CABINET

6.00 P.M. **28TH JUNE 2016**

PRESENT:- Councillors Eileen Blamire (Chairman), Janice Hanson (Vice-Chairman), Darren Clifford, James Leyshon, Karen Leytham, Margaret Pattison, David Smith and Anne Whitehead

Officers in attendance:-

Mark Cullinan	Chief Executive
Nadine Muschamp	Chief Officer (Resources) and Section 151 Officer
Anne Marie Harrison	Economic Development Manager
Liz Bateson	Principal Democratic Support Officer

1 MINUTES

The minutes of the meeting held on Tuesday 26 April 2016 were approved as a correct record.

2 ITEMS OF URGENT BUSINESS AUTHORISED BY THE LEADER

The Chairman advised that there were no items of urgent business.

3 DECLARATIONS OF INTEREST

No declarations were made at this point.

4 PUBLIC SPEAKING

Members were advised that there had been two requests to speak at the meeting from in accordance with Cabinet's agreed procedure, as set out in Cabinet Procedure Rule 2.7, with regard to the Review of Museums Service (Minute 5 refers).

Councillor Roger Mace spoke on behalf of the Friends of Lancaster City Museum and Major Danny Parsonage, trustee of the Kings Own also addressed Cabinet.

5 REVIEW OF MUSEUMS SERVICE

(Cabinet Member with Special Responsibility Councillor Clifford)

Cabinet received a report from the Chief Officer (Regeneration & Planning) to advise Cabinet on the findings of a high level review of the current museums service and seek guidance on the overall strategy and actions which members might wish to pursue to develop a more sustainable museums service for the future.

The options, options analysis, including risk assessment and officer preferred option, were set out in the report as follows:

	Advantages	Disadvantages	Risks
Option 1: Close all	Significant revenue savings	Museums service ceases to exist	Legal risk - current management

museums	Potential capital receipts and revenue income from the existing buildings	Negative impact on quality of life in the district through the loss of community, education and visitor services Negative impact on the visitor economy Strongly undermines Lancaster's national status as a heritage city Reputational damage for the Council in terms of funders, partners and the community Transfer of part or all of the museums service into a different delivery vehicle once the service has closed down No alternative provider currently available	agreement requires two years notice Delivery risk - no clear solutions for the disposal of valuable collections although the Council has the responsibility to safeguard these. All options would have cost and resource requirements
Option 2: Continue with current arrangements (Do Nothing)	Continues to provide a museums service for the district	Ongoing revenue costs are high and likely to increase Existing museums are underperforming in terms of footfall and income and do not therefore achieve optimum results for economic impact or improved financial sustainability Collections management arrangements are expensive and	Delivery risk - maintaining a status quo situation for management arrangements seems unlikely to be a long term option due to imminent changes within Lancashire County Council's museums service Financial risk - the City Council's budgets face ongoing pressure over the next few years

		inadequate Current displays/ exhibitions urgently require investment to refresh and present to today's audiences	
Option 3: Undertake a range of small scale changes	Some small improvements could improve footfall and income to a limited extent	Ongoing revenue costs are high and likely to increase Very limited opportunity to increase income or gain capital receipts Investment required to deliver small scale changes although the business case to invest in some elements of the current museums service is weak Less likely to attract external funding Limited potential to achieve significant benefits Will not future proof the museums service for the long term	Without significant change the ability to increase footfall might be impeded as the overall impression could be that nothing has really changed.
Option 4: Investigate the feasibility of complete redesign of museums service	Potential to significantly reduce ongoing revenue and repairs and maintenance costs by the reduction in the number of museum buildings Likely to produce capital receipts or revenue income from buildings no longer required as museums	Loss of Maritime and Cottage Museums Temporary interruption to the museums service in order to undertake works required Need to identify capital costs for injection of investment and have confidence about potential income generation.	Legal and HR risks – implications relating to the current management arrangements and in respect of County Council staff need to be clarified and managed No certainty regarding outcome of feasibility, including affordability and sustainability. Risk of abortive feasibility costs.

	Potential increase in income from ancillary services Improved long term arrangements for the care and management of collections in appropriate space A more vibrant and engaging museums service with the potential to considerably increase footfall at the City Museum and through exhibitions and events in other locations Improved links with other heritage buildings in Lancaster plus existing spaces in Morecambe and the coastal area Increased potential to engage external funders as this approach safeguards collections and offers long term strategic change		

The Officer Preferred Option is Option 4, which enables the Council to investigate whether there is a long term strategic approach to delivery of the museums service; safeguards and protects the existing collections; improves engagement with visitors and communities; and creates opportunities to generate income and therefore reduce net costs. It fits with the actions approved at Budget Council.

The current museums service is structured in a way that is inevitably expensive and yet under achieves, in certain respects. The City Council's budget pressures mean that it is more important than ever that services are cost effective and, as far as possible, financially sustainable. Lancashire County Council which manages the Council's museums service, has recently announced a number of major changes that potentially have implications for future arrangements.

As part of its own budget process the City Council has agreed to review the museums service. An initial high level review of headline options has now been undertaken to provide Cabinet with an outline proposal that has both challenges and opportunities. The opportunity to reduce the cost base at the same time as improving and revitalising the museums service and potentially increasing both footfall and income is highlighted in this report. Further feasibility work, design and costings are required to test the proposals more fully to establish that they offer the long term benefits anticipated.

Councillor Clifford proposed, seconded by Councillor Leytham:-

"That the recommendations, as set out in the report, be approved."

Councillors then voted:-

Resolved unanimously:

(1) That the opportunity for a complete redesign of the museums service is developed and tested with a view to reducing overall costs, improving the care of collections, improving quality of service and increasing footfall and income;

(2) That further feasibility work is undertaken to provide information on each of the proposed elements of the strategy, as detailed in the report;

(3) That a more detailed review of longer term management options is undertaken but that, in the meantime, the City Council requests that the two year notice period, as detailed in the existing Museums Service Partnership Agreement, is reduced to one year;

(4) That the Chief Officer (Resources) be authorised to allocate up to a maximum of £138.5K from the Restructuring (Budget Support) Reserve in 2016/17 following the procurement of appropriate consultants / museum specialists and that the General Fund Revenue Budget be updated accordingly.

Officers responsible for effecting the decision:

Chief Officer (Regeneration & Planning)
Chief Officer (Resources)

Reasons for making the decision:

The decision supports the Council's Corporate Priorities of Sustainable Economic Growth and Community Leadership, contributing to the attractiveness and offer of the district, as a place to visit or invest in; rationalising the Council's property portfolio to deliver better value for money; and improving efficiency and effectiveness through re-shaping services.

6 IMPROVING MORECAMBE'S MAIN STREETS - NEW PEDESTRIAN CROSSING MARINE ROAD CENTRAL

(Cabinet Member with Special Responsibility Councillor Hanson)

Cabinet received a report from the Chief Officer (Regeneration & Planning) for Cabinet to consider whether to fund a new designed pedestrian crossing at the seafront in Euston Road, as part of the improvements to Morecambe’s main streets.

The options, options analysis, including risk assessment and officer preferred option, were set out in the report as follows:

	Option 1: Do not provide the new pedestrian crossing until sufficient external funding can be secured.	**Option 2:** Provide the new crossing as part of the ‘Connecting Victoria Street’ project, supplementing the project budget with funding from council reserves.	**Option 3:** Decide not to provide the new pedestrian crossing
Advantages	Leaves open the prospect of providing the crossing. No expenditure by the council.	Consistent with the MAAP, completes the set of improvements to better connect the seafront and town centre at Euston Road. Early implementation offers best value as it utilises the works capacity of Lancashire county council’s local highways team, - available this summer.	No expenditure by the council.
Disadvantages	No certainty as to when the crossing might be provided.	Involves use of council reserves budgeted for MAAP implementation but not yet allocated to any MAAP project.	Not consistent with the MAAP. Improvements for pedestrians are incomplete and not optimal.
Risks	That funding can’t be secured and the crossing is not provided. This would fail to maximise the	Early benefits for pedestrians and maximises the potential for increased footfall	Fails to maximise the potential for increased footfall into the town centre and consequential

	potential for increased footfall into the town centre and consequential benefits for trading. Delay in securing the funding needed would have similar if temporary effects. This does not best present the town and centre for new customers with opening of the new M6 Link.	into the town centre and consequential benefits for trading. Best presents the town and centre for new customers with opening of the new M6 Link.	benefits for trading. Does not best present the town and centre for new customers with opening of the new M6 Link.

Option 2 is preferred as this is consistent with the MAAP and makes appropriate use of funds in the MAAP Reserve. It means the designed crossing can be provided this summer to the benefit of the town centre. Lancashire County Council's local highways team has the capacity to undertake the works this summer. This offers best value and as a delivery approach is preferable to delivery via a stand- alone works contract.

The MAAP sets that Euston Road should be the main route for pedestrians between the seafront and the town centre. A new designed crossing at Marine Road Central is desirable for this and the report sets out options.

Councillor Hanson proposed, seconded by Councillor Clifford:-

"That the recommendation, as set out in the report, be approved."

Councillors then voted:-

Resolved unanimously:

(1) That approval be given to the use of the Morecambe Area Action Plan Implementation Reserve to supplement the budget for the 'Connecting Victoria Street' project in order to provide the new crossing at Marine Road, as set out in the report.

Officer responsible for effecting the decision:

Chief Officer (Regeneration & Planning)

Reasons for making the decision:

The Morecambe Area Action Plan is part of the corporate policy framework and the proposal relates to a key element in the spatial approach and Action Set 8.

7 PROVISIONAL REVENUE, CAPITAL AND TREASURY MANAGEMENT OUTTURN 2015/16

(Cabinet Member with Special Responsibility Councillor Whitehead)

Cabinet received a report from the Chief Officer (Resources) which provided summary information regarding the provisional outturn for 2015/16 including Treasury Management. It also set out information regarding the carry forward of capital slippage and other matters for Members' consideration.

The options, options analysis, including risk assessment and officer preferred option, were set out in the report as follows:

The City Council has a legal requirement to ensure that its expenditure is fully funded and to produce accounts in accordance with proper accounting practice. In addition, the Prudential Indicators are a statutory requirement linked to the budgetary framework. For these aspects, therefore, there are no alternative options for Cabinet to consider. Members are being asked to endorse certain actions taken by the Chief Officer (Resources), and Cabinet should consider whether it has sufficient information to do so or whether it requires any further justification.

The report requests Cabinet to consider a number of revenue overspending, capital slippage and other budget adjustment matters. The framework for considering these is set out in the report but basically Cabinet may:

- Approve any number of the items / requests, in full or part.
- Refuse various requests and if commitments have already been incurred, require alternative funding options to be identified. Cabinet should note, however, that this may impact on other areas of service delivery.
- Request further information regarding them, if appropriate.

The Officer preferred options are as set out in the recommendations, on the assumption that Members continue to support their previously approved spending plans.

Although the General Fund budget and associated Government funding reduced again in 2015/16, the Council continued to manage the financial pressures well, and has again improved the Fund's overall financial standing as at 31 March 2016. Similarly, the HRA's standing is sound. Whilst net revenue underspendings were experienced on both General Fund and HRA, their scale was lower than in previous years, perhaps reflecting the much tighter financial environment within which the Council is working. Although various actions have been outlined in the report, there are no wholly new matters arising that have not previously been reported or highlighted in some form, and this should give some comfort with regard to the Council's financial planning and monitoring arrangements. This is especially so, given that local government finance appears to be getting more complex. It will be important that capacity is in place to address the various actions highlighted, however, and this is becoming increasing difficult given the resource pressures that exist.

Councillor Whitehead proposed, seconded by Councillor Leyshon:-

"That the recommendations, as set out in the report, be approved."

Councillors then voted:-

Resolved unanimously:

(1) That the provisional outturn for 2015/16 be endorsed, including the transfers to provisions and Balances actioned by the Chief Officer (Resources), and the position regarding overspendings.

(2) That the requests for capital slippage and the adjustments to reflect accelerated capital spending on projects as set out at Appendix G to the report, be approved.

(3) That the Annual Treasury Management report and Prudential Indicators as set out at Appendix H to the report [now appended to the Cabinet minutes] be noted and referred on to Council for information.

(4) That the implications of renewable energy business rate income be noted, with them being fed into the next update of the Council's Medium Term Financial Strategy (MTFS).

Officer responsible for effecting the decision:

Chief Officer (Resources)

Reasons for making the decision:

The Outturn and Statement of Accounts report on all the financial resources generated and/or used by the Council in providing services or undertaking other activities under the Policy Framework.

8 CABINET LIAISON GROUPS AND APPOINTMENTS TO OUTSIDE BODIES, PARTNERSHIPS AND BOARDS

(Cabinet Member with Special Responsibility Councillor Blamire)

Cabinet received a report from the Chief Executive to consider the Cabinet Liaison Groups currently constituted and Cabinet appointments to Outside Bodies, Partnerships and Boards.

The options, options analysis, including risk assessment and officer preferred option, were set out in the report as follows:

The options regarding Cabinet Liaison Groups are:

- To note existing arrangements and make no amendments.
- To consider and approve, where appropriate, any proposals from Cabinet Members.

With regard to appointments to Outside Bodies, Partnerships and Boards, Cabinet is requested to make appointments as set out in Appendix C to the report.

Councillor Pattison proposed, seconded by Councillor Hanson:-

"That the Cabinet Liaison Groups as set out in Appendix B to the report, be reconvened with the following addition:

- Establishment of a City Council Museums Cabinet Liaison Group, the terms of reference to be agreed at a future Cabinet meeting.

That appointments to Outside Bodies, Partnerships and Boards, as set out in Appendix C, appended to the Minutes, be approved with the following revision:

- Councillor Pattison to replace Councillor Clifford as substitute on the Health and Wellbeing Partnership.

Councillors then voted.

Resolved unanimously:

(1) That the Cabinet Liaison Groups as set out in Appendix B to the report, be reconvened with the establishment of a City Council Museums Cabinet Liaison Group, the terms of reference of which be agreed at a future Cabinet meeting.

(2) That appointments to Outside Bodies, Partnerships and Boards, as set out in Appendix C, appended to the Minutes, be approved with Councillor Pattison replacing Councillor Clifford as substitute on the Health and Wellbeing Partnership.

Officer responsible for effecting the decision:

Chief Executive

Reasons for making the decision:

The establishment of Cabinet Committees and Cabinet Liaison Groups assists the Cabinet in the discharge of executive functions. Representation on Outside Bodies is part of the City Council's community leadership role.

9 URGENT BUSINESS REPORT

(Cabinet Member with Special Responsibility Councillor Blamire)

Cabinet received a report from the Chief Executive to advise Members of actions taken by the Chief Executive in consultation with the relevant Cabinet Member with regard to capacity issues as a consequence of the current senior management vacancies.

The report was for noting.

Resolved unanimously:

Option 1 was approved.

Retain the position as determined at Cabinet in August 2015 as Susan Parsonage, the incoming Chief Executive, will be in place in two months' time, before making any permanent changes. However at the same time address any shortfall in the interim arrangements, namely there is a pressing need for an interim Legal Services Manager to manage the Legal Services Team and report into Preston City Council's Head of Legal and Democratic Services. Should this option be pursued, the interim Manager would also be required to act as the Council's Senior Information Risk Owner (SIRO), taking on responsibility for information governance, which substantively is part of the Chief Officer (Governance)'s role. Overall, interim arrangements can be less robust than permanent arrangements. However, option 1, is not considered to be a high risk option given its temporary nature and with the additional measures being taken to increase capacity.

Officer responsible for effecting the decision:

Chief Executive

Reasons for making the decision:

The decision fulfils the requirements of the City Council's Constitution in advising Cabinet of urgent decisions taken by the Chief Executive in accordance with the City Council's Scheme of Delegation.

....

Chairman

(The meeting ended at 6.40 p.m.)

Any queries regarding these Minutes, please contact
Liz Bateson, Democratic Services - telephone (01524) 582047 or email
ebateson@lancaster.gov.uk

MINUTES PUBLISHED ON FRIDAY, 1st JULY 2016.

EFFECTIVE DATE FOR IMPLEMENTING THE DECISIONS CONTAINED IN THESE MINUTES: MONDAY, 11th JULY 2016.

Appendix H

Annual Treasury Management Report

2015/16

For Noting by Cabinet 28 June 2016

Annual Treasury Management Review 2015/16

Purpose

The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2015/16. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2015/16 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 04 March 2015)
- a mid-year (minimum) treasury update report (Council 16 December 2015)
- an annual review following the end of the year describing the activity compared to the strategy (this report).

In addition, Members have received quarterly treasury management update reports on which were presented to Cabinet and Budget and Performance Panel.

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

The Council confirms that it has complied with the requirement under the Code to give prior scrutiny (by Budget and Performance Panel) to all of the above treasury management reports before they were reported to the full Council. Member training on treasury management issues was undertaken in February 2016 in order to support the scrutiny role.

Introduction and Background

This report summarises the following:-

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

1. The Council's Capital Expenditure and Financing 2015/16

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- if insufficient financing is available from the above sources, or a decision is taken not to apply such resources, the capital expenditure will give rise to a borrowing need (also referred to as "unfinanced", within the tables and sections below).

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

General Fund (GF) £M	2014/15 Actual	2015/16 Estimate	2015/16 Actual
Capital expenditure	**5.717**	**7.695**	**7.522**
Financed in year	5.424	3.373	3.105
Unfinanced capital expenditure (i.e. reliant on an increase in underlying borrowing need)	**0.293**	**4.322**	**4.417**

HRA £M	2014/15 Actual	2015/16 Estimate	2015/16 Actual
Capital expenditure	**4.709**	**4.831**	**4.875**
Financed in year	4.709	4.831	4.875
Unfinanced capital expenditure (i.e. reliant on an increase in underlying borrowing need)	**0.000**	**0.000**	**0.000**

2. The Council's Capital Expenditure and Financing 2015/16

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2015/16 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury function organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Council.

Reducing the CFR – the Council's (non HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the non-Housing Revenue Account (HRA) borrowing need (there is no statutory requirement to reduce the HRA CFR). This differs in purpose from other treasury management arrangements, which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Council's 2015/16 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2015/16 on 04 March 2015.

The Council's CFR for the year is shown below, and represents a key prudential indicator. It includes leasing schemes on the balance sheet, which effectively increase the Council's borrowing need. No borrowing is actually required against these schemes, however, as a borrowing facility is included in the contract (if applicable).

CFR (£M): General Fund	31 March 2015 Actual	31 March 2016 Budget	31 March 2016 Actual
Opening balance	**33.975**	**32.681**	**32.681**
Add unfinanced capital expenditure (as above)	0.293	4.322	4.417
Less MRP	(1.383)	(1.513)	(1.456)
Less finance lease repayments	(0.204)	(0.095)	(0.113)
Closing balance	**32.681**	**35.395**	**35.529**

CFR (£M): HRA	31 March 2015 Actual	31 March 2016 Budget	31 March 2016 Actual
Opening balance	**44.473**	**43.432**	**43.432**
Add unfinanced capital expenditure (as above)	0.000	0.000	0.000
Less Debt Repayment	(1.041)	(1.041)	(1.041)
Closing balance	**43.432**	**42.391**	**42.391**

CFR (£M): Combined	31 March 2015 Actual	31 March 2016 Budget	31 March 2016 Actual
Opening balance	**78.448**	**76.113**	**76.113**
Add unfinanced capital expenditure (as above)	0.293	4.322	4.417
Less Debt Repayment, Finance Leases and MRP	(2.628)	(2.649)	(2.610)
Closing balance	**76.113**	**77.786**	**77.920**

Borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2015/16) plus the estimates of any additional capital financing requirement for the current (2016/17) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2015/16. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2015 Actual	31 March 2016 Budget	31 March 2016 Actual
Gross borrowing position	£67.572M	£66.659M	£66.418M
CFR	£76.113M	£77.786M	£77.920M

The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2015/16 the Council has maintained gross borrowing within its authorised limit.

The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

Actual financing costs as a proportion of 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.

	2015/16
Authorised limit	£104.000M
Maximum gross borrowing position	£67.572M
Operational boundary	£87.020M
Average gross borrowing position	£66.995M
Financing costs as a proportion of net revenue stream - GF	15.8%
Financing costs as a proportion of net revenue stream - HRA	21.9%

3. Treasury Position as at 31 March 2016

The Council's debt and investment position is administered to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the end of 2015/16 the Council's treasury (excluding borrowing relating to finance leases) position was as follows:

	31 March 2015 Principal	Average Rate	Average Life yrs	31 March 2016 Principal	Average Rate	Average Life yrs
Fixed rate funding:						
PWLB	£67.332M	4.56%	38	£66.291m	4.59%	37
Total debt	**£67.332M**			**£66.291M**		
CFR	**£76.113M**			**£77.920M**		
Over / (under) borrowing	**(£8.781M)**			**(£11.629M)**		
Total investments	**£35.800M**	**0.39%**		**£39.216M**	**0.47%**	

All investments were placed for under one year.

The loan repayment schedule is as follows:

	31 March 2015 actual	31 March 2016 actual
Under 12 months	£1.041M	£1.041M
12 months and within 24 months	£1.041M	£1.041M
24 months and within 5 years	£3.124M	£3.124M
5 years and within 10 years	£5.207M	£5.207M
10 years and within 20 years	£10.414M	£10.414M
20 years and within 30 years	£7.290M	£6.249M
More than 30 years	£39.215M	£39.215M

The average rate of interest payable on PWLB debt in 2015/16 was 4.59%. A total of £3.071M interest was incurred during the year, of which £2.004M was recharged to the HRA.

Interest Payable

	2015/16
Estimate	£3.071M
Actual	£3.071M

Prudential Indicators also provide exposure limits that identify the maximum limit for variable / fixed interest rate exposure, based upon the debt position. The table below shows that the outturn position was within the limits set by Members at the beginning of the year. The Council currently only has fixed interest rate debt, although again this could change in future if market conditions warrant or facilitate it.

Fixed/Variable rate limits

	Prudential Indicator (%)	Actual (%)
Fixed Rate	100	100
Variable Rate	30	0

4. The Strategy for 2015/16

The expectation for interest rates within the treasury management strategy for 2015/16 anticipated a low but rising Bank Rate, and gradual rises in medium and longer term fixed borrowing rates during 2016/17. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

5. The Economy and Interest Rates (supplied by Capita Asset Services)

Market expectations for the first increase in Bank Rate moved considerably during 2015/16, starting at quarter 3 2015 but soon moving back to quarter 1 2016. However, by the end of the year, market expectations had moved back radically to quarter 2 2018 due to many fears including concerns that China's economic growth could be heading towards a hard landing; the potential destabilisation of some emerging market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015 together with continuing Eurozone growth uncertainties.

These concerns have caused sharp market volatility in equity prices during the year with corresponding impacts on bond prices and bond yields due to safe haven flows. Bank Rate, therefore, remained unchanged at 0.5% for the seventh successive year. Economic growth (GDP) in the UK surged strongly during both 2013/14 and 2014/15 to make the UK the top performing advanced economy in 2014. However, 2015 has been disappointing with growth falling steadily from an annual rate of 2.9% in quarter 1 2015 to 2.1% in quarter 4.

The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling materially. These rates continued at very low levels during 2015/16.

The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. However, the overall dominant trend in bond yields since July 2015 has been for yields to fall to historically low levels as forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back. In addition, a notable trend in the year was that several central banks introduced negative interest rates as a measure to stimulate the creation of credit and hence economic growth.

The ECB had announced in January 2015 that it would undertake a full blown quantitative easing programme of purchases of Eurozone government and other bonds starting in March at €60bn per month. This put downward pressure on Eurozone bond yields. There was a further increase in this programme of QE in December 2015. The anti-austerity government in Greece, elected in January 2015 eventually agreed to implement an acceptable programme of cuts to meet EU demands after causing major fears of a breakup of the Eurozone. Nevertheless, there are continuing concerns that a Greek exit has only been delayed.

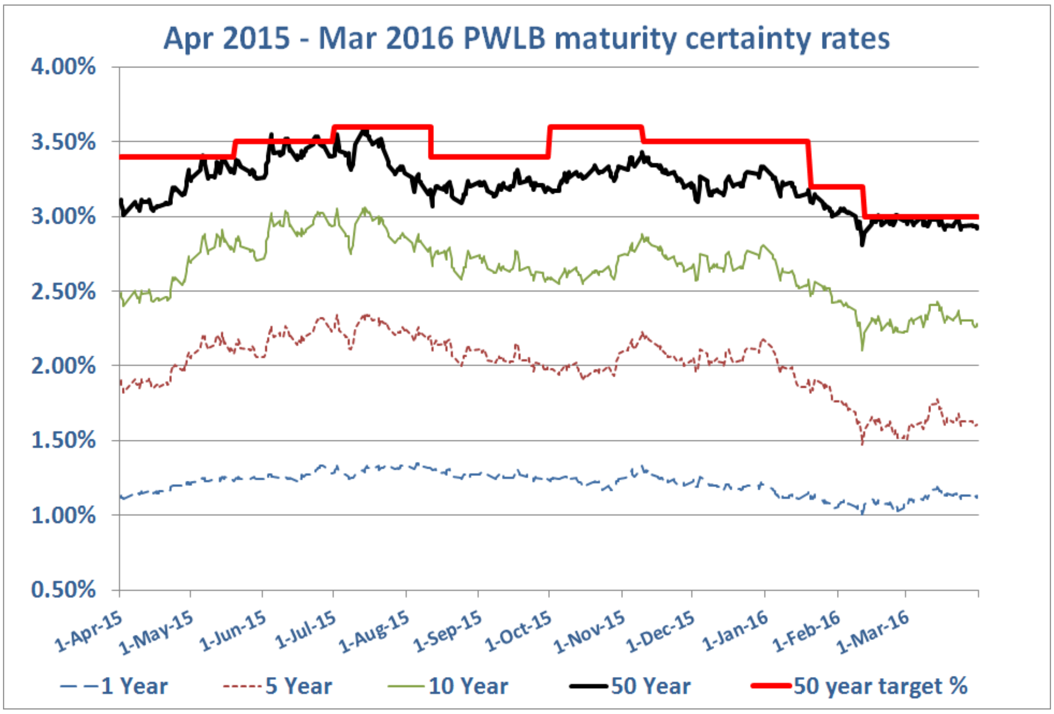
As for America, the economy has continued to grow healthily on the back of resilient consumer demand. The first increase in the central rate occurred in December 2015 since when there has been a return to caution as to the speed of further increases due to concerns around the risks to world growth.

On the international scene, concerns have increased about the slowing of the Chinese economy and also its potential vulnerability to both the bursting of a property bubble and major exposure of its banking system to bad debts. The Japanese economy has also suffered disappointing growth in this financial year despite a huge programme of quantitative *easing, while two of the major emerging market economies, Russia and Brazil, are in recession. The situations in Ukraine, and in the Middle East with ISIS, have also contributed to volatility.*

The UK elected a majority Conservative Government in May 2015, removing one potential concern but introducing another due to the promise of a referendum on the UK remaining part of the EU. The government maintained its tight fiscal policy stance but the more recent downturn in expectations for economic growth has made it more difficult to return the public sector net borrowing to a balanced annual position within the period of this parliament.

6. Borrowing Rates in 2015/16

PWLB certainty maturity borrowing rates - the graphs and table for PWLB rates below show, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.



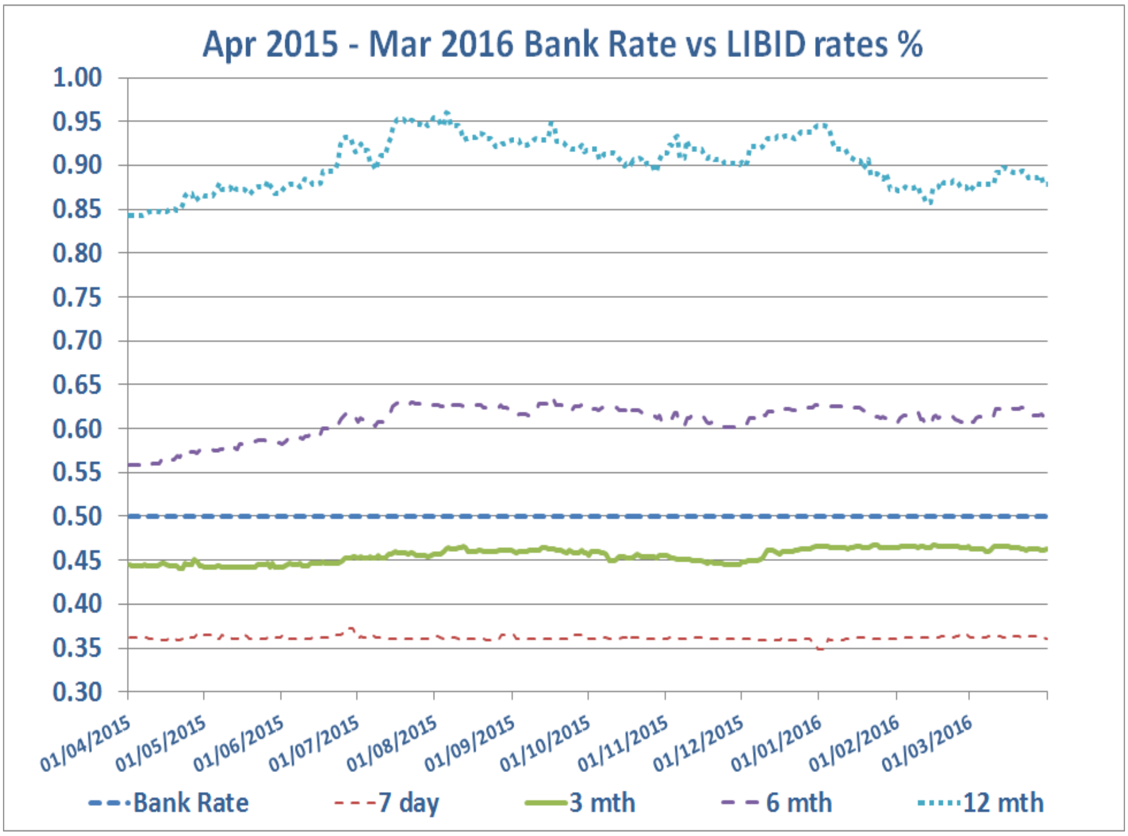
7. Borrowing Outturn for 2015/16

Borrowing
No actual borrowing was undertaken during the year.

Rescheduling
No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

8. Investment Rates in 2015/16

Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for seven years. Market expectations as to the timing of the start of monetary tightening started the year at Quarter 1 2016 but then moved back to around Quarter 2 2018 by the end of the year. Deposit rates remained depressed during the whole of the year, primarily due to the effects of the Funding for Lending Scheme and due to the continuing weak expectations as to when Bank Rate would start rising.



9. Investment Outturn for 2015/16

Investment Policy – the Council's investment policy is governed by CLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 04 March 2015. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Resources – the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources (£M)	General Fund		HRA	
	31/03/15	**31/03/16**	**31/03/15**	**31/03/16**
Balances	4.625	4.459	1.041	1.692
Earmarked reserves	6.160	6.406	11.093	10.567
Provisions	1.709	2.524	0.495	0.516
Usable capital receipts	0.000	0.000	0.000	0.000
Total	12.494	13.389	12.629	12.775

Investments held by the Council - the Council maintained an average investment balance of £46.7M of internally managed funds. The average interest earned is compared to the base rate and average 3-month LIBID rate.

	2014/15	2015/16
Lancaster CC Investments	0.39%	0.47%
Base Rate	0.50%	0.50%
3 Month LIBID	0.40%	0.46%

In terms of performance against budget the actual interest earned in 2015/16 was £214K compared to a budget of £179K.

10. Other Risk Management Issues

Many of the risks in relation to treasury management are managed through the setting and monitoring of performance against the relevant Prudential and Treasury Indicators and the approved Investment Strategy, as discussed above.

The Authority’s Investment Strategy is designed to engineer risk management into investment activity by reference to credit ratings and the length of deposit to generate a pool of counterparties, together with consideration of other creditworthiness information to refine investment decisions. The Council is required to have a strategy is required under the CIPFA Treasury Management Code, the adoption of which is another Prudential Indicator. The strategy for 2015/16 complied with the latest Code of Practice (November 2011) and relevant Government investment guidance.

11. Conclusion

The Council’s treasury activities were in line with its approved policies and strategies. Last year was very quiet in terms of borrowing activity. With respect to investments, longer fixed term investments were placed which helped to increase the average yield for the year. Cash balances will however reduce significantly during 2016/17 with the completion of transactions relating to business rate appeals. This in turn will reduce investment interest, which has already been reflected in future forecasts.

Annex A

LANCASTER CITY COUNCIL

TREASURY MANAGEMENT POLICY STATEMENT

Last reported to Council on 04 March 2015

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

1. This organisation defines its treasury management activities as:

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

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

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

Annex B

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, and it is also the standard setting organisation for Local Government Finance.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- **Capita Asset Services** – they 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.*

APPENDIX C

APPOINTMENTS MADE BY CABINET

ORGANISATION
Lancaster Community Fund Grants Panel (Cabinet Member and 1 member of Council) Cllr Margaret Pattison
Lancashire Leaders Meeting (Leader of the Council) Cllr Eileen Blamire
LGA Coastal Issues Special Interest Group Cllr Darren Clifford
Morecambe Bay Partnership Cllr Janice Hanson
Museums Advisory Panel Cabinet Member (and 1 member of O/S) Cllr Darren Clifford
Lancashire Waste Partnership : Cllr David Smith
Community Safety Partnership Cabinet Member (+ Cabinet Member substitute): Cllr David Smith (Cllr Eileen Blamire substitute)
Health and Wellbeing Partnership Cabinet Member (+ Cabinet Member substitute) : Cllr Karen Leytham (Cllr Darren Clifford substitute)
BID Company Ltd (replacing the Lancaster Business Improvement District (BID) Management Group) - (Cabinet Member for Economic Regeneration) Cllr Janice Hanson
Yorkshire Dales National Park Board – Cabinet Member with responsibility for Rural Affairs – Cllr Margaret Pattison