LANCASTER
CITY COUNCIL

Promoting City, Coast & Countryside

Committee: **CABINET**

Date: **TUESDAY, 7 FEBRUARY 2023**

Venue: **LANCASTER TOWN HALL**

Time: **6.00 P.M.**

A G E N D A

1. **Apologies**

2. **Minutes**

   To receive as a correct record the minutes of Cabinet held on Tuesday, 17 January 2023 (previously circulated).

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

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

4. **Declarations of Interest**

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

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

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

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

5. **Public Speaking**

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

   Reports from Overview and Scrutiny

   None

   Reports

6. **Hackney Carriage Fare Review 2023** (Pages 3 - 14)

(Cabinet Member with Special Responsibility Councillor Brookes)

Report of Director for Communities & the Environment

7. **Budget & Policy Framework Update 2023/24 to 2027/28 including Capital and Treasury Management Strategies** (Pages 15 - 125)

(Cabinet Member with Special Responsibility Councillor Whitehead)

Report of Chief Officer Finance (Budget, Capital Programme & Treasury Management reports published on 3.2.23 – MTFS published 7.2.23)

Whilst this report is public, it may contain an exempt appendix and in accordance with Regulation 5 of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012, notice is hereby given that the meeting is likely to move into private session if it is necessary to refer to the exempt appendix. The reason that the appendix is likely to be considered in private is that it will involve the disclosure of exempt information under part 1 & 2 of Schedule 12A of the Local Government Act 1972.

8. **Housing Revenue Account and Capital Programme** (Pages 126 - 158)

(Cabinet Member with Special Responsibility Councillor Matthews)

Report of Director for Communities and the Environment and the Chief Finance Officer

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

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

(ii) Queries regarding this Agenda

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

(iii) Changes to Membership, substitutions or apologies

Please contact Democratic Support, telephone 582000, or alternatively email democracy@lancaster.gov.uk.

MARK DAVIES,
CHIEF EXECUTIVE,
TOWN HALL,
DALTON SQUARE,
LANCASTER, LA1 1PJ

Published on MONDAY 30 January, 2023.

CABINET

Hackney Carriage Fare Review 2023
7 February 2023

Report of Licensing Manager

PURPOSE OF REPORT					
Cabinet members are asked to approve the recommendation from Licensing Committee to set a new Hackney Carriage fare tariff.					
Key Decision		**Non-Key Decision**	**X**	**Referral from Cabinet Member**	
Date of notice of forthcoming key decision	Not applicable				
This report is public					

RECOMMENDATIONS

(1) Licensing Committee propose an increase on the flag fall of 20p from £3.00 to £3.20 (7% increase) and,

(2) That the rolling rate increases by 10% by reducing the increment from 176 yards to 160 yards per 20p.

(3) Approve the Licensing Manager to advertise the adjusted table of fares as required by Section 65 of the Local Government (Miscellaneous Provisions) Act 1976.

1.0 Introduction

1.1 Section 65 of the Local Government (Miscellaneous Provisions) Act 1976 makes provision for the Council to fix the rates of fares within the district for time, distance and all other charges in connection with the hire of a hackney carriage. The table of fares is attached to the inside of a hackney carriage; this allows members of the public to view all charges when hiring a vehicle.

The current table of fares is attached at **Appendix 1**.

1.2 The setting of fares is an Executive function as it is not one that is listed in the Local Authorities (Function and Responsibilities) (England) Regulations 2000 and therefore falls to the Cabinet to make the decision. In its capacity as an advisory Committee to Cabinet, the Licensing Committee are required to refer any decision to Cabinet for approval.

1.3 The last review of the hackney carriage tariff was undertaken in April 2022, prior to this there was no fare review or uplift in hackney carriage fares since 2019. Before that RPI was not consistently applied and the table of fares did not reflect the approved methodology or a wage reflective to the cost of living for the average licensed driver.

1.4 The review and subsequent uplift last year saw the cost of smaller journeys subject to a minor uplift with journeys over 5 miles being subject to a 10-15% increase. The time and a half/double time rates on this tariff saw fares raised between 10-24%. The increase therefore was significant for the trade and public, but it represented the cost of living and rising fuel costs at that time.

1.5 Since the update has taken effect, very little feedback has been received by licensing from members of the public, No complaints have been received by way of allegations of overcharging or challenges to fares paid. Similarly, because of input from the licensed trade through the consultation period they were as a collective, happy with the updated tariff.

2.0 Proposal Details

2.1 At a meeting of the Councils Cabinet on 12 April 2022, it was approved that, retail price index (RPI) would be applied annually across the tariff, including flag fall and rolling rate, rounding down to the nearest 5p.

The statutory requirement for advertisement and consultation would then follow before an updated table of fares would be published, with an updated table of fares coming into effect on a specified date.

It was agreed that the methodology would be applied to the tariff annually, using the retail price index (RPI) from November. Retail price index for November 2023 was set at 14%.

This has been applied across the tariff as approved by Cabinet and is attached at **Appendix 2.**

2.2 The licensed trade was consulted on the proposed tariff. 19 individual responses were received from the individuals regarding the proposals, including representatives of the taxi working party. 13 agreed with proposals and 6 did not.

Comments from the licensed trade obtained during the consultation are attached at **Appendix 3**.

2.3 At a meeting of the Licensing Committee on 5 January 2023 an alternative proposal and option for members consideration was suggested by Councillor Hamilton-Cox.

Councillor Hamilton Cox proposed an increase on the flag fall of 20p from £3.00 to £3.20 representing a 7% increase, and.

That the rolling rate increases by 10%, this is achieved by reducing the increment from 176 yards to 160 yards per 20p.

It is recognised that the proposal is less than RPI but above the average wage settlement in the private sector; and recognises that the diesel price has reduced since the April 2022 fare increase was implemented.

Furthermore, it is clear that applying the methodology to the rolling rate has no impact on tariff 1 or 2 until RPI reaches 25% or above, the increase on tariff 3 is marginal (5p).

2.4 A tariff reflecting these updates is attached at **Appendix 4**.

3.0 Details of Consultation

3.1 Whilst the licensed trade was given opportunity to comment on the tariff reflecting the approved methodology prior to Licensing Committee, no consultation exercise has been conducted on the proposal and preferred option of the Licensing Committee with the licensed trade.

3.2 The statutory advertisement and consultation will include the wider public and direct consultation with the licensed trade as a whole. There views can be collated at this time and brough back to Cabinet if required.

4.0 Options and Options Analysis (including risk assessment)

	Option 1: Maintain current table of fares approved in April 2022.	**Option 2:** Apply retail price index (RPI) across the tariff. (14%) Rounding down to the nearest 5p.	**Option 3:** Deregulate fare setting.	**Option 4:** Increase flag-fall by 7% Increase rolling rate by 10% by reducing the increment from 176yds to 160yds.
Advantages	Public are aware of expected fares when hiring a hackney carriage.	Drivers income is increased in line with rising cost of living This was identified as the preferred methodology to the trade through consultation. The licensed profession may be perceived as a career option for local people.	Allows licensed trade to calculate their own fares, they may be best placed to calculate costs.	The uplift is consistently applied across the tariff, not disadvantaging service user groups. e.g, those on long/short journeys.
Disadvantages	The current table of fares may not	Second increase in quick	Licensing Authority has no control on	The changes across the tariff and amending

	represent current cost of living.	succession may lead to a decrease in public use.	charges passed to the public. May create confusion as fares could vary across the trade.	incremental charges may cause public confusion, leading to an increase in complaints.
Risks	Not consistently applying the methodology approved by Cabinet and supported by the trade. Drivers may decide to leave the trade, fares do not meet the demands of the rising costs of living.	Increase too much for service users. Drivers may see reduced income due to lack of public use.	Lack of public confidence in use of Hackney Carriages due to unknown charges. Varying charges between proprietors creating confusion .	Not consistently applying the methodology approved by Cabinet and supported by the licensed trade. Fares will increase earlier in journeys; regular users of taxis may feel penalised by the uplift.

5.0 Licensing Committee Preferred Option

5.1 Option 4 is the preferred option of the Licensing Committee, as this is an executive decision, Licensing Committee are not the decision-making body so must refer their recommendation to Cabinet for approval.

6.0 Conclusion

6.1 Earlier in 2022, following a period of consultation with the public and licensed trade, the Councils Cabinet, on recommendation of Licensing Committee agreed a methodology for fare reviews in relation to hackney carriages operating in the district.

6.2 The approved methodology has been applied to the relevant parts of the hackney carriage tariff, with a 14% increase to flag-fall and rolling rate (rounded down to the nearest 5p). It represents a 40/60/80p increase in flag fall across the 3 tariffs with little difference to rolling rates (until tariff 3 where a 5p increase would be applied).

6.3 An alternative option has been suggested and recommended to Cabinet for approval, recognising that rounded the rate of RPI down to the nearest 5p will have little or no impact on rolling rate, so by reducing the yardage on the rolling rate by 10% and applying 20p on flag fall (7% increase) allows for a hybrid approach.

This option does not follow the approved methodology, financial services have been consulted on the impact on applying RPI for subsequent years if Cabinet are minded to deviate from the approved position now.

6.2 The cost of living is rising; licensed drivers need to ensure the profession is sustainable; whereby the table of fares allows drivers to earn a fair salary.

6.3 Cabinet will need to balance the views of the licensed trade with expectations of the public and ensure that any decision to depart form the approved methodology is documented, along with the reasons for doing so.

RELATIONSHIP TO POLICY FRAMEWORK

This method of reviewing fares was first adopted by this Council in February 2014 when the proposal to use the RPI model was reported to the then Licensing Regulatory Committee.

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

Lancaster City Council set the fares for Hackney Carriages operating in the district, in determining the charges for time/distance it must consider the impact on setting fares too low/too high on both the licensed trade and public who use Hackney Carriages, whilst balancing the rising cost of living and building a sustainable trade; one capable of earning a fair salary.

LEGAL IMPLICATIONS

Pursuant to Section 65 of the Local Government (Miscellaneous Provisions) Act 1976, the advertising requirements are as follows:-

1. Putting a notice in the local paper
2. Notice must specify a date, not less than 14 days from the date that the notice is published to allow for objections and is the date, if no objections are made, that the revised fare will come into force.
3. If objections are made, and not withdrawn the Council must consider those objections and the fares then will come into effect (modified or unmodified) within 2 months of the original date.

FINANCIAL IMPLICATIONS

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

OTHER RESOURCE IMPLICATIONS

Human Resources:

Not applicable

Information Services:

Not applicable

Property:

Not applicable

Open Spaces:

Not applicable

SECTION 151 OFFICER'S COMMENTS

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

MONITORING OFFICER'S COMMENTS

Should any objections be received then the matter will be bought back to Cabinet for a decision.

BACKGROUND PAPERS (Public Pack)Agenda Document for Cabinet, 12/04/2022 18:00 (lancaster.gov.uk) Printed minutes 12th-Apr-2022 18.00 Cabinet.pdf (lancaster.gov.uk) (Public Pack)Agenda Document for Licensing Committee, 05/01/2023 13:00 (lancaster.gov.uk) (Public Pack)Minutes Document for Licensing Committee, 05/01/2023 13:00 (lancaster.gov.uk)	**Contact Officer:** Jennifer Curtis **Telephone: 01524 582732** **E-mail:** jcurtis@lancaster.gov.uk **Ref:** HCF2023

Hackney Carriage Table of Fares 2022/23

Tariff 1

For hirings commenced between 07.01 and 23.59	
If the distance does not exceed **880 yards** for the whole distance:	**£3.00**
For each of the subsequent **176 yards** or uncompleted part thereof:	**20p**
Waiting Time: For each period of 40 seconds or uncompleted part thereof	**20p**

Tariff 2

For hirings commenced between midnight and 07.00 For hirings commenced between 19.00 and midnight on the 24th December For hirings commenced between 19.00 and midnight on the 31st December For hirings commencing on any Bank Holiday or Public Holiday	
If the distance does not exceed **880 yards** for the whole distance:	**£4.50**
For each subsequent **176 yards** or uncompleted part thereof:	**30p**
Waiting time: For each period of 40 seconds or uncompleted part thereof	**30p**

Tariff 3

For hirings commenced between 00.01 25th December and 07.00 27th December For hirings commenced between 00.01 1st January and 07.00 2nd January	
If the distance does not exceed **880 yards** for the whole distance:	**£6.00**
For each subsequent **176 yards** or uncompleted part thereof:	**40p**
Waiting time: For each period of 40 seconds or uncompleted part thereof	**40p**

For each passenger in excess of one [for the purpose two children aged 11 or under to count as one passenger for the whole distance]	**20p**
For each perambulator or article of luggage carried outside the passenger compartment of the vehicle	**20p**
Soiling Charge: A charge may be requested if the passenger[s] soils the vehicle.	**This will not exceed £100.00**

The driver may at his/her discretion require the payment of an agreed amount in advance of the journey. The amount will be set against the metered fare. A receipt will be given.

A booking fee up to a maximum of £4.00 may be charged where:

(a) The Hackney carriage is booked in advance; and
(b) (i) The Customer shall be told the cost of the booking fee at the time that the booking is taken and the amount recorded in the booking log; and
(ii) The customer shall be told that the booking fee is in addition to the fare for the journey; and
(c) The hiring involves a separate journey of at least one mile, starting from the taxi rank or the operator's premises to the pick-up point.

Any complaints regarding this vehicle and/or driver should be addressed to the Licensing Service, Public Protection, Morecambe Town Hall, Marine Road, Morecambe, LA4 5AF

Telephone 01524 582033 or e-mail - licensing@lancaster.gov.uk

Approved Methodology Proposed / Hackney Carriage Table of Fares 2023/24

Tariff 1

For hirings commenced between 07.01 and 23.59	
If the distance does not exceed **880 yards** for the whole distance:	**£3.40**
For each of the subsequent **176 yards** or uncompleted part thereof:	**20p**
Waiting Time: For each period of 40 seconds or uncompleted part thereof	**20p**

Tariff 2

For hirings commenced between midnight and 07.00 For hirings commenced between 19.00 and midnight on the 24th December For hirings commenced between 19.00 and midnight on the 31st December For hirings commencing on any Bank Holiday or Public Holiday	
If the distance does not exceed **880 yards** for the whole distance:	**£5.10**
For each subsequent **176 yards** or uncompleted part thereof:	**30p**
Waiting time: For each period of 40 seconds or uncompleted part thereof	**30p**

Tariff 3

For hirings commenced between 00.01 25th December and 07.00 27th December For hirings commenced between 00.01 1st January and 07.00 2nd January	
If the distance does not exceed **880 yards** for the whole distance:	**£6.80**
For each subsequent **176 yards** or uncompleted part thereof:	**40p**
Waiting time: For each period of 40 seconds or uncompleted part thereof	**40p**

For each passenger in excess of one [for the purpose two children aged 11 or under to count as one passenger for the whole distance]	**20p**
For each perambulator or article of luggage carried outside the passenger compartment of the vehicle	**20p**
Soiling Charge: A charge may be requested if the passenger[s] soils the vehicle.	**This will not exceed £100.00**

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Trade Feedback

- I am in favour of the suggested Tarif increase as advised.

- i have no problem with the increase however i see no point in changing the soiling charge all this amounts to is changing all the stickers and for £14 not really worth the effort and expense

- I strongly believe that an uplift is not required at this time.

- Thank you for your email and for providing the proposed changes to the annual HC review. I appreciate the consideration given to the retail price index (RPI) rate from November 2022 and the proposed increases.
I'm in agreement with the proposed changes and believe that an uplift is necessary at this time. Thank you for the opportunity to provide feedback on this proposal

- An uplift is required

- I agree to the fare increases due to the high increase in fuel prices.

- I personally think the fare increase to the 3 Tariffs would help the industry greatly, with the rise in cost of living and the cost of running a private hire & hackney carriage has also increased (ie.fuel price, insurance premiums ,tax etc) this would help is earn more and hopefully attract more drivers to the trade.
Personally, I wouldn't bother with the 5p increase to Tariff 3 as its smaller change we would have to carry and people don't usually carry that smaller change, just do the increase to the starting fares only in my opinion.

- In regard to the fare review I strongly believe that at the present moment any fare increase may reduce people using taxis because of the present cost of living crisis.
I am independent Hackney owner and use the bus station taxi rank on a regular basis and I have noticed a drop in foot fall using the rank, which is why I'm my opinion an increase in fares may further decrease my income / revenue.

- Having been involved in both overturning and replacing the last proposal from licensing I fail to understand how we have arrived at the conclusion that 14% RPI has no effect on the running rate. Could somebody please explain how the decision of committee bears any relation to the proposal sent out? We have spent nearly a decade resolving this issue. We cannot in future just add to the start as we will again punish those who can least afford it.

  Licensing Response
  Thank you for your email.
  This was the agreed methodology set by the Councils Cabinet and the general opinion of the licensed trade. Apply RPI to flag fall and rolling rate, round down to the nearest 5p. You can see the calculations in the table included in the email, 14% of 20p unfortunately doesn't reflect an uplift following the methodology as set by Cabinet.

I hope that is now clear, should you wish to provide further details on why you feel an uplift to the rolling rate is required, then do let me know as all responses will be fed into Licensing Committee to make recommendations to Cabinet.

My understanding was slightly different. My understanding was the running rate i.e. £2.00 per mile would increase by RPI to £2.28 per mile rounded down to £2.25 per mile. If 20p is used we will need inflation to hit over 30% before any increase would be applied. This was clearly never the intention.

I will ensure your feedback is included in response to the agreed methodology and highlight your concerns.

Thanks for including my thoughts. I do believe they align with the methodology as I have never encountered a running rate calculated in tenths of a mile.

- Having read the fare table I agree with the increase due to the rising cost of living and the surrounding costs of running/upkeep of the vehicle.
  The main duty is the fuel which is not locally inline with other areas so the fares need to reflect this.
  I do feel it will either improve or have the opposite affect on the industry due to the COL and customers may refrain from using it. So on the whole I support it but April is a long way off at the minute, based on the current government.

- I am of the opinion that a fare increase is justified at this time for the following reasons.

  Whilst we as members of the British population have been subject to the same general increases in food, clothing, gas, electricity and rent/mortgage costs as most other people, drivers in our industry face further issues that most other people do not to the same level. For example one of the greatest costs faced by our industry is that concerning petrol/diesel. These costs have risen massively over the last couple of years. I can remember diesel being 99.9p per litre during the first lockdown and of course the nature of the job means that we get through a lot of it and it has made the job much less financially viable for us as drivers.

  Similarly I know from personal experience that the price of car parts has increased heavily as well over the last few months which has impacted drivers further.

  I know it is a delicate balancing act and I appreciate that there will be those worried about the impact on the elderly that any fare rises may have which in turn may result in less people taking taxis. However i hope I am not speaking out of turn by suggesting that I think it sensible to acknowledge that many elderly will be getting a 10.1% increase in their state pension from April 23 which should help negate any fare increase.

- We all have a big economic problem at this moment in time.
  Everyone is affected, and it would be great for our customers if we keep the fares as they are. But as you know we have been under pressure with fuel prices, and the last increase to the tariff was barely adequate. So therefore i agree the tariff should be increased.

- Uplift is not required due to cost of living crisis. Uplifting in Hackney fares is not required as it causes confusion with customers between prices with private hire and Hackney on what regular customers pay similarly fares keep prices table same for everyone.

- In the current climate I don't think an increase is right at this time, I think people would start to find alternative transport, or wouldn't get taxis at all.

- In response to the fair review, I feel it would be better for the starting tariff to be in a multiple of 5p or 10p so we don’t have to carry around 2p and 1p coins. The increase though seems fair to me.

- If we put fares up again people will be cutting back on taxis. Also buses bringing in £2 fares wouldn't help the taxi trade. Leave as it is for now.

- I believe in the current climate with the cost of living etc the tariff increase at this time would be unfair as everyone is struggling.

- I am writing to provide feedback as requested by your email concerning the fare review of 14%. As Inflation is extremely high at the present time I fully support the idea of a fare increase and it is my view that this increase should go ahead.

- The uplift makes sense.

Proposed Hackney Carriage Table of Fares 2023/24

Proposed Hackney Carriage Tariff

Tariff 1

For hirings commenced between 07.01 and 23.59	
If the distance does not exceed 880 yards for the whole distance:	**£3.20**
For each of the subsequent **160 yards** or uncompleted part thereof:	**20p**
Waiting Time: For each period of 40 seconds or uncompleted part thereof	**20p**

Tariff 2

For hirings commenced between midnight and 07.00 For hirings commenced between 19.00 and midnight on the 24th December For hirings commenced between 19.00 and midnight on the 31st December For hirings commencing on any Bank Holiday or Public Holiday	
If the distance does not exceed 880 yards for the whole distance:	**£4.80**
For each subsequent **160 yards** or uncompleted part thereof:	**30p**
Waiting time: For each period of 40 seconds or uncompleted part thereof	**30p**

Tariff 3

For hirings commenced between 00.01 25th December and 07.00 27th December For hirings commenced between 00.01 1st January and 07.00 2nd January	
If the distance does not exceed 880 yards for the whole distance:	**£6.40**
For each subsequent **160 yards** or uncompleted part thereof:	**40p**
Waiting time: For each period of 40 seconds or uncompleted part thereof	**40p**

For each passenger in excess of one [for the purpose two children aged 11 or under to count as one passenger for the whole distance]	**20p**
For each perambulator or article of luggage carried outside the passenger compartment of the vehicle	**20p**
Soiling Charge: A charge may be requested if the passenger[s] soils the vehicle.	**This will not exceed £100.00**

The driver may at his/her discretion require the payment of an agreed amount in advance of the journey. The amount will be set against the metered fare. A receipt will be given.

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(a) The Hackney carriage is booked in advance; and
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(ii) The customer shall be told that the booking fee is in addition to the fare for the journey; and
(c) The hiring involves a separate journey of at least one mile, starting from the taxi rank or the operator's premises to the pick-up point.

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CABINET

Budget & Policy Framework Update 2023/24 – 2027/28

7 February 2023

Report of Chief Finance Officer

PURPOSE OF REPORT					
This report sets out the latest position in respect of the budget and policy framework and Cabinet's proposed General Fund revenue budget for 2023/24					
Key Decision	**X**	**Non-Key Decision**		**Referral from Cabinet Member**	
Date of notice of forthcoming key decision				12th December 2022	
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 COUNCILLOR WHITEHEAD

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

   - **The 2023/24 General Fund Net Revenue Budget and resulting Council Tax Requirement excluding parish precepts (Appendix A) and supporting budget proposals (Appendices B & B1).**
   - **The Section 151 Officer's statement on the adequacy of reserves and advice that the minimum level of balances remains at £5M, subject to annual review.**
   - **the resulting position on reserves (Appendix C).**
   - **the position on budget transfers and use of reserves (Appendix D)**

2. **That the Finance Portfolio Holder be given delegated authority to finalise the General Fund Revenue budget 2023/24 as updated for Cabinet's final budget proposals, and outcomes of the Final Local Government Settlement for referral on to Council.**

3. **That Cabinet consider the recommendation put forward by Budget & Performance 01 February 2023 (Section 6)**

1.0 INTRODUCTION

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

1.2 The Council meeting on 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.

1.3 Since that report, further meetings have been held between Cabinet and Senior Leadership Team to review and discuss a number of issues and revisions to that position including:

- Advice received from specialist advisors in regard to the Council's Minimum Revenue Provision (MRP) and requirement to realise the potential windfall benefit.
- Revisions to the Business Rates Income forecast following the receipt of system parameters from the Council's software provider late January.
- Confirmation of energy prices for 2023/24 from the Council's supplier
- A number of minor amendments requested by Cabinet.

1.4 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)**

1.5 The report seeks delegated authority for the Finance Portfolio Holder to finalise the General Fund Revenue budget 2023/24, as updated for Cabinet's final budget proposals, and outcomes of the Final Local Government Settlement for referral on to Council 22 February 2022.

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 Government (DLUHC) to allocate external funding of over £5M from 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. 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 19*th* 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 Directorate 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. At the time of writing, the proposed budget does not take account of the final local government finance settlement which is due to be approved by Parliament in "early" February 2023. As such delegated authority is sought to enable the Finance Portfolio Holder and Chief Finance Officer to make amendments as required, prior to consideration by Council 22 February 2023.

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 2.99% Council Tax Increase Council 25 January 2023		**(10,610)**
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. Subject to Cabinet agreement, this proposal will then go forward to Council on 22 February 2023.

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)**	
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 Directorate level at ***Appendix B*** and more detailed budget savings proposals in exempt ***Appendix B1*** to enable effective internal and external 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 to Cabinet 17 January 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 Cabinet on 17 January, and to Council on 25 January 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

Resulting Base Budget (Surplus)/ Deficit as at 17 January 2023 (Cabinet)	**2023/24 £000** **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	3.32
Resulting Base Budget (Surplus)/ Deficit as at 7th February 2023 (Cabinet)	**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 Capital 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 appeals against the revaluations.

Additional Contribution from Council Reserves £0.103M

3.33 The proposals presented to Cabinet 17 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.

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.

Business Rates

4.4 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.

4.5 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.

4.6 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**

4.7 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.

4.8 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.

4.9 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.

4.10 In addition, should any of the heraditaments 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 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

	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M	2027/28 £M
Balance brought forward	(28.885)	(24.031)	(24.416)	(24.598)	(25.018)	(25.538)
Impact of 2023/24 budget decisions	0.000	0.577	0.000	0.000	0.000	0.000
Impact of other decisions & outturn	4.854	(0.962)	(0.182)	(0.420)	(0.520)	0.000
Forecast Overspend	0.000	0.000	1.703	4.156	5.591	5.263
Balance carried forward	**(24.031)**	**(24.416)**	**(22.895)**	**(19.159)**	**(14.088)**	**(8.825)**

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.

That Cabinet be asked to revisit the Platform issue contained within the budget proposals

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.

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

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 2022/24 and Reserves Position

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

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 Councils overall financial position, given other measures and safeguards proposed. This level 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 is 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 comments

BACKGROUND PAPERS	Contact Officer: Paul Thompson
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 **Budget & Performance Papers** Agenda for Budget and Performance Panel on Wednesday, 1st February 2023, 6.00 p.m. - Lancaster City Council	**Telephone: 01524 582603** **E-mail:** pthompson@lancaster.gov.uk **Ref:** N/A

Appendix A

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

For Consideration by Cabinet 7 February 2023

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	£'000	£'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**
Estimated Revised Incremental Deficit (Sept 2022)		**0**	**1,703**	**4,156**	**5,591**	**5,263**
Incremental Deficit as Percentage of Net Revenue Budget		**0%**	**7%**	**16%**	**20%**	**19%**

BALANCES

General Fund Unallocated Balance						
	£M	*£M*	*£M*	*£M*	*£M*	*£M*
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
Contributions (to)/ from Allocated Reserves Review September 2022		+0.000	+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 Recomended 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

	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	2,077
Net Savings	**2,423**	**3,333**	**3,446**	**3,543**	**3,634**

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)			**(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)**			216,100	**(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)**		**216,100**	**(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)**		**216,100**	**(13,005,100)**
Total Combined Reserves	**(28,885,100)**				**(20,642,600)**				**(21,027,600)**				**(21,209,800)**				**(21,630,000)**				**(22,150,200)**

APPENDIX D

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

<u>Reserves Expenditure Monitoring</u>

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

APPENDIX D

Reserves Bid Document

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

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

Action Plan

What	**Who**	**When**

Outcomes and Impacts arising from Project

Measure	**Baseline**	**Target**

Has Social Value matrix been completed (attach to bid form)? YES / NO

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

APPENDIX D

Project Officer Sign Off:

Director Sign Off:
Section 151 Officer Sign Off:

Portfolio Holder Sign Off:
Finance Portfolio Sign Off:

Cabinet Minute (if app):

CABINET

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

Report of Chief Finance Officer

PURPOSE OF REPORT					
To present Cabinet's final budget proposals in order that the Council can approve a General Fund Capital Programme for 2022/23 to 2027/28 and a Capital Strategy 2023/24 as required by regulation. In addition, Cabinet is requested to endorse the s151 Officer advice in regard to the change in the Council's MRP policy for 2022/23 and future years and refer this to Council for formal approval					
Key Decision	**X**	**Non-Key Decision**		**Referral from Cabinet Member**	
Date of notice of forthcoming key decision				12th December 2022	

RECOMMENDATION OF COUNCILLOR WHITEHEAD

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

- **the updated Capital Programme covering financial years 2022/23 to 2027/28**
- **the Capital Strategy (Investing in the Future) 2023/24**

1.0 INTRODUCTION

1.1 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.

1.2 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.

2.0 CAPITAL PROGRAMME

2.1 The proposed Net General Fund investment programme for the period to 2027/28 is included at ***Appendix A*** and summarised in the table below.

	2022/23 £M	**2023/24 £M**	**2024/25 £M**	**2025/26 £M**	**2026/27 £M**	**2027/28 £M**
Approved Schemes	7.398	6.256	7.569	3.520	0.549	1.913
Schemes Under Development	0	5.100	1.000	0	0	0
Total	**7.398**	**11.356**	**8.569**	**3.520**	**0.549**	**1.913**

2.2 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 £14.375M anticipated to support this investment, giving a total net programme from 2022/23 to 2027/28 of £25.907M.

2.3 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.

2.4 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.

2.5 Overall the programme is balanced, allowing for a gross increase in the underlying need to borrow (known as the Capital Financing Requirement or 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.

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

3.0 CAPITAL STRATEGY

3.1 The Council is required 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.

3.2 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***

3.3 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.

4.0 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

4.1 <u>Capital Investment and Programming</u>

For capital, Council may adjust its capital investment and financing proposals taking account of spending commitments and priorities, but its proposals for 2023/24 must balance.

4.2 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 taken into account, to support informed and lawful decision- making

5.0 CONCLUSION

5.1 This report addresses the actions required to complete the budget setting process for capital, and for updating the Council's associated financial strategy.

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.

S151 OFFICER COMMENTS

The s151 Officer has contributed to the writing of this report and Appendices.

However, he wished 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 including the late conclusion of the budget process, delays to IT software 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.

LEGAL IMPLICATIONS

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

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

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

MONITORING OFFICER'S COMMENTS
Capital and Investment Strategies form part of the Budget Framework and their adoption is a function of Full Council.

BACKGROUND PAPERS 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	**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																			0	0	
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

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
Corporate Services																			0	0	
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																			0	0	
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	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

APPENDIX B

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

Contents

1. Introduction

1.1. Investing in the Future

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

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

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

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

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

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

1.3. Investment Models

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

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

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

1.4. Housing Provision and the Housing Revenue Account

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

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

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

1.5. Aims of the Strategy

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

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

2. The Strategy: Four Investment Streams

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

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

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

1) A Sustainable District

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

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

2) An Inclusive and Prosperous Local Economy

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

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

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

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

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

3) Healthy and Happy Communities

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

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

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

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

4) A Co-Operative, Kind and Responsible Council

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

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

Capital investment in property, including retail, industrial, hotel, office, food & beverage and other investments may also be considered where they comply with the Capital Investment Regulations and

Guidance and meet the Council's priorities. – LATCos and other forms of special purpose vehicle may also be established to generate income that can be invested in delivering Council priorities to reduce reliance on Council expenditure and therefore support the Council's financial sustainability.

3. Capital Investments Regulation & Guidance

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

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

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

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

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

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

A LATCo is able to source capital borrowing to fund investment for a commercial return as part of its activities, 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,n 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 SOCs and FBCs and make advisory recommendations to budget holders. Comments from individual members will be provided to Cabinet. CAG's Terms of Reference can be found at Appendix B.

Capital Investments Appraisal Group (CIAG)

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

Cabinet

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

Overview & Scrutiny (O&S)

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

Budget & Performance Panel (B&PP)

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

Council

Full Council is responsible for approving the Capital Investment Strategy as part of the annual Budget Framework, including any material changes. 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 £M	Vehicles, Plant Furniture & Equipment £M	Infrastructure Assets £M	Surplus Assets £M	Assets Under Construction £M	Total £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 is 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 valuer's within the Council's Property Services Team. The valuations are performed using appropriate stipulations as detailed by the Royal Institute of Chartered Surveyors (RICS) and presented in the Council's Statement of Accounts within accord of the Statement of Recommended Practice (SORP).

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

6. Capital Expenditure –

Capital Programme

The Council plans to gross expenditure, which excludes grants from other bodies of approximately £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:

Financed by:	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
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 Estimate %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %	2027/28 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 of capital resources.

	2022/23 Estimate £M	**2023/24 Estimate £M**	**2024/25 Estimate £M**	**2025/26 Estimate £M**	**2026/27 Estimate £M**	**2027/28 Estimate £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 rover a number of years rather than actively acquired. Tenancy agreements are produced by the Council's Estates Management Team in consultation with Legal Services and range from leases, licences and other agreements such as easements, wayleaves and rights of way

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

Performance Monitoring

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

APPENDIX C

Capital Assurance Group: Terms of Reference

Role

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

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

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

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

Composition of CAG

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

   Standing Membership –
   - Cabinet Finance Portfolio Lead
   - Chief Executive
   - Overview and Scrutiny Chair
   - Budget and Performance Panel Chair
   - Business Committee Chair
   - Cabinet Governance Portfolio Holder
   - 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.

APPENDIX C

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.

CABINET

Treasury Management Strategy 2023/24

7 February 2023

Report of Chief Finance Officer

PURPOSE OF REPORT					
To present to Cabinet the draft Treasury Management Strategy and associated documents for 2022/23 and to provide an opportunity for final consideration and comment ahead of formal presentation to Council for approval, in accordance with the Council's constitution.					
Key Decision	X	**Non-Key Decision**		**Referral from Cabinet Member**	
Date of notice of forthcoming key decision				12th December 2022	

RECOMMENDATION OF COUNCILLOR WHITEHEAD

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

- **the Treasury Management Strategy 2023/24 and its Appendices A to C**
- **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 Cabinet are asked to consideration to the Treasury Management strategy and associated attachments in line with their Terms of Reference and if satisfied refer the strategy to Council for approval 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 will be asked to approve the following authorised limit:

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.

6.0 OPTIONS & OPTIONS ANALYSIS

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

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

7.0 OFFICER PREFERRED OPTION (AND COMMENTS)

7.1 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.

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

8.0 CONCLUSION

8.1 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 Treasury Management forms part of the Councils budget framework
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 including the late conclusion of the budget process, delays to IT software 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 my proposes and 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

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	**Contact Officer:** Paul Thompson **Telephone: 01524 582603** **E-mail:** pthompson@lancaster.gov.uk **Ref:** N/A

Appendix A

TREASURY MANAGEMENT FRAMEWORK DOCUMENTS AND RESPONSIBILITIES

For consideration by Cabinet 7 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 .	These are documents that set out the procedures that are in place for the Treasury Management function within the Council. The main principles were approved by Cabinet following initial adoption of the Code of Practice; they include: TMP 1: Risk management TMP 2: Performance measurement. TMP 3: Decision-making and analysis. TMP 4: Approved instruments, methods & techniques. TMP 5: Organisation, clarity and segregation of responsibilities, and dealing arrangements. TMP 6: Reporting requirements & management information requirements. TMP 7: Budgeting, accounting & audit. TMP 8: Cash & cash flow management. TMP 9: Money laundering. TMP 10: Staff training & qualifications. TMP 11: Use of external service providers. TMP 12: Corporate governance. It is the Section 151 Officer's'responsibility to maintain detailed working documents and to ensure their compliance with the main principles. The content of the TMPs will be reviewed during 2018/19, in view of the recent changes to the treasury management regulatory framework.
FINANCIAL REGULATIONS	The Financial Regulations must contain four specific clauses. These are substantially unchanged in the 2021 Code; it is the Section 151 Officer's responsibility to ensure their inclusion.

Appendix B

LANCASTER CITY COUNCIL

TREASURY MANAGEMENT POLICY STATEMENT

For consideration by Cabinet
7 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 H

Treasury Management Strategy 2023/24 to 2026/27

For Consideration by Cabinet 7 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 asssociated training. This especially applies to Members responsibe for scrutiny.

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

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

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

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

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

A 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**

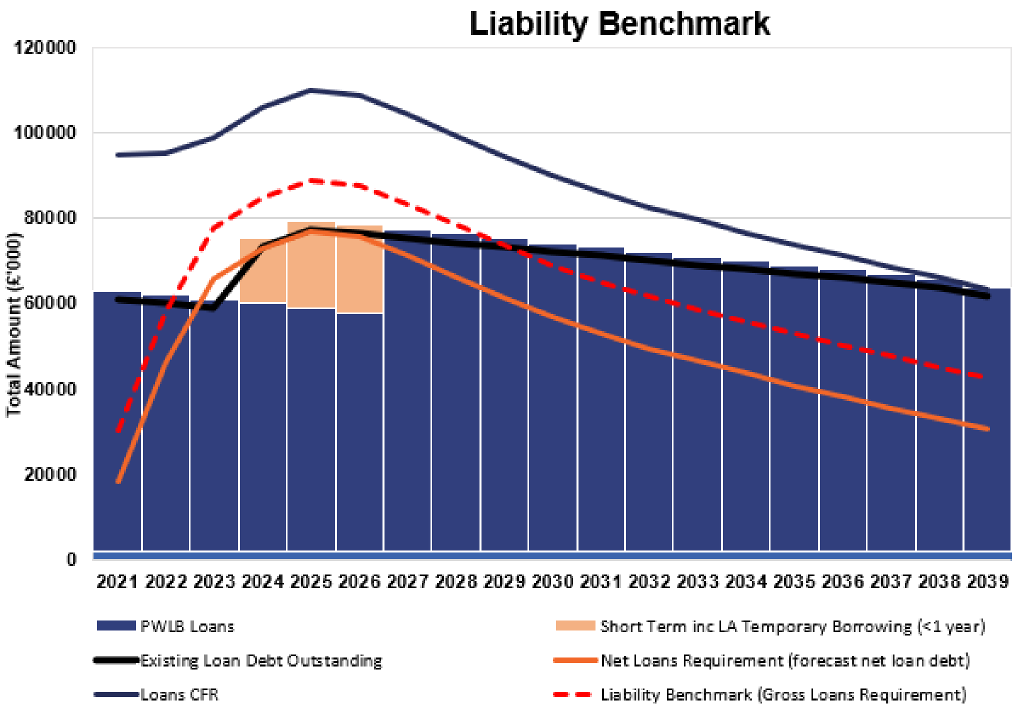
2.3 Liability Benchmark

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 utlised until PWLB rates reduce.

It is intended that the gap between the net loans requirement and the liability benchmark (gross loans requirement) will be covered by day-to-day 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	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Fund balances / reserves	42.60	31.50	28.41	27.22	27.39	27.93
Capital receipts	1.27	0.73	0.00	0.00	0.00	0.00
Provisions	6.66	5.00	5.00	5.00	5.00	5.00
Total core funds	**50.53**	**37.23**	**33.41**	**32.22**	**32.39**	**32.93**
Working capital*	32.85	31.00	15.00	15.00	15.00	15.00
Under borrowing	-35.20	-39.86	-32.50	-32.62	-32.40	-28.94
Expected investments	**48.18**	**28.37**	**15.91**	**14.60**	**14.99**	**18.99**

*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.

	2021/22 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

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

3 BORROWING

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

3.1 Current Portfolio Position

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

	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**

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 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

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 rate borrowing 2022/23	£m	Current %	Lower %	Upper %
Under 12 months	1.04	1.76	0	100
12 months and within 24 months	1.04	1.76	0	100
24 months and within 5 years	3.12	5.29	0	100
5 years and within 10 years	5.21	8.82	0	100
10 years and within 20 years	9.37	15.88	0	100
20 years and within 30 years	0.00	0.00	0	100
30 years and within 40 years	39.22	66.47	0	100
40 years and within 50 years	0.00	0.00	0	100

3.6 Policy on Borrowing in Advance of Need

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

3.7 Debt Rescheduling

Rescheduling of current borrowing in our debt portfolio 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 (DHLUC) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy (a separate report).

Council's investment policy has regard to the following:

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

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

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

In the current economic climate, it is considered appropriate to 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 appliedin order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor cournerparties are the short term and long term ratings.

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

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

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

- **Specified investments** are those with a high level of credit quality and subject ot a maturity limit of one year.

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

-

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

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

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

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

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

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

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

12. As a result of the change in accounting standards for 2022/23 under IFRS9, the authority will consider the implications of investment instruments which could result in in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund

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

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

4.2 Creditworthiness Policy

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

- credit watches and credit outlooks from credit rating agencies;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4.4 Investment Strategy

In-house Funds: Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the propect of Bank Rate 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					
	2021/22	2022/23	2023/24	2025/26	2026/27
Principal sums invested > 365 days	Nil	Nil	Nil	Nil	Nil

4.5 End of year investment report

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

ANNEX B1

Treasury Management Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- **Yield** – see Gilts

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

ANNEX B2

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

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

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

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

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

ANNEX B3

Background information on credit ratings

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

What is a Credit Rating?
A credit rating is:

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

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

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

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

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

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

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

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

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

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

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

APPENDIX D

Revised Minimum Revenue Provision (MRP) Policy Statement for the Financial Year 2022-23

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.

CABINET

Medium Term Financial Strategy 2023/24 – 2027/28

7 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		**Non-Key Decision**	**X**	**Referral from Cabinet Member**	
Date of notice of forthcoming key decision					

RECOMMENDATION OF COUNCILLOR WHITEHEAD

1. That Cabinet

(1) Considers the draft future years budget estimates as set out in the report as the latest information available.

(2) Agrees that the update be referred on to Council 22 February 2023 for information.

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 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 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 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 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 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 due to be presented to parliament in February 2023, however this is not expected to change from the draft position. 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 Council’s 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

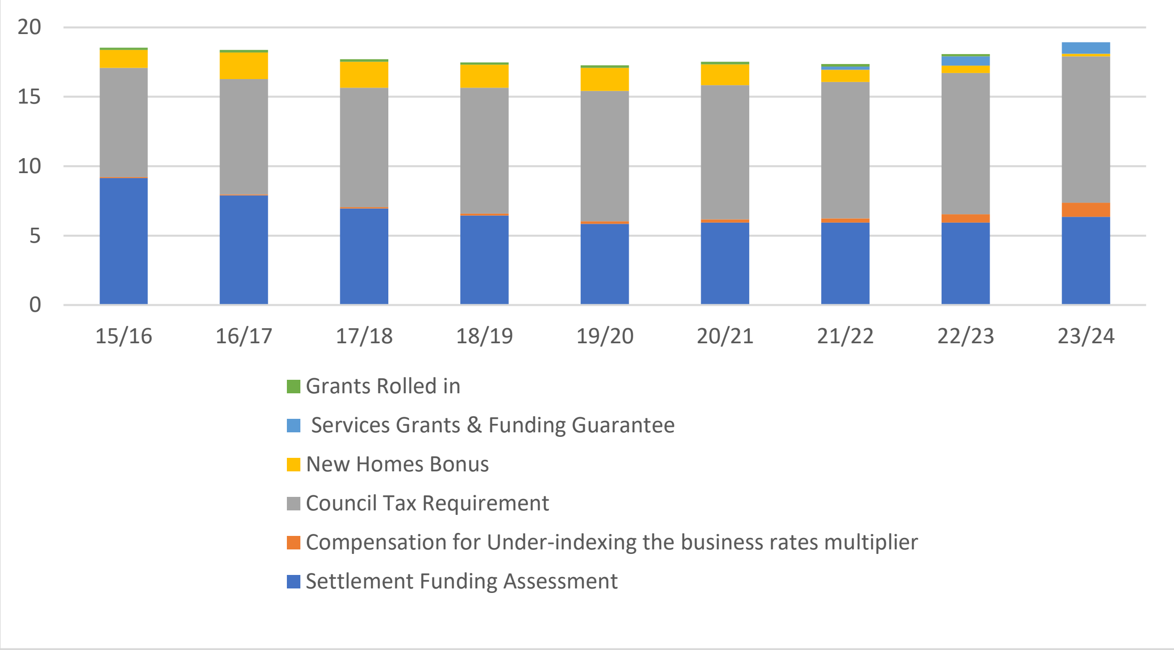
	Provisional Settlement £000	LCC Forecast £000	Difference £000
Settlement Funding Assessment			
Revenue Support Grant	232	0	232
Retained Business Rates	9,407	9,567	(160)
New Homes Bonus	188	180	8
Funding Guarantee	615	0	615
Lower Tier Services Grant	0	257	(257)
Services Grant	223	396	(173)
Total Government Funding	**10,665**	**10,400**	**265**

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

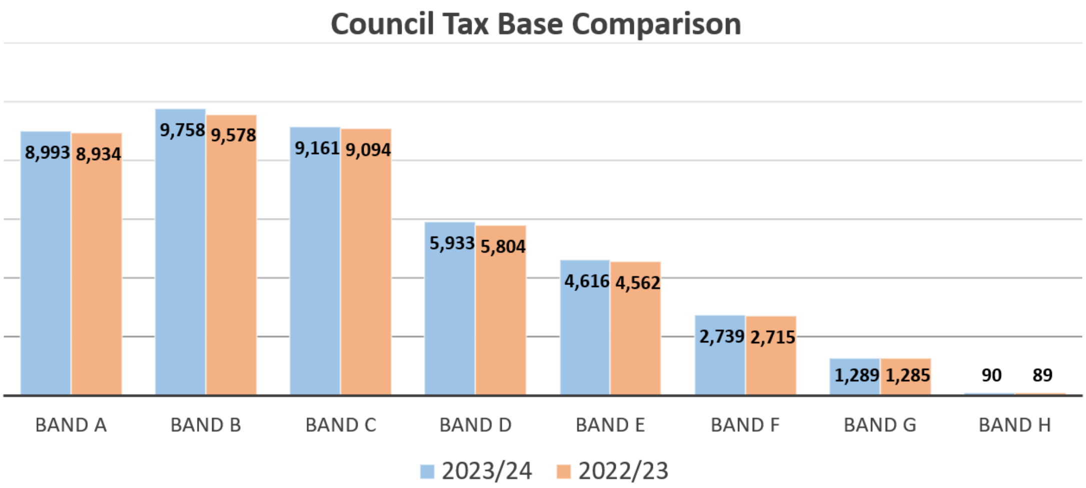


3.5 Table two above compares the historic value of CSP, and shows the Council is now almost entirely reliant on Council Tax and Business Rates with a small amount of income from central government grants to fund net expenditure and it is, therefore, important to provide regular estimates of these key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

<u>Council Tax</u>

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.



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

	2017	2023	Movement	
Category	**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

<u>Heysham Power Stations</u>

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.

<u>Baseline Reset</u>

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.

<u>Green Energy Disregard</u>

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 Cabinet 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 2022/23 to 2027/28

	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £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 is 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 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'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 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'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 with 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 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	Total £'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 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £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 circa14%. 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 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.

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

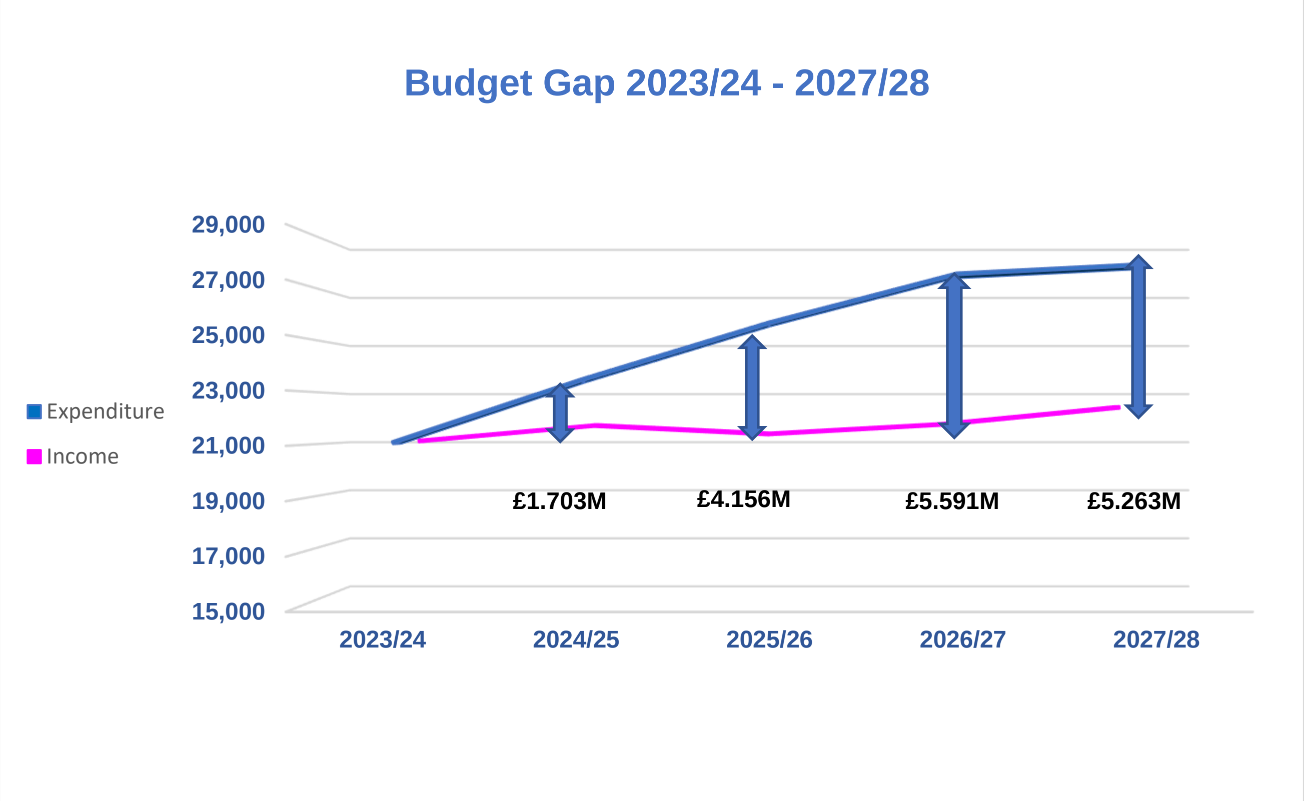


Table Seventeen: Cumulative Deficit as Percentage of Revenue Budget

	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Revenue Budget (Estimate 7 February 2023)	21,091	23,407	25,253	27,342	27,690
Budget Gap (Incremental)	*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 Council's reserves are an essential part of good financial management. They help the Council to cope with unpredictable financial pressures and plan for future spending commitments. The level, purpose and planned use of reserves are important factors for the Council as part of the MTFS.

7.2 Councils generally hold two types of reserves, "Unallocated" to meet short term unexpected cost pressures or income reductions and "Earmarked". The latter can be held to provide for some future anticipated expenditure for identified projects, particularly in respect of corporate priorities, address specific risks such as the previously identified upcoming pressures on business rates retention reserve resulting from the decommissioning of H1 & H2, or to fund transitional arrangements resulting from the 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 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.

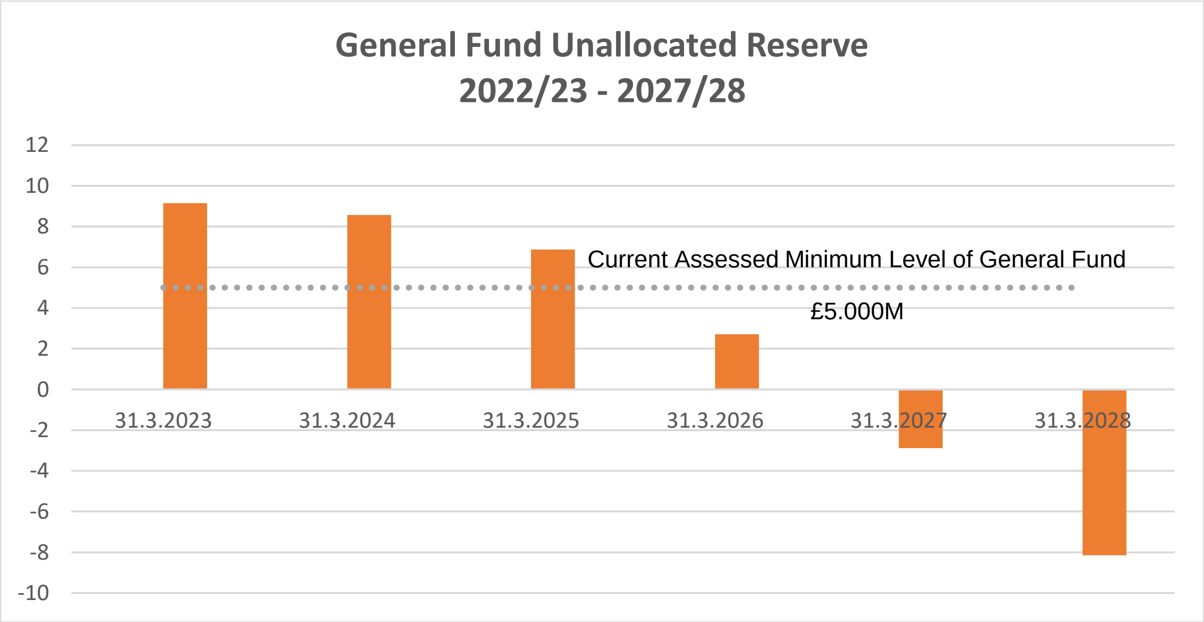


Table Eighteen: Estimated Level of General Fund Unallocated Reserves

	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 safeguard against the inherent risk of significant fluctuations in forecast surpluses and deficits on the Collection Fund which impact across multiple years and to maintain a steady income stream in respect of retained business rates. Whilst the transfers can be made to the general fund it is required to be maintained at a prudent level to manage the impact of significant 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 general fund and collection fund resource.

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

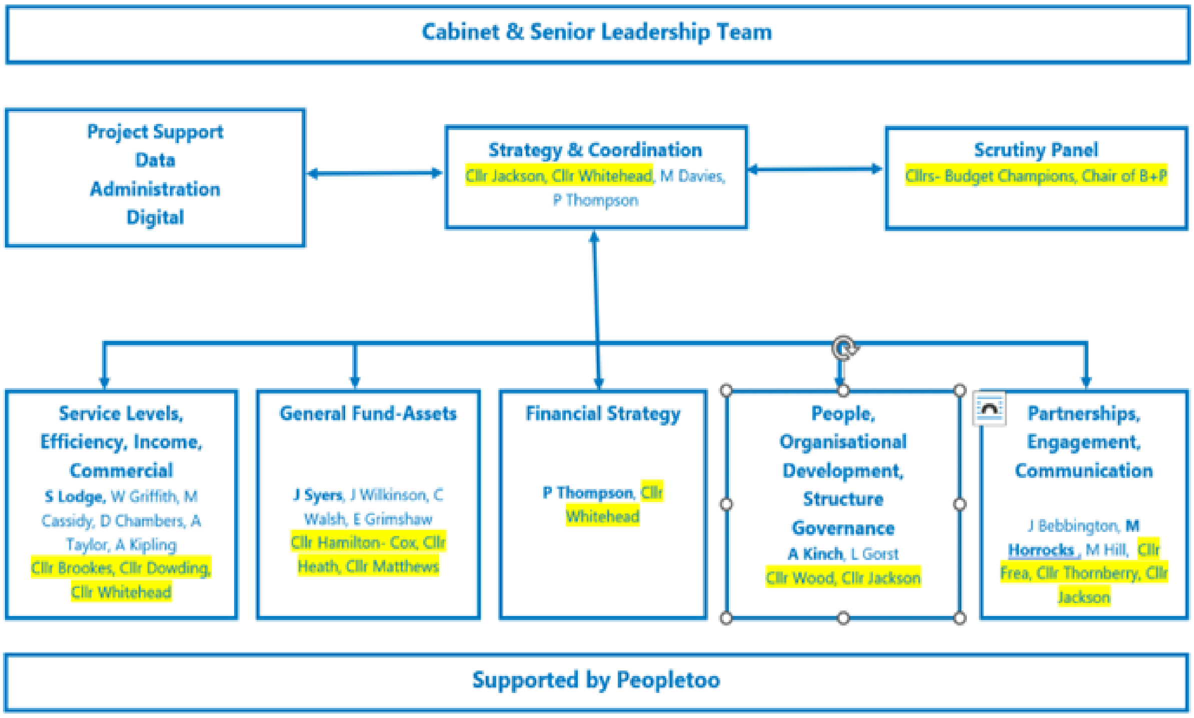
	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M	2027/28 £M
Balance brought forward	(27.421)	(19.020)	(19.268)	(17.548)	(13.612)	(8.341)
Impact of 2023/24 budget decisions	0.000	0.577	0.000	0.000	0.000	0.000
Impact of other decisions & outturn	8.401	(0.825)	0.017	(0.220)	(0.320)	0.000
Forecast 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 Councils 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 both in 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 Councils General Fund are also present within the Housing Revenue Account (HRA). A full update on the HRA budget and financial outlook will be considered alongside the General Fund revenue budget including options to ensure that the service's 30-year business plan is viable and that its ongoing budget is balanced, whilst delivering value for money to tenants.

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 contributed to the writing of this report

LEGAL IMPLICATIONS
Legal Services have been consulted and have no further comments

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

BACKGROUND PAPERS	**Contact Officer:** Paul Thompson **Telephone: 01524 582603** **E-mail:** pthompson@lancaster.gov.uk **Ref:** N/A
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. 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 Cabinet – Delivering our Priorities Q2 Agenda for Cabinet on Tuesday, 6th December 2022, 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.	

CABINET

Housing Revenue Account and Capital Programme
7 February 2023

Report of Director for Communities and the Environment and the Chief Finance Officer (Head of Finance & Section 151 Officer)

PURPOSE OF REPORT					
To seek Cabinet decisions on Council Housing rent setting proposals and HRA revenue and capital budget proposals.					
Key Decision	X	**Non-Key Decision**		**Referral from Cabinet Member**	
Date of notice of forthcoming key decision	12 December 2022				
This report is public					

RECOMMENDATIONS OF Councillor Matthews

(1) That the use of the latest projected Housing Revenue Account revenue outturn figures, as set out at Appendix A, to provide a mid-year reviewed budget position which will form the basis of future monitoring and outturn within 2022/23, be referred on to full Council for noting.

(2) That the latest projected Housing Revenue Account Capital Programme outturn figures for 2022/23, as set out at Appendix C, be referred on to Council for approval.

(3) 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 E be endorsed and referred on to Budget Council for approval.

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

- for existing tenancies, rents will increase by 7.0% from 3 April 2023
- for new tenancies within 2023/24, rents will be set at 'formula rent'[1]

[1] The principle of reletting properties within year at 'formula rent' is in line with previous years. This applies to properties whose rent has not already achieved the government's 'formula rent' – a calculation to produce a social rent based on local conditions and circumstances. For 2023/24 formula

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

(6) That a delegated decision to approve the tender of four programmes of work (over £200K and key decisions over £250K) during 2023/24 can be made by the Chief Executive (as per 7.4 below) and in line with procurement rules.

(7) That subject to the above, the resulting Housing Revenue Account budget for 2023/24 onwards, as set out at Appendix A, together with the resulting Capital Programme as set out at Appendix C, be referred on to Budget Council for approval.

1.0 Introduction

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

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

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

2.0 Achievements 2022/23

2.1 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.

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rent will increase by CPI as at September 2022 (10.1%). The fact that the average rent increase between 2022/23 and 2023/24 is not *exactly* 7.0% is explained by the fact that some properties within year increase to 'formula rent' and therefore increase the figures used for comparison.

- 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 due to 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

2.2 The strategic direction of the housing service continues to be delivered in response to:

- wider Council priorities,

- the Regulator for Social Housing

- the Housing Ombudsman's requirements,

- expectations from the developing Building Safety Executive,

- emerging themes and requirements from the Social Housing Bill (which sets expectations for the future regulatory environment and places greater emphasis on tenant engagement and voice within service delivery), this is currently laid before Parliament,

- the Building Safety Bill and Fire Safety Act (2021) - the legislative response to the Grenfell tragedy of 2017 which sets out the responsibilities and requirements of landlords in relation to building safety and compliance.

2.3 Of particular note for 2023/24 is the introduction of Tenant Satisfaction Measures which will need to be captured before 31st March 2024, the mandatory registration of high-rise buildings, government-led professional standards review of housing professionals, as well as monitoring changes within housing consumer regulation and possible Ofsted-style inspections. The service will continue to keep abreast of forth-coming changes and plan accordingly.

2.4 In line with the above expected key strategic priorities for 2023/24 are:

Priority	
A sustainable district	• Continued investment across the council's housing stock - see section 3 below. • Continued work towards improved energy efficiency within all homes by 2030 (all properties to meet minimum of EPC C standard), supported through funding bids where available. • Mainway Masterplan to be confirmed and planning application for site brought forward. • To seek to bring forward a planning application for earmarked elements of Canal Quarter for affordable homes. • Development of Climate Emergency Strategy for Council Housing. • 100% stock condition surveys completed.
An inclusive and prosperous local economy	• Local procurement of repairs (and other housing related) contracts. • Development of new build and property conversion programmes: utilising council land and assets to benefit communities e.g. Mainway project; Canal Quarter Development, conversion / build of 6 The Greaves; planning application for garage sites for potential development submitted; Alder Grove expansion, through Homes England funding application. • Continue to provide apprenticeship opportunities for local residents and seek opportunities to promote housing career pathways to local young residents.

<table>
<tr><td></td><td>
Use of local suppliers within procurement rules (and where appropriate): for lower value contracts, use of local suppliers is guaranteed; for higher value contacts, on occasions where local supplier does not offer the required expertise and value for money, successful contractors must explicitly evidence social value in contract submissions.
Seeking funds through government to invest in our stock.
Review grounds maintenance contract and seek to promote more widely what will be undertaken.
</td></tr>
<tr><td>Healthy and Happy communities</td><td>
Supporting the development of resident scrutiny groups and creating opportunities for residents to contribute to service development and the decision-making process. Including TPAS accreditation.
Continuing delivery of a ‘place-based’ approach to estate and neighbourhood work, facilitated through Neighbourhood Plans to address local priorities, and promote partnership work between the housing service, residents and resident’s groups, other council services (public realm, community connectors, Salt Ayre Leisure Centre); external partner agencies (police, fire service, community centres), and providing opportunities to access and involvement with arts, culture, leisure and recreation (including improved green space) etc.
Facilitating (and funding) community specific, community led projects.
Continue to develop and improve ASB provision for residents.
</td></tr>
<tr><td>A co-operative, kind and responsible council</td><td>
Investing and developing in staff
‘Place-based’ working helping tenants to create sustainable groups and an ability to deliver initiatives supported by – not led by – the housing service. Recognising that local people are best placed to understand the issues in their neighbourhood.
Website review and development for Council Housing.
Working with and listening to resident groups about what’s important to them, whilst supporting and encouraging others to be established.
Supporting community centres (Marsh and Ridge, for example) to provide services to their residents, and developing access to a community fund pot for other community centres and groups to do likewise.
Developing resident scrutiny groups and creating opportunities for resident’s voices to be heard.
Provision of funds for tenants to access training, education opportunities.
Continued roll out of service standards so customers can hold the service to account.
</td></tr>
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	• Review resident engagement strategy.

3.0 The Council Housing Response to the Climate Emergency

3.1 Council Housing has continued its programme of carbon reduction, energy efficiency measures and upgrades during 2022/23.

Energy Performance Certificate (EPC) Band C Housing Stock
Lancaster City Council is in year 2 of an 8 year programme of 'fabric first' led energy improvement works across our Council stock. The goal of this project is to raise the energy performance rating of all Council Housing properties to a minimum 'C' rating by 2030. Building on significant progress that has been achieved to verify our historical EPC data and improved modelling capability with the introduction of Parity Pathways, £389K from an estimated £2.5M programme has been allocated to this year's programme for energy performance improvements within the Capital Programme.

We continue to review our modelling, verification and expand our EPC data for the stock. Overall, we have lodged 234 new EPC's this year, returning 200 properties at 'C' and above. The number below 'C' is 939, However, this includes 242 of the Mainway stock, which will be addressed in a future scheme. Ongoing improvements will be sought through the range of options listed below, as well as ongoing support for those who live in properties which fall below the 'C' rating.

Void property, energy retrofit improvements
We will continue our major void programme which includes a significant energy performance retrofit component, following a fabric first rationale installing insulation and efficiency measures. We will build on the successful strategy this year, and aim to return all Void properties for re-letting at a minimum 'C' rating and take all opportunity to exceed this standard.

Government decarbonisation scheme
Following on from the LAD1 scheme, as part of a consortium led by Blackpool Council, we have submitted a further bid for additional external funding through the government's decarbonisation Social Housing Decarb Fund WAVE2 programme.

If successful this will add matched co-funding of approximately £700K to our existing capital programme for energy efficiency work. Five problematic housing types are targeted for improvement, off-gas, system-built homes and flats, solid wall and poorly performing traditional, with the ambitions to improve at least 100 properties over two years.

Whole House Improvement programme
The final phase of 27 energy retrofit and internally refurbished properties will be completed this year working up to a total of 56 of the poorest housing on the Mount Avenue estate, benefiting from a significant improvement in energy performance to a current 'C' EPC rating, which equates to a potential 25% reduction in annual carbon emissions and lower bills for tenants.

Loft Insulation
The minimum standard for loft insulation is to achieve at least 300mm. We plan to insulate 77 new roofs this year and in addition, through void

maintenance we will ensure that all properties for new tenancies achieve the 300mm standard.

Learning from energy improvements, insulation work will include sloping soffits and lagging exposed pipework and water storage, future proofing against pipe bursts we have experienced during the recent episodes of very cold weather.

BRE heat loss modelling calculates that 25% of heat energy is lost through roofs, which demonstrates the contribution of this low cost but effective energy saving insulation measure to our carbon reduction strategy.

Solar Panel Installations
We will continue the programme of solar panel installations, with a planned project of 30 4KW arrays to be installed at Prospect Grove. The Energy Support Officer will ensure there is a strong tenant engagement with the project. Connection to the ORSIS system enables remote monitoring and information to help tenants adapt to the new technology and achieve the maximum benefit from the installation.

Gas Partnership, boiler replacement programme
We will continue with the boiler renewal programme, accelerating the replacement of aged and inefficient gas boilers with state of art energy efficient modern gas appliances providing cost effective instantaneous hot water. This provides more efficient heating with improved control, and affords a higher level thermal comfort for tenants, with reduced carbon emissions.

Energy Support Officer
The energy crisis affects all households but is adversely impacting our low income and vulnerable tenants.

The energy support service seeks to support all new tenancies providing energy advice, and managing a busy referral service for any existing tenants who would like support and advice. In the year to date, we have offered over 1840 separate items of energy advice. However, the real measures of success are the stories behind our 136 interventions, supporting tenants with debt and threat of disconnection to gain control and manage their energy bills.

We anticipate another busy year, and greater challenges to our service. We will stay focused on our vulnerable tenants. To meet the anticipated increased demand, we will roll out energy advice through our media platforms and energy surgeries.

Electric Vehicles and charging points
We plan to install an additional 60KW electric vehicle (EV) charger and two EV charging points at White Lund Depot and a 60KW EV charger at Heaton House, providing an extra remote facility. The 60KW points have capability to charge two vehicles, providing a total of 6 EV charging facilities.

We will continue to roll out the transition to electric vehicles. Twelve new light panel vans will be added and as suitable and affordable heavier vehicles enter market the transition will be completed.

Property Conversions / new properties

We have adopted an EPC ‘A’ rating as the benchmark for all new properties and ground up conversions and will take all affordable opportunities to exceed this standard and to incorporate low carbon and renewable technologies.

As a tangible demonstration of our commitment to new low carbon housing, this is the standard for any future development of the Mainway Estate or similar projects, and for delivery next year, four new homes will be constructed at the Alder Grove site, which will utilise highly energy efficient modular construction.

The transformation of 6 The Greaves into a fully accessible adapted property is of special note. The finished project will achieve an EPC ‘A’ rating and feature an air source heat pump, solar PV array and an electric vehicle charging point.

4.0 Rent Setting

4.1 As a registered provider of social housing the Council adheres to the Regulator of Social Housing’s ‘Rent Standard.’ Housing rents are set in line with the Government’s Rent Policy Statement.

4.2 The financial year 2023/24 was to be the fourth of five years where the Council had the freedom to increase *formula* 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.

4.3 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.

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

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

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

- Void levels and re-let times (equating to void rent loss/uncollectable rent)[5]

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2 Formula rent for a property is calculated based on relative property values, relative local earnings, and property size (no. of bedrooms), in line with annual guidance produced by the Social Housing Regulator.

3 It is estimated that around 80% of tenants are in receipt of full or partial HB or UC – due to the housing element being paid direct it is not fully clear the exact number – however, prior to the introduction of UC 80% of tenants were supported by HB to pay their rent.

4 It is hard to get an actual figure: tenants who claim Universal Credit (UC) and pay their own rent do not always have cause to inform the council of having made a UC claim.

5 Empty homes are currently relet within target times, which minimises void rent loss, however major voids (those which require significant works, including renewal or replacement of major elements) and

- Right to Buy (decrease in housing stock); as at Q3 a total of 15 Right-To-Buy completions have taken place in 2022/23. Estimates assume 18 completions per year in future years. It should be noted that during 2022/23 the conversion of a former Independent Living Officer property delivered an additional new home, and three dwellings were bought back from leaseholders as part of the Mainway regeneration pilot scheme. When netted off against Right to Buy sales, housing stock is estimated to reduce by 14 for the year.

For further details about risk factors please refer to Appendix G.

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

Property Type	2022/23	2023/24
General	**£78.24**	**£83.96**
Sheltered and Supported	**£73.49**	**£79.00**

5.0 Other Charges

5.1 A general principal is applied to service charges to ensure they are sufficient to cover the cost of service provision, and that they are reasonable and transparent. Service charges are increased each year using a range of inflationary factors: e.g. General Inflationary Index, Building Cost Information Service (BCIS), Gas, and Electricity. Costs of service provision have been reviewed for 2023/24.

5.2 As per the Social Housing Regulations the Council should "endeavour to keep increases for service charges within the limit on rent changes, of CPI (as at September in the previous year) + 1 percentage point (or 7% in 2023-24), to help keep charges affordable."[7] However, it is recognised that service charges fluctuate significantly from year to year and that the requirement to contain increases within CPI+1% should be interpreted on a medium- or long-term basis[8].

5.3 For 2023/24 across all housing stock service charges will increase by 16.5%[9]. This includes all gas, electricity and heating charges. Where these communal energy costs are removed from the comparison the increase is 7.4%. Within this average is a variation between charges applied to Independent Living (18.6% increase including utility costs, 8.9% without) and General Needs (9.9% increase including energy costs, 3.5% without)[10]. It is usual to see

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properties subject to planned capital projects (such as the Mainway and Mount Avenue projects) have a negative impact on void rent loss.

6 Note that the above figures are presented on a 52-week basis.

Note: Specific rents vary depending on property type / area / size: for general needs between £60.39 (for a bedsit at Mainway) and £123.21 (for a 4-bedroom house in Bolton-le-Sands), and for sheltered housing between £62.68 for a bedsit at Beck View and £100.58 for a two-bed flat at Artlebeck Close.

7 Source: Policy statement on rents for social housing – Dec 2022

8 Source: National Housing Federation Briefing on Rent Standard 2020 - Jan 2020

9 Subject to further fluctuations in cost of service delivery

10 The most relevant factors affecting the service charge increase relate to building costs, general inflation, and energy costs. The Building Cost Information Service (BCIS) inflation figure used to establish cost information within the construction industry is currently running at 3.8%. The General

fluctuations in service charge costs across property types, but current energy costs are exacerbating this. See 6.2 (below) and footnote 9 for further explanation of energy costs.

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

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

5.6 Garage rents have been subject to a rent freeze since 2020/21. Following review and benchmarking against other garage providers it is recommended that they be subject to a further freeze for 2023/24. Garage occupancy rates have improved during 2022/23, from 80% occupancy (75 voids) to 86.6% (56 voids). The threat to occupancy rates of a rent increase would potentially offset any benefits to income generation. Opportunities for development and alternative use for garage sites are being explored.

6.0 Revenue Expenditure

6.1 The future year's estimates for 2023/24 alongside the following four financial years have been prepared as part of this budget setting process. The differences between the budget approved last year and the draft revenue budget as prepared are illustrated in the variance analysis supplied at Appendix B.

6.2 The key areas are listed as follows: -

- Salary costs are now forecast to be around £88K higher than previously estimated, as a result of the 2022/23 pay award.
- Additional salary costs to bring the Anti Social Behaviour Officer seconded into the team from the General Fund permanently in-house, off-set against a corresponding reduction to Supplies & Services.
- Repairs and Maintenance increase of around £1,007K in 2023/24 due to the 2022/23 pay award as well as the inclusion of additional budget for fire safety works and compliance testing.
- Energy costs increase of around £178K, largely rechargeable[11].
- Premises insurance increases relating to the premium for council house properties.

Inflation rate is 10.1% (CPI as at Sept 2022). Energy costs are relevant to those residents with the use of communal heating systems and have increased significantly during 2022/23 as is widely publicised. The impact on the cost of planned and other maintenance works within communal areas, and the delivery of other services, translates into service charge increases.

[11] Energy costs have increased significantly since April 2022, are currently subject to regular fluctuation, and are monitored monthly. Prior to the cost of living crisis costs were stable and were charged in arrears. For 2023/24 (as in 2022) where significant fluctuations occur service charge adjustments will be made 'in year' to more accurately charge for actual usage, and allow residents more control over their costs. Where the council benefits from the government's business relief scheme this saving is passed on to residents. The Income Management team actively supports tenants to ensure government support around energy costs is received and understood.

- Planned capital expenditure has increased by £750K in 2023/24 (see Appendix D), resulting in changes to the funding required from the Business Support and Major Repairs Reserves.

6.3 The table below lists the major assumptions that have been made for the 2023/24 budget.

	2023/24
Fees & Charges	Various
Inflation – Pay	4.0%
Employer Pensions Contribution	16.3%
Inflation – General (Minor Cost Centres)	2.4%
Inflation – Insurance	10.0%
Inflation – Utilities	Gas: 25.3% Electric: 31.6%
Interest Rate - Investments	3.5%

6.4 In summation, the 2023/24 revenue budget projected surplus is £233K, which is a reversal of the previously projected funding requirement of £530K, which was to be funded by unallocated balances. This surplus includes a transfer from the Business Support Reserve to bring Unallocated Reserves up to the new minimum level of £750,000, as recommended by the Section 151 Officer (see 9.1). The revised projection is due to the points described above (6.2), notably changes to planned capital expenditure and related funding.

7.0 Capital Expenditure

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

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

7.3 Members are requested to approve redirection of funds (£158K) within the 2022/23 HRA Capital Programme. Funding was intended to be utilised undertaking kitchen refurbishment works, but due to ongoing Covid precautions, the programme did not fully restart until quarter 2. Redirected funds will be used to remove composite (plastic) fencing installed to the rear of Council Housing properties to minimise the risk related to spread of fire, damage to properties and danger to life. These works are currently being undertaken by the Council's Planned Maintenance team.

7.4 A number of programmes of work (value over £200K and key decisions over £250K) will be advised during 2023/24 and it is requested that members delegate the Chief Executive to approve tender of these contracts as per procurement rules. Chief Executive sign off will be sought on a case-by-case basis. Key decision notices will be provided where required.

The programmes of work will be:

- Reroofing of properties on Ryelands estate
- Re-rendering works to properties at Hala
- Whole House Major Voids works and refurbishment

- 1a Alder Grove – demolition of existing scheme managers property and construction of 4 flats (if contract not awarded within 2022/23)

7.5 The capital programme includes no provision for any major refurbishment works on the Mainway estate due to the ongoing regeneration project (see section 8).

7.6 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 inform future capital spend.

8.0 Future Developments

8.1 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 as outlined above. 2023/24 is seen as a critical juncture in progressing designs to planning applications, prior to seeking the appropriate funding though 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 aforementioned four-bed development with community facility at Alder Grove, providing additional much-needed older persons accommodation.
- Progression to planning application for a collection of garage sites converted into single person / family accommodation.
- Progression of the wider Mainway masterplan through to accelerated first phase planning application enabled through the purchase of the redundant elements 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.

8.2 For clarity, no major capital works in relation to the garage site conversions, Mainway or Canal Quarter are included in this report.

9.0 Provisions, Reserves and Balances

9.1 After reviewing the Housing Revenue Account and General Fund in comparative terms and considering the key issues, assumptions and risks underlying the budget projections, the Section 151 Officer advises increasing the minimum level of HRA Balances to £750K from 01 April 2023 to support the budget forecasts, as part of the overall medium term financial planning for the HRA.

9.2 In calculating the minimum level of HRA Balances, an assessment of the risks that give rise to unanticipated expenditure or loss of income has been made and these are shown in the table below.

Risk	Symptom of Risk	Balance Required £M
Increased Demand for Services	1% Increase in Net Revenue Expenditure	0.150
Recession results in additional reduction in Rental Income	2% Reduction in Income	0.350
Natural Disaster such as Flood etc	Additional Unexpected Expenditure	0.150
Additional Uncertainty with Respect of the Cost Of Living	Additional Unexpected Expenditure	0.100
Aggregate Overspend if all of the above risks were to happen		**0.750**

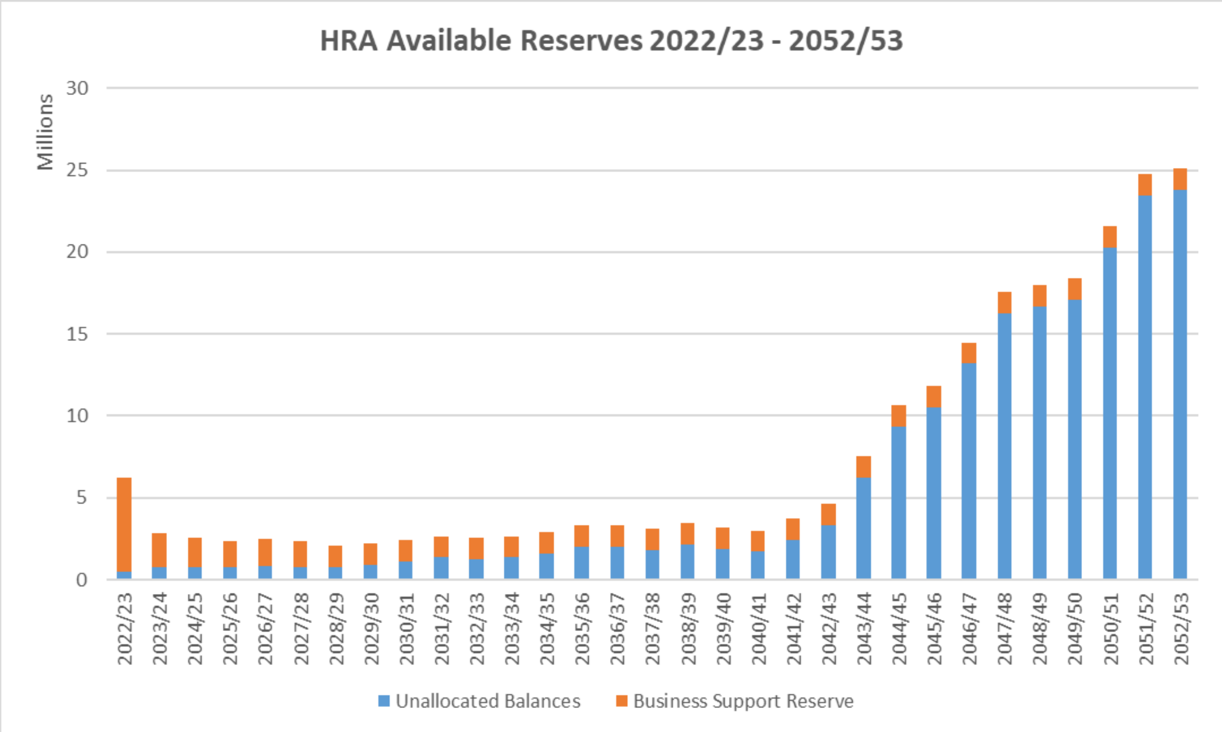
9.3 Draft statements on all reserves are attached at Appendix E(i) and Appendix E(ii). Levels are viewed as adequate for the period covered and Cabinet is asked to endorse this information, with the Statement being referred on to Council as part of the HRA budget proposals.

10.0 Business Planning & Future Risks

10.1 Taking account of the work that has been done to date, the following table sets out the latest position for the business plan, represented by the level of unallocated balances and the Business Support Reserve (BSR). It compares the position back in February 2022 to projections as at February this year.

30 Year Business Plan: Business Support Reserve and Unallocated Balances

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	30 Year Cumulative Total £'000
Business Support	2,516	1,769	1,287	1,051	875	785	639
Unallocated Balances	1,030	500	500	500	500	500	12,131
Projections as at February 2022	**3,546**	**2,269**	**1,787**	**1,551**	**1,375**	**1,285**	**12,770**
Business Support	5,678	2,104	1,796	1,628	1,628	1,576	1,304
Unallocated Balances	517	750	750	750	860	750	23,768
Projections as at February 2023	**6,195**	**2,854**	**2,546**	**2,378**	**2,488**	**2,326**	**25,072**
Overall Movement (Adverse) / Favourable	**2,649**	**585**	**759**	**827**	**1,113**	**1,041**	**12,302**



10.2 The unallocated balance is currently £2.6M and at no point within the 30-year business plan does it breach the £750K lower limit as detailed in section 9.1.

10.3 The Business Support Reserve has a current unallocated balance of £2.1M. However, this will be relied upon to support revenue spend in the short to medium term (currently until 2028/29).

10.4 A contribution of £600K will be made to the ICT and Systems Improvement Reserve to bring the balance of that reserve up to £904K. This is to support the Council Housing Transformation Project for which preparatory work is underway, and which will provide complete replacement of outdated systems within the service and support delivery of modern, resident focussed housing services. Future options around this project will be presented through the Council's decision-making process.

10.5 It is proposed that with hybrid working and shared office space for staff now in operation, the Office Equipment Reserve be closed and the balance (£39K) transferred to the ICT and Systems Improvement Reserve.

10.6 The increase in the projected balance at the end of the 30-year business plan is largely due to a further change in inflation assumptions relating to insurance as well as the year-on-year impact of the higher rent increase for 2023/24.

10.7 As previously discussed, in line with the previously agreed national rent settlement, rents have been set at CPI+1% for five years. Whilst the 2023/24 Government-imposed cap of 7.0% rent increase for existing tenants continues to provide challenges in service delivery, for next year rental income from dwellings is now forecast to be approximately £604K higher than estimated in the previous budget report. It has been assumed that increases will revert to CPI only from 2025/26, but the risks surrounding these assumptions must be appreciated and the magnitude of impact of a small change within this area understood.

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

11.0 Options and Options Analysis (including risk assessment)

11.1 The options with regards to rent setting are set out under section 4, the maximum permitted increase for existing tenants being 7.0% for 2023/24. By applying this increase, it allows for a budget that can deliver on the Council's ambitions on improving housing standards and addressing the climate change emergency, whilst adhering to the Rent Standard and legislative requirements.

11.2 In relation to garage rents, the previous decision was to freeze rents for 2022/23. In order to protect current occupancy and income levels, and in line with sector benchmarking, a further 12-month freeze is recommended. Garage rents and occupancy will remain under review.

11.3 With regard to the revenue budget generally, Cabinet could consider other proposals that may influence spending in current and future years, as long as their financing is considered and addressed and coherent with the legislative and regulatory requirements of a Registered Provider.

11.4 The options available in respect of the minimum level of HRA balances are to increase the level to £750K in line with the advice of the Section 151 Officer, or adopt a different level. Should Members choose not to accept the advice on the level of balances, then this should be recorded formally in the minutes of the meeting and it could have implications for the Council's financial standing, as assessed by its external auditor.

11.5 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.

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

	Option 1: Set housing and garage rent levels as set out in this report and approve the provisions, reserves and balances position (and their use); the revenue budgets and capital programme	**Option 2:** To propose alternatives to those outlined in Section 11 above.
Advantages	Increased rental income allows the Council to deliver towards its climate ambitions and provide an ambitious housing service which places people and place at the heart of its offer.	Unknown
Disadvantages	Increased rent levels for tenants.	Would require further options analysis
Risks /	The HRA budget set out in this	Impact on housing service and

Mitigation	report is sustainable in the long term. The risks associated with Option 1 are outlined in Appendix F – Risks and Assumptions. To offset challenging increases in rent and service charges the team have a high performing Income Management Team providing dedicated one to one support to those who need it, alongside additional support officers such as Energy Support Officer, Household Intervention Team and Independent Living Team.	council housing tenants unknown. Potential for housing service to fall foul of legislative and regulatory requirements, leading to unlimited fines and being 'named and shamed' by government.

12.0 Officer Preferred Option (and comments)

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

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

12.3 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.

12.4 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.

13.0 Conclusion

13.1 Whilst the report highlights challenges faced within the current economic environment, Lancaster City Council's Housing Service continues to operate a sensible but forward-looking approach, developing and adopting best practice to deliver high quality homes and services to residents whilst being mindful of future legislation and regulation requirements, preparing accordingly.

RELATIONSHIP TO POLICY FRAMEWORK

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

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

The proposals set out in the report will have positive impacts residents within Council Housing dwellings specifically climate change, wellbeing / social value, health and safety and community safety as outlined below. There is no significant detrimental impact on equality on specific groups. See Appendix G – Equality Impact Assessment.

Climate: as per section 3, the report outlines a number of positive climate related impacts resulting from the HRA budgeting process. Also, see Appendix G for additional positive impacts

Wellbeing & Social Value: positive impacts identified via additional budget proposals. See appendix G for details.

Health and Safety: the Council Housing dedicated Compliance Team focusses on monitoring and maintaining compliance against core areas of legislation within council dwellings specifically gas, electrical, legionella, lifts, asbestos, fire, smoke and CO2 detection and fire door testing. The dedicated budget around this work supports compliance.

Community Safety: The approach to a dedicated ASB provision for Council Housing tenants and continued engagement and review of ASB provision with Resolve will see a positive impact for local residents.

LEGAL IMPLICATIONS

The Council may amend its reasonable charges for occupation of council housing dwellings as they determine. The level of rent must be reviewed from time to time (s24 Housing Act 1985). The Council must have regard to relevant standards set by Housing Regulator's guidance - pursuant to Part 6 of the Housing and Regeneration Act 2008. Furthermore, the decision to change charges must be taken in accordance with normal principles of public law. The Council has had regards to the relevant standards set by the Housing Regulator and should it make a decision to increase it charges it should ensure that the change is implemented in accordance with statutory provision and guidance.

FINANCIAL IMPLICATIONS

As set out in the report.

OTHER RESOURCE IMPLICATIONS

Human Resources:

None identified

Information Services:

None identified

Property:

None identified

Open Spaces:

None identified

SECTION 151 OFFICER’S COMMENTS

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

Provisions, Reserves and Balances

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

• An unallocated minimum balance of £0.750M 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 simply view the level of funds held, without considering the reasons as to why those funds might be needed.

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

• Producing a base budget, taking account of service commitments, pay and price increases and expected demand / activity levels as appropriate, and the consideration of key assumptions and risks.

• Reviewing the Council's services and activities, making provision for expected changes.

• Reviewing the HRA Thirty Year 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 regard to the impact on housing rents for Council Housing investment. Affordability is ultimately determined by judgements on what is 'acceptable' - this will be influenced by public, political, and national influences.

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

• Availability of capital resources, including capital grants, capital receipts, etc

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

The HRA has a Capital Financing Requirement which reflects underlying need to borrow. This is reviewed periodically to ensure that borrowing is, always, affordable, sustainable, and prudent and a minimum revenue provision charge is made to the HRA each year to reflect the cost of borrowing.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS See Appendices A-G	**Contact Officer:** Peter Linsley **Telephone:** 01524 586873 **E-mail:** plinsley@lancaster.gov.uk **Ref:** [Click here and type Ref, if applicable]

APPENDIX A

HOUSING REVENUE ACCOUNT BUDGET

For Consideration by Cabinet 7 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.

APPENDIX B

HOUSING REVENUE ACCOUNT VARIANCE ANALYSIS

	2022/23		2023/24	
	£	£	£	£
ORIGINAL BUDGET		**0**		**0**
EXPENDITURE				
Employee Savings				
Impact of pay award for 2022/23; redirection from Supplies & Services re ASB service to be brought in-house	(46,400)		(135,800)	
Additional top-up payment to pension fund	(100,000)		0	
		(146,400)		**(135,800)**
Premises				
Repairs & Maintenance - impact of pay award for 2022/23, fire safety works and additional budgets for compliance testing, other minor changes	(921,700)		(1,006,900)	
Energy - increase in costs for general needs areas, largely rechargeable	(147,200)		(178,400)	
Council Tax - increased liability for long term void properties due to major voids and capital projects	(63,500)		(65,200)	
Premises Insurance - increase in premium relating to council house properties	(111,500)		(128,300)	
		(1,243,900)		**(1,378,800)**
Supplies & Services				
Development - Mainway Project and related fees, viability assessment and design fees relating to other potential new build schemes	(82,300)		(775,000)	
Anti-Social Behaviour - redirection to Salaries as service to be brought in-house	0		41,500	
		(82,300)		**(733,500)**
INCOME				
Rents (Dwellings) - additional rent loss from voids due to major voids and capital projects; increase in CPI from 2.0% estimated to 10.1% actual (as at September 2022), increase capped at 7.0% for existing tenants	(130,700)		603,500	
Rents (Other) - garage occupancy improving	13,600		9,700	
		(117,100)		**613,200**
FINANCING				
Direct Revenue Financing - reduced/(additional) funding from earmarked reserves towards capital programme (Mainway Regeneration Project)	2,815,000		(1,950,000)	
		2,815,000		**(1,950,000)**
APPROPRIATIONS				
Earmarked Reserves appropriations - funding of fire safety works, one-off transfer to ICT & Systems Improvement Reserve from BSR	672,800		(544,000)	
Business Support Reserve - funding for Mainway Project and related fees, viability assessment and design fees relating to other potential new build schemes, one-off transfer to ICT & Systems Improvement Reserve, increase Unallocated reserves to £750K minimum level	(2,685,500)		2,826,500	
Major Repairs Reserve appropriations - net decrease/(increase) in additional contribution due to reprofiling of capital programme and use of accumulated MRR balance and capital receipts	238,500		2,068,800	
		(1,774,200)		**4,351,300**
Other Net Service Variances		**(82,200)**		**(3,700)**
IN YEAR VARIANCES		**(631,100)**		**762,700**
Previously Agreed Contribution (From) / To Unallocated Reserve		(1,403,500)		(529,700)
REVISED CONTRIBUTION (FROM) / TO UNALLOCATED RESERVE		**(2,034,600)**		**233,000**

*Variances shown as (adverse) / favourable

APPENDIX C

Council Housing 5 Year Capital Programme
For Consideration by Cabinet 7 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 CAPITAL PROGRAMME - KEY CHANGES

	2022/23 Projected Outturn	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
PREVIOUSLY APPROVED CAPITAL PROGRAMME	**9,374**	**5,446**	**4,784**	**4,588**
Adaptions				
No change to programme				
Energy Efficiency/Boiler Replacement				
Slippage from 2021/22 programme	+40			
Internal Refurbishment				
Adjustments to kitchen programme	(163)			
External Refurbishment				
Slippage from 2021/22 programme	+105			
Upgrade & replacement of existing entrance doors		+80		(36)
External rendering		+260		
Environmental Improvements				
Slippage from 2021/22 programme	+37			
Replacement of rear plastic fence panels with timber	+158			
Communal areas, railings & balusters		(300)	+300	
Re-Roofing/Window Renewals				
Slippage from 2021/22 programme	+250			
Roofing programme priority changes		(539)	+180	+180
Rewiring				
No change to programme				
Lift Replacements				
No change to programme				
Septic Tanks				
No change to programme				
Fire Precaution Works				
Slippage from 2021/22 programme	+40			
Fire door replacement programme		+100		
Housing Renewal and Renovation				
Renewals and renovations	(33)	(801)	(801)	(731)
Mainway Regeneration Project				
Development programme changes	(2,745)	+1,950		
Minor Variances	+0	+0	+0	+0
REVISED CAPITAL PROGRAMME	**7,063**	**6,196**	**4,463**	**4,001**

APPENDIX E(i)

HOUSING REVENUE ACCOUNT - RESERVES AND PROVISIONS STATEMENT
For Consideration by Cabinet 7 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 Capital	To Revenue		To the Reserve from	From the Reserve To Capital	To Revenue		To the Reserve from	From the Reserve To Capital	To Revenue		To the Reserve from	From the Reserve To Capital	To Revenue		To the Reserve from	From the Reserve To Capital	To Revenue		To the Reserve from	From the Reserve To Capital	To Revenue	
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
HRA General Balances	**2,551,663**			(2,034,600)	**517,063**	233,000			**750,063**				**750,063**				**750,063**	110,200			**860,263**			(110,200)	**750,063**
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**				**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**

RESERVES AND PROVISIONS - For Consideration by Cabinet on 7 February 2023

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

APPENDIX E(ii)

RESERVES AND PROVISIONS - For Consideration by Cabinet on 7 February 2023

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

RESERVES AND PROVISIONS - For Consideration by Cabinet on 7 February 2023

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

Use of all reserves with the exception of the BSR and MRR to be approved by the Chief Officer with responsibility for Housing, in consultation with the Chief Finance Officer (or nominated representative) and reported to Cabinet, primarily as part of normal monitoring, budgeting and outturn reporting arrangements.

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

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

2023/24 Budget
Housing Revenue Account – Risks & Assumptions
For consideration by Cabinet 7 February 2023

Risk area	Details
Self-financing	Under Part VI of the Local Government and Housing Act 1989 a local authority has a duty to keep a HRA as a ring-fenced account and has a duty to ensure that it does not go into deficit. To deliver this, robust business and financial planning arrangements are maintained, including the production of a 30-year business plan. Assumptions around factors such as rent setting and inflation factors are built into this.
Rent Policy	As a Registered Provider of Social Housing the Council adheres to the Regulator of Social Housing's 'Rent Standard'. Rents are set in line with the Government's 'Rent Statement'. 2023/24 is the fourth year of five where providers were permitted to increase rents by CPI + 1%, however due to what the government describe as 'exceptional circumstances' (around inflation and the cost-of-living crisis more generally) rent increases are capped at a maximum of 7% for 2023/24. This below inflation rent increase offers crucial support to tenants impacted by current financial pressures but also impacts service delivery and the business planning process. This reduction in income can be seen in the 2023/24 budget report through reductions in the capital programme which challenge the council's ability to deliver the whole house improvement programme and other cyclical maintenance. This risk is currently managed. Government guidance will be kept under review to ensure any future assumptions around rental income are accurately informing business planning.
Income Recovery	Rental income is the main income source for the housing service. The impact of tenant debt and reduced income (through rent and other housing-related charges) on business planning is recognized as a key risk to the delivery of housing services and the sustainability of financial planning. Wider cost-of-living issues such as increased energy costs create financial pressures for tenants and present a risk to assumed income. Income Management within the housing service is externally accredited by the Housing Quality Network (HQN) and delivers best practice across many areas of tenant debt. Void (empty home) levels create additional rent loss. Fast, efficient turnaround of void properties, to reduce void rent loss, remains a priority. Supportive, proactive, and data driven service delivery in this area continues to protect income streams and promote successful tenancies. This service area is monitored weekly to ensure the risk is managed. The service has recently implemented Mobysoft Rentsense, a market leading piece of software which uses intelligent data analysis to help monitor rent accounts and ensure support is targeted toward those who most need it.

Reduced demand	Reduced demand for council housing within the district would pose a threat to rental income. Overall demand for council housing stock is currently high, particularly for one- and two-bedroom properties. Demand is monitored and informs the asset management planning process, and in line with the District Housing Strategy, informs the direction of programs of development, refurbishment and renewal. The potential for 'difficult to let' schemes, areas, or property types to undermine demand is monitored, with strategic planning in place to mitigate any specific issues.
Stock reduction	The rate of Right to Buy (RTB) sales remains relatively low compared to historic levels of sales; the budget planning process assumes 18 Right to Buy Sales per year. Any sales lead to future projected rental income levels being reduced. As many costs are fixed, this results in an adverse impact on the revenue position. To offset this the Council continue to explore avenues for development, delivering recent conversions of former scheme manager accommodation into one-bed units, and scoping other sites and opportunities to realise a 'pipeline' of potential development.
Additional capital requirements	Legislation, changes in health and safety standards, or the discovery of previously unknown defects create the potential for additional capital expenditure requirements. In response to the Building Safety Bill and Fire Safety Act (2021) a thorough review of all compliance (gas, electric, asbestos, legionella, lifts, fire, damp and mould) activities began during 2021/22. Additional capital and revenue expenditure is built into the budget position to reflect increased investment in this area. Commitment to a ten year programme of energy efficiency improvements and upgrades across all housing stock remains in place, in response to the Council's declared climate emergency. Asset management planning remains vital to identify the investment needs across all housing stock and inform the programmes. All requirements are reflected in the 30-year HRA Business Plan. The Mainway estate (comprising circa 250 council dwellings) was subject, in 2019, to detailed survey work which highlighted the need for major decisions around repair, upgrade, or redesign. Project work remains ongoing to define the options available; any potential project of transformation on Mainway will likely require borrowing against the HRA and will be subject to the council decision making process.
Service Resilience	A number of external factors (pandemic, weather events, etc) remain as financial and practical risks to delivery of the housing service. The service participates actively in the Council's resilience activities and planning and has developed robust processes to mitigate such risk. Provision and maintenance of IT represents and additional risk to service resilience in two ways: Delivery of a full IT replacement project is required to provide excellent digital capability across the housing service, replacing outdated 'legacy'

	systems. Delivery of this project is reflected in HRA reserve levels and will be subject to the Council decision making process in the coming months. In addition, support and maintenance of current IT infrastructure to delivery current systems remains a risk. Recent upgrades, along with in-house training around infrastructure, currently mitigate this risk.
Effect of legislation/ regulation	Implications of new (or changes to existing) legislation / regulation can present challenges and are monitored and reflected in service review and improvement planning. Examples are referred to in the risk items described here. Reputational risk to the Council should be considered in this context. A more prescriptive 'hands on' regulatory regime is being developed within the housing sector, including a more active and engaged Housing Ombudsman Service and Regulator with the government specifically 'naming and shaming' poor performing landlords. Greater scrutiny and transparency is largely welcomed within the housing sector but does bring the risk to reputation should services not be delivered to the required standard.
Future Developments	The City Council continues to have ambitions for the development of its own new affordable / social rented homes, which it is seeking to progress. Developments will be subject to the council's decision-making process.

Equality Impact Assessment

This **online** equality impact assessment should:

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

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Service Council Housing

Title of policy, service, function, project or strategy

HRA Budget Report - Rent Setting

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

Lead Officer Pete Linsley

People involved with completing the EIA

David Holme; Rachel Page

Step 1.1: Make sure you have clear aims and objectives

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

To set council housing rents in line with current regulation, and in order to complete the HRA budgeting process which sets out ambitions for the housing service over the short and medium term. The proposed rent increase for 2023/24 is 7% (CPI + 1% guidance capped by the government at below inflation increase of 7%).

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

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

Step 1.2: Collecting your information

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

Equality Impact Assessment

Group	Negative	Positive/No Impact	Unclear
Age	☐	☒	☐
Disability	☐	☒	☐
Faith, religion or belief	☐	☒	☐
Gender including marriage, pregnancy and maternity	☐	☒	☐
Gender reassignment	☐	☒	☐
Race	☐	☒	☐
Sexual orientation including civic partnerships	☐	☒	☐
Other socially excluded groups such as carers, areas of deprivation	☐	☒	☐
Rural communities	☐	☒	☐

Step 1.3 – Is there a need to consult!

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

Consultation has taken place with the District Wide Tenants Forum (DWTF) at their meeting on 19/01/23; a group made up of council officers, councillors, and residents from across the district. The group discussed and debated the proposed rent increase and the keys areas of spend and overall direction of the housing service, and were broadly supportive of the decision to propose an increase in rents for 23/24 of 7%, though all recognise the challenge a rent increase will pose to tenants in the context of the current cost-of-living crisis. 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. Positive comments were shared about the council housing response to the climate emergency, particualrly around plans to tackle energy efficiency within housing stock.

Step 1.4 – Assessing the impact

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

Age: No significant impact directly related to this group

Disability: No significant impact directly related to this group

Faith, Religion or Belief: No significant impact directly related to this group

Gender including Marriage, Pregnancy and Maternity: No significant impact directly related to this group

Gender Reassignment: No significant impact directly related to this group

Race: No significant impact directly related to this group

Sexual Orientation including Civic Partnership: No significant impact directly related to this group

Rural Communities: No significant impact directly related to this group

Step 1.5 – What are the differences?

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

Equality Impact Assessment

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Promoting City, Coast & Countryside

No areas of discrimination based on protected characteristics have been identified. Individuals in challenging financial circumstances ar at risk of indirect discriminated as outlined in Q2 above, but this is not linked to any specfici chracteristics outlined in Q5 above. Mitigation of this risk is outlined in Q2: tenancy health checks, and monitoring of rent accounts and related financial circumstances of tenants will allow a support and assistance to be provided as required.

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

No

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

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

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

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

N/a

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

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