



UK Municipal Bond Agency
Fixed Income Investor Presentation
February 2020

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Presenters



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Angie Ridgwell
Chief Executive Officer



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Director of Investment



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Transaction overview



- This is the debut 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) 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, which funds its capital expenditure
- 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

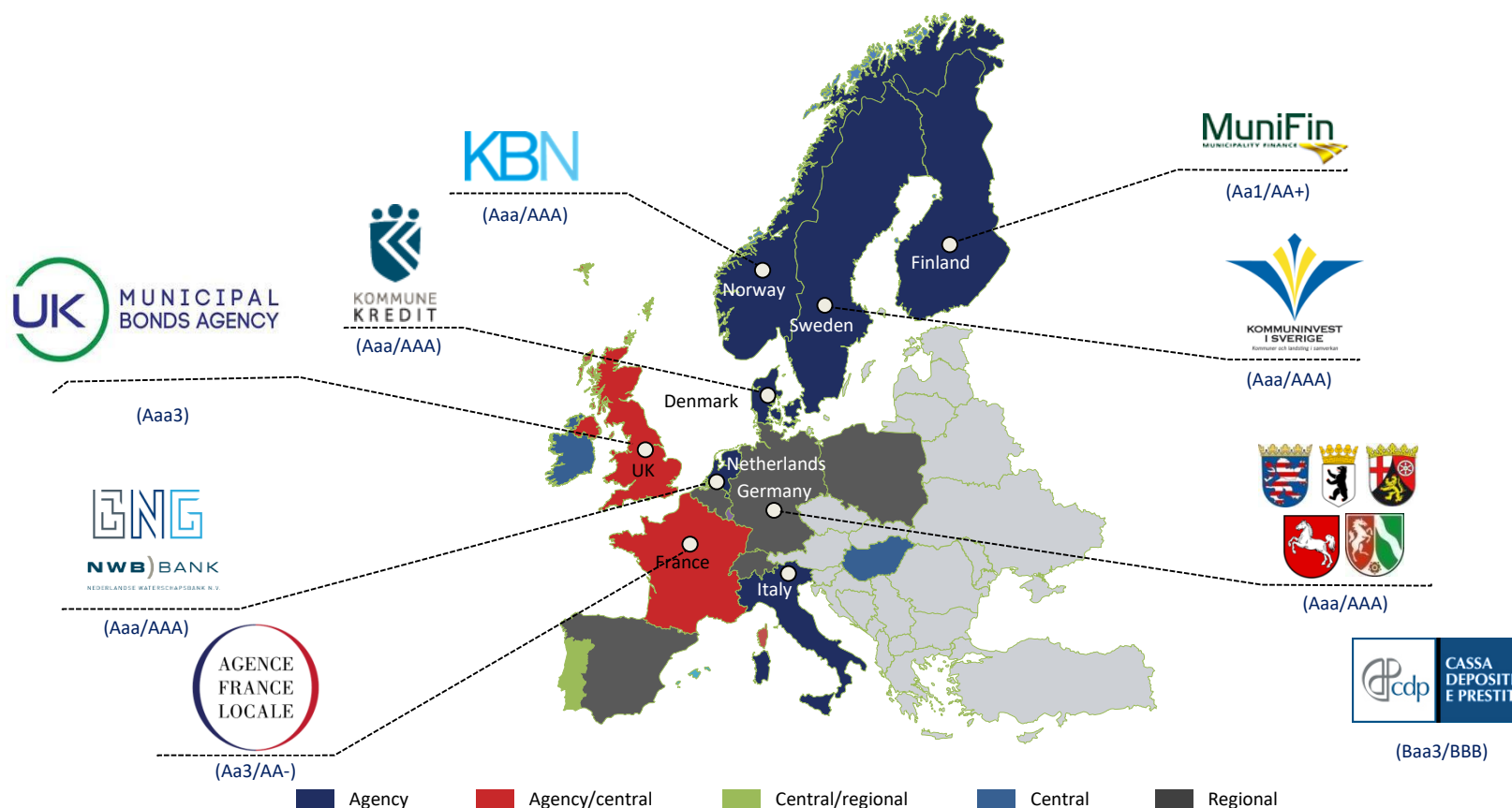
Snapshot:

- 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 Proportional Guarantee, 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

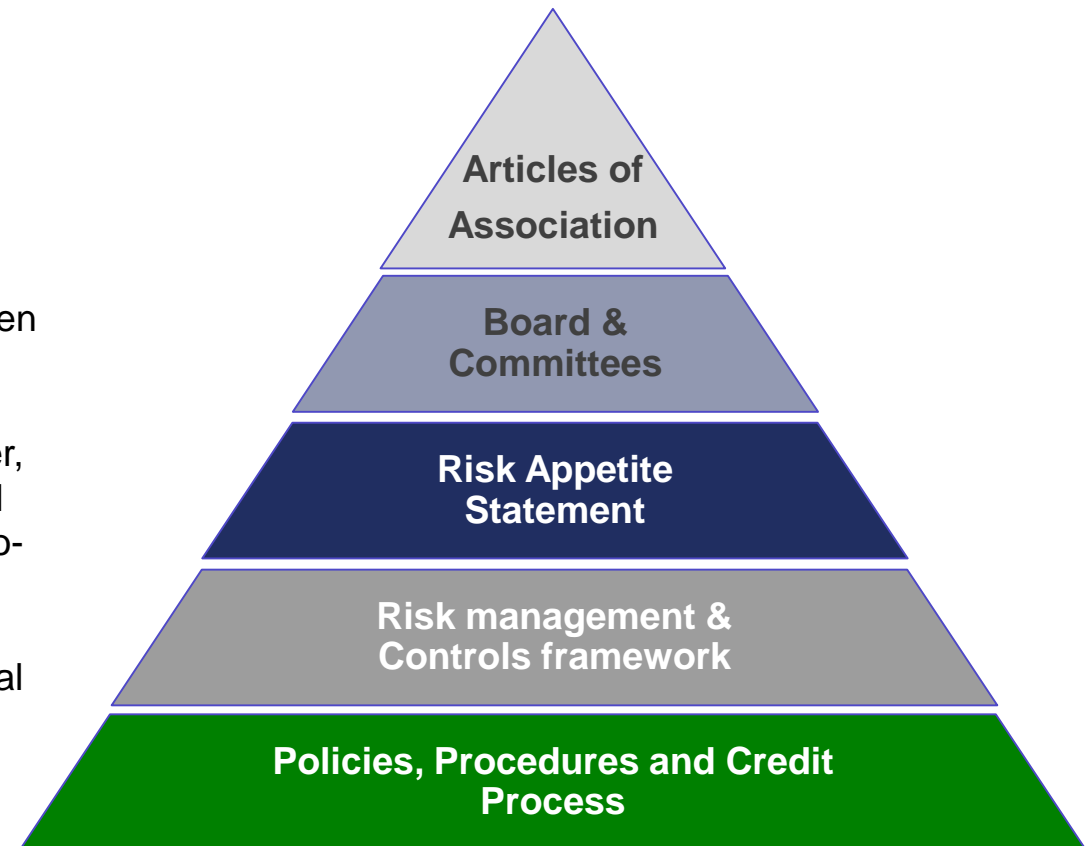
The UKMBA is overseen by its Board of Non-executive Directors, who have full control over the company's governance, strategies and policies

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:

- UKMBA's board has recently revised the structure of the Framework Agreement, creating a more 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:

- 8th 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 (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 recently awarded the LaingBuisson Award
- 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 2018/19

Political representation

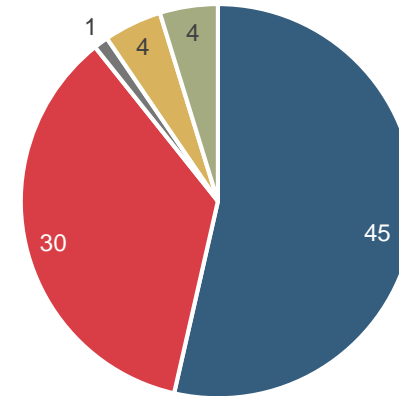
The County:

- 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

Political structure



■ Conservative ■ Labour ■ UKIP ■ Liberal Democrats ■ Independent



Councillor Paul Rigby
Chair of the Council



Geoff Driver CBE
Leader of the Council



Angie Ridgwell
Chief Executive Officer

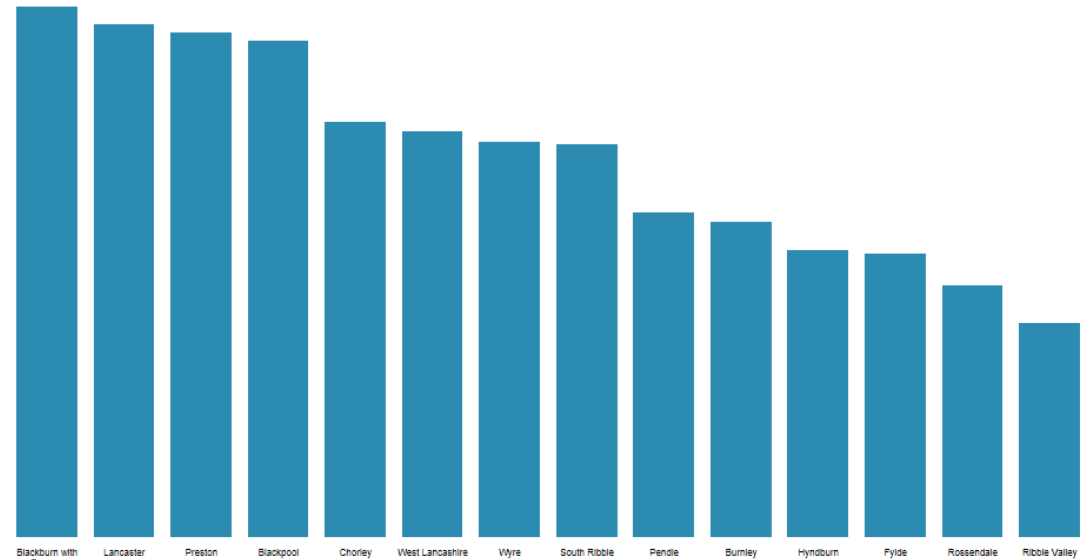
Key statistics

| Indicator | Specific | Lancashire 12 district areas |
|----------------------------------------------------------------------------------------------------|------------|------------------------------|
| Population (2018 mid-year estimates) | All age | 1,210,053 |
| | 0-19 | 278,748 |
| | 20-64 | 682,661 |
| | 65+ | 248,644 |
| State pensions | Persons | 245,750 |
| Area | | 2,903 sq km |
| Gross value added, new balanced approach, 2017 (provisional) | | £27.194 bn |
| Dwellings | | 545,140 |
| Vacant dwellings | | 19,953 |
| 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 | | 47 |
| Life expectancy | Males | 79 |
| | Females | 82 |
| Healthy life expectancy | Males | 61 |
| | Females | 61 |
| Recorded crime - 2016/17 | Crimes | - |

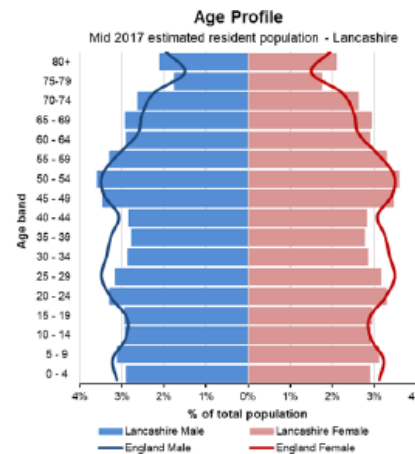
Demographic profile

- 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

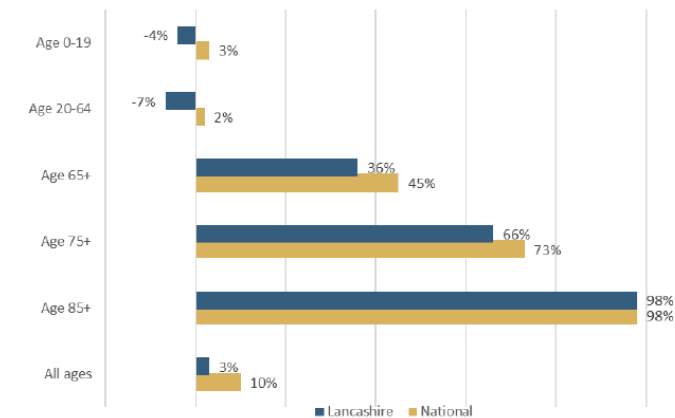
Population of Lancashire Districts (2018):



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**

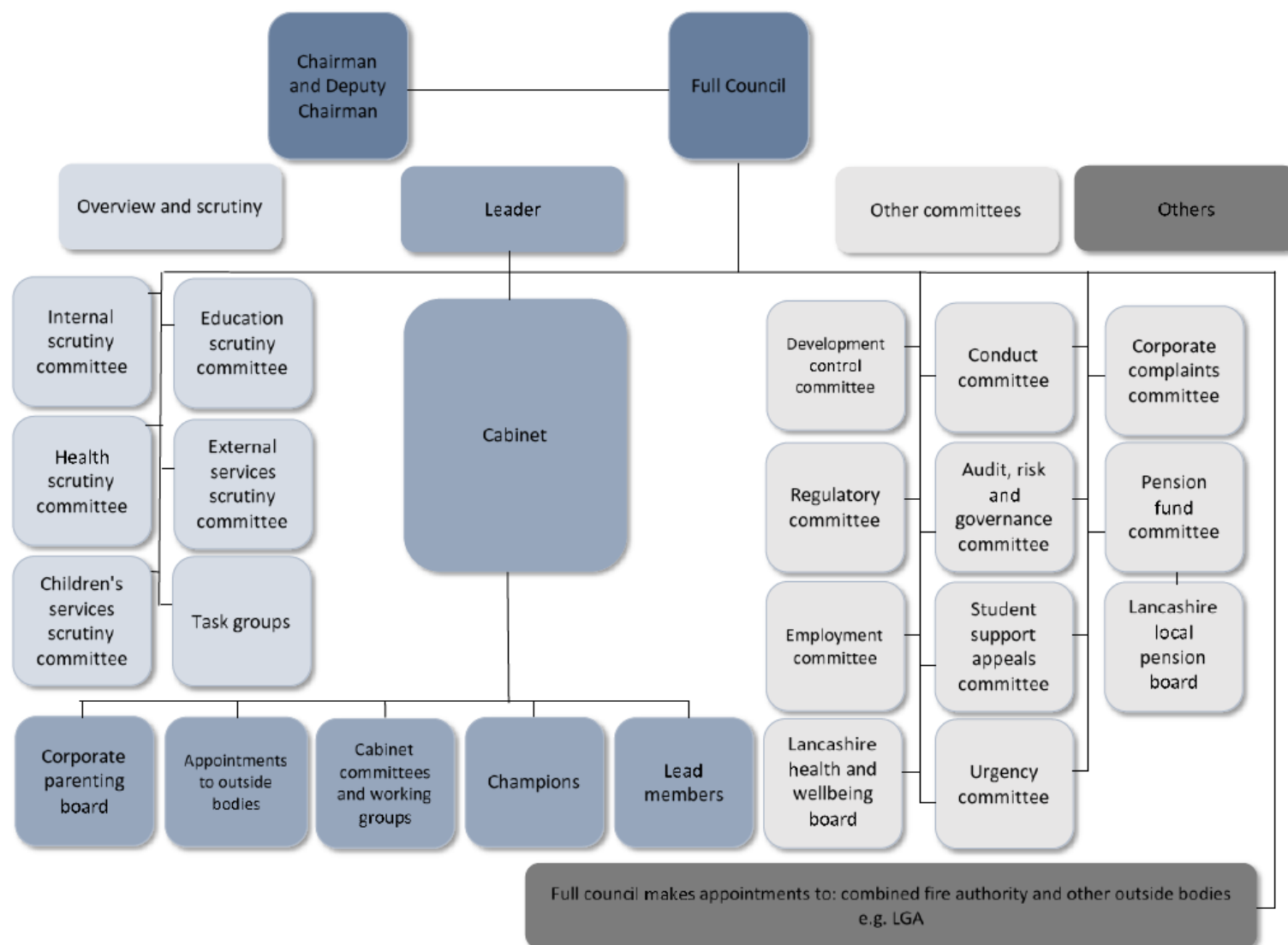


Example KPIs:

- 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

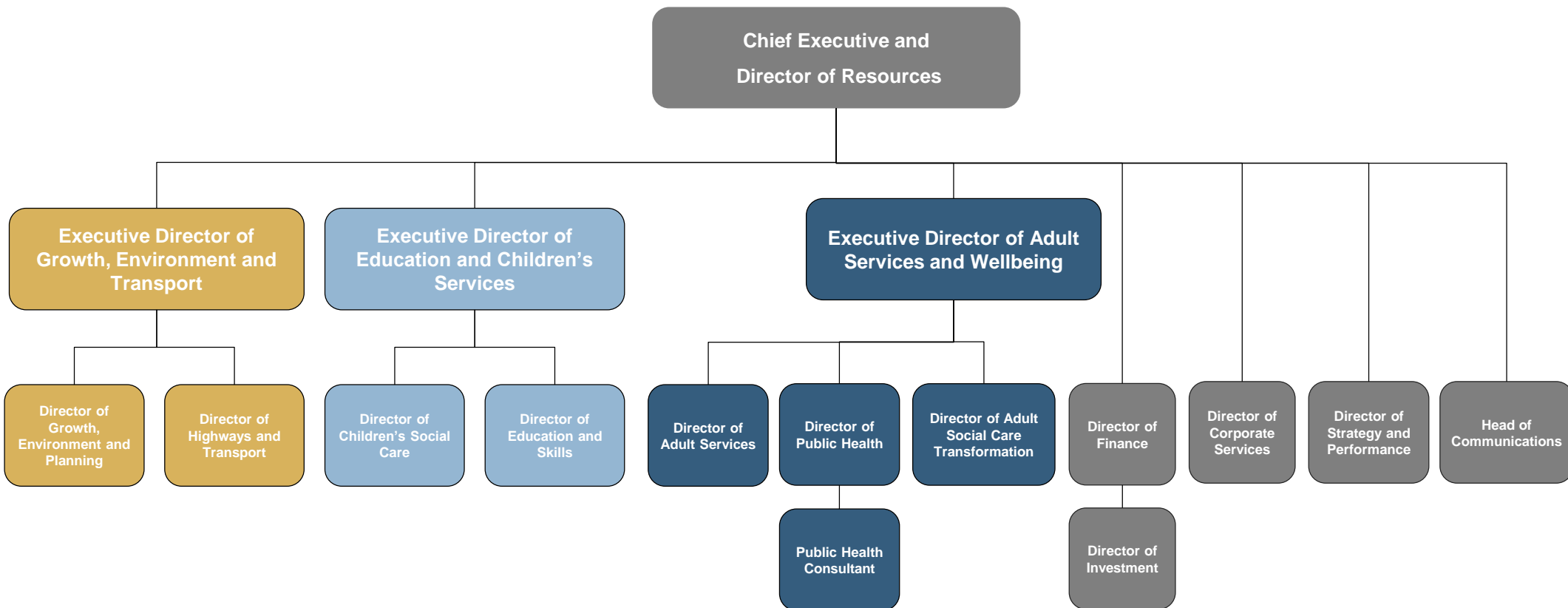
Council Committee structure

- 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 12,200 people in full time and part time contracts with around a further 28,000 people employed in schools



Peer comparison I

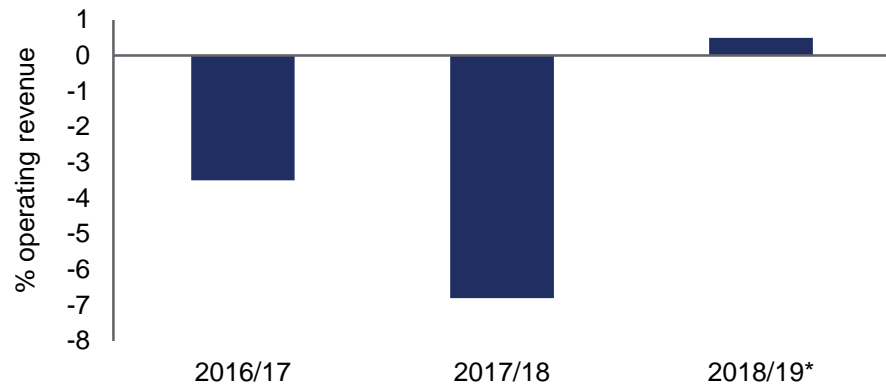
| | Rating (vs. Sovereign Aa2 neg / AA stable) | Strengths | Weaknesses |
|-------------------------------------------------------------------------------------|--------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------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

Peer comparison II

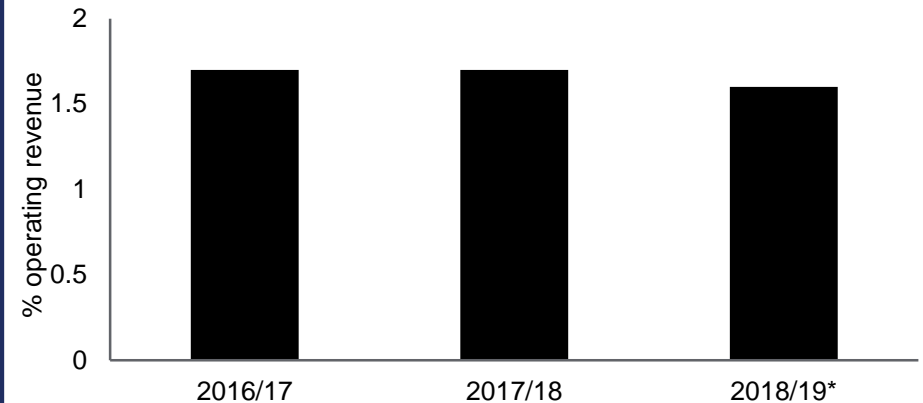
| |  |  |  |  |  |
|-------------------------------------------------------------|-----------------------------------------------------------------------------------|------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|
| Moody's Rating | 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

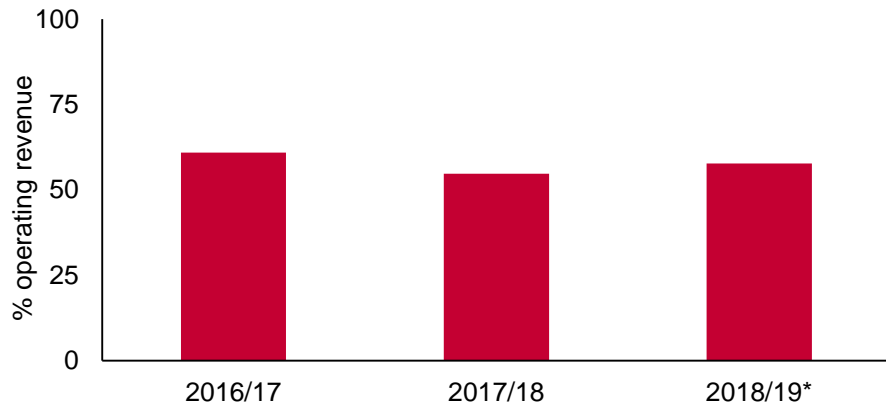
Gross Operating Balance / Operating Revenue (%)



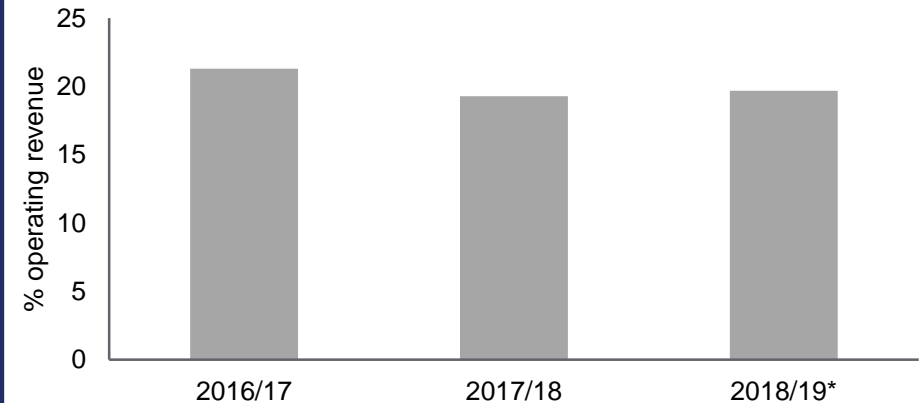
Interest payments / operating revenue (%)



Net Direct and Indirect Debt / Operating Revenue (%)



Usable Reserves / Operating Revenue (%)



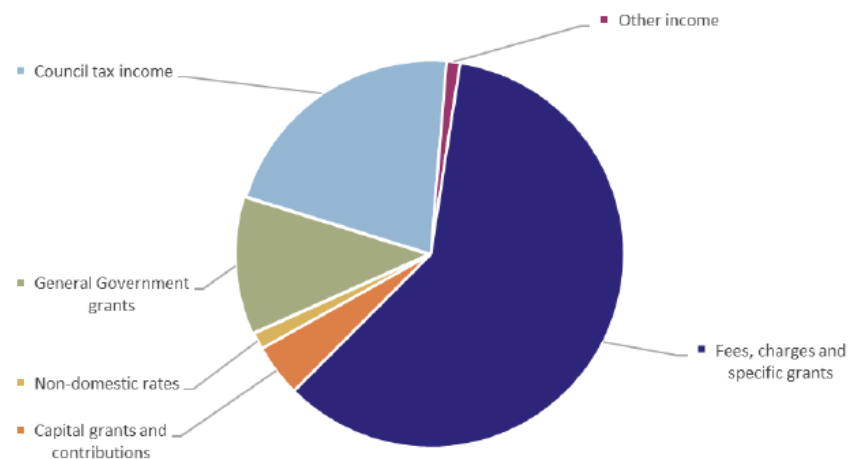
Budget overview

Key takeaways

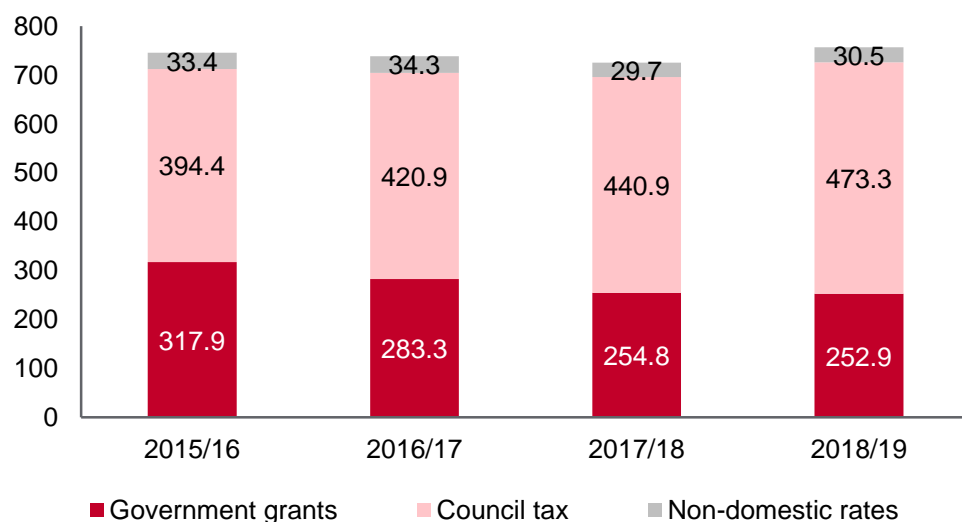
- Continuation of the revenue support grant and significant additional funding for social care
- Agreed a revenue budget for 2020/21 on 13 February without recourse to reserves – with a forecast funding gap of £38.4m by 2023/24 primarily due to increased pay costs and service demand pressures
- The 2019/20 revenue forecast outturn is £788.8m - a projected underspend of £13.508m (1.68%) of the agreed 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

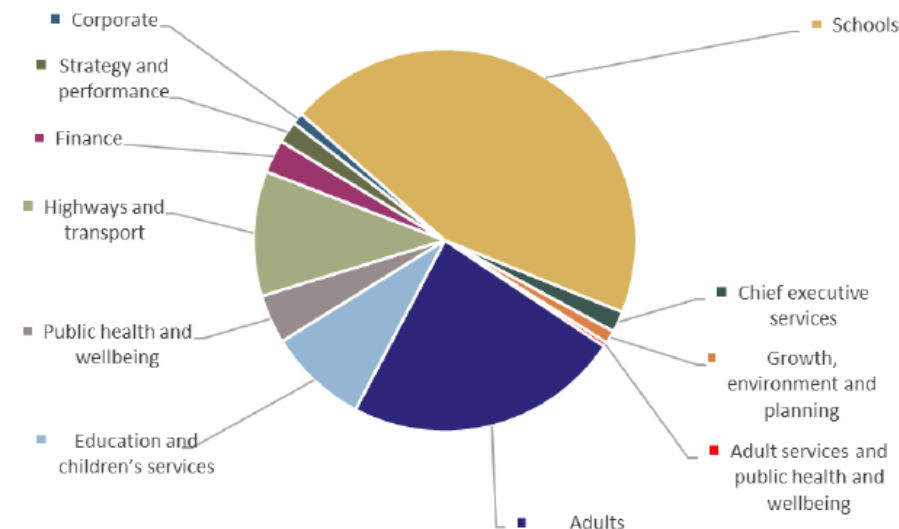
Sources of funding 2018/19



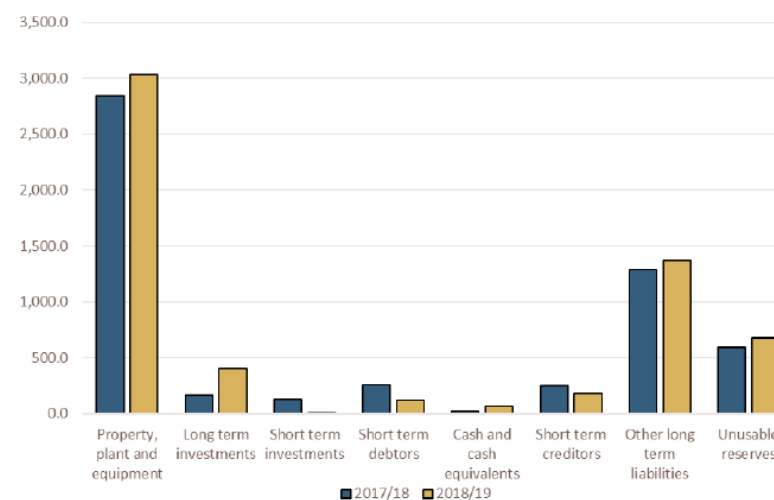
Funding (£m)



Gross expenditure by service 2018/19



Main balance sheet variations (£m)



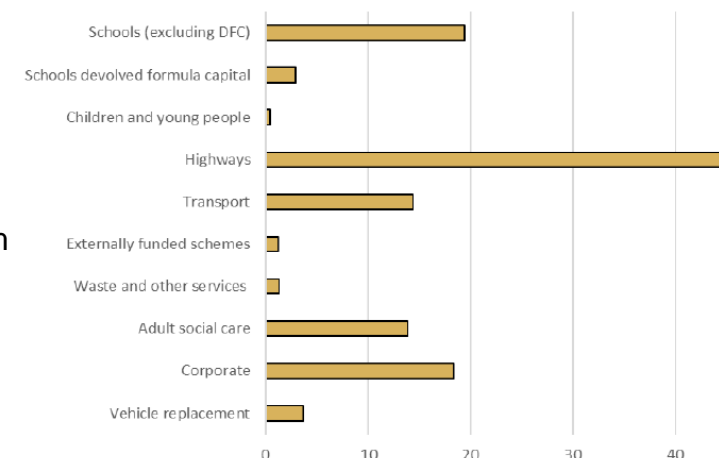
Medium Term Financial Strategy (“MTFS”)

- Committed to the delivery of a significant savings programme with £77m of new savings agreed by Full Council during 2018/19
- The MTFS includes government revenue support grant funding of £33.430m in 2020/21 as announced in the provisional financial settlement in Jan 2020
- c£77m of savings were agreed as part of the 2019/20 budget setting process for delivery across multiple financial years with over 94% on track to be fully delivered and there is a strong focus on continuing to manage demand and tightly control and drive down costs wherever possible
- At Cabinet in February the MTFS set out a forecast funding gap of £33.312m which has subsequently increased to £38.402m by 23/24 when the 2020/21 budget was agreed at Full Council on 13 February, although a small surplus of £1.608m remains for 2020/21 which will be used to support the improvement journey work which is underway across the council
- The MTFS position for the period 2020/21 to 2023/24 includes the impact of additional costs relating to staff pay inflation, transport and demand assumptions, particularly on social care along with estimated funding levels for later years
- The value of the uncommitted transitional reserve is currently forecast to be sufficient to meet the identified funding gaps beyond the end of the current MTFS - but the intention is to identify further savings and thereby securing a continuing sustainable financial position for the council

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 £130.2m was agreed at Full Council in Feb 19
- The capital programme is risk-averse and focused on core LA infrastructure including schools, highways, transport and adult social care
- The capital delivery programme sets out a requirement for capital expenditure of £138.5m in 20/21 followed by sums of £98.5m and £52.8m in the following 2 years
- Grant funding is forecast to be £91.8m for 2020/21 with further grants of £60.5m and £38.9m in 21/22 and 22/23 respectively
- Programme 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 the council's ICT infrastructure to support corporate priorities;
 - Investment in waste and recycling facilities;
 - Support for schemes to deliver economic growth in the county and the roll out of superfast broadband
- 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 2018/19 (£m)



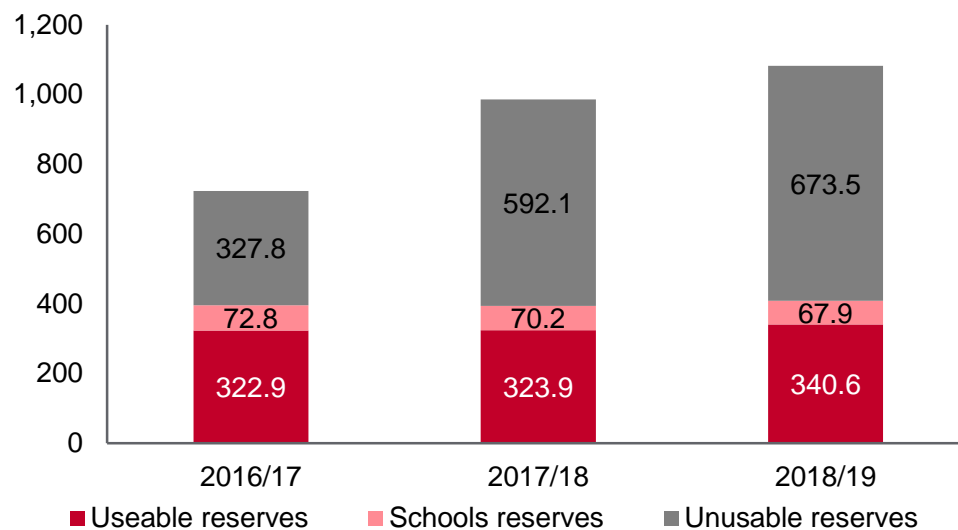
| | Revised budget £m | Actual spend £m | Variation £m |
|----------------------------------|----------------------|--------------------|-----------------|
| Schools (excluding DFC) | 22.1 | 19.4 | (2.7) |
| Schools devolved formula capital | 2.8 | 2.9 | 0.1 |
| Children and young people | 0.6 | 0.4 | (0.2) |
| Highways | 48.3 | 45.0 | (3.3) |
| Transport | 13.8 | 14.4 | 0.6 |
| Externally funded schemes | 1.9 | 1.2 | (0.7) |
| Waste and other services | 0.7 | 1.3 | 0.6 |
| Adult social care | 13.7 | 13.9 | 0.2 |
| Corporate | 13.3 | 18.3 | 5.0 |
| Vehicle replacement | 3.7 | 3.7 | 0 |
| Total expenditure | 120.9 | 120.5 | (0.4) |

Comprehensive Income Statement

| | 2018 | | | 2019 | | |
|-------------------------------------------------------------------------|---------------|----------------|--------------|---------------|----------------|--------------|
| | Gross Expense | Gross Income | Net Expense | Gross Expense | Gross Income | Net Expense |
| Schools | 947 | (921) | 26 | 968 | (941) | 27 |
| Chief executive services | 30 | (3) | 27 | 39 | (4) | 35 |
| Growth, environment and planning | 26 | (6) | 19 | 24 | (9) | 15 |
| Adults | 504 | (154) | 351 | 507 | (156) | 351 |
| Education and children's services | 174 | (13) | 161 | 183 | (15) | 168 |
| Public health and wellbeing | 97 | (80) | 16 | 90 | (76) | 14 |
| Highways and transport | 233 | (59) | 174 | 229 | (55) | 174 |
| Finance | 61 | (26) | 35 | 61 | (28) | 33 |
| Adult services and public health and wellbeing | 7 | (0) | 7 | 8 | (1) | 7 |
| Strategy and performance | 45 | (25) | 20 | 40 | (25) | 15 |
| Corporate | 24 | (2) | 22 | 21 | (3) | 19 |
| Cost of services | 2,147 | (1,290) | 858 | 2,170 | (1,311) | 859 |
| Other operating income and expenditure | 20 | (7) | 13 | 54 | (9) | 45 |
| Financing and investment income and expenditure | 66 | (15) | 51 | 84 | (25) | 59 |
| Taxation and non-specific grant income and expenditure | 0 | (846) | (846) | 0 | (854) | (854) |
| (Surplus)/deficit on provision of services | 2,232 | (2,157) | 75 | 2,308 | (2,198) | 109 |
| Surplus)/deficit on revaluation of non-current assets | | | (126) | | | (171) |
| Re-measurement of the net defined benefit pension liability/(asset) | | | (200) | | | (44) |
| Surplus)/deficit on financial assets measured at fair value through OCI | | | 0 | | | 10 |
| Surplus)/deficit on revaluation of available for sale assets | | | (12) | | | 0 |
| Other comprehensive income and expenditure | | | (338) | | | (205) |
| Total comprehensive income and expenditure | | | (263) | | | (96) |

Balance Sheet & Cash Flow

Reserves (£m)



| Cash Flow (£m) | 2018 | 2019 |
|------------------------------------------------------------------------------------------------------------------------------------|--------------|-------------|
| Net surplus/(deficit) on the provision of services | (75) | (109) |
| Adjustments to net surplus/deficit on the provision of services for non-cash movements | 64 | 214 |
| Adjustments for items included in the net surplus/deficit on the provision of services that are investing and financing activities | (127) | (114) |
| Net cash flows from operating activities | (139) | (10) |
| Investing activities | 125 | (20) |
| Financing activities | (95) | 79 |
| Net increase/(decrease) in cash or cash equivalents | (109) | 50 |
| Cash and cash equivalents at the beginning of the reporting period | 128 | 19 |
| Cash and cash equivalents at the end of the reporting period | 19 | 69 |

| Balance Sheet (£m) | 31-Mar-2018 | 31-Mar-2019 |
|-------------------------------|----------------|----------------|
| Property, plant and equipment | 2,838 | 3,030 |
| Heritage assets | 29 | 29 |
| Investment properties | 2 | 2 |
| Intangible assets | 20 | 15 |
| Long term investments | 170 | 399 |
| Long term debtors | 46 | 45 |
| Long term assets | 3,105 | 3,518 |
| Short term investments | 129 | 0 |
| Inventories | 2 | 3 |
| Short term debtors | 256 | 119 |
| Payments in advance | 9 | 9 |
| Cash and cash equivalents | 19 | 69 |
| Assets held for sale | 8 | 6 |
| Current assets | 422 | 204 |
| Short term borrowing | (488) | (571) |
| Short term creditors | (250) | (185) |
| Receipts in advance | (9) | (12) |
| Short term provisions | (7) | (9) |
| Other current liabilities | (6) | (5) |
| Current liabilities | (760) | (782) |
| Long term provisions | (26) | (19) |
| Long term borrowing | (471) | (471) |
| Other long term liabilities* | (1,284) | (1,368) |
| Long term liabilities | (1,781) | (1,858) |
| Net assets | 986 | 1,082 |
| Usable reserves | (394) | (409) |
| Unusable reserves | (592) | (674) |
| Total reserves | (986) | (1,082) |

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

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

| | |
|-------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Issuer | UK Municipal Bonds Agency Finance Company DAC |
| Guarantor | Lancashire County Council |
| Status | Senior, Unsecured and Unsubordinated |
| Guarantor Ratings | Aa3 negative (Moody's) |
| Note Ratings | Aa3 negative (Moody's) |
| Offering Documentation | The Issuer's Information Memorandum |
| Currency | Pounds Sterling ("GBP") |
| Principal Amount | Benchmark size |
| Re-offer spread to Benchmark | SONIA + [] |
| Issue Price | 100.00% |
| Denomination | GBP 100,000 and incremental of GBP100,000 thereafter |
| Rate of Interest: | Compounded Daily SONIA + [] bps as defined in the Information Memorandum, payable quarterly in arrear and accruing from, and including, the Issue Date to, but excluding, the Maturity Date |
| Use of proceeds | <p>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.</p> <p>LCC shall use the proceeds of the LCC Loan to refinance a portion of their current short-term debt.</p> <p>Noteholders have no direct rights under the LCC Loan and the LCC Loan may be amended by the parties to it at any time without the consent of the Noteholders or any other party. Noteholders also have no recourse to UKMBA in respect of the Notes</p> |