



**UK Municipal Bond Agency**  
Fixed Income Investor Presentation  
August 2020

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# Presenters



**June Matte**  
Managing Director (PFM\*)



**Christian Wall**  
Director (PFM\*)



**Angie Ridgwell**  
Chief Executive Officer



**Mike Jensen**  
Director of Investment



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# Transaction overview



- This is the second bond issue from the UK Municipal Bond Agency
- The Notes are unconditionally and irrevocably guaranteed by Lancashire County Council, which is a signatory to the UKMBA's Framework Agreement
- For clarity, this Issue stands outside the proportional guarantee and other structural arrangements envisaged for future multi-authority transactions from the UKMBA
- The Issue is rated Aa3 (negative outlook) by Moody's, which is identical to Lancashire County Council's issuer rating from Moody's
- Proceeds will be used to refinance a portion of Lancashire County Council's short-term debt and for other general corporate purposes
- From a credit perspective, the Issuing entity is a substitute for Lancashire County Council, given the Guarantee from Lancashire County Council

# UK Municipal Bond Agency

# UK Municipal Bonds Agency snapshot

- The UK Municipal Bonds Agency exists to reduce councils' capital costs by raising money through the capital markets and on-lending the proceeds to local authorities
- The Local Government Association (“LGA”) established the UKMBA to diversify the funding sources available to local authorities, reduce reliance on the PWLB and to enable investors to more easily fund UK local authority infrastructure
- Its mission is to lend to eligible councils at a lower rate than the PWLB or than if councils were to issue their own bonds, in addition to facilitating access for smaller councils who don’t require benchmark sized funding

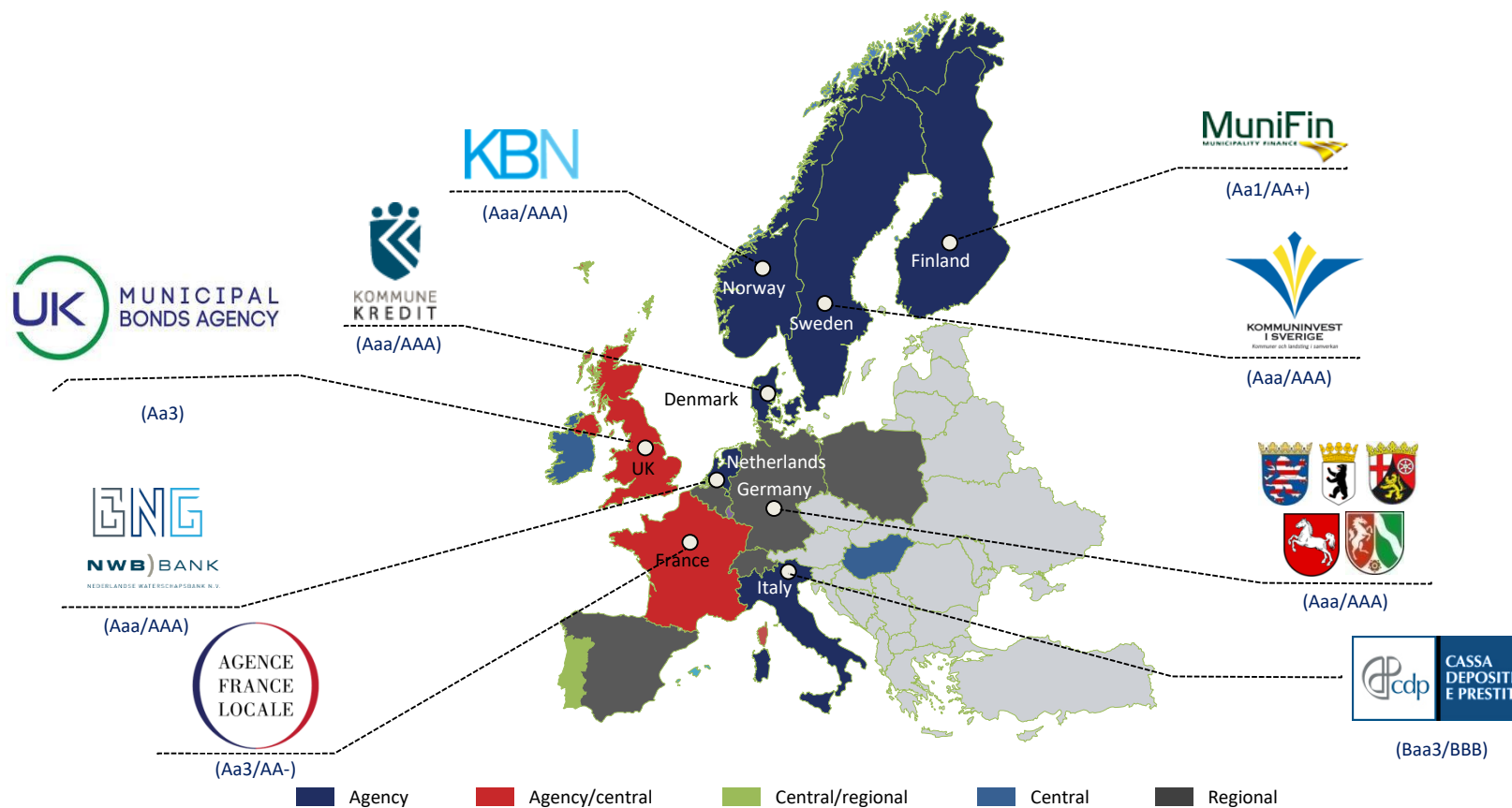
## Snapshot:

- 56 local authority shareholders and the Local Government Association funded the UKMBA
- Maintains a rigorous credit process and no council has an automatic right to borrow through the Agency
- Market-based borrowing rates significantly below the current PWLB rates
- Increased competition and diversity of lending sources
- PWLB does not undertake credit checks and its processes do not entail the level of scrutiny lending large sums should
- The creation of a centre of expertise at the intersection between capital markets and local government finance

## Key Benefits:



# Municipal funding systems in Europe



In Europe, Denmark produced the first municipal funding authority, Kommunekredit in 1899....

...Throughout the 20th century different systems developed across Europe reflecting the ranging legal and financial frameworks of sovereign states...

...The agency funding model was gradually adopted throughout Scandinavia and the Netherlands, and more recently in Italy, France and the UK



## REPLICATE A PROVEN MODEL FOR LOCAL AUTHORITY FINANCE:

- Model has worked well elsewhere e.g. New Zealand and Scandinavia
- Owned by local authorities for local authorities
- Lending relationship is contractual, unlike PWLB
- Deliver cheaper capital finance
- Agency provides economies of scale

## SIMPLICITY AT OUR CORE:

- Pass-through lending: all loans in Sterling on a back-to-back basis
- UKMBA is not a bank or financial institution
- New Guarantee issuances, pre-programmed to give certainty to all
- Several lines of credit strength
- Statutory loan security
- No English Authority has ever defaulted

## SOUND GOVERNANCE, RISK AND COMPLIANCE FRAMEWORK:

- Regulatory guidelines a benchmark
- Well defined credit scoring model and stringent risk policies, including concentration limits
- No maturity, foreign exchange or funding risk
- Natural hedge of market risk



# UKMBA is complementary to the PWLB

- Extraordinary support and intervention: UK government
- No UK local authority has defaulted in the 950 years since the City of London was granted its Royal Charter
- Government has extensive reserve powers to tackle sector wide and authority specific issues
- History of intervention before a Local Authority has faced the prospect of financial or political distress
- The importance of the services provided by Local Authorities underpins the very high likelihood of extraordinary support
- Operational and reputational risks for the Central Government in the event of a Local Authority's default

- Local authorities' source of contingent liquidity: Public Works Loan Board (PWLB)
- Loan applications may be by telephone, agreed at the time and the advance made within 48 hours
- Acts as lender of last resort to local authorities, should they require liquidity, thereby mitigating the threat of a liquidity shocks
- A statutory body operating within the United Kingdom Debt Management Office ("DMO"), an Executive Agency of HM Treasury
- Access and terms determined by Central Government

# Governance and operations

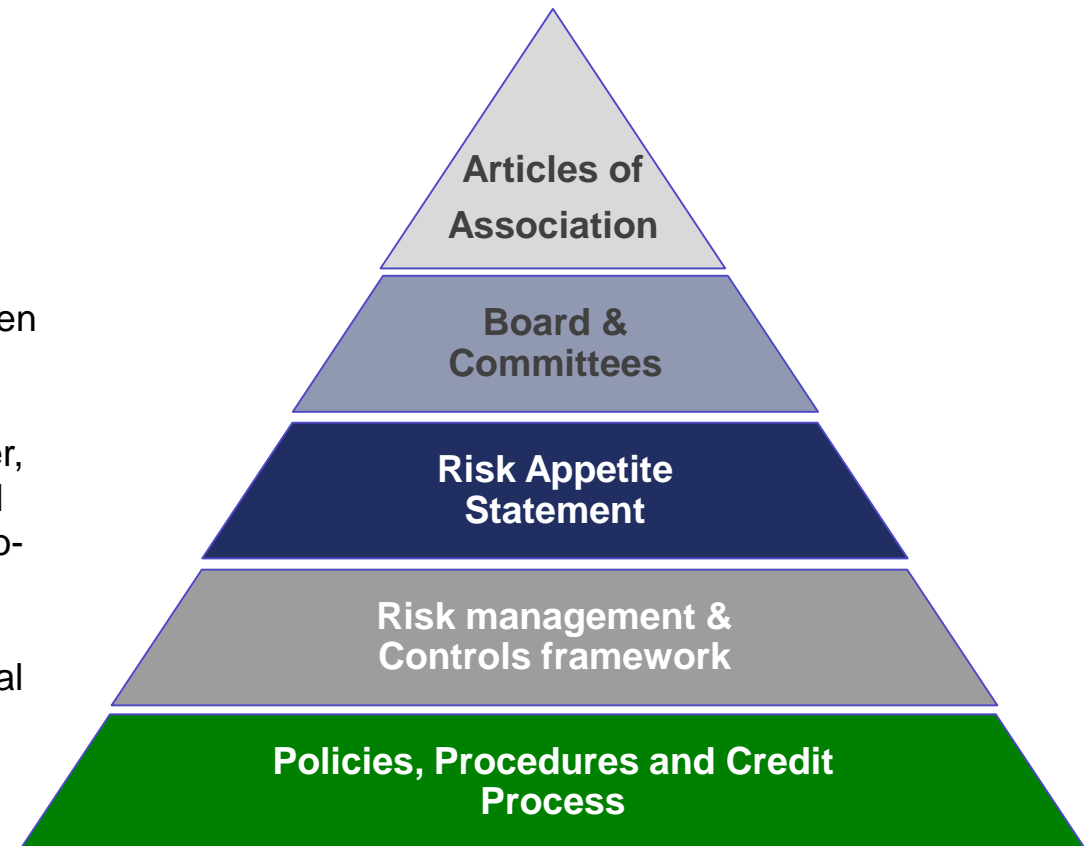
The UKMBA is overseen by its Board of Non-executive Directors, who have full control over the company's governance, strategies and policies

The directors have all held senior leadership positions in either local government or in financial services

The Board retains full oversight of the Agency's credit process and reserves the right not to lend to a council even if its credit ratings are excellent

In 2019, the Board reviewed its operations and in October, named PFM Financials Advisors LLC (PFM) as managed service provider to the UKMBA to undertake all the day-to-day operations

PFM, founded in 1975, is the largest independent financial advisory firm in the US serving only public sector clients and related charities. It has been ranked the number 1 advisor for US local government bond issues in 19 of the last 21 years both by volume and number of transactions



# Board



**Sir Merrick Cockell,  
Chairman**

Sir Merrick Cockell was appointed Chairman of the UKMBA in January 2015.

He was previously Chairman of the LGA 2011-2014, Chair of London Councils 2006-2010 and Chair of the London Pension Fund Authority 2010-19.

In addition, Sir Merrick is Chairman of Localis, an independent think-tank dedicated to localism and local government, and a Senior Advisor to PA Consulting.



**Adrian Bell,  
Vice Chairman**

Adrian Bell was appointed Vice Chairman of the UKMBA in January 2015. He is Director of Chatham Financial, which acquired JCRA in late 2019.

Adrian was at RBC for 20 years and was responsible for the bank becoming one of the largest firms in the sterling bond market, focused on raising funds for major SSA and municipal borrowers. He retired as Chair of RBC Europe in 2009.



**Sir Stephen Houghton,  
Senior Independent Director**

Sir Steve has been an elected member of Barnsley Metropolitan Borough Council for 25 years and Leader of the Council for 17 years.

Sir Steve holds a number of positions including Chair of the Barnsley Local Strategic Partnership; Chair of SIGOMA and Regional Peer of the LGA.



**Sarah Pickup, Non Executive Director**

Sarah Pickup, OBE, is Deputy Chief Executive of the Local Government Association having previously worked for Hertfordshire County Council until 2015 as Deputy Chief Executive and chief finance officer, responsible for corporate services. Sarah was Director of Health & Community Services at the County 2003-2013.

Sarah was president of the Association of Directors of Adult Social Services (ADASS) in 2012/13, and prior to this fulfilled a number of roles for the association.



**Andrew Proctor,  
Non Executive Director**

Andrew Proctor was elected leader of Norfolk County Council in June 2018 having previously been leader of Broadland District Council 2011-18 and deputy leader for 8 years prior to that. He is a member of the LGA's Commercial Advisory Board and a Member Peer of the LGA.

Andrew is Practice Manager of two Norfolk law firms and spent the first twenty years of his professional life in the City at a number of banks including ANZ, HSBC and Deutsche Bank.



**Derrick Anderson,  
Non Executive Director**

Derrick Anderson, CBE, has over 25 years' senior management experience in local government and more than 30 years in the public sector.

Derrick was Chief Executive of Lambeth Council from 2006-2014 and was previously Chief Executive of the City of Wolverhampton Council for 10 years prior to that.

Derrick was voted Public Leader of the Year in the Guardian Public Services Awards 2012.



**Brian Roberts,  
Non Executive Director**

Brian Roberts is Associate Director of Local Government at CIPFA and Finance Commissioner at Northamptonshire County Council. He was previously Deputy Chief Executive and Director of Resources at Leicestershire County Council.

Brian has also been President of CIPFA, President of the Society of County Treasurers, President of the Association of the Local Government Treasurers and the LGA's Core Finance Advisor.

## Framework Overview:

- The Framework Agreement enables a flexible offer to local authorities
- UKMBA will make Authority Loans to certain UK local authorities participating in these arrangements
- The Framework Agreement allows for both proportionally guaranteed issue and standalone issues that are guaranteed by a single authority
- The UKMBA will carry out a credit assessment of each authority borrowing under the proportional guarantee:
  - (i) at time of accession
  - (ii) at the time of entry into an Authority Loan and
  - (iii) at least once per year whilst Authority Loans to that authority are outstanding
- The UKMBA will establish and maintain a public, freely accessible, website, on which it shall post:
  - (i) copies of the executed Guarantee
  - (ii) a monthly report setting out the utilised Authority Loans and
  - (iii) a quarterly report setting out the outstanding borrowings

- The UKMBA has developed a proprietary credit process based upon international standards, tailored to UK local authorities
- In 2016, EY validated the credit process, declaring it “...*robust, appropriate relative to the entities assessed, and in line with market best practice*”
- Only councils scoring “A” or higher will be eligible to borrow through the UKMBA’s proportionally guaranteed bond issues; the UKMBA’s Board has to approve all credit assessments and lending decisions to those rated “A”
- There are automatic “red lines” preventing the UKMBA lending to local authorities through its proportionally guaranteed bond issues. For example, failure to set a balanced budget, non-compliance with the Prudential Code, qualified accounts and an outstanding S114 Notice amongst others
- All English local authorities that have the power of general competence i.e. they are able to give guarantees, are eligible to borrow through the UKMBA. None have an automatic right to do so, irrespective of any shareholding, size, political affiliation or any other consideration that is not directly related to credit standing
- Concentration limits are in place to ensure the UKMBA does not become over-exposed to a single council borrowing through its proportionally guaranteed bond programme

# Lancashire County Council

# Lancashire – the County and the Council

Well populated urban centres within countryside of outstanding natural beauty

## The County:

- 4<sup>th</sup> biggest county in the UK by population with c.1.2m inhabitants
- One of the largest economies in the north of England, with a GVA\* of c.£27bn
- Situated in the north west of England, bordered by Cumbria, Greater Manchester, Merseyside and Yorkshire with a coastline to the Irish Sea
- A diverse heritage and a track record of innovation and productivity with manufacturing still retaining a key presence, providing around one eighth of total employment
- Lancashire is home to the world's 4th largest aerospace cluster, as well as core strengths and capabilities in advanced manufacturing, energy, digital and health innovation

## The Council:

- Covering a geographic area of 2,903km, Lancashire is the fourth largest council in the UK by area
- Lancashire County Council provides services to residents of the 12 district areas (Blackpool and Blackburn with Darwen are unitary authorities that sit outside of LCC's remit)
- Consistently recognised as a leading provider of health and social care services, e.g. the Telecare programme was awarded the LaingBuisson Award in Nov 2018
- Education provision is well regarded with 90% of schools and 100% of adult community care services delivered by the council rated 'Good' or 'Outstanding' as of year end 2019
- Home to ~44,000 businesses and provides ~515,000 jobs



\* Gross value added (GVA) is a measure of the increase in the value of the economy due to the production of goods and services

Sources: ONS, Lancashire County Council website, LCC statement of accounts 2019/20



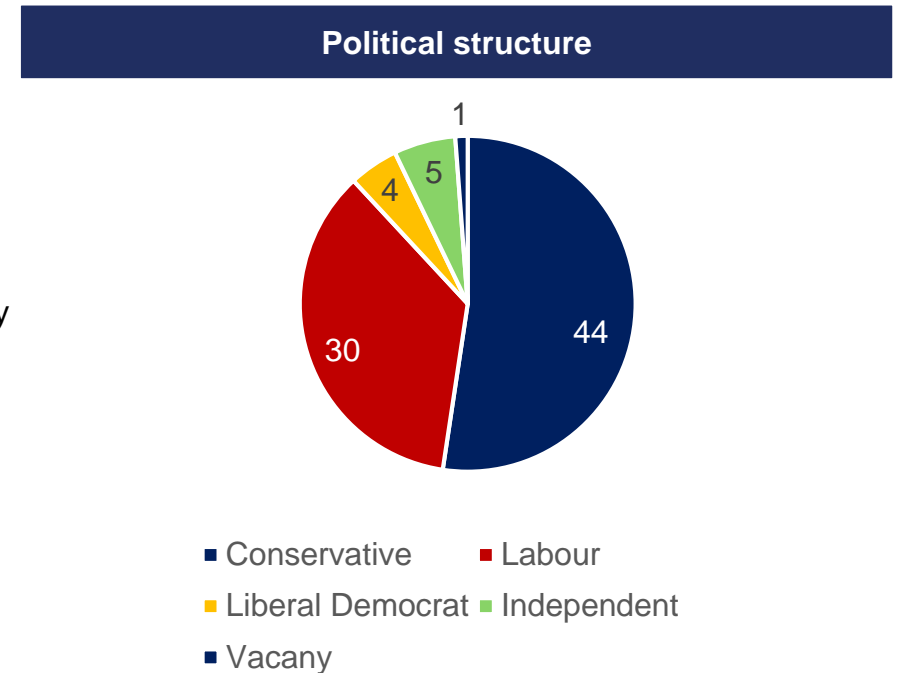
# Political representation

## The County:

- Lancashire County Council comprises 84 councillors, who represent 12 Lancashire district areas, and is headed by Leader of the Council, Geoff Driver CBE
- Since the May 2017 election, the Council has been controlled by the Conservatives
- LCC governance is overseen by 84 elected members who are elected every 4 years by the citizens of Lancashire
- Lancashire county councillors do not represent the areas of Blackburn with Darwen and Blackpool as they are unitary authorities
- Current composition is as mentioned opposite, with the next local government elections taking place in May 2021

## UK Parliament:

- The geographic area covered by LCC currently has 16 Members of Parliament:
  - 11 Conservative
  - 4 Labour
  - The Speaker



Councillor Susie Charles  
Chair of the Council



Geoff Driver CBE  
Leader of the Council



Angie Ridgwell  
Chief Executive Officer

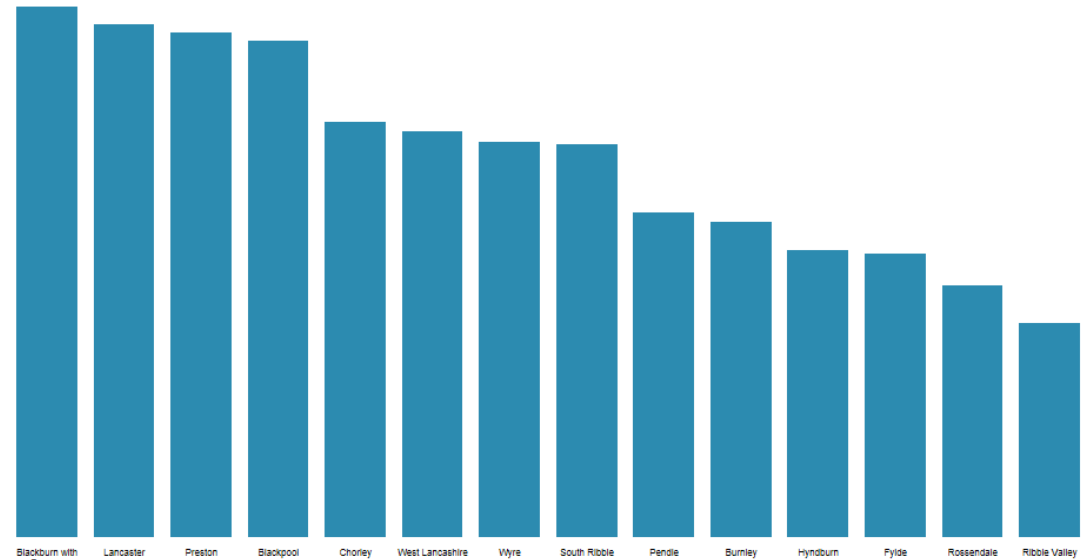
# Key statistics

Indicator	Specific	Lancashire 12 district areas
Population (2019 mid-year estimates)	All age	1,219,799
	0-19	279,751
	20-64	687,021
	65+	253,027
State pensions	Persons	243,570
Area		2,903 sq km
Gross value added, new balanced approach, 2017 (provisional)		£27.194 bn
Dwellings		549,670
Vacant dwellings		18,825
Fuel poverty - 2017	Households	65,730
Early years foundation stage - proportion of children achieving a good level of development		69.5%
Key stage 2 - proportion of pupils achieving expected standard in reading, writing and mathematics		65.0%
Key stage 4 - average attainment 8 score per pupil		46.7
Life expectancy	Males	78.5
	Females	82.2
Healthy life expectancy	Males	60.4
	Females	64.6

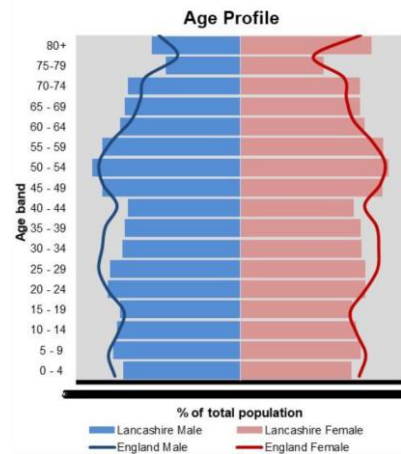
# Demographic profile

- The ONS mid-year population estimate for Lancashire-12 in 2018 showed that there were 1.2m people living in the county
- The population is projected to increase to 1.24m by 2041, with significant increases forecast in the age over 65 population
- Within the Lancashire-12 area, the districts of Preston and Lancaster had the largest usual resident populations of 140,200 and 138,400 respectively
- The usual resident population of the Lancashire-14 area was 1,460,893 in the 2011 Census. The largest ethnic group was white (90%). The black and minority ethnic (BME) group formed 10% of the population
- The number of owner occupiers in the Lancashire-14 area was 618,019 in 2011, and home ownership accounted for 69.9% of the tenancies
- Blackpool (62.0%) and Preston (61.3%) were the only two Lancashire authorities with rates of home ownership that were below the national average

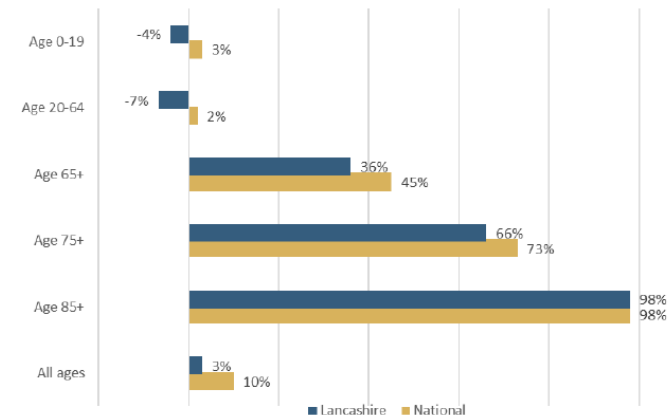
**Population of Lancashire Districts (2018):**



**Population (Age & Gender)**



**% Population Projections (2019-2041)**



# Corporate strategy

## 5 Aims and Objectives

**Lancashire will be  
the place to live**



### Example KPIs:

- % of highways defects repaired
- % of recycling, reuse and composting of waste
- % of children achieving a good level of development at the Early Years Foundation Stage
- % of Health Checks undertaken of quarterly target number offered
- % of Care homes in Lancashire rated as Good or Outstanding

**Lancashire will be  
the place to prosper**



### Example KPIs:

- Number of Rosebud loans provided to new or existing businesses
- Number of jobs created by Boost
- New businesses established
- Sustainable transport and travel

**Lancashire will be  
the place to work**



### Example KPIs:

- # of visits to libraries
- Proportion of children excluded from school
- # of graduates choosing to work in Lancashire
- % of adults with learning disabilities in employment
- Delivery of LCC's digital strategy
- # of volunteers in Libraries
- % of pupils reaching the expected standards at KS2

**Lancashire will be  
the place to visit**



### Example KPIs :

- # of visitors to Lancashire
- The economic impact of visitors to Lancashire
- Full Time Equivalent jobs supported by the visitor economy

**Lancashire will be  
the place where  
everyone acts  
responsibly**

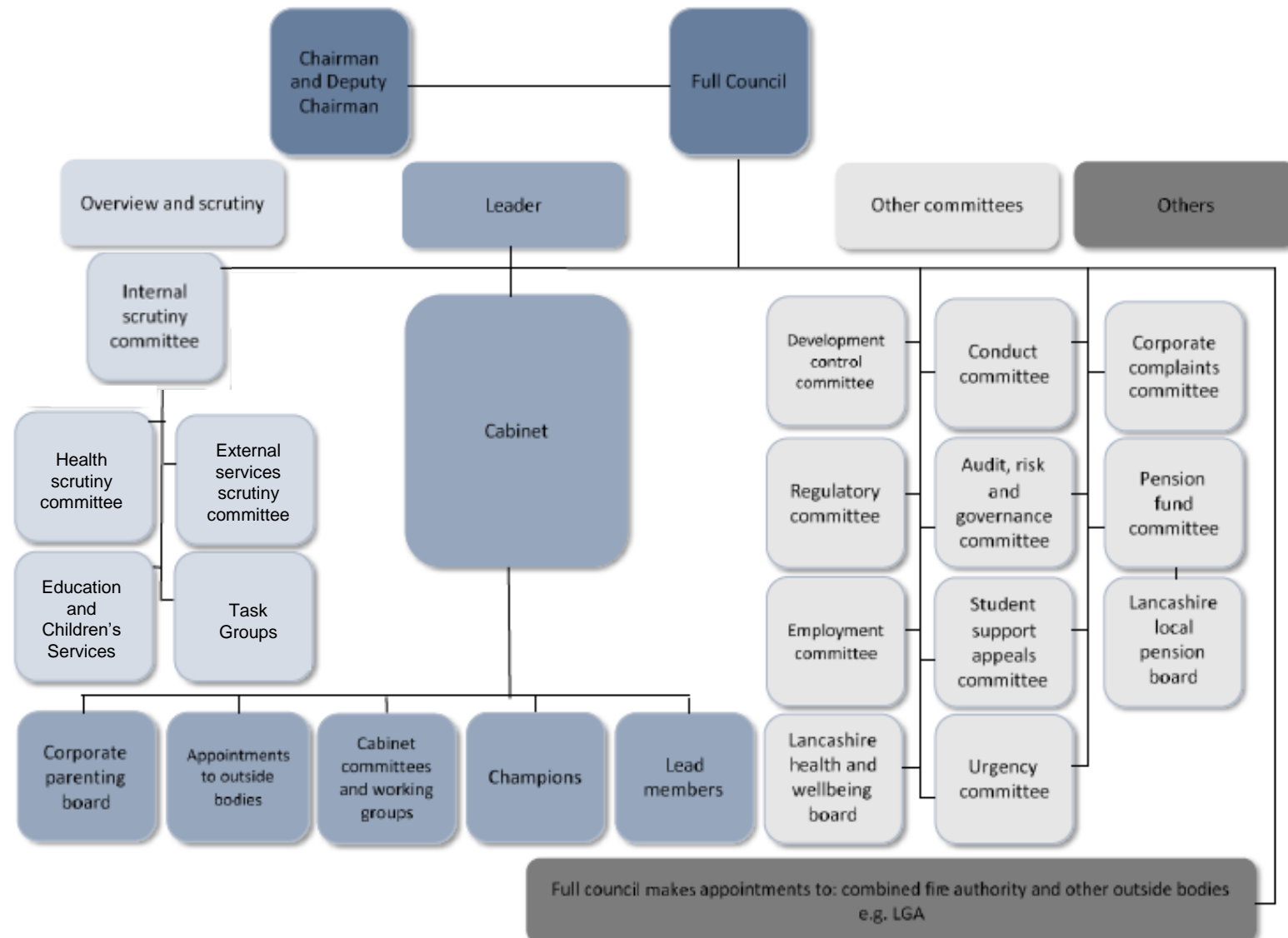


### Example KPIs:

- Improving our population's health and wellbeing
- % of older people (>65) who were still at home 91 days after discharge from hospital into rehab
- Proportion of adults with learning disabilities who live in their own home
- Revenue forecast outturn % variance to budget
- Proportion of budget supported by reserves

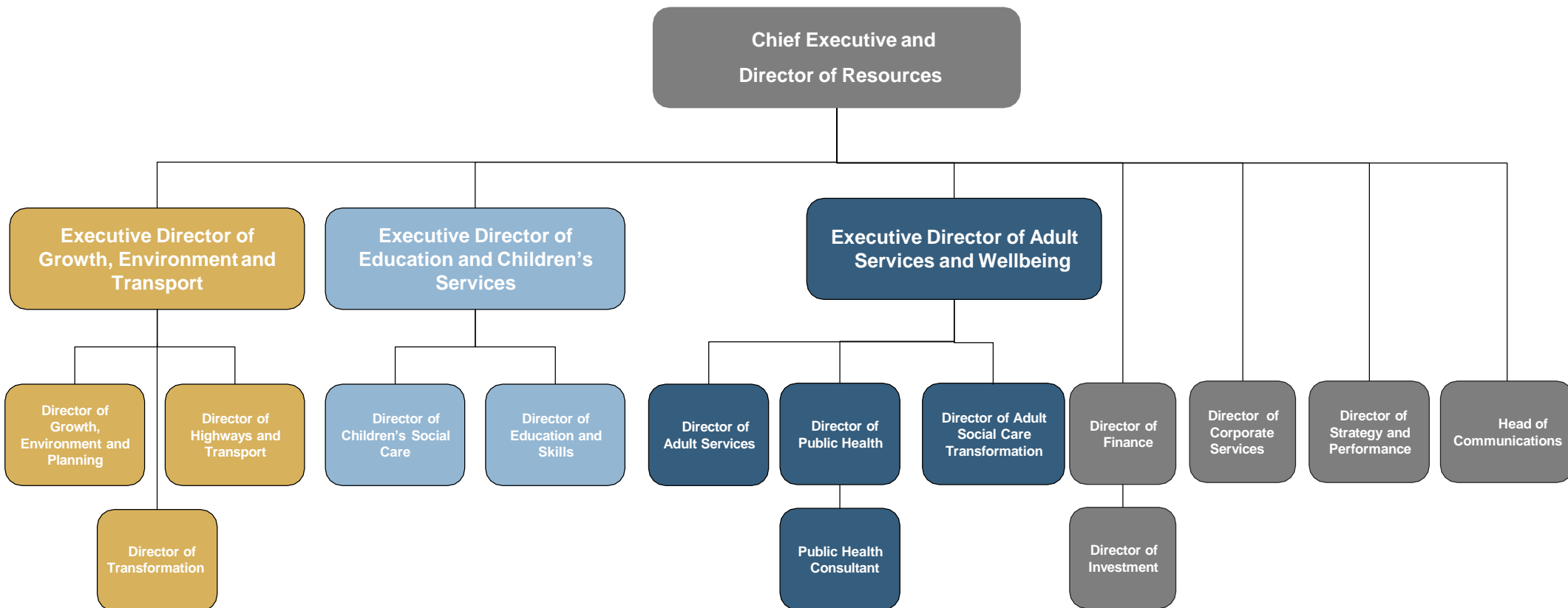
# Council Committee structure

- There are 84 county councillors elected to cover all the electoral divisions in the 12 Lancashire district areas
- County councillors represent their communities in the council's decision making processes
- Council meetings are broadcast live on our website as part of our ambition to bring decision-making closer to the public
- Full Council appoints CEO and Statutory Finance and monitoring officers
- Further details of the council's governance arrangements are provided in the Annual Governance Statement.










# Council management structure

- The council is supported by administrative, professional, technical and operational employees whose role is to advise the council on all aspects of its functions and to put into effect decisions which are taken in order to provide services to the public
- The council has responsibilities spanning public health, social care, the economy and the environment and employs over 12,500 people in full time and part time contracts with around a further 28,700 people employed in schools








# Peer comparison I

	Rating (vs. Sovereign Aa2 neg / AA stable)	Strengths	Weaknesses
	Aa3 (neg)	<ul style="list-style-type: none"> <li>✓ Strong institutional framework</li> <li>✓ Moderate debt levels and risk averse capital programme</li> <li>✓ Relatively high level of usable reserves, although expected to decrease</li> <li>✓ Improvement in projected fiscal position due to ambitious savings plan, although execution risk remains</li> </ul>	<ul style="list-style-type: none"> <li>✗ Current treasury management strategy exposes the council to volatility in short-term interest rates</li> </ul>
	Aa2 (neg)	<ul style="list-style-type: none"> <li>✓ Relatively diversified sources of revenue, with low reliance on central government transfers and strong budgetary performance</li> <li>✓ Strong liquidity position</li> <li>✓ Strong institutional framework which includes tight regulatory oversight</li> </ul>	<ul style="list-style-type: none"> <li>✗ Sizable and growing investment in property, creating exposure to market risks</li> <li>✗ Expected increase in debt levels to fund capital programme</li> </ul>
	Aa3 (neg)	<ul style="list-style-type: none"> <li>✓ Strong institutional framework for Scottish local authorities</li> <li>✓ Wealthy local economy, with some concentration in oil and gas industries</li> <li>✓ Strong track record of financial performance</li> </ul>	<ul style="list-style-type: none"> <li>✗ Debt has increased in size and complexity in recent years</li> <li>✗ Implementation of ambitious savings programme to reduce projected operating deficits</li> <li>✗ Exposure to key project risks associated with the development of The Event Complex Aberdeen</li> </ul>
	Aa2 (neg)	<ul style="list-style-type: none"> <li>✓ Strong track record of financial performance in challenging funding environment</li> <li>✓ Moderate debt burden, although increasing</li> <li>✓ Strong institutional framework</li> </ul>	<ul style="list-style-type: none"> <li>✗ Significant level of savings still to be delivered</li> <li>✗ Increase in capital spending and moderate increase in risk in capital programme</li> </ul>
	A1 (neg)	<ul style="list-style-type: none"> <li>✓ Strong institutional framework</li> <li>✓ Track record of budget delivery</li> <li>✓ Stable reserves balance, projected to continue</li> </ul>	<ul style="list-style-type: none"> <li>✗ Risk appetite within capital strategy is high for the sector</li> <li>✗ Fast pace of debt accumulation to fund capital strategy, although financing costs remain moderate</li> <li>✗ Significant exposure to local economic conditions through commercial projects</li> </ul>
	AA- (neg)	<ul style="list-style-type: none"> <li>✓ Small, wealthy economy with an international financial center and close economic and political ties to the UK</li> <li>✓ Significant fiscal assets as % of GDP</li> <li>✓ Low general government debt as % of GDP</li> <li>✓ Fiscal buffers remain very substantial</li> </ul>	<ul style="list-style-type: none"> <li>✗ Lack of external statistics and managing reputational risks, against rising global regulation of low-tax jurisdictions</li> <li>✗ Vulnerable to the level of access that U.K. financial services have to the EU</li> </ul>
	AA- (sta)	<ul style="list-style-type: none"> <li>✓ Significant fiscal assets as % of GDP</li> <li>✓ Low general government debt as % of GDP</li> <li>✓ Fiscal buffers remain very substantial</li> </ul>	<ul style="list-style-type: none"> <li>✗ Managing reputational risks, against rising global regulation of low-tax jurisdictions</li> <li>✗ Vulnerable to the level of access that U.K. financial services have to the EU</li> </ul>



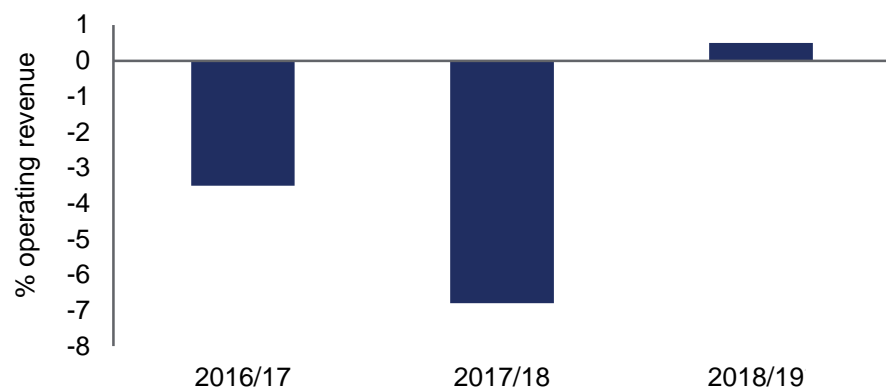
# Peer comparison II

					
<b>Moody's Rating</b>	Aa3 (neg)	Aa2 (neg)	Aa3 (neg)	Aa2 (neg)	A1 (neg)
Net Direct and Indirect Debt / Operating Revenue (%)	57.7	189.3	146.4	82.0	209.9
Interest payments / Operating Revenue (%)	1.6	4.9	5.6	4.0	3.6
Gross Operating Balance / Operating Revenue (%)	0.5	8.5	5.1	(4.3)	(3.8)
Capital Financial Surplus (Requirement) / Total Revenue (%)	(0.4)	(15.2)	(13.8)	(10.0)	7.4
Intergovernmental Transfers / Operating Revenue (%)	67.7	34.1	50.6	42.7	71.7
Short-Term Direct Debt / Direct Debt (%)	47.9	9.5	15.6	12.4	8.9
GDP per capita as a % of national average	79.8	105.2	--	68.6	118.3
Usable Reserves / Operating Revenue (%)	19.7	146.6	6.6	30.3	13.6

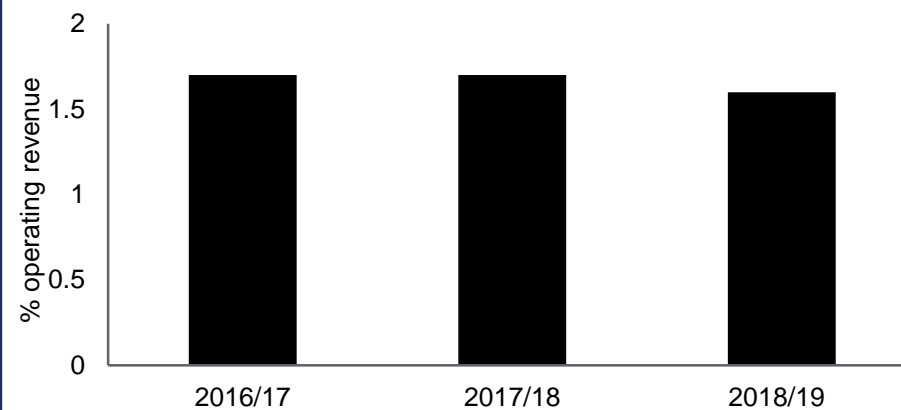


# Key indicative credit metrics

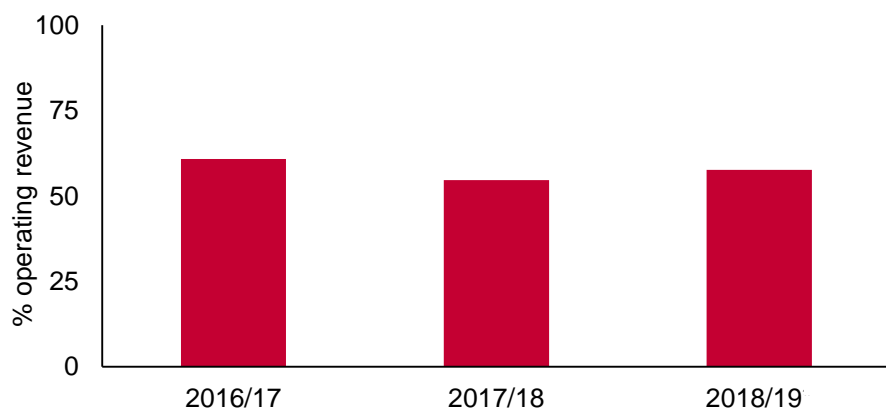
**Gross Operating Balance / Operating Revenue (%)**



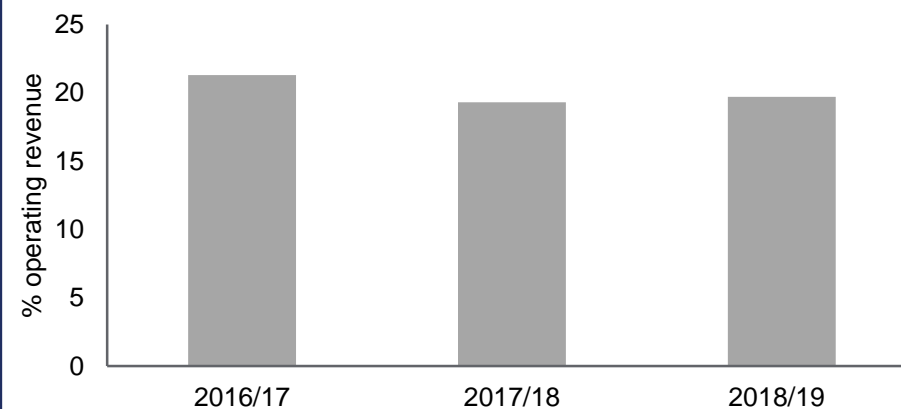
**Interest payments / operating revenue (%)**



**Net Direct and Indirect Debt / Operating Revenue (%)**



**Usable Reserves / Operating Revenue (%)**



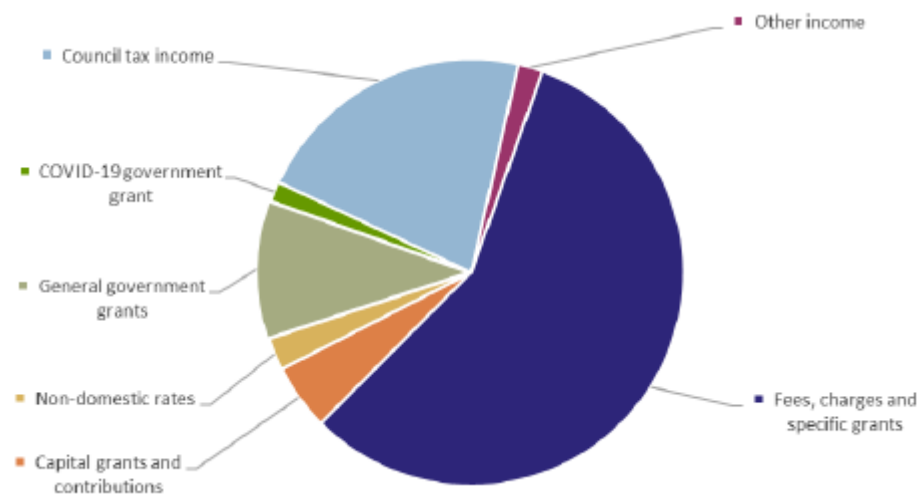
# Budget overview

## Key takeaways

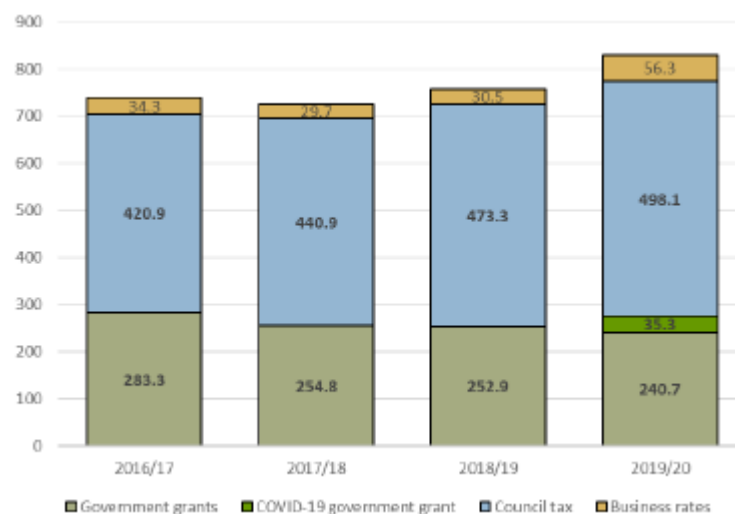
- Continuation of the revenue support grant and significant additional funding for social care
- Agreed a revenue budget for 2020/21 on 13 February 2020 without recourse to reserves – with a forecast funding gap of £38.4m by 2023/24 primarily due to increased pay costs and service demand pressures
- In February 2019, the council approved a net revenue budget of c.£802.3m - the final outturn position (excluding schools) of c.£800.5m is in an underspend of c.£1.7m compared to the budget
- The Medium Term Funding Strategy (“MTFS”) has been updated for LCC’s current expectations of increased demand and volume
- Forecast to hold a General Reserve against unforeseen issues of £23.4m representing circa 3% of net budget, which is unchanged from the previously reported position
- Forecast £147.9m of uncommitted transitional reserve at the end of the financial year - sufficient to meet the forecast gap beyond the end of the current MTFS period

# Financial performance

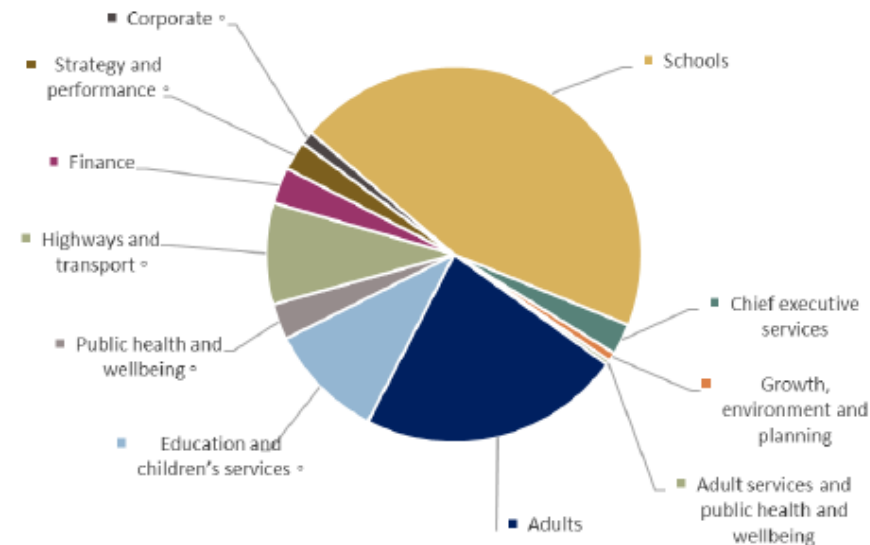
## Sources of funding 2019/20



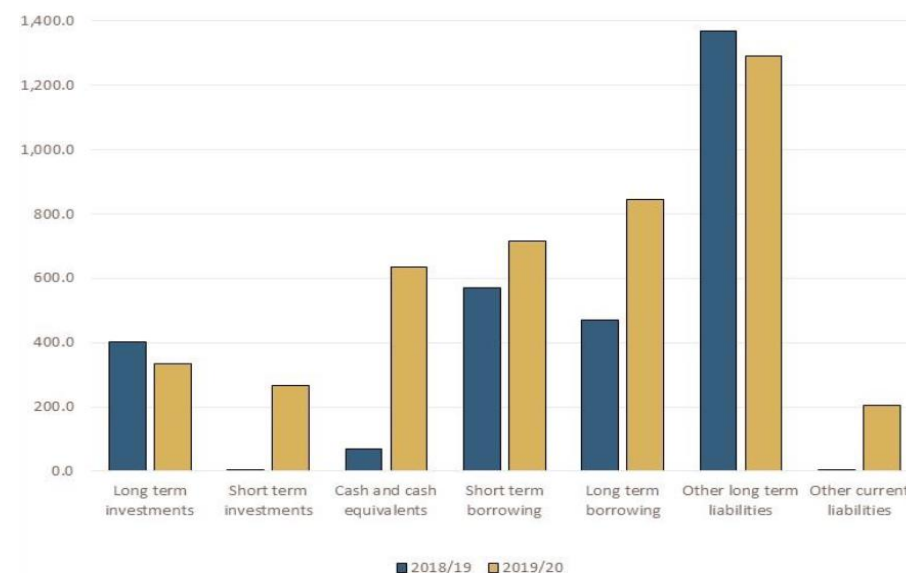
## Funding (£m)



## Gross expenditure by service 2019/20



## Main balance sheet variations (£m)



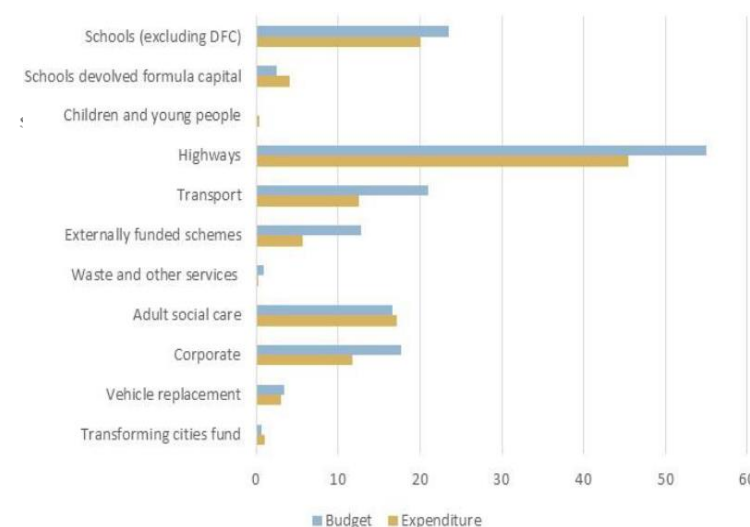
# Medium Term Financial Strategy (“MTFS”)

- A fundamental part of LCC's financial strategy is to deliver an extensive savings programme and LCC is committed to the delivery of a significant savings programme with £77m of new savings agreed by Full Council during 2018/19
- At Full Council on 13 February 2020 the forecast funding gap increased to £38.4m by 2023/24 due to some additional spending commitments being agreed; however the budget for 2020/21 provides for a small surplus of £1.6m which is expected to be used to support LCC's improvement journey work. The budget that was set for 2020/21 and the MTFS position last reported was prior to the impact of COVID-19
- The impact of COVID-19 includes unplanned fiscal pressures of £100m as a result of 3 main factors: (i) additional unplanned expenditure (ii) delays in planned savings activity and (ii) income pressures
- Additional funding provided by central government (£65m) and the introduction of an income reimbursement scheme for a proportion of losses and other routine forecasting adjustments means the underlying 2020/21 forecast position is for a small overspend of c.£3.7m
- LCC does not need to take any urgent budget decisions given this represents a very small underspend as a proportion of the overall budget and of the levels of reserves held
- The August report also updated the high level MTFS position as a result of the impact of COVID-19 with a forecast increase in the funding gap to £71.7m by 2023/24. Whilst this represents a significant increase on the previous MTFS position, there is a significant level of uncertainty in these estimates reflecting the COVID-19 pandemic
- The updated gap is based on a scenario of no further additional support from central government. Officers are working with their national professional organisations to develop the evidence base and narrative to influence the Comprehensive Spending Review ("CSR") due in the autumn and with a deadline for submissions of 24 September
- LCC will also continue to provide monthly reporting to MHCLG on the COVID-19 financial pressures which have helped support the awarding of funding to all councils, including LCC, in meeting these pressures
- LCC has useable reserves sufficient to meet the forecast deficit until mid-2023 and significant reserves to hedge any risk while future financial restructuring takes place, if necessary

# Capital programme

- Lancashire County Council's capital programme is projected to remain at a moderate level over the course of Lancashire's MTFS (to FY23) remaining relatively limited, and predominantly funded by grants
- A 19/20 capital delivery programme of £133.5m was agreed at Full Council in February 2020, this figure was based on the best forecast available at that point in time
- 2020/21 is to be funded from a combination of borrowing (£26.5m), grants (£91.8m) and third party contributions (£15.3m)
- The Capital Programme is designed to deliver the following benefits to the residents of Lancashire:
  - Enhancements and improvements to schools, and buildings the council delivers services from including residential care homes;
  - Upgrading of carriageways, street lighting and improvements to road junctions;
  - Investment in LCC's information computing technology infrastructure to support corporate priorities; and
  - Investment in waste and recycling facilities
- The total spend on capital works in 2019/20 was £121.4m which represents 78.7% of the budgeted programme. Capital delivery work has been delayed due to unforeseeable circumstances, including those relating to the pandemic. Works that were not fully delivered during the year have now been re-profiled to be completed in future years
- The capital strategy has been written to set the long term strategic framework within which the authority will make decisions on capital and investment

**Capital expenditure by service 2019/20 (£m)**



	Revised budget £m	Expenditure £m	Variation £m
Schools (excluding DFC)	23.553	20.120	(3.433)
Schools devolved formula capital	2.500	4.114	1.614
Children and young people	0.011	0.414	0.403
Highways	54.992	45.505	(9.487)
Transport	21.038	12.481	(8.557)
Externally funded schemes	12.851	5.673	(7.178)
Waste and other services	0.871	0.281	(0.590)
Adult social care	16.644	17.126	0.482
Corporate	17.726	11.692	(6.034)
Vehicle replacement	3.360	2.964	(0.396)
Transforming cities fund	0.650	1.012	0.362
<b>Total expenditure</b>	<b>154.196</b>	<b>121.382</b>	<b>(32.814)</b>

- The national lockdown was announced on 20 March 2020 with many local businesses within the County forced to close
- LCC has been working to make sure its communities are protected and well informed during the outbreak - aligning its response to the Local Resilience Forum structures to ensure clarity and continuity between the council's work and the work of partner organisations
- LCC had exceptionally good contingency plans ready, which has meant that its has been able to rise to those challenges at speed

## Impact on service provision

Resources directed towards keeping the people of Lancashire healthy, whilst supporting the most vital services and safeguarding colleagues

- Managed to keep more than 500 schools open through the lockdown period to support the children of key workers and our most vulnerable families. Families who receive free school meals were supported with a meals service
- Launched a campaign to recruit social care staff for Lancashire to meet the extra demand that the coronavirus crisis was creating
- Supported district councils in setting up their community hubs which are now in place in all 12 of its districts
- Moved from being an organisation which is primarily location-based to one that is primarily remotely based
- Many staff members were redeployed to new duties to support the response

## Impact on financial position

- The costs of responding to the pandemic will mainly affect the council's financial position for 2020/21
- At this stage, it is difficult to quantify the full impact of the pandemic on the council's financial resources but the current estimated costs to the council of responding to the pandemic are in excess of £100m
- These costs are not all directly attributable to direct expenditure on COVID-19 related activity but include savings that have not been deliver as a consequence of responding to the crisis and an estimated loss of income
- Additional funding provided by central government (c.£65m) and the introduction of an income reimbursement scheme for a proportion of the losses means the underlying 2020/21 forecast position is for a small overspend of c£3.7m - representing a very small proportion of the overall budget and of the levels of reserves held
- Further details regarding the council's response to the COVID-19 pandemic can be found in the Annual Governance Statement

## Outlook for the future

- Demand and cost pressures in both its adult and children's social care services, alongside the reductions in central government funding
- The government has further delayed its Fair Funding Review and Business Rates Retention scheme
- Together with the uncertainties in relation to the impact of leaving the EU and COVID-19 related expenditure means that it is extremely difficult to forecast income and expenditure in the short to medium term
- However, LCC has a track record of meeting the financial challenges that it has been faced with

# Central Government support for local government

The Ministry of Housing, Communities and Local Government (MHCLG) has made a number of financial commitments to assist local authorities' cashflow and supplement their funding during the pandemic. Lancashire is the 4<sup>th</sup> largest beneficiary with c.£65m Total Covid-19 Additional Funding to date

To date, these include:

- **11 March 2020:** A £500m 'hardship fund' for residents struggling to pay council tax bills. This funding is to be allocated to residents currently benefitting from local council tax support schemes. Government guidance was published on 24 March, and additional guidance on 16 April
- **19 March 2020:** £1.6bn additional funding made available to local authorities. £1.4bn of this funding was allocated via the adult social care needs formula. The remaining £200m was allocated in line with each councils' Settlement Funding Assessment. The Institute for Fiscal Studies has argued that the impact of the virus on different councils, "may not reflect historical differences in social care spending needs." As a result, the formulas used to allocate funding are "out of date"
- **25 March 2020:** £1.8bn grants paid to local authorities in advance. This followed the Chancellor's announcement of widespread exemption from business rates for 2020-21. Normally, business rates relief would be applied first, and local authorities would seek reimbursement after it had been applied.
- **1 April 2020:** £12bn funding for business rates grants transferred to local authorities. These funds will be distributed under the Business Rates Grants schemes
- **16 April 2020:** Councils will be allowed to defer £2.6bn in business rates payments to central government from April to June 2020. This is in respect of the 'central share' of business rates.
- **16 April 2020:** £850m in central government social care grants for both children and adults, from April to June 2020. This was paid up front in April.
- **18 April 2020:** A second £1.6bn of additional funding for local government. This is to be distributed on a different basis from the funding announced on 19 March, with district councils receiving a considerably larger share of the 18 April funds.
- **2 May 2020:** A further discretionary fund of £617m to be made available for grants to businesses that do not qualify for the Small Business Grant scheme and the retail grant scheme.

The two amounts of £1.6bn, announced on 19 March and 18 April, constitute additional funding, whilst the 2 May funding is an addition to the Small Business Grant scheme funding, which is funnelled through local authorities. The other amounts in the list above represent **existing funding made available on an earlier timescale**



## Continuing to improve service for customers

- LCC has many great services including award winning libraries, telecare services for older people and construction teams
- Its Shared Lives service has been rated as 'outstanding' by the Care Quality Commission (CQC) for the second year running
- LCC has also received an inspection report from the CQC with a 'good' rating for its newly acquired Supported Living Service in Preston
- A project to improve the efficiency of patients being discharged from hospital has been awarded 'Best Communication Solution' by Health Tech Digital at the 2019 awards. Through this project, working with Lancashire Teaching Hospitals, LCC has made it easier for health and social care teams to share records
- The redevelopment of the iconic grade II listed bus station in Preston has won three categories at the Royal Institute of British Architecture (RIBA) 2019 awards





# Comprehensive Income Statement

Income Statement £m	2019			2020		
	Gross Expense	Gross Income	Net Expense	Gross Expense	Gross Income	Net Expense
Schools	968	(941)	27	1,009	(952)	52
Chief executive services	39	(4)	35	61	(2)	58
Growth, environment and planning	24	(9)	15	17.2	(10)	7
Adults	507	(156)	351	510	(135)	374
Education and children's services*	215	(20)	195	225	(23)	202
Public health and wellbeing*	71	(72)	1	70	(70)	0
Highways and transport*	214	(51)	162	195	(49)	142
Finance	61	(28)	33	71	(28)	42
Adult services and public health and wellbeing	8	(1)	7	9	(0)	8
Strategy and performance <sup>8</sup>	40	(26)	14	56	(26)	30
Corporate*	23	(5)	18	26	(6)	20
<b>Cost of services</b>	<b>2,170</b>	<b>(1,311)</b>	<b>859</b>	<b>2,249</b>	<b>(1,308)</b>	<b>940</b>
Other operating income and expenditure	54	(9)	45	72	(6)	66
Financing and investment income and expenditure	84	(25)	59	70	(43)	26
Taxation and non-specific grant income and expenditure	0	(854)	(854)	0	(946)	(946)
<b>(Surplus)/deficit on provision of services</b>	<b>2,308</b>	<b>(2,198)</b>	<b>109</b>	<b>2,391</b>	<b>(2,304)</b>	<b>86</b>
Surplus)/deficit on revaluation of non-current assets			(171)			(61)
Re-measurement of the net defined benefit pension liability/(asset)			(44)			(204)
Surplus)/deficit on financial assets measured at fair value through OCI			10			0
Surplus)/deficit on revaluation of available for sale assets			0			22
<b>Other comprehensive income and expenditure</b>			<b>(205)</b>			<b>(243)</b>
<b>Total comprehensive income and expenditure</b>			<b>(96)</b>			<b>(156)</b>

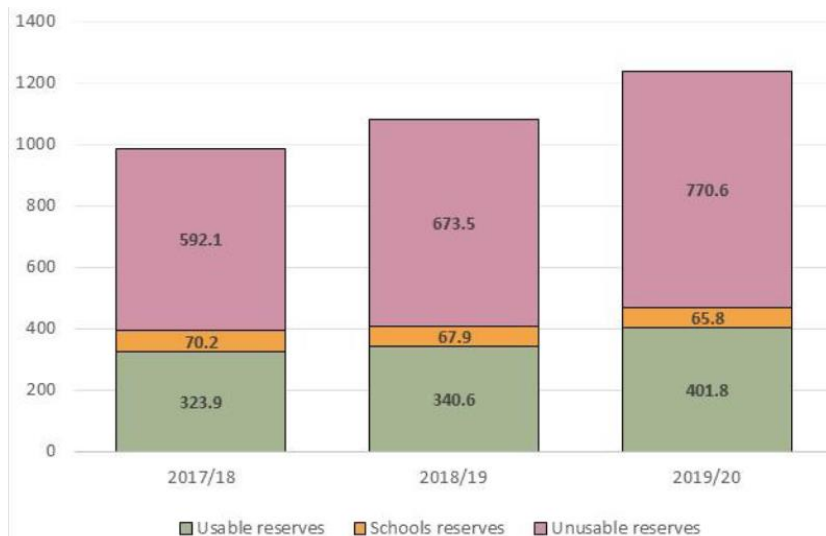
◦ The council has restructured its services during 2019/20. The 2018/19 comparative figures have been restated to reflect the new structure

Note: Figures rounded

Sources: LCC unaudited statement of accounts 2019/20

# Balance Sheet & Cash Flow

## Reserves (£m)



Cash Flow (£m)	2019	2020
Net surplus/(deficit) on the provision of services	(109)	(86)
Adjustments to net surplus/deficit on the provision of services for non-cash movements	214	241
Adjustments for items included in the net surplus/deficit on the provision of services that are investing and financing activities	(114)	(174)
<b>Net cash flows from operating activities</b>	<b>(10)</b>	<b>(20)</b>
Investing activities	(20)	73
Financing activities	79	512
<b>Net increase/(decrease) in cash or cash equivalents</b>	<b>50</b>	<b>566</b>
Cash and cash equivalents at the beginning of the reporting period	19	69
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>69</b>	<b>634</b>

Balance Sheet (£m)	31-Mar-2019	31-Mar-2020
Property, plant and equipment	3,030	3,071
Heritage assets	29	29
Investment properties	2	0
Intangible assets	15	11
Long term investments**	401	335
Long term debtors	45	43
<b>Long term assets</b>	<b>3,520</b>	<b>3,488</b>
Short term investments	0	266
Inventories	3	3
Short term debtors	119	165
Payments in advance	9	23
Cash and cash equivalents	69	634
Assets held for sale	6	4
<b>Current assets</b>	<b>204</b>	<b>1,095</b>
Short term borrowing	(571)	(715)
Short term creditors	(185)	(229)
Receipts in advance	(12)	(19)
Short term provisions	(9)	(13)
Other current liabilities	(5)	(206)
<b>Current liabilities</b>	<b>(782)</b>	<b>(1,182)</b>
Long term provisions	(19)	(25)
Long term borrowing	(471)	(845)
Long term creditors**	(1.3)	(1.3)
Other long term liabilities*	(1,368)	(1,293)
<b>Long term liabilities</b>	<b>(1,859)</b>	<b>(2,163)</b>
<b>Net assets</b>	<b>1,082</b>	<b>1,238</b>
Usable reserves	(409)	(468)
Unusable reserves	(674)	(771)
<b>Total reserves</b>	<b>(1,082)</b>	<b>(1,238)</b>

\* Other long term liabilities include both the pension and PFI liabilities

\*\*The 2018/19 figures for long term investments and long term creditors have been amended.

Sources: LCC unaudited statement of accounts 2019/20

# LCC key credit strengths

## Strong institutional framework

- The institutional framework for local authorities is mature, highly developed and underpinned by a number of key pieces of legislation
- Tight monitoring and control mechanisms in place between UK central government and local authorities
- Legal requirement to maintain a balanced budget with statutory codes of practice
- Central government has the power to intervene in governance if necessary

## Prudent capital programme

- LCC net direct and indirect debt has remained between 55-61% of operating revenues since FY14
- Projected to remain at a moderate level over the course of the MTFS to FY23
- Capital programme remains relatively limited, and predominantly funded by grants
- Programme is risk adverse and focused on core infrastructure including schools, highways, transport and adult social care

## Ambitious savings plan

- Approved and implementing a wide ranging savings plan
- The majority of the savings are in its social care services and involve restructuring of service provision
- A number of individual savings have been identified (Lancashire undertook 43 individual service challenges in the process of developing its plan) meaning there is limited concentration risk

## High standards of governance and strong focus on financial prudence

- LCC's standards of governance are high, aligned with the general standards for all UK local authorities
- Data transparency is very high, with all material spending decisions published on its website, along with budgets, capital plans, policies, and accounts
- LCC's treasury strategy to take advantage of the current low interest rate environment and reduce their financing costs, Lancashire enjoys good debt affordability

## Relatively high level of usable reserves

- Includes ring-fenced reserves for schools and capital grants and healthy residual to service operating deficits
- Provides a cash-backed buffer which will be used to support LCC's projected operating deficits in its MTFS
- A track record of performing better than budget
- Introduction of ambitious savings plan will mean LCCs' usable reserves position is expected to be stronger than previously anticipated

# Bond Issue Overview

# Proposed bond issue – An overview

<b>Issuer</b>	UK Municipal Bonds Agency Finance Company DAC
<b>Guarantor</b>	Lancashire County Council
<b>Status</b>	Senior, Unsecured and Unsubordinated
<b>Guarantor Ratings</b>	Aa3 negative (Moody's)
<b>Note Ratings</b>	Aa3 negative (Moody's)
<b>Offering Documentation</b>	The Issuer's Information Memorandum
<b>Currency</b>	Pounds Sterling ("GBP")
<b>Size</b>	Benchmark
<b>Tenor</b>	Long Dated
<b>Denomination</b>	GBP 100,000 and incremental of GBP1,000 thereafter
<b>Use of proceeds</b>	The Issuer will transfer the net proceeds from the issue of the Notes to UKMBA as consideration for the assignment by UKMBA to the Issuer of all of UKMBA's rights under the LCC Loan pursuant to an assignment agreement. LCC intends to use the proceeds of the LCC Loan to refinance its short-term debt and for other general purposes