Corporate Policy and Resources Committee
14th February 2019

Subject: Budget and Treasury Management Monitoring – Period 3 2018/19

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 31 December 2018.

RECOMMENDATION(S):

a) That Members accept the forecast out-turn position of a £379k net contribution to reserves as at 31 December 2018, as at section 2;

b) Members note the use of Earmarked Reserves during the quarter approved by the Executive Director of Resources using Delegated powers, as at paragraph 2.5.1;

c) Members accept the Commercial Income position, as at paragraph 2.3;

d) That members approve the revised Capital Budget of £30.17m to reflect the additional Disabled Facilities Grant (DFG) of £0.069m, and approve the budget and spend for the Trinity Arts Centre sound equipment of £0.032m and the reduction of £0.039m for Council owned asset maintenance as detailed in paragraphs 3.1.4, 3.1.5 and 3.1.6;

e) That Members accept the Treasury Management position and prudential indicators for the quarter.

IMPLICATIONS

Legal: None arising as a result of this report.

Financial: FIN/188/19

The draft revenue forecast out-turn position for 2018/19 is currently reflecting a net contribution to reserves of £379k as at 31 December 2018 (£175k as at 30 September 2018).

This is after taking account of approved carry forwards of £248k, detailed at Appendix A.

The items with significant variances are contained within this report at 2.1.

The capital forecast out-turn position for 2018/19 is £29.967m the amendments to the capital programme are detailed in 3.1.4, 3.1.5 and 3.1.6 of this report. All other amendments will be dealt with as part of the closedown process at the financial year end.

The Treasury Management activities during the reporting period are disclosed in the body of this report. Average investments were £14.226m which achieved an average rate of interest of 1.757% in Quarter 3 (1.495% Jul-Sep).

In December 2018 the Council externally borrowed £2.5m for 5 years from the PWLB at an interest rate of 1.7%.

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 £379k (2.46% of Net Revenue Expenditure)
- Capital Forecast Out-Turn - £29,967k (Original Budget £25,457k)
- Treasury Management Report and Q3 monitoring
  - Average investment Interest rate 1.514%
  - Total Investments at end Q3 £13,400k (£13,573 incl. bank account)
  - New external borrowing £2.5m PWLB @ 1.7% over 5 years

The tables below reflect investment movements and prudential borrowing analysis.

Investment Movements	Q3 £'000
Investments B/fwd (at 31.3.2018 incl bank)	**15,316**
Less Capital expenditure funded from borrowing to Q3	-16,757
Add PWLB Borrowing in year	8,500
Less Net Revenue Expenditure	-11,219
Add Net Collection Fund Movement (Council Tax and NNDR)	15,611
Add Working Capital Movement	2,122
Investments c/fwd (at 31.12.2018 incl bank)	**13,573**

Prudential Borrowing	Q3 £'000
External Borrowing at 31.12.2019	8,500
Internal Borrowing at 31.12.2019	11,867
Total Prudential Borrowing	**20,367**

REVENUE BUDGET MONITORING PERIOD 3
(Forecast out turn for 2018/19)

2. The Revenue Budget forecast out-turn currently stands at a net contribution to reserves of £379k as detailed in the table below, this is after taking account of £248k of budget carry forwards, the details of which are provided at Appendix A.

Forecast Outturn by Cluster

SERVICE CLUSTER	2018/19 Budget £	2018/19 Forecast Outturn £	December 2018 Forecast Outturn Variance £
People	5,032,000	4,727,292	(304,708)
Places	1,223,500	1,669,500	446,000
Policy and Resources	5,134,000	4,857,713	(276,287)
Controllable Total	**11,389,500**	**11,254,505**	**(134,995)**
Corporate Accounting:			
Interest Receivable	(282,300)	(236,300)	46,000
Interest Payable	371,800	150,610	(221,190)
Investment Income	(570,600)	(651,800)	(81,200)
Precepts and Levies	2,260,749	2,260,749	0
Movement in Reserves:			
To / (From) General Fund	(1,544,900)	(1,544,900)	0
Use of Specific Reserves	(676,900)	(676,900)	0
Contribution to Specific Reserves	4,447,493	4,647,493	200,000
Repayment of Borrowing	32,400	32,400	0
Net Revenue Expenditure	**15,427,242**	**15,235,857**	**(191,385)**
Funding Total	(15,427,242)	(15,615,636)	(188,394)
NET SUBSIDY FROM / (CONTRIBUTION) TO RESERVES FOR THE YEAR	**0**	**(379,779)**	**(379,779)**

Details of headline variances by Cluster can be found below at 2.1.

2.1 The significant movements being;

Cluster	EXPENDITURE	Total £000	Direction of Travel
	BUDGET UNDERSPENDS		
	Salary savings.	-£255	↑
Interest & Investment Income	Net impact of investment property acquisitions, and forecast acquisitions.	-£81	↓
Interest & Investment Income	Treasury management activities.	-£176	↓
	PRESSURES		
People	Fuel - forecast pressure on fuel due to average prices being greater than budgeted.	£10	↑
People	Legal costs settlement.	£19	↔
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).	£32	↓
Policy & Resources	IT Shared Services - current estimated pressure. Under negotiation.	£52	new
	Various forecast outturn variances <£10k	-£2	↑
		-£373	

Cluster	INCOME	Total £000	Direction of Travel
	BUDGETED INCOME EXCEEDED		
People	Green Waste service income target exceeded.	-£238	↓
Places	Trinity Arts Centre - increased performances, film showing & additional hire.	-£31	new
Policy & Resources	Share of Legal Services surplus - payable by LCC for previous financial year.	-£22	↑
Funding	NNDR - additional income renewables and S31 Grant.	-£100	↑
Funding	LCTS Admin Grant higher than anticipated (£31k), Autumn budget statement-distribution of levy surplus (£46k) & other grant income (£11k).	-£88	↑
	BUDGETED INCOME NOT ACHIEVED		
People	Trade Waste income target not due to be achieved - averarge income per customer below target set for budget.	£20	new
People	Housing Benefits - forecast net subsidy position.	£48	↑
Places	Rental income lost due to sale of assets and voids.	£29	↑
Places	Car park income - not achieving target based on actuals to date, offset by surplus on car park permits (£6k)	£84	↓
Places	Planning fee income.	£150	↑
Places	Impact of acquisition not expected to be leased out until April 19 - loss of rental income and NNDR.	£142	↓
		-£6	
	TOTAL VARIANCE	-£379	

2.2 Significant items (>£10k) of note by Cluster:

2.2.1 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 £351k contribution (after borrowing costs) to the savings target. We continue to identify suitable properties which meet our Policy criteria however we are not forecasting further income to be generated in this financial year.

2.2.2 People

- Green Waste Charging commenced in 2018/19 and with the Budget reflecting a net contribution of £502k. With actual income currently at £884k from subscriptions achieved during this period the forecast net contribution is £746k, £244k above the prudent original forecast. (£268k additional income, offset by £24k additional costs on transport and administration).

- Trade waste is forecasting a £20k pressure for the year. The customer base has not increased to reflect the estimates on which the income target was based due to factors including;

    - Long term staff absence and temporary staff redeployment affecting the resources available to promote and sell the service in 2018.

    - A more competitive market place, as existing suppliers have reacted to WLDC winning a greater market share.

  The business case has been revised during the year and the amended income target has been built into the MTFP for future years. Recruitment has taken place and the team are once again operating at optimal staffing levels. Pipeline sales and payoff from business development activities undertaken give confidence for the year ahead.

- 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 was 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.

2.2.3 Places

- The acquisition of the former Lidl building was anticipated to generate a full years lease income and additional car parking income. Whilst the property remains on the market, we are not forecasting a tenancy to commence in the current financial year, resulting in a £142k pressure (void rent, repairs and maintenance 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. However, it should be noted that all units have now been reserved.

- Property rental income is forecasting a pressure of £45k due to sale of assets during the year and voids levels.

- Car park income is forecast to be £84k under the budgeted target. This is due to a number of factors, closure of Roseway Car Park for improvement works, 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.

- Planning fee income is forecasting a £150k 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.

- Trinity Arts Centre is forecast to achieve additional income of £31k, with the appointment of a new Centre Manager and the improvement to the programme offer and marketing, has resulted in increased performances and film showings which are proving to be very popular.

2.2.4 Policy & Resources

- A Commercial Contingency budget of £200k was built into 2018/19 base budgets to mitigate a number of commercial risks, including investment properties. CP&R approved on 10 January 2019 the saving of £200k to be transferred to the Valuation Volatility Reserve.

- LCC legal services are forecast to distribute surplus balances to WLDC of £22k above the budgeted amount.

- The ICT shared services costs are forecast to be £52k above budget.

  Anticipated costs for the shared services contract this financial year are estimated to be £44,700. This is made up of Net Staff costs of £11,300 and incidental costs of £33,400. This would of resulted in an overspend against budget of £31,700. The balance of the remaining overspend is due to contract dispute at the end of 17-18 which is now resolved but lead to us not accruing sufficiently for 17-18 outstanding commitments.

  We have worked with NK to resolve issues and the budgets have been set more appropriately based on an agreed 5 year plan within the MTFP.

2.2.5 Establishment

- Current vacancy levels after costs of interim staffing resources is forecast to achieve a £255k budget underspend this represents 2.36% of the overall employee budget. This is broken down by cluster as follows;

Cluster	Forecast Outturn £
People	(174,460)
Places	(3,800)
Policy and Resources	(76,708)
Grand Total	**(254,968)**

2.3 Commercial Projects and Income Target

2.3.1 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.

2.3.2 Progress against this target has delivered £1,356k of ongoing savings thus far as detailed below;

- £351k Investment in Commercial Property (Target £600k by 2020/21)
- £131k Trade Waste Income
- £746k Green Waste
- £ 5k Building Control Complimentary Services
- £ 57k Pre-Application Planning Advice
- £ 25k Surestaff Lincs Ltd (Recruitment Agency)
- £ 41k Commercial Loan income

2.4 Fees and Charges

2.4.1 £1.448m has been received in Fees and Charges up to the end of the period against a budget for the period of £1.622m, a pressure to date of £0.174m. The significant variances are included in the table at 1.1.

2.4.2 The most significant pressures being Planning Fee income, and Car Park income as previously mentioned at 1.2.3 above.

2.5 Use and Contribution to Reserves

2.5.1 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 £135k;

- £10.0k from the Investment for Growth reserve. Consultancy costs – Growth Deal Study (Carney Green).

- £8.0k from Connectivity Fund reserve. WLDC contribution towards the Community Rail Partnership post for an 18mth period (approved by Management Team 19.03.18 FIN/MT/69/19)

- £1.0k from the Investment for Growth reserve. To continue the 'Positive Futures' group at Hemswell Cliff after LCC agreement ends whilst options for assisting the group in applying for funding are investigated. (£100k approved by CP&R (FIN/12/17) for Hemswell Cliff Masterplan. Balance remaining £67.8k).

- £17.1k from Neighbourhood Planning Grant - to cover costs of Neighbourhood Planning Team project delivery spend.

- £39.9k from the Maintenance of Facilities reserve for Land & Property planned repairs and maintenance.

- £19.3k from the Business Improvement & Transformation reserve. To cover the revenue costs of the telephony project.

- £3.7k from Unapplied Grants reserve in 2018/19 (£3k in 2019/20). Cabinet Office Electoral Registration Grant received in 2017/18. To cover cost of temporary support assistant (agency) to support District Election May 2019 (FIN/VAC/80/19).

- £16k from Vehicle Replacement Programme reserve.
    - £6k for replacement of supervisor van YC08 XKL.
    - £10k for wrapping of refuse vehicle and dustcart.

- £20k from Maintenance of Facilities reserve. To carry out necessary works on the former Lidl building prior to leasing.

2.6 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.

2.6.1 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	Revenue	54,000
LCC	One Public Estate	Revenue	17,700
DCLG	Neighbourhood Planning Grant	Revenue	20,000
DWP	Housing Benefits	Revenue	7,406
DWP	Self Employed CI	Revenue	4,144
DCLG - Autumn Statement	NNDR Levy Distribution	Revenue	46,000
Active Lincolnshire	Sport England-Satellite Club Funding	Revenue	2,000
		TOTAL:	151,250

Other Items for information

2.7 Planning Appeals

In period 3 2018/19 there were 17 appeals determined, as follows;

Period	Number of Appeals	Allowed	Dismissed
October 2018	5	0	5
November 2018	7	1	6
December 2018	5	0	5
Total for Period 3	**17**	**1**	**16**

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

2.8 Aged Debt Summary – Sundry Debtors

Aged Debt Summary Period 3 Monitoring Report

At the end of December 2018 there was a total of £237k 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 £27k
Property Services £33k
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
October	3,756	20,727	195,897	220,380
November	32,925	3,292	201,919	238,135
December	5,538	32,323	199,559	237,421

2.9 CHANGES TO THE ORGANISATION STRUCTURE

There have been the following changes to the organisation structure during period 3;

- Economic Development – new 2 year fixed term post – Housing & Supply manager.

- Planning Policy-Forward Planning - new 1 year fixed term post – Conservation Officer-Major Projects.

3.1 CAPITAL BUDGET MONITORING – Quarter 3

3.1.1 The Capital Budget forecast out-turn for schemes approved for spend (includes Stage 3 and Business as Usual) totals £28.967m against a revised budget of £28.538m, Leisure Centre £0.761m and the Crematorium £0.036m schemes progressing and spend being brought forward from 2019/20, this is offset in part by slippage on the Gainsborough Growth Fund £0.183m, Private Sector Renewal £0.075m and CCTV £0.019m. £0.091m underspend on Capital Enhancements to Council owned buildings is due to the classification of schemes as revenue £0.039m, £0.052m is underspend. The residual movements will be dealt with as part of the closedown process at year end. Pipeline schemes (Pre Stage 1, Stage 1 and Stage 2) are expected to spend £1m (subject to future formal approval). This gives an overall total of £29.967m 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	18,638,530	18,168,700	28,537,987	28,967,363	(91,000)	520,376
Stage 2	63,000	2,047,870	1,420,000	1,000,000	(70,000)	(350,000)
Stage 1	0	5,190,000	150,000	0	0	(150,000)
Pre-Stage 1	0	50,000	0	0	0	0
Total Capital Programme Gross Expenditure	18,701,530	25,456,570	30,107,987	29,967,363	(161,000)	20,376

3.1.2 The capital programme spend to date is £18.702m against a revised budget of £30.108m. Expenditure is forecast to be £29.967 resulting in a £0.141m variance. £0.798m is planned to be pulled back from future financial years for the Crematorium and Leisure. This is offset by £0.778m slipped to 2019/20. £0.161m is no longer required due to amendments to schemes and resultant underspends.

3.1.3 It is important to note that should there be no further suitable commercial property acquisitions in 2018/19 then the variance will increase by a further £7m.

3.1.4 The Committee is asked to formally approve the budget reduction of £0.039m on Capital Enhancements to Council owned buildings which is due to the classification of schemes as revenue. All other amendments to the schemes will be dealt with as part of the closedown process at the financial year end.

3.1.5 The Council has been notified of additional funds in relation to Disabled Facilities Grants (DFG) of £0.069m. The additional funds must be fully utilised in 2018/19. The Committee is therefore asked to approve the increase in the DFG budget by this amount.

3.1.6 The Trinity Arts Centre have requested a new capital bid and approval to spend £0.032m to replace faulty sound equipment, this will ensure the current entertainment programme can continue and enable the centre to hire out the equipment for outdoor events.

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

Corporate Priority / Scheme	Stage (1 April 2018)	Stage	Actuals to 30/11/2018	Original Budget 2018/19	Revised Budget 2018/19	Forecast Outturn	Over/ (Underspend)	Carry Forward Requests/ Drawbacks	Comments
			£	£	£	£	£	£	
Open for Business									
Telephony	Stage 2	Stage 3	74,440	150,000	107,400	107,400	0	0	
People First									
Disabled Facilities Grants	BAU	BAU	359,120	555,200	629,172	629,172	0	0	
Independent Living	BAU	BAU	(2,071)	0	0	0	0	0	
Customer Management	Stage 1	Stage 1	0	180,000	0	0	0	0	
CCTV Expansion	Stage 3	Stage 3	3,800	0	50,000	31,335	0	(18,665)	Phase 1: £10.2k to be billed Dec/Jan. Phase 2: £17.4k due Jan19. Phase 3: Est remaining balance of £18.6k to be c/wd and paid Apr/May 19.
Asset Management									
Capital Enhancements to Council Owned Assets	BAU	BAU	0	36,000	91,000	0	(91,000)	0	£39,000 of earmarked facilities reserve now to be utilised on Revenue projects that cannot be capitalised. Capital budgets to be reduced by £39,000. No further capital projects this financial year and budget is allocated for future financial years
Carbon Efficiency Project	BAU	Stage 3	3,430	225,000	85,000	85,000	0	0	
Development Loan	Stage 3	Stage 3	24,026	0	24,026	24,026	0	0	
Hemswell Masterplan - Public Realm Improvements	Stage 2	Stage 2	0	150,000	0	0	0	0	
Commercial Investment - Crematorium	Stage 3	Stage 3	1,370,870	2,900,000	2,201,757	2,238,637	0	36,880	Works have commenced on site, if progress as anticipated then a clawback of £37k will be required from 2019/20
Caistor - South Dale	Stage 2	Stage 2	0	100,000	0	0	0	0	
Car Park Strategy Investment	Stage 3	Stage 3	439,151	700,000	450,000	450,000	0	0	
Leisure Facilities - Gainsborough	Stage 3	Stage 3	1,041,589	1,397,500	1,417,000	1,417,000	0	0	
Lesiure Facilities - Market Rasen	Stage 3	Stage 3	326,471	0	240,200	1,000,971		760,771	Progression of Market Rasen Leisure Centre - Clawback of £760k required from 2019/20 if land acquisition progresses as anticipated
Commercial Investment - Property Portfolio	Stage 3	Stage 3	13,488,364	10,000,000	20,509,645	20,509,645	0	0	
Central Lincolnshire Local									
Gainsborough Growth Fund	Stage 3	Stage 3	12,144	139,000	195,754	12,144	0	(183,610)	Scheme discontinued in January 2019. Unused funds will be utilised as part of the new feasibility fund
Gainsborough Shop Front Improvement Scheme	Stage 3	Stage 3	15,000	45,000	45,000	45,000	0	0	
Gainsborough Heritage Regeneration - THI	Stage 2	Stage 2	0	65,310	0	0	0		
Unlocking Housing - Albion Works	Stage 2	Stage 2	0	580,000	0	0	0		
Unlocking Housing - Living over the Shop	Stage 2	Stage 2	0	150,000	130,000	130,000		0	
Riverside Gateway - Marina/Transformational Change	Stage 2	Stage 1	0	1,002,560	0	0	0		
Gainsborough Regeneration - Dev Partnership	Stage 1	Stage 3	0	2,450,000	0	0	0		
Viability Funding - Capital Grant	Stage 3	Stage 3	945,002	700,000	1,105,952	1,105,952	0		
Market Rasen 3 year vision	Pre stage 1	Stage 2	0	50,000	50,000	0	0	(50,000)	Market Rasen Town Council are currently looking at eligible expenditure projects, these are unlikely to be implemented before the financial year end. Slippage to 2019/20
Rural Transport	Stage 3	Stage 3	0	0	40,000	40,000	0		
Private Sector Renewal	Pre stage 1	Stage 3	9,737	500,000	150,000	75,000	0	(75,000)	There are a number applications currently in the process which should lead to 50% of the grant being spent this financial year. The residual needs to be slipped to 2019/20
Food Enterprise Zone infrastructure	Stage 1	Stage 2	0	1,900,000	500,000	200,000	0	(300,000)	Initial site preparation works will be carried out this financial year, with the majority of the expenditure taking place in 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 30/11/2018	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	602,081	602,081	0		
Replacement Planning/Building Control/Land Charges System	Pre stage 1	Stage 3	0	0	0	0	0	0	
Desktop Refresh and experience	BAU	BAU	9,094	29,000	239,000	239,000	0		
Commercial Loans	Stage 3	Stage 3	66,666	0	200,000	200,000	0		
Replace IDOX Scanner	Stage 1	Stage 1	0	0	0	0	0		
Email Upgrade	Stage 1	Stage 1	0	0	0	0	0		
Financial Management System	Stage 1	Stage 1	0	150,000	0	0		0	
Register & Homelessness IT System	Stage 3	Stage 3	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	0	0	0	0	
Project Management	Stage 1	Stage 1	0	0	0	0	0	0	
Upgrade Council Chamber Technology	BAU	BAU	1,125	10,000	50,000	50,000	0		
Public Sector Hub	Stage 1	Stage 1	0	500,000	150,000	0	0	(150,000)	Initial design consultancy is complete - awaiting a formal decision to proceed
Income Management	Stage 2	Stage 2	0	0	70,000	0	(70,000)	0	Project no longer progressing due to extension of current provider
Total Capital Programme Gross Expenditure			**18,701,530**	**25,456,570**	**30,107,987**	**29,967,363**	**(161,000)**	**20,376**	

Capital Programme Update 2018/19

3.1.8 Investment in commercial property is ongoing with a few opportunities being evaluated and it is hoped further bids will be successful before the year end.

3.2 Acquisitions, Disposals and Capital Receipts

3.2.1 The Council has made no asset acquisitions during Quarter 3.

3.2.2 An additional asset has been identified as belonging to West Lindsey District Council

- Verge Land – Beaumont Street (Infrastructure Asset)

3.2.3 The Council has made no asset disposals during Quarter 3.

3.2.4 Capital Receipts - The total value of capital receipts at the end of Quarter 3 was £333k 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.

4. TREASURY Q3 REPORT INCL MONITORING – Quarter 3 (April - December)

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (TMSS, annual and midyear reports). This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

4.1 There have been no breaches of Prudential Indicators as detailed at 3.7 below.

4.2 **Economic Background**

UK. After weak **economic growth** of only 0.1% in quarter one, growth picked up to 0.4% in quarter 2 and to 0.6% in quarter 3. However, uncertainties over Brexit look likely to cause growth to have weakened again in quarter four. After the Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August, it is little surprise that they have abstained from any further increases since then. We are unlikely to see any further action from the MPC until the uncertainties over Brexit clear. In the event of a disorderly exit, the MPC have said that rates could go up or down, though it is probably much more likely to be down so as to support growth. Nevertheless, the MPC does have concerns over the trend in **wage inflation** which peaked at a new post financial crisis high of 3.3%, (excluding bonuses), in the three months to October. The main issue causing this is a lack of suitably skilled people due to the continuing increase in total employment and unemployment being near to 43 year lows. Correspondingly, the total level of vacancies has risen to new highs.

As for **CPI inflation** itself, this has been on a falling trend, reaching 2.3% in November. However, in the November Bank of England Inflation Report, the latest forecast for inflation over the two year time horizon was raised to being marginally above the MPC's target of 2%, indicating a slight build up in inflationary pressures.

The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving in this scenario as the difference between to two figures in now around 1%, i.e. a real terms increase. 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.

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 2019, 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.

4.3 **Interest Rate Forecasts**

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

Link Asset Services Interest Rate View	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%

After the August increase in Bank Rate to 0.75%, the first above 0.5% since the financial crash, the MPC has since then put any further action on hold, probably until such time as the issue of Brexit clears and there is some degree of certainty of what the UK will be heading into. It is particularly unlikely that the MPC would increase Bank Rate in February 2019 ahead of the deadline in March for Brexit, if no agreement on Brexit has been reached by then. In that case, then we think that the MPC could return to increasing Bank Rate in May 2019 but then hold fire again until February 2020. However, this is obviously based on making huge assumptions which could be confounded. In the event of a disorderly Brexit, then cuts in Bank Rate could well be the next move.

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.

4.4 Interest received has been in excess of the 7 day average libid benchmark (0.485%) with an average yield of 1.514% (including CCLA) and 0.65% (excluding CCLA).

4.5 **Investments**

The table below details cash movements affecting total amounts invested, including the Councils bank balance.

Investment Movements	**Q3 £'000**
Investments B/fwd (at 31.3.2018 incl bank)	**15,316**
Less Capital expenditure funded from borrowing to Q3	-16,757
Add PWLB Borrowing in year	8,500
Less Net Revenue Expenditure	-11,219
Add Net Collection Fund Movement (Council Tax and NNDR)	15,611
Add Working Capital Movement	2,122
Investments c/fwd (at 31.12.2018 incl bank)	**13,573**

The Council held investments of £13.4m in addition to a bank balance of £0.173m.

The table below details where these investments were held as at Q3

Investments at Q3	**Q3 £'000**
Lloyds Deposit Account	2,700
Lloyds Bank Account	173
LGIM Money Market Fund	700
CCLA Money Market Fund	5,000
CCLA Property Fund	3,000
Santander (365 day Notice Account)	2,000
Total Prudential Borrowing	**13,573**

4.6 **Investment in Local Authority Property Fund (CCLA)**

The total the Council has invested now stands at £3m. Interest is receivable on a quarterly basis with Q3 due in January.

4.7 **New External Borrowing**

Due to the overall financial position and the underlying need to borrow for capital purposes, the Council borrowed a further £2.5m from the PWLB on 19/12/2018. The borrowing has been taken for a period of 5 years at 1.7%. This brings the total external borrowing from PWLB to £8.5m.

4.8 **Prudential Borrowing at Q3.**

	Q3
Prudential Borrowing	**£'000**
External Borrowing at 31.12.2019	8,500
Internal Borrowing at 31.12.2019	11,867
Total Prudential Borrowing	**20,367**

4.9 **Borrowing in advance of need**

The Council has not borrowed in advance of need during the period ending 31 December 2018.

4.10 **Compliance with Treasury and Prudential Limits**

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

During the financial year to date the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

The prudential and treasury Indicators are shown below.

Treasury Indicator Forecasts	Original £'000	P1 £'000	Q2 £'000	Q3 £'000	Q4 £'000
Treasury Indicators					
Authorised limit for external debt	42,202	42,202	42,202	42,202	
Operational boundary for external debt	22,916	26,666	28,653	28,653	
External Debt	21,298	18,412	24,369	24,128	
Long term Leases	27	27	27	27	
Investments	(13,403)	(17,076)	(12,629)	(14,334)	
Net Borrowing	**7,922**	**1,363**	**11,767**	**9,821**	
Prudential Indicators					
Capital Expenditure	25,456	27,822	30,088	29,967	
Capital Financing Requirement (CFR)*	23,821	24,103	29,700	29,700	
Of which Commercial Property	12,400	15,910	22,910	22,910	
Annual change in CFR*	15,048	19,387	24,984	24,984	
In year borrowing requirement	22,756	19,446	25,043	25,043	
Under/(over)borrowing	2,524	5,692	5,332	5,572	
Ratio of financing costs to net revenue stream*	1.39%	0.28%	0.08%	0.08%	
Incremental impact of capital investment decisions:					
Increase/Reduction (-) in Council Tax (band change per annum)	(£6.77)	£0.76	(£7.85)	(£15.46)	

4.11 **Key Changes to the Treasury and Capital Strategies**

There are no changes to report to this committee

4.12 The Monthly Investment Review report for December is attached below;

LINK Asset Services

West Lindsey District Council

Monthly Investment Analysis Review

December 2018

West Lindsey District Council

Monthly Economic Summary

General Economy

December began with the Markit/CIPS Manufacturing Purchasing Managers Index (PMI) rising to 53.1 from 51.1, which had been the weakest since the referendum. On a more positive note, the Construction PMI reading rose to a 4 month high of 53.4, spurred by house-building and commercial work. This confounded the consensus forecast of a fall to 52.5. Closing out the set, the UK's dominant service sector's PMI experienced a shock slide and dropped to 50.4, the weakest since the 2016 Brexit vote and below all forecasts. Being the dominant sector, services dragged the Composite PMI figure down to 50.8, meaning overall activity was only just about maintaining growth.

GDP growth was unchanged at 1.5% y/y, with the m/m figure rising slightly to 0.1%, but both were below the forecasted increases. Alongside this, the GDP 3-month average growth to October dropped from 0.6% to 0.4%, emphasising that the impact of the positive Summer, which had been supported by good weather and one-off factors such as the World Cup, was now fading. Elsewhere, data shows that the UK's trade deficit rose above forecasts to £3.3bn in October, with the goods trade deficit also rising to £11.87bn.

Unemployment remained constant at 4.1% in the three months to October. With unemployment close to its lowest level since the 1970s, employers have begun to raise pay for staff more quickly. Average weekly earnings including bonuses rose by 3.3% on the year, the biggest rise since the three months to July 2008. This is the same figure recorded as the total earnings excluding bonuses for the three months to October. This allowed "real wages", which discounts the impact of inflation, to continue to grow, as inflation fell to 2.3% y/y.

British retail sales surged by much more than expected in November, with the m/m figure coming in at 1.2%, up from the previous figure of -0.4%. The y/y figure came in at 3.6%, up from the previous figure of 2.4%. However, the Confederation of British Industry (CBI) data from the month was less bright, with its Distributive Trades survey falling by much more than expected, from 19 to -13. On a brighter note, mortgage approvals improved with the first year-on-year rise since September 2017, despite the fall from the figure reported in November. The GfK consumer confidence reading fell from -13 to -14.

The UK recorded a lower than expected budget deficit in November. It fell to £7.2bn and for the first 8 months of the financial year, it stands at just under £33bn (30% lower than the same point in 2017). This is the lowest November borrowing for 14 years. Tax revenues remained strong but the government spent more than it received in tax and other income. National debt as a percentage of GDP stood at 83.9%, or £1.8 trillion.

Also towards the end of November, the Bank of England's Monetary Policy Committee (MPC) unanimously voted to maintain the Bank Rate at 0.75%. This was widely expected by market participants, given the uncertainty over the Brexit position.

In the US, the Nonfarm Payroll figure rose by 155,000, below the estimate of 200,000 and the previous downwardly revised 237,000. The final estimate of Q3 GDP was 3.4% trimmed slightly from the previous estimate of 3.5% but still above the economic growth potential of 2%. The Federal Reserve went on to raise the Federal Funds Rate to 2.25-2.5%, continuing the tightening cycle.

In the Eurozone, the European Central Bank (ECB) chose to continue to keep interest rates at 0%, but the meeting spelt the end of its bond-buying programme as first announced in June. PMI figures improved from the previous month, but the final estimate of Q3 GDP came in at 0.2% q/q and 1.6% y/y, both decreases from Q2's figures. Unemployment in the bloc remained at 8.1% in October 2018.

Housing

According to Nationwide, British house prices rose at their slowest pace in more than 6 years in December as Brexit uncertainty further weighed on the housing market. Prices rose by 0.5% y/y, down from 1.9% in November, and prices fell by 0.7% from November, the biggest monthly fall since July 2012.

Meanwhile, the Halifax index showed a fall of 1.4% m/m, down from 0.7% rise the previous month and lower than analyst expectations of a 0.2% gain. The y/y figure fell to 0.3% from 1.5%, aligning with Nationwide's picture of a slowing housing market.

Currency

Sterling opened the month at $1.28 against the US Dollar and closed at $1.27. Against the Euro, Sterling opened at €1.12 and closed at €1.11.

Forecast

There was no update to our forecasts in December. To recap, Link Asset Services suggests that the next interest rate rise will be to 1.00% in the second quarter of 2019, with further rises of 25 basis points in Q1 2020 and Q4 2020, eventually reaching 2.00% in March 2022. Capital Economics expect the next rate rise will be Q2 2019, followed by another rise in Q3 2019 and reaching 2.00% in Q2 2020.

Bank Rate	Now	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%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%
Capital Economics	0.75%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%	2.00%	2.00%	-

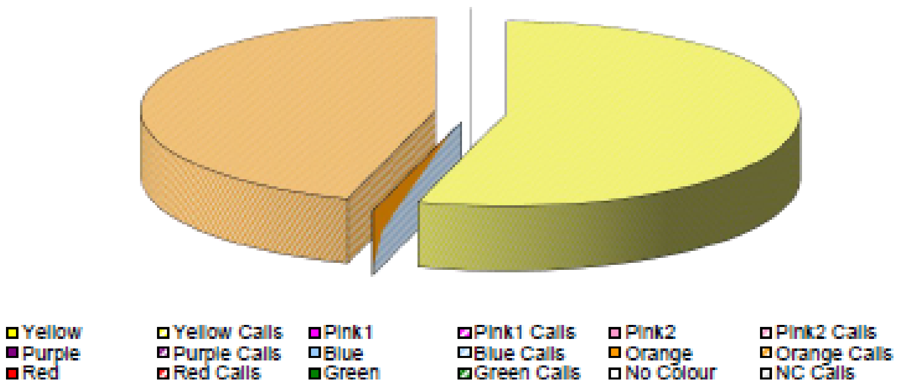
West Lindsey District Council

Current Investment List

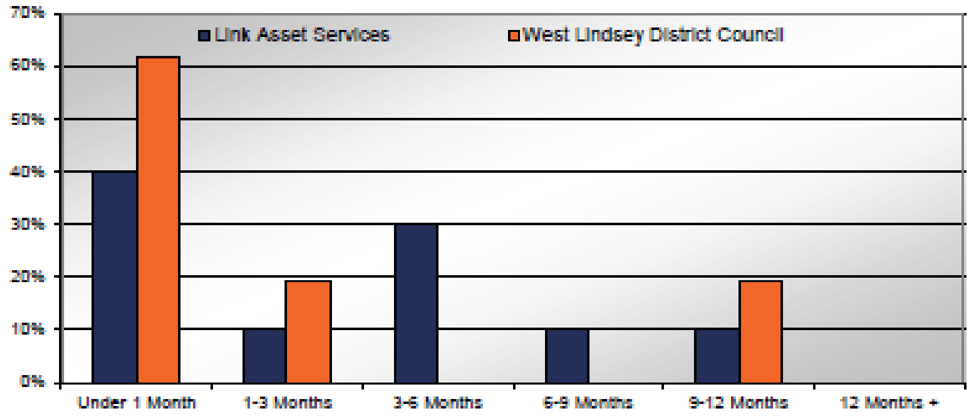
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF CCLA	5,000,000	0.75%		MMF	AAA	0.000%
MMF LGIM	700,000	0.73%		MMF	AAA	0.000%
Lloyds Bank Plc (RFB)	700,000	0.65%		Call0	A+	0.000%
Lloyds Bank Plc (RFB)	2,000,000	0.75%		Call32	A+	0.005%
Santander UK Plc	2,000,000	1.15%		Call365	A	0.054%
Borrower - Funds	**Principal (£)**	**Interest Rate**	**Start Date**	**Maturity Date**		
CCLA - LAPF	3,000,000					
Total Investments	**£13,400,000**					
Total Investments - excluding Funds	**£10,400,000**	**0.82%**				**0.011%**
Total Investments - Funds Only	**£3,000,000**					

West Lindsey District Council

Portfolio Composition by Link Asset Services' Suggested Lending Criteria



Y	Pl1	Pl2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour



Portfolios weighted average risk number = 2.36

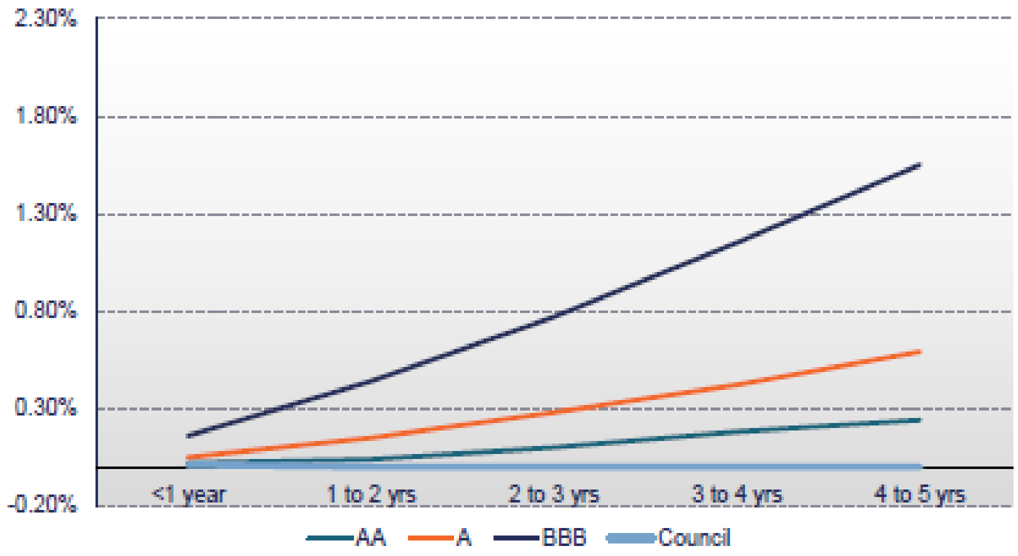
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% 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	54.81%	£5,700,000	100.00%	£5,700,000	54.81%	0.75%	0	0	0	0
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	45.19%	£4,700,000	100.00%	£4,700,000	45.19%	0.91%	169	169	0	0
Red	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	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%	**£10,400,000**	**100.00%**	**£10,400,000**	**100.00%**	**0.82%**	**76**	**76**	**0**	**0**

West Lindsey District Council

Investment Risk and Rating Exposure

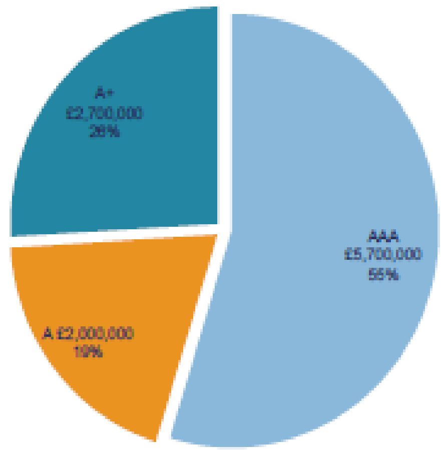
Investment Risk Vs. Rating Categories



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	0.011%	0.000%	0.000%	0.000%	0.000%

Rating Exposure



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
07/12/2018	1655	Norddeutsche Landesbank Girozentrale	Germany	Long Term Rating was removed from Negative Outlook and placed on Negative Watch. At the same time, all other ratings have been placed on Negative Watch.
17/12/2018	1659	NatWest Markets Plc (NRFB)	United Kingdom	Long Term Rating was upgraded to 'A' from 'BBB+', Outlook on the Long Term Rating changed to Stable from Positive. The Short Term Rating was upgraded to 'F1' from 'F2' and the Viability Rating was withdrawn. Support Rating was upgraded to '1' from '5' and removed from Positive Watch.
17/12/2018	1659	National Westminster Bank Plc (RFB)	United Kingdom	Long Term Rating was upgraded to 'A+' from 'A-', Outlook on the Long Term Rating changed to Stable from Positive. The Short Term Rating was upgraded to 'F1' from 'F2' and the Viability Rating was upgraded to 'a' from 'bbb+'.
17/12/2018	1659	The Royal Bank of Scotland	United Kingdom	Long Term Rating was upgraded to 'A+' from 'A-', Outlook on the Long Term Rating changed to Stable from Positive. The Short Term Rating was upgraded to 'F1' from 'F2' and the Viability Rating was upgraded to 'a' from 'bbb+'.
20/12/2018	1662	Barclays Bank Plc (NRFB)	United Kingdom	Long Term Rating was upgraded to 'A+' from 'A', Outlook on the Long Term Rating was removed from Positive Watch and placed on Stable Outlook.
20/12/2018	1662	Barclays Bank UK Plc (RFB)	United Kingdom	Long Term Rating was upgraded to 'A+' from 'A', Outlook on the Long Term Rating was removed from Positive Watch and placed on Stable Outlook.

West Lindsey District Council

Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action
06/12/2018	1654	Bank of America N.A.	United States	Outlook on the Long Term Rating was removed from Stable and placed on Positive Watch.
17/12/2018	1660	Clydesdale Bank Plc	United Kingdom	The Long Term Rating was removed from Negative Watch and was placed on Positive Outlook.
18/12/2018	1661	Norddeutsche Landesbank Girozentrale	Germany	Outlook on the Long Term Rating was removed from Negative Outlook and placed on Evolving Watch. At the same time the Short Term Rating was placed on Negative Watch

West Lindsey District Council

Monthly Credit Rating Changes
S&P

Date	Update Number	Institution	Country	Rating Action
10/12/2018	1656	Qatar Sovereign Rating	Qatar	Outlook on the Sovereign Rating changed to Stable from Negative
10/12/2018	1657	Qatar National Bank	Qatar	Outlook on the Long Term Rating changed to Stable from Negative
11/12/2018	1658	Macquarie Bank Ltd.	Australia	Outlook on the Long Term Rating changed to Evolving from Negative.

West Lindsey District Council