LANCASTER
CITY COUNCIL

Promoting City, Coast & Countryside

COUNCIL MEETING

Wednesday, 23 February 2022 - 6.00 p.m.
Morecambe Town Hall

Lancaster City Council welcomes members of the public to attend meetings. However, space is very limited and we intend to live stream this meeting using teams, so that it can be watched online. A link to view the meeting is HERE. If you would like to register to ask a question or make a speech at the meeting under the public participation scheme, please email democracy@lancaster.gov.uk with a copy of your question or speech no later than the 12 noon deadline on Friday 18th February.

Kieran Keane,
Chief Executive,
Town Hall,
Dalton Square,
LANCASTER,
LA1 1PJ

LANCASTER
CITY COUNCIL

Promoting City, Coast & Countryside

Sir/Madam,

You are hereby summoned to attend a meeting of the Lancaster City Council to be held in the Town Hall, Morecambe on Wednesday, 23 February 2022 commencing at 6.00 p.m. for the following purposes:

1. **APOLOGIES FOR ABSENCE**

2. **MINUTES**

   To receive as a correct record the Minutes of the Meeting of the City Council held on 26 January 2022 (previously circulated).

3. **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.

4. **ITEMS OF URGENT BUSINESS**

5. **ANNOUNCEMENTS**

   To receive any announcements which may be submitted by the Mayor or Chief Executive.

6. **QUESTIONS FROM THE PUBLIC UNDER COUNCIL PROCEDURE RULE 11**

   To receive questions in accordance with the provisions of Council Procedure Rules 11.1 and 11.3 which require members of the public to give at least 3 days' notice in writing of questions to a Member of Cabinet or Committee Chairman.

7. **PETITIONS AND ADDRESSES**

To receive any petitions and/or addresses from members of the public which have been notified to the Chief Executive in accordance with the Council's Constitution.

8. **LEADER'S REPORT** (Pages 5 - 7)

To receive the Cabinet Leader's report on proceedings since the last meeting of Council.

REPORTS REFERRED FROM CABINET, COMMITTEES OR OVERVIEW AND SCRUTINY

9. **BUDGET AND POLICY FRAMEWORK GENERAL FUND REVENUE BUDGET 2022-2023** (Pages 8 - 28)

Report of Cabinet

10. **HOUSING REVENUE ACCOUNT BUDGET FRAMEWORK 2022 TO 2026** (Pages 29 - 41)

Report of Cabinet

11. **CAPITAL STRATEGY AND CAPITAL PROGRAMME 2022/23 TO 2025/26** (Pages 42 - 71)

Report of Cabinet

12. **TREASURY MANAGEMENT STRATEGY 2022/23** (Pages 72 - 101)

Report of Cabinet

OTHER BUSINESS

13. **MEDIUM TERM FINANCIAL STRATEGY UPDATE 2022/23 TO 2025/26** (Pages 102 - 117)

Report of the Chief Financial Officer

14. **COUNCIL TAX 2022/23**

Report of the Chief Finance Officer (report to follow)

15. **PUBLIC SECTOR AUDIT APPOINTMENTS THE APPOINTMENT OF EXTERNAL AUDITORS FROM 2023/24 TO 2027/28** (Pages 118 - 130)

Report of the Chief Financial Officer

16. **ALLOCATION OF SEATS TO POLITICAL GROUPS** (Pages 131 - 135)

Report of the Head of Democratic Services *(this report was marked "to follow". It was published on 17 February 2022)*

17. **APPOINTMENTS AND CHANGES TO COMMITTEE MEMBERSHIP**

Group Administrators to report any changes to Committee Membership.

18. **QUESTIONS UNDER COUNCIL PROCEDURE RULE 12**

To receive questions in accordance with the provisions of Council Procedure Rules 12.2 and 12.4 which require a Member to give at least 3 working days' notice, in writing, of the question to the Chief Executive.

19. **MINUTES OF CABINET** (Pages 136 - 145)

To receive the Minutes of Meeting of Cabinet held 18 January 2022.

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Chief Executive

Town Hall,
Dalton Square,
LANCASTER,
LA1 1PJ

Published on Tuesday 15 February, 2022.

COUNCIL

Leader's Report

22 February 2022

Report of the Leader of the Council

PURPOSE OF REPORT
To present the Leader's report to Council.
This report is public.

RECOMMENDATIONS

To receive the report of the Leader of Council.

REPORT

1.0 Cabinet

The minutes of the January Cabinet will be considered at this meeting.

2.0 Decisions required to be taken urgently

No urgent Cabinet decisions have been taken in this period.

3.0 Leader's Comments

Another short report due to the brief window between the two Council meetings.

Cabinet and the Budget

The draft budget was presented by Cllr Whitehead to the Budget and Performance committee and generally well received. We had one stakeholder attend the meeting: Yak Patel, Chief Officer from Lancaster District CVS, who was appreciative of budgeted funding for the third sector and spoke of the need for continuity in order that the sector can do its work effectively. Many thanks due to officers and Cllr Whitehead for the work involved. Cabinet, directors and Chief

Executive are continuing their work with Local Government Association to develop the efficiency with which we implement our Corporate Plan (Plan 2030).

County Deal

The motion regarding “A New Deal for a Greater Lancashire” has now been presented to all fifteen of the authorities involved. All but two authorities will now go forward to work together to create a programme to negotiate with government. The Levelling Up white paper has finally been published and states more clearly the level of devolution to be associated with different types of reorganisation. This will be the first area to be discussed by the Leaders in the coming weeks.

Chief Executive Recruitment and Matters Relating to Staff

A good number of applications for our Chief Executive post have been received, long listing has taken place and the dates for the final interviews have been set. The Recruitment Committee, chaired by Cllr Hamilton-Cox, is receiving further training. Members received an informative briefing on the Community Hub customer services provision developed during and continuing to provide an improved service which we foresee will cater for increased need from residents challenged by an array of problems linked to cost of living rises.

Climate Action and Stakeholder Partnerships

The solar farm at Salt Ayre is up and running which is fantastic news and testament to the confidence, expertise and long hours of hard work by Mark Davies team plus some detailed liaison with Electricity North West. Cllr Frea is involved in pulling together a broad stakeholder partnership for the district to build on the work already being done by anchor institutions and we expect to announce an event to develop this next month. At county level there is a Climate Summit taking place in March to which we will contribute.

Eden

Planning permission has now come through as we are all aware and there was extensive publicity for this important milestone. Boris Johnson was interviewed in Blackpool and spoke warmly of the project. The backers of the project: ourselves, Lancashire County Council, the LEP and Lancaster University, together with Dave Harland, met Michael Gove, Secretary of State for Levelling Up, Housing and Communities, at the recent Convention of the North in Liverpool. The meeting was positive in tone; as with the prime minister, the message was that the funding ask was at a level that required more justification. We now look to a March date for further indications of progress. Dave Harland told the Secretary of State “the community support we have been given is amazing - no one could expect more”.

Community Meetings, Arts, Culture and Events

The portfolio holder for Arts , Culture and Well-Being Cllr Thornberry and I met with officers and Arts Council representatives. There is great determination to move quickly to renew our Arts Strategy in collaboration with residents and local partners. And one example of the many events coming back to the district: supported via BID and the Council the Popber partnership of young entrepreneurs organised an excellent set of events to celebrate Chinese New Year: and definitely made good use of it to improve cultural knowledge and entertain a large crowd on Sunday with the Lions and Dragon dance.

4.0 Decisions

The following decisions considered by Cabinet on the 8th of February 2022:

Hackney Carriage Fare Review 2022
Car Parking Fees & Charges
Budget & Policy Framework Update 2022/23
Capital Programme & Capital Strategy 2022-23 to 2025-26 - (including Investing in the Future)
Treasury Management Strategy 2022-23
Medium Term Financial Strategy Update 2022/23 - 2025/26
Housing Revenue Account and Capital Programme
Bailrigg Garden Village - Vision Masterplan

No Officer Delegated Key Decision has been taken since the last Leader's report.

The following Individual Cabinet Member Decisions were taken since the last Leader's report:

ICMD15	Building Decarbonisation Works	Councillor Kevin Frea 18.1.2022 (Call-in waived)

Background Papers

Cabinet agenda 8th February 2022

COUNCIL

Budget and Policy Framework General Fund Revenue Budget 2022-23

23 February 2022

Report of Cabinet

PURPOSE OF REPORT
To present Cabinet's final budget proposals in order that the Council can complete its revenue budget setting for 2022/23.
This report is public.

RECOMMENDATIONS:

(1) That the General Fund Revenue Budget of £21.254M for 2022/23 be approved, resulting in a Council Tax Requirement of £10.176M, excluding parish precepts, and a Band D basic City Council tax rate of £241.95.

(2) That the supporting General Fund Revenue Budget proposals be approved, as summarised at Appendices A and B.

(3) That the budget transfer (virements and carry forwards) limits be approved as set out in Appendix D

(4) That Council notes the Section 151 Officer's advice regarding robustness of budget estimates, the adequacy of reserves and balances, specifically the advice that the minimum level of balances be retained at £3.5M, to provide for added uncertainty.

1.0 INTRODUCTION

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

1.2 The Council meeting on 26 January 2022 considered Cabinet's proposed revenue budget for 2022/23 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.

1.3 The report presents Cabinet's final budget proposals in order that the Council can complete its revenue budget setting for 2022/23.

2.0 STRATEGIC & OPERATIONAL CONTEXT

2.1 The 2022/23 Budget has once again been set against the backdrop of significant change, which puts significant pressure on the ability to forecast. There is continued evidence of

- accelerated pace of change in funding regimes, formula and budget and accounting requirements of central government

- fewer system-wide reviews, and a much greater number of issue specific consultations, reviews, and changes some of which are resulting in in-year changes, and even retrospective changes to previously agreed budgetary forecasting and funding distribution formula

- a wide range of single initiative funding opportunities emerging both as a result of the pandemic and more generally which need to be established within capacity including consideration of appropriate dispersal and income accounting, governance, and delivery practices

- External factors such as the pandemic and EU Exit which fundamentally alter both the priorities for and use of Council resources and change the context under-pinning our income from council tax and business rates as well as fees and charges.

- The impact of COVID -19 on the wider economy and the rise in both pay and general inflation

3.0 REVENUE BUDGET 2022/23

3.1 The General Fund Revenue Budget for 2022/23, summarised in table 1 below, is included at ***Appendix A*** with more detailed budget proposals in ***Appendix B***. The proposed budget is balanced, in line with statutory requirements, contributes to the Council's reserves and takes account of the final local government finance settlement which was approved by Parliament on 8 February 2022.

Table 1: Revenue Budget 2022/23

2022/23 Revenue Budget & Council Tax Requirement	£M	Note
Net Revenue Budget for 2022/23 per MTFS	21.110	
Changes made outside of the annual budget process	1.545	
Additional Resource Requirements	0.690	Appendices A & B
Income Generation Proposals	(0.840)	Appendices A & B
Savings Proposals	(0.180)	Appendices A & B
Revenue Impact of Capital Programme Review	(1.505)	
Contribution to Reserves	0.434	
General Fund Revenue Budget	21.254	
Funded by		
Revenue Support Grant	(0.212)	
Additional Grants	(0.760)	
Retained Business Rates	(10.106)	
	(11.078)	
Council Tax Requirement	10.176	£5 Council Tax increase Council 26 January 2022

Budget Principles and Assumptions

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

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

3.3 Table 2 below, lists the major assumptions that have been made for the 2022/23 budget.

Table 2 Major Assumptions 2022/23

Assumptions	2022/23
Council Tax base growth	1.34%
Council Tax inflation	£5
Business Rates Multiplier	Frozen
Inflation – Pay	2% 515,100
Inflation – Premises Related	Various 128,900
Inflation – Insurance	10% 60,800
Inflation – General Index	3.3% 216,400
Inflation – Fees & Charges	3.3% (401,400)

Operational Changes

3.4 Operational changes included in the base budget for 2022/23 currently amount to an increase in expenditure of £1.478M. The Council budgets for inflation across a number of areas such as gas, electricity, water, insurance, building costs etc as well as general pay and price inflation and seeks the appropriate indices from a number of sources. The impact of inflation increases expenditure by a further £0.067M. A summary of operational changes is given in the table 3 below:

Table 3 Operational Changes 2022/23

Operational Changes 2022/23	£M
Salaries	0.515
Additional cost pressures	0.430
Slipped expenditure	0.095
Other minor changes	0.038
Pension Fund Top Up	0.400
Sub Total	1.478
Impact of Inflation	0.067
Total	**1.545**

Pay & Prices Increases

3.5 A 2% pay award allowance has been included in 2022/23 and 2% across the remaining years. The assumption of 2% considers that employees on lower salaries are expected to receive an increase. It should be noted that pay awards in Local Government are covered by collective bargaining between employers and trade unions and are not subject to direct control from Central Government. However, it is reasonable to assume that Local Government will mirror what happens in the rest of the public sector.

3.6 Prices inflation has been included on selected non-pay items as set out in table 2

Pension Fund Top Up Payment

3.7 The pension fund is subject to a triennial actuarial valuation, the most recent of which was undertaken by Mercers LLP during 2019, on behalf of Lancashire County Council, the pension fund administrator. As a result of the triennial valuation Council elected to prepay its pension's deficit recovery and future service costs in April 2020 for the period 2020/21 to 2022/23. Due to an underestimation in pensionable pay the Council has been asked to consider making additional payments to the pension fund.

Additional Resource Requirements

3.8 Additional resource requirements have been highlighted through budget process Some key requirements are set out below and within ***Appendix B:***

- Building Control £0.105M
- LATCO Development Manager £0.023M
- Programme Manager £0.058M
- Integrated EDMS system £0.045M

Savings and Income Generation Proposals

3.9 The budget savings or income growth identified in ***Appendix B*** for 2022/23 relate to several areas where actions are being undertaken by the Council. Some of the key areas are:

- Car Parking Tariff Review £0.495M
- Salt Ayre Income £0.209M

Revenue Impact of Capital Programme Review

3.10 Cabinet and Executive Management Team have reviewed in detail the Council's existing capital programme and have repositioned and reprofiled a number of capital schemes in line with their revised Capital Investment Strategy (Investing in the Future) to lessen the revenue impact of capital projects through Minimum Revenue Provision (MRP) and interest cost savings.

4.0 COUNCIL TAX & BUSINESS RATES

Council Tax

4.1 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.

4.2 For Council Tax, it is confirmed that the Collection Fund is expected to generate a surplus for the year bringing the overall fund position back into surplus.

4.3 The Council Tax increase of £5 agreed by Council on 26 January 2022 means that the City element of Council Tax for a band D property will be £241.95.

Business Rates

4.4 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 2022/23 and the estimated deficit / surplus as at the end of 2021/22.

4.5 The estimated deficit for 2021/22 is £12.517M as shown in Table 4 below and the City Council's share of this is £5.007M

4.6 The table below shows that of the City Council's share of the £5.007M deficit £4.564M will be recognised during 2022/23 and it is estimated that £4.367M of this will be offset by Section 31 grant leaving a charge against the General Fund of £0.197M. An amount of £0.443M relating to the 2020/21 deficit will be recognised in 2023/24 in accordance with Central Government regulations and budgetary provision for this has been made.

Table 4: Business Rates

	2021/22 £M
Actual deficit brought forward (from collection fund statement)	27.381
NDR Collection Fund income for 2021/22	-83.543
NDR Collection Fund expenditure for 2021/22	68.679
Estimated Deficit for 2021/22 as at 31 January 2022	12.517
City Council Share of the deficit at 40%	5.007
Less: adjustment for amount eligible for spreading	-0.443
City Council Share of the deficit to be recognised in 2022/23	4.564
Share of deficit to be offset by S31 additional grant reliefs in respect of retail discount & nursery discount & Covid Additional Funding Relief	-4.367
Charge against the General Fund in 2022/23	0.197
City Council Share of the deficit to be recognised during 2023/24	0.443

4.7 Similar to previous years the position is a particularly complex one in light of the COVID-19 pandemic. As a result of the pandemic Central Government has again amended and extended the reliefs that could be given to ratepayers. Councils 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.

4.8 The on-going 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 in the following paragraphs:

4.9 Appeals by businesses against their Rateable Value (RV). The Valuation Office allows business to appeal against their RV via the check and challenge process. Councils make provision against future levels of appeals; however, the timing and value of potential appeals remains unclear.

4.10 Members will be aware of the recent announcements regarding the decommissioning plans for the Heysham 1 and Heysham 2 nuclear reactors. This announcement will have a significant impact across the district as a whole but will inevitably have a significant impact on the Council's finances, as currently the rateable value of the reactor's accounts for over 45% of the Council's total rateable value. 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. Given the Council's exposure it is expected that it will inevitably fall into a safety net scenario and will need to rely on the Business Rates Retention Reserve to smooth operational shortfalls in the short term.

4.11 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 2022/23, this will be worth £3.012M. Whilst it is evident that this 100% disregard will continue into 2022/23, there is a risk that the Government will discontinue this advantageous arrangement at some point in the future.

5.0 PROVISIONS, RESERVES & BALANCES

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

Provisions

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

Reserves & Balances

5.3 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

5.4 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, Local Government Funding, and the outcomes of the Council's OBR process 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 remain at £3.5M.**

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

- The General Fund Balance at 31/03/21 was £7.808M, with net in year allocations of £2.267M. The proposed 2022/23 budget will not require of funding from unallocated reserves leaving a forecast balance of £5.614M at 31/03/22. Allowing for the s151 Officers recommended minimum level of £3.500M this provides for £2.114M of available balances.

- The Council's MTFS suggests a structural budget gap in 2023/24 onwards of approximately £2.165M raising to £3.997M. If this is not closed, then balances will be required to make up the difference.

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

- Business rates retention volatility remains a risk to the Council in particularly the recent announcements in regard to the decommissioning of the Heysham nuclear reactors. This is managed via the Business Rates Retention Reserve, therefore, should not impact directly on the General Fund balance.

- 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.

5.6 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 5 below.

Table 5: Risk Assessment

Risk	**Symptom of Risk**	**Balance Required £M**
Increased demand for services	3% increase in net revenue expenditure	0.650
Recession results in additional uncompensated reduction in fees and charges income than budget	5% reduction in major fees and charges income	0.900
Recession results in additional reduction in Council Tax collection rates than budget	3% reduction in collection rate	0.300
Next years budget savings not achieved	50% under achievement	0.090
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		**3.440**
Estimated General Fund Balance as at 31/03/23		**5.648**

5.7 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.

5.8 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

5.9 The estimated combined reserves balances are shown in ***Appendix C*** and are summarised in table 6 below

Table 6: Estimated Combined Level of Reserves

	2021/22 £M	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M
Balance brought forward	(33.445)	(19.829)	(18.900)	(17.361)	(17.247)
Impact of 2022/23 budget decisions	0.000	(0.434)	0.743	0.316	0.216
Impact of previous decisions, covid & outturn	13.616	1.363	0.796	-0.202	0
Balance carried forward	**(19.829)**	**(18.900)**	**(17.361)**	**(17.247)**	**(17.031)**

5.10 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.

5.11 It should also be noted that the above analysis does not currently reflect the impact of the forecast structural budget deficits which, if unaddressed, will require significant contributions from reserves. Indicative estimates are provided within the Medium Term Financial Strategy.

Governance Arrangements on the Use of Reserves

5.12 The Council's Reserves Strategy sets out 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.

6.0 OPTIONS & OPTIONS ANALYSIS

Revenue Budget

6.1 Council may adjust its revenue budget proposals, so long as the overall budget for 2022/23 balances and fits with the proposed Council Tax level.

6.2 Other Budget Framework Matters (Reserves and Provisions)

Given known commitments, risks, and Council Tax restrictions there is little flexibility in financial terms, but Council could consider different budget strategies to be appraised for future years, or alternative arrangements for approving the use of various reserves, or different virement and/or carry forward limits. Overall, however, previous arrangements have worked reasonably well, and so no other fundamental changes are proposed.

6.3 Section 151 Officer's Comments and Advice

Council is required to note this formally in the minutes of the meeting, hence it is reflected in the recommendations

6.4 Depending on the nature of any alternative proposals put forward, Officers may need time to assess the risks and implications. This is to ensure that relevant considerations are taken into account, to support informed and lawful decision making.

7.0 OFFICER PREFERRED OPTION (AND COMMENTS)
Revenue Budget 2022/23 and Reserves Position

7.1 To agree the recommendations as presented as the 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.

8.0 CONCLUSION

8.1 This report addresses the actions required to complete the budget setting process for 2022/23, and for updating the Council's associated financial strategy.

RELATIONSHIP TO POLICY FRAMEWORK
The budget should represent, in financial terms, what the Council is seeking to achieve through its Policy Framework.

CONCLUSION OF IMPACT ASSESSMENT
(including Diversity, Human Rights, Community Safety, Sustainability etc)
No additional impact identified – any specific issues have been (or will be) considered as part of the relevant aspect of the policy framework or individual budget proposals, etc.

FINANCIAL IMPLICATIONS
As set out in the report.

LEGAL IMPLICATIONS
Legal Services have been consulted and are content with the report but will consider further the development and implementation of relevant budget proposals in due course to ensure legal aspects are fully considered.

Robustness of Estimates and Adequacy of Council's Reserves
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 s151 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 assessment remains unchanged from last year and reflects 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 2025/26. 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 reminds Council that the decisions (recommendations 1 and 2) fall within the Local Authorities (Standing Orders) (Amendment) (England) 2014 and Rule 19.7 (Part 3 section1 constitution) of the Council Procedure Rules, and accordingly a recorded vote should be taken.

BACKGROUND PAPERS Cabinet Papers 08 February 2021 https://committeeadmin.lancaster.gov.uk/ieListDocuments.aspx?CId=297&MId=7801&Ver=4 Council Papers 15 December 2021 Agenda for Council on Wednesday, 15th December 2021, 6.00 p.m. (lancaster.gov.uk) 26 January 2022 Agenda for Council on Wednesday, 26th January 2022, 6.00 p.m. - Lancaster City Council Budget & Performance Panel 2nd February 2022 Agenda for Budget and Performance Panel on Wednesday, 2nd February 2022, 6.00 p.m. - Lancaster City Council	**Contact Officer:** Paul Thompson **Telephone**: 01524 582603 **E-mail**: pthompson@lancaster.gov.uk

General Fund Revenue Budget Projections 2022/23 to 2025/26

For Consideration by Council 23 February 2022

BUDGET PROJECTIONS

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Revenue Budget/Forecast as at 24 February 2021	**21,110**	**23,550**	**24,400**	**24,400**
Base Budget Changes				
Operational Changes	1,478	1,243	1,454	1,586
Additional Inflationary Pressure	67	117	179	791
Latest Budgetary Position	**22,655**	**24,910**	**26,033**	**26,777**
Outcomes Based Resourcing Proposals:				
Savings Proposals	(180)	(212)	(222)	(230)
Additional Resource Requirements	690	842	803	806
Income Generation Proposals	(840)	(1,112)	(1,068)	(1,074)
Revenue Impact of Capital Programme Review	(1,505)	(1,742)	(1,751)	(1,297)
Contribution to/(from) Collection Fund Reserves	400	(743)	(316)	(216)
Contribution to/(from) Unallocated Reserve	34			
General Fund Revenue Budget	**21,254**	**21,943**	**23,479**	**24,766**
Core Funding:				
Revenue Support Grant	(212)			
Additional New Homes Bonus	(42)	(42)	(42)	(42)
Supplementary Government Grants	(652)	(652)	(652)	(652)
Prior Year Council Tax Surplus	(66)			
Net Business Rates Income	(10,106)	(8,593)	(8,764)	(8,940)
Council Tax Requirement	**10,176**	**12,656**	**14,021**	**15,132**
Estimated Council Tax Income - **(Increases based on £5 for 2022/23 then max allowable)**	**10,176**	**10,491**	**10,810**	**11,135**
Resulting Base Budget (Surplus)/Deficit	**0**	**2,165**	**3,211**	**3,997**
Original MTFS Savings Requirement	***2,183***	***4,223***	***4,668***	***N/A***
Change	***(2,183)***	***(2,058)***	***(1,457)***	***N/A***

BALANCES

General Fund Unallocated Balance	£M
Balance as at 31 March 2021	**(7.808)**
2021/22 In Year allocations	**+2.267**
2021/22 Forecast (Under)/Overspend	(0.073)
Projected Balance as at 31 March 2022	(5.614)
2022/23 Forecast Budgeted Contribution	(0.034)
Projected Balance as at 31 March 2023	**(5.648)**
Less Recomended Minimum Level of Balances	**3.500**
Available Balances	**(2.148)**

Saving and Budget Proposals 2022/23 to 2025/26

SAVINGS PROPOSALS

	Upfront Investment	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Central Services					
Chief Executive					
Delete vacant Head of Policy & Strategy		71	74	77	80
Communities & the Environment					
Public Protection					
Community Safey Partnership		16	16	17	17
ASB Contribution to Police		12	12	12	12
Domestic Abuse Contribution		4	4	4	4
Public Realm					
Marketgate (toilets)		21	21	21	21
Corporate Services					
Democratic Services					
Staffing Changes (succession planning)		-	13	13	13
Legal Services					
Staffing Changes (succession planning)		15	30	30	30
Economic Growth & Regeneration					
Economic Development					
Remove FHS staff costs		41	42	43	43
Planning & Place					
Additional Pre-Application Service Offers		-	-	5	10
Net Savings		**180**	**212**	**222**	**230**

INCOME GENERATION PROPOSALS

	Upfront Investment	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Communities & the Environment					
Customer Involvment & Leisure					
Salt Ayre Leisure Centre		209	484	483	482
Public Protection					
Street Trading Consent		-	20	20	20
Pest Control/Unbugged		9	15	20	22
Public Realm					
Car Parking charging at new sites		20	20	20	20
Car Parking Tariff Review		495	430	371	371
Revisit delivery of Morecambe Concessions		10	30	30	30
Williamson Park Events Income		70	75	80	80
Economic Growth & Regeneration					
Economic Development					
Commercial ticketed events (estimated)		10	20	25	30
Planning & Place					
Building Control		5	6	7	7
Property, Investment & Regeneration					
Assembly Rooms Rent		12	12	12	12
Net Income Generation		**840**	**1,112**	**1,068**	**1,074**

ADDITIONAL RESOURCE REQUIREMENTS

	Upfront Investment	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Central Services					
Chief Executive					
Partnerships & Innovation Coordinator (shared costs)		(20)	(20)	(20)	(20)
Executive Support Apprentice		(7)	(18)	(22)	(25)
Communities & the Environment					
Housing Services					
LATCo Development Manager		(23)	(92)	(94)	(95)
Public Protection					
New EHO Post (Apprentice/Student)		(10)	(23)	(23)	(23)
Public Realm					
LESS Contribution (Food Futures)		(13)	(13)	(13)	(13)
Recycling (Wheelie Bin Pilot in Heysham)		(25)	(25)	-	-
Bin Sensor Technology	**(62)**	(36)	(36)	(36)	(36)
District Wide Tree Survey/Strategy		(75)	-	-	-
Open Spaces (ad-hoc Councillor requests)		-	(50)	(50)	(50)
Additional Public Realm Capacity		(32)	(66)	(70)	(72)
Williamson Park Business Development Officer		(32)	(33)	(34)	(35)
Williamson Park Events		(30)	(30)	(30)	(30)
Corporate Services					
Financial Services					
Internal Audit Manager (offset by Wyre savings)		-	(32)	(34)	(36)
Project Accountant(s) to cover larger projects		(12)	(47)	(50)	(52)
CIVICA Financials Contract		-	(15)	(15)	(15)
Human Resources & Organisational Development					
Programme Manager (position made permanent)		(58)	(59)	(60)	(62)
Working Well		(25)	-	-	-
Economic Growth & Regeneration					
Economic Development					
Museums staff Job Evaluation (folowing TUPE transfer)		(14)	(15)	(16)	(16)
Critical maintenance and security for architectural site		(10)	(10)	(10)	(10)
Planning & Place					
Building Control (post-external contract)		(105)	(95)	(75)	(65)
Voice-recognition software		(6)	(6)	(6)	(6)
Integrated EDMS system		(45)	(45)	(45)	(45)
Amenity Improvements Programme		(12)	(12)	-	-
Property, Investment & Regeneration					
Project due diligence (contribution to reserve)		(100)	(100)	(100)	(100)
Net Cost of Growth		**(690)**	**(842)**	**(803)**	**(806)**

Reserves Statement (Including Unallocated Balances)

	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	From Revenue	To / (From) Capital	To Revenue	31 March 2026
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Unallocated Balances	**(7,808,400)**	(73,000)		2,267,000	**(5,614,400)**	(34,000)			**(5,648,400)**				**(5,648,400)**				**(5,648,400)**				**(5,648,400)**
Earmarked Reserves:																					
Corporate Priorities	**(2,478,200)**			1,462,100	**(1,016,100)**	(491,300)	600,000	516,900	**(390,500)**	(943,400)	360,000	504,100	**(469,800)**		240,000	210,000	**(19,800)**				**(19,800)**
Capital Support	**(73,000)**				**(73,000)**		73,000														
Corporate Property	**(338,500)**			75,000	**(263,500)**				**(263,500)**				**(263,500)**				**(263,500)**				**(263,500)**
Covid 19 Support Reserve	**(1,813,000)**			1,808,900	**(4,100)**				**(4,100)**				**(4,100)**				**(4,100)**				**(4,100)**
Economic Growth	**(188,500)**	(96,500)		166,500	**(118,500)**	(96,500)		96,500	**(118,500)**	(96,500)		96,500	**(118,500)**				**(118,500)**				**(118,500)**
Investment Property Maint	**(9,400)**				**(9,400)**				**(9,400)**				**(9,400)**				**(9,400)**				**(9,400)**
Invest to Save	**(1,233,500)**	(92,200)		1,222,100	**(103,600)**	(148,200)		437,900	**186,100**	(350,000)		339,000	**175,100**	(100,000)		100,000	**175,100**	(100,000)		100,000	**175,100**
Morecambe Area Action Plan	**(27,300)**			25,100	**(2,200)**				**(2,200)**				**(2,200)**				**(2,200)**				**(2,200)**
Museums Acquisitions	**(24,300)**	(4,500)			**(28,800)**	(4,500)			**(33,300)**	(4,500)			**(37,800)**	(4,500)			**(42,300)**				**(42,300)**
Planning Fee Income	**(39,400)**				**(39,400)**				**(39,400)**				**(39,400)**				**(39,400)**				**(39,400)**
Restructure	**(451,100)**			262,500	**(188,600)**			31,700	**(156,900)**			17,800	**(139,100)**				**(139,100)**				**(139,100)**
To Support Revenue & Capital Expenditure	**(6,676,200)**	**(193,200)**		**5,022,200**	**(1,847,200)**	**(740,500)**	**673,000**	**1,083,000**	**(831,700)**	**(1,394,400)**	**360,000**	**957,400**	**(908,700)**	**(104,500)**	**240,000**	**310,000**	**(463,200)**	**(100,000)**		**100,000**	**(463,200)**
Renewals Reserves	**(602,200)**	(491,800)	218,000	187,100	**(688,900)**	(491,800)	174,000	38,700	**(968,000)**	(491,800)	124,000	36,200	**(1,299,600)**	(491,800)	38,000	44,200	**(1,709,200)**				**(1,709,200)**
General Renewals	**(315,700)**	(295,800)	61,000	57,900	**(492,600)**	(295,800)	24,000	10,000	**(754,400)**	(295,800)		10,000	**(1,040,200)**	(295,800)		10,000	**(1,326,000)**				**(1,326,000)**
Salt Ayre Leisure Centre	**(25,900)**	(150,000)	157,000		**(18,900)**	(150,000)	150,000		**(18,900)**	(150,000)	124,000		**(44,900)**	(150,000)	38,000		**(156,900)**				**(156,900)**
Williamson Park	**(62,000)**	(18,000)		18,000	**(62,000)**	(18,000)		12,500	**(67,500)**	(18,000)		10,000	**(75,500)**	(18,000)		18,000	**(75,500)**				**(75,500)**
Car Parks	**(123,200)**	(12,000)		97,000	**(38,200)**	(12,000)		12,000	**(38,200)**	(12,000)		12,000	**(38,200)**	(12,000)		12,000	**(38,200)**				**(38,200)**
Happy Mount Park	**(23,100)**	(14,000)		14,200	**(22,900)**	(14,000)		4,200	**(32,700)**	(14,000)		4,200	**(42,500)**	(14,000)		4,200	**(52,300)**				**(52,300)**
Arnside & Silverdale AONB	**(52,300)**	(2,000)			**(54,300)**	(2,000)			**(56,300)**	(2,000)			**(58,300)**	(2,000)			**(60,300)**				**(60,300)**
Elections	**(40,000)**	(40,000)			**(80,000)**	(40,000)			**(120,000)**	(40,000)		160,000		(40,000)			**(40,000)**				**(40,000)**
Homelessness Support	**(110,800)**	(6,600)			**(117,400)**	(6,600)			**(124,000)**	(6,600)			**(130,600)**				**(130,600)**				**(130,600)**
Business Rates Retention	**(8,300,700)**	(886,400)		96,500	**(9,090,600)**	(400,000)		729,000	**(8,761,600)**			2,033,100	**(6,728,500)**			316,600	**(6,411,900)**			216,600	**(6,195,300)**
Revenue Grants Unapplied	**(8,497,600)**			7,592,500	**(905,100)**			39,000	**(866,100)**			1,800	**(864,300)**			1,500	**(862,800)**				**(862,800)**
S106 Commuted Sums - Open Spaces	**(16,600)**			11,800	**(4,800)**			4,700	**(100)**				**(100)**				**(100)**				**(100)**
S106 Commuted Sums - Affordable Housing	**(192,800)**		107,000		**(85,800)**		100,000		**14,200**				**14,200**				**14,200**				**14,200**
S106 Commuted Sums - Highways, Cycle Paths etc.	**(776,500)**	(200,000)		5,700	**(970,800)**	(200,000)			**(1,170,800)**	(200,000)			**(1,370,800)**	(200,000)			**(1,570,800)**				**(1,570,800)**
Lancaster District Hardship	**(324,900)**				**(324,900)**				**(324,900)**				**(324,900)**				**(324,900)**				**(324,900)**
Amenity Improvements	**(29,000)**				**(29,000)**				**(29,000)**				**(29,000)**				**(29,000)**				**(29,000)**
Reserves Held in Perpetuity:																					
Graves Maintenance	**(22,200)**				**(22,200)**				**(22,200)**				**(22,200)**				**(22,200)**				**(22,200)**
Marsh Capital	**(47,700)**				**(47,700)**				**(47,700)**				**(47,700)**				**(47,700)**				**(47,700)**
Total ring-fenced/held against risk	**(18,961,000)**	**(1,624,800)**	**325,000**	**7,893,600**	**(12,367,200)**	**(1,138,400)**	**274,000**	**811,400**	**(12,420,200)**	**(738,400)**	**124,000**	**2,231,100**	**(10,803,500)**	**(731,800)**	**38,000**	**362,300**	**(11,135,000)**			**216,600**	**(10,918,400)**
Total Earmarked Reserves	**(25,637,200)**	**(1,818,000)**	**325,000**	**12,915,800**	**(14,214,400)**	**(1,878,900)**	**947,000**	**1,894,400**	**(13,251,900)**	**(2,132,800)**	**484,000**	**3,188,500**	**(11,712,200)**	**(836,300)**	**278,000**	**672,300**	**(11,598,200)**	**(100,000)**		**316,600**	**(11,381,600)**
Total Combined Reserves	**(33,445,600)**				**(19,828,800)**				**(18,900,300)**				**(17,360,600)**				**(17,246,600)**				**(17,030,000)**

APPENDIX D

Budget Transfers (Virements, Carry Forwards & Reserves)
2022/23 Limits

Council 23 February 2022

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	**2022/23**
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.)

APPENDIX D

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 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.

Schedule of Earmarked Reserves

Reserve	Purpose of the Reserve
Business Rates Retention	To support the budget in the event that Business Rates Income does not reach budgeted levels or falls to Safety Net, due to fluctuations in appeals or other reductions in net income, and to hold any unbudgeted (surplus) rating income prior to use.
Planning Income	To hold surplus income generated as a result of the Government's 20% increase in planning fee income. To be used to fund additional costs/growth relating to Planning functions (in line with any regulatory guidance).
Capital Support	To provide cover for any revenue costs arising through shortfalls in capital financing (i.e. from capital receipts).
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.
Lancaster District Hardship	To provide aid to district residents who are in need of assistance in areas such as food and fuel poverty, debt resolution and other similar hardship areas. The reserve may also be used to manage administrative cost associated with its aims but also any future welfare reforms
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 D

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 D

Project Officer Sign Off:

Director Sign Off:
Section 151 Officer Sign Off:

Portfolio Holder Sign Off:
Finance Portfolio Sign Off:

Cabinet Minute (if app):

 Agenda Item 10

COUNCIL

Housing Revenue Account
Budget Framework 2022 to 2026

23 February 2022

Report of Cabinet

PURPOSE OF REPORT
To present Cabinet's final budget proposals in relation to the Housing Revenue Account in order that the City Council can complete its budget setting for 2022/23 and update its financial strategy to 2026.
This report is public.

RECOMMENDATIONS:

(1) That Cabinet's recommendation to approve the council housing rent levels for 2022/23, as set in accordance with statutory requirements, be noted.

(2) That the Housing Revenue Account budgets and future years' projections be approved, as set out in *Appendix A*.

(3) That the revenue additional budget proposals be approved, as set out in section 3.5.

(4) That the Council Housing Capital Programme be approved, as set out in *Appendix B*.

(5) That the minimum level of HRA unallocated balances be retained at £500,000 from 01 April 2022, and that the full Statement on Reserves and Balances as set out at *Appendix C* be approved.

(6) That Council notes the Section 151 Officer's advice regarding robustness of budget estimates, the adequacy of reserves and balances and the affordability of borrowing.

1 **Introduction**

1.1 Following its meeting on 8 February, Cabinet has now finalised its budget framework proposals for the Housing Revenue Account (HRA). These are all now reflected in the recommendations of this report.

2 **Rent Policy and 30-Year Business Plan Impact**

2.1 The Council has a legal requirement 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.

2.2 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.

2.3 The financial year 2022/23 is the third 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 2022/23, the September 2021 CPI figure of 3.1% is used, with forecast CPI used thereafter.

2.4 Taking the above points into account, the Council's current rent policy is summarised as follows:

<table>
<tr><td>For general properties, average rent of £78.24 applies for 2022/23</td><td>For sheltered and supported properties, average rent of £73.49 applies for 2022/23</td></tr>
<tr><td colspan="2">Following relevant properties becoming vacant, they will be re-let at 'formula rent' in line with previously approved policy.</td></tr>
<tr><td colspan="2"><u>For 2023/24 onwards</u>, it is assumed that council housing rents will increase by 3.0% year on year for a period of two years and 2.0% thereafter, subject to annual review of inflation forecasts, and any future determinations that may be issued by Government from time to time.</td></tr>
</table>

2.5 The 30-year business plan has been updated to cover the period to 2051/52, and the updated position over the life of the plan is a cumulative surplus of £25.6M. Should the additional budget proposal items in section 3.5 be approved then the combined level of reserves will be reduced to £12.8M by the end of the term.

2.6 It should be noted that the annual self-financing repayment of £1.041M ends from 31st March 2042.

2.7 It should be reinforced that the cumulative balance is primarily driven by Government's decisions on future rent policy. For simplicity, the business plan now assumes that rents will continue to increase by CPI plus 1% per year from 2022/23 up to and including 2024/25 with primarily CPI thereafter, but this is by no means certain. The risks surrounding this assumption must be appreciated.

3 **Revenue Budget**

3.1 The HRA revenue budget statement is attached at ***Appendix A.***

3.2 In 2021/22 the council housing team provided support to the corporate emergency response to Covid-19, 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.

3.3 Key achievements:

- 2021/22 has seen continued guidance and support to tenants around rent arrears prevention and management. Having ended 2020/21 with record low current tenant arrears of £113K the team continue to perform at the highest level with arrears at the end of Q3 of £137K: a reduction of 23% on the same week in the previous year.
- Rent arrears success has been achieved with a supportive, pro-active approach, with almost no recourse to legal action. No new housing possession applications have been made since March 2020 and as at Q3 2021/22 only one warrant application has been made.
- In September the Income Management Team were awarded Best Service Team: Construction and Building Services from the Association of Public Sector Excellence (APSE) for this approach. The team were also shortlisted for Team of the Year in the Chartered Institute of Housing Northern Awards and achieved accreditation from the Housing Quality Network (HQN) in the category of MIST – Maximising Income, Sustaining Tenancies.
- In conjunction with other work across the Housing Service the service also won Council of the Year at the North West Energy Efficiency Awards 2021.
- Tenancy success activities continue to be developed, including property condition flags and tenancy and post allocation visits to identify tenants in need of support, tenancy health checks for all new tenants, and a service-wide ‘eyes wide open’ approach to promoting successful tenancies.
- Over 180 tenancy health checks have been completed up until the end of Q3, helping to support tenants in sustaining a new tenancy and realising an increase in tenant income of £124K through income and benefit maximisation work.
- In addition, service chargeable furniture packages for new tenants were introduced during Q2. As at Q3, fifty-one Universal Credit and Housing Benefit eligible packages have been taken up.
- In opening the King Street One-Stop-Shop and continuing to run the Mainway Hub the housing team were able to provide two face-to-face customer service options for tenants and residents.
- Two members of staff – a Stores Operative and a Customer Voice Officer - were successfully employed within the housing team through the government’s kickstart programme, aimed at supporting individuals learn skills and gain experience along a path to long term sustainable employment.
- A newly recruited Energy Support Officer joined the housing team in September to support tenants with advice and guidance around all home energy related matters and in support of the climate agenda. During Q3 a total of 133 home visits were carried out, where advice and signposting was provided on a range of energy related topics including the warm home discount, affordable and green energy tariffs, and efficient use of household appliances.
- The project to deliver whole house improvements and energy upgrades to homes on Mount Avenue, Lancaster, was established and delivered a total of 19 refurbished homes during phase 1 in 2021. The project will be completed over three years and will deliver renovation of over 50 homes, including kitchen and bathroom upgrades and significant thermal efficiency measures.

- Conversion of a former shop in Galgate allowed the team to deliver the Council's first EPC A-rated home: a three bed, fully accessible energy efficient home including measures such as solar panels, air source heat pump and under floor heating, and high levels of insulation.
- Through the Neighbourhood Project fund a number of community projects have been funded, including a street youth work project on the Ridge (Street Speak) in partnership with Active Lancashire, Lancaster BID and Happy Healthy Holidays. More than 260 hours of face-to-face youth work was delivered.
- Approximately 10,500 responsive repairs (to year end) were carried out, and 300 vacant dwellings (voids) were refurbished to the lettable standard.
- We reduced the risk of spread of fire in rear gardens by removing composite (plastic) low maintenance fencing and replaced with traditional timber panels in response to fire events and identified risk. This led to recognition by Lancashire Fire and Rescue Service as a good practice approach taken and shared with other social housing providers.

3.4 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 can be found within the Cabinet report.

3.5 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	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Tenant Liaison Officer	**27,900**	**34,400**	**35,900**	**38,300**
CBL Support (MEX) 0.5FTE	**10,700**	**13,100**	**13,700**	**14,600**
Communications Officer 0.5FTE	**13,300**	**16,600**	**16,900**	**18,200**
Compliance Team and catch-up work	**526,000**	**136,900**	**143,100**	**148,600**
CBL Locata project (£72K funded from ICT & Systems Improvement Reserve)	**0**	**0**	**0**	**0**
System Replacement (pre-project work) (£212K funded from ICT & Systems Improvement Reserve)	**0**	**0**	**0**	**0**
Independent Living scheme equipment upgrade – digital (£250K funded from Sheltered Support Grant Maintenance Reserve)	**0**	**0**	**0**	**0**
Accelerated Mainway Phase 1 (£4M funded from Business Support Reserve) [1]	**0**	**0**	**0**	**0**
Total of all budget proposals	**577,900**	**201,000**	**209,600**	**219,700**

[1] Refer to separate Mainway report as considered by Cabinet on 8th February 2022

4 **The Council Housing response to the Climate Emergency**

4.1 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 which can be seen within the Cabinet Report. All of these areas of investment are built into the business planning and budgeting as outlined in this report.

5 **Capital Programme**

5.1 The proposed Council Housing capital programme is included at ***Appendix B.***

5.2 Future years' programmes are set in line with the HRA Business Plan wherever possible. Drawing on this, the draft programme should enable current housing stock to be maintained to the appropriate standards, meeting the Council's obligations under Decent Homes, and compliance with any other statutory regulations.

5.3 The 2022/23 capital programme includes no provision for any major refurbishment works on the Mainway Estate due to the ongoing project work and master planning for the future of the estate (see section 6).

5.4 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

- Two significant property conversions have been slipped by 12 months, due to design and planning permission negotiations.

5.5 Taking account of the above points, the total draft five-year programme for 2022/23 onwards now stands at £20.2M, the majority of which will be financed from revenue sources. There is no prudential borrowing requirement.

6 **Mainway Project**

6.1 The Mainway project is a significant, Housing-led project with the potential to transform the Mainway estate in Lancaster. None of these costs are included in this report, pending consideration of the separate Mainway report, as considered and approved by Cabinet on 8th February 2022.

6.2 For clarity, no major capital works in relation to Mainway are included in this report, with the exception of the £4.0M growth item above (see section 3.5). Cyclical maintenance costs within dwellings continue to be included in the current budgeting process.

7 **Provisions, Reserves and Balances**

7.1 A formal review of the HRA's Balances, Reserves and Provisions has been undertaken, the outcome of which is reflected in ***Appendix C.***

7.2 In terms of Balances, after reviewing the Housing Revenue Account in comparative terms and considering the key issues, assumptions and risks underlying the budget projections, the Section 151 Officer has advised maintaining the minimum level of HRA Balances at £0.5M from 01 April 2021, to support the budget forecasts as part of the overall medium term financial planning for the HRA.

7.3 As at 31 March 2022, HRA Balances are forecast to be £2.433M (prior to growth items), which is £1.933M above the recommended minimum level.

7.4 All other surplus resources are held in the Business Support Reserve. As at 31 March 2022, around £6.961M is expected to be available in this reserve. The £4.0M growth item for Mainway is requested to be funded by this reserve so a significant reduction is expected in the forthcoming years. The first spending priority is still to support existing commitments over the lifetime of the 30-year Business Plan, but the Government's changes to the rent policy from 2020/21 (for at least five years) should give more flexibility to the service and its future sustainability.

8 Details of Consultation

8.1 A meeting was held with tenants from the District Wide Tenants' Forum on 27th January 2022, where the Neighbourhood and Support Services manager presented the contents of this report and answered questions.

8.2 The 4.1% rent increase was noted by tenants in the context of rising cost of living costs. A discussion took place around affordability for tenants. Explanation was provided as to how the increase translates into improved service delivery in the coming years. It was noted that financial and other support for tenants is a central part of housing service delivery and will only increase in view of current challenges.

8.3 The group were in agreement around the importance of significant spend in the coming years in certain key areas – particularly the energy efficiency works built into the capital programme, and work around building safety and compliance.

8.4 The additional budget proposals (section 3.5 above) were all viewed as positive, resident focussed additions to service delivery.

8.5 In conclusion, the group were supportive of the proposals outlined in this budget report.

9 Options and Options Analysis (including risk assessment)

9.1 Council may adjust its HRA revenue budget proposals, as long as the overall budget for 2021/22 balances and fits with its approved rent levels, which Council cannot change.

9.2 With regards to the additional budget proposals, Council should consider the costs and benefits of the proposals and whether they are affordable, in particular over the medium to longer term.

9.3 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.

9.4 The options available in respect of the minimum level of HRA balances are to retain the level at £0.5M 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, 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.

9.5 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: To note Cabinet's recommendation to approve the council housing rent levels for 2022/23; to approve the revenue budgets and capital programme, all growth proposals and the provisions, reserves and balances position (and their use), as set out; to note the Section 151 Officer's advice.
Advantages: Completion of the Housing Revenue Account's budget setting process for 2022/23, allowing the updating of the Council's associated financial strategy.
Disadvantages: None.
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: To note Cabinet's recommendation to approve the council housing rent levels for 2022/23 but to propose alternatives to those outlined in Section 9 above, noting the following: Council may adjust its HRA revenue budget proposals, as long as the overall budget for 2022/23 balances and fits with its approved rent levels, which Council cannot change. Council may adjust its capital investment and financing proposals taking account of spending commitments and priorities, but its proposals for 2022/23 must balance.
Advantages: Non-approval of growth items may lead to greater HRA surpluses over the life of the 30-year business plan.
Disadvantages: Depending on the nature of any alternative proposals put forward, Officers may need time to assess the risks and implications. This is to ensure that relevant considerations are taken into account, to support informed and lawful decision-making. Non-approval of growth items would cause a scaling back of ambitions.

Risks: Delay to the completion of the Housing Revenue Account's budget setting process for 2022/23. Inability to maximise service provision and deliver on Council, and housing related ambitions. Impact on housing service and council housing tenants unknown.

10 Conclusion

10.1 This report provides an update on the council housing budgetary position and seeks Council's approval of Cabinet's budget proposals in relation to the Housing Revenue Account in order that the City Council can complete its budget setting for 2022/23 and update its financial strategy to 2026.

RELATIONSHIP TO POLICY FRAMEWORK
The budget should represent, in financial terms, what the Council is seeking to achieve through its Policy Framework.

CONCLUSION OF IMPACT ASSESSMENT
(including Diversity, Human Rights, Community Safety, Sustainability etc)
No additional impact identified – any specific issues have been (or will be) considered as part of the relevant aspect of the policy framework or individual budget proposals, etc. Where appropriate, equality impact assessments have been produced and are available in connection with Cabinet's specific budget proposals.

LEGAL IMPLICATIONS
Legal Services have been consulted and are content with the report but will consider further the development and implementation of relevant budget proposals in due course to ensure legal aspects are fully considered.

FINANCIAL IMPLICATIONS
As set out in the report.

OTHER RESOURCE IMPLICATIONS
Human Resources / Information Services / Property / Open Spaces:
Various budget proposals have resource implications and these have been taken account of in Cabinet's consideration of budget options as far as possible at this stage. Their implementation would be in accordance with council policies and procedures, as appropriate. Furthermore, it is recognised that additional resource needs may be required and arrangements are in hand to assess and address these.

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. Previous Cabinet reports have already included some relevant details of this advice, together with the risks and assumptions underpinning the budget process so far.

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 view simply 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 particular 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 (and should be) 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, at all times, 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.

BACKGROUND PAPERS Equality Impact Assessments for budget proposals**.**	**Contact Officer: Mark Davies** **Telephone: 01524 582401** **E-mail:mdavies@lancaster.gov.uk**

APPENDIX A

HOUSING REVENUE ACCOUNT BUDGET

For Consideration by Council 23 February 2022

	2022/23 Budget £	2023/24 Forecast £	2024/25 Forecast £	2025/26 Forecast £
INCOME				
Rental Income - Council Housing	(14,499,900)	(14,883,700)	(15,260,700)	(15,505,100)
Rental Income - Other (Shops and Garages etc.)	(273,300)	(277,200)	(281,300)	(285,300)
Charges for Services & Facilities	(1,513,000)	(1,543,200)	(1,571,300)	(1,598,200)
Grant Income	(7,700)	(7,700)	(7,700)	(7,700)
Contributions from General Fund	(95,600)	(100,700)	(103,300)	(103,700)
Total Income	**(16,389,500)**	**(16,812,500)**	**(17,224,300)**	**(17,500,000)**
EXPENDITURE				
Repairs & Maintenance	5,718,400	5,731,500	5,881,300	5,986,100
Supervision & Management	3,916,200	4,020,100	4,161,100	4,259,800
Rents, Rates & Insurance	355,600	385,600	415,800	445,800
Contribution to Provision for Bad and Doubtful Debts	141,300	142,700	144,200	145,800
Depreciation & Impairment of Fixed Assets	2,771,700	2,771,700	2,771,700	2,771,700
Debt Management Costs	0	0	0	0
Total Expenditure	**12,903,200**	**13,051,600**	**13,374,100**	**13,609,200**
NET COST OF HRA SERVICES	**(3,486,300)**	**(3,760,900)**	**(3,850,200)**	**(3,890,800)**
Capital Grants and Contributions Receivable	0	0	0	0
Interest Payable & Similar Charges	1,679,400	1,640,300	1,640,300	1,640,300
Premiums & Discounts from Earlier Debt Rescheduling	0	0	0	0
Interest & Investment Income	(43,100)	(44,800)	(44,800)	(44,800)
Pensions Interest Costs & Expected Return on Pensions Assets	0	0	0	0
Self Financing Debt Repayment	1,041,400	1,041,400	1,041,400	1,041,400
(SURPLUS) / DEFICIT FOR THE YEAR	**(808,600)**	**(1,124,000)**	**(1,213,300)**	**(1,253,900)**
Adjustments to reverse out Notional Charges included above	0	0	0	0
Net Charges made for Retirement Benefits	0	0	0	0
Transfer to/(from) Earmarked Reserves - for Revenue Purposes	32,400	60,800	(91,500)	(26,900)
Capital Expenditure funded from Major Repairs Reserve	1,601,800	2,068,800	1,406,800	1,280,800
Transfer from Earmarked Reserves - for Capital Purposes	(465,000)	(70,000)	(70,000)	0
Financing of Capital Expenditure from Earmarked Reserves	465,000	70,000	70,000	0
TOTAL (SURPLUS) / DEFICIT FOR THE YEAR	**825,600**	**1,005,600**	**102,000**	**0**
SAVINGS AND BUDGET PROPOSALS				
Tenant Liaison Officer	27,900	34,400	35,900	38,300
CBL Support (Mutual Exchanges) 0.5FTE	10,700	13,100	13,700	14,600
Communications Officer 0.5FTE	13,300	16,600	16,900	18,200
Compliance Team and catch-up programme	526,000	136,900	143,100	148,600
CBL Locata project (£72K funded from ICT & Systems Improvement Reserve)	0	0	0	0
System Replacement (pre-project work) (£212K funded from ICT & Systems Improvement Reserve)	0	0	0	0
Independent living scheme equipment upgrade - digital (£250K funded from Sheltered Support Grant Maintenance Reserve)	0	0	0	0
Accelerated Mainway Phase 1 (£4M funded from Business Support Reserve)	0	0	0	0
TOTAL GROWTH	**577,900**	**201,000**	**209,600**	**219,700**
Additional funding requirement, supported by Business Support Reserve	0	(676,900)	(311,600)	(219,700)
UPDATED TOTAL (SURPLUS) / DEFICIT FOR THE YEAR	**1,403,500**	**529,700**	**0**	**0**
Housing Revenue Account Balance brought forward	(2,433,269)	(1,029,769)	(500,069)	(500,069)
HRA BALANCE CARRIED FORWARD	**(1,029,769)**	**(500,069)**	**(500,069)**	**(500,069)**

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

Council Housing 4 Year Capital Programme
For Consideration by Council 23 February 2022

	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	TOTAL £000
EXPENDITURE					
Adaptations	300	300	300	300	1,200
Energy Efficiency/Boiler Replacement	989	999	1,009	1,019	4,016
Internal Refurbishment	888	947	888	888	3,611
External Refurbishment	210	-	508	270	988
Environmental Improvements	200	450	150	150	950
Re-roofing/Window Renewals	738	1,102	313	415	2,568
Rewiring	56	90	88	88	322
Lift Replacements	-	-	-	-	-
Fire Precaution Works	240	180	150	150	720
Housing Renewal and Renovation	1,753	1,378	1,378	1,308	5,817
TOTAL EXPENDITURE	**5,374**	**5,446**	**4,784**	**4,588**	**20,192**
FINANCING					
Capital Receipts	540	540	540	540	2,160
Contributions	-	-	-	-	-
Earmarked Reserves	465	70	70	-	605
Major Repairs Reserve	4,369	4,836	4,174	4,048	17,427
TOTAL FINANCING	**5,374**	**5,446**	**4,784**	**4,588**	**20,192**
SHORTFALL/(SURPLUS)	**0**	**0**	**0**	**0**	**0**

HOUSING REVENUE ACCOUNT - RESERVES AND PROVISIONS STATEMENT (INCLUDING GROWTH ITEMS)
For Consideration by Council 23 February 2022

	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	Contributions			Balance as at 31/03/26
		To the Reserve from Revenue	From the Reserve To Capital	From the Reserve To Revenue		To the Reserve from Revenue	From the Reserve To Capital	From the Reserve To Revenue		To the Reserve from Revenue	From the Reserve To Capital	From the Reserve To Revenue		To the Reserve from Revenue	From the Reserve To Capital	From the Reserve To Revenue		To the Reserve from Revenue	From the Reserve To Capital	From the Reserve To Revenue	
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
HRA General Balances	**3,287,169**			(853,900)	**2,433,269**			(1,403,500)	**1,029,769**			(529,700)	**500,069**				**500,069**				**500,069**
Earmarked Reserves:																					
Business Support Reserve	**7,909,792**		(563,000)	(385,900)	**6,960,892**		(4,445,000)		**2,515,892**		(70,000)	(676,900)	**1,768,992**		(70,000)	(411,700)	**1,287,292**			(236,200)	**1,051,092**
Major Repairs Reserve	**403,587**	4,382,500	(4,382,500)		**403,587**	4,373,500	(4,373,500)		**403,587**	4,840,500	(4,840,500)		**403,587**	4,178,500	(4,178,500)		**403,587**	4,052,500	(4,052,500)		**403,587**
Flats - Planned Maintenance	**758,294**	133,000	(45,000)	(22,900)	**823,394**	33,000	(20,000)	(22,900)	**813,494**	33,000		(22,900)	**823,594**	33,000		(22,900)	**833,694**	33,000		(22,900)	**843,794**
ICT and Systems Improvement	**579,978**			(25,900)	**554,078**			(237,000)	**317,078**			(24,000)	**293,078**			(24,000)	**269,078**				**269,078**
Office Equipment Reserve	**39,009**				**39,009**				**39,009**				**39,009**				**39,009**				**39,009**
Sheltered - Equipment	**411,535**	21,000		(52,100)	**380,435**	25,300		(37,700)	**368,035**	20,400		(15,400)	**373,035**	18,000		(58,100)	**332,935**	13,200		(58,100)	**288,035**
Sheltered - Planned Maintenance	**400,573**	42,000		(40,300)	**402,273**	50,700		(40,300)	**412,673**	40,600		(15,300)	**437,973**	35,900		(15,300)	**458,573**	26,500		(15,300)	**469,773**
Sheltered Support Grant Maintenance	**568,000**	21,000			**589,000**	25,300		(250,000)	**364,300**	20,400			**384,700**	18,000			**402,700**	13,200			**415,900**
Total Earmarked Reserves	**11,070,767**	**4,599,500**	**(4,990,500)**	**(527,100)**	**10,152,667**	**4,507,800**	**(8,838,500)**	**(587,900)**	**5,234,067**	**4,954,900**	**(4,910,500)**	**(754,500)**	**4,523,967**	**4,283,400**	**(4,248,500)**	**(532,000)**	**4,026,867**	**4,138,400**	**(4,052,500)**	**(332,500)**	**3,780,267**

COUNCIL

Capital Strategy and Capital Programme 2022/23 to 2025/26
23 February 2022

Report of Cabinet

PURPOSE OF REPORT
To present Cabinet's final budget proposals in order that the City Council can approve a General Fund Capital Programme for 2022/23 to 2025/26 and a Capital Strategy 2022/23.
This report is public.

RECOMMENDATIONS:

(1) That the General Fund Capital Programme be approved, as set out at Appendix A subject to recommendation 2 below

(2) That the Capital Strategy (Incorporating the Capital Investment Strategy: Investing in the Future) at Appendix B be approved.

1.0 INTRODUCTION

1.1 Following its meeting on 08 February 2022 Cabinet has now finalised its budget framework proposals for the General Fund Capital Programme and accompanying Capital Strategy. These are all now reflected in the recommendations of this report.

2.0 BACKGROUND

2.1 Capital expenditure generally comprises the buying, construction, or improvements of physical assets such as buildings, land, vehicles, and other miscellaneous items. The expenditure can also include grants and advances which the Council pays to other bodies or individuals for capital spending purposes.

2.2 There are several funding resources available to support the Capital Programme which can include:

- Capital receipts – monies received from the sale of a capital asset.
- Revenue contributions – monies set aside in specific reserves to support and fund schemes.
- External grants and contributions – monies received from third parties to fund schemes. These monies normally include conditions on what they can be used for.
- External borrowing – the Council is free to make its own borrowing decisions according to what is affordable, sustainable, and prudent as set out in the Prudential Code.

3.0 CAPITAL PROGRAMME

Capital Investment

3.1 Through its capital programme the Council plans net investment of £33.414M to support the delivery of its key Strategic Priorities and Outcomes such as Climate Emergency, Economic Prosperity and Regeneration and Housing as well as refurbishment or replacement of existing property or facilities to deliver services, or to meet legislative requirements.

3.2 The current programme is split between approved schemes, that is those which have a fully formed business case in line with Treasury Green Book requirements, and those still under development for which a provision has been made whilst work is undertaken to fully work up schemes. The provision will not be utilised until full business cases have been considered and approved via the relevant decision-making governance. Summary details of the current 5-year capital programme are given at table 1 below.

Table 1: Capital Programme

	2021/22	2022/23	2023/24	2024/25	2025/26	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Approved Schemes						
Communities & Environment	5,388	3,946	894	4,985	2,899	18,112
Economic Growth & Regeneration	4,067	1,977	641	306	306	7,297
Corporate Services	145	490	190	150	130	1,105
Schemes Under Development	0	1,650	1,200	2,550	1,500	6,900
Total Net Capital Programme	**9,600**	**8,063**	**2,925**	**7,991**	**4,835**	**33,414**

Capital Financing

3.3 The Council's Capital Financing Requirement (CFR) is simply the total amount of capital expenditure (including that from prior years) that has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying need to borrow. Any capital expenditure, which has not immediately been paid for through a revenue or capital resource, will increase the CFR. Based on the draft capital programme the Council's CFR is set to increase from the current estimated 2022/23 position of £104.00M to £105.28M in 2025/26. However, it must be noted that following the review of the capital programme this represents a significant reduction from previous years.

Table 2: Capital Financing Requirement

	2020/21 Actual £M	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M
CFR – Non Housing	57.72	64.43	68.86	67.98	72.28	73.26
CFR – Housing	37.23	36.19	35.14	34.1	33.06	32.02
Total CFR	**94.95**	**100.62**	**104.00**	**102.08**	**105.34**	**105.28**

3.4 Based on the capital programme, the overall physical borrowing position of the Council is projected to increase over the next five years from its estimated current position of £61.08M to £70.04M later in 2021/22 to £84.00M in 2022/23 as the Council looks to move forward with several ambitious schemes to enable delivery of its Strategic Priorities. It is then forecast to reduce slightly to £80.88M reflecting repayments of the HRA self-financing loan. See table 3 below

Table: 3: Forecast Borrowing Position

	2020/21 Actual £M	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M
Debt at 1 April	62.12	61.08	70.04	84.00	82.96	81.92
Expected change in Debt	-1.04	8.96	13.96	-1.04	-1.04	-1.04
Actual gross debt at 31 March	**61.08**	**70.04**	**84.00**	**82.96**	**81.92**	**80.88**

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

3.6 The Council is required to repay an element of the accumulated General Fund CFR each year through a revenue charge known as the minimum revenue provision (MRP) together with the interest charges associated with the borrowing. Council is asked to formally approve the MRP policy annual as part of the Treasury Management Strategy. The current policy is based on the estimated life of each asset created as a result of the related capital expenditure. Table's 4 and 5 provide forecast levels of annual capital financing charges and its proportion of the revenue budget.

Table 4: Revenue Impact of Capital Decisions

	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M
Interest	1.393	1.463	1.585	1.662	1.670
MRP	2.175	2.698	3.321	3.406	3.853
Total	**3.568**	**4.161**	**4.906**	**5.068**	**5.523**

Table 5: Ratio of Financing Costs to Net Revenue Stream

	2020/21 Actual %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %
General Fund	14.61	19.97	20.24	23.09	22.25	22.95
HRA	20.79	19.41	18.42	17.69	17.25	16.98

3.7 As can be seen based on current General Fund capital programme and accompanying borrowing estimates debt financing costs within the General Fund are set to increase to around 23% of the Council's annual net revenue budget. Levels will, therefore, need to be closely monitored and the impact on affordability of new capital schemes carefully considered as part of the business case assessment and governance processes. Estimates within the HRA are seen to decrease as the borrowing undertaken as part of HRA self-financing is repaid.

3.8 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. Council is asked to approve the Treasury Management Strategy elsewhere on the agenda.

4.0 CAPITAL STRATEGY

4.1 The Prudential Code 2017 requires all Council's to adopt an annual Capital Strategy, this is document which incorporates the Capital Investment Strategy: Investing in the Future) and various elements of the Treasury Management Strategy is included as ***Appendix B***. The strategy aligns capital investment to the Council's four overall priorities and proposes a consistent 'lifecycle' for the development and delivery of capital investment activities, including the transparent, accountable democratic decision process. The strategy also sets out the proposed approach to risk management as well as the monitoring and evaluation of capital projects.

4.2 The strategy 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.

5.0 CONSULTATION

5.1 In line with the Council's Constitution (Part 3 Section 5 – Budget & Policy Framework), Budget & Performance Panel considered the draft Capital Strategy (Investing in the Future) at its meeting 14 December 2021. The Capital Programme and Treasury Management Strategy was considered at its meeting 02 February 2022. At both meetings the Panel noted the report with no suggested amendments.

6.0 OPTIONS AND OPTIONS ANALYSIS

6.1 Council may put forward alternative proposals or amendments to the proposed Strategy, but these would have to be considered in light of other aspects of Cabinet's budget proposals as well as legislative, professional, and economic factors, and importantly, any alternative views regarding the Council's risk appetite.

6.2 Depending on the nature of any alternative proposals put forward, Officers may need time to assess the risks and implications. This is to ensure that relevant considerations are considered, to support informed and lawful decision- making. As such no further options analysis is available at this time

7.0 CONCLUSION

7.1 This report addresses the actions required to complete the budget setting process for capital, and for updating the Council's associated financial strategy in accordance with Prudential Code requirements.

RELATIONSHIP TO POLICY FRAMEWORK
The Council's revenue and capital budgets should represent, in financial terms what the Council is seeking to achieve through its Policy Framework.

The proposed capital programme and supporting strategy is part of the Council's budget and policy framework, and fits into the Medium Term Financial Strategy

CONCLUSION OF IMPACT ASSESSMENT
(including Diversity, Human Rights, Community Safety, Sustainability etc)
No additional impact identified – any specific issues have been (or will be) considered as part of the relevant aspect of the policy framework or individual budget proposals, etc.

FINANCIAL IMPLICATIONS
There are no financial implications arising directly from this report. However, the proposed levels and areas of capital investments will require borrowing and other associated costs. Financial due diligence and assessment will ensure that all the appropriate costs are considered for each proposal.

OTHER RESOURCE IMPLICATIONS
Human Resources / Information Services / Property / Open Spaces:
Various budget proposals have resource implications, and these have been taken account of in Cabinet's consideration of budget options as far as possible at this stage. Their implementation would be in accordance with council policies and procedures, as appropriate.

SECTION 151 OFFICER'S COMMENTS

Affordability of Capital Spending Plans
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 particular 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 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.

In considering and balancing these factors, the capital proposals to date are based on levels of "prudential borrowing" or CFR over the period to 2025/26. 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. A minimum revenue provision is set aside each year for the repayment of debt and this reduces the CFR. The Treasury Management Strategy prudential indicators provide an assurance that the Council's borrowing is, at all times, affordable sustainable and prudent.

LEGAL IMPLICATIONS

The Council has the legal power to acquire, use and dispose of land principally under the Local Government Act 1972 and other Acts which give the Council powers to acquire land for a particular purpose. In accordance with section 120(1), Local Government Act 1972, the Council has the power to acquire any land where it is for the purposes of (a) any of its statutory functions or (b) for the benefit, improvement, or development of its area.

If the Council decides to dispose of land, there is a legal requirement to obtain best value (with very limited exceptions).

Depending on the nature of the particular type of property concerned, there may be other statutory requirements or procedures to be undertaken before any acquisition, appropriation, or disposal of land.

MONITORING OFFICER'S COMMENTS

Capital and Investment Strategies form part of the Budget Framework and their adoption is a function of Full Council.

BACKGROUND PAPERS	**Contact Officer:** Paul Thompson
Cabinet Papers 8th February 2021 https://committeeadmin.lancaster.gov.uk/ieListDocuments.aspx?CId=297&MId=7801&Ver=4 Budget & Performance Panel 2nd February 2022 Agenda for Budget and Performance Panel on Wednesday, 2nd February 2022, 6.00 p.m. - Lancaster City Council	**Telephone**: 01524 582603 **E-mail**: pthompson@lancaster.gov.uk

General Fund Capital Programme

Council 22 February 2022

Service / Scheme	2021/22			2022/23			2023/24			2024/25			2025/26			5 YEAR TOTAL		
	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Total Gross Programme	Total External Funding	Total Net Programme
	£	£	£	£	£	£		£	£	£	£	£	£	£	£	£	£	£
Communities and Environment																		
Vehicle Renewals	2,503,000		2,503,000	2,012,000		2,012,000	194,000		194,000	2,253,000		2,253,000	1,423,000		1,423,000	8,385,000	0	8,385,000
Fleet Growth & changed fleet specifications	0		0	180,000		180,000	0		0	0		0	0		0	180,000	0	180,000
Electrification of Vehicles	0		0	508,000		508,000	186,000		186,000	2,454,000		2,454,000	1,423,000		1,423,000	4,571,000	0	4,571,000
2 x Electric Refuse Vehicles	400,000		400,000	0		0	0		0	0		0	0		0	400,000	0	400,000
Electronic Vehicle Charging Points - Phase 2	58,000	(30,000)	28,000	0		0	0		0	0		0	0		0	58,000	(30,000)	28,000
SALC optimised solar farm, air sourced heating pumps & glazing efficiency	4,828,000	(4,828,000)	0	0		0	0		0	0		0	0		0	4,828,000	(4,828,000)	0
One Million Trees	33,000		33,000	30,000		30,000	30,000		30,000	0		0	0		0	93,000	0	93,000
Happy Mount Park Pathway Replacements	13,000		13,000	0		0	0		0	0		0	0		0	13,000	0	13,000
Far Moor Playing Fields s106 Scheme	56,000	(21,000)	35,000	37,000		37,000	0		0	0		0	0		0	93,000	(21,000)	72,000
Disabled Facilities Grants	1,870,000	(1,870,000)	0	3,667,000	(3,667,000)	0	2,144,000	(2,144,000)	0	2,144,000	(2,144,000)	0	0		0	9,825,000	(9,825,000)	0
Next Steps Accommodation Programme	750,000		750,000	0		0	0		0	0		0	0		0	750,000	0	750,000
Half Moon Bay Car Park Extension	30,000		30,000	30,000		30,000	0		0	0		0	0		0	60,000	0	60,000
Salt Ayre Asset Management Plan	1,436,000		1,436,000	549,000		549,000	124,000		124,000	38,000		38,000	53,000		53,000	2,200,000	0	2,200,000
Customer Contact System	91,000		91,000	0		0	0		0	0		0	0		0	91,000	0	91,000
Mellishaw Park	0		0	600,000		600,000	360,000		360,000	240,000		240,000	0		0	1,200,000	0	1,200,000
Roof Mounted Solar Array - City Labs	33,000		33,000	0		0	0		0	0		0	0		0	33,000	0	33,000
Vehicle Maintenance Unit Brake Rollers	36,000		36,000	0		0	0		0	0		0	0		0	36,000	0	36,000
Economic Growth and Regeneration																		
Sea & River Defence Works	910,000	(722,000)	188,000	725,000	(725,000)	0	0		0	0		0	0		0	1,635,000	(1,447,000)	188,000
Morecambe Regeneration	3,165,000		3,165,000	0		0	0		0	0		0	0		0	3,165,000	0	3,165,000
Lancaster Heritage Action Zone	174,000	(174,000)	0	2,356,000	(1,383,000)	973,000	777,000	(136,000)	641,000	0		0	0		0	3,307,000	(1,693,000)	1,614,000
Canal Quarter Site Acquisition	110,000		110,000	40,000		40,000	0		0	0		0	0		0	150,000	0	150,000
Edward Street Coach House Area Improvement	0		0	84,000		84,000	0		0	0		0	0		0	84,000	0	84,000
Bailrigg Garden Village - Contribution	0		0	0		0	0		0	306,000		306,000	306,000		306,000	612,000	0	612,000
1 Lodge Street Urgent Structural Repairs	150,000		150,000	340,000		340,000	0		0	0		0	0		0	490,000	0	490,000
Coastal Revival Fund - Morecambe Co-Op Building	11,000	(11,000)	0	0		0	0		0	0		0	0		0	11,000	(11,000)	0
Morecambe Co-Op Building Renovation	50,000		50,000	375,000		375,000	0		0	0		0	0		0	425,000	0	425,000
Lancaster Square Routes	0		0	21,000	(16,000)	5,000	0		0	0		0	0		0	21,000	(16,000)	5,000
Lancaster District Empty Homes Partnership	0		0	73,000		73,000	0		0	0		0	0		0	73,000	0	73,000
S106 Highways Works	70,000		70,000	0		0	0		0	0		0	0		0	70,000	0	70,000
Lancaster City Museum Boiler	179,000	(100,000)	79,000	0		0	0		0	0		0	0		0	179,000	(100,000)	79,000
Palatine Recreation Ground Pavillion	138,000		138,000	0		0	0		0	0		0	0		0	138,000	0	138,000
Lawson's Bridge S106 Scheme	2,000		2,000	63,000		63,000	0		0	0		0	0		0	65,000	0	65,000
Engineers Electric Vehicle	15,000		15,000	0		0	0		0	0		0	0		0	15,000	0	15,000
Cable Street Christmas Lights	0		0	24,000		24,000	0		0	0		0	0		0	24,000	0	24,000

Appendix A

General Fund Capital Programme

Council 22 February 2022

	2021/22			2022/23			2023/24			2024/25			2025/26			5 YEAR TOTAL		
Service / Scheme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Total Gross Programme	Total External Funding	Total Net Programme
Corporate Services																		
ICT Systems, Infrastructure & Equipment	105,000		105,000	370,000		370,000	160,000		160,000	150,000		150,000	130,000		130,000	915,000	0	915,000
ICT Laptop Replacement & e-campus screens	0		0	120,000		120,000	30,000		30,000	0		0	0		0	150,000	0	150,000
ICT Telephony	40,000		40,000	0		0	0		0	0		0	0		0	40,000	0	40,000
Schemes Under Development																		
Canal Quarter	0		0	1,000,000		1,000,000	1,000,000		1,000,000	2,000,000		2,000,000	1,500,000		1,500,000	5,500,000	0	5,500,000
Bailrigg Garden Village - Project Development/Acquisitions	0		0	650,000		650,000	200,000		200,000	550,000		550,000	0		0	1,400,000	0	1,400,000
			0			0			0			0			0			
GENERAL FUND CAPITAL PROGRAMME	17,256,000	(7,756,000)	9,500,000	13,854,000	(5,791,000)	8,063,000	5,205,000	(2,280,000)	2,925,000	10,135,000	(2,144,000)	7,991,000	4,835,000	0	4,835,000	51,285,000	(17,971,000)	33,314,000
Financing :																		
Capital Receipts			0			0			0			0			0			0
Direct Revenue Financing			(300,000)			0			0			0			0			(300,000)
Earmarked Reserves			(325,000)			(947,000)			(484,000)			(278,000)			0			(2,034,000)
Increase / (Reduction) in Capital Financing Requirement (CFR) (Underlying Change in Borrowing Need)			8,875,000			7,116,000			2,441,000			7,713,000			4,835,000			30,980,000

APPENDIX B

Lancaster City Council

Investing in the Future: Our Capital Investment Strategy 2022-26

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

To be reviewed and approved annually by Council

Contents

1. Introduction

1.1. Investing in the Future

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

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

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

This strategy for the period 2022-26 sets out a framework for how the Council wishes to invest in the future of the Lancaster district through ambitious, prudent use of capital funding, known as the Council's **'Capital Programme'**.

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

1.2. Sustainable, Strategic Investment

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

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

Priorities	A Sustainable District	An Inclusive and Prosperous Local Economy	Healthy and Happy Communities	A Co-operative, Kind and Responsible Council
Strategy	**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*	**Increasing Wellbeing, Reducing Inequality |** *empowering and supporting healthy ways of living, and tackling the causes of inequality*	**Community Engagement, Power and Resilience |** *drawing on the wealth of skills and knowledge in the community, and working in partnership*
Outcomes	net zero carbon by 2030 while supporting other individuals, businesses and organisations across the district to reach the same goal **(Carbon Zero)**	supporting the development of new skills and improved prospects for our residents within an environmentally sustainable local economy **(Sustainable Skills)**	supporting wellbeing and ensuring local communities are active, engaged, involved and connected **(Community Engagement)**	listening to our communities and treating everyone with equal respect, being friendly, honest, and empathetic **(Listening and Empathy)**
	moving towards zero residual waste to landfill and incineration **(Reduced Waste)**	advocating for fair employment and just labour markets that increase prosperity and reduce income inequality **(Fair Work)**	tackling discrimination and reducing inequality **(Reducing Inequality)**	working in partnership with residents, local organisations, anchor institutions and partners recognising the strengths and skills in our community to build a powerful force working for our district **(Partnership)**
	increasing the amount of sustainable energy produced in the district and decreasing the district's energy use **(Sustainable Energy)**	supporting new and existing enterprises in sustainable innovation and the strengthening of local supply networks **(Sustainable Innovation)**	focused on early-intervention approaches and involving our communities in service design and delivery **(Early Intervention)**	investing in developing the strengths and skills of our staff and councillors **(Investing In Our Skills)**
	transitioning to an accessible and inclusive low-carbon and active transport system **(Low Carbon and Active Transport)**	using our land, property, finance and procurement to benefit local communities and encouraging residents, businesses, organisations and anchor institutions to do the same **(Social Use of Resources)**	(re)developing housing to ensure people of all incomes are comfortable, warm and able to maintain their independence **(Access to Quality Housing)**	focused on serving and enabling our residents, local organisations and district **(Enabling)**
	supporting our communities to be resilient to flooding and adapt to the wider effects of climate change **(Climate Resilience)**	securing investment and regeneration across our district **(Investment and Regeneration)**	improving access to and involvement in arts, culture, leisure and recreation, supporting our thriving arts, culture and heritage sector **(Access to Culture and Leisure)**	embracing innovative ways of working to improve service delivery and the operations of the council **(Innovative Public Services)**
	increasing the biodiversity of our district **(Biodiversity)**	Promoting business ownership models that empower the local workforce, such as co-operatives, social enterprises and community ownership **(Inclusive Ownership)**	keeping our district's neighbourhoods, parks, beaches and open space clean, well-maintained and safe **(Quality Public Spaces)**	providing value for money and ensuring that we are financially resilient and sustainable **(Value for Money)**

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

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

1.3. Investment Models

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

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

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

1.4. Housing Provision and the Housing Revenue Account

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

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

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

1.5. Aims of the Strategy

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

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

2. The Strategy: Four Investment Streams

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

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

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

1) A Sustainable District

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

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

2) An Inclusive and Prosperous Local Economy

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

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

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

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

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

3) Healthy and Happy Communities

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

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

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

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

4) A Co-Operative, Kind and Responsible Council

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

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

Capital investment in property, including retail, industrial, hotel, office, food & beverage and other investments may also be considered where they comply with the Capital Investment Regulations and Guidance and meet the Council's priorities. – LATCos and other forms of special purpose vehicle may also be established to generate income that can be invested in delivering Council priorities to reduce reliance on Council expenditure and therefore support the Council's financial sustainability.

3. Capital Investments Regulation & Guidance

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

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

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

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

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

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

A LATCo is able to source capital borrowing to fund investment for a commercial return as part of its activities. Any investments seeking a commercial return could be delivered via a LATCo and considered under the LATCo's independent governance and decision-making structure.

3.1. Revised CIPFA Treasury Management Code and Prudential Code

CIPFA published the revised codes on 20th December 2021 and has stated that formal adoption is not required until the 2023/24 financial year. This Council has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval. The revised codes will have the following implications:

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

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

Treasury Management

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

Service delivery

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

Commercial return

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

4. Delivering the Strategy

4.1. The Capital Investment Lifecycle

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

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

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

Stage 1: Inception

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

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

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

Stage 3: Full business case (FBC)

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

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

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

Stage 4: Implementation

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

Stage 5: Evaluation

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

4.2. Governance Arrangements

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

- Transparency
- Democratic Accountability
- Ethical Responsibility
- Strategic Alignment

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

Capital Assurance Group (CAG)

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

Capital Investments Appraisal Group (CIAG)

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

Cabinet

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

Overview & Scrutiny (O&S)

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

Budget & Performance Panel (B&PP)

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

Council

Full Council is responsible for approving the Capital Investment Strategy as part of the annual Budget Framework, including any material changes.

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

4.3. Risk Management

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

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

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

The Council's asset portfolio will be risk managed through a regular, systematic asset challenge process which will review each asset's performance, investment requirements and ongoing viability within the portfolio. This process will be developed through a forthcoming Asset Management Strategy.

4.4. Monitoring and Evaluation

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

The monitoring and evaluation process will include:

- **Delivering Our Priorities: Performance, Projects and Resources |** The capital programme will be regularly evaluated as part of overall performance monitoring which incorporates financial, project and performance measures. This information is reported quarterly to Cabinet and B&PP.
- **Capital Investment Strategy Monitoring |** As the strategy is key to delivering the Council's strategic goals, regular progress against the Council's Corporate Plan Priorities & Outcomes will take place to ensure resources are appropriately allocated.

- **LATCo Asset Monitoring |** Investments made by a LATCo for a commercial return will be considered by the LATCo's shareholder committee. The impact of the LATCo's financial return on the Council's financial position will be considered alongside other financial monitoring information.

- **Prudential Framework |** A half-yearly report on prudential indicators demonstrating the Capital Programme's ongoing prudence, affordability and sustainability will be considered by Council.

4.5. Capacity, Skills and Professional Advice

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

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

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

5. Our Assets

The Council has a range of assets which it utilises to deliver its wide range of services throughout the District. The total valuation of these at the start of the financial year 2021/22 was £298.99M. The main constituents of these assets are as follows

Asset Type	£M
Council Housing & Other Assets	131.02
Property Plant & Equipment	116.51
Community Assets	8.67
Investment Property	33.20
Heritage Assets	9.52
Intangible Assets	0.07
Total	**298.99**

Council Housing

At the start of the financial year the Council held 3,670 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	550
2 Bedroom	Houses & Bungalows	474
	Flats & Maisonettes	664
3 Bedroom	Houses & Bungalows	1,150
	Flats & Maisonettes	6
4 or more bedroomed dwellings		85
Total Dwellings		**3,660**

Property Plant & Equipment

These are assets which the Council predominately uses to deliver its services. These assets include Municipal Buildings, works depot, leisure centre and car parks. It also includes its refuse collection and vehicle fleet as well as various land holdings. The value of these assets at the start of 2021/22 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
59.33	7.21	41.18	0.99	0.14	108.85

Investment Assets

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

Investment Asset Type	£M
Office	4.07
Retail	2.56
Agriculture & Allotments	1.22
Commercial Land	2.20
Commercial Building	14.93
Mixed Commercial	8.23
Total	**33.20**

Heritage Assets

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

Intangible Assets

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

Asset Management

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

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

Valuations

The Council is required by accounting regulations to value its assets on a regular basis and currently values its General Fund assets on a rolling 3 year cycle. It is required to undertake a formal valuation of is HRA assets every 5 years in line with Ministry of Housing Communities and Local Government (MHCLG) requirements. The last formal valuation was undertaken 1 April 2016 and so work is currently underway to ensure these are up dated to reflect values as at 1st April 2021. A desktop revaluation is undertaken for HRA assets in the intervening years to ensure that values are current.

All valuations are performed "in house" by qualified 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).

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

6. Capital Expenditure

Capital Programme

The Council plans to gross expenditure, which excludes grants from other bodies of approximately £46.08M on General Fund and £24.97M on HRA capital schemes between 2021/22 – 2025/26.

Gross Capital Expenditure	2020/21 Actual £M	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M	Total 2021/22 to 2025/26
General Fund	19.03	17.25	13.85	5,21	10.14	4.84	46.08
Housing Revenue Account (HRA)	3.04	4.78	5.37	5.45	4.78	4.59	24.97
Total	**22.07**	**22.03**	**19.22**	**5.45**	**14.92**	**9.43**	**71.05**

Financing & Affordability

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

Financed by:	2020/21 Actual £M	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M	Total 2021/22 to 2025/26
Capital receipts	-0.01	-0.64	-0.54	-0.54	-0.54	-0.54	-2.80
Capital grants	-7.69	-7.75	-5.79	-2.28	-2.14	0.00	-17.96
Capital reserves	-2.91	-4.14	-4.37	-4.84	-4.17	-4.05	-21.57
Revenue	-0.40	-0.63	-1.40	-0.56	-0.36	0.00	-2.95
Financing Total	**-11.01**	**-13.16**	**-12.10**	**-8.22**	**-7.21**	**-4.59**	**-45.28**
Net financing need for the year	**11.06**	**8.87**	**7.12**	**-2.77**	**7.71**	**4.84**	**25.77**

This table shows a net need for financing the Capital Programme of £25.77M which would require the Council to undertake additional borrowing. Additional borrowing could be used only to finance capital expenditure in respect of General Fund and Housing Revenue Account.

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

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

	2020/21 Actual %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %
General Fund	14.61	19.97	20.24	23.09	22.25	22.95
HRA	20.79	19.41	18.42	17.69	17.25	16.98

This table shows that the cost of debt financing is estimated to be between 20% and 23% of the Councils general fund net revenue budget between 2021/22 and 2025/26.

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

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

7. Treasury Management

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

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

Governance & Scrutiny

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

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

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

Investment

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

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

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

The Council's Investments at 31.03.2021 were:

Balance 31.03.2021	**£M**	**Liquidity**
Bank Accounts	3.10	Instant Access
Money Market Funds	0.00	Instant Access
Other Local Authorities	22.00	Fixed Term
Total Investments	**25.10**	

Borrowing

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

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

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

	2020/21 Actual £M	**2021/22 Estimate £M**	**2022/23 Estimate £M**	**2023/24 Estimate £M**	**2024/25 Estimate £M**	**2025/26 Estimate £M**
CFR – Non Housing	57.72	64.43	68.86	67.98	72.28	73.26
CFR – Housing	37.23	36.19	35.14	34.1	33.06	32.02
Total CFR	**94.95**	**100.62**	**104**	**102.08**	**105.34**	**105.28**

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

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

	2020/21 Actual £M	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M
External Debt						
Debt at 1 April	62.12	61.08	70.04	84	82.96	81.92
Expected change in Debt	-1.04	8.96	13.96	-1.04	-1.04	-1.04
Actual gross debt at 31 March	**61.08**	**70.04**	**84**	**82.96**	**81.92**	**80.88**
The Capital Financing Requirement	**94.95**	**100.62**	**104.00**	**102.08**	**105.34**	**105.28**
Under Borrowing	**-33.87**	**-30.58**	**-20.00**	**-19.12**	**-23.42**	**-24.40**

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

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

	2020/21 Actual £M	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M
General Fund MRP	-1.77	-2.15	-2.7	-3.32	-3.41	-3.86
HRA MRP	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04
Total	**-2.81**	**-3.19**	**-3.74**	**-4.36**	**-4.45**	**-4.90**

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

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

	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M
Operational Boundary	100.62	105.00	103.08	106.34	106.28
Authorised Limit	116.00	120.00	118.00	121.00	121.00

8. Commercial Activity

Current Position

The Council's existing investment property portfolio generates approximately £1.168M 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:

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

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

Performance Monitoring

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

APPENDIX C

Capital Assurance Group: Terms of Reference

Role

1. The Capital Assurance Group (CAG) is a Member and officer working group with a clear remit to be the Council's advisory body on the Council's Capital Investment Strategy.

2. The Capital Investment Strategy has clear priority areas of work which although distinct from one another should be considered in an integrated manner when forming and delivering the Council's capital programme and related areas.

3. The types of Capital Investments which may be considered when forming the capital programme relate to the four priority areas of the 'Core' Plan 2030.

   a) **A Sustainable District.** These include schemes to deliver demonstrable reduction to carbon emissions in line with the Council's goal of reaching net carbon zero by 2030, such as installation of solar panels, or investment in larger scale solar energy facilities, as well as supporting agile working to reduce our carbon footprint, and the increased electrification of our vehicle fleet. Schemes which mitigate the effects of climate change may also be included.
   b) **An Inclusive and Prosperous Local Economy.** These include schemes to assist the Council's lead role in place-making, regeneration and economic development activity, and the improvement of the District's town centres to improve economic performance and encourage future private sector investment. Initiatives to use public land and buildings to achieve long-term socio-economic development within the Lancaster District may also be included, as well as investment in supporting the district's rich creative and heritage assets to benefit local businesses and residents both economically and culturally.
   c) **Healthy and Happy Communities.** These include schemes to generate significant social returns in the District, such as the development of new housing, purchasing of existing housing with a view to improvements in quality and management, investment loans to third parties and re-use of Council assets, along with improving access to local culture, heritage and leisure to increase wellbeing.
   d) **A Co-operative, Kind and Responsible Council.** These are investments that sustain the day to day operational delivery of the Councils services which underpin a broad range of Council priorities. Such schemes may include upgrades of key information and communication systems, as well as transformation and 'Invest to Save' proposals, which provide one-off project funding to help services become more efficient and effective

Composition of CAG

4. The group will consist of the following Members and officers. Where representatives are not able to attend, a suitable alternative will attend in their place.

   Standing Membership
   - Cabinet Finance Portfolio Lead
   - Chief Executive
   - Overview and Scrutiny Chair
   - Budget and Performance Panel Chair
   - Business Committee Chair
   - Cabinet Governance Portfolio Holder
   - Director of Corporate Services
   - Director of Economic Growth and Regeneration
   - Director of Communities and the Environment
   - Section 151 Officer
   - Governance Officer Lead

   Additional representation as and when required may include
   - Relevant Cabinet Portfolio Holders – as required by nature of the investment proposals

- Relevant Lead Officers – as required by nature of the investment proposals
- Capital Finance Officer Lead
- Asset Management Officer Lead
- Property Services Officer Lead
- ICT Representation
- Programme Manager
- External Consultants

Frequency and Format of Meetings

5. The CAG will meet quarterly by routine but may also meet on an ad-hoc basis as required as and when key proposals come forward. Routine meetings will be co-ordinated so that they inform monitoring processes to Cabinet and Budget and Performance Panel. The meetings will be held via Teams, unless the Chair agrees a face-to-face meeting would significantly improve meeting outcomes and provides reasonable notice.

6. A forward plan of items to be considered on an annual cycle will be developed, and agendas with supporting briefing papers will be issued at least 3 working days before the meeting where practicable. Presentations delivered at meetings will be provided to Members in advance, or otherwise included with meeting notes. The meeting notes will form part of briefings to Cabinet, and Members will be able to request particular points made in the meeting to be clearly placed within meeting notes to further enrich and inform decision-making.

Remit

7. CAG's remit is to contribute to the development and oversight of the Council's capital programme. This will include assessing initial proposals and business cases through to delivering the programme and assessing its effectiveness in respect of corporate priorities.

8. *With respect to Capital Investment Strategy*
   a) To keep the Capital Investment Strategy document under review ensuring that it reflects the Council's capital investment priorities and review the Strategy as part of the MTFS update.
   b) To ensure that the Capital Strategy is informed by and consistent with the Core 2030 Plan and associated strategies, and the Asset Management Plan.

   With respect to the Capital Programme
   c) To consider all strategic outline cases and full business cases for capital investment, in terms of strategic fit, financial and resource implications, risk, benefits, outcomes and legislation and compliance. To make advisory recommendations to budget holders and to provide comments on these matters from individual members to Cabinet, having regard to the scrutiny process.
   d) To check that the information available for projects is complete and sufficient to inform evidence-led and effective decision-making, and to identify areas where information may need to be strengthened to enable an informed decision to be made.
   e) To monitor the progress of each scheme within the capital programme in terms of progress to date, expenditure, and delivery of outcomes including those classified within the pipeline.
   f) To review all completed schemes with respect to outcomes and impact as well as lessons learned
   g) To monitor the resources available to support the Capital Programme and ensure that, at all times, it remains affordable, sustainable and prudent.
   h) To maintain the capital bid and scoring assessment framework, which captures quantifiable measures in respect of broad economic, environmental, and social returns as defined by our priority outcomes

   With respect to the Asset Management Plan
   i) Own and ensure the development of the Asset Management Plan and long-term property strategy, ensuring that it is line with Core Plan 2030 / MTFS objectives.
   j) To undertake annual review of property holding to ensure that all property is utilised appropriately and consider any capital expenditure/ receipt proposals associated with maintaining, updating, transferring, or disposing of property assets.

APPENDIX C

Each of the above areas of work are covered by the Capital Strategy and Capital Investment Strategy, which are the Council's overarching documents which aim to ensure that Council's capital investments priorities reflect Council priorities and are supported by a long term financing plan.

Decision Making

9. The CAG is a Member and Officer working group and as such is only advisory and does not have any formal decision-making authority. It will check whether the information being provided is sufficient to inform decision-making and, where appropriate, that the suitable project management documentation is available to support project delivery.

10. Following consideration of each strategic outline case and business case, it may make recommendations to budget holders in relation to due diligence costs and other matters. It will provide any comments from individual members to Cabinet. It also ensures that necessary consultation is carried out with Cabinet, relevant Portfolio Holders, Management Board, and relevant Directors as part of the decision-making process.

11. Any proposal that is outside the approved budget and policy framework will be referred to Cabinet or Council in accordance with the Constitution.

The role of Scrutiny Committee Members

12. The Chairs of both Budget & Performance Panel and Overview & Scrutiny form part of CAG. 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 do not remove or negate the right to call in any decision made by Cabinet in this area.

Key Outcomes

10. The key outcomes from the CAG are:
    a) An effective Capital Investment Strategy aligned with relevant regulation and the priorities of the Council.
    b) An effective Capital Programme and investment projects pipeline optimising the capital investment resources within the Core Plan 2030.
    c) Strategic property and asset management ensuring full optimisation of Council property assets, maximising income and return and reducing expenditure where possible but ensuring assets are well maintained.
    d) Enhanced long term planning of capital investment, better use and management of investments, assets (including property, infrastructure etc), and accountability.
    e) The integration of the Capital Investment Strategy in line with Council priorities as set out in the Core Plan 2030.

COUNCIL

Treasury Management Strategy 2022/23
23 February 2022

Report of Cabinet

PURPOSE OF REPORT
This report sets out the 2022/23 Treasury Management framework for Council's approval.
This report is public.

RECOMMENDATIONS:

(1) That the Council notes the report and approves the Treasury Management Framework and associated Prudential Indicators as set out in Appendices A to C.

1.0 INTRODUCTION

1.1 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 incorporate the Council's spending and income plans with decisions about investing and borrowing

1.2 The Panel are asked to limit their consideration to the Treasury Management strategy and associated attachments in line with their Terms of Reference within the Constitution.

2.0 TREASURY MANAGEMENT FRAMEWORK 2022/23

2.1 The Council's Treasury Management Activities are regulated the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) issued under the Local Government Act 2003.

2.2 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. During 2022/23 the minimum reporting requirements are that the Full Council should receive the following reports:

- an annual treasury strategy in advance of the year
- a mid-year (minimum) treasury update report
- an annual review following the end of the year describing the activity compared to the strategy

3.0 TREASURY MANAGEMENT STRATEGY

3.1 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.

3.2 CIPFA published an updated Treasury Management (the Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes) and Prudential Code on 20 December 2021. These apply with immediate effect, however, CIPFA has stated that there will be a soft introduction of the codes with any change to reporting requirements deferred until the 2023/24 financial year.

3.3 It should also be noted that the DLUHC is proposing to tighten up regulations around local authorities financing capital expenditure on investments in commercial projects for yield and has already closed access to all PWLB borrowing if such schemes are included in an authority's capital programme. The new CIPFA codes have also adopted a similar set of restrictions to discourage further capital expenditure on commercial investments for yield.

3.4 The proposed Strategy for 2022/23 to 2025/26 is set out at ***Appendix A***. 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 B*** and the policy statement is presented at ***Appendix C.***

4.0 BORROWING ASPECTS OF THE STRATEGY

Capital Financing Requirement (CFR)

4.1 The Council's CFR is simply the total amount of capital expenditure (including that from prior years) that has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying need to borrow. Any capital expenditure, which has not immediately been paid for through a revenue or capital resource, will increase the CFR. Based on the draft capital programme the Council's CFR is set to increase from the current estimated 2022/23 position of £104.00M to £105.28M in 2025/26.

4.2 The CFR does not increase indefinitely as a statutory annual charge to revenue known as Minimum Revenue Provision (MRP), approximately reduces the borrowing need in line with each asset's life.

4.3 Based on the capital programme, the overall physical borrowing position of the Council is projected to increase over the next three to five years from its estimated current position of £70.04M to £84M (2022/23) as the Council looks to move forward with several ambitious schemes to enable delivery of its Strategic Priorities. It is then forecast to reduce to £81.00M (2025/26) reflecting repayments of the HRA self-financing loan.

4.4 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

4.5 Changes in the Council's Capital Financing Requirement and forward borrowing projections are summarised in tables 1 and 2 below.

Table 1: Capital Financing Requirement

	2020/21 Actual £M	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M
Capital Financing Requirement						
CFR – Non Housing	57.72	64.43	68.86	67.98	72.28	73.26
CFR – Housing	37.23	36.19	35.14	34.10	33.06	32.02
Total CFR	**94.95**	**100.62**	**104.00**	**102.08**	**105.34**	**105.28**
Movement in CFR						
Non Housing	9.29	6.72	4.42	(0.88)	4.30	0.98
Housing	(1.06)	(1.04)	(1.04)	(1.04)	(1.04)	(1.04)
Net Movement in CFR	**8.25**	**5.68**	**3.38**	**(1.92)**	**3.26**	**(0.06)**

Movement in CFR represented by						
Net financing need for the year (above) re Non Housing	11.06	8.87	7.12	2.44	7.71	4.84
Less MRP/VRP and other financing movements	(2.81)	(3.19)	(3.74)	(4.36)	(4.45)	(4.90)
Net Movement in CFR	**8.25**	**5.68**	**3.38**	**(1.92)**	**3.26**	**(0.06)**

…

Table 2: Borrowing Projections

	2020/21 Actual £M	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M
External Debt						
Debt at 1 April	62.12	61.08	70.04	84.00	82.96	81.92
Expected change in Debt	(1.04)	8.96	13.96	(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	**61.08**	**70.04**	**84.00**	**82.96**	**81.92**	**80.88**
The Capital Financing Requirement	**94.95**	**100.62**	**104.00**	**102.08**	**105.34**	**105.28**
Under Borrowing	**(33.86)**	**(30.58)**	**(20.00)**	**(19.12)**	**(23.42)**	**(24.40)**

The Operational Boundary

4.6 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. Changes to the operational boundary are included in table 3 below.

Table 3: Operational Boundary

Operational boundary	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Debt*	100.62	104.00	102.08	105.34	105.28
Other long- term liabilities	0.00	1.00	1.00	1.00	1.00
Total	**100.62**	**105.00**	**103.08**	**106.34**	**106.28**

The Authorised Limit for External Debt

4.7 This represents a control on the maximum level of borrowing and is 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. Changes to the authorised limit are included in table 4 below.

- 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.

- **Council is asked to approve the following authorised limit:**

Table 4: Authorised Limit

Authorised Limit	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M
Debt	116.00	119.00	117.00	120.00	120.00
Other long-term liabilities	0.00	1.00	1.00	1.00	1.00
Total	**116.00**	**120.00**	**118.00**	**121.00**	**121.00**

5.0 INVESTMENT ASPECTS OF THE STRATEGY

5.1 Where short term treasury management investments are required the Council retains a comparatively low risk appetite with focus on high quality deposits. The 2022/23 strategy continues to use the same short-term investment criteria as approved by Members in previous years.

5.2 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.

5.0 CONSULTATION

5.1 Officers have liaised with Link Asset Services, the Council's Treasury Advisors, in developing the proposed framework. The framework was considered by Budget and Performance Panel at its meeting on 02 February 2022.

6.0 OPTIONS AND OPTIONS ANALYSIS

6.1 Council may put forward alternative proposals or amendments to the proposed Strategy, 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.

6.2 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.

7.0 CONCLUSION

7.1 The Treasury Management Framework must fit with other aspects of the budget, such as such as commercial investments together with traditional deposit interest estimates and underlying prudential borrowing assumptions, feeding into Prudential and Treasury Management Indicators

7.2 Any alternative proposals or amendments to the proposed Strategy would have to be considered in light of legislation, professional and economic factors, and importantly, any alternative views regarding the Council's approach to risk.

RELATIONSHIP TO 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 (including Diversity, Human Rights, Community Safety, Sustainability etc) No direct implications arising.
FINANCIAL IMPLICATIONS The Strategy is in support of achieving the borrowing cost and investment interest estimates included in the budget.
OTHER RESOURCE IMPLICATIONS None directly arising.
SECTION 151 OFFICER'S COMMENTS The s151 Officer has authored this report and his comments and advice are reflected in its content.
LEGAL IMPLICATIONS Legal Services have been consulted and have no further comments.
MONITORING OFFICER'S COMMENTS The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS	Contact Officer: Paul Thompson
Budget & Performance Panel 02 February 2022 Agenda for Budget and Performance Panel on Wednesday, 2nd February 2022, 6.00 p.m. - Lancaster City Council	**Telephone**: 01524 582603 **E-mail**: pthompson@lancaster.gov.uk

Appendix A

TREASURY MANAGEMENT FRAMEWORK DOCUMENTS AND RESPONSIBILITIES

For Approval by Council 23 February 2022

DOCUMENT	RESPONSIBILITY
CODE of PRACTICE	To be adopted by Council (as updated 2021).
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 2021.
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 2018/19, 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 2021 Code; it is the Section 151 Officer's responsibility to ensure their inclusion.

Appendix B

LANCASTER CITY COUNCIL

TREASURY MANAGEMENT POLICY STATEMENT

For Approval by Council
23 February 2022

This reflects the revised CIPFA Treasury Management Code of Practice (Code updated in 2021).

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 C

Treasury Management Strategy 2022/23 to 2025/26

For Approval by Council 23 February 2022

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 2017 Prudential and Treasury Management Codes require, all local authorities to prepare an additional report, a capital strategy report, which will provide the following:

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

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

Treasury Management Reporting

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

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

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an 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.

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 2022/23

The strategy for 2022/22 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. Further training will be arranged as required during the year. The training needs of treasury management Officers are periodically reviewed.

1.5 Treasury Management Consultants

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

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

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

2 CAPITAL PRUDENTIAL INDICATORS 2021/22 – 2025/26

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	2020/21 Actual £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
General Fund	19.03	17.25	13.85	5,21	10.14	4.84
Housing Revenue Account (HRA)	3.04	4.78	5.37	5.45	4.78	4.59
Total	**22.07**	**22.03**	**19.22**	**10.66**	**14.92**	**9.43**
Financed by:						
Capital receipts	(0.01)	(0.64)	(0.54)	(0.54)	(0.54)	(0.54)
Capital grants	(7.69)	(7.75)	(5.79)	(2.28)	(2.14)	(0.00)
Capital reserves	(2.91)	(4.14)	(4.37)	(4.84)	(4.17)	(4.05)
Revenue	(0.40)	(0.63)	(1.40)	(0.56)	(0.36)	(0.00)
Net financing need for the year	**11.06**	**8.87**	**7.12**	**2.44**	**7.71**	**4.84**

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	2020/21 Actual £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Capital Financing Requirement						
CFR – Non Housing	57.72	64.43	68.86	67.98	72.28	73.26
CFR – Housing	37.23	36.19	35.14	34.10	33.06	32.02
Total CFR	**94.95**	**100.62**	**104.00**	**102.08**	**105.34**	**105.28**
Movement in CFR						
Non Housing	9.29	6.72	4.42	(0.88)	4.30	0.98
Housing	(1.06)	(1.04)	(1.04)	(1.04)	(1.04)	(1.04)
Net Movement in CFR	**8.25**	**5.68**	**3.38**	**(1.92)**	**3.26**	**(0.06)**

Movement in CFR represented by						
Net financing need for the year (above) re Non Housing	11.06	8.87	7.12	2.44	7.71	4.84
Less MRP/VRP and other financing movements	(2.81)	(3.19)	(3.74)	(4.36)	(4.45)	(4.90)
Net Movement in CFR	**8.25**	**5.68**	**3.38**	**(1.92)**	**3.26**	**(0.06)**

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 2021 the total VRP overpayments were £9.37m

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	2020/21 Actual £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Fund balances / reserves	38.87	26.14	24.47	21.91	21.53	21.29
Capital receipts	0.52	0.00	0.00	0.00	0.00	0.00
Provisions	7.14	6.00	6.00	6.00	6.00	6.00
Total core funds	**46.53**	**32.14**	**30.47**	**27.91**	**27.53**	**27.29**
Working capital*	12.43	9.00	9.00	9.00	9.00	9.00
Under borrowing	(33.86)	(30.58)	(20.00)	(19.12)	(23.42)	(24.40)
Expected investments	**25.10**	**10.56**	**19.47**	**17.79**	**13.11**	**11.89**

*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.

	2020/21 Actual £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
General Fund	14.61	19.97	20.24	23.09	22.25	22.95
HRA	20.79	19.41	18.42	17.69	17.25	16.98

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.

	2020/21 Actual £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
External Debt						
Debt at 1 April	62.12	61.08	70.04	84.00	82.96	81.92
Expected change in Debt	(1.04)	8.96	13.96	(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	**61.08**	**70.04**	**84.00**	**82.96**	**81.92**	**80.88**
The Capital Financing Requirement	**94.95**	**100.62**	**104.00**	**102.08**	**105.34**	**105.28**
Under Borrowing	**(33.86)**	**(30.58)**	**(20.00)**	**(19.12)**	**(23.42)**	**(24.40)**

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 2022/23 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	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Debt*	100.62	104.00	102.08	105.34	105.28
Other long term liabilities	0.00	1.00	1.00	1.00	1.00
Total	**100.62**	**105.00**	**103.08**	**106.34**	**106.28**

- *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	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Debt	116.00	119.00	117.00	120.00	120.00
Other long-term liabilities	0.00	1.00	1.00	1.00	1.00
Total	**116.00**	**120.00**	**118.00**	**121.00**	**121.00**

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 20.12.2021. These are forecasts for certainty rates, gilt yields plus 80 bps:

	Mar-22	Mar-23	Mar-24	Mar-25
Bank Rate	0.25	0.75	1.00	1.25
3 Month average earnings	0.30	0.70	1.00	1.00
6 Month average earnings	0.50	0.80	1.10	1.10
12 Month average earnings	0.70	0.90	1.20	1.20
5yr PWLB rate	1.50	1.70	1.90	2.00
10yr PWLB rate	1.70	1.90	2.10	2.30
25yr PWLB rate	1.90	2.20	2.30	2.50
50yr PWLB rate	1.70	2.00	2.10	2.30

Additional notes by Link on this forecast table: -

- *LIBOR and LIBID rates will cease from the end of 2121. Work is currently progressing to replace LIBOR with a rate based on SONIA (Sterling Overnight Index Average). In the meantime, our forecasts are based on expected average earnings by local authorities for 3 to 12 months.*
- *Our forecasts for average earnings are averages i.e./ rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short term cash at any one point in time*

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 until raising it to 0.25% at its meeting on 16th December.

The forecast for Bank Rate now includes four further increases, quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%

.

It is not expected that Bank Rate will go up fast after the initial rate rise as the supply potential of the economy is not likely to have taken a major hit during the pandemic: it should, therefore, be able to cope well with meeting demand after supply shortages subside over the next year, without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the spike up to around 5%.

It is likely that rate forecasts will need changing within a relatively short timeframe for the following reasons: -

- *We do not know how severe an impact Omicron could have on the economy*

- *There were already increasing grounds for viewing the economic recovery as running out of steam during the autumn and now into the winter. And then along came Omicron to pose a significant downside threat to economic activity. This could lead into stagflation, or even into recession, which would then pose a dilemma for the MPC as to whether to focus on combating inflation or supporting economic growth through keeping interest rates low.*

- *Will some current key supply shortages spill over into causing economic activity in some sectors to take a significant hit?*

- *Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation.*

- *On the other hand, consumers are sitting on over £160bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?*

- *It looks as if the economy coped well with the end of furlough on 30th September. It is estimated that there were around 1 million people who came off furlough then and there was not a huge spike up in unemployment. The other side of the coin is that vacancies have been hitting record levels so there is a continuing acute shortage of workers. This is a potential danger area if this shortage drives up wages which then feed through into producer prices and the prices of services i.e., a second-round effect that the MPC would have to act against if it looked like gaining significant momentum.*

- *We also recognise there could be further nasty surprises on the Covid front beyond the Omicron mutation.*

- *If the UK invokes article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this has the potential to end up in a no-deal Brexit.*

In summary, with the high level of uncertainty prevailing on several different fronts, we expect to have to revise our forecasts again - in line with whatever the new news is.

It should also be borne in mind that Bank Rate being cut to 0.25% and then to 0.10%, were emergency measures to deal with the Covid crisis hitting the UK in March 2020. At any time, the MPC could decide to simply take away such emergency cuts on no other grounds than they are no longer warranted, and as a step forward in the return *to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.*

Investment and borrowing rates

- **Investment returns** are likely to improve in 2022/23. However, while markets are pricing in a series of Bank Rate rises, actual economic circumstances may see the MPC fall short of these elevated expectations.

- **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 and still remain at historically low levels. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years.

- 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.

- As some PWLB certainty rates are currently below 2.00% there remains value in considering long-term borrowing from the PWLB where appropriate. Temporary borrowing rates are likely, however, to remain near Bank rate and may also prove attractive as part of a balance debt portfolio

- While this authority will not be able to avoid borrowing to finance new capital expenditure, 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 2022/23 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	1.73	0	100
12 months and within 24 months	1.04	1.73	0	100
24 months and within 5 years	3.12	5.20	0	100
5 years and within 10 years	5.20	8.66	0	100
10 years and within 20 years	10.40	17.32	0	100
20 years and within 30 years	0.04	0.06	0	100
30 years and within 40 years	39.20	65.30	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:

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

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

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

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

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

- **Specified investments** are those with a high level of credit quality and subject 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 B2.*

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

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

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

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

- If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- In addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx 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

Significant levels of downgrades to Short- and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, as economies are beginning to reopen, there have been some instances of previous lowering of Outlooks being reversed

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

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: The current forecast includes a firs increas in Bank Rate in May 2022, though it could come in February.

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

- 2022/23 0.50%
- 2023/24 0.75%
- 2024/25 1.00%
- 2025/26 1.25%

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 B1

Treasury Management Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- **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 B2

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

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

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

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

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

ANNEX B3

Background information on credit ratings

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

What is a Credit Rating?
A credit rating is:

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

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

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

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

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

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

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

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

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

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

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

COUNCIL

Medium Term Financial Strategy 2022/23 – 2025/26
23 February 2022
Report of Chief Finance Officer

PURPOSE OF REPORT
To provide an update on the Council's Medium Term Financial Strategy (MTFS) forecasts for 2022/23 to 2025/26
This report is public.

RECOMMENDATION:

(1) That the Medium-Term Financial Strategy (MTFS) estimates as set out in the report are noted.

1.0 INTRODUCTION

1.1 The previous reports on this agenda considered the annual process for setting the Council's revenue and capital budgets for 2022/23. This report sets out the context in which future decisions on resource allocation and budgeting will be taken.

1.2 The Medium-Term Financial Strategy (MTFS) sets out how Lancaster City Council will manage its finances to deliver against its corporate priorities, whilst protecting its financial standing and responding to the many challenges it faces. This will in turn inform the future budget setting process.

2.0 STRATEGIC & OPERATIONAL CONTEXT

2.1 Like all Councils we continue to face a time of unprecedented change, which, in turn, puts significant pressure on the ability to forecast into the medium and long term. Specific areas of uncertainty and change have been noted in previous reports but include:

- an accelerated pace of change in the funding regimes, formula and budget and accounting requirements of Central Government,
- fewer system-wide reviews, and a much greater number of issue specific consultations, reviews, and changes some of which are resulting in in-year changes, and even retrospective changes to previously agreed budgetary forecasting and funding distribution formula.
- External factors such as the pandemic and EU Exit which fundamentally alter both the priorities for and use of Council resources and the context of our income from taxation, rates, fees, and charges.
- Changes to PWLB borrowing criteria have curtailed all Council's ability to borrow for yield and impacted the potential to obtain income from commercial investments.
- The impact of COVID -19 on the wider economy and the rise in both pay and general inflation
- The recently announced decommissioning plans for the Heysham1 and Heysham 2 nuclear reactors and the significant impact across the district, and the Council's finances via the retained business rates system.
- Signing of the legally binding collaboration agreement between the Council and Lancashire County Council for the delivery of The South Lancaster District Growth Catalyst

3.0 GOVERNMENT FUNDING PROSPECTS

Local Government Finance Settlement

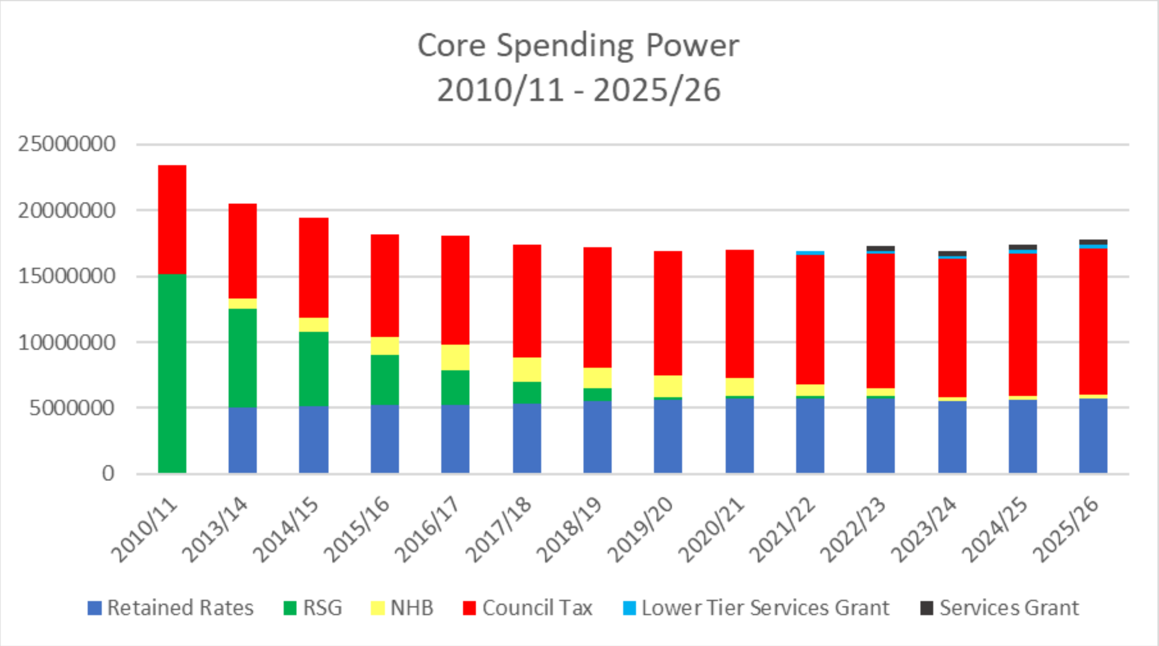
3.1 The Government released the provisional local government finance settlement on 16 December 2021, with the final settlement presented to parliament 8 February 2022. As with last year this is a one-year settlement rather than a long-term review due to the ongoing economic uncertainty caused by the COVID-19 pandemic. The major aspects of the settlement are set out below:

- The calculation of Core Spending Power
- The level of Council Tax increase (excluding social care) beyond which a referendum is required remains at 2% or £5 whichever is the greater for 2022/23
- The continued delay of the Spending Review and Fair Funding Review. The Government is currently in the process of reviewing the components of the business rates retention system, and the role they can play in providing an incentive for local authorities to grow the business rates in their area. This was originally planned to be implemented in 2020/21 but has been delayed due to the COVID-19 pandemic.
- The freezing of the Business Rates "multiplier" for 2022/23
- Continuation of a number of funding streams including Revenue Support Grant, which was due to cease in 2020/21, the Lower Tier Services Grant and New Homes Bonus. It is likely this scheme will not exist in its current form, as it is being reviewed as part of the spending and fair funding review.
- The introduction of a new one off Services Grant which includes funding for local government costs for the increase in employer National Insurance Contributions

3.2 The pattern of one year settlements and the lack of a longer term horizon makes financial planning particularly difficult; however, a number of funding assumptions have been made within the Council's MTFS reflecting the past two settlements.

Core Spending Power

3.3 The calculation of Core Spending Power has changed over the years and is not limited to general government revenue grant and Business Rates but has also included Council Tax receipts, New Homes Bonus, and other specific grants.

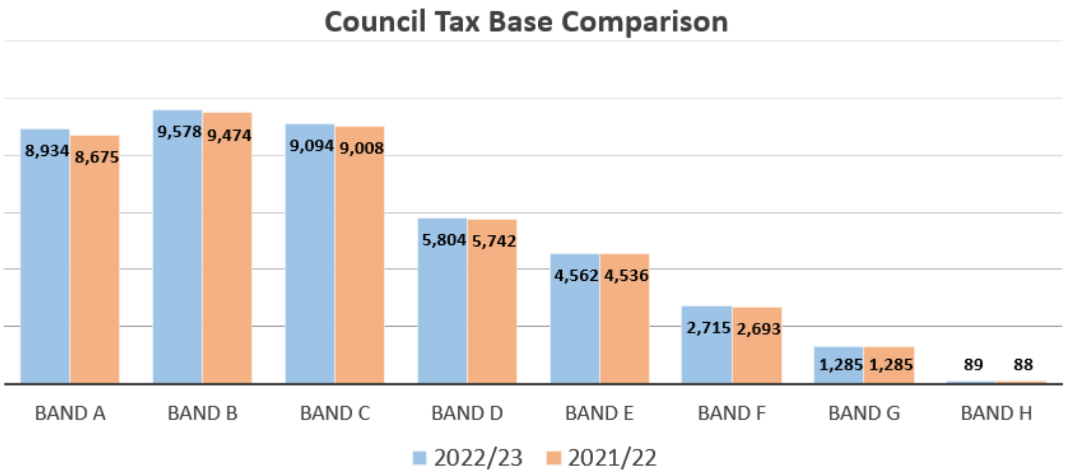


3.4 As the graph above shows the Council is now almost entirely reliant on Council Tax and Business Rates with a small amount of income from central government grants to fund net expenditure and it is, therefore, important to provide regular estimates of these key funding streams.

Council Tax

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

3.6 The tax base for 2022/23 has been calculated as 42,060 Band D equivalent properties after allowing for a collection rate of 98.68%, the same as in previous years. There has been a reduction in the numbers of void and exempt properties together with a reduction in both the numbers of accounts eligible for discounts and the Council Tax Reduction Scheme. There is also expected to be an increase in new properties for 2022/23 though this is smaller than that seen in 2021/22. From 2023/24 1% growth in the Tax base has been used for forecasting.



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

3.8 Government's referendum criteria limits increases in the Council's element of Council Tax to 2% or £5, whichever is greater. For the purposes of forecasting, it has been assumed that the Council will increase council tax by the maximum allowed, in each of the next three years. The table below sets out Council Tax forecasts for the next four years including a sensitivity analysis showing the potential impact on council tax yield of different scenarios.

Table 1: Council Tax Forecasts

	Actual 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26
Council Tax Band D (Maximum increase)	£236.95	£241.95	£246.95	£251.95	£256.99
Tax base (1% growth from 2023/24)	41,500	42,060	42,481	42,905	43,334
Council Tax Income	**£9,833,425**	**£10,176,417**	**£10,490,584**	**£10,810,017**	**£11,136,404**
Previous MTFS		£10,091,000	£10,403,000	£10,719,000	£11,043,773
Difference Increase/(Decrease)		**£85,417**	**£87,584**	**£91,017**	**£92,632**
Scenario 1 – no increase In Council tax over period Of MTFS		(£124,883)	(£337,222)	(£552,564)	(£775,673)
Scenario 2 – 1% drop in council tax collection rate		(£17,654)	(£18,669)	(£18,471)	(£21,761)
Scenario 3 – 1.5% increase in tax base growth		£85,417	£139,518	£198,312	£257,205

Business Rates

3.9 Business rates is now a fundamental part of the local government finance settlement and, along with Council Tax, accounts for the majority of local government financing. Members will appreciate that despite intervention of central government through various grant funding streams and reliefs the full effects of the pandemic on businesses are not as yet entirely evident. This, along with a number of other significant uncertainties set out below make forecasting and planning extremely difficult.

3.10 We are one of only a small number of Councils with a nuclear power station within its boundary and Members will be aware of the recent announcements regarding the decommissioning plans for the Heysham 1 (H1) and Heysham 2 (H2) nuclear reactors. This announcement will have a significant impact across the district as a whole but will inevitably have a significant impact on the Council's finances, as currently the rateable value of the reactor's accounts for over 45% of the Council's total rateable value.

3.11 The retained business rates scheme does have a safety net mechanism in place to ensure that a Council's income does not drop below more than a set percentage of its index linked spending baseline. That set percentage is currently 92.5% allowing for a drop of 7.5% from the baseline. Given the Council's exposure this will have the effect of triggering a safety net payment from Central Government and so growth would only be relevant were it to be significant enough to generate rating income above the baseline. The Council will need to rely on the Business Rates Retention Reserve to smooth operational shortfalls in the short term.

3.12 It was expected that, at some point as part of government funding reviews, there would be a business rates growth reset effectively removing all growth from the system by setting the business rates baseline to equal actual rates levels. To date this has not taken place and it has been assumed that this would take place in 2023/24 at the earliest. Given the challenges the Council faces with the nuclear power station decommissioning timetable, the timing of the reset is likely to have a significant impact on the Council's finances and so continued delay and indecision only adds to the planning uncertainty.

3.13 The table below provides Business Rates forecasts for the next four years incorporating a number of assumptions. As outlined previously, given the high degree of uncertainty and the number of potential variables, the position may change. Current forecast assumptions are:

- Income to remain in line with business rates monitoring during 2021/22 together with a 2% uplift to baseline and tariff in respect of inflation.
- Heysham 1 reactor to be decommissioned at the beginning of 2024/25 triggering a safety net payment.
- Any growth in business rates will not be of a significant enough value to get above the safety net mechanism
- Continuation of the green energy disregard in its current form

Table 2: Business Rates Forecasts

	2022/23 £	**2023/24 £**	**2024/25 £**	**2025/26 £**
Retained Business Rates	7,290,255	5,520,887	-	-
Safety Net Payment	-	-	5,631,304	5,743,931
Renewable Energy Disregard Income	3,012,525	3,071,707	3,133,141	3,195,803
Sub Total	**10,302,780**	**8,592,593**	**8,764,445**	**8,939,734**
Deficit charged against General Fund in 2022/23 (after applying S31 grant in respect additional reliefs)	-196,616			
Total net retained business rates	**10,106,164**	**8,592,593**	**8,764,445**	**8,939,734**

New Homes Bonus

3.14 New Homes Bonus is a reward grant which is calculated from Council Taxbase figures. As previously reported, the previous years' rewards element of the grant has been phased out after 2022/23. There remains a risk that the Government will seek to further reduce the grant in future years which would increase the budget gap at the Council. The current forecast of levels of New Homes Bonus is set out in the table below.

Table 3: New Homes Bonus

	2022/23	**2023/24**	**2024/25**	**2024/25**
Annual Reward	272,600	272,000	272.000	272.000
Previous Years Rewards	274,200	-	-	-
Total	546,800	272,000	272,000	272,000
Previous MTFS	504,300	230,000	230,000	230,000
Difference Increase/(Decrease)	42,500	42,000	42,000	42,000

4.0 MEDIUM TERM FINANCIAL STRATGEY – CURRENT PROSPECTS TO 2025/26

4.1 Officers have undertaken a detailed review of the current and future years budgets. This included incorporating approved and known changes together with savings and income generation proposals and comprehensive salary and inflation reviews. In addition, the Council's General Fund capital programme has been reviewed and amended in order to reduce the number of schemes funded through unsupported borrowing. This lessens the charges to revenue for Minimum Revenue Provision and loan interest.

4.2 <u>General Fund Revenue Budget Projections</u>

Table 4 below outlines the current forecast budgetary position for 2022/23 to 2025/26

Table 4: General Fund Revenue Projections 2022/23 to 2025/26

General Fund Revenue Budget Projections 2022/23 to 2025/26

BUDGET PROJECTIONS

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Revenue Budget/Forecast as at 24 February 2021	**21,110**	**23,550**	**24,400**	**24,400**
Base Budget Changes				
Operational Changes	1,478	1,243	1,454	1,586
Additional Inflationary Pressure	67	117	179	791
Latest Budgetary Position	**22,655**	**24,910**	**26,033**	**26,777**
Outcomes Based Resourcing Proposals:				
Savings Proposals	(180)	(212)	(222)	(230)
Additional Resource Requirements	690	842	803	806
Income Generation Proposals	(840)	(1,112)	(1,068)	(1,074)
Revenue Impact of Capital Programme Review	(1,505)	(1,742)	(1,751)	(1,297)
Contribution to/(from) Collection Fund Reserves	400	(743)	(316)	(216)
Contribution to/(from) Unallocated Reserve	34			
General Fund Revenue Budget	**21,254**	**21,943**	**23,479**	**24,766**
Core Funding:				
Revenue Support Grant	(212)			
New Homes Bonus	(42)	(42)	(42)	(42)
Supplementry Government Grants	(652)	(652)	(652)	(652)
Prior Year Council Tax Surplus	(66)			
Net Business Rates Income	(10,106)	(8,593)	(8,764)	(8,940)
Council Tax Requirement	**10,176**	**12,656**	**14,021**	**15,132**
Estimated Council Tax Income - (Increases based on £5 for 2022/23 then max	**10,176**	**10,491**	**10,810**	**11,135**
Resulting Base Budget (Surplus)/Deficit	**0**	**2,165**	**3,211**	**3,997**

<u>Budget Principles and Assumptions</u>

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

i. Annually, a balanced revenue budget will be set with expenditure limited to the amount of available resources.

ii. No long-term use of balances to meet recurring baseline expenditure.

iii. Resources will be targeted to deliver corporate ambitions and value for money. Any additional investment and spending decisions will be made to reflect Council priorities and strategic commitments.

4.4 Table 5 below, lists the major assumptions that have been made within the MTFS with further details discussed in later paragraphs

Table 5: 4 Year MTFS Planning Assumptions

Assumption	2022/23	2023/24	2024/25	2025/26
Council Tax base growth	1.34%	1.00%	1.00%	1.00%
Council Tax inflation	£5.00	£5.00	£5.00	£5.00
Inflation – Pay	515,100 2%	1,129,30(2%	1,703,70(2%	2,295,00(2%
Inflation – Premises Related	128,900 Mixed %	216,000 Mixed %	305,800 Mixed %	395,000 Mixed %
Inflation – Insurance	60,800 10%	120,700 10%	182,700 10%	241,800 10%
Inflation – General Index	216,400 3.30%	329,000 2.10%	437,700 1.90%	547,500 1.90%
Inflation – Fees & Charges	(401,400) 3.30%	(662,500) 2.10%	(897,100) 1.90%	(1,133,00(1.90%

Pay & Prices Increases

4.5 A 2% pay award allowance has been included in 2022/23 and 2% across the remaining years. The assumption of 2% considers that employees on lower salaries are expected to receive an increase. It should be noted that pay awards in Local Government are covered by collective bargaining between employers and trade unions and are not subject to direct control from Central Government. However, it is reasonable to assume that Local Government will mirror what happens in the rest of the public sector.

4.6 Price inflation has been included on selected non-pay items as set out in table 5. In the likely event that the rate of inflation exceeds budget there is an expectation that managers will need to manage within base budget allocations.

Savings and Income Generation Proposals

4.7 The budget savings or income growth identified as part of the 2022/23 budget discussion relate to several areas where actions are being undertaken by the Council and are incorporated within the MTFS. Some of the key areas are summarised by directorate in the tables below, with more information included within the Budget and Policy Framework General Fund Revenue Budget 2022/23 item on the agenda.

Table 6: Directorate Summary Savings Proposals

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	Total £'000
Proposed Savings					
Communities & Environment	53	53	54	54	214
Economic Growth & Regeneration	41	42	48	53	184
Corporate Services	15	43	43	43	144
Office of the Chief Executive	71	74	77	80	302
Total Savings Proposals	**180**	**212**	**222**	**230**	**844**

Table 7: Directorate Summary Income Generation Proposals

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	Total £'000
Income Generation Proposals					
Communities & Environment	813	1,074	1,024	1,025	3,936
Economic Growth & Regeneration	27	38	44	49	158
Corporate Services	0	0	0	0	0
Office of the Chief Executive	0	0	0	0	0
Total Income Generation Proposals	**840**	**1,112**	**1,068**	**1,074**	**4,094**

4.8 As part of the Council's quarterly monitoring process (Delivering our Priorities), progress against these targets will be monitored and reported to Members via Cabinet and Budget & Performance Panel.

Revenue Impact of Capital Programme Review

4.9 Cabinet and Executive Management Team have reviewed in detail the Council's previous capital programme and have repositioned and reprofiled several capital schemes in line with the revised Capital Strategy (Investing in the Future). This has lessened the impact that capital projects have on revenue by creating Minimum Revenue Provision (MRP) and interest cost savings. Details of the estimated savings incorporated with the MTFS are detailed in the table below:

Table 8: Revenue Saving for Capital Programme Repositioning

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	Total £'000
Revenue Impact of Capital Programme Review	1,505	1,742	1,751	1,297	6,295

5.0 CAPITAL INVESTMENT AND FINANCING

Capital Investment

5.1 Through its capital programme the Council plans net investment of £33.414M to support the delivery of its key Strategic Priorities and Outcomes such as Climate Emergency, Economic Prosperity and Regeneration and Housing as well as refurbishment or replacement of existing property or facilities to deliver services, or to meet legislative requirements.

5.2 The current programme is split between approved schemes, that is those which have a fully formed business case in line with Treasury Green Book requirements, and those still under development for which a provision has been made whilst work is undertaken to fully work up schemes. The provision will not be utilised until full business cases have been considered and approved via the relevant decision-making governance. Summary details of the current 5-year capital programme are given at table 9 below, with further details provided within the Capital Programme & Capital Strategy 2022-23 to 2025-26 paper elsewhere on the agenda.

Table 9: Capital Programme

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	Total £'000
Approved Schemes						
Communities & Environment	5,388	3,946	894	4,985	2,899	18,112
Economic Growth & Regeneration	4,067	1,977	641	306	306	7,297
Corporate Services	145	490	190	150	130	1,105
Schemes Under Development	0	1,650	1,200	2,550	1,500	6,900
Total Net Capital Programme	**9,600**	**8,063**	**2,925**	**7,991**	**4,835**	**33,414**

Capital Financing

5.3 The Council's Capital Financing Requirement (CFR) is simply the total amount of capital expenditure (including that from prior years) that has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying need to borrow. Any capital expenditure, which has not immediately been paid for through a revenue or capital resource, will increase the CFR. Based on the draft capital programme the Council's CFR is set to increase from the current estimated 2022/23 position of £104.00M to £105.28M in 2025/26. However, it must be noted that following the review of the capital programme this represents a significant reduction from previous years.

Table 10: Capital Financing Requirement

	2020/21 Actual £M	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M
CFR – Non Housing	57.72	64.43	68.86	67.98	72.28	73.26
CFR – Housing	37.23	36.19	35.14	34.1	33.06	32.02
Total CFR	**94.95**	**100.62**	**104.00**	**102.08**	**105.34**	**105.28**

5.4 Based on the capital programme, the overall physical borrowing position of the Council is projected to increase over the next five years from its estimated current position of £61.08M to £70.04M later in 2021/22 to £84.00M in 2022/23 as the Council looks to move forward with several ambitious schemes to enable delivery of its Strategic Priorities. It is then forecast to reduce slightly to £80.88M reflecting repayments of the HRA self-financing loan. See table 11 below

Table: 11: Forecast Borrowing Position

	2020/21 Actual £M	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M
Debt at 1 April	62.12	61.08	70.04	84.00	82.96	81.92
Expected change in Debt	-1.04	8.96	13.96	-1.04	-1.04	-1.04
Actual gross debt at 31 March	**61.08**	**70.04**	**84.00**	**82.96**	**81.92**	**80.88**

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

5.6 The Council is required to repay an element of the accumulated General Fund CFR each year through a revenue charge known as the minimum revenue provision (MRP) together with the interest charges associated with the borrowing. Council is asked to formally approve the MRP policy annual as part of the Treasury Management Strategy. The current policy is based on the estimated life of each asset created as a result of the related capital expenditure. Table's 12 and 13 provide forecast levels of annual capital financing charges and its proportion of the revenue budget.

Table 12: Revenue Impact of Capital Decisions

	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M
Interest	1.393	1.463	1.585	1.662	1.670
MRP	2.175	2.698	3.321	3.406	3.853
Total	**3.568**	**4.161**	**4.906**	**5.068**	**5.523**

Table 13: Ratio of Financing Costs to Net Revenue Stream

	2020/21 Actual %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %
General Fund	14.61	19.97	20.24	23.09	22.25	22.95
HRA	20.79	19.41	18.42	17.69	17.25	16.98

5.7 As can be seen based on current General Fund capital programme and accompanying borrowing estimates debt financing costs within the General Fund are set to increase to around 23% of the Council's annual net revenue budget. Recent benchmarking work by the Local Government Association (LGA) provided a Northwest average of 8%. Levels will, therefore, need to be closely monitored and the impact on affordability of new capital schemes carefully considered as part of the business case assessment and governance processes. Estimates within the HRA are seen to decrease as the borrowing undertaken as part of HRA self-financing is repaid.

6.0 THE SHORT & MEDIUM-TERM BUDGET GAP

6.1 Government funding and income forecasts covered previously within this report, together with the budget expenditure, savings and income estimates that have been calculated as part of the 2022/23 revenue budget process provide an updated forecast of the budget gaps over the next three years. This is shown below in the graph and Table 14

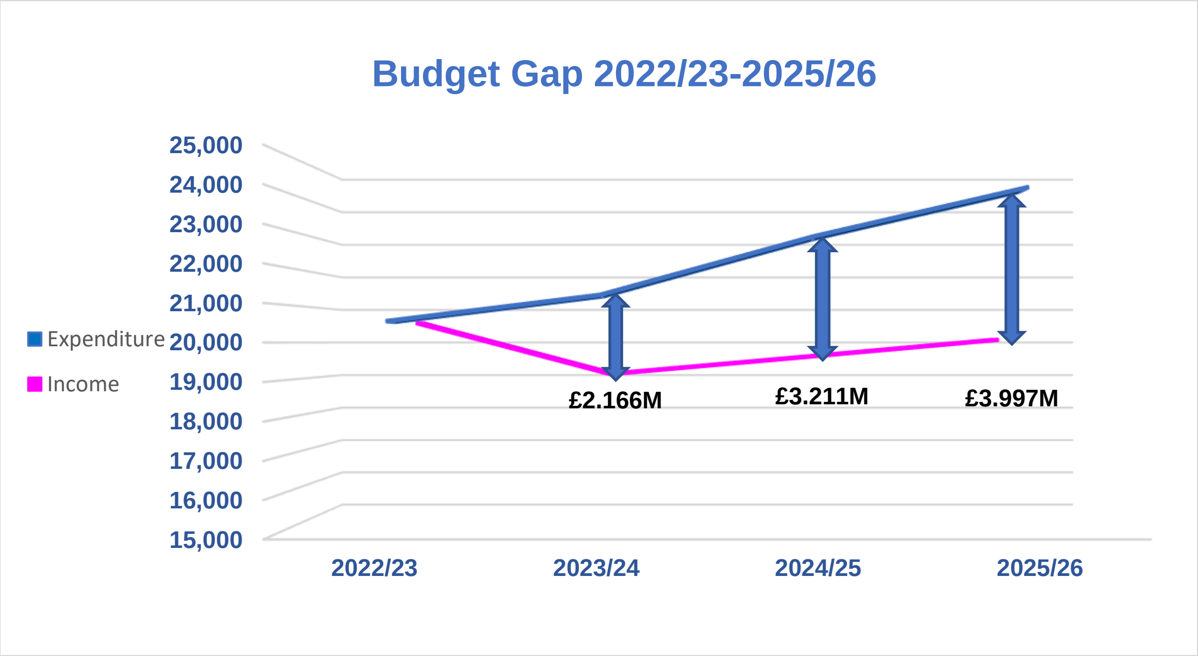


Table 14: Cumulative Deficit as Percentage of Revenue Budget

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Revenue Budget	21,254	21,943	23,479	24,766
Budget Gap (Incremental)	0	2,165	3,211	3,997
Budget Gap (Cumulative)	0	2,165	5,376	9,373
Percentage of Revenue Budget		**9.87%**	**22.90%**	**37.85%**

6.2 The forecast gaps are cumulative and structural in nature, meaning that the Council's forecast spending exceeds the income it expects to receive and this is compounded year on year. This position represents a significant challenge to the Council over the short and medium term. Re-iterating the commentary in the 07 December 2021 Cabinet report, *it is now imperative that a thorough and detailed review of our cost base is undertaken through application of Outcomes Based Resourcing (OBR), or other similar budget principles. This will have a particularly important part to play alongside the other pillars of the Funding the Future strategy in driving down budget gaps from 2023/24 and beyond and in realising financial sustainability.*

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

7.0 PROVISIONS, RESERVES AND BALANCES

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

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

7.3 By their nature reserves are finite and, within the existing statutory and regulatory framework, it is the responsibility of the s151 Officer to advise the Council about the level of reserves that it should hold and to ensure that there are clear protocols for their establishment and use. This assessment has been undertaken within the Budget and Policy Framework General Fund Revenue Budget 2022/23 item earlier on the agenda.

7.4 The Council's forecast level of reserves is impacted by historic as well as current decisions. The graph and Table 15 below provide details of our current forecast level of reserves including the impact of funding the forecast deficit from reserves.

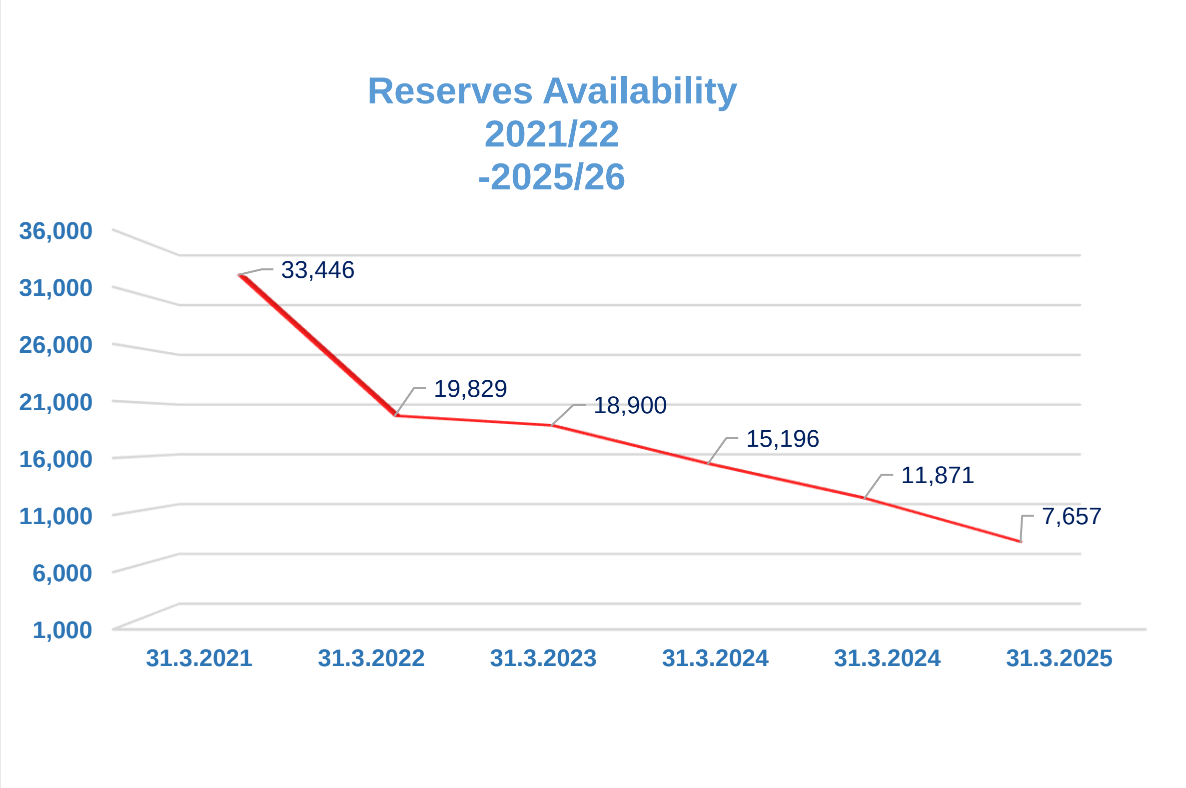


Table 15: Current Forecast Level of Reserves & Balances

	2021/22 £M	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M
Balance brought forward	(33.445)	(19.829)	(18.900)	(15.196)	(11.871)
Impact of 2022/23 budget decisions	0.000	(0.434)	0.743	0.316	0.216
Impact of previous decisions, covid & outturn	13.616	1.363	0.796	-0.202	0
Funding of Deficit	0	0	2.165	3.211	3.997
Balance carried forward	**(19.829)**	**(18.900)**	**(15.196)**	**(11.871)**	**(7.658)**

7.5 These forecasts include the Council's plans to use £6.7M of its reserves over the next 4 years to support feasibility work in respect of regeneration projects and housing, to finance some capital projects, to deliver the culture strategy and provide support to businesses and the vulnerable through the Covid 19 pandemic. A review into this level of commitment is currently on going as well as looking into all of the remaining planned allocations from Council reserves.

8.0 BALANCING THE BUDGET TO 2025/26

Realising the Funding the Future Strategy

8.1 In December 2018 Council adopted its Funding the Future Strategy (FtF) "a strategy for building financial resilience". The strategy consists of 4 elements or pillars which were intended to be taken together to address the underlying structural deficit.

8.2 Each element complemented the others and in combination were designed to lead to financial resilience.

<u>Investing for a Return, or to Reduce Costs</u>

8.3 In January 2019 Council approved a Property Investment Strategy which set out requirements and governance arrangements for the purchase of assets to deliver a positive contribution to the Council's budget. In November 2020, however, HM Treasury revised the rules governing the Council's access to PWLB borrowing to fund the acquisition of assets primarily for yield. Prior to this announcement the Council purchased assets totalling c£14M which are now delivering approximately £1M positive contribution to the Council's revenue budget.

8.4 CIPFA has recently sought views on a number of proposals which continue to further restrict the ability of Councils to undertake what it views as speculative investments using public funds. Recent proposals may make it a statutory requirement to set aside each year an amount to repay debt, known as Minimum Revenue Provision (MRP) on commercial assets.

8.5 Members can be assured that the s151 Officer and the finance team have already adopted an approach that has ensured that this Council is already fully compliant with the potential changes and will not see any adverse impact.

8.6 Further discussions on the impact of revisions to CIPFA's Prudential Code and its proposed introduction in 2023/24 are contained within the Council's Capital Strategy (Investing in the Future) discussed elsewhere on the agenda.

<u>Commercial Strategy</u>

8.7 This pillar sets out to improve internally delivered services and establish new delivery models such as:

- Contracts and partnerships with other public bodies, for example, shared service arrangements.
- Contracts and joint ventures with the private sector e.g., joint ventures, outsourcing, public-private partnerships.
- New public sector and non-public entities e.g., joint commissioning boards and companies limited by shares or guarantees.

8.8 The Council recently extended its joint operation of Revenues and Benefits with Preston City Council and currently operates a shared Corporate Fraud Team with Fylde and Preston City Council's. In order to deliver ICT leadership and technical capacity it recently entered into a sharing agreement with Blackpool Borough Council, and to ensure there is an Internal Audit function it recently contracted with Mersey Internal Audit Agency.

8.9 In March 2021 the Council established More Homes for the Bay its first Local Authority Trading Company (LATCo) which, as a separate legal entity, is afforded several strategic freedoms and options not currently available to the Council.

8.10 Currently the Council is developing a business case which will frame the LATCo's activities, its administrative and financing arrangements. These decisions require consideration and approval by its Directors, the Shareholder Committee. Once the business plan has been agreed financial modelling can start to be undertaken to assess the value of the operation to the Council.

Pursuit of Efficiency with Vigour

8.11 In order to improve the efficiency of operations a programme of "Lean Reviews" were intended to re-engineer activities in order to reduce costs and improve productivity. The most recent activity in this area has been the P2P project which has delivered significant operational and process savings both within Exchequer Services and out at service. The next phase is due for rollout before the end of the financial year, with the final phase concluded in 2022/23. Other areas where re-engineering has yielded efficiencies include Human Resources and Void Management. It still remains the intention that *all* key service processes will be subject to review over a three year period.

Outcomes Based Resourcing (OBR)

8.12 This initiative originally committed to in 2018 has been delayed and had been due to commence early in the 2020/21 financial year having been set back by the Covid 19 pandemic.

8.13 Its intention is to ensure that funds are allocated according to a set of predefined outcomes, or priorities using a zero-based approach rather than applying incremental uplifts to an existing set of services each year. This effectively ensures that funds are directed toward the Council's key ambitions and statutory functions and away from areas which contribute less or not at all against the predetermined objectives. OBR will represent a radical overhaul of the Council's budgeting, monitoring, and reporting methods. It will look to examine in detail how we deliver our services to achieve the Council's stated outcomes in the most effective manner, whilst realising savings to address the structural deficit.

8.14 Given that investment opportunities are now limited, this pillar of the strategy has grown in importance and will be required to appropriately target resources to key services whilst shrinking the budget gap. Given the size and complexity of the task and the need for objectivity the Council is looking to engage external consultants. Procurement of the 1st Phase has already taken place with 2nd Phase delivery due commence early 2022/23.

9.0 DETAILS OF CONSULTATION

9.1 As this paper is for noting only no formal consultation has been undertaken

10.0 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

10.1 The risks to the Council are contained throughout the report and as the report is for noting, no alternative proposals have been put forward.

11.0 CONCLUSION

11.1 There remain significant uncertainties in terms of Local Government funding over the next couple of years. These have been exacerbated by national circumstances such as COVID-19 and Brexit, but also by local issues around decommissioning plans for the Heysham power station. These have severely hampered the degree of confidence with which we can forecast with many key estimates and assumptions likely to change in the coming months. Despite the work to date to realise the Funding the Future Strategy the budget gap has remained.

11.2 It must be recognised that the overall size of the challenge the Council faces in addressing its underlying structural deficit is significant and the formulation of a balanced budget over the medium and longer term will require the delivery of considerable savings.

11.3 Continued focus on delivering the Funding the Future Strategy and the application of Outcomes Based Resourcing principles such as strategic prioritisation, service transformation and continuous improvement will play a significant part in achieving the level of savings required. ***The Council must recognise that it will face a number of key decisions over the next financial year which will affect the manner in which it delivers its services.***

RELATIONSHIP TO POLICY FRAMEWORK
The budget should represent, in financial terms, what the Council is seeking to achieve through its Policy Framework.

CONCLUSION OF IMPACT ASSESSMENT
(including Diversity, Human Rights, Community Safety, Sustainability etc)
No additional impact identified – any specific issues have been (or will be) considered as part of the relevant aspect of the policy framework or individual budget proposals, etc.

FINANCIAL IMPLICATIONS
The financial implications are as set out in the report

OTHER RESOURCE IMPLICATIONS
Human Resources / Information Services / Property / Open Spaces:
Various budget proposals have resource implications, and these have been taken account of in consideration of budget options as far as possible at this stage. Their implementation would be in accordance with council policies and procedures, as appropriate.

SECTION 151 OFFICER'S COMMENTS
The s151 Officer has authored this report

LEGAL IMPLICATIONS
Legal Services have been consulted and are content with the report but will consider further the development and implementation of relevant budget proposals in due course to ensure legal aspects are fully considered.

MONITORING OFFICER'S COMMENTS
The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS	**Contact Officer:** Paul Thompson
Cabinet Agenda for Cabinet on Tuesday, 8th February 2022, 6.00 p.m. - Lancaster City Council	**Telephone**: 01524 582603 **E-mail**: pthompson@lancaster.gov.uk

Agenda for Cabinet on Tuesday, 18th January 2022, 6.00 p.m. - Lancaster City Council Agenda for Cabinet on Tuesday, 7th December 2021, 6.00 p.m. - Lancaster City Council Council Agenda for Council on Wednesday, 15th December 2021, 6.00 p.m. - Lancaster City Council Agenda for Council on Wednesday, 26th January 2022, 6.00 p.m. - Lancaster City Council	

COUNCIL

Public Sector Audit Appointments
The Appointment of External Auditors from 2023/24 to 2027/28

23 February 2022

Report of Chief Finance Officer

PURPOSE OF REPORT
This report sets out proposals for appointing the external auditor to the Council for the accounts for the five-year period from 2023/24.
This report is Public

RECOMMENDATION

(1) That approval is given to opt into the Public Sector Audit Appointments arrangements for the appointment of External Auditors from 2023/24.

1.0 BACKGROUND

1.1 The Public Sector Audit Appointments Ltd (PSAA) currently manages the audit contracts originally set up by the Audit Commission and in July 2016, the Secretary of State for Communities and Local Government confirmed that the PSAA had been specified as an appointing person under the provisions of the Local Audit (Appointing Persons) Regulations 2015.

1.2 This allows the PSAA to make auditor appointments to local authorities that choose to opt into the national appointment arrangements. The deadline by which authorities will need to opt into the appointing person arrangements is midnight on 11 March 2022 to allow time for the procurement to commence immediately with auditor appointments due to be confirmed in December 2022.

1.3 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by Full Council. It is important that this issue is considered by Council at a meeting prior to this in order to meet the deadline.

2.0 SUMMARY

2..1 The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. The Council opted into the 'appointing person' national auditor appointment arrangements established by PSAA for the period covering the accounts for 2018/19 to 2022/23

2.2 PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. During Autumn 2021 all local government bodies need to make important decisions about their external audit arrangements from 2023/24. They have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by PSAA.

2.3 The report concludes that the sector-wide procurement conducted by PSAA will produce better outcomes and will be less burdensome for the Council/Authority than a procurement undertaken locally because:

- collective procurement reduces costs for the sector and for individual authorities compared to a multiplicity of smaller local procurements;

- if it does not use the national appointment arrangements, the Council/Authority will need to establish its own auditor panel with an independent chair and independent members to oversee a local auditor procurement and ongoing management of an audit contract;

- it is the best opportunity to secure the appointment of a qualified, registered auditor - there are only nine accredited local audit firms, and a local procurement would be drawing from the same limited supply of auditor resources as PSAA's national procurement; and

- supporting the sector-led body offers the best way of to ensuring there is a continuing and sustainable public audit market into the medium and long term.

3.0 KEY ISSUES

Procurement of External Audit for the period 2023/24 to 2027/28

3.1 Under the Local Government Audit & Accountability Act 2014 ("the Act"), the council is required to appoint an auditor to audit its accounts for each financial year. The council has three options;

- To appoint its own auditor, which requires it to follow the procedure set out in the Act.
- To act jointly with other authorities to procure an auditor following the procedures in the Act.
- To opt in to the national auditor appointment scheme administered by a body designated by the Secretary of State as the 'appointing person'. The body currently designated for this role is Public Sector Audit Appointments Limited (PSAA).

3.2 In order to opt into the national scheme, a council must make a decision at a meeting of the Full Council.

The Appointed Auditor

3.3 The auditor appointed at the end of the procurement process will undertake the statutory audit of accounts and Best Value assessment of the council in each financial year, in accordance with all relevant codes of practice and guidance. The appointed auditor is also responsible for investigating questions raised by electors and has powers and responsibilities in relation to Public Interest Reports and statutory recommendations.

3.4 The auditor must act independently of the council and the main purpose of the procurement legislation is to ensure that the appointed auditor is sufficiently qualified and independent. The Auditor must be registered to undertake local audits by the Financial Reporting Council (FRC) employ authorised Key Audit Partners to oversee the work. As the report below sets out there is a currently a shortage of registered firms and Key Audit Partners

3.5 Auditors are regulated by the FRC, which will be replaced by a new body with wider powers, the Audit, Reporting and Governance Authority (ARGA) during the course of the next audit contract.

3.6 Councils therefore have very limited influence over the nature of the audit services they are procuring, the nature and quality of which are determined or overseen by third parties.

Appointment by the Council itself or jointly

3.7 The Council may elect to appoint its own External Auditor under the Act, which would require the Council to:-

- Establish an independent auditor panel to make a stand-alone appointment. The auditor panel would need to be set up by the Council itself, and the members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, excluding current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing to which audit firm to award a contract for the Council/Authority's external audit;

- Manage the contract for its duration, overseen by the Auditor Panel.

3.8 Alternatively, the Act enables the Council to join with other authorities to establish a joint auditor panel. Again, this will need to be constituted of wholly or a majority of independent appointees. Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.

The National Auditor Appointment Scheme

3.9 PSAA is specified as the 'appointing person' for principal local government under the provisions of the Act and the Local Audit (Appointing Person) Regulations 2015. PSAA let five-year audit services contracts in 2017 for the first appointing period, covering audits of the accounts from 2018/19 to 2022/23. It is now undertaking the work needed to invite eligible bodies to opt in for the next appointing period, from the 2023/24 audit onwards, and to complete a procurement for audit services. PSAA is a not-for-profit organisation whose costs are around 4% of the scheme with any surplus distributed back to scheme members.

3.10 In summary the national opt-in scheme provides the following:

- the appointment of a suitably qualified audit firm to conduct audits for each of the five financial years commencing 1 April 2023;
- appointing the same auditor to other opted-in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints;
- managing the procurement process to ensure both quality and price criteria are satisfied. PSAA has sought views from the sector to help inform its detailed procurement strategy;
- ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise during the appointment period;
- minimising the scheme management costs and returning any surpluses to scheme members;
- consulting with authorities on auditor appointments, giving the Council/Authority the opportunity to influence which auditor is appointed;
- consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity, and audit risk; and
- ongoing contract and performance management of the contracts once these have been let.

Pressures in the current local audit market and delays in issuing opinions

3.11 Much has changed in the local audit market since audit contracts were last awarded in 2017. At that time the audit market was relatively stable, there had been few changes in audit requirements, and local audit fees had been reducing over a long period. As indicated above, 98% of those bodies eligible opted into the national scheme and attracted very competitive bids from audit firms. The resulting audit contracts took effect from 1 April 2018.

3.12 During 2018 a series of financial crises and failures in the private sector year led to questioning about the role of auditors and the focus and value of their work. Four independent reviews were commissioned by Government: Sir John Kingman's review of the Financial Reporting Council (FRC), the audit regulator; the Competition and Markets Authority review of the audit market; Sir Donald Brydon's review of the quality and effectiveness of audit; and Sir Tony Redmond's review of local authority financial reporting and external audit. The recommendations are now under consideration by Government, with the clear implication that significant reforms will follow. A new audit regulator (ARGA) is to be established, and arrangements for system leadership in local audit are to be introduced. Further change will follow as other recommendations are implemented.

3.13 The Kingman review has led to an urgent drive for the FRC to deliver rapid, measurable improvements in audit quality. This has created a major pressure for audit firms to ensure full compliance with regulatory requirements and expectations in every audit they undertake. By the time firms were conducting 2018/19 local audits during 2019, the measures they were putting in place to respond to a more focused regulator were clearly visible. To deliver the necessary improvements in audit quality, firms were requiring their audit teams to undertake additional work to gain deeper levels of assurance. However, additional work requires more time, posing a threat to the firms' ability to complete all their audits by the target date for publication of audited accounts. Delayed opinions are not the only consequence of the FRC's drive to improve audit quality. Additional audit work must also be paid for. As a result, many more fee variation claims have been needed than in prior years.

3.14 This situation has been accentuated by growing auditor recruitment and retention challenges, the complexity of local government financial statements and increasing levels of technical challenges as bodies explore innovative ways of developing new or enhanced income streams to help fund services for local people. These challenges have increased in subsequent audit years, with Covid-19 creating further significant pressure for finance and audit teams.

3.15 None of these problems is unique to local government audit. Similar challenges have played out in other sectors, where increased fees and disappointing responses to tender invitations have been experienced during the past two years.

The Invitation

3.16 PSAA is now inviting the Council to opt in for the second appointing period, for 2023/24 to 2027/28, along with all other eligible authorities. Based on the level of opt-ins it will enter into contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council's/Authority's auditor. A copy of the invitation is at ***Appendix A***.

The next audit procurement

3.17 The prices submitted by bidders through the procurement will be the key determinant of the value of audit fees paid by opted-in bodies. PSAA will:

- seek to encourage realistic fee levels and to benefit from the economies of scale associated with procuring on behalf of a significant number of bodies;
- continue to pool scheme costs and charge fees to opted-in bodies in accordance with the published fee scale as amended following consultations with scheme members and other interested parties (pooling means that everyone within the scheme will benefit from the prices secured via a competitive procurement process – a key tenet of the national collective scheme);
- continue to minimise its own costs, around 4% of scheme costs, and as a not-for-profit company will return any surplus funds to scheme members. In 2019 it returned a total £3.5million to relevant bodies and in 2021 a further £5.6million was returned.

3.18 PSAA will seek to encourage market sustainability in its procurement. Firms will be able to bid for a variety of differently sized contracts so that they can match their available resources and risk appetite to the contract for which they bid. They will be required to meet appropriate quality standards and to reflect realistic market prices in their tenders, informed by the scale fees and the supporting information provided about each audit. Where regulatory changes are in train which affect the amount of audit work suppliers must undertake, firms will be informed as to which developments should be priced into their bids.

3.19 The scope of a local audit is fixed. It is determined by the Code of Audit Practice (currently published by the National Audit Office), the format of the financial statements (specified by CIPFA/LASAAC) and the application of auditing standards regulated by the FRC. These factors apply to all local audits irrespective of whether an eligible body decides to opt into PSAA's national scheme or chooses to make its own separate arrangements. The requirements are mandatory; they shape the work auditors undertake and have a bearing on the actual fees required.

3.20 There are currently nine audit providers eligible to audit local authorities and other relevant bodies under local audit legislation. This means that a local procurement exercise would seek tenders from the same firms as the national procurement exercise, subject to the need to manage any local independence issues. Local firms cannot be invited to bid. Local procurements must deliver the same audit scope and requirements as a national procurement, reflecting the auditor's statutory responsibilities.

Assessment of options and officer recommendation

3.21 If the Council did not opt in there would be a need to establish an independent Auditor Panel to make a stand-alone appointment. The Auditor Panel would need to be set up by the Council itself, and the members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, excluding current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing to which audit firm to award a contract for the Council's external audit.

3.22 Alternatively, the Act enables the Council to join with other authorities to establish a joint Auditor Panel. Again, this will need to be constituted of wholly or a majority of independent appointees. Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.

3.23 These would be more resource-intensive processes to implement for the Council, and without the bulk buying power of the sector-led procurement may result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process. As set out above, the Council is unable to influence the scope of the audit and the regulatory regime inhibits the council's ability to affect quality.

3.24 The Council and its Auditor Panel would need to maintain ongoing oversight of the contract. Local contract management cannot, however, influence the scope or delivery of an audit.

3.25 The national offer provides the appointment of an independent auditor with limited administrative cost to the council. By joining the scheme, the Council would be acting with other councils to optimise the opportunity to influence the market that a national procurement provides.

3.26 It should be noted that the Chief Finance Officer has sought views from neighbouring Councils and the majority have either or are likely to opt-in to the PSAA national auditor appointment scheme. In light of this and for the reasons set out throughout this report, Council is recommended to opt into the national auditor appointment scheme.

4.0 THE WAY FORWARD

4.1 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a meeting of the Council.

4.2 Subject to the Councils agreement, we need to respond formally to PSAA's invitation in the form specified by PSAA by the close of the opt-in period (11 March 2022).

4.3 PSAA will commence the formal procurement process in early 2022 and expects to award contracts in August 2022 and will then consult with authorities on the appointment of auditors so that it can make appointments by the statutory deadline of 31 December 2022.

5.0 DETAILS OF CONSULTATION

5.1 The Chief Finance Officer has sought views from neighbouring Northwest Councils and despite initial interest the majority have either or are likely to opt-in to the PSAA.

5.2 The views have been sought from Audit Committee members who support the recommendation to opt into the PSAA arrangements

6.0 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

6.1 The Council has 2 options to consider, it can either accept the CFO's recommendation to opt into the PSAA procurement framework and the benefits defined within the report, or it can choose to opt out.

6.2 The principal risks of opting out are that the Council

- fails to appoint an auditor in accordance with the requirements and timing specified in local audit legislation; or
- does not achieve value for money in the appointment process.

6.3 These risks are considered best mitigated by opting into the sector-led approach through PSAA as recommended by the CFO.

<u>**Appendix**</u>

Appendix A: Lancaster City Council invitation

RELATIONSHIP TO POLICY FRAMEWORK

The budget should represent, in financial terms, what the Council is seeking to achieve through its Policy Framework.

CONCLUSION OF IMPACT ASSESSMENT
(including Diversity, Human Rights, Community Safety, Sustainability etc.)

None directly arising in terms of the corporate nature of this report – any implications would be as a result of specific decisions on budget proposals affecting service delivery, etc**.**

LEGAL IMPLICATIONS

Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including that the Council must consult and take account of the advice of its Auditor Panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant Council is a local Council operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the Council under those arrangements. Section 12 makes provision for the failure to appoint a local auditor. The Council must immediately inform the Secretary of State, who may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.
Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a sector-led body to become the appointing person. In July 2016 the Secretary of State specified PSAA as the appointing person.

FINANCIAL IMPLICATIONS

There is a risk that current external audit fee levels could increase when the current contracts end. It is clear that the scope of audit has increased, requiring more audit work. There are also concerns about capacity and sustainability in the local audit market.

Opting into a national scheme provides maximum opportunity to ensure fees are as realistic as possible, while ensuring the quality of audit is maintained, by entering into a large scale collective procurement arrangement. The Council has included an additional £20K per year within its budget to allow for expected increase in audit fees.

If the national scheme is not used some additional resource may be needed to establish an auditor panel and conduct a local procurement. Until a procurement exercise is completed it is not possible to state what, if any, additional resource may be required for audit fees from 2023/24.

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has authored his report in his capacity as Chief Finance Officer

MONITORING OFFICER'S COMMENTS

The recommendation in this report is made further to advice from the Monitoring Officer.

BACKGROUND PAPERS Audit Committee 24th November 2021 Agenda for Audit Committee on Wednesday, 24th November 2021, 6.10 p.m. - Lancaster City Council	**Contact Officer:** Paul Thompson **Telephone**: 01524 582603 **E-mail**: pthompson@lancaster.gov.uk

22 September 2021

To: Mr Keane, Chief Executive
Lancaster City Council

Copied to: Mr Thompson, S151 Officer
Mr Stubbins, Chair of Audit Committee or equivilent

Dear Mr Keane,

Invitation to opt into the national scheme for auditor appointments from April 2023

I want to ensure that you are aware the external auditor for the audit of your accounts for 2023/24 has to be appointed before the end of December 2022. That may seem a long way away but, as your organisation has a choice about how to make that appointment, your decision-making process needs to begin soon.

We are pleased that the Secretary of State has confirmed PSAA in the role of the appointing person for eligible principal bodies for the period commencing April 2023. Joining PSAA's national scheme for auditor appointments is one of the choices available to your organisation.

In June 2021 we issued a draft prospectus and invited your views and comments on our early thinking on the development of the national scheme for the next period. Feedback from the sector has been extremely helpful and has enabled us to refine our proposals which are now set out in the scheme prospectus and our procurement strategy. Both documents can be downloaded from our website which also contains a range of useful information that you may find helpful.

The national scheme timetable for appointing auditors from 2023/24 means we now need to issue a formal invitation to you to opt into these arrangements. In order to meet the requirements of the relevant regulations, we also attach a form of acceptance of our invitation which you must use if your organisation decides to join the national scheme. We have specified the five consecutive financial years beginning 1 April 2023 as the compulsory appointing period for the purposes of the regulations which govern the national scheme.

Given the very challenging local audit market, we believe that eligible bodies will be best served by opting to join the scheme and have attached a short summary of why we believe that is the best solution both for individual bodies and the sector as a whole.

I would like to highlight three matters to you:

1. if you opt to join the national scheme, we need to receive your formal acceptance of this invitation by Friday 11 March 2022;

2. the relevant regulations require that, except for a body that is a corporation sole (e.g. a police and crime commissioner), the decision to accept our invitation and to opt in must be made by the members of the authority meeting as a whole e.g. Full Council or equivalent. We appreciate this will need to be built into your decision-making timetable. We have deliberately set a generous timescale for bodies to make opt in decisions (24 weeks compared to the statutory minimum of 8 weeks) to ensure that all eligible bodies have sufficient time to comply with this requirement; and

3. if you decide not to accept the invitation to opt in by the closing date, you may subsequently make a request to opt in, but only after 1 April 2023. We are required to consider such requests and agree to them unless there are reasonable grounds for their refusal. PSAA must consider a request as the appointing person in accordance with the Regulations. The Regulations allow us to recover our reasonable costs for making arrangements to appoint a local auditor in these circumstances, for example if we need to embark on a further procurement or enter into further discussions with our contracted firms.

If you have any other questions not covered by our information, do not hesitate to contact us by email at ap2@psaa.co.uk. We also publish answers to frequently asked questions on our website.

If you would like to discuss a particular issue with us, please send an email also to ap2@psaa.co.uk, and we will respond to you.

Yours sincerely

Tony Crawley
Chief Executive

Encl: Summary of the national scheme

Why accepting the national scheme opt-in invitation is the best solution

Public Sector Audit Appointments Limited (PSAA)

We are a not-for-profit, independent company limited by guarantee incorporated by the Local Government Association in August 2014.

We have the support of the LGA, which in 2014 worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national body.

We have the support of Government; MHCLG's Spring statement confirmed our appointment because of our "strong technical expertise and the proactive work they have done to help to identify improvements that can be made to the process".

We are an active member of the new Local Audit Liaison Committee, chaired by MHCLG and attended by key local audit stakeholders, enabling us to feed in body and audit perspectives to decisions about changes to the local audit framework, and the need to address timeliness through actions across the system.

We conduct research to raise awareness of local audit issues, and work with MHCLG and other stakeholders to enable changes arising from Sir Tony Redmond's review, such as more flexible fee setting and a timelier basis to set scale fees.

We have established an advisory panel, which meets three times per year. Its membership is drawn from relevant representative groups of local government and police bodies, to act as a sounding board for our scheme and to enable us to hear your views on the design and operation of the scheme.

The national scheme for appointing local auditors

In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. Acting in accordance with this role PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme. 98% of eligible bodies made the choice to opt-in for the five-year period commencing in April 2018.

We will appoint an auditor for all opted-in bodies for each of the five financial years beginning from 1 April 2023.

We aim for all opted-in bodies to receive an audit service of the required quality at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local audit. The focus of our quality assessment will include resourcing capacity and capability including sector knowledge, and client relationship management and communication.

What the appointing person scheme from 2023 will offer

We believe that a sector-led, collaborative, national scheme stands out as the best option for all eligible bodies, offering the best value for money and assuring the independence of the auditor appointment.

The national scheme from 2023 will build on the range of benefits already available for members:

- transparent and independent auditor appointment via a third party;
- the best opportunity to secure the appointment of a qualified, registered auditor;
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives, if the parties believe that it will enhance efficiency;
- on-going management of any independence issues which may arise;
- access to a specialist PSAA team with significant experience of working within the context of the relevant regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees;
- a value for money offer based on minimising PSAA costs and distribution of any surpluses to scheme members - in 2019 we returned a total £3.5million to relevant bodies and more recently we announced a further distribution of £5.6m in August 2021;
- collective efficiency savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements;
- avoids the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities;
- updates from PSAA to Section 151 officers and Audit Committee Chairs on a range of local audit related matters to inform and support effective auditor-audited body relationships; and
- concerted efforts to work with other stakeholders to develop a more sustainable local audit market.

We are committed to keep developing our scheme, taking into account feedback from scheme members, suppliers and other stakeholders, and learning from the collective post-2018 experience. This work is ongoing, and we have taken a number of initiatives to improve the operation of the scheme for the benefit of all parties.

Importantly we have listened to your feedback to our recent consultation, and our response is reflected in the scheme prospectus.

Opting in

The closing date for opting in is 11 March 2022. We have allowed more than the minimum eight-week notice period required, because the formal approval process for most eligible bodies is a decision made by the members of the authority meeting as a whole [Full Council or equivalent], except police and crime commissioners who are able to make their own decision.

We will confirm receipt of all opt-in notices. A full list of eligible bodies that opt in will be published on our website. Once we have received an opt-in notice, we will write to you to request information on any joint working arrangements relevant to your auditor appointment, and any potential independence matters which may need to be taken into consideration when appointing your auditor.

Local Government Reorganisation

We are aware that reorganisations in the local government areas of Cumbria, Somerset, and North Yorkshire were announced in July 2021. Subject to parliamentary approval shadow elections will take place in May 2022 for the new Councils to become established from 1 April 2023. Newly established local government bodies have the right to opt into PSAA's scheme under Regulation 10 of the Appointing Person Regulations 2015. These Regulations also set out that a local government body that ceases to exist is automatically removed from the scheme.

If for any reason there is any uncertainty that reorganisations will take place or meet the current timetable, we would suggest that the current eligible bodies confirm their acceptance to opt in to avoid the requirement to have to make local arrangements should the reorganisation be delayed.

Next Steps

We expect to formally commence the procurement of audit services in early February 2022. At that time our procurement documentation will be available for opted-in bodies to view through our e-tendering platform.

Our recent webinars to support our consultation proved to be popular, and we will be running a series of webinars covering specific areas of our work and our progress to prepare for the second appointing period. Details can be found on our website and in the scheme prospectus.

COUNCIL

Allocation of Seats to Political Groups
23 February 2022

Report of the Head of Democratic Services

PURPOSE OF REPORT
To advise Council of the calculations relating to the allocation of seats in accordance with the Local Government and Housing Act 1989 following a change to the political composition of the Council.
This report is public.

RECOMMENDATIONS

1) That in accordance with Section 15 of the Local Government and Housing Act, 1989 and Part 4 of the Local Government (Committees and Political Groups) Regulations, 1990, the City Council approves the calculations and allocation of seats set out in this report, including the adjustment set out in the table in 2.2 and paragraph 2.3.

1.0 Introduction

1.1 A calculation of political composition is undertaken at each annual Council meeting to determine the political balance on the Council's committees. This was done at the Council meeting on 17 May 2021. A recalculation was approved at the December 2021 Council meeting following by-elections held in late November and early December last year. It is a requirement that re-calculations are made as and when the political make-up of the Council changes.

1.2 On 26 January 2022, Councillor Goodwin rejoined the Morecambe Bay Independents group, ceasing to be non-aligned. A recalculation is therefore necessary.

2.0 Change in Composition of the Council

2.1 The make-up of the Council is now:

Labour	16
Conservatives	11
Green	10
Morecambe Bay Independents (MBI)	10
Independent Group	5
Eco-Socialist Independents	4
Liberal Democrats	4
	60

2.2 As stated above, the calculation was last undertaken on 15 December 2021. The table below shows the changes required across all 78 committee seats based upon the revised political composition of the Council.

	December 2021	February 2022	Change
Labour	21	20.8000	-
Conservatives	15	14.3000	-1
Green	13	13.0000	-
MBI	12	13.0000	+1
Independent Group	7	6.5000	-
Eco-Socialist Inde	5	5.2000	-
Liberal Democrats	5	5.2000	-
	(78)	**(78)**	

2.3 The figures for December were based on a pro rata share of 78 seats across 59 councillors using roundings (at that time Councillor Goodwin was a non-aligned Councillor not included in the grouping calculation). Now that the MBI group has increased, that group gains one seat overall (from the Conservative group). The Conservative group has indicated that it will pass across Councillor Gardiner's seat on the Appeals Committee.

3.0 Political Balance on Committees

3.1 If political balance was calculated separately on each committee the figure would be as set out below for each size of committee:-

3.2 <u>15 Member Committee (Planning Regulatory)</u>

Labour	4.0000	(4)
Conservative	2.7500	(3)
Green	2.5000	(2.5)
MBI	2.5000	(2.5)
Independent Group	1.2500	(1)
Eco-Socialist Independents	1.0000	(1)
Liberal Democrats	1.0000	(1)

<u>10 Member Committee (Licensing)</u>

Labour	2.6667	(2.6) (joint lowest residual)*
Conservative	1.8333	(2)
Green	1.6667	(1.6) (joint lowest residual)*
MBI	1.6667	(1.6) (joint lowest residual)*
Independent Group	0.8333	(1)
Eco-Socialist Independents	0.6667	(0.6) (joint lowest residual)*
Liberal Democrats	0.6667	(0.6) (joint lowest residual)*

*For this committee there would be a five-way tie.

<u>9 Member Committees x 2 (Overview and Scrutiny, Budget and Performance)</u>

Labour	2.4000	(2)
Conservative	1.6500	(2)
Green	1.5000	(1) (lowest residual, rounded down)
MBI	1.5000	(1) (lowest residual, rounded down)
Independent Group	0.7500	(1)

Eco-Socialist Independents	0.6000	(1)
Liberal Democrats	0.6000	(1)

7 Member Committees x 5 (Personnel, Audit, CBC, Appeals, Standards)

Labour	1.8667	(2)
Conservative	1.2833	(1)
Green	1.1667	(1)
MBI	1.1667	(1)
Independent Group	0.5833	(1)
Eco-Socialist Independents	0.4667	(0.5)
Liberal Democrats	0.4667	(0.5)

3.3 Based on these calculations, which use roundings on each committee where possible, this would give an overall total out of the 78 seats of:-

Labour	20.6
Conservative	14
Green	11.1
MBI	11.1
Independent Group	9
Eco-Socialist Independents	6.1
Liberal Democrats	6.1
	78.00

3.4 However, the calculation of the 78 committee places on all standing committees **must** be undertaken using rules A-E, set out in s. 15(5) of the Local Government and Housing Act 1989. Those rules are explained in ***Appendix A*** and the aggregate calculation is as shown on the table at 2.2 under the column “February 2022”. The necessary adjustment is shown in the highlighted right-hand column of that same table.

4.0 Chief Executive Recruitment Committee

4.1 The Chief Executive Recruitment Committee is a nine-member body, calculated separately, on political balance. When the figures are rounded up, it would result in 11 places, therefore the groups with the lowest residual have been rounded down to give 9 places as shown below:

Labour	2.4000	(2)
Conservative	1.6500	(2)
Green	1.5000	(1) (lowest residual, rounded down)
MBI	1.5000	(1) (lowest residual, rounded down)
Independent Group	0.7500	(1)
Eco-Socialist Independents	0.6000	(1)
Liberal Democrats	0.6000	(1)

Currently the Committee comprises 2 Labour, 2 Conservative, 1 Green, 1 MBI, 1 Independent Group, 1 Eco-Socialist and 1 Liberal Democrat and this will remain unchanged.

5.0 Conclusion

5.1 Members are requested to agree the new calculation so that the appropriate adjustments can be made following a change to the political composition of the Council.

CONCLUSION OF IMPACT ASSESSMENT
(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

There are no direct implications as a result of this report.

FINANCIAL IMPLICATIONS

There are no financial implications as a direct result of this report.

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has been consulted and has no comments

LEGAL IMPLICATIONS

This report has been prepared in accordance with the provisions of Section 15 of the Local Government and Housing Act, 1989 and Part 4 of the Local Government (Committees and Political Groups) Regulations 1990.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no comments

BACKGROUND PAPERS	**Contact Officer:** Debbie Chambers **Telephone:** 01524 582057 **E-mail:** dchambers@lancaster.gov.uk

Appendix A

THE RULES

The main rules are set out in s. 15(5) LGHA, and they are to be applied sequentially. So Rule B cannot override Rule A; Rule C cannot override Rules A and B; and Rule D cannot override Rules A, B or C. An additional rule is set out in s. 16.

Rule A: all the seats on a committee or sub-committee may not be allocated to members of the same political Group. Note that this does not require that each political Group needs to represented on each committee or sub-committee.

Rule B: where a majority of the members of Council are members of the same political Group, a majority of the seats on each committee and sub-committee must be allocated to that political Group. So, where there is a majority Group, it must be allocated a minimum of 2 seats on each committee or sub-committee of 3 members, 3 seats on each committee or sub-committee of 4 members, and so on. This means that, where a political Group enjoys a narrow majority on Council, that majority Group will be allocated significantly more seats than would result from simple proportionality. Incidentally, the combination of Rules A and B reinforce the point that the minimum size of a committee or sub-committee ought to be 3.

Rule C: deals with the aggregate of seats on all committees, taken together. [It does not apply to sub-committees, joint committees or outside bodies (see later)]. It provides that, subject to Rules A and B, the relationship between the total number of committee seats allocated to each Group and the total number of seats on all committees must, as near as possible, be the same as the relationship between the number of members of the Group as a proportion of the total number of members of Council. This is subject to Rules A and B.

Rule D: Having worked out how many committee seats are to be allocated to each political Group, Rule D then determines which committees those seats relate to. Rule D now says that, taking each committee separately, the seats on that committee must allocated as close to proportionately as possible, without offending Rules A, B or C

There is also a "**Rule E**", inserted into s.16 by reg. 16(3), which provides that, where appointments to seats are to be made other than in accordance with Rules A to D (i.e. to seats which are not allocated to a political Group) then the Council or the committee must appoint members to those seats who are not members of a political Group. The exact wording is:

“(2A) Where appointments fall to be made to seats on a body to which section 15 applies otherwise than in accordance with a determination under that section, it shall be the duty of the authority or the committee, as the case may be, so to exercise their power to make appointments as to secure that the persons appointed to those seats are not members of any political Group.”

CABINET

6.00 P.M. **18TH JANUARY 2022**

PRESENT:- Councillors Caroline Jackson (Chair), Kevin Frea (Vice-Chair), Dave Brookes, Gina Dowding, Tim Hamilton-Cox, Tricia Heath, Erica Lewis, Cary Matthews, Sandra Thornberry and Anne Whitehead

Officers in attendance:

Kieran Keane	Chief Executive
Mark Davies	Director for Communities and the Environment
Jason Syers	Director for Economic Growth and Regeneration
Luke Gorst	Head of Legal Services and Monitoring Officer
Paul Thompson	Chief Financial Officer (Head of Finance & Section 151 Officer)
Mark Cassidy	Head of Planning and Place
Maurice Brophy	Planning and Housing Policy Manager (minute 63)
Diane Neville	Senior Planning Officer (Policy) (minute 63)
Liz Bateson	Principal Democratic Support Officer, Democratic Services

59 MINUTES

The minutes of the meeting held on Tuesday 7 December 2021 were approved as a correct record.

60 ITEMS OF URGENT BUSINESS AUTHORISED BY THE LEADER

The Chair advised that there were no items of urgent business.

61 DECLARATIONS OF INTEREST

No declarations were made at this point.

62 PUBLIC SPEAKING

Members were advised that there had been no requests to speak at the meeting in accordance with Cabinet’s agreed procedure.

63 ADVANCING THE CLIMATE EMERGENCY LOCAL PLAN REVIEW

Cabinet Member with Special Responsibility Councillor Dowding)

Cabinet received a report from the Director for Economic Growth & Regeneration that set out progress on the preparation of the Climate Emergency Review of the Local Plan (CELPR) following consultation on updated versions of both the Strategic Policies & Land Allocations Development Plan Document (DPD) and Development Management DPD in 2021 under Regulation 18 of the Town and Country Planning (Local Planning) (England) Regulations 2012. The report sought the support of Cabinet for the revisions made to the both the Strategic Policies & Land Allocations DPD and Development

Management DPD in response to the Regulation 18 consultation and additional evidence. Cabinet was asked to support the intention to seek a resolution from Council to formally publish both DPDs and then submit the documents, the representations received and all supporting evidence to the Secretary of State under Regulations 19 and 22 of the Town and Country Planning (Local Planning) (England) Regulations 2012.

The options, options analysis, including risk assessment and officer preferred option, were set out in the report as follows:

Option 1: That Cabinet Members support the intention to take the CELPR to Council, anticipated on 26th January 2022, with a recommendation seeking a resolution to publish the CELPR, obtain formal representations and then submit the documents to the government for independent Examination. This will ensure the relevant regulations are followed and will enable stakeholders to make their views on soundness of the plan and its preparation process. The submitted documents will then be considered by a government appointed Inspector.
Advantages: The Publication and Submission of the CELPR are essential stages in advancing the Council's ambitions to review it adopted Local Plan to better address the Climate Emergency. The Council's Local Development Scheme (LDS) provides the intended timetable for advancing the plan through these stages. The proposed revision of the plan is supported by evidence documents, on matters such as development viability, that are time-sensitive; delaying publication and submission would affect the applicability and relevance of evidence documents. The CELPR will strengthen policies in a way that can realise better outcomes from development on Climate Change mitigation and adaptation.
Disadvantages: None
Risks: The Inspector at independent Examination may conclude that the CELPR could have benefited from further work prior to submission.
Option 2: That Cabinet Members do not support the intention to take the CELPR to Council, anticipated on 26th January 2022, with a recommendation seeking a resolution to publish the CELPR, obtain formal representations and then submit the documents to the government for independent Examination.
Advantages: Further time could be spent on continuing to prepare policies before publication and submission.
Disadvantages: Delay to the CELPR processes will increase the time that passes until its potential formal adoption. It is only upon formal adoption that the revised policies will form the development plan that is used in the determination of development proposals. Delay in plan preparation would mean a delay in realising better outcomes from development on Climate Change mitigation and adaptation that would assist in helping to address the environmental concerns that motivated the Council's declaration of a Climate Emergency.

The Council's Local Development Scheme (LDS) provides the intended timetable for advancing the plan through these stages and it is not apparent why the Council would not wish to keep to this published timetable given the resources that have been deployed to enable a prompt review of the adopted plan. The proposed revision of the plan is supported by evidence documents, on matters such as development viability, that are time-sensitive; delaying publication and submission would affect the applicability and relevance of these documents.

Risks: Delay in preparation increases the risk of the evidence being considered no longer up to date during the Examination of the submitted Local Plan.

Option 1 is the officer preferred option. The intended publication editions of the CELPR documents are now sufficiently advanced to be formally published and submitted. Officers recommend members moving the CELPR forward to Council for a formal decision on publishing and submitting the documents in accordance with regulatory processes.

Officers are sufficiently content that the challenges which have been raised at the earlier stages have either been addressed through revisions to both DPDs and that these do not warrant sufficient justification for further amendments to be made.

Whilst the publication version of the CELPR represents the Council's intended definitive version of both DPDs, the publication process will provide the opportunity for any parties who do not consider its content to sound (i.e. not consistent with national planning policy) or legally compliant (i.e. has not met the legal requirements of plan-making) to make formal representations setting out their concerns. Those representations will be considered by the Planning Inspector through the public examination process.

Councillor Dowding proposed, seconded by Councillor Frea:-

"That the recommendation, as set out in the report, be approved."

Councillors then voted:-

Resolved unanimously:

(1) That Cabinet endorses the content of the Climate Emergency Local Plan Review DPDs and the process of onward reporting to Council to seek a formal decision on a recommendation to publish and submit the revised document to government. Publication will enable formal representations to be received, and subsequently submitted to the government, along with the revised DPDs and supporting evidence. This will ensure that in accordance with the relevant regulations, the representations of the community and stakeholders about the soundness of the revised DPDs and the preparation process can be considered by a government appointed Inspector through an independent Examination.

Officer responsible for effecting the decision:

Director for Economic Growth & Regeneration

Reasons for making the decision:

The purpose of the CELPR is to ensure greater alignment with the Council's ambitions around Climate Change in recognition of the Council's Climate Emergency Declaration of January 2019. The CELPR seeks to strengthen the Council's planning policies with the aim of securing better outcomes from built development for climate change mitigation and adaptation. Improved outcomes from development will support the prospect of the Council achieving its wider objectives on climate change including the target of being Net Zero by 2030. The CELPR will assist in the delivery of many of the Council's other corporate priorities, including the creation of a more sustainable district, the provision of an inclusive and prosperous local economy and support for developing healthy and happy communities.

Policy making is a function of full Council. The decision enables a recommendation to publish and submit the Climate Emergency Local Plan Review Development Plan Documents to be presented at January Council with Cabinet's endorsement.

64 CORPORATE FEES & CHARGES REVIEW 2022/23

Cabinet Member with Special Responsibility Councillor Whitehead)

Cabinet received a report from the Chief Finance Officer in order that Members could endorse the Fees and Charges report for 2022/23 and consider a range of charging options as deemed appropriate to the service area.

The options, options analysis, including risk assessment and officer preferred option, were set out in the report as follows:

The policy attached to the report remains substantively unchanged and it is considered that it remains fit for purpose (at least in the short term) and it adequately covers Cabinet's budget proposals. As such, no options are presented and Cabinet is simply requested to endorse the policy, with a review being undertaken next year.

With regard to charges in general, inflation has been applied and the impact has been fed into the draft general fund budget for 2022/23. Should Members wish to apply inflation, further work to determine charging levels would need to take place and be fed into the budget setting process as appropriate.

With regard to other specific considerations, these have been fed into the draft revenue budget where appropriate and will seek to update the net financial position when agreed as part of the budget setting process.

The introduction of the new regeneration and planning charges are subject to Member agreement and as such are included as a recommendation within this report.

Councillor Whitehead proposed, seconded by Councillor Lewis:-

"That the recommendations, as set out in the report, be approved."

Councillors then voted:-

Resolved unanimously:

(1) That Cabinet endorses the Fees and Charges Policy as set out at Appendix A to the report, and during 2022/23 as part of the mid-year budget strategy review determines whether any other areas of income generation be explored further for 2023/24 onwards.

(2) That Cabinet note that a car parking tariff review will take place and a further report will be presented to Cabinet outlining future options, as reported as part of the current 2022/23 budget setting process.

(3) That Cabinet endorses the freezing of Salt Ayre Leisure Centre prices, as reported as part of the current 2022/23 budget setting process with the exception of retail-led activities.

(4) That Cabinet endorses the freezing of garden waste collection charges, as agreed by Cabinet on 27th October 2020.

(5) That Cabinet endorses the annual review of Mellishaw Park pitch fees in line with RPI, as prescribed by the Mobile Homes Act 1983.

(6) That Cabinet endorses the return to applying inflationary increases to fees and charges across all remaining areas as appropriate, as reported as part of the current 2022/23 budget setting process.

(7) That Cabinet endorses the implementation of the new charges in respect, as reported as part of the current 2022/23 budget setting process.

Officer responsible for effecting the decision:

Chief Finance Officer

Reasons for making the decision:

Fees and charges form an integral part of the budget setting process, which in turn relates to the Council's priorities. Under the Medium Term Financial Strategy (MTFS), income generation is a specific initiative for helping to balance the budget.

A number of income budgets were significantly reduced in 2021/22 due to the pandemic and where appropriate these have now been returned to pre-pandemic levels when formulating the draft 2022/23 revenue. Whilst this does not take account of any associated expenditure linked to service provision, it does highlight that income generation is a significant contributor to the Council's net position, thereby helping to reduce service subsidisation and protect other service provision.

65 BUDGET & POLICY FRAMEWORK UPDATE

Cabinet Member with Special Responsibility Councillor Whitehead)

Cabinet received a report from the Chief Finance Officer that provided an update on the Council's budget strategy for 2022/23 and financial outlook up to 2025/26. Specifically, the report considered the budget and council tax proposals for 2022/23.

The options, options analysis, including risk assessment and officer preferred option, were set out in the report as follows:

It is essential that the Council Tax rate is set in accordance with the Council tax billing timetable. Any delay would put the Council at risk of not being able to collect the tax in time to make precept payments which would have serious cash flow implications.

Regarding the budget strategy, Cabinet may approve the proposals as set out, or require changes to be made to the suggested approach. The overriding aim of any budget setting process is to approve a balanced budget by statutory deadlines, allocating resources to help ensure delivery of the Council's corporate and service ambitions. The proposed approach is in line with that broad aim and any changes that Cabinet puts forward should also be framed in that context.

In term of the actual budget position, this report puts forward a balanced budget. If Cabinet agrees the budget, then it will form their proposal to Budget and Performance Panel on 02 February 2022. The feedback from this meeting will be considered by Cabinet and incorporated into a final budget proposal which will be considered at the Cabinet meeting on 08 February 2022 and recommended to Council on 24 February 2022.

Councillor Whitehead proposed, seconded by Councillor Hamilton-Cox:-

"That the recommendations, as set out in the report, be approved with an additional recommendation to the Capital Programme at Appendix C to include the Canal Quarter Scheme and Bailrigg Garden Village schemes within the development pool "

Councillors then voted:-

Resolved unanimously:

(1) That Cabinet make recommendations to Council regarding the Lancaster City Council element of the Council Tax as set out in paragraph 3.4 (option one) of this report which is a £5 increase to the Band D Council Tax (from £236.95 to £241.95).

(2) That Cabinet makes recommendations regarding its initial budget proposals as set out in section 4 and Appendix A of this report.

(3) That the Capital Programme be revised to include the Canal Quarter Scheme and Bailrigg Garden Village schemes within the development pool.

(4) That the recommendations and proposals in this report be referred to Council on 26 January for initial consideration as well as being presented for scrutiny by Budget and Performance Panel on 02 February, in order that any feedback can be provided to Cabinet at its 08 February meeting.

Officer responsible for effecting the decision:

Chief Finance Officer

Reasons for making the decision:

The budget framework in general sets out a financial plan for achieving the Council's corporate priorities .incorporating measures to make progress in addressing the climate emergency and digital improvements as well as activities to address wellbeing, health and community safety. The decision enables Cabinet to make recommendations to Council in order to complete the budget setting process for 2022/23.

66 EDEN NORTH: CAR PARKING - AGREEMENT IN PRINCIPLE

Cabinet Member with Special Responsibility Councillor Dowding)

Cabinet received a report from the Chief Executive with regard to Car Parking at Eden North. To support progression of the Eden North planning application and business / funding case, the council needed to confirm it supported a jointly agreed strategic approach to the handling of car-borne visitors to the proposed attraction. The report sought approval to parameters which would assist the project in satisfying the demands of the Local Planning Authority and Government funding approval processes, with specific regard to the role of council car parking assets in Eden North's sustainable travel and transport proposals.

The options, options analysis, including risk assessment and officer preferred option, were set out in the report as follows:

Option 1: The terms of the Agreement in Principle outlining the proposed role in Eden North's Transport / Parking Strategy of city council car parking assets in Morecambe is endorsed.
Advantages: Provides a degree of formal support towards a jointly agreed strategic approach to the handling of car-borne visitors to the proposed Eden North attraction. Approval of the parameters will assist the project in satisfying the demands of the Local Planning Authority and Government funding approval processes, with specific regard to the role of council car parking assets in Eden North's sustainable travel and transport proposals.
Disadvantages: No disadvantages identified.
Risks: The practical operational mechanisms will be a complex area and the final likely impact on the council's net income in comparison with the current public use profile of Morecambe's public car parking spaces will need to be assessed. However, officers are confident that the dynamic booking arrangements can be progressed and formally agreed, and day-to-day parking demand for Morecambe Town Centre can be managed alongside Eden North visitor demands.
Option 2: The terms of the Agreement in Principle outlining the proposed role in Eden North's Transport / Parking Strategy of city council car parking assets in Morecambe are not agreed.
Advantages: No advantages identified.
Disadvantages: This will not support nor satisfy the demands of the Local Planning

Authority and Government business case approval processes.

Risks: This must be framed in terms of the downside risk of Eden North failing to progress efficiently through the statutory planning process and potentially failing to secure planning approval under the current application process.

The officer preferred option is Option 1.

Councillor Dowding proposed, seconded by Councillor Hamilton-Cox:-

"That the recommendations, as set out in the report, be approved."

Councillors then voted:-

Resolved unanimously:

(1) That the terms of the Agreement in Principle outlining the proposed role in Eden North's Transport / Parking Strategy of city council car parking assets in Morecambe be endorsed.

(2) That a further report on the detailed operational and financial mechanisms of the proposed operations is considered by Cabinet prior to formal contractual agreement.

Officer responsible for effecting the decision:

Chief Executive

Reasons for making the decision:

Eden Project North provides an opportunity to deliver considerable social and economic benefits for Morecambe and the wider area, contributing to the following priorities:
- A Sustainable District
- An Inclusive and Prosperous Economy
- Healthy and Happy Communities

The Agreement in Principle will provide sufficient safeguards for the council in terms of the matters outlined, and sufficient certainty for Eden North in progressing their planning application and negotiations with central Government regarding business case matters. Further Cabinet decisions may be required to finalise a contract dependent on the financial and community implications of the detailed proposed operations.

67 EXCLUSION OF THE PRESS AND PUBLIC

It was moved by Councillor Brookes and seconded by Councillor Whitehead:-

"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 it could involve the possible disclosure of exempt information as defined in paragraph 3 of Schedule 12A of that Act."

Members then voted as follows:-

Resolved unanimously:

(1) 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 it could involve the possible disclosure of exempt information as defined in paragraph 3 of Schedule 12A of that Act.

68 LANCASTER CITY COUNCIL CORPORATE REBRANDING

Cabinet Member with Special Responsibility Councillor Caroline Jackson)

Cabinet received a report from the Chief Executive which sought approval for the newly designed version of the Lancaster City Council logo as part of a wider corporate rebranding development project as well as approval to develop a brand implementation programme that would build a consistent identity across council services and incorporate the principles of the new logo design. After a lengthy debate it was apparent that further consideration needed to be given to this before a formal decision was taken by Cabinet. With the agreement of the meeting the Chair withdrew the item.

Resolved:

That consideration of the Lancaster City Council Corporate Rebranding be withdrawn and considered at a future Cabinet meeting.

69 MORECAMBE SPARKLE 2022/25 (Pages 11 - 13)

(Cabinet Member with Special Responsibility Councillor Thornberry)

Cabinet received a report from the Director for Economic Growth & Regeneration which sought approval to offer support to a new charitable incorporated organisation, Morecambe Sparkle. The report was exempt from publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act, 1972.

The options, options analysis, including risk assessment and officer preferred option, were set out in the exempt report .

It was proposed by Councillor Thornberry, seconded by Councillor Heath and resolved unanimously when put to the vote:-

Resolved unanimously:

(1) The resolution is set out in a minute exempt from publication by virtue of paragraph 3, Schedule 12A of the Local Government Act, 1972.

Officer responsible for effecting the decision:

Director for Economic Growth & Regeneration

Reasons for making the decision:

The decision is consistent with Council priorities. Exactly how the decisions fits with

Council priorities is set out in the exempt minute.

70 LAND FORMING PART OF LANCASTER LEISURE PARK, OFF WYRESDALE ROAD, LANCASTER

Cabinet Member with Special Responsibility Councillor Hamilton-Cox)

Cabinet received a report from the Director for Economic Growth & Regeneration to declare surplus to requirement, consider and approve the freehold disposal of the land currently forming part of Lancaster Leisure Park, off Wyresdale Road, Lancaster. The report was exempt from publication by virtue of paragraph 3, Schedule 12A of the Local Government Act, 1972. After much discussion it was apparent that further clarification was required prior to Cabinet taking the decision, and with the agreement of the meeting, the Chair deferred the item.

Resolved unanimously:

That consideration of the item be deferred to a future Cabinet meeting.

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Chair

(The meeting ended at 8.15 p.m.)

Any queries regarding these Minutes, please contact
Liz Bateson, Democratic Services - email ebateson@lancaster.gov.uk

MINUTES PUBLISHED ON FRIDAY 21 JANUARY, 2022.

EFFECTIVE DATE FOR IMPLEMENTING THE DECISIONS CONTAINED IN THESE MINUTES: MONDAY 31 JANUARY, 2022.