



Committee: CABINET

Date: TUESDAY, 26 OCTOBER 2021

Venue: MORECAMBE TOWN HALL

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Time: 6.00 P.M.

A G E N D A

1. **Apologies**

2. **Minutes**

To receive as a correct record the minutes of Cabinet held on Tuesday, 14 September 2021 (previously circulated).

3. **Items of Urgent Business Authorised by the Leader**

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

4. **Declarations of Interest**

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

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

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

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

5. **Public Speaking**

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

Reports from Overview and Scrutiny

None

Reports

6. **Boiler replacement - City Museum, incorporating Lancaster Library** (Pages 4 - 9)

(Cabinet Member with Special Responsibility Councillor Hamilton-Cox)

Report of Director for Communities & the Environment

7. **Heat Networks Feasibility** (Pages 10 - 16)

(Cabinet Member with Special Responsibility Councillor Frea)

Report of Director for Communities & the Environment

8. **Plan 2030: Priorities and Outcomes** (Pages 17 - 21)

(Cabinet Member with Special Responsibility Councillor Jackson)

Report of Chief Executive

9. **Treasury Management Mid Year Review** (Pages 22 - 38)

(Cabinet Member with Special Responsibility Councillor Whitehead)

Report of Chief Financial Officer (report published on 21 October 2021)

10. **Provision of Internal Audit**

(Cabinet Member with Special Responsibility Cllr Whitehead)

Verbal update from the Chief Financial Officer

11. **Exclusion of the Press and Public**

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

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

“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 item(s) of business, on the grounds that they could involve the possible disclosure of exempt information as defined in paragraph 3 of Schedule 12A of that Act.”

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

12. **Solar Array Installation** (Pages 39 - 43)

(Cabinet Member with Special Responsibility Councillor Frea)

Report of Director for Communities & the Environment

13. **Proposed Property Acquisition** (Pages 44 - 60)

(Cabinet Member with Special Responsibility Cllr Matthews)

Report of Director for Communities & the Environment

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

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

(ii) Queries regarding this Agenda

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

(iii) Changes to Membership, substitutions or apologies

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

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

Published on Monday 18 October 2021.

Lancaster City Council | Report Cover Sheet

Meeting	Cabinet	Date	26 October 2021
Title	Boiler replacement - City Museum, incorporating Lancaster Library		
Report of	Director for Economic Growth and Regeneration		
Purpose of Report			
To request funding be released from the capital budget in order to deliver a joint project between Lancaster City Council and Lancashire County Council that will see the replacement of essential boiler plant and equipment, housed in the City Museum but serving both this site and Lancaster Library.			
Key Decision (Y/N)	N	Date of Notice	N/A
		Exempt (Y/N)	N

Report Summary
The report will provide background, investigations carried out in relation to meeting the climate change agenda, financial breakdown and recommendations.

Recommendations of Councillors
To release the capital budget in order for the essential boiler plant to be replaced, before equipment failure occurs.

Relationship to Policy Framework	
Conclusion of Impact Assessment(s) where applicable	
Climate Investigations into green alternatives were carried out, followed by more in-depth investigations into air source heat pumps. We discovered that options were limited due to the historic nature of the building, its' location and the heat demand placed on the system.	Wellbeing & Social Value
Digital	Health & Safety The project and associated costs include the removal of asbestos where possible and encapsulation where this is not possible, making the building safer and easier to manage.
Equality	Community Safety
Details of Consultation	
Climate Officers; Energy Council (external consultant); e-On (external consultant); Lancashire County Council mechanical and electrical engineers; City Council finance, procurement, museums and legal officers have all been involved in the consultation.	
Legal Implications	

As this is a joint project between Lancaster City Council and Lancashire County Council, there is an agreement in place relating to the split of project costs and ongoing maintenance. Energy bills will be separate for each site.

Financial Implications

The Capital Programme agreed by Council on 24 February 2021 included provision of £127,000 in 2021/22 in respect of this project. Cabinet subsequently agreed at their meeting on 8 June 2021 to re-allocate £22,000 to works on Palatine Recreation Ground Pavilion leaving an allocation of £105,000 available for the City Council's share of the boiler project. As the City Council is acting as project lead the Capital Programme will be grossed up to reflect Lancashire County Council's contribution toward the full cost of the project following the outcome of the current decision.

Other Resource or Risk Implications

None.

Section 151 Officer's Comments

The s151 Officer has been consulted and has no additional comments to add to those

Monitoring Officer's Comments

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

Contact Officer

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Links to Background Papers

Report

1.0 Background Information

- 1.1 The boiler, housed in the City Museum basement, services both the Museum and Lancaster Library. This is because the two buildings were originally joined.
- 1.2 Investigations were carried out to establish the feasibility of having two plant rooms; the existing in the City Museum, and a new one to supply the Library. This was dismissed for two reasons:
- The changes may have involved significant alterations to the building fabric in both the Museum and Library. This would have been very costly and difficult given the listed status of both buildings.
 - It is more cost effective for both parties to work from one plant room, and technology allows us to effectively split the feeds to each site meaning they can operate independently (i.e., one building can be being heated whilst the other is switched off).
- 1.3 The boiler and associated plant was identified as a category D (lowest condition quality) on the 2012 condition survey, meaning it was at the end of its serviceable life and required planned replacement. It is unknown why the project was not planned in at that point; however, since changes in the Facilities Management team in 2016 we

have been seeking to reach an agreement with Lancashire County Council on how to arrange works and split costs.

2.0 Climate Change agenda

- 2.1 Given the Council priority to reach net carbon zero by 2030, detailed feasibility work on alternative heating options for these buildings was commissioned from the Energy Council (report attached)
- 2.2 The City Museum (in combination with Lancaster Library) is 10th on the list of the Councils CO2 emitting buildings, with 83 tonnes/ yr.
- 2.3 Their conclusion, in brief, was that a like for like replacement would be the most realistic option both in terms of cost, installation and maintenance. At this point air source heat pumps, ground source heat pumps and biomass boilers were discounted based on the costs to install and maintain (life cycle cost analysis also circulated with this report); the requirement of a gas boiler in addition to cope with peaks in demand on the heating; and the difficulties in preserving the historic nature of the buildings with the size of equipment required.
- 2.4 They also highlighted that an improvement in CO2 emissions was still achievable even with the like for like replacement option:
“Replace the existing boiler with a complementary gas-fired boiler installation to provide a reliable heating system. The existing boilers, due to deterioration of performance over time and the 30-year-old technology being inherently less energy efficient, will have a seasonal efficiency rating of about 60% (SAP 2012 version 9.92, Table 4b). When compared to new boiler plant, which will have a seasonal efficiency of circa 95%, there will be a 35% improvement in energy consumption and therefore CO₂ emissions for heating the 2 buildings.”
- 2.5 In order to test this further an opinion was sought from another expert source (e-On). They were asked to consider and report on decarbonisation solutions and the Public Sector Decarbonisation Scheme (PSDS) route. They considered air source heat pumps were technically feasible...although it would still require the installation of gas boilers to meet the demands at peak times. However, further practical work would need to take place to confirm this.
- 2.6 Officers consulted with the lead mechanical and electrical engineer at Lancashire County Council on the proposal that e-On put forward for air source heat pumps. Following a number of meetings and deeper analysis of the schematics, all parties agreed (City and County Councils, and e-On) that air source heat pumps were not realistic at this time and that the air source heat pump technology requires a further advancement in order to cope with buildings of the museums age and nature.
- 2.7 The boiler replacement schematic could, however, be altered to include valves that would allow the introduction of air source heat pumps at a later date, once further technological advancements have been made.

3.0 Proposal Details

- 3.1 It is proposed that £105k in the allocated capital budget (“Lancaster City Museum Boiler”) is released and used to complete the project.

- 3.2 The work has been provisionally costed. Financially, we would receive all invoices for the project (as project leads) and then invoice Lancashire County Council for their proportion.
- 3.3 The cost of the project is split between Lancaster City Council (City Museum) and Lancashire County Council (Lancaster Library) based on 42% / 58% respectively. This has been calculated based on the gross internal area (GIA) of each site.
- 3.4 The allocated budget allows for costs of work (including some asbestos related work), professional fees and a contingency amount. This level of contingency is necessary due to:
- the asbestos issues;
 - age of the existing equipment;
 - complexities of working within a listed building;
 - possibility of some COVID measures still being required at the time the work is complete;
 - account for the fact that the current construction prices are higher than we have experienced in the past; and
 - to allow for additional valves to be put in place so that air source heat pumps may be added at a later date (see section 4, option 2).
- 3.5 The asbestos removal/encapsulation work in the boiler room and surrounding area will be captured in the project and split as per the agreed percentages; however, there are other areas in the basement of the City Museum where asbestos is needed to take place at the same time. Doing it at the same time is safer and there is an economy of scale. This additional work would be solely costed to us, i.e., not split as it is not directly related to the boiler replacement work. This has been taken into account in the request for budget.
- 3.6 Summary of estimated project costs/justification for amount requested:

Task	Total Estimated Amount	City Council proportion (42% unless stated)
Boiler costs	£86,500	£36,330
Project costs (prelims, temporary heating plant, asbestos and other H&S work, building work, strip out old equipment)	£43,500	£18,270
12% professional fees	£15,600	£6,552
Asbestos works required but not included in boiler replacement project	£7,000	£7,000 (100%)
Contingency at 20%	£26,000	£10,920
Total	£178,600	£79,072

- 3.7 Going forward, a single gas bill will be received but newly installed heat meters for each site will allow us to split the bill accurately according to usage. Therefore, each site will only pay for what it uses. Currently, there is an arbitrary 50/50 split which does not reflect consumption.
- 3.8 Due to new technology (more efficient boilers, working and well-placed thermostats,

and heat meters) we anticipate a saving in gas utility bills for the City Museum. This saving is estimated to be 10% on current spending and based on 2019/20 outturn this would be £1400 per annum.

- 3.9 Ongoing servicing and maintenance costs will also be split on the same percentages (42% City/58% County), which is an improvement for us on the existing arrangement of 50/50.

4.0 Options and Options Analysis (including risk assessment)

In support of the proposal the Options considered are as follows:

	Option 1: Do nothing/wait for air source heat pump technology to advance	Option 2: Replace the gas boilers on a like for like basis but ensure mechanisms are in place to install air source heat pumps at a later date	Option 3: Carry out a like for like replacement of the gas boilers
Advantages	<p>The council does not spend the allocation of capital funds requested.</p> <p>It could lead to complete decarbonisation and potentially avoid any modifications or removal of newly installed gas heating systems further down the line.</p>	<p>The City Museum asset is protected, as is the County's asset.</p> <p>Reduced gas consumption and cost savings (gas and maintenance).</p> <p>Better working environment for staff.</p> <p>Better control over the environment for the benefit of the collections.</p> <p>The work is planned so costs associated with it can be known in advance.</p> <p>Costs can be split out accurately going forward.</p> <p>As air source heat pump technology evolves, we will be in a position to install retrospectively and realise the benefits associated with this.</p>	<p>The City Museum asset is protected, as is the County's asset.</p> <p>Reduced gas consumption and cost savings (gas and maintenance).</p> <p>Better working environment for staff.</p> <p>Better control over the environment for the benefit of the collections.</p> <p>The work is planned so costs associated with it can be known in advance.</p> <p>Costs can be split out accurately going forward.</p> <p>No changes are required to the existing scheme.</p>
Disadvantages	<p>The boiler plant will fail (become unrepairable), at which point emergency, temporary heating will need to be installed for both sites until a permanent replacement is organised. This will be a more costly option than the planned replacement.</p> <p>The current lack of accurate heating control is creating an</p>	<p>The Council will need to expend the requested capital funds this financial year.</p> <p>The changes required to ensure air source heat pumps can be added on to the system at a later date will mean a scheme revision and small additional costs.</p>	<p>The Council will need to expend the requested capital funds this financial year.</p>

	<p>uncomfortable working environment for staff.</p> <p>Loss of heating and/or the installation of temporary heating could cause damage to the Museums collections.</p> <p>Asbestos work would still be required imminently, whether the boiler replacement goes ahead or not.</p>		
Risks	<p>Loss of heating and potential damage to collections could result in a reduction of visitor numbers or force a temporary closure of the Museum.</p> <p>If our lack of action impacts the Library as well as our own site, there could be significant reputational damage.</p>	None.	This makes no allowance or acknowledgement towards the City Councils net zero ambitions.

5.0 Officer Preferred Option (and comments)

5.1 Facilities Management preferred option is Option 2. The condition of the boilers has been of concern for a number of years and we have put considerable time and effort in to ensuring they continue to function. However, they are inefficient and there is a real risk that they will become unrepairable, leaving both the City Museum and Lancaster Library at risk. With option 2, we remain open to introducing green alternatives at a time when the technology has evolved adequately enough.

Lancaster City Council | Report Cover Sheet

Meeting	Cabinet	Date	26 th October 2021		
Title	Heat Networks Feasibility				
Report of	Director for Communities & the Environment				
Purpose of Report					
<p>To outline the role that heat networks can play a route to heat decarbonisation and set out the potential for thermal energy networks in the District.</p> <p>To gain support for a funding bid to BEIS for the delivery of a detailed feasibility study and inform Cabinet that should a Heat Network prove to be feasible, further decisions may need to be made on how such a system is implemented i.e. direct delivery by the Council or through amendments to the Local Plan.</p>					
Key Decision (Y/N)	N	Date of Notice		Exempt (Y/N)	N

Report Summary
<p>The Council declared a Climate Emergency in January 2019 which commits the Council to reaching net zero emissions for its own operation and helping the district to meet the same goal by 2030.</p> <p>In 2019, Business for Energy and Industrial Strategy (BEIS) commissioned a heat mapping study which identified the potential for eight separate heat network clusters across the Lancaster District. Officers wish to commission detailed techno-economic feasibility study to determine in which of these clusters there exists viable heat network solutions. Across all clusters, this has the potential to remove over 100,000 tonnes CO₂e locally by reducing the dependency on natural gas usage. This could include connections to council buildings, residential and commercial properties.</p> <p>Grant funding from BEIS Heat Network Delivery Unit (HNDU) is available to fund a large proportion of the costs. Officers wish to submit an application to BEIS for funding. Total costs for techno- feasibility is expected to be £120,000. Should the funding application be successful, BEIS would fund £80,000 of the costs, leaving the council with a funding contribution of £40,000, which can be managed from existing budgets. Final acceptance of the grant would be by a Director and subject to S151 officer consent.</p> <p>Feasibility would confirm if heat network clusters were viable, and commercials would be confirmed. If a heat cluster appears viable, the council would need to decide on how to proceed. Officers would prepare a follow up report following completion to provide a range of options.</p> <p>This could include the council funding the capital expenditure, with contributions from BEIS in order to deliver in-house. This could have the potential to generate revenue for the council. Other options include using the evidence provided by the report to make the inclusion of heat networks infrastructure compulsory in new developments.</p> <p>There are six main reasons to pursue Heat Network Feasibility:</p>

1. To ultimately develop and run a thermal energy network scheme/s which could allow the Council to decarbonise its own assets and those across the District to meet its ambitions to be Carbon Zero by 2030.
2. Potentially support households with off-grid low-carbon heating, while also tackling fuel poverty by protecting households from inflationary rises in the utility market
3. Generating a sustainable income for the council through the sale of heat to commercial, properties and potential households.
4. To provide evidence demonstrating areas where the inclusion of heat network infrastructure should be made compulsory to new developments within the Council's Local plan/planning laws.
5. To encourage and demonstrate to developers the potential benefits of developing decarbonised heat networks within the Lancaster District.
6. Through tackling carbon emissions and fuel poverty, the development of heat networks would create investment and new local skilled jobs.

Recommendations of Councillor Frea:

- (1) To recognise the value in exploring the opportunities for heating networks within the district and support the approach to submit a bid in order to undertake feasibility, whilst recognising that this may lead to future decisions around the instillation of heat networks across the district.

Relationship to Policy Framework

Climate Emergency: To ensure that in the area of thermal energy delivery, the Council's ambitions around Climate Change are delivered, greater cognisance with the actions of the Council's Climate Emergency Declaration of January 2019 are provided and the Council's Corporate Priorities are supported.

Delivery of a feasibility study will help to strengthen the Council's approach and strategic planning in a range of matters which will assist in it achieving its ambitions, for instance around supporting a green local economy, delivering sustainable energy, and addressing fuel poverty.

Conclusion of Impact Assessment(s) where applicable

Climate

A detailed techno-economic feasibility study for the delivery of heat networks will support the adaptation to and mitigation of climate change, assist with the actions and ambitions of the Council's Climate Emergency Declaration of January 2019

Wellbeing & Social Value

The feasibility study will pave the way for the potential deployment of heat networks in the District which will seek to provide reliable thermal energy delivery at affordable and stable costs to consumers thereby assisting in addressing fuel poverty and helping to ensure homes are a

and support the District in transitioning to low/no carbon heat.	comfortable temperature. This can support greater health outcomes and general wellbeing. It will also help to provide local green jobs and support local supply chains.
<p>Digital</p> <p>The feasibility study will support the delivery of heat networks which are driven by technological solutions for delivering thermal energy with low or no emissions. Network management is delivered partially through digital platforms. Strategic planning of the networks ensures that the installation of necessary infrastructure within new development as well as strategic installation along with other major projects.</p>	Health & Safety – N/A
<p>Equality</p> <p>The feasibility study will help to identify areas that could benefit from heat network deployment. The study will support the deployment of heat networks which have the potential to deliver thermal energy to customers at more equitable and affordable rates. This has the potential to provide more equitable access to heat for residents who currently struggle to afford keeping their homes warm. More women than men are likely to suffer from persistent poverty and also older women and women leading single parent households are disproportionately affected. Access to lower cost heating could support more equitable access to thermal energy services.</p>	Community Safety – N/A

Details of Consultation
To date there has been no consultation on the role of heating networks. The application to BEIS for funding will require stakeholder letters of support.
Legal Implications
Legal Services will check the terms of any Grant Agreement with BEIS
Financial Implications with Key Steps
This report is seeking to apply for assisted funding to undertake feasibility work into the role of heat networks within the district. The cost of the work is currently estimated at £120,000 of which two-thirds will be funded by BEIS. The remaining amount can be managed from within existing general fund and housing revenue account budgets and will be delivered over the next six to eight months spanning 2021/22 and 2022/23 with estimated expenditure taking place equally over the financial years.

The feasibility work will be undertaken by external consultants. There will be a residual resource implication in terms of overseeing consultants and managing / reporting on the process within the Council. This can be managed from within existing workloads and will not require any additional staffing resource.

Additional costs for project management for each step of the feasibility study are covered 100% by HNDU funding meaning officer resource time should be minimal.

Upon completion of the feasibility, a further report to Cabinet will be prepared to outline the results plus the discussion of a plan for future delivery of its recommendations. Any subsequent financial impact will be discussed as part of that report.

As detailed in the report, final acceptance of the grant will be by Director and subject to S151 officer consent.

Other Resource or Risk Implications

The feasibility work will be undertaken by external consultants. There will be a residual resource implication in terms of overseeing consultants and managing / reporting on the process within the Council. This will not require any additional staffing resource.

Additional costs for project management for each step of the feasibility study are covered 100% by HNDU funding meaning officer resource time should be minimal.

Section 151 Officer's Comments

The s151 Officer has been consulted and has no further comments to add to those outlined in the Financial Implications. Should the bid be unsuccessful it is not currently envisaged that the Council will pursue this work and its interest will cease. This is of course subject to any further sources of external funding being made available

Monitoring Officer's Comments

Directors have authority to accept funding bids approved by Cabinet, subject to due diligence being completed and with the written consent of the Chief Finance Officer.

Contact Officer	Elliott Grimshaw (Business Improvement & Project Lead)
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Links to Background Papers

- 2019 BEIS Lancaster District Heat Map Study
- District Heating Systems – Background and applications

1.0 Introduction

- 1.1 In January 2019, the Council declared a Climate Emergency which commits it to reaching net zero emissions for its own operations and helping the District to meet the same goal by 2030. In 2019, BEIS commissioned a heat mapping study which identified the potential for eight separate heat network 'clusters' across the Lancaster District.

- 1.2 Officers wish to commission detailed techno-economic feasibility study to determine in which of these clusters there exist viable heat network solutions.
- 1.3 At present 37% of the UK's greenhouse gas emissions are generated by heating. Heat networks are comprised of a network of insulated pipes, originating from a central thermal energy source (e.g. heat recovery from industry or water source heat pumps), which deliver thermal energy (e.g. hot water) to customers' radiators and taps. They are seen as a necessary component for the decarbonising of both commercial and domestic properties.
- 1.4 There are six main reasons the council should consider pursuing Heat Network Feasibility:
 1. To ultimately develop and run a thermal energy network scheme/s which could allow the Council to decarbonise its own assets and those across the District to meet its ambitions to be Carbon Zero by 2030.
 2. Potentially support households with off-grid low-carbon heating, while also tackling fuel poverty by protecting households from inflationary rises in the utility market
 3. Generating a sustainable income for the Council through the sale of heat to commercial, properties and potential households.
 4. To provide evidence demonstrating areas where the inclusion of heat network infrastructure should be made compulsory to new developments within the Council's Local plan/planning laws.
 5. To encourage and demonstrate to developers the potential benefits of developing decarbonised heat networks within the Lancaster District.
 6. Through tackling carbon emissions and fuel poverty, the development of heat networks would create investment and new local skilled jobs.
- 1.5 In order for the council to achieve net zero by 2030, innovative approaches towards energy and heat generation (within its own estates and supporting the District) must be considered.
- 1.6 As the Future Homes Standard comes into effect requiring homes to decarbonise their heating as well as the proposed changes to the Local Plan in Lancaster as a result of the Climate Emergency Local Plan Review, new homes will need to be built to be zero CO₂e emissions starting 2028. Deployment of heat networks will help developments to meet these requirements and deliver on the Council's net zero 2030 commitment.
- 1.7 HNDU provided funding for master planning to be done for Local Authorities who did not have an existing heat network strategy. Lancaster was one of the Local Authorities identified and the study 'Heating Mapping and Master Planning in Lancaster' was undertaken in 2019 by Element Energy. The study identified potential constraints, risks, and opportunities related to the delivery of heat networks in the region.

1.8 Based on the data gathered through stakeholder engagement and desk-based research, the study identified a series of clusters to capture potential areas where heat networks could be a viable solution including factors such as the volume of heat delivered, the level of stakeholder engagement, the linear heat density, and the availability of low-carbon heat sources. The clusters were assessed and ranked against key criteria.

1.9 The clusters identified as those with most potential were: “South Lancaster” and “City Centre.” It was also recommended to keep a “watching brief” on the “East Lancaster,” “Morecambe” and “Bailrigg” clusters.

1.9.1 Since the 2019 study was conducted, the technology and regulatory framework for heat networks has been evolving as well as the potential developments and heat customers in the District have also seen changes. The study also did not include cooling needs and with projected temperature increases due to the climate crisis, this may need to be considered in the District. As such the feasibility study proposed will include a “refresh” of the master planning that was originally conducted.

2 Proposal Details

2.1.1 To outline the role that heat networks can play a route to heat decarbonisation in the District and support a funding bid to BEIS for the delivery of a detailed feasibility study at a cost of £40,000. Funding can be found from within existing budgets.

2.1.2 To inform Cabinet that should a Heat Network prove to be feasible, further decisions may need to be made on how such a system is implemented i.e. direct delivery by the Council or through amendments to the Local Plan. Option appraisal to be developed and referred to Cabinet.

3.0 Options and Options Analysis (including risk assessment)

Option 1: To support the approach to undertake feasibility work
<p>Advantages:</p> <ul style="list-style-type: none"> • It will allow the Council to explore the feasibility for heating networks with potential opportunities for the delivery of heat networks more widely in the District • If feasible, there is potential for wider benefits as set out in this report in relation to addressing the Climate Emergency and fuel poverty. • There is currently funding available from Government to support the feasibility work. • Can provide the groundwork for heat network development which would allow the Council to capitalise on an opportunity to address the Climate Emergency and lead to a potential saving of 100,000 tonnes of domestic CO2e emissions.
Disadvantages: None.
Risks:

<ul style="list-style-type: none"> Financial. £40k 'at risk' if feasibility determines that no realistic or viability opportunities exist
<p>Option 2: To delay a decision whether to take forward an application to future funding routes in 2022 or beyond.</p>
<p>Advantages: None apparent</p>
<p>Disadvantages:</p> <ul style="list-style-type: none"> Deferring any decision of investigating heating networks delays our understanding over how and where networks could be established. Such delays may result in losing opportunities to implement projects in the future particularly in new developments.
<p>Risks:</p> <ul style="list-style-type: none"> The level of funding support available to the Council at present is significant. There are no assurances that in delaying such a decision that the same levels of funding support will be available in future years. As a result, a decision to defer may incur greater costs in the future should the Council wish to explore the feasibility of heat networks.
<p>Option 3: To not carry forward any investigation into heating networks</p>
<p>Advantages: None apparent</p>
<p>Disadvantages:</p> <ul style="list-style-type: none"> Fails to explore the opportunity for district heating networks closes the opportunity to secure more sustainable forms of heating for the district and would be a lost opportunity in seeking to tackle the Climate Emergency. The Council would fail to investigate opportunities to deliver greener, more sustainable forms of energy in the district and fail to capitalise on opportunity to address the Climate Emergency and a potential saving of 100,000 tonnes of domestic CO₂e emissions.
<p>Risks:</p> <ul style="list-style-type: none"> Longer-term funding opportunities are unknown.

4.0 Officer Preferred Option (and comments)

Option 1: Carry out detailed techno-economic feasibility

Initial feasibility provides an interesting insight as to what heat network clusters may be viable. Should some of the clusters prove feasible, this could provide opportunities to support the decarbonisation of the council's estate, as well as businesses and residents within the catchment areas.

The study would support officers with strategic decisions around the council's roadmap to 2030 of which heat decarbonisation plays a significant (and challenging) part. Revenue generating opportunities from the sale of low carbon heating may also exist.

The potential funding opportunity from BEIS to explore Heat Networks greatly subsidises the costs of the study and there are no assurances over future levels of funding support available.

Lancaster City Council | Report Cover Sheet

Meeting	Cabinet	Date	26 October 2021
Report	Plan 2030: Priorities and Outcomes		
Report of	Chief Executive		
Purpose of Report			
To provide an update on Cabinet's strategic planning activity, and refer the 'Core' Plan 2030 content to Council for adoption as part of its Policy Framework.			
Key Decision (Y/N)	Y	Date of Notice	11 October 2021
		Exempt (Y/N)	N

Report Summary

The report describes the strategic planning activity undertaken so far- building on activity from January 2020 which was interrupted by the Covid-19 pandemic- and sets out the proposed context and structure for the development and delivery of a comprehensive strategic plan for the Lancaster district.

Recommendations of Councillor Caroline Jackson

- (1) That Cabinet refer the 'Core' Strategic Plan to Council, to consider adopting as the basis for its Policy Framework.
- (2) That subject to the adoption of the 'Core' Plan by Council, Cabinet agree to pursue the development of a comprehensive Plan alongside local partners, stakeholders and communities.

Relationship to Policy Framework

The 'Core' Plan 2030 content, if adopted, would supersede the Priorities agreed by Council in January 2020. The high-level 'Core' Plan would form the heart of the Council's Policy Framework, informing its strategic and financial decision-making.

Further development activity would then be undertaken to develop a comprehensive Plan, which would be recommended to Council for adoption into the Policy Framework.

Conclusion of Impact Assessment(s) where applicable

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

Whilst the adoption of a strategic plan would have a substantial impact on many of the Council's future activities, the content of the 'Core' Plan itself at this stage does not have a direct impact in itself.

Details of Consultation

The consultation activity undertaken in developing the January 2020 version of the Council's Priorities is documented in the report to Council of 29 January 2020. Subsequent activity during summer 2021 has focused on Cabinet's refinement of these Priorities, and therefore builds on the consultation undertaken at that time.

Adopting the 'Core' Plan would provide a platform for further development of a comprehensive plan, including a substantial degree of engagement, consultation, and partnership.	
Legal Implications	
No legal implications arising directly from this report.	
Financial Implications	
No financial implications arising directly from this report.	
Other Resource or Risk Implications	
No additional implications arising directly from this report.	
Section 151 Officer's Comments	
The Section 151 Officer has been consulted and has no further comments.	
Monitoring Officer's Comments	
By law the Council must have a Policy Framework. The Council Plan forms part of that Policy Framework and is to be decided by Full Council.	
Contact Officer	Kieran Keane, Chief Executive
Tel	01524 582501
Email	chiefexecutive@lancaster.gov.uk
Links to Background Papers	
Report of Cabinet , referred to Council 29 January 2020 and Appendix Appendix A: Plan 2030 Priorities and Outcomes	

1.0 Introduction

- 1.1 On 29 January 2020, the Council agreed its strategic priorities in outline form, on the basis that further activity would follow to develop these into a comprehensive strategic plan.
- 1.2 This activity was put on hiatus while the Council diverted its resources toward supporting local residents and businesses through the Covid-19 pandemic. During summer 2021, Cabinet resumed its consideration of strategic planning activity, in order to put in place a vision of the Council's goals up to 2030 and a plan for achieving these. The working title for this planning activity is '*Plan 2030*'.

2.0 Wider Strategic Development

- 2.1 Plan 2030 is considered to be a key pillar for achieving the Council's strategic goals, but it is recognised that a written Plan in and of itself will not guarantee the delivery of ambitious strategic goals for the local environment, economy, communities and the Council.

2.2 The Plan should be viewed in the context of a number of wider strategic development activities that will support the delivery of wide-ranging local transformation, including:

- **Partnership:** convening and enabling the structures and relationships that will enable all those - across public, private and community sectors - with an interest in the success of the Lancaster district to contribute to shared goals
- **Policy:** facilitating conversations across the district to develop considered, achievable and practical policies and action plans to support the achievement of strategic priorities

3.0 Plan 2030 Structure

3.1 These activities will be underpinned by a structured Plan, the content of which will shape the overall direction of the Council's activities- and where appropriate those of its partners- via a strategic partnership approach.

3.2 The proposed elements of the Plan are described below:

- **Vision:** a summarising statement setting out the scope of the Council's ambition for the district
- **Priorities:** statements covering the Council's key aims for the district's environment, economy, communities and the Council itself
- **Strategy:** the overall strategic approach to delivering the Priorities
- **Principles:** the ways in which all the Council's activities will be shaped by specific ideas and ways of working
- **Outcomes:** the tangible elements of change that will be seen and experienced across the district in achieving the Priorities
- **Indicators & Measures:** the measures by which success will be evaluated in achieving the Priorities and Outcomes
- **Activities & Projects:** the work which will be undertaken, by the Council and its partners, to deliver the Priorities and Outcomes
- **Sustainable Development Goals:** the ways in which the Priorities and Outcomes contribute to each of the UN Sustainable Development Goals, reflecting the Council's commitment to achieving these locally

4.0 'Core' Plan 2030

4.1 Whilst Cabinet has so far shaped the Plan 2030 development activity, its intention is to take an inclusive approach to developing further stages of the Plan.

4.2 As shown at Appendix A, Cabinet has developed the Priorities, Strategy, Outcomes, and Principles, which collectively are described as the 'Core' Plan 2030. The content at Appendix A could be described as an evolution of the

Priorities adopted by the Council in January 2020, rather than a wholesale review.

- 4.3 At this point it is recommended that Cabinet refer the ‘Core’ Plan to Council for adoption as the heart of the Council’s Policy Framework, as a platform for further development work into a comprehensive Plan.

5.0 Options and Analysis

	Option 1: Refer the ‘Core’ Plan 2030 to Council for adoption.	Option 2: Take no action.
Advantages	An up-to-date articulation of the Council’s priorities will have been considered by the Council, with opportunity for valuable comment and feedback. If adopted, subsequent strategic and financial decisions will be based on the most up-to-date ideas of Cabinet.	No specific advantages are identified for this option; if no action is taken, the Policy Framework would continue to be represented by the Priorities agreed in January 2020.
Disadvantages	No specific disadvantages are identified for this option.	The update of January 2020 committed to further development of the priorities and plan; taking no action at this time, after a hiatus due to the pandemic, would inhibit the Council’s ability to act on its latest perspectives and learning in partnership with others.
Risks	There is a slight risk that a further update of the Council’s priorities could result in a lack of clarity between different versions and updates; to be mitigated by clear and widespread communication around the update.	The development and delivery of strategic priorities would be compromised by this option.

6.0 Officer Preferred Option

- 6.1 The recommended option is to proceed with referring the ‘Core’ Plan to Council (Option 1), and subsequently developing a comprehensive strategic plan.

Priorities	A Sustainable District	A Thriving and Prosperous Economy	Healthy and Happy Communities	A Co-operative, Kind and Responsible Council
Strategy	Climate Emergency <i>taking action to meet the challenges of the climate emergency</i>	Community Wealth-Building <i>building a sustainable and just local economy that benefits people and organisations</i>	Increasing Wellbeing, Reducing Inequality <i>empowering and supporting healthy ways of living, and tackling the causes of inequality</i>	Community Engagement, Power and Resilience <i>drawing on the wealth of skills and knowledge in the community, and working in partnership</i>
	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)
Outcomes	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 and partners recognising the strengths and skills in our community (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 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 Lancaster and the wider region (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)		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)

Lancaster City Council | Report Cover Sheet

Meeting	Cabinet	Date	26 October 2021
Report of	Chief Finance Officer		
Purpose of Report			
This report seeks Cabinet’s consideration of various matters in connection with the Treasury Management Mid-Year Review 2021/22.			
Key Decision (Y/N)	N	Date of Notice	Exempt (Y/N) N

Report Summary
<p>This report provides Cabinet with</p> <ul style="list-style-type: none"> Performance information in relation to the Council’s Treasury Management Activities for the period 1st April to 30th September 2021 (Appendix A).

Recommendations of Councillors
<p>That Cabinet</p> <ol style="list-style-type: none"> Consider the various matters in connection with the Treasury Management Mid-Year Review 2021/22 Forward the Mid-Year Review 2021/22 on to Budget & Performance Panel and Full Council for consideration in accordance with CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

Relationship to Policy Framework	
Treasury Management forms part of the Councils budget framework	
Conclusion of Impact Assessment(s) where applicable	
Climate	Wellbeing & Social Value
Digital	Health & Safety
Equality	Community Safety
<i>A Thriving & Prosperous Economy:</i>	
<i>Clean Green & Safe Neighbourhoods:</i>	
<i>A Smart & Forward-Thinking Council:</i>	
Effective Treasury Management and use of the Councils’ resources is fundamental to the delivery of its priorities and outcomes	
Details of Consultation	
Consultation has been undertaken with the Council’s external Treasury Management Advisors	

Legal Implications	
None directly arising from this report	
Financial Implications	
There are no financial implications arising directly from this report.	
However, although currently impacted by COVID-19 areas of capital investments may require additional borrowing and other associated costs. Financial due diligence and assessment will ensure that all the appropriate costs are considered for each proposal and external advice considered ahead of any borrowing being incurred.	
Other Resource or Risk Implications	
There are no additional resource or risk implications	
Section 151 Officer's Comments	
The s151 Officer has written this report in his role as Chief Finance Officer	
Monitoring Officer's Comments	
The Monitoring Officer has been consulted and has no further comments	
Contact Officer	Paul Thompson
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Links to Background Papers	

1.0 INTRODUCTION

1.0 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

1.1 During 2021/22 the minimum reporting requirements are that the Full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 24 February 2021)
- a mid-year (minimum) treasury update report (This report).
- an annual review following the end of the year describing the activity compared to the strategy

1.2 In addition, Members will receive treasury management update reports on which are presented to Cabinet and Budget and Performance Panel.

2.0 BACKGROUND

2.1 The Mid-Year Review (Appendix A) sets out the performance of treasury operations for the first six months of the 2021/22 financial year in terms of long- and short-term borrowing, investment activities and relevant borrowing limits and prudential indicators.

2.2 Under CIPFA's Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) it is a requirement that an information report on these matters be presented to Cabinet and full Council.

3.0 SUMMARY DETAILS

Investments

3.1 The average level of funds available for investment purposes over the six-month period was £38.3M (2020/21 £41.0M). These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept and business rate related payments, the receipt of grants and progress on the Capital Programme.

3.2 The Council's investments returned an average rate 0.02% on deposit generating c£4.6K of interest against a profiled budget of c£20K.

Borrowing

3.3 The Capital Financing Requirement (CFR) measures the Council's underlining need to borrow for capital purpose, i.e. its borrowing requirement. The CFR is the amount of capital expenditure that has not yet been financed by capital receipts, capital grants or contributions from revenue.

- 3.4 The Council's capital financing requirement (CFR) for 2021/22 was forecast as £134.88M with the current forecast CFR at quarter 2 is, however, £105.13M as much of the expenditure funded by unsupported borrowing, most notably that in the Development Pool, is expected to slip.
- 3.5 If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The Council currently has borrowings of £60.04M. It intended to utilise £33.09M of cash flow funds in lieu of borrowing and with current forecasts estimating new borrowing of £12M later in the financial year. This will be considered when the need arises and will be in consultation with the Council's external advisors.
- 3.6 The capital programme is being kept under regular review due to the effects of COVID-19, the shortage of materials and labour and delays to schemes within the Development Pool. Therefore, our borrowing strategy will be reviewed and then revised in order to achieve optimum value and risk exposure in the long-term.

Changes to Prudential Indicators

- 3.7 In compliance with the Prudential Framework the Council sets an annual Treasury Management Strategy including key indicators, determined under regulation, to assist Members in assessing the affordability of borrowing and in determining that it is prudent and sustainable.
- 3.8 This table shows the current estimates for the General Fund and Housing Revenue Account capital programmes, compared to the original estimates

Capital Expenditure by Service	2021/22	
	Original Estimate £m	Quarter 2 Position £m
Communities and Environment	10.08	11.54
Economic Growth and Regeneration	2.54	4.05
Corporate Services	0.14	0.14
Development Pool	50.15	0.76
Total for General Fund	62.91	16.49
Council Housing (HRA)	4.78	4.78
Total Capital Expenditure	67.69	21.27

- 3.9 Capital Expenditure by service is in line with figures provided with the published Q2 monitoring (Delivering our Priorities Q2). The reduction in capital expenditure reflects programmes predominately within the Development Pool not being delivered.
- 3.10 This table shows the changes in the financing of the capital programmes, and the level of borrowing required.

Capital Expenditure	2021/22	
	Original Estimate £m	Quarter 2 Position £m
Total capital expenditure	67.69	21.27
Financed by:		
Capital receipts	0.64	0.64
Capital grants	19.57	7.17
Reserves	5.25	4.39
Revenue	0.00	0.00
Total Financing	25.46	12.20
Borrowing Requirement	42.23	9.07

- 3.11 The table shows that the capital financing requirement (CFR) is £29.75M lower than the original estimate due to the 2021/22 than the original estimate due to schemes within the Development Pool not being delivered as originally forecast.

Capital Financing Requirement	2021/22	
	Original Estimate £m	Quarter 2 Position £m
General Fund	98.69	68.94
HRA	36.19	36.19
Total Capital Financing Requirement	134.88	105.13
Net movement in CFR	39.01	-29.75

- 3.12 A key control over treasury management activity is to ensure that over the medium term, net borrowing (borrowings less investments) will only be for capital purposes. Gross external borrowing should not, except in the short term, exceed the total capital financing requirement.
- 3.13 The table below shows compliance with this control as the Council's external borrowing £60.04M compared to its CFR £105.13M

External Debt v Borrowing Need (CFR)	2021/22	
	Original Estimate £m	Quarter 2 Position £m
External Debt	102.09	61.08
Other long term liabilities	-1.04	-1.04
Expected Change in Other long term liabilities	0.00	0.00
Total Debt	101.05	60.04
Compared to current :		
Capital Financing Requirement	134.88	105.13
Operational Boundary:-		
Debt	95.87	105.13
Authorised Limit:-		
Debt	112.00	112.00

4.0 OPTIONS AND OPTIONS ANALYSIS

- 4.1 As the report is for consideration and progressing to Budget and Performance Panel and Full Council, no alternative options are put forward.

5.0 CONCLUSION

- 5.1 Consideration of Treasury Management Mid-Year Review and presentation to Full Council will ensure the Council complies with CIPFA's Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

**Treasury Management Strategy Statement and Annual
Investment Strategy**

Mid-Year Review 2021/22

Report of Chief Finance Officer

1. Background

Capital Strategy

In December 2017 CIPFA (Chartered Institute of Public Finance and Accountancy) issued revised Prudential and Treasury Management codes. As from 2020/21, all local authorities will be required to prepare a Capital Strategy which is intended to provide:

- a high-level 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

A report setting out our Capital Strategy was taken to Council on 24 February 2021.

Treasury Management

The Council operates a balanced budget, which broadly means that cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management services 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 the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and, on occasion, any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, treasury management is defined as:

“the management of the local authority's borrowing, 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. Introduction

This report has been written in accordance with the requirements of CIPFA's Code of Practice for Treasury Management.

The primary requirements of the Code are as follows:

- (i) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- (ii) Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

- (iii) Receipt by full council of an annual Treasury Management Strategy Statement – including the Annual Investment Strategy and Minimum Revenue Provision Policy – for the year ahead, a Mid-year Review Report and an Annual Report, covering activities during the previous year.
- (iv) Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- (v) Delegation by the council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is Budget and Performance Panel.

This mid-year report covers the following:

- An economic update for the first part of the 2021/22 financial year
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators
- A review of the Council's investment portfolio for 2021/22
- A review of the Council's borrowing strategy for 2021/22
- A review of any debt rescheduling undertaken during 2021/22
- A review of compliance with Treasury and Prudential Limits for 2021/22

3. Economics update (provided by Link Asset Services)

MPC meeting 24.9.21

- *The Monetary Policy Committee (MPC) voted unanimously to leave Bank Rate unchanged at 0.10% and made no changes to its programme of quantitative easing purchases due to finish by the end of this year at a total of £895bn; two MPC members voted to stop the last £35bn of purchases as they were concerned that this would add to inflationary pressures.*
- *There was a major shift in the tone of the MPC's minutes at this meeting from the previous meeting in August which had majored on indicating that some tightening in monetary policy was now on the horizon, but also not wanting to stifle economic recovery by too early an increase in Bank Rate. In his press conference after the August MPC meeting, Governor Andrew Bailey said, "the challenge of avoiding a steep rise in unemployment has been replaced by that of ensuring a flow of labour into jobs" and that "the Committee will be monitoring closely the incoming evidence regarding developments in the labour market, and particularly unemployment, wider measures of slack, and underlying wage pressures." In other words, it was flagging up a potential danger that labour shortages could push up wage growth by more than it expects and that, as a result, CPI inflation would stay above the 2% target for longer. It also discounted sharp increases in monthly inflation figures in the pipeline in late 2021 which were largely propelled by events a year ago e.g., the cut in VAT in August 2020 for the hospitality industry, and by temporary shortages which would eventually work their way out of the system: in other words, the MPC had been prepared to look through a temporary spike in inflation.*

- *So, in August the country was just put on alert. However, this time the MPC's words indicated there had been a marked increase in concern that more recent increases in prices, particularly the increases in gas and electricity prices in October and due again next April, are, indeed, likely to lead to faster and higher inflation expectations and underlying wage growth, which would in turn increase the risk that price pressures would prove more persistent next year than previously expected. Indeed, to emphasise its concern about inflationary pressures, the MPC pointedly chose to reaffirm its commitment to the 2% inflation target in its statement; this suggested that it was now willing to look through the flagging economic recovery during the summer to prioritise bringing inflation down next year. This is a reversal of its priorities in August and a long way from words at earlier MPC meetings which indicated a willingness to look through inflation overshooting the target for limited periods to ensure that inflation was 'sustainably over 2%'. Indeed, whereas in August the MPC's focus was on getting through a winter of temporarily high energy prices and supply shortages, believing that inflation would return to just under the 2% target after reaching a high around 4% in late 2021, now its primary concern is that underlying price pressures in the economy are likely to get embedded over the next year and elevate future inflation to stay significantly above its 2% target and for longer.*
- *Financial markets are now pricing in a first increase in Bank Rate from 0.10% to 0.25% in February 2022, but this looks ambitious as the MPC has stated that it wants to see what happens to the economy, and particularly to employment once furlough ends at the end of September. At the MPC's meeting in February it will only have available the employment figures for November: to get a clearer picture of employment trends, it would need to wait until the May meeting when it would have data up until February. At its May meeting, it will also have a clearer understanding of the likely peak of inflation.*
- *The MPC's forward guidance on its intended monetary policy on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -*
 - *Placing the focus on raising Bank Rate as "the active instrument in most circumstances".*
 - *Raising Bank Rate to 0.50% before starting on reducing its holdings.*
 - *Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.*
 - *Once Bank Rate had risen to at least 1%, it would start selling its holdings.*

4. Interest Rate Forecast

The Council's treasury advisor, Link Asset Services, provided the following forecast on 29 September 2021:

Link Group Interest Rate View		29.9.21									
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	
BANK RATE	0.10	0.10	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75	
3 month ave earnings	0.10	0.10	0.20	0.20	0.30	0.40	0.50	0.50	0.60	0.70	
6 month ave earnings	0.20	0.20	0.30	0.30	0.40	0.50	0.60	0.60	0.70	0.80	
12 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.70	0.80	0.90	1.00	
5 yr PWLB	1.40	1.40	1.50	1.50	1.60	1.60	1.60	1.70	1.70	1.70	
10 yr PWLB	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	
25 yr PWLB	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60	
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.40	

The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings.

As shown in the forecast table above, one increase in Bank Rate from 0.10% to 0.25% has now been included in quarter 2 of 2022/23, a second increase to 0.50% in quarter 2 of 23/24 and a third one to 0.75% in quarter 4 of 23/24.

5. Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy (TMS) for 2021/22, which includes the Annual Investment Strategy was approved by the Council on 24 February 2021. There are no policy changes to the TMS; the details in this report update the position in light of the updated economic position and budgetary changes already approved.

6. Investment Portfolio

In accordance with the CIPFA Treasury Management Code of Practice the Council's investment priorities are set out as being:

- Security of capital
- Liquidity
- Yield

The Council aims 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, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

As shown by forecasts in section 4, it is now impossible to earn the level of interest rates commonly seen in previous decades as all short-term money market investment rates have only risen weakly since Bank Rate was cut to 0.10 in March 2020. Given this environment and the fact that Bank Rate may only rise marginally, or not at all, before the second half of 2023, investment returns are expected to remain low.

The average level of funds available for investment purposes over the six month period was **£38.3M**. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept and business rate related payments, the receipt of grants and progress on the Capital Programme.

Investment Counterparty criteria

The current investment counterparty criteria selection approved in the TMS is meeting the requirement of the treasury management function.

Approved Limits

The fact that the authority is currently holding a significant amount of funds due to be repaid to central government and the unpredictability of the amount and date of receipt of funding and income compensation payments arising from the Covid-19 pandemic, has created pressure on the investment headroom available within the approved Treasury Management Strategy. Many other authorities are in a similar position making it very difficult to source a counter party to lend to as markets are flooded with cash. This is also exacerbated by expenditure on the Capital Programme running significantly behind that anticipated. This has resulted in the £1m limit of funds held overnight in the Council's current account very occasionally being breached. In most instances the breach was less than £150k rising to £516k at maximum. Action has now been taken to re-commence deposits with the UK Debt Management Office, Debt Management Account Deposit Facility in the case of such emergencies.

7. Borrowing

The Council's capital financing requirement (CFR) for 2021/22 was forecast as £134.88M as set out at **Annex A**. The current forecast CFR at quarter 2 is, however, £105.13M as much of the expenditure funded by unsupported borrowing, most notably that in the Development Pool, is expected to slip. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The Council currently has borrowings of £61.04M. It intended to utilise £33.09M of cash flow funds in lieu of borrowing and take out new borrowing of £12M later in the financial year.

The capital programme is being kept under regular review due to the effects of coronavirus and the shortage of materials and labour. Therefore, our borrowing strategy will be reviewed and then revised in order to achieve optimum value and risk exposure in the long-term.

8. Debt Rescheduling

Debt rescheduling opportunities have been limited in the current economic climate and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

9. Compliance with Treasury and Prudential Limits

During the financial year to date the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy and in compliance with the Council's Treasury Management Practices.

It is a statutory duty for the Council to determine and keep under review its affordable borrowing limits. With the exception of the circumstances outlined in paragraph 6, during the half year ended 30th September 2021, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2021 and no difficulties are envisaged for the current or future years in complying with these indicators.

10. Other Issues

Changes in risk appetite

The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or to other types of investment instruments this change in risk appetite and policy should be brought to members' attention in treasury management update reports. There are no such changes to report.

PRUDENTIAL INDICATORS - MID YEAR REVIEW

Prudential Indicator for Capital Expenditure

This table shows the current estimates for the General Fund and Housing Revenue Account capital programmes, compared to the original estimates.

Capital Expenditure by Service	2021/22	
	Original Estimate £m	Quarter 2 Position £m
Communities and Environment	10.08	11.54
Economic Growth and Regeneration	2.54	4.05
Corporate Services	0.14	0.14
Development Pool	50.15	0.76
Total for General Fund	62.91	16.49
Council Housing (HRA)	4.78	4.78
Total Capital Expenditure	67.69	21.27

Changes to the Financing of the Capital Programmes

This table shows the changes in the financing of the capital programmes, and the level of borrowing required.

Capital Expenditure	2021/22	
	Original Estimate £m	Quarter 2 Position £m
Total capital expenditure	67.69	21.27
Financed by:		
Capital receipts	0.64	0.64
Capital grants	19.57	7.17
Reserves	5.25	4.39
Revenue	0.00	0.00
Total Financing	25.46	12.20
Borrowing Requirement	42.23	9.07

Changes to the Capital Financing Requirement

The following table shows that the capital financing requirement (CFR) is £29.75M lower than the original estimate due to schemes in the Development Pool section of the capital programme not being delivered in year as spending officers anticipated.

Capital Financing Requirement	2021/22	
	Original Estimate £m	Quarter 2 Position £m
General Fund	98.69	68.94
HRA	36.19	36.19
Total Capital Financing Requirement	134.88	105.13
Net movement in CFR	39.01	-29.75

Limits to Borrowing Activity

A key control over treasury management activity is to ensure that over the medium term, net borrowing (borrowings less investments) will only be for capital purposes. Gross external borrowing should not, except in the short term, exceed the total capital financing requirement.

External Debt v Borrowing Need (CFR)	2021/22	
	Original Estimate £m	Quarter 2 Position £m
External Debt	102.09	61.08
Other long term liabilities	-1.04	-1.04
Expected Change in Other long term liabilities	0.00	0.00
Total Debt	101.05	60.04
Compared to current :		
Capital Financing Requirement	134.88	105.13
Operational Boundary:-		
Debt	95.87	105.13
Authorised Limit:-		
Debt	112.00	112.00

Definitions:

Operational Boundary

The limit beyond which external debt is not normally expected to exceed is known as the operational boundary.

Authorised Limit for External Debt

A further prudential indicator controls the overall level of borrowing. This is the authorised limit which represents the limit beyond which borrowing is prohibited. It reflects the level of borrowing which, whilst not desired, could be afforded in the short term, but it is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements.

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