LANCASTER
CITY COUNCIL

Promoting City, Coast & Countryside

COUNCIL MEETING

Wednesday, 28 February 2024 - 6.00 p.m.
Morecambe Town Hall

Lancaster City Council welcomes members of the public to attend meetings. However, space in the public gallery is limited to 30 seats due to Fire Regulations. The seats are allocated on a first come, first served basis and no standing is permitted. Meetings are livestreamed please click HERE to watch using MS Teams. Please contact Democratic Support via email democracy@lancaster.gov.uk if you wish to register to speak or ask a question at this meeting. The deadline to register is 12pm on Friday 23 February.

Mark Davies,
Chief Executive,
Town Hall,
Dalton Square,
LANCASTER,
LA1 1PJ

LANCASTER CITY COUNCIL

Promoting City, Coast & Countryside

Sir/Madam,

You are hereby summoned to attend a meeting of the Lancaster City Council to be held in the Town Hall, Morecambe on Wednesday, 28 February 2024 commencing at 6.00 p.m. for the following purposes:

1. **APOLOGIES FOR ABSENCE**

2. **MINUTES**

   To receive as a correct record the Minutes of the Meeting of the City Council held on 24 January 2024 (previously circulated).

3. **DECLARATIONS OF INTEREST**

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

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

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

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

4. **ITEMS OF URGENT BUSINESS**

5. **ANNOUNCEMENTS**

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

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

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

7. **PETITIONS AND ADDRESSES**

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

8. **LEADER'S REPORT** (Pages 5 - 9)

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

REPORTS REFERRED FROM CABINET, COMMITTEES OR OVERVIEW AND SCRUTINY

9. **GENERAL FUND BUDGET & POLICY FRAMEWORK 2024/25** (Pages 10 - 85)

Report of Cabinet.

Published 22 February 2024

10. **GENERAL FUND CAPITAL PROGRAMME 2023/24 - 2032/33 & CAPITAL STRATEGY (INVESTING IN THE FUTURE)** (Pages 86 - 115)

Report of Cabinet.

Published 22 February 2024

11. **HOUSING REVENUE ACCOUNT BUDGET & POLICY FRAMEWORK 2024 TO 2029** (Pages 116 - 127)

Report of Cabinet.

Published 22 February 2024

12. **TREASURY MANAGEMENT STRATEGY 2024/25** (Pages 128 - 160)

Report of Cabinet.

Published 22 February 2024

OTHER BUSINESS

13. **MEDIUM TERM FINANCIAL STRATEGY UPDATE** (Pages 161 - 179)

Report of Chief Financial Officer.

Published 21 February 2024

14. **COUNCIL TAX 2024/25**

Report of Chief Financial Officer.

Report to follow.

15. **APPOINTMENT TO AN OUTSIDE BODY - BOARD OF TRUSTEES OF THE LANCASTER CHARITY** (Pages 180 - 181)

Report of the Senior Manager, Democratic Support and Elections.

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

Group Administrators to report any changes to Committee Membership.

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

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

18. **MINUTES OF CABINET** (Pages 182 - 186)

To receive the Minutes of Meeting of Cabinet held 16 January, 2024.

……………………………………………………

Chief Executive

Town Hall,
Dalton Square,
LANCASTER,
LA1 1PJ

Published on, 20 February 2024.

COUNCIL

Leader's Report

28 February 2024

Report of the Leader of the Council

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

RECOMMENDATIONS

To receive the report of the Leader of Council.

REPORT

1.0 Cabinet

1.1 Information on Cabinet matters is provided in the minutes from the Cabinet meeting held 15 January later in this agenda.

2.0 Decisions required to be taken urgently.

2.1 No urgent Cabinet decisions have been taken since the last Leader's Report.

3.0 Leader's Comments

3.1 Following on from the confusion at last month's Leaders report, I thought it might be helpful to members to know that these words are written at least 9 days before the next full council meeting. Written reports have to be supplied to democratic services in enough time that they can be included in the Agenda reports pack. Matters that would normally be included in a written report but which arise between the penning of the report and the meeting itself are delivered verbally by the Leader at the meeting.

3.2 **Nuclear Power**

As was noted verbally at last month's full council meeting, I have written a letter to our district's two MPs, and the Minister for Energy, outlining my support for EDF's application to extend the generating life of Heysham 1 & Heysham 2. I will circulate the text of this letter to all members.

Cat Smith MP has replied and I will also circulate her response to all members ahead of the meeting. Here I will restrict myself to a quote from her letter:

"By quadrupling offshore wind, doubling onshore wind, tripling solar power generation and extending the lifetime of existing nuclear plants, a Labour Government could switch the UK to clean power by 2030.

With the certainty of safety assurances you have outlined, I support your ambition to protect the 1,500 local high-skilled jobs and extension of the life of Heysham 1 and 2, and want to do all I can to support Lancaster City Council plan a financial strategy which meets the needs of residents, following the 58% government cuts to the city council's budgets over the past fourteen years."

I note too that the Energy Minister, Andrew Bowie MP, visited the power stations on the 8th of February. The Minister met with apprentices on site and spoke to the potential for Heysham to host a mobile nuclear reactor (SMR) in due course, as designs for these are set to be approved by the Government in the coming months.

3.3 **Culture**

On the 25th of Jan I attended the Holocaust Memorial Day event organised by More Music at Lancaster Town Hall. There was a candle lighting ceremony remembering all who lost their lives during the holocaust, subsequent genocides and current conflict in Palestine & Israel. There were powerful speeches, alongside music & arts performances including choir, traditional klezmer folk band, violinist, and poetry readings from refugees. The theme was 'the fragility of peace', and it was a deeply moving and thought provoking occasion.

This month has seen Chinese New Year (CNY) celebrations taking place in our district. On the 27th I attended the CNY variety show at the Grand Theatre where performers from across the North West preformed an impressive showcase of Chinese music, song, dance and opera. I was also invited to give a speech at the opening ceremony for CNY and saw Lancaster city centre adorned with hundreds of lanterns, before the celebrations began proper with the lions and dragon parading through the streets. This colourful festival and the sharing of rich culture was a welcome addition to the diverse tapestry of our city.

I attended the 'Sigh of the Seas' memorial event in the West End of Morecambe to commemorate the 20th anniversary of the Morecambe Bay cockling disaster. More than 20 Chinese cockle pickers tragically lost their lives. That tragedy shook not only the local community but the nation, and highlighted the prevalence of modern slavery in the UK.

Later in February, Morecambe's promenade was bursting with colour and movement for the excellent Baylight festival, a three-day free light art trail featuring light artworks from local, national and international artists. My amazement to see giant tentacles bursting out of the Winter Gardens was hardly dampened by the very wet weather!

3.4 **Democracy in Lancashire**

In January I attended both meetings of District Leader's & Lancashire Leader's and discussed a wide range of issues affecting the county, most notably changes to waste collection and processing in anticipation of new Government legislation. The County Council has also asked Lancaster district to consider potential new locations for pay and display on street parking. We have received assurances that new sites will only be delivered where there is agreement with local partners, and therefore we have agreed to enter discussions as a non-binding exploration of the issue.

On the 22nd of January the Chief Executive submitted Lancaster City Council's response to the devolution deal consultation. We are now waiting for the County Council to collate and publish responses, and of course, to deliver a meaningful response.

On the 5th of February myself and the Finance portfolio holder attended a meeting of the Joint Revenues & Benefits service committee. Lancaster and Preston continue to work together to deliver a number of services in order to deliver efficiencies and cost savings to both authorities. Minutes of the meeting are available to members online via the extranet.

3.5 **Supaskips Emergency**

It is worth remembering that the city council has no specific duty to manage this emergency, or spend our reserves dealing with it, but despite this we stepped up to the plate for the sake of residents, businesses and to protect the environment. I believe that was the right thing to do, but it has meant contributing just shy of £1m to help clear the site of waste, but to finish the job will cost another £450k. To put that into context, it could add up to approximately 13% of our available allocated reserves, or 7% of our entire net revenue budget for 2023/24.

Unfortunately, a significant amount of waste remains, and deep-seated pockets of heat mean that potential flare-ups are likely for some time to come. The Council continues to work with partners in other agencies, and continues to try to seek financial support in order to finish the work of clearing the site. Some partners have indicated that they are unable to contribute financially to dealing with the emergency response, others we have yet to have an answer from. Frustratingly HMRC have informed us that there is no mechanism by which they can waive the landfill tax we have to pay, which accounts for more than half the cost of the action taken to clear the site so far. Crucially we continue to await a response from Government Minister's about what financial support they are able to offer us. Rather than leaving the council to carry the financial can by itself, the question is, do we now say that we've done enough and it's time for another partner to dig deep and put their hands in their pockets? This is not an easy question to answer, and we have been consulting with residents to try and determine a route forward.

I hope to be able to verbally report on some significant progress by full council.

4.0 Decisions

The following decisions were scheduled to be considered by Cabinet on 06 February 2024:

Budget & Policy Framework Update 2024/25 to 2028/29
Capital Strategy & Capital Programme 2024/25 to 2028/29
Treasury Management Strategy
Medium Term Financial Strategy
Housing Revenue Account and Capital Programme
Decision to Consider Sustainability of a Council Housing Dwelling Block

The following decisions were scheduled to be considered by Cabinet on 20 February 2024:

Hackney Carriage Fare Review 2024
Licensing Act 2003 - Revised Statement of Licensing Policy (2023-2028)
General Fund Budget & Policy Framework 2024/25
General Fund Capital Programme 2023/24 - 2032/33 & Capital Strategy (Investing in the Future)
Treasury Management Strategy 2024/24
Medium Term Financial Strategy Update
Housing Revenue Account and Capital Programme
Commercial Property Sale, Lancaster

No Officer Delegated Key Decisions have been taken since the last Leaders report.

The following Individual Cabinet Member Decision has been taken since the last Leader's report.

ICMD 19	Decorating Support Scheme for Council Housing Tenants	Taken by: Cllr Caroline Jackson Published on: 06/02/24

ICMD 20	Eden Project Development Funds	Taken by: Cllr Catherine Potter Published on:08/02/24
ICMD 21	Provision of Disabled Adaptation to Council-Owned Dwellings	Taken by: Cllr Caroline Jackson Published on:12/02/24
ICMD 22	Commercial Property Letting	Taken by: Cllr Tim Hamilton-Cox Published on: 13/02/24

Background Papers

Cabinet agendas of the meetings held on 06 and 20 February 2024.

COUNCIL

Budget & Policy Framework General Fund Revenue Budget 2024/25

28 February 2024
Report of Cabinet

PURPOSE OF REPORT					
To present Cabinet's final budget proposals in order that the Council can complete its revenue budget setting for 2024/25.					
Key Decision	**X**	**Non-Key Decision**		**Referral from Cabinet Member**	
Date of notice of forthcoming key decision				8th December 2023	
This report is public however the Appendices B1 and B2 are exempt by virtue of paragraphs 2, 3 & 4 of Part 1 of Schedule 12A of the Local Government Act 1972					

RECOMMENDATION OF CABINET

(1) That the General Fund Revenue Budget of £25.008M for 2024/25 be approved, resulting in a Council Tax Requirement of £10.928M, excluding parish precepts, and a Band D basic City Council tax rate of £256.63.

(2) That the supporting General Fund Revenue Budget proposals be approved, as summarised at Appendices A, B, B1 and B2

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

(4) That Council notes the Section 151 Officer's advice regarding robustness of budget estimates, the adequacy of reserves and balances, specifically the advice that the minimum level of balances be retained at £5.0M, to provide for added uncertainty.

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 24 January 2024 considered Cabinet's proposed revenue budget for 2024/25 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, Cabinet considered updates to the General Fund Revenue budget to reflect the best information available, these included:

- Recognition of prior year business rates surplus
- Increase in net business rates income following completion of Central Government NNDR 1 return.
- Increase in prior year forecast council tax deficit.
- The impact of the Final Local Government Finance Settlement

1.4 Cabinet met 20 February 2024 to consider its final budget proposals in order that the Council can complete its revenue budget setting for 2024/25. This report sets out:

- The Operational and Strategic context in which the budget has been set. **(Section 2)**
- Cabinets final General Fund Revenue Budget proposals for 2024/25 including the outcomes of the Final Local Government Settlement **(Section 3)**
- A summary of the of Council Tax and Business Rates as reflected in the Council's Collection Fund. **(Section 4)**
- The s151 Officers Assessment of the Adequacy of the Council's Reserves Provision and Balances. **(Section 5)**

2.0 STRATEGIC & OPERATIONAL CONTEXT

2.1 The 2024/25 Budget has once again been set against the backdrop of significant change, economic volatility and instability within the UK and global markets driven by high rates of inflation created by the war in the Ukraine and the challenges in the global supply chain post-pandemic, Brexit and conflicts in the middle east.

2.2 Office for Budgetary Responsibility (OBR) has noted that the medium-term fiscal outlook for the UK has materially worsened due to a weaker economy, higher interest rates and higher inflation. Economic activity has slowed considerably in recent years, with 2 successive quarters of negative growth in gross domestic product (GDP) the UK economy officially fell into recession at the end of 2023. Current commentary suggests a shallow recession with a slow upturn during 2024. Current forecasts from the OBR and Bank of England (BoE) anticipate growth of between 0.4% - 0.7% for 2024.

2.3 CPI inflation peaked at 11.1% in the final quarter of 2022/23 which was a 40 year high. Current rates and forecasts show inflation has reduced to 4% and is expected to reduce further returning to the 2% target in the following years.

2.4 Linked to rising inflation the Bank of England have also raised the interest rates to 5.25% which is the highest level for 14 years. The Bank of England continues to attempt to restrict inflation using monetary policy action. Interest rates are expected to remain at current levels before falling in the medium term once inflation reduces.

2.5 Weak activity and higher borrowing costs are expected to weigh heavily on employers' hiring intentions in 2024, with a forecast rise in unemployment over the course of the year. The OBR forecasts unemployment will rise to a peak of 1.6 million people (4.6% of the labour force) by the second quarter of 2025, up from the current level of about 1.5 million (4.2%).

2.6 Considering these economic challenges households in the district are especially impacted as they spend greater shares of their income on fuel and food. These include.

- Single people on low incomes (on benefits or in work)
- Families with children
- Pensioners
- Those with disabilities

2.7 To provide support for those in greatest hardship, Council approved the continuation of the Council's 100% Council Tax Support scheme for 2024/25 at its meeting 13 December 2023. This means households most in need can apply for full relief from Council Tax. Lancaster City Council will be one of only a handful of local authorities in the Northwest to continue to have a 100% Council Tax Support scheme in 2024/25.

2.8 The Final Local Government Finance Settlement was confirmed in 19 February 2024. This was the final year of the two-year settlement announced in February 2023. The national headline message being £4.6 billion extra in Core Spending Power, with the following key announcements.

- An increase in the business rates baseline and revenue support grant– (as well as compensation for the freeze to the small business rates multiplier announced at the Autumn Statement) in line with the September Consumer Price Index (6.7 percent).
- A core council tax referendum principle of 3 per cent plus an adult social care precept of 2 per cent for councils with social care responsibilities, with shire districts getting the higher of 3 per cent or £5.
- Increase in social care grants of £1.5 billion of which £1.2 billion is for the Social Care Grant which is ring-fenced for adults and children's social care.
- A 4 per cent funding guaranteeing. Each council is guaranteed a 4 per cent increase in Core Spending Power before any decisions about council tax increases – amounting to £269 million.
- Services Grant reduces to £87.4 million compared with £483.3 million last year.
- The New Homes Bonus at £291 million – similar to last year - with no legacy payments for previous years.
- An increase of £15 million in the Rural Services Delivery Grant to £110 million.

2.9 A summary of the final settlement for Lancaster City Council is show in table one below. Assumptions have been included to estimate Government funding from 2025/26 onwards however actual allocations for this period are currently unknown.

Table One – Final Settlement allocations for Lancaster City Council

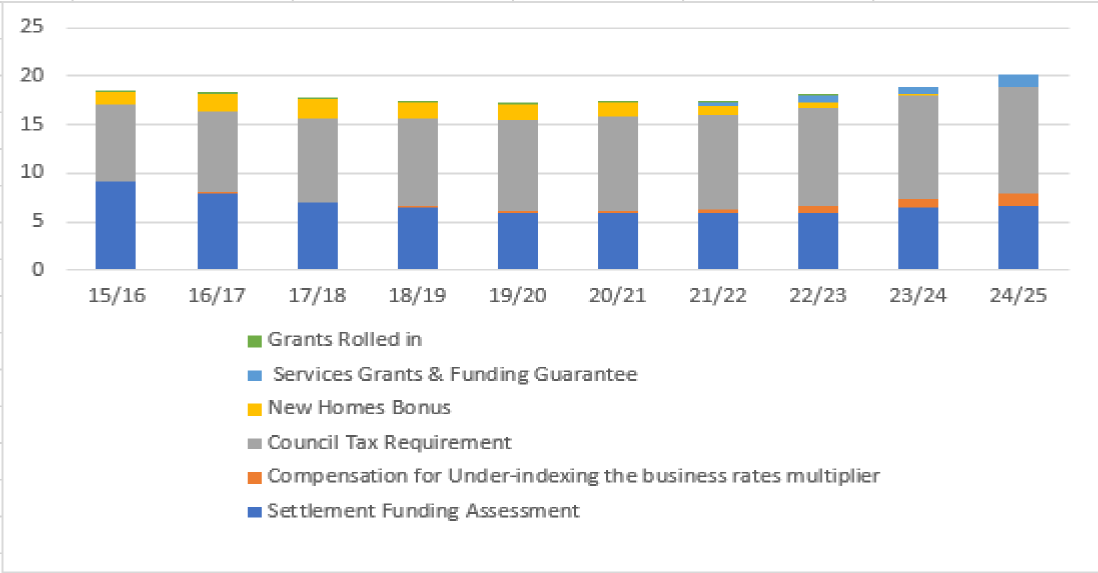
	Final Settlement £000	LCC Forecast £000	Difference £000
Settlement Funding Assessment			
Revenue Support Grant	433	406	27
New Homes Bonus	10	0	10
Funding Guarantee	1,188	605	583
Services Grant	40	232	(192)
Total Government Funding	**1,671**	**1,243**	**428**

Core Spending Power

2.10 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.

2.11 On the basis of the Final Settlement, the Council's CSP for 2024/25 will increase from £18.93M to £20.09M or 6.1% when compared to CSP in 2023/24 and includes an assumption by Government that Councils will increase their Council Tax by the maximum allowable. This is in comparison to the average increase in CSP for all Councils in England of 7.5%

Table Two: Core Spending Power



2.12 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.

2.13 Members will be aware that for several years the Council has reported a structural budget deficit, meaning that its planned expenditure exceeds its anticipated income. Although noting a slight easing in some of the economic factors the Council still faces significant pressure on its limited resources.

Council Tax

2.14 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. At its meeting 24 January 2024 Council agreed an increase in its Band D precept of 2.99% providing estimated Council Tax income of £10.928M.

Business Rates

2.15 Following on from the Chancellor's autumn statement, the small and standard business rates multipliers have been de-coupled for the first time. The small business rates multiplier has been frozen for the fourth year in a row whilst the standard multiplier has been uprated by the increase in CPI inflation of 6.7%.

2.16 We are one of only a small number of Councils with a nuclear power station within its boundary. The rateable value of the Heysham1 and Heysham 2 nuclear reactors accounts for over 30% of the Council's total rateable value. Although the retained business rates scheme does have a safety net mechanism in place to ensure that an authority's income does not drop below more than a set percentage of its index linked spending baseline, the Council is vulnerable to swings in income levels relating to the power station' operations. Heysham 1 is shortly due to be decommissioned with its operators, EDF currently giving an end of generation date of March 2026 rather than the date of March 2024 previously given. There remains a level of uncertainty around the exact timing and whilst EDF have an ambition to continue generation for a further year past the March 2026 date they have also commented that the March 2026 date may not be achieved and remains dependent on future graphite inspection results.

Green Energy Disregard

2.17 The Council receives a ‘disregard’ for renewable energy hereditaments which means that 100% of the business rates for these properties is retained by the authority. It is estimated that in 2024/25, this will be worth £3.970M. There is, however, no absolute guarantee that the Government won’t discontinue this advantageous arrangement at some point in the future.

3.0 REVENUE BUDGET 2024/25

3.1 The General Fund Revenue Budget for 2024/25, summarised in Table 3, is included at ***Appendix A,*** with Service summary information related to OBR proposals given at ***Appendix B*** and more detailed information in exempt ***Appendices B1& B2***. The proposed budget is balanced, in line with statutory requirements, allowing for a contribution to the Council’s reserves of £1.914M. As noted above the proposed budget takes account of the Final Local Government Finance settlement.

Table 3: General Fund Revenue Budget 2024/25

	2024/25 £000	
Revenue Budget Forecast Council 22 February 2023		**23,407**
Base Budget Changes Reported to Cabinet 5 December 2023		671
Revenue Budget Forecast as 5 December 2023		**24,078**
Base Budget Changes		
Operational Base Budget Changes		630
		24,708
Outcomes Based Resourcing Proposals		
Council Wide Fees & Charges	(838)	
Service Savings Proposals	(395)	
Additional Resource Requirements	125	
		(1,108)
Other Adjustments		
Final Finance Settlement	(401)	
Impact of Review of the Capital Programme	(105)	
		(506)
Sub Total		**23,094**
Contribution to/ (from) Unallocated Reserves		1,914
General Fund Revenue Budget		**25,008**
Core Funding		
Revenue Support Grant	(433)	
Prior Year Council Tax (surplus)/ Deficit	141	
Prior Year Business Rates (surplus)/ Deficit	(621)	
Net Business Rates Income	(13,167)	
Total Core Funding		(14,080)
Council Tax Requirement		**10,928**
Estimated Council Tax Income **(Based on 2.99% increase)**		**(10,928)**
Resulting Base Budget (Surplus)/ Deficit		**0**

3.2 The proposals set out in the Table 3 above produce a balanced revenue budget for 2024/25, which forms part of the recommendations of this report. Further details including the latest projections for future years to 2028/29 can be found at ***Appendix A***

3.3 At its meeting on 22 February 2023 Council set its budget for 2023/24 and the base budget estimates for 2024/25 and future years. At the start of the budget setting process these “base” estimates are reviewed considering 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 Initial Operational and Base Budget changes for 2024/25 amounting to net additional expenditure of £0.671M were reported to Cabinet 6th December and Council 13th December 2023. Since that reporting period further net changes have been required totalling £0.930M. A summary of these changes is given in the table 4 below:

Table 4 – Adjustments Since December 2023 Reporting to Cabinet & Council

Base Budget Changes	£M	Reference
Operational Changes	0.191	3.5
Revised Energy Estimates	(0.134)	3.6
Commercial Property Reduction	0.150	3.7
Local Plan	0.423	3.8
Sub Total	**0.630**	
Outcomes Based Resourcing Proposals		
Council Wide Fees & Charges	(0.838)	Appendices B1 & B2
Service Savings Proposals	(0.395)	
Additional Resource Requirements	0.125	
Sub Total	**(1.108)**	
Other Adjustments		
Impact of Review of the Capital Programme	(0.105)	3.9
Final Local Government Finance Settlement	(0.401)	3.10
Sub Total	**(0.506)**	
Contribution to/ (from) Unallocated Reserves	1.914	3.11
Sub Total	**1.914**	
Total	**0.930**	

Operational Changes £0.191M

3.5 Minor operational changes have been identified since the initial draft budget was prepared and these changes have been built into the latest projections.

Revised Energy Estimates (£0.134M)

3.6 Since the energy budgets were prepared, there has been a further price update within the sector which now seems to have settled allowing for a more accurate budgetary projection. Based on the latest price information available, electricity has been reduced from 29p/kWh to 28p/ kWh and gas has seen a reduction from 8p/ kWh to 5p/ kWh.

Commercial Property Reduction £0.150M

3.7 Updated information has since been received from the Housing and Property service team surrounding projected rental income and occupancy levels within the Council's commercial property portfolio. This has resulted in estimated additional budgetary pressure.

Local Plan (£0.423M)

3.8 Cabinet, at its meeting of 5th December 2023 (minute 46(1) refers) approved the use of the Council's general unallocated reserve to enable the review of the adopted Local Plan for Lancaster District during the reminder of financial year 2023/24 and continuing in 2024/25 and 2025/26 – see also section 3.11.

Impact of Review of the Capital Programme (£0.105M)

3.9 Further revisions to the draft capital programme have resulted in savings relating to budgetary provision for minimum revenue provision (MRP).

Final Local Government Finance Settlement (£0.401M)

3.10 The Government released the provisional local government finance settlement on 19 December 2023, with the final settlement released on 5 February 2024. The final settlement included an additional £0.190M in the funding guarantee and services grant above the £0.211M announced in the provisional settlement as previously reported.

Contribution to/ (from) Unallocated Reserves £1.914M

3.11 The final contribution to unallocated reserves has been increased by £0.190M from the £1.724M reported on 6 February. This represents to impact of the final local government finance settlement referred to in paragraph 3.10.

Budget Principles and Assumptions

3.12 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.

3.13 Table 5 below, lists the major assumptions that have been made for the 2024/25 budget.

Table 5: Major Assumptions within General Fund Revenue Budget 2024/25

	2024/25
Council Tax Increase	2.99%
Council Tax Collection Rate	98.67%
Business Rates Multiplier: Small Business Rates	Frozen
Business Rates Multiplier: Standard	6.70%
Fees & Charges	Various
Inflation – Pay	5.95%
Employer Pensions Contribution	16.30%
Electricity	28p/kWh
Gas	5p/kWh
Inflation – Insurance	10.00%
Other inflation	2.80%
Interest Rate – investments	4.68%
Interest Rate – new borrowing	4.50%

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 of £0.141M for 2023/24.

4.3 The Council Tax increase of 2.99% agreed by Council on 16 January 2024 means that the City element of Council Tax for a band D property will be £256.63 resulting in expected income of £10.928M for 2024/25.

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 2024/25 and the estimated deficit or surplus as at the end of 2023/24.

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. As noted in Table 1 the forecast surplus for 2023/24 is £0.621M which will be transferred to the Business Rates Retention Reserve.

4.6 Members will be aware of decommissioning plans for the Heysham 1 and Heysham 2 nuclear reactors which will 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. This is currently expected to arise in 2026/27 in line with the current decommissioning date for Heysham 1 of March 2026. EDF Energy have indicated that there may be some scope to extend generation and are keeping this under review being unable to provide any certainty at this stage.

4.7 The local government finance settlement set out the tariff, baseline and safety net levels which drive the retained rates calculation and confirmed the final amount of the technical adjustment to the tariff relating to the 2023 revaluation. The modelling has been completed to reflect these and the impact of ongoing business rates monitoring.

4.8 Further work has been undertaken in respect of the forecast Section 31 grant compensation for future business rates under-indexation in future years, and in particular, that related to the years where it is anticipated that a safety net payment will be triggered. This has improved the position for future years, but Members are asked to note that this is not without its own complexity leaving some inevitable uncertainty which will remain subject to ongoing review as the date for the closure of Heysham 1 approaches.

4.9 In addition, following on from the Cabinet and Chief Executive decisions in December to allocate £0.728M and £0.912M respectively from unallocated reserves to support development of the local plan and demolition and clearance works at the A1 Supa skips site a transfer of £1.64M is also planned to top up the unallocated reserve to compensate for these expenditures.

4.10 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 2024/25, this will be worth £3.970M. 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.

4.11 Council’s make provision against future levels of appeals made by businesses against their Rateable Value. The timing and value of appeals is a matter of judgement informed by available data. Following the 2023 revaluation there is a significant amount of uncertainty surrounding potential checks, challenges, and appeals. In addition, there is a disproportionate risk arising around the potential of any appeal or potential for outage at the Heysham Power Station. The uncertainties are managed by keeping the provision under review and retaining a buffer against risk in the business rates retention reserve. The appeals provision as at the end of 2024/25 is estimated at £10.957M with the City Council share being £4.383M.

4.12 The table 6 below shows the income from the Business Rates Retention Scheme that will be recognised in the General Fund during 2024/25

Table 6: Income from the Business Rates Retention Scheme

	2024/25 £M
Retained Business Rates	9.197
Renewable Energy Disregard Income	3.970
City Share of Prior Year Surplus	0.621
Total Retained Business Rates	**13.788**

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.

5.2 The minimum level should be set to enable the Council to 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 Fit for the Future on the structural deficit as referenced for several years. It is against this back drop the 2024/25 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 or emergency situations.

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 still faces significant inescapable financial pressures. Continuing uncertainties in respect of Local Government Funding levels, pay and general inflation and other factors impacting the cost of living as well as the results of the Council’s Fit for the Future 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 31/03/23 was £11.678M, Quarter 3 revenue budget monitoring forecasts an overspend of £0.611M in 2023/24. With preliminary indications from Quarter 3 monitoring suggesting an increase in the overspent position to £0.677M and drawing on unallocated reserves of c.£3M.

- Although the Council is embarking on the second phase of its Outcomes Based Resourcing programme, Fit for the Future and identified savings to deliver the 2024/25 budget, the Council’s current Medium Term Financial Strategy (MTFS) suggests a structural budget gap in 2025/26 onwards of approximately £1.435M raising to £4.567M. 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 5 below.

Table 7: Risk Assessment

Risk	Symptom of Risk	Balance Required £M
Increased demand for services	3% increase in net revenue expenditure	0.750
Recession results in additional uncompensated reduction in fees and charges income than budget	5% reduction in major fees and charges income	0.950
Recession results in additional reduction in Council Tax collection rates than budget	5% reduction in collection rate	0.500
Budget savings not achieved	50% under achievement	0.150
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		**4.850**

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. This is also set against the backdrop of the current future deficit forecasts.

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.

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

5.10 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 8 and 9 below.

Table 8: Estimated Level of General Fund Unallocated Reserves

	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M	2027/28 £M	2028/29 £M
Balance brought forward	(11.678)	(8.620)	(8.412)	(7.699)	(3.752)	0.078
Forecast Overspend	0.677	0	1.435	3.947	3.830	4.567
Contributions (to)/from	2.381	0.458	(0.722)	0	0	0
Impact of 2023/24 budget decisions	0	(0.250)	0	0	0	0
Balance carried forward	**(8.620)**	**(8.412)**	**(7.699)**	**(3.752)**	**0.078**	**4.645**

Table 9: Estimated Combined Level of Reserves

	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M	2027/28 £M	2028/29 £M
All Reserves excl Ring Fenced	(22.308)	(19.085)	(20.005)	(19.836)	(15.785)	(11.950)
Contributions from/(to) Reserves	2.546	(0.670)	(1.266)	0.104	0.005	(0.495)
Estimated Additional Call on Reserves	0.677	0	0	0	0	0
Forecast Deficit Funded From Reserves	0.000	(0.250)	1.435	3.947	3.830	4.567
Balance carried forward	**(19.085)**	**(20.005)**	**(19.836)**	**(15.785)**	**(11.950)**	**(7.878)**

5.11 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

5.12 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 D
- Reserve bids should be agreed by Portfolio Holder in consultation with relevant Chief Officer.
- 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.

5.13 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 for scrutiny to Budget and Performance Panel at its meeting 18 January 2024, to Council 25th January and subject to public consultation 31st January 2024. In addition to these formal reporting routes a series of briefings and presentations have been provided to key stakeholders and partner organisation over the past 6 months whilst the budget has been developed.

6.2 At the Budget and Performance Panel meeting 18 January, many questions were raised and answered, and in addition the following feedback points were noted in the draft minutes.

- Green waste subsidy – Cabinet to re-consider the subsidy being provided for the service. This will encourage households to compost their garden waste.
- Salt Ayre Leisure Centre – Cabinet to consider benchmarking with other similar facilities to see what is achievable and ways to achieve excellence at reasonable cost.
- Council Tax information – Cabinet to consider ensuring that, for the meeting with the public, details of the Council Tax % increase and share for each organisation is provided. To show the excellent value provided by the City Council.
- Savings already identified – ask Cabinet to consider bringing forward savings already identified, in line with the rules Cabinet has set itself, if possible.

6.3 The feedback was considered by Cabinet 6 February 2024 with the following recorded withing the minutes.

With regard to the green waste subsidy, it was noted that the costs of this were difficult to determine and removing the subsidy would likely impact on the number of subscribers. Work continues to take place at Salt Ayre to ensure value for money can be evidenced along with its contribution to Council priorities. This includes benchmarking, performance management and consideration of best practice.

7.0 OPTIONS & OPTIONS ANALYSIS

Revenue Budget

7.1 Council may adjust its revenue budget proposals, so long as the overall budget for 2024/25 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 2024/25 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 2024/25, 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 22 February 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 2028/29. 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.

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 2025/26 onwards of approximately £1.435M raising to £4.567M. 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/ Fit for the Future 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 2024-25 Appendix B Service Summary Appendix B1 Exempt	**Telephone: 01524 582603** **E-mail:** pthompson@lancaster.gov.uk

Appendix B2 Exempt Appendix C Reserves Summary Appendix D Budget Transfers Virements Carry Forwards **Council Papers** Agenda for Council on Wednesday, 24th January 2024, 6.00 p.m. Agenda for Council on Wednesday, 13th December 2023, 6.00 p.m. **Cabinet Papers** Agenda for Cabinet on Tuesday, 20th February 2024, 6.00 p.m. Agenda for Cabinet on Tuesday, 6th February 2024, 6.00 p.m. - Lancaster City Council Agenda for Cabinet on Tuesday, 16th January 2024, 6.00 p.m. - Lancaster City Council Agenda for Cabinet on Tuesday, 5th December 2023, 6.00 p.m. - Lancaster City Council **Budget & Performance Papers** Agenda for Budget and Performance Panel on Wednesday, 31st January 2024, 6.00 p.m. - Lancaster City Council Agenda for Budget and Performance Panel on Thursday, 18th January 2024, 6.00 p.m. - Lancaster City Council Agenda for Budget and Performance Panel on Thursday, 7th December 2023, 6.10 p.m. - Lancaster City Council	

APPENDIX B

Savings and Budget Proposals 2023/24 to 2028/29

		2024/25	2025/26	2026/27	2027/28	2028/29
		£'000	£'000	£'000	£'000	£'000
SAVINGS PROPOSALS	***Council Wide (Fees & Charges)***	(838)	(855)	(872)	(889)	(907)
	Communities & Leisure	(113)	(160)	(163)	(166)	(169)
	Environment & Place	(77)	(78)	(79)	(80)	(81)
	Housing & Property	(15)	(115)	(117)	(119)	(121)
	Planning & Climate Change	(110)	(112)	(114)	(116)	(118)
	Resources	(30)	(31)	(32)	(33)	(34)
	Sustainable Growth	(50)	(51)	(52)	(53)	(54)
	Total Savings	**(1,233)**	**(1,402)**	**(1,429)**	**(1,456)**	**(1,484)**
GROWTH ITEMS	***Environment & Place***	75	0	0	0	0
	People & Policy	12	12	12	12	12
	Planning & Climate Change	38	39	40	41	42
	Total Growth	**125**	**51**	**52**	**53**	**54**
	Net Savings	**(1,108)**	**(1,351)**	**(1,377)**	**(1,403)**	**(1,430)**

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

Document is Restricted

Reserves Statement (Including Unallocated Balances)

	31 March 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	From Revenue	To / (From) Capital	To Revenue	31 March 2028
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Unallocated Balances	**(11,678,400)**			3,058,000	**(8,620,400)**	(1,070,000)		1,277,500	**(8,412,900)**	(820,000)		97,500	**(9,135,400)**				**(9,135,400)**				**(9,135,400)**
Earmarked Reserves:																					
Corporate Priorities	**(421,200)**			402,900	**(18,300)**			82,700	**64,400**			82,700	**147,100**				**147,100**				**147,100**
Capital Support	**(73,000)**				**(73,000)**				**(73,000)**				**(73,000)**				**(73,000)**				**(73,000)**
Corporate Property	**(313,500)**				**(313,500)**				**(313,500)**				**(313,500)**				**(313,500)**				**(313,500)**
Covid 19 Support Reserve	**(9,700)**				**(9,700)**				**(9,700)**				**(9,700)**				**(9,700)**				**(9,700)**
Investment Property Maint	**(34,900)**				**(34,900)**				**(34,900)**				**(34,900)**				**(34,900)**				**(34,900)**
Invest to Save	**(301,700)**			228,200	**(73,500)**				**(73,500)**				**(73,500)**				**(73,500)**				**(73,500)**
Museums Acquisitions	**(36,300)**	(4,500)			**(40,800)**	(4,500)			**(45,300)**	(4,500)			**(49,800)**	(4,500)			**(54,300)**	(4,500)			**(58,800)**
Planning Fee Income	**(30,400)**				**(30,400)**				**(30,400)**				**(30,400)**				**(30,400)**				**(30,400)**
Restructure	**(520,900)**			121,000	**(399,900)**				**(399,900)**				**(399,900)**				**(399,900)**				**(399,900)**
To Support Revenue & Capital Expenditure	**(1,741,600)**	**(4,500)**		**752,100**	**(994,000)**	**(4,500)**		**82,700**	**(915,800)**	**(4,500)**		**82,700**	**(837,600)**	**(4,500)**			**(842,100)**	**(4,500)**			**(846,600)**
Renewals Reserves	**(1,061,900)**	(491,800)	131,000		**(1,422,700)**	(491,800)	38,000		**(1,876,500)**	(491,800)			**(2,368,300)**	(491,800)			**(2,860,100)**	(491,800)			**(3,351,900)**
General Renewals	**(775,500)**	(295,800)	7,000		**(1,064,300)**	(295,800)			**(1,360,100)**	(295,800)			**(1,655,900)**	(295,800)			**(1,951,700)**	(295,800)			**(2,247,500)**
Salt Ayre Leisure Centre	**(29,700)**	(150,000)	124,000		**(55,700)**	(150,000)	38,000		**(167,700)**	(150,000)			**(317,700)**	(150,000)			**(467,700)**	(150,000)			**(617,700)**
Williamson Park	**(29,000)**	(18,000)			**(47,000)**	(18,000)			**(65,000)**	(18,000)			**(83,000)**	(18,000)			**(101,000)**	(18,000)			**(119,000)**
Car Parks	**(123,200)**	(12,000)			**(135,200)**	(12,000)			**(147,200)**	(12,000)			**(159,200)**	(12,000)			**(171,200)**	(12,000)			**(183,200)**
Happy Mount Park	**(35,900)**	(14,000)			**(49,900)**	(14,000)			**(63,900)**	(14,000)			**(77,900)**	(14,000)			**(91,900)**	(14,000)			**(105,900)**
Arnside & Silverdale AONB	**(68,600)**	(2,000)			**(70,600)**	(2,000)			**(72,600)**	(2,000)			**(74,600)**	(2,000)			**(76,600)**	(2,000)			**(78,600)**
Elections	**(115,400)**	(45,000)		170,000	**9,600**	(45,000)			**(35,400)**	(45,000)			**(80,400)**	(45,000)			**(125,400)**	(45,000)		180,000	**9,600**
Homelessness Support	**(110,800)**				**(110,800)**				**(110,800)**				**(110,800)**				**(110,800)**				**(110,800)**
Lancaster District Hardship Fund	**(240,500)**			240,000	**(500)**				**(500)**				**(500)**				**(500)**				**(500)**
Business Rates Retention	**(7,471,700)**	(1,854,700)		1,632,400	**(7,694,000)**	(751,000)			**(8,445,000)**	(129,900)			**(8,574,900)**			600,000	**(7,974,900)**			500,000	**(7,474,900)**
Revenue Grants Unapplied	**(642,400)**			483,700	**(158,700)**			73,400	**(85,300)**			3,600	**(81,700)**				**(81,700)**				**(81,700)**
S106 Commuted Sums - Open Spaces																					
S106 Commuted Sums - Affordable Housing	**(218,800)**		63,000		**(155,800)**				**(155,800)**				**(155,800)**				**(155,800)**				**(155,800)**
S106 Commuted Sums - Highways, Cycle Paths etc.	**(1,047,600)**	(456,000)		105,000	**(1,398,600)**	(200,000)			**(1,598,600)**	(200,000)			**(1,798,600)**	(200,000)			**(1,998,600)**	(200,000)			**(2,198,600)**
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	**(11,332,900)**	**(2,847,500)**	**194,000**	**2,631,100**	**(11,355,300)**	**(1,487,800)**	**38,000**	**73,400**	**(12,731,700)**	**(866,700)**		**3,600**	**(13,594,800)**	**(736,800)**		**600,000**	**(13,731,600)**	**(736,800)**		**680,000**	**(13,788,400)**
Total Earmarked Reserves	**(13,074,500)**	**(2,852,000)**	**194,000**	**3,383,200**	**(12,349,300)**	**(1,492,300)**	**38,000**	**156,100**	**(13,647,500)**	**(871,200)**		**86,300**	**(14,432,400)**	**(741,300)**		**600,000**	**(14,573,700)**	**(741,300)**		**680,000**	**(14,635,000)**
Total Combined Reserves	**(24,752,900)**				**(20,969,700)**				**(22,060,400)**				**(23,567,800)**				**(23,709,100)**				**(23,770,400)**

APPENDIX D

Budget Transfers (Virements, Carry Forwards & Reserves) 2024/25 Limits

Council 28 February 2024

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	**2024/25**
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.

<u>Overspends</u>

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.

<u>Underspends</u>

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).
Elections	To even out the cost of holding City Council elections every four years.
Renewals	To provide for the renewal (replacement or upgrade) of existing facilities and infrastructure needed for service delivery, such as vehicles, plant, and equipment.
Amenity Improvements	To provide public realm amenity improvements.
Corporate Priorities	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 December 2023.
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.
Investment Property Maintenance	A sinking fund to provide funds for future investment property maintenance
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.
Lancaster District Hardship Fund	To provide short term financial assistance for those in hardship and also address some of the reasons why people find themselves in acute financial hardship and provide discretionary support to prevent this.
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):

COUNCIL

Capital Programme 2023/24 – 2032/33
&
Capital Strategy (Investing in the Future)
28 February 2024

Report of Cabinet

PURPOSE OF REPORT					
To present Cabinet's final budget proposals in order that the Council can approve a General Fund Capital Programme for 2023/24 to 2032/33 and a Capital Strategy as required by regulation					
Key Decision	**X**	**Non-Key Decision**		**Referral from Cabinet Member**	
Date of notice of forthcoming key decision				8h December 2023	

RECOMMENDATION OF CABINET

That Council notes the report and approves the following:

(1) The General Fund Capital Programme, as set out at Appendix A subject to recommendation 2 below

(2) The Capital Strategy (Incorporating the Capital Investment Strategy: Investing in the Future) as set out at Appendix B

1.0 INTRODUCTION

1.1 Following its meeting on 20 February 2024 Cabinet has now finalised its budget framework proposals for the General Fund Capital Programme and accompanying Capital Strategy. These are all now reflected in the recommendations of this report.

2.0 CAPITAL PROGRAMME

2.1 Capital investment, via the Council's reserves or borrowing, plays a key role in strategic projects and initiatives for the success of the Lancaster district, as well as transforming and optimising the Council's services to its residents.

2.2 The proposed Capital Programme and supporting Strategy, entitled *'Investing in the Future'* sets out the relevant context and a proposed framework to support the Council's approach to capital investment and use of its assets over the medium term.

2.3 The proposed net investment programme for General Fund for the period to 2032/33 is included at ***Appendix A*** and summarised in table 1 below

Table 1: Capital Programme 2023/24 – 2032/33

	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M	2027/28 £M	2028/29 £M
Approved Schemes	6.209	6.470	9.266	1.916	1.757	2.481
Schemes Under Development	0	0.200	4.000	0	0	0
Total	**6.209**	**6.697**	**13.266**	**1.916**	**1.757**	**2.481**

		2029/30	2030/31	2031/32	2032/33 £M	Grand Total
Approved Schemes		5.866	0.481	0.329	0.207	**35.009**
Schemes Under Development		0	0	0	0	**4.200**
Total		**5.866**	**0.481**	**0.329**	**0.207**	**39.209**

2.4 The current year's net revised programme (2023/24) now stands at £6.209M. During the next 10 years, a further gross investment of £68.955M is currently planned with external funding of £29.746M anticipated to support this investment, giving a total net programme from 2023/24 to 2032/33 of £39.209M.

2.5 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 (CAG), and then by Cabinet. In addition, depending certain factors such as the complexity of the project, the level of investment required (c£1.5M) etc the full business cases will be subject to independent third-party review, with the results forming part of the CAG and Cabinet submission.

2.6 Two of the schemes that are classified as Under Development are fully funded by external grant. The third scheme, Burrow Beck Solar will require significant capital expenditure and borrowing but the business case will have to show that income arising from the capital investment can cover all borrowing costs and deliver a positive return to the Council's revenue budget.

2.7 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 2028/29. The Council makes a revenue provision for the repayment of borrowing known as Minimum Revenue Provision (MRP) which reduces the CFR.

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

Capital Financing

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

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

2.10 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 £101.04M rising to £112.54M in 2025/26 before reducing slightly to £101.88M in 2028/29, to reflect current planned levels of capital expenditure

2.11 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.

2.12 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 £63.97M to £80.88M (2025/26) as the Council looks to move forward with several ambitious schemes to enable delivery of its Strategic Priorities. It is then forecast to decrease slightly to £77.76M (2028/29).

2.13 Changes in the Council's Capital Financing Requirement and forward borrowing projections are summarised in tables 2 and 3 below.

Table 2: Capital Financing Requirement

	2022/23 Act £m	2023/24 Est £m	2024/25 Est £m	2025/26 Est £m	2026/27 Est £m	2027/28 Est £m	2028/29 Est £m
Capital Financing Requirement							
CFR – Non Housing	63.56	66.95	70.47	80.54	77.81	74.99	73.00
CFR – Housing	35.13	34.09	33.05	32.00	30.96	29.92	28.88
Total CFR	**98.69**	**101.04**	**103.52**	**112.54**	**108.77**	**104.91**	**101.88**
Movement in CFR							
Non Housing	4.50	3.38	3.52	10.07	-2.73	-2.82	-1.99
Housing	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04
Net Movement in CFR	**3.46**	**2.34**	**2.48**	**9.03**	**-3.77**	**-3.86**	**-3.03**

Movement in CFR represented by							
Net financing need for the year (above) re Non Housing	4.61	6.02	6.53	13.26	1.92	1.75	2.48
Less MRP/VRP and other financing movements	-1.15	-3.68	-4.05	-4.23	-5.69	-5.61	-5.51
Net Movement in CFR	**3.46**	**2.34**	**2.48**	**9.03**	**-3.77**	**-3.86**	**-3.03**

Table 3: Borrowing Projections

	2022/23 Act £m	2023/24 Est £m	2024/25 Est £m	2025/26 Est £m	2026/27 Est £m	2027/28 Est £m	2028/29 Est £m
External Debt							
Debt at 1 April	60.05	59.01	63.97	71.93	80.88	79.84	78.80
Expected change in Debt	-1.04	4.96	7.96	8.95	-1.04	-1.04	-1.04
Other long-term liabilities (OLTL)	0.00	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	0.00
Actual gross debt at 31 March	**59.01**	**63.97**	**71.93**	**80.88**	**79.84**	**78.80**	**77.76**
The Capital Financing Requirement	98.69	101.04	103.52	112.54	108.77	104.91	101.88
Under Borrowing	**-39.69**	**-37.07**	**-31.59**	**-31.66**	**-28.93**	**-26.11**	**-24.12**

2.14 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.

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

Table 4: Forecast MRP Charges

	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M
Interest	1.568	1.541	2.098	2.106	2.114	2.123
MRP	2.638	3.01	3.194	4.653	4.567	3.474
Total	**4.206**	**4.551**	**5.292**	**6.759**	**6.681**	**5.597**

Table 5: Ratio of Financing Costs to Net Revenue Stream

	2022/23 Actual %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %	2027/28 Estimate %	2028/29 Estimate %
General Fund	5.90	19.94	18.20	20.20	24.65	23.79	22.30
HRA	18.79	17.00	16.22	16.25	15.99	15.75	15.75

2.16 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 close to 25%, care and consideration must be taken with future capital investment.

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 elements of the 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 in accordance with the Treasury's 5 case model. These will be reviewed by the Capital Assurance Group comprising of key Officers alongside the Finance Portfolio Holder and Chairs of Budget and Performance Panel and Overview and Scrutiny Committee.

- Revisions to the Capital Programme will be restricted to October/ November committee cycle to align with the Treasury Management Mid-Year reporting schedule and prevent unnecessary or duplication of work.

- 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 such as The Eden Project and Canal Quarter

4.0 DETAILS OF CONSULTATION

4.1 Consultation has been undertaken with the Council's external Treasury Management Advisors, Link Group, and in line with the Council's constitution Budget & Performance Panel considered the strategy at its meeting 14 February 2024. No comments or observations were made requiring reconsideration by Cabinet.

5.0 OPTIONS AND OPTIONS ANALYSIS

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

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

6.0 OFFICER PREFERRED OPTION (AND COMMENTS)

6.1 To approved Cabinets General Fund Capital Programme for 2023/24 to 2032/33 and a Capital Strategy as required by regulation.

7.0 CONCLUSION

7.1 This report addresses the actions required to complete the budget setting process for its Capital Programme and Capital Strategy.

7.2 If 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.

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 authored this report and his comments are reflected within.

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

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

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

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

BACKGROUND PAPERS	**Contact Officer:** Paul Thompson
Appendix A Capital Programme 2023-24 to 2032-33	**Telephone: 01524 582603**
Appendix B Capital Strategy - Investing in the Future	**E-mail:** pthompson@lancaster.gov.uk
Appendix C: CAG Terms of Reference	**Ref:** N/A

General Fund Capital Programme

Service / Scheme	2023/24 Gross Budget	2023/24 External Funding	2023/24 Net Programme	2024/25 Gross Budget	2024/25 External Funding	2024/25 Net Programme	2025/26 Gross Budget	2025/26 External Funding	2025/26 Net Programme	2026/27 Gross Budget	2026/27 External Funding	2026/27 Net Programme	2027/28 Gross Budget	2027/28 External Funding	2027/28 Net Programme	2028/29 Gross Budget	2028/29 External Funding	2028/29 Net Programme
Communities & Leisure	£	£	£		£	£	£	£	£	£	£	£	£	£	£	£	£	£
Salt Ayre Asset Management Plan	259,000		259,000	976,000		976,000	291,000		291,000			0			0			0
Environment & Place																		
Vehicle Renewals (including electrification of fleet)	1,284,000		1,284,000	1,301,000		1,301,000	5,067,000		5,067,000	630,000		630,000	1,073,000		1,073,000	1,761,000		1,761,000
Electric Taxis Scheme			0	341,000	(341,000)	0			0			0			0			0
Happy Mount Park Pathway Replacements	8,000		8,000			0			0			0			0			0
UK Shared Prosperity Fund - The Streets Are Ours Public Realm	100,000	(100,000)	0			0			0			0			0			0
UK Shared Prosperity Fund - Heysham Village Toilets			0	99,000	(99,000)	0			0			0			0			0
Housing & Property																		0
Mellishaw Park	1,900,000	(960,000)	940,000			0			0			0			0			0
Disabled Facilities Grants	2,099,000	(2,099,000)	0	3,382,000	(3,382,000)	0	2,331,000	(2,331,000)	0	2,331,000	(2,331,000)	0	2,331,000	(2,331,000)	0	2,331,000	(2,331,000)	0
Next Steps Accommodation Programme	23,000		23,000			0			0			0			0			0
Home Improvement Agency Vehicles			0	127,000		127,000			0			0			0			0
1 Lodge Street Urgent Structural Repairs	422,000		422,000			0			0			0			0			0
Gateway Low Voltage Switchgear	102,000		102,000			0			0			0			0			0
Gateway Solar Array			0	984,000		984,000			0			0			0			0
Lancaster City Museum Boiler	10,000		10,000			0			0			0			0			0
UK Shared Prosperity Fund Lancs CVS Community Warm Hubs	26,000	(26,000)	0	37,000	(37,000)	0			0			0			0			0
Property - Capital Works			0	355,000		355,000	419,000		419,000	814,000		814,000	287,000		287,000	539,000		539,000
Commercial Property - Capital Works			0	62,000		62,000	480,000		480,000	126,000		126,000	41,000		41,000			0
White Lund Depot - Offices	838,000		838,000	996,000		996,000			0			0			0			0
People & Policy																		
UK Shared Prosperity Fund External Projects	269,000	(269,000)	0	598,000	(598,000)	0			0			0			0			0
Rural England Prosperity Fund External Projects	125,000	(125,000)	0	375,000	(375,000)	0			0			0			0			0
UK Shared Prosperity Fund Digital Tourism Transformation	50,000	(50,000)	0	22,000	(22,000)	0			0			0			0			0
Planning & Climate Change																		
Property De-carbonisation Works			0	500,000	(260,000)	240,000	4,625,000	(2,432,000)	2,193,000			0			0			0
SALC -optimised solar farm, air source heating pumps & glazing	17,000	(17,000)	0			0			0			0			0			0
Resources																		
ICT Systems, Infrastructure & Equipment	221,000		221,000	286,000		286,000	286,000		286,000	316,000		316,000	326,000		326,000	181,000		181,000
ICT Laptop Replacement & e-campus screens	124,000		124,000			0			0			0			0			0
ICT Nimble			0	300,000		300,000			0			0			0			0
Local Full Fibre Network	1,041,000		1,041,000	755,000		755,000			0			0			0			0
Sustainable Growth																		
Lancaster Heritage Action Zone	1,148,000	(289,000)	859,000			0			0			0			0			0
Lancaster Heritage Action Zone - St John's Church			0			0	500,000		500,000			0			0			0
Caton Road Flood Relief Scheme	100,000	(100,000)	0	1,569,000	(1,569,000)	0			0			0			0			0
Centenary House Grant Funded Works			0	749,000	(749,000)	0			0			0			0			0
Lawsons Bridge S106 Scheme	63,000		63,000			0			0			0			0			0
Lancaster Square Routes			0	21,000	(16,000)	5,000			0			0			0			0
Engineers Electric Vehicle	15,000		15,000			0			0			0			0			0
Coastal Revival Fund - Morecambe Co-Op Building	11,000	(11,000)	0			0			0			0			0			0
City Museum Shop			0	30,000		30,000			0			0			0			0
Morecambe Sea Front Parapet Repair			0	30,000		30,000	30,000		30,000	30,000		30,000	30,000		30,000			0
Bare Outfall Flooding			0	50,000		50,000			0			0			0			0
UK Shared Prosperity Fund Maritime Museum Access Improvements	13,000	(13,000)	0			0			0			0			0			0
UK Shared Prosperity Fund Lodge St Environs Enabling Works	72,000	(72,000)	0			0			0			0			0			0
UK Shared Prosperity Fund Museums Accessible Engagement			0	34,000	(34,000)	0			0			0			0			0
Schemes Under Development																		
Burrow Beck Solar			0	200,000		200,000	4,000,000		4,000,000			0			0			0
Canal Quarter - Nelson St/St Leonardsgate			0	2,769,000	(2,769,000)	0			0			0			0			0
Our Future Coast	283,000	(283,000)	0	62,000	(62,000)	0	63,000	(63,000)	0	85,000	(85,000)	0			0			0
GENERAL FUND CAPITAL PROGRAMME	10,623,000	(4,414,000)	6,209,000	17,010,000	(10,313,000)	6,697,000	18,092,000	(4,826,000)	13,266,000	4,332,000	(2,416,000)	1,916,000	4,088,000	(2,331,000)	1,757,000	4,812,000	(2,331,000)	2,481,000

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Financing :						
Capital Receipts	0	(127,000)	0	0	0	0
Direct Revenue Financing	0	0	0	0	0	0
Earmarked Reserves	(187,000)	(38,000)	0	0	0	0
Increase/(Reduction) in Capital Financing Requirement (CFR)	6,022,000	6,532,000	13,266,000	1,916,000	1,757,000	2,481,000

General Fund Capital Programme

Service / Scheme	2029/30 Gross Budget	2029/30 External Funding	2029/30 Net Programme	2030/31 Gross Budget	2030/31 External Funding	2030/31 Net Programme	2031/32 Gross Budget	2031/32 External Funding	2031/32 Net Programme	2032/33 Gross Budget	2032/33 External Funding	2032/33 Net Programme	10 YEAR TOTAL Total Gross Programme	10 YEAR TOTAL Total External Funding	10 YEAR TOTAL Total Net Programme
Communities & Leisure	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Salt Ayre Asset Management Plan			0			0			0			0	1,526,000	0	1,526,000
Environment & Place															
Vehicle Renewals (including electrification of fleet)	5,543,000		5,543,000			0			0			0	16,659,000	0	16,659,000
Electric Taxis Scheme			0			0			0			0	341,000	(341,000)	0
Happy Mount Park Pathway Replacements			0			0			0			0	8,000	0	8,000
UK Shared Prosperity Fund - The Streets Are Ours Public Realm			0			0			0			0	100,000	(100,000)	0
UK Shared Prosperity Fund - Heysham Village Toilets			0			0			0			0	99,000	(99,000)	0
Housing & Property			0			0			0			0			
Mellishaw Park			0			0			0			0	1,900,000	(960,000)	940,000
Disabled Facilities Grants	2,331,000	(2,331,000)	0	2,331,000	(2,331,000)	0	2,331,000	(2,331,000)	0	2,331,000	(2,331,000)	0	24,129,000	(24,129,000)	0
Next Steps Accommodation Programme			0			0			0			0	23,000	0	23,000
Home Improvement Agency Vehicles			0			0			0			0	127,000	0	127,000
1 Lodge Street Urgent Structural Repairs			0			0			0			0	422,000	0	422,000
Gateway Low Voltage Switchgear			0			0			0			0	102,000	0	102,000
Gateway Solar Array			0			0			0			0	984,000	0	984,000
Lancaster City Museum Boiler			0			0			0			0	10,000	0	10,000
UK Shared Prosperity Fund Lancs CVS Community Warm Hubs			0			0			0			0	63,000	(63,000)	0
Property - Capital Works	147,000		147,000			0			0	17,000		17,000	2,578,000	0	2,578,000
Commercial Property - Capital Works			0	14,000		14,000	1,000		1,000			0	724,000	0	724,000
White Lund Depot - Offices			0			0			0			0	1,834,000	0	1,834,000
People & Policy															
UK Shared Prosperity Fund External Projects			0			0			0			0	867,000	(867,000)	0
Rural England Prosperity Fund External Projects			0			0			0			0	500,000	(500,000)	0
UK Shared Prosperity Fund Digital Tourism Transformation			0			0			0			0	72,000	(72,000)	0
Planning & Climate Change															
Property De-carbonisation Works			0			0			0			0	5,125,000	(2,692,000)	2,433,000
SALC -optimised solar farm, air source heating pumps & glazing			0			0			0			0	17,000	(17,000)	0
Resources															
ICT Systems, Infrastructure & Equipment	176,000		176,000	467,000		467,000	328,000		328,000	190,000		190,000	2,777,000	0	2,777,000
ICT Laptop Replacement & e-campus screens			0			0			0			0	124,000	0	124,000
ICT Nimble			0			0			0			0	300,000	0	300,000
Local Full Fibre Network			0			0			0			0	1,796,000	0	1,796,000
Sustainable Growth															
Lancaster Heritage Action Zone			0			0			0			0	1,148,000	(289,000)	859,000
Lancaster Heritage Action Zone - St John's Church			0			0			0			0	500,000	0	500,000
Caton Road Flood Relief Scheme			0			0			0			0	1,669,000	(1,669,000)	0
Centenary House Grant Funded Works			0			0			0			0	749,000	(749,000)	0
Lawsons Bridge S106 Scheme			0			0			0			0	63,000	0	63,000
Lancaster Square Routes			0			0			0			0	21,000	(16,000)	5,000
Engineers Electric Vehicle			0			0			0			0	15,000	0	15,000
Coastal Revival Fund - Morecambe Co-Op Building			0			0			0			0	11,000	(11,000)	0
City Museum Shop			0			0			0			0	30,000	0	30,000
Morecambe Sea Front Parapet Repair			0			0			0			0	120,000	0	120,000
Bare Outfall Flooding			0			0			0			0	50,000	0	50,000
UK Shared Prosperity Fund Maritime Museum Access Improvements			0			0			0			0	13,000	(13,000)	0
UK Shared Prosperity Fund Lodge St Environs Enabling Works			0			0			0			0	72,000	(72,000)	0
UK Shared Prosperity Fund Museums Accessible Engagement			0			0			0			0	34,000	(34,000)	0
Schemes Under Development															
Burrow Beck Solar			0			0			0			0	4,200,000	0	4,200,000
Canal Quarter - Nelson St/St Leonardsgate			0			0			0			0	2,769,000	(2,769,000)	0
Our Future Coast			0			0			0			0	493,000	(493,000)	0
GENERAL FUND CAPITAL PROGRAMME	8,197,000	(2,331,000)	5,866,000	2,812,000	(2,331,000)	481,000	2,660,000	(2,331,000)	329,000	2,538,000	(2,331,000)	207,000	75,164,000	(35,955,000)	39,209,000
Financing :															
Capital Receipts			0			0			0			0			(127,000)
Direct Revenue Financing			0			0			0			0			0
Earmarked Reserves			0			0			0			0			(225,000)
Increase/(Reduction) in Capital Financing Requirement (CFR)			5,866,000			481,000			329,000			207,000			38,857,000

APPENDIX B

Lancaster City Council

Investing in the Future: Our Capital Investment Strategy

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, disposal proceeds 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). 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.
- **Review and Repurposing:** The Council holds a substantial number of assets to deliver it wide range services. Regular stock condition surveys will be undertaken and form the basis of the Council's asset management plan these will used to inform future investment decisions to ensure best value is achieved.

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 2024-33 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.

Principles	1: A Sustainable District	2: An Inclusive and Prosperous Local Economy	3: Happy and Healthy Communities	4: A Co-operative, Kind and Responsible Council
Themes	**Climate Emergency |** *taking action to meet the challenges of the climate emergency*	**Community Wealth-Building (*Morecambe Bay Model*) |** *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*	**Deliver Effective Services, Take Responsibility |** *bringing people together to achieve the best outcomes for our communities, in tandem with running efficient quality public services.*
Ambitions	**1.1 Carbon Zero** Achieving Net zero carbon by 2030 while supporting other individuals, businesses and organisations across the district to reach the same goal	**2.1 Social Use of Resources** Using our land, property, finance and procurement to benefit local communities and encouraging residents, businesses, organisations and anchor institutions to do the same	**3.1 Access to Quality Housing** Developing more housing, including affordable and council owned social housing, ensuring people of all incomes are comfortable, warm and able to maintain their independence	**4.1 Value for Money** Providing value for money and making good use of relevant data and analysis to ensure that we are financially resilient and sustainable
	1.2 Sustainable Energy Increasing the amount of sustainable energy produced in the district and decreasing the district's energy use	**2.2 Sustainable Innovation** Developing a sustainable industrial strategy to support new and existing enterprises, creating networks and promoting innovation	**3.2 Quality Public Spaces** Keeping our district's neighbourhoods, parks, beaches and open spaces clean, well-maintained, accessible and safe	**4.2 Partnership** Working in partnership with residents, local organisations, anchor institutions and partners recognising the skills in our community to build a powerful force working for and serving our district
	1.3 Climate Resilience Supporting our communities to grow more food, be resilient to flooding and adapt to the wider impacts of climate change	**2.3 Sustainable Skills** Supporting the development of new skills and improved prospects for our residents within and environmentally sustainable local economy	**3.3 Access to Culture and Leisure** Providing access to and involvement in arts, culture, leisure and recreation, supporting our thriving arts, culture and heritage sector	**4.3 Investing in Our Skills and Facilities** Having high standards for, and investing in our facilities, equipment, and people to enable us to deliver quality services and meet our wider ambitions
	1.4 Respecting Nature Increasing biodiversity, protect our district's unique ecology and ensure the habitat provided for wildlife is maintained and improved	**2.4 Investment and Regeneration** Securing investment and regeneration across our district	**3.4 Community Engagement** Ensuring local communities are active, engaged, involved and connected	**4.4 Listening and Empathy** Listening to our communities and treating everyone with equal respect, being friendly, honest and empathetic
	1.5 Reduced Waste Moving towards zero residual waste to landfill and incineration	**2.5 Inclusive Ownership** Promoting business ownership models that empower the local workforce, such as co-operatives, social enterprises and community ownership	**3.5 Reducing Inequality and promote wellbeing** Developing a healthy living strategy to support wellbeing. Tackling discrimination and reducing inequality, including food and energy poverty	**4.5 Innovative Public Services** Embracing innovative ways of working to improve service delivery and the operations of the council
	1.6 Low carbon and Active Transport Transitioning to an accessible and inclusive low-carbon and active transport system	**2.6 Fair Work** Advocating for fair employment and just labour markets that increase prosperity and reduce income inequality	**3.6 Early Intervention** Focusing on early-intervention approaches and involving our communities in service design and delivery	**4.6 Openness** Making responsible decisions which support our ambitions for the district whilst being open, accountable and rooted in evidence

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, 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 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 may also be considered where it complies with the Capital Investment Regulations and Guidance and meets 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 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 investment for yield 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 can 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 so likely exceed those available directly to the Council. In addition, as a wholly owned company the Council would be liable for any debt entered into by such a company and 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. This Council has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement, 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, Strategic Leadership 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 sustainable growth, housing & 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.

Assets Group

Aligned to the principles of the Council's Fit for the Future project, the Assets Group is a temporary Officer and Member group hosted by Cabinet Portfolio Holder Finance & Resources and chaired by the Chief Officer Property and Housing. The group consists of various Council officers and is tasked with reviewing the Council's entire asset base looking at a range of factors such as condition and associated costs of repair and maintenance, alternative use options including service delivery and commercial, as well as management issue such as rental income, debt levels, commercial market value. The group should report to CAG on its findings and any suggested courses of action.

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 and given the need to amend various prudential code indicators and be aligned to the Treasury Management Report October/ November committee cycle

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 and managed through the Councils Fit for the Future Assets Group who will report into CAG.

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 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 Group, 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 2023/24 was £320.73M. The main constituents of these assets are as follows

Asset Type	£M
Council Housing & Other Assets	151.23
Property Plant & Equipment	110.53
Community Assets	8.67
Investment Property	40.76
Heritage Assets	9.52
Intangible Assets	0.02
Total	**320.73**

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		86
1 Bedroom	Houses & Bungalows	653
	Flats & Maisonettes	545
2 Bedroom	Houses & Bungalows	471
	Flats & Maisonettes	663
3 Bedroom	Houses & Bungalows	1,114
	Flats & Maisonettes	8
4 or more bedroomed dwellings		90
Total Dwellings		**3,630**

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 2023/24 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
57.68	12.31	37.94	2.46	0.14	110.53

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	4.10
Retail	6.73
Agriculture & Allotments	1.29
Commercial Land	8.07
Commercial Building	11.90
Mixed Commercial	8.67
Total	**40.76**

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

How the Council utilises and manages its asset base with play a significant role in both how it delivers its services but also in managing its structural deficit going forward. A significant workstream for the Council's Fit for the Future (FftF) 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.

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.

The FftF 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, giving consideration 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.

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 Department for Levelling Up Housing & Communities requirements. The last formal valuation was undertaken 1st April 2021. A desktop revaluation is undertaken for HRA assets in the intervening years to ensure that values are current.

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

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

6. Capital Expenditure –

Capital Programme

The Council plans gross expenditure, which excludes grants from other bodies of approximately £58.96M on General Fund and £29.47M on HRA capital schemes between 2023/24 – 2028/29.

Gross Capital Expenditure	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M	Total 2023/24 to 2028/29
General Fund	10.62	17.01	18.09	4.34	4.09	4.81	58.96
Housing Revenue Account (HRA)	8.33	4.77	3.93	3.90	4.19	4.35	29.47
Total	**18.95**	**21.78**	**22.02**	**8.24**	**8.28**	**9.16**	**88.43**

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:	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M	Total 2023/24 to 2028/29
Capital receipts	-1.82	-0.16	-0.00	-0.00	-0.00	-0.00	-1.98
Capital grants	-4.92	-10.73	-4.83	-2.42	-2.34	-2.33	-27.57
Capital reserves	-3.72	-4.32	-3.93	-3.90	-4.19	-4.35	-24.41
Revenue	-2.47	-0.04	-0.00	-0.00	-0.00	-0.00	-2.51
Financing Total	**-12.93**	**-15.25**	**-8.76**	**-6.32**	**-6.53**	**-6.68**	**-56.47**
Net financing need for the year	**6.02**	**6.53**	**13.26**	**1.92**	**1.75**	**2.48**	**31.96**

This table shows a net need for financing the Capital Programme of £31.96M 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

	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %	2027/28 Estimate %	2028/29 Estimate %
General Fund	19.94	18.20	20.20	24.65	23.79	22.30
HRA	17.00	16.22	16.25	15.99	15.75	15.75

This table shows that the cost of debt financing is estimated to be between 18.20% and 24.65% of the Council's general fund net revenue budget between 2023/24 and 2028/29.

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 are included below

7. Treasury Management

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

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

Governance & Scrutiny

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

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

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

Investment

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

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

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

The Council's Investments at 30.12.2023 were:

Balance 31.12.2023	**£M**	**Liquidity**
Bank Accounts	0.48	Instant Access
Money Market Funds	11.50	Instant Access
Other Local Authorities	0.00	Instant Access
Money Market Funds	0.00	Fixed Term
Other Local Authorities	23.00	Fixed Term
Total Investments	**34.98**	

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.

	2023/24 Estimate £M	**2024/25 Estimate £M**	**2025/26 Estimate £M**	**2026/27 Estimate £M**	**2027/28 Estimate £M**	**2028/29 Estimate £M**
CFR – Non-Housing	66.95	70.47	80.54	77.81	74.99	73.00
CFR – Housing	34.09	33.05	32.00	30.96	29.92	28.88
Total CFR	**101.04**	**103.52**	**112.54**	**108.77**	**104.91**	**101.88**

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:

	2023/24 Estimate £M	**2024/25 Estimate £M**	**2025/26 Estimate £M**	**2026/27 Estimate £M**	**2027/28 Estimate £M**	**2028/29 Estimate £M**
External Debt						
Debt at 1 April	59.01	63.97	71.93	80.88	79.84	78.80
Expected change in Debt	4.96	7.96	8.95	-1.04	-1.04	-1.04
Actual gross debt at 31 March	**63.97**	**71.93**	**80.88**	**79.84**	**78.80**	**77.76**
The Capital Financing Requirement	**101.04**	**103.52**	**112.54**	**108.77**	**104.91**	**101.88**
Under Borrowing	**-37.07**	**-31.59**	**-31.66**	**-28.93**	**-26.11**	**-24.12**

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:

	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M
General Fund MRP	-2.64	-3.01	-3.19	-4.65	-4.57	-4.47
HRA MRP	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04
Total	**-3.68**	**-4.05**	**-4.23**	**-5.69**	**-5.61**	**-5.51**

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:

	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M
Operational Boundary	102.04	104.52	113.54	109.77	105.91	102.88
Authorised Limit	117.00	120.00	129.00	125.00	121.00	118.00

8. Commercial Activity

Current Position

The Council's existing investment property portfolio is comprised of a mix of office and retail lets together with agricultural and commercial land and commercial buildings as set out below:

The majority of this portfolio has been accumulated by the Council over a number of years rather than actively acquired. Tenancy agreements are produced by the Council's Estates Management Team in consultation with Legal Services and range from leases, licences and other agreements such as easements, wayleaves and rights of way

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

Performance Monitoring

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

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 Council Plan 2024-2027 and beyond.

    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 –
    - Chief Executive
    - Overview and Scrutiny Chair
    - Budget and Performance Panel Chair
    - Business Committee Chair
    - Cabinet Finance & Resources Portfolio Lead
    - Cabinet Corporate Services Portfolio Holder
    - Chief Officer – Housing & Property
    - 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 look to meet quarterly 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 Council Plan 2024-2027 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 Council Plan / 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 Council Plan.
    c) Strategic property and asset management ensuring full optimisation of Council property assets, maximising income and return and reducing expenditure where possible but ensuring assets are well maintained.
    d) Enhanced long term planning of capital investment, better use and management of investments, assets (including property, infrastructure etc), and accountability.
    e) The integration of the Capital Investment Strategy in line with Council priorities as set out in the Core Plan 2030.

COUNCIL

Housing Revenue Account
Budget Framework 2024 to 2029
28 February 2024

Report of Cabinet

PURPOSE OF REPORT
To present Cabinet's final budget proposals in relation to the Housing Revenue Account in order that the City Council can complete its budget setting for 2024/25 and update its financial strategy to 2029.
This report is public.

RECOMMENDATIONS:

(1) That Cabinet's recommendation to approve the council housing rent levels for 2024/25, as set in accordance with statutory requirements, be noted.

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

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

(4) That the minimum level of HRA unallocated balances be retained at £750,000 from 01 April 2024, and that the full Statement on Reserves and Balances as set out at *Appendix C* be approved.

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

1 **Introduction**

1.1 Following its meeting on 20 February, Cabinet has now finalised its budget framework proposals for the Housing Revenue Account (HRA). These are all now reflected in the recommendations of this report.

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

2.1 The Council has a legal requirement to maintain a separate ring-fenced account for the provision of local authority housing, known as the Housing Revenue Account

(HRA). This covers the maintenance and management of the Council's housing stock.

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

2.3 The financial year 2024/25 was to be the fifth of five years where the Council had the freedom to increase rent by a maximum of CPI+1% (CPI is the Consumer Price Index). For rent setting purposes for 2024/25, the September 2023 CPI figure of 6.7% is used, with forecast CPI of 2.0% used thereafter (being the target set by Government for the Bank of England's Monetary Policy Committee).

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

For general properties, average rent of £90.93 applies for 2024/25[1]	For sheltered and supported properties, average rent of £86.07 applies for 2024/25
Following relevant properties becoming vacant, they will be re-let at 'formula rent' in line with previously approved policy.	
<u>For 2025/26 onwards</u>, it is assumed that council housing rents will increase by 2.0% year on year, subject to annual review of inflation forecasts, and any future determinations that may be issued by Government from time to time.	

2.5 The 30-year business plan has been updated to cover the period to 2053/54, and the updated position over the life of the plan is a cumulative surplus of £43.8M.

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

2.7 It should be reinforced that the cumulative balance is primarily driven by Government's decisions on future rent policy. For simplicity, the business plan now assumes that rents will continue to increase by CPI of 2.0% (being the target set by Government for the Bank of England's Monetary Policy Committee) per year, but this is by no means certain. The risks surrounding this assumption must be appreciated.

3 Revenue Budget

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

3.2 Key achievements:

- 2023/24 has seen continued guidance and support to tenants around rent arrears prevention and management. Following record low current rent arrears figures in

[1] This remains below Local Housing Allowance figures for both general and independent living and supported properties.

recent year, 2023/24 is expected to show an arrears increase of around 10% at year end, linked to cost of living challenges faced by tenants. This figure does still represent top quartile performance nationally.

- The Income Management Team continue to provide a support service to tenants in managing their rent arrears and other finances, however, where appropriate, legal remedies are used: a total of 19 court applications were made in response to tenant rent arrears, with 3 of these progressing to warrant/eviction stage.
- In supporting residents the Housing Team have helped secure an additional £61,600 for tenants through their benefit and other income maximisation work to date this year. In recognition of their work the Income Management Team also re-achieved HQN Maximising Income and Sustaining Tenancies accreditation. The team also presented at the Mobysoft annual conference as a provider of best practice and high performance across the sector.
- A Tenancy Health Check was carried out for all new tenancies during 2023/24, to identify any risk factors to the success of the tenancy and identify and embed any early support needed.
- New furniture packages were provided to 85 households through the team's partnership with an external furniture package supplier, further promoting the creation of 'homes' rather than 'houses' and contributing to improved tenancy success.
- Following a full review of ASB service delivery a new Community Safety Team was created to deliver a proactive, visible, and harm and risk focussed ASB and Community Safety service. This included development of new ASB, Hate Crime and Domestic Violence Policies: due for publication in Quarter 4.
- Purchase of the Skerton High School site from Lancashire County Council as part of the wider redevelopment of Mainway, Lancaster.
- Planning permission for the site to be submitted as part of the wider redevelopment plans of Mainway.
- Team have secured funding through Brownfield Land Release Fund to support progress of demolition of former Skerton High School as part of wider Mainway Regeneration Plans
- Shortlisted for Landlord of the Year and Local Authority of the Year at North West Energy Efficiency Awards 2024.
- Delivery of free communal Wi-Fi in Ind. Living Schemes
- Introduced Council Housing Advisory Group comprising, Officers, Members, residents and third sector interested parties providing degree of governance, oversight and advice on the delivery of housing services.
- Secured £692,000 from Social Housing Decarbonisation Funding.
- Completion of exemplar A rated adapted property on The Greaves
- Quarter 3 saw the start on site of a new four bed modern energy efficient scheme at Alder Grove for older residents, including a new community provision for residents of the wider scheme.
- Development of a Climate Strategy specifically for Council Housing dwellings, due to be finalised by the end of March 2024.
- Significant planned maintenance works including 150 kitchen replacement completions by year end; completion of fencing programme at Higher Heysham; full replacement of railings and concrete walkways at Arcon House; re-roofing programme on Ryelands, smoke alarm installations on Vale and commencing at Caton, Halton and rural areas.
- Continued commitment to ensuring homes and services across Council Housing are safe with ongoing improvement and strengthening of property compliance. Over £1M invested in safety improvements works, include new fire doors, smoke seals and compartmentation works.

- First Tenant Satisfaction Measures (TSM) survey carried out in line with new tenant focussed approach to regulation from the Regulator of Social Housing (RSH). Satisfaction report and action plan to be published during Quarter 4.
- Development of new Tenant Voice Strategy: for publication during Quarter 4.

3.3 Looking ahead - key examples of ongoing service delivery and future planning developed in line with the Corporate Plan, Council priorities and forthcoming social housing legislation and regulation can be found within the Cabinet report of 20th February 2024.

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

4.1 In response to the ongoing climate emergency, and the commitments set out by the Council in response, the Council Housing service has developed programmes of significant investment and activity in a number of areas which can be seen within the Cabinet Report of 20th February 2024. All of these areas of investment are built into the business planning and budgeting as outlined in this report.

5 **Capital Programme**

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

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

5.3 The Housing Team are in the final stages of completing a full stock condition survey of council dwellings, 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.

5.4 The 2024/25 capital programme includes no provision for any major refurbishment works on the Mainway Estate due to the ongoing regeneration project (see section 6).

5.5 Taking account of the above points, the total draft ten-year programme for 2024/25 onwards now stands at £41.1M, the majority of which will be financed from revenue sources. There is no prudential borrowing requirement.

6 **Future Developments**

6.1 The City Council continues to have ambitions for the development of its own new affordable / social rented homes, which it is seeking to progress. The focus for the next twelve months will see:

6.2 Mainway Masterplan:

- In 2023/24 we acquired Skerton High School and demolition operations began in January. The 2024/25 plan will progress detailed design, secure borrowing arrangements through a treasury settlement, procurement, and award of contract set to begin in autumn 2024, targeting first occupation by Spring 2026.
- Skerton High School phases 1a and 1b will initiate subsequent Mainway Masterplan phases. An application for supporting grant funding from BFLR, is underway. Progression of the project past planning and incorporation into the 2024/25 capital budget will be subject to a further Cabinet decision and approval.

6.3 Canal Quarter:

- Work continues to progress the Council Housing scheme on the site of St Leonards Gate car park. The goal is a full planning application by June 2024, in alignment with Canal Quarter Masterplan objectives.
- Design work progresses notwithstanding the challenges of inner-city development and achieving sustainability. Funding is secured in the current capital budget up to RIBA stage 3, with further budget decisions and progression of a development plan subject to a future Cabinet report later.

6.4 Garages:

- Work to advance Council Housing schemes on existing garage sites continues. A Project at Hastings Road is most advanced targeting the first construction-ready project by year-end, with various other sites across the district supporting a pipeline of viable sites for continued review in 2024/25. A funding bid has been submitted within the current capital budget review to continue this work.

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

6.6 While the design phase of the schemes continues, and while no decision has been made, the potential need to decommission all properties on Mainway has now been factored into the estimates presented, over a five-year period, with no rental income being recognised for any existing units from July 2029.

7 Provisions, Reserves and Balances

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

7.2 In terms of Balances, after reviewing the Housing Revenue Account and General Fund in comparative terms and considering the key issues, assumptions and risks underlying the budget projections, the Section 151 Officer advises maintaining the minimum level of HRA Balances at £0.750M from 01 April 2024 to support the budget forecasts, as part of the overall medium term financial planning for the HRA.

7.3 As at 31 March 2024, HRA Balances are forecast to be £0.750M.

7.4 All other surplus resources are held in the Business Support Reserve. As at 31 March 2024, around £0.035M is expected to be available in this reserve. This will be relied upon to support revenue spend in the medium term (currently 2029/30).

8 Details of Consultation

8.1 The Tenant Voice group were consulted on 1 February at their bi-monthly meeting, where budget headlines, including the proposed rent increase and significant areas of spend and investment, were presented by the Neighbourhood and Support Services Manager.

8.2 The Tenant Voice expressed their concern about the impact of the rent increase on tenants but understood and agreed that this was appropriate in order for continued delivery of services and future ambitions. They endorsed the rent setting proposal and other key areas within the budget.

8.3 The budget has also been presented to the Council Housing Advisory Group comprising Cabinet Members, tenants and partner agencies.

9 **Options and Options Analysis (including risk assessment)**

9.1 Council may adjust its HRA revenue budget proposals, as long as the overall budget for 2024/25 balances and fits with its approved rent levels, which Council cannot change.

9.2 The options available in respect of the Capital Programme are:
i) To approve the programme in full, with the financing as set out
ii) To incorporate other increases or reductions to the programme, with appropriate sources of funding being identified which still meet the required health and safety obligations to tenants.

9.3 The options available in respect of the minimum level of HRA balances are to retain the level at £0.750M in line with the advice of the Section 151 Officer or adopt a different level. Should Members choose not to accept the advice on the level of balances, this should be recorded formally in the minutes of the meeting and it could have implications for the Council's financial standing, as assessed by its external auditor.

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

Option 1: To note Cabinet's recommendation to approve the council housing rent levels for 2024/25; to approve the revenue budgets and capital programme, and the provisions, reserves and balances position (and their use), as set out; to note the Section 151 Officer's advice.
Advantages: Completion of the Housing Revenue Account's budget setting process for 2024/25, allowing the updating of the Council's associated financial strategy.
Disadvantages: None.
Risks: The HRA budget set out in this report is sustainable in the long term. The risk associated with Option 1 relates to any future Capital new-build projects (as referred to in section 6, above) and any borrowing or use of reserves in relation to this.
Option 2: To note Cabinet's recommendation to approve the council housing rent levels for 2024/25 but to propose alternatives to those outlined in Section 9 above, noting the following: Council may adjust its HRA revenue budget proposals, as long as the overall budget for 2024/25 balances and fits with its approved rent levels, which Council cannot change.

Council may adjust its capital investment and financing proposals taking account of spending commitments and priorities, but its proposals for 2024/25 must balance.
Advantages: None.
Disadvantages: Depending on the nature of any alternative proposals put forward, Officers may need time to assess the risks and implications. This is to ensure that relevant considerations are taken into account, to support informed and lawful decision-making.
Risks: Delay to the completion of the Housing Revenue Account's budget setting process for 2024/25. Inability to maximise service provision and deliver on Council, and housing related ambitions. Impact on housing service and council housing tenants unknown, but could impact on the health and safety of tenants.

10 **Conclusion**

10.1 This report provides an update on the council housing budgetary position and seeks Council's approval of Cabinet's budget proposals in relation to the Housing Revenue Account in order that the City Council can complete its budget setting for 2024/25 and update its financial strategy to 2029.

RELATIONSHIP TO POLICY FRAMEWORK The budget should represent, in financial terms, what the Council is seeking to achieve through its Policy Framework.
CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability etc) No additional impact identified – any specific issues have been (or will be) considered as part of the relevant aspect of the policy framework or individual budget proposals, etc. Where appropriate, equality impact assessments have been produced and are available in connection with Cabinet's specific budget proposals.
LEGAL IMPLICATIONS Legal Services have been consulted and are content with the report but will consider further the development and implementation of relevant budget proposals in due course to ensure legal aspects are fully considered.
FINANCIAL IMPLICATIONS As set out in the report.
OTHER RESOURCE IMPLICATIONS **Human Resources / Information Services / Property / Open Spaces:** Various budget proposals have resource implications and these have been taken account of in Cabinet's consideration of budget options as far as possible at this stage. Their implementation would be in accordance with council policies and procedures, as appropriate. Furthermore, it is recognised that additional resource needs may be required and

arrangements are in hand to assess and address these.

SECTION 151 OFFICER'S COMMENTS

The Local Government Act 2003 placed explicit requirements on the s151 Officer to report on the robustness of the estimates included in the budget and on the adequacy of the Council's reserves; this requirement is addressed below. Previous Cabinet reports have already included some relevant details of this advice, together with the risks and assumptions underpinning the budget process so far.

Provisions, Reserves and Balances

- Specific HRA earmarked reserves and provisions are satisfactory at the levels currently proposed.
- An unallocated minimum balance of £0.750M for the Housing Revenue Account is a reasonable level to safeguard the Council's overall financial position, given other measures and safeguards in place, taking a medium to longer term view.

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

As a very simple measure, the inherent value of the risks facing the Council by far exceeds the total of all reserves and balances. Whilst it is not the case that all these risks could fall due immediately, Members should appreciate the need for holding balances and reserves more generally and using them wisely. It is inappropriate to 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 (and should be) taken into account in considering capital investment plans include the following.

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

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

MONITORING OFFICER'S COMMENTS

The Deputy Monitoring Officer reminds Council that the decisions (recommendations 1 and 2) fall within the Local Authorities (Standing Orders) (Amendment) (England) 2014 and Rule 19.7 of the Council Procedure Rules, and accordingly a recorded vote should be taken.

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

BACKGROUND PAPERS	**Contact Officer: Jo Wilkinson**
Equality Impact Assessments for budget proposals.	**Telephone: 01524 582762** **E-mail: jowilkinson@lancaster.gov.uk**

HOUSING REVENUE ACCOUNT BUDGET

For Consideration by Council 28 February 2024

	2024/25 Budget £	2025/26 Forecast £	2026/27 Forecast £	2027/28 Forecast £	2028/29 Forecast £
INCOME					
Rental Income - Council Housing	(16,847,700)	(16,819,300)	(17,142,800)	(17,019,500)	(17,170,600)
Rental Income - Other (Shops and Garages etc.)	(285,900)	(285,900)	(285,900)	(285,900)	(285,900)
Charges for Services & Facilities	(2,253,700)	(2,289,400)	(2,321,900)	(2,354,100)	(2,385,600)
Grant Income	(17,700)	(17,700)	(17,700)	(17,700)	(17,700)
Contributions from General Fund	(105,000)	(107,100)	(109,000)	(110,900)	(112,800)
Total Income	**(19,510,000)**	**(19,519,400)**	**(19,877,300)**	**(19,788,100)**	**(19,972,600)**
EXPENDITURE					
Repairs & Maintenance	6,738,500	6,880,700	6,837,200	6,946,500	7,018,700
Supervision & Management	5,693,800	5,257,600	5,255,000	5,318,100	5,434,100
Rents, Rates & Insurance	454,900	489,300	523,500	557,900	592,100
Contribution to Provision for Bad and Doubtful Debts	139,600	140,800	142,100	143,500	145,000
Depreciation & Impairment of Fixed Assets	4,325,700	4,325,700	4,325,700	4,325,700	4,325,700
Debt Management Costs	0	0	0	0	0
Total Expenditure	**17,352,500**	**17,094,100**	**17,083,500**	**17,291,700**	**17,515,600**
NET COST OF HRA SERVICES	**(2,157,500)**	**(2,425,300)**	**(2,793,800)**	**(2,496,400)**	**(2,457,000)**
(Gain)/Loss on disposal of non-current assets	0	0	0	0	0
Interest Payable & Similar Charges	1,647,300	1,607,900	1,568,200	1,528,200	1,487,800
Interest & Investment Income	(41,100)	(39,400)	(32,300)	(29,800)	(29,800)
Pensions Interest Costs & Expected Return on Pensions Assets	0	0	0	0	0
Capital Grants and Contributions Receivable	0	0	0	0	0
Premiums & Discounts from Earlier Debt Rescheduling	0	0	0	0	0
(SURPLUS) / DEFICIT FOR THE YEAR	**(551,300)**	**(856,800)**	**(1,257,900)**	**(998,000)**	**(999,000)**
Self Financing Debt Repayment	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
Adjustments to reverse out Notional Charges included above	0	0	0	0	0
Transfer to/(from) Earmarked Reserves - for Revenue Purposes	(585,700)	(107,100)	12,000	55,300	46,500
Capital Expenditure funded from Major Repairs Reserve	0	0	0	0	0
Transfer from Earmarked Reserves - for Capital Purposes	0	0	0	0	0
Financing of Capital Expenditure from Earmarked Reserves	0	0	0	0	0
TOTAL (SURPLUS) / DEFICIT FOR THE YEAR	**(95,600)**	**77,500**	**(204,500)**	**98,700**	**88,900**
Housing Revenue Account Balance brought forward	(750,033)	(845,633)	(768,133)	(972,633)	(873,933)
HRA BALANCE CARRIED FORWARD	**(845,633)**	**(768,133)**	**(972,633)**	**(873,933)**	**(785,033)**

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

APPENDIX B

Council Housing 10 Year Capital Programme
For Consideration by Council 28 February 2024

	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000	2028/29 Estimate £000	2029/30 Estimate £000	2030/31 Estimate £000	2031/32 Estimate £000	2032/33 Estimate £000	2033/34 Estimate £000	TOTAL £000
EXPENDITURE											
Adaptations	300	300	300	300	300	300	300	300	300	300	3,000
Energy Efficiency/Boiler Replacement	1,324	1,019	1,019	1,019	1,093	979	790	790	790	790	9,613
Internal Refurbishment	888	888	888	947	945	945	936	936	936	945	9,254
External Refurbishment	526	234	270	-	-	-	192	753	288	-	2,263
Environmental Improvements	150	150	150	150	110	110	140	140	140	140	1,380
Re-roofing/Window Renewals	493	595	527	1,024	1,423	744	686	18	1,256	1,288	8,054
Rewiring	88	88	88	90	90	90	88	88	88	90	888
Lift Replacements	-	-	-	-	-	-	-	-	-	-	-
Fire Precaution Works	392	150	150	150	180	180	180	180	180	180	1,922
Housing Renewal and Renovation	607	507	507	507	207	657	657	657	207	207	4,720
Mainway Regeneration Project	-	-	-	-	-	-	-	-	-	-	-
TOTAL EXPENDITURE	**4,768**	**3,931**	**3,899**	**4,187**	**4,348**	**4,005**	**3,969**	**3,862**	**4,185**	**3,940**	**41,094**
FINANCING											
Capital Receipts	34	-	-	-	-	-	-	-	-	-	34
Contributions	415	-	-	-	-	-	-	-	-	-	415
Earmarked Reserves	-	-	-	-	-	-	30	30	30	30	120
Major Repairs Reserve	4,319	3,931	3,899	4,187	4,348	4,005	3,939	3,832	4,155	3,910	40,525
TOTAL FINANCING	**4,768**	**3,931**	**3,899**	**4,187**	**4,348**	**4,005**	**3,969**	**3,862**	**4,185**	**3,940**	**41,094**
SHORTFALL/(SURPLUS)	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

HOUSING REVENUE ACCOUNT - RESERVES AND PROVISIONS STATEMENT
For Consideration by Council 28 February 2024

	Balance as at 31/03/23	Contributions			Balance as at 31/03/24	Contributions			Balance as at 31/03/25	Contributions		
		To the Reserve from Revenue	From the Reserve To Capital	From the Reserve To Revenue		To the Reserve from Revenue	From the Reserve To Capital	From the Reserve To Revenue		To the Reserve from Revenue	From the Reserve To Capital	From the Reserve To Revenue
	£	£	£	£	£	£	£	£	£	£	£	£
HRA General Balances	**623,533**	126,500			**750,033**	95,600			**845,633**			(77,500)
Earmarked Reserves:												
Business Support Reserve	**5,868,829**		(1,987,400)	(3,846,000)	**35,429**				**35,429**			
Major Repairs Reserve	**121,350**	4,325,700	(4,325,700)		**121,350**	4,325,700	(4,325,700)		**121,350**	4,325,700	(3,937,900)	
Flats - Planned Maintenance	**788,140**	33,000		(348,700)	**472,440**	33,000		(22,900)	**482,540**	33,000		(22,900)
ICT and Systems Improvement	**444,005**	600,000		(80,800)	**963,205**			(688,900)	**274,305**			(201,800)
Office Equipment Reserve												
Sheltered - Equipment	**273,400**	30,000		(49,200)	**254,200**	37,900		(43,000)	**249,100**	33,800		(35,400)
Sheltered - Planned Maintenance	**386,984**	59,800		(390,300)	**56,484**	75,600		(15,300)	**116,784**	67,700		(15,300)
Sheltered Support Grant Maintenance	**491,778**	30,000		(285,900)	**235,878**	37,900			**273,778**	33,800		
Total Earmarked Reserves	**8,374,487**	**5,078,500**	**(6,313,100)**	**(5,000,900)**	**2,138,987**	**4,510,100**	**(4,325,700)**	**(770,100)**	**1,553,287**	**4,494,000**	**(3,937,900)**	**(275,400)**

	Balance as at 31/03/26	Contributions			Balance as at 31/03/27	Contributions			Balance as at 31/03/28	Contributions			Balance as at 31/03/29
		To the Reserve from Revenue	From the Reserve To Capital	From the Reserve To Revenue		To the Reserve from Revenue	From the Reserve To Capital	From the Reserve To Revenue		To the Reserve from Revenue	From the Reserve To Capital	From the Reserve To Revenue	
	£	£	£	£	£	£	£	£	£	£	£	£	£
HRA General Balances	**768,133**	204,500			**972,633**			(98,700)	**873,933**			(88,900)	**785,033**
Earmarked Reserves:													
Business Support Reserve	**35,429**				**35,429**				**35,429**				**35,429**
Major Repairs Reserve	**509,150**	4,325,700	(3,905,900)		**928,950**	4,325,700	(4,193,900)		**1,060,750**	4,325,700	(4,354,900)		**1,031,550**
Flats - Planned Maintenance	**492,640**	33,000		(22,900)	**502,740**	33,000		(22,900)	**512,840**	33,000		(22,900)	**522,940**
ICT and Systems Improvement	**72,505**			(72,500)	**5**				**5**				**5**
Office Equipment Reserve													
Sheltered - Equipment	**247,500**	30,900		(33,800)	**244,600**	26,900		(47,000)	**224,500**	24,700		(47,000)	**202,200**
Sheltered - Planned Maintenance	**169,184**	61,700		(15,300)	**215,584**	53,700		(15,300)	**253,984**	49,300		(15,300)	**287,984**
Sheltered Support Grant Maintenance	**307,578**	30,900			**338,478**	26,900			**365,378**	24,700			**390,078**
Total Earmarked Reserves	**1,833,987**	**4,482,200**	**(3,905,900)**	**(144,500)**	**2,265,787**	**4,466,200**	**(4,193,900)**	**(85,200)**	**2,452,887**	**4,457,400**	**(4,354,900)**	**(85,200)**	**2,470,187**

COUNCIL

Treasury Management Strategy 2024/25

28 February 2024

Report of Cabinet

PURPOSE OF REPORT					
In accordance with the Council's constitution this report seeks Council approval for both the Council's Treasury Management 2024/25 framework					
Key Decision	**X**	**Non-Key Decision**		**Referral from Cabinet Member**	
Date of notice of forthcoming key decision				8th December 2023	

RECOMMENDATION OF CABINET

That the Council notes the report and approves

1. The Treasury Management Strategy 2024/25, Appendices A to C specifically the Council's The Authorised Limit for External Debt (section 4.7)

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, to incorporate the Council's spending and income plans with decisions about investing and borrowing.

1Cabinet 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 2024/25

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 2024/25 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 2024/25 to 2027/28 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

<u>Capital Financing Requirement (CFR)</u>

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 £101.04M rising to £112.54M in 2025/26 before reducing slightly to £101.88M in 2028/29, 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 £63.97M to £80.88M (2025/26) as the Council looks to move forward with several ambitious schemes to enable delivery of its Strategic Priorities. It is then forecast to decrease slightly to £77.76M (2028/29).

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

	2022/23 Act £m	2023/24 Est £m	2024/25 Est £m	2025/26 Est £m	2026/27 Est £m	2027/28 Est £m	2028/29 Est £m
Capital Financing Requirement							
CFR – Non Housing	63.56	66.95	70.47	80.54	77.81	74.99	73.00
CFR – Housing	35.13	34.09	33.05	32.00	30.96	29.92	28.88
Total CFR	**98.69**	**101.04**	**103.52**	**112.54**	**108.77**	**104.91**	**101.88**
Movement in CFR							
Non Housing	4.50	3.38	3.52	10.07	-2.73	-2.82	-1.99
Housing	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04
Net Movement in CFR	**3.46**	**2.34**	**2.48**	**9.03**	**-3.77**	**-3.86**	**-3.03**

Movement in CFR represented by							
Net financing need for the year (above) re Non Housing	4.61	6.02	6.53	13.26	1.92	1.75	2.48
Less MRP/VRP and other financing movements	-1.15	-3.68	-4.05	-4.23	-5.69	-5.61	-5.51
Net Movement in CFR	**3.46**	**2.34**	**2.48**	**9.03**	**-3.77**	**-3.86**	**-3.03**

Table 2 Borrowing Projections

	2022/23 Act £m	2023/24 Est £m	2024/25 Est £m	2025/26 Est £m	2026/27 Est £m	2027/28 Est £m	2028/29 Est £m
External Debt							
Debt at 1 April	60.05	59.01	63.97	71.93	80.88	79.84	78.80
Expected change in Debt	-1.04	4.96	7.96	8.95	-1.04	-1.04	-1.04
Other long-term liabilities (OLTL)	0.00	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	0.00
Actual gross debt at 31 March	**59.01**	**63.97**	**71.93**	**80.88**	**79.84**	**78.80**	**77.76**
The Capital Financing Requirement	98.69	101.04	103.52	112.54	108.77	104.91	101.88
Under Borrowing	**-39.69**	**-37.07**	**-31.59**	**-31.66**	**-28.93**	**-26.11**	**-24.12**

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	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Debt*	101.04	103.52	112.54	108.77	104.91	101.88
Other long term liabilities	1.00	1.00	1.00	1.00	1.00	1.00
Total	**102.04**	**104.52**	**113.54**	**109.77**	**105.91**	**102.88**

The Authorised Limit for External Debt

4.7 This represents a control on the maximum level of borrowing and is a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. Changes to the authorised limit are included in table 4 below.

- This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

- **Council is asked to approve the following authorised limit for 2024/25 - £120M:**

Table 4: Authorised Limit

Authorised Limit	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Debt	116.00	119.00	128.00	124.00	120.00	117.00
Other long-term liabilities	1.00	1.00	1.00	1.00	1.00	1.00
Total	**117.00**	**120.00**	**129.00**	**125.00**	**121.00**	**118.00**

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

	2022/23 Actual %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %	2027/28 Estimate %	2028/29 Estimate %
General Fund	5.90	19.94	18.20	20.20	24.65	23.79	22.30
HRA	18.79	17.00	16.22	16.25	15.99	15.75	15.75

4.9 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 close to 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. Following a review, the Council's external advisors recommended a change to the MRP policy switching from the "Asset Life Method" to calculation using the annuity method using a weighted average useful life. This revision was formally approved by Council 22 February 2023.

5.3 The MRP policy statement requires Full Council approval in advance of each financial year although regulation does permit in year changes. Following a review of the MRP charges and methodology it is recommended that Council retains the annuity method of calculation approves the MRP Policy Statemen as referred to within the Treasury Management Strategy ***Appendix A.***

5.4 Table 6 below provides details of the Council's estimates MRP charges, based on current capital and borrowing information.

Table 6 Forecast MRP Charges

	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M
Interest	1.568	1.541	2.098	2.106	2.114	2.123
MRP	2.638	3.01	3.194	4.653	4.567	3.474
Total	**4.206**	**4.551**	**5.292**	**6.759**	**6.681**	**5.597**

6.0 DETAILS OF CONSULTATION

6.1 Consultation has been undertaken with the Council's external Treasury Management Advisors, Link Group and in line with the Council's constitution Budget & Performance Panel considered the strategy at its meeting 14 February 2024. No comments or observations were made requiring reconsideration by Cabinet.

7.0 OPTIONS & OPTIONS ANALYSIS

7.1 Cabinet may put forward alternative proposals or amendments to the proposed Strategy ahead of consideration by Full Council, 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 currently.

7.2 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.

8.0 OFFICER PREFERRED OPTION (AND COMMENTS)

8.1 To approve the framework as attached, allowing for any amendments being made under delegated authority prior to referral to Council.

9.0 CONCLUSION

9.1 This report addresses the actions required to complete the budget setting process for Treasury Management, and for updating the Council's associated financial strategy. This is based on the Council continuing to have a comparatively low risk appetite regarding the security and liquidity of investments particularly, but recognising that some flexibility should help improve returns, whilst still effectively mitigating risk. It is stressed that in terms of treasury activity, there is no risk-free approach. It is felt, however, that the measures set out above provide a fit for purpose framework within which to work, pending any update during the course of next year.

9.2 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.

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 authored this report and his comments are reflected within.	
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 2024-25	**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 Council 28 February 2024

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 Council
28 February 2024

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

1. This organisation defines its treasury management activities as:

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

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

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

Appendix C

Treasury Management Strategy 2024/25 to 2028/29

For Consideration by Council 28 February 2024

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. In addition the Authority will receive quarterly update reports.

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.

Quarterly reports - In addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June/end of December) is also required. However, these additional reports do not have to be reported to Full Council/Board but do require to be adequately scrutinised. This role is undertaken by Budget & Performance Panel.

1.3 Treasury Management Strategy for 2024/25

The strategy for 2024/25 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 member training session has been arranged prior to Budget & Performance Panel on 14 February and further training will be arranged during the forthcoming year as required.

A formal record of the training received by officers central to the Treasury function will be maintained by the Accountancy Services Manager. Similarly, a formal record of the treasury management/capital finance training received by members will also be maintained by the Chief Resources & S151 Officer.

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 2023/24 – 2028/29

The Council's capital expenditure plans are the key driver of treasury management activity. The plans are reflected in various prudential indicators which are designed to assist members' overview and confirm capital expenditure plans are prudent, affordable and sustainable.

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	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
General Fund	10.44	10.62	17.01	18.09	4.34	4.09	4.81
Housing Revenue Account (HRA)	5.31	8.33	4.77	3.93	3.90	4.19	4.35
Total	**15.75**	**18.95**	**21.78**	**22.02**	**8.24**	**8.28**	**9.16**
Financed by:							
Capital receipts	-0.22	-1.82	-0.16	-0.00	-0.00	-0.00	-0.00
Capital grants	-5.15	-4.92	-10.73	-4.83	-2.42	-2.34	-2.33
Capital reserves	-4.94	-3.72	-4.32	-3.93	-3.90	-4.19	-4.35
Revenue	-0.83	-2.47	-0.04	-0.00	-0.00	-0.00	-0.00
Net financing need for the year	**4.61**	**6.02**	**6.53**	**13.26**	**1.92**	**1.75**	**2.48**

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 indebtedness 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 schemes 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:

	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Capital Financing Requirement							
CFR – Non Housing	63.56	66.95	70.47	80.54	77.81	74.99	73.00
CFR – Housing	35.13	34.09	33.05	32.00	30.96	29.92	28.88
Total CFR	**98.69**	**101.04**	**103.52**	**112.54**	**108.77**	**104.91**	**101.88**
Movement in CFR							
Non Housing	4.50	3.38	3.52	10.07	-2.73	-2.82	-1.99
Housing	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04
Net Movement in CFR	**3.46**	**2.34**	**2.48**	**9.03**	**-3.77**	**-3.86**	**-3.03**

Movement in CFR represented by							
Net financing need for the year (above) re Non Housing	4.61	6.02	6.53	13.26	1.92	1.75	2.48
Less MRP/VRP and other financing movements	-1.15	-3.68	-4.05	-4.23	-5.69	-5.61	-5.51
Net Movement in CFR	**3.46**	**2.34**	**2.48**	**9.03**	**-3.77**	**-3.86**	**-3.03**

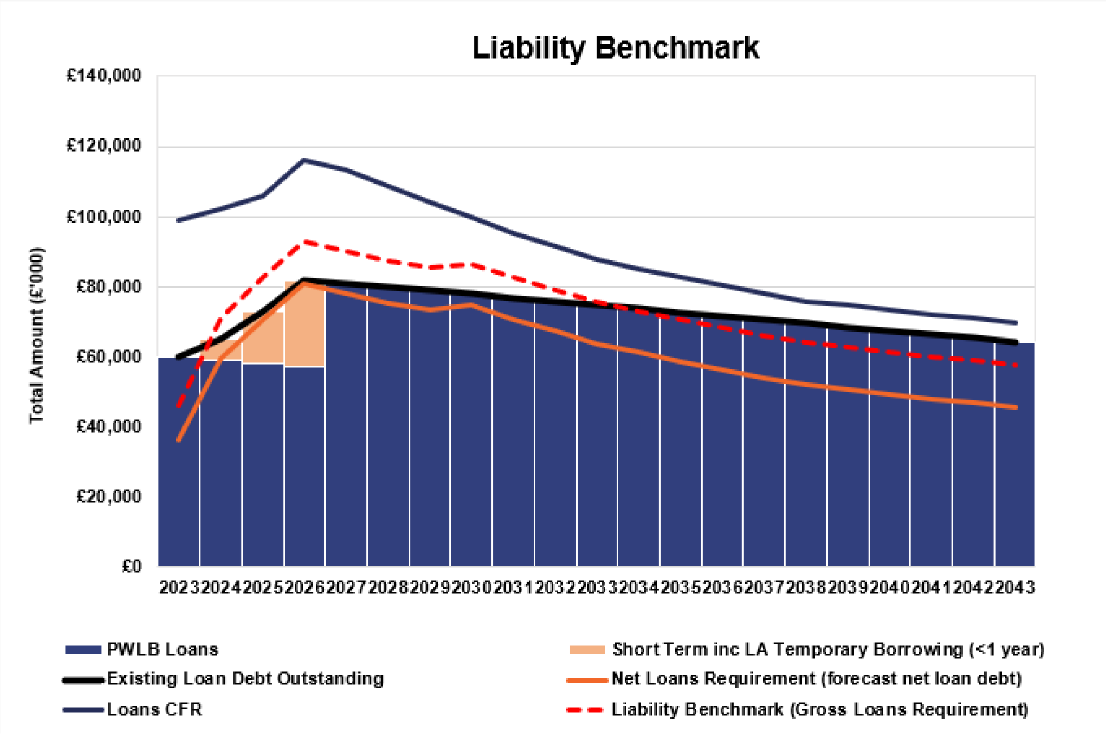
2.3 Liability Benchmark

The Council is required to estimate and measure the Liability Benchmark (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.

During 23/24 forecast levels of funds available for treasury investments is falling in line with cash flow forecasts and as overall levels of General Fund and HRA reserves decrease.

There is, therefore, 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 working cashflow surpluses.

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	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Fund balances / reserves	33.85	24.78	25.20	26.91	27.69	27.84	27.76
Capital receipts	2.39	0.00	0.00	0.00	0.00	0.00	0.00
Provisions	4.74	5.00	5.00	5.00	5.00	5.00	5.00
Total core funds	**40.98**	**29.78**	**30.20**	**31.91**	**32.69**	**32.84**	**32.76**
Working capital*	19.02	15.00	15.00	15.00	15.00	15.00	15.00
Under borrowing	-39.69	-37.07	-31.59	-31.66	-28.93	-26.11	-24.12
Expected investments	**20.31**	**7.71**	**13.61**	**15.25**	**18.76**	**21.73**	**23.64**

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

2.5 Minimum Revenue Provision (MRP) Policy Statement

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.

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 2023 are £11.45M and relate to the repayment of the HRA self financing debt.
- 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.

	2022/23 Actual %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %	2027/28 Estimate %	2028/29 Estimate 5
General Fund	5.90	19.94	18.20	20.20	24.65	23.79	22.30
HRA	18.79	17.00	16.22	16.25	15.99	15.75	15.75

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.

	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
External Debt							
Debt at 1 April	60.05	59.01	63.97	71.93	80.88	79.84	78.80
Expected change in Debt	-1.04	4.96	7.96	8.95	-1.04	-1.04	-1.04
Other long-term liabilities (OLTL)	0.00	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	0.00
Actual gross debt at 31 March	**59.01**	**63.97**	**71.93**	**80.88**	**79.84**	**78.80**	**77.76**
The Capital Financing Requirement	98.69	101.04	103.52	112.54	108.77	104.91	101.88
Under Borrowing	**-39.69**	**-37.07**	**-31.59**	**-31.66**	**-28.93**	**-26.11**	**-24.12**

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 2024/25 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 Chief Resources & Section 151 Officer 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	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Debt*	101.04	103.52	112.54	108.77	104.91	101.88
Other long term liabilities	1.00	1.00	1.00	1.00	1.00	1.00
Total	**102.04**	**104.52**	**113.54**	**109.77**	**105.91**	**102.88**

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	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Debt	116.00	119.00	128.00	124.00	120.00	117.00
Other long-term liabilities	1.00	1.00	1.00	1.00	1.00	1.00
Total	**117.00**	**120.00**	**129.00**	**125.00**	**121.00**	**118.00**

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 08.01.2024. These are forecasts for certainty rates, gilt yields plus 80 bps:

	Mar-24	Mar-25	Mar-26	Mar-27
Bank Rate	5.25	3.75	3.00	3.00
3 Month average earnings	5.30	3.80	3.00	3.00
6 Month average earnings	5.20	3.70	3.10	3.10
12 Month average earnings	5.00	3.60	3.10	3.20
5yr PWLB rate	4.50	4.10	3.60	3.50
10yr PWLB rate	4.70	4.20	3.80	3.70
25yr PWLB rate	5.20	4.60	4.20	4.10
50yr PWLB rate	5.00	4.40	4.00	3.90

Further commentary by Link on this forecast table: -

Our central forecast for interest rates was previously updated on 7 November and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least the second half of 20-24. We expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and when there is *a likelihood of the overall economy enduring at least a slowdown or mild recession over the coming months.*

Naturally, timing on this matter will remain 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.

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 also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recover in China as well as the ongoing conflict between Russia and Ukraine, and Gaza and Israel.

PWLB RATES

- *The short and medium part of the gilt curve has rallied since the start of November as markets price in a quicker reduction in Bank Rate through 2024 and 2025 than held sway back then. This reflects market confidence in inflation falling back in a similar manner to that already seen in the US and the Eurozone. At the time of writing there is circa 70 basis points difference between the 5 and 50 year parts of the curve.*

Borrowing advice: *Our long-term (beyond 10 years) forecast for Bank Rate remains at 3% and reflects Capital Economics' research that suggests AI and general improvements in productivity will be supportive of a higher neutral interest rate. As all PWLB certainty rates are currently above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates will remain elevated for some time to come but may prove the best option whilst the market continues to factor in Bank Rate reductions for 2024 and later.*

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 remains elevated through to the second half of 2024.

Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 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	1.63	0	100
12 months and within 24 months	7.04	11.01	0	100
24 months and within 5 years	3.12	4.88	0	100
5 years and within 10 years	5.21	8.14	0	100
10 years and within 20 years	8.33	13.02	0	100
20 years and within 30 years	0.00	0.00	0	100
30 years and within 40 years	39.22	61.32	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 may be considered whilst premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate.

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 maintain a degree of liquidity 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 to a maturity limit of one year or have less than a year left to run to maturity, if originally they were classified as being non-specified investements solely due to the maturity period exceeding 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 2023/24 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 European Senior financials benchmark and other market data on a dailly basis via its Passport website, provided exclusively to it by Link. 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. Nonetheless, 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 having peaked in the second half of 2023 and possibly reducing as early as the second half of 2024 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 have peaked at 5.25%.

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

- 2023/24 5.30%
- 2024/25 4.55%
- 2025/26 3.10%
- 2026/27 3.00%
- 2027/28 3.25%

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						
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**
Principal sums invested > 365 days	Nil	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.

- **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.

- **SONIA** (Sterling Overnight Index Average) – this reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors. It is used as a replacement for LIBOR (and LIBID calculations), the publication of which ceased at the close of 2021.

- **Yield** – see Gilts

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

ANNEX B2

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

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

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

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

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

ANNEX B3

Background information on credit ratings

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

What is a Credit Rating?
A credit rating is:

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

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

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

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

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

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

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

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

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

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

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

F2	P-2	A-2	A	A2	A

COUNCIL

Medium Term Financial Strategy
2024/25 – 2028/29
28 February 2024

Report of Cabinet

PURPOSE OF REPORT					
To provide an update on the Council's Medium Term Financial Strategy (MTFS) forecasts for 2024/25 to 2028/29					
Key Decision		**Non-Key Decision**	X	**Referral from Cabinet Member**	
Date of notice of forthcoming key decision					

RECOMMENDATION

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

1.0 INTRODUCTION

1.1 The previous reports on this agenda considered the annual process for setting the Council's revenue and capital budgets for 2024/25. 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 2024/25 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 Office for Budgetary Responsibility (OfBR) has noted that the medium-term fiscal outlook for the UK has materially worsened due to a weaker economy, higher interest rates and higher inflation. Economic activity has slowed considerably in recent years, with 2 successive quarters of negative growth in gross domestic product (GDP) the UK economy officially fell into recession at the end of 2023. Current commentary suggests a shallow recession with a slow upturn during 2024. Current forecasts from the OBR and Bank of England (BoE) anticipate growth of between 0.4% - 0.7% for 2024.

2.3 CPI inflation peaked at 11.1% in the final quarter of 2022/23 which was a 40 year high. Current rates and forecasts show inflation has reduced to 4% and is expected to reduce further returning to the 2% target in the following years.

2.4 Bank Rate has been subject to a succession of increases during the current financial year and is believed to have now peaked at 5.25% which has led to a significant forecast increase in investment interest. Bank Rate is forecast to fall during 2024/25 to an anticipated 3.75% by March 2025 whilst the level of amounts available for investment is falling. In addition, the Council has a need to borrow at a time when PWLB and Local Authority lending rates are rising. This places pressures on the affordability of the Council's Capital Programme and the need to consider how it is funded.

2.5 Considering these economic challenges households in the district are especially impacted as they spend greater shares of their income on fuel and food. These include.

- Single people on low incomes (on benefits or in work)
- Families with children
- Pensioners
- Those with disabilities

2.6 To provide support for those in greatest hardship, Cabinet recently approved the continuation of the Council's 100% Council Tax Support scheme for 2024/25 which means households most in need can apply for full relief from Council Tax. Lancaster City Council will be one of only a handful of local authorities in the Northwest to continue to have a 100% Council Tax Support scheme in 2024/25.

2.7 Central Government released a single-year Finance Settlement resulting in difficulties in forecasting in the medium and longer term which is required when developing the Council's Medium Term Financial Strategy.

2.8 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.

2.9 On 19th January 2023 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 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 released on 5 February 2024. The final settlement included an additional £0.190M in the funding guarantee and services grant above that announced in the provisional settlement. The main 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 2024/25
- The freezing of the small Business Rates “multiplier” for 2024/25 with the small and standard Business Rates multipliers now being de-coupled.
- Continuation of a number of funding streams including Revenue Support Grant, which was originally due to cease in 2020/21, Services Grant, although at a reduced level and New Homes Bonus. The future of New Homes Bonus in its current form remains uncertain.
- The Settlement includes a sector-wide Funding Guarantee grant to ensure that all Council’s receive a minimum of 4% increase in spending power before making any local decisions on council tax.

3.2 A summary of the final settlement for Lancaster City Council is show in table one below. Assumptions have been included to estimate Government funding from 2025/26 onwards however actual allocations for this period are currently unknown.

Table One – Final Settlement allocations for Lancaster City Council

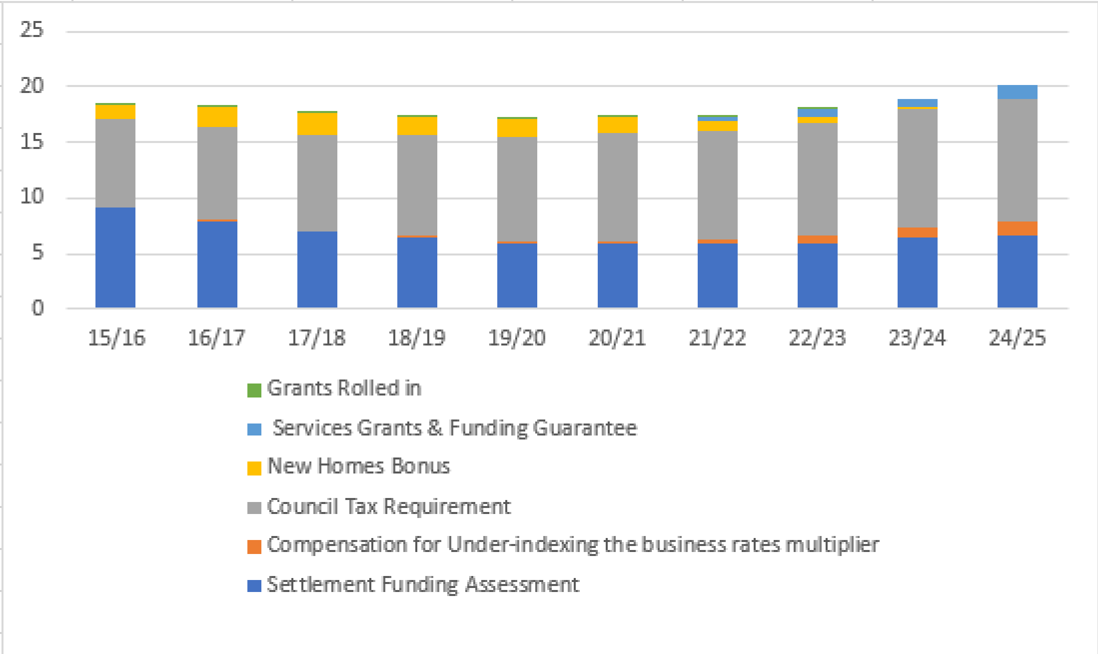
	Final Settlement £000	LCC Forecast £000	Difference £000
Settlement Funding Assessment			
Revenue Support Grant	433	406	27
New Homes Bonus	10	0	10
Funding Guarantee	1,188	605	583
Services Grant	40	232	(192)
Total Government Funding	**1,671**	**1,243**	**428**

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 2024/25 will increase from £18.93M to £20.09M or 6.1% when compared to CSP in 2023/24 and includes an assumption by Government that Councils will increase their Council Tax by the maximum allowable. This is in comparison to the average increase in CSP for all Councils in England of 7.5%

Table Two: Core Spending Power

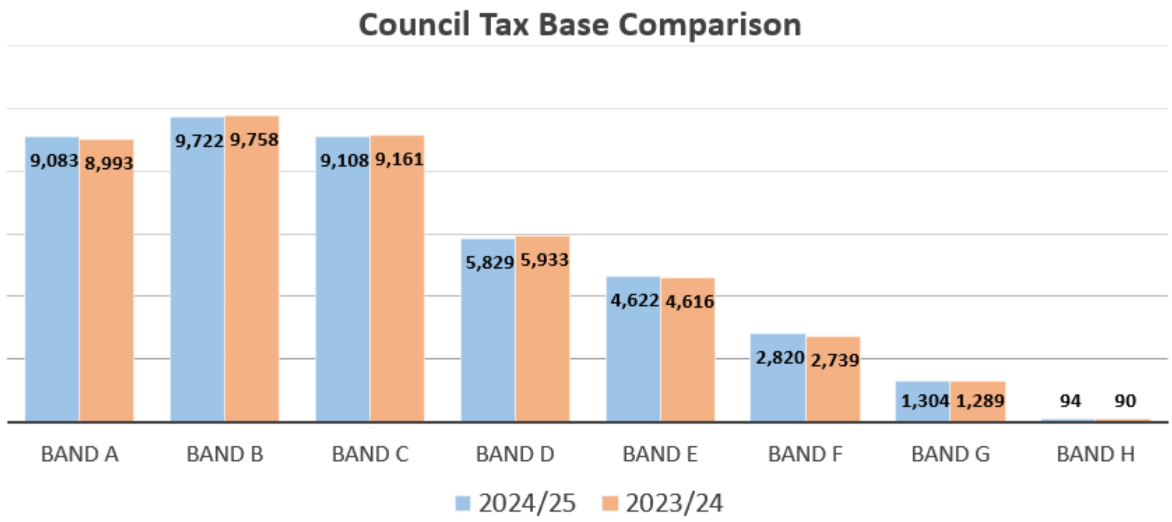


3.5 Table two above compares the historic value of CSP, and shows the Council is now almost entirely reliant on Council Tax and Business Rates with a small amount of income from central government grants to fund net expenditure and it is, therefore, important to provide regular estimates of these key 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 2024/25 has been calculated as 42,583 Band D equivalent properties after allowing for a collection rate of 98.68%, the same as in previous years. This equates to a 0.01% increase in the tax base. There are three issues underlying the lack of growth which in previous years has been in the region of 1% increase per annum. Fewer new properties than forecast were completed during 2023/24 and the number of new properties forecast for 2024/25 is also reduced. There has also been an increase in exempt accounts together with an increase in the number of properties eligible for 25% occupancy reductions. From 2025/26 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 2023/24	**Forecast 2024/25**	**Forecast 2025/26**	**Forecast 2026/27**	**Forecast 2027/29**	**Forecast 2028/29**
Council Tax Band D 2.99% increase		£256.63	£264.31	£272.31	£280.35	£288.73
Council Tax Band D (£5 increase)	£249.18	£254.18	£259.18	£264.18	£269.18	£274.18
Tax base (1% growth from 2023/24)	42,579	42,583	43,009	43,439	43,873	44,312
Council Tax Income	**£10,610,019**	**£10,928,285**	**£11,367,591**	**£11,824,557**	**£12,299,892**	**£12,794,335**
Previous MTFS		£11,037,000	£11,480,000	£11,942,000	£12,422,000	£12,422,000
Difference Increase/(Decrease)		**(£108,715)**	**(£112,409)**	**(£117,443)**	**(£122,108)**	**(£122,108)**
Scenario 1 – no increase In Council tax over period Of MTFS		(£425,985)	(£762,875)	(£1,117,703)	(£1,489,460)	(£1,380,135)
Scenario 2 – Council Tax Band D £5 increase		(£213,070)	(£332,786)	(£466,120)	(£611,994)	(£272,334)
Scenario 3 – 1.5% increase in tax base growth & 2.99% increase in Council Tax Band D		(£108,715)	(£56,134)	(£79)	£61,469	£627,576

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. There are currently several significant uncertainties which make forecasting and planning extremely difficult, these are set out below. The Council uses its business rates retention reserve to mitigate against significant fluctuations in income levels and provide some budgetary stability.

3.11 Following on from the Chancellor's autumn statement, the small and standard business rates multipliers have been de-coupled for the first time. The small business rates multiplier has been frozen for the fourth year in a row whilst the standard multiplier has been uprated by the increase in CPI inflation of 6.7%. The potential level of inflation to build in for future years and S31 grant received to compensate for the freezing of the small business rates multiplier can be difficult to forecast with accuracy. The retained business rates calculation is also heavily dependent on the future tariff, baseline and safety net levels which drive it and these change in line with the Local Government Finance Settlement each year.

Heysham Power Stations

3.12 We are one of only a small number of Councils with a nuclear power station within its boundary. The rateable value of the Heysham1 and Heysham 2 nuclear reactors accounts for over 30% of the Council's total rateable value. Although the retained business rates scheme does have a safety net mechanism in place to ensure that an authority's income does not drop below more than a set percentage of its index linked spending baseline, the Council is vulnerable to swings in income levels relating to the power station' operations. Heysham 1 is shortly due to be decommissioned with its operators, EDF currently giving an end of generation date of March 2026 rather than the date of March 2024 previously given. There remains a level of uncertainty around the exact timing and whilst EDF have an ambition to continue generation for a further year past the March 2026 date they have also commented that the March 2026 date may not be achieved and remains dependent on future graphite inspection results.

Baseline Reset

3.13 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 the year against which the reset would be referenced and how this may interact with the potential nuclear power station decommissioning timetable is an unknown.

Green Energy Disregard

3.14 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 2024/25, this will be worth £3.970M. There is, however, no absolute guarantee that the Government won't discontinue this advantageous arrangement at some point in the future.

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

- Heysham 1 reactor to be decommissioned March 2026
- Growth of 2% in 2025/26 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

	2024/25 £	**2025/26 £**	**2026/27 £**	**2027/28 £**	**2028/29 £**
Retained Business Rates	9,197,200	9,155,600	-	-	-
Safety Net Payment	-	-	7,333,900	7,556,500	7,731,600
Renewable Energy Disregard Income	3,969,900	4,049,300	4,130,300	4,212,900	4,297,200
Total net retained business rates	**13,167,100**	**13,204,900**	**11,464,200**	**11,769,400**	**12,028,800**

New Homes Bonus

3.16 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

	2024/25 £000's	**2025/26 £000's**	**2026/27 £000's**	**2027/28 £000's**	**2028/29 £000's**
Annual Reward	10	90	90	90	90
Previous MTFS	188	188	188	188	188
Difference Increase/ (Decrease)	(178)	(98)	(98)	(98)	(98)

4.0 GENERAL FUND PROJECTIONS

4.1 Table Eight below outlines the current forecast budgetary position for 2024/25 to 2028/29

Table Eight: General Fund Revenue Projections 2024/25 to 2028/29

	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000
Revenue Budget Forecast as 23 February 2023	**23,407**	**25,253**	**27,342**	**27,690**	**0**
Base Budget Changes					
Operational Base Budget Changes	878	1,724	1,953	2,195	31,035
Local Plan	423	98	0	0	0
	24,708	**27,075**	**29,295**	**29,885**	**31,035**
Outcomes Based Resourcing Proposals					
Savings & Income Proposals	(1,233)	(1,402)	(1,429)	(1,456)	(1,484)
Growth Proposals	125	51	52	53	54
Impact of Review of the Capital Programme	(105)	(574)	228	228	96
	23,495	**25,150**	**28,146**	**28,710**	**29,701**
Impact of Final Local Government Finance Settlement	(401)	(311)	(311)	(311)	(311)
Contribution to/ (from) Unallocated Reserves	1,914	1,168	(600)	(500)	
General Fund Revenue Budget	**25,008**	**26,007**	**27,235**	**27,899**	**29,390**
Core Funding					
Revenue Support Grant	(433)				
Prior Year Council Tax (Surplus)/Deficit	141				
Prior Year Business Rates (Surplus)/Deficit	(621)				
Net Business Rates Income	(13,167)	(13,205)	(11,464)	(11,769)	(12,029)
Council Tax Requirement	**10,928**	**12,802**	**15,771**	**16,130**	**17,361**
Estimated Council Tax Income					
(Increase Based on 2.99% for 2024/25 then maximum allowable	**(10,928)**	**(11,367)**	**(11,824)**	**(12,300)**	**(12,794)**
Resulting Base Budget (Surplus)/ Deficit	**0**	**1,435**	**3,947**	**3,830**	**4,567**

4.2 Table Eight shows that, despite of the work undertaken by Officers and Members to balance the budget for 2024/25, there still remains a significant challenge, with the Council facing a shortfall of £1.435M in 2025/26 with an estimated total shortfall of £4.567M over the 5-year period. This is position is further outlined in section 6.

<u>Budget Principles and Assumptions</u>

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

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

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

Table Nine: 5 Year MTFS Planning Assumptions

	2024/25	2025/26	2026/27	2027/28	2028/29
Council Tax Base Growth	0.001%	1.00%	1.00%	1.00%	1.00%
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%
Small Business Rates Multiplier	Frozen	Frozen	Frozen	Frozen	Frozen
Fees & Charges	Various	Various	Various	Various	Various
Inflation – Pay	5.95%	3.50%	3.00%	3.00%	3.00%
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: Current Price	Gas: Current Price	Gas: Current Price	Gas: Current Price
	Electric: Current Price	Electric: Current Price	Electric: Current Price	Electric: Current Price	Electric: Current Price
Other inflation	2.80%	1.70%	2.50%	2.50%	2.50%
Interest Rate – investments	4.68%	3.00%	2.00%	2.00%	2.00%
Interest Rate – new borrowing	4.50%	3.80%	N/A	N/A	N/A

Savings and Income Generation Proposals

4.5 The budget savings, or income growth identified as part of the 2024/25 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 Service in the table below, with more information included within the Budget and Policy Framework General Fund Revenue Budget 2024/25 item on the agenda.

Table Ten: Directorate Summary Savings Proposals

-	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000
Council Wide (Fees & Charges)	(838)	(855)	(872)	(889)	(907)
Communities & Leisure	(113)	(160)	(163)	(166)	(169)
Environment & Place	(77)	(78)	(79)	(80)	(81)
Housing & Property	(15)	(115)	(117)	(119)	(121)
People & Policy	12	12	12	12	12
Planning & Climate Change	(72)	(73)	(74)	(75)	(76)
Resources	(30)	(31)	(32)	(33)	(34)
Sustainable Growth	25	(51)	(52)	(53)	(54)
Net Savings	**(1,108)**	**(1,351)**	**(1,377)**	**(1,403)**	**(1,430)**

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 Budget Process & Review

4.7 Cabinet and Strategic Leadership Team have considered new schemes for inclusion in the Capital Programme via the submission of strategic outline followed by full business cases during the budget process. The Council's previous Capital Programme has also been reviewed with a view to repositioning and reprofiling several capital schemes. This has altered the impact that capital projects have on revenue due to Minimum Revenue Provision (MRP) and interest costs. Details of the estimated additional expenditure or savings are detailed in the table below:

Table Eleven: Revenue Impact of Capital Programme Budget Process & Review

	2024/25 £'000	**2024/25 £'000**	**2025/26 £'000**	**2026/27 £'000**	**2027/28 £'000**
Revenue Impact of Capital Programme Changes	(105)	(574)	228	228	96

5.0 CAPITAL INVESTMENT AND FINANCING

Capital Investment

5.1 Through its capital programme the Council plans net investment of £32.326M between 2023/24 and 2028/29 with a further £6.883M currently planned up to 20232/33. This investment will support the delivery of its key Strategic Priorities and Outcomes such as Climate Emergency, Housing and Regeneration as well as investing in of existing property, facilities, and equipment 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 Schemes which 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 can cover 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,

Table Twelve: Capital Programme

	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	Total £'000
Approved Schemes							
Communities & Leisure	259	976	291	-	-	-	1,526
Environment & Place	1,292	1,301	5,067	630	1,073	1,761	11,124
Housing & Property	2,335	2,524	899	940	328	539	7,565
People & Policy	-	-	-	-	-	-	-
Planning & Climate Change	-	240	2,193	-	-	-	2,433
Resources	1,386	1,341	286	316	326	181	3,836
Sustainable Growth	937	115	530	30	30	0	1,642
Schemes Under Development	-	200	4,000	-	-	-	4,200
Total Net Capital Programme	**6,209**	**6,697**	**13,266**	**1,916**	**1,757**	**2,481**	**32,326**

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 2023/24 position of £101.04M to £112.54M in 2025/26 before decreasing in 2028/29 to £101.88M.

Table Thirteen: Capital Financing Requirement

	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Capital Financing Requirement							
CFR – Non-Housing	63.56	66.95	70.47	80.54	77.81	74.99	73.00
CFR – Housing	35.13	34.09	33.05	32.00	30.96	29.92	28.88
Total CFR	**98.69**	**101.04**	**103.52**	**112.54**	**108.77**	**104.91**	**101.88**
Movement in CFR							
Non-Housing	4.50	3.38	3.52	10.07	-2.73	-2.82	-1.99
Housing	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04
Net Movement in CFR	**3.46**	**2.34**	**2.48**	**9.03**	**3.77**	**-3.86**	**-3.03**

Movement in CFR represented by							
Net financing need for the year (above) re Non-Housing	4.61	6.02	6.53	13.26	1.92	1.75	2.48
Less MRP/VRP and other financing movements	-1.15	-3.68	-4.05	-4.23	-5.69	-5.61	-5.51
Net Movement in CFR	**3.46**	**2.34**	**2.48**	**9.03**	**-3.77**	**-3.86**	**-3.03**

5.4 Based on the capital programme, the overall physical borrowing position of the Council is projected to increase by £21.87M over the next three years from its estimated current position of £59.00M to £80.88M at the end of 2025/26 in order to finance the Council's capital ambitions. It is then forecast to reduce slightly year on year reflecting repayments of the HRA self-financing loan. See table fourteen below.

Table: Fourteen: Forecast Borrowing Position

	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
External Debt							
Debt at 1 April	**60.05**	**59.01**	**63.97**	**71.93**	**80.88**	**79.84**	**78.80**
Expected change in Debt	**-1.04**	**4.96**	**7.96**	**8.95**	**-1.04**	**-1.04**	**-1.04**
Other long-term liabilities (OLTL)	**0.00**	**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**	**0.00**
Actual gross debt at 31 March	**59.01**	**63.97**	**71.93**	**80.88**	**79.84**	**78.80**	**77.76**
The Capital Financing Requirement	**98.69**	**101.02**	**103.52**	**112.54**	**108.77**	**104.91**	**101.88**
Under Borrowing	**-39.69**	**-37.07**	**-31.59**	**-31.66**	**-28.93**	**-26.11**	**-24.12**

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 will be asked to formally approve the annual Treasury Management Strategy.

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 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

	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M
Interest	1.568	1.541	2.098	2.106	2.114	2.123
MRP	2.638	3.010	3.194	4.653	4.567	3.474
Total	**4.206**	**4.551**	**5.292**	**6.759**	**6.681**	**5.597**

Table Sixteen: Ratio of Financing Costs to Net Revenue Stream

	2022/23 Actual %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %	2027/28 Estimate %	2028/29 Estimate %
General Fund	5.90	19.94	18.20	20.20	24.65	23.79	22.30
HRA	18.79	17.00	16.22	16.25	15.99	15.75	15.75

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 just under a quarter of the Council's annual net revenue budget. Levels will, therefore, need to be closely monitored and the impact on affordability of new capital schemes carefully considered as part of the business case assessment and governance processes. Estimates within the HRA are currently 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, giving consideration 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 2024/25 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

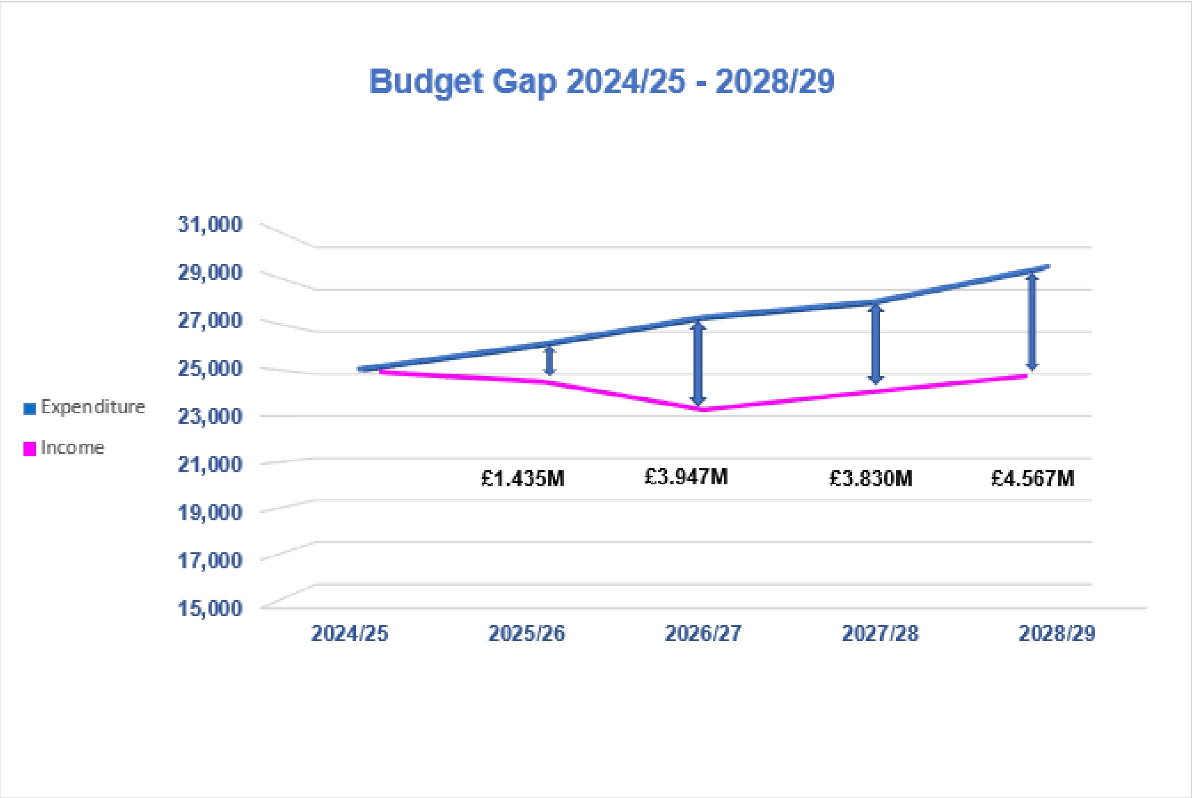


Table Seventeen: Cumulative Deficit as Percentage of Revenue Budget

	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000
Revenue Budget (Estimate 20 February 2024)	25,008	26,007	27,235	27,899	29,390
Budget Gap (Incremental)	*0*	*1,435*	*3,947*	*3,830*	*4,567*
Percentage of Net Revenue Budget (Incremental)	0%	6%	14%	14%	16%

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 process continues into its next phase – Fit for the Future. This will be fundamental in driving down budget gaps from 2024/25 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 the extent 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 process. 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. In accordance with the S151 Officers advice the minimum level of General Fund unallocated reserve is £5M.

7.4 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 this reserve.

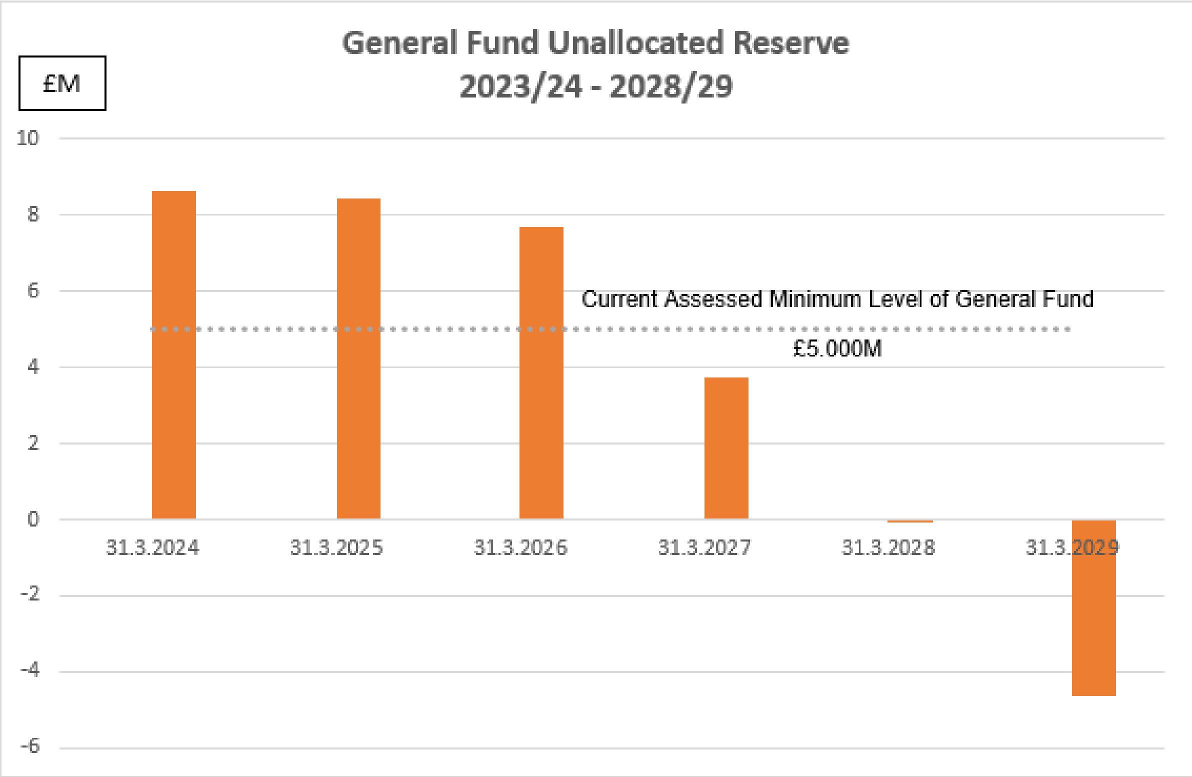


Table Eighteen: Estimated Level of General Fund Unallocated Reserves

	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M	2027/28 £M	2028/29 £M
Balance brought forward	(11.678)	(8.620)	(8.412)	(7.699)	(3.752)	0.078
Forecast Overspend	0.677	0.000	1.435	3.947	3.830	4.567
Contributions (to)/from	2.381	0.458	(0.722)	0.000	0.000	0.000
Impact of 2023/24 budget decisions	0.000	(0.250)	0.000	0.000	0.000	0.000
Balance carried forward	**(8.620)**	**(8.412)**	**(7.699)**	**(3.752)**	**0.078**	**4.645**

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 essentially ring-fenced reserves such as s106, reserves held in perpetuity, revenue grants unapplied & elections it does include reserves such as Business Retention and Renewals Reserves.

7.8 The Business Rates Retention Reserve is a mandated reserve, its purpose is to manage the risk of fluctuations in business rates income, including changes in the Council's appeals provision and movements in forecast prior year surpluses or deficits. Whilst the transfers can be made to the general fund it is required to be maintained at a prudent level to manage the risks with business rates and not to support ongoing budget deficits. On this basis the graph below is used to underline the serious of the current situation against the Council's entire resource not only the general fund.

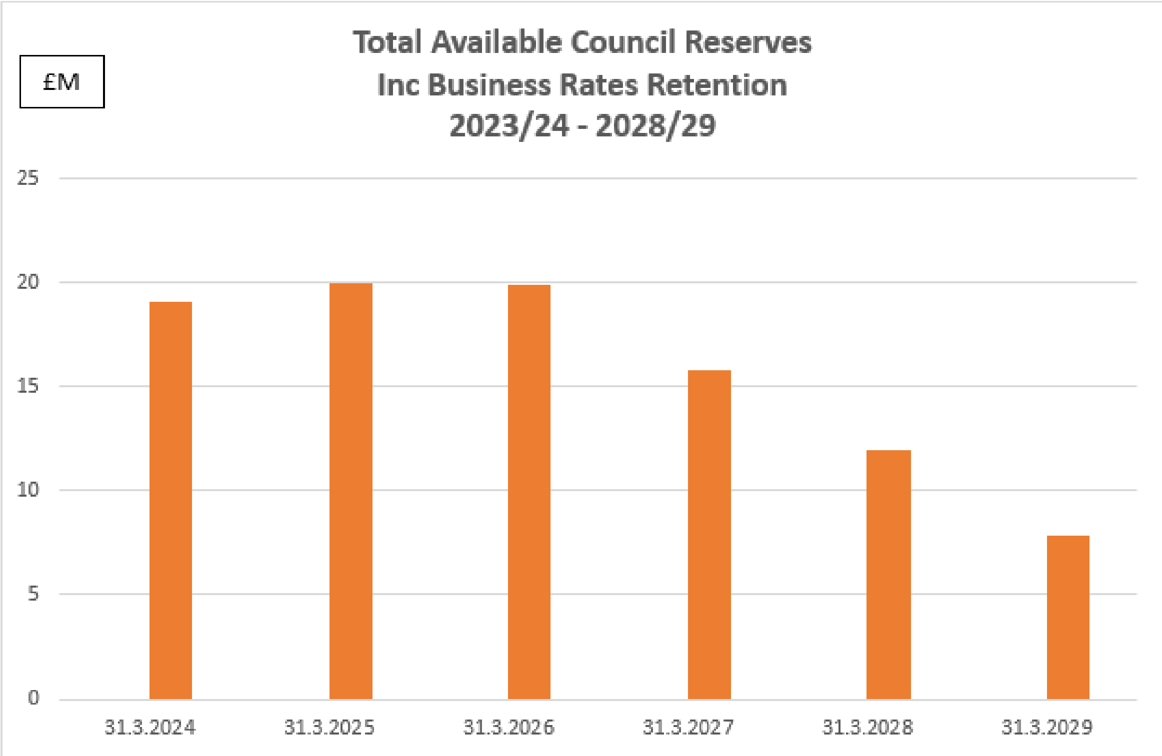


Table Nineteen: Estimated Combined Level of Reserves (excluding S106 Reserves & Reserves Held in Perpetuity etc)

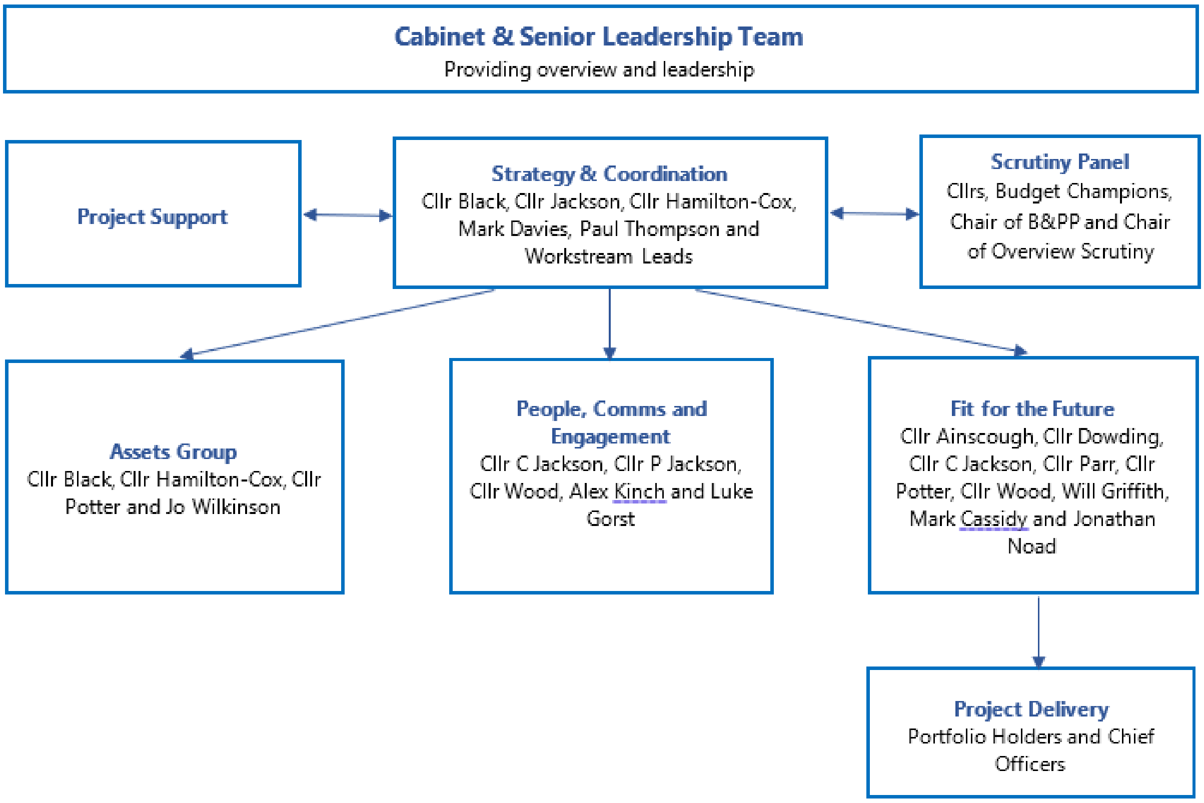
	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M	2027/28 £M	2028/29 £M
Balance brought forward	(22.308)	(19.085)	(20.005)	(19.836)	(15.785)	(11.950)
Forecast Overspend/Deficit	0.677	0	1.435	3.947	3.830	4.567
Contributions (to)/from	2.546	(0.670)	(1.266)	0.104	0.005	(0.495)
Impact of 2023/24 budget decisions	0	(0.250)	0	0	0	0
Balance carried forward	**(19.085)**	**(20.005)**	**(19.836)**	**(15.785)**	**(11.950)**	**(7.878)**

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 2028/29

8.1 The Council embarked on its OBR process in 2022/23 with its intention to ensure that funds are allocated according to a set of predefined outcomes, or priorities in order to ensure 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.

8.2 The table below shows the operational structure of OBR – Fit for the Future process and its governance processes along with the key Member and Senior Officer involvement. The process is split into 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 budget gap and securing the financial sustainability of the Council going forward. It is imperative that the OBR work, or similar principles continues. 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 Cabinet and Senior Leadership Team have agreed on principles and common goals as they continue to work through the OBR – Fit for the Future process.

- We need to continue tackle the structural deficit over the short medium and long term.
- We need to use reserves carefully to transition.
- We want to continue to deliver services that residents/ businesses need and rely on
- We want to achieve positive outcomes for our district.

8.5 The proposed actions through the OBR – Fit for the Future process currently include:

- Exploration of 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

8.5 These proposals will form part of a wider consolidated Medium Term Financial Strategy to be presented to Cabinet and Council in March 2024.

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 as a result of National and International concerns. Local Government funding remains a key challenge for the Council as well as 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 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 Agenda for Council on Wednesday, 13th December 2023, 6.00 p.m. - Lancaster City Council Cabinet – MTFS Agenda for Cabinet on Tuesday, 20th February 2024, 6.00 p.m. - Lancaster City Council Agenda for Cabinet on Tuesday, 5th December 2023, 6.00 p.m. - Lancaster City Council	**Contact Officer:** Paul Thompson **Telephone: 01524 582603** **E-mail:** pthompson@lancaster.gov.uk **Ref:** N/A

COUNCIL

Appointment to an Outside Body – Board of Trustees of the Lancaster Charity

28 February 2024

Report of the Senior Manager, Democratic Support and Elections

PURPOSE OF REPORT
To consider nominating a Councillor to be appointed to the vacancy on the Board of Trustees of the Lancaster Charity.
This report is public

RECOMMENDATION

(1) **That Council notes the vacancy on the Board of Trustees of the Lancaster Charity and that the six representatives on that body have previously been selected by nomination and voting at full Council**. *(see paragraph 3.2 of the report).*

(2) **That nominations be made and voted upon at this meeting and a name put forward for appointment to the Board of Trustees until the next City Council elections in 2027.**

1.0 Introduction

1.1 At the Annual Council meeting on 22 May 2023 following the elections, Councillors Brookes, Budden, Cozler, MacGregor, Pritchard and Redfern were nominated by full Council to serve on the Board of Trustees of the Lancaster Charity. Following Councillor MacGregor's recent resignation, there is now one vacancy on the Charity's Board.

2.0 The Lancaster Charity

2.1 The Lancaster Charity's website HERE provides lots of information about its purpose and work.

2.2 Democratic Support understand that Trustees are required to attend four meetings per year on the second Tuesday of January, April (AGM), July and October. Meetings take place in Lancaster at 10.30am and usually take around one hour. In addition, Trustees host a Christmas lunch for residents on the first Tuesday in December at a local hotel venue, so would be required to attend that event. There are also occasional outings during the year which Trustees are encouraged to support and attend, such as a summer day trip and a trip to see

Blackpool illuminations.

3.0 Proposal Details

3.1 Members are asked to nominate one Councillor at this meeting, noting paragraph 3.2, below. The term of office, if appointed to the Board of Trustees, will extend to the next elections in May 2027.

3.2 The basis of selecting Councillors to be put forward for the six positions on the Board of Trustees has always been by nomination and voting at Council and this was re-confirmed on 22 May 2023. Should Members now feel that it should be some other basis, such as by virtue of position (Cabinet Member or Ward Member, for example) then such a proposition will need to be made at the meeting and voted upon before nominations are sought.

4.0 Conclusion

4.1 Council is asked to consider recommending a Councillor to be appointed to the Board of Trustees of the Lancaster Charity at this meeting for the reasons set out in this report.

CONCLUSION OF IMPACT ASSESSMENT **(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)** None directly arising from this report.	
LEGAL IMPLICATIONS None directly arising from this report.	
FINANCIAL IMPLICATIONS Members of outside bodies are entitled to travel expenses. Costs resulting from this appointment should be minimal and would be met from existing democratic representation budgets.	
OTHER RESOURCE IMPLICATIONS None	
SECTION 151 OFFICER'S COMMENTS The Section 151 Officer has been consulted and has no comments.	
MONITORING OFFICER'S COMMENTS The Monitoring Officer has been consulted and has no comments.	
BACKGROUND PAPERS None	**Contact Officer:** Debbie Chambers **Telephone:** 01524 582057 **E-mail:** dchambers@lancaster.gov.uk **Ref:**

CABINET

6.00 P.M. **16TH JANUARY 2024**

PRESENT:- Councillors Phillip Black (Chair), Caroline Jackson, Joanne Ainscough, Gina Dowding, Tim Hamilton-Cox, Peter Jackson, Nick Wilkinson and Jason Wood

Apologies for Absence:-

Councillors Jean Parr and Catherine Potter

Officers in attendance:-

Mark Davies	Chief Executive
Luke Gorst	Chief Officer - Governance and Monitoring Officer
Paul Thompson	Chief Officer - Resources and Section 151 Officer
Mark Cassidy	Chief Officer - Planning and Climate Change
Liz Bateson	Principal Democratic Support Officer

52 MINUTES

The minutes of the meeting held on Tuesday 5 December 2023 were approved as a correct record.

53 ITEMS OF URGENT BUSINESS AUTHORISED BY THE LEADER

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

54 DECLARATIONS OF INTEREST

No declarations were made at this point.

55 PUBLIC SPEAKING

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

56 CORPORATE FEES AND CHARGES

Cabinet Member with Special Responsibility Councillor Hamilton-Cox)

Cabinet received a report from the Chief Officer Resources which sought Cabinet's endorsement of the Fees and Charges Policy for 2024/25 and consideration of a range of charging options as deemed appropriate to the service area.

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

	Option 1: To support the inflationary increases/freezes as outlined in the report.	Option 2: To not support the inflationary increases as outlined in the report.

Advantages	Fees and charges contribute further to the general fund net position. Costs of delivering Council services have increased as has demand in some areas. Not increasing costs means that further pressure is created on the Council's ability to deliver its core services.	Maintains the cost of services at 23/24 levels or at less than proposed in this report.
Disadvantages	The draft revenue budget has been prepared with the inclusion of the items raised in this report. Any further proposals would require further consideration prior to being fed into the budget process.	Costs of delivering Council services have increased as has demand in some areas. Not increasing costs means that further pressure is created on the Council's ability to deliver its core services.
Risks	Increasing fees to higher than suggested levels would most likely result in further resistance and potentially not achieve the targets originally set.	Cost of living increases and the return from the pandemic have reshaped people's habits. The income targets already set may not achieve projected levels in 23/24, resulting in a shortfall within the accounts

The officer preferred option is Option 1. Fees and Charges are reviewed on an annual basis and as outlined within the report, significant factors have become apparent as to why differing treatment is required within a couple of areas. It is felt that the recommendations made are of a fair nature and in-line with the attached policy.

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

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

Councillors then voted:-

Resolved unanimously:

(1) That Cabinet endorses the Fees and Charges Policy as set out at Appendix A to the report, and during 2024/25 as part of the mid-year budget strategy review determines whether any other areas of income generation be explored further for 2025/26 onwards.

(2) That Cabinet endorses the increasing of selected car parking pay and display charges in line with those listed in Appendix C to the report.

(3) That Cabinet endorses the increase of garden waste collection charges by £4 to £45 per annum.

(4) That Cabinet endorses the application of inflationary increases to fees and

charges across all remaining areas as appropriate, as reported as part of the current 2024/25 budget setting process.

(5) That Cabinet endorses the annual review of Mellishaw Park pitch fees in line with CPI, as prescribed by the Mobile Homes (Pitch Fees) Act 2023.

(6) That Jubilee Court rents be set in accordance with the Policy Statement on Rents for Social Housing, as applied to HRA housing stock.

Officers responsible for effecting the decision:

Chief Officer Resources

Reasons for making the decision:

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

57 BUDGET & POLICY FRAMEWORK UPDATE 2024/25 TO 2028/29 INCLUDING CAPITAL PROGRAMME, CAPITAL STRATEGY & TREASURY MANAGEMENT STRATEGY

(Cabinet Member with Special Responsibility Councillor Hamilton-Cox)

Cabinet received a report from the Chief Finance Officer to provide an update on the Council's budget strategy for 2024/25 and financial outlook up to 2028/29. Specifically, the report considered the budget and Council Tax proposals for 2024/25.

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

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

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

In terms of the actual budget position, this report puts forward a balanced budget. If Cabinet agrees the budget, then it will form their proposal to Budget and Performance Panel on 18 January 2024 and subject to public consultation 31st January. The feedback from these meetings will be considered by Cabinet and incorporated into a final budget proposal which will be presented at the Cabinet meeting on 06 February 2024 and recommended to Council on 28 February 2024.

The current budget proposal produces a balanced budget through utilisation of the

Councils reserves. Cabinet and Officers must continue to work ahead of Cabinet's 06 February 2024 meeting to identify further opportunities for savings, efficiencies, and income generation to further reduce the use of reserves.

Whilst the longer-term financial forecasts contain numerous estimates and assumptions, which will change over time, the forecasts clearly highlight potential annual and cumulative budget deficits over the next 5 years and the position the Council faces. Although this position is not unique to this Council, and is reflected nationally across many public sector bodies, the gaps identified for 2025/26 and beyond are of a level that both Members and Officers need to recognise the size of the challenge ahead and manage the transitional change to the way that the Council delivers both its statutory and non-statutory services across the district .

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

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

Councillors then voted:-

Resolved unanimously:

(1) That Cabinet make recommendations to Council regarding the Lancaster City Council element of the Council Tax as set out in paragraph 3.3 (option one) of the report which is a 2.99% increase to the Band D Council Tax (from £249.18 to £256.63).

(2) That Cabinet makes recommendations regarding its initial budget proposals as set out in section 5 and Appendix A of the report.

(3) That the recommendations and proposals in the report be referred to Council on 24 January for initial consideration as well as being presented for scrutiny by Budget and Performance Panel on 18 January, in order that any feedback can be provided to Cabinet at its 06 February meeting.

Officer responsible for effecting the decision:

Chief Finance Officer

Reasons for making the decision:

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

The decision enables the proposals to be considered by the Budget and Performance Panel and at January Council allowing Cabinet to make further recommendations back to Council to complete the budget setting process for 2024/25.

58 REPORTING IN OF URGENT DECISIONS - DEMOLITION CONTRACTORS

In accordance with the Scheme of Delegation to Officers (Part 2, Section 7 –

Delegations to the Chief Executive Matters of Urgency) the Chief Executive submitted a report to Cabinet with details of two urgent decisions taken under Rule 15 following consultation with the relevant portfolio holder and with the agreement of the Chair of Overview & Scrutiny. The Urgent Decisions both related to the procurement of demolition services in relation to the major incident on 3 December 2024. (UB 135 & UB136 refer).

Resolved unanimously:

That the Urgent Decisions taken by the Chief Executive on 6th December and 15th December 2023 following the declaration of a major incident on 3rd December 2023 be noted.

Chair

(The meeting ended at 6.38 p.m.)

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

MINUTES PUBLISHED ON MONDAY 22 JANUARY 2024.