Medium Term Financial Strategy
2024/25 – 2028/29

The Council Plan 2024-2027

The Council published the Council Plan 2024-2027 in January 2023. The ambitious three-year plan sets out a strong vision for the future of the Lancaster district. Priority policies within the Council Plan 2024-2027 were agreed following the formation of our new Cabinet. The local government association (LGA) worked with Cabinet to develop the refreshed priority list to inform the new Council Plan.

A condensed 'plan on a page' details the refreshed priority polices within the Council Plan 2024-2027:

Vision and Priorities

The Council Plan 2024-2027 highlights the strategic direction of Lancaster City Council and enables us to work towards clearly defined strategic ambitions. The plan will be used as an internal business planning document that sets out the council's future and priority policies. Policies will remain flexible and adaptable to accommodate the changing needs of the district.

Principles

The Council Plan sets out 4 ***Principles.*** The ***Principles*** are the cornerstones of all that we do.
1: A Sustainable District
2: An Inclusive and Prosperous Local Economy
3: Healthy and Happy Communities
4: A Co-operative, Kind and Responsible Council

Themes

The Council Plan sets out 4 ***Themes.*** These ***Themes*** provide greater definition of the principles, to ensure strategy, policy, resources, and service delivery are focussed to effectively deliver the council's agreed outcomes for the district.

1: Action on the Climate Emergency: taking action to meet the challenges of the climate emergency
2: Community Wealth Building (Morecambe Bay Model): building a sustainable and just local economy that benefits people and organisations
3: Increasing well-being. Reducing Inequality: empowering and supporting healthy ways of living, and tackling the causes of inequality
4: Deliver Effective Services, Take Responsibility: bringing people together to achieve the best outcomes for our communities, in tandem with running efficient quality public services

Ambitions

The Council Plan sets out an ambitious vision of the future that will benefit the districts residents, our businesses and natural environment. There are 24 clearly defined ambitions and prioritised 1-6 aligned to the Priorities and Themes within the plan.

Financial Context - We will align budget and resource to deliver the prioritised ambitions.

The Council faces a significant financial challenge. Central government have withdrawn in the region of 40% of our funding over the last decade and millions of pounds of cost burden has been passed on to the local council taxpayers and businesses in the district. Despite this, the council has experienced a significant reduction in real terms spending power.

The council embarked on a programme called Outcomes-Based Resourcing (OBR) during 2023/24 and is now embarking on phase 2 of that process – Fit for the Future (FftF) where will see it examine every area of its budget and match resources more closely with its priorities. The OBR programme includes looking at ways the council can do things differently by utilising technology and being more efficient, as well as considering areas in which it can generate more income. By matching resources closely with priorities, we are successfully delivering services and the ambitions of the Council Plan.

THE PURPOSE, PRIORITIES AND PRINCIPLES OF THE MEDIUM-TERM FINANCIAL STRATEGY

What is the Medium-Term Financial Strategy?

The Medium-Term Financial Strategy (MTFS) outlines the approach to setting out the Council's financial future over the next five years (2024/25 to 2028/29). It estimates the additional costs and pressures that the Council is facing due to inflation, demand, and policy changes, alongside the estimated change in funding. The difference is the funding gap which must be closed to achieve a legally balanced budget.

Purpose and Priorities

The MTFS is a key part of the Council's Budget and Policy Framework which aims to ensure that all financial resources are directed towards the delivery of Council priorities as set out in the Council Plan 2024 – 2027 above. The Strategy describes the financial direction of the Council for financial planning purposes and outlines the financial pressures over a five-year period but is reviewed and updated annually to reflect the dynamic nature and continuing uncertainty of local government funding.

The MTFS establishes the estimated level of revenue resources available to the Council over the medium term and estimates the financial consequences of the demand for Council services. It improves financial planning and strategic financial management through providing the financial context within which the Council budget will be set.

The review also allows for consideration of the Council's reserves policy and level of reserves to ensure there is adequate protection against unforeseen events.

In the current financial climate, the Council's principal financial aim is to continue to effectively align scarce resources to support Council priorities.

The Council's strategic approach, provides a framework to demonstrate how the Council will work and make decisions in the future which will be policy and priority-led and help resource the Council Plan

The Council's MTFS sets out the financial context for the Council's resource allocation process and budget setting. The Councils Performance Management Framework supports the aims within the Strategy by aligning performance with the overall approach to the budget to support the financial sustainability for the Council ensuring that resources are deployed on the outcomes for the District.

There are huge financial pressures on not just Council resources, but those of partners, local businesses, and residents. The Council will continue to work with partners, other organisations, residents and communities to deliver positive outcomes within a reduced budget envelope.

To remain affordable and deliver sustainable public services, the MTFS has three main objectives: -

- Consider the scale of financial challenges over the medium term and take appropriate actions and interventions to achieve financial sustainability and a balanced budget year on year.

- Ensure the Council aligns its limited resources to deliver against priorities.

- Prioritise capital schemes based on deliverability of tangible outcomes whilst considering the context of the overall capital and revenue affordability.

APPROACH AND PRINCIPLES

The MTFS is consistent with the 24 priorities the Council is pursuing. The principles underlying the MTFS 2024/25 to 2028/29 are as follows:

- The overall financial strategy will be to ensure that the Council's resources are directed to the Council Plan. Financial sustainability will be achieved and maintained through a balance of demand management interventions, reducing costs and more efficient ways of working and targeted investment. The Council's MTFS will be reviewed on at least an annual basis.

- The Council will consider a range of delivery mechanisms and funding sources to support capital investment to deliver its priorities, including the use of capital receipts through asset rationalisation and prudential borrowing. Investment will ensure that the full costs associated with financing the investment are considered when investment decisions are taken.

- The Council will maintain its general reserve at a minimum of £5M to cover any major unforeseen expenditure. The Council will aim to balance its revenue budget over the period of the MTFS without reliance on the use of the general reserve.

- The Council will maintain earmarked reserves for specific purposes which are consistent with achieving its key priorities. The use and level of earmarked reserves will be reviewed at least annually.

- Overall Council spending should be contained within original budget estimates. If, following quarterly revenue monitoring, service budgets are projected to exceed original estimates, accountability and recovery plans should be prepared setting out the actions required to ensure spending at the end of the year does not exceed original estimates.

- The Council recognises the impact of increases in Council Tax levels and fees and charges in an area of relatively low income and low wealth and will therefore balance the need for increases against the delivery of the thrive framework and the need for services.

- The Council will meet its financial obligations and maintain financial sustainability through the setting of a balanced budget and the delivery of outturn within the overall budget each year

STRATEGIC & OPERATIONAL BACKDROP

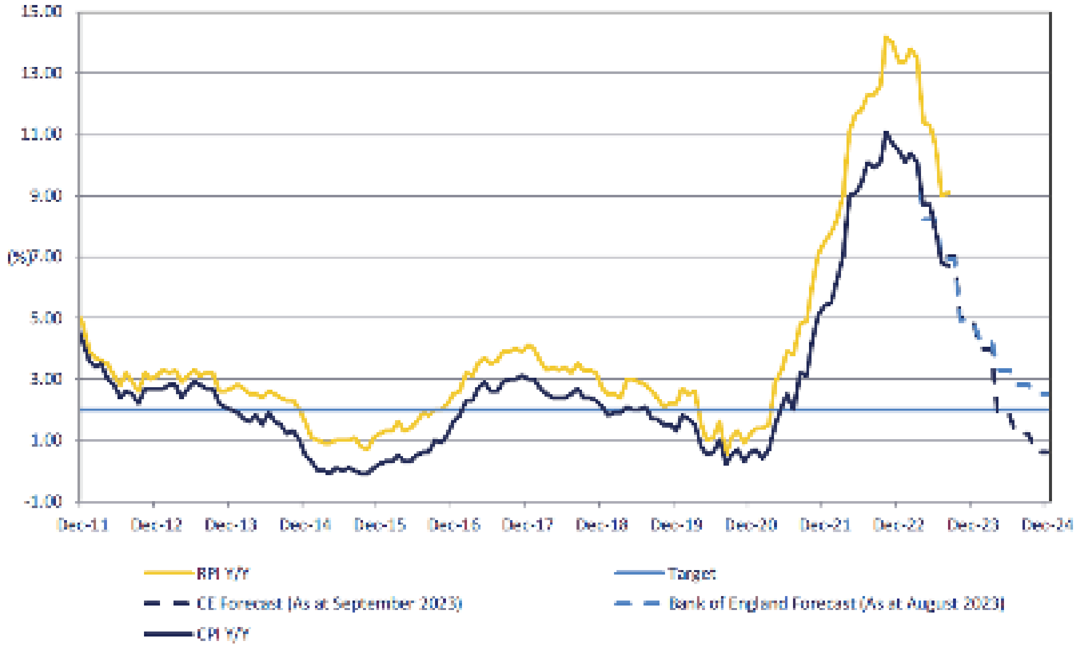
The 2023/24 Budget has once again been set against the backdrop of significant change and economic volatility. This level change and volatility is likely to extend for a further 1 to 2 years, which increases the uncertainty around planning estimation and assumptions and puts significant pressure on the Council's limited resources.

Office for Budgetary Responsibility (OfBR) has noted that the medium-term fiscal outlook for the UK has materially worsened due to a weaker economy, higher interest rates and higher inflation. Economic activity has slowed considerably in recent years, with 2 successive quarters of negative growth in gross domestic product (GDP) the UK economy officially fell into recession at the end of 2023. Current commentary suggests a shallow recession with a slow upturn during 2024. Current forecasts from the OBR and Bank of England (BoE) anticipate growth of between 0.4% - 0.7% for 2024.

CPI inflation peaked at 11.1% in the final quarter of 2022/23 which was a 40 year high. Current rates and forecasts show inflation has reduced to 4% and is expected to reduce further returning to the 2% target in the following years.

LINK Group

UK Inflation



Bank Rate has been subject to a succession of increases during the current financial year and is believed to have now peaked at 5.25% which has led to a significant forecast increase in investment interest. Bank Rate is forecast to fall during 2024/25 to an anticipated 3.75% by March 2025 whilst the level of amounts available for investment is falling. In addition, the Council has a need to borrow at a time when PWLB and Local Authority lending rates are rising. This places pressures on the affordability of the Council's Capital Programme and the need to consider how it is funded.

UK Interest Rate Forecast

	NOW	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Bank Rate														
Link Group	5.25%	5.25%	5.25%	5.25%	5.00%	4.50%	4.00%	3.50%	3.00%	2.75%	2.75%	2.75%	2.75%	2.75%
Capital Economics	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	4.75%	4.25%	3.75%	3.25%	3.00%	-	-	-
5yr PWLB Rate														
Link Group	5.28%	5.10%	5.00%	4.90%	4.70%	4.40%	4.20%	4.00%	3.90%	3.70%	3.70%	3.60%	3.60%	3.50%
Capital Economics	5.28%	5.20%	5.10%	4.90%	4.80%	4.60%	4.40%	4.30%	4.10%	4.00%	3.90%	-	-	-
10yr PWLB Rate														
Link Group	5.34%	5.00%	4.90%	4.80%	4.60%	4.40%	4.20%	4.00%	3.80%	3.70%	3.80%	3.60%	3.50%	3.50%
Capital Economics	5.34%	5.10%	4.80%	4.70%	4.60%	4.50%	4.30%	4.20%	4.10%	4.00%	3.90%	-	-	-
25yr PWLB Rate														
Link Group	5.77%	5.40%	5.20%	5.10%	4.90%	4.70%	4.40%	4.30%	4.10%	4.00%	3.90%	3.80%	3.80%	3.80%
Capital Economics	5.77%	5.50%	5.10%	5.00%	4.90%	4.80%	4.60%	4.50%	4.40%	4.30%	4.10%	-	-	-
50yr PWLB Rate														
Link Group	5.54%	5.20%	5.00%	4.90%	4.70%	4.50%	4.20%	4.10%	3.90%	3.80%	3.70%	3.60%	3.60%	3.60%
Capital Economics	5.54%	5.00%	4.90%	4.80%	4.70%	4.60%	4.50%	4.40%	4.30%	4.20%	4.00%	-	-	-

Please note – The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction from the new Standard Loan rate of 100bps over Gilts effective as of the 26th November 2020.

Considering these economic challenges households in the district are especially impacted as they spend greater shares of their income on fuel and food. These include.

- Single people on low incomes (on benefits or in work)
- Families with children
- Pensioners
- Those with disabilities

To provide support for those in greatest hardship, Cabinet recently approved the continuation of the Council's 100% Council Tax Support scheme for 2024/25 which means households most in need can apply for full relief from Council Tax. Lancaster City Council will be one of only a handful of local authorities in the Northwest to continue to have a 100% Council Tax Support scheme in 2024/25.

Central Government released a single-year Finance Settlement resulting in difficulties in forecasting in the medium and longer term which is required when developing the Council's Medium Term Financial Strategy.

Further uncertainties remain around the future of Heysham 1 & 2 Power Stations and their decommissioning plans. Whilst Central Government provides a mechanism to limit the losses incurred by the Council, given they account for a significant proportion of the Council's Business Rates income this remains a considerable risk to the Council's financial position.

On 19th January 2023 the Council was successful in its bid to secure £50M from Department for Levelling Up towards the Eden Project Morecambe. This is excellent news and a great boost for the district. Securing Government funding was an important step, but much work still remains to be done by Eden and the project partners. It will naturally be some years before the impact of increased income from business rates and tourism filter through. In the meantime, officers are working with Eden and the other partners to implement the required governance and delivery mechanisms to ensure that the full benefits of the project are secured.

Lack of Funding Reform to Address Areas with High Needs/Low Tax Bases Longer-term reform of local government funding has been delayed until the next Parliament and a structural solution is needed to meet the many statutory duties and demands placed on all local authorities.

<u>Local Government Finance Settlement 2024/25</u>
The Government released the provisional local government finance settlement on 19 December 2023, with the final settlement released on 5 February 2024. The final settlement included an additional £0.190M in the funding guarantee and services grant above that announced in the provisional settlement. The main aspects of the settlement are set out below:

- The calculation of Core Spending Power
- The level of Council Tax increase (excluding social care) beyond which a referendum is required increased to 3% or £5 whichever is the greater for 2024/25
- The freezing of the small Business Rates "multiplier" for 2024/25 with the small and standard Business Rates multipliers now being de-coupled.
- Continuation of a number of funding streams including Revenue Support Grant, which was originally due to cease in 2020/21, Services Grant, although at a reduced level and New Homes Bonus. The future of New Homes Bonus in its current form remains uncertain.
- The Settlement includes a sector-wide Funding Guarantee grant to ensure that all Council's receive a minimum of 4% increase in spending power before making any local decisions on council tax.

A summary of the final settlement for Lancaster City Council is show in table one below. Assumptions have been included to estimate Government funding from 2025/26 onwards however actual allocations for this period are currently unknown.

Final Settlement allocations for Lancaster City Council 2024/25

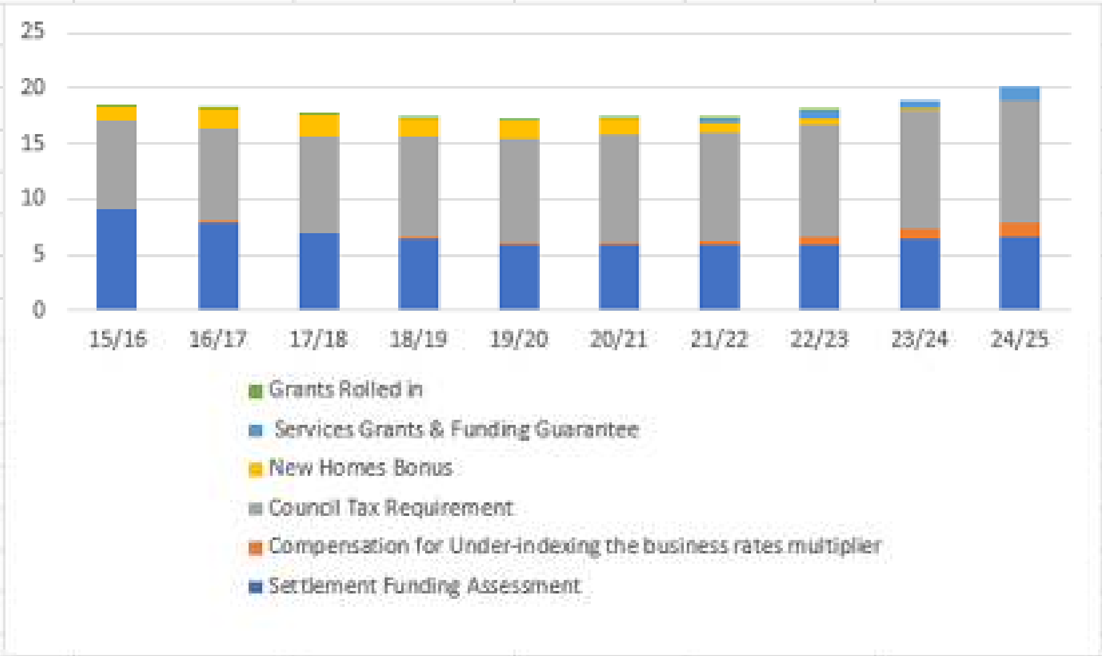
	Final Settlement £000	LCC Forecast £000	Difference £000
Settlement Funding Assessment Revenue Support Grant	433	406	27
New Homes Bonus	10	0	10
Funding Guarantee	1,188	605	583
Services Grant	40	232	(192)
Total Government Funding	**1,671**	**1,243**	**428**

Core Spending Power

Core Spending Power (CSP) is a measure used by the Government to set out the resources available to a Council to fund service delivery. The calculation of CSP has changed over the years and now combines certain grants payable to Council together with estimates of Business Rates and Council Tax, these estimates are based on Government assumptions.

On the basis of the provisional Settlement, the Council's CSP for 2024/25 will increase from £18.93M to £20.09M or 6.1% when compared to CSP in 2023/24 and includes an assumption by Government that Councils will increase their Council Tax by the maximum allowable. This is in comparison to the average increase in CSP for all Councils in England of 7.5%

Core Spending Power 2015/16 – 2024/25

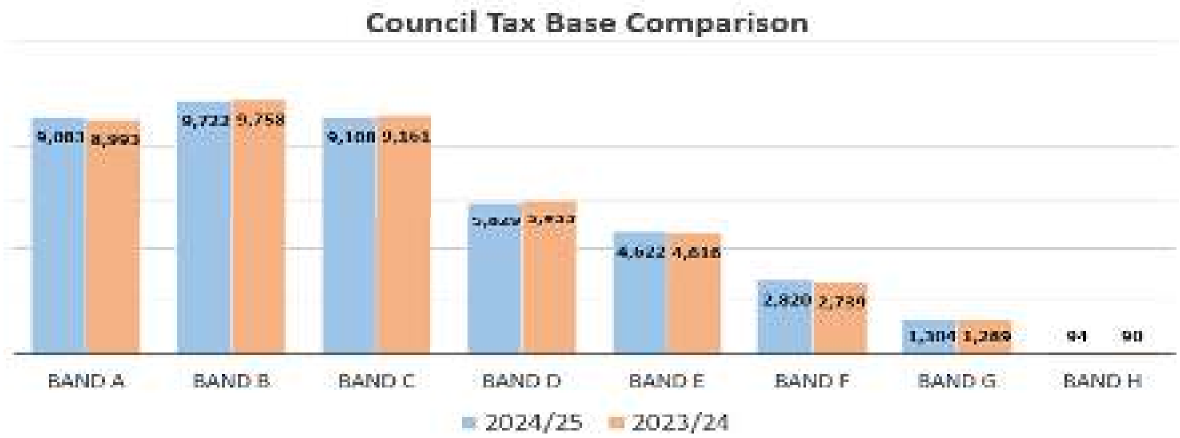


The table above compares the historic value of CSP, and shows the Council is now almost entirely reliant on Council Tax and Business Rates with a small amount of income from central government grants to fund net expenditure and it is, therefore, important to provide regular estimates of these key funding streams.

Council Tax

Council Tax is the Council's primary source of funding and is calculated by multiplying the tax base, the number of eligible residential properties (expressed in band D equivalents), by the level of the district council precept which is determined each year. Growth in housing numbers inevitably increases the taxbase and, therefore, Council Tax income.

The tax base for 2024/25 has been calculated as 42,583 Band D equivalent properties after allowing for a collection rate of 98.68%, the same as in previous years. This equates to a 0.01% increase in the tax base. There are three issues underlying the lack of growth which in previous years has been in the region of 1% increase per annum. Fewer new properties than forecast were completed during 2023/24 and the number of new properties forecast for 2024/25 is also reduced. There has also been an increase in exempt accounts together with an increase in the number of properties eligible for 25% occupancy reductions. From 2025/26 1% growth in the Tax base has been used for forecasting.



The Council recognises the impact that Council Tax has on its residents and will always take their ability to pay into consideration when setting Council Tax levels. It provides a 100% Local Council Tax Support Scheme. However, the Council should adopt an approach where local sources of funding are maximised as far as is reasonably practicable to do so.

Government's referendum criteria limits increases in the Council's element of Council Tax to 3% or £5, whichever is greater. For the purposes of forecasting, it has been assumed that the Council will increase council tax by 2.99%, the maximum allowed, before triggering a referendum in each of the next three years. The table below sets out Council Tax forecasts for the next four years including a sensitivity analysis showing the potential impact on council tax yield of different scenarios.

Council Tax Forecasts

	Actual 2023/24	**Forecast 2024/25**	**Forecast 2025/26**	**Forecast 2026/27**	**Forecast 2027/29**	**Forecast 2028/29**
Council Tax Band D 2.99% increase		£256.63	£264.31	£272.31	£280.35	£288.73
Council Tax Band D (£5 increase)	£249.18	£254.18	£259.18	£264.18	£269.18	£274.18
Tax base (1% growth from 2023/24)	42,579	42,583	43,009	43,439	43,873	44,312
Council Tax Income	**£10,610,019**	**£10,928,285**	**£11,367,591**	**£11,824,557**	**£12,299,892**	**£12,794,335**
Previous MTFS		£11,037,000	£11,480,000	£11,942,000	£12,422,000	£12,422,000
Difference Increase/(Decrease)		**(£108,715)**	**(£112,409)**	**(£117,443)**	**(£122,108)**	**(£122,108)**
Scenario 1 – no increase In Council tax over period Of MTFS		(£425,985)	(£762,875)	(£1,117,703)	(£1,489,460)	(£1,380,135)
Scenario 2 – Council Tax Band D £5 increase		(£213,070)	(£332,786)	(£466,120)	(£611,994)	(£272,334)
Scenario 3 – 1.5% increase in tax base growth & 2.99% increase in Council Tax Band D		(£108,715)	(£56,134)	(£79)	£61,469	£627,576

Business Rates

Business rates is now a fundamental part of the local government finance settlement and, along with Council Tax, accounts for the majority of local government financing. There are currently several significant uncertainties which make forecasting and planning extremely difficult, these are set out below. The Council uses its business rates retention reserve to mitigate against significant fluctuations in income levels and provide some budgetary stability.

Following on from the Chancellor's autumn statement, the small and standard business rates multipliers have been de-coupled for the first time. The small business rates multiplier has been frozen for the fourth year in a row whilst the standard multiplier has been uprated by the increase in CPI inflation of 6.7%. The potential level of inflation to build in for future years and S31 grant received to compensate for the freezing of the small business rates multiplier can be difficult to forecast with accuracy. The retained business rates calculation is also heavily dependent on the future tariff, baseline and safety net levels which drive it and these change in line with the Local Government Finance Settlement each year.

Heysham Power Stations

We are one of only a small number of Councils with a nuclear power station within its boundary. The rateable value of the Heysham1 and Heysham 2 nuclear reactors accounts for over 30% of the Council's total rateable value. Although the retained business rates scheme does have a safety net mechanism in place to ensure that an authority's income does not drop below more than a set percentage of its index linked spending baseline, the Council is vulnerable to swings in income levels relating to the power station' operations. Heysham 1 is shortly due to be decommissioned with its operators, EDF currently giving an end of generation date of March 2026 rather than the date of March 2024 previously given. There remains a level of uncertainty around the exact timing and whilst EDF have an ambition to continue generation for a further year past the March 2026 date they have also commented that the March 2026 date may not be achieved and remains dependent on future graphite inspection results.

Baseline Reset

It was expected that, at some point as part of government funding reviews, there would be a business rates growth reset effectively removing all growth from the system by setting the business rates baseline to equal actual rates levels. To date this has not taken place the year against which the reset would be referenced and how this may interact with the potential nuclear power station decommissioning timetable is an unknown.

Green Energy Disregard

The Council receives a 'disregard' for renewable energy hereditaments which means that 100% of the business rates for these properties is retained by the authority. It is estimated that in 2024/25, this will be worth £3.970M. There is, however, no absolute guarantee that the Government won't discontinue this advantageous arrangement at some point in the future.

The table below provides Business Rates forecasts for the next four years incorporating a number of assumptions. Current forecast assumptions are:

- Heysham 1 reactor to be decommissioned March 2026
- Growth of 2% in 2025/26 onwards together with a 2% uplift in baseline and tariff
- Continuation of the green energy disregard in its current form

Business Rates Forecasts

	2024/25 £	2025/26 £	2026/27 £	2027/28 £	2028/29 £
Retained Business Rates	9,197,200	9,155,600	-	-	-
Safety Net Payment	-	-	7,333,900	7,556,500	7,731,600
Renewable Energy Disregard Income	3,969,900	4,049,300	4,130,300	4,212,900	4,297,200
Total net retained business rates	**13,167,100**	**13,204,900**	**11,464,200**	**11,769,400**	**12,028,800**

New Homes Bonus

New Homes Bonus is a reward grant which is calculated from Council Taxbase figures. There remains a risk that the Government will seek to further reduce the grant in future years which would increase the budget gap at the Council. The current forecast of levels of New Homes Bonus is set out in the table below.

New Homes Bonus

	2024/25 £000's	2025/26 £000's	2026/27 £000's	2027/28 £000's	2028/29 £000's
Annual Reward	10	90	90	90	90
Previous MTFS	188	188	188	188	188
Difference Increase/ (Decrease)	(178)	(98)	(98)	(98)	(98)

GENERAL FUND PROJECTIONS

The table below outlines the current forecast budgetary position for 2024/25 to 2028/29

General Fund Revenue Projections 2024/25 to 2028/29

	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000
Revenue Budget Forecast 23 February 2023	**23,407**	**25,253**	**27,342**	**27,690**	**0**
Base Budget Changes					
Operational Base Budget Changes	878	1,524	1,953	2,195	31,035
Local Plan	423	98	0	0	0
	24,708	**27,075**	**29,295**	**29,885**	**31,035**
Outcomes Based Resourcing Proposals					
Savings & Income Proposals	(1,233)	(1,402)	(1,429)	(1,456)	(1,484)
Growth Proposals	125	51	52	53	54
Impact of Review of the Capital Programme	(105)	(574)	228	228	96
	23,495	**25,150**	**28,146**	**28,710**	**29,701**
Impact of Final Local Government Finance Settlement	(401)	(311)	(311)	(311)	(311)
Contribution to/ (from) Unallocated Reserves	1,914	1,168	(600)	(500)	
General Fund Revenue Budget 28th February 2024	**25,008**	**26,007**	**27,235**	**27,899**	**29,390**
Core Funding					
Revenue Support Grant	(433)				
Prior Year Council Tax (Surplus)/Deficit	141				
Prior Year Business Rates (Surplus)/Deficit	(621)				
Net Business Rates Income	(13,167)	(13,205)	(11,464)	(11,769)	(12,029)
Council Tax Requirement	**10,928**	**12,802**	**15,771**	**16,130**	**17,361**
Estimated Council Tax Income					
(Increase Based on 2.99% for 2024/25 then maximum allowable	**(10,928)**	**(11,367)**	**(11,824)**	**(12,300)**	**(12,794)**
Resulting Base Budget (Surplus)/ Deficit	**0**	**1,435**	**3,947**	**3,830**	**4,567**

Table shows that, despite of the work undertaken by Officers and Members to balance the budget for 2024/25, there still remains a significant challenge, with the Council facing a shortfall of £1.435M in 2025/26 with an estimated total shortfall of £4.567M over the 5-year period. This is position is further outlined in section 6.

Budget Principles and Assumptions

Within the revenue budget there are several principles and key assumptions underpinning the proposed revenue strategy. These are:

i. Annually, a balanced revenue budget will be set with expenditure limited to the amount of available resources.
ii. No long-term use of balances to meet recurring baseline expenditure.
iii. Resources will be targeted to deliver corporate ambitions and value for money. Any additional investment and spending decisions will be made to reflect Council priorities and strategic commitments.

The table below, lists the main assumptions that have been made within the MTFS with further details discussed in later paragraphs.

5 Year MTFS Planning Assumptions

	2024/25	2025/26	2026/27	2027/28	2028/29
Council Tax Base Growth	0.001%	1.00%	1.00%	1.00%	1.00%
Council Tax Increase	2.99%	2.99%	2.99%	2.99%	2.99%
Council Tax Collection Rate	98.67%	98.67%	98.67%	98.67%	98.67%
Small Business Rates Multiplier	Frozen	Frozen	Frozen	Frozen	Frozen
Fees & Charges	Various	Various	Various	Various	Various
Inflation – Pay	5.95%	3.50%	3.00%	3.00%	3.00%
Employer Pensions Contribution	16.30%	16.30%	16.30%	16.30%	16.30%
Inflation – Insurance	10.00%	10.00%	10.00%	10.00%	10.00%
Inflation Utilities	Gas: Current Price	Gas: Current Price	Gas: Current Price	Gas: Current Price	Gas: Current Price
	Electric: Current Price	Electric: Current Price	Electric: Current Price	Electric: Current Price	Electric: Current Price
Other inflation	2.80%	1.70%	2.50%	2.50%	2.50%
Interest Rate – investments	4.68%	3.00%	2.00%	2.00%	2.00%
Interest Rate – new borrowing	4.50%	3.80%	N/A	N/A	N/A

<u>Savings and Income Generation Proposals</u>
The budget savings, or income growth identified as part of the 2024/25 budget discussion relate to several areas where actions are being undertaken by the Council and are incorporated within the MTFS. Some of the key areas are summarised by Service in the table below, with more information included within the Budget and Policy Framework General Fund Revenue Budget 2024/25 item on the agenda

Directorate Summary Savings Proposals

-	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000
Council Wide (Fees & Charges)	(838)	(855)	(872)	(889)	(907)
Communities & Leisure	(113)	(160)	(163)	(166)	(169)
Environment & Place	(77)	(78)	(79)	(80)	(81)
Housing & Property	(15)	(115)	(117)	(119)	(121)
People & Policy	12	12	12	12	12
Planning & Climate Change	(72)	(73)	(74)	(75)	(76)
Resources	(30)	(31)	(32)	(33)	(34)
Sustainable Growth	25	(51)	(52)	(53)	(54)
Net Savings	**(1,108)**	**(1,351)**	**(1,377)**	**(1,403)**	**(1,430)**

Failure to deliver these savings will place additional pressure on the Council's resources and so as part of the Council's quarterly monitoring process (Delivering our Priorities), progress by Budget Holders against these targets will be monitored and reported to Members via Cabinet and Budget & Performance Panel.

Revenue Impact of Capital Programme Budget Process & Review
Cabinet and Strategic Leadership Team have considered new schemes for inclusion in the Capital Programme via the submission of strategic outline followed by full business cases during the budget process. The Council's previous Capital Programme has also been reviewed with a view to repositioning and reprofiling several capital schemes. This has altered the impact that capital projects have on revenue due to Minimum Revenue Provision (MRP) and interest costs. Details of the estimated additional expenditure or savings are detailed in the table below:

Revenue Impact of Capital Programme Budget Process & Review

	2024/25 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Revenue Impact of Capital Programme Changes	(105)	(574)	228	228	96

CAPITAL INVESTMENT AND FINANCING

Capital Investment

Through its capital programme the Council plans net investment of £32.326M between 2023/24 and 2028/29 with a further £6.883M currently planned up to 20232/33. This investment will support the delivery of its key Strategic Priorities and Outcomes such as Climate Emergency, Housing and Regeneration as well as investing in of existing property, facilities, and equipment to deliver services, or to meet legislative requirements.

The current programme is split between approved schemes, that is those which have a fully formed business case in line with Treasury Green Book requirements, and those still under development for which a provision has been made whilst work is undertaken to fully work up schemes. Schemes classified as Under Development have had strategic outline business cases approved in principle by Cabinet but **cannot** commence until full business cases have been considered, first by the Capital Assurance Group, and then approved by Cabinet.

Schemes which are in this section of the Capital Programme which will require significant capital expenditures and borrowing will need a business case to demonstrate that income arising from the capital investment can cover all borrowing costs and delivering a positive return to the Council's revenue budget.

Summary details of the current 5-year capital programme are given below

Capital Programme

	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	Total £'000
Approved Schemes							
Communities & Leisure	259	976	291	-	-	-	1,526
Environment & Place	1,292	1,301	5,067	630	1,073	1,761	11,124
Housing & Property	2,335	2,524	899	940	328	539	7,565
People & Policy	-	-	-	-	-	-	-
Planning & Climate Change	-	240	2,193	-	-	-	2,433
Resources	1,386	1,341	286	316	326	181	3,836
Sustainable Growth	937	115	530	30	30	0	1,642
Schemes Under Development	-	200	4,000	-	-	-	4,200
Total Net Capital Programme	**6,209**	**6,697**	**13,266**	**1,916**	**1,757**	**2,481**	**32,326**

Capital Financing

The Council's Capital Financing Requirement (CFR) is simply the total amount of capital expenditure (including that from prior years) that has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying need to borrow. Any capital expenditure, which has not immediately been paid for through a revenue or capital resource, will increase the CFR. Based on the draft capital programme the Council's CFR is set to increase from the current estimated 2023/24 position of £101.04M to £112.54M in 2025/26 before decreasing in 2028/29 to £101.88M.

Capital Financing Requirement

	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Capital Financing Requirement							
CFR – Non-Housing	63.56	66.95	70.47	80.54	77.81	74.99	73.00
CFR – Housing	35.13	34.09	33.05	32.00	30.96	29.92	28.88
Total CFR	**98.69**	**101.04**	**103.52**	**112.54**	**108.77**	**104.91**	**101.88**
Movement in CFR							
Non-Housing	4.50	3.38	3.52	10.07	-2.73	-2.82	-1.99
Housing	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04
Net Movement in CFR	**3.46**	**2.34**	**2.48**	**9.03**	**3.77**	**-3.86**	**-3.03**

Movement in CFR represented by							
Net financing need for the year (above) re Non-Housing	4.61	6.02	6.53	13.26	1.92	1.75	2.48
Less MRP/VRP and other financing movements	-1.15	-3.68	-4.05	-4.23	-5.69	-5.61	-5.51
Net Movement in CFR	**3.46**	**2.34**	**2.48**	**9.03**	**-3.77**	**-3.86**	**-3.03**

Based on the capital programme, the overall physical borrowing position of the Council is projected to increase by £21.87M over the next three years from its estimated current position of £59.00M to £80.88M at the end of 2025/26 in order to finance the Council's capital ambitions. It is then forecast to reduce slightly year on year reflecting repayments of the HRA self-financing loan. See table fourteen below.

Forecast Borrowing Position

	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
External Debt							
Debt at 1 April	**60.05**	**59.01**	**63.97**	**71.93**	**80.88**	**79.84**	**78.80**
Expected change in Debt	**-1.04**	**4.96**	**7.96**	**8.95**	**-1.04**	**-1.04**	**-1.04**
Other long-term liabilities (OLTL)	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Expected change in OLTL	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Actual gross debt at 31 March	**59.01**	**63.97**	**71.93**	**80.88**	**79.84**	**78.80**	**77.76**
The Capital Financing Requirement	**98.69**	**101.02**	**103.52**	**112.54**	**108.77**	**104.91**	**101.88**
Under Borrowing	**-39.69**	**-37.07**	**-31.59**	**-31.66**	**-28.93**	**-26.11**	**-24.12**

This level of borrowing is assessed for affordability, sustainability, and prudence in line with the Council's Treasury Management Strategy and requires annual approval by Council following consultation with Budget & Performance Panel. Council will be asked to formally approve the annual Treasury Management Strategy.

The Council is required to repay an element of the accumulated General Fund CFR each year through a revenue charge known as the minimum revenue provision (MRP) together with the interest charges associated with the borrowing. Council is asked to formally approve the MRP policy annual as part of the Treasury Management Strategy.

Tables fifteen and sixteen provide forecast levels of annual capital financing charges and their respective proportion of the revenue budget.

Revenue Impact of Capital Decisions

	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M
Interest	1.568	1.541	2.098	2.106	2.114	2.123
MRP	2.638	3.010	3.194	4.653	4.567	3.474
Total	**4.206**	**4.551**	**5.292**	**6.759**	**6.681**	**5.597**

Ratio of Financing Costs to Net Revenue Stream

	2022/23 Actual %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %	2027/28 Estimate %	2028/29 Estimate %
General Fund	5.90	19.94	18.20	20.20	24.65	23.79	22.30
HRA	18.79	17.00	16.22	16.25	15.99	15.75	15.75

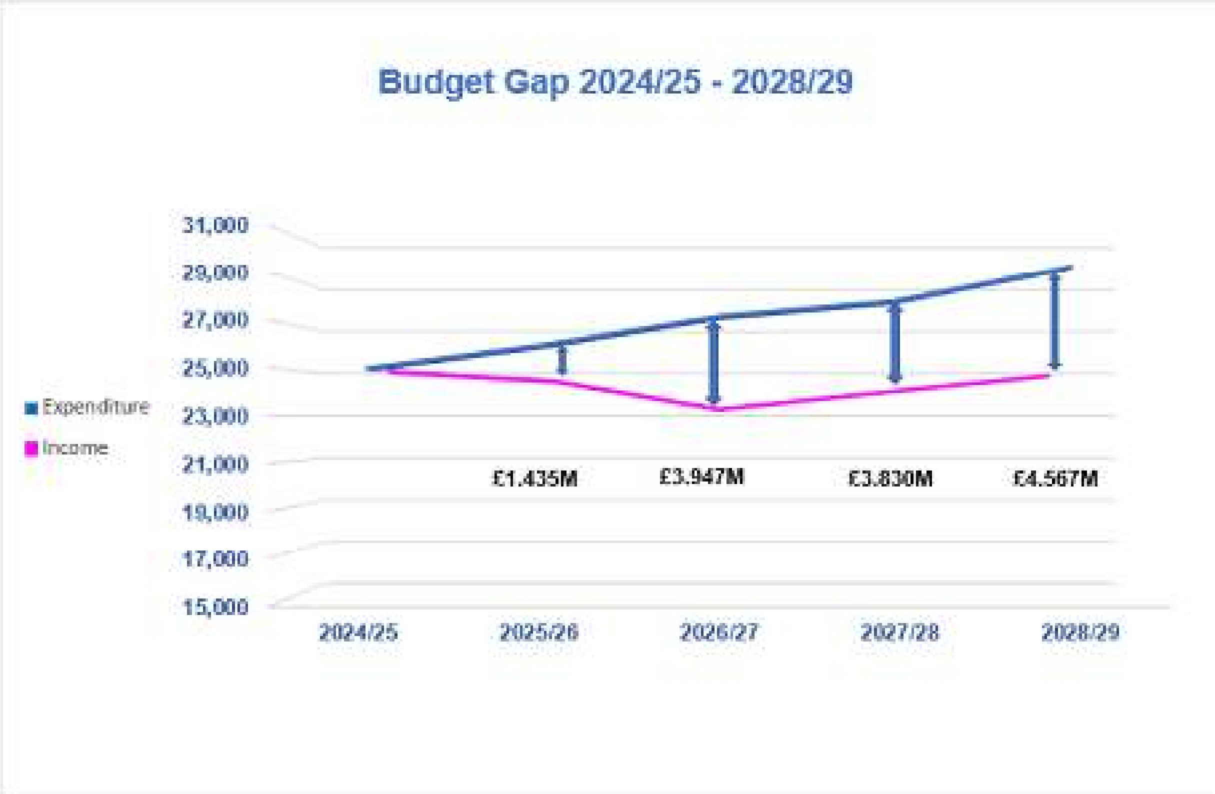
As can be seen based on current General Fund capital programme and accompanying borrowing estimates debt financing costs within the General Fund are set to increase to just under a quarter of the Council's annual net revenue budget. Levels will, therefore, need to be closely monitored and the impact on affordability of new capital schemes carefully considered as part of the business case assessment and governance processes. Estimates within the HRA are currently seen to decrease as the borrowing undertaken as part of HRA self-financing is repaid.

The financing of capital projects can be from a variety of sources, such as external grants, the use of reserves, and the application of capital receipts. A significant workstream for the OBR Assets Group is to review and realign the Council's existing asset base to identify those assets which no longer met the Council's objectives and may be able to generate a capital receipt. However, the OBR process does provide a priority order for the use of capital receipts. Firstly, to fund transformation costs, that is costs that are associated with service transformation and delivery of efficiencies. Secondly, investment to reduce costs, which is not necessarily investing in a new asset; and given the levels of current financing costs, giving consideration to financing existing short life assets such as ICT and vehicles to reduce the MRP burden on the General Fund. Finally, the use of receipts to fund other schemes within the Capital Programme.

Details of the Councils Capital Programme, Capital Strategy and Treasury Management Strategy are included at Appendices A, B and C

THE SHORT & MEDIUM-TERM BUDGET GAP

Government funding and income forecasts covered previously within this report, together with the budget expenditure, savings and income estimates that have been calculated as part of the 2024/25 revenue budget process provide an updated forecast of the budget gaps over the next three years. This is shown below in the graph and Table seventeen



Cumulative Deficit as Percentage of Revenue Budget

	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000
Revenue Budget (Estimate 20 February 2024)	25,008	26,007	27,235	27,899	29,390
Budget Gap (Incremental)	*0*	*1,435*	*3,947*	*3,830*	*4,567*
Percentage of Net Revenue Budget (Incremental)	0%	6%	14%	14%	16%

The forecast gaps are structural in nature, meaning that the Council's forecast spending exceeds the income it expects to receive, and this is compounded year on year. This position represents a significant challenge over the short and medium term. It is imperative that the Council's OBR process continues into its next phase – Fit for the Future. This will be fundamental in driving down budget gaps from 2024/25 and beyond and in realising financial sustainability.

It should be noted that this forecast is based on a series of estimates and assumptions and so is subject to change when more up to date information becomes available. However, it provides Members with a clear view of the extent of the challenge facing the Council over the coming years.

PROVISIONS, RESERVES AND BALANCES

A Council's reserves are an essential part of good financial management. They help the Council to cope with unpredictable financial pressures and plan for future spending commitments. The level, purpose and planned use of reserves are important factors for the Council as part of the MTFS.

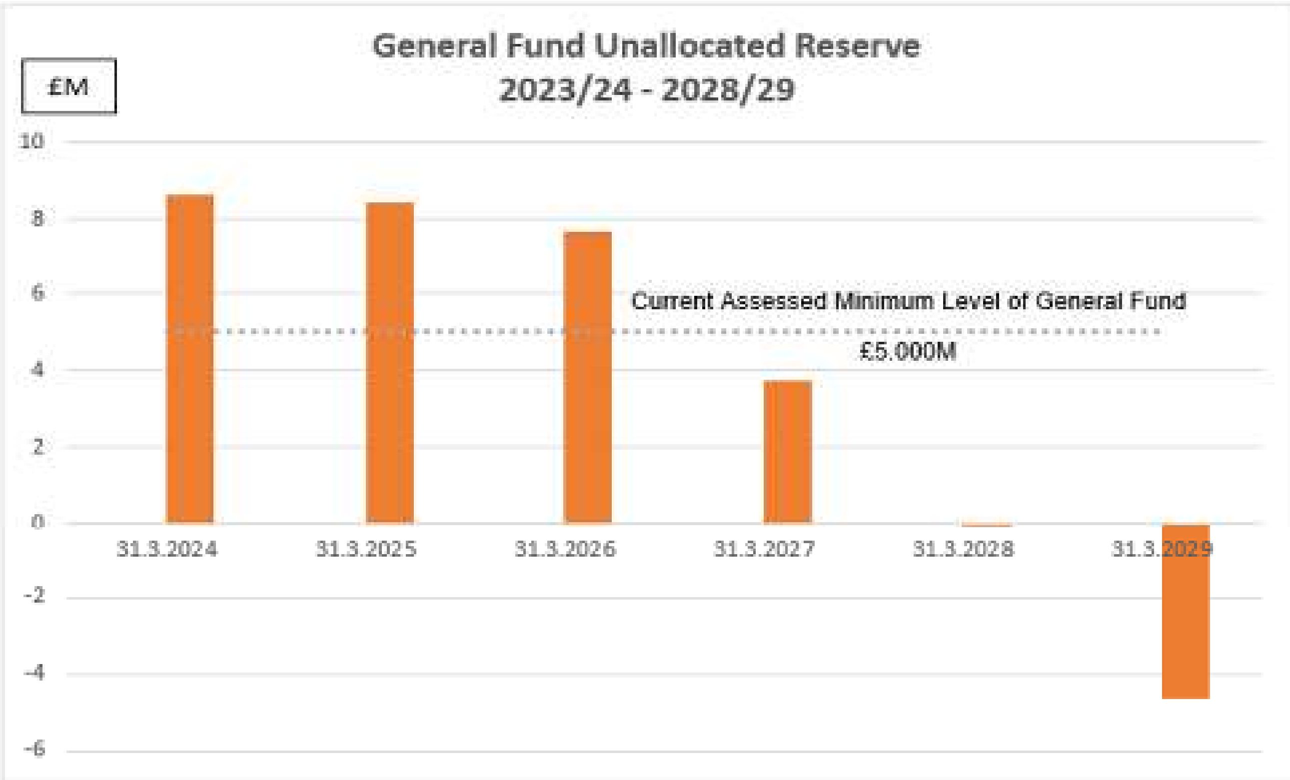
Councils generally hold two types of reserves, "Unallocated" to meet short term unexpected cost pressures or income reductions and "Earmarked". The latter can be held to provide for some future anticipated expenditure for identified projects, particularly in respect of corporate priorities, address specific risks such as the previously identified upcoming pressures on business rates retention reserve resulting from the decommissioning of H1 & H2, or to fund transitional arrangements resulting from the OBR process. They may also provide up-front funding for measures which specifically result in future efficiencies, cost savings or increased income, or to hold funding from other bodies, (mainly Central Government), for specified purposes.

Schedule of Earmarked Reserves

Reserve	Purpose of the Reserve
Business Rates Retention	To support the budget in the event that Business Rates Income does not reach budgeted levels or falls to Safety Net, due to fluctuations in appeals or other reductions in net income, and to hold any unbudgeted (surplus) rating income prior to use.
Planning Income	To hold surplus income generated as a result of the Government's 20% increase in planning fee income. To be used to fund additional costs/growth relating to Planning functions (in line with any regulatory guidance).
Capital Support	To provide cover for any revenue costs arising through shortfalls in capital financing (i.e. from capital receipts).
Elections	To even out the cost of holding City Council elections every four years.
Renewals	To provide for the renewal (replacement or upgrade) of existing facilities and infrastructure needed for service delivery, such as vehicles, plant, and equipment.
Amenity Improvements	To provide public realm amenity improvements.
Corporate Priorities	To provide resources to help finance capacity / feasibility / review and other development work in support of the Council's corporate priorities as adopted by Council in December 2023.
Corporate Property	To provide for feasibility studies, surveys and repair works to municipal buildings and facilities (in particular, for those that cannot be capitalised as part of the current works programme or are not otherwise budgeted for). In addition, to provide cover for any in-year rental shortfalls.
Invest to Save	To help finance any Invest to Save initiatives.
Investment Property Maintenance	A sinking fund to provide funds for future investment property maintenance
Restructure	To fund the costs associated with early termination of staff (in the interests of efficiency / redundancy) / Pay and Grading Review.
Revenue Grants Unapplied	Grants, usually for Government, which are provided for an expressed purpose.
Lancaster District Hardship Fund	To provide short term financial assistance for those in hardship and also address some of the reasons why people find themselves in acute financial hardship and provide discretionary support to prevent this.
S106 Commuted Sums	Three separate reserves to receive all sums paid to the Council from third parties for the maintenance of (1) open spaces adopted by the City Council (2) affordable housing schemes (3) other amenities such as cycle paths.
Museums Acquisitions	To acquire exhibition pieces for the City's museums.
Held in Perpetuity	Two small reserves that have a specific purpose which are administered by the Council. These are Graves Maintenance and Marsh Capital

By their nature reserves are finite and, within the existing statutory and regulatory framework, it is the responsibility of the s151 Officer to advise the Council about the level of reserves that it should hold and to ensure that there are clear protocols for their establishment and use. In accordance with the S151 Officers advice the minimum level of General Fund unallocated reserve is £5M.

The graph and table below provide details of our current forecast level of General Fund Unallocated Balances including the impact of funding the forecast deficit from this reserve.

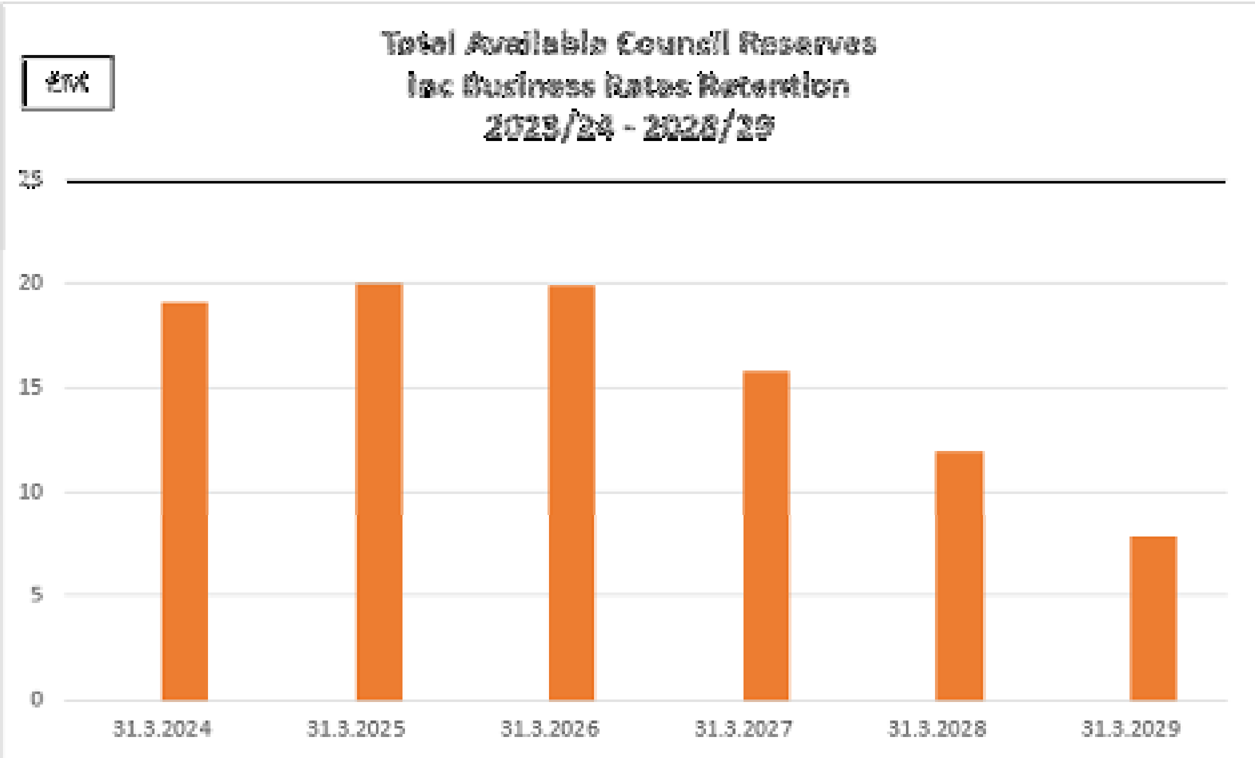


Estimated Level of General Fund Unallocated Reserves

	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M	2027/28 £M	2028/29 £M
Balance brought forward	(11.678)	(8.620)	(8.412)	(7.699)	(3.752)	0.078
Forecast Overspend	0.677	0.000	1.435	3.947	3.830	4.567
Contributions (to)/from	2.381	0.458	(0.722)	0.000	0.000	0.000
Impact of 2023/24 budget decisions	0.000	(0.250)	0.000	0.000	0.000	0.000
Balance carried forward	**(8.620)**	**(8.412)**	**(7.699)**	**(3.752)**	**0.078**	**4.645**

The graph and supporting table below provide details of our current forecast level of all available Council reserves. The analysis excludes a number of essentially ring-fenced reserves such as s106, reserves held in perpetuity, revenue grants unapplied & elections it does include reserves such as Business Retention and Renewals Reserves.

The Business Rates Retention Reserve is a mandated reserve, its purpose is to manage the risk of fluctuations in business rates income, including changes in the Council's appeals provision and movements in forecast prior year surpluses or deficits. Whilst the transfers can be made to the general fund it is required to be maintained at a prudent level to manage the risks with business rates and not to support ongoing budget deficits. On this basis the graph below is used to underline the serious of the current situation against the Council's entire resource not only the general fund.



Estimated Combined Level of Reserves (excluding S106 Reserves & Reserves Held in Perpetuity etc)

	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M	2027/28 £M	2028/29 £M
Balance brought forward	(22.308)	(19.085)	(20.005)	(19.836)	(15.785)	(11.950)
Forecast Overspend/Deficit	0.677	0	1.435	3.947	3.830	4.567
Contributions (to)/from	2.546	(0.670)	(1.266)	0.104	0.005	(0.495)
Impact of 2023/24 budget decisions	0	(0.250)	0	0	0	0
Balance carried forward	**(19.085)**	**(20.005)**	**(19.836)**	**(15.785)**	**(11.950)**	**(7.878)**

Whilst this position represents an improvement on the previously reported position, these tables clearly highlight the significant pressure the Councils reserves are under should funding from reserves be required due to the forecast level of overspend in future years not being addressed.

Reserves Policy

The Council's policy on reserves is as follows:

- The Council will maintain its general reserve at a minimum of £5M to cover any major unforeseen expenditure. The Council will aim to balance its revenue budget over the period of the MTFS without reliance on the use of the general reserve.
- The Council will maintain earmarked reserves for specific purposes which are consistent with achieving its key priorities. The use and level of earmarked reserves will be reviewed annually.
- The Council's general reserve is available to support budget setting over the period of the MTFS and usage should be linked to the achievement of financial sustainability over the medium term.

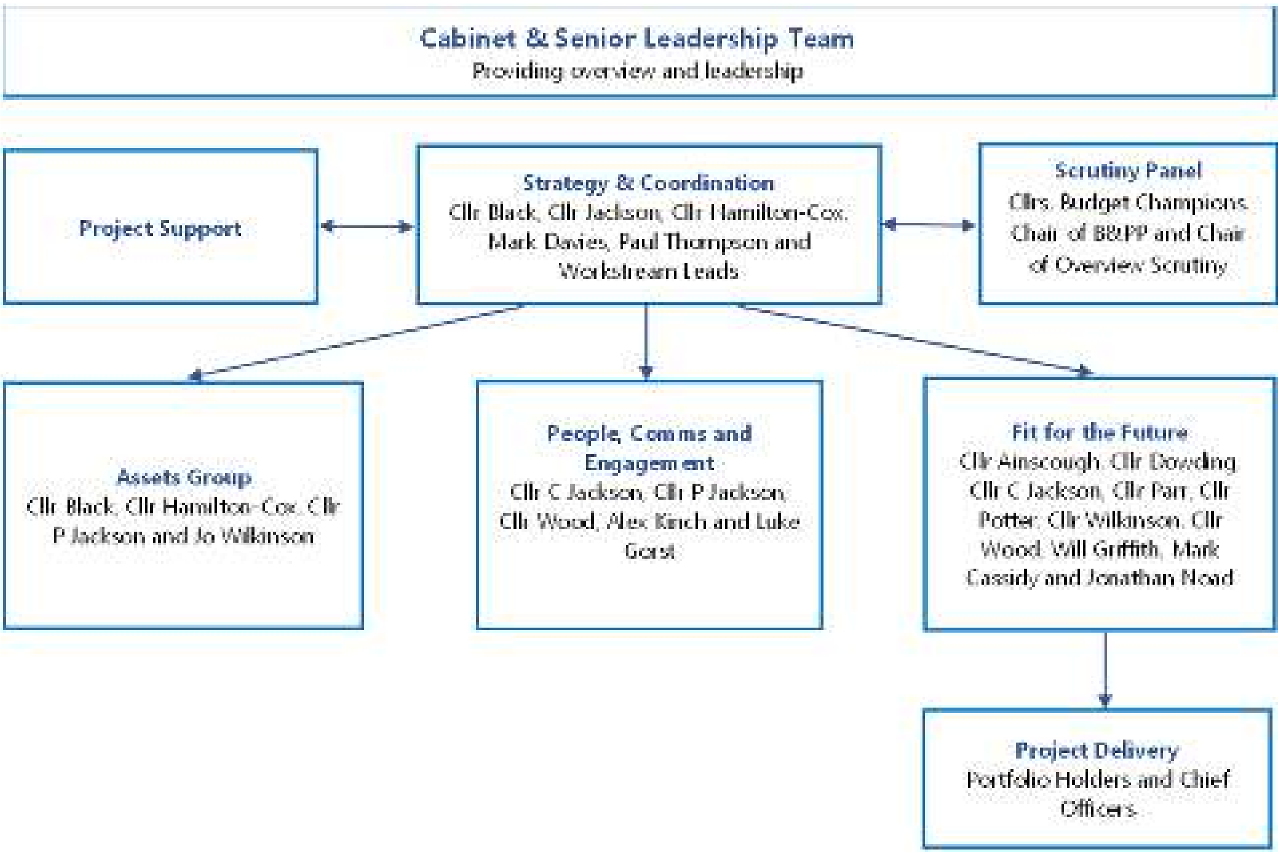
Governance Arrangements on the Use of Reserves
Given the continuing financial pressures and the need for the prudent use of reserves the following arrangements exist for the approval of reserves expenditure:

- All applications will need to be supported by a bid document setting out how expenditure funded from Reserves will deliver corporate priorities with a clear costing statement schedule of specific outcome measures. Details of the bid proforma document is attached
- Reserve bids should be agreed by Portfolio Holder in consultation with relevant Chief Officer.
- Once received bids will need to be formally agreed by the Leader of the Council, Chief Executive, Portfolio Holder for Finance and Resources, Monitoring Officer and the s151 Officer before expenditure is authorised and can be incurred.

These arrangements will be reviewed again as part of the annual revenue budget process. The monitoring of reserves is incorporated into the quarterly performance and financial monitoring reporting process. The Councils current detailed 5 year reserves forecast is included at Appendix C

THE WAY FORWARD – FIT FOR THE FUTURE & BALANCING THE BUDGET TO 2028/29
The Council embarked on its OBR process in 2022/23 with its intention to ensure that funds are allocated according to a set of predefined outcomes, or priorities in order to ensure that funds are directed toward the Council's key ambitions and statutory functions and away from areas which contribute less or not at all against the predetermined objectives.

The table below shows the operational structure of OBR – Fit for the Future process and its governance processes along with the key Member and Senior Officer involvement. The process is split into task groups each charged with a discreet area of responsibility.



Activity	When	Participants
Cabinet/Leadership Team Workshop • Monitor overall progress of OBR – Fit for the Future projects • Review regular quarterly performance reporting • Project spotlight sessions from officers on specific projects • Review of Council Plan	Every other month	Cabinet / Leadership Team
OBR Strategy and Coordination Group	Fortnightly	Cllr Black, Cllr Jackson, Cllr Hamilton-Cox + workstream leads and project support
Chief Officer / Portfolio Holder	Monthly (and ad-hoc)	Chief Officer / Portfolio Holder
Working Groups: Fit for the Future Assets People Comms and Engagement	Determined by each group	Cabinet and Leadership Team Members

Areas of Responsibility

Strategy & Coordination

Oversee and coordinate the OBR/ FftF programme.
Receive regular updates from working groups and projects.
Escalation for informal decisions, resource allocations.

Assets

Review entirety of General Fund assets.
Develop & propose costed short-, medium- and long-term plans for the council's main assets.

People, Comms and Engagement

Ensure alignment of all OBR – Fit for the Future projects with People Strategy.
Ensure appropriate governance for all OBR – Fit for the Future proposals.
Consider engagement with staff and residents where appropriate.
Support & liaise with the other groups to manage the project's communication & engagement.

Fit for the Future

Ensure capital programme projects are aligned with relevant Chief Officers / Portfolio Holders
Prioritise and deliver proposed projects.
Collect business cases, outcomes documents for projects.
Resource and plan projects.
Receive regular progress updates from projects.

The proposed actions through the OBR/ FftF process currently include:

- Exploration of closer working and collaboration with other Councils, Public Sector Bodies and Partner Institutions
- Application of alternative funding to deliver key Council outcomes.
- Detailed review and sensitivity analysis on all key and significant income streams
- Further rationalisation work on the Council's asset base
- Expansion of the investment to reduce cost principle.
- The potential use of capital receipts to finance existing projects.
- Capitalisation of transformation costs where appropriate

Given the size of the ongoing financial issues the Council faces this fundamental reshaping of the Council's services and realigning against its priorities through the OBR/ FftF process will be key to shrinking the estimated £4.567M budget gap and securing the financial sustainability of the Council going forward. It is imperative that the work, or similar principles continues. The application of OBR/ FftF across the Council will be a significant piece of work and to fully achieve its stated aims will take an estimated further 12 to 24 months. In light of this, balancing the budget both in the short and the medium term will be a tough task and we must recognise that despite the hard work undertaken to date there may well be a number of difficult but key decisions over the coming financial years which will affect the manner in which services are delivered.

Cabinet and Senior Leadership Team have agreed on principles and common goals as they continue to work through the OBR – Fit for the Future process.

- We need to continue tackle the structural deficit over the short medium and long term.
- We need to use reserves carefully to transition.
- We want to continue to deliver services that residents/ businesses need and rely on
- We want to achieve positive outcomes for our district.

Many of the financial pressures identified within the Councils General Fund are also present within the Housing Revenue Account (HRA). A full update on the HRA budget and financial outlook will be considered alongside the General Fund revenue budget including options to ensure that the service's 30-year business plan is viable and that its ongoing budget is balanced, whilst delivering value for money to tenants.

Flexible Use of Capital Receipts Strategy 2024-25

All Councils are limited in their ability to utilise capital receipts, usually arising from the disposal proceeds from the sale of fixed assets. Statutory guidance issued under section 15(1) of the Local Government Act 2003 by the Ministry of Housing, Communities and Local Government (as amended) generally precludes capital receipts being used to fund revenue expenditure and requires them to be applied to either fund capital expenditure or repay debt. The Act also requires local authorities to have regard to other guidance as issued or directed by the Secretary of State – this currently includes the following guidance issued by the Chartered Institute of Public Finance and Accountancy [CIPFA]:

- The Prudential Code for Capital Finance in Local Authorities; and
- The Code of Practice on Local Authority Accounting.

The Government's Spending Review 2015 included a relaxation of these regulations allowing the use of capital receipts for a limited period, between 2016/17 and 2018/19, to fund revenue expenditure "***that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs or improve the quality-of-service delivery in future years***". This announcement was implemented by the issuing of regulations in March 2016. The period over which these amended regulations applied has continued to be extended.

This was extended in an amended direction in December 2017 by a further three years up to and including 2021/22 to allow the continued flexible use of capital receipts for the above purposes. Further updated statutory guidance was issued by DLUHC in August 2022 which extended the scheme for the financial years 2022/23, 2023/24 and 2024/25.

The guidance on the use of capital receipts flexibility was issued by the Secretary of State under section 15(1) of the Local Government Act 2003, and authorities are therefore required to have regard to it. The Guidance specified that:

- Local authorities will only be able to use capital receipts from the sale of property, plant and equipment received in the years in which this flexibility is offered. They may not use their existing stock of capital receipts to finance the revenue costs of reform.
- Local authorities cannot borrow to finance the revenue costs of the service reforms.
- The expenditure for which the flexibility can be applied should be the up-front (set up or implementation) costs that will generate future ongoing savings and/or transform service delivery to reduce costs or to improve the quality-of-service delivery in future years. The ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure.
- The key determining criteria to use when deciding whether expenditure can be funded by the new capital receipts flexibility is that it is forecast to generate ongoing savings to an authority's, or several authorities,' and/or to another public sector body's net service expenditure net service expenditure.
- In using the flexibility, the Council will have due regard to the requirements of the Prudential Code, the CIPFA Local Authority Accounting Code of Practice and the current edition of the Treasury Management in Public Services Code of Practice.

Set up and implementation costs of any new processes or arrangements can be classified as qualifying expenditure. The ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure. In addition, one off costs, such as banking savings against temporary increases in costs/pay cannot be classified as qualifying expenditure. Under the direction the in force from April 2022, with respect to redundancy payments, qualifying expenditure will be limited to those amounts that are necessarily incurred as statutory redundancy payments provided the other requirements of qualifying expenditure are met. This restriction does not apply to other severance costs, including pension strain costs; the treatment of these costs remains unchanged from the previous direction."

The guidance provides a range of examples of expenditure which could be considered eligible, although the list is intended to be neither prescriptive nor exhaustive; based on the principles above, it is intended for each individual authority to consider whether a project should be eligible under the provision. The examples from the guidance are summarised below:

- Sharing back-office and administrative services with one or more other council or public sector bodies.
- Investment in service reform feasibility work, e.g., setting up pilot schemes.
- Collaboration between local authorities and central government departments to free up land for economic use.
- Funding the cost-of-service reconfiguration, restructuring or rationalisation where this leads to ongoing efficiency savings or service transformation.
- Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible.
- Aggregating procurement on common goods and services where possible, either as part of local arrangements or using Crown Commercial Services or regional procurement hubs or Professional Buying Organisations.
- Improving systems and processes to tackle fraud and corruption in line with the Local Government Fraud and Corruption Strategy – this could include an element of staff training.
- Setting up commercial or alternative delivery models to deliver services more efficiently and bring in revenue (for example, through selling services to others); and
- Integrating public facing services across two or more public sector bodies (for example children's social care or trading standards) to generate savings or to transform service delivery.

Quite clearly many of the examples above align with the OBR/ FftF process and so subject to agreement by Council the intention to use its capital receipts flexibility to fund or part fund savings connected to its FttF process with the aim of successfully delivering priority outcomes for the Lancaster district whilst at the same time achieving long-term sustainability of finance and resources.

Corporate Proposals for 2024/25

Project	Description	Estimated Investment/ Cost	Projected Savings £M
Service Levels & Efficiency	Revisions and rationalisation of levels of service offering efficiency measures, increased commercialisation, and review of income streams	TBC	TBC
Digitalization	Improvements to residents access reliable advice, consistent information, and efficient Council services Reduce failure demand and help the Council meet high volume, routine transactions in a cost-effective manner. Review the functionality and costs of each ICT system with the objective of maximising the use of the functionality available and reducing the total number of systems used.	TBC	TBC
Alternative Delivery Models & Partnerships	Shared service savings, opportunities, contract reviews & alternative options for achieving outcomes	TBC	TBC
Strategic Asset Management	Improved asset management planning, asset usage reviews, potential disposals, optimising use of operational assets and prospects for energy and carbon reduction measures.	TBC	TBC

Whilst these broad proposals are consistent with the OBR/ FftF process they are underpinned by a number of individual areas of which many are in their infancy and yet to be full costed. However, with all change programmes there will be a need for upfront investment in areas that will deliver capacity and objectivity.

A significant amount of work has been undertaken by Officers to identify suitable assets and the table below provides summary details of the class of assets currently being marketed by the Council.

Assets for Disposal

Assets Currently Marketed 2024/25	Expected Capital Receipts 2024/25 £M
Investment Properties	1.205
Other Land & Buildings	0.180
Estimated Value of Applicable Capital Receipts	**1.385**

SERVICE, PROJECTS AND FINANCIAL PERFORMANCE

The Council reports its Financial, Projects and Service Performance (KPIs) through its quarterly Delivering our Priorities reporting cycle to Leadership team, Cabinet and Budget and Performance Panel.

Key Performance Indicators (KPIs)

The KPIs have been in place since 2018 and are to be reviewed and refreshed during the early part of 2024 to ensure the council has the correct indicators in place to support the progression of the Council Plan 24-27. The KPIs are support by a full suite of service indicators, which are held locally by each service and used to monitor the effectiveness of the service and make improvements when needed.

Priority				Measure
I				% of minor planning applications determined within 8 weeks or agreed time (National Target 70%)
I				% of other planning applications determined within 8 weeks or agreed time (National Target 70%)
I				% of major planning applications determined within 13 weeks or agreed time (National Target 60%)
	S			% of household waste recycled
	S			Kg of residual waste per household
	S			Number of parks and cemeteries achieving the Green Flag award*
	S			Number of volunteer groups supporting parks and open spaces*
	S			Exposure to air pollution away from roads*
	S			Exposure to pollution at roadside (nitrogen dioxide per cubic metre)*
	S			Diesel consumption of council vehicle fleet
	S			Cost/m2 energy across corporate buildings
	S			Gas KWH usage in council buildings
	S			Electricity KWH usage in council buildings
		H		Number of people statutorily homeless
		H		Number of Disabled Facilities Grants completed
		H		Number of properties improved
I		H		% of premises scoring 4 or higher on the food hygiene rating scheme
		H		Number of admissions to Salt Ayre Leisure Centre
		H		Average number of days taken to re-let Council houses (Internal KPI <28 days)
		H		Number of people recorded sleeping rough*
			R	Average number of days' sickness per full-time equivalent
			R	% occupancy rates for commercial properties
		H	R	Average time taken to process new Housing Benefit claims (days)

I	An inclusive and Prosperous Local Economy (Economy)
S	A Sustainable District (Environmental)
H	Healthy and Happy Communities (Social)
R	A Co-operative, Kind and Responsible Council (Governance)

Strategic Projects
Whilst the council faces financial challenges, Lancaster City Council continues to progress strategic projects to deliver improvements for residents and businesses within the district, in line with the council's Ambitions. These projects are outlined in the Council Plan 24-27.

A list of the Strategic Projects and the council principles they address is shown below:

Principle				**Project Name**
				Heritage Action Project
				Canal Quarter
				Our Future Coast
				Fair Work Charter
				1 Lodge Street Urgent Structural Repairs
				Centenary House
				Frontierland
				Heysham Gateway
				Canal Quarter - Coopers Field
				Eden Project Morecambe
				Lune Flood Protection, Caton Road
				Williamson Park (Café and Play Development)
				Burrow Beck Solar Farm
				Roof Mounted Solar Array – Gateway, White Lund
				Mellishaw Park
				My Mainway
				Extra Care Scheme
				LATCo - Housing Companies
				Outcomes Based Resourcing (OBR)
				UK Shared Prosperity Fund (UKSPF)
				High-Capacity Fibre Cable Network Provision
				5G Strategy

Eden Project Morecambe
This project involves a marine version of the Eden Project (Cornwall) being constructed on the seafront in Morecambe, close to the Midland Hotel. The Council is a stakeholder in this project, as it owns the land on which the development is proposed. The project will assist with:
- Regeneration of Morecambe
- Increased visitors to neighbouring area
- Greater tourism / visitors to area
- Making Morecambe and the surrounding area a more desirable place to live, work and visit.

Eden Project Morecambe awarded £50m from Government's Levelling Up Fund - Lancaster City Council
Eden Project Morecambe, UK | Eden Project (external site)

MyMainway
This is an exciting and ambitious project to improve the Mainway estate, Lancaster, for all residents.
- Refurbishment of Lune and Derby House: Creating a Modern Living Experience
- Skerton High School Site: Phase One of the Masterplan
  The Skerton school site has remained unused since its closure in 2014. It will be developed to include energy efficient flats and community space. Lancaster City Council will be the landlord.
- Looking Into The Future: A Vision for the Mainway Estate
  The Mainway Project's visionary outlook goes beyond Phase 1, encompassing the current homes across the entire Mainway Estate. The strategic approach involves building new homes on the school site to create new homes for existing Mainway residents to move into, before progressing with the development of other blocks of flats.

Mainway proposals take a step forward - Lancaster City Council (press release from February 2022)

UK Shared Prosperity Fund (UKSPF)
The UK Shared Prosperity Fund is a central pillar of the UK Government's Levelling Up agenda and provides £2.6 billion of funding for local investment up to March 2025. This fund replaces European Union structural funds. The fund is focused on building pride in place, supporting high quality skills training, supporting pay, employment and productivity growth and increasing life chances in local places.

Lancaster City Council has been allocated £5.3million which will be split between the following three core Priorities, as defined by Government:

- Communities & Place
- Supporting Business
- People & Skills

UK Shared Prosperity Fund - Lancaster City Council

Local organisations receive funding boost from UKSPF - Lancaster City Council

Financial Performance
Financial Performance is analysed across a number of general Corporate and Subjective headings as well as individual portfolio analysis. which reinforces the links between Council Plan and Service Financial Performance. The aim of the Delivering our Priorities Reports to provide clear linkages between the Council's Priorities as stated within Council Plan 2024-2027, financial performance as well as service and project performance. These reports can be seen on the council's website as part of the minutes for Cabinet.

RISK ASSESSMENT OF KEY THREATS
The Council has a strategic risk register which is reviewed quarterly by the Leadership Team, before being shared with Audit Committee, Budget and Performance Panel and Cabinet. Operational risk registers are also kept by each service and reviewed regularly. It is recognised that effective risk management is essential to the council's corporate governance arrangements. The Strategic Risk Register can be accessed via the minutes produced for Audit Committee: Audit Committee (lancaster.gov.uk).

The Councils Risk Management Policy can be found here: Risk Management Policy 22.03.23. It is due to be refreshed at the end of March 2024 and will incorporate the new management structure, responsibilities, revised risk categories and risk appetites the Council set in December 2023 based on the HM Treasury Orange Book: Management of Risk, Principles and Concepts.

A summary of the Council's key Financial Risks are shown below:

Risk Title	Control Measures
SR01 Central Government funding is insufficient to provide the current level of service leaving the council unable to deliver the financial resilience initiative and achieve financial stability.	Officer/Member working groups, Council strategies, Monthly income monitoring, Quarterly reporting, Commercialisation.
SR02 The Council fails to meet the 2024/25 funding gap as a result of ineffective delivery of the efficiency programme and failure to deliver on key projects.	Budget and Performance Panel, Reserves Policy, Project and Programme Managers, Programme Board, Cabinet, Portfolio Holder, OBR Project, Quarterly Reporting.
SR04 The use of council assets is not maximised leading to insufficient funding to meet the funding gap and deliver capital projects.	Use of council assets
SR05 Council services are disrupted and / or additional services are required and costs are incurred as a result of local and national emergencies	Resourcing the emergency response, district emergency, business continuity plans, National Emergency planning, Financial planning, Business Resilience plans, Partnerships, County wide emergency plans.
SR06 The Council fails to reduce its direct Co2 emissions to 'net zero' by 2030.	Delivery plan in place, Peoples Jury.
SR08 The Council fails to deliver its key projects due to the lack of capacity and resources.	Local plan, Medium Term Financial Strategy, Investment Strategy, Capital Programme, Resourcing Key Services, Collaborative and Partnership working.
SR11 International and national issues rapidly impact on the strategic and financial context of the Council and / or partners, businesses and communities.	Retention of in-house expertise, Strategic responsiveness, Agility and Resilience, Strategic risk management.
SR12 Budgetary proposals are brought forward / agreed that are then challenged, causing delays or changes to implementation.	Budget Development
SR14 Major, sudden unforeseen expenditure or income reduction arises, necessitating significant change or reduction to services.	Registration with BSE for high rise blocks, Reserves policy, Continue financial forecasting
SR20 Non compliance with Building Safety Executive for LCC owned high-rise buildings	Registration with BSE for high rise blocks
SR21 Non compliance with Regulator of Social Housing Standards	Social Housing Regulation
SR25 LCC Property Portfolio (non housing) does not meet its Health and Safety compliance obligation	Property Group Compliance
SR26 - Increasing costs of temporary accommodation for the homeless	Increasing homeless temporary accommodation costs

A comprehensive financial risk assessment is undertaken for the revenue and capital budget setting process to ensure that all risks and uncertainties affecting the Council's financial position are identified. These are reviewed each year as part of the refresh of the MTFS.

RISK & PESTEL

This is a strategic tool to evaluate the external environment of an organisation by breaking down opportunities and threats into several factors. The table below highlights some considerations impacting on the Councils medium term strategy and plans.

Political • Change in Government policy direction and regulation • Labour laws /National Living Wage can impact on legal views and costs • Environmental laws impact on planning, council buildings and costs • Stability of political parties will ensure policies do not change regularly • National infrastructure and transport links decisions can impact on local economy • PWLB rates can have a significant impact on capital projects and affordability • Brexit - Uncertainty of European Grants and unknown impacts on the economy • Welfare reform/Housing demands /Universal Credit- Governments changes are likely to have an impact in relation to potential bad debt of council tax income and housing rents and the services needed by residents. • Local Government Funding Reform – the aim to making councils more self-sufficient and less reliance on grants.
Economic • National and local economic growth rates • Energy prices increasing or decreasing • Price pressures/ supply chain pressures • Labour market availability and shifts • Exchange rates • Inflation rates both CPI and RPI - Levels of inflation and medium-term trajectories of it have an impact on capital and revenue investment projects on rising costs and contractual commitments. • Interest rates on investments, borrowing and debt • National and local Unemployment rates • The Council plays a strong role in ensuring a strong and vibrant local economy which can in turn lead to better jobs and skilled local people • Levels of employment influence the need for resident welfare support as well as other type of local government support.
Socio-cultural • Local health and Deprivation indices • Local population demographics – having a young, healthy workforce or aging population with complex needs changes service needs • Health of local workforce
Technological • Pace of change impacts on upgrades to systems and customer expectations for accessing services • Level of digital skills locally will determine who can access online services and who need more support such as telephone or face to face service provision. • Appetite for innovation can influence service adaptation to customer needs • New technology
Environmental • Weather and impacts • Local Climate Change Agendas • Government Climate Change Aspirations • Local Pollution • Aspirations to be Environmentally Friendly • Environmental impacts ripple through everything the Council does and as such all reports to Cabinet must consider these implications
Legal • Discrimination law • Consumer law • Employment law • Health & Safety laws • Changes in regulation and legislation in relation to local government • Licenses and permits

CONCLUSION

The factors and assumptions outlined above result in a forecast cumulative gap of £4.567M within the MTFS driven mainly by pay pressure and the cost of capital investment as well as the risk associated with the decommissioning of the power station and the impact on business rates.

Achieving sustainable finances represents a formidable challenge for the reasons outlined in this report and some tough choices will need to be taken to achieve long term sustainability. It is essential that the delivery of Council priorities and achievement of priority outcomes is linked to resource allocation in a sustainable way.

Sound and responsible financial management will provide a strong foundation to deliver against the challenges outlined throughout this document. The Council has a track record of financial performance and will continue to use resources in the best possible way to help residents of the District.

The Medium Term Financial Strategy of the Council will be kept under review to ensure that the financial context within which the Council operates is understood and informs effective decision making in a dynamic environment.

General Fund Capital Programme

Service / Scheme	2023/24			2024/25			2025/26			2026/27			2027/28			2028/29		
	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme
Communities & Leisure	£	£	£		£	£	£	£	£	£	£	£	£	£	£	£	£	£
Salt Ayre Asset Management Plan	259,000		259,000	976,000		976,000	291,000		291,000			0			0			0
Environment & Place																		
Vehicle Renewals (including electrification of fleet)	1,284,000		1,284,000	1,301,000		1,301,000	5,067,000		5,067,000	630,000		630,000	1,073,000		1,073,000	1,761,000		1,761,000
Electric Taxis Scheme			0	341,000	(341,000)	0			0			0			0			0
Happy Mount Park Pathway Replacements	8,000		8,000			0			0			0			0			0
UK Shared Prosperity Fund - The Streets Are Ours Public Realm	100,000	(100,000)	0			0			0			0			0			0
UK Shared Prosperity Fund - Heysham Village Toilets			0	99,000	(99,000)	0			0			0			0			0
Housing & Property																		0
Mellishaw Park	1,900,000	(960,000)	940,000			0			0			0			0			0
Disabled Facilities Grants	2,099,000	(2,099,000)	0	3,382,000	(3,382,000)	0	2,331,000	(2,331,000)	0	2,331,000	(2,331,000)	0	2,331,000	(2,331,000)	0	2,331,000	(2,331,000)	0
Next Steps Accommodation Programme	23,000		23,000			0			0			0			0			0
Home Improvement Agency Vehicles			0	127,000		127,000			0			0			0			0
1 Lodge Street Urgent Structural Repairs	422,000		422,000			0			0			0			0			0
Gateway Low Voltage Switchgear	102,000		102,000			0			0			0			0			0
Gateway Solar Array			0	984,000		984,000			0			0			0			0
Lancaster City Museum Boiler	10,000		10,000			0			0			0			0			0
UK Shared Prosperity Fund Lancs CVS Community Warm Hubs	26,000	(26,000)	0	37,000	(37,000)	0			0			0			0			0
Property - Capital Works			0	355,000		355,000	419,000		419,000	814,000		814,000	287,000		287,000	539,000		539,000
Commercial Property - Capital Works			0	62,000		62,000	480,000		480,000	126,000		126,000	41,000		41,000			0
White Lund Depot - Offices	838,000		838,000	996,000		996,000			0			0			0			0
People & Policy																		
UK Shared Prosperity Fund External Projects	269,000	(269,000)	0	598,000	(598,000)	0			0			0			0			0
Rural England Prosperity Fund External Projects	125,000	(125,000)	0	375,000	(375,000)	0			0			0			0			0
UK Shared Prosperity Fund Digital Tourism Transformation	50,000	(50,000)	0	22,000	(22,000)	0			0			0			0			0
Planning & Climate Change																		
Property De-carbonisation Works			0	500,000	(260,000)	240,000	4,625,000	(2,432,000)	2,193,000			0			0			0
SALC -optimised solar farm, air source heating pumps & glazing	17,000	(17,000)	0			0			0			0			0			0
Resources																		
ICT Systems, Infrastructure & Equipment	221,000		221,000	286,000		286,000	286,000		286,000	316,000		316,000	326,000		326,000	181,000		181,000
ICT Laptop Replacement & e-campus screens	124,000		124,000			0			0			0			0			0
ICT Nimble			0	300,000		300,000			0			0			0			0
Local Full Fibre Network	1,041,000		1,041,000	755,000		755,000			0			0			0			0
Sustainable Growth																		
Lancaster Heritage Action Zone	1,148,000	(289,000)	859,000			0			0			0			0			0
Lancaster Heritage Action Zone - St John's Church			0			0	500,000		500,000			0			0			0
Caton Road Flood Relief Scheme	100,000	(100,000)	0	1,569,000	(1,569,000)	0			0			0			0			0
Centenary House Grant Funded Works			0	749,000	(749,000)	0			0			0			0			0
Lawsons Bridge S106 Scheme	63,000		63,000			0			0			0			0			0
Lancaster Square Routes			0	21,000	(16,000)	5,000			0			0			0			0
Engineers Electric Vehicle	15,000		15,000			0			0			0			0			0
Coastal Revival Fund - Morecambe Co-Op Building	11,000	(11,000)	0			0			0			0			0			0
City Museum Shop			0	30,000		30,000			0			0			0			0
Morecambe Sea Front Parapet Repair			0	30,000		30,000	30,000		30,000	30,000		30,000	30,000		30,000			0
Bare Outfall Flooding			0	50,000		50,000			0			0			0			0
UK Shared Prosperity Fund Maritime Museum Access Improvements	13,000	(13,000)	0			0			0			0			0			0
UK Shared Prosperity Fund Lodge St Environs Enabling Works	72,000	(72,000)	0			0			0			0			0			0
UK Shared Prosperity Fund Museums Accessible Engagement			0	34,000	(34,000)	0			0			0			0			0
Schemes Under Development																		
Burrow Beck Solar			0	200,000		200,000	4,000,000		4,000,000			0			0			0
Canal Quarter - Nelson St/St Leonardsgate			0	2,769,000	(2,769,000)	0			0			0			0			0
Our Future Coast	283,000	(283,000)	0	62,000	(62,000)	0	63,000	(63,000)	0	85,000	(85,000)	0			0			0
GENERAL FUND CAPITAL PROGRAMME	**10,623,000**	**(4,414,000)**	**6,209,000**	**17,010,000**	**(10,313,000)**	**6,697,000**	**18,092,000**	**(4,826,000)**	**13,266,000**	**4,332,000**	**(2,416,000)**	**1,916,000**	**4,088,000**	**(2,331,000)**	**1,757,000**	**4,812,000**	**(2,331,000)**	**2,481,000**

Financing :	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Capital Receipts	0	(127,000)	0	0	0	0
Direct Revenue Financing	0	0	0	0	0	0
Earmarked Reserves	(187,000)	(38,000)	0	0	0	0
Increase/(Reduction) in Capital Financing Requirement (CFR)	**6,022,000**	**6,532,000**	**13,266,000**	**1,916,000**	**1,757,000**	**2,481,000**

General Fund Capital Programme

Service / Scheme	2029/30 Gross Budget	2029/30 External Funding	2029/30 Net Programme	2030/31 Gross Budget	2030/31 External Funding	2030/31 Net Programme	2031/32 Gross Budget	2031/32 External Funding	2031/32 Net Programme	2032/33 Gross Budget	2032/33 External Funding	2032/33 Net Programme	10 YEAR TOTAL Total Gross Programme	10 YEAR TOTAL Total External Funding	10 YEAR TOTAL Total Net Programme
Communities & Leisure	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Salt Ayre Asset Management Plan			0			0			0			0	1,526,000	0	1,526,000
Environment & Place															
Vehicle Renewals (including electrification of fleet)	5,543,000		5,543,000			0			0			0	16,659,000	0	16,659,000
Electric Taxis Scheme			0			0			0			0	341,000	(341,000)	0
Happy Mount Park Pathway Replacements			0			0			0			0	8,000	0	8,000
UK Shared Prosperity Fund - The Streets Are Ours Public Realm			0			0			0			0	100,000	(100,000)	0
UK Shared Prosperity Fund - Heysham Village Toilets			0			0			0			0	99,000	(99,000)	0
Housing & Property			0			0			0			0			
Mellishaw Park			0			0			0			0	1,900,000	(960,000)	940,000
Disabled Facilities Grants	2,331,000	(2,331,000)	0	2,331,000	(2,331,000)	0	2,331,000	(2,331,000)	0	2,331,000	(2,331,000)	0	24,129,000	(24,129,000)	0
Next Steps Accommodation Programme			0			0			0			0	23,000	0	23,000
Home Improvement Agency Vehicles			0			0			0			0	127,000	0	127,000
1 Lodge Street Urgent Structural Repairs			0			0			0			0	422,000	0	422,000
Gateway Low Voltage Switchgear			0			0			0			0	102,000	0	102,000
Gateway Solar Array			0			0			0			0	984,000	0	984,000
Lancaster City Museum Boiler			0			0			0			0	10,000	0	10,000
UK Shared Prosperity Fund Lancs CVS Community Warm Hubs			0			0			0			0	63,000	(63,000)	0
Property - Capital Works	147,000		147,000			0			0	17,000		17,000	2,578,000	0	2,578,000
Commercial Property - Capital Works			0	14,000		14,000	1,000		1,000			0	724,000	0	724,000
White Lund Depot - Offices			0			0			0			0	1,834,000	0	1,834,000
People & Policy															
UK Shared Prosperity Fund External Projects			0			0			0			0	867,000	(867,000)	0
Rural England Prosperity Fund External Projects			0			0			0			0	500,000	(500,000)	0
UK Shared Prosperity Fund Digital Tourism Transformation			0			0			0			0	72,000	(72,000)	0
Planning & Climate Change															
Property De-carbonisation Works			0			0			0			0	5,125,000	(2,692,000)	2,433,000
SALC -optimised solar farm, air source heating pumps & glazing			0			0			0			0	17,000	(17,000)	0
Resources															
ICT Systems, Infrastructure & Equipment	176,000		176,000	467,000		467,000	328,000		328,000	190,000		190,000	2,777,000	0	2,777,000
ICT Laptop Replacement & e-campus screens			0			0			0			0	124,000	0	124,000
ICT Nimble			0			0			0			0	300,000	0	300,000
Local Full Fibre Network			0			0			0			0	1,796,000	0	1,796,000
Sustainable Growth															
Lancaster Heritage Action Zone			0			0			0			0	1,148,000	(289,000)	859,000
Lancaster Heritage Action Zone - St John's Church			0			0			0			0	500,000	0	500,000
Caton Road Flood Relief Scheme			0			0			0			0	1,669,000	(1,669,000)	0
Centenary House Grant Funded Works			0			0			0			0	749,000	(749,000)	0
Lawsons Bridge S106 Scheme			0			0			0			0	63,000	0	63,000
Lancaster Square Routes			0			0			0			0	21,000	(16,000)	5,000
Engineers Electric Vehicle			0			0			0			0	15,000	0	15,000
Coastal Revival Fund - Morecambe Co-Op Building			0			0			0			0	11,000	(11,000)	0
City Museum Shop			0			0			0			0	30,000	0	30,000
Morecambe Sea Front Parapet Repair			0			0			0			0	120,000	0	120,000
Bare Outfall Flooding			0			0			0			0	50,000	0	50,000
UK Shared Prosperity Fund Maritime Museum Access Improvements			0			0			0			0	13,000	(13,000)	0
UK Shared Prosperity Fund Lodge St Environs Enabling Works			0			0			0			0	72,000	(72,000)	0
UK Shared Prosperity Fund Museums Accessible Engagement			0			0			0			0	34,000	(34,000)	0
Schemes Under Development															
Burrow Beck Solar			0			0			0			0	4,200,000	0	4,200,000
Canal Quarter - Nelson St/St Leonardsgate			0			0			0			0	2,769,000	(2,769,000)	0
Our Future Coast			0			0			0			0	493,000	(493,000)	0
GENERAL FUND CAPITAL PROGRAMME	8,197,000	(2,331,000)	5,866,000	2,812,000	(2,331,000)	481,000	2,660,000	(2,331,000)	329,000	2,538,000	(2,331,000)	207,000	75,164,000	(35,955,000)	39,209,000

Financing :															
Capital Receipts			0			0			0			0			(127,000)
Direct Revenue Financing			0			0			0			0			0
Earmarked Reserves			0			0			0			0			(225,000)
Increase/(Reduction) in Capital Financing Requirement (CFR)			5,866,000			481,000			329,000			207,000			38,857,000

APPENDIX B

Lancaster City Council

Investing in the Future: Our Capital Investment Strategy

This document represents the Councils Capital Strategy as defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requirements.

To be reviewed and approved annually by Council

Contents

1. Introduction

1.1. Investing in the Future

The Council's goals for the success of the Lancaster district's people and environment are achieved through a broad range of different activities, characterised as:

- **Services:** Regular ongoing activities such as Planning, Council Housing, Public Realm, and Public Protection. These services are generally funded by continuous **'Revenue'** funding through the Council's regular funding streams such as Council Tax and Business Rates.
- **Projects:** One-off development activities in areas such as Regeneration, Housing, Carbon Zero or Culture & Heritage initiatives, which may complement or transform an existing service, or create new assets or capacity (such as land, property or cultural & social assets) for the district. Projects generally require a one-off **'Capital'** funding allocation, often over a number of years. Capital funding will be sourced from external contributions and grants, bids, or joint arrangements with partners where possible. In some cases, capital funding may require use of the Council's reserves, disposal proceeds or borrowing from an external source.
- **Asset Maintenance and Renewal:** Where there is a known, long term need to regularly invest in an asset (e.g. regular vehicle fleet, planned reroofing, refurbishment cycles, ICT, or leisure equipment renewals etc). These are presented initially as a project proposal, and then continue to make use of capital funding over a number of years. These may need periodic review or adjustment, and borrowing may be incurred to fund them. Because they either purchase, or add value to our assets, they are generally a capital funding allocation.
- **Review and Repurposing:** The Council holds a substantial number of assets to deliver it wide range services. Regular stock condition surveys will be undertaken and form the basis of the Council's asset management plan these will used to inform future investment decisions to ensure best value is achieved.

Capital investment funded through unsupported borrowing also has an impact on the Council's revenue budget, through the requirement of a **'Minimum Revenue Provision' (MRP)** to provide for repayments against borrowed funds.

This strategy for the period 2024-33 sets out a framework for how the Council wishes to invest in the future of the Lancaster district through ambitious, prudent use of capital funding, known as the Council's **'Capital Programme'**.

The strategy will be approved by Council each year at budget setting time, and any material changes will be presented to Council prior to implementation.

1.2. Sustainable, Strategic Investment

Capital expenditure must be carried out in a way that aligns with the Council's future financial sustainability; whilst also contributing to strategic aspirations around the district's environment, economy and communities, as expressed in the Council's strategic priorities, summarised below.

A range of investment proposals will be developed, contributing to each of the four priorities, as part of the Council's corporate planning activity. This will ensure that the Council can respond to all opportunities for external investment and grant funding with viable, innovative and impactful schemes that are ready for implementation.

Principles	1: A Sustainable District	2: An Inclusive and Prosperous Local Economy	3: Happy and Healthy Communities	4: A Co-operative, Kind and Responsible Council
Themes	**Climate Emergency |** *taking action to meet the challenges of the climate emergency*	**Community Wealth-Building (Morecambe Bay Model) |** *building a sustainable and just local economy that benefits people and organisations*	**Increasing Wellbeing, Reducing Inequality |** *empowering and supporting healthy ways of living, and tackling the causes of inequality*	**Deliver Effective Services, Take Responsibility |** *bringing people together to achieve the best outcomes for our communities, in tandem with running efficient quality public services*
Ambitions	**1.1 Carbon Zero** Achieving Net zero carbon by 2030 while supporting other individuals, businesses and organisations across the district to reach the same goal	**2.1 Social Use of Resources** Using our land, property, finance and procurement to benefit local communities and encouraging residents, businesses, organisations and anchor institutions to do the same	**3.1 Access to Quality Housing** Developing more housing, including affordable and council owned social housing, ensuring people of all incomes are comfortable, warm and able to maintain their independence	**4.1 Value for Money** Providing value for money and making good use of relevant data and analysis to ensure that we are financially resilient and sustainable
	1.2 Sustainable Energy Increasing the amount of sustainable energy produced in the district and decreasing the district's energy use	**2.2 Sustainable Innovation** Developing a sustainable industrial strategy to support new and existing enterprises, creating networks and promoting innovation	**3.2 Quality Public Spaces** Keeping our district's neighbourhoods, parks, beaches and open spaces clean, well-maintained, accessible and safe	**4.2 Partnership** Working in partnership with residents, local organisations, anchor institutions and partners recognising the skills in our community to build a powerful force working for and serving our district
	1.3 Climate Resilience Supporting our communities to grow more food, be resilient to flooding and adapt to the wider impacts of climate change	**2.3 Sustainable Skills** Supporting the development of new skills and improved prospects for our residents within and environmentally sustainable local economy	**3.3 Access to Culture and Leisure** Providing access to and involvement in arts, culture, leisure and recreation, supporting our thriving arts, culture and heritage sector	**4.3 Investing in Our Skills and Facilities** Having high standards for, and investing in our facilities, equipment, and people to enable us to deliver quality services and meet our wider ambitions
	1.4 Respecting Nature Increasing biodiversity, protect our district's unique ecology and ensure the habitat provided for wildlife is maintained and improved	**2.4 Investment and Regeneration** Securing investment and regeneration across our district	**3.4 Community Engagement** Ensuring local communities are active, engaged, involved and connected	**4.4 Listening and Empathy** Listening to our communities and treating everyone with equal respect, being friendly, honest and empathetic
	1.5 Reduced Waste Moving towards zero residual waste to landfill and incineration	**2.5 Inclusive Ownership** Promoting business ownership models that empower the local workforce, such as co-operatives, social enterprises and community ownership	**3.5 Reducing Inequality and promote wellbeing** Developing a healthy living strategy to support wellbeing. Tackling discrimination and reducing inequality, including food and energy poverty	**4.5 Innovative Public Services** Embracing innovative ways of working to improve service delivery and the operations of the council
	1.6 Low carbon and Active Transport Transitioning to an accessible and inclusive low-carbon and active transport system	**2.6 Fair Work** Advocating for fair employment and just labour markets that increase prosperity and reduce income inequality	**3.6 Early Intervention** Focusing on early-intervention approaches and involving our communities in service design and delivery	**4.6 Openness** Making responsible decisions which support our ambitions for the district whilst being open, accountable and rooted in evidence

The Capital Investment Strategy is designed to support overall strategic goals by providing clear guidance and a route by which projects and activities can be proposed, developed, and ultimately delivered through the prioritisation and allocation of capital funds. This strategy will therefore be strongly linked with the Council's wider framework of strategy and policy, including its:

- Medium Term Financial Strategy
- Asset Management Strategy
- Homes Strategy
- Climate Emergency and Carbon Zero initiatives
- Regeneration and Economic Development activity

1.3. Investment Models

The strategy recognises that there are various ways in which the Council can use capital funding to achieve strategic goals. These may include shared investment with partners of good financial and reputational standing.

Another route is for the Council to establish Local Authority Trading Companies (LATCos), which are entirely separate commercial entities able to independently access capital funding as part of their operations. The LATCo model also has the potential to create established, long-term income streams including commercial income.

A LATCo is subject to its own governance and decision-making, as a wholly separate entity from the Council. This strategy does not set out the terms on which a LATCo may invest to generate a commercial return. However, it does recognise that the LATCo model may contribute to the achievement of the Council's wider investment goals. As Lancaster's existing LATCos are wholly owned by the Council, they are Assets of the Council, and we may choose to invest in them in order to grow their Asset value.

1.4. Housing Provision and the Housing Revenue Account

The Council operates a separate funding stream for the provision of local authority housing, known as the Housing Revenue Account (HRA). It is a legal requirement for HRA funding to be ring-fenced for the sole purpose of housing provision.

Maintaining and developing the Council's housing provision requires a substantial HRA capital programme, which is largely funded by housing revenue. The HRA capital programme is delivered in line with the Council's HRA Business Plan, and determined via the Council's budget-setting process, with HRA matters considered separately from General Fund activities.

Where HRA investments may contribute to the Council's overall social, environmental and place-making ambitions, decision-making will recognise the statutory HRA ring-fencing requirements.

1.5. Aims of the Strategy

Maintaining a focus on the outcomes described in the Council's strategic priorities (summarised above), the Capital Investment Strategy seeks to:

- Define the process for proposing, developing and delivering projects which require capital funding, including the acquisition of land and property.
- Provide a systematic structure for considering the risks, benefits and outcomes associated with capital investment.
- Articulate the relevant governance, financial, and monitoring requirements to support capital investment proposals.
- Support opportunities for investment through LATCos and co-investment with partner organisations.

2. The Strategy: Four Investment Streams

Investing in the future via the Council's Capital Programme, will be achieved through four core Investment Streams. These will provide a structure within which the balance of the Capital Programme can be maintained in order to deliver against the widest range of strategic objectives.

For each Stream, financial returns and impacts on the Council's budget will be considered alongside a balanced scorecard which captures quantifiable measures in respect of broad economic, environmental, and social returns as defined by the Council's strategic Priorities and Outcomes. Where there is a negative financial return or an overall cost to the Council, this will be acknowledged as a growth impact on the revenue budget.

The four Streams, set out below, correspond to each of the Council's Strategic Priorities in turn.

1) A Sustainable District

This includes schemes developed to deliver demonstrable reduction to carbon emissions in line with the Council's goal of reaching net carbon zero by 2030, as well as other priority outcomes for climate change and the environment. Schemes may include, but are not limited to:

- Installation of solar panels,
- Investment in larger scale solar energy facilities,
- Decarbonising heat and improving thermal efficiency,
- Supporting agile working to reduce our carbon footprint,
- The increased electrification of our vehicle fleet,
- Climate resilience,
- Resource efficiency.

2) An Inclusive and Prosperous Local Economy

This includes schemes developed to provide regeneration benefits that meet the council's inclusive and prosperous local economy priority.

Schemes of this kind will assist the Council's lead role in place-making, regeneration and economic development activity, and the improvement of the district's town centres to improve economic performance and encourage future private sector investment. Investment in supporting the district's rich creative and heritage assets will also benefit local businesses and residents both economically and culturally.

The Council may use its own assets, such as public land and buildings, to achieve long-term socio-economic development in the district. This may also include the acquisition of land or property or other assets such as communications infrastructure. Any proposals to acquire land or property must be considered in accordance with the Prudential Framework as set out in the Council's Treasury Management Strategy.

LATCo investment may be utilised to deliver a financial return from long-term rental income, business rates and council tax growth to underpin the investment / borrowing and to allow for additional mitigation of risk, whilst also delivering regeneration and placemaking objectives. Council land and property may be transferred to a LATCo to facilitate scheme delivery and to enable the LATCo to be signatory to planning agreements.

The Council or LATCo may enter joint arrangements with commercial partners to share risks and rewards and to ensure that the council can benefit from relevant expertise and experience.

3) Healthy and Happy Communities

The Council's capital investments have the potential to generate significant social returns in the District by increasing wellbeing and improving access to local culture, heritage and leisure. Costs associated with these investments will be balanced against the achievement of the Council's wider goals for the wellbeing of its communities. Initiatives may include:

- Loans to third parties
- Investing in Social Capital
- Re-use of council assets
- Provision of additional, or enhanced housing outside or within the Housing Revenue Account (HRA)

Schemes developed to deliver improved housing in the district to the terms of the council's Homes Strategy may include the development of new housing, as well as purchase of existing housing with a view to improvements in quality and management. Schemes developed through this aspect of the Stream may be delivered via a LATCo to enable a long-term revenue income stream.

The council may also enter joint arrangements with commercial partners to share risks and rewards and to ensure that the council can benefit from relevant expertise and experience.

4) A Co-Operative, Kind and Responsible Council

Schemes and projects that sustain the day-to-day operational delivery of the Council's services and so underpin a broad range of Council priorities. Such schemes may include upgrades of key information and communication systems.

Transformation and 'Invest to Save' proposals provide one-off project funding to services to help services become more efficient and effective. These schemes may deliver a direct financial return through efficiencies and savings, or an indirect benefit through enhanced service provision in respect of the Council's strategic goals.

Capital investment in property may also be considered where it complies with the Capital Investment Regulations and Guidance and meets the Council's priorities. – LATCos and other forms of special purpose vehicle may also be established to generate income that can be invested in delivering Council priorities to reduce reliance on Council expenditure and therefore support the Council's financial sustainability.

3. Capital Investments Regulation & Guidance

Alongside the Council's strategic ambitions, the Local Government Act 2003 (the Act) and supporting regulations requires the Council to have regard to the **Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code**, the **CIPFA Treasury Management Code of Practice** (the Code) and **Investment Guidance** (the Guidance) issued by The Ministry of Levelling Up, Housing and Communities (LUHC) to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

Depending on the circumstances, the Council will fund acquisitions through grants, contributions or capital receipts; or by utilising borrowing, reserves, or a combination of both. It is worth noting that following the review of local authority borrowing from Public Works Loan Board (PWLB) it is no longer possible to utilise PWLB to fund investment for yield projects.

HM Treasury has issued guidance to local authorities as to the appropriate use of PWLB. The guidance details the characteristics of projects that would be supported, set out as follows:

- The project is addressing an economic or social market failure by providing services, facilities, or other amenities that are of value to local people and would not otherwise be provided by the private sector.
- The local authority is making a significant investment in the asset beyond the purchase price: developing the assets to improve them and/or change their use, or otherwise making a significant financial investment.
- The project involves or generates significant additional activity that would not otherwise happen without the local authority's intervention, creating jobs and/or social or economic value.
- While some parts of the project may generate rental income, these rents are recycled within the project or applied to related regeneration projects, rather than being applied to wider services.

All capital schemes will follow the provisions of the Prudential Code, and where applicable other capital schemes will follow the DLUHC Investment Guidance. As a minimum the following will be kept under review:

- Transparency and Democratic Accountability
- Contribution
- Proportionality
- Prudential Indicators (Affordability & Sustainability)
- Borrowing in Advance of Need
- Capacity and Skills

A LATCo can source capital borrowing to fund investment for a commercial return as part of its activities, Although, the rates of any borrowing incurred to fund these projects would ordinarily reflect the prevailing financial market conditions to address any associated internal and external risks so likely exceed those available directly to the Council. In addition, as a wholly owned company the Council would be liable for any debt entered into by such a company and the financial statements of a LATCo are required to be consolidated into the Council's annual statement of accounts. Any investments seeking a commercial return could be delivered via a LATCo and considered under the LATCo's independent governance and decision-making structure.

3.1. Revised CIPFA Treasury Management Code and Prudential Code

CIPFA published the revised codes on 20th December 2021. This Council has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement, and also related reports during the financial year, which are taken to Full Council for approval. The revised codes have the following implications:

- a requirement for the Council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;
- clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment;
- address ESG issues within the Capital Strategy;
- require implementation of a policy to review commercial property, with a view to divest where appropriate;
- create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices);
- ensure that any long term treasury investment is supported by a business model;
- a requirement to effectively manage liquidity and longer term cash flow requirements;
- amendment to Treasury Management Practice 1 to address ESG policy within the treasury management risk framework;
- amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council;
- a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).

In addition, all investments and investment income must be attributed to one of the following three purposes:

Treasury Management

Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery

Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

Commercial return

Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

4. Delivering the Strategy

4.1. The Capital Investment Lifecycle

Capital investment schemes across the four Investment Streams must be considered, prioritised and evaluated in a consistent way, ensuring a clear rationale for investment including:

- **Strategic Fit:** What is the proposal aiming to achieve, and how does this align with corporate priorities?
- **Financial:** What are the financial circumstances for the project, e.g. is funding readily available and is it affordable? Will the proposal deliver a return in line with the targets established for each Investment Stream?
- **Legislation and Compliance:** Is the proposal required in order to meet statutory or legislative requirements?
- **Risk:** What risks are identified, and how will the proposal mitigate and manage these?
- **Project Management:** How will the project be delivered in order to maximise its financial and social return in a timely way?

To achieve a capital funding allocation as part of the Capital Programme, all proposals will be subject to a comprehensive Business Case development process in five stages, known as the **'Capital Investment Lifecycle'**. The process will be designed to fit with the Council's corporate project management processes, to streamline the development and delivery of capital investment projects and allow for information to be shared and monitored consistently and effectively. Projects progressing through the stages will use the Council's project management systems and processes.

Stage 1: Inception

Prior to officer time being spent on scoping a project, a discussion will take place between the relevant Cabinet portfolio holder and officers, ensuring that the project fits with the Council's wider strategy before pursuing further development activity. The inception summary will provide advice on any capacity or funding associated with developing the project to Stage 2.

Stage 2: Scoping the Scheme and Preparing the Strategic Outline Case (SOC)

The purpose of this stage is to confirm the strategic context and provide a robust case for change. This stage will consider the strategic, economic, procurement, financial and management cases and include a financial analysis taking account of the targets set out for each Investment Stream. The SOC will also provide advice on the costs associated with developing the proposal to Stage 3. The SOC will be considered by the advisory Capital Assurance Group (CAG), which will provide comment to Cabinet and / or the relevant decision-making body. Approval of the SOC by Cabinet will confirm the project's position in the longlist of 'pipeline' schemes for which a full business case will be produced.

Stage 3: Full business case (FBC)

The purpose of this this stage is to propose a viable, feasible project. The FBC will

- Recommend the most economically advantageous offer
- Document any contractual arrangements
- Confirm funding sources and / or requirements
- Demonstrate compliance with the Prudential Framework and HM Treasury 'Green Book' investment appraisal guidance
- Set out the detailed management arrangements, costs and plans for successful delivery and post evaluation.

The FBC will be considered by CAG and Cabinet and / or the relevant decision-making body. Approval of the FBC by them will confirm the scheme's inclusion within the Capital Programme.

Stage 4: Implementation

The business case should be used during the implementation stage as a reference point for monitoring implementation, and for logging any material changes that the Council is required to make. The project will follow performance reporting protocols which will ensure that project progress, impact on outcomes and financial performance is measured throughout the project and following its completion.

Stage 5: Evaluation

The business case and its supporting documentation should be used as the starting point for post-implementation evaluation, both in terms of how well the project was delivered (project evaluation review) and whether it has delivered its projected benefits as planned (post implementation review) to the Council, in meeting strategic aims.

4.2. Governance Arrangements

All capital investment proposals must be subject to due diligence processes to ensure

- Transparency
- Democratic Accountability
- Ethical Responsibility
- Strategic Alignment

As part of the Capital Investment Lifecycle, proposals will be subject to a governance framework including the following elements:

Capital Assurance Group (CAG)

An advisory working group comprising representation from Cabinet, Strategic Leadership Team, Overview & Scrutiny, Budget & Performance Panel, Council Business Committee and relevant specialist officers. CAG will consider SOCs and FBCs and make advisory recommendations to budget holders. Comments from individual members will be provided to Cabinet. CAG's Terms of Reference can be found at Appendix B.

Capital Investments Appraisal Group (CIAG)

An officer group with relevant expertise from sustainable growth, housing & property, legal and finance, supported by external expertise and resource as required. The group will consider all potential capital investments in the first instance, following approval from the relevant Cabinet portfolio holder. The group will develop proposals for consideration by CAG. Proposals will first be brought to CAG at Stage 2 (see above), accompanied by an SOC. SOCs approved by Cabinet will return to CAG at Stage 3, accompanied by an FBC.

Assets Group

Aligned to the principles of the Council's Fit for the Future project, the Assets Group is a temporary Officer and Member group hosted by Cabinet Portfolio Holder Finance & Resources and chaired by the Chief Officer Property and Housing. The group consists of various Council officers and is tasked with reviewing the Council's entire asset base looking at a range of factors such as condition and associated costs of repair and maintenance, alternative use options including service delivery and commercial, as well as management issue such as rental income, debt levels, commercial market value. The group should report to CAG on its findings and any suggested courses of action.

Cabinet

Cabinet submits the annual Budget Framework to Council, including the Capital Investment Strategy and Capital Programme. It is responsible for consideration and decision-making on capital expenditure proposals within the Budget & Policy Framework and in line with the relevant guidance. Before officer time is spent on scoping a project, approval should be obtained from the relevant Cabinet portfolio holder.

Overview & Scrutiny (O&S)

Early involvement of the Chair of O&S in CAG meetings enables early scrutiny and added value through shaping of capital decision-making. This involvement does not remove or negate the right of O&S to call-in any decision made by Cabinet.

Budget & Performance Panel (B&PP)

The Panel will review the financial and operational performance of the Capital Investment Strategy as part of its Budget Framework scrutiny role.

Council

Full Council is responsible for approving the Capital Investment Strategy as part of the annual Budget Framework, including any material changes. Revisions to the Capital Programme and any associated financing requirements that are outside of the budget and policy framework may be presented for approval throughout the year. However, there is the expectation that this would be of limited application and only reflect urgent situations and given the need to amend various prudential code indicators and be aligned to the Treasury Management Report October/ November committee cycle

A half yearly report on compliance with the prudential framework and investment guidance will be considered by Cabinet, Budget & Performance Panel and Council.

4.3. Risk Management

Effective risk management will allow the council to adapt rapidly to change and develop innovative responses to challenges and opportunities. The risk management cycle for capital projects incorporates risk identification, risk analysis, risk control and action planning and risk monitoring and review.

All significant capital projects will comply with the council's project management process which follows good practice in the management of risk.

A full assessment of property risk will be carried out individually for each property acquisition proposal before entering any commitment. A further due diligence review will be undertaken in respect of a wide range of risk factors for all investment proposals which are taken forward.

The Council's asset portfolio will be risk managed through a regular, systematic asset challenge process which will review each asset's performance, investment requirements and ongoing viability within the portfolio. This process will be developed through a forthcoming Asset Management Strategy and managed through the Councils Fit for the Future Assets Group who will report into CAG.

4.4. Monitoring and Evaluation

Each capital proposal will set out targeted benefits aligned with the Council's strategic priorities. The performance of each proposal during the implementation and evaluation stages will be monitored to provide assurance on the achievement of its strategic and financial objectives.

The monitoring and evaluation process will include:

- **Delivering Our Priorities: Performance, Projects and Resources |** The capital programme will be regularly evaluated as part of overall performance monitoring which incorporates financial, project and performance measures. This information is reported quarterly to Cabinet and B&PP.
- **Capital Investment Strategy Monitoring |** As the strategy is key to delivering the Council's strategic goals, regular progress against the Council's Corporate Plan Priorities & Outcomes will take place to ensure resources are appropriately allocated.
- **LATCo Asset Monitoring |** Investments made by a LATCo for a commercial return will be considered by the LATCo's shareholder committee. The impact of the LATCo's financial return on the Council's financial position will be considered alongside other financial monitoring information.
- **Prudential Framework |** A half-yearly report on prudential indicators demonstrating the Capital Programme's ongoing prudence, affordability and sustainability will be considered by Council.

4.5. Capacity, Skills and Professional Advice

Guidance requires that elected members and officers involved in the investment decision-making process have appropriate capacity, skills and information to enable them to take informed decisions as to whether to approve a specific capital investment. In addition, it places a duty on the Council to ensure that advisors negotiating contracts on its behalf are aware of the core principles of the prudential framework and the regulatory regime in which the Council operates. This will be achieved by ensuring a proportionate and effective training programme, obtaining appropriate professional advice to inform the decision-making process and by ensuring that procurement arrangements provide relevant information to potential advisers of the specific principles, regulations and governance relevant to local government.

The council will appoint specialist advisors to provide training to ensure that relevant officers and members have the required skills to make informed decisions and assess the associated risks. This training will take place before any investment decisions associated with the Capital Investment Strategy are considered, and on a regular basis, to ensure that Officers are engaged in continual professional development in relation to property investment activity; and that Members, as decision makers, have the skills, knowledge and relevant information to effectively assist the decision-making process. This will include training for new Members of the Council.

Investing in land and properties to achieve business objectives and to generate returns is a specialist and potentially complex area. The Council employs professionally qualified and experienced staff in senior positions with responsibility for developing capital expenditure, borrowing and investment proposals. Where skills or capacity are lacking, the Council or LATCo will engage the services of professional property, legal and financial advisors, where appropriate, to access specialist skills and resources to inform the decision-making process associated with this Strategy. Ongoing measurement of the impact of investment decisions on borrowing and affordability through Prudential or other relevant indicators will ensure that the overall risk exposure remains within acceptable parameters. The Council currently uses Link Group, Treasury solutions as treasury management advisors.

5. Our Assets

The Council has a range of assets which it utilises to deliver its wide range of services throughout the District. The total valuation of these at the start of the financial year 2023/24 was £320.73M. The main constituents of these assets are as follows

Asset Type	£M
Council Housing & Other Assets	151.23
Property Plant & Equipment	110.53
Community Assets	8.67
Investment Property	40.76
Heritage Assets	9.52
Intangible Assets	0.02
Total	**320.73**

Council Housing

At the start of the financial year the Council held 3,644 dwellings in total within its Housing Revenue Account. These dwellings include 1, 2, 3 & 4 bedroomed, houses, bungalows, flats maisonettes and bedsits.

Number and Type of Dwellings		
Bedsits		86
1 Bedroom	Houses & Bungalows	653
	Flats & Maisonettes	545
2 Bedroom	Houses & Bungalows	471
	Flats & Maisonettes	663
3 Bedroom	Houses & Bungalows	1,114
	Flats & Maisonettes	8
4 or more bedroomed dwellings		90
Total Dwellings		**3,630**

Property Plant & Equipment

These are assets which the Council predominately uses to deliver its services. These assets include Municipal Buildings, works depot, leisure centre and car parks. It also includes its refuse collection and vehicle fleet as well as various land holdings. The value of these assets at the start of 2023/24 financial year is provided in the table below

Land & Buildings £M	Vehicles, Plant Furniture & Equipment £M	Infrastructure Assets £M	Surplus Assets £M	Assets Under Construction £M	Total £M
57.68	12.31	37.94	2.46	0.14	110.53

Investment Assets

This type of Council asset is held primarily to generate income and comprise a mix of office and retail lets together with agricultural and commercial land and commercial buildings. Further detail in respect of the Council's investment properties is given in section 8.

Investment Asset Type	£M
Office	4.10
Retail	6.73
Agriculture & Allotments	1.29
Commercial Land	8.07
Commercial Building	11.90
Mixed Commercial	8.67
Total	**40.76**

Heritage Assets

The Council's heritage assets include 82 pieces of civic regalia, its museums' collections at the Maritime, Cottage and City museums in Lancaster, pieces of artwork, items of Gillow furniture and public artwork including the statue of Eric Morecambe on Morecambe promenade.

Intangible Assets

These comprise software and software licenses held for the Council's key systems.

Asset Management

The key objectives of the Councils' Asset Management Policy are to:

- Provide the right buildings in the right place and at the right time and cost to meet the current and future aims, objectives, policies and plans of the Council.
- Optimise and prioritise the level of investment in property assets to minimise maintenance backlog, improve fitness for purpose and optimise occupancy levels.
- Maximise the value received from our non-operational commercial portfolio.
- Continue to improve the environmental sustainability of the Council's property portfolio.
- Promote the innovative use of property by enabling urban regeneration and facilitating joint working with our partners and stakeholders.
- Challenge the use of land and buildings held by the Council to minimise revenue expenditure and maximise the generation of capital receipts.

Valuations

The Council is required by accounting regulations to value its assets on a regular basis and currently values its General Fund assets on a rolling 3-year cycle. It is required to undertake a formal valuation of is HRA assets every 5 years in line with Department for Levelling Up Housing & Communities requirements. The last formal valuation was undertaken 1st April 2021. A desktop revaluation is undertaken for HRA assets in the intervening years to ensure that values are current.

All valuations are performed "in house" by qualified valuers within the Council's Property Services Team. The valuations are performed using appropriate stipulations as detailed by the Royal Institute of Chartered Surveyors (RICS) and presented in the Council's Statement of Accounts within accord of the Statement of Recommended Practice (SORP).

The details of the assets are held and recorded in a variety of sources in order to meet the operational and management requirements of the Council. This enables a bespoke management system of operation so that maximum utilisation of the asset can be developed.
Whilst services have bespoke arrangements for the assets held under their responsibility the Financial Services maintains the prime records that are used for the production of the Council's Statement of Accounts. These are reconciled on a regular basis to ensure accuracy and relevance.

6. Capital Expenditure –

Capital Programme

The Council plans gross expenditure, which excludes grants from other bodies of approximately £58.96M on General Fund and £29.47M on HRA capital schemes between 2023/24 – 2028/29.

Gross Capital Expenditure	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M	Total 2023/24 to 2028/29
General Fund	10.62	17.01	18.09	4.34	4.09	4.81	58.96
Housing Revenue Account (HRA)	8.33	4.77	3.93	3.90	4.19	4.35	29.47
Total	**18.95**	**21.78**	**22.02**	**8.24**	**8.28**	**9.16**	**88.43**

Financing & Affordability

The Council's Capital Programme is financed by a mixture of external grants, capital receipts generated from property and right to buy disposals, contributions from reserves and unsupported borrowing. The planned application of resources to capital projects is set out below:

Financed by:	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M	Total 2023/24 to 2028/29
Capital receipts	-1.82	-0.16	-0.00	-0.00	-0.00	-0.00	-1.98
Capital grants	-4.92	-10.73	-4.83	-2.42	-2.34	-2.33	-27.57
Capital reserves	-3.72	-4.32	-3.93	-3.90	-4.19	-4.35	-24.41
Revenue	-2.47	-0.04	-0.00	-0.00	-0.00	-0.00	-2.51
Financing Total	**-12.93**	**-15.25**	**-8.76**	**-6.32**	**-6.53**	**-6.68**	**-56.47**
Net financing need for the year	**6.02**	**6.53**	**13.26**	**1.92**	**1.75**	**2.48**	**31.96**

This table shows a net need for financing the Capital Programme of £31.96M which would require the Council to undertake additional borrowing. Additional borrowing could be used only to finance capital expenditure in respect of General Fund and Housing Revenue Account.

The Council sets its level of capital investment in line with the statutory requirements of prudence, affordability and sustainability as set out in the Prudential Code for Capital Finance issued by CIPFA.

The Council assesses the affordability of the General Fund programme by looking at the financing costs of borrowing (interest and loan repayments) as a proportion of its net revenue stream. For general fund these are expected to increase over the life of the capital programme. The table below provides details of this key indicator

	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %	2027/28 Estimate %	2028/29 Estimate %
General Fund	19.94	18.20	20.20	24.65	23.79	22.30
HRA	17.00	16.22	16.25	15.99	15.75	15.75

This table shows that the cost of debt financing is estimated to be between 18.20% and 24.65% of the Council's general fund net revenue budget between 2023/24 and 2028/29.

The Housing Revenue Account capital programme has its prudence, affordability and sustainability set out in a thirty-year business plan.

Further details on the impact of the Capital Programme on the Council's borrowing are included below

7. Treasury Management

Treasury management deals with the management of cash flows resulting from the Council's day-to-day operations. It ensures that the cash flows are adequately planned with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The Treasury management service also covers the funding of the Council's capital plans which provide a guide to the borrowing need of the Authority.

Governance & Scrutiny

The Council's Treasury Management Strategy including its Prudential and Treasury indicators is approved annually by Full Council. Council also receives and approves a mid-year treasury management report which sets out in year progress of the treasury position and an annual treasury report which sets out how actual treasury operation compared to the estimates within the strategy.

Both Cabinet and Budget and Performance Panel scrutinise the above reports before they are presented to and approved by Council.

The Section 151 officer and his staff have delegated authority to make decisions in respect of detailed investment and borrowing acting in line with the framework set out in the treasury management strategy.

Investment

The Council's investment strategy prioritises firstly security, secondly liquidity and then return. This maintains a firm focus on minimising risk rather than on maximising returns.

The Treasury Management Strategy sets out the authority's approach to managing investment risk in line with the following principles:

- Using minimum acceptable credit criteria to generate a list of highly creditworthy counterparties, facilitate diversification and avoid concentration of risk
- Defining the list of types of investment instruments that the treasury management team are authorised to use
- Setting lending limits for each counterparty and transaction limits for each type of investment
- Setting the limit for the amount of its investments which are invested for longer than 365 days at nil
- Specifying that investments will only be placed with counterparties with a minimum sovereign rating of AAA (Fitch)

The Council's Investments at 30.12.2023 were:

Balance 31.12.2023	**£M**	**Liquidity**
Bank Accounts	0.48	Instant Access
Money Market Funds	11.50	Instant Access
Other Local Authorities	0.00	Instant Access
Money Market Funds	0.00	Fixed Term
Other Local Authorities	23.00	Fixed Term
Total Investments	**34.98**	

Borrowing

As part of its treasury management activities the Council considers forward projections for borrowing to fund its capital expenditure plans working within the self-regulating framework of the Prudential Code for Capital Finance.

The framework requires authorities to determine that capital expenditure and investment decisions are affordable, prudent and sustainable and to set limits on the amount they can afford to borrow in the context of wider capital planning.

The Council's underlying need to borrow is represented by its Capital Financing Requirement (CFR). The CFR is the total amount of capital expenditure (including that from prior years) that has not yet been paid for from either revenue of capital resources.

	2023/24 Estimate £M	**2024/25 Estimate £M**	**2025/26 Estimate £M**	**2026/27 Estimate £M**	**2027/28 Estimate £M**	**2028/29 Estimate £M**
CFR – Non-Housing	66.95	70.47	80.54	77.81	74.99	73.00
CFR – Housing	34.09	33.05	32.00	30.96	29.92	28.88
Total CFR	**101.04**	**103.52**	**112.54**	**108.77**	**104.91**	**101.88**

The authority currently maintains an under-borrowed position meaning that it uses cash backed reserves to defer the need to externally borrow for capital investment. Forecasting of cash backed reserves facilitates a long term view of the level of risk associated with borrowing internally.

The table below shows the projection of external debt and internal borrowing using cash backed reserves:

	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M
External Debt						
Debt at 1 April	59.01	63.97	71.93	80.88	79.84	78.80
Expected change in Debt	4.96	7.96	8.95	-1.04	-1.04	-1.04
Actual gross debt at 31 March	**63.97**	**71.93**	**80.88**	**79.84**	**78.80**	**77.76**
The Capital Financing Requirement	**101.04**	**103.52**	**112.54**	**108.77**	**104.91**	**101.88**
Under Borrowing	**-37.07**	**-31.59**	**-31.66**	**-28.93**	**-26.11**	**-24.12**

The council is required to “repay” an element of its General Fund CFR each year through a revenue charge, the minimum revenue provision (MRP). The Treasury Management Strategy sets out the MRP policy adopted by the authority. The Council also makes physical cash repayments on a loan taken out to purchase the authority’s housing stock in 2012 which are counted as MRP.

The following table sets out how MRP will be used to repay the underlying debt:

	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M
General Fund MRP	-2.64	-3.01	-3.19	-4.65	-4.57	-4.47
HRA MRP	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04
Total	**-3.68**	**-4.05**	**-4.23**	**-5.69**	**-5.61**	**-5.51**

The Council sets an authorised limit for external debt. This represents a limit beyond which a local authority must not borrow unless prudential indicators have been renewed or amended. It also sets an operational boundary for external debt. This represents a limit that is based on the maximum external debt of the authority based on expectations. The expectation is that there would be no sustained breach of the operational boundary.

The Treasury Management Strategy sets out the following operational boundary and authorised limit for borrowing:

	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M
Operational Boundary	102.04	104.52	113.54	109.77	105.91	102.88
Authorised Limit	117.00	120.00	129.00	125.00	121.00	118.00

8. Commercial Activity

Current Position

The Council's existing investment property portfolio is comprised of a mix of office and retail lets together with agricultural and commercial land and commercial buildings as set out below:

The majority of this portfolio has been accumulated by the Council over a number of years rather than actively acquired. Tenancy agreements are produced by the Council's Estates Management Team in consultation with Legal Services and range from leases, licences and other agreements such as easements, wayleaves and rights of way

The Council is obliged to obtain the best price it reasonably can for its commercial lets. Most properties have rents which are set based upon market conditions and comparable evidence to support the decision making process includes that from local agents, rents associated with other Council properties, recent transactions, inflation etc.

Performance Monitoring

Performance monitoring will be developed to ensure that investments are monitored on a routine and exception basis and will determine what performance measures will trigger an exception report so that full council is aware at the earliest opportunity of any material increase in risk or threat to ongoing yield. The Capital Strategy will be updated with this information in due course.

Appendix C

Treasury Management Strategy 2024/25 to 2028/29

1 INTRODUCTION

1.1 Background

The Council is required to operate a balanced budget, which means broadly that income to be raised during the year will meet expenditure to be incurred, after allowing for any changes in reserves and balances. Part of the treasury management operation is to ensure that the associated cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure) and are separate from the day to day treasury management activities.

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

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

1.2 Reporting Requirements

Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require, all local authorities to prepare an additional report, a capital strategy report, which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

Treasury Management Reporting

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an Annual Investment Strategy (the parameters on how investments are to be managed).

A mid-year treasury management report – This will update Members with the progress of the treasury position, amending prudential indicators as necessary, and whether any policies require revision. In addition the Authority will receive quarterly update reports.

An annual treasury report – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny - The above reports are required to be adequately considered and scrutinised before being presented to Council. This is undertaken by Cabinet and the Budget and Performance Panel.

Quarterly reports - In addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June/end of December) is also required. However, these additional reports do not have to be reported to Full Council/Board but do require to be adequately scrutinised. This role is undertaken by Budget & Performance Panel.

1.3 Treasury Management Strategy for 2024/25

The strategy for 2024/25 covers two main areas:

Capital Issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury Management Issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, Government MRP Guidance, the CIPFA Treasury Management Code and Government Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate asssociated training. This especially applies to Members responsibe for scrutiny.

Furthermore, pages 47 and 48 of the Code state that they expect “all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

The scale and nature of this will depend on the size and complexity of the organisation’s treasury management needs. Organisations should consider how to assess whether treasury management staff and board/ council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/council members.
- Require treasury management officers and board/council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).

- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis.”

In further support of the revised training requirements, CIPFA’s Better Governance Forum and Treasury Management Network have produced a ‘self-assessment by members responsible for the scrutiny of treasury management’, which is available from the CIPFA website to download.

A member training session has been arranged prior to Budget & Performance Panel on 14 February and further training will be arranged during the forthcoming year as required.

A formal record of the training received by officers central to the Treasury function will be maintained by the Accountancy Services Manager. Similarly, a formal record of the treasury management/capital finance training received by members will also be maintained by the Chief Resources & S151 Officer.

The training needs of treasury management Officers are periodically reviewed.

1.5 Treasury Management Consultants

The Council uses Link Group, Treasury solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2 CAPITAL PRUDENTIAL INDICATORS 2023/24 – 2028/29

The Council’s capital expenditure plans are the key driver of treasury management activity. The plans are reflected in various prudential indicators which are designed to assist members’ overview and confirm capital expenditure plans are prudent, affordable and sustainable.

2.1 Capital Expenditure

This prudential indicator is a summary of the Council’s capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

The table below provides that summary, showing how the plans are being financed by capital or revenue resources. Any shortfall of resources results in an underlying borrowing or financing need.

Capital expenditure	**2022/23 Actual £m**	**2023/24 Estimate £m**	**2024/25 Estimate £m**	**2025/26 Estimate £m**	**2026/27 Estimate £m**	**2027/28 Estimate £m**	**2028/29 Estimate £m**
General Fund	10.44	10.62	17.01	18.09	4.34	4.09	4.81
Housing Revenue Account (HRA)	5.31	8.33	4.77	3.93	3.90	4.19	4.35
Total	**15.75**	**18.95**	**21.78**	**22.02**	**8.24**	**8.28**	**9.16**
Financed by:							
Capital receipts	-0.22	-1.82	-0.16	-0.00	-0.00	-0.00	-0.00
Capital grants	-5.15	-4.92	-10.73	-4.83	-2.42	-2.34	-2.33
Capital reserves	-4.94	-3.72	-4.32	-3.93	-3.90	-4.19	-4.35
Revenue	-0.83	-2.47	-0.04	-0.00	-0.00	-0.00	-0.00
Net financing need for the year	**4.61**	**6.02**	**6.53**	**13.26**	**1.92**	**1.75**	**2.48**

2.2 The Council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total amount of capital expenditure (including that from prior years) that has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying need to borrow. Any capital expenditure, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely. This is because the Minimum Revenue Provision (MRP), which is a statutory annual charge to revenue, broadly reduces the indebtedness in line with each asset's life.

The CFR includes any other long term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no leases within the CFR.

Members are asked to approve the CFR projections below:

	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Capital Financing Requirement							
CFR – Non Housing CFR – Housing	63.56 35.13	66.95 34.09	70.47 33.05	80.54 32.00	77.81 30.96	74.99 29.92	73.00 28.88
Total CFR	**98.69**	**101.04**	**103.52**	**112.54**	**108.77**	**104.91**	**101.88**
Movement in CFR Non Housing Housing	 4.50 -1.04	 3.38 -1.04	 3.52 -1.04	 10.07 -1.04	 -2.73 -1.04	 -2.82 -1.04	 -1.99 -1.04
Net Movement in CFR	**3.46**	**2.34**	**2.48**	**9.03**	**-3.77**	**-3.86**	**-3.03**

Movement in CFR represented by							
Net financing need for the year (above) re Non Housing	4.61	6.02	6.53	13.26	1.92	1.75	2.48
Less MRP/VRP and other financing movements	-1.15	-3.68	-4.05	-4.23	-5.69	-5.61	-5.51
Net Movement in CFR	**3.46**	**2.34**	**2.48**	**9.03**	**-3.77**	**-3.86**	**-3.03**

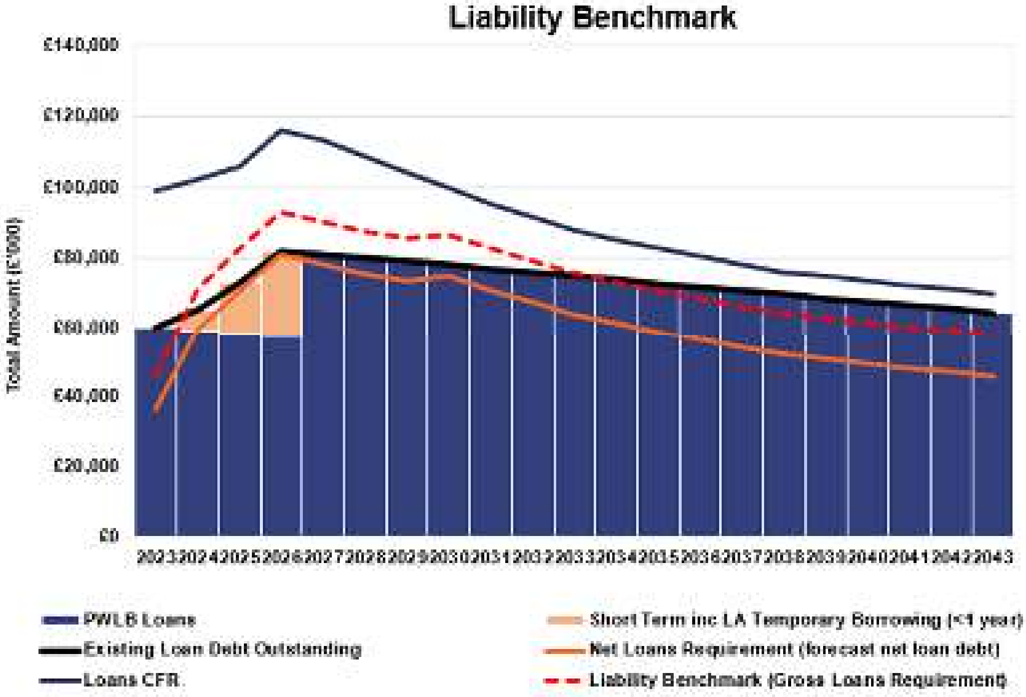
2.3 Liability Benchmark

The Council is required to estimate and measure the Liability Benchmark (LB) for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB: -

1. **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding in future years.
2. **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
3. **Net loans requirement**: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

The Council's liability benchmark presented as a chart of the above four balances is shown below:



Any years where actual loans are less than the benchmark indicate a future borrowing requirement.

During 23/24 forecast levels of funds available for treasury investments is falling in line with cash flow forecasts and as overall levels of General Fund and HRA reserves decrease.

There is, therefore, a need to borrow to cover the net loans requirement. Given PWLB interest rates at present, temporary borrowing from other local authorities will be utlised until PWLB rates reduce.

It is intended that the gap between the net loans requirement and the liability benchmark (gross loans requirement) will be covered by day-to-day working cashflow surpluses.

2.4 Core Funds and Expected Investment Balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments, unless resources are supplemented each year from new sources (e.g. asset sales). The following table provides estimates of the year end balances for each resource and anticipated year end cash flow balances from other day to day activities:

Year End Resources	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Fund balances / reserves	33.85	24.78	25.20	26.91	27.69	27.84	27.76
Capital receipts	2.39	0.00	0.00	0.00	0.00	0.00	0.00
Provisions	4.74	5.00	5.00	5.00	5.00	5.00	5.00
Total core funds	**40.98**	**29.78**	**30.20**	**31.91**	**32.69**	**32.84**	**32.76**
Working capital*	19.02	15.00	15.00	15.00	15.00	15.00	15.00
Under borrowing	-39.69	-37.07	-31.59	-31.66	-28.93	-26.11	-24.12
Expected investments	**20.31**	**7.71**	**13.61**	**15.25**	**18.76**	**21.73**	**23.64**

*Working capital balances shown are estimated year end; these may be higher mid-year

2.5 Minimum Revenue Provision (MRP) Policy Statement

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP).

Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) regulations 2008 require the Authority to calculate a prudent provision of MRP whilst having regard to the current MRP Guidance (2018). The broad aim of prudent provision is to ensure that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The Guidance gives four ready-made options for calculating MRP but the Authority can use any other reasonable basis that it can justify as prudent.

The MRP policy statement requires full Council approval in advance of each financial year.

It is recommended that Council approves the following MRP Policy Statement.

- Supported borrowing incurred before 1st April 2008 will apply the Asset Life Method using an annuity method over 60 years.
- Unsupported borrowing will be subject to MRP using the Asset Life Method, which will be charged over a period which is reasonably commensurate with the average estimated useful life of the assets. An annuity method will be applied for the MRP calculation.

- Unsupported borrowing on vehicles will be subject to MRP using the Asset Life Method, which will be charged over a period which is reasonably commensurate with the estimated useful life of the vehicles. An annuity method will be applied for the MRP calculation.

- The interest rate applied to the annuity calculations will reflect the market conditions at the time. For the current financial year the interest rate used will be the Authority's weighted average borrowing rate.
- MRP will commence in the financial year following the one in which the expenditure was incurred, or in the year after the asset becomes operational.
- MRP in respect of unsupported borrowing taken to meet expenditure, which is treated as capital expenditure by virtue of either a capitalisation direction or regulations, will be determined in accordance with the asset life method as recommended by the MRP guidance.
- MRP in respect of assets acquired under PFI or Finance Leases will be charged at a rate equal to the principal element of the annual lease rental for the year in question.
- MRP Overpayments - The MRP Guidance allows that any charges made in excess of the statutory MRP, i.e. voluntary revenue provision (VRP) or overpayments, can be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. The VRP overpayments up to 31st March 2023 are £11.45M and relate to the repayment of the HRA self financing debt.
- On an annual basis the Section 151 officer shall review the level of MRP to be charged, to determine if this is at a level which is considered prudent based on the Authority's circumstances at that time, taking into account medium / long term financial plans, current budgetary pressures, current and future capital expenditure plans. Dependant on this review the Section 151 officer will adjust the annual MRP charge by making VRP or reclaiming previous VRP. The amount of MRP charged shall not be less than zero in any financial year.

2.6 Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. Members are asked to approve the following indicators:

2.7 Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2022/23 Actual %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %	2027/28 Estimate %	2028/29 Estimate 5
General Fund	5.90	19.94	18.20	20.20	24.65	23.79	22.30
HRA	18.79	17.00	16.22	16.25	15.99	15.75	15.75

The estimates of financing costs include current commitments and the proposals in this budget report.

3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital stragegy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current Portfolio Position

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need (the Capital Financing Requirement or CFR), highlighting any over or under borrowing.

	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
External Debt							
Debt at 1 April	60.05	59.01	63.97	71.93	80.88	79.84	78.80
Expected change in Debt	-1.04	4.96	7.96	8.95	-1.04	-1.04	-1.04
Other long-term liabilities (OLTL)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Expected change in OLTL	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Actual gross debt at 31 March	**59.01**	**63.97**	**71.93**	**80.88**	**79.84**	**78.80**	**77.76**
The Capital Financing Requirement	98.69	101.04	103.52	112.54	108.77	104.91	101.88
Under Borrowing	**-39.69**	**-37.07**	**-31.59**	**-31.66**	**-28.93**	**-26.11**	**-24.12**

There are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Chief Resources & Section 151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

3.2 Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary

This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Debt*	101.04	103.52	112.54	108.77	104.91	101.88
Other long term liabilities	1.00	1.00	1.00	1.00	1.00	1.00
Total	**102.04**	**104.52**	**113.54**	**109.77**	**105.91**	**102.88**

The Authorised Limit for External Debt

A further key prudential indicator represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. Council is asked to approve the following authorised limit:

Authorised Limit	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Debt	116.00	119.00	128.00	124.00	120.00	117.00
Other long-term liabilities	1.00	1.00	1.00	1.00	1.00	1.00
Total	**117.00**	**120.00**	**129.00**	**125.00**	**121.00**	**118.00**

3.3 Prospects for Interest Rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided forecasts on 08.01.2024. These are forecasts for certainty rates, gilt yields plus 80 bps:

	Mar-24	Mar-25	Mar-26	Mar-27
Bank Rate	5.25	3.75	3.00	3.00
3 Month average earnings	5.30	3.80	3.00	3.00
6 Month average earnings	5.20	3.70	3.10	3.10
12 Month average earnings	5.00	3.60	3.10	3.20
5yr PWLB rate	4.50	4.10	3.60	3.50
10yr PWLB rate	4.70	4.20	3.80	3.70
25yr PWLB rate	5.20	4.60	4.20	4.10
50yr PWLB rate	5.00	4.40	4.00	3.90

Further commentary by Link on this forecast table: -

Our central forecast for interest rates was previously updated on 7 November and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least the second half of 20-24. We expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and when there is *a likelihood of the overall economy enduring at least a slowdown or mild recession over the coming months.*

Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recover in China as well as the ongoing conflict between Russia and Ukraine, and Gaza and Israel.

PWLB RATES

- *The short and medium part of the gilt curve has rallied since the start of November as markets price in a quicker reduction in Bank Rate through 2024 and 2025 than held sway back then. This reflects market confidence in inflation falling back in a similar manner to that already seen in the US and the Eurozone. At the time of writing there is circa 70 basis points difference between the 5 and 50 year parts of the curve.*

***Borrowing advice:** Our long-term (beyond 10 years) forecast for Bank Rate remains at 3% and reflects Capital Economics' research that suggests AI and general improvements in productivity will be supportive of a higher neutral interest rate. As all PWLB certainty rates are currently above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates will remain elevated for some time to come but may prove the best option whilst the market continues to factor in Bank Rate reductions for 2024 and later.*

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

3.4 Borrowing Strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's provisions, reserves, balances and working capital has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate remains elevated through to the second half of 2024.

Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Section 151 Officer, under delegated powers will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates* then borrowing would be postponed.

- *if it was felt that there was a significant risk of a much sharper RISE borrowing rates* than that currently forecast, fixed rate funding would be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to Cabinet at the next available opportunity.

3.5 Maturity Structure of Borrowing

These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.

The Council is asked to approve the following indicators and limits:

Maturity structure of fixed interest rate borrowing 2022/23	£m	Current %	Lower %	Upper %
Under 12 months	1.04	1.63	0	100
12 months and within 24 months	7.04	11.01	0	100
24 months and within 5 years	3.12	4.88	0	100
5 years and within 10 years	5.21	8.14	0	100
10 years and within 20 years	8.33	13.02	0	100
20 years and within 30 years	0.00	0.00	0	100
30 years and within 40 years	39.22	61.32	0	100
40 years and within 50 years	0.00	0.00	0	100

3.6 Policy on Borrowing in Advance of Need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

3.7 Debt Rescheduling

Rescheduling of current borrowing in our debt portfolio may be considered whilst premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate.

If rescheduling was done it would be reported to Cabinet at the earliest meeting following its action.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment Policy – Management of Risk

The Department of Levelling Up, Housing and Communities (DHLUC) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy (a separate report).

Council's investment policy has regard to the following:

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

The Council's investment priorities will be security first, liquidity second, then return.

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite.

In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but also to consider "laddering" investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

The above guidance from the DLUHC and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

1. Minimum acceptable **credit criteria** are appliedin order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor cournerparties are the short term and long term ratings.

2. **Other Information**: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this the council l will engage with its advisors to maintian a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

3. **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. The authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in **annex B2** under the categories of 'specified' and 'non-specified' investments.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity, if originally they were classified as being non-specified investements solely due to the maturity period exceeding one year.

- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Non-specified investments limit**. The Council has determined that it will limit the maximum total exposure to non-specified investments as being 20% of the total investment portfolio. (see paragraph 4.3)

6. **Lending limits** (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2

7. **Transaction limits** are set for each type of investment in 4.2

8. The Council will set a limit for the amount of its investments which are invested for **longer than 365 days** (see paragraph 4.4)

9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** (see paragraph 4.3)

10. The Council has engaged **external consultants** (see paragraph 1.5), to provided expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in **sterling.**

12. As a result of the change in accounting standards for 2023/24 under IFRS9, the authority will consider the implications of investment instruments which could result in in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.

The Council will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year.
The above criteria are unchanged from last year

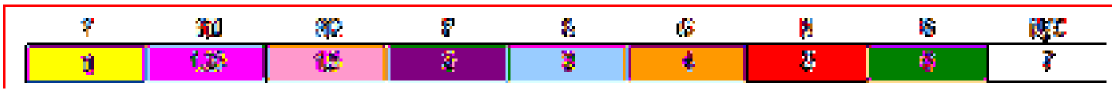
4.2 Creditworthiness Policy

This Council will apply the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands*:*

- **Yellow (Y)** up to but less than 1 year
- ***Dark pink (Pi1)*** *liquid - Ultra-Short Dated Bond Funds with a credit score of 1.25*
- ***Light pink (Pi2)*** *liquid – Ultra-Short Dated Bond Funds with a credit score of 1.5*
- ***Purple (P)*** *up to but less than 1 year*
- ***Blue (B)*** *up to but less than 1 year (only applies to nationalised or part- nationalised UK Banks)*
- ***Orange (O)*** *up to but less than 1 year*
- ***Red (R)*** *6 months*
- ***Green (G)*** *100 days*
- ***No colour (N/C)*** *not to be used*



	Colour (and long term rating where applicable)	Money Limit	Time Limit
Banks /UK Govt. backed instruments*	yellow	£12m	≤1 year
Banks	purple	£6m	≤1 year
Banks	orange	£6m	≤1 year
Banks – part nationalised	blue	£12m	≤1 year
Banks	red	£6m	≤6 mths
Banks	green	£3m	≤100 days
Banks	No colour	Not to be used	
Limit 3 category – Council's banker (for non-specified investments)	n/a	£1.5m	1 day
DMADF	UK sovereign rating	unlimited	≤6 months
Local authorities	n/a	£12m	≤1 year
	Fund rating**	Money and/or % Limit	Time Limit

Money Market Funds CNAV	**AAA**	**£6m**	**liquid**
Money Market Funds LVNAV	**AAA**	**£6m**	**liquid**
Money Market Funds VNAV	**AAA**	**£6m**	**liquid**
Ultra-Short Dated Bond Funds with a credit score of 1.25	**Dark pink / AAA**	**£6m**	**liquid**
Ultra-Short Dated Bond Funds with a credit score of 1.5	**Light pink / AAA**	**£6m**	**liquid**

** the yellow colour category includes UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt – see Annex B2.*

*** "fund" ratings are different to individual counterparty ratings, coming under either specific "MMF" or "Bond Fund" rating criteria.*

The creditworthiness service uses a wider array of information other than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria (built in) that the Council use will be a Short Term rating of F1 and a Long Term rating of A- (Fitch, or equivalents). There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the creditworthiness service.

- If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- In addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx European Senior financials benchmark and other market data on a dailly basis via its Passport website, provided exclusively to it by Link. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition, the Council will also use to some limited extent market data and market information, information on sovereign support for banks and the credit ratings of that supporting government to help support its decision making process.

Creditworthiness

Significant levels of downgrades to Short- and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. Nonetheless, when setting minimum sovereign debt ratings, the Council will not set a minimum rating for the UK.

CDS prices

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the days of the Truss/Kwarteng government, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information via its Link-provided Passport portal.

4.3 Country Limits

Due care will be taken to consider the exposure of the Council's total invesment portfolio to non-specified investments, countries, groups and sectors

a) **Non-specified investment limit.** The Council has determined that it will limit the maximum total exposure to non-specified invesments as being 20% of the total investment portfolio.

b) **Country limit.** The Council has determined that it will only use approved counterparties from other countries with a minimum sovereign credit rating of AAA (Fitch) or equivalent from each of the credit rating agencies. This list will be added to, or deducted from, by Officers should ratings change in accordance with this policy.

4.4 Investment Strategy

In-house Funds: Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the propect of Bank Rate having peaked in the second half of 2023 and possibly reducing as early as the second half of 2024 so an agile investment strategy would be appropriate to maximise returns.

While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be reliably identified that could be invested for longer periods the value to be obtained from longer term investments will be carefully assessed.

Investment Returns Expectations: The current forecast includes a forecast for Bank Rate to have peaked at 5.25%.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are:

- 2023/24 5.30%
- 2024/25 4.55%
- 2025/26 3.10%
- 2026/27 3.00%
- 2027/28 3.25%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Investment treasury indicator and limit - the total principal funds that can be invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end. Council is asked to approve the following treasury indicator and limit:

Maximum principal sums invested > 365 days						
	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Principal sums invested > 365 days	Nil	Nil	Nil	Nil	Nil	Nil

4.5 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

ANNEX B1

Treasury Management Glossary of Terms

- **Annuity** – method of repaying a loan where the payment amount remains uniform throughout the life of the loan, therefore the split varies such that the proportion of the payment relating to the principal increases as the amount of interest decreases.

- **CIPFA** – the Chartered Institute of Public Finance and Accountancy, is the professional body for accountants working in Local Government and other public sector organisations, also the standard setting organisation for Local Government Finance.

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

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

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

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

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

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

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

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

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

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

- **Gilts** – the name given to bonds issued by the U K Government. Gilts are issued bearing interest at a specified rate, however they are then traded on the markets like

shares and their value rises or falls accordingly. The Yield on a gilt is the interest paid divided by the Market Value of that gilt.
E.g. a 30 year gilt is issued in 1994 at £1, bearing interest of 8%. In 1999 the market value of the gilt is £1.45. The yield on that gilt is calculated as 8%/1.45 = 5.5%.
See also PWLB.

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

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

- **Money Market Fund (MMF)** – Type of investment where the Council purchases a share of a cash fund that makes short term deposits with a broad range of high quality counterparties. These are highly regulated in terms of average length of deposit and counterparty quality, to ensure AAA rated status. As from 21 July 2018 there will be three structural options for existing money market funds – Public Debt Constant Net Asset Value (CNAV), Low Volatility Net Asset Value (LVNAV) and Variable Net Asset Value (VNAV)

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

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

- **Link Asset Services** – Link Asset Services are the City Council's Treasury Management advisors. They provide advice on borrowing strategy, investment strategy, and vetting of investment counterparties, in addition to ad hoc guidance throughout the year.

- **SONIA** (Sterling Overnight Index Average) – this reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors. It is used as a replacement for LIBOR (and LIBID calculations), the publication of which ceased at the close of 2021.

- **Yield** – see Gilts

Members may also wish to make reference to *The Councillor's Guide to Local Government Finance.*

ANNEX B2

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria / colour band	**Max % of counterparty limit - *Specified**	**Max % of counterparty limit – **Non - Specified**	**Max. maturity period**
DMADF – UK Government	N/A	**100%**	**N/A**	**6 months**
UK Government gilts	UK sovereign rating	100%	**N/A**	1 year
UK Government Treasury blls	UK sovereign rating	100%	**N/A**	1 year
Bonds issued by multilateral development banks	AAA	100%	**N/A**	6 months
Money Market Funds CNAV	AAA	100%	**N/A**	Liquid
Money Market Funds LVNAV	AAA	100%	**N/A**	Liquid
Money Market Funds VNAV	AAA	100%	**N/A**	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	100%	**N/A**	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	100%	**N/A**	Liquid
Local authorities	N/A	100%	**N/A**	1 year
Term deposits with banks and building societies	Yellow Purple Blue Orange Red Green No Colour	100% 100% 100% 100% 100% 100% 0%	20% 20% N/A 20% 20% 20% 0%	Up to 1 year Up to 1 year Up to 1 year Up to 1 year Up to 6 Months Up to 100 days Not for use
Certificates of Deposit and corporate bonds with banks and building societies	Yellow Purple Blue Orange Red Green No Colour	20% 20% 20% 20% 0% 0% 0%	0% 0% 0% 0% 0% 0% 0%	Up to 1 year Up to 1 year Up to 1 year Up to 1 year Up to 6 Months Up to 100 days Not for use

***SPECIFIED INVESTMENTS:** All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the quality criteria as applicable.

****NON-SPECIFIED INVESTMENTS**: These are any investments which do not meet the specified investment criteria. A maximum of up to 20% ** will be held in aggregate in relevant non-specified investments (as at the trade date of investing).

ANNEX B3

Background information on credit ratings

Credit ratings are an important part of the Authority's investment strategy. The information below summarises some of the key features of credit ratings and why they are important.

What is a Credit Rating?
A credit rating is:

- An independent assessment of an organisation;
- It gauges the likelihood of getting money back on the terms it was invested;
- It is a statement of opinion, not statement of fact;
- They help to measure the risk associated with investing with a counterparty;

Who Provides / Uses Credit Ratings?
There are three main ratings agencies, all of which are used in the Authority's treasury strategy.

- Fitch
- Moody's Investor Services
- Standard & Poor's

The ratings supplied by these agencies are used by a broad range of institutions to help with investment decisions, these include:

- Local Authorities;
- Other non-financial institutional investors;
- Financial institutions;
- Regulators;
- Central Banks;

Rating Criteria
There are many different types of rating supplied by the agencies. The key ones used by the Authority are ratings to indicate the likelihood of getting money back on terms invested. These can be split into two main categories:

- 'Short Term' ratings for time horizons of 12 months or less. These may be considered as the most important for local authorities.

- 'Long Term' ratings for time horizons of over 12 months. These may be considered as less important in the current climate.

In addition, the agencies issue sovereign, individual and support ratings which will also feed into the investment strategy.

Rating Scales (Fitch, Moody's and Standard & Poor's)
The table below shows how some of the higher graded short and long term ratings compare across the agencies; the top line represents the highest grade possible. (There are other ratings that go much lower than those shown below, and ratings for other elements).

Short Term			**Long Term**		
Fitch	Moody's	S&P	Fitch	Moody's	S&P
F1+	P-1	A-1+	AAA	Aaa	AAA
F1	P-1	A-1	AA	Aa2	AA
F2	P-2	A-2	A	A2	A

Reserves Statement (Including Unallocated Balances)

	31 March 2023 £	From Revenue £	To / (From) Capital £	To Revenue £	31 March 2024 £	From Revenue £	To / (From) Capital £	To Revenue £	31 March 2025 £	From Revenue £	To / (From) Capital £	To Revenue £	31 March 2026 £	From Revenue £	To / (From) Capital £	To Revenue £	31 March 2027 £	From Revenue £	To / (From) Capital £	To Revenue £	31 March 2028 £
Unallocated Balances	**(11,678,400)**			3,058,000	**(8,620,400)**	(1,070,000)		1,277,500	**(8,412,900)**	(820,000)		97,500	**(9,135,400)**				**(9,135,400)**				**(9,135,400)**
Earmarked Reserves:																					
Corporate Priorities	**(421,200)**			402,900	**(18,300)**			82,700	**64,400**			82,700	**147,100**				**147,100**				**147,100**
Capital Support	**(73,000)**				**(73,000)**				**(73,000)**				**(73,000)**				**(73,000)**				**(73,000)**
Corporate Property	**(313,500)**				**(313,500)**				**(313,500)**				**(313,500)**				**(313,500)**				**(313,500)**
Covid 19 Support Reserve	**(9,700)**				**(9,700)**				**(9,700)**				**(9,700)**				**(9,700)**				**(9,700)**
Investment Property Maint	**(34,900)**				**(34,900)**				**(34,900)**				**(34,900)**				**(34,900)**				**(34,900)**
Invest to Save	**(301,700)**			228,200	**(73,500)**				**(73,500)**				**(73,500)**				**(73,500)**				**(73,500)**
Museums Acquisitions	**(36,300)**	(4,500)			**(40,800)**	(4,500)			**(45,300)**	(4,500)			**(49,800)**	(4,500)			**(54,300)**	(4,500)			**(58,800)**
Planning Fee Income	**(30,400)**				**(30,400)**				**(30,400)**				**(30,400)**				**(30,400)**				**(30,400)**
Restructure	**(520,900)**			121,000	**(399,900)**				**(399,900)**				**(399,900)**				**(399,900)**				**(399,900)**
To Support Revenue & Capital Expenditure	**(1,741,600)**	**(4,500)**		**752,100**	**(994,000)**	**(4,500)**		**82,700**	**(915,800)**	**(4,500)**		**82,700**	**(837,600)**	**(4,500)**			**(842,100)**	**(4,500)**			**(846,600)**
Renewals Reserves	**(1,061,900)**	(491,800)	131,000		**(1,422,700)**	(491,800)	38,000		**(1,876,500)**	(491,800)			**(2,368,300)**	(491,800)			**(2,860,100)**	(491,800)			**(3,351,900)**
General Renewals	**(775,500)**	(295,800)	7,000		**(1,064,300)**	(295,800)			**(1,360,100)**	(295,800)			**(1,655,900)**	(295,800)			**(1,951,700)**	(295,800)			**(2,247,500)**
Salt Ayre Leisure Centre	**(29,700)**	(150,000)	124,000		**(55,700)**	(150,000)	38,000		**(167,700)**	(150,000)			**(317,700)**	(150,000)			**(467,700)**	(150,000)			**(617,700)**
Williamson Park	**(29,000)**	(18,000)			**(47,000)**	(18,000)			**(65,000)**	(18,000)			**(83,000)**	(18,000)			**(101,000)**	(18,000)			**(119,000)**
Car Parks	**(123,200)**	(12,000)			**(135,200)**	(12,000)			**(147,200)**	(12,000)			**(159,200)**	(12,000)			**(171,200)**	(12,000)			**(183,200)**
Happy Mount Park	**(35,900)**	(14,000)			**(49,900)**	(14,000)			**(63,900)**	(14,000)			**(77,900)**	(14,000)			**(91,900)**	(14,000)			**(105,900)**
Arnside & Silverdale AONB	**(68,600)**	(2,000)			**(70,600)**	(2,000)			**(72,600)**	(2,000)			**(74,600)**	(2,000)			**(76,600)**	(2,000)			**(78,600)**
Elections	**(115,400)**	(45,000)		170,000	**9,600**	(45,000)			**(35,400)**	(45,000)			**(80,400)**	(45,000)			**(125,400)**	(45,000)		180,000	**9,600**
Homelessness Support	**(110,800)**				**(110,800)**				**(110,800)**				**(110,800)**				**(110,800)**				**(110,800)**
Lancaster District Hardship Fund	**(240,500)**			240,000	**(500)**				**(500)**				**(500)**				**(500)**				**(500)**
Business Rates Retention	**(7,471,700)**	(1,854,700)		1,632,400	**(7,694,000)**	(751,000)			**(8,445,000)**	(129,900)			**(8,574,900)**			600,000	**(7,974,900)**			500,000	**(7,474,900)**
Revenue Grants Unapplied	**(642,400)**			483,700	**(158,700)**			73,400	**(85,300)**			3,600	**(81,700)**				**(81,700)**				**(81,700)**
S106 Commuted Sums - Open Spaces																					
S106 Commuted Sums - Affordable Housing	**(218,800)**		63,000		**(155,800)**				**(155,800)**				**(155,800)**				**(155,800)**				**(155,800)**
S106 Commuted Sums - Highways, Cycle Paths etc.	**(1,047,600)**	(456,000)		105,000	**(1,398,600)**	(200,000)			**(1,598,600)**	(200,000)			**(1,798,600)**	(200,000)			**(1,998,600)**	(200,000)			**(2,198,600)**
Welfare Reforms	**(324,900)**				**(324,900)**				**(324,900)**				**(324,900)**				**(324,900)**				**(324,900)**
Amenity Improvements	**(29,000)**				**(29,000)**				**(29,000)**				**(29,000)**				**(29,000)**				**(29,000)**
Reserves Held in Perpetuity:																					
Graves Maintenance	**(22,200)**				**(22,200)**				**(22,200)**				**(22,200)**				**(22,200)**				**(22,200)**
Marsh Capital	**(47,700)**				**(47,700)**				**(47,700)**				**(47,700)**				**(47,700)**				**(47,700)**
Total ring-fenced/held against risk	**(11,332,900)**	**(2,847,500)**	**194,000**	**2,631,100**	**(11,355,300)**	**(1,487,800)**	**38,000**	**73,400**	**(12,731,700)**	**(866,700)**		**3,600**	**(13,594,800)**	**(736,800)**		**600,000**	**(13,731,600)**	**(736,800)**		**680,000**	**(13,788,400)**
Total Earmarked Reserves	**(13,074,500)**	**(2,852,000)**	**194,000**	**3,383,200**	**(12,349,300)**	**(1,492,300)**	**38,000**	**156,100**	**(13,647,500)**	**(871,200)**		**86,300**	**(14,432,400)**	**(741,300)**		**600,000**	**(14,573,700)**	**(741,300)**		**680,000**	**(14,635,000)**
Total Combined Reserves	**(24,752,900)**				**(20,969,700)**				**(22,060,400)**				**(23,567,800)**				**(23,709,100)**				**(23,770,400)**