LANCASTER CITY COUNCIL

Promoting City, Coast & Countryside

Committee: **CABINET**

Date: **TUESDAY, 9 FEBRUARY 2021**

Venue:

THIS WILL BE A VIRTUAL MEETING

CLICK HERE TO JOIN THE MEETING AS A NON-PARTICIPANT

Time: **5.00 P.M.**

A G E N D A

1. Apologies

2. Minutes

   To receive as a correct record the minutes of Cabinet held on Tuesday, 19 January 2021 (previously circulated).

3. Items of Urgent Business Authorised by the Leader

   To consider any such items authorised by the Leader and to consider where in the agenda the item(s) are to be considered.

4. Declarations of Interest

   To receive declarations by Councillors of interests in respect of items on this Agenda.

   Councillors are reminded that, in accordance with the Localism Act 2011, they are required to declare any disclosable pecuniary interests which have not already been declared in the Council's Register of Interests. (It is a criminal offence not to declare a disclosable pecuniary interest either in the Register or at the meeting).

   Whilst not a legal requirement, in accordance with Council Procedure Rule 9 and in the interests of clarity and transparency, Councillors should declare any disclosable pecuniary interests which they have already declared in the Register, at this point in the meeting.

   In accordance with Part B Section 2 of the Code Of Conduct, Councillors are required to declare the existence and nature of any other interests as defined in paragraphs 8(1) or 9(2) of the Code of Conduct.

5. Public Speaking

   To consider any such requests received in accordance with the approved procedure.

   Reports from Overview and Scrutiny

   None

Reports

6. Raising Standards in the Private Rented Sector (Pages 4 - 22)

(Cabinet Member with Special Responsibility Councillor Jackson)

Report of Director for Communities and the Environment

7. Budget & Policy Framework Update 2021/22 to 2024/25 including Capital Strategy and Treasury Management (Pages 23 - 88)

(Cabinet Member with Special Responsibility Councillor Whitehead)

Report of Director of Corporate Services (report published on 8 February 2021)

8. Housing Revenue Account and Capital Programme (Pages 89 - 129)

(Cabinet Member with Special Responsibility Councillor Jackson)

Report of Director for Communities and the Environment (report published 03.02.21)

9. Acceptance of Public Sector Decarbonisation Funding (Pages 130 - 134)

Cabinet Members with Special Responsibility Councillors Lewis, Brookes & Frea)

Report of Director for Communities and the Environment (report published on 8 February 2021)

10. Exclusion of the press and public

This is to give further notice in accordance with Part 2, paragraph 5 (4) and 5 (5) of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 of the intention to take the following items in private.

Cabinet is recommended to pass the following recommendation in relation to the following item:-

“That, in accordance with Section 100A(4) of the Local Government Act, 1972, the press and public be excluded from the meeting for the following items of business, on the grounds that they could involve the possible disclosure of exempt information as defined in paragraphs 1,2 or 3 of Schedule 12A of that Act.”

Members are reminded that, whilst the following item has been marked as exempt, it is for Cabinet itself to decide whether or not to consider it in private or in public. In making the decision, Members should consider the relevant paragraph of Schedule 12A of the Local Government Act 1972, and also whether the public interest in maintaining the exemption outweighs the public interest in disclosing the information. In considering their discretion Members should also be mindful of the advice of Council Officers.

11. Revised Economic Regeneration Investment Proposal

(Cabinet Member with Special Responsibility Councillor Hanson)

Report of Director for Economic Growth & Regeneration (this report has been pulled)

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

Councillors Erica Lewis (Chair), Dave Brookes, Gina Dowding, Merv Evans, Kevin Frea, Tim Hamilton-Cox, Janice Hanson, Caroline Jackson, Jean Parr and Anne Whitehead

(ii) Queries regarding this Agenda

Please contact Liz Bateson, Democratic Services - email ebateson@lancaster.gov.uk.

(iii) Apologies

Please contact Democratic Support, telephone 582170, or alternatively email democracy@lancaster.gov.uk.

KIERAN KEANE,
CHIEF EXECUTIVE,
TOWN HALL,
DALTON SQUARE,
LANCASTER, LA1 1PJ

Published on Monday 1 February 2021.

Lancaster City Council | Report Cover Sheet

Meeting	Cabinet	**Date**	9th February 2021
Title	**Raising Standards in the Private Rented Sector**		
Report of	Mark Davies, Director for Communities and the Environment		

Purpose of the Report

To consider and adopt the financial penalty charging policies for Electrical Safety and Minimum Energy Efficiency Standards in the private rented sector

Key Decision Y	**Y**	**Date of Notice**	**11/1/2021**	**Exempt N**	

Report Summary

The report outlines and asks approval for the financial penalty charging policies for Electrical Safety and Minimum Energy Efficiency Standards in the private rented sector.

Recommendations

(1) To consider and adopt the financial penalty charging policy for The Energy Efficiency (Private Rented Sector) (England and Wales) Regulations 2015 (as amended by The Energy Efficiency (Private Rented Sector) (England and Wales (Amendment) Regulations 2019, attached at **Appendix 1**

(2) To include the Electrical Safety Standards in the Private Rented Sector (England) Regulations 2020 within the Council's amended Civil Charging Policy attached at **Appendix 2**

(3) To authorise the Head of Public Protection to make minor amendments to the financial charging policies in accordance with any future changes to legislation.

Relationship to Policy Framework

It is a statutory function and the proposals support the Council's objectives to promote sustainable communities, reduce carbon emissions of domestic dwellings, and support the positive health and wellbeing of residents in the district and reduce health inequalities.

Conclusion of Impact Assessment(s), where applicable

Climate	**Wellbeing & Social Value**
Digital	**Health & Safety**
Equality	**Community Safety**

Climate; Direct positive effect in raising the energy efficiency of private rented sector housing
Equality: There is a risk that enforcement may have a short-term impact on low income households with limited housing choices, but measures will be put in place to provide support and the regulations will make a positive long-term contribution to reducing health inequalities.
Wellbeing & Social Value: Will contribute to improvement of some of the poorest housing conditions.

Health and Safety: Direct positive effect on the health and safety of private tenants.
Community Safety: Improved housing conditions and addressing fuel poverty will have a positive impact on community safety.

Details of Consultation

The principles of the Private Sector Housing Enforcement Policy were consulted on before it's approval in 2018. Comments received were that landlords are broadly supportive of robust enforcement against landlords who they feel give the sector a bad name, but wanted the Council to be fair and transparent in their actions and to acknowledge that some private landlords provide a good and necessary service.

Legal Implications

Legal Services have been consulted on the drafting of the policies. If the policies are adopted, officers will have to ensure that they carry out their investigative and enforcement duties in accordance with the policies and national guidance.

Financial Implications

Additional regulations have been introduced to further improve standards in the private rented sector as outlined in the report.

It is proposed to consider and adopt the financial penalty charging policies for Electrical Safety (max £30,000) and Minimum Energy Efficiency Standards (max £5,000) standards in the private rented sector.

It is not possible to accurately project the likely level of income arising from the proposals, though it will be kept under review and fed into future corporate monitoring reports with budgets updated during the annual budget process.

Other Resource or Risk Implications

None

Section 151 Officer's Comments

The s151 Officer has been consulted and has no additional comments to make

Monitoring Officer's Comments

The Monitoring Officer has been consulted and has no further comments to make

Contact Officer	Fiona Macleod
Tel	01524 582649
Email	fmacleod@lancaster.gov.uk

Links to Background Papers

Housing and Planning Act 2016
https://www.legislation.gov.uk/ukpga/2016/22/contents/enacted

The Energy Efficiency (Private Rented Housing)(England and Wales) Regulations 2015
https://www.legislation.gov.uk/ukdsi/2015/9780111128350/contents

Private Sector Housing Enforcement Policy
https://www.lancaster.gov.uk/housing/private-rented-accommodation

1.0 Report

Cabinet approved a Private Sector Enforcement Policy, which included a Civil Penalties Enforcement Policy, in December 2018. This was designed to help deliver the Council's priorities identified in the Corporate Plan to improve the quality and availability of private housing.

Additional regulations have been introduced to further improve standards in the private rented sector with associated financial penalties that require approval. The Civil Penalties policy has been amended accordingly.

2.0 The Proposal.

2.1 The Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015 (as amended) set a minimum standard for energy efficiency for both domestic and non-domestic private rented property. This minimum energy efficiency standard for domestic private rented property referred to as MEES is a minimum standard of Energy Performance Certificate (EPC) band E.

An EPC gives a property an energy efficiency rating from A (most efficient) to G (least efficient) and is valid for 10 years. The report attached to the EPC contains information about a property's energy use, its typical energy costs, and recommends energy efficiency improvements to reduce energy use in order to cut costs.

Since the 1st April 2020 under the Regulations a privately rented property with an EPC band of F or G is defined as 'sub-standard and non-compliant' and the landlord must no longer let the property unless it has a valid exemption registered on the Private Rented Sector (PRS) Exemptions Register. This applies to any privately rented property which is legally required to have an EPC and which is let on a relevant tenancy.

Landlords in breach of the MEES regulations can be issued a financial penalty up to a maximum of £5,000 per property as per the MEES Financial Charging Policy attached as **Appendix 1**. The Council can also issue a publication penalty on the publicly available section of the PRS Exemptions Register

2.2 Electrical Safety Standards in the Private Rented Sector (England) Regulations 2020

These Regulations apply to new specified tenancies in the private rented sector from the 1st July 2020 and all existing from the 1st April 2021.

The Regulations require landlords to ensure that every electrical installation in the residential premises is inspected and tested at regular intervals of no more than five years by a qualified and competent person to ensure it meets electrical safety standards.

The Housing Standards Team will be responsible for enforcing the new Regulations and can impose a financial penalty of up to £30,000 if they find a landlord is in beach of their duty. The proposal is to use the Civil Penalty Charging Policy already approved by Cabinet in December 2018 and attached as Appendix 2.

3.0 Governance and Appeals.

Internal governance procedures delegate authority to officers to issue penalty fines, but there are checks and balances in place to ensure consistency. All decisions will be made in accordance with Lancaster City Council's Civil Penalty Enforcement Policy (Appendix 2) that is based on statutory guidance issued under section 23 (10) and Schedules 1 and 9 of the Housing and Planning Act 2016. Before imposing a penalty, the Local Authority must serve a Notice of Intent, and the recipient has the right to make written representations. The policy states that these representations will be considered by a senior officer who is not the officer who originally issued the penalty. Where a penalty is imposed on a landlord, there is an additional right to appeal to the First-Tier Tribunal (Property Chamber) against the decision.

4.0 Options and Options Analysis (including risk assessment)

Option 1: Adopt the charging policies
Advantages: Assists the Local Authority in meeting its statutory obligations and deliver corporate priorities.
Disadvantages: None
Risks: None
Option 2: Do not adopt the charging policies
Advantages: None
Disadvantages: The Local Authority could be subject to challenge. The authority is obliged to determine the level of penalties to be levied in relation to the legislation referred to in this report, and to publish a charging policy in relation to the MEES regulations.
Risks: The Local Authority could be subject to challenge and may not be in a good position to meet its statutory obligations.

5.0 Officer Preferred Option (and comments)

5.1 The officer preferred option is Option 1, to adopt the financial penalty charging policies for both sets of regulations and to allow the Head of Public Protection to make minor amendments to the policy to reflect changes in legislation.

Appendix 1

LANCASTER CITY COUNCIL

DIRECTORATE FOR COMMUNITIES AND THE ENVIRONMENT

Policy for determining the level of financial penalty for non-compliance with the Domestic Minimum Energy Efficiency Standards (MEES) Regulations in the Lancaster City Council area.

Approved by Cabinet : February 2021

Policy for determining the level of financial penalty for non-compliance with the Domestic Minimum Energy Efficiency Standards (MEES) Regulations in the Lancaster City Council area.

The Council's approach ensures that the financial penalty should be proportionate and reflect the severity of the breach, and should be set high enough to help ensure that it has a real economic impact on the landlord and demonstrate the consequences of not complying with their respons2ibilities. The landlord's track record will be taken into account in each case. The maximum level of penalty varies according to the type of breach under the Regulations as follows:

Financial penalties (Regulation 40)

Where the Local Authority decides to impose a financial penalty, they have the discretion to decide on the amount of the penalty, up to maximum limits set by the Regulations. The maximum penalties are as follows:

(a) Where the landlord has let a sub-standard property in breach of the Regulations for a period of less than 3 months, the Local Authority may impose a financial penalty of up to £2,000 and may impose the publication penalty.

(b) Where the landlord has let a sub-standard property in breach of the regulations for 3 months or more, the Local Authority may impose a financial penalty of up to £4,000 and may impose the publication penalty.

(c) Where the landlord has registered false or misleading information on the PRS Exemptions Register, the Local Authority may impose a financial penalty of up to £1,000 and may impose the publication penalty.

(d) Where the landlord has failed to comply with compliance notice, the Local Authority may impose a financial penalty of up to £2,000 and may impose the publication penalty.

When determining the financial penalty the Council will take the landlord's track record into account as to whether it is their first breach under these Regulations or not as per the following:

Breaching the prohibition on letting a sub-standard (EPC rated F or G) property for less than three months (Regulation 23)(Statutory maximum £2000)

	Penalty	**Early Payment (within 21 days)**
First Breach	£1000	£750
Other Breaches	£2000	£1500

b) Breaching the prohibition on letting a sub-standard (EPC rated F or G) property for three months or more (Regulation 23) (Statutory maximum: £4,000)

	Penalty	**Early Payment (within 21 days)**
First Breach	£2000	£1500
Other Breaches	£4000	£3000

c) Registering false or misleading information on the PRS Exemptions Register (Regulation 36 (2)) (Statutory maximum: £1,000)

	Penalty	**Early Payment (within 21 days)**
First Breach	£500	£375
Other Breaches	£1000	£750

d) Failing to comply with a Compliance Notice (Regulation 37 (4) (a)) (Statutory maximum: £2,000)

	Penalty	**Early Payment (within 21 days)**
First Breach	£1000	£750
Other Breaches	£2000	£1500

The Council may not impose a financial penalty under both paragraphs (a) and (b) above in relation to the same breach of the Regulations.

They may impose a financial penalty under either (a) or (b), together with financial penalties under (c) and (d) in relation to the same breach.

Where penalties are imposed under more than one of the tables above the total amount of the financial penalty may not be more than £5,000 per property, and per breach of the Regulations.

If there are repeat breaches the Council may use its discretion to apply the full penalty with no reduction for early payment.

Right of review and right of appeal.

The recipient of a penalty notice may ask the authority to review its decision. If the authority decides to uphold a penalty notice a landlord may appeal to the First Tier Tribunal.

Appendix 2

LANCASTER CITY COUNCIL

DIRECTORATE FOR COMMUNITIES AND THE ENVIRONMENT

Housing Standards, Civil Penalties Enforcement Policy

Agreed by Cabinet: December 2018

Civil Penalties Enforcement Policy

1.0 Introduction

The Housing and Planning Act 2016 gave local housing authorities the power to impose civil penalties of up to £30,000 on individuals and organisations, as an alternative to prosecution, for certain offences under the Housing Act 2004.

This policy contains information about civil penalties and how the Local Authority is planning to use them. It takes into account the statutory guidance that has been issued by the Government under Schedule 9 of the Housing and Planning Act 2016, and should be read in conjunction with Lancaster City Council's (the local authority) Private Sector Housing Enforcement Policy.

2.0 Housing Offences Covered by Civil Penalties

The Power to impose a civil penalty as an alternative to prosecution for certain specified housing offences was introduced by section 126 and Schedule 9 of the Housing and Planning Act 2016. This inserted section 249A into the Housing Act 2004 Act. Section 249A establishes the legal basis for the imposing of civil penalties as an alternative to prosecution for specific housing offences under the Housing Act 2004.

Civil Penalties can be imposed by the local authority as an alternative to prosecution for the following offences under the Housing Act 2004:

- Failure to comply with an Improvement Notice (section 30);
- Offences in relation to licensing of Houses in Multiple Occupation (section 72);
- Offences in relation to licensing of houses under Part 3 of the Act (section 95);
- Offences of contravention of an overcrowding notice (section 139);
- Failure to comply with management regulations in respect of Houses in Multiple Occupation (section 234)
- Offences subject to Banning Orders (subject to implementation)
- Regulations made under The Housing and Planning Act 2016

3.0 Purpose of Civil Penalties Policy

Local housing authorities have the power to impose civil penalties for up to £30,000 on individuals and companies (for certain specified offences under the Housing Act 2004) as an alternative to prosecution.

In accordance with s249A of the 2004 Act, the amount of the financial penalty is to be determined by the local housing authority, taking account of the statutory guidance. The local authority therefore has a wide discretion in determining the appropriate level of civil penalty in a particular case and seeks to set out further guidance in this Policy of how it will do so.

The local authority has had regard to the principles set out in the Sentencing Council Health and Safety Offences and Food Safety and Hygiene Offences Definitive Guidelines, which the authority considers to be the most relevant sentencing guidance issued by the Sentencing Council.

This Policy will complement the Private Sector Housing Enforcement Policy to ensure that a level playing field is created for all landlords by dealing robustly with irresponsible landlords who fail to comply with their legal obligations.

4.0 Principles of Civil Penalties

General Considerations

A civil penalty can only be imposed as an alternative to prosecution. The legislation does not permit local housing authorities to impose a civil penalty and prosecute for the same offence. This means that if a person has been convicted or is currently being prosecuted, the local authority cannot impose a civil penalty in respect of the same offence. The same applies if a civil penalty has been imposed, a person cannot then be convicted of the same conduct. A civil penalty can be issued as an alternative to prosecution for each separate offence which falls within the specified housing offences listed in paragraph 2 above.

Where the local authority is in a position to prosecute a landlord and a letting agent for an offence, then a civil penalty can be imposed as an alternative to prosecution of either party or both. The amount of the civil penalty may differ for both depending on individual circumstances.

Although only one civil penalty can be imposed for a single offence, if a landlord fails to comply with an Improvement Notice and subsequently receives a civil penalty as a result, a further Improvement Notice could then be issued if the work still hasn't been carried out.

What must be done before a Civil Penalty can be considered:

The local authority must be satisfied that there is sufficient evidence to provide a realistic prospect of conviction against the landlord and that the public interest will be properly served by imposing a civil penalty. The following questions should be considered:

- Does the local authority have sufficient evidence to prove beyond reasonable doubt that the offence was committed by the landlord in question?
- Is the public interest properly served by imposing a Civil Penalty on the landlord in respect of the offence?
- Are there any reasons why a prosecution may be more appropriate than a civil penalty? I.e. the offence is particularly serious and the landlord has committed similar offences in the past and/or a banning order should be considered.

Factors to be Taken into Account when Deciding the Level of Civil Penalty

The Government has stated in its statutory guidance that generally they expect the maximum amount for a civil penalty (£30,000) to be reserved for the 'very worst offenders' and it recommends that the actual amount imposed in any particular case should reflect the severity of the offence, as well as taking account of the landlord's previous record of offending.

The Government has set out factors which a local authority should take into account when setting a civil penalty to ensure that it is set at an appropriate level:

a) Severity of the offence. The more serious the offence, the higher the penalty should be.
b) Culpability and track record of the offender. A higher penalty will be appropriate where the offender has a history of failing to comply with their obligations and/or their actions were deliberate and/or they knew, or ought to have known, that they were in breach of their legal responsibilities. Landlords are running a business and therefore are expected to be aware of their legal obligations.
c) The harm caused to the tenant. This is a very important factor when determining the level of penalty. The greater the harm or the potential for harm, the higher the amount should be when imposing a civil penalty.
d) Punishment of the offender. A civil penalty should not be regarded as an easy or lesser option compared to prosecution. While the penalty should be proportionate and reflect both the severity of the offence and whether there is a pattern of previous offending, it is important that it is set at a

high enough level to help ensure that it has a real economic impact on the offender and demonstrates the consequences of not complying with their responsibilities.
e) Deter the offender from repeating the offence. The ultimate goal is to prevent any further offending and help to ensure that the landlord fully complies with all of their legal responsibilities in future. The level of penalty should therefore be set at a high enough level such that it is likely to deter the offender from repeating the offence.
f) Deter others from committing similar offences. While the fact that someone has received a civil penalty will not be in the public domain, it is possible that other landlords in the local area will become aware through informal channels when someone has received a civil penalty. An important part of the deterrence is the realisation that (a) the local authority is proactive in levying civil penalties where the need to do so exists and (b) that the level of civil penalty will be set at a high enough level to both punish the offender and deter repeat offending.
g) Remove any financial benefit the offender may have obtained as a result of committing the offence. The guiding principle here should be to ensure that the offender does not benefit as a result of committing the offence, i.e. it should not be cheaper to offend than to ensure a property is well maintained and properly managed.

5. Process for Determining the Level of Civil Penalty

In order to ensure that a civil penalty is set at the appropriate level, the local authority will consider the factors described above.

The final factor [4 (g)] is an overreaching one and after all other factors have been considered and applied, the local authority will need to consider whether the civil penalty set removes any financial benefit that has been gained by the commission of the offence.

5.1 Step One - Determining the offence category

The local authority will determine the offence category using only the culpability and harm factors in the tables below. Where an offence does not fall squarely into a category, individual factors may require a degree of weighting to make an overall assessment.

Table 1 below breaks down the landlord's culpability for the offence into four categories and each category has an accompanying description of what would constitute that level of culpability. The behaviour of the landlord should be compared to the table to determine the appropriate level of culpability. This exercise will be repeated for each offence that is being considered as the landlord's culpability may vary between offences.

Table 1 – Culpability

Very High	Where the offender intentionally breached, or flagrantly disregarded the law
High	Actual foresight of, or willful blindness to, risk of offending but risk nevertheless taken; Serious and or systematic failure by the person or organization to comply with legal duties
Medium	Offence committed through act or omission which a person exercising reasonable care would not commit
Low	Offence committed with little fault, for example because:

	• Significant efforts were made to address the risk but were inadequate on this occasion • There was no or little warning of risk/circumstances of offence • Failings were minor and occurred as a an isolated incident.

Once the local authority has determined the level of culpability (using Table 1 above) in relation to an offence, then the level of harm will need to be determined. The local authority will use the following definition of harm taken from the statutory guidance on hazard rating under the Housing Act 2004, 'Harm is an adverse physical or mental effect on the health of a person. It includes, for example, physical injury, and illness, condition, or symptom whether physical or mental. It also includes both permanent and temporary harm'

Table 2 below separates the seriousness of harm risked into three categories and each category has an accompanying description of what would constitute that level of harm risked. The harm risked by the offence should be compared to the table to determine the appropriate level and this exercise will be repeated for each offence that is being considered as the seriousness of harm risked may vary between offences.

When using Table 2 to determine the appropriate level of harm, consideration should be given to the worst possible harm outcomes that could reasonably occur as a result of the landlord committing the specific offence that is being considered. This means that even if some harm has already come to tenants, or visitors to the property, consideration should still be given to whether there was the potential for even greater harm to have occurred. The vulnerability of the tenant or any visitors to a property will be taken into account when determining the seriousness of the harm risked. This will be determined on a case by case basis.

Table 2 – Seriousness of Harm Risked

High	• Serious adverse effect on individual(s) and/or a widespread impact • High risk of serious adverse effect on individual(s) • Provides a serious market advantage over rivals • Harm to a vulnerable individual • Serious level of overcrowding
Medium	• Adverse effect on individual(s) (not amounting to High Harm) • Medium risk of adverse harm to an individual or low risk of a serious adverse effect • The local authority's work as a regulator is undermined by the offenders behaviour • Consumer/tenant mislead
Low	• Low risk of adverse effect on individual(s) • Low adverse effect on individual(s)

When determining the seriousness of harm risked in relation to an offence, consideration may be given to the guidance in relation to Class I, II, III and IV harm outcomes in the 'Housing Health and Safety Rating System - Operating Guidance'.

5.2 Step two - The penalty starting point and range

Once the offence category has been determined (using culpability and harm), the local authority should then refer to the starting points to reach an appropriate level of civil penalty within the range for that category of offence. The local authority should then consider further adjustment within the category range for aggravating and mitigating features.

Table 4 – Penalty Bands

Low Culpability	**Starting Point**	**Penalty Band Range**
Low Harm	£1,500	£750 - £2,250
Medium Harm	£3,000	£2,250 - £3,750
High Harm	£4,500	£3,750 - £5,250
Medium Culpability		
Low Harm	£4,500	£3,750 - £5,250
Medium Harm	£7,500	£5,250 - £12,000
High Harm	£12,000	£9,000 - £15,000
High Culpability		
Low Harm	£7,500	£5,250 - £12,000
Medium Harm	£12,000	£9,000 - £15,000
High Harm	£16,500	£15,000 - £20,000
Very High Culpability		
Low Harm	£12,000	£9,000 - £15,000
Medium Harm	£16,500	£15,000 - £20,000
High Harm	£25,500	£20,000 - £30,000

Table 5 below contains a non-exhaustive list of factual elements providing the context of the offence and factors relating to the landlord. The local authority will identify whether any combination of these, or other relevant factors should result in an upward or downward adjustment from the starting point. In particular relevant recent previous convictions, recent cautions and/or civil penalties are likely to result in a substantial upward adjustment. In some cases, having considered these factors, it may be appropriate to move outside the identified category range.

Table 5 – Aggravating and mitigating factors

Aggravating Factors	Mitigating Factors
Relevant previous convictions having regard to (a) the nature of the offence to which the conviction relates and its relevance to this offence and (b) the time that has elapsed since the conviction	No relevant unspent previous convictions/good character
Relevant previous cautions within the last two years having regard to (a) the nature of the offence to which the caution relates and its relevance to this offence	No relevant cautions within the last two years

Relevant previous civil penalties within the last two years having regard to (a) the nature of the offence to which the caution relates and its relevance to this offence	No relevant civil penalties within the last two years
The offence has been committed whilst the landlord is on bail/on summons for other relevant proceedings at court	Mental disorder or learning disability, where directly linked to the commission of the offence
Established evidence of wider/community impact	Serious medical conditions requiring urgent, intensive or long term treatment
Record of providing substandard accommodation	One off event, not commercially motivated
Record of poor management or not meeting legal requirements	Good record of maintaining property
Evidence of harassment of tenant and/or illegal eviction (actual or attempted) in this case	Tenants behavior a contributing factor to the offence
Motivated by financial gain	Steps taken voluntarily to remedy problem
Obstruction of justice, for example failing to comply with a request for information or documents or other behavior amounting to an obstruction	High level of co-operation with the investigation, beyond that which will always be expected
Offending happened over a prolonged period of time	
Property management is/was their only or main business.	

Includes civil penalties imposed for offences under the Housing Act 2004, The Smoke and Carbon Monoxide Alarm (England) Regulations 2015 or the Redress Schemes for Letting Agency Work and Property Management Work (Requirement to Belong to a Scheme etc)(England) Order 2014. Also includes civil penalties imposed by other regulatory agencies and Council's.

5.3 Step three - Review the civil penalty amount

Once the civil penalty has been calculated, the local authority should review the penalty amount to determine whether the civil penalty amount meets the objectives of civil penalties as set out in the statutory guidance.

General principles to follow when setting the financial penalty

The local authority should finalise the appropriate level of penalty so that it reflects the seriousness of the offence and the local authority must take into account the financial circumstances of the offender (as far as they are known).

The level of civil penalty should reflect the extent to which the offender fell below the required standard. **The civil penalty should meet, in a fair and proportionate way, the objectives of punishment, deterrence and the removal of gain derived through the commission of the offence**; it should not be cheaper to offend than to comply with the law.

Review of the civil penalty

The local authority should review the civil penalty and, if necessary adjust the initial amount arrived at in step two to ensure that it fulfils the general principles set out above.

The penalty amount as calculated at step 2, should be considered against any quantifiable economic benefit derived from the offence, including through avoided costs or operating savings. If the economic benefit is in excess of the penalty amount as calculated at step 2, then the penalty amount should be adjusted to ensure that the penalty is set at an amount which removes the financial benefit (as a minimum).

The local authority may draw on information from enforcing authorities and others about the general costs of operating within the law, if this information is not available. Whether the penalty will have the effect of putting the offender out of business will be relevant, but in some cases this might be an acceptable outcome.

In finalising the penalty amount, the local authority will have regard to evidence of the following factors relating to the wider impact of the civil penalty on innocent third parties; such as (but not limited to);

- Impact of the civil penalty on the offender's ability to comply with the law or make restitution to victims;
- Impact of the civil penalty on employment of staff, service users, customers and the local economy.

5.4 Step four - Reduction for early admission of guilt

The local authority will take into account a potential reduction in penalty for an admission of guilt.

The following factors will be considered in setting the level of reduction:

- The stage in the investigation or thereafter when the offender admitted guilt;
- The circumstances in which they admitted guilt;
- The degree of co-operation with the investigation.

The maximum level of reduction for an admission of guilt will be one-third of the penalty amount. In some circumstances there will be a reduced or no level of discount. For example where the evidence is overwhelming or there is a pattern of behaviour.

Any reduction should not result in a civil penalty which is less than the amount of gain from the commission of the offence itself.

5.5 Step five - Additional actions

In all cases the local authority will consider whether to take additional action. These may include works in default, Interim Management Orders or rent repayment orders. The local authority cannot however prosecute for the same conduct which has led to the civil penalty being imposed.

5.6 Step six - Totality principle

If issuing a civil penalty for more than one offence, or where the offender has already been issued with a civil penalty (within the previous 28 days), the local authority will consider whether the total penalties are just and proportionate to the offending behaviour.

Where the offender is issued with more than one civil penalty, the local authority should consider the following guidance from the definitive guideline on Offences Taken into Consideration and Totality.

“The total financial penalty is inevitably cumulative.

The court should determine the financial penalty for each individual offence based on the seriousness of the offence and taking into account the circumstances of the case including the financial circumstances of the offender so far as they are known, or appear, to the court.
The court should add up the financial penalties for each offence and consider if they are just and proportionate.

If the aggregate total is not just and proportionate the court should consider how to reach a just and proportionate financial penalties. There are a number of ways in which this can be achieved.

For example:

- *Where an offender is to be penalised for two or more offences that arose out of the same incident or where there are multiple offences of a repetitive kind, especially when committed against the same person, it will often be appropriate to impose for the most serious offence a financial penalty which reflects the totality of the offending where this can be achieved within the maximum penalty for that offence. No separate penalty should be imposed for the other offences;*

- *Where an offender is to be penalised for two or more offences that arose out of different incidents, it will often be appropriate to impose a separate financial penalties for each of the offences. The court should add up the financial penalties for each offence and consider if they are just and proportionate. If the aggregate amount is not just and proportionate the court should consider whether all of the financial penalties can be proportionately reduced. Separate financial penalties should then be passed.*

Where separate financial penalties are passed, the court must be careful to ensure that there is no double-counting”.

Ultimately, the civil penalty imposed must remove any financial gain the landlord has obtained by the commission of the offence.

5.7 Step seven - Recording the decision

The officer making a decision about a civil penalty will record their decision giving reasons for coming to the amount of civil penalty to be imposed.

6.0 An offender’s ability to pay

In setting a civil penalty, the local authority may conclude that an offender is able to pay any civil penalty imposed unless the offender has supplied sufficient financial information or evidence to the contrary.

It is for the offender to disclose to the local authority such data relevant to his or her financial position as this will enable the local authority to assess and determine what they can reasonably afford to pay.

Where the local authority is not satisfied that it has been given sufficient reliable information, the local authority will be entitled to draw reasonable inferences as to the offender’s means from the evidence it has obtained and from all the circumstances of the case, including accessing information via appropriate credit referencing agencies. **This may include the inference that the offender can pay the civil penalty.**

As many landlords will own one or more properties, it is likely that they will be able to sell or borrow against these assets to pay a civil penalty. After taking into account any mortgages on the property, the local authority will determine the amount of equity that could be released from the property. If the landlord claims they are unable to pay a civil penalty and show that they have a low income, consideration will be given to whether any of the properties can be sold or refinanced when assessing their ability to pay.

7.0 . Procedure for the Imposition of a Civil Penalty

Schedule 13A of the Housing Act 2004, as amended by the Housing and Planning Act 2016, sets out the process that must be followed when imposing a civil penalty.

Notice of Intent

Before imposing a civil penalty on a landlord, the local authority must serve a 'Notice of Intent' on the landlord who has committed the offence. The notice must be given before the end of the period of 6 months, beginning with the first day on which the local authority has sufficient evidence of the conduct to which the civil penalty relates. In the case of conduct which is continuing, the notice can be given at any stage if the conduct is continuing or within 6 months beginning with the day on which the conduct ends. The notice of intent must set out:

- The amount of the proposed civil penalty;
- The reasons for proposing to impose a civil penalty, and;
- Information about the landlord's right to make representations to the local authority.

Representations

Any landlord who is in receipt of a 'Notice of Intent' has the right to make written representations about the proposal to impose a civil penalty within 28 days beginning with the day after the date on which the notice was given ('Representation Period'). Representations can be against any part of the proposed course of action, for example the imposition of the civil penalty in its entirety or the amount of the civil penalty. All representations from landlords will be considered by an appropriate senior officer and never by the officer who served the 'Notice of Intent'.

Where a landlord challenges the amount of the civil penalty, it will be for the landlord to provide documentary evidence (e.g. tenancy agreements, bank statements, mortgage account statements, business accounts, etc.) to show that the penalty amount should be reviewed. Where no such supporting evidence is provided, the representation against the amount will be likely to carry less weight.

Written responses will be provided to all representations made by the recipients of a 'Notice of Intent'. No other parties have an automatic right to make representations but if any are received, they will be considered on a case by case basis and responded to where the local authority considers it necessary.

Final Notice

Once the 'Representation Period' has ended, the local authority must decide whether to impose a civil penalty and if so, the final amount of the civil penalty. Consideration will be given to any representations made during the 'representation period' if applicable. The final amount of a financial penalty can be a lower amount than was proposed in the 'Notice of Intent' but it cannot be a greater amount.

If the local authority decides to impose a civil penalty on a landlord, then the landlord must be given a notice imposing that penalty ('Final Notice'). The notice must contain the following information:

- The amount of the Civil Penalty
- The reasons for imposing the penalty;
- Information about how to pay the penalty;
- The period for payment of the penalty;
- Information about rights of appeal to the First-Tier Tribunal (Property
- Chamber), and;
- The consequences of failure to comply with the notice.

The period of payment for the civil penalty must be 28 days beginning with the day after that on which the notice was given.

8.0 Withdrawing or Amending the Notice

At any time, the local authority may withdraw a ‘Notice of Intent’ or a ‘Final Notice’ or reduce the amount of a civil penalty as stated in the ‘Notice of Intent’ or ‘Final Notice’. This is done by giving notice in writing to the person on whom the notice was served. The amount of the civil penalty in the ‘Notice of Intent’ or ‘Final Notice’ cannot be increased.

Where a civil penalty has been withdrawn, and there is a public interest in doing so, the local authority can still pursue a prosecution against the landlord for the conduct for which the penalty was originally imposed. Each case will be considered on a case by case basis. Civil penalties are an alternative to prosecution however, and as such, if a civil penalty has been imposed and not withdrawn, the local authority cannot initiate a prosecution for the same offence.

9.0 Payment of a Civil Penalty

Where a civil penalty has been properly imposed, in accordance with the provisions of the Housing Act 2004 and this policy, it must be paid within 28 days, beginning with the day after that on which the ‘Final Notice’ was given (“the 28 day payment period”), unless that notice is suspended due to an appeal.

Where a civil penalty has been appealed to the First-Tier Tribunal (Property Chamber) and ultimately confirmed, the penalty amount will become due.

10.0 Other Consequences of Having a Civil Penalty Imposed

Where a civil penalty has been imposed on a landlord, this will form a part of the local authority’s consideration when reviewing licence applications for properties in which they have some involvement. This includes licences under Part 2 or Part 3 of the Housing Act 2004.

Whilst a civil penalty will not automatically preclude the local authority from granting a licence where such persons are involved, the reasons for imposing the penalty and the extent of the person’s involvement in the property will be considered to determine whether they are fit and proper to hold such a licence and/or be involved in the management of the property. The same considerations will apply to the potential revocation of property licences.

11.0 Appeals and the Role of the First-Tier Tribunal (Property) Chamber

If a civil penalty is imposed on a landlord, the landlord can appeal to the First-Tier Tribunal (Property Chamber) against the decision. The appeal is a re-hearing of the local authority’s decision but can have regard to matters that the local authority was unaware of at the time the decision was made. Where an appeal has been made, this suspends the civil penalty until the appeal is determined or withdrawn. On appeal the First-Tier Tribunal (Property Chamber) may confirm, vary (increase or decrease) or cancel the civil penalty.

The First-Tier Tribunal (Property Chamber) can dismiss an appeal if it is satisfied that the appeal is frivolous, vexatious or an abuse of process, or has no reasonable prospect of success. The local authority will make applications for such dismissal to the First-Tier Tribunal (Property Chamber) when appropriate to do so.

A civil penalty will only be imposed where the local authority is satisfied there is sufficient evidence to prove beyond reasonable doubt that the offence occurred and the penalty amount is determined in line with this Policy and the relevant statutory guidance.

Generally in appeals to the First-Tier Tribunal (Property Chamber) each party bears their own costs. However the Tribunal may award costs when one party has acted unreasonably in bringing, defending or conducting proceedings. The local authority will be likely to apply for costs in such cases.

12. Enforcement of Civil Penalties

Where a landlord fails to pay the whole or part of a civil penalty, it is the policy of the local authority to consider all legal options available, including pursuing the unpaid amount through the County Courts. The local authority may recover the civil penalty or part of it, on application to the County Court as if it was an order of that Court

Where appropriate, the Council will seek to recover the costs incurred in taking this action from the person to which the civil penalty relates.

13. Income Recovered from Civil Penalties

Any income from civil penalties is retained by the local authority which imposed the penalty. The local authority must use any income from civil penalties to further its statutory functions in relation to enforcement activity covering the private rented sector

14.0 Appeals and Complaints Procedure

The local authority’s complaints procedure is available for complaints relating to the application of this policy where there is not an appeal procedure otherwise available. Any appeals against a formal notice should be through the statutory appeal provisions.

Lancaster City Council | Report Cover Sheet

Meeting	Cabinet	**Date**	09 February 2021
Report of	Chief Finance Officer		
Purpose of Report			
This report sets out the latest position in respect of the budget and policy framework including Cabinet's proposed revenue budget for 2021/22 and Capital Programme for 2021/22. 2022/23 and 2023/24.			

Key Decision (Y/N)	**Y**	**Date of Notice**	**11/01/2021**	**Exempt (Y/N)**	**N**

Report Summary

The report provides Cabinet with information on the Council's latest General Fund Revenue budget proposals and resulting Council Tax requirement. Further information is provided regarding the Council's proposed Capital Programme as well as its Treasury Management and Capital Strategies and the Section 151 Officer's statement on the adequacy of reserves.

The report seeks Cabinet's approval and recommendations to Full Council.

Recommendations of Councillor Anne Whitehead

1. That Cabinet recommends the following for approval to Budget Council:

   - The 2021/22 General Fund Net Revenue Budget and resulting Council Tax Requirement excluding parish precepts (Appendix A) and supporting budget proposals (Appendix B).
   - The Section 151 Officer's statement on the adequacy of reserves and advice that the minimum level of balances be increased to £3.5M, subject to annual review.
   - the resulting position on reserves (Appendix C).
   - the updated Capital Programme covering financial years 2021/22 to 2024/25 (Appendix D).
   - the updated position on budget transfers (Appendix I)

2. That the Finance Portfolio Holder be given delegated authority to finalise the Revenue & Capital Budgets and Treasury Management Framework, as updated for Cabinet's final budget proposals, and outcomes of the Final Local Government Settlement for referral on to Budget & Performance Panel and Council.

3. That the Finance Portfolio Holder be given delegated authority to agree the revision of the Medium-Term Financial Strategy, as updated for Cabinet's final budget proposals, for referral on to Council.

Relationship to Policy Framework	
The budget should represent, in financial terms what the Council is seeking to achieve through its Policy Framework. The proposed Treasury Management framework forms part of the Council's budget and policy framework, and fits into the Medium Term Financial Strategy	
Conclusion of Impact Assessment(s) where applicable	
Climate	**Wellbeing & Social Value**
Digital	**Health & Safety**
Equality	**Community Safety**
The budget incorporates measures to make progress in addressing the climate emergency and digital improvements as well as activities to address wellbeing, health and community safety. The budget framework in general sets out a financial plan for achieving the Council's corporate priorities which incorporate the above cross cutting themes. Equalities impact assessments are undertaken for the relevant activities which are reflected in the budget.	
Details of Consultation	
Revenue Budget Proposals Cabinet's initial budget proposals were presented to the January meetings of Budget and Performance Panel and Council. **Treasury Management Framework** Officers have liaised with Link Asset Services, the Council's Treasury Advisors, in developing the proposed framework. The framework will be considered by Budget and Performance Panel at its meeting on 16 February 2021	
Legal Implications	
Legal Services have been consulted and have no further comments.	
Financial Implications	
As set out in the report and supporting Appendices	
Other Resource or Risk Implications	
No other implications directly arising from this report.	
Section 151 Officer's Comments	
<u>Robustness of Estimates and Adequacy of Council's Reserves</u> The Local Government Act 2003 placed explicit requirements on the Section 151 Officer to report on the robustness of the estimates included in the budget and on the adequacy of the Council's reserves. A summary of the Section 151 Officer's advice to date is provided below for information, but it should be noted that some of this is provisional until Cabinet's final budget proposals are confirmed.	

At Budget Council, Members will be recommended to note formally the advice of the Section 151 Officer.

Provisions, Reserves and Balances

Specific earmarked reserves and provisions are satisfactory at the levels currently proposed.

Unallocated balances of £3.5M for General Fund are reasonable levels to safeguard the Council's overall financial position, given other measures and safeguards proposed. This level has been increased by £1.0M compared with last year to reflect increased uncertainty with respect to the on-going COVID -19 pandemic, Brexit and reflects the sensitivity of some of the underlying savings and income levels within the budget.

Robustness of Estimates

A variety of exercises have been undertaken to establish a robust budget for the forthcoming year. These include:

- producing a base budget, taking account of service commitments, pay and price increases and expected demand/ activity levels as appropriate, and the consideration of key assumptions and risks such as levels of future Government funding for the pandemic and other areas.

- reviewing the Council's services and activities, making provision for expected changes;

- reviewing the Council's MTFS, together with other corporate monitoring information produced during the year;

- undertaking a review of the Council's borrowing needs to support capital investment, in line with the Prudential Code.

These measures ensure that as far as is practical, the estimates and assumptions underpinning the base budget are robust.

Affordability of Spending Plans

In addition, the Section 151 Officer is responsible for ensuring that when setting and revising Prudential Indicators, including borrowing limits, all matters to be taken into account are reported to Council for consideration as part of the Treasury Management Framework.

In considering affordability, the fundamental objective is to ensure that the Council's capital investment remains within sustainable limits, having regard to the impact on Council Tax (for General Fund). Affordability is ultimately determined by judgements on what is 'acceptable' this will be influenced by public, political, and national influences.

The factors that have been taken into account in considering capital investment plans include the following.

- availability of capital resources, including capital grants, capital receipts, etc
- existing commitments and planned service / priority changes
- options appraisal arrangements and robust business cases for the chosen options
- revenue consequences of any proposed capital schemes, including interest and debt repayment costs of any borrowing
- future years' revenue budget projections, and the scope to meet borrowing costs
- the likely level of government support for revenue generally
- the extent to which other liabilities can be avoided, through investment decisions.

In considering and balancing these factors, the capital proposals to date are based on levels of "prudential borrowing" or CFR over the period to 2024/25. The bulk of this relates to schemes to support delivery of the Council's key Strategic Priorities and Outcomes such as Climate Emergency, Economic Prosperity and Regeneration and Housing as outlined in the Capital Programme.

Like all Councils, Lancaster City faces increased financial pressures and uncertainty because of the impact of COVID-19 and Brexit. Over several years, the Council has managed to build up a level of reserves and will benefit from the significant green energy disregard, both of which offers a degree of protection from volatilities.

An underlying structural budget deficit was identified several years ago and although this deficit has increased, current spending plans are sustainable in the short term through the prudent allocation of funding from reserves.

However, in the medium term based on current projections they are not sustainable, and it is of the utmost importance that Members and Officers work together to support the Council's Funding the Future Strategy. Outcomes Based Resourcing is a core priority for all Officers in the coming financial year, and it will be expected to deliver significant inroads into the deficit.

Monitoring Officer's Comments

The Monitoring Officer has been consulted and has no comments on this report.

Contact Officer	Paul Thompson Chief Finance Officer/ s151 Officer
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Links to Background Papers	

1.0 INTRODUCTION

1.1 Under the Constitution, Cabinet has responsibility for developing corporate planning proposals and a balanced budget for Council's consideration.

1.1 The Council meeting on 27 January 2021 considered Cabinet's proposed revenue budget for 2021/22 and approved a City Council Tax increase of £5 together with a year-on-year target of the maximum allowable under the Government's local referendum thresholds for future years.

1.2 Cabinet has also considered a capital programme for 2021/24 to 2024/25 and this report provides a proposed capital programme for consideration and recommendation to Budget Council. The Treasury Management Strategy takes account of the proposed capital programme.

1.4 The report seeks delegated authority for the Finance Portfolio Holder to agree the Revenue and Capital Budgets together with the Treasury Management Framework, subject to any changes made resulting from the Final Local Government Settlement proposals before it is referred to Budget Council.

2.0 REVENUE BUDGET 2021/22

STRATEGIC CONTEXT

2.1 All Members will appreciate that the 2021/22 budget has been set at a time of unprecedented change and uncertainty, which has seen the Council react to address the pandemic resulting in significant shifts in capacity and priority. These levels of uncertainty put significant pressure on the ability to forecast. External factors such as the pandemic and EU Exit fundamentally alter both the priorities for and use of council resources and the context of our income from taxation, rates, fees and charges are expected to continue to be factors in coming years.

2.2 The proposed revenue budget includes a small range of Outcomes Based Resourcing (OBR) based savings, and growth proposals have been limited to those which are vital to the successful operation of the Council in continuing to secure income and fees, support efficient and effective service delivery and reporting, offering statutory services at viable levels, and progressing the capital programme. The proposed budget is balanced, in line with statutory requirements, but is subject to the outcome of the Final Local Government Settlement.

2.3 Cabinet is now required to finalise its full budget proposals and make recommendations to Budget Council. The planned revenue budget for 2021/22 is included at ***Appendix A*** with more detailed budget proposals in ***Appendix B***.

2.4 The proposed revenue budget was agreed by Cabinet at its meeting on 27 January 2021 and this was subject to the Local Government Settlement and calculations of annual estimates for collection fund surpluses or deficits in respect of Council Tax and Business Rates which are considered below.

LOCAL GOVERNMENT SETTLEMENT

2.5 The Provisional Local Government Settlement was announced 17 December 2020 and retained Council Tax threshold principles for districts at 1.99% or £5, whichever is higher. The Final Local Government Settlement is yet to be laid before parliament; however, it is expected that these thresholds will remain unchanged.

COUNCIL TAX

2.6 Legislation requires that separate estimates be made for any Collection Fund surpluses or deficits on the Collection Fund relating to the Council Tax and Business Rates.

2.7 For Council Tax, it is confirmed that the Collection Fund is expected to generate a small surplus for the year and with the overall fund position remaining in deficit.

2.8 The Council Tax increase of £5 agreed by Council on 27 January 2021 means that the City element of Council Tax for a band D property will be £236.95.

BUSINESS RATES

2.9 The Council is required to submit its annual business rates return to the Government by the end of January in which it estimates business rates income for 2021/22 and the estimated deficit / surplus as at the end of 2020/21.

2.10 The estimated deficit for 2020/21 is £26.279M as shown in Table 1 below and the City Council's share of this is £10.512M

2.11 The table below shows that of the City Council's share of the £10.512M deficit £9.625M will be recognised during 2021/22 and it is estimated that £6.914M of this will be offset by Section 31 grant leaving a charge against the General Fund of £2.711M. An amount of £0.887M relating to the residual in-year deficit will be spread equally between 2022/23 and 2023/24 and budgetary provision for this has been made.

Table 1: Business Rates

	2020/21 £M
Actual deficit brought forward (from collection fund statement)	2.712
Transfer to other precepting authorities in respect of last year forecast surplus (arising from calculations done a year ago)	2.958
Forecast Business Rates Income for 2020/21	-51.990
Rate Retention Scheme Charges for 2020/21	72.599
Estimated Deficit for 2020/21 as at 31 January 2021	26.279
City Council Share of the deficit at 40%	10.512

City Council Share of the deficit to be recognised in 2021/22	9.625
Share of deficit to be offset by S31 additional grant reliefs in respect of retail discount & nursery discount	-6.914
Charge against the General Fund in 2021/22	2.711
City Council Share of the deficit to be recognised during 2022/23 - 2024/25	0.887

2.12 The position for 2020/21 is a particularly complex one in light of the COVID-19 pandemic. As a result of the pandemic Central Government significantly amended and extended the reliefs that could be given to ratepayers. In light of this, in the national context, business rates collectible from ratepayers is more than £10billion lower than that forecast last January on which payments from the Collection Fund in 2020/21 were based. Authorities are being compensated for this through payments of

Section 31 grant so that this element of the deficit will not impact on local authority budgets for 2021/22.

2.13 In addition the pandemic has impacted levels of business rates receivable during the year. To prevent spending on local services being significantly curtailed during 2021/22 as a result of this Regulations were amended to allow the spreading of any in-year deficit over three years.

2.14 The severe impact of the pandemic and the restrictions placed on business means that business rates continue to be an area of significant uncertainty in respect of predicting income for the reasons set out below:

2.15 Appeals by businesses against their Rateable Value (RV). Notification has been provided by the Valuation Office that the current pandemic represents a material change and they are considering RV reductions via check and challenge process. Councils make provision against future levels of appeals; however, the timing and value of potential appeals remains unclear.

2.16 The potential for a shutdown at Heysham Nuclear Power Station continues to be a risk which the Council must monitor, as such an event would significantly reduce retention from business rates.

2.17 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 2021/22, this will be worth £3M to Lancaster City Council, making a significant contribution towards mitigating the City Council’s share of any deficit on the Collection Fund in respect of Business Rates. Whilst it is evident that this 100% disregard will continue into 2021/22, there is a risk that the Government will discontinue this advantageous arrangement at some point in the future.

2.18 Central Government operates a “safety net” system to protect those Councils which see their year-on-year business rate income fall by more than 7.5 per cent. The Section 151 Officer has allowed for this arrangement when considering the level of balances held within the Business Rates reserve.

3.0 PROVISIONS, RESERVES & BALANCES

3.1 Under current legislation the Section 151 Officer is required to give explicit advice to Council on the minimum level of reserves and balances.

Provisions

3.2 The bad debt and insurance provisions have been reviewed and are considered adequate at this time.

Reserves & Balances

3.3 Reserve levels and use of reserves are an important part of the budget framework. It is important that the Council maintains a healthy level of reserves in order to maintain financial resilience but balances this with the careful use of those reserves, usually on ‘one-off’ items in order to support corporate priority projects.

Annual Assessment of Reserves Levels

3.4 The Section 151 Officer's annual review of the adequacy of reserve balances is a statutory requirement. Although usable revenue reserve levels have increased in the last two years, continuing uncertainties with respect to COVID-19, BREXIT and Local Government Funding remain. **Taking this additional risk into account, the Section 151 Officer's advice is that the minimum level of balances held in the General Fund should be set at £3.5M, an increase of £1M.**

3.5 The Section 151 Officer's latest advice on the adequacy of balances is based on the following observations:

- The General Fund Balance at 31/03/20 was £5.045M, with net in year allocations of £2M. Latest revenue budget monitoring forecasts an underspend of £3.271M in 2020/21. The proposed 2021/22 budget will require £2.267M of funding from unallocated reserves leaving a forecast balance of £4.529M at 31/03/21. Allowing for the s151 Officers recommended minimum level of £3.5M this provides for £1.029M of available balances.

- The Council's MTFS suggests a structural budget gap in 2022/23 onwards of approximately £2.183M raising to £4.668M. If this is not closed, then balances will be required to make up the difference.

- Business rates retention volatility remains a risk to the Council, but this is now managed via the Business Rates Reserve considered in the next section and therefore should not impact directly on the General Fund balance.

- There is continuing uncertainty with respect to COVID-19 and BREXIT and how this will impact, directly or indirectly, Council finances.

- The MTFS provides forecasts on funding and on net expenditure and sensitivities associated with these forecasts. The Treasury Management Strategy documents collectively provide assurance with respect to the affordability, sustainability and prudence of capital expenditure.

3.6 In calculating the minimum level of General Fund balance, an assessment of the risks that give rise to unanticipated expenditure or loss of income has been made and these are shown in Table 2 below.

Table 2

Risk	**Symptom of Risk**	**Balance Required £M**
Increased demand for services	3% increase in net revenue expenditure	0.600
Recession results in additional uncompensated reduction in fees and charges income than budget	5% reduction in major fees and charges income	0.800
Recession results in additional reduction in Council Tax collection rates than budget	3% reduction in collection rate	0.350
Next years budget savings not achieved	50% under achievement	0.225
Natural disaster such as flood	Additional unexpected expenditure	0.500

Additional uncertainty with respect to Brexit/ COVID	Additional unexpected expenditure	1.000
Aggregate overspend if all of the above risks were to happen		**3.475**
Estimated General Fund Balance as at 31/03/22		**4.529**

3.7 The analysis shows that, in the unlikely event of a ‘Perfect Storm’ of risks happening all within the next year, there are sufficient balances to meet all these risks in the short term which would give the Council time to adapt in the longer term.

3.8 The minimum level of balances will be kept under review as part of the MTFS and reported to Cabinet on a regular basis.

Planned use of reserves and estimated reserve balances over the medium term

3.9 The estimated combined reserves balances are shown in Appendix C and are summarised in table 3 below

Table 3

	2020/21 £M	**2021/22 £M**	**2022/23 £M**	**2023/24 £M**	**2024/25 £M**
Balance brought forward	(20.365)	(19.681)	(15.596)	(14.563)	(13,413)
Impact of 2021/22 budget decisions	0	2.267	0.104	0.010	0.010
Impact of previous decisions	0.684	1.818	0.929	1.140	(0.374)
Balance carried forward	**(19.681)**	**(15.596)**	**(14.563)**	**(13.413)**	**(13.777)**

3.10 It should be noted that the above analysis reflects allocated use of reserves which are subject to the completion and authorisation of a reserves bid template to ensure the effective use of resources to meet corporate priorities. If no bid is made or the bid is rejected then allocations will not be used.

3.11 It should also be noted that any business rates growth above budget and/or returns from invest to save projects will, all other things being equal, increase reserves balances from those set out in the above analysis.

Governance Arrangements on the Use of Reserves

3.12 The Reserves Strategy sets out improved arrangements for the approval of reserves expenditure which include:

- a requirement to complete a bid document setting out how reserves expenditure will deliver corporate priorities with a clear costing statement and schedule of outcome measures

- a process to ensure that all use of reserves are approved by Cabinet either as part of the annual budget or via consideration of bids during the year, usually as part of strategy or project approval Cabinet report

- decision limits to ensure that Cabinet approval of reserves bids is delegated appropriately.

4.0 GENERAL FUND CAPITAL PROGRAMME

4.1 The proposed General Fund investment programme for the period to 2024/25 is included at ***Appendix D*** and summarised in table 4 below.

Table 4

	2020/21 £M	2021/22 £M	2022/23 £M	2023/24 £M	2024/25 £M
Approved Schemes	11.968	9.768	3.227	0.755	2.246
Development Pool	2.898	33.570	21.524	6.900	4.840
Total	**14.866**	**43.338**	**24.751**	**7.655**	**7.086**

4.2 The current year's revised net programme now stands at £14.866M. During the next 4 years, a further £83.850M of investment is currently planned, giving a total net 5-year programme from 2020/21 to 2024/25 of £96.095M.

4.3 Recent changes to Public Works Loan Board (PWLB) borrowing have had significant implications for the Capital Programme, with investment primarily for yield now being constrained. These changes may require a different approach to capital investment, and while, given the social motives of the Council, the majority of the planned schemes appear eligible, further work is being undertaken to ensure the alignment of the programme with the new criteria. Should any revisions to the programme, or supporting strategies be required these will be brought forward for approval in line with the Council's constitutional requirements.

4.4 Development pool schemes provision is included where work is being undertaken to develop schemes, but the provision will not be dispersed until full business cases have been considered and approved via the relevant decision-making governance

4.5 A number of significant schemes are included in the development pool including Canal Quarter, general fund housing schemes, Heysham Gateway development as well as investment in solar and renewable energy. All of these schemes will require significant capital expenditures and borrowing but each business case will have to show that income arising from the capital investment is capable of covering all borrowing costs and delivering a positive return to the Council.

4.6 Overall the programme is balanced, allowing for a decrease in the underlying need to borrow (known as the Capital Financing Requirement or CFR), over the period to 2024/25. The Council makes a revenue provision for the repayment of borrowing known as Minimum Revenue Provision (MRP) which reduces the CFR.

4.6 In setting the capital programme the Council must have regard to affordability and the Treasury Management Strategy sets out through a series of prudential indicators the impact of the Council's Capital Programme on its borrowing to ensure that all borrowing is affordable, prudent and sustainable.

5.0 TREASURY MANAGEMENT STRATEGY

5.1 The Code of Practice on Treasury Management ("the Code") requires that a strategy outlining the expected treasury activity for the forthcoming 3 years be adopted, but that it be reviewed at least annually. It needs to reflect treasury policy and cover various forecasts and activities, in order to integrate the Council's spending and income plans with decisions about investing and borrowing

5.2 Treasury management activities represent the placement of residual cash held in the bank resulting from the authority's day to day activities in relation to s12 Local Government Act investment powers. The Treasury Management Strategy, therefore deals principally with investments and borrowing which are considered below.

5.3 In February 2020 Parliament reformed the statutory basis of the PWLB, transferring its lending powers to HM Treasury. In March 2020 the government consulted on revising the PWLB's lending terms to reflect these new governance arrangements. The government published its response to this consultation and implemented reforms in November 2020.

5.4 The main objective of these reforms was to respond to the major expansion of local authority investment activity over the last few years into the purchase of non-financial investments, particularly property held for primarily for yield. As noted in section 4 above this has impacted the Council's capital programme and elements of its Funding the Future Strategy. The proposed Treasury Management Strategy fully complies current regulation and guidance. However, officers are exploring options around future funding of capital schemes and any revisions to the programme or supporting strategies will be brought forward for approval in line with the Council's constitution.

Treasury Management Framework

5.5 The proposed Strategy for 2021/22 to 2024/25 is set out at ***Appendix H***. The document contains the necessary details to comply with both the Code and Government investment guidance. Responsibilities for treasury management are set out at ***Appendix F*** and the policy statement is presented at ***Appendix G.***

5.6 Key elements and assumptions feeding into the proposals are outlined below. These take account of Cabinet's existing budget proposals as far as possible at this stage. Should there be any changes to the budget, then the treasury framework would need to be updated accordingly before being referred on to Budget Council. For these reasons, delegated arrangements are being sought for finalising the framework.

Borrowing Aspects of the Strategy

5.7 Based on the draft budget, the overall physical borrowing position of the Council is projected to increase significantly over the next three to five years from its current position of £62M to £102M (2021/22) potentially raising to £126M (2024/25) as the Council looks to move forward with several ambitious schemes to enable delivery of its Strategic Priorities.

5.8 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. Changes in the Council's Capital Financing Requirement and forward borrowing projections are summarised in tables 5 and 6 below.

Table 5: Capital Financing Requirement

£m	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Capital Financing Requirement						
CFR – Non Housing	43.50	44.71	85.04	106.95	110.08	112.82
CFR – Housing	38.28	37.23	36.19	35.15	34.11	33.07
CFR – Commercial activities/non-financial investments	4.92	13.93	13.65	13.37	13.09	12.81
Total CFR	**86.70**	**95.87**	**134.88**	**155.47**	**157.28**	**158.70**

Table 6: Borrowing Projections

	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
External Debt						
Debt at 1 April	63.17	62.13	102.09	122.67	125.60	126.66
Expected change in Debt	(1.04)	(1.04)	(1.04)	(1.04)	(1.04)	(1.04)
Actual gross debt at 31 March	62.13	61.08	101.05	121.63	124.56	125.62
The Capital Financing Requirement	86.70	95.87	134.88	155.47	157.28	158.70
Under Borrowing	(24.57)	(34.79)	(33.83)	(33.84)	(32.72)	(33.08)

Investment Aspects of the Strategy

5.9 Where short term treasury management investments are required the Council retains a comparatively low risk appetite with focus on high quality deposits. The 2021/22 strategy continues to use the same short term investment criteria as approved by Members in 2020/21.

5.10 The proposed investment aspects of the strategy for treasury activities continues to provide for investing with other local authorities given that these, in effect, are as secure as investing with the Government but they offer greater returns, and from an Officer perspective, it makes sense to keep the benefits of such temporary cash investing/ borrowing wholly within the local authority family. Where this is not possible for liquidity reasons the Council is looking to place more emphasis on investment counterparties that are consistent with its own Priorities in particularly around climate change and ethical investments.

5.11 The Prudential Code 2017 also introduced a new requirement to produce an annual capital strategy ***Appendix E***. This is an over-arching corporate document which deals with the key areas of strategic context, corporate priorities, capital investment ambition, available resources, affordability, capacity to deliver, risk appetite, risk management and determining an appropriate split between non-financial and treasury management investments in the context of ensuring the long term financial sustainability of the authority.

6.0 MEDIUM TERM FINANCIAL STRATEGY

6.1 The proposals set out in this report will be incorporated into the refresh of the Medium Term Financial Strategy (MTFS) so that this can be presented to Budget Council.

6.2 Work has commenced to support opportunities to address the underlying structural deficit, by:

- Increasing and diversifying income
- Improving productivity and securing efficiencies via new ways of working (e.g., Outcomes Based Resourcing)
- Developing alternative ways to achieve priority outcomes (e.g., partnership)

6.2 While Local Government Reorganisation (LGR) presents an opportunity to think longer term about the design of services and the budget, work continues to identify and implement transformation opportunities which place Lancaster in a position of strength irrespective of future scenarios and plans.

6.3 A MTFS Action Plan will be agreed by Cabinet and monitored by Budget and Performance Panel to ensure that the Council focuses on the structural budget gap in a timely and effective manner.

7.0 OPTIONS & OPTIONS ANALYSIS

Revenue Budget

7.1 Cabinet may adjust its revenue budget proposals, so long as the overall budget for 2021/22 balances and fits with the proposed Council Tax level.

Capital Programme

7.2 Cabinet may adjust its capital investment and financing proposals to reflect spending commitments and priorities but in deciding its final proposals should have regard to the prudential code requirements that all capital expenditure should be prudent, affordable and sustainable.

Treasury Management Framework

7.3 Cabinet may put forward alternative proposals or amendments to the proposed Strategy in ***Appendix H***, but these would have to be considered in light of legislative, professional and economic factors, and importantly, any alternative views regarding the Council's risk appetite. As such no further options analysis is available at this time.

7.4 Furthermore, the Strategy must fit with other aspects of Cabinet's budget proposals, such as deposit interest estimates and underlying prudential borrowing assumptions, feeding into Prudential and Treasury Management Indicators. There are no options available regarding other components of the overall framework.

8.0 OFFICER PREFERRED OPTION (AND COMMENTS)

Revenue Budget, Capital Programme and Reserves Position

8.1 Proposals to be put forward by Cabinet should fit with any external constraints and the budgetary framework already approved. The recommendations as set out meet these requirements; the detailed supporting budget proposals are then a matter for Members.

Treasury Management Strategy

8.2 To approve the framework as attached, allowing for any amendments being made under delegated authority prior to referral to Council. This is based on the Council continuing to have a comparatively low risk appetite regarding the security and liquidity of investments particularly, but recognising that some flexibility should help improve returns, whilst still effectively mitigating risk. It is stressed that in terms of treasury activity, there is no risk free approach. It is felt, however, that the measures set out above provide a fit for purpose framework within which to work, pending any update during the course of next year.

8.3 If Cabinet or Budget Council changes its Capital Programme from that which is proposed in this report then this would require a change in the prudential indicators which are part of the Treasury Management Strategy. Delegation to the Finance Portfolio Holder is therefore requested in order to ensure that Cabinet's final capital programme proposals are reflected in the Treasury Management Strategy

APPENDICES

Appendix A: General Fund Summary
B: Savings & Growth
C: Reserves Summary
D: Capital Programme
E: Capital Strategy
F: Treasury Management Responsibilities
G: Treasury Management Statement
H: Treasury Management Strategy
I: Budget Transfers (Virements, Carry Forwards & Reserves)

Appendix A

General Fund Revenue Budget Projections 2020/21 to 2024/25

For Consideration by Cabinet 9 February 2021

BUDGET PROJECTIONS

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Revenue Budget/Forecast as at 26 February 2020	**17,903**	**18,131**	**18,322**	**18,883**	**19,261**
Base Budget Changes					
Operational Changes @ Cabinet 24/11/20	1,494	2,538	1,205	1,891	2,289
Operational Changes @ Cabinet 19/01/21		(825)	1,206	1,806	1,882
Latest Budgetary Position	**19,397**	**19,844**	**20,733**	**22,580**	**23,432**
Outcomes Based Resourcing Proposals:					
Savings Proposals	0	(444)	(727)	(521)	(534)
Redirection Proposals	0	0	0	0	0
Additional Resource Requirements	0	559	632	651	676
Revenue Implication of New Capital Schemes	-	82	472	839	826
Contribution to/(from) Reserves	3,751	(2,267)	0	0	0
General Fund Revenue Budget	**23,148**	**17,774**	**21,110**	**23,550**	**24,400**
Core Funding:					
Revenue Support Grant	(203)	(204)	-	-	-
Net Business Rates Income	(13,273)	(7,737)	(8,836)	(8,924)	(9,013)
Council Tax Requirement	**9,672**	**9,833**	**12,274**	**14,626**	**15,387**
Estimated Council Tax Income - (Increases based on £5 for 2021/22 then max allowable)	**9,672**	**9,833**	**10,091**	**10,403**	**10,719**
Resulting Base Budget (Surplus)/Deficit	**0**	**0**	**2,183**	**4,223**	**4,668**
Original MTFS Savings Requirement	***0***	***1,558***	***1,234***	***1,270***	***N/A***
Change	***+0***	***(1,558)***	***+949***	***+2,953***	***N/A***

BALANCES

General Fund Unallocated Balance	
	£M
Original Projected Balance as at 31 March 2020	**(5.045)**
2020/21 In Year allocations	**+2.000**
2020/21 Forecast (Under)/Overspend	(3.751)
Projected Balance as at 31 March 2021	(6.796)
2021/22 Forecast Budgeted Contribution	+2.267
Projected Balance as at 31 March 2022	**(4.529)**
Less Recomended Minimum Level of Balances	**3.500**
Available Balances	**(1.029)**

APPENDIX B

Saving and Budget Proposals 2020/21 to 2024/25

SAVINGS PROPOSALS

	Reserves Funding 2021/22	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Non-Reserve Savings						
Communities & the Environment						
Public Protection						
Savings from combined post and reduction in hours		-	(16)	(32)	(38)	(38)
Selective Licensing part Savings part Growth but will net nil over 5 years		-	(35)	(85)	34	34
Public Realm & Business Support						
Service restructure Phase 2		-	(10)	(10)	(10)	(9)
Deletion of vacant posts		-	(29)	(29)	(33)	(33)
Increase trade waste capacity, via route optimisation		-	(50)	(100)	(100)	(100)
Drainage / pressure jetting service		-	(4)	(28)	(28)	(28)
Customer Involvement & Leisure						
Salt Ayre Vacant Post		-	(44)	(46)	(47)	(48)
Customer Services Restructure		80	(40)	(38)	(35)	(33)
Customer Services Restructure (funded by restructuring reserve)		(80)	-	-	-	-
Customer Services Vacant Post		-	-	(31)	(32)	(33)
Economic Growth & Regeneration						
Planning & Place						
DM- Planning pre-application fee review		-	(10)	(15)	(20)	(25)
Building Control - Fee Review		-	(10)	(20)	(30)	(40)
Property, Investment & Regen						
Reduced staff activity and increased community use (LTH/MTH)		-	(111)	(82)	-	-
R&M Future savings (2021/22 from Corporate Property Reserve)	(25)	-	25	(56)	(56)	(56)
Relocate ICT		-	21	(28)	-	-
Printing & Postage		-	(30)	(30)	(30)	(30)
Centralisation of budgets		-	(5)	(5)	(5)	(5)
Corporate Services						
Legal Services						
Legal Fee Increases		-	(40)	(40)	(40)	(40)
ICT						
ICT Mobile Telephone / Fixed Lines Review		-	(11)	(11)	(11)	(11)
ICT Review Length of Software Licences		-	-	(10)	(10)	(10)
ICT Structural Change / Shared Resource		-	-	(10)	(10)	(10)
ICT Review and Consolidation of Printers		-	(5)	(5)	(5)	(5)
ICT Recharging for Street Naming/Numbering		-	(15)	(15)	(15)	(15)
Sub Total	**(25)**	**0**	**(419)**	**(727)**	**(521)**	**(534)**
Funding From Reserves		**0**	**(25)**	**0**	**0**	**0**
Net Savings		**0**	**(444)**	**(727)**	**(521)**	**(534)**

REDIRECTION

	Reserves Funding	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Redirection						
Salt Ayre Restructure		-	(87)	(90)	(92)	(95)
Property Services Restructure		-	87	90	92	95
		-	-	-	-	-
Redirection requested to be funded from Reserves						
		-	-	-	-	-
		-	-	-	-	-
Total Redirection (expected to be minimal)	**£0K**	**0**	**0**	**0**	**0**	**0**
Less Funding from Reserves		**0**	**0**	**0**	**0**	**0**
Add Payback to Reserves						
Net Cost of Redirection		**0**	**0**	**0**	**0**	**0**

ADDITIONAL RESOURCE REQUIREMENTS

	Reserves Funding	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Non-Reserve Growth						
Communities & the Environment						
Public Realm						
HMP Splash Park Renewal Programme	(60)	-	70	10	10	10
Housing Services						
Stock condition survey module for PRS (Corporate Priorities Reserve)	(60)	-	60	-	-	-
Economic Growth & Regeneration						
Planning & Place						
DM Planning Enforcement - Team Restructure		-	4	3	2	4
DM Planning applications - Service continunity and restructure		-	230	327	336	348
Planning and Housing Strategy - Conservation Graduate		-	26	26	27	28
Economic Development						
Business Support & Skills expand Local wealth Building Officer post		-	5	1	1	1
Business Engagement (COVID Recovery) - 3 temporary officers	(90)	-	90	94	0	0
Property, Investment & Regen						
Strategic Project Management		-	55	56	58	59
Capital Programme Development	(80)	-	80	-	-	-
Corporate Services						
Financial Services						
HR/Payroll Software move to Cloud			23	10	10	10
Financial Services Staffing		-	60	61	65	69
Human Resources						
HR & OD Project Teams		-	40	41	42	43
Democratic Services						
Democratic Services (re-establisment)		-	26	26	27	28
		-	-	-	-	-
Office of the Chief Executive						
Head of Policy		-	68	69	71	74
Local Government Reorganisation	(200)	-	200			
Wellbeing			12	12	12	12
Approved Growth funded from Reserves						
		-	-	-	-	-
		-	-	-	-	-
Growth funded from Reserves (Subject to Business Case Approval)						
		-	-	-	-	-
		-	-	-	-	-
		-	-	-	-	-
Total Growth	**(490)**	**0**	**1,049**	**736**	**661**	**686**
Less Funding from Reserves		**0**	**(490)**	**(104)**	**(10)**	**(10)**
Add Payback to Reserves						
Net Cost of Growth		**0**	**559**	**632**	**651**	**676**

Reserves Statement (Including Unallocated Balances)

	31 March 2020 £	From Revenue £	To / (From) Capital £	To Revenue £	31 March 2021 £	From Revenue £	To / (From) Capital £	To Revenue £	31 March 2022 £	From Revenue £	To / (From) Capital £	To Revenue £	31 March 2023 £	From Revenue £	To / (From) Capital £	To Revenue £	31 March 2024 £	From Revenue £	To / (From) Capital £	To Revenue £	31 March 2025 £
Unallocated Balances	**(5,045,000)**	(3,751,000)		2,000,000	**(6,796,000)**			2,267,000	**(4,529,000)**				**(4,529,000)**				**(4,529,000)**				**(4,529,000)**
Earmarked Reserves:																					
Business Rates Retention	**(7,376,900)**			814,500	**(6,562,400)**	(886,386)		96,500	**(7,352,286)**			1,172,193	**(6,180,093)**	363,600		1,369,493	**(4,447,000)**				**(4,447,000)**
Corporate Priorities	**(2,152,700)**	(882,200)		1,105,000	**(1,929,900)**		684,000	867,600	**(378,300)**	(491,300)	240,000	529,100	**(100,500)**	(943,400)	240,000	524,800	**(279,100)**			278,800	**(300)**
Canal Quarter	**(69,100)**			26,200	**(42,900)**																
Capital Support	**(258,200)**		4,000	185,200	**(69,000)**		69,000														
Corporate Property	**(338,500)**				**(338,500)**			25,000	**(313,500)**				**(313,500)**				**(313,500)**				**(313,500)**
Covid 19 Support Reserve		(2,000,000)		1,775,000	**(225,000)**			225,000													
Economic Growth	**(126,000)**	(117,500)		35,900	**(207,600)**	(96,500)		166,500	**(137,600)**	(96,500)		96,500	**(137,600)**	(96,500)		96,500	**(137,600)**				**(137,600)**
Elections		(40,000)			**(40,000)**	(40,000)			**(80,000)**	(40,000)			**(120,000)**	(40,000)		160,000		(40,000)			**(40,000)**
Homelessness Support	**(110,800)**	(23,000)			**(133,800)**	(6,600)			**(140,400)**	(6,600)			**(147,000)**	(6,600)			**(153,600)**				**(153,600)**
Invest to Save	**(1,397,000)**	(29,400)		842,300	**(584,100)**	(92,200)		624,500	**(51,800)**	(148,200)		200,000		(250,000)		239,000	**(11,000)**				**(11,000)**
Local Plan																					
Morecambe Area Action Plan	**(27,300)**			27,300																	
Museums Acquisitions	**(21,300)**	(3,000)			**(24,300)**	(4,500)			**(28,800)**	(4,500)			**(33,300)**	(4,500)			**(37,800)**	(4,500)			**(42,300)**
Planning Fee Income	**(74,600)**				**(74,600)**				**(74,600)**				**(74,600)**				**(74,600)**				**(74,600)**
Renewals Reserves	**(380,600)**	(481,800)	149,000	155,200	**(558,200)**	(481,800)	360,000	102,100	**(577,900)**	(481,800)	150,000	38,700	**(871,000)**	(481,800)	124,000	36,200	**(1,192,600)**	(481,800)	38,000	44,200	**(1,592,200)**
Restructure	**(530,700)**			80,000	**(450,700)**			262,500	**(188,200)**			31,700	**(156,500)**			17,800	**(138,700)**				**(138,700)**
Revenue Grants Unapplied	**(827,400)**	(4,700)		415,700	**(416,400)**			82,800	**(333,600)**			39,000	**(294,600)**			1,800	**(292,800)**			1,500	**(291,300)**
S106 Commuted Sums - Open Spaces	**(28,400)**			11,800	**(16,600)**			11,800	**(4,800)**			4,700	**(100)**				**(100)**				**(100)**
S106 Commuted Sums - Affordable Housing	**(564,800)**			375,000	**(189,800)**				**(189,800)**				**(189,800)**				**(189,800)**				**(189,800)**
S106 Commuted Sums - Highways, Cycle Paths etc.	**(611,600)**	(161,600)	142,000	4,700	**(626,500)**	(200,000)		5,700	**(820,800)**	(200,000)			**(1,020,800)**	(200,000)			**(1,220,800)**	(200,000)			**(1,420,800)**
Welfare Reforms	**(324,900)**				**(324,900)**				**(324,900)**				**(324,900)**				**(324,900)**				**(324,900)**
Amenity Improvements	**(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 Earmarked Reserves	**(15,319,700)**	**(3,743,200)**	**295,000**	**5,882,800**	**(12,885,100)**	**(1,807,986)**	**1,113,000**	**2,470,000**	**(11,067,186)**	**(1,468,900)**	**390,000**	**2,111,893**	**(10,034,193)**	**(1,659,200)**	**364,000**	**2,445,593**	**(8,883,800)**	**(726,300)**	**38,000**	**324,500**	**(9,247,600)**

Total Combined Reserves	**(20,364,700)**				**(19,681,100)**				**(15,596,186)**				**(14,563,193)**				**(13,412,800)**				**(13,776,600)**

General Fund Capital Programme

Cabinet 09/02/21

Service / Scheme	2020/21 Gross Budget	2020/21 External Funding	2020/21 Net Programme	2021/22 Gross Budget	2021/22 External Funding	2021/22 Net Programme	2022/23 Gross Budget	2022/23 External Funding	2022/23 Net Programme	2023/24 Gross Budget	2023/24 External Funding	2023/24 Net Programme	2024/25 Gross Budget	2024/25 External Funding	2024/25 Net Programme	5 YEAR PROGRAMME Total Gross Programme	5 YEAR PROGRAMME Total External Funding	5 YEAR PROGRAMME Total Net Programme
	£	£	£	£	£	£		£	£	£	£	£	£	£	£	£	£	£
Communities and Environment																		
Vehicle Renewals	1,505,000		1,505,000	2,684,000		2,684,000	1,167,000		1,167,000	184,000		184,000	1,983,000		1,983,000	7,523,000	0	7,523,000
2 x Electric Refuse Vehicles			0	400,000		400,000			0			0			0	400,000	0	400,000
Pool Cars	174,000		174,000			0			0			0			0	174,000	0	174,000
Electronic Vehicle Charging Points - Phase 2	58,000	(30,000)	28,000			0			0			0			0	58,000	(30,000)	28,000
Phase 1 1MW Solar Farm	50,000		50,000	1,350,000		1,350,000			0			0			0	1,400,000	0	1,400,000
One Million Trees	25,000		25,000	25,000		25,000	30,000		30,000	30,000		30,000			0	110,000	0	110,000
Happy Mount Park Pathway Replacements	112,000		112,000			0			0			0			0	112,000	0	112,000
Far Moor Playing Fields s106 Scheme	72,000		72,000			0			0			0			0	72,000	0	72,000
Disabled Facilities Grants	1,724,000	(1,724,000)	0	2,939,000	(2,939,000)	0	1,890,000	(1,890,000)	0	1,890,000	(1,890,000)	0	1,890,000	(1,890,000)	0	10,333,000	(10,333,000)	0
Half Moon Bay Car Park Extension			0	60,000		60,000			0			0			0	60,000	0	60,000
Salt Ayre Boiler Replacement			0	300,000		300,000			0			0			0	300,000	0	300,000
Salt Ayre Asset Management Plan			0	1,757,000		1,757,000	511,000		511,000	124,000		124,000	38,000		38,000	2,430,000	0	2,430,000
Customer Contact System	115,000		115,000	85,000		85,000			0			0			0	200,000	0	200,000
Mellishaw Park			0	480,000		480,000	240,000		240,000	240,000		240,000			0	960,000	0	960,000
Economic Growth and Regeneration																		
Sea & River Defence Works & Studies	6,034,000	(5,846,000)	188,000	3,000	(3,000)	0			0			0			0	6,037,000	(5,849,000)	188,000
Units at White Lund Industrial Estate	9,100,000		9,100,000			0			0			0			0	9,100,000	0	9,100,000
Lancaster Heritage Action Zone	193,000	(88,000)	105,000	850,000	(294,000)	556,000	1,558,000	(646,000)	912,000	274,000	(127,000)	147,000			0	2,875,000	(1,155,000)	1,720,000
Coastal Revival Fund - Morecambe Co-Op Building	11,000	(11,000)	0			0			0			0			0	11,000	(11,000)	0
Morecambe Co-Op Building Renovation	0		0	425,000		425,000			0			0			0	425,000	0	425,000
Coastal Revival Fund - Morecambe Winter Gardens	92,000	(92,000)	0			0			0			0			0	92,000	(92,000)	0
Morecambe Winter Gardens Loan	103,000		103,000			0			0			0			0	103,000	0	103,000
Canal Quarter Site Acquisition			0	290,000		290,000			0			0			0	290,000	0	290,000
Lancaster Square Routes	26,000	(21,000)	5,000			0			0			0			0	26,000	(21,000)	5,000
Lancaster District Empty Homes Partnership	4,000		4,000	69,000		69,000			0			0			0	73,000	0	73,000
S106 Highways Works	70,000		70,000			0			0			0			0	70,000	0	70,000
Hale Carr Lane Cemetery Chapel	8,000		8,000			0			0			0			0	8,000	0	8,000
Lancaster City Museum Boiler			0	127,000		127,000			0			0			0	127,000	0	127,000
1 Lodge Street Urgent Structural Repairs	6,000		6,000	490,000		490,000			0			0			0	496,000	0	496,000
Palatine Recreation Ground Pavillion			0	116,000		116,000			0			0			0	116,000	0	116,000
Dalton Square			0	169,000		169,000			0			0			0	169,000	0	169,000
Corporate Services																		
ICT Systems, Infrastructure & Equipment	123,000		123,000	105,000		105,000	337,000		337,000			0			0	565,000	0	565,000
ICT Laptop Replacement & e-campus screens	60,000		60,000	30,000		30,000	30,000		30,000	30,000		30,000			0	150,000	0	150,000
ICT Telephony	115,000		115,000			0			0			0			0	115,000	0	115,000
Development Pool																		
Palatine Hall			0	150,000		150,000			0			0			0	150,000	0	150,000
Old Fire Station Development Works			0	250,000		250,000			0			0			0	250,000	0	250,000
Williamson Park Ashton Memorial			0			0			0			0	225,000		225,000	225,000	0	225,000
Improvements to Ashton Hall			0	300,000	(40,000)	260,000	150,000		150,000			0			0	450,000	(40,000)	410,000
Cable Street Christmas Lights	24,000		24,000			0			0			0			0	24,000	0	24,000
Heysham Gateway - Demolition & Removal of Tanks			0	487,000		487,000			0			0			0	487,000	0	487,000

General Fund Capital Programme

Cabinet 09/02/21

Service / Scheme	2020/21 Gross Budget	2020/21 External Funding	2020/21 Net Programme	2021/22 Gross Budget	2021/22 External Funding	2021/22 Net Programme	2022/23 Gross Budget	2022/23 External Funding	2022/23 Net Programme	2023/24 Gross Budget	2023/24 External Funding	2023/24 Net Programme	2024/25 Gross Budget	2024/25 External Funding	2024/25 Net Programme	5 YEAR PROGRAMME Total Gross Programme	5 YEAR PROGRAMME Total External Funding	5 YEAR PROGRAMME Total Net Programme
Heysham Gateway Development			0	1,513,000		1,513,000			0			0			0	1,513,000	0	1,513,000
Canal Quarter (including General Fund Housing)			0	10,000,000		10,000,000	9,000,000		9,000,000	5,000,000		5,000,000			0	24,000,000	0	24,000,000
Flood Resilience and coastal defence projects			0			0	300,000		300,000			0			0	300,000	0	300,000
BGV - Contribution			0	300,000		300,000	300,000		300,000	300,000		300,000	300,000		300,000	1,200,000	0	1,200,000
BGV - Project Development/ Acquistions			0	4,000,000		4,000,000	4,000,000		4,000,000			0			0	8,000,000	0	8,000,000
Morecambe Regeneration			0	2,500,000		2,500,000			0			0			0	2,500,000	0	2,500,000
Caton Road Surface Water (Engineers)			0	300,000		300,000			0			0			0	300,000		300,000
Burrow Beck 2.5MW Solar Farm & Battery			0	3,600,000		3,600,000			0			0			0	3,600,000	0	3,600,000
Roof Mounted Solar Array - Gateway, White Lund			0	1,400,000		1,400,000			0			0			0	1,400,000	0	1,400,000
Roof Mounted Solar Array - City Labs			0	23,000		23,000			0			0			0	23,000	0	23,000
SALC - optimised solar farm, air source heating pumps & glazing efficiency				6,828,000	(6,828,000)	0			0			0			0	6,828,000	(6,828,000)	0
Potential Contribution SALC bid (see above)				3,845,000		3,845,000			0			0			0	3,845,000	0	3,845,000
Next Steps Accommodation Programme Property Purchases			0			0	1,000,000		1,000,000			0			0	1,000,000	0	1,000,000
VMU Brake Rollers			0	36,000		36,000			0			0			0	36,000	0	36,000
Engineers Electric Vehicle			0	15,000		15,000			0			0			0	15,000	0	15,000
Platform reinvestment			0			0			0			0	200,000		200,000	200,000	0	200,000
Salt Ayre Leisure Centre reinvestment			0			0			0			0	375,000		375,000	375,000	0	375,000
Lancaster Town Hall reinvestment			0			0	100,000		100,000			0	2,400,000		2,400,000	2,500,000	0	2,500,000
CityLab reinvestment			0			0			0			0	165,000		165,000	165,000	0	165,000
The Storey reinvestment			0			0	300,000		300,000	200,000		200,000			0	500,000	0	500,000
Ryelands Park - Ryelands House			0	500,000		500,000	200,000		200,000			0			0	700,000	0	700,000
Williamson Park Pavilion Replacement			0			0	3,500,000		3,500,000			0			0	3,500,000	0	3,500,000
White Lund Depot Project			0	1,000,000		1,000,000	2,000,000		2,000,000			0			0	3,000,000	0	3,000,000
Morecambe Town Hall reinvestment			0			0			0			0	400,000		400,000	400,000	0	400,000
Edward St Coach House Area Improvement			0	84,000		84,000			0			0			0	84,000	0	84,000
Lancaster Heritage Action Zone - St John's Church			0			0	500,000		500,000			0			0	500,000	0	500,000
Morecambe High Streets Provision	274,000		274,000	750,000		750,000	1,000,000		1,000,000	1,000,000		1,000,000	1,000,000		1,000,000	4,024,000	0	4,024,000
Museums Redevelopment			0	136,000		136,000	110,000		110,000	400,000		400,000			0	646,000	0	646,000
Williamson Park Development			0	1,000,000		1,000,000			0			0			0	1,000,000	0	1,000,000
LLFN Network Bids			0	11,135,000	(9,464,000)	1,671,000	421,000	(358,000)	63,000			0			0	11,556,000	(9,822,000)	1,734,000
GENERAL FUND CAPITAL PROGRAMME	20,078,000	(7,812,000)	12,266,000	62,906,000	(19,568,000)	43,338,000	28,644,000	(2,894,000)	25,750,000	9,672,000	(2,017,000)	7,655,000	8,976,000	(1,890,000)	7,086,000	130,276,000	(34,181,000)	96,095,000

Lancaster City Council

Capital Strategy 2021/22
February 2021

To be reviewed and approved annually by Council

Contents

1. Introduction

1.1 The Capital Strategy gives a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local services. It also outlines how associated risk is managed and the implications for future financial sustainability.

1.2 The Strategy is set within the framework of The Prudential Code for Capital Finance in Local Authorities and the Treasury Management Code, both of which were updated in 2017. Key objectives are to demonstrate that the Council's capital investment plans are affordable, prudent and sustainable; that local strategic planning, asset management planning and proper option appraisal are supported; and that treasury management decisions are taken in accordance with good professional practice.

The District

1.3 Lancaster City and District is unique in containing a diverse mix of City, Coast and Countryside locations, including Lancaster, Morecambe, Heysham and Carnforth and coastal and rural villages.

The Council

1.4 The Council is a highly complex organisation that has to meet a variety of needs and objectives. It has a gross general fund revenue budget approaching circa £45M and has a capital programme that can vary in size but typically can be around c£25M per annum.

1.5 Whilst the Council is one entity, financially it has two elements – the General Fund, which is financed by Council Tax and the Housing Revenue Account, which is financed by tenant's rents, service charges and other smaller income streams. The Council is only one of two in Lancashire that has retained its housing stock and as such the approach and capital financing arrangements around this part of the organisation are more distinct than the General Fund. This is partly due to regulation and legislation but also the differing financial challenges that each of these sections face. Primarily the General Fund is subject to a reduction in financial resources due to the challenges that central government is setting in order to reduce the Country's financial debt obligations.

2. Context

Strategic Aims, Objectives and Priorities

2.1 The Council Plan sets out the authority's key priorities and its ambitions to optimise opportunities to ensure that the district is a great place to live, work and visit. Our strategic priorities are detailed in the diagram overleaf.

2.2 The Medium Term Financial Strategy supports and informs the Council's vision and strategic priorities as set out over the next four years. It also incorporates the key principles of the "Funding the Future" strategy which takes a proactive approach to building the future financial resilience of the Council by:

- Developing and implementing a commercial strategy
- Focusing efforts around efficiency
- Adopting an outcomes approach to budgeting

2.3 The Council's Asset Management Strategy sets out the strategic direction for the management of the Council's property portfolio. It seeks to align the asset portfolio with corporate objectives and informs the Capital Strategy.

2.4 The Capital Strategy sets out how the Council determines its priorities for capital investment, decides how much it can afford to borrow and sets its risk appetite within the overarching context outlined above. Its aim is to ensure that all elected Members fully understand the overall long-term policy objectives and resulting strategy requirements, governance procedures and risk appetite.

Priorities / Themes	A Sustainable District	An Inclusive and Prosperous Local Economy	Healthy and Happy Communities	A Co-operative, Kind and Responsible Council
Climate Emergency *Taking action to meet the challenges of the climate emergency* **Community Wealth-Building** *Building a sustainable and just local economy that benefits people and organisations* **Community Engagement** *Drawing on the wealth of skills and knowledge in the community and working in partnership*	➢ net zero carbon by 2030 while supporting other individuals, businesses and organisations across the district to reach the same goal ➢ moving towards zero residual waste to landfill and incineration ➢ increasing the amount of sustainable energy produced in the district and decreasing the district's energy use ➢ transitioning to an accessible and inclusive low-carbon and active transport system ➢ supporting our communities to be resilient to flooding and adapt to the wider effects of climate change ➢ increasing the biodiversity of our district	➢ supporting the development of new skills and improved prospects for our residents within an environmentally sustainable local economy ➢ advocating for fair employment and just labour markets that increase prosperity and reduce income inequality ➢ supporting new and existing enterprises in sustainable innovation and the strengthening of local supply networks ➢ using our land, property, finance and procurement to benefit local communities and encouraging residents, businesses, organisations and institutions to do the same ➢ securing investment and regeneration across the Lancaster and South Cumbria Economic Region	➢ supporting wellbeing and ensuring local communities are engaged, involved and connected ➢ addressing health and income inequality, food and fuel poverty, mental health needs, and loneliness ➢ focused on early-intervention approaches and involving our communities in service design and delivery ➢ (re)developing housing to ensure people of all incomes are comfortable, warm and able to maintain their independence ➢ improving access to the arts, culture, leisure and recreation, supporting our thriving arts and culture sector ➢ keeping our district's neighbourhoods, parks, beaches and open space clean, well-maintained and safe	➢ listening to our communities and treating everyone with equal respect, being friendly, honest, and empathetic ➢ working in partnership with residents, local organisations and partners recognising the strengths and skills in our community ➢ investing in developing the strengths and skills of our staff and councillors ➢ focused on serving our residents, local organisations and district ➢ embracing innovative ways of working to improve service delivery and the operations of the council ➢ providing value for money and ensuring that we are financially resilient and sustainable

3. Our Assets

3.1 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 2020/21 was £278.68M. The main constituents of these assets are as follows

Asset Type	£M
Council Housing & Other Assets	131.42
Property Plant & Equipment	100.62
Community Assets	8.58
Investment Property	28.36
Heritage Assets	9.52
Intangible Assets	0.18
Total	**278.68**

Council Housing

3.2 At the start of the financial year the Council held 3,677 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		77
1 Bedroom	Houses & Bungalows	654
	Flats & Maisonettes	548
2 Bedroom	Houses & Bungalows	480
	Flats & Maisonettes	665
3 Bedroom	Houses & Bungalows	1,163
	Flats & Maisonettes	6
4 or more bedroomed dwellings		84
Total Dwellings		**3,677**

Property Plant & Equipment

3.3 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 2020/21 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
56.76	6.26	32.63	0.95	4.02	100.62

Investment Assets

3.3 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 6.

Investment Asset Type	£M
Office	4.14
Retail	2.85
Agriculture & Allotments	1.47
Commercial Land	4.83
Commercial Building	6.76
Mixed Commercial	8.31
Total	**28.36**

Heritage Assets

3.4 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

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

Asset Management

3.6 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

3.7 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 Ministry of Housing Communities and Local Government (MHCLG) requirements. The last formal valuation was undertaken 1 April 2016 and so is not due until 1 April 2021. A desktop revaluation is undertaken for HRA assets in the intervening years to ensure that values are current.

3.8 All valuations are performed “in house” by qualified valuer’s 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).

3.9 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

4. Capital Expenditure

Capital Programme

4.1 The Council plans to spend approximately £130.28M on General Fund and £21.90M on HRA capital schemes between 2020/21 – 2024/25.

Capital expenditure	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
General Fund	7.16	10.98	62.91	28.64	9.67	8.98
Housing Revenue Account (HRA)	4.08	3.54	4.78	4.74	4.44	4.40
Commercial activities/non-financial investments*	4.92	9.10	0.00	0.00	0.00	0.00
Total	**16.16**	**23.62**	**67.69**	**33.38**	**14.11**	**13.38**

Affordability & Financing

4.2 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:

Capital expenditure	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Financed by						
Capital receipts	(0.72)	(0.49)	(0.64)	(0.64)	(0.64)	(0.64)
Capital grants	(5.22)	(7.81)	(19.57)	(2.89)	(2.02)	(1.89)
Capital reserves	(3.13)	(2.77)	(4.14)	(4.09)	(3.80)	(3.76)
Revenue	(0.62)	(0.58)	(1.11)	(0.39)	(0.36)	(0.04)
Net financing need for the year	**6.47**	**11.97**	**42.23**	**25.37**	**7.29**	**7.05**

4.3 This table shows a net need for financing the Capital Programme of £93.91M which would require the Council to undertake additional borrowing. Additional borrowing would only be used only to finance capital expenditure in respect of General Fund.

4.4 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.

4.5 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.

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

4.7 Further details on the impact of the Capital Programme on the Council's borrowing is included within Section 5

Decision Making & Governance

Property Transactions Team (PTT)

4.8 An officer group with relevant expertise from economic development, property, legal and finance supported by external expertise which considers all potential capital investments in the first instance and brings forward proposals for consideration of the Capital Strategy Group.

Capital Strategy Group (CSG)

4.9 Constituted with representation from Cabinet, Executive, Property Transactions Team (PTT) and the Chairs of both Budget & Performance Panel (B&PP) and Overview & Scrutiny (O&S). CSG is a Member and Officer working group and as such is only advisory and does not have any formal decision-making authority. The group has priority areas of work which although distinct from one another should be considered in an integrated manner. These are:

a) Capital Programme – overseeing the Council's capital programme which includes assessing initial bids all the way through to delivering the programme and assessing its effectiveness in respect of corporate priorities.

b) Asset Management – overseeing the implementation of the Asset Management Plan (AMP) to ensure that the Council gets the most from its asset inventory having regard to effective utilisation and ongoing maintenance and investment needs.

Following consideration of each business case it may make recommendations to budget holders in relation to due diligence costs and other matters. It may also make final recommendations to Cabinet regarding each proposal and, will determine whether projects will be admitted into the full capital programme or placed into the development pool.

Cabinet

4.10 Is responsible for submitting the Budget Framework to Council which includes this Capital Strategy and capital programme. It is responsible for considering and making decision within the Budget & Policy Framework for all capital investment on receipt of a full business case which takes account of the due diligence and which shows compliance with the prudential code and investment guidance provisions.

Overview and Scrutiny

4.11 Is represented on the CSG via the Chair’s membership of this group. The early involvement of scrutiny at the pre-decision stage will allow them to add value by informing a decision rather than an after-the-event critique under the traditional process. This intention and their active involvement does not remove or negate the right to call in any decision made by Cabinet in this area.

Budget and Performance Panel

4.12 Will review the financial and operational performance of this strategy as part of their budget framework scrutiny role

Council

4.13 Is responsible for agreeing the Capital Programme as part of the Budget Framework each February and will be required to approve any material changes. Council will also receive half yearly reports on the performance of the strategy.

Capital Investment Priorities and compilation of Capital Bids

4.14 The Council’s capital investment priorities are to:

- deliver the Council’s Priorities as set out in ’Ambitions’ Council Plan
- ensure that council services can be effectively and efficiently delivered
- support the Asset Management Plan by ensuring that assets are effectively utilised and maintained
- identify opportunities for using capital investment to provide more effective arrangements as set out in Funding the Future
- ensure that the Council meets statutory, legal and health and safety requirements

4.15 All bids for capital resources are put forward on a standard capital bid template, based upon the HM Treasury Business Case Guidance covering strategic, economic, commercial, financial and management dimensions. The bid template has been designed to draw out the proposal’s strategic fit against the capital investment priorities and facilitate the scoring of schemes against each other using a scoring matrix. The template also considers:

- whether staff and project resources are available to start the project,
- alternative options for delivery,
- scheme phasing,
- cost (including estimated revenue consequences)
- procurement.

4.16 Given the diverse nature of potential capital schemes four separate scores are developed separately assessing:

Fit against statutory, legal and health and safety requirements

Determining whether the scheme is required to fulfil a statutory obligation, prevent a failure to meet a legislative or health and safety requirement. The main focus being on what would be the impact of not progressing the proposal.

Fit against Corporate Priorities
Determining which priority or priorities in the 'Ambitions' corporate plan the proposal contributes to and to what extent ascertaining measurable outcomes and impacts.

Contribution to Funding the Future strategy
Identifying whether the proposal will achieve financial efficiencies, contribute to the Council's commercial strategy, levering in funding from other organisations or create an "invest to save" opportunity.

Project Risk & Risk Mitigation
Establishes to what extent risks have been realistically identified and what steps have been taken to mitigate these. It focuses on factors which may cause the project to fail or be delayed, any internal or external factors which may impact the project and considers how sensitive the forecast costs are to both internal and external risk.

Future Plans

4.17 The Council recognises that it will play a pivotal role in key projects which will enable to district to thrive and grow. Further development of the Capital Programme is needed particularly in years 3 – 5 in order to properly encapsulate these major local development projects. An Economic Growth Plan is currently being developed by the Director of Economic Growth and Regeneration setting out an overarching coherent medium term plan for the district. As the plan develops individual capital schemes contributing to its delivery will be identified and brought forward to Capital Strategy Group for its assessment. Similarly other strategies under development in the coming months which have capital expenditure implications will also be considered by the group.

5. Treasury Management

5.1 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.

5.2 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

5.3 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.

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

5.5 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

5.6 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.

5.7 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)

5.8 The Council's Investments at 31.03.2020 were:

Balance 31.03.2020	**£M**	**Liquidity**
Money Market Funds	16.00	Instant Access
Other Local Authorities	24.00	Fixed Term
Total Investments	**40.00**	

Borrowing

5.10 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.

5.11 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.

5.12 The Council's underlying need to borrow is represented by it's 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.

£m	**2019/20 Actual £m**	**2020/21 Estimate £m**	**2021/22 Estimate £m**	**2022/23 Estimate £m**	**2023/24 Estimate £m**	**2024/25 Estimate £m**
Capital Financing Requirement						
CFR – Non Housing	43.50	44.71	85.04	106.95	110.08	112.82
CFR – Housing	38.28	37.23	36.19	35.15	34.11	33.07
CFR – Commercial activities/non-financial investments	4.92	13.93	13.65	13.37	13.09	12.81
Total CFR	**86.70**	**95.87**	**134.88**	**155.47**	**157.28**	**158.70**

5.13 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.

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

	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
External Debt						
Actual gross debt at 31 March	62.13	61.08	101.05	121.63	124.56	125.62
The Capital Financing Requirement	86.70	95.87	134.88	155.47	157.28	158.70
Under Borrowing	**(24.57)**	**(34.79)**	**(33.83)**	**(33.84)**	**(32.72)**	**(33.08)**

5.15 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.

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

	2019/20 Actual £M	2020/21 Estimate £M	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M
General Fund MRP	(1.60)	(1.76)	(2.18)	(3.73)	(4.44)	(4.58)
HRA MRP	(1.04)	(1.04)	(1.04)	(1.04)	(1.04)	(1.04)
Total	**(2.64)**	**(2.80)**	**(3.22)**	**(4.77)**	**(5.48)**	**(5.62)**

5.17 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.

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

	2020/21 Estimate £M	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M
Operational Boundary	86.70	95.87	134.88	155.47	157.28
Authorised Limit	103.00	112.00	151.00	171.00	173.00

6. Commercial Activity

Current Position

6.1 The Council's existing investment property portfolio generates approximately £0.842M per annum to support the General Fund Revenue Budget. It is comprised of a mix of office and retail lets together with agricultural and commercial land and commercial buildings as set out below:

Investment Asset Type	£M
Office	4.14
Retail	2.85
Agriculture & Allotments	1.47
Commercial Land	4.83
Commercial Building	6.76
Mixed Commercial	8.31
Total	**28.36**

6.2 The majority of this portfolio has been accumulated by the Council rover 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

6.3 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

6.4 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.

Future Plans

6.5 Recent changes to Public Works Loan Board (PWLB) borrowing have had significant implications for the Capital Programme, with investment primarily for yield now being constrained. These changes may require a different approach to capital investment, further work is being undertaken to ensure the alignment of the programme with the new criteria.

7. Knowledge & Skills

7.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions.

7.2 The key decision-making officers within the Executive Team include Kieran Keane, Chief Executive and the Council's, Section 151 Officer Paul Thompson are qualified accountants with many years' experience. The Director for Economic Growth & Regeneration, Jason Syers is a qualified Chartered Surveyor and Town Planner with over 20 years' public and private sector experience of delivering complex development and regeneration projects in the UK and internationally.

7.3 Underpinning the Executive Team are teams of experienced finance, property and legal professionals.

7.4 Where the appropriate level of knowledge and skills required is not available in-house the Council will use external advisers and consultants that are specialists in their field. The Council currently uses Link Asset Services, Treasury solutions as treasury management advisors.

APPENDIX H

TREASURY MANAGEMENT FRAMEWORK DOCUMENTS AND RESPONSIBILITIES

For consideration by Cabinet 09 February 2021

DOCUMENT	RESPONSIBILITY
CODE of PRACTICE	To be adopted by Council (as updated 2017).
POLICY STATEMENT	The Code of Practice recommends a specific form of words to be used, to set out the Council's objectives within the Policy Statement for its Treasury Management activities. It is the responsibility of Council to approve this document, and then note it each year thereafter if unchanged. This reflects the revised code issued in 2017.
TREASURY MANAGEMENT STRATEGY	The Strategy document breaks down the Policy Statement into detailed activities and sets out the objectives and expected market forecasts for the coming year. This also contains all the elements of an Investment Strategy as set out in the Government guidance; it is the responsibility of Council to approve this document, following referral from Cabinet.
TREASURY MANAGEMENT INDICATORS	These are included within the Strategy Statement as part of the framework within which treasury activities will be undertaken. It is the responsibility of Council to approve these limits.
INVESTMENT STRATEGY	The Investment Strategy is included within the Treasury Management Strategy. It states which types of investments the Council may use for the prudent management of its treasury balances during the financial year. Under existing guidance the Secretary of State recommends that the Strategy should be approved by Council.
TREASURY MANAGEMENT PRACTICES .	These are documents that set out the procedures that are in place for the Treasury Management function within the Council. The main principles were approved by Cabinet following initial adoption of the Code of Practice; they include: TMP 1: Risk management TMP 2: Performance measurement. TMP 3: Decision-making and analysis. TMP 4: Approved instruments, methods & techniques. TMP 5: Organisation, clarity and segregation of responsibilities, and dealing arrangements. TMP 6: Reporting requirements & management information requirements. TMP 7: Budgeting, accounting & audit. TMP 8: Cash & cash flow management. TMP 9: Money laundering. TMP 10: Staff training & qualifications. TMP 11: Use of external service providers. TMP 12: Corporate governance. It is the Section 151 Officer's'responsibility to maintain detailed working documents and to ensure their compliance with the main principles. The content of the TMPs will be reviewed during 2021/22, in view of the recent changes to the treasury management regulatory framework.
FINANCIAL REGULATIONS	The Financial Regulations must contain four specific clauses. These are substantially unchanged in the 2017 Code; it is the Section 151 Officer's responsibility to ensure their inclusion.

APPENDIX I

LANCASTER CITY COUNCIL

TREASURY MANAGEMENT POLICY STATEMENT

For consideration by Cabinet
09 February 2021

This reflects the revised CIPFA Treasury Management Code of Practice (Code updated in 2017).

1. This organisation defines its treasury management activities as:

   "The management of the 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".

2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation and any financial instruments entered into to manage these risks.

3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Appendix H

Treasury Management Strategy 2021/22 to 2024/25

For Consideration by Cabinet 9 February 2021

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 revised 2017 Prudential and Treasury Management Codes require, for 2021-22, 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.

This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments are reported through the former. This ensured the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset.

On 26 November 2020 a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had the purchase of assets for yield in its three-year capital programme. Following this prohibition commercial assets were removed from the Authority's capital programme. Any such assets referred to in the following report were purchased in 2019/20 and in 2020/21 before the restriction was introduced.

If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are show throughout this report.

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 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.

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

In addition, Members will receive high level update reports for Quarters 1 and 3.

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.

1.3 Treasury Management Strategy for 2021/22

The strategy for 2021/22 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. A training session was held for members on 5 December 2019 supplemented by further internal briefings on 16 and 22 January 2020 and further training will be arranged during 2021/22. 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.

The scope of investments within the Council's operations has included, up until November 2020, both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments such as investment properties. The commercial type investments require specialist advisers. The Council used Carigiet Cowan Chartered Surveyors in relation to this activity.

2 CAPITAL PRUDENTIAL INDICATORS 2020/21 – 2024/25

The Council's capital expenditure plans are the key driver of treasury management activity. The plans are reflected in various prudential indicators, as determined under regulation, to assist Members in their overview of such capital expenditure planning.

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	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
General Fund	7.16	10.98	62.91	28.64	9.67	8.98
Housing Revenue Account (HRA)	4.08	3.54	4.78	4.74	4.44	4.40
Commercial activities/non-financial investments*	4.92	9.10	0.00	0.00	0.00	0.00
Total	**16.16**	**23.62**	**67.69**	**33.38**	**14.11**	**13.38**
Financed by:						
Capital receipts	(0.72)	(0.49)	(0.64)	(0.64)	(0.64)	(0.64)
Capital grants	(5.22)	(7.81)	(19.57)	(2.89)	(2.02)	(1.89)
Capital reserves	(3.13)	(2.77)	(4.14)	(4.09)	(3.80)	(3.76)
Revenue	(0.62)	(0.58)	(1.11)	(0.39)	(0.36)	(0.04)
Net financing need for the year	**6.47**	**11.97**	**42.23**	**25.37**	**7.29**	**7.05**

*****Commercial activities/non-financial investments related to areas such as capital expenditure on property investments

The net financing need for commercial activities/non-financial investments included in the above table against expenditure is shown below:

Commercial activities/non-financial investments	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Capital Expenditure	4.92	9.10	0.00	0.00	0.00	0.00
Financing Costs	0.00	0.00	0.00	0.00	0.00	0.00
Net financing need for the year	**4.92**	**9.10**	**0.00**	**0.00**	**0.00**	**0.00**
Percentage of total net financing need %	**76.04**	**76.02**	**0.00**	**0.00**	**0.00**	**0.00**

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 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 borrowing need 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 scheme 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:

£m	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Capital Financing Requirement						
CFR – Non Housing	43.50	44.71	85.04	106.95	110.08	112.82
CFR – Housing	38.28	37.23	36.19	35.15	34.11	33.07
CFR – Commercial activities/non-financial investments	4.92	13.93	13.65	13.37	13.09	12.81
Total CFR	**86.70**	**95.87**	**134.88**	**155.47**	**157.28**	**158.70**

Movement in CFR Non Housing Housing	 (0.05) (1.06)	 1.21 (1.04)	 40.33 (1.04)	 21.91 (1.04)	 3.13 (1.04)	 2.75 (1.04)
Commercial activities/non-financial investments	4.92	9.00	(0.28)	(0.28)	(0.28)	(0.28)
Net Movement in CFR	**3.81**	**9.17**	**39.01**	**20.59**	**1.81**	**1.42**

Movement in CFR represented by						
Net financing need for the year (above) re Non Housing	6.47	11.97	42.23	25.37	7.29	7.05
Less MRP/VRP and other financing movements	(2.66)	(2.80)	(3.22)	(4.78)	(5.48)	(5.63)
Net Movement in CFR	**3.81**	**9.17**	**39.01**	**20.59**	**1.81**	**1.42**

A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures and details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Authority's remaining activity.

2.3 Minimum Revenue Provision (MRP) Policy Statement

The Council is required to 'pay off' an element of the accumulated General Fund CFR each year through a revenue charge (the minimum revenue provision - MRP), and it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

Government Regulations require full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision being made. In approving this Strategy, Council approves the following MRP Statement*:*

From 1 April 2008 for all unsupported borrowing the MRP will be:

- **Asset life method** – MRP will be based on the estimated life of each asset created as a result of the related capital expenditure, in accordance with the Regulations (this option must also be applied for any expenditure capitalised under a Capitalisation Direction).

This option provides for a reduction in the borrowing need over the approximate life of the asset concerned.

In line with Government guidance, the MRP in respect of capital expenditure incurred before 01 April 2008 will be charged over a period of 60 years.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).
Repayments included in annual finance leases are applied as MRP.

MRP Overpayments – A change introduced by the revised Government MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision, voluntary revenue provision or overpayments, can, if needed 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. Up until 31 March 2020 the total VRP overpayments were £8.33m

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	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Fund balances / reserves	33.82	26.02	25.05	25.07	23.94	24.29
Capital receipts	0.00	0.00	0.00	0.00	0.00	0.00
Provisions	6.23	6.00	6.00	6.00	6.00	6.00
Total core funds	**40.05**	**32.02**	**31.05**	**31.07**	**29.94**	**30.29**
Working capital*	23.95	9.18	9.18	9.18	9.18	9.18
Under borrowing	(24.57)	(34.79)	(33.83)	(33.84)	(32.72)	(33.08)
Expected investments	**39.43**	**6.41**	**6.40**	**6.41**	**6.40**	**6.39**

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

2.5 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:

2.6 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.

	2019/20 Actual %	2020/21 Estimate %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %	2024/25 Estimate %
General Fund	17.42	12.87	19.97	27.75	29.45	29.24
HRA	21.05	20.18	19.41	18.61	17.86	17.41
Commercial activities/non-financial investments	0.00	20.15	24.40	23.79	23.58	23.58

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.

	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
External Debt						
Debt at 1 April	63.17	62.13	102.09	122.67	125.60	126.66
Expected change in Debt	(1.04)	(1.04)	(1.04)	(1.04)	(1.04)	(1.04)
Other long-term liabilities (OLTL)	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
Actual gross debt at 31 March	**62.13**	**61.08**	**101.05**	**121.63**	**124.56**	**125.62**
The Capital Financing Requirement	**86.70**	**95.87**	**134.88**	**155.47**	**157.28**	**158.70**
Under Borrowing	**(24.57)**	**(34.79)**	**(33.83)**	**(33.84)**	**(32.72)**	**(33.08)**

Within the above figures the level of debt relating to commercial activities/non financial investment is:

	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
External Debt for commercial activities / non-financial investments						
Actual debt at 31 March £m	0.00	0.00	0.00	0.00	0.00	0.00
Percentage of total external debt %	0.00	0.00	0.00	0.00	0.00	0.00

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 2021/22 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 Head of Financial Services 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	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Debt*	81.78	81.94	121.23	142.10	144.19
Other long term liabilities	0.00	0.00	0.00	0.00	0.00
Commercial activities/non-financial investments	4.92	13.93	13.65	13.37	13.09
Total	**86.70**	**95.87**	**134.88**	**155.47**	**157.28**

- *The term debt in this instance is CFR minus the effect of leases*

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	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Debt	97.00	97.00	136.00	157.00	159.00
Other long term liabilities	1.00	1.00	1.00	1.00	1.00
Commercial activities/non-financial investments	5.00	14.00	14.00	13.00	13.00
Total	**103.00**	**112.00**	**151.00**	**171.00**	**173.00**

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 11.08.2020. However, following the conclusion of the review of PWLB margins over gilt yields on 25.11.20, all forecasts have been reduced by 1%. These are forecasts for certainty rates, gilt yields plus 80 bps:

	Mar-21	Mar-22	Mar-23	Mar-24
Bank Rate	0.10	0.10	0.10	0.10
3 Month average earnings	0.10	0.10	0.10	0.10
6 Month average earnings	0.10	0.10	0.10	0.10
12 Month average earnings	0.20	0.20	0.20	0.20
5yr PWLB rate	0.80	0.90	0.90	1.00
10yr PWLB rate	1.10	1.20	1.20	1.30
25yr PWLB rate	1.50	1.60	1.70	1.80
50yr PWLB rate	1.30	1.40	1.50	1.60

Additional notes by Link on this forecast table: -

- *Please note that we have made a slight change to our interest rate forecasts table above for forecasts for 3, 6 and 12 months. Traditionally, we have used LIBID forecasts, with the rate calculated using market convention of 1/8th (0.125%) taken off the LIBOR figure. Given that all LIBOR rates up to 6m are currently running below 10bps, using that convention would give negative figures as forecasts for those periods. However, the liquidity premium that is still in evidence at the short end of the curve means that the rates actually being achieved by local authority investors are still modestly in positive territory. While there are differences between counterparty offer rates, our analysis would suggest that an average rate of around 10 bps is achievable for 3 months, 10bps for 6 months and 20 bps for 12 months.*
- *During 2021, Link will be continuing to look at market developments in this area and will monitor these with a view to communicating with clients when full financial market agreement is reached on how to replace LIBOR. This is likely to be an iteration of the overnight SONIA rate and the use of compounded rates and Overnight Index Swap (OIS) rates for forecasting purposes.*
- *We will maintain continuity by providing clients with LIBID investment benchmark rates on the current basis.*

Further commentary on economic prospects provided by Link: -

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 16th December, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected in the near-term as economic recovery is expected to be only gradual and, therefore, prolonged. These forecasts were based on an assumption that a Brexit trade deal would be agreed by 31.12.20: as this has now occurred, these forecasts do not need to be revised.

As the interest forecast table for PWLB certainty rates above shows, there is expected to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment, (as shown on 9th November when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

Investment and borrowing rates

- **Investment returns** are likely to remain exceptionally low during 2020/21 with little increase in the following two years.

- **Borrowing interest rates** fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England; indeed gilt yields up to six years were negative during most of the first half of 2020/21. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. The unexpected increase of 100 bps in PWLB rates on top of the then current margin over gilt yields of 80 bps in October 2019, required an initial major rethink of local authority treasury management strategy and risk management. However, in March 2020, the Government started a consultation process for reviewing the margins over gilt rates for PWLB borrowing for different types of local authority capital expenditure

- As a consequence of these increases in margins, many local authorities decided to refrain from PWLB borrowing unless it was for HRA or local infrastructure financing, until such time as the review of margins was concluded.

- On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three-year capital programme

- While this authority will not be able to avoid borrowing to finance £68.7m, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns) to any new short or medium-term borrowing that causes a temporary increase in cash balances

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 investment returns are low and counterparty risk is still an issue that needs to be considered.
Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 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* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), 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, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would be re-appraised

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 2020/21	**£m**	**Current %**	**Lower %**	**Upper %**
Under 12 months	1.04	1.70	0	100
12 months and within 24 months	1.04	1.70	0	100
24 months and within 5 years	3.12	5.11	0	100
5 years and within 10 years	5.20	8.51	0	100
10 years and within 20 years	10.40	17.03	0	100
20 years and within 30 years	1.08	1.08	0	100
30 years and within 40 years	39.20	64.18	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, allowing for authorised increases, 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 is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates, even though the general margin of PWLB rates over gilt yields was reduced by 100bps in November 2020.

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

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment Policy

The MHCLG 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:

- MHCLG Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

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 keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options.

The above guidance from the MHCLG 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 ot a maturity limit of 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 2020/21 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*

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7

	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**	**£1m**	**1 day**
DMADF	**AAA**	**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 A2.*

*** "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 benchmark and other market data on a weekly basis. 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

Although the credit rating agencies changed their outlook on many UK banks from Stable to Negative during the quarter ended 30.6.20 due to upcoming risks to banks' earnings and asset quality during the economic downturn caused by the pandemic, the majority of ratings were affirmed due to the continuing strong credit profiles of major financial institutions, including UK banks. However, during Q1 and Q2 2020, banks made provisions for *expected* credit losses and the rating changes reflected these provisions. As we move into future quarters, more information will emerge on *actual* levels of credit losses. (Quarterly earnings reports are normally announced in the second half of the month following the end of the quarter.) This has the potential to cause rating agencies to revisit their initial rating adjustments earlier in the current year. These adjustments could be negative or positive, although it should also be borne in mind that banks went into this pandemic with strong balance sheets. This is predominantly a result of regulatory changes imposed on banks following the Great Financial Crisis. Indeed, the Financial Policy Committee (FPC) report on 6th August revised down their expected credit losses for the UK banking sector to "somewhat less than £80bn". It stated that in its assessment, "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

All three rating agencies have reviewed banks around the world with similar results in many countries of most banks being placed on Negative Outlook, but with a small number of actual downgrades.

CDS prices
Although bank CDS prices, (these are market indicators of credit risk), spiked upwards at the end of March / early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. Nevertheless, prices are still elevated compared to end-February 2020. Pricing is likely to remain volatile as uncertainty continues. 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
The proposed investment aspects of the strategy for treasury activities continues to provide for investing with other local authorities given that these, in effect, are as secure as investing with the Government but they offer greater returns, and from an Officer perspective, it makes sense to keep the benefits of such temporary cash investing/ borrowing wholly within the local authority family. Where this is not possible for liquidity reasons the Council is looking to place more emphasis on investment counterparties that are consistent with its own Priorities in particularly around climate change and ethical investments.

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. While most cash balances are requried 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: Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it may be best to assume that investment earnings from money marke-related instsruments will be sub 0.50% for the foreseeable future.

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

- 2020/21 0.10%
- 2021/22 0.10%
- 2022/23 0.10%
- 2023/24 0.10%
- 2024/25 0.25%

The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered to the population. It may also be affected by the deal agreed as part of Brexit.

There is relatively little UK domestic risk of increases or decreases in Bank Rate and significatn changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations.

Negative investment rates

While the Bank of England said in August/ September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, and in November omitted any mention of negative rates in the minutes of the meeting of the Monetary Policy Committee, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the COVID crisis; this has caused some local authorities to have sudden large increases in cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

As for money market funds (MMFs), yields have continued to drift lower. Some managers have already resorted to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a surfeit of money swilling around at the very short end of the market. This has seen a number of market operators, now including the DMADF, offer nil or negative rates for very short term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions for investments at the very short end of the yield curve.

Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

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					
	2020/21	**2021/22**	**2022/23**	**2023/24**	**2024/25**
Principal sums invested > 365 days	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 A1

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.

- **LIBID –** The London Inter-Bank Bid Rate, the rate which banks would have to bid to borrow funds from other banks for a given period. The official rate is published by the Bank of England at 11am each day based on trades up to that time.

- **LIBOR –** The London Inter-Bank Offer Rate, the rate at which banks with surplus funds are offering to lend them to other banks, again published at 11am each day.

- **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.

- **Yield** – see Gilts

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

ANNEX A2

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 A3

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

APPENDIX I

Budget Transfers (Virements, Carry Forwards & Reserves) 2021/22 Limits

Budget Cabinet 09 February 2021

1 Purpose and Scope

1.1 Budget transfers (virements and carry forwards) enable the Cabinet and Chief Officers to manage budgets with a degree of flexibility within the overall policy framework determined by full Council, to optimise the use of resources and promote good financial management.

1.2 Other detailed operational guidance will be provided to budget holders, but Council approval is required for the basic limits, as proposed below.

2 Virements

2.1 The term covers in-year transfers between budget headings.

2.2 The Scheme of virement applies to revenue and capital budgets, and it allows only in-year, non-recurring budget adjustments.

2.3 Virement must not increase the Council's net budget; the first priority for any virements must be to address any expected budget overspendings.

2.4 Chief Officers (or their nominated representatives) may approve virements up to any limit within the specific cost centres in their control (or the equivalent level as set out in the budget book), as long as the virement does not substantially change how the activity is to be delivered, or have adverse impact on performance. For example, high staff turnover in a service area may result in an interim need to buy in additional external support or services. This would require a virement from the salaries budget, into the relevant supplies & services budget, as long as the virement does not increase the overall net cost for the service area.

2.5 With the agreement of the s151 Officer, Chief Officers (or their nominated representatives) may approve virements in budgets under their control, between cost centres (or the equivalent level as set out in the budget book), subject to the following limits:

Delegated limit	**2021/22**
Total virement on any **expenditure** heading in any one financial year must not exceed:	£10,000
Total virement on any **income** heading in any one financial year must not exceed:	£10,000

2.6 Proposed virements above these limits, that otherwise fall within the approved budget and policy framework, must be considered by Cabinet Members (relevant Individual Cabinet Member/s for any virements up to key decision threshold, and full Cabinet for virements above the key decision threshold).

2.7 Virement is not possible where the impact would fall outside of the policy framework.

3 Treatment of Year-end Balances

3.1 At the end of each accounting year, actual expenditure or income for the year may well vary from that budgeted, for a number of reasons. For example, a particular project may not have progressed as originally planned, meaning that the budget shows an underspending but only because some expenditure will be incurred later, and will slip into the next year. Alternatively, a budget may show an apparent overspending, but only because a project is ahead of schedule, with costs being incurred earlier than expected.

3.2 The following arrangements are proposed to help manage such situations. Again, these are based on previous practices, drawing on experience and streamlining the decision-making where appropriate. They apply to both revenue and capital budgets.

Overspends

Any overspending on any expenditure budget, or shortfall on any income budget, under the control of a Chief Officer (or their nominated representative) will be automatically carried forward to the following year as part of the closure of accounts process except where the relevant Chief Officer and the s151 Officer agree that it does not make operational sense to do so, or where the overspending is trifling in value.

The s151 Officer will report to Cabinet on overspendings and their treatment as part of year-end reporting. Such reporting will also include the reasons for any overspends occurring and details of any actions taken to prevent the situation recurring, for Cabinet's consideration and endorsement.

Underspends

As part of year-end reporting, Cabinet may approve the carry forward of underspendings on expenditure budgets, as requested by Chief Officers, subject to:

- the carry forward amount being used for the same purpose as budgeted; and

- the total value of any such approved amounts being met within the approved budget framework. (In effect, this means that there should be no bottom-line net overspending arising, as a result of approving carry forward requests.)

4.0 Reserves

4.1 All bids for reserves use will be supported by a bid document which sets out in detail the resources required, an action plan and outcomes and measures which reconcile to corporate priorities. All bid documents should be approved, in the first instance, by the Section 151 Officer and Finance Portfolio Holder in addition to the authorisation limits set out in paragraph below.

Reserves Bid Authorisation

4.2 Reserve bids decision limits will be as follows:

- Up to £25k – to be agreed by Portfolio Holder in consultation with relevant Director. Bid should have been pre-approved by Cabinet.
- £25k to £100k – to be agreed by Portfolio Holder in consultation with relevant Director. Individual Cabinet Member Decision to be published. Bid should have been pre-approved by Cabinet.
- Over £100k – to be agreed by Cabinet Meeting.

4.3 The pre-approval concept, which should apply to all financial bids is explained below All reserve bids should also be approved and signed off by the Section 151 Officer and the Finance Portfolio Holder.

Reserves Expenditure Monitoring

4.4 The monitoring of reserves will be incorporated into the quarterly performance and financial monitoring reporting process.

Pre-Approval

The annual budget framework process will consider revenue, capital, and reserves bids in the context of corporate priorities. Where bids are considered at times other than the annual Budget Council it is just as important that these can show that they meet these priorities. This will be achieved if the projects are 'pre-approved' by Cabinet, usually when corporate strategies are considered and approved. Any financial bids made during the financial year (up to £100k in the case of reserves) can be approved by the relevant Portfolio Holder, supported by the relevant bid document, if the project has been previously identified and pre-approved in a report to Cabinet.

This will ensure that governance transparency is balanced with speed of decision.

It is important to note that the pre-approval process is not an approval to spend but rather an approval to bring forward a reserves bid which is subject to the process set out within paragraphs above.

APPENDIX I

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).
Canal Quarter	*To cover commissioning costs relating to external support and advice for the CCN development.*
Capital Support	*To cover contractual liabilities on West End properties and to provide cover for any revenue costs arising through shortfalls in capital financing (i.e. from capital receipts).*
Economic Growth	*To support economic growth activities in the district.*
Elections	To even out the cost of holding City Council elections every four years.
Local Plan	To support the adoption of the Local Plan.
Morecambe Area Action Plan	*To support implementation of the MAAP*
Renewals	To provide for the renewal (replacement or upgrade) of existing facilities and infrastructure needed for service delivery, such as vehicles, plant, and equipment.
Welfare Reforms	*To help manage the cost and administration pressures of any welfare reforms (in particular, localisation of council tax support and Universal Credit).*
Amenity Improvements	*To provide public realm amenity improvements.*
Corporate Priorities (previously Budget Support)	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 January 2020.
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.
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.
Homelessness Support	To hold related government grants or other specific external funding until needed for homelessness prevention measures.

Reserve	Purpose of the Reserve
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

APPENDIX I

Reserves Bid Document

Description of Project	
Amount of Reserve Bid	
Reserve	
Strategy Link	
Corporate Project Link	

Type of Expenditure (and budget code)	**Amount**	**Details**
Total		
Income		
Net Expenditure		

Action Plan

What	**Who**	**When**

Outcomes and Impacts arising from Project

Measure	**Baseline**	**Target**

Has Social Value matrix been completed (attach to bid form)?	YES / NO
For Invest to Save projects has the financial yield return schedule been completed (attach to bid form)	YES / NO

APPENDIX I

Project Officer Sign Off:

Director Sign Off:
Section 151 Officer Sign Off:

Portfolio Holder Sign Off:
Finance Portfolio Sign Off:

Cabinet Minute (if app):

Lancaster City Council | Report Cover Sheet

Meeting	Cabinet	Date	9 February 2021
Title	Housing Revenue Account and Capital Programme		
Report of	Director for Communities and the Environment		

Purpose of Report					
To seek Cabinet decisions on Council Housing rent setting proposals and HRA revenue and capital budget proposals.					
Key Decision (Y/N)	Y	Date of Notice		Exempt (Y/N)	N

Report Summary

This report provides an update on the council housing budgetary position and seeks Cabinet's decisions on council housing rent levels for 2021/22 and targets for future years. It also seeks approval of Cabinet's supporting revenue budget and capital programme proposals for referral on to Budget Council, in order to complete the HRA budget setting process for 2021/22.

Recommendations of Councillor Jackson

1) That the Housing Revenue Account Revised Budget for 2020/21, as set out at Appendix A, together with the resulting Capital Programme as set out at Appendix C, be referred on to Council for approval.

2) That the minimum level of HRA unallocated balances be retained at £500,000 from 01 April 2021, and that the full Statement on Reserves and Balances as set out at Appendix F be endorsed and referred on to Budget Council for approval.

3) That council housing rents be set in accordance with statutory requirements as follows:

   - for general properties let as at 01 April 2021, average rent be set at £74.87 for 2021/22;

   - for sheltered and supported housing properties let as at 01 April 2021, average rent be set at £70.00 for 2021/22;

   - for any relevant property becoming vacant the following policy be reaffirmed: that they be re-let at the higher 'formula rent'.

4) That garage rents be frozen for a 12-month period (rather than increased by CPI, as per the rent setting policy established by Cabinet in January 2017) in order to protect income levels currently achieved.

5) That the additional budget proposals as set out at Appendix E be included in Cabinet's budget proposals for referral on to Council, noting that any approvals be met from unallocated balances.

6)	That subject to the above, the resulting Housing Revenue Account budget for 2021/22 onwards, as set out at Appendix A, together with the resulting Capital Programme as set out at Appendix C, be referred on to Budget Council for approval.

Relationship to Policy Framework

The budget represents, in financial terms, what the Council is seeking to achieve through its approved Housing Strategy in relation to council housing.

Conclusion of Impact Assessment(s) where applicable

Climate: as per section 3 (below) the report outlines a number of positive climate related impacts resulting from the HRA budgeting process. Also, see Appendix E for additional positive impacts.	**Wellbeing & Social Value:** positive impacts identified via additional budget proposals. See appendix E for details
Digital	**Health & Safety**
Equality: No significant detrimental impact on specific groups. See Appendix H – Equality Impact Assessment	**Community Safety**

Details of Consultation

Consultation with tenants took place through the District Wide Tenants Forum (DWTF) held virtually on 20th January 2021. The meeting was openly advertised to all tenants through a variety of platforms, with personal invitations also provided to those tenants who have previously engaged in consultation activity. Four tenants attending the meeting along with two Councillors and a number of Council Officers.

The group was provided with headlines of this HRA Cabinet report, with a focus on the proposed rent increase of 1.5%, the proposal to freeze garage rents for 2021/22, and the principles of service charge setting.

Council Officers presented the proposed Capital Programme to the group, focussing on 2021/22, with key areas of spend also highlighted for subsequent years. Particular focus was given to the Council Housing response to the climate emergency, and the activities over the coming years which will contribute to this.

Officers also highlighted the principles of place-based working and identified particular areas of HRA spend which deliver projects and outcomes at a neighbourhood level: where through working with local residents, local priorities can be set and delivered on.

The view of the DWTF is summarised as follows:-

- The group was broadly supportive of the Council's proposed rent increase, and the spending plans and projects outlined during the meeting, although is was felt useful that feedback from residents within retrofitted properties should be gained.

- The group agreed that a review of garage sites and rents take place during 2021/22, to ensure best use of council land and property is delivered through garage sites.

Legal Implications

The Council may amend its reasonable charges for occupation of council housing dwellings as they determine. The level of rent must be reviewed from time to time (s24 Housing Act 1985). The Council must have regard to relevant standards set by Housing Regulator's guidance - pursuant to s193 of the Housing and Regeneration Act 2008. Furthermore, the decision to change charges must be taken in accordance with normal principles of public law.

The Council has had regards to the relevant standards set by the Housing Regulator and should it make a decision to increase it charges it should ensure that the change is implemented in accordance with statutory provision and guidance.

Financial Implications

As set out in the report

Other Resource or Risk Implications

None identified

Section 151 Officer's Comments

The Local Government Act 2003 placed explicit requirements on the s151 Officer to report on the robustness of the estimates included in the budget and on the adequacy of the Council's reserves; this requirement is addressed below.

Provisions, Reserves and Balances

- Specific HRA earmarked reserves and provisions are satisfactory at the levels currently proposed.
- An unallocated minimum balance of £0.5M for the Housing Revenue Account is a reasonable level to safeguard the Council's overall financial position, given other measures and safeguards in place, taking a medium to longer term view.

The above advice regarding unallocated balances is dependent upon other provisions and reserves remaining broadly at proposed levels, unless a specific policy change indicates otherwise. It is dependent upon Council not varying substantially the budget proposals as set out.

As a very simple measure, the inherent value of the risks facing the Council by far exceeds the total of all reserves and balances. Whilst it is not the case that all these risks could fall due immediately, Members should appreciate the need for holding balances and reserves more generally and using them wisely. It is inappropriate to simply view the level of funds held, without considering the reasons as to why those funds might be needed.

Robustness of Estimates

A variety of exercises have been undertaken to establish a robust budget for the forthcoming year. These include:

- Producing a base budget, taking account of service commitments, pay and price increases and expected demand / activity levels as appropriate, and the consideration of key assumptions and risks.
- Reviewing the Council's services and activities, making provision for expected changes.
- Reviewing the HRA Thirty Year plan, together with other corporate monitoring information produced during the year.
- Undertaking a review of the Council's borrowing needs to support capital investment, in line with the Prudential Code.

These measures ensure that as far as is practical, the estimates and assumptions underpinning the base budget are robust, and the proposed HRA Thirty Year Business Plan presents a reasonable approach for the way forward. The Council has recognised the tendency for optimism bias regarding income forecasts particularly and this will be taken account of in the development of future key budget proposals and business cases.

Furthermore, arrangements are in hand to assess capacity needs and programming to help ensure successful delivery of key projects. Coupled with sound programming, the Budget Support reserve provides scope to help address any shortfalls in capacity etc.

Affordability of Spending Plans

In addition, the s151 Officer is responsible for ensuring that when setting and revising Prudential Indicators, including borrowing limits, all matters to be taken into account are reported to Council for consideration. In considering affordability, the fundamental objective is to ensure that the Council's capital investment remains within sustainable limits, having regard to the impact on housing rents for Council Housing investment. Affordability is ultimately determined by judgements on what is 'acceptable' - this will be influenced by public, political, and national influences.

The factors that have been taken into account in considering capital investment plans include the following.

- Availability of capital resources, including capital grants, capital receipts, etc
- Existing liabilities, service needs, commitments, and planned service / priority changes
- Options appraisal arrangements (including the extent to which other liabilities may be avoided, through investment decisions)
- Revenue consequences of any proposed capital schemes, including interest and debt
- Repayment costs of any borrowing
- Future years' revenue budget projections, and the scope to meet borrowing costs
- The likely level of government support for revenue generally.

The HRA has a Capital Financing Requirement which reflects underlying need to borrow. This is reviewed periodically to ensure that borrowing is, always, affordable, sustainable,

and prudent and a minimum revenue provision charge is made to the HRA each year to reflect the cost of borrowing.	
Monitoring Officer's Comments	
The Monitoring Officer has been consulted and has no further comments to add	
Contact Officer	Peter Linsley
Tel	01524 586873
Email	plinsley@lancaster.gov.uk
Links to Background Papers	
See appendices A-G	

1. Introduction

1.1 The Council is required under statutory provisions to maintain a separate ring-fenced account for the provision of local authority housing, known as the Housing Revenue Account (HRA). This covers the maintenance and management of the Council's housing stock.

1.2 This report sets out the rent setting policy and the latest position with regards to the HRA 30-year Business Plan, covering both revenue and capital budgets, and the associated level of reserves and balances. It seeks approval for rent levels and various other budget matters, with referral on to Budget Council as appropriate.

1.3 It can be noted that within the context of ring-fencing the HRA has a role to play in support of wider Council priorities; contributing to and facilitating projects across the district to support the wider ambitions of the council. The HRA also underpins the Council's general fund through contribution to support services and corporate commitments.

2. Achievements 2020/21

2.1. In a year dominated by the Covid-19 pandemic the council housing team provided support to the corporate emergency response[1], whilst continuing to provide services to council tenants in line with Covid-19 safety guidance. At times, projects and ambitions envisaged at the start of the year had to be paused or amended. Nevertheless, the following achievements were still delivered in line with service objectives, and the wider council priorities, despite the challenging landscape.

2.2. Key achievements:

[1] Staff from across Council Housing were redeployed throughout March-August 2020, supporting the Council's work in supporting vulnerable residents as well as maintaining vital services – with staff from RMS supporting Public Realm Teams in waste collection. Other notable roles including support for the 'Everyone In' campaign – supporting rough sleepers off the streets, and supporting Eggcup in getting their premises business ready.

- The Income Management Team have continued to perform well, supporting tenants and residents with financial issues, and rent arrears prevention. At Quarter 3 the current tenant arrears figure was £178K, a 20% improvement on the same point in 19/20, and with no recourse to legal action.
- In addition, between April 2020 and January 2021 the team have realised increased income for tenants of £324K in total through Discretionary Housing Payments applications and benefit claim maximisation – an average gain of £1,900 per case.
- Housing Quality Network (HQN) accreditation – the Income Management Team retained accreditation as of 13th October 2020, and presented as an example of good practice within the housing sector at the HQN annual conference in the same month.
- Significant work towards Tenants Participation Advisory Service (TPAS) accreditation carried out, as at mid-Jan 2021 the outcome is still outstanding.
- During July 2020 Residents from Kingsway Court Independent Living Scheme were moved to a local hotel for a week to allow for remedial works following a leak within the boiler tank.
- In May 2020 a significant fire took place on the Marsh estate. The Housing team (working with partner agencies) attended swiftly, and worked with residents to ensure the health and safety of all involved: assisting with the clean-up effort, and supporting affected residents into alternative accommodation
- Two partnership estate clearance events took place; on the Marsh estate, and then a follow up event on Ryelands. Fire safety was the focus, with Estate Teams, Repairs and Maintenance and Public Realm staff working with the fire service to deliver a whole-estate door knock and a rubbish clearance effort (with 13.6 tonnes cleared from the Marsh, and 21 tonnes from Ryelands).
- In the early months of the Covid lockdown, support phone calls were made to every council tenant. Advice around finances, Covid support, benefits, health services, and other information was provided, and tenants were referred and signposted where appropriate. Additionally, the team have written to all tenants four times throughout the pandemic offering an update on service delivery and offering help and support.
- Significant (and Covid safe) consultation took place with Mainway residents, working with the Beyond Imagination team at Lancaster University, to establish options for a major redevelopment of the estate. Consultation included several ‘events’, door knocking, and the establishment of the MyMainway Hub – a customer facing shop on Owen Road which allowed staff and tenants to be able to interact and develop ideas and ambitions for the project.
- Two-year programme being developed to upgrade 14 Independent Living schemes from analogue alarm and monitoring equipment to digital.
- 117 residents over the age of 75 in non-sheltered accommodation (out of a total of 188) contacted as part of a Winter Welfare visit service during December and January 20/21: to facilitate support over this period and beyond where required.
- 7,000 day-to-day repairs carried out in a Covid-safe way.
- Re-roofed 110 properties, installed 200 A-rated gas boilers, fitted 400 external doors, installed 50 disabled adaptations, installed solar PV to 35 sheltered bungalows, repaired 215 void (empty) properties.
- Achieved EPC ‘A’ standard on two sheltered conversions in Hala.
- Replaced composite fencing on Marsh, and about to proceed on Ryelands, to reduce fire risk.

- Appointed an Energy Support Officer to support new and existing tenants around their energy bills and carbon footprint.

2.3. Despite the expected impact of the pandemic over the course of the coming year – the service continues to be ambitious. Looking ahead - key examples of ongoing service delivery and future planning developed in line with the Corporate Plan and in line with the Council priorities is detailed underneath:

Priority	
A sustainable district	• A programme of significant investment is underway across the council's housing stock - see section 3 below.
An inclusive and prosperous local economy	• Provision of local 'Hub' (e.g. Branksome Estate): a base from which the local resident's group can develop activities and community led initiatives. • Provision of empty shop unit on the Ridge for food club activities • Local procurement of repairs (and other housing related) contracts. • Development of new build and property conversion programmes: utilising council land and assets to benefit communities e.g. Mainway project; Greaves property conversion; Galgate empty shop conversion; Independent Living scheme empty property conversions; proposed Extra Care accommodation scheme (in Beaumont). • Involvement in Kickstart employment scheme, providing 6-month work placements for young unemployed local residents. • Creation of apprenticeships.

Healthy and Happy communities	• Developing resident scrutiny groups and creating opportunities for residents to contribute to service development and the decision-making process.
	
	• Delivering a 'place-based' approach to estate and neighbourhood work:
	  • Facilitating (and funding) community specific, community led projects;
	  • Creating 'neighbourhood plans' to address local priorities, and promote partnership work between the housing service, residents and resident's groups, other council services (public realm, community connectors); external partner agencies (police, fire service, community centres) etc.
	  • Exploring opportunities for digital connectivity across the district
	
	• To identify and understand the financial challenges within households, both before and during tenancies.
	• Carrying out pre-tenancy affordability checks, comprehensive benefit assessments, and identifying and addressing furniture and appliance poverty, for example.

	• Delivering planned programmes of post allocation visits, tenancy audits, and winter welfare visits to identify support requirements.
A co-operative, kind and responsible council	• 'Place-based' working: helping tenants to create sustainable groups and an ability to deliver initiatives supported by – not led by – the housing service. Recognising that local people are best placed to understand the issues in their neighbourhood. • Supporting community centres (Marsh and Ridge, for example) to provide services to their residents, and developing access to a community fund pot for other community centres and groups to do likewise.
An inclusive and prosperous local economy	• Provision of Repairs and Maintenance through direct Lancaster City Council workforce: 89 posts across administration, technical, and operative staff • Use of apprenticeships in developing local skills: currently one apprenticeship within Repairs and Maintenance Service with another to be created during 21/22, and a proposed apprenticeship within Housing Management during 21/22. • Use of local suppliers within procurement rules (and where appropriate): for lower value contracts, use of local suppliers is guaranteed; for higher value contacts, on occasions where local supplier does not offer the required expertise and value for money, successful contractors must explicitly evidence social value in contract submissions.

3. The Council Housing response to the Climate Emergency

3.1. In response to the ongoing climate emergency, and the commitments set out by the Council in response, the Council Housing service has developed programmes of significant investment and activity in a number of areas. All of these areas of investment are built into the business planning and budgeting as outlined in this report.

3.2. **Energy Performance Certificate (EPC) Band C Housing Stock:** Lancaster City Council has embarked on a 10-year programme of energy efficiency improvements and performance upgrades across all its Council Housing stock. The goal of this project is to raise the energy performance certification of all Council Housing to a minimum 'C' rating. Currently, 75% the Council Housing are rated at 'C' rating or better. The programme will focus on energy improvement work on 800 properties with lower ratings and ensure all properties meet new minimum standard. Additionally, seek all opportunities, to achieve higher ratings and drive cost savings and quality outcomes through economies of scale and development of sustainable retrofitting techniques. An additional £2.6M is included within the Capital Programme to deliver this (as per 7.4 - below).

3.3. **Void property, energy retrofit improvements**: Lancaster City Council has an on-going programme of whole house improvements and energy efficiency upgrades to existing Council Housing properties. Selected properties are surveyed by our technical team and full renovation specified, including retrofit performance improvements, air tightness, and improved insulation. Increasingly, our planned maintenance team undertakes the refurbishment, developing experience and retrofitting techniques to improve our Council Housing stock.

3.4. **Funding**: bidding as a Regional Consortium for the £253K LAD1b Green Homes grant funding to undertake energy improvement works – targeting 40 properties with the lowest EPC ratings. The Team will seek to bid for other funding as and when opportunities present themselves, including LAD2 funding, where details have recently been released.

3.5. **Mount Avenue**: Lancaster City Council Housing has planned an ambitious investment of whole house improvements and energy efficiency upgrades at Mount Avenue, Beaumont Estate, Skerton. The project will be completed over 3 years and will see the renovation of 66 dwellings. Homes will benefit from building fabric improvements and repairs, and upgrading the interiors and finishes, including kitchens and bathroom upgrades. The properties will be made more thermally efficient through a menu of energy saving improvements including heating systems, windows and doors, dry lining and increased insulation.

3.6. **Loft insulation:** The standard of loft insulation is checked on all void properties and on all new roofing installations and all properties brought up to at least 300mm as required.

3.7. **Solar panel installations:** We are undertaking an estate wide installation of solar panels targeting suitable independent living schemes, directly benefiting a group of elderly and vulnerable tenants, addressing fuel poverty and reducing carbon emissions. The selection of sheltered properties also negates Right-To-Buy issues and the density and type of roofs helps economical maintenance. All new house conversions are assessed for solar panel installations as part of our commitment to reducing reliance on gas heating and incorporating a renewable component in the design.

3.8. **Gas Partnership, boiler replacement programme:** We have increased funding and accelerated the rate at which we fit new boilers and central heating systems, reducing CO2 by replacing time expired systems with energy efficient systems. This reduces CO2 and improves thermal comfort and control.

3.9. **Energy Support Officer:** Lancaster City Council appointed an Energy Support Officer, to support Tenants contribute towards the Council's approach to the Climate Change Emergency deliver our climate change ambitions. The new role provides a tenant focused energy advice service to tenants, promoting energy efficiency, carbon free energy, and ensuring Council tenants are sign-posted to a range of energy related (financial and advisory) initiatives. Additionally, to help deliver our energy efficiency programmes.

3.10. **Electric Vehicle Charging Points:** A HRA contribution will enable the installation of three electric vehicle charging points on Council Housing land, for use by council staff, and for wider public use through the Charge My Street network.

3.11. **Property conversions/new properties (outlined in Appendix E):** Maximisation of energy efficiency a key consideration. It is intended to investigate, where possible, construction with highly insulated materials and including elements such as solar PV, air source heat pumps, waste-water heat recovery etc.

4. Rent Setting

4.1. From 2020/21 the Rent Standard within the Social Housing Regulations applies to all Local Authorities. In previous years, the Council has adhered to this aspect of the regulations voluntarily, as a matter of good practice, and as such our approach to rent setting remains largely unchanged.

4.2. The financial year 2021/22 is the second of five years where the Council has the freedom to increase rent by a maximum of CPI+1% (CPI is the Consumer Price Index). For rent setting purposes for 2021/22, the September 2020 CPI figure of 0.5% is used, with forecast CPI used thereafter.

4.3. The maximum increase of CPI+1% remains consistent with Government guidance referred to, and the advice provided to Cabinet, within the HRA Budget Report approved in February 2019.

4.4. It remains the case that where properties become vacant and their rents are below 'formula rent' the rents to be charged for new tenancies can increase up to the formula rent level[2].

4.5. All Council rents are 'social rent', and sit below the Local Housing Allowance (LHA) rate; this rate defines the maximum amount that can be paid in Housing Benefit (HB) or through the housing element of Universal Credit (UC)[3]. We estimate that around 75-80% of tenants are in receipt of some form of HB or UC[4].

4.6. Rental income is the main funding source for the HRA and there are factors that will influence the outturn position:

- Void levels and re-let times (equating to void rent loss/uncollectable rent)[5]
- Right to Buy (decrease in housing stock); as at Quarter 3 a total of 11 Right-To-Buy completions have taken place in 2020/21. Estimates assume 20 completions per year in future years.

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2 Formula rent for a property is calculated based on relative property values, relative local earnings, and property size (no. of bedrooms), in line with annual guidance produced by the Social Housing Regulator.
3 It is estimated that around 80% of tenants are in receipt of full or partial HB or UC – due to the housing element being paid direct it is not fully clear the exact number – however, prior to the introduction of UC 80% of tenants were supported by HB to pay their rent.
4 It is hard to get an actual figure: tenants who claim Universal Credit (UC) and pay their own rent do not always have cause to inform the council of having made a UC claim.
5 Void levels have been low during 20/21 due to the coronavirus pandemic (40% down on previous year) however restrictions have caused significant delays in re-letting and increased void rent loss.

Note: Refer to Appendix G for further details about risk factors.

4.7. Therefore, in line with government policy Cabinet is now advised to set average council rents as follows[6]:-

Property Type	2020/21	2021/22
General	**£73.54**	**£74.87**
Sheltered and Supported	**£68.64**	**£70.00**

5. Other Charges

5.1. A general principal is applied to service charges to ensure they are sufficient to cover the cost of service provision, and that they are reasonable and transparent. Service charges are increased each year using a range of inflationary factors: e.g. General Inflationary Index, Building Cost Information Service (BCIS), Gas, and Electricity, and costs of service provision are reviewed periodically. A full review of these costs has taken place during 2020/21.

5.2. As per the Social Housing Regulations the Council should “endeavour to keep increases for service charges within the limit on rent changes of CPI+1%.”[7] However, it is recognised that service charges fluctuate significantly from year to year and that the requirement to contain increases within CPI+1% should be interpreted on a medium- or long-term basis[8].

5.3. For 2021/22 across all housing stock service charges will reduce by 1.2%. This reflects 0% inflation in some areas, and reduced running costs achieved by the housing service in other areas, which have been passed on to tenants. The main variance in service charges is between General Needs (1.7% increase[9]) and Sheltered Housing (-2.2% decrease[10]). .

5.4. It is estimated that around 75-80% of council tenants are in receipt of either HB or UC. Most service chargeable elements are HB/UC eligible; the exceptions being individual heating costs, and the monitoring of alarms within sheltered housing or

6 Note that the above figures are presented on a 52-week basis.
Note: Specific rents vary depending on property type / area / size: for general needs between £54.22 (for a bedsit at Mainway) and £110.61 (for a 4-bedroom house in Bolton-le-Sands), and for sheltered housing between £56.27 for a bedsit at Beck View and £90.30 for a two bed flat at Artlebeck Close.
7 Source: Policy statement on rents for social housing - Feb 2019
8 Source: National Housing Federation Briefing on Rent Standard 2020 - Jan 2020

9 The increase in General Needs charges is largely caused by an increase in cleaning costs on the Mainway Estate: cleaning charge was capped at £1.70 in 20/21 upon introduction of new cleaning service, to cushion the impact on tenants. This element increases to £2.36 for 21/22 to recover true cost of service.
10 Within Sheltered Housing, the elements of service charge equated to staff resources has been equalised across all schemes, in contrast to previous scheme by scheme apportionment of costs which has in previous years disproportionately impacted residents in smaller schemes. This has resulted in some year-on-year variation in service charge for some residents, but is seen as a fairer way of proportioning costs for services residents receive.

community alarmed properties.

5.5. With regard to garage rents, in January 2017 Cabinet established a rent setting policy for garages within the HRA: "That for 2017/18, all garage rents be increased by the Consumer Price Index (CPI) plus £1, with an additional CPI + £1 increase in each subsequent year until 2019/20, with CPI increase thereafter."

5.6. Garage rents were subject to a freeze for 2020/21 and following review during 2020/21 it is recommended that they be subject to a further freeze for 2021/22. Garage take-up and value for money of garage rents will be reviewed again during 2021/22.

6. Revenue Expenditure

6.1. The 2020/21 revised estimates and the future years estimates for 2021/22 alongside the following three financial years have been prepared as part of this budget setting process. The differences between the budget approved last year and the draft revenue budget as prepared are illustrated in the variance analysis supplied at Appendix B.

6.2. The key areas are listed as follows: -

- Due to the pandemic, empty property re-let times have increased, resulting in void rent loss of around £145K over and above that budgeted for 2020/21. For 2021/22, a return close to pre-pandemic levels has been assumed
- Due to fluctuations in CPI, 2021/22 rental income from dwellings is now forecast to be approximately £224K lower than previously estimated in the previous budget report
- Salary savings from carrying vacancies during the pandemic have been made in both Housing Management and Repairs & Maintenance
- In line with the Government announcement, a pay freeze for all employees earning over £24,000 has been applied in the 2021/22 estimate, the previous estimate included a pay award of 3% across the board
- Repairs and Maintenance increase in 2021/22 is due to one-off planned maintenance projects, including additional expenditure in response to the climate emergency
- Premises insurance increases relating to the premium for council house properties
- Expenditure of £62K relating to development consultancy and consultation fees in connection with the ongoing review of the Mainway estate, funded by the Business Support Reserve
- Delayed expenditure relating to the replacement of housing management software, funded by the ICT & Systems Improvement Reserve
- Planned capital expenditure has reduced by £787K in 2020/21 and increased by £576K in 2021/22, resulting in changes to the funding required from the Major Repairs Reserve. From 2021/22, the capital programme includes £2.6M for energy efficiency improvements, as detailed in 3.2.

6.3. In summation, the 2020/21 revenue budget projected surplus is £476K, which is a reversal of the previously projected funding requirement of £88K, which was to be funded from unallocated balances.

6.4. The 2021/22 revenue budget projected funding requirement is £1,000K (prior to the approval of savings and budget proposals). This is £770K higher than the previously projected £230K, and again this will be funded by unallocated balances. The revised projection is due to the points described above (6.2), notably:

- Decreased rental income due to lower than projected CPI figure
- Additional one-off planned maintenance projects in 2021/22
- Additional energy efficiency works during 2021/22 in response to the climate emergency

6.5. This should be considered in the light of significant underspends on the capital programme in 2019/20 and 2020/21, which along with higher than anticipated capital receipts and increases in capital charges, will result in a reduction of £1,821K in the total of the two years' additional contributions to the Major Repairs Reserve (2019/20 £1,099K, 2020/21 £722K).

6.6. Should all additional resource requirements items be approved then there will be an additional funding requirement in both 2021/22 and 2022/23 which can be managed by the short-term use of the unallocated reserve. This management of the fund would see surpluses generated in the years thereafter (see Appendix A).

6.7. Fourteen Independent schemes within Council Stock are currently operating on analogue alarm and monitoring equipment provided by Tunstall. This equipment is reaching the end of its life, necessitating a programme of upgrade across all schemes to the latest intelligent digital equipment. The total cost of this project across all schemes is estimated at £390,000, funded from the Sheltered Support Grant Reserve; this reserve exists for the sole purpose of scheme equipment replacement. The programme of upgrade will take place over the next two years.

7. Capital Expenditure

7.1. The revised and five-year capital programme is included at Appendix C.

7.2. The key changes to the programme from last year's reported position are included at Appendix D.

7.3. The capital programme includes no provision for any major refurbishment works on the Mainway estate.

7.4. Further to this, it is worth noting the following:-

- The kitchen replacement programme has been slipped by 12 months, to minimise works carried out inside tenanted properties during the pandemic

- Within energy efficiency, an increase of £2.6M over nine years to make improvements to bring all properties with a SAP rating of 'D' to 'G' up to a minimum standard of 'C', as detailed in 3.2.

8. Additional Budget Proposals

8.1. Alongside setting council housing rents, Cabinet is also requested to make recommendations regarding budget proposals for consideration by Council.

Through the business planning process, the following budget proposals within the HRA have been identified.

Additional budget proposals	2021/22 £	2022/23 £	2023/24 £	2024/25 £
King Street shop unit – Ideal Choice Homes customer facing office	**10,000**	**10,000**	**10,000**	**10,000**
Additional salary resource for Ideal Choice Homes	**12,800**	**13,400**	**17,900**	**18,200**
Property Conversions	**0**	**(11,700)**	**(20,300)**	**(24,100)**
Total of all budget proposals	**22,800**	**11,700**	**7,600**	**4,100**

8.2. Please see attached Appendix E which details and discusses individual budget proposals.

9. Mainway project

9.1. The Mainway project is a significant, Housing-led project with the potential to transform the Mainway estate in Lancaster. A comprehensive consultation with residents took place in 2020/21.

9.2. Cabinet will be asked in March 2021 to consider significant proposals in relation to the project. Depending on decisions made by Cabinet, it is anticipated that it may be necessary to draw on the Business Support Reserve to fund project related costs during 2021/22 such as for additional staffing requirements and design costs, etc.... These costs could include, for example, architectural and design costs; project costs such as staffing resources and resident consultation; and other feasibility costs.

9.3. None of these costs are included in this report, pending consideration of the separate Mainway report at March Cabinet, 2021.

9.4. In addition, no major capital works in relation to Mainway are included in this report. Cyclical maintenance costs within dwellings continue to be included in the current budgeting process.

10. Provisions, Reserves and Balances

10.1. After reviewing the Housing Revenue Account and General Fund in comparative terms and considering the key issues, assumptions and risks underlying the budget projections, the Section 151 Officer advises maintaining the minimum level of HRA Balances at £500K from 01 April 2021 to support the budget forecasts, as part of the overall medium term financial planning for the HRA.

10.2. Draft statements on all reserves are attached at Appendix F(i) and Appendix F(ii). Levels are viewed as adequate for the period covered and Cabinet is asked to endorse this information, with the Statement being referred on to council as part of the HRA budget proposals.

11. Business Planning & Future Risks

11.1. Taking account of the work that has been done to date, the following table sets out the latest position for the business plan, represented by the level of unallocated balances and the Business Support Reserve (BSR). It compares the position back in February 2020 to projections as at February this year.

30 Year Business Plan: Business Support Reserve and Unallocated Balances

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	30 Year Cumulative Total £'000
Business Support Reserve	8,080	8,080	8,080	8,080	8,080	8,080
Unallocated Balances	1,964	1,990	2,292	3,008	3,889	15,964
Projections as at February 2020	**10,044**	**10,070**	**10,372**	**11,088**	**11,969**	**24,044**
Business Support Reserve	7,757	7,721	7,718	7,716	7,716	7,716
Unallocated Balances	3,335	2,335	1,844	1,863	2,102	11,947
Projections as at February 2021	**11,092**	**10,056**	**9,562**	**9,579**	**9,818**	**19,663**
Overall Movement (Adverse) / Favourable	**1,048**	**(14)**	**(810)**	**(1,509)**	**(2,151)**	**(4,381)**

11.2. The unallocated balance is currently £2.9M and at no point within the 30-year business plan does it breach the £500K lower limit as detailed in section 10.1.

11.3. The Business Support Reserve has a current unallocated balance of £8.1M. There is no further call on the reserve at this juncture for the remainder of the 30-year business plan with the exception of the aforementioned growth and the possibility of its use to supplement the Mainway project.

11.4. The drop in the projected balance at the end of the 30-year business plan is largely due to the inflation assumptions used in the setting of rents. As previously discussed, rents have been set at CPI+1% for five years, and it has been assumed that increases will revert to CPI only from 2025/26. The risks surrounding this assumption must be appreciated and the magnitude of impact of a small change within this area.

11.5. Should the growth items in section 8 be approved then the combined level of reserves will be reduced to £19.1M by the end of the 30-year business plan.

11.6. The Section 151 Officer is required to undertake a formal review of general reserve levels. In assessing the adequacy of such balances, the Head of Financial Services takes account of the strategic, operational and financial risks facing the authority. The effectiveness of internal financial and other controls are also taken into account; assurance on these can be taken from the respective formal Statements and external assessments. Consideration has also been given to the specific risks and assumptions underlying the HRA as set out in ***Appendix G***.

12. Options and Options Analysis (including risk assessment)

12.1. The options with regards to rent setting are set out under section 3, the maximum permitted increase being CPI+1%. By applying this increase, it allows for a budget that can deliver on the Council's ambitions on improving housing standards and addressing the climate change emergency, whilst adhering to the Rent Standard and legislative requirements.

12.2. In relation to garage rents, the previous decision was to freeze rents for 2020/21. Occupancy levels suggest a further freeze for a 12-month period in order to protect the current income levels achieved is required. Garage rents and occupancy will be reviewed fully during 2021/22, but current assumptions involve reverting to a CPI increase thereafter.

12.3. With regard to the revenue budget generally, Cabinet could consider other proposals that may influence spending in current and future years, as long as their financing is considered and addressed.

12.4 The options available in respect of the minimum level of HRA balances are to retain the level at £500,000 in line with the advice of the Section 151 Officer, or adopt a different level. Should Members choose not to accept the advice on the level of balances, then this should be recorded formally in the minutes of the meeting and it could have implications for the Council's financial standing, as assessed by its external auditor.

12.5 With regards to the additional budget proposals as set out in section 8 of the report, Cabinet should consider the costs and benefits of the proposals and whether they are affordable, in particular, over the medium to longer term.

The options available in respect of the Capital Programme are:

i) To approve the programme in full, with the financing as set out;
ii) To incorporate other increases or reductions to the programme, with appropriate sources of funding being identified.

12.6 Any risks attached to the above would depend on measures Members proposed, and their impact on the council housing service and its tenants. As such, a full options analysis could only be undertaken once any alternative proposals are known, and Officers may require more time in order to do this.

Option 1: Set housing and garage rent levels as set out in this report and approve the provisions, reserves and balances position (and their use); the revenue budgets and capital programme; and the additional budget proposals as set out
Advantages: Increased rental income allows the Council to deliver towards its climate ambitions and provide an ambitious housing service which places people and place at the heart of its offer.

Disadvantages: Increased rent levels for tenants.
Risks: The HRA budget set out in this report is sustainable in the long term. The risk associated with Option 1 relates to any future Mainway project (as referred to in section 9, above) and any borrowing or use of reserves in relation to this.
Option 2: Set housing and garage rent levels as detailed in this report and approve the provisions, reserves and balances position (and their use) as set out, and the revenue budgets and capital programme, but allowing for Cabinet's recommendations regarding specific additional budget proposals.
Advantages: Increased rental income allows the council to deliver towards its ambitions. Non-approval of additional budget proposals would lead to greater HRA surpluses over the life of the 30-year business plan.
Disadvantages: Non-approval of additional budget proposals would cause a scaling back of ambitions.
Risks: Inability to maximise service provision and deliver on Council, and housing related ambitions.
Option 3: To propose alternatives to those outlined in Section 11 above.
Advantages: Unknown
Disadvantages: Would require further options analysis
Risks: Impact on housing service and council housing tenants unknown.

13 Officer Preferred Option (and comments)

Option 1: Set housing and garage rent levels as set out in this report and approve the provisions, reserves and balances position (and their use); the revenue budgets and capital programme; and all additional budget proposals as set out

APPENDIX A

HOUSING REVENUE ACCOUNT BUDGET

For Consideration by Cabinet 9 February 2021

	2020/21 Budget £	2020/21 Revised £	2021/22 Budget £	2022/23 Forecast £	2023/24 Forecast £	2024/25 Forecast £
INCOME						
Rental Income - Council Housing	(13,745,900)	(13,600,500)	(13,949,900)	(14,350,200)	(14,739,600)	(15,124,900)
Rental Income - Other (Shops and Garages etc.)	(275,800)	(265,700)	(265,700)	(269,300)	(273,000)	(276,800)
Charges for Services & Facilities	(1,640,400)	(1,556,700)	(1,593,600)	(1,597,700)	(1,631,400)	(1,665,200)
Grant Income	(7,700)	(7,700)	(7,700)	(7,700)	(7,700)	(7,700)
Contributions from General Fund	(111,800)	(82,900)	(93,300)	(95,600)	(100,700)	(103,300)
Total Income	**(15,781,600)**	**(15,513,500)**	**(15,910,200)**	**(16,320,500)**	**(16,752,400)**	**(17,177,900)**
EXPENDITURE						
Repairs & Maintenance	5,414,700	5,250,200	5,598,700	5,559,900	5,689,800	5,801,100
Supervision & Management	3,668,900	3,727,900	3,926,900	4,003,600	4,113,500	4,258,200
Rents, Rates & Insurance	210,200	302,200	288,100	288,100	314,500	341,000
Contribution to Provision for Bad and Doubtful Debts	158,800	160,900	157,400	158,800	160,300	162,000
Depreciation & Impairment of Fixed Assets	2,772,300	2,772,300	2,772,300	2,771,700	2,771,700	2,771,700
Debt Management Costs	1,100	0	0	0	0	0
Total Expenditure	**12,226,000**	**12,213,500**	**12,743,400**	**12,782,100**	**13,049,800**	**13,334,000**
NET COST OF HRA SERVICES	**(3,555,600)**	**(3,300,000)**	**(3,166,800)**	**(3,538,400)**	**(3,702,600)**	**(3,843,900)**
Capital Grants and Contributions Receivable	0	0	0	0	0	0
Interest Payable & Similar Charges	1,756,900	1,756,900	1,718,300	1,679,400	1,640,300	1,640,300
Premiums & Discounts from Earlier Debt Rescheduling	0	0	0	0	0	0
Interest & Investment Income	(23,800)	(23,800)	(33,100)	(43,100)	(44,800)	(44,800)
Pensions Interest Costs & Expected Return on Pensions Assets	232,400	0	0	0	0	0
Self Financing Debt Repayment	1,041,400	1,041,400	1,041,400	1,041,400	1,041,400	1,041,400
(SURPLUS) / DEFICIT FOR THE YEAR	**(548,700)**	**(525,500)**	**(440,200)**	**(860,700)**	**(1,065,700)**	**(1,207,000)**
Adjustments to reverse out Notional Charges included above	0	0	0	0	0	0
Net Charges made for Retirement Benefits	0	0	0	0	0	0
Transfer to/(from) Earmarked Reserves - for Revenue Purposes	(85,600)	49,200	64,700	121,800	118,300	71,300
Capital Expenditure funded from Major Repairs Reserve	722,200	0	1,375,200	1,229,800	928,800	896,800
Transfer from Earmarked Reserves - for Capital Purposes	(282,000)	(290,000)	0	(100,000)	(100,000)	(100,000)
Financing of Capital Expenditure from Earmarked Reserves	282,000	290,000	0	100,000	100,000	100,000
TOTAL (SURPLUS) / DEFICIT FOR THE YEAR	**87,900**	**(476,300)**	**999,700**	**490,900**	**(18,600)**	**(238,900)**
SAVINGS AND BUDGET PROPOSALS						
King Street shop unit	0	0	10,000	10,000	10,000	10,000
Additional salary resource for Ideal Choice Homes	0	0	12,800	13,400	17,900	18,200
Property Conversions	0	0	0	(11,700)	(20,300)	(24,100)
TOTAL GROWTH	**0**	**0**	**22,800**	**11,700**	**7,600**	**4,100**
UPDATED TOTAL (SURPLUS) / DEFICIT FOR THE YEAR	**87,900**	**(476,300)**	**1,022,500**	**502,600**	**(11,000)**	**(234,800)**
Housing Revenue Account Balance brought forward	(1,840,085)	(2,858,619)	(3,334,919)	(2,312,419)	(1,809,819)	(1,820,819)
HRA BALANCE CARRIED FORWARD	**(1,752,185)**	**(3,334,919)**	**(2,312,419)**	**(1,809,819)**	**(1,820,819)**	**(2,055,619)**

Note: The shaded items relate directly to financing the capital programme, and comprise depreciation on Council Dwellings, grants and contributions, use of the Major Repairs Reserve and specific Earmarked Reserves.

APPENDIX B

HOUSING REVENUE ACCOUNT VARIANCE ANALYSIS

	2020/21		2021/22	
	£	£	£	£
ORIGINAL BUDGET		**0**		**0**
EXPENDITURE				
Employee Savings				
Salary savings due to staff turnover, impact of change in assumptions re pay award	40,400		65,100	
		40,400		**65,100**
Premises				
Repairs & Maintenance - savings on salaries and subcontractors during lockdown, additional costs for one-off planned maintenance projects	166,900		(56,100)	
Premises Insurance recharges - increase in premium relating to council house properties	(76,400)		(58,000)	
		90,500		**(114,100)**
Transport				
	0		0	
		0		**0**
Supplies & Services				
	0		0	
		0		**0**
Support Services				
Fees relating to development consultancy and consultation for Mainway estate, funded from reserves	(62,000)		0	
		(62,000)		**0**
INCOME				
HRA Dwellings Rent reduction due increased re-let times during pandemic, changes in rates of inflation	(145,400)		(224,300)	
Rents (Other) reduction due to one year rent freeze for garages due to continuing low occupancy	(10,100)		(13,900)	
		(155,500)		**(238,200)**
FINANCING				
	0		0	
		0		**0**
APPROPRIATIONS				
Earmarked Reserves appropriations - funding of housing management software replacement deferred	(140,000)		0	
Business Support Reserve - funding for Mainway development consultancy and consultation fees, deferral of JE protection by 12 months	64,400		2,800	
Major Repairs Reserve appropriations - net decrease/(increase) in additional contribution due to reprofiling of capital programme	722,200		(494,000)	
		646,600		**(491,200)**
Other Net Service Variances		**4,200**		**8,900**
IN YEAR VARIANCES		**564,200**		**(769,500)**
Previously Agreed Contribution To / (From) Unallocated Reserve		(87,900)		(230,200)
REVISED CONTRIBUTION TO / (FROM) UNALLOCATED RESERVE		**476,300**		**(999,700)**

*Variances shown as (adverse) / favourable

APPENDIX C

Council Housing 5 Year Capital Programme
For Consideration by Cabinet 9 February 2021

	2020/21 Original £000	2020/21 Revised £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	TOTAL £000
EXPENDITURE							
Adaptations	300	300	300	300	300	300	1,500
Energy Efficiency/Boiler Replacement	755	850	959	969	1,069	979	4,826
Internal Refurbishment	888	27	888	936	986	936	3,773
External Refurbishment	277	310	192	299	263	270	1,334
Environmental Improvements	552	379	360	580	250	250	1,819
Re-roofing/Window Renewals	792	995	1,093	628	513	684	3,913
Rewiring	84	84	54	88	88	88	402
Lift Replacements	-	-	-	-	-	-	-
Fire Precaution Works	145	164	150	150	180	150	794
Housing Renewal and Renovation	537	434	787	787	787	747	3,542
TOTAL EXPENDITURE	**4,330**	**3,543**	**4,783**	**4,737**	**4,436**	**4,404**	**21,903**
FINANCING							
Capital Receipts	558	485	640	640	640	640	3,045
Contributions	-	-	-	-	-	-	-
Earmarked Reserves	282	290	-	100	100	100	590
Major Repairs Reserve	3,490	2,768	4,143	3,997	3,696	3,664	18,268
TOTAL FINANCING	**4,330**	**3,543**	**4,783**	**4,737**	**4,436**	**4,404**	**21,903**
SHORTFALL/(SURPLUS)	**0**	**0**	**0**	**0**	**0**	**0**	**0**

APPENDIX D

HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME - KEY CHANGES

	20/21 Revised	21/22 Estimate	22/23 Estimate	23/24 Estimate
PREVIOUSLY APPROVED CAPITAL PROGRAMME	**4,330**	**4,207**	**4,228**	**4,057**
Adaptions				
No change to programme				
Energy Efficiency/Boiler Replacement				
Energy efficiency improvements	+120	+219	+219	+289
Internal Refurbishment				
Adjustments to kitchen programme	(861)	(57)	(50)	+50
External Refurbishment				
Upgrade & replacement of existing entrance doors	+33			
External rendering		+192		
Environmental Improvements				
Communal areas, railings & balusters	(173)		+300	
Re-Roofing/Window Renewals				
Slippage from 2019/20 programme	+178			
Roofing programme priority changes		+144		
Replace prematurely failing 12mm glazing		+40		
Rewiring				
No change to programme				
Lift Replacements				
No change to programme				
Septic Tanks				
No change to programme				
Fire Precaution Works				
Slippage from 2019/20 programme	+19			
Housing Renewal and Renovation				
Slippage from 2019/20 programme	+8			
Renewals and renovations	(120)	+40	+40	+40
Minor Variances	(9)	+2	+0	+0
REVISED CAPITAL PROGRAMME	**3,543**	**4,783**	**4,737**	**4,436**

LANCASTER CITY COUNCIL
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Outcome-Based Budgeting | 2021-25
Resource Growth / Refocus Proposal

Directorate: Communities and the Environment

Service: Council Housing

Cost Centre Name: Choice Based Lettings

Cost Centre Number: H2293

What is the Proposal?

The proposal is to provide a customer facing office space for the Ideal Choice Homes Lettings team; the office space has already been identified – a council owned retail unit on Kings Street. The office will provide a town centre presence for the team, improving public visibility of the lettings service and promoting Council Housing as a landlord of choice. The shop front will act as an 'Estate Agent' style town presence, providing a one-stop shop for housing related advice.

The office will be staffed Monday to Friday (as well as some weekend working), with staff on hand to advise and assist housing applicants, and prospective housing applicants, to negotiate their current housing situation. This will allow the team to deliver a better service to customers, providing a face-to-face service for those who prefer it. In addition, the shop unit will offer increased opportunities for advertising and marketing available council accommodation.

It is also anticipated that staff within this office would also be on hand to assist with wider housing related enquiries, particularly for current tenants such as with reporting repairs or discussing neighbourhood issues.

Priorities

How does the project contribute to the draft council Priorities?

A Sustainable District	
An Inclusive and Prosperous Local Economy	
Healthy & Happy Communities	A customer facing presence such as this, available to assist customers through the housing process, can help to ensure local communities are engaged, involved and connected.
A Co-operative Kind and Responsible Council	This customer facing town centre presence helps to ensure the housing service is focused on serving our residents, local organisations and district, by providing a visible, customer focussed presence, and ensuring that the availability of council housing – offering high quality, affordable homes – is communicated effectively.

Cross-Cutting Themes

How does the project contribute to the draft council Themes?

Climate Emergency	
Community Wealth Building	
Community Engagement	A town centre presence gives the housing service a base in the community from which to engage directly with residents, and develop further engagement opportunities.

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Outcome-Based Budgeting | 2021-25
Resource Growth / Refocus Proposal

How will the outcomes be measured?

Outcome	Performance Measure	Target
Community Engagement	Number of customers accessing the King Street office Number of customers becoming involved in engagement activities	No target currently No target currently
Greater visibility of council housing	Footfall in shop Improved demand (particularly around difficult to let properties)	No target currently
Improvements in letting 'difficult to let' properties	Improved relet times for difficult to let properties	No target currently

Estimated Resource Requirements

Revenue

	2021/22 £	2022/23 £	2023/24 £	2024/25 £
Rental, business rates, and other sundry running costs	10,000	10,000	10,000	10,000
Total	**10,000**	**10,000**	**10,000**	**10,000**

Business Case

At what stage is the business case for the proposal?

Not written	
Outline	Links into wider housing service objectives around marketing of council housing and visibility of council housing as landlord of choice
Developed	

Funding the Future

Will the project deliver financial efficiencies?	Some efficiencies may be delivered – improved relet times for difficulty to let properties (and subsequent reduction in void rent loss)
Will the project contribute to the Council's Commercial Strategy?	No
Will the project lever in finance from other organisations?	No
What is the expected lifespan of the project?	Initial four years, and then review

Outcome-Based Budgeting | 2021-25
Resource Growth / Refocus Proposal

Are there any other support requirements?

Details of any further resources that may be required to support the proposal:

Some support from Property Group (as landlords of the unit) and ICT.

Directors Signature

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Promoting City, Coast & Countryside

Outcome-Based Budgeting | 2021-25
Resource Growth / Refocus Proposal

Directorate: Communities and the Environment

Service: Council Housing

Cost Centre Name: Choice Based Lettings

Cost Centre Number: H2293

What is the Proposal?

That a temporary additional staffing resource of 18.5 hours per week be made permanent and included within the staffing establishment.

Following review and development of working practices within the housing service, additional temporary resources have been used by the Lettings team in the past two years to help deliver a more joined up service to prospective and new tenants.

This additional resource has been used to deliver: pre tenancy affordability assessments; pre-tenancy risk assessments; benefit advice; referral to other agencies (food banks, ethical credit providers) and a whole range of other elements of service that help the housing service as a whole to promote tenancy sustainment and financial inclusion.

The key benefit of this resource is in allowing the Lettings team to work more closely with the Income Management Team. It is recognised that when financial issues and risks are identified pre tenancy, tenants are less likely to fall into rent arrears and are more able to sustain a tenancy (with all the benefits that brings to both the tenant and the organisation).

The provision of pre tenancy work, and close working between these teams, was noted within the Income Management Team accreditation report from the Housing Quality Network as an area of good practice.

Priorities

How does the project contribute to the draft council Priorities?

A Sustainable District	
An Inclusive and Prosperous Local Economy	The additional resource allows the Housing service to provide and facilitate improved prospects for our residents through the stability of a high quality home, and the provision of advice and guidance around a range of financial matters.
Healthy & Happy Communities	Addressing income inequality: this additional resource allows the housing team to help tenants address a range of financial inclusion related issues, from income maximisation, to advice around food and fuel poverty, and basic budgeting skills. Focusing on early intervention approaches tenants are supported into secure, high quality, affordable tenancies.
A Co-operative Kind and Responsible Council	

APPENDIX E

LANCASTER CITY COUNCIL
Promoting City, Coast & Countryside

Outcome-Based Budgeting | 2021-25
Resource Growth / Refocus Proposal

Cross-Cutting Themes

How does the project contribute to the draft council Themes?

Climate Emergency	
Community Wealth Building	The additional resource allows the Housing service to provide and facilitate improved prospects for our residents through the stability of a high quality home, and the provision of advice and guidance around a range of financial matters.
Community Engagement	

How will the outcomes be measured?

Outcome	**Performance Measure**	**Target**
Improved tenancy sustainment	Reduced tenancy turnover % across the council's housing stock	Currently difficult to set – tenancy turnover has naturally reduced during pandemic due to restrictions
Better financial prospects for new tenants	Reduced rent arrears among new tenants	Rent arrears across all tenants has significant reduced (currently £178k Jan 21, compared to £400k+ in 2017). Reporting tool being developed to understand impact on new tenancies alone.

Estimated Resource Requirements

Revenue

	2021/22 £	**2022/23 £**	**2023/24 £**	**2024/25 £**
Staff costs	12,800	13,400	17,900	18,200
Total	**12,800**	**13,400**	**17,900**	**18,200**

Business Case

At what stage is the business case for the proposal?

Not written	
Outline	
Developed	

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Promoting City, Coast & Countryside

Outcome-Based Budgeting | 2021-25
Resource Growth / Refocus Proposal

Funding the Future

Will the project deliver financial efficiencies?	Yes. Difficult to put a figure on the specific impact of this additional 18.5 hours resource, but financial gains in reduced rent arrears are significantly reduced since development of these methods of working. The income management team currently operates within the top quartile nationally for 'current tenant arrears.'
Will the project contribute to the Council's Commercial Strategy?	
Will the project lever in finance from other organisations?	
What is the expected lifespan of the project?	

Are there any other support requirements?

No

Directors Signature

APPENDIX E

Outcome-Based Budgeting | 2021-25
Resource Growth / Refocus Proposal

Directorate: Communities and the Environment

Service: Council Housing

Cost Centre Name: Property Conversions

Cost Centre Number: H840*

What is the Proposal?

Approval is sought to carry out a number of property conversions to existing council housing stock to make best use of this. It is anticipated that a range of funding sources be utilised, including Right to Buy receipts, possible Homes England grant funding, funding from the sale of South Lodge as approved at Cabinet (19.01.2021) and the Business Support Reserve within the HRA.

Potential property conversions **for 2021/22** have been identified as follows:

1A Alder Grove:

Contract Value: circa £210,000 (for 4 flat option)

Scope of works: potentially reconvene layout of former scheme manager house to form 2 flats, or demolish and provide new build (4 flats) with improved layouts and increased energy efficiency. Any new flats would form part of the Independent Living scheme (formerly known as Sheltered Housing). This will bring back vacant property into long term use and address tenant housing demand.

6 The Greaves:

Contract value: circa £150,000

Scope of works: convert existing stables/garage site in grounds of The Greaves to form a purpose built, 3 bed fully disabled adapted bungalow. Investigating maximum energy efficiency works to include PV, air source heat pump, waste water heat recovery, electric vehicle charging point.

37 Kingsway Court:

Contract value: £70,000

Scope of works: reconvene layout of former scheme manager house to form 2 flats. New flats would form part of the Independent Living scheme (formerly known as Sheltered Housing). This will bring back vacant property into long term use and address tenant housing demand.

Additional conversions:

One additional conversion per year has been assumed for three consecutive years from 2022/23. To meet business requirements, properties will be selected to meet tenant demand and support Council Housing in their efficient management of the estate as the management of sheltered schemes is made non-residential. Each of the 3 conversion projects will be approved by the Head of Service.

These conversions will increase the supply of sheltered housing and adapted accessible accommodation. They will also reduce the risk of maintaining vacant property and generate rental income from the asset.

APPENDIX E

LANCASTER CITY COUNCIL
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Outcome-Based Budgeting | 2021-25
Resource Growth / Refocus Proposal

Priorities

How does the project contribute to the draft council Priorities?

A Sustainable District	The properties will incorporate sustainable energy saving features
An Inclusive and Prosperous Local Economy	The proposed development represent use of HRA owned land, property, finance and procurement to benefit local communities, through provision of high quality, high performing homes which help to meet housing need. By employing local contractors, these projects offer the opportunity to support the development of new skills and improved prospects for our residents within an environmentally sustainable local economy
Healthy & Happy Communities	The project is an example of the (re)development of existing housing to ensure people of all incomes are comfortable, warm and able to maintain their independence
A Co-operative Kind and Responsible Council	

Cross-Cutting Themes

How does the project contribute to the draft council Themes?

Climate Emergency	The high performing and energy efficient developments proposed can contribute to the aims of the climate emergency, directly seeking to reduce carbon emissions
Community Wealth Building	By working with local contractors, the proposed developments can help to strengthen the local economy and promote and develop the building of local skills and knowledge.
Community Engagement	

How will the outcomes be measured?

Outcome	**Performance Measure**	**Target**
Energy efficiency	SAP rating	Exceeding 72
Conversion brief	Design and layout	Client acceptance
Delivery	Design and contract programme	Completion date
Financial Control	Valuations and final account	Not to exceed budget limits

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Outcome-Based Budgeting | 2021-25
Resource Growth / Refocus Proposal

Estimated Resource Requirements

Capital

	2021/22 £	2022/23 £	2023/24 £	2024/25 £
Alder Grove	210,000			
Kingsway Court	70,000			
The Greaves	150,000			
Additional properties		70,000	70,000	70,000
Total	**430,000**	**70,000**	**70,000**	**70,000**

Application of reserves

	2021/22 £	2022/23 £	2023/24 £	2024/25 £
Business Support Reserve (net of any additional funding streams)	(430,000)	(70,000)	(70,000)	(70,000)
Total	**(430,000)**	**(70,000)**	**(70,000)**	**(70,000)**

Revenue Implications of Capital Investment

	2021/22 £	2022/23 £	2023/24 £	2024/25 £
Additional net rental income	0	(11,700)	(20,300)	(24,100)
Total	**0**	**(11,700)**	**(20,300)**	**(24,100)**

Business Case

At what stage is the business case for the proposal?

Not written	
Outline	Yes, supports decision to move towards non-residential sheltered accommodation management, and to provide fully adapted property in relation to specific demand.
Developed	

Funding the Future

Will the project deliver financial efficiencies?	Yes – generate rental income
Will the project contribute to the Council's Commercial Strategy?	Yes, by reducing risk and providing a return on otherwise redundant assets
Will the project lever in finance from other organisations?	Possibility of exploring funding from Homes England on specifically Alder Grove conversions
What is the expected lifespan of the project?	Expected completion within 2022/23

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Outcome-Based Budgeting | 2021-25
Resource Growth / Refocus Proposal

Are there any other support requirements?

No, the resources to complete the project are within RMS capabilities

Directors Signature

HOUSING REVENUE ACCOUNT - RESERVES AND PROVISIONS STATEMENT
For Consideration by Cabinet 9 February 2021

	Balance as at 31/03/20	Contributions			Balance as at 31/03/21	Contributions			Balance as at 31/03/22	Contributions			Balance as at 31/03/23	Contributions			Balance as at 31/03/24	Contributions			Balance as at 31/03/25
		To the Reserve from Revenue	From the Reserve			To the Reserve from Revenue	From the Reserve			To the Reserve from Revenue	From the Reserve			To the Reserve from Revenue	From the Reserve			To the Reserve from Revenue	From the Reserve		
			To Capital	To Revenue			To Capital	To Revenue			To Capital	To Revenue			To Capital	To Revenue			To Capital	To Revenue	
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
HRA General Balances	**2,858,619**	476,300			**3,334,919**			(999,700)	**2,335,219**			(490,900)	**1,844,319**	18,600			**1,862,919**	238,900			**2,101,819**
Earmarked Reserves:																					
Business Support Reserve	**8,097,023**		(218,000)	(122,000)	**7,757,023**			(36,000)	**7,721,023**			(3,000)	**7,718,023**			(1,600)	**7,716,423**				**7,716,423**
Major Repairs Reserve		2,772,300	(2,772,300)			4,147,500	(4,147,500)			4,001,500	(4,001,500)			3,700,500	(3,700,500)			3,668,500	(3,668,500)		
Flats - Planned Maintenance	**692,225**	133,000	(72,000)	(22,900)	**730,325**	133,000		(22,900)	**840,425**	133,000	(100,000)	(22,900)	**850,525**	133,000	(100,000)	(22,900)	**860,625**	133,000	(100,000)	(22,900)	**870,725**
ICT and Systems Improvement	**582,836**			(24,900)	**557,936**			(1,000)	**556,936**			(1,000)	**555,936**				**555,936**				**555,936**
Office Equipment Reserve	**39,009**				**39,009**				**39,009**				**39,009**				**39,009**				**39,009**
Sheltered - Equipment	**374,590**	36,400		(44,100)	**366,890**	21,000		(52,100)	**335,790**	15,000		(28,900)	**321,890**	10,100		(15,400)	**316,590**	8,700		(58,100)	**267,190**
Sheltered - Planned Maintenance	**283,185**	72,600		(15,300)	**340,485**	42,000		(40,300)	**342,185**	29,900		(15,300)	**356,785**	20,300		(15,300)	**361,785**	17,200		(15,300)	**363,685**
Sheltered Support Grant Maintenance	**509,306**	36,400			**545,706**	21,000			**566,706**	15,000			**581,706**	10,100			**591,806**	8,700			**600,506**
Total Earmarked Reserves	**10,578,175**	**3,050,700**	**(3,062,300)**	**(229,200)**	**10,337,375**	**4,364,500**	**(4,147,500)**	**(152,300)**	**10,402,075**	**4,194,400**	**(4,101,500)**	**(71,100)**	**10,423,875**	**3,874,000**	**(3,800,500)**	**(55,200)**	**10,442,175**	**3,836,100**	**(3,768,500)**	**(96,300)**	**10,413,475**

RESERVES AND PROVISIONS - For Consideration by Cabinet on 9 February 2021

	Reason for/purpose	How & when it be used	Management & control	Reviewed	Recommendations
Capital Reserves					
Major Repairs Reserve (MRR)	Set up following the introduction of Resource Accounting in the HRA. Credited with the amount of depreciation charged to the HRA and topped up with additional funds required to finance the capital programme in-year.	Use of reserve to be determined and reported by the Director of Corporate Services (or her nominated representative). Can be applied to capital improvements to HRA housing stock (specifically excluding demolition) and, additionally from 1st April 2004, repayment of HRA debt and credit liabilities (including premia on early repayment of PWLB loans).	**Communities & the Environment/ Corporate Services**	**Budget & Outturn**	**To provide in-year funding for the capital programme as budgeted**
Business Support Reserve (BSR)	Established to provide support to additional business plan commitments and planned investment opportunities.	Use of the reserve to be approved by Cabinet. Contributions to the reserve to be approved annually as part of the budget.	**Communities & the Environment/ Corporate Services**	**Budget & Outturn**	**Retain as budgeted, noting that the first call will be to support the business plan**

APPENDIX F(ii)

RESERVES AND PROVISIONS - For Consideration by Cabinet on 9 February 2021

	Reason for/purpose	How & when it be used	Management & control	Reviewed	Recommendations
Revenue Reserves					
Flats – Planned Maintenance Reserve	Established to smooth the costs of major revenue and capital works to flats funded from Service Charges.	Contributions from Service Charges made to this reserve, together with additional appropriations in lieu of interest. Reserve to be applied to major works to communal facilities in flats.	**Communities & the Environment/ Corporate Services**	**Budget & Outturn**	**Retain as budgeted**
ICT & Systems Improvement Reserve	Established to fund future ICT systems and equipment replacement.	To be applied to future replacements and system / process improvements.	**Communities & the Environment/ Corporate Services**	**Budget & Outturn**	**Retain as budgeted**
Office Equipment Reserve	Established to fund purchases of major office furnishings.	Used to fund ad-hoc purchases of major office furnishings resultant from health & safety legislation and risk assessments (desk, chairs, cabinets etc) and minor office equipment items.	**Communities & the Environment/ Corporate Services**	**Budget & Outturn**	**Retain as budgeted**
Sheltered Equipment Reserve	Established to fund purchases of equipment for Sheltered schemes funded from Service Charges.	Contributions from Service Charges made to this reserve, together with additional appropriations in lieu of interest. Reserve to be applied to purchases of equipment for common area services for Sheltered schemes.	**Communities & the Environment/ Corporate Services**	**Budget & Outturn**	**Retain as budgeted**

RESERVES AND PROVISIONS - For Consideration by Cabinet on 9 February 2021

	Reason for/purpose	How & when it be used	Management & control	Reviewed	Recommendations
Sheltered – Planned Maintenance	Established to smooth the costs of major revenue and capital works to flats funded from Service Charges	Contributions from Service Charges made to this reserve, together with additional appropriations in lieu of interest. Reserve to be applied to major works to communal facilities in Sheltered schemes.	**Communities & the Environment/ Corporate Services**	**Budget & Outturn**	**Retain as budgeted**
Sheltered – Support Grant Maintenance	Established to fund purchases of equipment for Sheltered schemes funded from Service Charges, but classed as Support Costs under County Guidelines.	Contributions from Service Charges made to this reserve, together with additional appropriations in lieu of interest. Reserve to be applied to major works to communal facilities in Sheltered schemes.	**Communities & the Environment/ Corporate Services**	**Budget & Outturn**	**Retain as budgeted**

Use of all reserves with the exception of the BSR and MRR to be approved by the Director of Communities & the Environment in consultation with the Director of Corporate Services (or nominated representative) and reported to Cabinet, primarily as part of normal monitoring, budgeting and outturn reporting arrangements.

	Reason for/purpose	How & when it be used	Management & control	Reviewed	Recommendations
Provisions					
Bad Debts	This provision is used to provide cover for all Housing Revenue Account bad and doubtful debts.	Contributions are determined at budget setting and outturn, based on assessment of the level of debt outstanding. Write offs are charged against the provision during the year.	**Corporate Services**	**Budget & Outturn**	**As reflected in the report**

The Bad Debt provision will be applied by the Director of Corporate Services (or nominated representative) and reported to Cabinet, primarily as part of normal monitoring, budgeting and outturn reporting arrangements.

2021/22 BUDGET
HOUSING REVENUE ACCOUNT – RISKS & ASSUMPTIONS
FOR CONSIDERATION BY CABINET 9 February 2021

Risk area	Details
Self-financing	Under Part VI of the Local Government and Housing Act 1989 a local authority has a duty to keep a HRA as a ring-fenced account and has a duty to ensure that it does not go into deficit. Following four years under which the Government removed local discretion to set rent levels (imposing four annual rent decreases of –1%) from 2020/21 (and for five consecutive years) Local Authorities are granted discretion to increase rents by a maximum of CPI +1%. Potential financial risk exists should the Government deviate from this position during the five-year period, or with significant fluctuations in CPI against projections. To help mitigate this robust business and financial planning arrangements need to be maintained, including the production of a 30-year business plan.
Rent Policy	From 2020/21 the Rent Standard within the Social Housing Regulations applies to all Local Authorities. In previous years the Council has adhered to this aspect of the regulations voluntarily, as a matter of good practice, and as such our approach to rent setting remains largely unchanged. On 4 October 2017 the Government announced it would maintain statutory control over rent increases and that increases to social housing rents will be limited to the Consumer Price Index (CPI) plus 1% for 5 years from 2020. This remains as current policy. The 30-year HRA business plan reflects this rent increase from 01 April 2020 and for 5 years. There is still uncertainty regarding prospects for 2025/26 onwards and future changes to regulation. These risks need to be considered and Government plans kept under review, to inform future decision-making.
Income Recovery	The welfare reform agenda, and in particular the introduction of Universal Credit (UC) within the district in 2016, resulted in significantly increased levels of rent arrears, and risk to rent collection. The recent coronavirus pandemic placed additional pressures on income collection. The Income Management team has been developed since 2016, achieving external accreditation as an example of industry-wide good practice from HQN in 2018. Current tenant rent arrears are low and rent and service charge income collection is being maintained effectively. The impact of tenant debt on business planning is recognized as a key risk to the delivery of housing services. A renewed focus on former tenant and other sundry debt continues and is reflected in service improvement planning for 2021/22.
Void levels (empty council properties)	Management of voids remains a priority to ensure that rent loss through empty properties is minimised. The recent coronavirus pandemic had a significant impact in this area due to restricted access to properties, difficulty in delivering a normal lettings service and a complete pause on lettings as directed by the government for a period at the start of the pandemic.

	Void management is also subject to fluctuation in property turnover levels, and remains an area of risk. Continuous review is in place to mitigate this risk, underpinned by service improvement planning.
Reduced demand	Reduced demand for council housing within the district would pose a threat to rental income. Overall demand for council housing stock is currently high, particularly for one- and two-bedroom properties. Demand is monitored and informs the asset management planning process, and in line with the District Housing Strategy, informs the Council's decision to give priority to building one bedroom accommodation in any new build program or acquisition scheme Work is ongoing to promote the visibility of the housing service, and to maintain council housing as a landlord of choice within the district.
Stock reduction	The rate of Right to Buy (RTB) sales remains relatively low compared to historic levels of sales; the budget planning process assumes 20 Right to Buy Sales per year. Any sales lead to future projected rental income levels being reduced, but many costs are fixed, resulting in an adverse impact on the revenue position. On the other hand, low sales levels also lead to lower levels of capital receipt. Significant increase in RTB sale would reduce income levels, which would lead to deterioration in the HRA budgetary position and the viability of the HRA. The government's recent White Paper (December 2020) sets out expectations for increased promotion of the Right to Buy scheme, however there are no indications that a significant increase in sales is likely. To offset this the council housing team have embarked on a programme of conversions: completing two projects in 2020/21 to realise four units and increase housing stock by two.
Additional capital requirements	Legislation, changes in health and safety standards, or the discovery of previously unknown defects create the potential for additional capital expenditure requirements. The Council has increased its expenditure in recent years on fire precaution works, asbestos management, and the managing the risk of legionella. In addition, an increased focus and budgetary requirement has been placed on capital works delivered in response to the Climate Emergency. The Council still need to ensure the asset register and asset management plans correctly identify the investment needs and inform the programmes. Any requirements identified will be reviewed and reflected in the 30-year HRA Business Plan. The Council is monitoring requirements from the Building Safety Bill, Fire Safety Bill and Social Housing White Paper – specifically with reference to reviewing the Decent Homes definition. The Mainway estate (comprising circa 250 council dwellings) was subject, in 2019, to detailed survey work which highlighted the need for major decisions around repair, upgrade, or redesign. Project work is underway to define the options available; any potential project of transformation on Mainway would likely require borrowing against the HRA and will be subject to the council decision making process.

Major Disasters	The coronavirus pandemic is an area of risk which has been managed through emergency planning processes, and comprehensive service development and review designed to mitigate the worst financial effects. The district has also been subject to severe weather events in recent years: major disasters are generally covered by insurance. The Government also provides support for uninsurable losses incurred by local authorities.
Effect of legislation/ regulation	Implications of new legislation / regulation or changes to existing legislation / regulation can present significant financial risks, particularly around rent setting. The recent Social Housing White Paper (December 2020) sets out the direction of regulatory environment for the future. To note, Local Authorities are, from 2020/21, subject to the 'Rent standard' within the social housing regulations: a standard which Lancaster City Council has been adhering to voluntarily, prior to 2020/21, for reasons of best practice. The Council is now required to submit a yearly self-assessment to the Housing Ombudsman around complaints dealt with and it's handling process. The Building Safety Bill and Fire Safety Bill are being kept under review in terms of future requirements for social housing providers.

Equality Impact Assessment

This **online** equality impact assessment should:

An equality impact assessment should take place when considering doing something in a new way. Please submit your completed EIA as an appendix to your committee report. Please remember that this will be a public document – do not use jargon or abbreviations.

`

Service Council Housing

Title of policy, service, function, project or strategy

HRA Budget Report - Rent Setting

Type of policy, service, function, project or strategy: Existing ☒ New/Proposed ☐

Lead Officer Pete Linsley

People involved with completing the EIA

David Holme; Rachel Page

Step 1.1: Make sure you have clear aims and objectives

Q1. What is the aim of your policy, service, function, project or strategy?

To set council housing rents in line with current regulation, and in order to complete the HRA budgeting process which sets out ambitions for the housing service over the short and medium term

Q2. Who is intended to benefit? Who will it have a detrimental effect on and how?

The setting of council housing rents, and the budgeting process which derives from it, affects council tenants and other residents within the district. The aims of the housing service involve tenancy and asset management, but also an investment in communities and neighbourhoods and the delivery of social value. Prudent rent setting underpins this. The potential for a detrimental impact exists in as much as an increase in rent will put pressure on those individuals in, or at risk of, financial hardship. It should be noted that rent levels (set at 'social rent') will remain well below both market rent and 'affordable rent' (80% of market) and well below the Local Housing Allowance (LHA) level for the district. The LHA is the maximum amount payable through Housing Benefit or the housing element of Universal Credit. Where tenants are at risk of detriment the Council's in-house Income Management Team takes a pro active, supportive approach to preventing rent arrears and promoting financial inclusion through money advice, referrals for support, and assistance in maximising income (through benefit claims, or advice on management of other debts, for example). The Income Management Team is Housing Quality Network (HQN) accredited and delivers a best practice approach in this area. The team also works closely with internal colleagues and external partner organisations to support tenants.

Step 1.2: Collecting your information

Q3. Using existing data (if available) and thinking about each group below, does, or could, the policy, service, function, project or strategy have a negative impact on the groups below?

Group	Negative	Positive/No Impact	Unclear
Age	☐	☒	☐
Disability	☐	☒	☐

Top Tip: Have a read of the "An easy guide for staff who need to complete an Equality Impact Assessment"

Equality Impact Assessment

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Faith, religion or belief	☐	☒	☐
Gender including marriage, pregnancy and maternity	☐	☒	☐
Gender reassignment	☐	☒	☐
Race	☐	☒	☐
Sexual orientation including civic partnerships	☐	☒	☐
Other socially excluded groups such as carers, areas of deprivation	☐	☒	☐
Rural communities	☐	☒	☐

Step 1.3 – Is there a need to consult!

Q4. Who have you consulted with? If you haven't consulted yet please list who you are going to consult with? Please give examples of how you have or are going to consult with specific groups of communities

As a key part of the rent setting process we have consulted with the District Wide Tenants Forum; a group made up of council officers, councillors, and residents from across the district. The group discussed and debated the proposed rent increase and the future plans of the Council Housing Service and were broadly supportive of the decision to propose an increas in rents for 21/22 of CPI +1%. They were also in support of the priorities and key areas of spending outlined in the HRA Budget Report.

Step 1.4 – Assessing the impact

Q5. Using the existing data and the assessment in questions 3 what does it tell you, is there an impact on some groups in the community?

Age: No significant impact
Disability: No significant impact
Faith, Religion or Belief: No significant impact
Gender including Marriage, Pregnancy and Maternity: No significant impact
Gender Reassignment: No significant impact
Race: No significant impact
Sexual Orientation including Civic Partnership: No significant impact
Rural Communities: No significant impact

Step 1.5 – What are the differences?

Q6. If you are either directly or indirectly discriminating, how are you going to change this or mitigate the negative impact?

No areas of discrimination based on protected characteristics have been identified, though it is recoignised that individuals in challenging financial circumstances could be indirectly discriminated against by the rent increase outlined in the HRA Budget Report. Mitigation is outlined in Q2, through pro acrive support being provided by the Income Management Team, in partnership with internal colleagues and external partner organisations.

Q7. Do you need any more information/evidence eg statistic, consultation. If so how do you plan to address this?

No

Top Tip: Have a read of the "An easy guide for staff who need to complete an Equality Impact Assessment"

Equality Impact Assessment

Step 1.6 – Make a recommendation based on steps 1.1 to 1.5

Q8. If you are in a position to make a recommendation to change or introduce the policy, service, function, project or strategy, clearly show how it was decided on.

The Equality Impact Assessment concludes no adverse impact on individuals on the basis of a protected characteristic as above. However, it is noted that individuals and groups may be adversely impacted by a rent increase. As per Q2, above, where individuals are adversely affected there is mitigation in place.

Q9. If you are not in a position to go ahead, what actions are you going to take?

N/a

Q10. Where necessary, how do you plan to monitor the impact and effectiveness of this change or decision?

Continuous weekly monitoring of rent accounts takes place to highlight areas of negative impact. A process of pre-tenancy assessment, advice, and support is in place to identify those at risk of detriment prior to tenancy commencement.

Top Tip: Have a read of the "An easy guide for staff who need to complete an Equality Impact Assessment"

Lancaster City Council | Report Cover Sheet

Meeting	Cabinet			**Date**	9th February 2021
Title	Acceptance of Public Sector Decarbonisation Funding				
Report of	Director for Communities and The Environment				
Purpose of the Report					
To seek approval of Public Sector Decarbonisation Funding should an offer be forthcoming.					

Key Decision (Y/N)	**Y**	**Date of Notice**	**01/02/21**	**Exempt (Y/N)**	**N**

Report Summary

In September 2020, the Department for Business, Energy and Industrial Strategy (BEIS) launched the Public Sector Decarbonisation Scheme (PSDS) which is administered by Salix Finance.

The scheme offered £1bn of grant funding to support the public sector tackle climate change and deliver stimulus to the energy efficiency and low carbon heat sectors, supporting jobs.

In November 2020, officers submitted an expression of interest for £6.8M under the PSDS to install air source heat pumps (ASHP) to Salt Ayre Leisure Centre, along with retrofit glazing improvements to improve the thermal efficiency of the building. The bid also included an optimized solar farm with battery storage on the disused landfill site adjacent to provide electricity to the leisure centre via a direct wire. Such a scheme would be expected to make significant reductions to SALC's CO2 emissions

Officers are continuing with detailed modelling to determine the optimum size of the solar array and are working with Distribution Network Operator (ENWL) consultants to seek and review options for import and export connections to support the scheme. Desktop network studies have provided options, but confirmation from the DNO is needed to proceed.

Salix finance have informed the council that if funding is offered, officers will need to confirm that necessary approvals have been provided to accept the funds by no later than 20th February 2021.

Due to timescales, officers wish to seek approval of the funding if successful. Once approved by Cabinet (as within the B&P Framework) acceptance is delegated to a Director with the written consent of the S151 Officer subject to due diligence.

Recommendations of Councillor Frea
(1) That Cabinet support the scheme and approve the PSDS funding should an offer be forthcoming noting that any final acceptance by a Director is subject to S151 officer consent following due diligence

Relationship to Policy Framework

The project links to the following priorities and cross-cutting themes:

- A co-operative, kind and responsible council specifically embracing innovative ways of working to improve service delivery and the operations of the council.
- Climate Emergency – Net zero 2030 ambition. This project could reduce the Council's emissions by upwards of 30% and bring SALC close to carbon neutrality.

Conclusion of Impact Assessment(s), where applicable

Climate- As set out in report	**Wellbeing & Social Value**
Digital	**Health & Safety**
Equality	**Community Safety**

Details of Consultation

Officers have been working on feasibility for the solar farm and air source heat pumps with partners including the Council's planning team, Lancashire County Council, Suez, ENWL, APSE Energy and several other specialist consultants.

Legal Implications

Section 31 of the Local Government Act 2003 allows the government wide-ranging powers to make grants for any purpose, capital or revenue, to any local authority.

Legal Services will need to check any conditions of grant offer in consultation with finance.

Financial Implications

£6.8m capital funding applied for as part of the PSDS funding. The revenue implications of carrying out work will be determined following the completion of detailed modelling and further diligence.

Other Resource or Risk Implications

Project will be delivered in-house by the Business Improvement & Project Lead and Climate Change Project Manager. Support provided by finance and external consultants, including APSE Energy.
Section 151 Officer's Comments
Although the paper seeks approval to accept the funding, should an offer be made Members should note that there remains a significant amount of work to be undertaken ahead of any formal acceptance, or commencement of the project. As noted within the report the proposed Terms and Conditions need to be fully reviewed and considered to ensure that they are acceptable and that there are no detrimental or onerous requirements which the Council would not be prepared to meet. In addition, further due diligence work is required ensure that the full revenue impact of the whole project is understood and that any savings, or additional cost are evaluated and balanced against the wider outcomes of the project. Various elements of this project are contained within the current 2020/21 budget & policy framework, with the fully integrated project being presented to Council 24 February 2021 for approval as part of the 2021/22 – 2024/25 Capital Programme. Members should also note that within the 2021/22 programme provision has been made (c£3.8M) to enable the Council to "self-fund" should the offer not be made, or the T&C's prove to be unacceptable. Successful application of external funding could enable this provision to be removed and revenue savings released in future years via a reduction in minimum revenue provision (MRP) and interest charges.
Monitoring Officer's Comments
The Monitoring Officer has been consulted when drafting this report and is satisfied the correct governance steps have been followed when submitting the expression of interest. As the projects fall within the existing Budget & Policy Framework this decision to approve the external funding lies with Cabinet. Acceptance of the grant will be subject to due diligence and S151 written consent.

Contact Officer	Elliott Grimshaw
Tel	01524 582833
Email	egrimshaw@lancaster.gov.uk
Links to Background Papers	

1.0 Introduction

1.1 The Council declared a climate emergency in January 2019, with an ambition of achieving net zero by 2030.

1.2 Salt Ayre Leisure Centre (SALC) produces 30% of the council's CO2 emissions and is the highest single emitter across the council's property portfolio.

1.3 During 20/21 work has been taking place to plan and deliver a project that will provide solar energy to SALC. This project is included in the Council's own capital programme.

1.4 In July 2020, officers commissioned a heating and thermal efficiency review of SALC which was completed in September 2020. The focus of the report was to consider and appraise decarbonised heating solutions along with reviewing building fabric improvements.

1.5 In November 2020, officers submitted a high-level £6.8M bid under the PSDS to install air source heat pumps (ASHP) at SALC as recommended by the earlier report, along with retrofit glazing improvements to improve the thermal efficiency of the building.

1.6 The bid also included an optimized solar farm and battery on the adjacent disused landfill to provide electricity to the leisure centre via a direct wire. Such a scheme would be expected to generate significant CO2 reductions.

1.7 Officers expect to find out whether the bid has been successful by 12th February 2021. Due to tight timescales, officers need to have the necessary approvals to confirm acceptance of the funding by 20th February 2021.

2.0 Proposal Details

2.1 That Cabinet accepts the PSDS funding should an offer be made, subject to all necessary due diligence.

2.2 Further modelling is taking place to determine the exact numbers, but if delivered the project would be expected to generate significant CO2 savings for SALC and help the council transition towards net zero.

2.3 If funding is approved in principle, officers would continue to work on modelling the design of the scheme to confirm the expected capital costs and any associated revenue implications. Following approval by Cabinet, final acceptance isdelegated to a Director with written consent of S151 Officer, subject to the aforementioned due diligence.

4.0 Options and Options Analysis (including risk assessment)

Option 1: Accept PSDS Funding
Advantages: • Opportunity to significantly reduce emissions generated from SALC. • Contributes towards the council's 2030 net zero ambitions. • Provides up to 100% of capital costs. • Improves a flagship facility further still.
Disadvantages: • None
Risks:

• Revenue Implications: Currently unknown at this stage. Financial model to be submitted to S151 and Director prior to grant acceptance deadline of 20th February 2021. • Funding requires the project to be delivered by September 2021. Some possible slippage may be permitted up to March 2022. Significant progress has been made already. Officers feel timescales are achievable at this present time.
Option 2: Reject PSDS Funding
Advantages: • None.
Disadvantages: • Reducing emissions from high-emitting facilities presents a significant challenge. • Future funding opportunities are unknown. • Decision goes against climate emergency ambitions.

Risks: As above

4. Officer Preferred Option (and comments)

Option 1: Accept Public Sector Decarbonisation Funding

Further work will be carried out to determine the optimum modelling of solar PV, battery storage and air source heat pumps. It is anticipated that this work will be completed prior to the funding acceptance deadline of 20th February 2021 and will provide S151 and Director with a full financial model for consideration.

Capital funding from the Public Sector Decarbonisation Scheme provides the Council with an opportunity to move significantly closer to its net zero 2030 target. If delivered, this flagship project would cement the council's ambitions and intentions set out following the 2019 Climate Emergency declaration and provide clear, significant, demonstrable action.