LANCASTER
CITY COUNCIL

Promoting City, Coast & Countryside

Cabinet

Tuesday, 13 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
10	1 - 20	BUDGET AND POLICY FRAMEWORK UPDATE 2018 TO 2022 - GENERAL FUND REVENUE BUDGET AND CAPITAL PROGRAMME
		(Cabinet Member with Special Responsibility Councillor Whitehead)
11	21 - 48	TREASURY MANAGEMENT STRATEGY 2018/19
		(Cabinet Member with Special Responsibility Councillor Whitehead)

 Agenda Item 10

CABINET

Budget and Policy Framework Update 2018 to 2022
Supplementary Report
13 February 2018

Report of Chief Officer (Resources)

PURPOSE OF REPORT To inform Cabinet of the latest General Fund budget and council tax position so it can make recommendations back to Council in order to complete the budget setting process.					
Key Decision	**X**	**Non-Key Decision**		**Referral from Officer**	
Date of notice of forthcoming key decision	15 January 2018				
This report is public.					

RECOMMENDATIONS OF COUNCILLOR WHITEHEAD:

(1) That Cabinet determines its response to the feedback from Council (as set out in section 8 of the report) as part of finalising its budget proposals prior to the Budget Council agenda being published.

(2) That Cabinet endorses the review of Provisions, Reserves and Balances undertaken by the s151 Officer, and notes her advice regarding the minimum level of Balances being maintained at £1.5M, subject to annual review.

(3) That subject to any changes arising from the above, and any further budget amendments arising in or agreed by Cabinet after this meeting, Cabinet be recommended to approve for referral on to Budget Council:

- **the 2018/19 General Fund Net Revenue Budget and resulting Council Tax Requirement excluding parish precepts (current position at Appendix A);**

- **its supporting budget proposals (current summary of proposals at Appendix B);**

- **the resulting position on provisions and reserves (current position at Appendix D); and**

- **the resulting Capital Programme (current position at Appendix E).**

(4) That the Finance Portfolio Holder be given delegated authority to update the Medium Term Financial Strategy accordingly, for referral on to Budget Council.

1 INTRODUCTION

1.1 This report provides information on the further work done since the main Cabinet agenda was produced, and on the outcome of the Budget and Performance Panel and Council meetings held on 23 and 31 January respectively.

1.2 Specifically, at the Council meeting it was resolved that Council "approves a City Council tax increase of 2.99% for 2018/19, together with a year on year target of 2.99% for future years, subject to Government confirming local referendum thresholds."

1.3 This update builds on these points in order that final budget recommendations can be made back to Council on 28 February.

2 GENERAL FUND REVENUE BUDGET SUMMARY AND FINANCIAL STRATEGY

2.1 Updated revenue proposals are set out at ***Appendices A and B,*** and are summarised in the table below.

	2018/19	2019/20	2020/21	2021/22
	£'000	**£'000**	**£'000**	**£'000**
Net Spending / draft budget forecasts as reported in January:	**16,271**	**16,936**	**18,726**	**19,754**
Further Minor Base Budget Changes	(2)	13	-	-
Additional Govt Grants received – Universal Credit & New Burdens	(154)	-	-	-
Transfer to Earmarked Reserves re above	154	-	-	-
Cabinet's Savings / Invest to Save Proposals (net total)	505	(420)	(433)	(438)
Cabinet's Growth Proposals (net total)	442	392	81	68
Contributions from Reserves re Proposals	(1,012)	(219)	(18)	(2)
Updated Draft Budget Proposals	**16,204**	**16,702**	**18,356**	**19,382**
Less:				
Net Funding as reported in January	**(16,146)**	**(15,890)**	**(16,174)**	**(16,651)**
Other Funding Changes: Increase in Council Tax from £5 to 2.99%	(58)	(125)	(202)	(290)
All Resulting in:				
Updated Estimated Budget Deficits	**0**	**687**	**1,980**	**2,441**

2.2 The key points are listed below:

- A report elsewhere on the agenda sets out proposals in connection with fees and charges, notably car parking; this and other reports could have budgetary implications not yet reflected within the budget summary.

- The Council has a number of interim staffing arrangements in place, pending recruitment to permanent positions. Generally such costs are covered corporately through turnover savings. In a wider context regarding consultancy and further to various questions raised at Council and discussions with the Finance Portfolio Holder, specific monitoring and reporting arrangements will be introduced during next year (as part of the usual quarterly monitoring) to improve the transparency and accountability of such arrangements and other consultancy support, and to provide assurance that they provide value for money and meet the Council's requirements.

- The review of provisions and reserves has now been completed (see section 6) and the net impact built into the draft budget proposals.

- The draft budgets are based on a 2.99% council tax increase each year.

- Cabinet's savings and growth proposals have been updated as necessary to reflect any recent developments since its last meeting. In particular, the scope of the Solar farm development proposal has been amended, and the costs of £50K now reflect solely feasibility costs to be incurred, ahead of Members considering the business case. Subject to the outcome of that, the other costs previously identified (together with construction) would be addressed in future decision-making.

- Given the much greater significance of Cabinet's budget proposals being put forward, following further discussions with the Finance Portfolio Holder it has also been agreed that regular monitoring and reporting of savings and growth (covering vfm/outcomes as well as £ monitoring) will be undertaken during the course of next year. The exact form will be determined in due course.

2.3 The current budget position for 2018/19 is balanced, in line with statutory requirements.

2.4 Cabinet is now required to finalise its full budget proposals and to make recommendations to Budget Council. In doing so, it is requested to consider the various matters outlined in this report. It is stressed that figures are subject to rounding adjustments, prior to them being finalised for Budget Council.

2.5 The Medium Term Financial Strategy (MTFS) also needs to be updated to reflect Cabinet's budget proposals and other key information. 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 Strategy at this stage, other than to reflect the budget strategy (including mid-year review) approved previously by Cabinet.

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

3 FINAL LOCAL GOVERNMENT SETTLEMENT AND FUNDING PROSPECTS

3.1 The final Settlement was announced on Tuesday 06 February and final allocations for New Homes Bonus have now been received. From the analysis undertaken so far, there are only minor changes arising relating to the City Council's position and these have been reflected in the summary in Section 2 of this report. If any further changes are necessary, these will need to be incorporated into Cabinet's final budget proposals.

4 COUNCIL TAX

4.1 As previously reported, legislation now requires that separate estimates of any surpluses or deficits on the Collection Fund must be made each year for council tax (15 January) and business rates (31 January).

4.2 For council tax, it is confirmed that the Fund is broadly in balance and therefore there is no surplus or deficit to distribute.

4.3 There are no changes to council tax referendum thresholds as a result of the final Settlement and therefore no other relevant matters for Cabinet to consider in finalising its budget proposals. The Band D City Council tax rate for 2018/19 is still expected to be £220.37, subject to final rounding adjustments, representing an increase of £6.40 or 2.99%.

5 BUSINESS RATES

5.1 For business rates, the calculation of any surplus or deficit remains very complicated and subject to huge year on year fluctuations, predominantly because of the impact of rating appeals and changes in Government tariffs following the 2017 Revaluation. The accounting presentation has also been reviewed and updated.

5.2 The estimated 2017/18 surplus on the Collection Fund in relation to business rates has been determined as £7.429M. The following table summarises in very simple terms the key movements in the Fund during the course of this year.

	2017/18 £'000
Actual deficit brought forward from 2016/17	1,785
Adjusted by: Recovery of 2016/17 estimated deficit from other precepting authorities (arising from calculations done a year ago)	(6,964)
Net Surplus due to over-recovery	(5,179)
Adj: Estimated increase in deficit from reassessment of provision for appeals	2,844
Adj: Estimated surplus from other in-year transactions	(5,094)
Resulting Estimated Surplus as at 31 January 2018	**(7,429)**

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

	£'000
Government Share (50%)	3,714
County (9%)	669
Fire (1%)	74
City Council (40%)	2,972
Total	**7,429**

5.4 Members will recall that it has previously been reported (*Cabinet 26 June 2017)* that there was a potential surplus of £4.6M in respect of Business Rates for the City Council, and it is pleasing to report that that amount still remains as forecast. As a result, amounts previously held in the Collection Fund Adjustment Account are forecast to be transferred into the Business Rates Retention Reserve. Final confirmation of the amount will now be subject to the 2017/18 closure of accounts exercise, but at this point there is nothing to indicate that the figure could change substantially.

5.5 Also as previously reported, Government has reduced the tariff payable to it as a result of the 2017 Revaluation. This has contributed to the surplus as declared above, but more significantly it means the Council could be in a growth position going forward. Importantly, the Council's budget projections are now based on the higher "baseline funding" level for business rates, rather than the lower safety net, as was previously forecast. Whilst this reintroduces approaching £500K per year risk exposure to the Council's budget, this is covered off through retaining funds in the Business Rates Retention Reserve (backed up also by Balances).

5.6 As ever with business rates income forecasting, there are always risks, particularly relating to appeals. Since the 2017 Rating List went live on 01 April 2017 there have only been 2 appeals. This could potentially be due to successful introduction of the Valuation Office Agency's new "Check, Challenge, Appeal" process, or the fact that Rating Agents are still focusing on clearing outstanding appeals from the 2005 and 2010 lists. Either way it makes it extremely difficult to forecast the level of appeals potentially arising from the new list. Given these circumstances, the Government's estimate of 4.7% has been used as a default but this could potentially double based on previous local experience.

5.7 Another factor that could have impact on the level of forecast growth/additional income in future years is the potential for unplanned outages at the power stations. Such events have occurred in the past and can have a significant adverse impact on income in the year in which they occur. Interestingly, Government have just published a policy development paper on reviewing the local and central lists. This includes a timetable, running to April 2020, for re-designation of "anomalously placed" rateable properties such as power stations. Whilst it is perhaps disappointing that changes may not happen sooner, it is positive that the matter is still under review and during the course of next year, as the methodology develops, the Council should be in a position to model the potential implications.

5.8 Attached at ***Appendix C*** is a summary of the current Business Rates forecasts and potential scenarios that could affect them and their impact. From this it can be seen that there is no certainty when forecasting income and therefore such potential additional income streams cannot prudently be used to support the revenue budget.

5.9 Similar type risks apply too to renewable energy related income, albeit that as yet it is understood that those facilities have not yet been reflected in the updated rating list. This means that income could either increase, or decrease, in due course. More significantly, whilst it is evident that the current renewable energy rating retention arrangements will continue into 2018/19, the scheme is still assumed to continue beyond then. Again, there is risk in this.

5.10 Recognising all those uncertainties, the Council's future budget forecasts are based on retained general business rate income being at baseline, but with additional income from renewable energy schemes being retained by the Council. Forecast income over and above this will be transferred into the Business Rates Retention Reserve until such time as it can reasonably and prudently be used for other purposes.

6 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. As outlined below, various changes have been actioned by the Chief Officer (Resources) as s151 Officer, as a result of her review and from consultation with Cabinet Members.

6.2 Provisions

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

6.3 Earmarked Reserves

Business Rates Retention (BRR)
Contributions to the BRR reserve are referred to in section 5.

£2M of the expected balance as at 31 March 2018 is to be retained in the reserve to help provide cover against future annual retained income falling to safety net. Future contributions to the reserve in 2018/19 must be regarding as indicative only, as they will be dependent upon actual rating income retainable during any particular year.

Welfare Reforms
Government continues to provide funding for various strands of its welfare reforms, Very recently the Council has been advised of further allocations totalling £154K and for now, these have been transferred into the reserve. During 2018/19 options for their use will be considered (ranging from increasing the bad debts provision coverage regarding housing benefit overpayments, to helping facilitate measures for supporting the Council's role in Universal Credit (UC) administration, and facilitating support for claimants).

Planning Fee Income Reserve
This is a new reserve, set up solely for the purpose of managing the timing differences between receipt of income and its intended use (in line with Cabinet's budget proposals). Its operation will also need to take into account any regulatory requirements surrounding the use of planning fee income.

Budget Support
During 2018/19, £2.6M of the expected available funds in the Business Rates Reserve will be transferred into the Budget Support Reserve, in recognition that significant funds will need to be available in support of Cabinet's budget proposals, and to help ensure that the various projects and initiatives can be resourced adequately. Work is underway to assess any further needs and these will be reported in due course.

6.3.1 In summary, the earmarked reserves and provisions changes to be actioned by the s151 Officer are as follows and Cabinet is requested to endorse them.

	£'000	
Business Rates Retention	(4,285)	Net 2017/18 contribution (increasing bal. to £4.666M)
	2,666	Transfer out (to Budget Support Reserve)
	(4,348)	Potential/indicative income in 2018/19
Budget Support	(2,666)	Transfer in (from BRR)
Planning Fee Income	(5)	New Reserve – net increase
Welfare Reforms	(154)	Increase
Net Transfer	**(8,792)**	

6.4 **Revenue Balances**

6.4.1 In terms of Balances, the s151 Officer's latest advice is set out below. To recap:

- Balances are now expected to amount to around £4.668M by the end of this financial year.

- In accordance with the Council's existing Medium Term Financial Strategy (MTFS), in broad terms the working principle is that surplus Balances would be used to help manage the risks, lead-in times and up-front investment costs associated with implementing savings measures over the medium term.

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

6.4.2 This is still an acceptable stance to take, alongside the Council's approach for increasing council tax and its commitment to addressing the Council's forecast structural net budget deficit.

6.4.3 Drawing on Cabinet's budget proposals, whilst they make a substantial call on earmarked reserves, overall the Council's reserves position is projected to improve significantly when compared with expectations from a year ago, primarily as a result of improved expectations regarding business rates. Cabinet's budget proposals, and the review of earmarked reserves, both provide scope to address any capacity shortfalls to a degree and this too gives some comfort. On the other hand the Council's budgetary risk profile inevitably increases whilst savings measures are being developed and implemented; Council has previously recognised and accepted this risk. A key challenge remains for Council, in ensuring that it future Corporate Plan is both ambitious but also deliverable.

6.4.4 In terms of budget forecasting, whilst generally the estimates are considered reasonable and robust, clearly there can never be any guarantee that they will all prove 100% accurate; there is increased risk regarding inflationary pressures and much uncertainty regarding the economic impact of Brexit, as examples. The Council has also seen net overspendings at outturn recently and whilst the impact has been relatively small, it highlights the need for prudence in forecasting, and in managing optimism bias.

6.4.5 Overall, the Council still has much to do to achieve a financially sustainable budget over the medium to longer term. It is not yet known what the impact might be from the forthcoming overhaul of the Local Government finance system and such uncertainties inevitably increase financial planning risk, at least in the interim.

6.4.6 Taking all these factors into account therefore, the Chief Officer (Resources), as s151 Officer, advises that the minimum level of General Fund Balances should be retained at no less than £1.5M on the basis that other provisions and reserves remain broadly as set out in this report. This advice takes account of the longer term, and not just the shorter term.

6.4.7 The minimum level of Balances does need to be kept under regular review, however, and this is already reflected in current financial strategy.

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

- Capital financing risk exposure is manageable given current financing assumptions, the arrangements in place to appraise and consider Canal Corridor North proposals, and future asset management reviews to help deliver associated savings.

- 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.

6.4.9 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.

6.4.10 The review of all Balances, provisions and reserves is reflected in ***Appendix D*** 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 2021/22 is included at ***Appendix E.***

7.2 The full movement from the original approved programme is summarised below:

	Gross Programme	Change in Underlying Borrowing Need: CFR
	£'000	£'000
Original Approved Programme (2017/18 to 2020/21)	**25,192**	**11,552**
Changes reported to Cabinet 05 December	5,469	1,776
Changes reported to Cabinet 16 January	308	144
Additional Changes:		
Disabled Facilities Grants	4	-
Salt Ayre Sports Centre – additional enhancements	60	-
Sea & River Defences	1,028	-
ICT Renewals	39	39
Cabinet's Savings & Growth Proposals:		
Car Park Extensions	95	95
Vehicle Fleet Review	107	107
Heysham Gateway – tank removal	1,040	-
Resulting Draft Capital Programme (to 2021/22)	**33,342**	**13,713**

7.3 Key points to note are as follows:

- The draft programme has been updated to reflect latest spending profiles between 2017/18 and 2018/19, but this has no impact on the 5-year programme total.

- Other than Cabinet's budget proposals, the main change relates to an increase in Sea and River Defence scheme costs regarding the Wave Reflection Wall, but this is to be externally funded.

7.4 The current year's Revised Programme now stands at £12.146M. During the next four years, a further £21.196M of investment is currently planned, giving a total 5 year programme of £33.342M.

7.5 Overall the programme is balanced, based on an underlying borrowing requirement of £13.713M. Over the course of the last year, the full financing movements are as follows:

	Movements in Financing
	£'000
Key Changes:	
CFR Increase (from earlier table)	+2,161
Increase in Capital Receipts	+711
Use of Earmarked Reserves	+1,116
Direct Revenue Financing	(27)
External Grants and Contributions	+4,189
Total Changes	**+8,150**

7.6 In terms of CFR related charges against the revenue budget, over the next four years they are estimated as follows:

	Minimum Revenue Provision	External Interest	Total CFR Related Charges
	£'000	**£'000**	**£'000**
2018/19	1,766	1,093	**2,859**
2019/20	1,915	1,099	**3,014**
2020/21	2,143	1,106	**3,249**
2021/22	2,368	1,112	**3,480**

8 DETAILS OF CONSULTATION

8.1 Cabinet's initial budget proposals were presented to the January meetings of Budget and Performance Panel and Council. The following feedback points were noted in the draft minutes of Council. Officer comments are provided and Cabinet is requested to indicate whether it requires any further action to be taken in response.

<u>Council (31 January)</u>

a. **That £20,000 be allocated to distribute to people in need via the Citizens' Advice Bureaux (CABs) and that the funds be administered by way of a voucher system, not cash.**

Officer Comments

The Council currently provides financial support through benefits systems (typically housing benefit and council tax support) and it supports the CABs and other such organisations to provide advice and other non-financial support. Cabinet should be aware that Lancashire County Council already operate a crisis support scheme which offers some help with food parcels, heating costs and household items subject to eligibility criteria. Officers are also aware that there are several charities and voluntary organisations in the district that provide food parcels and hot meals. Should Cabinet be minded to consider this idea further, there would need to be clarity regarding the unmet need, purpose and terms for granting further support to ensure value for money, probity and to avoid duplication with what already exists. Furthermore, arrangements for distribution would need to be fair, transparent and efficient, ideally using any existing systems for awarding / distributing funding, potentially through third parties such as the CABs.

b. **That funds be made available for 'secondary parks' such as Scotch Quarry to address infrastructure and litter picking issues. The suggestion was for a £30,000 fund.**

Officer Comments

If Cabinet wished to consider this further it would need to satisfy itself that any funds used would meet identified needs, be of sufficient high priority and deliver value for money. The developing Corporate Plan identifies the important role the community can play in helping maintain public open space. Having a specific fund that could be used to support community groups undertaking projects on public land that met the Council's agreed criteria could demonstrate commitment in this regard. As an example, Ward Councillors / Community groups could be asked to put forward ideas to improve smaller areas of open space. The ideas could then be 'judged'. The idea would then be delivered by the Council - with the support of the community group.

c. **That Cabinet seeks to reduce the anticipated spend on consultants in 2018/19.**

Officer Comments

In order to ensure sufficient capacity and expertise to deliver the Council's objectives, consultancy support of various forms will inevitably be needed. That said, as highlighted earlier measures will be implemented in agreement with the Finance Portfolio Holder to ensure transparency and demonstrate value for money.

9 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

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

Revenue Budget
Cabinet may adjust its revenue budget proposals, as long as the overall budget for 2018/19 balances and fits with the proposed council tax level. 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 2017/18 and 2018/19 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 (as being updated), which include:

- *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 limited flexibility in financial terms, but depending on priorities Cabinet may consider putting forward alternatives for various reserves, or different approaches for addressing the medium term budget deficit through the MTFS.

10 OFFICER PREFERRED OPTION AND COMMENTS

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

11 CONCLUSION

11.1 This report outlines the actions required to complete the budget setting process for 2018/19 and for updating the MTFS to 2021/22.

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 final budget proposals are confirmed. 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 £1.5M 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" or CFR over the period to 2021/22. The bulk of this relates to service infrastructure (notably vehicle renewals, property and ICT) and completion of Invest to Save initiatives (Salt Ayre). Appropriate appraisal/procurement arrangements are in place to help ensure robustness of the plans and to support sound decision-making.

LEGAL IMPLICATIONS

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

MONITORING OFFICER'S COMMENTS	
The Deputy Monitoring Officer has been consulted and has no comments to add.	
BACKGROUND PAPERS	**Contact Officer: Nadine Muschamp** **Telephone: 01524 582117** **E-mail:nmuschamp@lancaster.gov.uk**

General Fund Revenue Budget Projections 2017/18 to 2021/22

For Consideration by Cabinet 13 February 2018

BUDGET PROJECTIONS

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Original Revenue Budget / Forecast	**15,839**	**16,200**	**16,481**	**17,887**	**19,523**
Changes to Budget Projections as at Cabinet 16 January	222	71	455	839	231
Base Budget Changes after Cabinet 16 January					
Additional Govt Grants re Universal Credit/New Burdens		(154)	-	-	-
Reduction in New Homes Bonus Grant	-	-	3	-	-
Other net changes across all services	-	(2)	10	-	-
Cabinet Budget Proposals:					
Savings Proposals	-	505	(420)	(433)	(438)
Growth Proposals	-	442	392	81	68
Contributions from Reserves re Budget Proposals	-	(1,012)	(219)	(18)	(2)
Net Movements from Reserves Review	-	154	-	-	-
Contribution from Unallocated Balances	(222)	-	-	-	-
General Fund Revenue Budget	**15,839**	**16,204**	**16,702**	**18,356**	**19,382**
Settlement Funding Assessment:					
Revenue Support Grant	(1,605)	(941)	(200)	-	-
Net Retained Business Rates	(2,521)	(10,036)	(5,822)	(5,948)	(6,085)
Business Rates - Tariff Adjustment	291	432	442	451	461
Renewable Energy Income	(939)	(928)	(948)	(969)	(990)
Transfer to/(from) Business Rates Reserve	(2,442)	4,348	-	-	-
Council Tax Requirement	**8,623**	**9,079**	**10,174**	**11,890**	**12,768**
Estimated Council Tax Income - (Based on 2.99% increase from 2018/19 onwards)	**8,623**	**9,079**	**9,487**	**9,910**	**10,327**
Resulting Base Budget Deficit	**0**	**0**	**687**	**1,980**	**2,441**
Original MTFS Savings Requirement	***-***	***512***	***994***	***2,103***	***N/A***
Change	***+0***	***(512)***	***(307)***	***(123)***	***N/A***

BALANCES

General Fund Unallocated Balance	*£M*
Original Projected Balance as at 31 March 2017	**(4.476)**
Budgeted Contribution	(0.165)
2016/17 Actual Underspend	(0.249)
2017/18 Forecast Overspend	+0.222
Projected Balance as at 31 March 2018	**(4.668)**
Less Agreed Minimum Level of Balances	**1.500**
Available Balances	**(3.168)**

Summary of Cabinet's Budget Proposals 2018/19 to 2021/22

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
BUDGET DEFICITS PRIOR TO CABINET'S BUDGET PROPOSALS	**65**	**934**	**2,350**	**2,813**

SAVINGS PROPOSALS (including any up-front development costs)

	Capital Investment	Reserves Funding	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
A THRIVING & PROSPEROUS ECONOMY						
Key Regeneration & Infrastructure Projects						
Heysham Gateway - Site Improvement Works		**£320K**	320	Savings will be subject to the outcome of further work/business cases, to be reported for consideration in 2018/19.		
Environmental Sustainability						
Solar Farm Design and Business Case Development		**£50K**	50			
AMBITIOUS & FORWARD-THINKING COUNCIL						
Best Use Of Digital & Other Technology						
Waste Collection Management Systems (to achieve scheduling efficiencies)		**£138K**	138			
ICT Network Performance Monitoring and Improvement		**£30K**	30	(6)	(6)	(7)
Extension of CCTV to Public Buildings (security savings)	**TBC**		(17)	(25)	(26)	(26)
Financial Resilience, Making Best Use of Resources						
Extension of Cable Street Car Park	**£35K**		(9)	(16)	(16)	(16)
Extension of Half Moon Bay Car Park	**£60K**		-	(17)	(17)	(18)
Management of St.George's Quay Car Park	**£7K**		(10)	(15)	(16)	(16)
Vehicle Fleet Review	**£50K**		(27)	(11)	(12)	(12)
Review of Council Tax Discounts and Exemptions			-	(92)	(94)	(96)
Room Hire / Events Review			-	(10)	(17)	(17)
Registry Office Review			-	(27)	(27)	(27)
Other Land & Buildings Review			-	Savings will be subject to the outcome of further work/business cases, to be reported for consideration in 2018/19.		
Morecambe Concessions Review			-			
Accommodation Review			-			
Depot Relocation			-			
Williamson Park Facilities Expansion - Design & Business Case Development		**£210K**	210			
Designing Organisation to Respond to Needs						
Repair and Maintenance of Corporate Property (savings on reactive m'tce)			(82)	(42)	(41)	(43)
Rationalisation of Organisational Development Capacity (currently vacant posts)			(77)	(78)	(79)	(80)
Bulky Waste Collection - Service and Charging Review			(20)	(20)	(21)	(21)
Continuation of Internal Audit Collaboration & Restructure			(26)	(11)	(11)	(9)
Revenues & Benefits Shared Service Savings			(45)	(45)	(45)	(45)
Extension of Charging for Planning Services			(5)	(5)	(5)	(5)
Financial Processes - Efficiency Review			-	Savings will be subject to the outcome of further work/business cases, to be reported for consideration in 2018/19.		
Insurance Review			-			
Access to Services (including Opening Hours) Review			-			
Mail Services Review (reducing need, hybrid mail systems, distribution)			-			
Development of Business Cases for Local Authority Trading Companies (LATCs)			-			
- Salt Ayre		**£75K**	75			
- Commercial Waste & other Environmental Services operations			-			
Sub Total	**£0.152M**	**£823K**	**505**	**(420)**	**(433)**	**(438)**
Funding From Reserves			**(823)**			
Net Savings			**(318)**	**(420)**	**(433)**	**(438)**

	2018/19	2019/20	2020/21	2021/22
INDICATIVE NET (SURPLUS) / SAVINGS TO BE IDENTIFIED C/FWD	**(253)**	**514**	**1,917**	**2,375**

INDICATIVE NET (SURPLUS) / SAVINGS TO BE IDENTIFIED B/FWD		(253)	514	1,917	2,375

GROWTH PROPOSALS

	Reserves Funding	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
A THRIVING & PROSPEROUS ECONOMY					
Inclusive Growth, Skills & Economic Development					
Business and Skills		40	-	-	-
Marketing		75	-	-	-
Inclusive Growth		22	12	-	-
Community Wealth Building	**£31K**	23	2	2	2
Archaeological Site Specialist Consultancy & Funding		25	50	-	-
Morecambe Area Action Plan		-	50	-	-
Morecambe Bay Collaborative Projects		25			
Museums Development Plan (early recruitment of Museums Manager)	**£17K**	17	-	-	-
CLEAN & SAFE NEIGHBOURHOODS					
Stewardship of Public Space					
Improving Public Realm - Cleansing/Enforcement	**£153K**	58	79	16	-
AMBITIOUS & FORWARD-THINKING COUNCIL					
Best Use Of Digital & Other Technology					
Legal Case Management System (to help modernisation of service)		20	4	4	4
Access to Council meetings - Audio Recording of Meetings		4	4	4	4
Designing Organisation to Respond to Needs					
Commercial & Digital Leadership Capacity (Assistant Chief Executive post)	**£180K**	71	109	-	-
Potential Costs re above (pension/redundancy)	**£29K**	-	29	-	-
Review of Council Constitution - modernising governance	**£20K**	20	-	-	-
Improving Learning and Development - through digital approach		17	17	17	18
Improving Learning and Development - supporting staffing capacity needs		25	36	38	40
Re-investment of Planning Fee Income for Service Improvement (net growth)		-	-	-	-
Total Growth	**430**	**442**	**392**	**81**	**68**
Less Funding from Reserves		**(189)**	**(219)**	**(18)**	**(2)**
Net Cost of Growth		**253**	**173**	**63**	**66**

REMAINING NET SAVINGS TARGET	0	687	1,980	2,441

FOR NOTING: TOTAL FUNDING FROM RESERVES ALLOWED FOR

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Funding for Feasibility Studies/Business Cases	(823)			
Funding for One-Off Growth Proposals	(189)	(219)	(18)	(2)
	(1,012)	**(219)**	**(18)**	**(2)**
			Cumulative Total	**(1,251)**

Business Rates Income Scenarios

	CURRENT FORECASTS			
			75% Rates Retention??	
	2018/19	**2019/20**	**2020/21**	**2021/22**
GENERAL FUND REVENUE BUDGET	£'000	£'000	£'000	£'000
Business Rates Income	(24,546)	(25,086)	(25,637)	(26,202)
Estimated Surplus from Previous Year	(2,972)	0	0	0
Small Business Rate Relief Grant	(1,982)	(2,026)	(2,071)	(2,116)
Government Tariff	18,848	19,266	19,690	20,123
Government Levy re Growth	616	627	641	655
Government Tariff Multiplier Adjustment	432	442	451	461
Renewable Energy Income	(928)	(948)	(969)	(990)
	(10,532)	**(7,725)**	**(7,895)**	**(8,069)**
Current Budget Funding Assumptions	**(6,184)**	**(6,328)**	**(6,466)**	**(6,614)**
Potential Additional (Income)	**(4,348)**	**(1,397)**	**(1,429)**	**(1,455)**
Potential Total Impact of Various Scenarios (see below)	**4,618**	**1,791**	**1,942**	**2,097**
Potential Shortfall against Current Budget Funding Assumptions	**270**	**394**	**513**	**642**
Allowing for Safety Net Compensation				

IMPACT ON ABOVE OF POTENTIAL SCENARIOS				
Additional Appeals relating to 2010 listing	2,972			
This could negate the estimated surplus in 2018/19				
Impact of a higher appeals provision	2,700	2,800	2,900	3,000
Currently based on Govt's estimate of 4.7% but average for LCC's 2005 & 2010 listing was 9.6%				
Impact of changes to major hereditaments, e.g. Power Stations	1,000	1,000	1,000	1,000
Less Safety Net Compensation	(2,054)	(2,009)	(1,958)	(1,903)
	4,618	**1,791**	**1,942**	**2,097**

Other Potential Issues:

Potential future changes to the Tariff - impact unknown

NHS Foundation Trust appeal - still not resolved (£1M p.a. potential impact for LCC)

Reserves Statement (Including Unallocated Balances)

For Consideration by Cabinet 13 February 2018

GENERAL FUND	31 March 2017	From Revenue	To / (From) Capital	To Revenue	31 March 2018	From Revenue	To / (From) Capital	To Revenue	31 March 2019	From Revenue	To / (From) Capital	To Revenue	31 March 2020	From Revenue	To / (From) Capital	To Revenue	31 March 2021	From Revenue	To / (From) Capital	To Revenue	31 March 2022
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Unallocated Balances	**(4,725,029)**			57,100	**(4,667,929)**				**(4,667,929)**				**(4,667,929)**				**(4,667,929)**				**(4,667,929)**
Earmarked Reserves:																					
Business Rates Retention	**(381,458)**	(7,107,800)		2,822,900	**(4,666,358)**	(4,347,700)		2,666,300	**(6,347,758)**				**(6,347,758)**				**(6,347,758)**				**(6,347,758)**
Budget Support		(1,000,000)	36,000	314,600	**(649,400)**	(2,666,300)	320,000	872,800	**(2,122,900)**			279,400	**(1,843,500)**			60,400	**(1,783,100)**			46,600	**(1,736,500)**
Canal Corridor		(400,000)		283,000	**(117,000)**			79,000	**(38,000)**			38,000									
Capital Support	**(451,510)**	(81,300)	137,000		**(395,810)**		99,000		**(296,810)**				**(296,810)**				**(296,810)**				**(296,810)**
Corporate Property	**(417,506)**	(99,000)	59,000	63,000	**(394,506)**			15,000	**(379,506)**				**(379,506)**				**(379,506)**				**(379,506)**
Economic Growth		(500,000)	25,000	239,900	**(235,100)**			145,000	**(90,100)**			84,700	**(5,400)**			1,500	**(3,900)**			1,500	**(2,400)**
Elections	**(40,000)**	(40,000)			**(80,000)**	(40,000)			**(120,000)**	(40,000)		160,000		(40,000)			**(40,000)**	(40,000)			**(80,000)**
Homelessness	**(94,475)**	(6,600)			**(101,075)**	(6,600)			**(107,675)**	(10,100)			**(117,775)**	(10,100)			**(127,875)**	(10,100)			**(137,975)**
Invest to Save	**(1,820,257)**			314,300	**(1,505,957)**				**(1,505,957)**				**(1,505,957)**				**(1,505,957)**				**(1,505,957)**
Local Plan	**(150,293)**			94,600	**(55,693)**			55,693													
Morecambe Area Action Plan	**(29,430)**			7,800	**(21,630)**		11,000		**(10,630)**				**(10,630)**				**(10,630)**				**(10,630)**
Planning Fee Income						(61,800)			**(61,800)**	(14,400)			**(76,200)**			31,200	**(45,000)**			39,600	**(5,400)**
Renewals Reserves	**(857,100)**	(479,300)	714,000	243,700	**(378,700)**	(479,300)	282,000	136,400	**(439,600)**	(479,300)	229,000	126,400	**(563,500)**	(479,300)	63,000	29,200	**(950,600)**	(479,300)	60,000	29,200	**(1,340,700)**
Restructure	**(550,125)**	(19,000)		1,300	**(567,825)**				**(567,825)**				**(567,825)**				**(567,825)**				**(567,825)**
S106 Commuted Sums - Open Spaces	**(76,513)**			20,900	**(55,613)**			16,600	**(39,013)**			15,600	**(23,413)**			11,800	**(11,613)**			11,800	**187**
S106 Commuted Sums - Affordable Housing	**(231,500)**				**(231,500)**				**(231,500)**				**(231,500)**				**(231,500)**				**(231,500)**
S106 Commuted Sums - Highways, Cycle Paths etc.	**(332,141)**	(594,100)		8,300	**(917,941)**	(350,000)	254,000	6,700	**(1,007,241)**	(150,000)		154,400	**(1,002,841)**				**(1,002,841)**				**(1,002,841)**
Welfare Reforms	**(265,571)**			172,000	**(93,571)**	(154,100)			**(247,671)**				**(247,671)**				**(247,671)**				**(247,671)**
Reserves Held in Perpetuity:																					
Graves Maintenance	**(22,200)**				**(22,200)**				**(22,200)**				**(22,200)**				**(22,200)**				**(22,200)**
Marsh Capital	**(47,700)**				**(47,700)**				**(47,700)**				**(47,700)**				**(47,700)**				**(47,700)**
Total Earmarked Reserves	**(5,767,779)**	(10,327,100)	971,000	4,586,300	**(10,537,579)**	(8,105,800)	966,000	3,993,493	**(13,683,886)**	(693,800)	229,000	858,500	**(13,290,186)**	(529,400)	63,000	134,100	**(13,622,486)**	(529,400)	60,000	128,700	**(13,963,186)**
Total Combined Reserves	**(5,767,779)**				**(15,205,508)**				**(18,351,815)**				**(17,958,115)**				**(18,290,415)**				**(18,631,115)**

Appendix D

General Fund Capital Programme

For consideration by Cabinet 13 February 2018

Service / Scheme	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	2020/21 Gross Budget	2020/21 External Funding	2020/21 Net Programme	2021/22 Gross Budget	2021/22 External Funding	2021/22 Net Programme	5 YEAR PROGRAMME Total Gross Programme	5 YEAR PROGRAMME Total External Funding	5 YEAR PROGRAMME Total Net Programme
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Environmental Services																		
Vehicle Renewals	2,105,000	0	2,105,000	1,234,000	0	1,234,000	1,371,000	0	1,371,000	1,886,000	0	1,886,000	515,000	0	515,000	7,111,000	0	7,111,000
Bins & Boxes Scheduled Buy-Outs	100,000	0	100,000	0	0	0	0	0	0	0	0	0	0	0	0	100,000	0	100,000
Car Parks Improvement Programme	110,000	0	110,000	0	0	0	0	0	0	0	0	0	0	0	0	110,000	0	110,000
Happy Mount Park - Pathway Replacements	0	0	0	0	0	0	112,000	0	112,000	0	0	0	0	0	0	112,000	0	112,000
Bay Cottage Play Area	47,000	(40,000)	7,000	0	0	0	0	0	0	0	0	0	0	0	0	47,000	(40,000)	7,000
CCTV	85,000	0	85,000	0	0	0	0	0	0	0	0	0	0	0	0	85,000	0	85,000
Grosvenor Park Play Area	54,000	(54,000)	0	0	0	0	0	0	0	0	0	0	0	0	0	54,000	(54,000)	0
Cable Street Car Park Extension (GROWTH)	0	0	0	35,000	0	35,000	0	0	0	0	0	0	0	0	0	35,000	0	35,000
Half Moon Bay Car Park Extension (GROWTH)	0	0	0	60,000	0	60,000	0	0	0	0	0	0	0	0	0	60,000	0	60,000
Vehicle Fleet Review (GROWTH)	0	0	0	107,000	0	107,000	0	0	0	0	0	0	0	0	0	107,000	0	107,000
Health and Housing																		
Disabled Facilities Grants	1,107,000	(1,107,000)	0	3,179,000	(3,179,000)	0	1,607,000	(1,607,000)	0	1,607,000	(1,607,000)	0	1,607,000	(1,607,000)	0	9,107,000	(9,107,000)	0
Residual Adactus Top Up Grant	11,000	0	11,000	0	0	0	0	0	0	0	0	0	0	0	0	11,000	0	11,000
Heysham School Capital Funding	36,000	0	36,000	0	0	0	0	0	0	0	0	0	0	0	0	36,000	0	36,000
Salt Ayre Sports Centre - Redevelopment	1,126,000	0	1,126,000	0	0	0	0	0	0	0	0	0	0	0	0	1,126,000	0	1,126,000
Salt Ayre Sports Centre - Additional Enhancements	185,000	0	185,000	0	0	0	0	0	0	0	0	0	0	0		185,000	0	185,000
Regeneration and Planning																		
Sea & River Defence Works & Studies	4,483,000	(4,483,000)	0	1,232,000	(1,232,000)	0	3,000	(3,000)	0	3,000	(3,000)	0	3,000	(3,000)	0	5,724,000	(5,724,000)	0
Amenity Improvements (Morecambe Promenade)	10,000	0	10,000	14,000	0	14,000	0	0	0	0	0	0	0	0	0	24,000	0	24,000
Lancaster Square Routes	0	0	0	45,000	(26,000)	19,000	0	0	0	0	0	0	0	0	0	45,000	(26,000)	19,000
Morecambe THI2: A View for Eric	51,000	(39,000)	12,000	525,000	(399,000)	126,000	0	0	0	0	0	0	0	0	0	576,000	(438,000)	138,000
MAAP Improving Morecambe's Main Streets	294,000	0	294,000	148,000	0	148,000	300,000	0	300,000	0	0	0	0	0	0	742,000	0	742,000
Lancaster District Empty Homes Partnership	60,000	0	60,000	89,000	0	89,000	0	0	0	0	0	0	0	0	0	149,000	0	149,000
Bay Arena Improvements	11,000	(8,000)	3,000	0	0	0	0	0	0	0	0	0	0	0	0	11,000	(8,000)	3,000
Cable Street Christmas Lights	0	0	0	30,000	0	30,000	0	0	0	0	0	0	0	0	0	30,000	0	30,000
S106 Highways Works	0	0	0	200,000	0	200,000	0	0	0	0	0	0	0	0	0	200,000	0	200,000
Heysham Gateway - Demolition & Removal of Tanks (GROWTH)	0	0	0	1,040,000	(220,000)	820,000	0	0	0	0	0	0	0	0		1,040,000	(220,000)	820,000
Resources																		
ICT Systems, Infrastructure & Equipment	517,000	0	517,000	320,000	0	320,000	143,000	0	143,000	389,000	0	389,000	250,000	0	250,000	1,619,000	0	1,619,000
Corporate Property Works	1,361,000	0	1,361,000	2,794,000	0	2,794,000	0	0	0	0	0	0	0	0	0	4,155,000	0	4,155,000
Energy Efficiency Works	393,000	0	393,000	348,000	0	348,000	0	0	0	0	0	0	0	0	0	741,000	0	741,000
GENERAL FUND CAPITAL PROGRAMME	12,146,000	(5,731,000)	6,415,000	11,400,000	(5,056,000)	6,344,000	3,536,000	(1,610,000)	1,926,000	3,885,000	(1,610,000)	2,275,000	2,375,000	(1,610,000)	765,000	33,342,000	(15,617,000)	17,725,000
Financing :																		
Capital Receipts			(1,081,000)			(500,000)			0			0			0			(1,581,000)
Direct Revenue Financing			(146,000)			(3,000)			0			0			0			(149,000)
Earmarked Reserves			(827,000)			(954,000)			(378,000)			(63,000)			(60,000)			(2,282,000)
Increase / (Reduction) in Capital Financing Requirement (CFR) (Underlying Change in Borrowing Need)			4,361,000			4,887,000			1,548,000			2,212,000			705,000			13,713,000

Appendix E

 Agenda Item 11

CABINET

Treasury Management Strategy 2018/19
13 February 2018

Report of Chief Officer (Resources)

PURPOSE OF REPORT					
This report sets out the 2018/19 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	15 January 2018				
This report is public.					

OFFICER RECOMMENDATIONS:

1) That the Finance Portfolio Holder be given delegated authority to agree 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 part of the Corporate Financial Monitoring report elsewhere on this agenda.

1.3 Over the years, the regulatory and economic environment has changed significantly and this has led the sector to consider more innovative types of investment activity. Reflecting this, Members will be aware that changes are underway regarding the capital and treasury management framework.

1.4 Following consultation, Cipfa have now published updated codes of practice on both Treasury Management and on the Prudential Code for Capital Finance and a very brief outline on the main changes and messages is provided at ***Appendix A.***

1.5 Furthermore the Government has also recently consulted on changes to the statutory guidance on Local Government Investments, and on Minimum Revenue Provision. It is understood that the guidance has now been issued; some had just been received at the time of writing this report but there has been no time to read/consider it.

1.6 Given the lateness of the Code updates (and the lateness and uncertainties surrounding statutory guidance), Cipfa has recognised that many authorities are unlikely to be able to implement the required changes for the start of the 2018/19 financial year.

1.7 Instead therefore, the Code changes can be implemented during the course of 2018/19 (and it is expected that this will apply too to the statutory guidance, subject to it being reviewed over the coming week). This fits well with the Council's budget strategy; it is already planning to undertake a mid-year review and future capital investment strategy is a fundamental part of that work.

2 TREASURY MANAGEMENT FRAMEWORK

2.1 The proposed Strategy for 2018/19 to 2021/22 is set out at ***Appendix B*** for Cabinet's consideration. The document contains the necessary details to comply with both the Code and Government investment guidance. Responsibilities for treasury management are set out at ***Appendix C*** and the policy statement is presented at ***Appendix D***.

2.2 Key elements and assumptions feeding into the proposals are outlined below. These take account of Cabinet's existing budget proposals as far as possible at this stage, but there has been no time available to update the framework following the January 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 Budget Council. For these reasons, delegated arrangements are being sought for finalising the framework.

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.

2.4 Investment Aspects of the Strategy

2.4.1 Overall, the strategy put forward follows on from 2017/18 in that it is based on the Council having a comparatively low risk appetite with focus on high quality deposits. The 2018/19 strategy continues to use the same investment criteria as approved by Members in 2017/18.

2.4.2 The proposed Investment Strategy continues to provide for investing with other local authorities given that these, in effect, are as secure as investing with the Government but they offer greater returns and from an Officer perspective, it makes sense to keep the benefits of such temporary cash investing/borrowing wholly within the local authority family.

3 MID-YEAR TREASURY MONITORING REPORT

3.1 The Mid-Year Treasury Monitoring Report as at 30 September 2017 was reported to

Cabinet on 07 November 2017 and Budget and Performance Panel 14 November. It was then due to be referred on to the December meeting of Council, however due to the amount of business being considered at that meeting its reporting was delayed and therefore it will be included in the referrals to Budget Council on 28 February.

4 CONSULTATION

4.1 Officers have liaised with Link Asset Services, the Council's Treasury Advisors, in developing the proposed framework. The framework was considered by Budget and Performance Panel at its meeting on 6 February.

5 OPTIONS AND OPTIONS ANALYSIS

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

5.2 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. There are no options available regarding other components of the overall framework, as covered in Appendices C and D.

6 OFFICER PREFERRED OPTION AND JUSTIFICATION

6.1 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 comparatively low risk appetite regarding the security and liquidity of investments particularly, but recognising that some flexibility should help improve returns, whilst still effectively mitigating risk. It is stressed that in terms of treasury activity, there is no risk free approach. It is felt, however, that the measures set out above provide a fit for purpose framework within which to work, pending any update during the course of next year.

RELATIONSHIP TO POLICY FRAMEWORK The proposed Treasury Management framework forms part of the Council's budget and policy framework, and fits into the Medium Term Financial Strategy.
CONCLUSION OF IMPACT ASSESSMENT (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.

OTHER RESOURCE IMPLICATIONS

None directly arising.

SECTION 151 OFFICER'S COMMENTS

This report is in the name of the s151 Officer (as Chief Officer (Resources). Her comments and advice are reflected in the report.

LEGAL IMPLICATIONS

Legal Services have been consulted and have no further comments.

MONITORING OFFICER'S COMMENTS

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

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

Appendix A

Outline of Codes of Practice Key Changes and Messages

The Prudential Code

- The objectives of the Code (primarily affordability, prudence, and sustainability) have been strengthened regarding due diligence, local stewardship and risk, with the requirement for authority's appetite and risk management approach being proportionate to its overall level of resources. If need be, the Prudential Code should provide a framework to demonstrate where this might not be the case, so that an authority can take remedial action.

- The major change relates to the requirement for each authority to determine a capital strategy, setting out a long-term context in which capital expenditure and investment decisions are made. This is to demonstrate that the authority takes proper account of the requirements of the Prudential Code. (Some years ago the previous regulatory requirement regarding a specific capital strategy was abolished, and in effect the (then) provisions were incorporated into the Council's Medium Term Financial Strategy).

- The latitude for local authorities to set the scope and size of their capital plans remains unrestricted, but processes have been strengthened to set out greater consideration of prudence, with sustainability and risk reporting improved through governance procedures.

- The application of Borrowing in Advance of Need is retained. As before, authorities should not borrow in advance purely to profit from the investment of the extra sums borrowed.

- Various changes have been made to Prudential Indicator requirements, but focus remains on the longer term sustainability and risk of capital plans, and avoiding exposing public funds to unnecessary local or unquantified risk. It is reiterated that the revenue implications of capital expenditure plans are properly taken into account in the options appraisal process.

Treasury Management Code of Practice

- The introduction clarifies that the term “investments” used in the definition of treasury management activities also covers other non-financial assets that an organisation holds primarily for financial returns, such as investment property portfolios. It also clarifies that the key principle of control of risk and optimising returns consistent with the organisation's risk appetite should be applied across all investment activities, including more commercially based investments.

- Several changes have been made to Treasury Management Practice requirements, covering various legislation-backed requirements as well as risk management provisions. Required statements include:

  "This organisation regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investment.”

"The organisation will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures."

- A new section has been added covering investments that are "not part of treasury management activity", such as property. Where organisations undertake such investments primarily for financial return, they should be proportional to the level of resources available to the organisation. It should ensure that the same robust procedures for the consideration of risk and return are applied to such investment decisions. They also need to be covered in the authority's capital strategy. A schedule of all investments and liabilities (such as guarantees) is to be maintained.

- Previously the Code stated that overall responsibility for treasury management cannot be devolved, whereas the new Code states that "CIPFA believes that delegation of approval of the detail of the treasury management strategy and ongoing monitoring should be permitted where this facilitates more active discussion of the strategy and performance by those with the most appropriate skills and knowledge. Responsibility at all times, however, remains with full board/council who should have access to the full treasury management strategy, annual report and in year monitoring and the ability to seek clarification/ask questions."

Appendix B

Treasury Management Strategy 2018/19 to 2021/22

For Consideration by Cabinet 13 February 2018

1 INTRODUCTION

1.1 Background

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

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

The 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 considered and scrutinised before being presented to Council. This is undertaken by Cabinet and the Budget and Performance Panel.

Capital Strategy – In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. As from 2019-10, all local authorities will be required to prepare an additional report, a Capital Strategy report, which is intended to provide the following:-

- A high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- An overview of how the associated risk is managed
- The implications for future financial sustainability

The aim of this report is to ensure that all elected members on the full council fully understand the overall strategy, governance procedures and risk appetite entailed by this Strategy.

The Capital Strategy will include capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.

1.3 Treasury Management Strategy for 2018/19

The strategy for 2018/19 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. A training session will be arranged during 2018 accordingly with further training provided as required. The training needs of treasury management Officers are periodically reviewed.

1.5 Treasury Management Consultants

The Council uses Link Asset Services, 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 CAPITAL PRUDENTIAL INDICATORS 2018/19 – 2021/22

The Council's capital expenditure plans are the key driver of treasury management activity. The plans are reflected in various prudential indicators, as determined under regulation, to assist Members in their overview of such capital expenditure planning.

2.1 Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

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

Capital expenditure	**2016/17 Actual £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**	**2021/22 Estimate £m**
General Fund	12.63	12.15	11.40	3.54	3.89	2.38
Housing Revenue Account (HRA)	4.08	4.20	4.42	4.33	4.16	4.16
Total	**16.71**	**16.35**	**15.82**	**7.87**	**8.05**	**6.54**
Financed by:						
Capital receipts	-0.85	-1.46	-0.88	-0.38	-0.38	-0.38
Capital grants	-4.53	-5.75	-5.06	-1.63	-1.61	-1.61
Capital reserves	-4.62	-4.63	-4.99	-4.31	-3.85	-3.84
Revenue	-0.26	-0.15	0.00	0.00	0.00	0.00
Net financing need for the year	**6.45**	**4.36**	**4.89**	**1.55**	**2.21**	**0.71**

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 that 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, broadly reduces the borrowing need in line with each asset's life.

The CFR includes any other long term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £38K of leases within the CFR.

£m	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Capital Financing Requirement						
CFR – Non Housing	40.62	43.56	46.68	46.32	46.39	44.72
CFR – Housing	41.45	40.41	39.37	38.33	37.29	36.25
Total CFR	**82.07**	**83.98**	**86.06**	**84.65**	**83.68**	**80.97**
Movement in CFR						
Non Housing	5.25	2.95	3.12	-0.37	0.07	-1.66
Housing	-1.07	-1.04	-1.04	-1.04	-1.04	-1.04
Net Movement in CFR	**4.18**	**1.90**	**2.08**	**-1.41**	**-0.97**	**-2.70**

Movement in CFR represented by						
Net financing need for the year (above) re Non Housing	6.45	4.36	4.89	1.55	2.21	0.71
Less MRP/VRP and other financing movements						
Non Housing	-1.20	-1.42	-1.77	-1.92	-2.14	-2.37
Housing	-1.07	-1.04	-1.04	-1.04	-1.04	-1.04
Total	-2.27	-2.46	-2.81	-2.96	-3.18	-3.41
Net Movement in CFR	**4.18**	**1.91**	**2.08**	**-1.41**	**-0.97**	**-2.70**

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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 each asset created as a result of the related capital expenditure, in accordance with the Regulations (this option must also be applied for any expenditure capitalised under a Capitalisation Direction).

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

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

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

Repayments included in annual finance leases are applied as MRP.

2.4 Core Funds and Expected Investment Balances

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

Year End Resources	2016/17 Actual £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Fund balances / reserves	23.99	21.50	20.74	20.32	20.72	21.43
Capital receipts	0.00	0.00	0.00	0.00	0.00	0.00
Provisions	0.50	0.50	0.50	0.50	0.50	0.50
Total core funds	**24.49**	**22.00**	**21.24**	**20.82**	**21.22**	**21.93**
Working capital*	22.70	22.70	22.70	22.70	22.70	22.70
Under borrowing	-16.82	-19.81	-22.93	-22.56	-22.63	-20.96
Expected investments	**30.37**	**24.89**	**21.01**	**20.96**	**21.29**	**23.67**

*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.

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.

	2016/17 Actual £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
General Fund	13.9%	15.4%	17.6%	18.0%	17.7%	18.0%
HRA	21.6%	21.8%	21.5%	20.9%	20.3%	19.4%

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

3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital stragegy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of 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 2016 and forward projections are summarised below. The table shows the actual external debt from treasury management operations, against the underlying capital borrowing need (the Capital Financing Requirement or CFR), highlighting any over or under borrowing.

	2016/17 Actual £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
External Debt						
Debt at 1 April	66.29	65.25	64.17	63.13	62.09	61.05
Expected change in Debt	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04
Other long-term liabilities (OLTL)	0.00	0.00	0.00	0.00	0.00	0.00
Expected change in OLTL	0.00	-0.04	0.00	0.00	0.00	0.00
Actual gross debt at 31 March	**65.25**	**64.17**	**63.13**	**62.09**	**61.05**	**60.01**
The Capital Financing Requirement	**82.07**	**83.98**	**86.06**	**84.65**	**83.68**	**80.97**
Under Borrowing	**-16.82**	**-19.81**	**-22.93**	**-22.56**	**-22.63**	**-20.96**

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 the current year and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The 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 and the ability to fund under-borrowing by other cash resources..

Operational boundary	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Debt*	83.98	86.06	84.65	83.68	80.97
Other long term liabilities	0.00	0.00	0.00	0.00	0.00
Total	**83.98**	**86.06**	**84.65**	**83.68**	**80.97**

- *The term debt in this instance is CFR minus the effect of leases*

The Authorised Limit for External Debt

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

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

Authorised Limit	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Debt	99.00	101.00	100.00	99.00	96.00
Other long term liabilities	1.00	1.00	1.00	1.00	1.00
Total	**100.00**	**102.00**	**101.00**	**100.00**	**97.00**

Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This limit is currently:

HRA Debt Limit	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
HRA debt cap	60.19	60.19	60.19	60.19	60.19
HRA CFR	40.41	39.37	38.33	37.29	36.25
HRA headroom	**19.78**	**20.82**	**21.86**	**22.90**	**23.94**

3.3 Prospects for Interest Rates

The Council has appointed Link 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 their central view.

	Mar-18	Mar-19	Mar-20	Mar-21
Bank rate	0.50%	0.75%	1.00%	1.25%
5yr PWLB rate	1.60%	1.80%	2.10%	2.30%
10yr PWLB rate	2.20%	2.50%	2.70%	3.00%
25yr PWLB rate	2.90%	3.10%	3.40%	3.60%
50yr PWLB rate	2.60%	2.90%	3.20%	3.40%

As expected, the Monetary Policy Committee, (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase the Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The forecast as above includes increases in the Bank rate of 0.25% in November 2018, November 2019 and August 2020.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit.

Investment and borrowing rates

- *Investment returns are likely to remain low during 2018/19 but be on a gently rising trend over the next few years;*

- *Borrowing interest increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank rate increases. Since then borrowing rates have eased back again somewhat. Apart from that there has been little general trend in rates during the current financial year. 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 the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt;*

- *There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.*

3.4 Borrowing Strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's provisions,reserves, balances and working capital has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2018/19 treasury operations. The Chief Officer (Resources), under delegated powers will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then any long term borrowings would be postponed, and potential rescheduling from fixed rate funding into short term borrowing would be considered.

- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates* than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would be re-appraised. Most likely, if need be, fixed rate funding would be drawn if interest rates were lower than projected to be in the next few years.

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

3.5 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 at a level which is 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.

	2017/18	2018/19	2019/20	2020/21	2021/2022
Interest rate exposures					
	Upper	**Upper**	**Upper**	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%	100%	100%
Limits on variable interest rates based on net debt	30%	30%	30%	30%	30%

Maturity structure of fixed interest rate borrowing 2018/19	£m	
Under 12 months	1.04	1.62%
12 months and within 24 months	1.04	1.62%
24 months and within 5 years	3.12	4.87%
5 years and within 10 years	5.21	8.11%
10 years and within 15 years	5.21	8.11%
15 years and within 25 years	9.37	14.60%
25 years and within 50 years	39.22	61.08%

3.6 Policy on Borrowing in Advance of Need

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

3.7 Debt Rescheduling

As short term borrowing rates are expected to 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.

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

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment Policy

The Council's investment policy has regard to the Government Guidance on Local Government Investments ("the Guidance") and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("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. The key ratings used to monitor cournerparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets.

To this end the Council will engage with its advisors to maintian a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

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 process on the suitability of potential investment counterparties.

Investment instruments identified for use in the financial year are listed in *Annex B2* under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices, applying the creditworthiness policy set out below.

4.2 Creditworthiness Policy

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

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

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

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

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7

	Colour (and long term rating where applicable)	Money Limit	Time Limit
Banks /UK Govt. backed instruments*	yellow	£12m	≤1 year
Banks	purple	£6m	≤1 year
Banks	orange	£6m	≤1 year
Banks – part nationalised	blue	£12m	≤1 year
Banks	red	£6m	≤6 mths
Banks	green	£3m	≤100 days
Banks	No colour	Not to be used	
Limit 3 category – Council's banker (for non-specified investments)	n/a	£500K	1 day
DMADF	AAA	unlimited	≤6 months
Local authorities**	n/a	£12m	≤1 year
	Fund rating	Money and/or % Limit	Time Limit
Money Market Funds CNAV	AAA	£6m	liquid
Money Market Funds LVNAV	AAA	£6m	liquid
Money Market Funds VNAV	AAA	£6m	liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	Dark pink / AAA	£6m	liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	Light pink / AAA	£6m	liquid

** the yellow colour category includes UK Government debt, or its equivalent, collateralised deposits where the collateral is UK Government debt –see Annex B2.*

*** Under UK Statute the loans to any Council have priority and first call over the revenues of the authority, which under-writes any concerns over the ability of a local authority to repay its debt. As the UK Government also acts as a lender of last resort, the ranking of UK local authorities is usually considered equivalent to that of the UK Government. As the UK Government has a long term rating of AA+, this is usually applied to local authorities and as such all local authorities have equal rating.*

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

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

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

- If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- In addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

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

4.3 Country Limits

The Council has determined that it will only use approved counterparties from other countries with a minimum sovereign credit rating of *AAA* **(Fitch)** or equivalent from each of the credit rating agencies. This list will be added to, or deducted from, by Officers should ratings change in accordance with this policy.

4.4 Other Investment Matters

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 (iup to 12 months).

Investment Returns Expectations: Bank Rate is forecast to stay flat at 0.50% until Quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are:

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

The overall balance of risks to these forecasts is currently skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

4.5 Investment Treasury Indicator and Limit

This determines the total principal funds that can be invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of any investment, and are based on the availability of funds after each year-end. Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested > 364 & 365 days					
	2017/18	**2018/19**	**2019/20**	**2020/21**	**2021/22**
Principal sums invested > 364 & 365 days	Nil	Nil	Nil	Nil	Nil

This takes account of the proposed change in the CIPFA Treasury Code from a 364 day limit to 365 days

ANNEX B1

Treasury Management Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

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

- **Gilts** – the name given to bonds issued by the U K Government. Gilts are issued bearing interest at a specified rate, however they are then traded on the markets like

shares and their value rises or falls accordingly. The Yield on a gilt is the interest paid divided by the Market Value of that gilt.
E.g. a 30 year gilt is issued in 1994 at £1, bearing interest of 8%. In 1999 the market value of the gilt is £1.45. The yield on that gilt is calculated as 8%/1.45 = 5.5%.
See also PWLB.

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

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

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

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

- **Money Market Fund (MMF)** – Type of investment where the Council purchases a share of a cash fund that makes short term deposits with a broad range of high quality counterparties. These are highly regulated in terms of average length of deposit and counterparty quality, to ensure AAA rated status. As from 21 July 2018 there will be three structural options for existing money market funds – Public Debt Constant Net Asset Value (CNAV), Low Volatility Net Asset Value (LVNAV) and Variable Net Asset Value (VNAV)

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

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

- **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 B2

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

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

	Minimum credit criteria / colour band	**Max % of counterparty limit - *Specified**	**Max % of counterparty limit – **Non - Specified**	**Max. maturity period**
DMADF – UK Government	N/A	**100%**	**N/A**	**6 months**
UK Government gilts	UK sovereign rating	100%	**N/A**	1 year
UK Government Treasury blls	UK sovereign rating	100%	**N/A**	1 year
Bonds issued by multilateral development banks	AAA	100%	**N/A**	6 months
Money Market Funds CNAV	AAA	100%	**N/A**	Liquid
Money Market Funds LVNAV	AAA	100%	**N/A**	Liquid
Money Market Funds VNAV	AAA	100%	**N/A**	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	100%	**N/A**	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	100%	**N/A**	Liquid
Local authorities	N/A	100%	**N/A**	1 year
Term deposits with banks and building societies	Yellow Purple Blue Orange Red Green No Colour	100% 100% 100% 100% 100% 100% 0%	20% 20% N/A 20% 20% 20% 0%	Up to 1 year Up to 1 year Up to 1 year Up to 1 year Up to 6 Months Up to 100 days Not for use
Certificates of Deposit and corporate bonds with banks and building societies	Yellow Purple Blue Orange Red Green No Colour	20% 20% 20% 20% 0% 0% 0%	0% 0% 0% 0% 0% 0% 0%	Up to 1 year Up to 1 year Up to 1 year Up to 1 year Up to 6 Months Up to 100 days Not for use

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

****NON-SPECIFIED INVESTMENTS**: These are any investments which do not meet the specified investment criteria. A maximum of up to 20% ** will be held in aggregate in relevant non-specified investments (as at the trade date of investing).

ANNEX B3

Definitions of Specified and Non Specified Investments

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

1. Specified Investments are defined as follows.

SPECIFIED INVESTMENTS These are investments denominated in sterling of a maturity period of not more than 364 days (or of a longer period where the Council has the right to be repaid within 364 days if it wishes). These are low risk assets with high liquidity 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) as set out in table 4.2 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:

   All types of investment not meeting the criteria for specified investments. The non-specified investments which may be used by the authority are set out below. Non specified investments not explicitly referred to below are excluded from the Treasury Management Strategy.

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 B2	Annex B2
(ii)	The Council's own banker if it fails to meet the high credit quality criteria attached to other bandings.	Table in 4.2

ANNEX B4

Background information on credit ratings

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

What is a Credit Rating?
A credit rating is:

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

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

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

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

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

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

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

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

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

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

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

Appendix C

TREASURY MANAGEMENT FRAMEWORK DOCUMENTS AND RESPONSIBILITIES

For consideration by Cabinet 13 February 2018

DOCUMENT	RESPONSIBILITY
CODE of PRACTICE	To be adopted by Council (as updated 2017).
POLICY STATEMENT	The Code of Practice recommends a specific form of words to be used, to set out the Council's objectives within the Policy Statement for its Treasury Management activities. It is the responsibility of Council to approve this document, and then note it each year thereafter if unchanged. This reflects the revised code 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. It is the Chief Officer (Resources)' responsibility to maintain detailed working documents and to ensure their compliance with the main principles. The content of the TMPs will be reviewed during 2018/19, in view of the recent changes to the treasury management regulatory framework.
FINANCIAL REGULATIONS	The Financial Regulations must contain four specific clauses. These are substantially unchanged in the 2017 Code; it is the Chief Officer (Resources)' responsibility to ensure their inclusion.

Appendix D

LANCASTER CITY COUNCIL
TREASURY MANAGEMENT POLICY STATEMENT

For consideration by Cabinet
13 February 2018

This reflects the revised CIPFA Treasury Management Code of Practice (Code updated in 2017).

1. This organisation defines its treasury management activities as:

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

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

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