LANCASTER CITY COUNCIL

Promoting City, Coast & Countryside

Committee: **CABINET**

Date: **TUESDAY, 6 FEBRUARY 2024**

Venue: **MORECAMBE TOWN HALL**

Time: **6.00 P.M.**

A G E N D A

1. **Apologies**

2. **Minutes**

   To receive as a correct record the minutes of Cabinet held on Tuesday, 16 January 2024 (previously circulated).

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

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

4. **Declarations of Interest**

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

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

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

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

5. **Public Speaking**

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

6. **Reports from Overview and Scrutiny**

   None.

   Reports

7. **Budget & Policy Framework Update 2024/25 to 2028/29** (Pages 4 - 12)

(Cabinet Member with Special Responsibility Councillor Hamilton-Cox)

Report of Chief Officer Resources (report published on 2 February 2024)

8. **Capital Strategy & Capital Programme 2024/25 to 2028/29** (Pages 13 - 40)

(Cabinet Member with Special Responsibility Councillor Hamilton-Cox)

Report of Chief Officer Resources (report published on 2 February 2024)

9. **Treasury Management Strategy** (Pages 41 - 69)

(Cabinet Member with Special Responsibility Councillor Hamilton-Cox)

Report of Chief Officer Resources (report published on 2 February 2024)

10. **Medium Term Financial Strategy**

(Cabinet Member with Special Responsibility Councillor Hamilton-Cox)

Report of Chief Officer Resources (report to follow)

11. **Housing Revenue Account and Capital Programme** (Pages 70 - 103)

(Cabinet Member with Special Responsibility Councillor Caroline Jackson)

Report of Chief Officer for Housing & Property and the Chief Officer Resources (Section 151 Officer) (report published on 2 February 2024)

12. **Decision to Consider Sustainability of a Council Housing Dwelling Block** (Pages 104 - 111)

(Cabinet Member with Special Responsibility Councillor Caroline Jackson)

Report of Chief Officer for Housing & Property (report published on 2 February 2024)

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

Councillors Phillip Black (Chair), Caroline Jackson, Joanne Ainscough, Gina Dowding, Tim Hamilton-Cox, Peter Jackson, Jean Parr, Catherine Potter, Nick Wilkinson and Jason Wood

(ii) Queries regarding this Agenda

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

(iii) Changes to Membership or apologies

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

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

Published on MONDAY 29 JANUARY, 2024.

CABINET

Budget & Policy Framework Update 2024/25 – 2028/29

6 February 2024

Report of Chief Finance Officer

PURPOSE OF REPORT					
This report sets out the latest position in respect of the budget and policy framework and Cabinet's proposed General Fund revenue budget for 2024/25					
Key Decision	X	**Non-Key Decision**		**Referral from Cabinet Member**	
Date of notice of forthcoming key decision				8th December 2023	

RECOMMENDATION OF COUNCILLOR HAMILTON - COX

1. That Cabinet considers the following:

- **The updated 2024/25 General Fund Net Revenue Budget and resulting Council Tax Requirement excluding parish precepts (Appendix A) and supporting budget proposals (Appendix B).**

2. That Cabinet consider the recommendations put forward by Budget & Performance Panel following its meeting and Public Consultation (Section 5)

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, several updates have been made to the General Fund Revenue budget to reflect the best information available, these include:

- 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.

3.0 GENERAL FUND REVENUE BUDGET 2024/25

3.1 The General Fund Revenue Budget for 2024/25, summarised in Table 1 below, is included at ***Appendix A,*** with Service level summary information given at ***Appendix B***. The proposed budget is balanced, in line with statutory requirements, allowing for a contribution on the Council's reserves of £1.724M. At the time of writing, the proposed budget does not take account of the final local government finance settlement which is due to be approved by Parliament in "early" February 2024. A budget report will be presented to Cabinet 20th February 2024 for final consideration ahead of formal recommendation to Council.

Table 1: General Fund Revenue Budget 2024/25

	2024/25 £'000
Revenue Budget Forecast as 23 February 2023	**23,407**
Base Budget Changes	
Operational Base Budget Changes	878
Local Plan	423
	24,708
Outcomes Based Resourcing Proposals	
Savings & Income Proposals	(1,233)
Growth Proposals	125
Impact of Review of the Capital Programme (MRP & Interest)	(105)
	23,495
Impact of Provisional Local Government Finance Settlement	(211)
Contribution to/(from) Reserves	1,724
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)
Council Tax Requirement	**10,928**
Estimated Council Tax Income	
(Increase Based on 2.99% for 2024/25 then maximum allowable	**(10,928)**
Resulting Base Budget (Surplus)/ Deficit	**0**

3.2 The proposals set out in the Table 1 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 Failure to deliver these savings, efficiency and income proposals would represent a significant risk to the Council as any shortfall would result in further financial pressures in 2025/26 and beyond.

3.4 Table 2 below reconciles the position reported to Cabinet 16 January 2024 to the current balanced position.

Table 2 Reconciliation Cabinet 16 January 2024 to Current Position

	2024/25 £'000
Revenue Budget Forecast as of 16 January 2024	**24,266**
Changes	
Increase in contribution to reserves:	
Recognition of prior year business rates surplus	621
Increase in net business rates income	128
Increase in prior year forecast council tax deficit	(7)
General Fund Revenue Budget now reported	**25,008**

3.5 As set out in the report to Cabinet on 16 January work was in progress to determine the prior year forecast closing position in respect of business rates. A year end surplus is forecast for 2023/24 and this will be recognised in 2024/25. The City Council's share is £0.621M and, as previously reported, this will be transferred to the Business Rates Retention Reserve where it will be used to manage the inherent risk described in paragraph 4.5.

3.6 Forecasts in respect of business rates have been finalised following the completion and submission of the NNDR1 form in line with the 31 January deadline. The final position is £0.128M more net retained income, largely arising from that retained 100% by the City Council under the Renewable Energy Disregard.

3.7 There has been a minor increase in the prior year forecast council tax deficit following the final monitoring assessment undertaken prior to submitting the estimated figures to the County Council, Lancashire Fire & Rescue, and the Police & Crime Commissioner in line with the 15 January annual deadline. Together with the increase in retained business rates there is now a small budgetary surplus of £0.121M to transfer to reserves rather than the previously reported £0.061M shortfall required to balance the budget for the forthcoming yea.

Budget Principles and Assumptions

3.8 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. Key Council 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.

3.9 Table 3 below, lists the major assumptions that have been made for the 2024/25 budget.

Table 3 Major Assumptions within Draft 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 for 2023/24. The City Council's share of this is £0.141M.

4.3 The maximum Council Tax increase permitted by central government, without reference to a referendum of 2.99% was agreed by Council on 24 January 2024.As a result the City element of Council Tax for a band D property will be £256.63.

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.

4.6 The table 5 below shows the income from the Business Rates Retention Scheme that will be recognised in the General Fund during 2024/25

Table 5: 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**

4.7 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.

4.8 The Council receives a 'disregard' for renewable energy hereditaments which means that 100% of the business rates for these properties is retained by the authority. It is estimated that in 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.

4.9 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.

5.0 DETAILS OF CONSULTATION

5.1 Budget & Performance Panel considered Cabinet's initial budget proposals at their meeting on 18 January 2024 and made the following comments.

- 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.

5.2 In line with the Constitution, Cabinet is required to consider these comments.

5.3 Cabinet's initial budget proposals were presented for Public Consultation 31st January 2024, with no comments or observations being recorded.

7.0 OPTIONS & OPTIONS ANALYSIS

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

7.3 Cabinet will have the opportunity to consider any further changes or amendments at its meeting 20th February where it will be asked to recommend its Budget to Full Council for approval at its accordance with the Constitution.

8.0 OFFICER PREFERRED OPTION (AND COMMENTS)

8.1 That Cabinet considers the updates to the General Fund Revenue Budget 2024/25 recognising that a final report will be presented at its meeting 20th February 2024.

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 strategies.

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 The s151 Officer has authored this report and his comments are reflected within its content. A Final Budget report will be presented to Cabinet at its meeting 20th February 2024 at which it will be asked to make a recommendation to Full Council for approval.
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	
BACKGROUND PAPERS Appendix A General Fund Revenue Budget 2024-25 Appendix B Directorate Summary **Council Papers** Agenda for Council on Wednesday, 24th January 2024, 6.00 p.m. – Lancaster City Council Agenda for Council on Wednesday, 13th December 2023, 6.00 p.m. – Lancaster City Council **Cabinet Papers** 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	**Contact Officer:** Paul Thompson **Telephone: 01524 582603** **E-mail:** pthompson@lancaster.gov.uk **Ref:** N/A

General Fund Revenue Budget Projections 2024/25 to 2028/29

For Consideration by Cabinet 6 February 2024

	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000
GF Revenue Budget/Forecast as at 22 February 2023	**23,407**	**25,253**	**27,342**	**27,690**	**0**
GF Revenue Budget/Forecast as at 5 December 2023	**24,078**	**26,469**	**29,284**	**29,872**	**31,020**
Base Budget Changes					
Further Operational Changes	191	3	9	13	18
Provisional Finance Settlement	(211)	(121)	(121)	(121)	(121)
Revised Energy Estimates (electric 29p -> 28p, gas 8p -> 5p)	(134)	(134)	(134)	(134)	(134)
Burrow Beck Income	0	500	0	0	0
City Museum Shop Income	0	(11)	(14)	(16)	(19)
Commercial Property Income Reduction	150	150	150	150	150
Local Plan	423	98	0	0	0
Council Wide (Fees & Charges)	(838)	(855)	(872)	(889)	(907)
Contributions to/(from) Reserves	1,724	1,168	(600)	(500)	??
Latest Budgetary Position	**25,383**	**27,267**	**27,702**	**28,375**	**30,007**
Outcomes Based Resourcing Proposals:					
Savings/ Income Generation Proposals					
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)
Growth Proposals					
People & Policy	12	12	12	12	12
Planning & Climate Change	38	39	40	41	42
Sustainable Growth	75	0	0	0	0
Total OBR Proposals	**(270)**	**(496)**	**(505)**	**(514)**	**(523)**
Revenue Impact of Capital Programme Review (MRP & Interest)	(105)	(574)	228	228	96
General Fund Revenue Budget	**25,008**	**26,197**	**27,425**	**28,089**	**29,580**
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**	**12,992**	**15,961**	**16,320**	**17,551**
Estimated Council Tax Income - **(Increases based on 2.99% for 2024/25 then max allowable)**	**10,928**	**11,367**	**11,824**	**12,300**	**12,794**
Resulting Base Budget (Surplus)/Deficit	**0**	**1,625**	**4,137**	**4,020**	**4,757**
Incremental Deficit as Percentage of Net Revenue Budget	**0%**	**6%**	**15%**	**14%**	**16%**

BALANCES

General Fund Unallocated Balance	***£M***	***£M***	***£M***	***£M***	***£M***
Balance as at 1 April 2024-28	**(8.686)**	**(8.288)**	**(7.385)**	**(3.248)**	**+0.772**
In Year allocations	**+0.000**	**+0.000**	**+0.000**	**+0.000**	**+0.000**
Forecast (Under)/Overspend	+0.000	+1.625	+4.137	+4.020	+4.757
Other Adjustments	+0.398	(0.722)	+0.000	+0.000	+0.000
Projected Balance as at 31 March 2025-29	**(8.288)**	**(7.385)**	**(3.248)**	**+0.772**	**+5.529**
Reserves	**(8.288)**	**(7.385)**	**(3.248)**	**+0.772**	**+5.529**
Less Recomended Minimum Level of Balances	**5.000**	**5.000**	**5.000**	**5.000**	**5.000**
Available Balances	**(3.288)**	**(2.385)**	**+1.752**	**+5.772**	**+10.529**

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	***People & Policy***	12	12	12	12	12
	Planning & Climate Change	38	39	40	41	42
	Sustainable Growth	75	0	0	0	0
	Total Growth	**125**	**51**	**52**	**53**	**54**
	Net Savings	**(1,108)**	**(1,351)**	**(1,377)**	**(1,403)**	**(1,430)**

CABINET

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

Report of Chief Finance Officer

PURPOSE OF REPORT					
To present Cabinet's final budget proposals in order that the Council can approve a General Fund Capital Programme for 2023/24 to 2028/29 and a Capital Strategy 2024/25 as required by regulation.					
Key Decision	**X**	**Non-Key Decision**		**Referral from Cabinet Member**	
Date of notice of forthcoming key decision				8th December 2023	

RECOMMENDATION OF COUNCILLOR HAMILTON-COX

1. **That Cabinet recommends the following for consideration and comment by Budget & Performance Panel:**
   - **the updated Capital Programme covering financial years 2023/24 to 2032/33**
   - **the Capital Strategy (Investing in the Future) 2024/25**

1.0 INTRODUCTION

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

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

2.0 CAPITAL PROGRAMME

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

	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**

2.2 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.

2.3 Schemes classified as Under Development have had strategic outline business cases approved in principle by the Cabinet but **cannot** commence until full business cases have been considered and approved, first by the Capital Assurance Group, and then by Cabinet.

2.4 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.

2.5 Overall the programme is balanced, allowing for a gross increase in the underlying need to borrow (known as the Capital Financing Requirement or CFR), over the five-year period to 2028/29. The Council makes a revenue provision for the repayment of borrowing known as Minimum Revenue Provision (MRP) which reduces the CFR.

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

3.0 CAPITAL STRATEGY

3.1 The Council is required to adopt a Capital Strategy, and this is included as ***Appendix B***. It is an overarching document which sets the policy framework for the development, management, and monitoring of capital investment. It incorporates the Capital Programme, Asset Management Plan and Treasury Management Strategy.

3.2 The strategy also sets out the proposed approach to risk management as well as the monitoring and evaluation of capital projects. Capital investment decisions will reflect the priorities included within the Council Plan: Strategic Priorities and supporting strategies

- Schemes to be added to the Capital Programme will be subject to a gateway process following completion of a capital bid which will be scored against criteria set to measure strategic, economic, financial, commercial and management criteria in accordance with the Treasury's 5 case model. These will be reviewed by a corporate Capital Assurance Group comprising key Officers alongside the Finance Portfolio Holder and Chairs of Budget and Performance Panel and Overview and Scrutiny Committee.
- The Capital Assurance Group (CAG) will also oversee capital financing in order to ascertain that all capital expenditure is affordable, prudent, and sustainable as set out in the Treasury Management Strategy. CAG's terms of reference are provided at ***Appendix C***

3.3 The Council recognises that it will play a pivotal role in key projects which will enable the district to thrive and grow. Further development of the Capital Programme may be needed over the next few years in order to properly encapsulate major economic development projects.

4.0 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 will consider the strategy at its meeting 14 February 2024.

4.2 To assist Budget & Performance Panel in its scrunty a training session will be held prior to the meeting, this will be open to all Members.

4.3 Cabinet will have the opportunity to consider any comments at its meeting 20th February where it will be asked to recommend the strategy to Full Council for approval at its accordance with the Constitution.

5.0 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

5.1 Cabinet may put forward alternative proposals or amendments to the proposed Strategy ahead of consideration by Budget & Performance Panel. For capital, Council may adjust its capital investment and financing proposals taking account of spending commitments and priorities, but its proposals for 2024/25 must balance.

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

6.0 OFFICER PREFERRED OPTION (AND COMMENTS)

6.1 To consider the Capital Programme and Strategy as attached and refer it to Budget and Performance Panel for review.

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 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 The Council's revenue and capital budgets should represent, in financial terms what the Council is seeking to achieve through its Policy Framework. The proposed capital programme and supporting strategy is part of the Council's budget and policy framework, and fits into the Medium Term Financial Strategy
CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability etc) The proposed budget incorporates measures to address the climate emergency and digital improvements as well as activities to address wellbeing, health and community safety.
FINANCIAL IMPLICATIONS There are no financial implications arising directly from this report. However, the proposed levels and areas of capital investments will require borrowing and other associated costs. Financial due diligence and assessment will ensure that all the appropriate costs are considered for each proposal.
S151 OFFICER COMMENTS The s151 Officer has contributed to the writing of this report and Appendices.

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

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 Appendix B Capital Strategy - Investing in the Future Appendix C: CAG Terms of Reference	**Telephone: 01524 582603** **E-mail:** pthompson@lancaster.gov.uk **Ref:** N/A

General Fund Capital Programme

Service / Scheme	2023/24			2024/25			2025/26			2026/27			2027/28			2028/29		
	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme
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

Financing :	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
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

	2029/30 Net Programme	2030/31 Net Programme	2031/32 Net Programme	2032/33 Net Programme	10 YEAR TOTAL Total Net Programme
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 2024-2033

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

To be reviewed and approved annually by Council

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1. Introduction

1.1. Investing in the Future

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

- **Services:** Regular ongoing activities such as Planning, Council Housing, Public Realm, and Public Protection. These services are generally funded by continuous **'Revenue'** funding through the Council's regular funding streams such as Council Tax and Business Rates.
- **Projects:** One-off development activities in areas such as Regeneration, Housing, Carbon Zero or Culture & Heritage initiatives, which may complement or transform an existing service, or create new assets or capacity (such as land, property or cultural & social assets) for the district. Projects generally require a one-off **'Capital'** funding allocation, often over a number of years. Capital funding will be sourced from external contributions and grants, bids, or joint arrangements with partners where possible. In some cases, capital funding may require use of the Council's reserves, 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, or LATCo capital activity, will be achieved through four core Investment Streams. These will provide a structure within which the balance of the Capital Programme can be maintained in order to deliver against the widest range of strategic objectives.

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

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

1) A Sustainable District

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

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

2) An Inclusive and Prosperous Local Economy

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

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

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

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

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

3) Healthy and Happy Communities

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

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

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

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

4) A Co-Operative, Kind and Responsible Council

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

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

Capital investment in property 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 commercial investment projects.

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

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

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

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

A LATCo 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. In addition as a wholly owned company the financial statements of a LATCo are required to be consolidated into the Council's annual statement of accounts. Any investments seeking a commercial return could be delivered via a LATCo and considered under the LATCo's independent governance and decision-making structure.

3.1. Revised CIPFA Treasury Management Code and Prudential Code

CIPFA published the revised codes on 20th December 2021. 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.

Cabinet

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

Overview & Scrutiny (O&S)

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

Budget & Performance Panel (B&PP)

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

Council

Full Council is responsible for approving the Capital Investment Strategy as part of the annual Budget Framework, including any material changes. Revisions to the Capital Programme and any associated financing requirements that are outside of the budget and policy framework may be presented for approval throughout the year. However, there is the expectation that this would be of limited application and only reflect urgent situations.

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

4.3. Risk Management

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

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

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

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

4.4. Monitoring and Evaluation

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

The monitoring and evaluation process will include:

- **Delivering Our Priorities: Performance, Projects and Resources |** The capital programme will be regularly evaluated as part of overall performance monitoring which incorporates financial, project and performance measures. This information is reported quarterly to Cabinet and B&PP.

- **Capital Investment Strategy Monitoring |** As the strategy is key to delivering the Council's strategic goals, regular progress against the Council's Corporate Plan Priorities & Outcomes will take place to ensure resources are appropriately allocated.
- **LATCo Asset Monitoring |** Investments made by a LATCo for a commercial return will be considered by the LATCo's shareholder committee. The impact of the LATCo's financial return on the Council's financial position will be considered alongside other financial monitoring information.
- **Prudential Framework |** A half-yearly report on prudential indicators demonstrating the Capital Programme's ongoing prudence, affordability and sustainability will be considered by Council.

4.5. Capacity, Skills and Professional Advice

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

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

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

5. Our Assets

The Council has a range of assets which it utilises to deliver its wide range of services throughout the District. The total valuation of these at the start of the financial year 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

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

- Provide the right buildings in the right place and at the right time and cost to meet the current and future aims, objectives, policies and plans of the Council.

- Optimise and prioritise the level of investment in property assets to minimise maintenance backlog, improve fitness for purpose and optimise occupancy levels.

- Maximise the value received from our non-operational commercial portfolio.

- Continue to improve the environmental sustainability of the Council's property portfolio.

- Promote the innovative use of property by enabling urban regeneration and facilitating joint working with our partners and stakeholders.

- Challenge the use of land and buildings held by the Council to minimise revenue expenditure and maximise the generation of capital receipts.

Valuations

The Council is required by accounting regulations to value its assets on a regular basis and currently values its General Fund assets on a rolling 3-year cycle. It is required to undertake a formal valuation of is HRA assets every 5 years in line with 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	3.38	3.52	10.07	-2.73	-2.82	-1.99
HRA MRP	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04
Total	**2.34**	**2.48**	**-9.03**	**-3.77**	**-3.86**	**-3.03**

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 –
   - Cabinet Finance Portfolio Lead
   - Chief Executive
   - Overview and Scrutiny Chair
   - Budget and Performance Panel Chair
   - Business Committee Chair
   - Cabinet Governance Portfolio Holder
   - Chief Officer – Property Investment & Regeneration
   - Section 151 Officer
   - Governance Officer Lead

   Additional representation as and when required may include
   - Relevant Cabinet Portfolio Holders – as required by nature of the investment proposals
   - Relevant Chief Officer - as required by nature of the investment proposals
   - Relevant Lead Officers – as required by nature of the investment proposals
   - Capital Finance Officer Lead
   - Asset Management Officer Lead

- Property Services Officer Lead
- ICT Representation
- Programme Manager
- External Consultants

Frequency and Format of Meetings

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

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

Remit

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

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

CABINET

Treasury Management Strategy 2024/25

6 February 2024

Report of Chief Finance Officer

PURPOSE OF REPORT					
To present to Cabinet the draft Treasury Management Strategy and associated documents for 2024/25 and to provide an opportunity for consideration and comment ahead of formal presentation to Budget & Performance Panel for their consideration and comment.					
Key Decision	**X**	**Non-Key Decision**		**Referral from Cabinet Member**	
Date of notice of forthcoming key decision				8th December 2023	

RECOMMENDATION OF COUNCILLOR HAMILTON - COX

1. **That Cabinet recommends the following for consideration and comment by Budget & Performance Panel:**

   - **the Treasury Management Strategy 2024/25 and its Appendices A to C**

1.0 INTRODUCTION

1.1 The Code of Practice on Treasury Management ("the Code") requires that a strategy outlining the expected treasury activity for the forthcoming 3 years be adopted, but that it be reviewed at least annually. It needs to reflect treasury policy and cover various forecasts and activities, to incorporate the Council's spending and income plans with decisions about investing and borrowing.

1.2 Cabinet is asked to consideration to the Treasury Management strategy and associated attachments in line with their Constitutional Terms of Reference. If satisfied, then to refer the strategy to Budget & Performance Panel for scrutiny and comment. Cabinet will have the opportunity to consider any comments at its meeting 20th February where it will be asked to recommend the strategy to Full Council for approval at its 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 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 will consider the strategy at its meeting 14 February 2024.

4.2 To assist Budget & Performance Panel in its scrunty a training session will be held prior to the meeting, this will be open to all Members.

4.3 Cabinet will have the opportunity to consider any comments at its meeting 20th February where it will be asked to recommend the strategy to Full Council for approval at its accordance with the Constitution.

5.0 OPTIONS & OPTIONS ANALYSIS

5.1 Cabinet may put forward alternative proposals or amendments to the proposed Strategy ahead of consideration by Budget & Performance Panel, 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.

5.2 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.

6.0 OFFICER PREFERRED OPTION (AND COMMENTS)

6.1 To consider the framework as attached and refer it to Budget and Performance Panel for review.

7.0 CONCLUSION

7.1 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.

7.2 If Cabinet, or Budget Council changes its Capital Programme from that which is proposed in this report then this would require a change in the prudential indicators which are part of the Treasury Management Strategy.

RELATIONSHIP TO POLICY FRAMEWORK
Treasury Management forms part of the Councils budget framework

CONCLUSION OF IMPACT ASSESSMENT
(including Diversity, Human Rights, Community Safety, Sustainability etc)
Effective Treasury Management and use of the Councils' resources is fundamental to the delivery of its priorities and outcomes

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

S151 OFFICER COMMENTS
The s151 Officer has contributed to the writing of this report and Appendices, however, he wishes to draw Members attention to the following.
The Council's Constitution (Part 3 Section 5 – Budget & Policy Framework), where either a new or existing plan/strategy/budget is being considered, the Overview and Scrutiny Committee or Budget and Performance Panel will have an opportunity to comment. If it considers it appropriate, Cabinet may then amend its proposals before submitting them to Council for consideration.

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 Cabinet 6 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 Cabinet
6 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 Cabinet 6 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:

£m	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 CFR – Housing	63.56 35.13	66.95 34.09	70.47 33.05	80.54 32.00	77.81 30.96	74.99 29.92	73.00 28.88
Total CFR	**98.69**	**101.04**	**103.52**	**112.54**	**108.77**	**104.91**	**101.88**
Movement in CFR Non Housing Housing	 4.50 -1.04	 3.38 -1.04	 3.52 -1.04	 10.07 -1.04	 -2.73 -1.04	 -2.82 -1.04	 -1.99 -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**

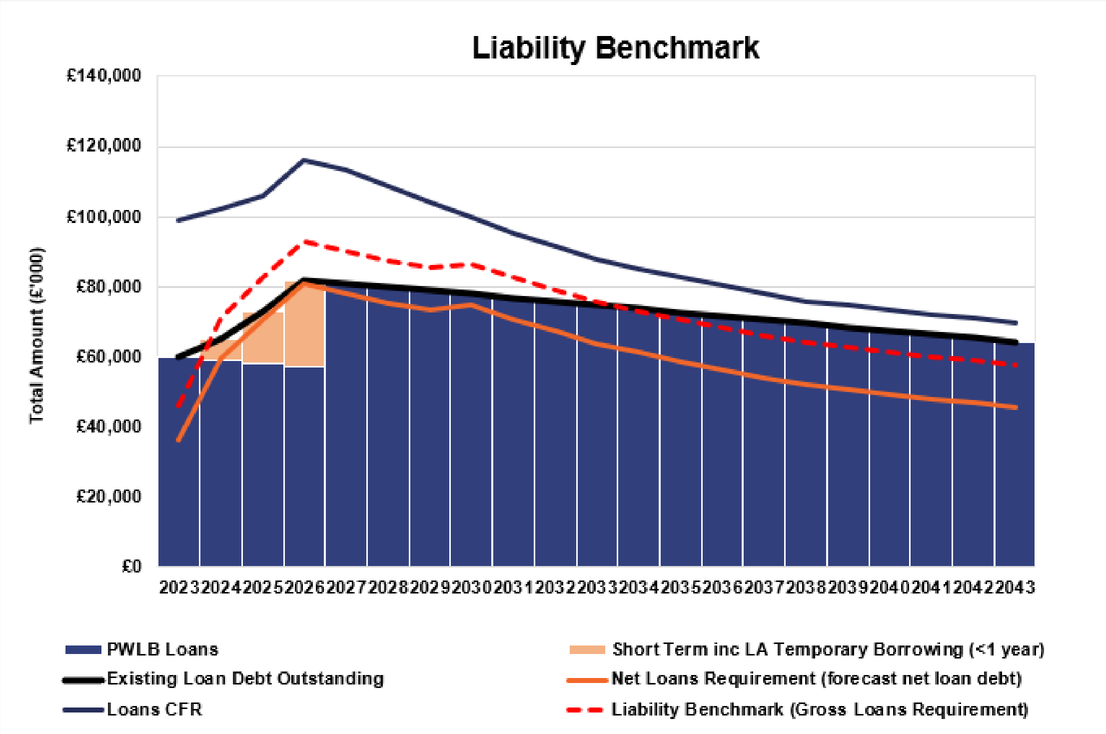
2.3 Liability Benchmark

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 2022 are £11.45m.
- 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 £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	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.

<u>What is a Credit Rating?</u>
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 <u>opinion</u>, not statement of fact;
- They help to measure the risk associated with investing with a counterparty;

<u>Who Provides / Uses Credit Ratings?</u>
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;

<u>Rating Criteria</u>
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.

<u>Rating Scales (Fitch, Moody's and Standard & Poor's)</u>
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

CABINET

Housing Revenue Account and Capital Programme
6th February 2024

Report of Chief Officer for Housing & Property and the Chief Officer Resources (Section 151 Officer)

PURPOSE OF REPORT					
To seek Cabinet decisions on Council Housing rent setting proposals and HRA revenue and capital budget proposals.					
Key Decision	**X**	**Non-Key Decision**		**Referral from Cabinet Member**	
Date of notice of forthcoming key decision	8th December 2023				
This report is public					

RECOMMENDATIONS OF Councillor Jackson

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

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

- for existing tenancies, rents will increase by 7.7% from 3 April 2024
- for new tenancies within 2024/25, rents will be set at 'formula rent'[1]

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

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[1] The principle of reletting properties within year at 'formula rent' is in line with previous years. This applies to properties whose rent has not already achieved the government's 'formula rent' – a calculation to produce a social rent based on local conditions and circumstances. The fact that the average rent increase between 2023/24 and 2024/25 is not *exactly* 7.7% is explained by the fact that some properties within year increase to 'formula rent' and therefore increase the figures used for comparison.

(4) That a delegated decision to approve the tender of five programmes of work (over £200K and key decisions over £250K) during 2024/25 can be made by the Chief Executive (as per 7.3 below) and in line with procurement rules.

(5) That subject to the above, the resulting Housing Revenue Account budget for 2024/25 onwards, as set out at Appendix A, together with the resulting Capital Programme as set out at Appendix C, be considered by Cabinet, ahead of final presentation on 20th February.

1.0 Introduction

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

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

1.3 It can be noted that within the context of ring-fencing the HRA has a role to play in support of wider Council priorities; contributing to and facilitating projects across the district to support the wider ambitions of the council. The HRA does pay into the Council's General Fund through contribution to support services and corporate commitments use and receives payment back to reflect Public Realm services delivered on Council Housing estates to non-Council residents, as well as relevant management contributions.

2.0 Achievements 2023/24

2.1 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 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.

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

- Wider Council priorities,
- The Regulator for Social Housing
- The Housing Ombudsman’s requirements
- Requirements from the Social Housing Act (2023) and the emerging revised Consumer Standards.
- The Building Safety Act (2023) and Fire Safety Act (2021) - the legislative response to the Grenfell tragedy of 2017 which sets out the responsibilities and requirements of landlords in relation to building safety

and compliance.

2.3 Of particular note linked to regulation is:

- The introduction of Tenant Satisfaction Measures during 2023/24 which will be formally reported to the Regulator during 2024,
- The mandatory registration of high-rise buildings was completed in 2023 with safety case files to be compiled by the end of March 2024,
- Government-led professional standards review of housing professionals – currently awaiting further details,
- Ofsted-style inspections from the Regulator being introduced from April 2024, on a four-yearly cycle, and
- A renewed focus on the customer complaints process through the introduction of a joint complaints code with the Local Government Ombudsman.

The service will continue to keep abreast of forth-coming changes and plan accordingly.

2.4 In line with the above expected key strategic priorities for 2024/25 are:

Priority	
A sustainable district	• Continued investment across the council's housing stock - see section 3 below. • Continued work towards improved energy efficiency within all homes by 2030 (all properties to meet minimum of EPC C standard), supported through funding bids where available and the introduction of a Council Housing and Property Climate Strategy. • Work to commence on the provision of new affordable homes through delivery of Phase 1 of the Mainway Masterplan on the old Skerton High School site. • To submit a planning application for earmarked elements of Canal Quarter for affordable homes, as well as earmarked garage sites. • Delivery of new units of accommodation for older residents at Alder Grove.
An inclusive and prosperous local economy	• Local procurement of repairs (and other housing related) contracts. • Continue to provide apprenticeship opportunities for local residents and seek opportunities to promote housing career pathways to local young residents. • Use of local suppliers within procurement rules (and where appropriate): for lower value contracts, use of local suppliers is guaranteed; for higher value contacts, on occasions where local supplier does not offer the required expertise and value for money, successful

	contractors must explicitly evidence social value in contract submissions. • Seeking funds through government to invest in our stock. • Creation of service agreement between Council Housing and Public Realm to ensure delivery of grounds maintenance and other public realm services in line with tenant priorities – including improved transparency for tenants around this service delivery. •
Happy and healthy communities	• Supporting the work and continued development of resident scrutiny groups and creating opportunities for residents to contribute meaningfully to service development and the decision-making process. • TPAS accreditation – to ensure delivery of resident engagement adheres to best practice and is responsive to regulatory requirements around customer focus and the 'Tenant Voice. • Continued development and delivery of services in line with regulatory requirements and the specific outcomes of the new Consumer Standards. • Continued focus on reporting, recording, and remedial actions around damp and mould, ensuring strict adherence to Government requirements around timescales to address problems. • Continued support and development of the tenant Building Safety Group and Building Safety Strategies to ensure the safety of residents in communal apartment blocks. • Development of asset management programmes across housing stock following completion of 100% stock condition survey. • Facilitating (and funding) community specific, community led projects. • Continue to develop and improve the way the service manages ASB and nuisance, and community safety more generally, across all housing stock. • Continue to develop and improve the way the Council delivers and reports on its block cleaning approach.
A co-operative, kind and responsible council	• Ensure best use of housing stock and maximise the housing options available to tenants, including review of Housing Allocation Policy, and implementation and development of web based lettings systems. • Investing and developing in our staff • 'Place-based' working helping tenants to create sustainable groups and an ability to deliver initiatives supported by – not led by – the housing service. Recognising that local people are best placed to understand the issues in their neighbourhood, including through the extension and further roll out of neighbourhood community plans.

	• Procurement of and early-stage implementation delivery of comprehensive new housing management IT systems. • Working with and listening to resident groups about what's important to them, whilst supporting and encouraging others to be established. • Supporting community centres (Marsh and Ridge, for example) to provide services to their residents, and developing access to a community fund pot for other community centres and groups to do likewise. • Continuing to develop and support resident scrutiny groups and creating opportunities for resident's voices to be heard. • Provision of funds for tenants to access training and education opportunities. • Embedding the Tenant Voice Strategy across the service, to ensure commitment to service wide service delivery in line with tenant needs and expectations.

3.0 The Council Housing Response to the Climate Emergency

3.1 Council Housing has continued its programme of carbon reduction, energy efficiency measures and upgrades during 2023/24.

Energy Performance Certificate (EPC) Band C Housing Stock
Lancaster City Council is in year 3 of an 8-year programme of 'fabric first' led energy improvement works across our Council stock. The goal of this project is to raise the energy performance rating of all Council Housing properties to a minimum 'C' rating by 2030. For 2023/24 £732k has been spent in delivering against these objectives, £277k of which will be funded through the Social Housing Decarbonisation Fund.

Ongoing improvements will be sought through the range of options listed below, as well as ongoing support for those who live in properties which fall below the 'C' rating.

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

Government decarbonisation scheme
Following on from the LAD1 scheme, as part of a consortium led by Blackpool Council, Lancaster City Council has been successful in gaining external funding through the Social Housing Decarb Fund WAVE2 programme. This has added matched co-funding of approximately £700k to our existing capital programme for energy efficiency works.

Five problematic housing types are targeted for improvement: off-gas, system-built homes and flats, solid wall, and poorly performing traditional. Whilst the initial bid for funding was successful, subsequent property inspections have required the consortium to submit a change request to the project funders, DESNZ. If successful, this will allow the council to focus on approximately 120 properties over two years.

Whole House Improvement programme
2023/24 will see delivery of at least 9 whole house improvements delivering significant improvement in energy performance to a current 'C' EPC rating, which equates to a potential 25% reduction in annual carbon emissions and lower bills for tenants.

This project will continue at a similar level through 2024/25, addressing low performing properties picked up through the void property process.

Loft Insulation
The minimum standard for loft insulation is to achieve at least 300mm. 2023/24 will see 77 new roofs insulated and in addition, through void maintenance, we will ensure that all properties for new tenancies achieve the 300mm standard.

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

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

Solar Panel Installations
Installations were completed this year as part of the projects at the Greaves, and Alder Grove. The Energy Support Officer will ensure there is a strong tenant engagement with the project. Connection to the ORSIS system enables remote monitoring and information to help tenants adapt to the new technology and achieve the maximum benefit from the installation.

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

During 2023/24 a total of 270 'A' rated gas boilers will be installed by our gas partner EMCOR.

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

The energy support service seeks to support all new tenancies providing energy advice, and managing a busy referral service for any existing tenants who would like support and advice. We are expecting to deliver over 200 home visits during 2023/24 to provide invaluable energy related advice to council tenants.

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

Electric Vehicles and charging points
Over 50% of all RMS fleet vehicles are now electric. Charging point provision has been created at White Lund Depot, and at Heaton House, Lancaster, and an increased number of charging points across the district are now provided through the work of the Council's Business Improvement and Project Delivery team. Home charging points for staff use are currently being explored.

We will continue to roll out the transition to electric vehicles.

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

As a tangible demonstration of our commitment to new low carbon housing, this is the standard for any future development of the Mainway Estate or similar projects, and currently under construction four new homes will be delivered at the Alder Grove site, which will utilise highly energy efficient modular construction. These homes are expected to achieve 'A' rating and will include PV panels.

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

4.0 Rent Setting

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

4.2 The financial year 2024/25 is the fifth of five years where the Council has the freedom to increase formula 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).

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

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

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

3 It is estimated that around 80% of tenants are in receipt of full or partial HB or UC – due to the housing element of UC being paid directly to tenants it is not fully clear the exact number.

HB or UC, in addition to this, those tenants who receive any proportion of help with their housing costs through HB or UC should also have some entitlement to the Council's council tax support scheme.

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

- Void levels and re-let times (equating to void rent loss/uncollectable rent)[4]
- Right to Buy (decrease in housing stock); as at Q3 a total of 12 Right-To-Buy completions have taken place in 2023/24. These sales have generated gross proceeds of £766K, of which a proportion is due to HM Treasury with the balance being reinvested in housing stock through the capital programme. Estimates assume 19 completions per year in future years.

For further details about risk factors see Appendix G.

4.3 Therefore, in line with government policy Cabinet is now advised to set average council rents as follows[5]:-

Property Type	2023/24	2024/25
General	**£83.96**	**£90.93**
Independent Living and Supported	**£79.00**	**£86.07**

5.0 Other Charges

5.1 For certain dwellings service charges are applied in addition to the rent charge to cover the cost of specific services. These include (but are not limited to) elements such as maintenance costs, cleaning, energy use within communal areas, communal boiler replacements, staffing costs within Independent Living Schemes, and CCTV.

5.2 Service charges are set to ensure they are sufficient to cover the cost of service provision, and that they are reasonable and transparent. Service charge elements are affected each year by variance in actual costs (such as energy provision, changes to service contracts, salary costs and cost of materials) and also a range of inflationary factors (General Inflationary Index, Building Cost Information Service (BCIS)). Costs of service provision have been reviewed for 2024/25.

5.3 As per the Social Housing Regulations the Council should "endeavour to keep increases for service charges within the limit on rent changes, of CPI (as at September in the previous year) + 1 percentage point (or 7.7% in 2024/25), to help keep charges affordable."[6] However, it is recognised that service charges fluctuate significantly from year to year and that the requirement to

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[4] Empty homes are currently relet within target times, which minimises void rent loss, however major voids (those which require significant works, including renewal or replacement of major elements) and properties subject to planned capital projects (such as the Mainway project) have a negative impact on void rent loss.

5 Note that the above figures are presented on a 52-week (2023/24) or 53-week (2024/25) basis.
Note: Specific rents vary depending on property type / area / size: for general needs between £65.04 (for a bedsit at Mainway) and £139.71 (for a 3-bedroom adapted bungalow in Lancaster), and for Independent Living between £67.50 for a bedsit at Beck View and £108.32 for a two-bed flat at Artlebeck Close.

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

contain increases within CPI+1% should be interpreted on a medium- or long-term basis[7].

5.4 For 2024/25 across all housing stock service charges will increase by an average 0.03%[8]. Within this average is a variation between charges applied to Independent Living (7.2% decrease) and General Needs (13.8% increase).[9] Average service charge costs can be seen in the table below.

	2023/24	2024/25[10]
Avg weekly service charge per dwelling (General Needs)	£9.87	£11.00
Avg weekly service charge per dwelling (Independent Living)	£53.47	£48.60

5.5 The impact of communal electricity costs on the service charge increase for general needs properties is significant and may be explainable by billing based on estimates rather than actuals. This is under review with the supplier and may reduce the general needs service charge before it is applied on 1st April 2024.

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

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

5.8 Garage rents have been subject to a rent freeze since 2020/21. Through work by the housing team, garage occupancy rates have improved in recent years from 80% occupancy (2021/22) to 86% (2022/23) and reaching 89% (during 2023/24). The most common reason for tenants terminating or refusing offers of garages, however, remains affordability.

5.9 For 2024/25 the threat to occupancy rates of a rent increase would potentially offset any benefits to income generation. Following review and benchmarking against other garage providers it is recommended that they be subject to a further freeze for 2024/25. Opportunities for development and alternative use for garage sites are being explored.

6.0 Revenue Expenditure

6.1 The future year's estimates for 2024/25 alongside the following four financial

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

8 Subject to further fluctuations in cost of service delivery

9 The most relevant factors affecting the service charge variations relate to staffing costs, cleaning contract costs, and communal electricity usage. The Building Cost Information Service (BCIS) inflation figure used to establish cost information within the construction industry is currently running at 3.1%. The General Inflation rate is 6.7% (CPI as at Sept 2023). Service charges within Independent Living are significantly impacted for 2024/25 by reduced energy costs for those tenants with communal heating systems and have reduced significantly since the widely reported increases seen since 2022.

10 For the purposes of rent and service charge setting 2024/25 is a 53-week year, while 2023/24 was a 52-week year. The fact that service charges are spread across an additional week in 2024/25 explains why the weekly figures in this table appear to show a smaller increase than described in para 5.4.

years have been prepared as part of this budget setting process. The differences between the budget approved last year and the draft revenue budget as prepared are illustrated in the variance analysis supplied at Appendix B.

6.2 The key areas are listed as follows: -

- Salary costs are now forecast to be around £170K higher than previously estimated, as a result of the 2023/24 pay award, 2024/25 pay award assumptions and redirection of resources from Repairs & Maintenance to Housing Management in order to meet upcoming legislative changes.
- Repairs and Maintenance decrease of around £136K due to redirection of resources to Housing Management in order to meet upcoming legislative changes.
- Energy costs decrease of around £84K, largely rechargeable[11].
- Premises insurance reductions relating to the premium for council house properties.
- Depreciation charge increase of around £1,554K off-set by a reduction in the additional contribution to the Major Repairs Reserve of £1,087K. Planned capital expenditure has not altered significantly (see Appendix D).

6.3 The table below lists the major assumptions that have been made for the 2024/25 budget.

	2024/25
Fees & Charges	Various
Inflation – Pay	5.9%
Employer Pensions Contribution	16.3%
Inflation – General (Minor Cost Centres)	2.8%
Inflation – Insurance	10.0%
Inflation – Utilities	Re-based at current prices
Interest Rate - Investments	4.5%

6.4 In summation, the 2024/25 revenue budget projected surplus is £96K, which is a reversal of the previously projected funding requirement of £239K, which was to be funded by the Business Support Reserve. The revised projection is largely due to the difference between CPI projections and the published September 2023 rate, off-set by the points described above (6.2), notably an increase in depreciation charges and the impact of pay awards.

7.0 Capital Expenditure

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

7.2 The key changes to the programme from last year's reported position are

[11] Energy costs are subject to regular fluctuation, and are monitored monthly. For 2024/25 where significant fluctuations occur service charge adjustments will be made 'in year' to more accurately charge for actual usage, and allow residents more control over their costs. Where the council benefits from the government's business relief scheme this saving is passed on to residents. The Income Management team actively supports tenants to ensure government support around energy costs is received and understood.

included at Appendix D.

7.3 A number of programmes of work (value over £200K and key decisions over £250K) will be advised during 2024/25 and it is requested that members delegate the Chief Executive to approve tender of these contracts as per procurement rules. Chief Executive sign off will be sought on a case-by-case basis. Key decision notices will be provided where required.

The programmes of work will be:

- Energy efficiency improvement works
- Re-rendering works to properties at Hala
- Whole House Major Voids works and refurbishment
- External door replacement
- Re-roofing of properties on Ryelands Estate (phase 2)

7.4 The capital programme includes no provision for any major refurbishment works on the Mainway estate due to the ongoing regeneration project (see section 8). Further Cabinet report(s) will be brought forward to seek approvals as plans progress.

7.5 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.

8.0 Future Developments

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

8.2 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 completion of by 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.

8.3 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.

8.4 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.

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

8.6 While the design phase of the schemes continues, the decommissioning of 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.

9.0 Provisions, Reserves and Balances

9.1 After reviewing the Housing Revenue Account and General Fund in comparative terms and considering the key issues, assumptions and risks underlying the budget projections, the Section 151 Officer advises maintaining the minimum level of HRA Balances at £750K from 01 April 2024 to support the budget forecasts, as part of the overall medium term financial planning for the HRA.

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

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

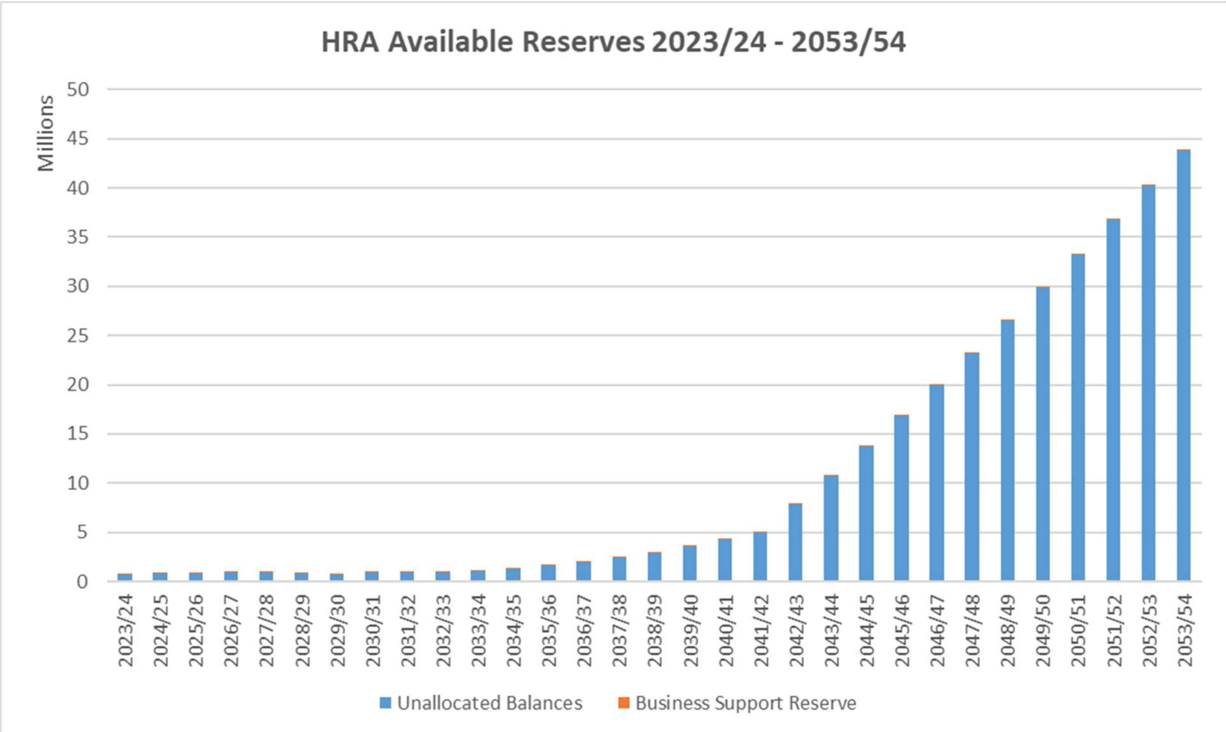
9.3 Draft statements on all reserves are attached at Appendix E(i) and Appendix E(ii). Levels are viewed as adequate for the period covered and Cabinet is asked to endorse this information, with the Statement being referred on to Council as part of the HRA budget proposals.

10.0 Business Planning & Future Risks

10.1 Taking account of the work that has been done to date, the following table sets out the latest position for the business plan, represented by the level of unallocated balances and the Business Support Reserve (BSR). It compares the position back in February 2023 to projections as at February this year.

30 Year Business Plan: Business Support Reserve and Unallocated Balances

	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	30 Year Cumulative Total £'000
Business Support Unallocated Balances	2,104 750	1,796 750	1,628 750	1,628 860	1,576 750	1,304 750	1,304 23,768
Projections as at February 2023	**2,854**	**2,546**	**2,378**	**2,488**	**2,326**	**2,054**	**25,072**
Business Support Unallocated Balances	35 750	35 846	35 768	35 973	35 874	35 785	13 43,817
Projections as at February 2024	**785**	**881**	**803**	**1,008**	**909**	**820**	**43,830**
Overall Movement (Adverse) / Favourable	**(2,069)**	**(1,665)**	**(1,575)**	**(1,480)**	**(1,417)**	**(1,234)**	**18,758**



10.2 The unallocated balance is currently £624K. Once bolstered by a transfer during 2023/24 to meet the new minimum level, at no point within the 30-year business plan does it breach the £750K lower limit as detailed in section 9.1.

10.3 The Business Support Reserve has a current unallocated balance of £35K. This will be relied upon to support revenue spend in the medium term (currently 2029/30).

10.4 The increase in the projected balance at the end of the 30-year business plan is largely due to the year-on-year impact of the higher than previously assumed rent increase for 2024/25.

10.5 As previously discussed, in line with the previously agreed national rent settlement, rents have been set at CPI+1% for five years, with the exception of the 2023/24 Government-imposed cap of 7.0% rent increase for existing tenants. Largely due to fluctuations in CPI, 2024/25's rental income from dwellings is now forecast to be approximately £595K higher than estimated in the previous budget report. It has been assumed that increases will revert to CPI only from 2025/26 (forecast at 2.0%, being the target set by Government for the Bank of England's Monetary Policy Committee), but the risks surrounding these assumptions must be appreciated and the magnitude of impact of a small change within this area understood.

10.6 Due to the increase in depreciation charge to reflect recent actuals, the currently proposed capital programme does not fully utilise anticipated capital receipts or the funding available within the Major Repairs Reserve. Therefore, balances are forecast to increase over the five-year period, and it is estimated that £3,910K of useable capital receipts and £1,032K within the Major Repairs Reserve will have accumulated by 31 March 2029. This will be reviewed when the profile of future capital spend is prepared, following full analysis of the stock condition survey results.

10.7 Following the 2023/24 contribution of £600K to the ICT and Systems Improvement Reserve, it is proposed that the balance of £963K is used over a three-year period to purchase and implement new housing management software to support delivery of modern, resident focussed housing services.

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

11.0 Options and Options Analysis (including risk assessment)

11.1 The options with regards to rent setting are set out under section 4, the maximum permitted increase being CPI+1%. By applying this increase, it allows for a budget that can deliver on the Council's ambitions on improving housing standards and addressing the climate change emergency, whilst adhering to the Rent Standard and legislative requirements.

11.2 In relation to garage rents, the previous decision was to freeze rents for 2023/24. In order to protect current occupancy and income levels, and in line with sector benchmarking, a further 12-month freeze is recommended. Garage rents and occupancy will remain under review.

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

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

11.5 The options available in respect of the Capital Programme are:

i) To approve the programme in full, with the financing as set out;
ii) To incorporate other increases or reductions to the programme, with appropriate sources of funding being identified.

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

	Option 1: Set housing and garage rent levels as set out in this report and approve the provisions, reserves and balances position (and their use); the revenue budgets and capital programme	**Option 2:** To propose alternatives to those outlined in Section 11 above.
Advantages	Increased rental income supports the Council to deliver against its Regulatory requirements and ensuring homes are safe and decent.	Unknown
Disadvantages	Increased rent levels for tenants.	Would require further options analysis
Risks / Mitigation	The HRA budget set out in this report is sustainable in the long term. The risks associated with Option 1 are outlined in Appendix F – Risks and Assumptions.	Impact on housing service and council housing tenants unknown. Potential for housing service to fall foul of legislative and regulatory requirements, leading to unlimited fines and being 'named and shamed' by government.

12.0 Officer Preferred Option (and comments)

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

12.2 The Tenant Voice group were consulted on 1st 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.

12.3 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.

13.0 Conclusion

13.1 Whilst the report highlights challenges faced within the current economic environment, Lancaster City Council's Housing Service continues to operate a sensible but forward-looking approach, seeking to meet Regulatory requirements and deliver safe and decent homes.

RELATIONSHIP TO POLICY FRAMEWORK

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

CONCLUSION OF IMPACT ASSESSMENT
(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, HR, Sustainability and Rural Proofing)
The proposals set out in the report will have positive impacts residents within Council Housing dwellings specifically climate change, wellbeing / social value, health and safety and community safety as outlined below. There is no significant detrimental impact on equality on specific groups. See Appendix G – Equality Impact Assessment.

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

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

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

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

LEGAL IMPLICATIONS

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

FINANCIAL IMPLICATIONS

As set out in the report.

OTHER RESOURCE IMPLICATIONS

Human Resources:

None identified

Information Services:

None identified

Property:

None identified

Open Spaces:

None identified

SECTION 151 OFFICER'S COMMENTS
The Local Government Act 2003 placed explicit requirements on the s151 Officer to report on the robustness of the estimates included in the budget and on the adequacy of the Council's reserves; this requirement is addressed below.

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

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

As a very simple measure, the inherent value of the risks facing the Council by far exceeds the total of all reserves and balances. Whilst it is not the case that all these risks could fall due immediately, Members should appreciate the need for holding balances and reserves more generally and using them wisely. It is inappropriate to simply view the level of funds held, without considering the reasons as to why those funds might be needed.

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

- Producing a base budget, taking account of service commitments, pay and price increases and expected demand / activity levels as appropriate, and the consideration of key assumptions and risks.
- Reviewing the Council's services and activities, making provision for expected changes.
- Reviewing the HRA Thirty Year Business Plan, together with other corporate monitoring information produced during the year.
- Undertaking a review of the Council's borrowing needs to support capital investment, in line with the Prudential Code.

These measures ensure that as far as is practical, the estimates and assumptions underpinning the base budget are robust, and the proposed HRA Thirty Year Business Plan presents a reasonable approach for the way forward. The Council has recognised the tendency for optimism bias regarding income forecasts particularly and this will be taken account of in the development of future key budget proposals and business cases.

Furthermore, arrangements are in hand to assess capacity needs and programming to help ensure successful delivery of key projects. Coupled with sound programming, the Business Support Reserve provides scope to help address any shortfalls in capacity etc.

Affordability of Spending Plans

In addition, the s151 Officer is responsible for ensuring that when setting and revising Prudential Indicators, including borrowing limits, all matters to be taken into account are reported to Council for consideration. In considering affordability, the fundamental objective is to ensure that the Council's capital investment remains within sustainable limits, having regard to the impact on housing rents for Council Housing investment. Affordability is ultimately determined by judgements on what is 'acceptable' - this will be influenced by public, political, and national influences.

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

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

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

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS	**Contact Officer:** Peter Linsley
See Appendices A-G	**Telephone:** 01524 586873 **E-mail:** plinsley@lancaster.gov.uk **Ref:** HRA Budget Report

APPENDIX A

HOUSING REVENUE ACCOUNT BUDGET

For Consideration by Cabinet 06 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

HOUSING REVENUE ACCOUNT VARIANCE ANALYSIS

	2024/25 £	£
ORIGINAL BUDGET		**0**
EXPENDITURE		
Employees		
Impact of pay award for 2023/24 plus assumption for 2024/25	(170,500)	
		(170,500)
Premises		
Repairs & Maintenance - impact of pay award for 2023/24 plus assumption for 2024/25, redirection of staffing resource to housing management	135,700	
Energy - decrease in energy cost assumptions for general needs areas, largely rechargeable	84,400	
Premises Insurance recharges - revised estimate of premium relating to council house properties	173,000	
		393,100
Supplies & Services		
ICT - housing management software purchase and implementation, funded from ICT & Systems Improvement reserve	(688,900)	
		(688,900)
INCOME		
Rents (Dwellings) - increase in CPI from 2.0% estimated to 6.7% actual (as at September 2023)	595,500	
		595,500
FINANCING		
Increase in Depreciation Charge	(1,554,000)	
Direct Revenue Financing - reduction in funding from earmarked reserves due to removal of property conversion from capital programme	70,000	
		(1,484,000)
APPROPRIATIONS		
Earmarked Reserves appropriations - housing management software purchase and implementation	688,900	
Business Support Reserve - removal of property conversion from capital programme, reversal of support for revenue spend	(308,700)	
Major Repairs Reserve appropriations - net decrease in additional contribution due to increased depreciation charge	1,086,700	
		1,466,900
Other Net Service Variances		**(16,500)**
IN YEAR VARIANCES		**95,600**
Previously Agreed Contribution (From) / To Unallocated Reserve		0
REVISED CONTRIBUTION (FROM) / TO UNALLOCATED RESERVE		**95,600**

*Variances shown as (adverse) / favourable

APPENDIX C

Council Housing 10 Year Capital Programme
For Consideration by Cabinet 06 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**

APPENDIX D

HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME - KEY CHANGES

	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
PREVIOUSLY APPROVED CAPITAL PROGRAMME	**4,463**	**4,001**	**3,899**	**4,187**
Adaptions				
No change to programme				
Energy Efficiency/Boiler Replacement				
Boiler Renewal programme changes	(100)			
Works funded by Social Housing Decarbonisation Fund grant	+415			
Internal Refurbishment				
No change to programme				
External Refurbishment				
External rendering reprofiling	+260			
External Door Replacement priority changes	(242)			
Environmental Improvements				
Communal areas, railings & balusters	(300)			
Re-Roofing/Window Renewals				
No change to programme				
Rewiring				
No change to programme				
Lift Replacements				
No change to programme				
Fire Precaution Works				
Fire Risk Assessment Actions	+242			
Housing Renewal and Renovation				
Renewals and Renovations	+100			
Property Conversions	(70)	(70)		
Mainway Regeneration Project				
No change to programme				
Minor Variances	+0	+0	+0	+0
REVISED CAPITAL PROGRAMME	**4,768**	**3,931**	**3,899**	**4,187**

HOUSING REVENUE ACCOUNT - RESERVES AND PROVISIONS STATEMENT
For Consideration by Cabinet 06 February 2024

	Balance as at 31/03/23	Contributions			Balance as at 31/03/24	Contributions			Balance as at 31/03/25	Contributions			Balance as at 31/03/26	Contributions			Balance as at 31/03/27	Contributions			Balance as at 31/03/28	Contributions			Balance as at 31/03/29
		To the Reserve from Revenue	From the Reserve			To the Reserve from Revenue	From the Reserve			To the Reserve from Revenue	From the Reserve			To the Reserve from Revenue	From the Reserve			To the Reserve from Revenue	From the Reserve			To the Reserve from Revenue	From the Reserve		
			To Capital	To Revenue			To Capital	To Revenue			To Capital	To Revenue			To Capital	To Revenue			To Capital	To Revenue			To Capital	To Revenue	
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
HRA General Balances	**623,533**	126,500			**750,033**	95,600			**845,633**			(77,500)	**768,133**	204,500			**972,633**			(98,700)	**873,933**			(88,900)	**785,033**
Earmarked Reserves:																									
Business Support Reserve	**5,868,829**		(1,987,400)	(3,846,000)	**35,429**				**35,429**				**35,429**				**35,429**				**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)		**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	**788,140**	33,000		(348,700)	**472,440**	33,000		(22,900)	**482,540**	33,000		(22,900)	**492,640**	33,000		(22,900)	**502,740**	33,000		(22,900)	**512,840**	33,000		(22,900)	**522,940**
ICT and Systems Improvement	**444,005**	600,000		(80,800)	**963,205**			(688,900)	**274,305**			(201,800)	**72,505**			(72,500)	**5**				**5**				**5**
Office Equipment Reserve																									
Sheltered - Equipment	**273,400**	30,000		(49,200)	**254,200**	37,900		(43,000)	**249,100**	33,800		(35,400)	**247,500**	30,900		(33,800)	**244,600**	26,900		(47,000)	**224,500**	24,700		(47,000)	**202,200**
Sheltered - Planned Maintenance	**386,984**	59,800		(390,300)	**56,484**	75,600		(15,300)	**116,784**	67,700		(15,300)	**169,184**	61,700		(15,300)	**215,584**	53,700		(15,300)	**253,984**	49,300		(15,300)	**287,984**
Sheltered Support Grant Maintenance	**491,778**	30,000		(285,900)	**235,878**	37,900			**273,778**	33,800			**307,578**	30,900			**338,478**	26,900			**365,378**	24,700			**390,078**
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)**	**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**

Appendix E - RESERVES AND PROVISIONS - For Consideration by Cabinet on 20 February 2024

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

Appendix E - RESERVES AND PROVISIONS - For Consideration by Cabinet on 20 February 2024

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

Appendix E - RESERVES AND PROVISIONS - For Consideration by Cabinet on 20 February 2024

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

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

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

RESERVES AND PROVISIONS- For Consideration by Cabinet 16 January 2018

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

2024/25 BUDGET
HOUSING REVENUE ACCOUNT – RISKS & ASSUMPTIONS
FOR CONSIDERATION BY CABINET 06 February 2024

Risk area	Details
Self-financing	Under Part VI of the Local Government and Housing Act 1989 a local authority has a duty to keep a HRA as a ring-fenced account and has a duty to ensure that it does not go into deficit. To deliver this, robust business and financial planning arrangements are maintained, including the production of a 30-year business plan. Assumptions around factors such as rent setting and inflation factors are built into this.
Rent Policy	As a Registered Provider of Social Housing the Council adheres to the Regulator of Social Housing's 'Rent Standard'. Rents are set in line with the Government's 'Rent Statement'. 2024/25 is the final year of five where providers were permitted to increase rents by CPI + 1%. The Government's Rent Setting policy beyond this is currently unclear. Within the 30-year business plan assumptions have been made for a 2% rent increase year on year from 2025/26 onwards in line with corporate assumptions around inflation. It should be recognised that future government policy in this area can have a significant impact on rent and therefore income levels. Government guidance will be kept under review to ensure any future assumptions around rental income are accurately informing business planning.
Income Recovery	Rental income is the main income source for the housing service. The impact of tenant debt and reduced income (through rent and other housing-related charges) on business planning is recognized as a key risk to the delivery of housing services and the sustainability of financial planning. Wider cost-of-living issues such as increased energy costs create financial pressures for tenants and present a risk to assumed income. Income Management within the housing service is externally accredited by the Housing Quality Network (HQN) and delivers best practice across many areas of tenant debt. Void (empty home) levels create additional rent loss. Fast, efficient turnaround of void properties, to reduce void rent loss, remains a priority. Supportive, proactive, and data driven service delivery in this area continues to protect income streams and promote successful tenancies. This service area is monitored weekly to ensure the risk is managed.
Reduced demand	Reduced demand for council housing within the district would pose a threat to rental income. Overall demand for all types of council housing stock is currently high, with the exception of a very small number of specific Independent Living property types for which demand is lower.

	Demand is monitored and informs the asset management planning process, and in line with the District Housing Strategy, informs the direction of programs of development, refurbishment and renewal. The potential for 'difficult to let' schemes, areas, or property types to undermine demand is monitored, with strategic planning in place to mitigate any specific issues.
Stock reduction	The rate of Right to Buy (RTB) sales remains relatively low compared to historic levels of sales; the budget planning process assumes 19 Right to Buy Sales per year. Any sales lead to future projected rental income levels being reduced. As many costs are fixed, this results in an adverse impact on the revenue position. A proportion of RTB receipts is due to HM treasury with the balance being re-invested in housing stock through the capital programme. To offset the loss of homes through RTB the Council continue to explore avenues for development, delivering recent conversions of former scheme manager accommodation into one-bed units, delivery of a specialist adapted housing unit, and scoping other sites and opportunities to realise a 'pipeline' of potential development.
Additional capital requirements	Legislation, changes in health and safety standards, or the discovery of previously unknown defects create the potential for additional capital expenditure requirements. In response to the Building Safety Act (2022) and Fire Safety Act (2021) a thorough review of all compliance (gas, electric, asbestos, legionella, lifts, fire, damp and mould) activities began during 2021/22. Increased capital and revenue investment continues to be committed to this area. Commitment to a ten-year programme of energy efficiency improvements and upgrades across all housing stock remains in place, in response to the Council's declared climate emergency. Asset management planning remains vital to identify the investment needs across all housing stock and inform the programmes. All requirements are reflected in the 30-year HRA Business Plan. Delivery of a full stock condition survey has taken place during 2023/24, the information from which will continue to inform asset management planning moving forward. For future development works to provide new affordable homes, including Mainway and Canal Quarter, project work remains ongoing to define the options available. To deliver these projects will likely require borrowing against the HRA and will be subject to the council decision-making process.
Service Resilience	A number of external factors (pandemic, weather events, etc) remain as financial and practical risks to delivery of the housing service. The service participates actively in the Council's resilience activities and planning and has developed robust processes to mitigate such risk. Provision and maintenance of IT represents and additional risk to service resilience in two ways: Delivery of a full IT replacement project is required to provide excellent digital capability across the housing service, replacing outdated 'legacy' systems. Delivery of this project is reflected within budget setting for 2024/25.

	In addition, support and maintenance of current IT infrastructure to deliver current systems remains a risk. Recent upgrades, along with in-house training around infrastructure, currently mitigate this risk.
Effect of legislation/ regulation	Implications of new (or changes to existing) legislation / regulation can present challenges and are monitored and reflected in service review and improvement planning. The Social Housing Regulation Act 2023, the refresh of associated regulatory standards, and the increased scope of the Housing Ombudsman Service represent the most significant overhaul of the social housing sector for over a decade. New powers granted to the Regulator of Social Housing demand a greater tenant focus within service delivery, with particular focus on the security, safety and condition of social homes and the ability of residents to meaningfully influence service delivery and decision making. From April 2024 the regulator will embark on a programme of 'Ofsted-style' inspections for social housing providers. The new regulation raises the required standards within social housing and create the conditions for significant practical and reputational risk. Since 2021/22 the HRA budget has incorporated costs in response to this, investment in compliance work being chief among them, and continues be responsive to the requirements of the Social HOusing Regulation Act and associated guidance through operational service delivery and strategic action planning.
Future Developments	The City Council continues to have ambitions for the development of its own new affordable / social rented homes, which it is seeking to progress. Developments will be subject to the council's decision-making process and are referenced in the 'Additional Capital Requirements' section above.

Equality Impact Assessment

This **online** equality impact assessment should:

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

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Service Council Housing

Title of policy, service, function, project or strategy

HRA Budget Report - Rent Setting

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

Lead Officer Pete Linsley

People involved with completing the EIA

David Holme

Step 1.1: Make sure you have clear aims and objectives

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

To set council housing rents in line with current regulation, and in order to complete the HRA budgeting process which sets out ambitions for the housing service over the short and medium term. The proposed rent increase for 2024/25 is 7.6% (CPI + 1% - in line with Government rent settiing policy)

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

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

Step 1.2: Collecting your information

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

Top Tip: Have a read of the "An easy guide for staff who need to complete an Equality Impact Assessment"

Equality Impact Assessment

LANCASTER CITY COUNCIL
Promoting City, Coast & Countryside

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

Step 1.3 – Is there a need to consult!

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

Consultation to follow with Tenant Voice, and Council Housing Advisory Group - details and outcomes to be confirmed

Step 1.4 – Assessing the impact

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

Age: No significant impact directly related to this group
Disability: No significant impact directly related to this group
Faith, Religion or Belief: No significant impact directly related to this group
Gender including Marriage, Pregnancy and Maternity: No significant impact directly related to this group
Gender Reassignment: No significant impact directly related to this group
Race: No significant impact directly related to this group
Sexual Orientation including Civic Partnership: No significant impact directly related to this group
Rural Communities: No significant impact directly related to this group

Step 1.5 – What are the differences?

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

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

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

Equality Impact Assessment

No

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

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

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

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

N/a

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

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

CABINET

Decision to Consider Sustainability of a Council Housing Dwelling Block

6 February 2024

Report of Jo Wilkinson, Chief Officer Housing and Property

PURPOSE OF REPORT					
To seek decisions from Cabinet regarding the future sustainability of Bridge House, Mainway, in the context of the ongoing Mainway project and liabilities contained within the Building Safety Act.					
Key Decision	X	**Non-Key Decision**		**Referral from Cabinet Member**	
Date of notice of forthcoming key decision	6th November 2023				
This report is public					

RECOMMENDATIONS OF Cllr CAROLINE JACKSON

(1) That the decision to cease to let empty properties in Bridge House, Mainway, be approved.

(2) To note that options to facilitate vacating the remainder of Bridge House, Mainway, will be explored by officers.

(3) That should the BFLR funding application in paragraph 3.3 be successful the Chief Executive has delegated authority to approve acceptance of any attendant funding award following publication of key decision notice as required.

1.0 Introduction

1.1 Bridge House, as with the other blacks across the Mainway estate, is a ‘Wimpey no-fines’, construction – at the time, a radial system build design, constructed in mass concrete forms, cast in-situ on site using standardised formwork around a common plan.

1.2 This method initially boasted enhanced thermal properties but has become synonymous with poor weathering, which in turn accelerate carbonation in the concrete forms and corrosion in the steel reinforcement which damages the structure, causes cracking and progressive deterioration, promoting damp and condensation within the dwellings with attendant high heating costs.

1.3 In the 1980’s, the above deficiencies led a decision to fully refurbish Mainway and upgrade the external facades with the addition of ‘Structherm’ cladding, a composite render and insulation system.

1.4 Structherm has an anticipated lifecycle of 25-30 years. However, the Mainway site occupies an exposed position on the Lune estuary. In the 25 years since installation, accelerated weathering and related maintenance issues has degraded the cladding system resulting in a progressive dilapidation a loss of integrity, and the numerous defects and failures.

1.5 Anecdotally, the failure of the built environment is evidenced in the experience of residents reporting damp and cold, water penetration and drafts.

2.0 Background – Malone Associates Report (2018)

2.1 In 2018 the Council Housing service commissioned Malone Associates, a chartered building consultancy with specialist expertise in high rise building defect analysis, to provide a comprehensive report on the Mainway Estate.

2.2 **Structural integrity:** The report described the structural integrity of Bridge House as showing massive signs of external render failure, which is concentrated to the northwest and southwest elevations, and that this has to be of significant concern with regard to safety of the general public, with surveyors removing some large pieces of loose render before they fell to the ground.

2.3 **Water ingress**: The report stated that the surface of the render coating has lost integrity, degrading the ability to shed water, allowing water to penetrate directly into the insulation system and through failed day joints and construction joints. Additionally, the survey records the failure of seals around windows, openings and the balconies. Water ingress in Bridge House is strongly evidenced by high moisture level readings and photographic evidence.

2.4 **Thermal performance:** Through the above failures, water has entered the insulation system and is documented in the report for Bridge House. Insulation was found to be significantly wet in some areas and wet insulation has a significantly reduced U-value[1].

2.5 **Concrete Component Defects**: The survey revealed carbonation and chloride attack of concrete components recording cracking, failure and corrosion of reinforcement at high level.

2.6 In conclusion, the advice from Malone Associates issued in 2018 is unequivocable. For Bridge House ‘there are massive signs of external render failure, which is concentrated to the northwest and southwest elevations. These (Bridge House) high rise blocks are scheduled for complete renewal of the EWI (cladding) system, as damage is so extensive that we do not consider repair to be a cost-effective solution. We recommend that the work is carried out within 3-5 years.’

2.7 The report does also states that removing the EWI (cladding) risks making the buildings uninhabitable. The building fabric relies for weathering and thermal performance on the external wall insulation system. Exposing the underlying structure to the elements will result in water penetration and removing the insulation will reduce the U-value to below a lettable standard.

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[1] The u-value is the rate of heat transfer through a structure.

2.8 In summary:

- The Scructherm cladding installed in the 1990's has exceeded its lifecycle, leading to significant structural failure, cracking, corrosion and water penetration.
- Practical fire safety improvements without removal of the cladding appear unfeasible.
- High rise blocks on the estate, particularly Bridge House, show advanced dilapidation and require intervention within 3-5 years.
- Bridge House, due to concerns over the condition of the northeast elevation and cracking in the facades, corrosion of the upper concrete forms, and water ingress, is a priority. The overall condition supports urgent intervention.
- Removal of the existing cladding risks making the building uninhabitable.

2.9 It should be noted that the condition of Bridge House has been regularly monitored since 2018 to offer reassurance of the continued safety of all residents. This includes regular visual inspections, and a programme of fire risk assessments with associated remedial works.

2.10 In addition, the Building Safety Act 2022 has created the requirement to enhance building safety standards. Bridge House is particularly impacted by the cost of these requirements.

3.0 Current Mainway lettings position and project context

3.1 In response to the report from Malone Associates, the requirements of the Building Safety Act, and in the context of other building and housing management challenges presented by the Mainway estate, a project began in 2019 to create a sustainable long-term masterplan for Mainway. This project has been subject to Cabinet scrutiny through a series of reports.

3.2 As the project has developed operational decisions have been made to pause the letting of dwellings on Mainway while clarity on the future phasing of the Masterplan is achieved. The Housing Service has balanced a number of factors in making these decisions, with the aim of providing continued safety for residents, ensuring responsible investment in the maintenance of the blocks, and minimising void rent loss and other costs.

3.3 With the development of Phase 1 of the Mainway Masterplan (on the Skerton School site), and subsequent firming up of phasing timescales across the rest of the current Mainway site (with works proposed between February 2027 and December 2030) it has become possible to make decisions with an increased degree of certainty about the future of certain blocks on the estate.

3.4 Since October 2023 empty homes within low rise blocks across Mainway are being relet as standard (except where maintenance and other costs make this uneconomical). Empty homes within high rise blocks are not currently being relet pending operational decisions.

3.5 As at 15 January 2024 there are 48 empty properties on Mainway, of which:

- 20 are within Bridge House (pending decision in this report)
- 20 are within other high-rise blocks (Park House, Skerton House) of which 10 are deemed uneconomical to relet in light of the phasing plan (2.3)
- 8 are within low rise block of which 4 are deemed uneconomical to relet and four are being relet through the standard process.

3.6 Bridge House currently has an over 50's letting policy. Indications are that a number of these residents may seek a permanent move into suitable Independent Living accommodation, if this could be supported by the Housing Team.

3.7 33 of the 44 dwellings within Bridge House are two-bedroom accommodation and are not dwellings of choice either for the large number of housing applicants with a one bed need (due to affordability) or those seeking family accommodation (for whom a high-rise block presents practical difficulties).

4.0 Proposal Details

4.1 The proposal is that Bridge House be decommission and removed from use as a dwelling block, that options be explored to support current residents to move into suitable alternative Council (or other) accommodation and that empty homes within the block are not relet.

4.2 The primary reason for this decision is the condition of the building, the risk posed to residents and other users, and the long-term future of the block in the context of the challenges outlined in the report by Malone Associates report. The financial implications associated with this proposal support the decision to decommission the building.

4.3 With Bridge House, the risk being carried regarding the structural integrity of the building and the safety of residents is greater than other dwelling blocks on Mainway, as are the maintenance costs associated with this. In addition, the requirements of the Building Safety Act 2020 further increase the cost liabilities (to note: the building is safe and is subject to regular inspection, but of the three high rise blocks is considered the one closest to end of life and most likely to fail).

4.4 Having previously successfully achieved an award of Brownfield Land Release Funding (BLRF) for Mainway Phase 1, and the demolition of Skerton High School, a further application is being submitted to support demolition costs associated with Mainway Phase 2. This application also includes Bridge House as a possible demolition site.

4.5 The decision to decommission Bridge House should also be understood in the context of the wider Mainway project, and the Council's ambition to deliver significantly more council and affordable homes than are currently on the estate.

5.0 Financial Implications

5.1 Based on 100% occupancy, the decision to decommission Bridge House would result in the loss of £185k per annum in rental income. In addition, should roof space no longer be available at some future point this would see the loss of £20k per annum in rental space for antennae and masts.

5.2 Should Bridge House remain in use a number of maintenance and building safety/compliance related costs would be incurred at varying points in the building's future life cycle. These include:

Cost	Type	Detail
£170k	Building Compliance works	To ensure resident safety.
£55k	Responsive Repairs	Per annum (based on 100% occupancy)
£750k	External cladding	Replacement of failing cladding system
Unknown	Capital and planned maintenance	Programmed replacement of windows, heating systems, etc.

5.3 There are additional financial risks in retaining Bridge House in use. In line with the conclusions from the Malone report, structural issues may present themselves at some future point requiring remedial works of unknown costs. As per 2.7 (above) removal of the EWI (cladding) system for replacement could cause the failure of the building, leaving it uninhabitable.

6.0 Details of Consultation

6.1 Since 2020 residents across Mainway have been consulted with regularly as the Mainway project has developed. This includes a permanent Mainway Hub, on Owen Road, for residents to speak directly with staff.

6.2 At the recent pre planning engagement event at Fathers House, on 27th November 2023, residents were provided with information about future phasing of the project, and it was indicated to residents that it was currently uncertain where in the phasing Bridge House would sit, and that the housing service are in the process of developing a proposal for the future of the building.

6.3 In January / February 2024 all residents on Mainway will receive a home visit from housing staff to update on the project in light of updated phasing information as well as block walkabouts to consider improvements that could be brought forward now the phasing of the estate is more certain. Bridge House residents will be visited once this report has been considered by Cabinet. In the event that the decision is made to cease use of Bridge House support to rehouse (including financial support) will be provided to affected residents.

6.4 From 24th January 2024 a three-week consultation exercise began with all residents living in Bridge House: to explain the implications of the decision sought in this report, to outline housing options available and support to be provided by the housing team, and to understand and respond to any concerns or questions raised in this report.

6.5 In line with the requirements of the Building Safety Act 2022 a residents Building Safety Group is in place, as a forum for residents to discuss and understand any safety related concerns they may have regarding their block. The outcomes of this group are especially relevant to residents within high rise blocks on Mainway.

7.0 Options and Options Analysis (including risk assessment)

	Option 1: Cease to let dwellings within Bridge House and support current residents to move out of the block.	**Option 2:** Commit to fully tenanting Bridge House while it remains operational.
Advantages	Safety risks are eliminated, and maintenance and other costs are not incurred	Rental income can be achieved in the short term.
Disadvantages	Loss of income from rents would be seen – this has provisionally been factored into the HRA budget report.	The exact lifespan of the block is unknown. It is feasible that significant money may be spent on the block only for it to be considered unsustainable in the near future.

Risks	An empty block would pose its own security risks, which would need management by the service.	Financial liabilities relating to tenanting the block make this a risky financial decision. Failure of the cladding, and the risk to health and safety, is likely to be an increasing risk.

8.0 Officer Preferred Option (and comments)

8.1 Due to the current condition of Bridge House and the risks relating to this, Option 1 is the preferred option.

9.0 Conclusion

9.1 It is recognised that the decision to cease letting of Bridge House will impact current residents. The housing team are committed to supporting residents to accessing a suitable alternative housing solution, including financially in respect of reasonable moving costs.

9.2 In addition, ceasing to let Bridge House creates some flexibility within the Mainway project regarding the prospective demolition of the block.

9.3 It should be noted that the loss of rental income for this block from April 2024 onwards has currently been built into HRA budget projections to be presented to Cabinet within the HRA Budget Report for consideration in February 2024.

RELATIONSHIP TO POLICY FRAMEWORK

This proposal is in support of wider Council ambitions to deliver redevelopment of the Mainway Estate. More widely, it supports the objectives within the Council plan to promote a sustainable district, and health and happy communities, by contributing to the development of the Mainway Masterplan and the provision of new affordable homes.

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

The impact of this decision will be mitigated. Residents currently living in Bridge House will be supported to move elsewhere within the council's housing stock, into alternative accommodation which meets their needs as assessed using the standard allocation criteria. This support will be offered through a home visit and an agreed plan of action on a case-by-case basis.

LEGAL IMPLICATIONS

Officers should take appropriate legal advice on the possibility of relocation of residents from Bridge House. This will involve consideration of the Council's duties under the Land Compensation Act 1973 (home loss payment) and the Council's rights and powers to relocate tenants in accordance with its tenancy and the Housing Act 1985. It may also involve consideration of the Council's use of it Compulsory Purchase powers.

It is critical that officers follow the correct statutory/legal procedure in seeking to relocate tenants from Bridge House and that all appropriate legal and financial due diligence is undertaken at appropriate stages.

Moreover, officers need to bear in mind and have regards to the Council's obligations under the Equality Act 2010 and in particular to the Council's s149 duty. A decision on whether to relocate tenants from Bridge House will also engage Human right issues – such as the right to private and family life (Art 8).

Officers should also seek legal services' advice and assistance on legal documents with regards to relocation of tenants. This may include agreements and deeds of surrender.

FINANCIAL IMPLICATIONS

The closure of Bridge House would result in the loss of rental income from dwellings in the region of £185K p.a., based on full occupancy. Rental of roof space for telephone masts / antenna also generates around £20K p.a., which would come to an end as and when the building was no longer available for this purpose. However, this loss of income would be off-set by a reduction in spend on responsive repairs (£55K p.a. based on average annual spend per property), significant building compliance works to meet legislation, planned replacement of internal fixtures and fittings, and the potential cost of re-cladding.

These funds can be redirected to address the needs of other areas of the estate, or wider afield, if required. As much of the work would need to be carried out with urgency, particularly surrounding building safety compliance, the likelihood of future rental income covering the investment is low, given the period in which the cladding is expected to fail.

Ultimately, the true cost to the Council of a failure in the cladding, or another structural defect due to the age of the building, while the block is occupied may far exceed the income lost in the intervening period until the masterplan for Mainway has been fully developed and approved.

In anticipation of this decision, future years' estimates have been prepared on the basis that rental income from Bridge House is phased out after Q1 of 2024/25. It should be noted that any future decision to demolish Bridge House will create a liability for the Council of around £185K in home loss payments payable to existing tenants. Should the remaining units be let, this liability would increase by up to £154K.

OTHER RESOURCE IMPLICATIONS

Human Resources:

No HR implications known

Information Services:

No Information Services implications known

Property:

No Property implications known

Open Spaces:

No Open Spaces implications known

SECTION 151 OFFICER'S COMMENTS

The s151 Officer has been consulted and would draw Members attention to the following comments within the Financial Implications

"Ultimately, the true cost to the Council of a failure in the cladding, or another structural defect due to the age of the building, while the block is occupied may far exceed the income lost in the intervening period until the masterplan for Mainway has been fully developed and approved."

Both Members and Officers are working to ensure the Mainway Project delivers a solution that balances the needs and desires of its tenants and the aspirations of the Council with the financial constraints it currently faces.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and would draw members attention to the legal implications and the need to ensure any legal issues are addressed before any action is taken.

BACKGROUND PAPERS None	**Contact Officer:** Pete Linsley **Telephone: 01524 582929** **E-mail: plinsley**@lancaster.gov.uk **Ref:** Bridge House