



LANCASTER
CITY COUNCIL

Promoting City, Coast & Countryside

COUNCIL MEETING

**Wednesday, 22 February 2023 -
6.00 p.m.
Morecambe Town Hall**

Lancaster City Council welcomes members of the public to attend meetings. However, space in the public gallery is limited to 30 seats due to Fire Regulations. If you would like to watch the meeting and have access to Microsoft Teams, please click the link which will appear [HERE](#) a few days before the meeting to watch the live stream from 6pm on the date of the meeting. If you wish to register to speak or ask a question at the meeting, please email your name and address and a copy of your speech or question to democracy@lancaster.gov.uk no later than noon on Friday 17th February 2023.

Mark Davies,
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, 22 February 2023 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 25 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 & POLICY FRAMEWORK GENERAL FUND REVENUE BUDGET 2023/2024**
(Pages 8 - 35)

Report of Cabinet

10. **HOUSING REVENUE ACCOUNT BUDGET FRAMEWORK 2023 TO 2028** (Pages 36 - 47)

Report of Cabinet

11. **CAPITAL PROGRAMME 2023/24 - 2027/28 & CAPITAL STRATEGY (INVESTING IN THE FUTURE)** (Pages 48 - 77)

Report of Cabinet

12. **TREASURY MANAGEMENT STRATEGY 2023/24** (Pages 78 - 110)

Report of Cabinet

OTHER BUSINESS

13. **MEDIUM TERM FINANCIAL STRATEGY 2023/24 - 2027/28** (Pages 111 - 132)

Report of the Chief Financial Officer

14. **COUNCIL TAX 2023/24**

Report of the Chief Financial Officer

Report to follow

15. **APPOINTMENTS TO OUTSIDE BODIES** (Pages 133 - 135)

Report of the Head of Democratic Services

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

Group Administrators to report any changes to Committee Membership.

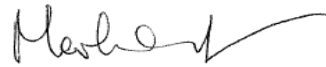
17. **QUESTIONS UNDER COUNCIL PROCEDURE RULE 12**

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.

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

To receive the Minutes of Meeting of Cabinet held 17 January 2023.



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Chief Executive

Town Hall,
Dalton Square,
LANCASTER,
LA1 1PJ

Published on 14 February 2023.



Leader's Report

22 February 2023

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

1.1 Information on Cabinet matters is provided in the minutes from the Cabinet meeting held 17 January, later in this agenda.

2.0 Decisions required to be taken urgently

2.1 No urgent Cabinet decisions had been taken in this period.

3.0 Leader's Comments

3.1 The highlight of this month was naturally the announcement of the Levelling Up Round 2 funding for the Eden project in Morecambe. Alongside this was completion of the work on the budget to be presented to members including the final consultation with the public through Budget and Performance Panel.

General matters

3.2 **UKSPF** The first allocations of funding have been given out to projects and officers are working with them individually to ensure money can be spent by the very short deadline. The next round of applications for Year 2 money has commenced with a briefing for potential applicants.

- 3.3 **OBR/Budget:** Work on the final figures has continued following the late announcement of the financial settlement from government. Overall, the districts received only 6% total uplift in the monies to be received or collected representing more than 4% cut in our budget. Government stated expectations were that authorities used reserves to support their budget projected overspends. However, our unallocated reserves need has to include reserves to cover the overspend in 2020-2023 caused by energy costs and general inflation. When this expectation is set against the projected budgets over the next four years show it is clear that the saving of more than £2 million for this budget will need to be matched by similar savings next year. The consultation with the public undertaken both on-line and through Teams meetings as well as Budget and Performance annual consultation, gave us a clear understanding of priorities for discretionary spend. As a result, we have extended the Platform programming until April 2024 and continue actively looking for ways to enhance the planned museums and tourist information offer. A detailed timeline for the OBR work ongoing has been collated for 2023 - 2024 and will be presented to next cabinet.
- 3.4 **Plan 2050:** Following the Convention of the North where Mr Gove stated an intention to speak with Lancashire about devolution, there is further emphasis on the role of Plan 2050 as an indication of the readiness of districts, unitaries and county to work together. Leaders and county officers agreed in January to a programme of meetings to establish working committees and structures to feedback in future.
- 3.5 The South Lancaster Growth Catalyst briefing for members on the current situation and expected developments will now take place in the next week

New matters

- 3.6 **Housing and Regeneration:** Officers and members of cabinet have met to discuss future developments on Frontierland. As a result of the Eden announcement there will be a brief call for further Expressions of Interest and those currently received will be revisited.
- 3.7 The Community Safety Partnership has now been charged with the Serious Violence Duty for the district and meetings are taking place to review the organisation of the partnership to ensure it can address its priorities and responsibilities. Inspector Dave Bannon has discussed with us the community security concerns for the district after a number of recent incidents.
- 3.8 **Eden and Consequences for the District:** following the announcement, the Eden team has visited Lancaster. In response to widespread interest from members and the community in how the advent of Eden will affect the future for Morecambe and the district, we are organising an opportunity for exchange of views and possibilities at the Morecambe Summit on 14th March at the Winter Gardens 2-5 pm. All are welcome. It will be an Eventbrite ticketed event. Many thanks to the Winter Gardens for their generous support.

4.0 Decisions

The following decisions were scheduled to be considered by Cabinet on 7 February 2023:

Hackney Carriage Fare Review
Budget & Policy Framework 2023/2024 to 2027/2028 including Capital and Treasury Management Strategies
Housing Revenue Account & Capital Programme

There have been no Officer Delegated Key Decisions has taken since the last Leaders report.

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

ICMD14	Scotforth Rural Parish Neighbourhood Plan Area Designation	Published on 17/01/23 Taken by Cllr Dowding
ICMD15	Caton with Littledale Neighbourhood Plan Referendum	Published on 23/01/23 Taken by Cllr Dowding
ICMD16	UK Shared Prosperity Fund: Round 1 Award: Supporting Local Business	Published on 27/01/23 Taken by Cllr Hamilton-Cox
ICMD17	UK Shared Prosperity Fund: Round 1 Award: Community and Place	Published on 27/01/23 Taken by Cllr C. Jackson
ICMD18	UK Shared Prosperity Fund: Round 1 Award: Improving Town Centres and High Streets	Published on 27/01/23 Taken by Cllr Brookes
ICMD19	UK Shared Prosperity Fund: Round 1 Award: Supporting Decarbonisation	Published on 27/01/23 Taken by Cllr Frea
ICMD20	UK Shared Prosperity Fund: Round 1 Award: Arts and Culture	Published on 27/01/23 Taken by Cllr Thornberry

Background Papers

Cabinet agenda of the meeting held on 7 February 2023.

COUNCIL

**Budget & Policy Framework General Fund Revenue
Budget 2023/24**

22 February 2023

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 2023/24.			
Key Decision		Non-Key Decision	Referral from Cabinet Member
Date of notice of forthcoming key decision			
This report is public however the Appendix B1 is exempt by virtue of paragraphs 2, 3 & 4 of Part 1 of Schedule 12A of the Local Government Act 1972			

RECOMMENDATION OF CABINET

- (1) That the General Fund Revenue Budget of £21.091M for 2023/24 be approved, resulting in a Council Tax Requirement of £10.610M, excluding parish precepts, and a Band D basic City Council tax rate of £249.18.
- (2) That the supporting General Fund Revenue Budget proposals be approved, as summarised at Appendices A, B and B1.
- (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 £5.0M, to provide for added uncertainty.
- (5) That Council approve the acceptance of a Local Council Tax Support Fund Grant received from the government, with a delegation to the Cabinet Member for Finance & Resources to agree a further Council Tax Support Scheme for 2023/24 covering vulnerable households.

1.0 INTRODUCTION

1.1 Under the Constitution, Cabinet has responsibility for developing corporate planning proposals and a balanced budget for Council’s consideration. The Council meeting on 25 January 2023 considered Cabinet’s proposed revenue budget for 2022/23 and approved a City Council Tax increase of 2.99% together with a year-on-year target of the maximum allowable under the Government’s local referendum thresholds for future years.

1.2 Cabinet met 07 February 2023 to consider its final budget proposals in order that the Council can complete its revenue budget setting for 2023/24. During the course of that meeting and subsequent announcement of the Final Local Government Finance Settlement changes were made to the proposal presented, these changes are reflected in this report and highlighted in table 4.

1.3 This report sets out:

- The Operational and Strategic context in which the budget has been set. **(Section 2)**
- The Council's General Fund Revenue Budget for 2023/24 **(Section 3)**
- A summary of the of Council Tax and Business Rates as reflected in the Council's Collection Fund. **(Section 4)**
- The s151 Officers Assessment of the Adequacy of the Council's Reserves Provision and Balances. **(Section 5)**

2.0 OPERATIONAL & STRATEGIC CONTEXT

2.1 The 2023/24 Budget has once again been set against the backdrop of significant change and economic volatility, which puts significant pressure on the Council's limited resources.

2.2 Members will be aware that for a number of years the Council has reported a structural budget deficit, meaning that its planned expenditure exceeds its anticipated income. In addition to this, the current cost of living crisis has compounded matters by exacerbating general and pay inflation together with energy costs, placing considerable additional pressure on the Council's limited resources.

2.3 Further uncertainties remain around the future of Heysham 1 & 2 Power Stations and their decommissioning plans. Whilst Central Government provides a mechanism to limit the losses incurred by the Council given, they account for over 30% of the Council's Business Rates income and this remains a considerable risk to the Council's financial position

2.4 Nationally, Central Government have attempted to provide Local Government with additional certainty by providing a 2-year Finance Settlement, with both new and continuation of several grant funding streams confirmed. Whilst this is an improvement on previous single year settlements, difficulties remain in forecasting in the medium and longer term which is required when developing the Council's Medium Term Financial Strategy.

2.5 All business rateable values in England and Wales have been revalued based on open market rental levels as at 1st April 2021 with the new liabilities taking effect from 1st April 2023. Although the Council has seen a 5% raise in rateable values there remains significant uncertainties around the application reliefs and the potential level of appeals

2.6 The Council has been successful in agreeing an investment plan with the Department for Levelling Up, Housing and Communities (DLUHC) to allocate external funding of over £5M from the UK Shared Prosperity Fund (UKSPF) awarded to support building pride in place, supporting high quality skills training, supporting pay, employment, and productivity growth, and increasing life chances across the district. Eight local projects have been awarded funding, with further rounds of funding awards to follow during the programme's lifespan up to March 2025.

2.7 More recently, on 19th January this year, the Council was successful in its bid to secure £50M from Department for Levelling Up towards the Eden Project Morecambe. This is excellent news and a great boost for the district, Securing Government funding was an important step but much work still remains to be done by Eden and the project partners. It will naturally be

some years before the impact of increased income from business rates and tourism filter through. In the meantime, officers are working with Eden and the other partners to implement the required governance and delivery mechanisms to ensure that the full benefits of the project are secured.

3.0 REVENUE BUDGET 2023/24

3.1 The General Fund Revenue Budget for 2023/24, summarised in Table 1 below, is included at **Appendix A**, with summary information given at **Appendix B** and more detailed budget savings proposals in exempt **Appendix B1**. The proposed budget is balanced, in line with statutory requirements, allowing for a draw on the Council's reserves of £0.577M.

Table 1: General Fund Revenue Budget 2023/24

	2023/24 £000	
Revenue Budget Forecast as 23 February 2022		21,943
Base Budget Changes		
Operational Base Budget Changes		2,443
		24,386
Outcomes Based Resourcing Proposals		
Costs of Asset Repurposing	277	
Additional Income Generation Proposals	(420)	
Savings Proposals	(2,423)	
Impact of Review of the Capital Programme	9	
		(2,557)
Other Adjustments		
Changes to Assumptions	(203)	
Minor Adjustments	42	
		(161)
General Fund Revenue Budget Before Core Funding & Use of Reserves		21,668
Contribution to/ (from) Unallocated Reserves		(577)
General Fund Revenue Budget 2023/24		21,091
Core Funding		
Revenue Support Grant	(406)	
Prior Year Council Tax (Surplus)/ Deficit	181	
Net Business Rates Income	(10,256)	
Total Core Funding		(10,481)
Council Tax Requirement		10,610
Council Tax Requirement		(10,610)
2.99% Council Tax Increase Council 25 January 2023		
Resulting Base Budget (Surplus)/ Deficit		0

3.2 The proposals set out in the Table 1 above produce a balanced revenue budget for 2023/24, which forms part of the recommendations of this report

- 3.3 At its meeting on 23 February 2022 Council set its budget for 2022/23 and the base budget estimates for 2023/24 and future years. At the start of the budget setting process these “base” estimates are reviewed in light of current circumstances and best information available and revised estimates produced before any saving, growth, or re-direction proposals are received. These estimates are under constant review during the budget setting process and often change as information comes forward.

Base Budget Outcomes Based Resourcing Proposals and Other Adjustments

- 3.4 Operational and Base Budget changes for 2023/24 currently amount to a reduction in expenditure of £0.275M. A summary of these changes is given in the table 2 below:

Table 2 Base Budget, Outcomes Based Resourcing Proposals & Other Adjustments

Base Budget Changes	£M	Reference
Employees	0.868	3.5
Premises Related	2.895	3.6
Transport Related	0.294	3.7
Supplies and Services	0.907	3.8
Support Services	(0.084)	3.9
Capital Financing Costs	0.480	3.10
Appropriations	0.139	3.11
Income	(1.671)	3.12 & 3.13
Reserve Adjustments	(1.385)	3.14
Total	2.443	
Outcomes Based Resourcing Proposals		
Costs of Asset Repurposing	0.277	3.15
Fees & Charges	(0.420)	3.16
Saving Proposals	(2.423)	3.17 & 3.18
Revenue Impact of Capital Programme Review	0.009	3.19
Total	(2.557)	
Other Adjustments		
Changes in Assumptions	(0.203)	3.20 & 3.21
Other Minor Changes	0.042	3.22
Total	(0.161)	
Grand Total	(0.275)	

BASE BUDGET CHANGES

Employees Assumptions £0.868M

- 3.5 As part of the 2022/23 budget setting process, in line with the majority of Councils, an inflationary uplift of 2% was included to salaries across all service areas for all projected years. During the current financial year, a pay award of an increase of £1,925 on all NJC pay points was accepted. When consolidated the composite rate was considerably higher than 2% budgeted. The impact on 2023/24 was initially estimated as an additional £0.868M when considered against the 2% originally included. This estimate has now been revisited and revised to 4% as referenced in paragraph 3.20 below

Premises Related £2.895M

- 3.6 This base budget increase largely represents inflation surrounding energy costs. As has been well documented, the cost of living crisis has massively impacted on the cost of energy. The estimates have been prepared on information available during quarter 3 of 2022/23 and will be closely monitored during the 2023/24 financial year. This estimate has now been revisited as referenced in paragraph 3.21 below

Transport Related £0.294M

- 3.7 This base budget increase largely represents the inflation surrounding fuel costs. Again, the cost of living crisis has massively impacted on the cost of fuel. The estimates have been prepared on information available during quarter 3 of 2022/23 and will be closely monitored during the 2023/24 financial year.

Supplies and Services £0.907M

- 3.8 The council support a number of housing schemes (resettlement programmes, Changing Futures etc.) where funding for 2023/24 was confirmed during 2022/23. Related expenditure has now been included in the draft revenue budget. These are mainly government funded initiatives and a corresponding adjustment is included within the income section.

Support Services (£0.084M)

- 3.9 The original budgets within general fund housing accounts included a recharge to other accounts within service. This is no longer required as the costs are now being directly coded to the originating cost centre. There is a corresponding adjustment within the income section.

Capital Financing Costs £0.480M

- 3.10 This represents the interest cost of new loans required during 2023/24 to support the capital programme.

Appropriations £0.139M

- 3.11 This represents a net increase in amounts being utilised principally from the revenue grants unapplied reserve which is the repository for grants received without conditions in previous years such as Community Housing and Brownfield/Self Build.

Income (£1.671M)

- 3.12 As detailed above, a significant proportion of this base budget change relates to the government funding on an array of initiatives where a corresponding amount of expenditure has been included within the supplies and services section.

- 3.13 As part of the 2022/23 budget setting process, a savings item of c.£0.5M was included to reflect the impact of a car parking tariff review. Due to subsequent tariff changes and other factors, this additional income has not been realised. The 2023/24 projection has, therefore, been reduced by that amount as a realistic measure of what income level the council can expect to achieve. New investment property income of c.£0.250M was also included in the original budget. Changes to borrowing requirements have, however prevented the acquisition of properties purely for commercial gain and the income target has subsequently been removed.

Reserve Adjustments £1.385M

- 3.14 This amount includes £1.1m for roof and cladding works at Gateway, White Lund together with £0.180M and £0.105M for Burrow Beck solar farm feasibility and urgent property maintenance works respectively.

OUTCOMES BASED RESOURCING PROPOSALS

Costs of Asset Repurposing £0.277M

- 3.15 As part of their review of the Council's estate, the Asset Group highlighted a number of properties requiring essential maintenance as well as several potential properties for disposal. These costs reflect both the level of required maintenance and loss of income associated with disposal.

Fees & Charges (£0.420M)

- 3.16 As reported elsewhere on this agenda, fees and charges are subject to annual inflationary rises. Since the previously reported budgetary position, a change has been made to the percentage increase in fees which has a positive impact on the net position of the general fund.

Savings Proposals £2.423M

- 3.17 As noted previously, the OBR groups have identified a number of budget saving proposals for Council to consider. Given the sensitivities around some of the proposals, they have been presented at summary level at **Appendix B** and more detailed budget savings proposals in exempt **Appendix B1** to enable effective discussion.
- 3.18 Members should note that failure to deliver these savings, efficiency and income proposals will represent a significant risk to the Council as any shortfall would result in further financial pressures in 2024/25 and beyond.

Revenue Impact of Capital Programme Review £0.009M

- 3.19 Cabinet and Senior Leadership Team have reviewed in detail the Council's existing capital programme and have added, deleted and reprofiled a number of capital schemes in line with its Capital Investment Strategy. This has resulted in a small net cost in 2023/24 for Minimum Revenue Provision (MRP) and interest charges.

OTHER ADJUSTMENTS

- 3.20 Change in Pay Assumptions £0.542M & Energy (£0.745M)

As noted above, the initial pay planning assumption was for an increase of 2%. Following discussions with Members, and consideration of information received from other Northwest Council's, it was felt that 2% was insufficient. The budget was, therefore, increased to a 4% uplift. This equated to a further £0.542M for 2023/24 and has also created a further burden on future years.

- 3.21 The position reported previously to Cabinet included the latest prices available for energy costs. Information has now been received advising that prices have reduced somewhat and the estimate has been revised accordingly. With regard to the stability of these projections it should be noted that some bulk buying in advance has taken place by our suppliers which now eliminates the risk of price change in 2023/24. This has led to a c.£0.745M budgetary reduction from the previously reported position in 2023/24 and future years.

Other Minor Changes £0.042M

- 3.22 This largely relates to the financial impact of Museums staff completing the job evaluation process and the net impact of the Local Government Finance Settlement.

Budget Principles and Assumptions

- 3.23 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 outcomes and value for money. Any

additional investment and spending decisions will be made to reflect Council priorities and strategic commitments.

- 3.24 Table 3 below, lists the major assumptions that have been made for the 2023/24 budget.

Table 3: Major Assumptions within General Fund Revenue Budget 2023/24

	2023/24
Council Tax Base Growth	1.00%
Council Tax Increase	2.99%
Council Tax Collection Rate (Band D Equivalent)	98.67%
Business Rates Multiplier	Frozen
Fees & Charges	Various
Inflation – Pay	4.00%
Employer Pensions Contribution	16.30%
Inflation – General (Minor Cost Centres)	2.40%
Inflation – Insurance	10.00%
Inflation Utilities	Gas: Agreed price Electric: Agreed price
Interest Rate – investments	3.50%
Interest Rate – new borrowing	4.00%

- 3.25 The General Fund Revenue budget presented at Table 1 contains a number of changes from that presented to Council on 25 January 2023 and to Cabinet on 07 February 2023. To assist Members understanding, Table 4 provides a reconciliation between the proposals presented at those earlier meetings and that formally presented within this report

Table 4: Reconciliation Base Budget (Surplus)/ Deficit Positions

	2023/24 £000	
Resulting Base Budget (Surplus)/ Deficit as at 25 January 2023 (Council)	0	Reference
Re-profiling of Minimum Revenue Provision adjustment	(1,500)	3.26
Changes to savings proposals	(16)	3.28
Changes to energy assumptions	745	3.29
Prior year Council Tax deficit	(181)	3.30
Forecast Increase in retained Business Rates	849	3.31
Additional contribution from Council reserves	103	3.33
Resulting Base Budget (Surplus)/ Deficit as at 7th February 2023 (Cabinet)	0	
Changes Made Since 7th February 2023 (Cabinet)		
Changes as a result of the Final Local Government Finance Settlement		
Reduction in Funding Guarantee Grant	(10)	3.34
Increase in Services Grant	10	3.34
Reduction in The Platform Savings	(43)	3.35
Savings identified within Building Control Service	43	3.36
Resulting Base Budget (Surplus)/ Deficit as at 22nd February 2023 (Council)	0	

Re-Profiling of Minimum Revenue Provision Adjustment & Policy Change (£1.500M)

- 3.26 As previously reported, as part of the OBR process, officers commissioned an external review of the Council's MRP policy and historic provision. The review highlighted several historic adjustments, which given the length of time that has elapsed, could generate a significant retrospective *one off windfall* to the Council. Members were advised that to realise this saving, a significant amount of work would be required from officers and that, given resource constraints, balanced with current statutory obligations, work would commence in the second quarter of the 2023/24 financial year.
- 3.27 Following further discussions with the Council's external providers, support and assistance has been offered to facilitate the realisation of the estimated saving in the 2022/23 financial year. Members will note that, as part of the Council's Treasury Management Strategy elsewhere on the agenda, approval is being sought to revise the Council's Minimum Review Provision (MRP) policy, which is also necessary to realise the savings in 2022/23.

Changes to Savings Proposals £0.016M

- 3.28 Two minor adjustments were made to the funding of events within the district, to enable the organisers to have a degree of certainty over funding. This has increased the budget for 2023/24 and for future years

Changes to Energy Assumptions £0.745M

- 3.29 As noted previously, information has now been received advising that energy prices have reduced significantly, and the original estimate has been revised accordingly. As a result, a £0.745M budgetary reduction has been reported from the previous position in 2023/24 and future years.

Prior Year Council Tax Deficit £0.181M

- 3.30 The Council is required to estimate the deficit on the Collection Fund in respect of Council Tax for the current year (2022/23) by 15 January each year. A forecast surplus on the fund would be distributed to the City Council and preceptors during 2023/24 whilst a forecast deficit on the fund is charged to the City Council and preceptors. The forecast deficit on the fund is calculated to be £1.429M with the share due from the City Council being £0.181M, an additional budget pressure. A number of variables give rise to movements in forecast surpluses and deficits including changes in numbers of exempt properties & voids, properties eligible for discounts, second homes and homes subject to the empty home's premium together with changes in anticipated levels of bad debt.

Forecast Increase in Business Rates £0.849M

- 3.31 As previously reported to Members all rateable values in England and Wales have been revalued by the Valuation Office Agency (VOA) as part of the 2023 Revaluation exercise. Unfortunately, at that time the Council's software supplier was unable to provide the relevant systems parameters to enable detailed forecasting to be undertaken, or to prepare for submission of the central government NNDR1 return. This information is now available estimates have been made taking into account

- Applicable reliefs or exemptions;
- The impact of appeals against the new rateable values, and the adequacy of provisions to meet any appeals;
- The impact of transitional arrangements to phase in the effect of changes in rateable values
- The anticipated movements on the Business Rates Retention Reserve

- 3.32 As a result of this re-forecasting the Council has seen a projected increase in its share of business rates income of £0.849M. However, as discussed later in this report there is potential for significant appeals against the revaluations.

Additional Contribution from Council Reserves £0.103M

- 3.33 The proposals presented to Council 25 January 2023 required a draw on Council reserves of £0.474M to balance the 2023/24 budget. Taking account of the effect of the various adjustments detailed in Table 4, a further draw of £0.103M is required. As a result, the total amount required from reserves in 2023/24 amounts to £0.577M, as seen in Table 1.

Changes as a result of the Final Local Government Finance Settlement £0.010M & (£0.010M)

- 3.34 As part of the Final Local Government Finance Settlement approved by Parliament on 6th February 2023, the Council's awards under the Funding Guarantee have been recalculated to account for additional grant funding within Core Spending Power. This resulted in a reduction in funding of £0.010M. To ensure no detriment was felt this amount has been allocated back through the Services. Overall, the impact on the Council is Nil.

Reduction in The Platform Savings (£0.043M)

- 3.35 At its meeting 7th February 2023, Cabinet agreed to a reduction in the savings expectations for the Platform of £0.043M from that originally presented at the meeting.

Savings identified within Building Control Service £0.043M

- 3.36 As part of the continuing budget process savings of £0.043M have been identified within the Council's Building Control services and incorporated into the 2023/24 budget.

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 have a deficit for 2022/23. As noted in paragraph 3.3 this is £0.181M.
- 4.3 The Council Tax increase of 2.99% agreed by Council on 25 January 2023 means that the City element of Council Tax for a band D property will be £249.18.
- 4.4 Due to the impact of rising bills, Government has since announced £100m of additional funding for local authorities to support the most economically vulnerable households in their area with their Council Tax payments.
- 4.5 Government Guidance confirms that support will be directed towards customers (working age and pensioners) in receipt of Local Council Tax Support (LCTS) and delivered using discretionary powers available to local authorities under s13A(1)(c) of the Local Government Finance Act 1992. Lancaster City Council has been awarded a total of £264,180.
- 4.6 **Council is recommended to approve the acceptance of a Local Council Tax Support Fund Grant received from the government, with a delegation to the Cabinet Member for Finance & Resources to agree a further Council Tax Support Scheme for 2023/24 covering vulnerable households.**

Business Rates

- 4.7 The Council is required to submit its annual business rates return (NNDR1) to the Government by the end of January in which it estimates business rates income for 2023/24 and the estimated deficit or surplus as at the end of 2022/23.

- 4.8 The inherent risk associated with the NNDR1 is that the final outturn surplus or deficit position differs substantially from the estimate, and this has indeed been the case at the Council in recent years. The Business Rates Retention Reserve is, therefore, utilised to safeguard against such fluctuations and to hold the impact of the multi-year flow of accounting entries for the Business Rates Retention Scheme. In this way the General Fund is safeguarded and a steady income stream in respect of Business Rates maintained.
- 4.9 The table 5 below shows the income from the Business Rates Retention Scheme that will be recognised in the General Fund during 2023/24

Table 5: Income from the Business Rates Retention Scheme

	2023/24 £M
Retained Business Rates	6.709
Renewable Energy Disregard Income	3.547
Total Retained Business Rates	10.256

- 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 and will inevitably have a significant impact on the Council's finances. Currently the rateable value of the reactor's accounts for a substantial proportion 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 2023/24, this will be worth £3.547M. Whilst it is evident that this 100% disregard will continue into 2024/25, there is a risk that the Government will discontinue this advantageous arrangement at some point in the future.
- 4.10 Information provided by the Council's external advisors suggests a lower level of checks, challenges, and threats against the 2017 rating list, whilst the risk of a back dated appeal from Heysham Power Station continues to dwindle. A reduction in the 2017 list appeals provision is planned as part of the 2022/23 outturn. However, there remains a risk that the Power Station may appeal against the new rateable values and an increased potential for outages as the reactors reach the end of life.
- 4.11 In addition, should any of the hereditaments subject to the renewable energy disregard appeal, the Council will be heavily impacted as it currently receives 100% of the rates from these. Although there is a lack of information regarding potential appeals against the 2023 rating list, it is usual for appeals to be higher in the first year of revaluation. The appeals provision is currently £15.909M with the City Council share being £6.364M. This endeavours to take account of all the variables outlined and reflect adequate provision for all of the 2010, 2017 and 2023 revaluation lists. Members should be assured that this is provision is kept under review as actual pattern of appeals emerge.

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. At its meeting on 09 November 2022, Council approved amendments to its Reserves Strategy. The Strategy put forward a number of revisions including,

- The transfer of £5.913M into the Council's General Fund unallocated reserve to boost financial resilience and to facilitate rationalisation of the application of these resources
- Endorsement of the s151 Officers advice to increase the minimum level of General Fund unallocated reserve to £5M
- Revisions to the governance arrangements for the approval of reserves expenditure

5.2 These revisions were required to enable the Council to better meet the current and forecast financial pressures it faces in regard to the ongoing cost of living crisis, uncertainty in the energy markets, together with other factors including general and pay inflation as well as the implications of OBR on the structural deficit as referenced for several year. It is against this back drop the 2023/24 assessments are made.

Provisions

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

Reserves & Balances

5.4 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

5.5 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, the Council faces significant inescapable financial pressures as noted above. Continuing uncertainties in respect of BREXIT, Local Government Funding levels and the results of the Council's OBR process also remain. **Taking all of these risks into account, the Section 151 Officer's advice is that the minimum level of balances held in the General Fund should remain at £5M.**

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

- The General Fund Balance at 31/03/22 was £6.032M, Quarter 2 revenue budget monitoring forecasts an overspend of £2.965M in 2022/23. Although preliminary indications from Quarter 3 monitoring suggest a decrease in the overspent position. This will need to be met from unallocated reserves.
- Although the Council has now embarked on its Outcomes Based Resourcing programme and identified a series of savings in order to deliver the 2023/24 budget, the Council's current MTFs suggests a structural budget gap in 2024/25 onwards of approximately £1.703M raising to £5.591M. If this is not closed, then balances will be required to make up the difference.
- Although Business rates retention volatility remains a risk to the Council in particularly the timing of 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.

- 5.7 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 6 below.

Table 6: Risk Assessment

Risk	Symptom of Risk	Balance Required £M
Increased demand for services	3% increase in net revenue expenditure	0.625
Recession results in additional uncompensated reduction in fees and charges income than budget	5% reduction in major fees and charges income	0.925
Recession results in additional reduction in Council Tax collection rates than budget	3% reduction in collection rate	0.325
Budget savings not achieved	25% under achievement	0.625
Natural disaster such as flood etc	Additional unexpected expenditure	0.500
Additional uncertainty with respect to Cost of Living	Additional unexpected expenditure	2.000
Aggregate overspend if all of the above risks were to happen		5.000

- 5.8 The analysis shows that, in the 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.
- 5.9 The minimum level of balances will be kept under review as part of the MTFs and reported to Cabinet on a regular basis.
- 5.10 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.
- 5.11 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

- 5.12 The estimated levels of General Fund Unallocated and combined Earmarked reserves balances are shown in **Appendix C** with the impact of the inclusion of forecast overspends summarised in tables 7 and 8 below:

Table 7: Estimated Level of General Fund Unallocated Reserves

	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M	2027/28 £M
Balance brought forward	(6.032)	(9.145)	(8.568)	(6.865)	(2.709)	2.883
Forecast Overspend	1.465	0.000	1.703	4.156	5.591	5.263
Other Adjustments	1.335	0.000	0.000	0.000	0.000	0.000
Contributions	(5.913)	0.000	0.000	0.000	0.000	0.000
Impact of 2023/24 budget decisions	0.000	0.577	0.000	0.000	0.000	0.000
Balance carried forward	(9.145)	(8.568)	(6.865)	(2.709)	2.883	8.145

**Table 8: Estimated Combined Level of Reserves
(excluding S106 Reserves & Reserves Held in Perpetuity)**

	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M	2027/28 £M
Balance brought forward	(27.421)	(19.020)	(19.268)	(17.548)	(13.612)	(8.341)
Impact of 2023/24 budget decisions	0.000	0.577	0.000	0.000	0.000	0.000
Impact of other decisions & outturn	8.401	(0.825)	0.017	(0.220)	(0.320)	0.000
Forecast Overspend	0.000	0.000	1.703	4.156	5.591	5.263
Balance carried forward	(19.020)	(19.268)	(17.548)	(13.612)	(8.341)	(3.078)

5.13 These tables clearly highlight the significant pressure the Councils reserves are under should funding of the forecast level of overspend in future year is not addressed.

Governance Arrangements on the Use of Reserves

5.14 Given the continuing financial pressures and the need for the prudent use of reserves the following arrangements exist for the approval of reserves expenditure:

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

5.15 These arrangements will be reviewed again as part of the annual revenue budget process

6.0 DETAILS OF CONSULTATION

6.1 Cabinet's initial budget proposals were presented at the Council meeting 25 January 2023 and the meeting of Budget and Performance Panel 01 February 2023.

6.2 At the Budget and Performance Panel meeting, many questions were raised and answered, and in addition the following feedback points were noted in the draft minutes. Cabinet considered these issues at its meeting 07 February 2023 and its decisions are reflected in the report.

7.0 OPTIONS & OPTIONS ANALYSIS

Revenue Budget

7.1 Council may adjust its revenue budget proposals, so long as the overall budget for 2023/24 balances and fits with the proposed Council Tax level.

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.

7.3 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.

7.4 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.

8.0 OFFICER PREFERRED OPTION (AND COMMENTS)

Revenue Budget 2023/24 and Reserves Position

8.1 To agree the recommendations as presented. The proposals 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.

9.0 CONCLUSION

9.1 This report addresses the actions required to complete the budget setting process for 2023/24, and for updating the Council's associated financial strategy.

RELATIONSHIP TO POLICY FRAMEWORK

The budget framework in general sets out a financial plan for achieving the Council's corporate priorities and outcomes which incorporate the above cross cutting themes. Equalities impact assessments are undertaken for the relevant activities which are reflected in the budget.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability etc)

The proposed budget incorporates measures to address the climate emergency and digital improvements as well as activities to address wellbeing, health, and community safety.

FINANCIAL IMPLICATIONS

As set out in the report

SECTION 151 OFFICER'S COMMENTS

Robustness of Estimates and Adequacy of Council's Reserves

The Local Government Act 2003 places 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 £5M for General Fund are reasonable levels to safeguard the Council's overall financial position, given other measures and safeguards proposed. This level of assessment is consistent with that noted by Council 25 October 2023 and represents an increase of £1.5M from 2022/23. It reflects the uncertainty around the current economic climate and 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 2027/28. 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 the ongoing cost of living crisis and the effect it has on significant areas of expenditure such as energy costs as well as general and pay inflation. The Council has a level of reserves and benefits 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 whilst this budget round has been difficult and puts forward a number of difficult savings proposals, the Council still has to draw £0.577M from reserves to produce a balanced budget.

Current spending plans are sustainable in the short term through the prudent allocation of funding from reserves. However, the current Medium Term Financial Strategy suggests a structural budget gap in 2024/25 onwards of approximately £1.703M raising to £5.591M. This size of deficit is not sustainable and if not addressed by significant interventions and balances used, they will be quickly depleted. It is therefore of the utmost importance that Members and Officers work together and continue to support the Outcomes Based Resourcing programme as it must remain a core priority for the Council as it will be expected to deliver significant inroads into the deficit.

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. The Constitution sets out a process should Council decide not to adopt the Cabinet proposals whereby the Leader must be informed of any objections and instructed to require the executive to reconsider the proposal, in light of those objections, within 5 working days. Council would

then meet again to consider Cabinet's response and either amend, approve or adopt the proposal.

BACKGROUND PAPERS

Appendix A General Fund Revenue Budget 2023-24
Appendix B Directorate Summary
Appendix B1 Exempt
Appendix C Reserves Summary
Appendix D Budget Transfers Virements Carry Forwards

Cabinet Papers

[Agenda for Cabinet on Tuesday, 17th January 2023, 6.00 p.m. - Lancaster City Council](#)

[Agenda for Cabinet on Tuesday, 7th February 2023, 6.00 p.m. - Lancaster City Council](#)

Council Papers

[Agenda for Council on Wednesday, 14th December 2022, 6.00 p.m. - Lancaster City Council](#)

[Agenda for Council on Wednesday, 25th January 2023, 6.00 p.m. - Lancaster City Council](#)

Budget & Performance Papers

[Agenda for Budget and Performance Panel on Wednesday, 1st February 2023, 6.00 p.m. - Lancaster City Council](#)

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Ref: N/A

General Fund Revenue Budget Projections 2022/23 to 2027/28

For Consideration by Council 22 February 2023

	2023/24	2024/25	2025/26	2026/27	2027/28
	£'000	£'000	£'000	£'000	£'000
Revenue Budget/Forecast as at 23 February 2022	21,943	23,479	24,766	0	0
Base Budget Changes					
Operational & Base Budget Changes	2,443	3,697	3,960	30,289	30,990
Latest Budgetary Position	24,386	27,176	28,726	30,289	30,990
Outcomes Based Resourcing Proposals					
Costs of Asset Repurposing	277	295	450	1,075	790
Additional Income Generation Proposals	(420)	(1,109)	(1,119)	(1,127)	(1,139)
Savings Proposals	(2,423)	(3,333)	(3,446)	(3,543)	(3,634)
Impact of Review of the Capital Programme	9	269	537	537	570
Other Adjustments					
Changes to Assumptions	(203)	63	59	62	58
Minor Adjustments	42	46	46	49	55
Sub Total	21,668	23,407	25,253	27,342	27,690
Contribution to/ (from) Unallocated Reserves	(577)				
General Fund Revenue Budget	21,091	23,407	25,253	27,342	27,690
Core Funding:					
Revenue Support Grant	(406)	(406)			
Prior Year Council Tax (Surplus)/Deficit	181				
Net Business Rates Income	(10,256)	(10,261)	(9,617)	(9,809)	(10,005)
Council Tax Requirement	10,610	12,740	15,636	17,533	17,685
Estimated Council Tax Income - (Increases based on 2.99% for 2023/24 then max allowable)	10,610	11,037	11,480	11,942	12,422
Resulting Base Budget (Surplus)/Deficit	0	1,703	4,156	5,591	5,263

General Fund Unallocated Balance						
		£M	£M	£M	£M	
BALANCES	Balance as at 1 April 2023-25	(9.145)	(8.568)	(6.865)	(2.709)	+2.882
	In Year allocations	+0.000	+0.000	+0.000	+0.000	+0.000
	Forecast (Under)/Overspend	+0.000	+1.703	+4.156	+5.591	+5.263
	Other Adjustments	+0.577	+0.000	+0.000	+0.000	+0.000
	Projected Balance as at 31 March 2023-26	(8.568)	(6.865)	(2.709)	+2.882	+8.145
	Reserves	(8.568)	(6.865)	(2.709)	+2.882	+8.145
	Less Recommended Minimum Level of Balances	5.000	5.000	5.000	5.000	5.000
Available Balances	(3.568)	(1.865)	+2.291	+7.882	+13.145	

Saving and Budget Proposals 2023/24 to 2027/28

	Date Effective	2023/24	2024/25	2025/26	2026/27	2027/28
<i>Where proposals may directly impact on individual or groups of staff savings have not been itemised</i>						
Senior leadership restructure	April	448	458	463	469	487
<u>Review of vacant posts</u>						
Community Connector	April					
Public Health Projects	April					
Democratic Services	April					
HR	April					
ICT	April					
Planning Policy	April					
Engineer	April					
		402	415	426	437	448
<u>Corporate</u>						
Children and Young People	Oct					
Wellbeing	April					
Corporate services (marketing, comms, performance)	Oct					
Corporate training	April					
Growth Lancashire	April					
		201	335	345	353	363
<u>Contracts</u>						
Internal Audit	April	75	77	79	81	83
Legal	April	3	5	5	5	5
Revs and Bens - shared services	April	73	74	75	76	77
<u>Services where offer will be reviewed and revised</u>						
Lancaster & Morecambe VICs	Oct					
The Platform (remains open 23/24)	Apr-24					
Museums	Oct					
Business Support	Oct					
Building Control	April					
Regeneration	Oct					
Hospitality & facilities services	Oct					
Customer Services	Oct					
Anti-Social Behaviour	Oct					
		714	1452	1525	1586	1,624
<u>Assets</u>						
Open Spaces (ad-hoc Councillor requests)	April	50	51	52	53	54
Municipal Building Review (operational use of buildings)	April	166	170	174	178	182
<u>Others</u>						
Community Development	April	3	3	3	3	3
SALC Gravity- cease and reuse space	April	3	4	4	4	4
<u>Retain some GF funding and seek alternative funding for balance</u>						
Outdoor events		46	47	48	49	50
<u>Fees and Charges</u>						
Public Protection	April	3	3	3	3	3
Pest Control	April	26	27	28	28	29
Happy Mount Park (Splash Park Charging)	April	15	15	15	15	15
Public Conveniences Charging	April	20	20	20	20	20
Car parking permit Review	April	13	13	13	13	13
Parking EV Charging	April	23	23	23	23	23
Trade Waste Price Review	April	20	20	21	21	22
Trade Waste Bin Hire Charging	April	80	82	84	86	88
Housing Revenue Account- waste	April	20	20	21	21	22
Building Control Fees	April	10	10	10	10	10
Planning Pre-Application Fees	April	9	9	9	9	9
Net Savings		2,423	3333	3,446	3,543	3,634

SAVINGS PROPOSALS

By virtue of paragraph(s) 2, 3, 4 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

Reserves Statement (Including Unallocated Balances)

	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	From Revenue	To / (From) Capital	To Revenue	31 March 2027	
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	
Unallocated Balances	(6,032,200)	(5,912,900)		2,800,000	(9,145,100)				(9,145,100)				(9,145,100)				(9,145,100)				(9,145,100)	
Earmarked Reserves:																						
Corporate Priorities	(2,116,800)			2,032,200	(84,600)			84,600														
Capital Support	(373,000)		300,000		(73,000)				(73,000)				(73,000)				(73,000)					(73,000)
Corporate Property	(338,500)			25,000	(313,500)				(313,500)				(313,500)				(313,500)					(313,500)
Covid 19 Support Reserve	(1,747,000)			1,747,000																		
Economic Growth	(247,800)			247,800																		
Investment Property Maint	(34,900)				(34,900)				(34,900)				(34,900)				(34,900)					(34,900)
Invest to Save	(824,600)	(107,000)		931,600																		
Morecambe Area Action Plan	(27,300)			27,300																		
Museums Acquisitions	(29,800)	(4,500)			(34,300)	(4,500)			(38,800)	(4,500)			(43,300)	(4,500)			(47,800)	(4,500)				(52,300)
Planning Fee Income	(61,100)				(61,100)				(61,100)				(61,100)				(61,100)					(61,100)
Restructure	(431,200)			431,200																		
To Support Revenue & Capital Expenditure	(6,232,000)	(111,500)	300,000	5,442,100	(601,400)	(4,500)		84,600	(521,300)	(4,500)			(525,800)	(4,500)			(530,300)	(4,500)				(534,800)
Renewals Reserves	(787,200)	(491,800)	153,000	41,100	(1,084,900)	(491,800)	124,000		(1,452,700)	(491,800)	38,000		(1,906,500)	(491,800)			(2,398,300)	(491,800)				(2,890,100)
Elections	(80,000)	(40,000)			(120,000)	(40,000)		160,000	(40,000)	(40,000)			(40,000)	(40,000)			(80,000)	(40,000)				(120,000)
Homelessness Support	(110,800)				(110,800)				(110,800)				(110,800)				(110,800)					(110,800)
Lancaster District Hardship Fund	(377,100)				(377,100)				(377,100)				(377,100)				(377,100)					(377,100)
Business Rates Retention	(9,090,600)	(400,000)		2,706,500	(6,784,100)	(1,854,700)		1,632,400	(7,006,400)			516,100	(6,490,300)			316,100	(6,174,200)					(5,958,100)
Revenue Grants Unapplied	(4,357,500)			3,914,300	(443,200)			142,000	(301,200)				(301,200)				(301,200)					(301,200)
S106 Commuted Sums - Open Spaces	(4,700)			4,700																		
S106 Commuted Sums - Affordable Housing	(218,800)		37,000		(181,800)		63,000		(118,800)				(118,800)				(118,800)					(118,800)
S106 Commuted Sums - Highways, Cycle Paths etc.	(1,170,400)	(200,000)			(1,370,400)	(200,000)			(1,570,400)	(200,000)			(1,770,400)	(200,000)			(1,970,400)	(200,000)				(2,170,400)
Welfare Reforms	(324,900)				(324,900)				(324,900)				(324,900)				(324,900)					(324,900)
Amenity Improvements	(29,000)				(29,000)				(29,000)				(29,000)				(29,000)					(29,000)
Reserves Held in Perpetuity:																						
Graves Maintenance	(22,200)				(22,200)				(22,200)				(22,200)				(22,200)					(22,200)
Marsh Capital	(47,700)				(47,700)				(47,700)				(47,700)				(47,700)					(47,700)
Total ring-fenced/held against risk	(16,620,900)	(1,131,800)	190,000	6,666,600	(10,896,100)	(2,586,500)	187,000	1,934,400	(11,361,200)	(731,800)	38,000	516,100	(11,538,900)	(731,800)		316,100	(11,954,600)	(731,800)				(12,470,300)
Total Earmarked Reserves	(22,852,900)	(1,243,300)	490,000	12,108,700	(11,497,500)	(2,591,000)	187,000	2,019,000	(11,882,500)	(736,300)	38,000	516,100	(12,064,700)	(736,300)		316,100	(12,484,900)	(736,300)				(13,005,100)
Total Combined Reserves	(28,885,100)				(20,642,600)				(21,027,600)				(21,209,800)				(21,630,000)					(22,150,200)

P 2025/05/25

Budget Transfers (Virements, Carry Forwards & Reserves) 2023/24 Limits

Cabinet 07 February 2023

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	2023/24
Total virement on any expenditure heading in any one financial year must not exceed:	£10,000
Total virement on any income heading in any one financial year must not exceed:	£10,000

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

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

3 Treatment of Year-end Balances

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

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

Overspends

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

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

Underspends

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

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

4.0 Governance Arrangements on the Use of Reserves

4.1 Given the continuing financial pressures and the need for the prudent use of reserves the following arrangements exist for the approval of reserves expenditure:

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

4.2 These arrangements will be reviewed again as part of the annual revenue budget process

Reserves Expenditure Monitoring

4.3 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.
Welfare Reforms	To help manage the cost and administration pressures of any welfare reforms (in particular, localisation of council tax support and Universal Credit).
Amenity Improvements	To provide public realm amenity improvements.
Corporate Priorities (previously Budget Support)	To provide resources to help finance capacity / feasibility / review and other development work in support of the Council's corporate priorities as adopted by Council in January 2020.
Corporate Property	To provide for feasibility studies, surveys and repair works to municipal buildings and facilities (in particular, for those that cannot be capitalised as part of the current works programme or are not otherwise budgeted for). In addition, to provide cover for any in-year rental shortfalls.
Invest to Save	To help finance any Invest to Save initiatives.
Restructure	To fund the costs associated with early termination of staff (in the interests of efficiency / redundancy) / Pay and Grading Review.
Revenue Grants Unapplied	Grants, usually for Government, which are provided for an expressed purpose.
Homelessness Support	To hold related government grants or other specific external funding until needed for homelessness prevention measures.

Reserve	Purpose of the Reserve
S106 Commuted Sums	Three separate reserves to receive all sums paid to the Council from third parties for the maintenance of (1) open spaces adopted by the City Council (2) affordable housing schemes (3) other amenities such as cycle paths.
Museums Acquisitions	To acquire exhibition pieces for the City's museums.
Held in Perpetuity	Two small reserves that have a specific purpose which are administered by the Council. These are Graves Maintenance and Marsh Capital

Reserves Bid Document

Description of Expenditure/ Project		
Amount of Reserve Bid		
Reserve	General Fund Unallocated	
Essential or Previously Committed Expenditure	Yes	No
Strategy Link		
Corporate Project Link		
Council Outcomes		

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

Action Plan

What	Who	When

Outcomes and Impacts arising from Request

Measure	Baseline	Target

Director Sign Off:

	Date
--	-------------

Portfolio Holder Sign Off :

	Date
--	-------------

REQUIRED Governance

Council Leader

Chief Executive

Finance Portfolio Holder

Monitoring Officer

S151 Officer

Approval	Date

Reserves Monitoring Updated

Deficit Monitoring Updated

COUNCIL**Housing Revenue Account
Budget Framework 2023 to 2028
22 February 2023****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 2023/24 and update its financial strategy to 2028.

This report is public.

RECOMMENDATIONS:

- (1) That Cabinet's recommendation to approve the council housing rent levels for 2023/24, 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 Council Housing Capital Programme be approved, as set out in *Appendix B*.
- (4) That the minimum level of HRA unallocated balances be increased to £750,000 from 01 April 2023, and that the full Statement on Reserves and Balances as set out at *Appendix C* be approved.
- (5) 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 7 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 2023/24 was to be the fourth of five years where the Council had the freedom to increase rent by a maximum of CPI+1% (CPI is the Consumer Price Index). For rent setting purposes for 2023/24, the September 2022 CPI figure of 10.1% is used, with forecast CPI used thereafter.
- 2.4 However, as announced by the Chancellor of the Exchequer in his Autumn Statement on 31 October 2022, the Government has capped social rent increases in 2023/24 at 7.0% for existing tenants. This is due to what the government describe as ‘exceptional circumstances.’ The income levels included within this report assume the below inflation increase of 7.0% is applied across all housing stock.
- 2.5 Taking the above points into account, the Council’s current rent policy is summarised as follows:

For general properties, average rent of £83.96 applies for 2023/24 ¹	For sheltered and supported properties, average rent of £79.00 applies for 2023/24
Following relevant properties becoming vacant, they will be re-let at ‘formula rent’ in line with previously approved policy.	
<u>For 2024/25 onwards</u> , it is assumed that council housing rents will increase by 3.0% year on year for a period of one year 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.	

- 2.6 The 30-year business plan has been updated to cover the period to 2052/53, and the updated position over the life of the plan is a cumulative surplus of £25.1M.
- 2.7 It should be noted that the annual self-financing repayment of £1.041M ends from 31 March 2042.
- 2.8 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 in 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**.

¹ This remains below Local Housing Allowance figures for both general and sheltered and supported properties.

3.2 Key achievements:

- 2022/23 has seen continued guidance and support to tenants around rent arrears prevention and management. Having ended 2021/22 with record low current tenant arrears of £99K the team continue to perform at the highest level with arrears at the end of Q3 of £124K: a reduction of 19% 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. As at Q3 2022/23 only 3 housing possession cases and 3 warrant applications have been made.
- In December the Housing Service won Council of the Year at the UK Housing Awards, the sector's most prestigious awards.
- 87 tenancy health checks have been completed up until the end of Q3 2022/23, helping to support tenants in sustaining new tenancies and realising an increase in tenant income of £14.6K through income and benefit maximisation work.
- As at Q3 2022/23, 43 households have taken up Universal Credit and Housing Benefit eligible Furniture packages provided by the housing team in partnership with NFS to support them to maintain their new homes.
- The Energy Support Officer who supports tenants with advice and guidance around all home energy related matters has undertaken a total of 198 home visits this year to date, 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, is nearing completion. This year we will have refurbished a total of 27 homes.
- The work to convert an old stables into an energy efficient three-bed adapted home has started and is due for completion in late Spring.
- Through the Neighbourhood Project Fund a number of community projects have been funded, including: support for a community led coffee bar and social action hub, delivered by Cornerstones, to promote advice, support, and community conversations; a Ryelands Summer Creative Activities Club for 6-13 year olds during the summer holidays; and support for the Westgate Residents to deliver a targeted spruce up of the outside environment.
- Approximately 10,000 responsive repairs are expected to be carried out during 2022/23 and 187 vacant dwellings (voids) have been refurbished to the lettable standard by the end of quarter 3.
- The Team have developed an Asset Strategy specifically for Council Housing dwellings and embarked on 100% stock condition survey programme.
- We have moved from a 10-year to a 5-year electrical testing programme for all Council Homes in line with best practice.
- We have continued to support local residents with employment opportunities creating three apprenticeships within the service, and supported social work students complete placements providing essential insight into housing.
- Self-assessed as compliant against the Housing Ombudsman Complaints Code.
- Worked with Resolve (ASB Housing specialist) to complete a comprehensive review of the ASB service provided by Council Housing with improvements being undertaken through 2023.
- Gained planning permission for a new four bed modern energy efficient scheme at Alder Grove. Works are expected to begin later in 2023.

- Undertook two summer housing events on Hala and Branksome – following which Community Plans are being developed alongside residents. The service's first Community Plan for Ryelands was signed off by residents in October 2022.
- Trained residents in customer scrutiny – with plans for services to be reviewed in 2023/24.
- Continued to deliver advice and support from two local housing hubs – King Street shop and My Mainway Hub.

3.3 Looking ahead - key examples of ongoing service delivery and future planning developed in line with the Corporate Plan, Council priorities and forthcoming social housing legislation and regulation can be found within the Cabinet report.

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 Housing Team are prudently currently embarking on a full stock condition survey of council dwellings which is due to be completed within Autumn 2023, therefore capital expenditure for the forthcoming year is restricted to the most essential as it is expected that the results from the surveys will help to inform future capital spend.

5.4 The 2023/24 capital programme includes no provision for any major refurbishment works on the Mainway Estate due to the ongoing regeneration project (see section 6).

5.5 Taking account of the above points, the total draft six-year programme for 2022/23 onwards now stands at £29.8M, the majority of which will be financed from revenue sources. There is no prudential borrowing requirement.

6 **Future Developments**

6.1 The City Council continues to have ambitions for the development of its own new affordable / social rented homes, which it is seeking to progress, this also seeks to offset the downward trend of lost Council Housing stock through Right to Buy sales. 2023/24 is seen as a critical juncture in progressing designs to planning applications, prior to seeking the appropriate funding through grant, borrowing and key partnerships. The focus for the next twelve months will see:

- Completion of a single dwelling conversion at The Greaves into a three-bedroom adapted energy efficient home as referenced above.

- Start on site for the four-bed development with community facility at Alder Grove, providing additional much-needed older persons accommodation.
- Progression to planning permission application for a collection of garage sites converted into single person / family accommodation.
- Progression of the wider Mainway masterplan through accelerated first phase planning application enabled through the purchase of the redundant element of Skerton High School (subject to S.77 DfE application).
- Planning application secured for Coopers Field within the Canal Quarter working alongside a Registered Provider to deliver a mixture of new homes both at market and affordable rent.

6.2 For clarity, no major capital works in relation to garage site conversions, Mainway or Canal Quarter are included in this report. 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 increasing the minimum level of HRA Balances to £0.750M from 01 April 2023, to support the budget forecasts as part of the overall medium term financial planning for the HRA.

7.3 As at 31 March 2023, HRA Balances are forecast to be £517K, which is £17K above the 2022/23 recommended minimum level.

7.4 All other surplus resources are held in the Business Support Reserve. As at 31 March 2023, around £5.678M is expected to be available in this reserve. The first spending priority is still to support existing commitments over the lifetime of the 30-year Business Plan, the Governments rent setting policy for the final year of the current settlement and beyond will be closely monitored, although next years assumptions remain cautious but should provide the service with additional flexibility.

8 Details of Consultation

8.1 A consultation meeting was held with the District Wide Tenants' Forum on 19 January 2023, where the Neighbourhood and Support Services Manager presented the headlines of the report and answered questions from tenants and councillors.

8.2 The group agreed that they were broadly supportive of the rent increase of 7%, while recognising the challenge this poses to residents in the current economic climate. It was noted that financial and other support is a central part of housing service delivery.

8.3 The group commented that they feel rents are accountable and transparent, and noted that it's important that rental income is being spent to ensure homes are maintained to a high standard. The group gave positive feedback about the council

housing response to the climate emergency, particularly around plans to tackle energy efficiency within housing stock.

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 2023/24 balances and fits with its approved rent levels, which Council cannot change.

9.2 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 which still meet the required health and safety obligations to tenants.

9.3 The options available in respect of the minimum level of HRA balances are to increase the level to £0.750M 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.

9.4 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 2023/24; to approve the revenue budgets and capital programme, 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 2023/24, 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 Capital new-build projects (as referred to in section 6, 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 2023/24 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 2023/24 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 2023/24 must balance.

Advantages: None.

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.

Risks: Delay to the completion of the Housing Revenue Account’s budget setting process for 2023/24. Inability to maximise service provision and deliver on Council, and housing related ambitions. Impact on housing service and council housing tenants unknown, but could impact on the health and safety of tenants.

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 2023/24 and update its financial strategy to 2028.

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 £0.750M 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 Business 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 Business 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, always, affordable, sustainable and prudent and a minimum revenue provision charge is made to the HRA each year to reflect the cost of borrowing.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

Equality Impact Assessments for budget proposals.

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HOUSING REVENUE ACCOUNT BUDGET

For Consideration by Council 22 February 2023

	2022/23 Budget	2022/23 Mid-year Review	2023/24 Budget	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
	£	£	£	£	£	£	£
INCOME							
Rental Income - Council Housing	(14,499,900)	(14,369,200)	(15,487,200)	(16,252,200)	(16,221,100)	(16,486,500)	(16,744,800)
Rental Income - Other (Shops and Garages etc.)	(273,300)	(285,900)	(285,900)	(285,900)	(285,900)	(285,900)	(285,900)
Charges for Services & Facilities	(1,513,000)	(1,683,700)	(2,067,600)	(2,121,400)	(2,161,500)	(2,201,800)	(2,242,100)
Grant Income	(7,700)	(7,700)	(7,700)	(7,700)	(7,700)	(7,700)	(7,700)
Contributions from General Fund	(95,600)	(98,800)	(101,500)	(104,300)	(107,000)	(109,700)	(112,500)
Total Income	(16,389,500)	(16,445,300)	(17,949,900)	(18,771,500)	(18,783,200)	(19,091,600)	(19,393,000)
EXPENDITURE							
Repairs & Maintenance	6,354,400	7,412,000	7,065,100	6,891,500	7,045,100	7,034,800	7,186,500
Supervision & Management	4,344,100	5,166,100	5,675,500	4,857,500	4,967,800	5,077,000	5,194,600
Rents, Rates & Insurance	355,600	531,300	577,200	623,200	669,000	714,900	760,900
Contribution to Provision for Bad and Doubtful Debts	141,300	114,800	137,500	138,600	139,800	141,100	142,500
Depreciation & Impairment of Fixed Assets	2,771,700	2,771,700	2,771,700	2,771,700	2,771,700	2,771,700	2,771,700
Debt Management Costs	0	0	0	0	0	0	0
Total Expenditure	13,967,100	15,995,900	16,227,000	15,282,500	15,593,400	15,739,500	16,056,200
NET COST OF HRA SERVICES	(2,422,400)	(449,400)	(1,722,900)	(3,489,000)	(3,189,800)	(3,352,100)	(3,336,800)
(Gain)/Loss on disposal of non-current assets	0	0	0	0	0	0	0
Interest Payable & Similar Charges	1,679,400	1,679,400	1,640,300	1,640,300	1,640,300	1,640,300	1,640,300
Interest & Investment Income	(43,100)	(43,100)	(44,800)	(44,800)	(44,800)	(44,800)	(44,800)
Pensions Interest Costs & Expected Return on Pensions Assets	0	0	0	0	0	0	0
Capital Grants and Contributions Receivable	0	0	0	0	0	0	0
Premiums & Discounts from Earlier Debt Rescheduling	0	0	0	0	0	0	0
(SURPLUS) / DEFICIT FOR THE YEAR	(786,100)	1,186,900	(127,400)	(1,893,500)	(1,594,300)	(1,756,600)	(1,741,300)
Self Financing Debt Repayment	1,041,400	1,041,400	1,041,400	1,041,400	1,041,400	1,041,400	1,041,400
Net Charges made for Retirement Benefits	0	0	0	0	0	0	0
Adjustments to reverse out Notional Charges included above	4,465,000	1,650,000	2,020,000	70,000	70,000	0	0
Transfer to/(from) Earmarked Reserves - for Revenue Purposes	(4,918,600)	(3,207,000)	(3,167,000)	(304,600)	(176,900)	(22,800)	(105,700)
Capital Expenditure funded from Major Repairs Reserve	1,601,800	1,363,300	0	1,086,700	659,800	627,800	915,800
Transfer from Earmarked Reserves - for Capital Purposes	(4,465,000)	(1,650,000)	(2,020,000)	(70,000)	(70,000)	0	0
Financing of Capital Expenditure from Earmarked Reserves	4,465,000	1,650,000	2,020,000	70,000	70,000	0	0
TOTAL (SURPLUS) / DEFICIT FOR THE YEAR	1,403,500	2,034,600	(233,000)	0	0	(110,200)	110,200
Housing Revenue Account Balance brought forward	(2,433,269)	(2,551,664)	(517,064)	(750,064)	(750,064)	(750,064)	(860,264)
HRA BALANCE CARRIED FORWARD	(1,029,769)	(517,064)	(750,064)	(750,064)	(750,064)	(860,264)	(750,064)

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.

Council Housing 5 Year Capital Programme For Consideration by Council 22 February 2023

	2022/23 Original £000	2022/23 Revised £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000	TOTAL £000
EXPENDITURE								
Adaptations	300	300	300	300	300	300	300	1,800
Energy Efficiency/Boiler Replacement	989	1,029	999	1,009	1,019	1,019	1,019	6,094
Internal Refurbishment	888	725	938	888	888	888	947	5,274
External Refurbishment	210	315	357	508	234	270	-	1,684
Environmental Improvements	200	395	150	450	150	150	150	1,445
Re-roofing/Window Renewals	738	988	557	493	595	527	1,024	4,184
Rewiring	56	56	88	88	88	88	90	498
Lift Replacements	-	-	-	-	-	-	-	-
Fire Precaution Works	240	280	280	150	150	150	150	1,160
Housing Renewal and Renovation	1,753	1,720	577	577	577	507	507	4,465
Mainway Regeneration Project	4,000	1,255	1,950	-	-	-	-	3,205
TOTAL EXPENDITURE	9,374	7,063	6,196	4,463	4,001	3,899	4,187	29,809
FINANCING								
Capital Receipts	540	541	1,409	539	504	504	504	4,001
Contributions	-	-	-	-	-	-	-	-
Earmarked Reserves	4,465	1,650	2,020	70	70	-	-	3,810
Major Repairs Reserve	4,369	4,872	2,767	3,854	3,427	3,395	3,683	21,998
TOTAL FINANCING	9,374	7,063	6,196	4,463	4,001	3,899	4,187	29,809
SHORTFALL/(SURPLUS)	0	0	0	0	0	0	0	0

HOUSING REVENUE ACCOUNT - RESERVES AND PROVISIONS STATEMENT
For Consideration by Council 22 February 2023

	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	Contributions			Balance as at 31/03/27	Contributions			Balance as at 31/03/28
		To the Reserve from	From the Reserve			To the Reserve from	From the Reserve			To the Reserve from	From the Reserve			To the Reserve from	From the Reserve			To the Reserve from	From the Reserve						
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£		
HRA General Balances	2,551,664		(2,034,600)	517,064	233,000	750,064			750,064			750,064	110,200			860,264						(110,200)	750,064		
Earmarked Reserves:																									
Business Support Reserve	7,437,108		(1,630,000)	(129,500)	5,677,608		(2,020,000)	(1,553,400)	2,104,208		(70,000)	(238,700)	1,795,508		(70,000)	(97,100)	1,628,408					(52,700)	1,575,708		
Major Repairs Reserve	741,522	4,135,000	(4,876,500)		22	2,771,700	(2,771,700)		22	3,858,400	(3,858,400)		22	3,431,500	(3,431,500)		22	3,399,500	(3,399,500)		22	3,687,500	(3,687,500)	22	
Flats - Planned Maintenance	816,736	33,000	(20,000)	(348,700)	481,036	33,000	(22,900)		491,136	33,000	(22,900)		501,236	33,000	(22,900)		511,336	33,000	(22,900)		521,436	33,000	(22,900)	531,536	
ICT and Systems Improvement	579,011	39,000		(259,000)	359,011	600,000	(55,000)		904,011				904,011				904,011				904,011			904,011	
Office Equipment Reserve	39,009			(39,000)	9				9				9				9				9		9		
Sheltered - Equipment	383,302			(171,000)	212,302	15,300	(49,200)		178,402	13,100	(43,000)		148,502	7,700	(35,400)		120,802	4,100	(33,800)		91,102		(47,400)	43,702	
Sheltered - Planned Maintenance	445,726			(365,300)	80,426	30,600	(40,300)		70,726	26,100	(15,300)		81,526	15,400	(15,300)		81,626	8,000	(15,300)		74,326		(15,300)	59,026	
Sheltered Support Grant Maintenance	626,693			(316,500)	310,193	15,300	(120,400)		205,093	13,100			218,193	7,700			225,893	4,100			229,993		(400)	229,593	
Total Earmarked Reserves	11,069,107	4,207,000	(6,526,500)	(1,629,000)	7,120,607	3,465,900	(4,791,700)	(1,841,200)	3,953,607	3,943,700	(3,928,400)	(319,900)	3,649,007	3,495,300	(3,501,500)	(170,700)	3,472,107	3,448,700	(3,399,500)	(72,000)	3,449,307	3,720,500	(3,687,500)	(138,700)	3,343,607

COUNCIL

**Capital Programme 2023/24 – 2027/28
&
Capital Strategy (Investing in the Future)
22 February 2023**

Report of Cabinet

PURPOSE OF REPORT				
To present Cabinet’s final budget proposals in order that the Council can approve a General Fund Capital Programme for 2023/24 to 2027/28 and a Capital Strategy 2023/24 as required by regulation.				
Key Decision	X	Non-Key Decision		Referral from Cabinet Member
Date of notice of forthcoming key decision				

RECOMMENDATION OF CABINET

1. That Council notes the report and approves the following:
 - (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 07 February 2023 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 investment, via the Council’s reserves or borrowing, plays a key role in strategic projects and initiatives for the success of the Lancaster district, as well as transforming and optimising the Council’s services to its residents.

2.2 The proposed Capital Programme and supporting Strategy, entitled ‘*Investing in the Future*’ and contained at Appendix B, sets out the relevant context and a proposed framework to support the Council’s approach to capital investment over the medium term.

3.0 CAPITAL PROGRAMME

Capital Investment

- 3.1 The current year's net revised programme (2022/23) now stands at £7.398M. During the next 5 years, a further gross investment of £45.289M is currently planned with external funding of £19.382M anticipated to support this investment, giving a total net investment by the Council in the district of £33.305M 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. Summary details of the current 5-year net capital programme are given at table 1 below

Table 1: Net Capital Programme

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Approved Schemes							
Communities & Environment	5,999	2,764	5,568	1,927	36	833	17,127
Economic Growth & Regeneration	861	2,527	586	1,463	513	1,080	7,030
Corporate Services	538	965	1,415	130	0	0	3,048
Schemes Under Development	0	5,100	1,000	0	0	0	6,100
Total Net Capital Programme	7,398	11,356	8,569	3,520	549	1,913	33,305

- 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. Schemes classified as Under Development have had strategic outline business cases approved in principle by the Cabinet but **cannot** commence until full business cases have been considered and approved, first by the Capital Assurance Group, and then by Cabinet.
- 3.3 A number of significant schemes are classified as Under Development including Canal Quarter, general fund housing schemes and investment in renewable energy development. All of these schemes will require significant capital expenditures and borrowing but each business case will have to show that income arising from the capital investment is capable of covering all borrowing costs and delivering a positive return to the Council's revenue budget.
- 3.4 Overall the programme is balanced, allowing for a gross increase in the underlying need to borrow (known as the Capital Financing Requirement (CFR), over the five year period to 2027/28. The Council makes a revenue provision for the repayment of borrowing known as Minimum Revenue Provision (MRP) which reduces the CFR.
- 3.5 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.

Capital Financing

- 3.6 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.

3.7 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 £98.86M to £110.04M in 2024/25 before decreasing in 2026/27 to £104.28M.

Table 2: Capital Financing Requirement

£M	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Capital Financing Requirement						
CFR – Non Housing	59.06	63.73	71.87	76.98	76.77	73.30
CFR – Housing	36.18	35.14	34.10	33.05	32.01	30.97
Total CFR	95.24	98.86	105.96	110.04	108.78	104.28
Movement in CFR						
Non Housing	1.34	4.67	8.14	5.11	-0.21	-3.46
Housing	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04
Net Movement in CFR	0.29	3.63	7.10	4.07	-1.26	-4.51

Movement in CFR represented by						
Net financing need for the year (above) re Non Housing	3.49	6.77	11.06	8.53	3.52	0.55
Less MRP/VRP and other financing movements	-3.20	-3.14	-3.96	-4.46	-4.78	-5.06
Net Movement in CFR	0.29	3.63	7.10	4.07	-1.26	-4.51

3.8 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 £59.00M to £77.42M later in 2024/25 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 £75.34M reflecting repayments of the HRA self-financing loan. See Table 3 below

Table 3: Forecast Borrowing Position

	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
External Debt						
Debt at 1 April	61.08	60.04	59.00	73.46	77.42	76.38
Expected change in Debt	-1.04	-1.04	14.46	3.96	-1.04	-1.04
Actual/ Forecast gross debt at 31 March	60.04	59.00	73.46	77.42	76.38	75.34

- 3.9 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.
- 3.10 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

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£M	£M	£M	£M	£M	£M
Interest	1.172	2.205	2.447	2.610	2.610	2.610
MRP	2.109	2.923	3.416	3.734	4.014	3.878
Total	3.281	5.128	5.863	6.344	6.624	6.488

Table 5: Ratio of Financing Costs to Net Revenue Stream

	2021/22 Actual %	2022/23 Estimate %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %
General Fund	18.50	14.90	24.31	25.05	25.12	24.23
HRA	19.87	18.57	17.00	16.22	16.25	15.99

- 3.11 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 25% of the Council's annual net revenue budget. Recent benchmarking work by the Local Government Association (LGA) provided a Northwest average of circa 14%. 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.
- 3.12 As noted in paragraph 3.6, the financing of capital projects can be from a variety of sources, such as external grants, the use of reserves, and the application of capital receipts. A significant workstream for the OBR Assets Group is to review and realign the Council's existing asset base to identify those assets which no longer met the Council's objectives and may be able to generate a capital receipt. However, the OBR process does provide a priority order for the use of capital receipts. Firstly, to fund transformation costs, that is costs that are associated with service transformation and delivery of efficiencies. Secondly, investment to reduce costs, which is not necessarily investing in a new asset; and given the levels of current financing costs, consideration also needs to be given to financing existing short life assets such as ICT and vehicles to reduce the MRP burden on the General Fund. Finally, the use of receipts to fund other schemes within the Capital Programme.

4.0 CAPITAL STRATEGY

- 4.1 The Prudential Code 2017 requires all Councils to adopt a Capital Strategy, and this is included as **Appendix B**. It is an overarching document which sets the policy framework for the development, management, and monitoring of capital investment. It incorporates the Capital Programme, Asset Management Plan and Treasury Management Strategy.
- 4.2 The strategy also sets out the proposed approach to risk management as well as the monitoring and evaluation of capital projects. Capital investment decisions will reflect the priorities included within the Council Plan: Strategic Priorities and supporting strategies
- Schemes to be added to the Capital Programme will be subject to a gateway process following completion of a capital bid which will be scored against criteria set to measure strategic, economic, financial, commercial and management criteria. These will be reviewed by a corporate Capital Assurance Group comprising key Officers alongside the Finance Portfolio Holder and Chairs of Budget and Performance Panel and Overview and Scrutiny Committee.
 - The Capital Assurance Group (CAG) will also oversee capital financing in order to ascertain that all capital expenditure is affordable, prudent, and sustainable as set out in the Treasury Management Strategy. CAG's terms of reference are provided at **Appendix C**
- 4.3 The Council recognises that it will play a pivotal role in key projects which will enable the district to thrive and grow. Further development of the Capital Programme may be needed over the next few years in order to properly encapsulate major economic development projects.

5.0 CONSULTATION

- 5.1 The Council's Constitution (Part 3 Section 5 – Budget & Policy Framework), where either a new or existing plan/strategy/budget is being considered, the Overview and Scrutiny Committee or Budget and Performance Panel will have an opportunity to comment. If it considers it appropriate, Cabinet may then amend its proposals before submitting them to Council for consideration.
- 5.2 Unfortunately, due a number of factors including the late conclusion of the budget process, and provision of information, the Capital Strategy 2023/24 has not been considered by Budget & Performance Panel. As the approval of the strategy is a function of Full Council all Members, including those sitting on B&PP may proposes any changes, or amendments at that meeting.

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)

The proposed budget incorporates measures to address the climate emergency and digital improvements as well as activities to address wellbeing, health and community safety.

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.

S151 OFFICER 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 2027/28. 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.. The Constitution sets out a process should Council decide not to adopt the Cabinet proposals whereby the Leader must be informed of any objections and instructed to require the executive to reconsider the proposal, in light of those objections, within 5 working days. Council would then meet again to consider Cabinet's response and either amend, approve or adopt the proposal.

BACKGROUND PAPERS

Appendix A Capital Programme 2023-24 to 2027-28
Appendix B Capital Strategy - Investing in the Future 23-28
Appendix C: CAG Terms of Reference

Cabinet

[Agenda for Cabinet on Tuesday, 7th February 2023, 6.00 p.m. - Lancaster City Council](#)

Contact Officer: Paul Thompson

Telephone: 01524 582603

E-mail: pthompson@lancaster.gov.uk

Ref: N/A

General Fund Capital Programme

Service / Scheme	2022/23			2023/24			2024/25			2025/26			2026/27			2027/28			6 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	Gross Budget	External Funding	Net Programme	Total Gross Programme	Total External Funding	Total Net Programme
Communities and Environment	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Vehicle Renewals (including electrification of fleet)	4,449,000		4,449,000	1,239,000		1,239,000	2,478,000		2,478,000	1,636,000		1,636,000	36,000		36,000	833,000		833,000	10,671,000	0	10,671,000
Property De-carbonisation Works	2,000,000	(2,000,000)	0	1,025,000	(538,000)	487,000	4,100,000	(2,154,000)	1,946,000			0			0			0	7,125,000	(4,692,000)	2,433,000
Disabled Facilities Grants	2,336,000	(2,336,000)	0	3,271,000	(3,271,000)	0	2,144,000	(2,144,000)	0	2,144,000	(2,144,000)	0	2,144,000	(2,144,000)	0	2,144,000	(2,144,000)	0	14,183,000	(14,183,000)	0
Salt Ayre Asset Management Plan	662,000		662,000	161,000		161,000	976,000		976,000	291,000		291,000			0			0	2,090,000	0	2,090,000
Next Steps Accommodation Programme	1,326,000	(576,000)	750,000			0			0			0			0			0	1,326,000	(576,000)	750,000
Mellishaw Park	0		0	1,540,000	(768,000)	772,000	360,000	(192,000)	168,000			0			0			0	1,900,000	(960,000)	940,000
Home Improvement Agency Vehicles	0		0	105,000		105,000			0			0			0			0	105,000	0	105,000
SALC -optimised solar farm, air source heating pumps & glazing efficiency	318,000	(318,000)	0			0			0			0			0			0	318,000	(318,000)	0
Torrisholme Park Play Area	70,000	(70,000)	0			0			0			0			0			0	70,000	(70,000)	0
Half Moon Bay Car Park Extension	60,000		60,000			0			0			0			0			0	60,000	0	60,000
Far Moor Playing Fields s106 Scheme	37,000		37,000			0			0			0			0			0	37,000	0	37,000
Roof Mounted Solar Array - City Labs	33,000		33,000			0			0			0			0			0	33,000	0	33,000
One Million Trees	0		0	0		0			0			0			0			0	0	0	0
Happy Mount Park Pathway Replacements	8,000		8,000			0			0			0			0			0	8,000	0	8,000
Economic Growth and Regeneration																					
Lancaster Heritage Action Zone	1,104,000	(676,000)	428,000	754,000	(126,000)	628,000			0			0			0			0	1,858,000	(802,000)	1,056,000
Lancaster Heritage Action Zone - St John's Church	0		0	0		0	0		0	500,000		500,000			0			0	500,000	0	500,000
Gateway Solar Array	0		0	984,000		984,000			0			0			0			0	984,000	0	984,000
Sea & River Defence Works	340,000	(340,000)	0	554,000	(554,000)	0			0			0			0			0	894,000	(894,000)	0
Bailrigg Garden Village Contribution	0		0	0		0	306,000		306,000	306,000		306,000			0			0	612,000	0	612,000
1 Lodge Street Urgent Structural Repairs	57,000		57,000	422,000		422,000			0			0			0			0	479,000	0	479,000
Morecambe Co-Op Building Renovation	0		0	425,000		425,000			0			0			0			0	425,000	0	425,000
Gateway Low Voltage Switchgear	170,000		170,000			0			0			0			0			0	170,000	0	170,000
Palatine Recreation Ground Pavillion	138,000		138,000			0			0			0			0			0	138,000	0	138,000
Lancaster City Museum Boiler	131,000	(78,000)	53,000			0			0			0			0			0	131,000	(78,000)	53,000
Edward Street Coach House Area Improvement	0		0			0			0			0			0			0	0	0	0
Lancaster District Empty Homes Partnership	0		0	0		0			0			0			0			0	0	0	0
Lawsons Bridge S106 Scheme	0		0	63,000		63,000			0			0			0			0	63,000	0	63,000
Lancaster Square Routes	0		0	21,000	(16,000)	5,000			0			0			0			0	21,000	(16,000)	5,000
Engineers Electric Vehicle	15,000		15,000			0			0			0			0			0	15,000	0	15,000
Coastal Revival Fund - Morecambe Co-Op Building	11,000	(11,000)	0			0			0			0			0			0	11,000	(11,000)	0
S106 Highways Works	0		0			0			0			0			0			0	0	0	0
S106 Highways Works	25,000	(25,000)	0			0			0			0			0			0	25,000	(25,000)	0
Property - Capital Works	0		0	0		0	47,000		47,000	638,000		638,000	177,000		177,000	965,000		965,000	1,827,000	0	1,827,000
Commercial Property - Capital Works	0		0	0		0	233,000		233,000	19,000		19,000	336,000		336,000	115,000		115,000	703,000	0	703,000
Corporate Services																					
ICT Systems, Infrastructure & Equipment	418,000		418,000	135,000		135,000	115,000		115,000	130,000		130,000			0			0	798,000	0	798,000
ICT Laptop Replacement & e-campus screens	120,000		120,000	30,000		30,000			0			0			0			0	150,000	0	150,000
ICT Nimble	0		0			0	300,000		300,000			0			0			0	300,000	0	300,000
Local Full Fibre Network	0		0	800,000		800,000	1,000,000		1,000,000			0			0			0	1,800,000	0	1,800,000
Schemes Under Development																					
Canal Quarter	0		0	800,000		800,000			0			0			0			0	800,000	0	800,000
Canal Quarter - Nelson St/St Leonardsgate	0		0	2,769,000	(2,769,000)	0			0			0			0			0	2,769,000	(2,769,000)	0
Burrow Beck Solar	0		0	4,000,000		4,000,000	1,000,000		1,000,000			0			0			0	5,000,000	0	5,000,000
White Lund Depot - Offices	0		0	300,000		300,000			0			0			0			0	300,000	0	300,000
Our Future Coast	75,000	(75,000)	0	208,000	(208,000)	0	62,000	(62,000)	0	63,000	(63,000)	0	85,000	(85,000)	0			0	493,000	(493,000)	0
GENERAL FUND CAPITAL PROGRAMME	13,903,000	(6,505,000)	7,398,000	19,606,000	(8,250,000)	11,356,000	13,121,000	(4,552,000)	8,569,000	5,727,000	(2,207,000)	3,520,000	2,778,000	(2,229,000)	549,000	4,057,000	(2,144,000)	1,913,000	59,192,000	(25,887,000)	33,305,000
Financing :																					
Capital Receipts			(130,800)			(105,000)			0			0			0			0			(235,800)
Direct Revenue Financing			0			0			0			0			0			0			0
Earmarked Reserves			(490,000)			(187,000)			(38,000)			0			0			0			(715,000)
Increase / (Reduction) in Capital Financing Requirement (CFR) (Underlying Change in Borrowing Need)			6,777,200			11,064,000			8,531,000			3,520,000			549,000			1,913,000			32,354,200

Lancaster City Council

Investing in the Future: Our Capital Investment Strategy 2023-28

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

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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 2023-28 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 <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>
Outcomes	net zero carbon by 2030 while supporting other individuals, <u>businesses</u> 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, <u>involved</u> 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, <u>finance</u> 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, <u>warm</u> and able to maintain their independence (Access to Quality Housing)	focused on serving and enabling our residents, local <u>organisations</u> 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, <u>leisure</u> 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 <u>enterprises</u> and community ownership (Inclusive Ownership)	keeping our district's neighbourhoods, parks, <u>beaches</u> 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 Department for Levelling Up, Housing and Communities (DLUHC) 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, Although, the rates of any borrowing incurred to fund these projects would ordinarily reflect the prevailing financial market conditions to address any associated internal and external risks. In addition, as a wholly owned company the financial statements of a LATCo are required to be consolidated into the Council's annual statement of accounts. Any investments seeking a commercial return could be delivered via a LATCo and considered under the LATCo's independent governance and decision-making structure.

3.1. Revised CIPFA Treasury Management Code and Prudential Code

CIPFA published the revised codes on 20th December 2021 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 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 SOC's and FBC's 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. SOC's 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. Revisions to the Capital Programme and any associated financing requirements that are outside of the budget and policy framework may be presented for approval throughout the year. However, there is the expectation that this would be of limited application and only reflect urgent situations.

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 2022/23 was £298.81M. The main constituents of these assets are as follows

Asset Type	£M
Council Housing & Other Assets	141.47
Property Plant & Equipment	104.92
Community Assets	8.68
Investment Property	34.03
Heritage Assets	9.52
Intangible Assets	0.19
Total	298.81

Council Housing

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

Number and Type of Dwellings		
Bedsits		76
1 Bedroom	Houses & Bungalows	653
	Flats & Maisonettes	551
2 Bedroom	Houses & Bungalows	472
	Flats & Maisonettes	662
3 Bedroom	Houses & Bungalows	1,139
	Flats & Maisonettes	7
4 or more bedroomed dwellings		84
Total Dwellings		3,644

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 2022/23 financial year is provided in the table below

Land & Buildings	Vehicles, Plant Furniture & Equipment	Infrastructure Assets	Surplus Assets	Assets Under Construction	Total
£M	£M	£M	£M	£M	£M
50.12	8.77	39.67	4.89	1.48	104.92

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	4.12
Retail	6.67
Agriculture & Allotments	1.22
Commercial Land	2.16
Commercial Building	11.49
Mixed Commercial	8.37
Total	34.03

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 its HRA assets every 5 years in line with Ministry of Housing Communities and Local Government (MHCLG) requirements. The last formal valuation was undertaken 1st April 2021. A desktop revaluation is undertaken for HRA assets in the intervening years to ensure that values are current.

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

The details of the assets are held and recorded in a variety of sources in order to meet the operational and management requirements of the Council. This enables a bespoke management system of operation so that maximum utilisation of the asset can be developed.

Whilst services have bespoke arrangements for the assets held under their responsibility the Financial Services maintains the prime records that are used for the production of the Council's Statement of Accounts. These are reconciled on a regular basis to ensure accuracy and relevance.

6. Capital Expenditure –

Capital Programme

The Council plans to gross expenditure, which excludes grants from other bodies of approximately £59.20M on General Fund and £29.81M on HRA capital schemes between 2022/23 – 2023/24.

Gross Capital Expenditure	2022/23 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M	Total 2022/23 to 2027/28
General Fund	13.90	19.61	13.12	5.73	2.78	4.06	59.20
Housing Revenue Account (HRA)	7.06	6.20	4.46	4.00	3.90	4.19	29.81
Total	20.96	25.81	17.58	9.73	6.68	8.25	89.01

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:

	2022/23 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M	Total 2022/23 to 2027/28
Financed by:							
Capital receipts	-0.67	-1.52	-0.54	-0.50	-0.50	-0.50	-4.23
Capital grants	-6.51	-8.25	-4.55	-2.21	-2.23	-2.15	-25.90
Capital reserves	-4.87	-2.77	-3.85	-3.43	-3.40	-3.69	-22.01
Revenue	-2.14	-2.21	-0.11	-0.07	-0.00	-0.00	-4.53
Financing Total	-14.19	-14.75	-9.05	-6.21	-6.13	-6.34	-56.67
Net financing need for the year	6.77	11.06	8.53	3.52	0.55	1.91	32.34

This table shows a net need for financing the Capital Programme of £32.34M 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

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	%	%	%	%	%	%
General Fund	14.90	24.31	25.05	25.12	24.23	23.43
HRA	18.57	17.00	16.22	16.25	15.99	15.75

This table shows that the cost of debt financing is estimated to be between 14.90% and 23.43% of the Council’s general fund net revenue budget between 2022/23 and 2027/28.

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)

As reported with the Mid Year Review the Council's Investments at 30.09.2022 were:

Balance 30.09.2022	£M	Liquidity
Bank Accounts	0.52	Instant Access
Money Market Funds	14.80	Instant Access
Other Local Authorities	12.00	Instant Access
Money Market Funds	0.00	Fixed Term
Other Local Authorities	12.00	Fixed Term
Total Investments	39.32	

Borrowing

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

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

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

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£M	£M	£M	£M	£M	£M
CFR – Non Housing	63.73	71.87	76.98	76.77	73.30	71.34
CFR – Housing	35.14	34.10	33.05	32.01	30.97	29.93
Total CFR	98.76	105.96	110.04	108.78	104.28	101.27

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:

	2022/23 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M
External Debt						
Debt at 1 April	60.04	59.00	73.46	77.42	76.38	75.34
Expected change in Debt	-1.04	14.46	3.96	-1.04	-1.04	-1.04
Actual gross debt at 31 March	59.00	73.46	77.42	76.38	75.43	74.30
The Capital Financing Requirement	98.86	105.96	110.04	108.78	104.28	101.27
Under Borrowing	-39.86	-32.50	-32.62	-32.40	-28.94	-26.97

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:

	2022/23 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M
General Fund MRP	-2.11	-2.92	-3.42	-3.73	-4.01	-3.88
HRA MRP	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04
Total	-3.15	-3.96	-4.46	-4.77	-5.05	-4.92

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:

	2022/23 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M
Operational Boundary	99.86	106.96	110.04	109.78	105.28	102.27
Authorised Limit	115.00	122.00	126.00	125.00	120.00	117.00

8. Commercial Activity

Current Position

The Council's existing investment property portfolio generates approximately £1.671M 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 over a number of years rather than actively acquired. Tenancy agreements are produced by the Council's Estates Management Team in consultation with Legal Services and range from leases, licences and other agreements such as easements, wayleaves and rights of way

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

Performance Monitoring

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

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 Council's 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
- Chief Officer – Property Investment & Regeneration
- 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 Chief Officer - 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.

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

2023/24

22 February 2023

Report of Cabinet

PURPOSE OF REPORT				
In accordance with the Council’s constitution this report seeks Council approval for both the Council’s Treasury Management 2023/24 framework and revisions to Minimum Revenue Provision (MRP) Policy for financial year 2022/23				
Key Decision	X	Non-Key Decision		Referral from Cabinet Member
Date of notice of forthcoming key decision				

RECOMMENDATION OF CABINET

- (1) That the Council notes the report and approves
 - o The Treasury Management Framework and associated Prudential Indicators for 2023/24 financial year as set out in Appendices A to C.
 - o The revision to the Councils Minimum Revenue Provision (MRP) Policy for financial year 2022/23 (Appendix D).

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 Council are asked to consideration to the Treasury Management strategy and associated attachments in accordance with the Constitution.

2.0 TREASURY MANAGEMENT FRAMEWORK 2023/24

- 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 2023/24 the minimum reporting requirements are that the Full Council should receive the following reports:
 - an annual treasury strategy in advance of the year (this report)
 - 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 has 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 2023/24 to 2026/27 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 fluctuate from the current estimated 2023/24 position of £105.96M rising to £110.04M in 2024/25 before reducing slightly to £104.28M in 2025/26, to reflect current planned levels of capital expenditure
- 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 £59.00M to £73.46M (2023/24) as the Council looks to move forward with several ambitious schemes to enable delivery of its Strategic Priorities. It is then forecast to increase slightly to £75.34M (2026/27).
- 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. Unfortunately, due a number of factors including the late conclusion of the budget process, delays to IT software and provision of information, the Treasury Management Strategy 2023/24 has not been considered by Budget & Performance Panel. As the approval of the strategy is a function of Full Council all Members, including those sitting on B&PP may proposes and changes, or amendments at that meeting.
- 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

£M	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Capital Financing Requirement						
CFR – Non Housing	59.06	63.73	71.87	76.98	76.77	73.30
CFR – Housing	36.18	35.14	34.10	33.05	32.01	30.97
Total CFR	95.24	98.86	105.96	110.04	108.78	104.28
Movement in CFR						
Non Housing	1.34	4.67	8.14	5.11	-0.21	-3.46
Housing	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04
Net Movement in CFR	0.29	3.63	7.10	4.07	-1.26	-4.51

Movement in CFR represented by						
Net financing need for the year (above) re Non Housing	3.49	6.77	11.06	8.53	3.52	0.55
Less MRP/VRP and other financing movements	-3.20	-3.14	-3.96	-4.46	-4.78	-5.06
Net Movement in CFR	0.29	3.63	7.10	4.07	-1.26	-4.51

Table 2: Borrowing Projections

	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
External Debt						
Debt at 1 April	61.08	60.04	59.00	73.46	77.42	76.38
Expected change in Debt	-1.04	-1.04	14.46	3.96	-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	60.04	59.00	73.46	77.42	76.38	75.34
The Capital Financing Requirement	95.24	98.86	105.96	110.04	108.78	104.28
Under Borrowing	-35.20	-39.86	-32.50	-32.62	-32.40	-28.94

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	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Debt*	98.86	105.96	110.04	108.78	104.28
Other long term liabilities	1.00	1.00	1.00	1.00	1.00
Total	99.86	106.96	110.04	109.78	105.28

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 Councils authorised limit for 2023/24 £122M**

Table 4: Authorised Limit

Authorised Limit	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Debt	114.00	121.00	125.00	124.00	119.00
Other long-term liabilities	1.00	1.00	1.00	1.00	1.00
Total	115.00	122.00	126.00	125.00	120.00

Affordability Prudential Indicators

- 4.8 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.

Table 5: Ratio of Financing Costs to Net Revenue Stream

	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
General Fund	18.50	14.90	24.31	25.05	25.12	24.23
HRA	19.87	18.57	17.00	16.22	16.25	15.99

- 4.19 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. Benchmarking by the Local Government Association (2022) suggested a regional and national average of c14% for the General Fund and so with potential percentage rates exceeding 25%, care and consideration must be taken with future capital investment.

5.0 MINIMUM REVENUE PROVISION (MRP) POLICY

- 5.1 Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP).
- 5.2 Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) regulations 2008 require the Authority to calculate a prudent provision of MRP whilst having regard to the current MRP Guidance (2018). The broad aim of prudent provision is to ensure that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The Guidance gives four ready-made options for calculating MRP but the Authority can use any other reasonable basis that it can justify as prudent.
- 5.3 As part of the OBR process officers commissioned an external review of the Council's MRP policy and historic provision. The review highlighted a number of historic adjustments, which given the length of time could generate a significant retrospective windfall to the Council. Members need to note that there is a significant amount of work required from officers to realise this value. Given the complexity and volume of work needed it was originally anticipated that this work will commence in the second quarter of the 2023/24 financial year, however, following discussions with our external advisors it is felt that it would be more beneficial to the Council to complete this work in the 2022/23 financial year, to enable this support has now been provided by the external advisors and a prudent estimate reflected in the 2022/23 monitoring and its impact reflected in the 2023/24 budget proposals.
- 5.4 The first step in realising the value requires a change to the Council's MRP policy. Historically the Council has adopted the "Asset life method", where MRP is based on the estimated life of each asset created as a result of the related capital expenditure. The external advisors view is that whilst continuing to reflect the asset life of the asset it would benefit the Council if the MRP charge was calculated using the annuity method using a weighted average useful life.
- 5.5 The MRP policy statement requires full Council approval in advance of each financial year although regulation does permit in year changes. **Following a comprehensive review of the MRP charges and methodology it is recommended that Council approves the revised MRP Policy Statement in relation to the 2022/23 Appendix D and 2023/24 financial years as referred to within the Treasury Management Strategy Appendix A**

6.0 INVESTMENT ASPECTS OF THE STRATEGY

- 6.1 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.
- 6.2 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.

7.0 OPTIONS & OPTIONS ANALYSIS

- 7.1 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.
- 7.2 Furthermore, the Strategy must fit with other aspects of the Council’s budget proposals, such as deposit interest estimates and underlying prudential borrowing assumptions, feeding into Prudential and Treasury Management Indicators. There are no options available regarding other components of the overall framework.

8.0 OFFICER PREFERRED OPTION (AND COMMENTS)

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

9.0 CONCLUSION

- 9.1 This report addresses the actions required to complete the budget setting process for Treasury Management, and for updating the Council’s associated financial strategy.

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)
Effective Treasury Management and use of the Councils’ resources is fundamental to the delivery of its priorities and outcomes

FINANCIAL IMPLICATIONS

The Treasury Management Strategy is in support of achieving the borrowing cost and investment interest estimates included in the budget.

S151 OFFICER COMMENTS

The s151 Officer has contributed to the writing of this report and Appendices, however, he wishes to draw Members attention to the following.

The Council's Constitution (Part 3 Section 5 – Budget & Policy Framework), where either a new or existing plan/strategy/budget is being considered, the Overview and Scrutiny Committee or Budget and Performance Panel will have an opportunity to comment. If it considers it appropriate, Cabinet may then amend its proposals before submitting them to Council for consideration.

Unfortunately, due a number of factors particularly the late conclusion of the budget process but also, delays to IT software and provision of information, neither the Treasury Management nor Capital Strategies 2023/24 have been considered by Budget & Performance Panel. As the approval of the strategy is a function of Full Council all Members, including those sitting on B&PP may propose any changes, or amendments at that meeting.

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. The Constitution sets out a process should Council decide not to adopt the Cabinet proposals whereby the Leader must be informed of any objections and instructed to require the executive to reconsider the proposal, in light of those objections, within 5 working days. Council would then meet again to consider Cabinet's response and either amend, approve or adopt the proposal.

BACKGROUND PAPERS

Appendix A - Council Responsibility
 Appendix B - TM Policy
 Appendix C - Treasury Management Strategy 2023-24
 Appendix D - Revised MRP Policy Statement 2022-23

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TREASURY MANAGEMENT FRAMEWORK DOCUMENTS AND RESPONSIBILITIES

For consideration by Council 22 February 2023

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	<p>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:</p> <ul style="list-style-type: none"> 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. <p>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.</p>
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.

LANCASTER CITY COUNCIL
TREASURY MANAGEMENT POLICY STATEMENT

For consideration by Council
22 February 2023

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 2023/24 to 2026/27**For Consideration by Council 22 February 2023****1 INTRODUCTION****1.1 Background**

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

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

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

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

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

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

1.2 Reporting Requirements

Capital Strategy

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

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

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

Treasury Management Reporting

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

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

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

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

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

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

1.3 Treasury Management Strategy for 2023/24

The strategy for 2023/24 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 associated training. This especially applies to Members responsible for scrutiny.

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

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

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

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/council members.
- Require treasury management officers and board/council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis.”

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

A formal record of the training received by officers central to the Treasury function will be maintained by 31 December 2023. Similarly, a formal record of the treasury management/capital finance training received by members will also be maintained by 31 December 2023.

Further member training will be arranged during the year, in particular following the elections in May 2023. 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 2022/23 – 2026/27

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	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
General Fund	11.22	13.90	19.61	13.12	5.73	2.78
Housing Revenue Account (HRA)	3.76	7.06	6.20	4.46	4.00	3.90
Total	14.98	20.96	25.81	17.58	9.73	6.68
Financed by:						
Capital receipts	-0.06	-0.67	-1.52	-0.54	-0.50	-0.50
Capital grants	-7.49	-6.51	-8.25	-4.55	-2.21	-2.23
Capital reserves	-3.46	-4.87	-2.77	-3.85	-3.43	-3.40
Revenue	-0.48	-2.14	-2.21	-0.11	-0.07	-0.00
Net financing need for the year	3.49	6.77	11.06	8.53	3.52	0.55

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

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

The CFR does not increase indefinitely. This is because the Minimum Revenue Provision (MRP), which is a statutory annual charge to revenue, broadly reduces the 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	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Capital Financing Requirement						
CFR – Non Housing	59.06	63.73	71.87	76.98	76.77	73.30
CFR – Housing	36.18	35.14	34.10	33.05	32.01	30.97
Total CFR	95.24	98.86	105.96	110.04	108.78	104.28
Movement in CFR						
Non Housing	1.34	4.67	8.14	5.11	-0.21	-3.46
Housing	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04
Net Movement in CFR	0.29	3.63	7.10	4.07	-1.26	-4.51

Movement in CFR represented by						
Net financing need for the year (above) re Non Housing	3.49	6.77	11.06	8.53	3.52	0.55
Less MRP/VRP and other financing movements	-3.20	-3.14	-3.96	-4.46	-4.78	-5.06
Net Movement in CFR	0.29	3.63	7.10	4.07	-1.26	-4.51

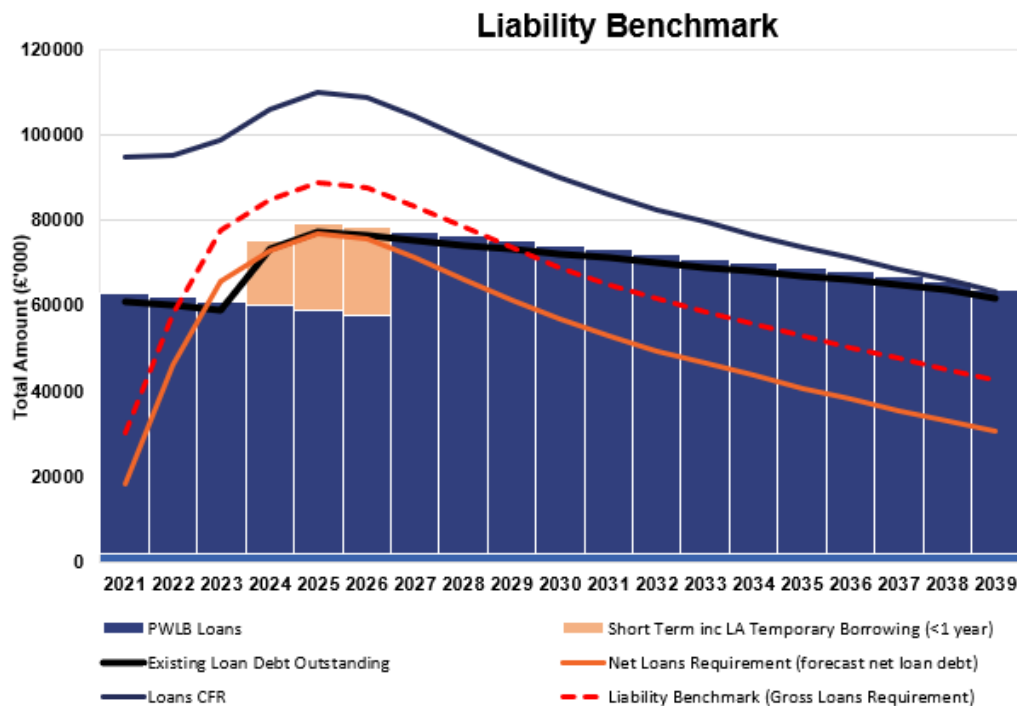
2.3 Liability Benchmark

A third and new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB: -

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

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



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

It can be seen from the chart that during 2021/22, that both the Council’s net and gross loan requirement were lower than actual borrowings. This is due to the abnormal and substantial levels of government grants and reliefs in the aftermath of the Covid-19 pandemic.

During 2022/23 the grants have been utilised or repaid which reveals the “true” position that there is a need to borrow to cover the net loans requirement. Given PWLB interest rates at present, temporary borrowing from other local authorities will be utilised until PWLB rates reduce.

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

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	2021/ Actual £m	2022/ Estimate £m	2023/ Estimate £m	2024/ Estimate £m	2025/2 Estimate £m	2026/2 Estimate £m
Fund balances / reserves						
Capital receipts						
Provisions						
Total core funds						
Working capital*						
Under borrowing						
Expected investments		28.3				

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

2.5 Minimum Revenue Provision (MRP) Policy Statement 2023-24

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

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

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

Following a comprehensive review of the MRP charges and methodology it is recommended that Council approves the following MRP Policy Statement.

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

estimated useful life of the vehicles. An annuity method will be applied for the MRP calculation.

- The interest rate applied to the annuity calculations will reflect the market conditions at the time. For the current financial year the interest rate used will be the Authority's weighted average borrowing rate.
- MRP will commence in the financial year following the one in which the expenditure was incurred, or in the year after the asset becomes operational.
- MRP in respect of unsupported borrowing taken to meet expenditure, which is treated as capital expenditure by virtue of either a capitalisation direction or regulations, will be determined in accordance with the asset life method as recommended by the MRP guidance.
- MRP in respect of assets acquired under PFI or Finance Leases will be charged at a rate equal to the principal element of the annual lease rental for the year in question.
- MRP Overpayments - The MRP Guidance allows that any charges made in excess of the statutory MRP, i.e. voluntary revenue provision (VRP) or overpayments, can be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. The VRP overpayments up to 31st March 2022 are £10.41m.
- On an annual basis the Section 151 officer shall review the level of MRP to be charged, to determine if this is at a level which is considered prudent based on the Authority's circumstances at that time, taking into account medium / long term financial plans, current budgetary pressures, current and future capital expenditure plans. Dependant on this review the Section 151 officer will adjust the annual MRP charge by making VRP or reclaiming previous VRP. The amount of MRP charged shall not be less than zero in any financial year

2.6 Affordability Prudential Indicators

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

2.7 Ratio of Financing Costs to Net Revenue Stream

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

	2021/ Actual £m	2022/ Estimated £m	2023/ Estimated £m	2024/ Estimated £m	2025/ Estimated £m	2026/ Estimated £m
General Fund	18.5	14.90	24.3	25.0	25.1	24.2
HRA	19.8	18.57	17.00	16.2	16.2	15.9

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 strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate 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.

	2021/ Actual £m	2022/ Estimated £m	2023/ Estimated £m	2024/ Estimated £m	2025/ Estimated £m	2026/ Estimated £m
External Debt						
Debt at 1 April	61.08	60.0	59.0	73.4	77.4	76.3
Expected change in Debt	-1.0	-1.0	14.4	3.9	-1.0	-1.0
Other long-term liabilities (OLTL)	0.0	0.0	0.0	0.0	0.0	0.0
Expected change in OLTL	0.0	0.0	0.0	0.0	0.0	0.0
Actual gross debt at March	60.0	59.0	73.4	77.4	76.3	75.3
The Capital Financing Requirement	95.0	98.8	105.9	110.0	108.7	104.2
Under Borrowing	-35.2	-39.8	-32.5	-32.6	-32.4	-28.9

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 2023/24 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	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Est £m	2026/27 Estimate £m
Debt*	98.86	105.96	110.04	108.78	104.28
Other long term liab	1.00	1.00	1.00	1.00	1.00
Total	99.86	106.96	110.04	109.78	105.28

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	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Debt	114.00	121.00	125.00	124.00	119.00
Other long-term liabilities	1.00	1.00	1.00	1.00	1.00
Total	115.00	122.00	126.00	125.00	120.00

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 19.12.2022. These are forecasts for certainty rates, gilt yields plus 80 bps:

	Mar-23	Mar-24	Mar-25	Dec-25
Bank Rate	4.25	4.00	3.00	2.50
3 Month average earnings	4.30	4.00	3.00	2.50
6 Month average earnings	4.50	4.10	3.00	2.60
12 Month average earnings	4.70	4.20	3.10	2.70
5yr PWLB rate	4.20	3.90	3.40	3.10
10yr PWLB rate	4.30	4.00	3.50	3.30
25yr PWLB rate	4.60	4.20	3.70	3.50
50yr PWLB rate	4.30	3.90	3.50	3.20

Further commentary by Link on this forecast table: -

Our central forecast for interest rates was updated on 19 December and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. Bank Rate stands at 3.5% currently but is expected to reach a peak of 4.5% in June 2023.

Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

The CPI measure of inflation looks to have peaked at 11.1% in Q4 2022 (currently 10.7%). Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.

In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

PWLB RATES

- *The yield curve movements have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.10% to 4.80%.*
- *We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.*

Borrowing advice: *Our long-term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are currently above this level, borrowing strategies will need to be reviewed in that context. Better value can generally be obtained at the shorter*

end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023.

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

3.4 Borrowing Strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's provisions, reserves, balances and working capital has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate increased over the remainder of 2022 and the first half of 2023.

Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Section 151 Officer, under delegated powers will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

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

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

3.5 Maturity Structure of Borrowing

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

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

Maturity structure of fixed interest borrowing 2022/23	£m	Current %	Lower %	Upper %
Under 12 months	1.0	1.7	0	100
12 months and within 24 months	1.0	1.7	0	100
24 months and within 5 years	3.1	5.2	0	100
5 years and within 10 years	5.2	8.8	0	100
10 years and within 20 years	9.3	15.8	0	100
20 years and within 30 years	0.0	0.00	0	100
30 years and within 40 years	39.2	66.4	0	100
40 years and within 50 years	0.0	0.0	0	100

3.6 Policy on Borrowing in Advance of Need

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

3.7 Debt Rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates.

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

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment Policy – Management of Risk

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

Council's investment policy has regard to the following:

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

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

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

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

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

1. Minimum acceptable **credit criteria** are applied in 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 counterparties 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 will engage with its advisors to maintain a monitor on market pricing such as “**credit default swaps**” and overlay that information on top of the credit ratings.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. The authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in **annex B2** under the categories of ‘specified’ and ‘non-specified’ investments.
 - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
 - **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 provide 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 2022/23 under IFRS9, the authority will consider the implications of investment instruments which could result 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 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 months
Banks	green	£3m	≤100 days
Banks	No colour	Not to be used	
Limit 3 category – Council’s bank non-specified investments)	n/a	£1.5m	1 day
DMADF	UK sovereign rating	unlimited	≤6 months
Local authorities	n/a	£12m	≤1 year
	Fund rating*	Money and 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 credit score of 1.25	Dark pink / A-	£6m	liquid
Ultra-Short Dated Bond Funds with credit score of 1.5	Light pink / A-	£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, more recently the UK sovereign debt rating has been placed on Negative Outlook by the three major rating agencies in the wake of the Truss/Kwarteng unfunded tax-cuts policy. Although the Sunak/Hunt government has calmed markets, the outcome of the rating agency reviews is unknown at present, but it is possible the UK sovereign debt rating will be downgraded. Accordingly, when setting minimum sovereign debt ratings, the Council will not set a minimum rating for the UK.

CDS prices

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

4.3 Country Limits

Due care will be taken to consider the exposure of the Council's total investment 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 investments as being 20% of the total investment portfolio.
- b) Country limit.** The Council has determined that it will only use approved counterparties from other countries with a minimum sovereign credit rating of AAA (Fitch) or equivalent from each of the credit rating agencies. This list will be added to, or deducted from, by Officers should ratings change in accordance with this policy.

4.4 Investment Strategy

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

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

Investment Returns Expectations: The current forecast includes a forecast for Bank Rate to reach 4.5% in quarter 2 of 2023.

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 4.00%
- 2023/24 4.40%
- 2024/25 3.30%
- 2025/26 2.60%
- 2026/27 2.50%

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

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

Maximum principal sums invested > 365 days					
	2021/2	2022/2	2023/2	2025/2	2026/2
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 bills	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	100%	20%	Up to 1 year
	Purple	100%	20%	Up to 1 year
	Blue	100%	N/A	Up to 1 year
	Orange	100%	20%	Up to 1 year
	Red	100%	20%	Up to 6 Months
	Green	100%	20%	Up to 100 days
	No Colour	0%	0%	Not for use
Certificates of Deposit and corporate bonds with banks and building societies	Yellow	20%	0%	Up to 1 year
	Purple	20%	0%	Up to 1 year
	Blue	20%	0%	Up to 1 year
	Orange	20%	0%	Up to 1 year
	Red	0%	0%	Up to 6 Months
	Green	0%	0%	Up to 100 days
	No Colour	0%	0%	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	Mood	S&P	Fitch	Mood	S&P
F1+	P-1	A-1+	AAA	Aaa	AAA
F1	P-1	A-1	AA	Aa2	AA
F2	P-2	A-2	A	A2	A

APPENDIX D

Revised Minimum Revenue Provision (MRP) Policy Statement for the Financial Year 2022-23 For Consideration by Council 22 February 2023

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

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

The MRP policy statement requires full Council approval in advance of each financial year. Following a comprehensive review of the MRP charges and methodology it is recommended that Council approves the following MRP Policy Statement.

- Supported borrowing incurred before 1st April 2008 will apply the Asset Life Method using an annuity method over 60 years.
- Unsupported borrowing will be subject to MRP using the Asset Life Method, which will be charged over a period which is reasonably commensurate with the average estimated useful life of the assets. An annuity method will be applied for the MRP calculation.
- Unsupported borrowing on vehicles will be subject to MRP using the Asset Life Method, which will be charged over a period which is reasonably commensurate with the estimated useful life of the vehicles. An annuity method will be applied for the MRP calculation.
- The interest rate applied to the annuity calculations will reflect the market conditions at the time. For the current financial year the interest rate used will be the Authority's weighted average borrowing rate.
- MRP will commence in the financial year following the one in which the expenditure was incurred, or in the year after the asset becomes operational.
- MRP in respect of unsupported borrowing taken to meet expenditure, which is treated as capital expenditure by virtue of either a capitalisation direction or regulations, will be determined in accordance with the asset life method as recommended by the MRP guidance.
- MRP in respect of assets acquired under PFI or Finance Leases will be charged at a rate equal to the principal element of the annual lease rental for the year in question.
- MRP Overpayments - The MRP Guidance allows that any charges made in excess of the statutory MRP, i.e. voluntary revenue provision (VRP) or overpayments, can be

reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. The VRP overpayments up to 31st March 2022 are £10.41m

- On an annual basis the Section 151 officer shall review the level of MRP to be charged, to determine if this is at a level which is considered prudent based on the Authority's circumstances at that time, taking into account medium / long term financial plans, current budgetary pressures, current and future capital expenditure plans. Dependant on this review the Section 151 officer will adjust the annual MRP charge by making VRP or reclaiming previous VRP. The amount of MRP charged shall not be less than zero in any financial year.

COUNCIL

Medium Term Financial Strategy

2023/24 – 2027/28

22 February 2023

Report of Chief Finance Officer

PURPOSE OF REPORT				
To provide an update on the Council's Medium Term Financial Strategy (MTFS) forecasts for 2023/24 to 2027/28				
Key Decision	<input type="checkbox"/>	Non-Key Decision	X	Referral from Cabinet Member
Date of notice of forthcoming key decision				

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 2023/24. 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 OPERATIONAL & STRATEGIC CONTEXT

- 2.1 As referred to in the Budget & Policy Framework Update report elsewhere on the agenda, the 2023/24 Budget has once again been set against the backdrop of significant change and economic volatility. This level of change and volatility is likely to extend for a further 1 to 2 years, which increases the uncertainty around planning estimation and assumptions and puts significant pressure on the Council's limited resources.
- 2.2 Members will be aware that for a number of years the Council has reported a structural budget deficit, meaning that its planned expenditure exceeds its anticipated income. In addition to this, the current cost of living crisis has compounded matters by exacerbating general and pay inflation together with energy costs, placing considerable additional pressure on the Council's limited resources.
- 2.3 Further uncertainties remain around the future of Heysham 1 & 2 Power Stations and their decommissioning plans. Whilst Central Government provides a mechanism to limit the losses incurred by the Council, given they account for a significant proportion of the Council's Business Rates income, this remains a considerable risk to the Council's financial position.

- 2.4 Nationally, Central Government have attempted to provide Local Government with additional certainty by providing a 2-year Finance Settlement, with confirmation of both new and continuation of several grant funding streams. Whilst this is an improvement on previous single year settlements, difficulties remain in forecasting in the medium and longer term which is required when developing the Council's Medium Term Financial Strategy.
- 2.5 All business rateable values in England and Wales have been revalued based on open market rental levels as at 1st April 2021 with the new liabilities taking effect from 1st April 2023. Although the Council has seen a 5% raise in rateable values there remains significant uncertainties around the application of reliefs and the potential level of appeals
- 2.6 The Council has been successful in agreeing an investment plan with Government (DLUHC) to allocate external funding of over £5M from the UK Shared Prosperity Fund (UKSPF). This has been awarded to support building pride in place, supporting high quality skills training, supporting pay, employment, and productivity growth, and increasing life chances across the district. Officers are currently finalising the first round of awards for eight local projects to be delivered collaboratively by the Council and its partners, with further rounds of funding awards to follow during the programme's lifespan up to March 2025.
- 2.7 More recently, on 19th January this year, the Council was successful in its bid to secure £50M from Department for Levelling Up towards the Eden Project Morecambe. This is excellent news and a great boost for the district. Securing Government funding was an important step but much work still remains to be done by Eden and the project partners. It will naturally be some years before the impact of increased income from business rates and tourism filter through. In the meantime, officers are working with Eden and the other partners to implement the required governance and delivery mechanisms to ensure that the full benefits of the project are secured.
- 2.8 Bank Rate has been subject to a succession of increases during the current financial year and is expected to peak at 4.5% in the first half of 2023/24. This has led to a significant forecast increase in investment interest. Set against this, however, the Council has a need to borrow at a time when PWLB and Local Authority lending rates are rising. PWLB 5-50 year rates are between 4.10 and 4.80%. This places pressures on the affordability of the Council's Capital Programme and the need to consider how it is funded.

3.0 GOVERNMENT FUNDING PROSPECTS

Local Government Finance Settlement

3.1 The Government released the provisional local government finance settlement on 19 December 2023, with the final settlement presented to parliament on 06 February 2023. The final settlement included a minor recalculation of the Funding Guarantee, resulting in a reduction of £0.010M, however a compensatory increase in the Service Grant was made, the overall result was no change to Council funding. Unlike previous years this is a 2 year settlement and reflects both 2023/24 and also 2024/25. Whilst this extension in the planning horizon is welcome it still provides substantial difficulties in developing forecasts in the medium term. 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 increased to 3% or £5 whichever is the greater for 2023/24
- 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 now for a number of years.
- The freezing of the Business Rates “multiplier” for 2023/24.
- Continuation of a number of funding streams including Revenue Support Grant, which was due to cease in 2020/21, Services Grant, although at a reduced level, and New Homes Bonus. It is likely this scheme will not exist in its current form for much longer, as it is being reviewed as part of the spending and fair funding review.
- The Settlement also introduced a new one off Funding Guarantee grant to ensure that all Councils receive a minimum of 3% increase in spending power before making local decisions. However, the Lower Tier Services Grant allocated in 2022/23 has now ceased.

3.2 A summary of the provisional settlement for Lancaster City Council is provided in table one below. Assumptions have been included to estimate Government funding from 2024/25 onwards however actual allocations for this period are currently unknown.

Table One – Provisional Settlement allocations for Lancaster City Council

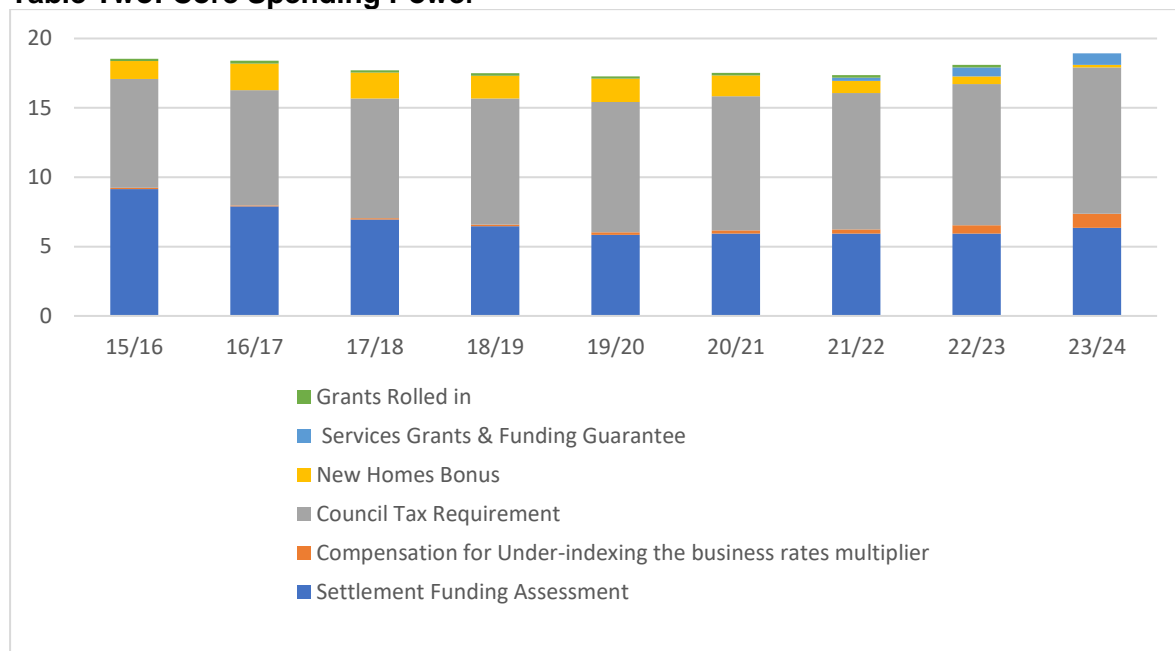
	Final Settlement £000	LCC Forecast £000	Difference £000
Settlement Funding Assessment			
Revenue Support Grant	232	0	232
Retained Business Rates	9,407	9,567	(160)
New Homes Bonus	188	180	8
Funding Guarantee	605	0	605
Lower Tier Services Grant	0	257	(257)
Services Grant	232	396	(164)
Total Government Funding	10,664	10,400	264

Core Spending Power

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

- 3.4 On the basis of the provisional Settlement, the Council’s CSP for 2023/24 will increase from £18.08M to £18.93M or 4.7% when compared to CSP in 2022/23 and includes an assumption by Government that Councils will increase their Council Tax by the maximum allowable. This is in comparison to the average CSP for all Councils in England of 9.2%.

Table Two: Core Spending Power

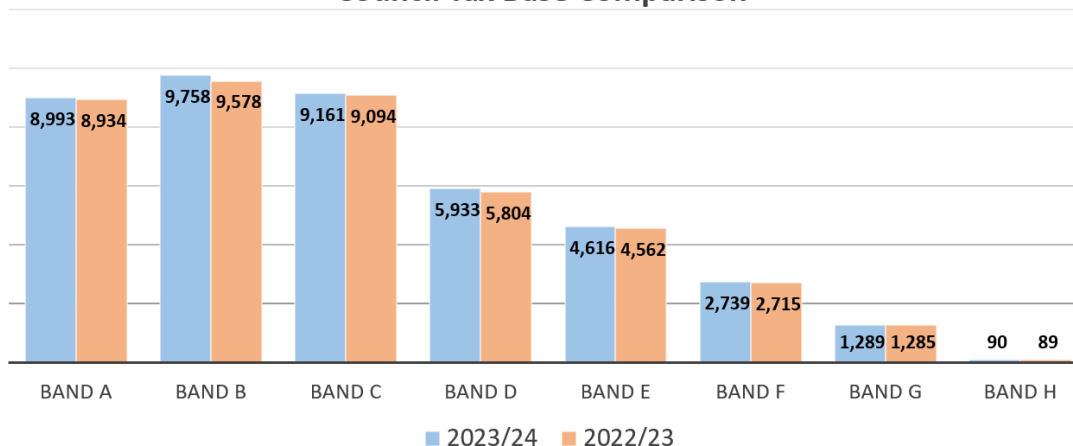


- 3.5 Table two above compares the historic value of CSP and shows the Council is now almost entirely reliant on Council Tax and Business Rates with a small amount of income from central government grants to fund net expenditure and it is, therefore, important to provide regular estimates of these key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

Council Tax

- 3.6 As noted above 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.
- 3.7 The tax base for 2023/24 has been calculated as 42,579 Band D equivalent properties after allowing for a collection rate of 98.68%, the same as in previous years. This equates to a 1.2% increase in the tax base. There has been a reduction in the numbers of void properties and an increase in new build properties together with a reduction in the numbers of accounts eligible for the Council Tax Reduction Scheme. Offsetting these positive movements, there has been an increase in the number of properties eligible for 50% and 25% occupancy reductions. From 2024/25 1% growth in the Tax base has been used for forecasting.

Council Tax Base Comparison



- 3.8 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.
- 3.9 Government's referendum criteria limits increases in the Council's element of Council Tax to 3% or £5, whichever is greater. For the purposes of forecasting, it has been assumed that the Council will increase council tax by 2.99%, the maximum allowed, before triggering a referendum in each of the next three years. The table below sets out Council Tax forecasts for the next four years including a sensitivity analysis showing the potential impact on council tax yield of different scenarios.

Table Three: Council Tax Forecasts

	Actual 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28
Council Tax Band D 2.99% increase		£249.18	£256.63	£264.31	£272.21	£280.35
Council Tax Band D (£5 increase)	£241.95	£246.95	£251.95	£256.95	£261.95	£266.95
Tax base (1% growth from 2023/24)	42,060	42,579	43,005	43,435	43,869	44,308
Council Tax Income	£10,176,417	£10,610,019	£11,036,531	£11,480,188	£11,941,680	£12,421,724
Previous MTFS		£10,491,000	£10,810,000	£11,135,000	£11,135,000	£11,135,000
Difference Increase/(Decrease)		£119,019	£226,531	£345,188	£806,680	£806,680
Scenario 1 – no increase In Council tax over period Of MTFS		(£189,011)	(£404,991)	(£625,941)	(£520,850)	(£414,709)
Scenario 2 – Council Tax Band D £5 increase		£23,884	£25,057	£25,582	£356,533	£692,988
Scenario 3 – 1.5% increase in tax base growth & 2.99% increase in Council Tax Band D		£146,902	£310,315	£489,605	£1,016,763	£1,567,827

Business Rates

- 3.10 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 following the COVID-19 pandemic, central government continue to intervene through various grant funding streams and reliefs. The position remains unsettled which, along with a number of other significant uncertainties set out below make forecasting and planning extremely difficult.

Revaluation

- 3.11 All rateable values in England and Wales have been revalued by the Valuation Office Agency (VOA) as part of the 2023 Revaluation. This revaluation has been based on open market rental levels as at 1st April 2021 and will be the basis of the business rates liability for each eligible business property in the District from 1st April 2023.
- 3.12 The VOA published the draft rating list in November 2022. As shown in below, the draft rating list for Lancaster City Council provides gross rateable value (RV) for 2023 of £169.117M.

Table Four: Lancaster City Council Classifications

Category	2017	2023	Movement	
	Rateable Value	Rateable Value	£	%
Commercial	64,204,715	63,509,776	(694,939)	(1.08%)
Industrial	9,952,150	12,253,525	2,301,375	23.12%
Leisure	3,437,325	4,041,320	603,995	17.57%
Miscellaneous	6,392,137	6,894,217	502,080	7.85%
Educational	11,173,475	13,021,150	1,847,675	16.54%
Non Formula Assessed Utilities	1,515,813	2,428,436	912,623	60.21%
Formula Assessed Utilities	63,655,600	66,775,940	3,120,340	4.90%
Treasury (Crown)	148,725	192,375	43,650	29.35%
Total	160,479,940	169,116,739	8,636,799	5.38%

- 3.13 Members should note that the gross RV for the Council has increased by £8.637M, an increase of 5.38%. This increase compares less than favourably with, both the national picture for England which, overall, has seen an increase in RV of 7.3%, and the North West where the rateable value on average has increased by 7.4% as shown in table 5 below

Table Five National & District Comparisons

	Retail	Industry	Office	Other	All Sectors
ENGLAND	(10.0)	27.8	10.3	4.4	7.3
North East	(13.9)	19.1	8.6	1.9	2.2
North West	(9.9)	23.2	17.2	5.4	7.4
Yorks/ Humber	(14.6)	19.4	7.9	6.1	4.7
East Midlands	(10.6)	23.2	5.5	6.2	8.6
West Midlands	(11.9)	26.7	15.3	4.5	9
East Midlands	(10.2)	35.1	26.3	9.9	14.4
London	(8.9)	33.1	6.1	(1.1)	3.3
South East	(10.1)	33.5	20.0	6.6	10.9
South West	(4.7)	27.0	14.0	5.9	9.5

3.14 At this stage, it is extremely difficult to accurately predict the impact of the revaluation on the Council's share of income from business rates. Ordinarily an increase in rateable values would provide an increase in the Council's share of business rates income. However, this does not take account of factors such as:-

- any reliefs or exemptions which may be applicable;
- the impact of appeals against the new rateable values, and the adequacy of provisions held in the Business Rates Retention Reserve to meet any appeals;
- the impact of any transitional arrangements the Government will introduce to phase in the effect of changes in rateable values

Heysham Power Stations

3.15 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 reactors accounts for a large proportion of the Council's total rateable value.

3.16 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.

Baseline Reset

3.17 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. 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.

Green Energy Disregard

3.18 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 2023/24, this will be worth £3.547M. Whilst it is evident that this 100% disregard will continue into 2024/25, there is a risk that the Government will discontinue this advantageous arrangement at some point in the future.

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

- Income in accordance with the revaluation for 2023.
- Heysham 1 reactor to be decommissioned March 2024 with the loss of rating income tapering off over six months in 2024/25.
- Growth of 2% in 2024/25 onwards together with a 2% uplift in baseline and tariff
- Continuation of the green energy disregard in its current form

Table Six: Business Rates Forecasts

	2023/24 £	2024/25 £	2025/26 £	2026/27 £	2027/28 £
Retained Business Rates	6,709,400	6,643,470	-	-	-
Safety Net Payment	-	-	5,927,120	6,045,320	6,166,050
Renewable Energy Disregard Income	3,546,600	3,617,530	3,689,880	3,763,680	3,838,950
Total net retained business rates	10,256,000	10,261,000	9,617,000	9,809,000	10,005,000

New Homes Bonus

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

Table Seven: New Homes Bonus

	2023/24 £000's	2024/25 £000's	2025/26 £000's	2026/27 £000's	2027/28 £000's
Annual Reward	188	188	188	188	188
Previous MTFS	180	180	180	180	180
Difference Increase/ (Decrease)	8	8	8,	8	8

4.0 GENERAL FUND PROJECTIONS

4.1 The Council report elsewhere on the agenda sets out the significant challenges facing the Council in balancing its revenue budget for 2023/24 and beyond and details proposals identified by the OBR Project Groups to identify savings, efficiency, and income generation opportunities. Table Eight below outlines the current forecast budgetary position for 2023/24 to 2027/28

Table Eight: General Fund Revenue Projections 2023/24 to 2027/28

	2023/24	2024/25	2025/26	2026/27	2027/28
	£000	£000	£000	£000	£000
Revenue Budget Forecast as 23 February 2022	21,943	23,479	24,766	0	0
Base Budget Changes					
Operational Base Budget Changes	2,443	3,697	3,960	30,289	30,990
	24,386	27,176	28,726	30,289	30,990
Outcomes Based Resourcing Proposals					
Costs of Asset Repurposing	277	295	450	1,075	790
Changes to Assumptions (Pay)	(203)	63	59	62	58
Additional Income Generation Proposals	(420)	(1,109)	(1,119)	(1,127)	(1,139)
Savings Proposals	(2,423)	(3,333)	(3,446)	(3,543)	(3,634)
Minor Adjustments	62	66	66	69	75
Impact of Review of the Capital Programme	9	269	537	537	570
	21,688	23,427	25,273	27,362	27,710
Impact of Provisional Local Government Finance Settlement	(20)	(20)	(20)	(20)	(20)
Contribution to/ (from) Unallocated Reserves	(577)				
General Fund Revenue Budget	21,091	23,407	25,253	27,342	27,690
Core Funding					
Revenue Support Grant	(406)	(406)			
Prior Year Council Tax Deficit	181				
Net Business Rates Income	(10,256)	(10,261)	(9,617)	(9,809)	(10,005)
Council Tax Requirement	10,610	12,740	15,636	17,533	17,685
Estimated Council Tax Income					
(Increase Based on 2.99% for 2023/24 then maximum allowable	(10,610)	(11,037)	(11,480)	(11,942)	(12,422)
Resulting Base Budget (Surplus)/ Deficit	0	1,703	4,156	5,591	5,263

4.2 Table Eight shows that, despite of the work and effort of Officers and Members in identifying opportunities to balance the budget for 2023/24, there still remains a significant challenge for the new administration, with the Council facing a shortfall of £1.703M in 2024/25 with an estimated total shortfall of £5.591M over the 5 year period. This position is further outlined in section 6.

Budget Principles and Assumptions

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 Nine below, lists the major assumptions that have been made within the MTFs with further details discussed in later paragraphs.

Table Nine: 5 Year MTFs Planning Assumptions

	2023/24	2024/25	2025/26	2026/27	2027/28
Council Tax Base Growth	1.00%	2.00%	2.00%	2.00%	2.00%
Council Tax Increase	2.99%	2.99%	2.99%	2.99%	2.99%
Council Tax Collection Rate	98.67%	98.67%	98.67%	98.67%	98.67%
Business Rates Multiplier	Frozen	Frozen	Frozen	Frozen	Frozen
Fees & Charges	Various	Various	Various	Various	Various
Inflation – Pay	4.00%	3.00%	2.00%	2.00%	2.00%
Employer Pensions Contribution	16.30%	16.30%	16.30%	16.30%	16.30%
Inflation – Insurance	10.00%	10.00%	10.00%	10.00%	10.00%
Inflation Utilities	Gas: Current Price	Gas: 3.0%	Gas: 3.0%	Gas: 3.0%	Gas: 3.0%
	Electric: Current Price	Electric: 5.0%	Electric: 5.0%	Electric: 5.0%	Electric: 5.0%
Other inflation (Minor cost centres)	2.40%	2.40%	2.40%	2.40%	2.40%
Interest Rate – investments	3.50%	3.00%	2.00%	2.00%	2.00%
Interest Rate – new borrowing	4.00%	3.30%	3.10%	3.10%	3.10%

Savings and Income Generation Proposals

4.5 The budget savings, or income growth identified as part of the 2023/24 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 table below, with more information included within the Budget and Policy Framework General Fund Revenue Budget 2023/24 item on the agenda.

Table Ten: Directorate Summary Savings Proposals

	2023/24	2024/25	2025/26	2026/27	2027/28
-	£'000	£'000	£'000	£'000	£'000
Senior Leadership Restructure	448	458	463	469	487
Central Services	76	143	145	147	149
Communities & the Environment	445	507	519	527	539
Corporate Services	338	352	362	372	382
Economic Growth & Regeneration	1,116	1,873	1,957	2,028	2,2077
Net Savings	2,423	3,333	3,446	3,543	3,634

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

Revenue Impact of Capital Programme Review

- 4.7 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 increased the impact that capital projects have on revenue by creating Minimum Revenue Provision (MRP) and interest costs. Details of the estimated additional expenditure incorporated with the MTFs is detailed in the table below:

Table Eleven: Revenue of Additional Expenditure for Capital Programme Repositioning

	2023/24	2024/25	2025/26	2026/27	2027/28
	£'000	£'000	£'000	£'000	£'000
Revenue Impact of Capital Programme Review	9	269	537	537	570

5.0 CAPITAL INVESTMENT AND FINANCING

Capital Investment

- 5.1 Through its capital programme the Council plans net investment of £33.305M 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. Schemes classified as Under Development have had strategic outline business cases approved in principle by Cabinet but **cannot** commence until full business cases have been considered and approved, first by the Capital Assurance Group, and then by Cabinet.
- 5.3 A number of significant schemes are classified as Under Development including Canal Quarter, general fund housing schemes and renewable energy initiatives. Schemes that are in this section of the Capital Programme which will require significant capital expenditures and borrowing will need a business case to demonstrate that income arising from the capital investment is capable of covering all borrowing costs and delivering a positive return to the Council's revenue budget.

- 5.4 Summary details of the current 5-year capital programme are given at table twelve below, with further details provided within the Capital Programme & Capital Strategy 2023/24 to 2027/28 paper elsewhere on the agenda.

Table Twelve: Capital Programme

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Approved Schemes							
Communities & Environment	5,999	2,764	5,568	1,927	36	833	17,127
Economic Growth & Regeneration	861	2,527	586	1,463	513	1,080	7,030
Corporate Services	538	965	1,415	130	0	0	3,048
Schemes Under Development	0	5,100	1,000	0	0	0	6,100
Total Net Capital Programme	7,398	11,356	8,569	3,520	549	1,913	33,305

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 £98.86M to £110.04M in 2024/25 before decreasing in 2026/27 to £104.28M.

Table Thirteen: Capital Financing Requirement

£M	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Capital Financing Requirement						
CFR – Non Housing	59.06	63.73	71.87	76.98	76.77	73.30
CFR – Housing	36.18	35.14	34.10	33.05	32.01	30.97
Total CFR	95.24	98.86	105.96	110.04	108.78	104.28
Movement in CFR						
Non Housing	1.34	4.67	8.14	5.11	-0.21	-3.46
Housing	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04
Net Movement in CFR	0.29	3.63	7.10	4.07	-1.26	-4.51

Movement in CFR represented by

Net financing need for the year (above) re Non Housing	3.49	6.77	11.06	8.53	3.52	0.55
Less MRP/VRP and other financing movements	-3.20	-3.14	-3.96	-4.46	-4.78	-5.06
Net Movement in CFR	0.29	3.63	7.10	4.07	-1.26	-4.51

- 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 £59.00M to £77.42M later in 2024/25 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 £75.34M reflecting repayments of the HRA self-financing loan. See table fourteen below

Table: Fourteen: Forecast Borrowing Position

	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
External Debt						
Debt at 1 April	61.08	60.04	59.00	73.46	77.42	76.38
Expected change in Debt	-1.04	-1.04	14.46	3.96	-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	60.04	59.00	73.46	77.42	76.38	75.34
The Capital Financing Requirement	95.24	98.86	105.96	110.04	108.78	104.28
Under Borrowing	-35.20	-39.86	-32.50	-32.62	-32.40	-28.94

- 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.
- 5.7 As part of the OBR process officers commissioned an external review of the Council's MRP policy and historic provision. The review highlighted a number of historic adjustments, which given the length of time could generate a significant retrospective windfall to the Council dependant on a change to the Council's MRP policy. Historically the Council has adopted the "Asset life method", where MRP is based on the estimated life of each asset created as a result of the related capital expenditure. The external advisors view is that whilst continuing to reflect the asset life of the asset it would benefit the Council if the MRP charge was calculated using the annuity method using a weighted average useful life. Members will note that, as part of the Council's Treasury Management Strategy elsewhere on the agenda, approval is being sought to revise the Council's Minimum Review Provision (MRP) policy, which is also necessary to realise the savings in 2022/23.
- 5.8 Tables fifteen and sixteen provide forecast levels of annual capital financing charges and their respective proportion of the revenue budget.

Table Fifteen: Revenue Impact of Capital Decisions

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£M	£M	£M	£M	£M	£M
Interest	1.172	2.205	2.447	2.610	2.610	2.610
MRP	2.109	2.923	3.416	3.734	4.014	3.878
Total	3.281	5.128	5.863	6.344	6.624	6.488

Table Sixteen: Ratio of Financing Costs to Net Revenue Stream

	2021/22 Actual %	2022/23 Estimate %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %
General Fund	18.50	14.90	24.31	25.05	25.12	24.23
HRA	19.87	18.57	17.00	16.22	16.25	15.99

- 5.8 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 25% of the Council's annual net revenue budget. Recent benchmarking work by the Local Government Association (LGA) provided a Northwest average of circa 14%. 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.
- 5.9 The financing of capital projects can be from a variety of sources, such as external grants, the use of reserves, and the application of capital receipts. A significant workstream for the OBR Assets Group is to review and realign the Council's existing asset base to identify those assets which no longer meet the Council's objectives and may be able to generate a capital receipt. However, the OBR process does provide a priority order for the use of capital receipts. Firstly, to fund transformation costs, that is costs that are associated with service transformation and delivery of efficiencies. Secondly, investment to reduce costs, which is not necessarily investing in a new asset; and given the levels of current financing costs, consideration also needs to be given to financing existing short life assets such as ICT and vehicles to reduce the MRP burden on the General Fund. Finally, the use of receipts to fund other schemes within the Capital Programme.

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 2023/24 revenue budget process provide an updated forecast of the budget gaps over the next three years. This is shown below in the graph and Table seventeen

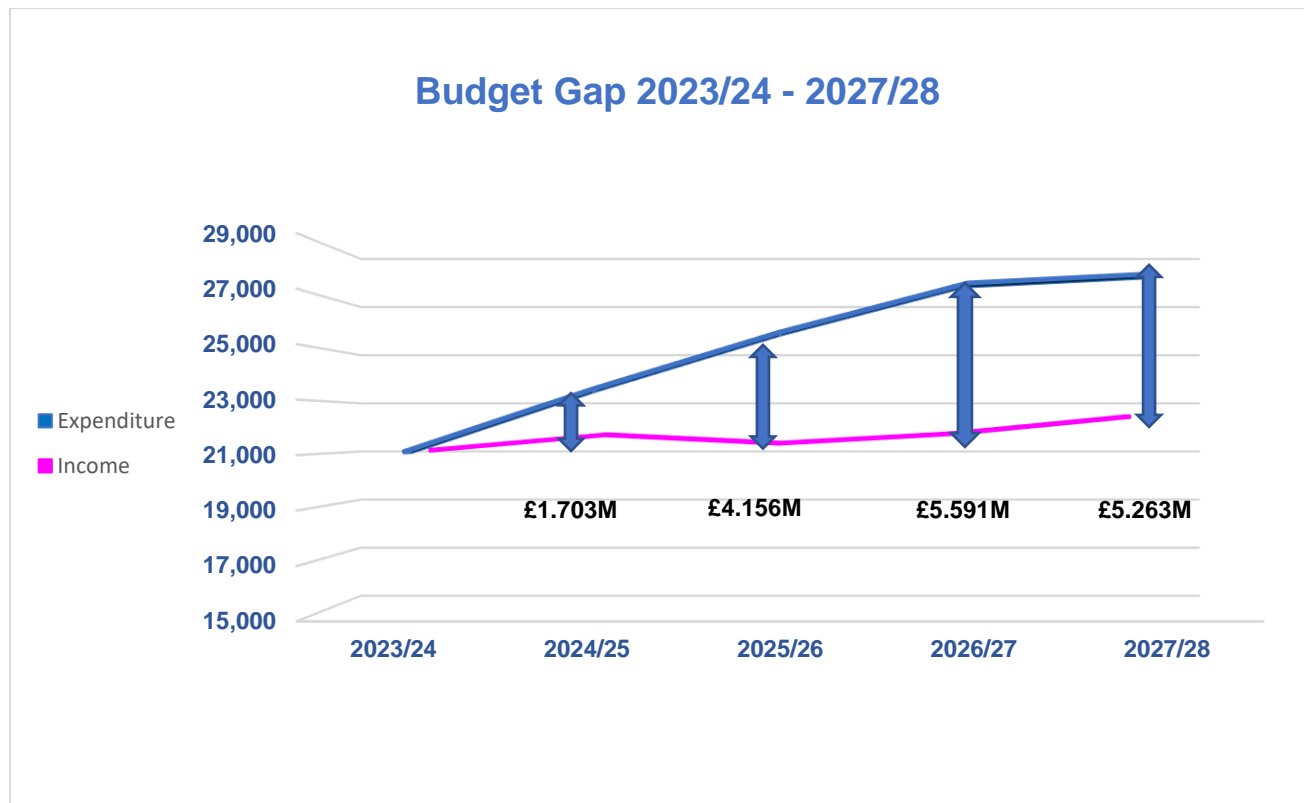


Table Seventeen: Cumulative Deficit as Percentage of Revenue Budget

	2023/24	2024/25	2025/26	2026/27	2027/28
	£'000	£'000	£'000	£'000	£'000
Revenue Budget (Estimate 7 February 2023)	21,091	23,407	25,253	27,342	27,690
<i>Budget Gap (Incremental)</i>	0	1,703	4,156	5,591	5,263
Percentage of Net Revenue Budget (Incremental)	0%	7%	16%	20%	19%

6.2 The forecast gaps are structural in nature, meaning that the Council's forecast spending exceeds the income it expects to receive and this is compounded year on year. This position represents a significant challenge over the short and medium term. It is imperative that the Council's OBR project continues. This will be fundamental 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 Councils 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 OBR 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.

7.4 At its meeting on 09 November 2022, Council approved amendments to its Reserves Strategy. The Strategy put forward a number of revisions including,

- The transfer of £5.913M into the Council’s General Fund unallocated reserve to boost financial resilience and to facilitate rationalisation of the application of these resources
- Endorsement of the s151 Officers advice to increase the minimum level of General Fund unallocated reserve to £5M
- Revisions to the governance arrangements for the approval of reserves expenditure

7.5 These revisions were required to enable the Council to better meet the current and forecast financial pressures it faces in regard to the ongoing cost of living crisis, uncertainty in the energy markets, together with other factors including the implications of OBR on the structural deficit as referenced for several years.

7.6 The graph and Table Eighteen below provide details of our current forecast level of General Fund Balances including the impact of funding the forecast deficit from reserves.

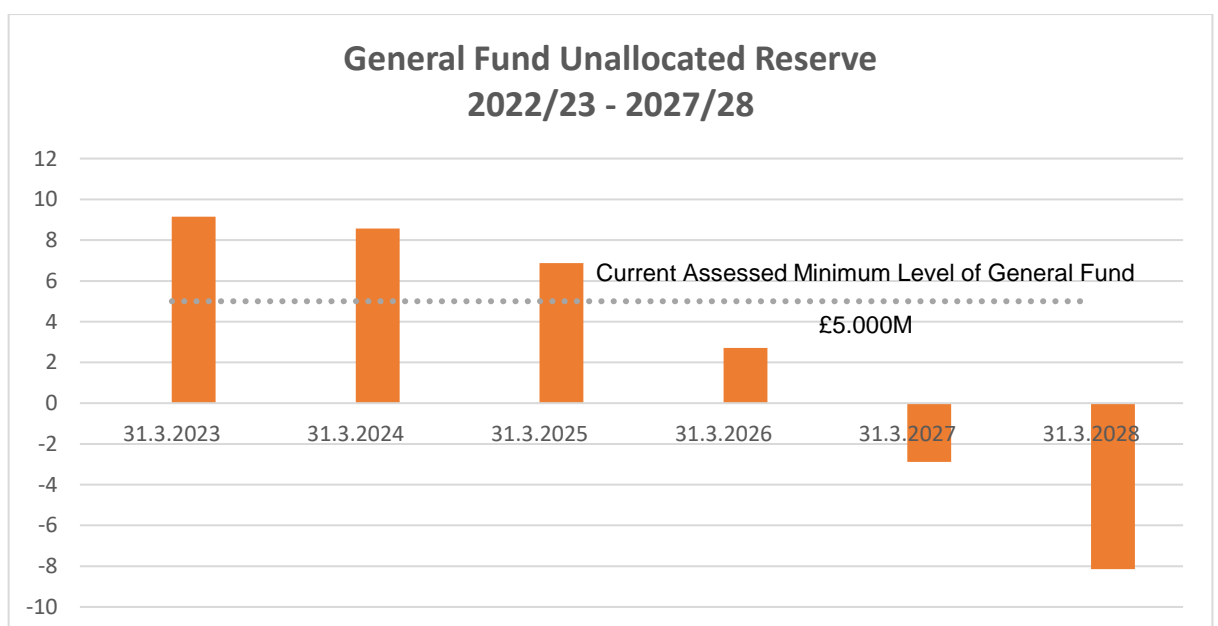
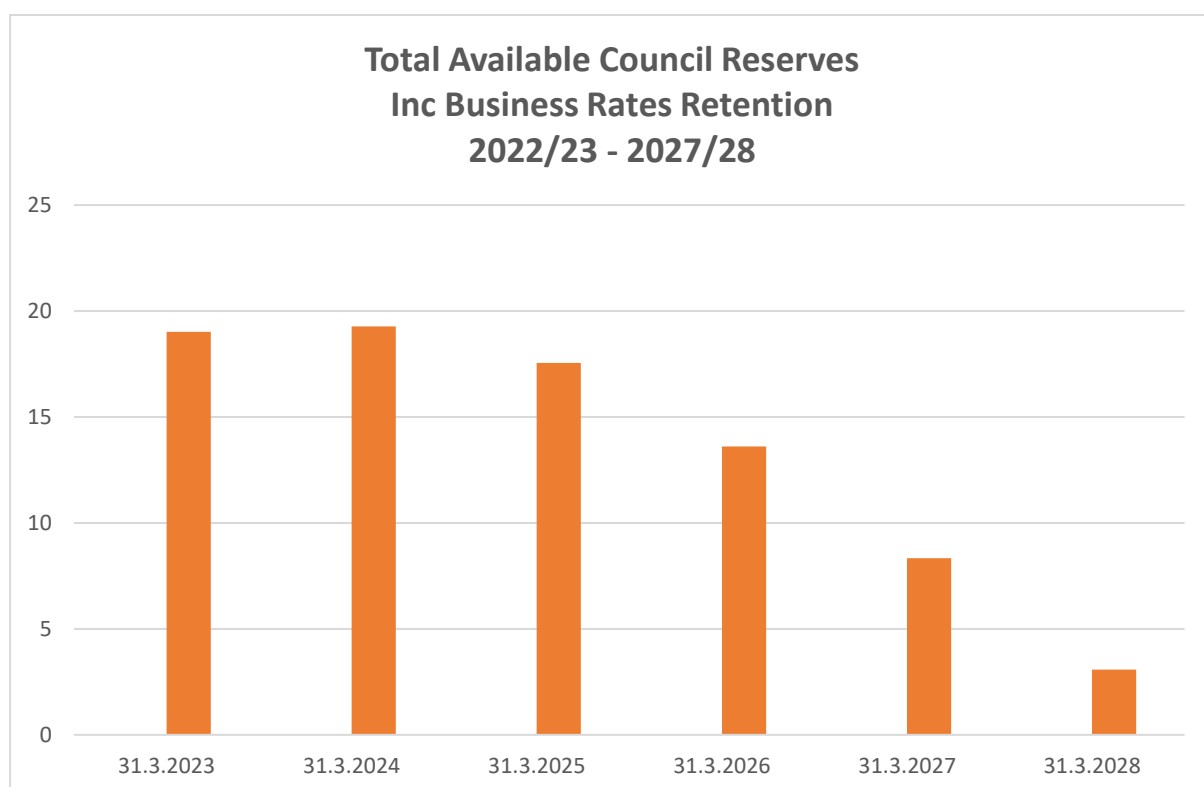


Table Eighteen: Estimated Level of General Fund Unallocated Reserves

	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M	2027/28 £M
Balance brought forward	(6.032)	(9.145)	(8.568)	(6.865)	(2.709)	2.883
Forecast Overspend	1.465	0.000	1.703	4.156	5.591	5.263
Other Adjustments	1.335	0.000	0.000	0.000	0.000	0.000
Contributions	(5.913)	0.000	0.000	0.000	0.000	0.000
Impact of 2023/24 budget decisions	0.000	0.577	0.000	0.000	0.000	0.000
Balance carried forward	(9.145)	(8.568)	(6.865)	(2.709)	2.883	8.145

- 7.7 The graph and Table Nineteen below provide details of our current forecast level of all available Council reserves. The analysis excludes a number of reserves such as s106 and Reserves held in perpetuity it does include reserves such as Business Retention and Renewals Reserves.
- 7.8 The Business Rates Retention Reserve is a mandated reserve, its purpose is to manage the risk of fluctuations in business rates income, as well as holding the Council's appeals provision. Whilst the transfers can be made to the general fund it is required to be maintained at a prudent level to manage the risks with business rates and not to support ongoing budget deficits. On this basis the graph below is used to underline the serious of the current situation against the Council's entire resource not only the general fund.



**Table Nineteen: Estimated Combined Level of Reserves
(excluding S106 Reserves & Reserves Held in Perpetuity)**

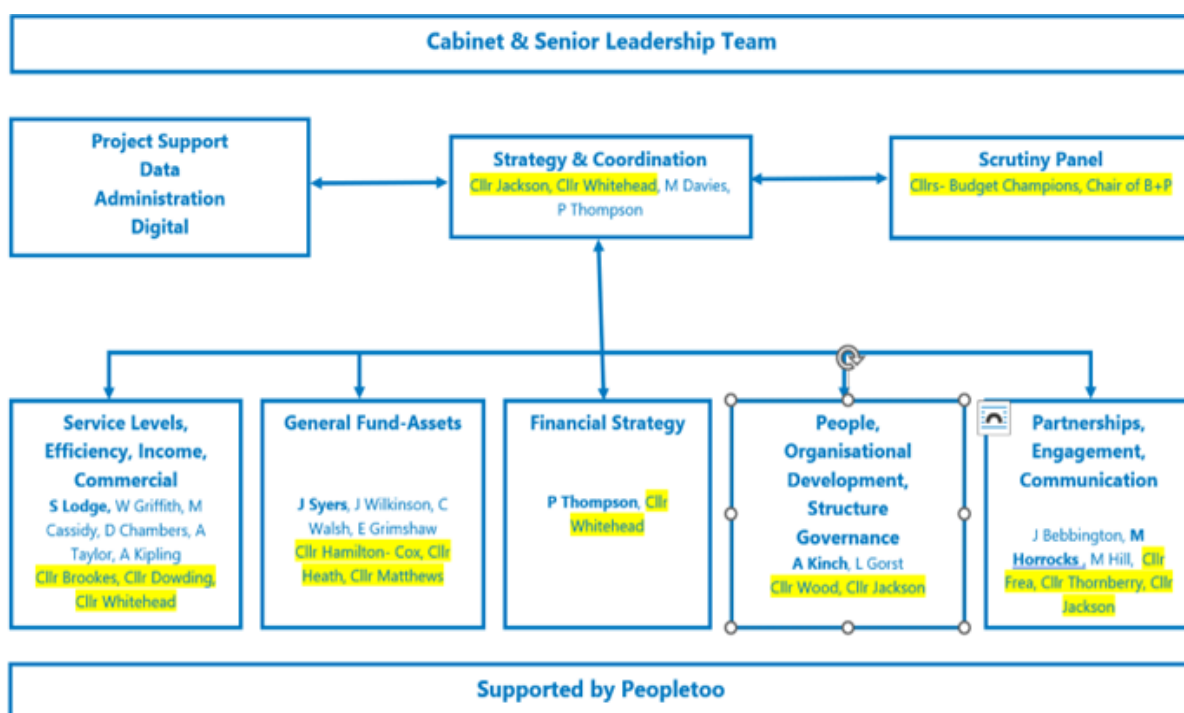
	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M	2027/28 £M
Balance brought forward	(27.421)	(19.020)	(19.268)	(17.548)	(13.612)	(8.341)
Impact of 2023/24 budget decisions	0.000	0.577	0.000	0.000	0.000	0.000
Impact of other decisions & outturn	8.401	(0.825)	0.017	(0.220)	(0.320)	0.000
Forecast Overspend	0.000	0.000	1.703	4.156	5.591	5.263
Balance carried forward	(19.020)	(19.268)	(17.548)	(13.612)	(8.341)	(3.078)

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

8.0 BALANCING THE BUDGET TO 2027/28

8.1 Although originally committed to in 2018, the Council embarked on its OBR project earlier this year. 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. Given the financial situation the Council faced earlier in the year, this work has been slightly reprofiled whilst the Council undertook a number of immediate actions. The outcomes of the work to date have been included in to 2023/24 budget and MTFs projections going forward

8.2 The table below shows the operational structure of OBR project and its governance processes along with the key Member and Senior Officer involvement. The project is split into 5 task groups each charged with a discreet area of responsibility.



8.3 Given the size of the ongoing financial issues the Council faces, this fundamental reshaping of the Council’s services and realigning against its priorities through the OBR process will be key to shrinking the estimated £5.591M budget gap and securing the financial sustainability of the Council going forward. It is imperative that the OBR work, or similar principles, continues under the new administration. The application of OBR across the Council will be a significant piece of work and to fully achieve its stated aims will take an estimated further 12 to 24 months. In light of this, balancing the budget in both the short and the medium term will be a tough task and all Members must recognise that despite the hard work undertaken to date they will face a number of difficult but key decisions over the coming financial years which will affect the manner in which services are delivered.

8.4 Whilst recognising that the Council will be subject to a new administration following the forthcoming election in May, Officers are currently working with Cabinet and will seek early engagement following the election to agree a series of actions to address this issue as a matter of urgency. The proposed actions currently include:

- Seeking a mandate from Cabinet for Officers to continue to develop proposals in the run up to the election
- Exploration of alternative service delivery models including closer working and collaboration with other Councils, Public Sector Bodies and Partner Institutions
- Application of alternative funding to deliver key Council outcomes
- Detailed review and sensitivity analysis on all key and significant income streams
- Further rationalisation work on the Council's asset base
- Expansion of the investment to reduce cost principle
- The potential use of capital receipts to finance existing projects
- Capitalisation of transformation costs where appropriate
- Development of a series of efficiency targets for Chief Officers to deliver

8.5 These proposals will form part of a wider consolidated strategy to be presented to Cabinet and Council in the new financial year

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

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 The Council continues to face unprecedented levels of financial and economic uncertainty in terms of Local Government funding, pandemic recovery, and the cost of living crisis. This, and specific local issues such as those surrounding decommissioning plans for Heysham power station, do hamper the degree of confidence with forecasts can be made and inevitably some key estimates and assumptions are likely to change in the coming months.

11.2 Despite the work to date by Officers and Members to deliver on the Council's OBR programme, a significant budget gap remains which cannot be met from Council reserves. The overall size of the challenge the Council faces in addressing its underlying structural deficit and in formulating a balanced budget over the medium and longer term must be recognised as does the need to deliver considerable future savings.

11.3 The Council continues to deliver high-quality frontline services to the District's residents. Continued focus on 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 ,however, 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

Performance, project, and resource monitoring provides a link between the Council Plan and operational achievement, by providing regular updates on the impact of operational initiatives against strategic aims.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability etc)

None identified at this stage

FINANCIAL IMPLICATIONS

As set out in the report

S151 OFFICER COMMENTS

The s151 Officer has authored this report and his comments are reflected within it. However, he would like to reiterate the following

The Council continues to face unprecedented levels of financial and economic uncertainty in terms of Local Government funding, pandemic recovery, and the cost of living crisis. This and specific local issues such as those surrounding decommissioning plans for Heysham power station do hamper the degree of confidence with forecasts can be made and inevitably some key estimates and assumptions are likely to change in the coming months

Despite the work to date by Officers and Members to deliver on the Council's OBR programme, a significant budget gap remains which cannot be met from Council reserves. The overall size of the challenge the Council faces in addressing its underlying structural deficit and in formulating a balanced budget over the medium and longer term must be recognised as does the need to deliver considerable future savings.

The Council continues to deliver high-quality frontline services to the District's residents. Continued focus on 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 ,however, 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.***

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

Council – MTFS

[Agenda for Council on Wednesday, 27th February 2019, 6.00 p.m.](#)

[Agenda for Council on Wednesday, 26th February 2020, 6.00 p.m.](#)

[Agenda for Council on Wednesday, 24th February 2021, 6.00 p.m.](#)

Contact Officer: Paul Thompson

Telephone: 01524 582603

E-mail: pthompson@lancaster.gov.uk

Ref: N/A

[Agenda for Council on Wednesday, 23rd February 2022, 6.00 p.m.](#)

[Agenda for Council on Wednesday, 14th December 2022, 6.00 p.m. - Lancaster City Council](#)

[Agenda for Council on Wednesday, 25th January 2023, 6.00 p.m. - Lancaster City Council](#)

Cabinet – MTFS

[Agenda for Cabinet on Tuesday, 6th December 2022, 6.00 p.m. - Lancaster City Council](#)

[Agenda for Cabinet on Tuesday, 7th February 2023, 6.00 p.m. - Lancaster City Council](#)

Cabinet – Updated Reserves Strategy

[Agenda for Cabinet on Tuesday, 25th October 2022, 6.00 p.m.](#)

Council - Updated Reserves Strategy

[Agenda for Council on Wednesday, 9th November 2022, 6.00 p.m.](#)

COUNCIL

**Appointments to Outside Bodies
22 February 2023
Report of the Head of Democratic Services**

PURPOSE OF REPORT

To consider making appointments to several vacancies on outside bodies, as detailed in the report.

This report is public

RECOMMENDATIONS

- (1) **That Council determines the basis of appointment for each outside body (see paragraph (5) in the report.**
- (2) **That, should Council determine that the basis of appointment to any of the roles be by nomination and voting at Council, that nomination(s) be taken and appointment(s) made at this meeting.**

1.0 Introduction

- 1.1 A number of vacancies on outside bodies have occurred since the last meeting of Council.

2.0 Lancaster and Skipton Rail Users Group (LASRUG)

- 2.1 Lancaster City Council has one vacant seat on LASRUG. This was held by Councillor Bryning who has resigned from the position. Council previously determined that the basis of appointment to LASRUG should be by nomination and voting at full Council.
- 2.2 Democratic Services have asked LASRUG for details of when, where and how frequently they meet and if information is received it will be reported at the meeting.

3.0 Leeds/Morecambe Community Rail Partnership

- 3.1 Lancaster City Council has one seat on the Partnership, which was held by Councillor Bryning. Councillor Bryning has resigned from the position, creating a vacancy. Council previously determined that the basis of appointment to the Partnership should be by nomination and voting at full Council
- 3.2 Democratic Services have asked the Partnership for details of when, where and how frequently they meet and if information is received it will be reported at the meeting.

4.0 Ripley Church of England (CE) Education Trust

- 3.1 The City Council has two seats on the Ripley CE Education Trust. Councillor Bryning has resigned from his seat on the Trust, creating a vacancy. The other seat is held by Councillor Joan Jackson.
- 3.2 Council previously determined that the basis of appointment to the Trust should be by nomination and voting at full Council.
- 3.3 Democratic Services have asked the Trust for details of when, where and how frequently they meet and if information is received it will be reported at the meeting.

4.0 George Fox Charity

- 4.1 Councillor Young was appointed to the George Fox Charity however she recently resigned due to work commitments. Council previously determined that the basis of appointment to the George Fox Charity should be by nomination and voting at full Council.
- 4.2 George Fox Charity meetings are held in the evenings via ZOOM.

5.0 Process for making appointments

- 5.1 This report has been brought before Members to consider appointing to the vacancies by:
 - (a) reconfirming that the appointments should be on the basis of nomination and voting at full Council (or determining that it should be by virtue of position, such as Chair of Overview and Scrutiny, relevant Cabinet Member or some other position); and
 - (b) If it is reconfirmed that any or all of these appointments should be made by full Council, that nominations for those vacancies be put forward, and appointments made, at this meeting.

6.0 Conclusion

- 6.1 Council is asked to consider appointing to places on various outside bodies as explained in this report.

CONCLUSION OF IMPACT ASSESSMENT (including Health & Safety, Equality & Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing) None directly arising from this report.
LEGAL IMPLICATIONS None directly arising from this report.
FINANCIAL IMPLICATIONS Members of outside bodies are entitled to travel expenses. Costs resulting from this appointment should be minimal and would be met from existing democratic representation budgets.
OTHER RESOURCE IMPLICATIONS Human Resources: None Information Services: None Property: None Open Spaces: None

SECTION 151 OFFICER'S COMMENTS

The s151 Officer has been consulted and has no further comments.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS

None

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Ref:

CABINET

6.00 P.M.

17TH JANUARY 2023

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

Officers in attendance:-

Mark Davies	Chief Executive
Luke Gorst	Head of Legal Services and Monitoring Officer
Paul Thompson	Chief Financial Officer (Head of Finance & Section 151 Officer)
Joanne Wilkinson	Head of Housing
Paul Rogers	Senior Regeneration Officer
Clare Brown	Project Delivery Lead
Liz Bateson	Principal Democratic Support Officer

55 MINUTES

The minutes of the meeting held on Tuesday 6 December 2022 were approved as a correct record.

56 ITEMS OF URGENT BUSINESS AUTHORISED BY THE LEADER

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

57 DECLARATIONS OF INTEREST

No declarations were made at this point.

58 PUBLIC SPEAKING

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

59 FAIR WORK CHARTER

(Cabinet Member with Special Responsibility Councillor Wood)

Cabinet received a report from the Chief Executive which updated Cabinet on progress on the Fair Work Charter and sought approval for the draft charter to progress to external consultation and implementation via a partnership model.

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

	Option 1: Approve draft charter and proposals to implement and further engage with the business community.	Option 2: Reject the draft charter and proposals to implement and further engage with the business community
--	--	--

Advantages	<ul style="list-style-type: none"> • Further progress can be made on a key element of plan 2030. • The council can play a part in reducing labour market inequalities taking a leading role and modelling best practice. 	<ul style="list-style-type: none"> • Resources are stretched within our teams, this would free resource for other key projects • Avoidance of any potential cost of implementation.
Disadvantages	<ul style="list-style-type: none"> • Potential sign ups (members) could be low given our small business community is our largest sector. Internal resource required to implement would need to be considered against other key projects and initiatives. 	<ul style="list-style-type: none"> • Without the charter to progress the council wouldn't have a vessel by which to have a conversation with businesses regarding labour market inequality. • Given the cost of living crisis that we are also facing, our corporate ambitions to improve the prosperity of our local economy not progressing the charter would be a negative. Other initiatives would need to be considered to meet our ambitions
Risks	<ul style="list-style-type: none"> • The implementation of the charter could have some potential costs around marketing which will need to be referred into this committee following the external engagement process. It is hoped that by developing the charter with partners these costs will be minimised. 	<ul style="list-style-type: none"> • Labour market inequalities continue without intervention and our district struggles to build back better from the pandemic and survive the current economic crisis.

The officer preferred option is for the draft charter and implementation and engagement proposals to be approved.

Councillor Wood proposed, seconded by Councillor Caroline Jackson:-

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

Councillors then voted:-

Resolved unanimously:

- (1) That the progress made on the development of a Lancaster District Fair Work Charter to reduce social inequality and drive improvements to pay and working conditions of local residents be noted.
- (2) That the current draft be approved and further external consultation with a focus

on local businesses be authorised.

- (3) That the Fair Work Charter engagement and implementation plan be approved.
- (4) That Cabinet recommends that Personnel Committee agrees that the Council, as an employer, will commit to the Fair Work Charter journey.

Officer responsible for effecting the decision:

Chief Executive

Reasons for making the decision:

The rationale of the introduction of Fair Work Charters is built on the business case that to offer decent terms and conditions of employment is equally good for business, employees and local society. The proven benefits are that good terms of employment attract high calibre staff, enhance productivity and customer experience which, in turn, all support profitability or organisational success as well as quality of life for employees. This creates increased wealth and demand for products and services within the local community.

The decision is consistent with the key priorities and outcomes as set out within Plan 2030. Fair Work sits as one of the pillars of Community Wealth Building and within the overall ambition to have an inclusive and prosperous economy within the district. The charter aims to reduce labour market inequality a key linked component of which is climate justice as an integral part of social justice and economic prosperity.

60 CORPORATE FEES & CHARGES REVIEW 2023/24

(Cabinet Member with Special Responsibility Councillor Whitehead)

Cabinet received a report from the Head of Financial Services that asked Members to endorse the Fees and Charges Policy for 2023/24 and also to 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:

	Option 1: To support the inflationary increases/freezes as outlined in the report.	Option 2: To not support the inflationary increases/freezes as outlined in the report.
Advantages	This protects the client base in two of the Council's largest fee earning areas (parking and garden waste), especially in the current cost of living crisis whilst providing a fair percentage uplift in other areas.	There could be an opportunity to use fees and charges to contribute further to the general fund net position.
Disadvantages	The chance to increase fees and charges at above	The draft revenue budget has been prepared with the

	inflationary levels would be foregone.	inclusion of the items raised in this report. Any further proposals would require further consideration prior to being fed into the budget process.
Risks	Cost of living and the return from the pandemic have reshaped people's habits. The income targets already set could in advance of projected spend 23/24, resulting in a shortfall within the accounts.	Increasing fees to higher than suggested levels would most likely result in resistance and potentially not achieve the targets originally set.

The officer preferred option is Option 1.

Fees and Charges are reviewed on an annual basis and as outlined within the report, significant factors have become apparent as to why differing treatment is required within a couple of areas. It is felt that the recommendations made are of a fair nature and in-line with the policy attached to the report.

Councillor Whitehead proposed, seconded by Councillor Wood:-

"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 2023/24 as part of the mid-year budget strategy review determines whether any other areas of income generation be explored further for 2024/25 onwards.
- (2) That Cabinet endorses the freezing of car parking pay and display charges, for a further twelve month period.
- (3) That Cabinet endorses the increase of garden waste collection charges by £1 to £41 per annum.
- (4) 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 2023/24 budget setting process.
- (5) That Cabinet endorses the implementation of the new charge in respect of electrical vehicle recharging on off-street car parks, as reported as part of the current 2023/24 budget setting process.

Officer responsible for effecting the decision:

Head of Financial Services

Reasons for making the decision:

Between 2022/23 and 2023/24 gross income from comparative fees and charges is expected to increase from £18.27M to £18.58M, representing a moderate increase of £0.31M or 1.7%. It should be noted that a number of income budgets were significantly reduced in 2021/22 due to the pandemic and where appropriate were returned to pre pandemic levels when formulating the 2022/23 revenue budgets. However, during the current financial year it has become clearly substantiated by monitoring processes in place that income levels are still suffering. The cost of living crisis has added a further burden to this area and the 2023/24 budgets have been projected with this in mind.

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.

61 BUDGET & POLICY FRAMEWORK UPDATE 2023/24 - 2027/28**(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 2023/24 and financial outlook up to 2027/28. Specifically, the report considered the budget and Council Tax proposals for 2023/24

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 line with the Council Tax billing timetable. Any delay would put the Council at risk of not being able to collect the tax which would have serious cash flow implications.

Regarding the budget strategy, Cabinet may approve the proposals as set out, or ask for 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 priorities and service outcomes. 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 terms of the actual budget position, the report put forward a balanced budget. If Cabinet agrees the budget, then it will form their proposal to Budget and Performance Panel on 01 February 2023. 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 07 February 2023 and recommended to Council on 22 February 2023.

The current budget proposal produces a balanced budget through utilisation of the Council's reserves. Cabinet and Officers will continue to work ahead of Cabinet's 07 February 2023 meeting to identify further opportunities for savings, efficiencies, and income generation in order to further reduce the use of reserves.

Whilst the longer-term financial forecasts contain numerous estimates and assumptions, which will change over time, the forecasts clearly highlight potential annual and cumulative budget deficits over the next 5 years and the perilous position the Council

now faces. Although this position is not unique to this Council, and is reflected nationally across many public sector bodies, the gaps identified for 2024/25 and beyond are of such a level that both Members and Officers need to be under no illusion of the size of the challenge ahead. Significant transformational change in the way that the Council delivers both its statutory and non-statutory services across the district will be required.

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

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

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 3.3 (option one) of this report which is a 2.99% increase to the Band D Council Tax (from £241.95 to £249.18).
- (2) That Cabinet makes recommendations regarding its initial budget proposals as set out in section 5 and Appendix A of the report.
- (3) That the recommendations and proposals in this report be referred to Council on 25 January for initial consideration as well as being presented for scrutiny by Budget and Performance Panel on 01 February, in order that any feedback can be provided to Cabinet at its 07 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 and outcomes incorporating measures to address the climate emergency and digital improvements as well as activities to address wellbeing, health and community safety. The budget plans underline the council's ongoing commitment to protecting vital frontline services, supporting communities, ensuring access to services for those most in need, and working in partnership to deliver the best outcomes for the community.

The decision enables the proposals to be considered at January Council and by the Budget and Performance Panel allowing Cabinet to make further recommendations back to Council to complete the budget setting process for 2023/24.

62 EXCLUSION OF THE PRESS AND PUBLIC

It was moved by Councillor Hamilton-Cox and seconded by Councillor Wood:-

“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 item 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.

63 MAINWAY REGENERATION NEXT STEPS (Pages 9 - 13)

(Cabinet Member with Special Responsibility Councillor Matthews)

Cabinet received a report from the Head of Housing which sought approval for the next steps in relation to the wider Mainway site. 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.

Resolved unanimously:

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

Officer responsible for effecting the decision:

Head of Housing

Reasons for making the decision:

The decision is consistent with the Council's priorities. Exactly how the decision fits with Council priorities is set out in the exempt minute.

64 LANCASTER CANAL QUARTER: PROGRESSION OF EARLY PHASE REGENERATION PROPOSALS (Pages 14 - 17)

(Cabinet Members with Special Responsibility Councillors Hamilton-Cox & Matthews)

Cabinet received a joint report from the Head of Housing and Head of Property, Investment, and Regeneration that detailed the next steps in delivering early phase regeneration proposals and sought approval for the necessary funding package and procurement route approvals to progress the next stages of work. The report was exempt from publication by virtue of paragraph 3 of Schedule 12 A of the Local Government Act, 1972.

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

Resolved unanimously:

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

Officer responsible for effecting the decision:

Head of Housing

Reasons for making the decision:

The decision is consistent with the Council's priorities. Exactly how the decision fits with Council priorities is set out in the exempt minute.

Chair

(The meeting ended at 7.10 p.m.)

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

MINUTES PUBLISHED ON MONDAY 23 JANUARY, 2023.

**EFFECTIVE DATE FOR IMPLEMENTING THE DECISIONS CONTAINED IN THESE MINUTES:
TUESDAY 31 JANUARY, 2023.**

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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