societies	Yellow Purple Blue Orange Red Green No Colour	100% 100% 100% 100% 100% 100% 0%	10% 10% 10% 10% 10% 10% 0%	Up to 1 year Up to 1 year Up to 1 year Up to 1 year Up to 6 Months Up to 100 days Not for use

***SPECIFIED INVESTMENTS:** All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable.

****NON-SPECIFIED INVESTMENTS**: These are any investments which do not meet the specified investment criteria. A maximum of 10% ** will be held in aggregate in non-specified investment

ANNEX A3

Definitions of Specified and Non Specified Investments

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

1. Specified Investments are defined as follows.

SPECIFIED INVESTMENTS

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

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

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

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

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

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

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

2. Non-specified Investments are defined as follows:

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

Ref	Non Specified Investment Category	*Limit*
(i)	An investment with a non-UK bank, for a term of less than 1 year and in a product which falls within one of the criteria stated with the table in Annex A2	Annex A2
(ii)	The Council's own banker if it fails to meet the credit criteria attached to other bandings.	Included as per section 4.3

ANNEX B

Background information on credit ratings

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

What is a Credit Rating?
A credit rating is:

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

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

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

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

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

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

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

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

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

Appendix B

TREASURY MANAGEMENT FRAMEWORK DOCUMENTS AND RESPONSIBILITIES

For Consideration by Cabinet 17 February 2015

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

Appendix C

LANCASTER CITY COUNCIL
TREASURY MANAGEMENT POLICY STATEMENT

For noting by Cabinet 17 February 2015

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.