LANCASTER CITY COUNCIL

Promoting City, Coast & Countryside

Budget and Performance Panel

Tuesday, 6 February 2018

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:

Agenda Item Number	Page	Title
8	1 - 18	CORPORATE FINANCIAL MONITORING 2017 - 2018 QUARTER 3
		Report of the Chief Officer (Resources)
Agenda Item Number	Page	Title
9	19 - 22	WORK PROGRAMME REPORT
		Report of the Chief Officer (Governance)

BUDGET AND PERFORMANCE PANEL

Corporate Financial Monitoring 2017/18 – Quarter 3
06 February 2018
Report of the Chief Officer (Resources)

PURPOSE OF REPORT					
To provide an overview of the Council's financial position for Quarter 3 of the 2017/18 monitoring cycle, and the supporting actions underway.					
Key Decision		**Non-Key Decision**	X	**Referral from Cabinet Member**	
Date of notice of forthcoming key decision	N/A				
This report is public.					

OFFICER RECOMMENDATIONS:

(1) That Budget and Performance Panel considers the report and attached appendices, making any comment and recommendations considered necessary.

1. Overview

1.1. The corporate financial monitoring report for Quarter 3 is attached at ***Appendix A***. Note that the monitoring is against the revised budget for the purposes of this update. The headline projections are as follows:

- When compared with the General Fund revised net revenue budget to be considered by Council on 31 January (which provided for a net overspending of £222K), the quarter 3 position shows a net improvement of £48K, forecast to increase to £79K by the year end. If secured, this would bring the overall net overspending for the year down from £222K to £143K.
- The Housing Revenue Account is currently in line with the forecast net overspending of £221K for the year.

1.2. In terms of the General Fund projected net underspending for the year, the key variances relate to employee savings of £50K and additional income of £29K from car parking and Planning fees. The latter were increased by 20% by Government in January.

1.3. In support of corporate financial monitoring, the latest Treasury Management update report is included at ***Appendix B***.

2. Performance Monitoring

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

RELATIONSHIP TO POLICY FRAMEWORK

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

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

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

LEGAL IMPLICATIONS

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

FINANCIAL IMPLICATIONS

As set out in the attached.

OTHER RESOURCE IMPLICATIONS

Human Resources / Information Services / Property / Open Spaces:

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

SECTION 151 OFFICER'S COMMENTS

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

DEPUTY MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS None.	**Contact Officers:** Andrew Clarke, Financial Services Manager **Telephone: 01524 582138** **E-mail:** aclarke@lancaster.gov.uk **Ref:**

Appendix A

CORPORATE FINANCIAL MONITORING 2017/18

QUARTER 3

INTRODUCTION

This report provides the key variances to note as at the end of December, in terms of the revenue and capital budgets and local taxation. Please note that monitoring is against the revised budget for the purpose of this update – this is due to be approved by Council on 31 January.

REVENUE BUDGET

General Fund – Current net underspending of **£48K**, forecast to increase to **£79K,** which would bring the budgeted overspending down from £222K to £143K for the year (when compared with the original budget). The main variances are summarised in the table below. In addition, a more detailed monitoring statement on Salt Ayre Leisure Centre is included at ***Annex A.***

	Qtr 3 £000's	**Full Year Forecast £000's**
Revised General Fund Net Revenue Budget (after £222K use of balances)	**15,839**	**15,839**
	(Favourable)/+Adverse	
Employees	(28)	(50)
Premises	+12	+3
Transport	0	0
Supplies & Services	0	(7)
Fees & Charges	(31)	(29)
Other Income	(1)	+4
Forecast Net Revenue Outturn	**15,791**	**15,760**
(Net Underspend)	**(48)**	**(79)**

Employee savings relate to delays in recruitment and restructuring within Health & Housing.

The increase in Fees & Charges is primarily due to additional pay and display income, although this amount is expected to substantially reduce in Q4 due to the impact of the forthcoming Greyhound Bridge repairs. The Full Year Forecast also incorporates the impact of the Government's 20% Planning Fee increase from February 2018.

Housing Revenue Account – No significant variances highlighted at Q3, with the year-end forecast remaining in line with the revised budget net overspending of **£221K.**

ACTIONS COMPLETED:
Actions/improvements being taken to reduce void losses and secure other operational improvements within RMS were reported to Cabinet on 16 January as part of the HRA budget report, the outcomes will be reported back to Cabinet in the Autumn.

CAPITAL

Expenditure

General Fund – The latest revised programme as reported to Cabinet on 16 January was £12.048M. Spend and commitments at the end of December totalled £8.380M leaving £3.668M still to spend.

Further reviews of the programme will be undertaken before the final programme is presented to Budget Council on 28 February.

Housing Revenue Account – Latest revised programme as reported to Cabinet on 16 January was £4.204M. Spend and commitments at the end of December totalled £3.175M leaving £1.029M still to spend. Further reviews of the programme will be undertaken before the final programme is presented to Budget Council on 28 February.

Financing

As reported to Cabinet on 16 January, capital receipts are now forecast to be £1.081M this year, which is a net increase of £211K on the originally budgeted £870K. The main additional receipt relates to the sale of St. Leonard's House.

RESERVES

A full update on reserves will be reported to Cabinet and Council in February.

LOCAL TAXATION

Council Tax – Current deficit of £19K (£153K surplus at Qtr2). Main changes are:

- Deficit from previous year +£188K
- Reduced cost of Council Tax Support (£397K)
- Reduced charge for Second/Empty Homes +£86K
- Other Movements in Tax Base +£142K

In tax base terms this equates to approximately 11 net chargeable Band D equivalent properties, bringing the total tax base to 40,829 gross properties. One of the key factors in the change from a surplus to a deficit position will be the impact of additional discounts given in respect of properties affected by the flood in November.

A formal assessment of the Council Tax position was made on 15 January in line with the statutory requirements and a balanced fund was forecast for the year end, i.e. no overall surplus or deficit.

Retained Business Rates – The latest position on business rates shows net income down by £64K (up by £220K at Qtr1) when compared to the original estimate. The Net Rates Payable is down by £1.229M mainly due to additional reliefs and transitional protection being awarded. However, this is offset by a reduction in appeals of £1.165M.

	Original £000's	**Sept £000's**	**Dec £000's**	**Movement From Original £000's**
Net Rates Payable	(63,377)	(62,148)	(61,712)	+1,665
Appeals	6,759	5,594	2,844	(3,915)
Business Rates Income	**(56,618)**	**(56,554)**	**(58,868)**	**(2,250)**
City Council Retained Income (40%)	(22,647)	(22,622)	(23,547)	
Less Tariff	19,662	19,662	18,588	
Add Small Business Rates Relief Grant	(1,251)	(1,289)	(1,315)	
Net Retained Income	**(4,236)**	**(4,249)**	**(6,274)**	
Safety Net Payment	(720)	(707)	-	
50% Levy Payment	-	-	458	
Total Retained Income	**(4,956)**	**(4,956)**	**(5,816)**	

As a result of the Provisional 2018/19 Finance Settlement the business rates position has changed considerably. The Settlement included an adjustment to the 2017/18 tariff to address the impact of the 2017 revaluation on local authorities. For Lancaster this means a reduction of £1.074M, subject to the final Settlement being approved. Overall, this would mean a potential year end surplus of £458K for the Council after allowing for a 50% levy payment to Government. The complexities of the business rates system mean that this surplus will not be available until 2019/20, and may well change as a result of appeals.

Finally, the position has also improved as a result of a reduction in the provision for appeals. The latest reassessment indicates that the provision can reduce by some £3.9M. However, this is caveated by the fact that no appeals in the relation to the 2017 rating list have yet been submitted and a very broad estimate of potential costs has been made. A formal assessment of the business rates position will be made at the end of January in line with the statutory requirements.

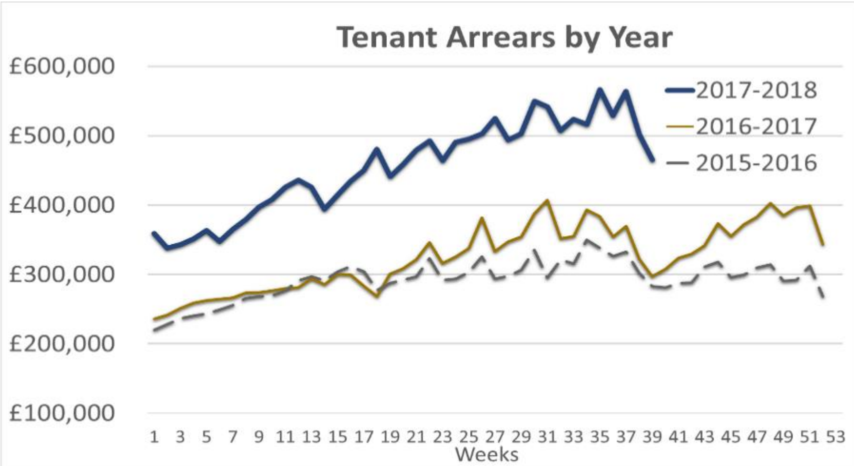
Collection Performance

Both Council Tax and Business Rates are slightly behind target - no specific action is required.

	Full Year Target	Target to Date	Actual to Date
Council Tax	96.4%	84.7%	84.4%
Business Rates	98.8%	80.0%	79.9%

INCOME COLLECTION

Council Housing Rent Arrears – At the end of December the level of current council housing rent arrears was £465K (3.5% of rent debit), a reduction of £37K on the previous Qtr2 figure of £502K. Even though there has been an improvement the level of rent arrears will remain high due to the continuing impact of Universal Credit.



In terms of collection, at the end of Qtr 3 the percentage was 99.05% *(Qtr 2 97.78%)* against the target of 99.4%.

UPDATE ON ACTIONS BEING TAKEN:
As was reported to Cabinet on the 16 January it is proposed that a further Income Management Officer is appointed to address the increasing case load and provide capacity to undertake more preventative work; providing increased and much needed capacity to provide advice and support to tenants around arrears, benefits, budgeting, and signposting to other services. In addition to this a review of the arrears management processes and systems has been undertaken to provide further capacity to undertake preventative and recovery work.

Sundry Debts – At the end of December the level of debt was £3.175M which is a decrease of £279K from Qtr2. Environment Services, Resources and Housing Benefit debts have decreased by £205K, £72k and £42K respectively, whereas other general sundry debts have increased by £39K. The bad debt provision currently stands at £2.309M which is £15K more than the required level. No action is required at present but a further review of the provision will be made at Outturn.

SERVICE	< 28 Days	28-59 Days	60-91 Days	92-183 Days	184-364 Days	365+ Days	2017/18 QUARTER 3 TOTALS	*Compared to 2016/17 Quarter 3 totals*
	£	£	£	£	£	£	£	£
Enviromental Services	380,306	20,374	8,378	16,658	94,592	11,375	531,683	*252,213*
Regeneration & Planning	19,697	4,256	23,456	460	11,793	3,910	63,572	*48,607*
Resources	157,438	17,799	19,755	96,458	48,589	62,901	402,941	*468,340*
Health & Housing	54,916	2,245	603	22,559	20,927	24,216	125,467	*79,727*
Governance	-	-	7	300	900	-	1,207	*500*
Hsg Benefits (Revenues)	35,683	55,347	59,578	199,137	229,730	1,470,215	2,049,690	*1,955,584*
2017/18 Quarter 3 Totals	**648,041**	**100,021**	**111,777**	**335,572**	**406,532**	**1,572,617**	**3,174,560**	***2,804,971***
2016/17 Quarter 3 Totals	***405,751***	***164,804***	***82,970***	***242,903***	***477,916***	***1,430,627***	***2,804,971***	

CONTRACT PROCEDURE RULES AND OTHER EXCEPTIONS TO TENDER

Exceptions to Tender – There was one exception to tender in Qtr 3:

- Renewal of Soil Vent Pipes and Rain Water Pipes to high Rise flat blocks, the request was to carry out a restricted tender process using a number of specialised and registered installers of the Polypipe products ensuring maximum guarantees from the manufacturer.

ANNEX A

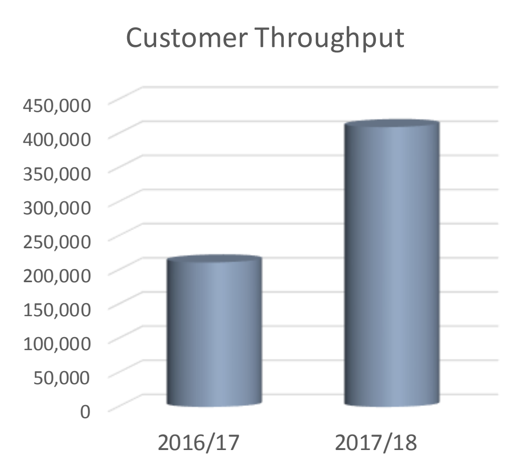
SALT AYRE LEISURE CENTRE

2017/18 QUARTER 3 PERFORMANCE MONITORING

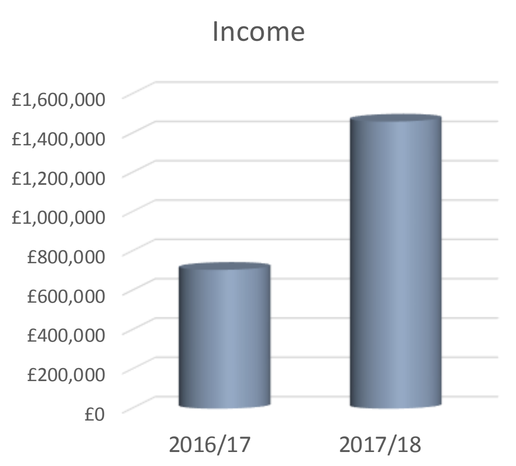
Key Messages

- Salt Ayre Leisure Centre continues to perform well when compared to 2016/17, and shows a reduction in direct net operating cost from £789K in 2016/17 to a projected cost of £175K for 2017/18 (£614K reduction).
- The café is on course to achieve the £400K income target for 2017/18.
- Efficient management of the transformational project continues with new LED lighting systems fitted to the swimming pool, changing rooms and exercise studio.
- Similarly a new combined heat and power unit is currently being installed and due for commissioning in February 2018.
- Tranquil (Spa) opened in October 2017 and has received impressive customer feedback for all aspects of the operation.
- There has been an average increase of 94 % in throughput for the Leisure Centre compared to the equivalent period last year.
- Swimming lessons have benefited from the increased throughput with participants increasing from 300 at the start of the financial year to 420 currently.
- However, financially the position remains as previously reported, with direct net operating costs increasing by £236K when compared to the original estimate, of this £272K is attributed to lower income than anticipated.

Customer Throughput	2016/17	2017/18	(Favourable) / Adverse	(Favourable) / Adverse %
Shop	1,988	2,974	(986)	(49.6%)
Health & Fitness	27,774	86,617	(58,843)	(211.9%)
SASC Café	62,079	163,392	(101,313)	(163.2%)
Sports Hall	9,217	17,204	(7,987)	(86.7%)
Studio	32,025	29,907	2,118	6.60%
Swimming	62,714	64,934	(2,220)	(3.5%)
Spa	0	2,314	(2,314)	N/A
Gravity	0	1,039	(1,039)	N/A
Xheight	3,136	6,227	(3,091)	(98.6%)
Energy	12,613	35,177	(22,564)	(178.9%)
	211,546	**409,785**	**(198,239)**	**(93.7%)**



Income	2016/17 £	2017/18 £	(Favourable) / Adverse £	(Favourable) / Adverse %
Shop	4,579	11,170	(6,591)	(143.9%)
Health & Fitness	239,778	611,628	(371,850)	(155.1%)
SASC Café	103,295	283,041	(179,746)	(174.0%)
Sports Hall	91,097	114,741	(23,644)	(25.9%)
Studio	35,641	18,624	17,017	47.7%
Swimming	231,625	257,462	(25,837)	(11.2%)
Spa	0	17,019	(17,019)	N/A
Gravity	0	12,997	(12,997)	N/A
Xheight	0	56,042	(56,042)	N/A
Energy	0	77,499	(77,499)	N/A
	706,015	**1,460,223**	**(754,208)**	**(106.8%)**



	2016/17 Full Year Actuals	2017/18 Original Full Year Budget	2017/18 Revised Full Year Budget	Qtr3 Budget	Qtr3 Actual	Qtr3 Variance	Full Year Projection	Variance to Revised Budget	Percentage of Revised Budget
	£		£	£	£	(Favourable) / Adverse £	£	(Favourable) / Adverse £	
Expenditure									
Employees	1,000,255	1,256,400	1,264,900	913,173	905,986	**(7,187)**	1,255,549	**(9,351)**	-1%
Premises Costs	613,613	603,900	588,600	486,033	491,622	**5,589**	591,700	**3,100**	1%
Transport Costs	14,714	13,300	16,200	15,616	15,616	**0**	16,200	**0**	0%
Supplies and Services	424,726	449,500	483,100	405,083	415,563	**10,480**	493,580	**10,480**	0%
Funding from Renewals Reserve	0	0	(64,400)	(64,400)	(74,400)	**(10,000)**	(74,400)	**(10,000)**	
Income									
Fees and Charges	(1,263,912)	(2,383,800)	(2,111,900)	(1,512,046)	(1,508,088)	**3,958**	(2,106,900)	**5,000**	0%
Direct Net Operating Cost/(-) Surplus	**789,396**	**(60,700)**	**176,500**	**243,459**	**246,299**	**2,840**	**175,729**	**(771)**	
						Change from Original Budget	***+236,429***		
Support Service Costs	325,388	349,900	365,500	270,225	270,225	**0**	365,500	**0**	
Total Net Operating Cost	**1,114,784**	**289,200**	**542,000**	**513,684**	**516,524**	**2,840**	**541,229**	**(771)**	
Renewals Reserve Contribution	50,000	150,000	150,000	112,500	112,500	**0**	150,000	**0**	
Capital Financing Costs - MRP re £5M development	0	177,600	177,600	133,200	133,200	**0**	177,600	**0**	
Total Net Cost	**1,164,784**	**616,800**	**869,600**	**759,384**	**762,224**	**2,840**	**868,829**	**(771)**	

<u>Comments from Sport and Leisure Services Manager</u>

The transformation of Salt Ayre Leisure Centre has continued over recent months seeing the opening of a major new build that forms the Spa and Hub facilities. Tranquil (Beauty Spa) opened in October 2017 with a new team of specialist of staff delivering a wide range of treatments and managing the thermal journey (aromatherapy steam, salt inhalation steam, herbal sauna and watermill sauna) including a dedicated relaxation lounge.

The Hub Facility includes a Feel Good Suite with toning tables and is managed by a team employed by the City Council and funded by Lancashire County Council Public Health. This facility offers the opportunity for people of all ages and abilities to take part in physical exercise and contributes significantly to the mental and physical health agendas.

The opening of Tranquil has proved to be successful in attracting new customers to the Centre and is something that the marketing and business plan will maximise the potential for cross service/activity sales.

Since the opening of the Spa it has been possible to review income projections in light of the actual customer levels. As a result Officers have lowered the original net income forecasts, set in 2016/17, by circa £95K for 2018/19, but expect them to reach their original target over the next 2-3 years as the business grows and becomes established.

The Centre has seen throughput continue to reach significantly high numbers and the new custom has had a positive effect on other areas such as swimming and gymnastics. It is clear from participants for swimming lessons having risen from 300 to 420 in the last year that the transformation of the whole Centre has attracted a new market and the added payment facility of direct debit has proved popular with customers. Similarly gymnastics participants have increased by in excess of 50 with the direct debit option proving equally popular.

Once again the Centre is about to feature as an exemplar case study in a leading UK Health Club Management journal.

The café is on target to achieve the revised income budget of £400K and is a good example of how sometimes a new business needs time to adapt. The early part of this financial year saw a change in the management team and an associated period of disruption to staff and inconsistency in customer service. The new manager has changed the menu, introduced improved systems including staff performance management and has helped raise the levels of customer service. The staff structure should be more complete by January and despite some long periods of sickness absence from staff the operation now seems to be delivering against earlier expectations.

The transformational project continues to see Council wide cooperation between Services with the recent installation of a LED lighting scheme to the swimming pool, studio and changing rooms. The work was delivered on time and to budget.

Similarly, installation of a new combined heat and power (CHP) unit with associated energy saving benefits will be ready for commissioning in February 2018.

Current income and expenditure projections are in line with the lower revised expectations as the Centre moves towards a critical period for gym membership sales during January and February.

Appendix B

Treasury Management Update

Quarter Ended 31 December 2017

Report of Chief Officer (Resources)

2017/18 Treasury Management Update

Quarter Ended 31 December 2017

1. Introduction

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

2. Economic update (provided by Link Asset Services - formerly Capita Asset Services)

After the UK economy surprised on the upside with strong growth in 2016, growth in 2017 was disappointingly weak in the first half of the year; quarter 1 came in at only +0.3% (+1.7% y/y) and quarter 2 was +0.3% (+1.5% y/y), which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 75% of GDP, has seen weak growth as consumers cut back on their expenditure.

However, growth picked up in quarter 3 to 0.4% and in quarter 4 there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year. However, this sector only accounts for around 11% of GDP so expansion in this sector will have a much more muted effect on the average total GDP growth figure for the UK economy as a whole. Growth in quarter 4 is expected to be around 0.4% again which would see annual growth in 2017 coming in at around 1.7 – 1.8%, almost as strong as the recently upwardly revised figure for 2016 of 1.8%, (which meant that the UK was equal to Germany as having the strongest GDP growth figure for the G7 countries in 2016).

The Monetary Policy Committee (MPC) meeting of 14 September 2017 surprised markets and forecasters by suddenly switching to a much more aggressive tone in its words warning that the Bank Rate will need to rise. Recent Bank of England Inflation Reports have flagged up that they expected CPI inflation to peak at just over 3% in late 2017, before falling back to near to its target rate of 2% in two years' time. Inflation actually came in at 3.1% in November. The reason why the MPC became so aggressive with its wording in September and November around increasing the Bank Rate was due to an emerging view that with unemployment falling to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of increasing globalisation. This effectively means that the UK labour faces competition from overseas labour e.g. in outsourcing work to third world countries, and this therefore depresses the negotiating power of UK labour. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a decrease in such globalisation pressures in the UK, and so would be inflationary over the next few years.

It was therefore no surprise that the MPC increased the Bank Rate by 0.25% to 0.5% in November. However, their forward guidance of two more increases of 0.25% by 2020 was viewed as being more dovish than markets had expected. However, some forecasters are flagging up that they expect growth to improve significantly in 2018, as the fall in inflation will bring to an end the negative impact on consumer spending power while a strong export performance will compensate for weaker services sector growth. If this scenario were to materialise, then the MPC would have added reason to embark on more than one increase in Bank Rate during 2018. While there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two years will pan out.

3. Interest Rate Forecast

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

Link Asset Services Interest Rate View	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB rate	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB rate	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB rate	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

Link Asset Services undertook its last review of interest rate forecasts on 7 November after the quarterly Bank of England Inflation Report and MPC meeting. As expected, the MPC policy raised the Bank Rate by 0.25% to 0.50%. The MPC also gave forward guidance that they expected to raise the Bank Rate by 0.25% only twice more in the next two years to reach 1.0% by 2020. This was very much in line with previous guidance that the Bank Rate would only go up very gradually and to a limited extent.

The overall balance of risks to economic recovery in the UK is probably currently to the downside due to the uncertainties around Brexit; however, given those uncertainties, there is a wide diversity of possible outcomes for the strength of economic growth and inflation, and the corresponding speed with which Bank Rate could go up.

4. Investing Activities

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

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

The Council aims to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also, if and where appropriate, to seek out value available in periods up to 12 months with highly credit rated financial institutions, using the adopted creditworthiness approach, including a minimum sovereign credit rating, and Credit Default Swap (CDS) overlay information.

Officers confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 31 December 2017.

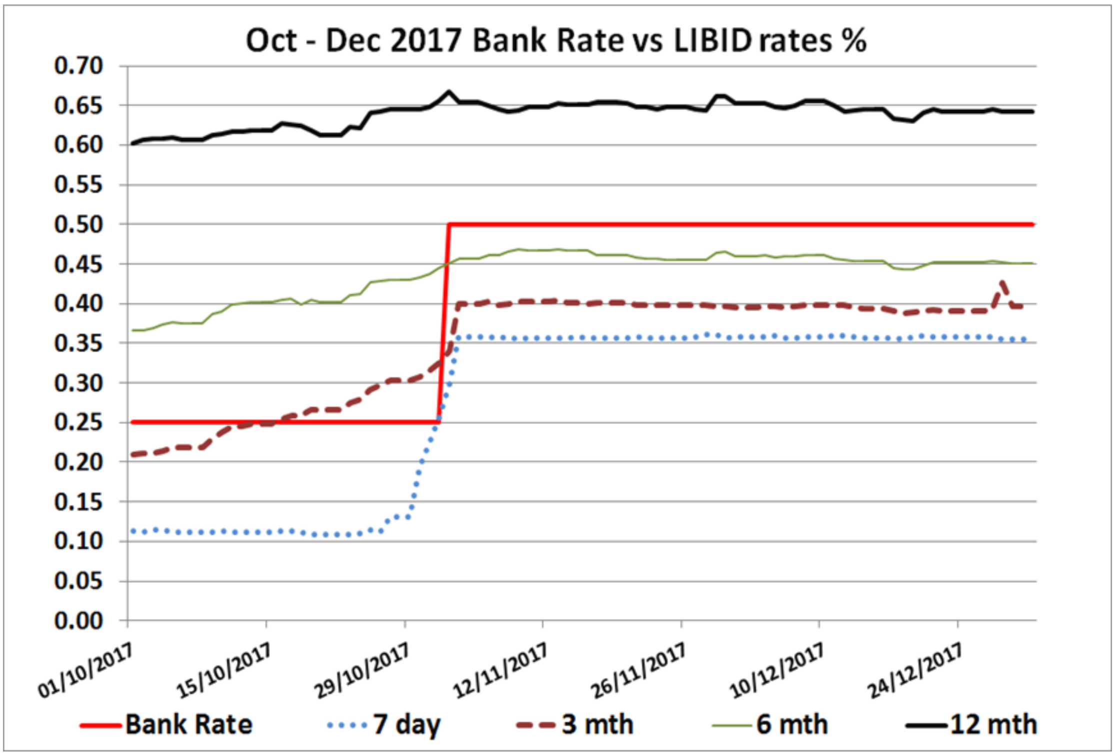
The average level of funds available for temporary investment purposes during the quarter was £41M. The level of funds available was mainly dependent on the timing of precept and business rate related payments, the receipt of grants and progress on the Capital Programme.

In terms of performance against external benchmarks, the return on investments compared to the 7 day LIBID and bank rates at the end of the period is shown below. This is viewed as reasonable performance given the need to prioritise the investments and liquidity (i.e. making sure that the Council's cash flow meets its needs).

Base Rate	0.50%
7 day LIBID	0.35%
Lancaster City Council investments	0.39%

Investment performance against budget for quarter ended 31 December 2017:

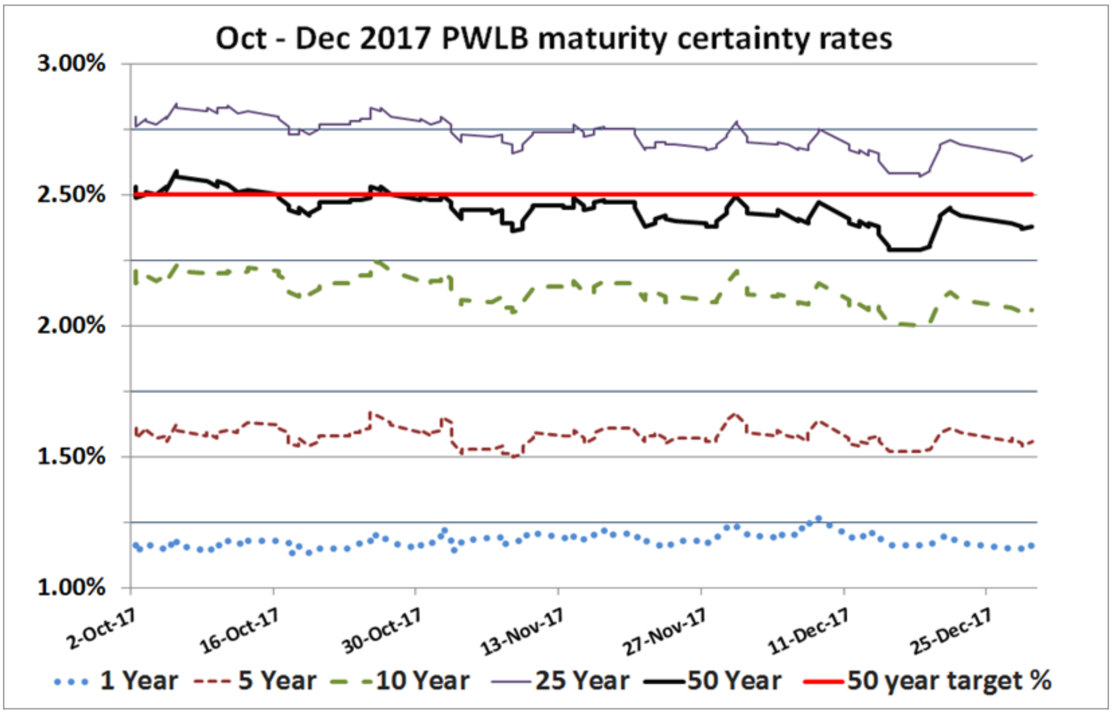
Other Investments	Term	Maturity Date	Opening £	Closing £	Indicative Rate (YTD)	Current Fixed Rate	Interest to Date £
Call Accounts							
Natwest (Cash Manager Plus)			137,490	141,816		0.01%	23
Money Market Funds							
Goldman Sachs			0	0	0.16%		2,243
Insight			0	0	0.30%		729
Blackrock Sterling Liquidity First Fund			4,000,000	0	0.31%		5,259
LGIM			6,000,000	2,500,000	0.33%		9,966
Ignis			6,000,000	6,000,000	0.35%		11,489
Lancashire County Council			0	0	0.25%		962
Fixed Term Deposits							
Cambridgeshire County Council	6 months	04/07/2017	0	0		0.35%	10,932
Leeds City Council	6 months	16/07/2017	0	0		0.36%	5,277
Guildford Borough Council	364 days	17/07/2018	5,000,000	5,000,000		0.53%	12,125
Rugby Borough Council	11 months	29/06/2018	1,000,000	1,000,000		0.35%	1,467
Antrim & Newtown Abbey BC	364 days	06/08/2018	3,000,000	3,000,000		0.37%	4,470
Suffolk County Council	6 months	28/02/2018	5,000,000	5,000,000		0.30%	5,055
Broxtowe Borough Council	364 days	28/09/2018	1,000,000	1,000,000		0.40%	1,030
Uttlesford District Council	1 week	06/10/2017	4,000,000	0		0.30%	230
London Borough of Islington	364 days	01/10/2018	0	2,000,000		0.40%	1,995
London Borough of Newham	171 days	29/03/2018	0	5,000,000		0.30%	3,452
Surrey Heath Borough Council	181 days	15/05/2018	0	5,000,000		0.50%	3,219
Rhondda Cyon Taf County BC	23 days	02/11/2017	0	0		0.20%	378
Staffordshire County Council	8 days	21/12/2017	0	0		0.30%	197
Sub-total			**35,137,490**	**35,641,816**			**80,498**
						Budgeted income	**84,750**
							(4,252)



5. Borrowing Activities

PWLB rates jumped up sharply after the 14 September MPC meeting but then fell back somewhat during the quarter, except for the 1 year rate which peaked in early December.

During the quarter, the 50 year PWLB target (certainty) rate for new long term borrowing was unchanged at 2.50%.



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

6. Debt Rescheduling

Officers continue to monitor potential saving opportunities associated with the early repayment of existing debt. This takes into account the premiums or discounts associated with early repayment and the projected cost of refinancing or loss in investment interest. Debt rescheduling opportunities have been limited in the current economic climate and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. At present it would not be financially prudent to repay any debt because of the high penalties associated with early repayment. No debt rescheduling was, therefore undertaken during the quarter.

7. Compliance with Treasury and Prudential Limits

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

8. Risk management (Key Aspects)

Investment Security:
There is still significant inherent risk generally affecting counterparties (i.e. who investments are placed with). These are considered to be managed effectively through the creditworthiness framework currently applied.

Liquidity:
Liquidity risks are considered to be managed effectively through cash flow monitoring and arrangements and the periods chosen for investment, to help ensure that the Council will have sufficient cash available to meet its payment obligations and deal with th e resulting impact on its cash flow.

Interest Risk:
Investment Returns are inevitably low. The Council has risk exposure because all of its borrowings are long-term/fixed, and inevitably its investments are shorter term, meaning that generally they are more affected or influenced by the Bank Rate. There is little that can be done to mitigate this risk at this point.

9. Other Issues

Canal Corridor North
The Treasury Management Strategy for 2018/19 and beyond will need to be set prior to having certainty on the scheme. Any changes needed to the Strategy during 2018/19 will be reported to Council in line with the formal reporting requirements.

Revised CIPFA Codes
In December, The Chartered Institute of Public Finance and Accountancy, (CIPFA), issued a revised Treasury Management Code and Cross Sectoral Guidance Notes, and a revised Prudential Code.

A particular focus of these revised codes was how to deal with local authority investments which are not treasury type investments, such as investing in property in order to generate income for the authority at a much higher level than can be attained by treasury investments. In addition, there is a recommendation that local authorities should produce a new report to members to give a high level summary of the overall capital strategy and to enable members to see how the cash resources of the authority have been apportioned between treasury and non-treasury investments. Officers will report back to members when the implications of the new codes have been assessed as to the likely impact on the Council.

Markets in Financial Instruments Directive (MIFID II)
The EU set the deadline of 03 January 2018 for the introduction of regulations under MIFID II. These regulations govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date. This will entail increased administration for each institution dealing with this authority and for each type of investment instrument we use. The fact that a significant proportion of the Councils investment portfolio is held in simple term deposits (which are excluded from MIFIDII) will mean that this will have minimal impact on the Authority.

Annex A

Treasury Management Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- **Nonfarm Payroll Employment** - is a compiled name for goods, construction and manufacturing companies in the US. It does not include farm workers, private household employees, or non-profit organization employees.

- **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** – 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.*

BUDGET AND PERFORMANCE PANEL

Work Programme Report

6th February 2018
Report of the Chief Executive

PURPOSE OF REPORT
To update Members on the Panel's Work Programme.
This report is public.

RECOMMENDATIONS

(1) That the Panel considers the Work Programme and any other issues that should be included.

1.0 Introduction

1.1 The Budget and Performance Panel is responsible for setting its own annual Work Programme within the terms of reference, as set out in Part 3, Section 12 of the Constitution.

1.2 Members of the Budget and Performance Panel are entitled to give notice to the Chief Executive that they wish an item relevant to the Terms of Reference of the Committee to be included on the agenda for the first available meeting and the meeting will determine whether the issue should be included in its Work Programme based on its relevance as compared to the priorities as set out in the Scrutiny Work Programme (Part 4, Section 5 of the Constitution).

2.0 Report

2.1 Following the Panel's meetings on 14th November 2017 and 13th December 2017 a number of updates are included in Appendix A to this report.

2.2 The Panel is requested to consider the Work Programme.

SECTION 151 OFFICER'S COMMENTS	
The Section 151 Officer has been consulted and has no further comments.	
MONITORING OFFICER'S COMMENTS	
The Monitoring Officer has been consulted and has no further comments.	
BACKGROUND PAPERS None.	**Contact Officer:** Tessa Mott **Telephone:** 01524 582074 **E-mail**: tmott@lancaster.gov.uk

APPENDIX A

BUDGET & PERFORMANCE PANEL WORK PROGRAMME 2017/18

Matter for consideration	Detail	Officer responsible/ External	Expected date of meeting
Financial Monitoring (to include an update on the financial position of Salt Ayre min. 12 refers 12th Sep 2017)	(min. 7 refers – Work Programme Report 11th July 2017)	Chief Officer (Resources)	Quarter 3 – 6th February 2018
Corporate Performance Monitoring - **NOTE- this report will be combined with report above as appropriate** Where there is a red indicator – briefing note or explanation to be provided.	(min. 7 refers – Work Programme Report 11th July 2017)	Chief Officer (Environment)	Quarter 3 – 6th February 2018
Museums Service	Min. 7 refers – Work Programme Report - 11th July 2017	Chief Officer (Regeneration and Planning) / Economic Development Manager	6th February 2018
Treasury Management Strategy	The Panel's views to be sought regarding the proposed treasury management framework for 2018/19.	Chief Officer (Resources)	6th February 2018
Procurement Strategy	Further pre-scrutiny prior to the updated Procurement Strategy being presented to Cabinet. (Min. 8 (12th July 2016) and 19 refers (8th November 2016) – Action – briefing note to be provided).	Chief Officer (Resources)	The timescales for this will be confirmed in due course, in light of other strategy review work and resources/ competing workloads. (For example Local Procurement, per Council 31.01.18)
Repairs and Maintenance Service (RMS) (previously on the Work Programme as the APSE Report)	When considered to invite Overview and Scrutiny Members to ask questions. (min. 19 refers – 8th November 2016)	Chief Officer (Environment)	As required

Commercial Properties	Report on Commercial Properties to be part of the Work Programme (Min 7 refers – Work Programme Report - 11th July 2017).	Chief Officer (Resources)	To be covered as appropriate in future quarterly reporting, the content of which will continue to be reviewed and updated.
Economic Growth Strategy	Min. 7 refers – Work Programme Report - 11th July 2017.	Chief Officer (Regeneration and Planning) / Economic Development Manager	To be considered in the new municipal year 2018/19.
Morecambe Area Action Plan	Min. 7 refers – Work Programme Report - 11th July 2017.	Chief Officer (Regeneration and Planning) / Economic Development Manager	TBC

Invitations to Cabinet Members

Cabinet Member and area of responsibility	Issue	Expected date of meeting
Councillor Blamire, Leader of the Council	Corporate Performance Monitoring.	Various.
Councillor Anne Whitehead	Financial Monitoring	Various – also to include presentation of Cabinet's Budget and Policy Framework Proposals at the Annual Stakeholders Meeting 23rd January 2018.
All Members of Cabinet	Various. Invitations to be extended to Cabinet Members to coincide with issues relevant to their respective portfolios. To include presentations on performance and service accounts.	Various.
Councillor James Leyshon, Cabinet Member with responsibility for Property Services, Car Parking, ICT, Digital Services and Customer Services.	Property Group Update.	Various.

Briefing Notes

Matter for Consideration	Date Requested/additional detail	Officer Responsible	Date Circulated
Procurement and Tendering	08.11.2016 (min. 18 refers) The briefing note to include reference to Council Resolutions and what has been undertaken to action these.	Chief Officer (Resources)	TBC. To be addressed alongside the Procurement Strategy work referred to above.
General Fund	11.07.2017 (min. 5 refers) Re-circulation of a previously drafted briefing note.	Financial Services Manager	TBC
Housing Benefits Overpayments	11.07.2017 (min. 5 refers) The briefing note to include the previous and current repayment and recovery system.	Financial Services Manager	TBC
Differences between the Budget Book and Year End Reserves and Provisional Statement	11.07.2017 (min. 5 refers)	Financial Services Manger	TBC
Restructuring/budget support spends	11.07.2017 (min. 5 refers)	Financial Services Manger	By 28 Feb – to be covered as part of the budget.
Corporate Properties	11.07.2017 (min. 7 refers)	Financial Services Manager	Covered above.