LANCASTER
CITY COUNCIL

Promoting City, Coast & Countryside

LATE REPORTS, URGENT BUSINESS and SUPPLEMENTARY INFORMATION

Cabinet

Tuesday, 12 February 2019

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
6	1 - 41	BUDGET & POLICY FRAMEWORK UPDATE 2019/2023

Agenda Item 6

CABINET

Budget and Policy Framework 2019 - 2023
12 February 2019

Report of the Interim Head of Financial Services

PURPOSE OF REPORT					
This report sets out the latest position in respect of the budget and policy framework including Cabinet's proposed revenue budget for 2019/20 and Capital Programme for 2019/20 to 2022/23. The report also sets out the Treasury Management Framework for Cabinet adoption and provides an update on the revision of the Medium Term Financial Strategy					
Key Decision	**X**	**Non-Key Decision**		**Referral**	
Date of notice of forthcoming Key Decision	14 January 2019				
This report is public.					

RECOMMENDATIONS OF COUNCILLOR WHITEHEAD:

1) That Cabinet recommend the following for approval to Budget Council:

- **The 2019/20 General Fund Net Revenue Budget and resulting Council Tax Requirement excluding parish precepts (Appendix A) and supporting budget proposals (Appendix B).**
- **The S151 Officer's statement on the adequacy of reserves and advice that the minimum level of balances be increased to £2m, subject to annual review.**
- **the resulting position on provisions and reserves (Appendix C)**
- **The updated five year Capital Programme (Appendix D) covering financial years 2018/19 to 2022/23.**

2) 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.

3) That the Finance Portfolio Holder be given delegated authority to agree the revision of the Medium Term Financial Strategy, as updated for Cabinet's final budget proposals, for referral on to Council.

1 **INTRODUCTION**

1.1 Under the Constitution, Cabinet has responsibility for developing corporate planning processes and a balanced revenue budget and capital programme for Council's consideration.

1.2 The Council meeting on 30 January considered Cabinet's proposed revenue budget for 2019/20 and approved a City Council Tax increase of 2.99% together with a year on year target of 2.99%, for the purposes of financial planning, over the period of the Medium Term Financial Strategy.

1.3 Cabinet has also considered capital programme bids for 2019/20 to 2022/23 and this report provides a proposed capital programme for consideration and recommendation to Budget Council. The Treasury Management Strategy takes account of the proposed capital programme.

1.4 The report seeks delegated authority for the Finance Portfolio Holder to agree the Treasury Management Framework, subject to any changes made to capital programme proposals before it is referred to Budget Council.

1.5 A draft update of the Medium Term Financial Strategy has also been completed for Cabinet's consideration and referral on to Budget Council.

2 REVENUE BUDGET 2019/20

2.1 A general fund revenue budget for 2019/20 is included at **Appendix A** with more detailed budget proposals in **Appendix B**. The proposed budget is balanced, in line with statutory requirements, and takes account of the final local government finance settlement which was approved by Parliament on 5 February 2019.

2.2 Cabinet is now required to finalise its full budget proposals and make recommendations to Budget Council.

2.3 The proposed revenue budget was agreed by Cabinet at its meeting on 15 January and this was subject to the final local government settlement and calculations of annual estimates for collection fund surpluses or deficits in respect of council tax and business rates which are considered below.

Final Local Government Settlement

2.4 The final Local Government Settlement was published on 29 January 2019 and approved by Parliament on 5 February 2019. There were no changes to the Lancaster City Council allocations announced in the provisional settlement. Parliament also agreed council tax threshold principles which for districts provide for a maximum increase in precept of 3% or £5, whichever is higher.

Council Tax

2.5 Legislation requires that separate estimates be made for any Collection Fund surpluses or deficits on the Collection Fund relating to the council tax and business rates.

2.6 For council tax, it is confirmed that the Collection Fund is expected to be broadly balanced and therefore there is no surplus or deficit to distribute.

2.7 As there were no changes to council tax referendum thresholds, the Council Tax increase of 2.99% agreed by Council on 30 January means that the City element of Council Tax for a band D property will be £226.95, subject to rounding adjustments, representing an annual increase of £6.59.

Business Rates

2.8 The Council is required to submit its annual business rates return to the Government by the end of January in which it estimates business rates income for 2019/20 and the estimated deficit / surplus as at the end of 2018/19.

2.9 The estimated surplus for 2018/19 is £739k as shown in the table below.

	2018/19 £000
Actual surplus brought forward (from collection fund statement)	(9,330)
Transfer to other precepting authorities in respect of last year forecast surplus (arising from calculations done a year ago)	7,429
Forecast Business Rates Income for 2018/19	(61,437)
Rate Retention Scheme Charges for 2018/19	62,599
Estimated Surplus for 2018/19 as at 31 January 2019	(739)
City Council Share of the surplus at 40%	(296)

2.10 Business rates continues to be an area of uncertainty in respect of predicting income for two primary reasons set out below:

- The potential for a shutdown at Heysham Nuclear Power Station continues to be a risk which the Council has to monitor, as such an event would significantly reduce retention from business rates. The Council has, since the start of the localised rates scheme, budgeted at 'worse case' whereas actual retention income has exceeded the budget. This additional income has been added to a Business Rates Reserve which provides increased financial resilience in case of a future shutdown at the power station.

- The Council receives a 'disregard' for renewable energy hereditaments which means that 100% of the business rates for these properties is retained by the authority. It is estimated that in 2019/20, this will be worth £906k to Lancaster City Council. Whilst it is evident that this 100% disregard will continue into 2019/20, there is a risk that the Government will discontinue this advantageous arrangement at some point in the future.

3. PROVISIONS, RESERVES AND BALANCES

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

Provisions

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

Balances – General Fund Balance

3.3 The Section 151 Officer's latest advice on the adequacy of balances is based on the following observations:

- The General Fund Balance at 31/03/18 was £5,069m.
- Latest revenue budget monitoring forecasts a very modest overspend of £13k in 2018/19. This would reduce the General Fund Balance to £5,056m.
- The Council's MTFS suggests a budget gap in 2020/21 onwards in excess of £2m. If this is not closed then balances will be required to make the difference.
- There is a significant level of uncertainty with respect to Council funding particularly in respect of both retained rates and New Homes Bonus and there is a possibility that the Council's funding will be reduced as a result of the Fair Funding Review.
- Business rates retention volatility remains a risk to the Council but this is now managed via the Business Rates Reserve considered in the next section and therefore should not impact on the General Fund balance.
- There is continuing uncertainty with respect to Brexit and how this might impact, directly or indirectly, Council finances.
- The MTFS provides forecasts on funding and on net expenditure and sensitives associated with these forecasts. Moreover, the Capital Strategy documents collectively provide assurance with respect to the affordability, sustainability and prudence of capital expenditure.

3.4 In calculating the minimum level of General Fund balance, an assessment of the risks that give rise to unanticipated expenditure or loss of income has been made and these are shown in the table below. The analysis shows that, in the unlikely event of a 'perfect storm' of risks happening all within the next year, there are sufficient balances to meet all these risks in the short term which would give the Council time to adapt in the longer term.

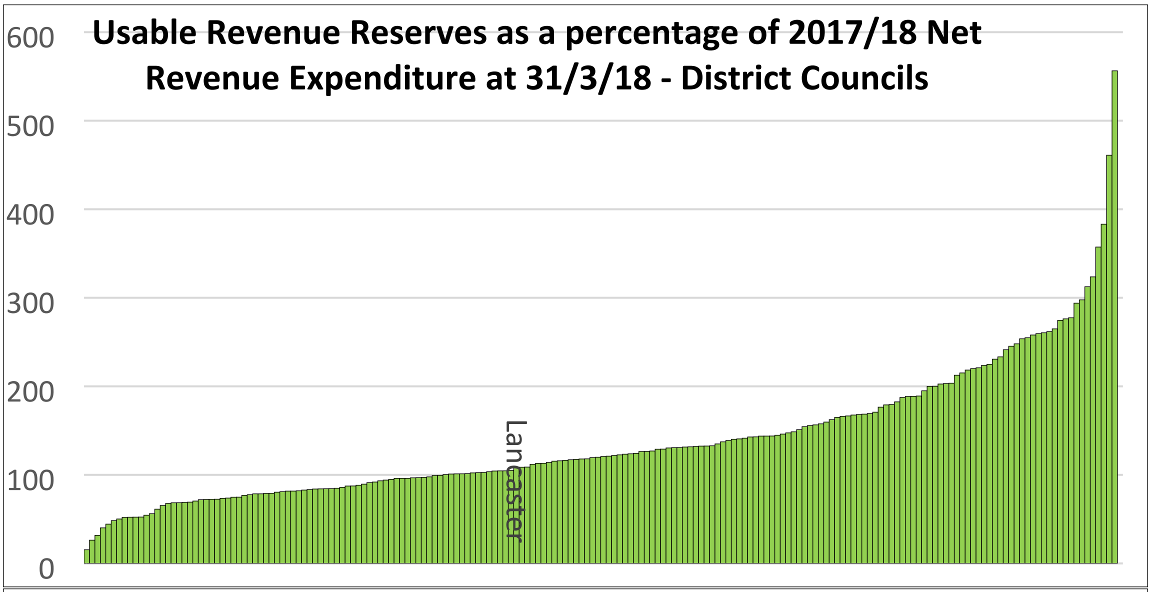
Risk	Symptom of risk	Balance required £000
Increased demand for services	3% increase in net revenue expenditure	500
Recession results in reduced fees and charges income	10% reduction in major fees and charges income	657
Recession results in reduced council tax collection rates	3% reduction in collection rate	282
New Homes Bonus scrapped	Significant reduction in funding income	1,242
Next year's budget savings not achieved	Significant overspend	1,083
Natural disaster such as flood	Additional unanticipated expenditure	500
Uncertainty with respect to Brexit	Additional unanticipated expenditure	500
Aggregate overspend if all above risks were to happen		4,764
General Fund Balance as at 31/03/18		5,069

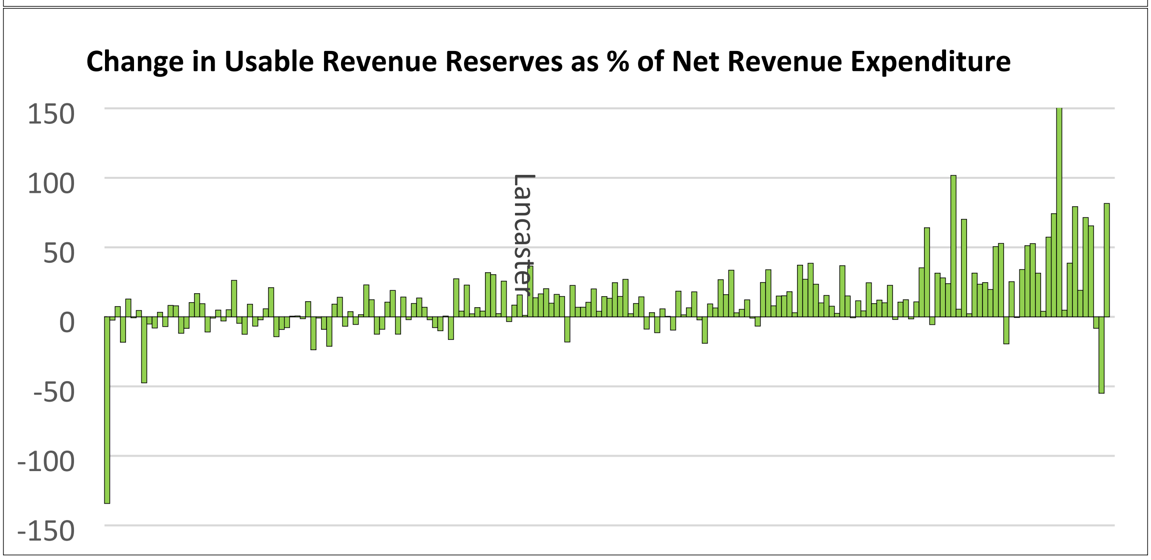
3.5 Whilst it is highly unlikely that all the above events would occur at the same time, it is nevertheless a more uncertain time with respect to funding and expenditure with the results of the Fair Funding review expected to be incorporated into the finance settlement from 2020/21 onwards. **Taking this additional risk into account, the Section 151 Officer's advice is that the minimum level of balances held in the General Fund should be set at £2m, an increase of £0.5m.**

3.6 The minimum level of balances will be kept under review as part of the MTFS and reported to Cabinet on a regular basis.

Earmarked Reserves

3.7 Forecast earmarked reserve levels are set out in **Appendix C**. Earmarked reserves are forecast to increase significantly in 2018/19 mainly due to business rate growth. This improves the Council's financial resilience and when taken with the General Fund balance provides a level of usable revenue reserves which is equivalent to about a year's worth of net revenue expenditure. The graph below compares Lancaster's usable revenue reserve levels with all other district councils which should give some assurance with respect to adequacy of reserves.





Business Rates Reserve

3.8 This reserve was set up to manage fluctuations in business rates income and the risks attributable to business rates appeals and the potential shutdown of Heysham Power Station. However, in six years these risks have not materilaised and the Council has been able to accrue the rewards from good levels of business rates growth in the Lancaster district. Going forward, the risks persist but as part of the MTFS, an assessment of the exposure to those risks has been undertaken and it is calculated that there are surplus funds in the business rates reserve over and above those which are required to protect business rates income over the medium term. As the surplus funds are effectively attributable to economic growth it seems appropriate that consideration be given to redirecting their use towards corporate priority initiatives.

Budget Support Reserve

3.9 The budget support reserve's purpose should be extended to include any upfront costs which are attributable to work undertaken in respect of the Funding the Future strategy. Any such bid to the reserve should be accompanied by a business case showing the need for intervention and outcomes and impact arising from the use of the reserve.

Reorganisation Reserve

3.10 All three Directorates created under the recent reorganisation will commence structural reviews during 2019/20. There may be a significant call upon this reserve for costs relating to redundancy and pension strain but any call on the reserve should be accompanied by a payback calculation which compares the upfront cost with ongoing savings.

3.11 The MTFS incorporates a Reserves Strategy which covers specific plans for the above reserves. It is recommended that Cabinet delegate the finalisation of the Reserves Strategy to the Finance Portfolio Holder, as part of the MTFS refresh, prior to referral to Budget Council.

4 GENERAL FUND CAPITAL PROGRAMME

4.1 The Capital Programme for 2019/20 to 2022/23 is set out in **Appendix D** and is summarised in the table below.

	18/19 £m	19/20 £m	20/21 £m	21/22 £m	22/23 £m	Total £m
Disabled Facilities Grants	2.65	2.36	1.61	1.61	1.61	**9.84**
Vehicles & Plant	0.81	1.46	2.30	0.52	0.79	**5.87**
Sea & River Defence Works	2.43	0.45	0.43	-	-	**3.30**
Council Properties	0.48	2.72	-	-	-	**3.20**
Econ. Dev. & Regeneration	0.33	1.29	-	-	-	**1.62**
Parks, Sport & Recreation	0.21	0.12	1.00			**1.33**
ICT Infrastructure & Equip.	0.29	0.23	0.33	0.10	0.34	**1.29**
Solar Energy	-	0.36	0.32	-	-	**0.68**
S106 Funded Schemes	0.15	0.14	-	-	-	**0.29**
Car Parks & CCTV	0.10	0.07	-	-	-	**0.17**
Total	**7.45**	**9.20**	**5.99**	**2.23**	**2.73**	**27.59**
Funded by						
Capital Receipts	-0.20	0.00	0.00	0.00	0.00	**-0.20**
Capital Grants & Contributions	-5.22	-2.42	-1.61	-1.61	-1.61	**-12.47**
Capital Reserves	-0.86	-0.86	-0.12	-0.06	0.00	**-1.90**
Revenue	-0.01	-	-	-	-	**-0.01**
Unsupported Borrowing	-1.16	-5.92	-4.26	-0.56	-1.12	**-13.02**
Total	**-7.45**	**-9.20**	**-5.99**	**-2.23**	**-2.73**	**-27.59**

4.2 In setting the capital programme the Council must have regard to affordability and the Treasury Management Strategy sets out the impact of the Council's Capital Programme on its borrowing to ensure that all borrowing is affordable, prudent and sustainable.

5. TREASURY MANAGEMENT STRATEGY

5.1 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.

5.2 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.

5.3 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 have been made regarding the capital and treasury management framework.

5.4 The main objective of these changes was to respond to the major expansion of local authority investment activity over the last few years into the purchase of non-financial investments, particularly property. The updated framework distinguishes between treasury management activities and investment in non-financial investments.

5.5 Treasury management activities represent the placement of residual cash held in the bank resulting from the authority's day to day activities in relation to S12 Local Government Act investment powers. The Treasury Management Strategy, therefore deals principally with investments and borrowing.

5.6 Non-treasury investments would include commercial investments whereby the objective is primarily to generate capital or revenue resources. The resources generated would then help facilitate the delivery of council services.

5.7 The Prudential Code 2017 also introduced a new requirement to produce an annual capital strategy. This is an over-arching corporate document which deals with the key areas of strategic context, corporate priorities, capital investment ambition, available resources, affordability, capacity to deliver, risk appetite, risk management and determining an appropriate split between non-financial and treasury management investments in the context of ensuring the long term financial sustainability of the authority. It sets the context for the Treasury Management and Investment Strategies. The Capital Strategy is included elsewhere on this agenda.

Treasury Management Framework

5.8 The proposed Strategy for 2019/20 to 2022/23 is set out at **Appendix G** 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 E** and the policy statement is presented at **Appendix F**.

5.9 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. 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.

Borrowing Aspects of the Strategy

5.10 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.

Investment Aspects of the Strategy

5.11 Overall, the strategy put forward follows on from 2018/19 in that it is based on the Council having a comparatively low risk appetite with focus on high quality deposits. The 2019/20 strategy continues to use the same investment criteria as approved by Members in 2018/19.

5.12 The proposed investment aspects of the strategy for treasury activities 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.

6. MEDIUM TERM FINANCIAL STRATEGY

6.1 The proposals set out in this report will be incorporated into the refresh of the Medium Term Financial Strategy (MTFS) so that this can be presented to Budget Council. The MTFS covers the following areas:

- Using the balanced revenue budget for 2019/20 as a base, a forecast of funding and net revenue expenditure for the next four years has been undertaken to understand the future funding gap.
- Initial high level plans for bridging the gap are explored which include actions arising from the Funding the Future strategy, reorganisations and proactive asset management.
- A new Capital Strategy; an overarching document which sets the policy framework for the development, management and monitoring of capital investment. It incorporates the Property Investment Strategy, Asset Management Plan and Treasury Management Framework. The Strategy which sets out revised management and governance arrangements which will be key as ambitious economic development, property investment and proactive asset management projects come forward for consideration.
- A MTFS Action Plan to be agreed by Cabinet and monitored by Budget and Performance Panel in order to ensure that the authority focuses on the budget gap in a timely and effective manner

6.2 Cabinet have received a briefing on the MTFS and following on from decisions in this paper it is recommended that Cabinet delegate the authority to finalise the document to the Finance Portfolio Holder prior to consideration at Budget Council.

7. CONSULTATION

Revenue Budget Proposals

7.1 Cabinet's initial budget proposals were presented to the January meetings of Budget and Performance Panel and Council.

Treasury Management Framework

7.2 Officers have liaised with Link Asset Services, the Council's Treasury Advisors, in developing the proposed framework. The framework will be considered by Budget and Performance Panel at its meeting on 19 February.

8 OPTIONS AND OPTIONS ANALYSIS

Revenue Budget

8.1 Cabinet may adjust its revenue budget proposals, as long as the overall budget for 2019/20 balances and fits with the proposed council tax level.

Capital Programme

8.2 Cabinet may adjust its capital investment and financing proposals to reflect spending commitments and priorities but in deciding its final proposals should have regard to the prudential code requirements that all capital expenditure should be prudent, affordable and sustainable.

Treasury Management Framework

8.3 Cabinet may put forward alternative proposals or amendments to the proposed Strategy in **Appendix G**, 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.

8.4 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 E and F.**

9 OFFICER PREFERRED OPTION AND JUSTIFICATION

Revenue Budget, Capital Programme and Reserves Position

9.1 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.

Treasury Management Strategy

9.2 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.

9.3 If Cabinet or Budget Council changes its Capital Programme from that which is proposed in this report then this would require a change in the prudential indicators which are part of the Treasury Management Strategy. Delegation to the Finance Portfolio Holder is therefore requested in order to ensure that Cabinet's final capital programme proposals are reflected in the Treasury Management Strategy.

RELATIONSHIP TO POLICY FRAMEWORK

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

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.

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

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 £2.0m 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. This level has been increased by £0.5m compared with last year to reflect uncertainty with respect to government funding after the Fair Funding review.

Robustness of Estimates

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

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

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

Affordability of Spending Plans

In addition, the s151 Officer is responsible for ensuring that when setting and revising Prudential Indicators, including borrowing limits, all matters to be taken into account are reported to Council for consideration as part of the Treasury Management Framework.

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 and robust business cases for chosen options
- 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 modest net increase in "prudential borrowing" or CFR over the period to 2022/23. 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 further comments.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS	Contact Officer: Daniel Bates
None.	**Telephone: 01524 582138** **E-mail:dbates@lancaster.gov.uk**

Appendices

Appendix A	General Fund Revenue Budget Projections 2019/20 to 2022/23
Appendix B	Summary of Cabinet's Budget Proposals 2019/20 to 2022/23
Appendix C	Reserves Statement (Including Unallocated Balances)
Appendix D	General Fund Capital Programme
Appendix E	Responsibilities for Treasury Management
Appendix F	Treasury Management Policy Statement
Appendix G	Treasury Management Strategy for 2019/20 to 2022/23

General Fund Revenue Budget Projections 2018/19 to 2022/23

For Consideration by Cabinet 12 February 2019

BUDGET PROJECTIONS

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Original Revenue Budget / Forecast	**16,204**	**16,664**	**18,318**	**19,344**	**19,759**
Operational changes made during budget process prior to Cabinet 15 January	-	(48)	(261)	(278)	(284)
Base Budget Changes after Cabinet 15 January					
Additional Govt Grants re New Burdens	-	(68)	-	-	-
Reduction in New Homes Bonus Grant	-	133	-	-	-
Other net changes across all services	-	30	51	106	101
Cabinet Budget Proposals:					
Savings Proposals	-	(1,083)	(585)	(592)	(481)
Growth Proposals	-	669	468	510	440
Contributions from Reserves re Budget Proposals	-	(360)	(34)	(39)	(71)
General Fund Revenue Budget	**16,204**	**15,937**	**17,957**	**19,051**	**19,464**
Core Funding:					
Revenue Support Grant	(941)	(200)	-	-	-
Net Business Rates Income	(6,184)	(6,341)	(5,931)	(6,050)	(6,171)
Council Tax Requirement	**9,079**	**9,396**	**12,026**	**13,001**	**13,293**
Estimated Council Tax Income - (Based on 2.99% increase from 2018/19 onwards)	**9,079**	**9,396**	**9,773**	**10,166**	**10,575**
Resulting Base Budget Deficit	**0**	**0**	**2,253**	**2,835**	**2,718**
Original MTFS Savings Requirement	***-***	***649***	***1,942***	***2,403***	***N/A***
Change	***+0***	***(649)***	***+311***	***+432***	***N/A***

BALANCES

General Fund Unallocated Balance	***£M***
Original Projected Balance as at 31 March 2018	**(4.668)**
2017/18 Actual (Under)/Overspend	(0.399)
2018/19 Budgeted Contribution	+0.000
2018/19 Forecast (Under)/Overspend	+0.013
Projected Balance as at 31 March 2019	**(5.054)**
Less Agreed Minimum Level of Balances	**2.000**
Available Balances	**(3.054)**

Appendix B

Summary of Cabinet's Budget Proposals 2019/20 to 2022/23

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
BUDGET DEFICITS PRIOR TO CABINET'S BUDGET PROPOSALS	**774**	**2,404**	**2,956**	**2,830**

SAVINGS PROPOSALS

	Reserves Funding	2019/20 £'000	2020/21 £'000	2021/22 £'000	88 £'000
Non-Staffing Savings					
Minimum Revenue Provision		(310)	-	-	-
Refuse/Recycling (delay of additional round)		(203)	-	-	-
Inflation Savings		(201)	(201)	(201)	(201)
Additional Car Parking Income		(35)	(36)	(36)	(37)
Reduction in R&M Expenditure		(39)	(40)	(41)	(41)
Empty Property Council Tax Relief		(13)	(24)	(27)	-
External Grants		(12)	(12)	(12)	(12)
Additional Planning Income		(9)	(9)	(9)	(9)
Staffing Savings					
Reduction in Building Cleaning Contract		(20)	(20)	(21)	(21)
Additional Staff Turnover Target		(111)	(113)	(115)	(118)
Restructuring Savings		(130)	(130)	(130)	(130)
Sub Total	**£0K**	**(1,083)**	**(585)**	**(592)**	**(481)**
Funding From Reserves		**0**			
Net Savings		**(1,083)**	**(585)**	**(592)**	**(481)**

	2019/20	2020/21	2021/22	2022/23
INDICATIVE NET (SURPLUS) / SAVINGS TO BE IDENTIFIED C/FWD	**(309)**	**1,819**	**2,364**	**2,349**
INDICATIVE NET (SURPLUS) / SAVINGS TO BE IDENTIFIED B/FWD	**(309)**	**1,819**	**2,364**	**2,349**

GROWTH PROPOSALS

	Reserves Funding	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Non-Staffing Growth					
Garden Waste Charging Freeze/Removal of Savings Target		71	49	49	49
Car Parking Charging Freeze		60	60	60	60
Fibre Network		10	-	-	-
CCTV		23	33	89	34
Anti-Social Behaviour Team		3	82	85	88
Staffing Growth					
Legal Services		47	59	62	66
ICT		22	40	47	49
Human Resources		20	40	25	-
Health & Housing		34	7	-	-
Marketing		19	72	74	76
Growth funded from Reserves					
Economic Growth Initiatives	**£145K**	145	95	95	95
Williamson Park Zoo Extension	**£24K**	24	(9)	(9)	(9)
Street Cleaning Bin Sensor Pilot	**£11K**	11	(19)	(20)	(21)
Grassland Management Study	**£35K**	35	(10)	(15)	(15)
Lancaster VIC Relocation	**£70K**	70	(31)	(32)	(32)
Friends of Parks	**£75K**	75	-	-	-
Total Growth	**£360K**	**669**	**468**	**510**	**440**
Less Funding from Reserves		**(360)**	**(95)**	**(95)**	**(95)**
Add Payback to Reserves			**61**	**56**	**24**
Net Cost of Growth		**309**	**434**	**471**	**369**

	2019/20	2020/21	2021/22	2022/23
REMAINING NET SAVINGS TARGET	**0**	**2,253**	**2,835**	**2,718**

Reserves Statement (Including Unallocated Balances)

	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	From Revenue	To / (From) Capital	To Revenue	31 March 2023
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Unallocated Balances	(5,067,000)			21,400	(5,045,600)				(5,045,600)				(5,045,600)				(5,045,600)				(5,045,600)
Earmarked Reserves:																					
Business Rates Retention	(4,602,000)	(4,347,700)		2,666,300	(6,283,400)				(6,283,400)				(6,283,400)				(6,283,400)				(6,283,400)
Budget Support	(710,800)	(2,666,300)	160,000	1,292,300	(1,924,800)		196,000	496,300	(1,232,500)			93,000	(1,139,500)			46,600	(1,092,900)				(1,092,900)
Canal Quarter	(214,200)	(186,000)		216,400	(183,800)			103,500	(80,300)			23,200	(57,100)				(57,100)				(57,100)
Capital Support	(485,200)		36,000	379,000	(70,200)		65,000		(5,200)				(5,200)				(5,200)				(5,200)
Corporate Property	(411,700)			40,000	(371,700)				(371,700)				(371,700)				(371,700)				(371,700)
Economic Growth	(358,700)		25,000	140,900	(192,800)			109,100	(83,700)			41,900	(41,800)			1,500	(40,300)				(40,300)
Elections	(80,000)	(40,000)			(120,000)	(40,000)		160,000		(40,000)			(40,000)	(40,000)			(80,000)	(40,000)			(120,000)
Homelessness Support	(101,600)	(6,600)			(108,200)	(6,600)			(114,800)	(6,600)			(121,400)	(6,600)			(128,000)	(6,600)			(134,600)
Invest to Save	(1,506,000)		53,000		(1,453,000)			139,800	(1,313,200)	(60,800)			(1,374,000)	(55,100)			(1,429,100)	(23,900)			(1,453,000)
Local Plan	(124,900)			124,900																	
Morecambe Area Action Plan	(27,300)				(27,300)		11,000		(16,300)				(16,300)				(16,300)				(16,300)
Planning Fee Income		(61,800)			(61,800)	(14,400)			(76,200)			31,200	(45,000)			39,600	(5,400)				(5,400)
Renewals Reserves	- (451,400)	(479,300)	415,000	243,100	(272,600)	(479,300)	402,000	122,400	(227,500)	(481,800)	117,000	34,200	(558,100)	(481,800)	60,000	34,200	(945,700)	(481,800)		34,200	(1,393,300)
General Renewals	(229,900)	(293,300)	275,000	152,200	(96,000)	(293,300)	392,000	86,900	89,600	(295,800)	117,000		(89,200)	(295,800)	60,000		(325,000)	(295,800)			(620,800)
Salt Ayre Leisure Centre	(21,800)	(150,000)	140,000	30,000	(1,800)	(150,000)	10,000		(141,800)	(150,000)			(291,800)	(150,000)			(441,800)	(150,000)			(591,800)
Williamson Park	(41,800)	(18,000)		18,000	(41,800)	(18,000)		18,000	(41,800)	(18,000)		18,000	(41,800)	(18,000)		18,000	(41,800)	(18,000)		18,000	(41,800)
Car Parks	(114,900)	(12,000)		25,000	(101,900)	(12,000)		12,000	(101,900)	(12,000)		12,000	(101,900)	(12,000)		12,000	(101,900)	(12,000)		12,000	(101,900)
Happy Mount Park	(19,400)	(4,000)		10,400	(13,000)	(4,000)			(17,000)	(4,000)		4,200	(16,800)	(4,000)		4,200	(16,600)	(4,000)		4,200	(16,400)
Arnside & Silverdale AONB	(23,600)	(2,000)		7,500	(18,100)	(2,000)		5,500	(14,600)	(2,000)			(16,600)	(2,000)			(18,600)	(2,000)			(20,600)
Restructure	(565,700)			33,500	(532,200)				(532,200)				(532,200)				(532,200)				(532,200)
Revenue Grants Unapplied	(744,100)	(30,000)		125,900	(648,200)	(15,000)		47,200	(616,000)	(5,300)		13,500	(607,800)				(607,800)				(607,800)
S106 Commuted Sums - Open Spaces	(60,600)			16,600	(44,000)			15,600	(28,400)			11,800	(16,600)			11,800	(4,800)			4,700	(100)
S106 Commuted Sums - Affordable Housing	(687,300)				(687,300)				(687,300)				(687,300)				(687,300)				(687,300)
S106 Commuted Sums - Highways, Cycle Paths etc.	(444,200)	(300,000)	167,000	9,300	(567,900)	(200,000)	190,000		(577,900)	(200,000)			(777,900)	(200,000)			(977,900)	(200,000)			(1,177,900)
Welfare Reforms	(223,500)	(154,100)		25,000	(352,600)			25,000	(327,600)				(327,600)				(327,600)				(327,600)
Amenity Improvements		(29,000)			(29,000)				(29,000)				(29,000)				(29,000)				(29,000)
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	(11,869,100)	(8,300,800)	856,000	5,313,200	(14,000,700)	(755,300)	864,000	1,218,900	(12,673,100)	(794,500)	117,000	248,800	(13,101,800)	(783,500)	60,000	133,700	(13,691,600)	(752,300)		38,900	(14,405,000)
Total Combined Reserves	(16,936,100)				(19,046,300)				(17,718,700)				(18,147,400)				(18,737,200)				(19,450,600)

Reserves Statement (Including Unallocated Balances)

	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 £	From Revenue £	To / (From) Capital £	To Revenue £	31 March 2023 £
Unallocated Balances	(5,067,000)			21,400	(5,045,600)				(5,045,600)				(5,045,600)				(5,045,600)				(5,045,600)
Earmarked Reserves:																					
To manage fluctuations in income or funding:																					
Business Rates Retention	(4,602,000)	(4,347,700)		2,666,300	(6,283,400)				(6,283,400)				(6,283,400)				(6,283,400)				(6,283,400)
Planning Fee Income		(61,800)			(61,800)	(14,400)			(76,200)			31,200	(45,000)			39,600	(5,400)				(5,400)
To provide for some future anticipated expenditure for identified projects:																					
Canal Quarter	(214,200)	(186,000)		216,400	(183,800)			103,500	(80,300)			23,200	(57,100)				(57,100)				(57,100)
Capital Support	(485,200)		36,000	379,000	(70,200)		65,000		(5,200)				(5,200)				(5,200)				(5,200)
Economic Growth	(358,700)		25,000	140,900	(192,800)			109,100	(83,700)			41,900	(41,800)			1,500	(40,300)				(40,300)
Elections	(80,000)	(40,000)			(120,000)	(40,000)		160,000		(40,000)			(40,000)	(40,000)			(80,000)	(40,000)			(120,000)
Local Plan	(124,900)			124,900																	
Morecambe Area Action Plan	(27,300)				(27,300)		11,000		(16,300)				(16,300)				(16,300)				(16,300)
Renewals Reserves	(451,400)	(479,300)	415,000	243,100	(272,600)	(479,300)	402,000	122,400	(227,500)	(481,800)	117,000	34,200	(558,100)	(481,800)	60,000	34,200	(945,700)	(481,800)		34,200	(1,393,300)
Welfare Reforms	(223,500)	(154,100)		25,000	(352,600)			25,000	(327,600)				(327,600)				(327,600)				(327,600)
Amenity Improvements		(29,000)			(29,000)				(29,000)				(29,000)				(29,000)				(29,000)
To provide up-front costs which specifically result in future efficiencies, cost savings or increased income:																					
Budget Support	(710,800)	(2,666,300)	160,000	1,292,300	(1,924,800)		196,000	496,300	(1,232,500)			93,000	(1,139,500)			46,600	(1,092,900)				(1,092,900)
Corporate Property	(411,700)			40,000	(371,700)				(371,700)				(371,700)				(371,700)				(371,700)
Invest to Save	(1,506,000)		53,000		(1,453,000)			139,800	(1,313,200)	(60,800)			(1,374,000)	(55,100)			(1,429,100)	(23,900)			(1,453,000)
Restructure	(565,700)			33,500	(532,200)				(532,200)				(532,200)				(532,200)				(532,200)
To hold funding from other bodies, mainly Government, for specified purposes:																					
Revenue Grants Unapplied	(744,100)	(30,000)		125,900	(648,200)	(15,000)		47,200	(616,000)	(5,300)		13,500	(607,800)				(607,800)				(607,800)
Homelessness Support	(101,600)	(6,600)			(108,200)	(6,600)			(114,800)	(6,600)			(121,400)	(6,600)			(128,000)	(6,600)			(134,600)
S106 Commuted Sums - Open Spaces	(60,600)			16,600	(44,000)			15,600	(28,400)			11,800	(16,600)			11,800	(4,800)			4,700	(100)
S106 Commuted Sums - Affordable Housing	(687,300)				(687,300)				(687,300)				(687,300)				(687,300)				(687,300)
S106 Commuted Sums - Highways, Cycle Paths etc.	(444,200)	(300,000)	167,000	9,300	(567,900)	(200,000)	190,000		(577,900)	(200,000)			(777,900)	(200,000)			(977,900)	(200,000)			(1,177,900)
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	(11,869,100)	(8,300,800)	856,000	5,313,200	(14,000,700)	(755,300)	864,000	1,218,900	(12,673,100)	(794,500)	117,000	248,800	(13,101,800)	(783,500)	60,000	133,700	(13,691,600)	(752,300)		38,900	(14,405,000)
Total Combined Reserves	(16,936,100)				(19,046,300)				(17,718,700)				(18,147,400)				(18,737,200)				(19,450,600)

General Fund Capital Programme

For consideration by Cabinet 12 February 2019

Service / Scheme	2018/19			2019/20			2020/21			2021/22			2022/23			5 YEAR PROGRAMME		
	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Total Gross Programme	Total External Funding	Total Net Programme
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Environmental Services																		
Vehicle Renewals	662,000		662,000	1,389,000		1,389,000	2,300,000		2,300,000	515,000		515,000	787,000		787,000	5,653,000		5,653,000
Vehicle Fleet Review	59,000		59,000													59,000		59,000
Vehicle Ramp	34,000		34,000													34,000		34,000
Vehicle Maintenance Unit Plant				75,000		75,000										75,000		75,000
Electronic Vehicle Charging Points	54,000	(49,000)	5,000													54,000	(49,000)	5,000
Cable Street Car Park Extension	35,000		35,000													35,000		35,000
CCTV Extension to White Lund Depot	53,000		53,000													53,000		53,000
Happy Mount Park Pathway Replacements				112,000		112,000										112,000		112,000
Bolton Le Sands Young Peoples' Facilities	15,000		15,000													15,000		15,000
Williamson Park							1,000,000		1,000,000							1,000,000		1,000,000
Solar Installation Salt Ayre Phase One				360,000		360,000	325,000		325,000							685,000		685,000
Health and Housing																		
Disabled Facilities Grants	2,650,000	(2,650,000)	0	2,362,000	(2,362,000)	0	1,607,000	(1,607,000)	0	1,607,000	(1,607,000)	0	1,607,000	(1,607,000)	0	9,833,000	(9,833,000)	0
Heysham School Capital Funding	36,000		36,000													36,000		36,000
Salt Ayre Sports Centre - Redevelopment	164,000		164,000	10,000		10,000										174,000		174,000
Regeneration and Planning																		
Sea & River Defence Works & Studies	2,427,000	(2,427,000)	0	450,000	(26,000)	424,000	426,000	(3,000)	423,000	3,000	(3,000)	0				3,306,000	(2,459,000)	847,000
Amenity Improvements (Morecambe Promenade)	6,000		6,000													6,000		6,000
Lancaster Square Routes	21,000	(2,000)	19,000	29,000	(29,000)	0										50,000	(31,000)	19,000
Morecambe THI2: A View for Eric	15,000	(11,000)	4,000													15,000	(11,000)	4,000
MAAP Improving Morecambe's Main Streets	44,000		44,000	141,000		141,000										185,000		185,000
Far Moor Playing Fields s106 Scheme				70,000		70,000										70,000		70,000
Lancaster District Empty Homes Partnership	36,000		36,000	65,000		65,000										101,000		101,000
Coastal Revival Fund - Morecambe Co-Op Building	77,000	(77,000)	0													77,000	(77,000)	0
S106 Highways Works	148,000		148,000	70,000		70,000										218,000		218,000

General Fund Capital Programme

For consideration by Cabinet 12 February 2019

Service / Scheme	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	2022/23 Gross Budget	2022/23 External Funding	2022/23 Net Programme	5 YEAR PROGRAMME Total Gross Programme	5 YEAR PROGRAMME Total External Funding	5 YEAR PROGRAMME Total Net Programme
Resources																		
ICT Systems, Infrastructure & Equipment	293,000		293,000	229,000		229,000	130,000		130,000	105,000		105,000	337,000		337,000	1,094,000		1,094,000
Residual Corporate Property Works	25,000		25,000													25,000		25,000
Hale Carr Lane Cemetery Chapel				132,000		132,000										132,000		132,000
City Museum Roof & Boiler	316,000		316,000	125,000		125,000										441,000		441,000
Lancaster Town Hall Steps	43,000		43,000													43,000		43,000
1 Lodge Street Urgent Structural Repairs				358,000		358,000										358,000		358,000
Palatine Recreation Ground Pavillion				125,000		125,000										125,000		125,000
Queen Victoria Memorial				250,000		250,000										250,000		250,000
Royal Albert Playing Field Pavilion				82,000		82,000										82,000		82,000
Ryelands Park - Ryelands House	100,000		100,000													100,000		100,000
Energy Efficiency Works				311,000		311,000										311,000		311,000
Development Pool																		
Half Moon Bay Car Park Extension				60,000		60,000										60,000		60,000
Lancaster Town Hall Phase 3				485,000		485,000										485,000		485,000
Lancaster Town Hall Second Lift & Associated Works				622,000		622,000										622,000		622,000
Palatine Hall				122,000		122,000										122,000		122,000
Cable Street Christmas Lights				24,000		24,000										24,000		24,000
Heysham Gateway - Demolition & Removal of Tanks	132,000	(8,000)	124,000	479,000		479,000										611,000	(8,000)	603,000
Canal Quarter				550,000		550,000										550,000		550,000
Demolition of Edward Street Dance Studio				109,000		109,000										109,000		109,000
ICT Telephony							200,000		200,000							200,000		200,000
GENERAL FUND CAPITAL PROGRAMME	7,445,000	(5,224,000)	2,221,000	9,196,000	(2,417,000)	6,779,000	5,988,000	(1,610,000)	4,378,000	2,230,000	(1,610,000)	620,000	2,731,000	(1,607,000)	1,124,000	27,590,000	(12,468,000)	15,122,000

Financing :	2018/19	2019/20	2020/21	2021/22	2022/23	5 Year Total Net Programme
Capital Receipts	(200,000)	0	0	0	0	(200,000)
Direct Revenue Financing	(5,000)	0	0	0	0	(5,000)
Earmarked Reserves	(856,000)	(864,000)	(117,000)	(60,000)	0	(1,897,000)
Increase / (Reduction) in Capital Financing Requirement (CFR) (Underlying Change in Borrowing Need)	1,160,000	5,915,000	4,261,000	560,000	1,124,000	13,020,000

Appendix E

TREASURY MANAGEMENT FRAMEWORK DOCUMENTS AND RESPONSIBILITIES

For consideration by Cabinet 12 February 2019

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 issued in 2017.
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 Section 151 Officer's'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 Section 151 Officer's responsibility to ensure their inclusion.

Appendix F

LANCASTER CITY COUNCIL

TREASURY MANAGEMENT POLICY STATEMENT

For consideration by Cabinet
12 February 2019

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.

Appendix G

Treasury Management Strategy 2019/20 to 2022/23

For Consideration by Cabinet 12 February 2019

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 contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure) and are separate from the day to day treasury management activities.

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."

Revised reporting is required for the 2019/20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is being reported separately.

1.2 Reporting Requirements

Capital Strategy

The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, all local authorities to prepare an additional report, a capital strategy report, which will provide the following:

- a high-level long term 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 capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy will show:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (MRP policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.

If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

Treasury Management Reporting

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.

1.3 Treasury Management Strategy for 2019/20

The strategy for 2019/20 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 responsible officer 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 2019 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, Treasury solutions as its external treasury management advisors.

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

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

2 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	2017/18 Actual £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
General Fund	11.64	7.44	9.20	5.99	2.23	2.73
Housing Revenue Account (HRA)	4.03	4.16	4.77	4.15	4.25	4.16
Total	**15.67**	**11.60**	**13.97**	**10.14**	**6.48**	**6.89**
Financed by:						
Capital receipts	-1.28	-0.69	-0.49	-0.49	-0.49	-0.49
Capital grants	-5.59	-5.22	-2.44	-1.61	-1.61	-1.61
Capital reserves	-4.26	-3.67	5.13	-3.78	-3.82	-3.67
Revenue	-0.13	-0.86	0.00	0.00	0.00	0.00
Net financing need for the year	**4.41**	**1.16**	**5.91**	**4.26**	**0.56**	**1.12**

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 no leases within the CFR.

Members are asked to approve the CFR projections below:

£m	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Capital Financing Requirement						
CFR – Non Housing	43.65	43.15	47.49	49.87	48.25	47.24
CFR – Housing	40.40	39.35	38.31	37.27	36.23	35.19
Total CFR	**84.05**	**82.50**	**85.80**	**87.15**	**84.48**	**82.43**
Movement in CFR						
Non Housing	3.00	-0.51	4.34	2.38	-1.63	-1.01
Housing	-1.06	-1.04	-1.04	-1.04	-1.04	-1.04
Net Movement in CFR	**1.98**	**-1.55**	**3.30**	**1.34**	**-2.67**	**-2.05**

Movement in CFR represented by						
Net financing need for the year (above) re Non Housing	4.41	1.16	5.91	4.26	0.56	1.12
Less MRP/VRP and other financing movements	-2.43	-2.71	-2.61	-2.92	-3.23	-3.17
Net Movement in CFR	**1.98**	**-1.55**	**3.30**	**1.34**	**-2.67**	**-2.05**

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	2017/18 Actual £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Fund balances / reserves	29.52	29.43	27.94	28.45	29.11	29.90
Capital receipts	0.00	0.00	0.00	0.00	0.00	0.00
Provisions	0.58	0.50	0.50	0.50	0.50	0.50
Total core funds	**30.10**	**29.93**	**28.44**	**28.95**	**29.61**	**30.14**
Working capital*	14.81	22.70	22.70	22.70	22.70	22.70
Under borrowing	-19.84	-19.34	-23.68	-26.06	-24.43	-23.43
Expected investments	**25.07**	**33.29**	**27.46**	**25.59**	**27.88**	**29.67**

*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. Members are asked to approve the following indicators:

2.6 Ratio of Financing Costs to Net Revenue Stream

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

	2017/18 Actual £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
General Fund	15.5%	16.8%	16.8%	16.6%	17.4%	16.9%
HRA	21.7%	21.5%	20.9%	20.3%	19.5%	18.7%

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 forward projections for borrowing 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.

	2017/18 Actual £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
External Debt						
Debt at 1 April	65.25	64.21	63.17	62.13	61.08	60.04
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	-0.00	0.00	0.00	0.00	0.00
Actual gross debt at 31 March	**64.21**	**63.17**	**62.13**	**61.08**	**60.04**	**59.00**
The Capital Financing Requirement	**84.05**	**82.50**	**85.80**	**87.15**	**84.48**	**82.43**
Under Borrowing	**-19.84**	**-19.34**	**-23.68**	**-26.06**	**-24.43**	**-23.43**

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 Interim Head of Financial Services 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	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Debt*	82.50	85.80	87.15	84.48	82.43
Other long term liabilities	0.00	0.00	0.00	0.00	0.00
Total	**84.05**	**85.80**	**87.15**	**84.48**	**82.43**

- *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 legal 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	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Debt	98.00	101.00	102.00	99.00	97.00
Other long term liabilities	1.00	1.00	1.00	1.00	1.00
Total	**99.00**	**102.00**	**103.00**	**100.00**	**98.00**

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

HRA Debt Limit	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
HRA debt cap*	60.19	60.19	60.19	60.19	60.19
HRA CFR	39.35	38.31	37.27	36.23	35.19
HRA headroom	**20.84**	**21.88**	**22.92**	**23.96**	**25.01**

- ***Abolition of the HRA debt cap**. In October 2018 prime Minister Theresa May announced a policy change of abolition of the HRA debt cap. The Chancellor announced in the Budget that the applicable date was 29.10.18*

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-19	Mar-20	Mar-21	Mar-22
Bank Rate	0.75%	1.25%	1.50%	2.00%
3 Month LIBID	0.90%	1.30%	1.60%	2.00%
6 Month LIBID	1.00%	1.50%	1.80%	2.20%
12 Month LIBID	1.20%	1.60%	2.00%	2.40%
5yr PWLB rate	2.10%	2.30%	2.60%	2.80%
10yr PWLB rate	2.50%	2.80%	3.00%	3.20%
25yr PWLB rate	2.90%	3.20%	3.40%	3.60%
50yr PWLB rate	2.70%	3.00%	3.20%	3.40%

The flow of generally positive economic statistics after the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, from 0.5% to 0.75%. Growth became increasingly strong during 2018 until slowing significantly during the last quarter. At their November quarterly Inflation Report meeting, the MPC left Bank Rate unchanged, but expressed some concern at the Chancellor's fiscal stimulus in his Budget, which could increase inflationary pressures. However, it is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. On a major assumption that Parliament and the EU agree a Brexit deal in the first quarter of 2019, then the next increase in Bank Rate is forecast to be in May 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.

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.

Investment and borrowing rates

- *Investment returns are likely to remain low during 2019/20 but be on a gently rising trend over the next few years;*
- *Borrowing interest rates have been volatile so far in 2018-19 and while they were on a rising trend during the first half of the year, they have backtracked since then until early January. 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, (the difference between higher borrowing costs and lower investment returns) to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost..*

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 2019/20 treasury operations. The Section 151 Officer, 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 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 Maturity Structure of Borrowing

These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.

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

	2018/19	2019/20	2020/21	2021/22	2022/2023
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 2019/20	£m	
Under 12 months	1.04	1.65%
12 months and within 24 months	1.04	1.65%
24 months and within 5 years	3.12	4.94%
5 years and within 10 years	5.20	8.23%
10 years and within 15 years	5.20	8.23%
15 years and within 25 years	8.35	13.22%
25 years and within 50 years	39.22	62.08%

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 MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy (a separate report).

Council's investment policy has regard to the following:

- MHCLG Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities will be security first, liquidity second, then return.

The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

1. Minimum acceptable **credit criteria** are appliedin order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor cournerparties are the short term and long term ratings.

2. **Other Information**: 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 achieve this the council I 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.

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

4. The authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in **annex B2** under the categories of 'specified' and 'non-specified' investments.

- **Specified investments** are those with a high level of credit quality and subject ot a maturity limit of one year.

- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Non-specified investments limit**. The Council has determined that it will limit the maximum total exposure to non-specified investments as being 20% of the total investment portfolio. (see paragraph 4.3)

6. **Lending limits** (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2

7. **Transaction limits** are set for each type of investment in 4.2

8. The Council will set a limit for the amount of its investments which are invested for **longer than 365 days** (see paragraph 4.4)

9. Investments will only be placed with counterparties from countries with a specified minimum sovereign rating (see paragraph 4.3)

10. The Council has engaged **external consultants** (see paragraph 1.5), to provided expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in **sterling.**

The Council will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year.
The above criteria are unchanged from last year

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	£1m	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 to help support its decision making process.

UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

4.3 Country Limits

Due care will be taken to consider the exposure of the Council's total invesment portfolio to non-specified investments, countries, groups and sectors

a) **Non-specified investment limit.** The Council has determined that it will limit the maximum total exposure to non-specified invesments as being 20% of the total investment portfolio.

b) **Country limit.** 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 Investment Strategy

In-house Funds: Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (iup to 12 months).

Investment Returns Expectations: On the assumption that the UK and EU agree a Brexit deal in spring 2019, the Bank Rate is forecast to increase steadily but slowly over the next few years to reach 2.00% by quarter 1 2022. Bank Rate forecasts for financial year ends (March) are:

- 2018/19 0.75%
- 2019/20 1.25%
- 2020/21 1.50%
- 2021/22 2.00%

The suggested budgeted investment earnings rates for returns on investments place for periods up to about three months during each financial year are:

- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.50%
- 2021/22 1.75%
- 2022/23 2.00%

The overall balance of risks to economic growth in the UK is probably neutral. The balance of risks to increases in Bank Rate and shorter term PWLB rates are probably also even and are dependent on how strong GDP growth turns out, how slowly inflation pressures subside and how quickly the Brexit negotiations move forward positively.

Investment treasury indicator and limit - 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 an investment, and are based on the availability of funds after each year-end. Council is asked to approve the following treasury indicator and limit:

Maximum principal sums invested > 365 days					
	2018/19	**2019/20**	**2020/21**	**2021/22**	**2022/22**
Principal sums invested > 365 days	Nil	Nil	Nil	Nil	Nil

4.5 End of year investment report

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

ANNEX 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.

- **Link Asset Services** – Link 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

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