	Corporate Policy and Resources Committee
	8th November 2018

Subject: Budget and Treasury Management Monitoring – Period 2 2018/19 including Treasury Mid-Year Report

Report by:	Executive Director of Resources (S151) Ian Knowles
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Purpose / Summary:	This report sets out the revenue, capital and treasury management activity from 1 April 2018 to 30th September 2018 and provides the Mid-Year update report for Treasury Management.

RECOMMENDATION(S):

a) That Members accept the forecast out-turn position of a £175k net contribution to reserves as at 30th September 2018. (1).

b) Members note the use of Earmarked Reserves during the quarter approved by the Executive Director of Resources using Delegated powers (1.5.1).

c) Members approve the creation of new Earmarked Reserves from in year surpluses (1.5.2)

d) Members accept the Commercial Income position (1.3).

e) That members approve the revised Capital Budget of £30.248m, the new capital bid of £0.050 for an income management system and the capital amendments as detailed in 2.2.2 and 2.2.3.

f) Members give approval to spend Capital Budgets totalling £492k as detailed at 2.2.6.

g) That Members accept the Treasury Management and approve the revised Prudential Indicators.

IMPLICATIONS

Legal: None arising as a result of this report.

Financial: FIN/113/19

The draft revenue forecast out-turn position for 2018/19 is currently reflecting a net contribution to reserves of £175k as at 30 September 2018 (£72k as at 31 May 2018). This is after taking account of approved carry forwards of £129k, detailed at Appendix B.

The items with significant variances are contained within this report at 1.1.

The capital forecast out-turn position for 2018/19 is £30.038m the amendments to the capital programme are detailed in 2.2.2 and 2.2.3 of this report. An additional capital bid is requested of £0.050m for an income management system as detailed in 2.2.5, financed from General Fund.

The Treasury Management activities during the reporting period are disclosed in the body of this report. Average investments were £16.558m which achieved an average rate of interest of 1.572% in Quarter 2(1.378% Apr-Jun).

In August 2018 the Council externally borrowed £6.00m for 50 years from the Public Works Loan Board (PWLB) at an interest rate of 2.43%.

There have been no breaches of Treasury or Prudential Indicators within the period of this report.

Staffing: None arising as a result of this report.

Equality and Diversity including Human Rights: None arising as a result of this report.

Risk Assessment: This is a monitoring report only.

Climate Related Risks and Opportunities: This is a monitoring report only.

Title and Location of any Background Papers used in the preparation of this report:

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)	**Yes**		**No**	**x**

Key Decision:

A matter which affects two or more wards, or has significant financial implications	**Yes**		**No**	**x**

1. Executive Summary

This report provides the oversight of financial performance for;

- Revenue Forecast Out-Turn - Surplus £0.175m (1.13% of Net Revenue Expenditure)
- Capital Forecast Out-Turn - £30.308m (Original Budget £25.457m)
- Treasury Management Mid-Year Report and Q2 monitoring
  - Average investment Interest rate 1.57%
  - Total Investments at end Q2 £15.3m
  - New external borrowing £6m PWLB @ 2.43% over 50 years

REVENUE BUDGET MONITORING PERIOD 2
(Forecast out turn for 2018/19)

1 The Revenue Budget forecast out-turn currently stands at a net contribution to reserves of £175k as detailed in the table below, this is after taking account of £129k of budget carry forwards, the details or which are provided at Appendix B.

SERVICE CLUSTER	2018/19 Budget £	2018/19 Forecast Outturn £	September 2018 Forecast Outturn Variance £
People	4,958,000	4,666,562	(291,438)
Places	1,079,400	1,650,300	570,900
Policy and Resources	5,220,700	4,986,836	(233,864)
Controllable Total	**11,258,100**	**11,303,698**	**45,598**
Corporate Accounting:			
Interest Receivable	(282,300)	(252,300)	30,000
Interest Payable	371,800	155,000	(216,800)
Investment Income	(575,000)	(714,200)	(139,200)
Precepts and Levies	2,260,749	2,260,749	0
Movement in Reserves:			
To / (From) General Fund	(1,388,100)	(1,388,100)	0
Use of Specific Reserves	(553,900)	(553,900)	0
Contribution to Specific Reserves	4,303,493	4,503,493	200,000
Repayment of Borrowing	32,400	32,400	0
Net Revenue Expenditure	**15,427,242**	**15,346,840**	**(80,402)**
Funding Total	(15,427,242)	(15,522,085)	(94,843)
NET SUBSIDY FROM / (CONTRIBUTION) TO RESERVES FOR THE YEAR	**0**	**(175,245)**	**(175,245)**

Details of headline variances by Cluster can be found below at 1.1.

1.1 The significant movements being;

Cluster	EXPENDITURE	Total £000	Direction of Travel
	BUDGET UNDERSPENDS		
	Salary savings.	-£169	↑
Interest & Investment Income	Net impact of investment property acquisitions, and forecast acquisitions.	-£138	new
Interest & Investment Income	Treasury management activities.	-£178	new
	PRESSURES		
People	Fuel - forecast pressure on fuel due to average prices being greater than budgeted.	£11	new
Places	Leisure - final invoice plus annual retention fee for previous financial year.	£28	↑
Places	Property Services costs - net pressure across all properties (service charges/utilities/NNDR).	£16	↑
Policy & Resources	Legal costs settlement.	£19	↔
	Various forecast outturn variances <£10k	£27	↓
		-£384	

Cluster	INCOME	Total £000	Direction of Travel
	BUDGETED INCOME EXCEEDED		
People	Green Waste service income target exceeded.	-£282	↑
Policy & Resources	Share of Legal Services surplus - payable by LCC for previous financial year.	-£20	new
Funding	NNDR - additional income renewables and S31 Grant.	-£64	new
Funding	LCTS Admin Grant higher than anticipated.	-£31	↔
	BUDGETED INCOME NOT ACHIEVED		
People	Street Cleansing private work - reduction in work compared to same period in previous year.	£15	new
People	Housing Benefits - forecast net subsidy position.	£64	↓
Places	Rental income lost due to sale of assets and voids.	£49	↓
Places	Car park income - not achieving target based on actuals to date.	£83	↓
Places	Planning fee income.	£263	new
Places	Impact of acquisition not expected to be leased out until April 19 - loss of rental income and NNDR.	£132	↓
		£209	
	TOTAL VARIANCE	-£175	

1.2 Significant items of note by Cluster:

1.2.1 Interest & Investment Income

Approval to spend up to £20m on investment property (with £16m budgeted this financial year) was estimated to provide a net contribution of £270k in 2018/19 raising to £600k by 2020/21. Acquisitions totalling £16m have been made to date and this will achieve a £440k contribution (after borrowing costs) to the savings target. We continue to identify suitable properties which meet our Policy criteria and we are forecasting to make further acquisitions before the year end. A £138k net contribution to reserves is forecast for the year.

1.2.2 People

- Green Waste Charging commenced in 2018/19 and with the Budget reflecting a net contribution of £502k. With actual income currently at £894k from subscriptions achieved during this period the forecast net contribution is £773k, £271k above the prudent original forecast. (£282k additional income, offset by £11k of additional costs on transport and administration).

1.2.3 Places

- The acquisition of the former Lidl building was anticipated to generate a full years lease income and additional car parking income. The property is currently being marketed for lease and we are now forecasting a tenancy to commence from April 2019, resulting in a £132k pressure in the current year (Void rent and Business Rates costs).

- New industrial units at Saxilby were budgeted to be leased for a full year, however due to approved project timelines the units will actually be operational from February 2019 resulting in a £16k pressure in the current year.

- Car park income is forecast to be £83k under the budgeted target. This is due to a number of factors, closure of Roseway Car Park, Riverside not achieving the levels of ticket sales estimated and below target levels across all car parks. It is anticipated this position will improve with the re-opening of Roseway. The situation will continue to be monitored.

- Property rental income is forecasting a pressure of £49k due to sale of assets during the year and voids levels.

- Planning fee income is forecasting a £263k pressure for the year. We have benefitted from significant levels of planning fee income over the past 3 years. A variety of economic factors and the adoption of the Local Plan is now impacting above the reductions projected, reflected by less applications to date and no complex or large cases being anticipated over the remainder of the current year.

1.2.4 Policy & Resources

- Included in the significant variances at 1.1 is a £19k legal costs settlement.

The Magistrates Court deemed that the Council had, on the balance of probability, committed an abuse of process in relation to the serving of a Section 16 notice, for which the Court felt there was no justification. As a result the Council was liable for the defendants' legal costs, after negotiation the amount of £19k is the final settlement. A review of the process followed in relation to this notice has been undertaken as a result. The court also recognised that due to the circumstance the case was an exceptional one.

- A Commercial Contingency budget of £200k was built into 2018/19 base budgets to mitigate a number of commercial risks, including investment properties. Any underutilisation will be transferred to the Valuation Volatility Reserve.

1.2.5 Establishment

- Current vacancy levels after costs of interim staffing resources is forecast to achieve a £169k budget underspend. This is broken down by cluster as follows;

Cluster	Forecast Outturn £
People	(127,920)
Places	(10,200)
Policy and Resources	(30,390)
Grand Total	**(168,510)**

1.3 Commercial Projects and Income Target

1.3.1 The Commercial Plan 2015/16 – 2019/20 was intended to be a proactive response in contributing to future financial sustainability. This was to be achieved through charging, trading and investment in order to reduce the net subsidy on services. A target contribution of £1m was set.

1.3.2 Progress against this target has delivered £1,476k of ongoing savings thus far as detailed below;

- £440k Investment in Commercial Property (Target £600k by 2020/21)
- £133k Trade Waste Income
- £773k Green Waste
- £ 5k Building Control Complimentary Services
- £ 59k Pre-Application Planning Advice
- £ 25k Surestaff Lincs Ltd (Recruitment Agency)
- £ 41k Commercial Loan income

1.4 Fees and Charges

1.4.1 £0.939m has been received in Fees and Charges during this period against a budget for the period of £1.066m, a pressure to date of £0.127m.

1.4.2 The most significant pressure being Planning Fee income as previously mentioned at 1.2.3 above.

1.4.3 **Approval to Amend Car Park Fees and Charges for 2018/19**

Approval is required to implement the changes as detailed below, as soon as possible, the amended fees and charges schedule is included at Appendix A.

- **Roseway Car Park Electric Charging**

  The council has refurbished the Roseway car park which now has the newly developed hotel and restaurant adjacent to it. This is likely to bring in more customers with electric vehicles but in any case their use is predicted to rise significantly. Additional considerations included providing an increased offer which befits the higher standard of car park following redevelopment, but the key factor was the opportunity of 75% grant funding to cover the purchase and installation costs. The grant from the Office of Low Emission Vehicles has been confirmed and will be paid in retrospect following completion of the installation.

  There are a number of charging arrangements that other councils have opted for but advice from a council who have researched this extensively suggests that charging for electricity only is the preferred route at this stage. (Obviously the electric vehicle market is continuously evolving and rapidly expanding so this arrangement will be monitored and reviewed annually to ensure it remains the best arrangement).

  The proposal is to charge for the electricity used but *not* to also charge for a parking space whilst the car is being (electrically) re-charged. The logic for this is that it will avoid cars blocking the EV (electric vehicle) charging bays – they will be incentivised to move them (into a paid-for parking bay if they wish to stay) within a set period after the car ceases re-charging otherwise a penalty notice will be issued.

  The proposal is to charge 30 pence/ kWh which undercuts the other town centre offer. The costs for the electricity are a standing charge of 37.58p per day and 11.93p per kWh.

- **Garden Waste - Additional Bin**

  An amendment is required to the fees and charges schedule for Garden Waste in the current year. A £15 charge is levied for each additional bin required by subscribers to the garden waste service.

- **Revenues – Court Costs**

  Court costs are fixed annually by the Courts. In 2018/19 the initial Cost of Summons was Council Tax £75 and NNDR (Business Rates) £85.

  The Council is required to calculate the cost of Summons for Council Tax to ensure the amount charged is reasonable and transparent for court. In July 2018 the Ministry of Justice reduced the charge of the Court due to legislation changes to £0.50 from £3.00, this along with other efficiencies this has resulted in a reduction in costs to £70.01. The fee of £75.00 was therefore no longer reasonable and with immediate effect a reduction is required in 2018/19 of £5.00, resulting in a new charge of £70.00.

  The same impact is applied to NNDR resulting in a reduction of £2.50 on the total cost, therefore the charge will reduce from £85.00 to £82.50.

- **Licensing – Animal Welfare**

  New legislation came into force with effect from 01 October 2018 which governs Animal Welfare. The legislation is referred to as the Animal Welfare (Licensing of Activities Involving Animals) (England) Regulations 2018. The new legislation aims to control Dog Breeding, Hiring of Horses, Sale of Animals, and Animal Boarding which includes Dog Day Care and the Exhibition and Training of Animals. Operators will now be inspected and awarded a STAR rating and granted a licence ranging from 1 to 3 years depending on their risk rating. The previous legislation which governed some of these activities will either be amended or repealed.

1.5 Use and Contribution to Reserves

1.5.1 2018/19 Use of Reserves – Delegated Decisions

The Executive Director of Resources has used delegated powers to approve the use of earmarked reserves up to £50k, new delegated decisions totalled £93.4k;

- £40.3k – from Neighbourhood Planning Grant - to cover costs of Neighbourhood Planning Team project delivery spend.

- £9.9k – from Unapplied Grants; grants issued for planned events – Halloween £2.5k, Christmas £4.0k, Gainsborough in Bloom £3.4k.

- £15.5k From Supporting Vulnerable Communities reserve Private Sector Landlord Support Worker (2 year pilot). Approved by CP&R 06.02.18 FIN/138/18

- £10.3k from the Maintenance of Facilities reserve. For cost of external paint works at the leisure centre to bring the exterior up the standard of the areas that have been enhanced through the capital investment works.

- £17.4k from Investment for Growth for the Townscape Heritage Initiative (THI);
    - £16.3k was originally approved for the project through the 18/19 capital programme. Due to the terms of the grant we are unable to capitalise some of the expenditure and are therefore transferring it to revenue.
    - £1.1k - An additional £5k has been awarded in grant from the Heritage Lottery Fund (HLF) which WLDC must match fund 24%.

1.5.2 Creation of New Earmarked Reserves

It is proposed that the following earmarked reserves are approved by Corporate Policy & Resources Committee:

- CCTV Replacement Equipment – income achieved for commercial CCTV over the budgeted income target to be moved to an earmarked reserve for future CCTV equipment replacement. Forecast surplus for 2018/19 is £2.4k.

- Park Springs Community Centre – a contribution is paid by the Council towards repairs and maintenance of the property. Under the current agreement the Council would be obliged to contribute towards unforeseen events. It is proposed that £20k of the saving made against budget following negotiations around contribution payable for the years 2015/16 to 2018/19 be moved to an earmarked reserve as a contingency budget to offset significant unforeseen works required in the future.

1.6 Grants

As at 1st April 2018 we had an amount of £564k relating to grants received which had yet to be expended. Budget provision will be created throughout the financial year as required to deliver projects in accordance with grant terms.

1.6.1 Successful Grant Bids and New Grant determinations

The following grants have been awarded during this period:

Grant Issued By	Name of Grant	Revenue/ Capital	£
Heritage Lottery Fund THI	Heritage Lottery Fund THI	Capital	71,350
Cabinet Office	Annual Registrations Grant	Revenue	14,800
DCLG	Flexible Homelessness	Revenue	46,052
DCLG	One Public Estate (OPE)	Revenue	18,000
DCLG	New Burdens - final settlement returned to LAs relating to legal case from prev 2 years	Revenue	11,551
		TOTAL:	161,753

Other Items for information

1.7 Planning Appeals

In period 2 2018/19 there were 13 appeals determined, as follows;

Period	Number of Appeals	Allowed	Dismissed
June 2018	5	1	4
July 2018	4	1	3
August 2018	2	2	0
September 2018	2	1	1
Total for Period 2	**13**	**5**	**8**

There are no outstanding award of costs or any expected from appeals allowed.

1.8 Aged Debt Summary – Sundry Debtors

Aged Debt Summary Period 1 Monitoring Report

At the end of September 2018 there was a total of £238k outstanding debt in the system over 90 days. The majority of this debt was over 150 days old and mainly comprised of:

Housing Benefits overpayments £76k most of which is being recovered on agreed repayment schedules.

Housing £55k
Environmental Protection & Licensing £24k
Leisure £17k

Month	90 – 119 days	120 – 149 days	150+ days	Total
April	4,249	12,747	179,284	196,280
May	3,719	3,904	186,931	194,554
June	25,602	3,390	189,349	218,341
July	18,497	25,242	186,602	230,342
August	22,510	4,266	205,409	232,184
September	32,070	995	204,840	237,906

1.9 CHANGES TO THE ORGANISATION STRUCTURE

There have been the following changes to the organisation structure during period 2;

- Human Resources – changes to hours and a new permanent post - Human Resources & Organisational Development assistant.

- Press & PR (Communications) – deletion of part vacant post, creation of new permanent post – Communications Officer.

- Property Services – 1 change following job evaluation, 1 new post - Car Park Manager.

- Housing / Localism – deletion of 2 posts – Team Manager Home Choices and Senior Homes Choices Officer, 1 new post – Home Choices Team Manager, 1 post increase in scale point.

- Finance – The team has been restructured to provide dedicated Finance Business Partnering and Corporate Finance roles. Releasing capacity for the Strategic Finance and Business Support Manager to focus on Strategic finance in addition to supporting significant Investment and Growth programmes. There is an increase of 1.5 fte, 1 fte being a 3 year fixed term contract Finance Business Partner. It is envisaged that the efficiencies made from the implementation of a new system will result in less resources being required over the longer term, resulting in a £40k ongoing saving from year 4.

1.10 COMMUNITY INFRASTRUCTURE LEVY

Community Infrastructure Levy (CIL) is a planning charge, introduced by the Planning Act 2008 as a tool for Local Authorities in England and Wales to help deliver infrastructure to support development in their area. CIL differs from S106 agreements, usually used to secure planning obligations, in that the rate per square metre is fixed and based on the Gross Internal Area of the development. The charge is also non-negotiable, with a strict criteria. CIL does not replace the use of S106 agreements, however infrastructure items that are covered by CIL can't also be required as part of a S106 agreement.

Full Council agreed to adopt West Lindsey's Charging Schedule for the implementation of a Community Infrastructure Levy in West Lindsey. The charges were implemented in full on 22nd January 2018.

For the period to 31/03/18 there were nil CIL receipts to West Lindsey District Council (WLDC). For information, the CIL receipts received from 01/04/18 to 30/09/18 total £25,855. In accordance with the legislation 5% will be retained by WLDC (the charging and collecting authority) for administration costs, 25% to the relevant Parish and 70% to Lincolnshire County Council to fund significant infrastructure projects as agreed countywide.

2.1 CAPITAL BUDGET MONITORING – Quarter 2

2.1.1 The Capital Budget forecast out-turn for schemes approved for spend (includes Stage 3 and Business as Usual) totals £28.281m against a revised budget of £22.950m, this is mainly due to the anticipated £7m additional spend on Commercial Property brought forward from 2019/20. Pipeline schemes (Pre Stage 1, Stage 1 and Stage 2) are expected to spend £1.757m (subject to future formal approval) This gives an overall total of £30.038m as detailed in the table below;

Corporate Priority / Scheme	Actuals to 30/09/2018	Original Budget	Revised Budget 2018/19	Forecast Outturn	Over/(Underspend)	Carry Forward Requests/ Drawbacks
Total Capital Programme Gross Expenditure - Stage 3 and BAU	14,116,009	17,518,700	22,949,541	28,280,587	(227,354)	5,558,400
Stage 2	100,198	2,197,870	4,279,023	1,557,400	(810,110)	(1,911,513)
Stage 1	0	5,190,000	2,008,860	150,000	(1,142,560)	(716,300)
Pre-Stage 1	0	550,000	50,000	50,000	0	0
Total Capital Programme Gross Expenditure	14,216,207	25,456,570	29,287,424	30,037,987	(2,180,024)	2,930,587

2.1.2 The capital programme spend to date is £14.216m against a revised budget of £29.287m. Expenditure is forecast to be £30.038 resulting in a £0.751m variance. £2.931m is planned to be pulled back from future financial years. £2.180m is no longer required due to amendments to schemes and resultant underspends. Subject to Committee approval the capital programme will be increased to reflect the pull back from future financial years.

2.1.3 Individual schemes are detailed in the table below and commentary provided on performance.

Corporate Priority / Scheme	Stage (1 April 2018)	Stage	Actuals to 30/09/2018	Original Budget 2018/19	Revised Budget 2018/19	Forecast Outturn	Over/ (Underspend)	Carry Forward Requests/ Drawbacks	Comments
			£	£	£	£	£	£	
Open for Business									
Telephony	Stage 2	Stage 2	37,198	150,000	190,200	107,400	(64,800)	(18,000)	Slippage of £18k to 2018/19
People First									
Disabled Facilities Grants	BAU	BAU	227,692	555,200	622,508	629,172	6,664		Independent living funds reabsorbed into DFG
Independent Living	BAU	BAU	(2,071)	0	6,664	0	(6,664)		Independent living funds reabsorbed into DFG
Customer Management	Stage 1	Stage 1	0	180,000	181,300	0	0	(181,300)	Capital Spend for Customer First not anticipated to commence until quarter 4, residual budget slipped to 2019/20
CCTV Expansion	Stage 3	Stage 3	0	0	50,000	50,000	0		
Asset Management									
Capital Enhancements to Council Owned Assets	BAU	BAU	0	36,000	116,000	91,000	(25,000)		£25k moved to Carbon Management for LED internal lighting
Carbon Efficiency Project	BAU	Stage 3	0	225,000	270,000	85,000	25,000	(210,000)	£25k moved from Carbon Management for LED Internal Lighting £210k slippage on Street Lighting
Development Loan	Stage 3	Stage 3	24,026	0	24,026	24,026	0		
Hemswell Masterplan - Public Realm Improvements	Stage 2	Stage 2	0	150,000	150,000	0	0	(150,000)	Slippage to 2019/20 due to delays from the County and Infrastructure
Commercial Investment	Stage 3	Stage 3	311,355	2,900,000	2,864,357	2,201,757	0	(662,600)	
Caistor - South Dale Redevelopment	Stage 2	Stage 2	0	100,000	100,000	0	(100,000)		
Car Park Strategy Investment	Stage 3	Stage 3	72,009	700,000	700,000	450,000	(250,000)		Purchase of land - acquisition no longer proceeding
Leisure Facilities	Stage 3	Stage 3	575,941	1,397,500	2,037,500	1,657,200	0	(380,300)	
Commercial Investment - Property Portfolio	Stage 3	Stage 3	11,943,850	10,000,000	13,509,645	20,509,645	0	7,000,000	
Central Lincolnshire Local Plan									
Gainsborough Growth Fund	Stage 3	Stage 3	5,025	139,000	195,754	195,754	0		
Gainsborough Shop Front Improvement Scheme	Stage 3	Stage 3	0	45,000	110,000	45,000		(65,000)	2-3 shop fronts anticipated for completion in 2018/19 the residual will be completed in 2019/20 from the resulting slippage
Gainsborough Heritage Regeneration - THI	Stage 2	Stage 2	0	65,310	65,310	0	(65,310)		
Unlocking Housing - Albion Works	Stage 2	Stage 2	0	580,000	580,000	0	(580,000)		Project now closed riverside land not available for purchase
Unlocking Housing - Living over the Shop	Stage 2	Stage 2	0	150,000	215,000	130,000		(85,000)	Schemes due to complete in 2018/19 the residual will slip to 2019/20 depending on a successful bid for GLLEP funding
Riverside Gateway - Marina/Transformational Change	Stage 2	Stage 1	0	1,002,560	1,102,560	0	(1,102,560)		Scheme no longer progressing in its current format, progress is been made on a new scheme which will be requested via the Capital budget setting process.
Gainsborough Regeneration - Dev Partnership	Stage 1	Stage 3	0	2,450,000	0	0	0		
Viability Funding - Capital Grant	Stage 3	Stage 3	503,121	700,000	1,105,952	1,105,952	0		
Market Rasen 3 year vision	Pre stage 1	Pre-Stage 1	0	50,000	50,000	50,000	0		
Rural Transport	Stage 3	Stage 3	0	0	40,000	40,000	0		
Private Sector Renewal	Pre stage 1	Stage 2	0	500,000	325,000	150,000	0	(175,000)	Policy becomes active in quarter 3 residual budget to be slipped into 2019/20
Food Enterprise Zone infrastructure	Stage 1	Stage 2	0	1,900,000	1,983,513	500,000	0	(1,483,513)	Site preparation works will be carried out this FY with the majority of the expenditure taking place in 2019/20, budget to be slipped into 2019/20
Saxilby Industrial Units	Stage 3	Stage 2	63,000	0	670,000	670,000	0		

Corporate Priority / Scheme	Stage (1 April 2018)	Stage	Actuals to 30/09/2018	Original Budget 2018/19	Revised Budget 2018/19	Forecast Outturn	Over/ (Underspend)	Carry Forward Requests/ Drawbacks	Comments
			£	£	£	£	£	£	
Excellent, VFM Services									
Vehicle Replacement Programme	BAU	BAU	366,081	628,000	677,435	602,081	(75,354)		Revised Vehicle Schedule programmed into to the capital budget for future years. Underspend this financial year, no slippage required
Replacement Planning/Building Control/Land Charges System	Pre stage 1	Stage 3	0	0	123,700	0	0	(123,700)	
Desktop Refresh and experience	BAU	BAU	4,490	29,000	214,000	239,000	25,000		
Commercial Loans	Stage 3	Stage 3	0	0	167,000	200,000	33,000		Commercial loan budget in 2017/18 was used for loans to council companies - there is a commitment for the Hillcrest loan therefore budget will need to increased to accommodate this at mid year review
Replace IDOX Scanner	Stage 1	Stage 1	0	0	10,000	0	(10,000)		No longer progressing
Email Upgrade	Stage 1	Stage 1	0	0	30,000	0	(30,000)		No longer required - revised 10 year plan of IT capital spend is requested in 2019/20 onwards
Financial Management System	Stage 1	Stage 1	0	150,000	150,000	0		(150,000)	Scheme rephased 2018/19 to 2019/20
Replacement Housing Register & Homelessness IT System	Stage 3	Stage 3	0	0	0	0	0		
IT Infrastructure Refresh and Software	BAU	BAU	84,488	154,000	105,000	105,000	0		
Performance Management	Stage 1	Stage 1	0	10,000	10,000	0	0	(10,000)	Scheme rephased to 2019/20 to align with CRM system
Project Management	Stage 1	Stage 1	0	0	10,000	0	0	(10,000)	Scheme rephased to 2019/20 to align with CRM system
Upgrade Council Chamber Technology	BAU	BAU	0	10,000	10,000	50,000	40,000		Management Team reviewed revised business case - Additional Funds Requested in the Qtr 2 Monitoring report
Public Sector Hub	Stage 1	Stage 1	0	500,000	515,000	150,000	0	(365,000)	Scheme progressing from December, resulting in slippage throguh to 2019/20
Total Capital Programme Gross Expenditure			**14,216,207**	**25,456,570**	**29,287,424**	**30,037,987**	**(2,180,024)**	**2,930,587**	

Capital Programme Update 2018/19

2.2.1 Investment in commercial property is ongoing with a number of successful acquisitions in the last quarter totalling £12.343m (including costs), these being

- Unit 1, Sanders Road, Gainsborough
- 43 Penistone Road, Sheffield
- Unit 7, Drake House, Sheffield

Additional opportunities are being evaluated and it is hoped further bids will be successful. The total approval of expenditure on Commercial investment properties is £30m. Approval is sought to pull back from 2019/20 £7.0m to finance additional acquisitions in 2018/19 leaving a remaining balance of £7m in 2019/20.

The overall portfolio as at Q2 generates a gross yield (rental/purchase price) of 7.06%. Annual rental income totals £988k with a net contribution estimated to be £560k p.a.

2.2.2 The following projects require re-phasing, affecting future financial years of the current capital programme in the 5 year MTFP:

Slippage (From 2018-19 to 2019-20)

- Telephony System Developments (£0.018m)
- Customer First (£0.181m)
- Hemswell Masterplan (£0.150m)
- Commercial Investment (Crematorium) (£0.663m)
- Leisure Facilities (£0.380)
- Gainsborough Shop Front Improvement Scheme (£0.065m)
- Unlocking Housing – Living over the Shop (£0.085m)
- Private Sector Renewal (£0.175m)
- Food Enterprise Zone Restructure (£1.484m)
- Replacement Land Charges/Building Control/Planning System (£0.124m)
- Financial Management System (£0.150m)
- Performance and Project Management (£0.020m)
- Public Sector Hub (£0.365m)
- Carbon Management – LED Street Lighting (£0.210m)

Pull Back (From 2019-20 to 2018-19)

- Commercial Investment Property Portfolio (£7.000m)

2.2.3 £2.253m of the current capital programme has been assessed as not needed or no longer required for capital purposes, however two schemes require additional financing of £0.073m resulting in a net underspend of £2.180m.

The underspends are as follows:

- Acquisition of additional car parking no longer proceeding (£0.250m)
- Acquisition of land for redevelopment no longer proceeding (£0.580m)
- Caistor Southdale no longer required (£0.100m)
- Telephony System costs are revenue (£0.065m)
- Gainsborough THI costs are revenue (£0.065m)
- Riverside Gateway/Marina Transformation new scheme is in development (£1.103m)

- Vehicle Replacement no longer required (£0.075m)
- Replacement IDOX Scanner no longer required (£0.010m)
- Email Upgrade no longer required (£0.030m) of this £0.025m to be moved to desktop refresh and experience to fund additional screen stands.
- Independent Living (£0.006m) underspend to be reabsorbed back into the Disabled facilities capital budget.
- Capital Enhancements to Council Owned Assets (£0.025m) underspend to be transferred to Carbon Management capital programme– LED internal lighting

The anticipated overspends requiring financing are:

- Commercial Loans (£0.033m) – accounting adjustment, financing from Internal Borrowing
- Council Chamber Technology (£0.040m) – initial quotations have come in higher than anticipated, financing from General Fund Balance

2.2.4 These amendments to the capital programme are presented to Committee for approval.

2.2.5 Approval is sought for a new capital bid of £0.050m for income management replacement. The current contract expires in April 2019 and contract negotiations for an extension are not probable. Therefore it is feasible that the Council will need to go out to procurement for a new income management system in November. This is not currently included in the capital programme monitoring position. Financing for this scheme will come from the General Fund Balance.

2.2.6 Approval to spend is requested for the following schemes:

- £0.150m Private Sector Renewal – The scheme has launched and initial funding applications are been assessed for suitability. Grant payments are likely to commence in October.
- £0.107m Telephony Project – the scheme is fully scoped and acquisition of technology and consultancy is ready to progress.
- £0.150m Financial Management System – Initial Tender documentation has been published and contract award is planned for January 2019.
- £0.085m Carbon Management – Tenders have been received and evaluated. Programme works to commence in January 2019.

2.3 Acquisitions, Disposals and Capital Receipts

2.3.1 The Council has made the following asset acquisitions during Quarter 2.

- Unit 1, Sanders Road, Gainsborough
- 43 Penistone Road, Sheffield
- Unit 7 Drake House, Sheffield
- Saxilby Industrial Units (Deposit)

2.3.2 The Council has made the following asset disposals during Quarter 2.

- 3 and 5 North Street, Gainsborough

2.3.3 Capital Receipts - The total value of capital receipts at the end of Quarter 2 was £332k this was due to income of £234k from the Housing Stock Transfer Agreement share of Right to Buy receipts, £7k loan repayments and £92k asset sale proceeds.

3. TREASURY MID YEAR REPORT INCL MONITORING – Quarter 2 (April-September)

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising 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 the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, treasury management is defined as:

"The management of the local authority's borrowing, 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."

This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

3. Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report, (stewardship report), covering activities during the previous year.

4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is Corporate Policy and Resources.

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first part of the 2018/19 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;

- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Council's investment portfolio for 2018/19;
- A review of the Council's borrowing strategy for 2018/19;
- A review of any debt rescheduling undertaken during 2018/19;
- A review of compliance with Treasury and Prudential Limits for 2018/19.

3.1 Key Changes to the Treasury and Capital Strategies

There are no changes to report to this committee

3.2 Economics Update

UK. The first half of 2018/19 has seen UK **economic growth** post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously (9-0) vote to increase **Bank Rate** on 2nd August from 0.5% to 0.75%. Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

Some MPC members have expressed concerns about a build-up of **inflationary pressures**, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.4% in June to 2.7% in August due to increases in volatile components, but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Bank Rate for the second half of 2019.

As for the **labour market,** unemployment has continued at a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high in July, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 2.9%, (3 month average regular pay, excluding bonuses) and to a one month figure in July of 3.1%. This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 0.4%, near to the joint high of 0.5% since 2009. (The previous high point was in July 2015.) Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC were right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy. However, the MPC will need to tread cautiously before increasing Bank Rate again, especially given all the uncertainties around Brexit.

In the **political arena**, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA. President Trump's massive easing of fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2, but also an upturn in inflationary pressures. With inflation moving towards 3%, the Fed increased rates another 0.25% in September to between 2.00% and 2.25%, this being four increases in 2018, and indicated they expected to increase rates four more times by the end of 2019. The dilemma, however, is what to do when the temporary boost to consumption wanes, particularly as the recent imposition of tariffs on a number of countries' exports to the US, (China in particular), could see a switch to US production of some of those goods, but at higher prices. Such a scenario would invariably make any easing of monetary policy harder for the Fed in the second half of 2019.

EUROZONE. Growth was unchanged at 0.4% in quarter 2, but has undershot early forecasts for a stronger economic performance in 2018. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of 2% for 2018, the horizon is less clear than it seemed just a short while ago.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

JAPAN - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

3.3 Interest Rate Forecasts

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

Link Asset Services Interest Rate View											
	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 Month LIBID	0.75%	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%
6 Month LIBID	0.85%	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
12 Month LIBID	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%
5yr PWLB Rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB Rate	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

The flow of generally positive economic statistics after the end of 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, to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but they declined to give a medium term forecast. We do not think that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. We also feel that the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

The balance of risks to the UK

- 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 broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. This is likely to lead to friction with the EU when setting the target for the fiscal deficit in the national budget. Unsurprisingly, investors have taken a dim view of this and so Italian bond yields have been rising.
- Austria, the Czech Republic and Hungary now form a strongly anti-immigration bloc within the EU while Italy, this year, has also elected a strongly anti-immigration government. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position as a result of the rise of the anti-immigration AfD party. To compound this, the result of the Swedish general election in September 2018 has left an anti-immigration party potentially holding the balance of power in forming a coalition government. The challenges from these political developments could put considerable pressure on the cohesion of the EU and could spill over into impacting the euro, EU financial policy and financial markets.
- The imposition of trade tariffs by President Trump could negatively impact world growth. President Trump's specific actions against Turkey pose a particular risk to its economy which could, in turn, negatively impact Spanish and French banks which have significant exposures to loans to Turkey.
- Weak capitalisation of some European banks.
- Rising interest rates in the US could negatively impact emerging countries which have borrowed heavily in dollar denominated debt, so causing an investor flight to safe havens e.g. UK gilts.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- President Trump's fiscal plans to stimulate economic expansion causing a significant increase in inflation in the US and causing further sell offs of government bonds in major western countries.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.
- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

3.4 Treasury Management Strategy Statement and Annual Investment Strategy update

The Treasury Management Strategy Statement (TMSS) for 2018/19, which includes the Annual Investment Strategy, was approved by the Council on 9 Feb 2018.

There are no policy changes to the TMSS; the details in this report update the position in light of the updated economic position and budgetary changes already approved.

3.5 The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

Prudential Indicator for Capital Expenditure, Changes to the Financing of the Capital Programme

This table below draws together the main strategy elements of the capital expenditure plans, highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue changes for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2018/19 Original Estimate £'000	2018/19 Revised Estimate £'000
People	2,013	1,578
Places	13,090	7,582
Policy & Resources	353	418
Commercial Investment Properties	10,000	20,510
Total capital expenditure	**25,456**	**30,088**
Financed by:		

Capital receipts	700	50
Capital grants	3,592	1,361
Revenue	6,024	3,634
S106	0	0
Total Financing	10,316	5,112
Borrowing need	15,140	25,043

3.6 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose*. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

3.7 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and Operational Boundary

The Director of Resources reports that no difficulties are envisaged for the current or future years in complying with prudential indicators.

The reduction in Indicators at Q2 reflect the impact of the revised Capital Programme.

The Treasury and Prudential monitoring information is reported below;

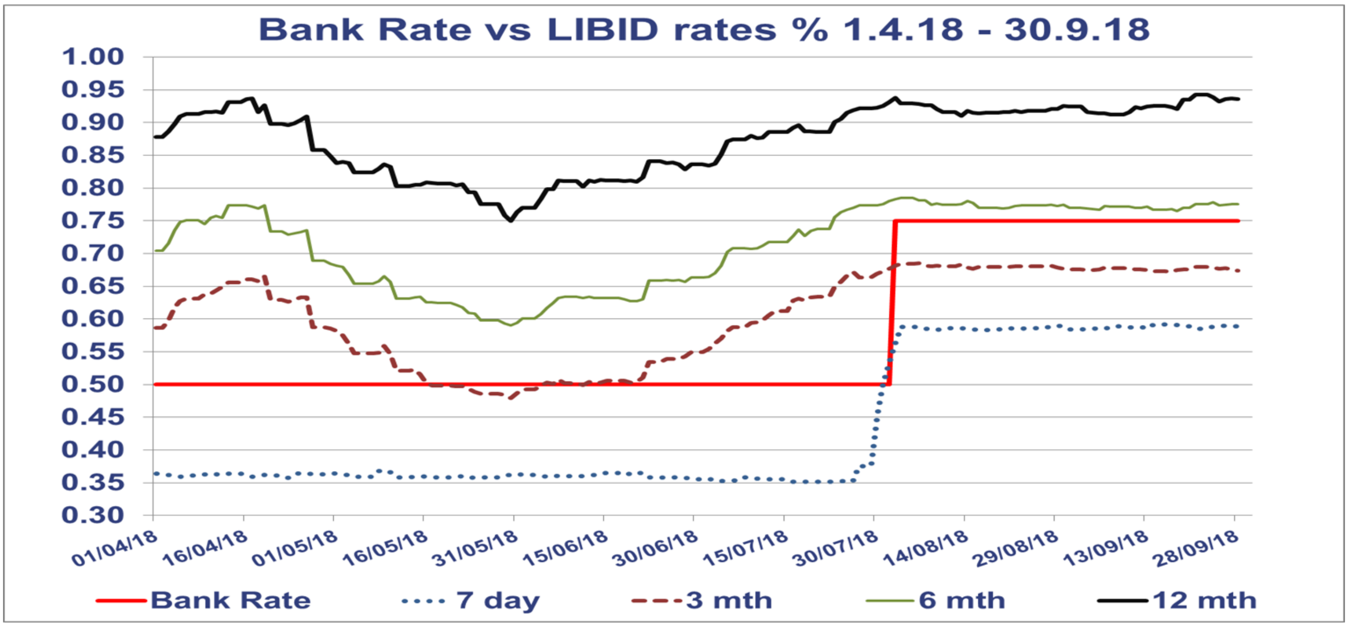
The prudential and treasury Indicators are shown below provide a revised estimate of the year end position based on the revised Capital Programme, its revenue and cashflow impacts;

	Original £'000	P1 £'000	Q2 £'000	Q3 £'000	Q4 £'000
Treasury Indicators					
Authorised limit for external debt	42,202	42,202	42,202		
Operational boundary for external debt	22,916	26,666	28,653		
External Debt	21,298	18,412	24,369		
Long term Leases	27	27	27		
Investments	(13,403)	(17,076)	(12,629)		
Net Borrowing	**7,922**	**1,363**	**11,767**	**0**	**0**
Prudential Indicators					
Capital Expenditure	25,456	27,822	30,088		
Capital Financing Requirement (CFR)*	23,821	24,103	29,700		
Of Which Commercial Property	*12,400*	*15,910*	*22,910*		
Annual change in CFR*	15,048	19,387	24,984		
In year borrowing requirement	22,756	19,446	25,043		
Under/(over)borrowing	2,524	5,692	5,332	0	0
Ratio of financing costs to net revenue stream*	1.39%	0.28%	0.08%		
Incremental impact of capital investment decisions:					
Increase/Reduction (-) in Council Tax (band change per annum)	(£6.77)	£0.76	(£7.85)		

3.8 Investment Portfolio

In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As shown by forecasts in section 3.2, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.75% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

The average level of funds available for investment purposes during the quarter was £16.558m (£17.630m in Q1). These funds were available on a temporary basis, the level of funds available was dependent on the timing of the precept payments, receipt of grants and progress on the Capital Programme. The annualised investment rate for the first six months of the year is 1.44% against a benchmark 7 day libid of 0.59%. The weighted average interest rate is 1.467%.



AS illustrated the Council continues to outperform the benchmark. The Council's budgeted investment return for 2018/19 is £0.242m. Performance year to date is slightly below budget given the need to keep funds liquid for capital investment and a reducing
The Council held £15.2m (£15.1m P1) of investments as at 30 September 2018 and the investment portfolio yield for Quarter 2 for investments is 1.572% (1.360% Q1), the yield reflects the investment in the Local Authority Property Fund.

Investment in Local Authority Property Fund

The Council has £3m invested in the CCLA Property Fund. Interest is receivable on a quarterly basis average interest for 2018/19 and is anticipated to result in £147k of income (4.9%)

Investment Counterparty criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the financial year 2018/19.

Treasury Officers continue to mitigate investment risk in accordance with Treasury Management Practices.

3.9 Borrowing

The Council's capital financing requirement (CFR) for 2018/19 is £29.70m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

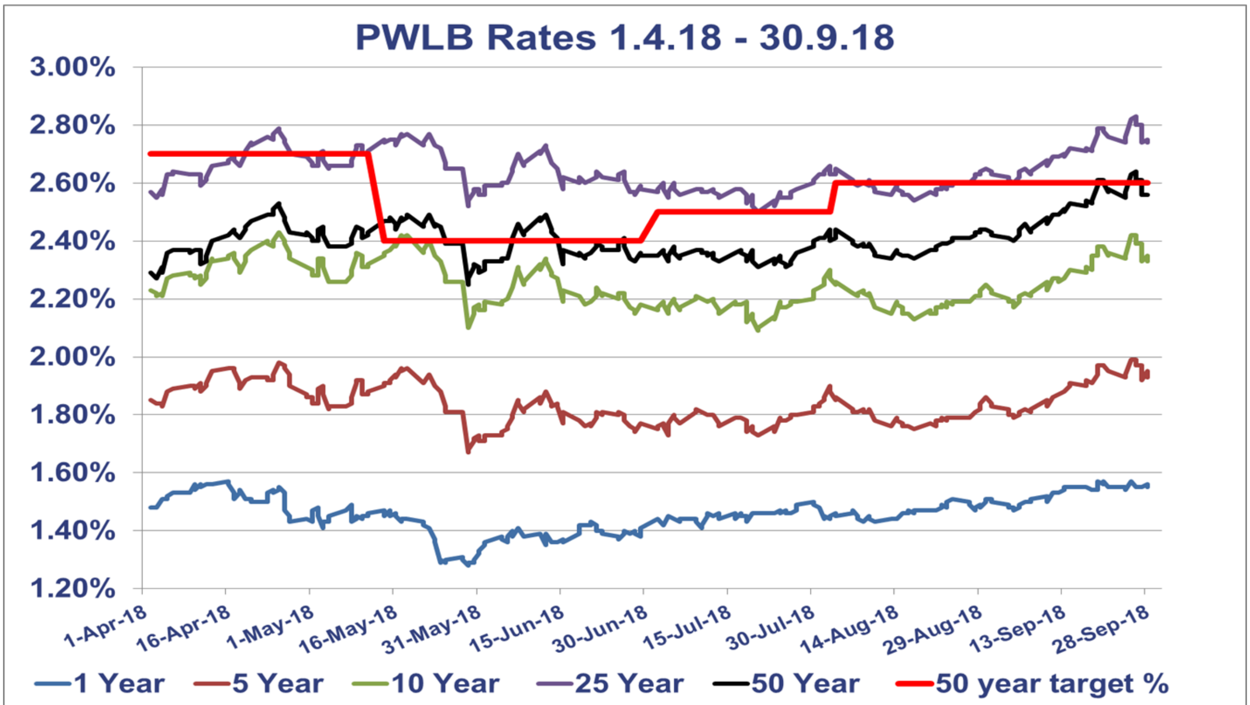
The cumulative cost of capital expenditure funded from borrowing is £19,826m, from a Treasury Management perspective there is a mix of external and internal borrowing as detailed below;

EXTERNAL BORROWING: On the 31st August 2018 the Council borrowed £6.00m from PWLB for 50 years at an interest rate of 2.43%

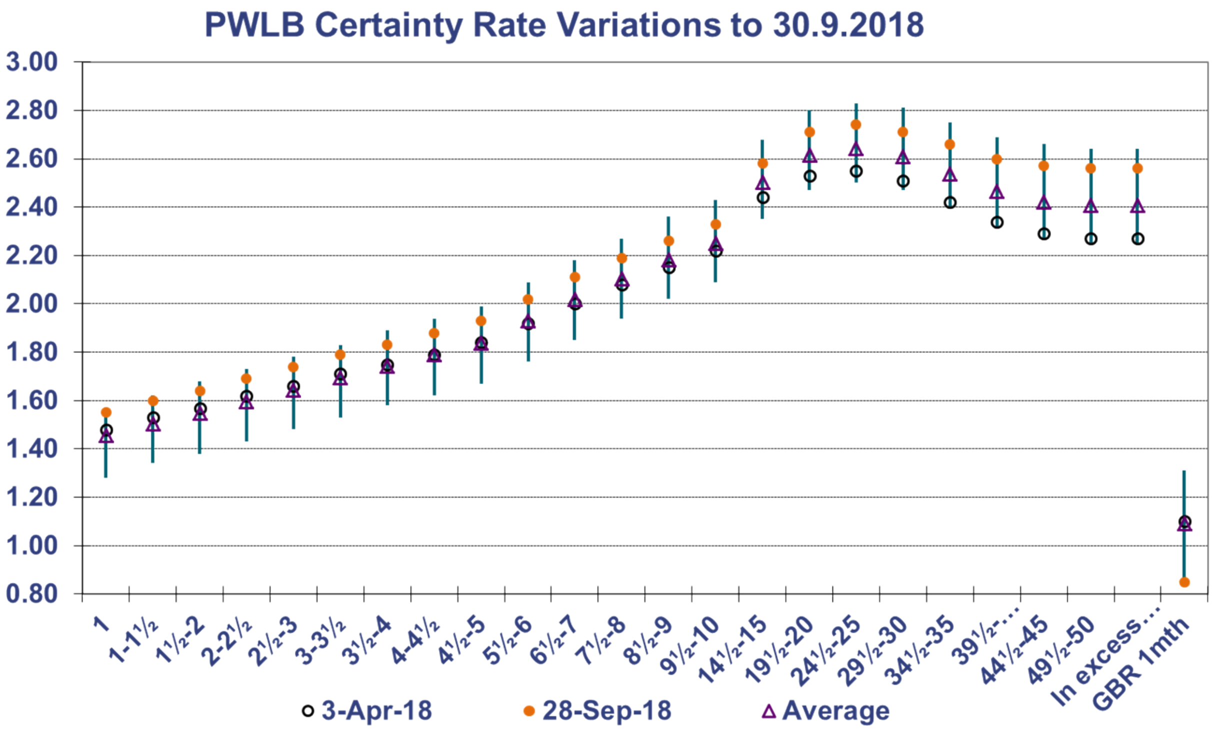
INTERNAL BORROWING: totals £11.826m as at the 30 September.

It is anticipated that further borrowing will be undertaken during this financial year.

The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date:



	1 Year	5 Year	10 Year	25 Year	50 Year
3.4.18	1.48%	1.84%	2.22%	2.55%	2.27%
30.9.18	1.55%	1.93%	2.33%	2.74%	2.56%
Low	1.28%	1.67%	2.09%	2.50%	2.25%
Date	01/06/2018	29/05/2018	20/07/2018	20/07/2018	29/05/2018
High	1.57%	1.99%	2.43%	2.83%	2.64%
Date	17/04/2018	25/09/2018	25/04/2018	25/09/2018	25/09/2018
Average	1.46%	1.84%	2.25%	2.64%	2.41%



3.10 Other

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.

IFRS9 accounting standard

This accounting standard came into effect from 1st April 2018. It means that the category of investments valued under the available for sale category will be removed and any potential fluctuations in market valuations may impact onto the Surplus or Deficit on the Provision of Services, rather than being held on the balance sheet. This change is unlikely to materially affect the commonly used types of treasury management investments but more specialist types of investments, (e.g. pooled funds, third party loans, commercial investments), are likely to be impacted. The impact on this authority is through the Property fund investment. Currently the investment is revalued and the surplus/deficit held on the balance sheet in the Available for Sale Financial Instrument Reserve. This will no longer exist and the balance transferred to general reserves to mitigate any fluctuation in value impacting on the Comprehensive Income Account.

The Ministry of Housing, Communities and Local Government (MHCLG), are currently conducting a consultation for a temporary override to allow English local authorities time to adjust their portfolio of investments. Members will be updated when the result of this consultation is known.

4. Changes in risk appetite

The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members’ attention in treasury management update reports.

The Monthly Investment Review report for September is attached below;

LINK Asset Services

West Lindsey District Council

Monthly Investment Analysis Review

September 2018

Monthly Economic Summary

General Economy

The data releases for the month began with August's Markit/CIPS Manufacturing Purchasing Managers Index (PMI) activity survey. This saw a decrease from the previous figure of 53.8, to a weaker 52.8. Construction PMI also took a hit, as it went down to 52.9 from 55.8, a huge fall and far lower than what was predicted. However, Services PMI was a stronger performer, rising from 53.5 to 54.3. GDP figures were stronger than expected; the m/m measure for July came in at 0.3%, an increase from 0.1% previously and above forecasts. The y/y measure was 1.6%. beating both the previous figure and forecasts. Brexit-related uncertainty is still a factor but the data provided a positive sign that growth has improved at the start of the quarter.

In terms of the UK's trade balance, the overall deficit decreased to £9.97bn. This was a drop of nearly £2bn, showing a narrowing of the current account deficit. The non-EU figure also fell to £2.8bn. Both of these figures beat forecasts, and provide evidence of a rebalancing of the UK's trade.

Unemployment remained at 4% for July, in line with forecasts and still at the lowest level since 1975. After a long wait, this continually low level seems to finally be feeding into wage growth, with an increase 2.9% excluding bonuses. The 3M y/y figure is 2.6% including bonuses, both increases from the previous month. Whether the low unemployment rate will have a more sustained impact on wage growth is yet to be seen.

In mid-September, the Bank of England's Monetary Policy Committee chose to hold the base rate at 0.75% following the August hike. Bank Governor Mark Carney reiterated that the Committee is in no rush to raise rates back to more "normal" levels, and with Brexit uncertainty coming to the fore, markets are showing little to no expectation of a further rate hike until Q2/Q3 2019.

The inflation figures for August came out far higher than expected, with Consumer Price Index (CPI) y/y at 2.7%, up from 2.4% in July. The rise in inflation was driven by particularly volatile components so forecasters expect the pickup to be temporary. The monthly CPI figure was 0.7%, up from 0.5%, while Core CPI y/y rose unexpectedly to 2.1% from a previous figure of 1.8%. Despite the increase in price pressures, market participants continued to play down any expectations of a near-term rate hike. Their belief is primarily based on Brexit uncertainty and the fact that inflation is likely to fall towards the Bank's inflation target of 2% through this year and 2019.

Retail sales were expected to show negative growth in August after a strong summer of good weather. However, the figure surprisingly stayed positive at 0.3% m/m, and the y/y figure only fell to 3.3%, well above forecasts of a drop to 2.3%. Within the overall data, food sales did register a small fall, but this was more than offset by the largest monthly increase in sales of household goods since May 2016.

In terms of public finances, the data was disappointing for August. Public sector net borrowing excluding banks rose to £6.753bn, up from £3.4bn, and the figure including banks rose by slightly less, to £5.889bn. There are increasing expectations that the OBR may lower its borrowing forecast in November, which could allow the Chancellor to increase spending in his upcoming budget, without having to raise income from other sources or make cuts elsewhere.

GDP figures at the end of the month were another source of disappointment for the UK. While there was no chance to the Q2 q/q figure (0.4%), Q1 was revised down from 0.2% to just 0.1%. Furthermore, the Q2 y/y figure was revised downwards to 1.2% from 1.3%.

The Eurozone's Q2 y/y GDP figure was also revised lower, down from 2.2% to 2.1%. Meanwhile, US y/y GDP remained unchanged, at 4.2% evidencing the effects of President Trump's expansionary fiscal policy, and paved the way for the US Federal Reserve to action a rate rise at the end of September. Accompanying the move, the Fed's "dot plot" of member expectations for future policy rates suggested another rate hike may occur in 2018, and potentially another three in 2019.

Housing

The Halifax house prices measure showed a 0.1% m/m increase in August, rebounding from a negative value in July. The y/y measure showed a 3.7% increase, an uplift from 3.3% previously but lower than the 3.9% forecast. House.
Nationwide also showed a small rise in m/m house prices, up to 0.3%, whilst the y/y figure also increased by 0.1% to 2%.

Currency

Sterling opened the month at $1.29 against the US Dollar and closed at $1.30, with varied fluctuations throughout the period. Against the Euro, Sterling opened at €1.115 and closed at €1.125.

Forecast

Link Asset Services suggests that the next interest rate rise will be to 1% in the third quarter of 2019, with further rises of 25 basis points in Q2 2020, and Q4 2020. Capital Economics expect the next rate rise will be Q2 2019, followed by another rise in Q4 2019 and a further change in Q4 2020.

Bank Rate	NOW	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	**0.75%**	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
Capital Economics	**0.75%**	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%	1.75%	-

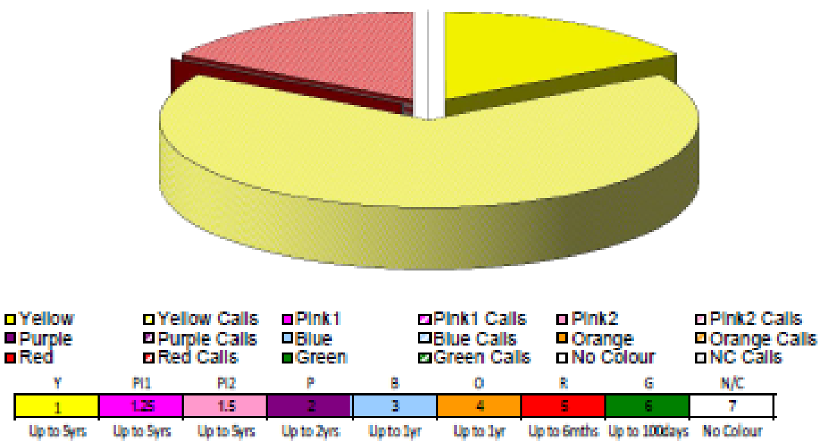
West Lindsey District Council

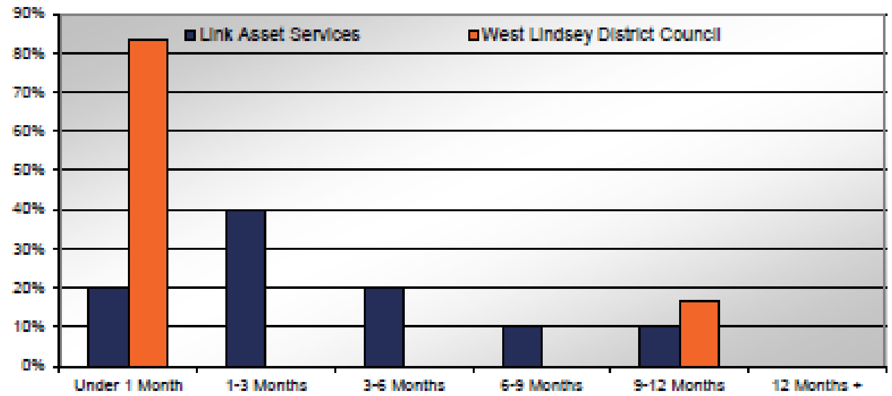
Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF CCLA	5,000,000	0.69%		MMF	AAA	0.000%
MMF LGIM	3,200,000	0.68%		MMF	AAA	0.000%
Dumfries & Galloway Council	2,000,000	0.66%	05/09/2018	05/10/2018	AA	0.000%
Santander UK Plc	2,000,000	0.70%		Call365	A	0.054%
Borrower - Funds	**Principal (£)**	**Interest Rate**	**Start Date**	**Maturity Date**		
CCLA-LAPF	3,000,000					
Total Investments	**£15,200,000**	**0.55%**				
Total Investments - excluding Funds	**£12,200,000**	**0.68%**				**0.009%**
Total Investments - Funds Only	**£3,000,000**	**0.00%**				

West Lindsey District Council

Portfolio Composition by Link Asset Services' Suggested Lending Criteria





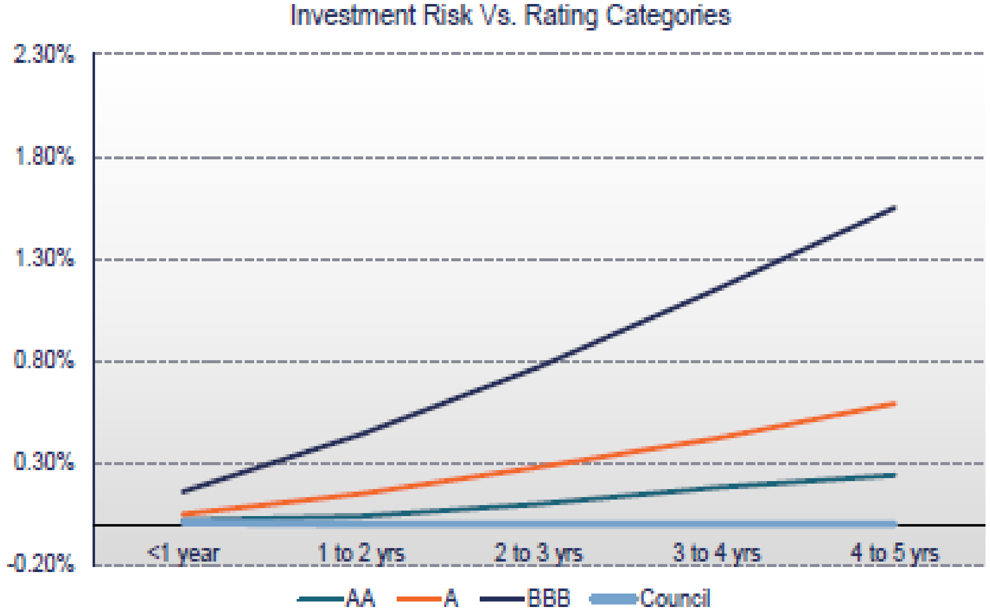
Portfolios weighted average risk number = 1.66

WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/USDBFs WAM	Excluding Calls/MMFs/USDBFs WAM at Execution
Yellow	83.61%	£10,200,000	80.39%	£8,200,000	67.21%	0.68%	1	6	5	30
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Orange	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Red	16.39%	£2,000,000	100.00%	£2,000,000	16.39%	0.70%	365	365	0	0
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
	100.00%	**£12,200,000**	**83.61%**	**£10,200,000**	**83.61%**	**0.68%**	**61**	**65**	**5**	**30**

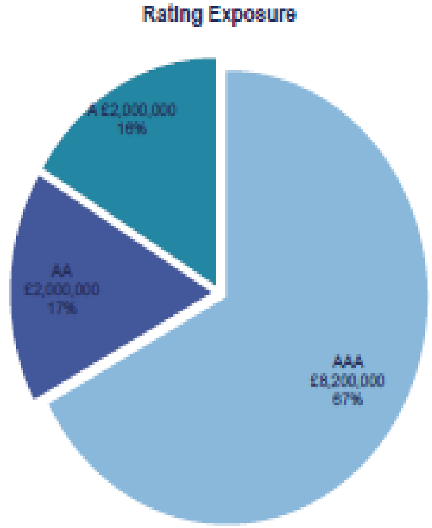
West Lindsey District Council

Investment Risk and Rating Exposure



Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.02%	0.04%	0.10%	0.18%	0.24%
A	0.05%	0.15%	0.28%	0.42%	0.59%
BBB	0.16%	0.44%	0.77%	1.15%	1.55%
Council	0.009%	0.000%	0.000%	0.000%	0.000%



Historic Risk of Default

This is a proxy for the average % risk for each investment based on over 30 years of data provided by Fitch, Moody's and S&P. It simply provides a calculation of the possibility of average default against the historical default rates, adjusted for the time period within each year according to the maturity of the investment.

Chart Relative Risk

This is the authority's risk weightings compared to the average % risk of default for "AA", "A" and "BBB" rated investments.

Rating Exposures

This pie chart provides a clear view of your investment exposures to particular ratings.

West Lindsey District Council

Monthly Credit Rating Changes
FITCH

Date	Update Number	Institution	Country	Rating Action
25/09/2018	1641	Danske A/S	Denmark	Outlook on the Long Term Rating changed to Negative from Stable

West Lindsey District Council

Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action
21/09/2018	1640	Danske A/S	Denmark	Outlook on the Long Term Rating changed to Negative from Stable

West Lindsey District Council

Monthly Credit Rating Changes
S&P

Date	Update Number	Institution	Country	Rating Action
21/09/2018	1639	Australia Sovereign Rating	Australia	Outlook on the Long Term Rating changed to Stable from Negative
26/09/2018	1642	Danske A/S	Denmark	Outlook on the Long Term Rating changed to Negative from Positive