LANCASTER CITY COUNCIL

Promoting City, Coast & Countryside

LATE REPORTS

Council

Wednesday, 26 February 2020

The following reports were received too late to be included on the main agenda for this meeting and were marked ‘to follow’. They are now enclosed, as follows:

Agenda Item Number	Page	Title
8	4 - 5	LEADER'S REPORT

Agenda Item Number	Page	Title
10	6 - 17	APPROVAL OF THE PAY AND GRADING STRUCTURE

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11	18 - 40	BUDGET & POLICY FRAMEWORK 2020/21 - 2023/24 REVENUE BUDGET 2020/21

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COUNCIL

Leader's Report
26 February 2020

Report of the Leader of the Council

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

RECOMMENDATION

To receive the report of the Leader of Council.

REPORT

1.0 Cabinet

Information on Cabinet matters is provided in the minutes from the Cabinet meeting held on 14 January 2020. The minutes of the Cabinet meeting held on 11 February 2020 (scheduled to reconvene on 18 February 2020) were not available at the time of publication of the agenda and will be tabled at the March Council meeting.

2.0 Decisions required to be taken urgently

There are no decisions to report since the last Leader's Report on 29 January 2020.

3.0 Leader's Comments

Storms Ciara, Dennis & "un-named" weather front

Thanks to all the officers whose work helps keep us safe and dry all year round, and in particular for the work that has been done through Storms Ciara, Dennis and the as yet "un-named" weather front. Our community and communities across the country are increasingly frustrated that response times to flood events are so long. As the City Council we aren't the lead local flood authority, but we are the planning authority, we have civil contingency responsibilities, and our residents expect us to not meet our statutory responsibilities but to advocate for systems that properly reduce flood risk and build resilience.

Future of local government

The discussion about the future of local government continues. Officers from the Ministry of Communities, Housing and Local Government (MCHLG) came to brief the Lancashire Leaders on the view of government. In summary, the message was that there would be no significant devolution deal without a mayoral combined authority (CA), and that in proposing a CA we would need to review the underpinning governance ie the district councils. The strong message was that 15 members (the current number of district councils plus county, Blackburn & Blackpool) was probably too big. Our discussions also continue with South Lakeland and Barrow, and the one position I am firmly taking is that Lancaster, South Lakeland and Barrow are a function economic area and we want a solution that supports our ongoing collaboration rather than making it harder for us to work together. I have asked officers to organise a briefing for all councillors and we will look to formally adopt a position as a council.

Budget

As the first budget of a new administration putting the budget together has been a big job. I want to thank Cllr Anne Whitehead, Dan Bates, Paul Thompson, the finance teams and every officer across the directorates who have worked to bring forward budget bids. We've learnt a lot about the budget process through putting this year's together, and we already know we'll do some things different next year. One of those will be a more detailed examination of what is called the 'base budget', this is an issue noted by both cabinet members and budget and performance committee members. We look forward to that process starting in March through the Finance Resilience Group.

4.0 Key Decisions

The following Key Decisions were taken by Cabinet on 11 February 2020:

(1) Corporate Fees and Charges Review Policy 2020/21
(2) Housing Revenue Account and Capital Programme
(3) Future High Streets

The following Key Decisions are scheduled to be taken when that meeting reconvenes on 18 February 2020:

(4) Budget & Policy Framework Update 2020/21
(5) Eden Project North
(6) Job Evaluation Project

Background Papers

Cabinet agenda and minutes of the meeting held on 14 January 2020.

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

Document is Restricted

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Document is Restricted

Document is Restricted

COUNCIL

Budget and Policy Framework 2020/21 to 2023/24
26 February 2020

Report of Cabinet

PURPOSE OF REPORT
To present Cabinet's final budget proposals in order that the City Council can complete its revenue budget setting for 2020/21.
This report is public.

RECOMMENDATIONS:

(1) That the General Fund Revenue Budget of £17.903M for 2020/21 be approved, resulting in a Council Tax Requirement of £9.672M, excluding parish precepts, and a Band D basic City Council tax rate of £231.95.

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

(3) That the Reserves Strategy be approved, as set out at Appendix D.

(4) That Council notes the Section 151 Officer's advice regarding robustness of budget estimates, the adequacy of reserves and balances, specifically the advice that the minimum level of balances be increased to £2.5M (an increase of £0.5m), to provide for added uncertainty.

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

1 **INTRODUCTION**

1.1 Following its meeting on 11 February 2020 Cabinet has now finalised its budget framework proposals for General Fund Revenue Budget for 2020/21. These are all now reflected in the recommendations of this report.

2 **Strategic Overview from Cabinet**

2.1 In strategic terms the main challenge of budget setting is to match priorities and corporate planning objectives against what is affordable financially.

2.2 This year we undertook a strategic review of the Council's existing priorities and services, including performance, as well as looking at options to innovate and modernise. The Council Plan and its Strategic Priorities, were updated and approved by Council on 29 January 2020 providing the following priorities and cross cutting themes:

Priorities

- A Sustainable District
- An Inclusive and Prosperous Local Economy
- Healthy and Happy Communities
- A Co-operative, Kind and Responsible Council

Cross Cutting Themes

- Climate Emergency
- Community Wealth-Building
- Community Engagement

Revenue Budget

2.3 Revenue growth bids have been assessed in terms of corporate priorities and the proposals in this report provide for a balanced revenue budget for 2020/21.

2.4 The General Fund Revenue Budget for 2020/21, summarised below, is included at ***Appendix A*** with more detailed budget proposals in ***Appendix B***. The proposed budget is balanced, in line with statutory requirements, and takes account of the final local government finance settlement which was approved by Parliament on 12 February 2020.

2020/21 Revenue Budget and Council Tax Requirement	**£000's**	**Note**
Net Rev. Budget for 2020/21 per MTFS	17,700	
Changes made outside annual budget process	228	
Savings proposals	(511)	***)***
Growth proposals	2,356	***) Appendices A & B***
Less funding of growth from	(2,096)	***)***
Contribution to Unallocated Reserves	226	
General Fund Revenue Budget	**17,903**	
Funded by:		
Revenue Support Grant	(203)	
Retained Business Rates	(8,028)	
Council Tax Requirement	**9,672**	**£5 Council Tax Increase**

3 Provisions, Reserves, and Balances

3.1 Under current legislation the Section 151 Officer is required to give explicit advice to Council on the minimum level of reserves and balances.

Provisions

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

Balances – General Fund Balance

3.3 Reserve levels and use of reserves are an important part of the budget framework. It is important that the Council maintains a healthy level of reserves in order to maintain financial resilience but balances this with the careful use of those reserves, usually on 'one-off' items in order to support corporate priority projects.

3.4 The balances described above are managed via the Reserves Strategy which is set out in ***Appendix D*** but which, in summary, is covered below:

- The Section 151 Officer is statutorily required to undertake an annual assessment on the adequacy of the Council's reserve levels.
- The reorganisation of earmarked revenue reserves in order to better reflect corporate priorities.
- The planned use of reserves over the next four years and forecast reserves balances over that period.
- The governance arrangements for the use of reserves to ensure that they are used effectively in accordance with corporate priorities.

Annual Assessment of Reserves Levels

3.5 The Reserves Strategy covers the Section 151 Officer's annual review of the adequacy of reserve balances which is a statutory requirement. Although usable revenue reserve levels have increased significantly in the last two years, continuing uncertainties with respect to Local Government funding remain. **Taking this additional risk into account, the Section 151 Officer's advice is that the minimum level of balances held in the General Fund should be set at £2.5M, an increase of £0.5M.**

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

- The General Fund Balance at 31/03/19 was £5.714M.
- Latest revenue budget monitoring forecasts an overspend of £322K in 2019/20. This would reduce the General Fund Balance to £5.392M.
- The Council's MTFS suggests a budget gap in 2021/22 onwards of approximately £1.5M. If this is not closed then balances will be required to make up the difference.
- There is a significant level of uncertainty with respect to Council funding particularly in respect of both retained rates and New Homes Bonus and there is a possibility that the Council's funding will be reduced as a result of the Fair Funding Review.
- Business rates retention volatility remains a risk to the Council but this is now managed via the Business Rates Reserve considered in the next section and therefore should not impact on the General Fund balance.

- There is continuing uncertainty with respect to Brexit and how this will impact, directly or indirectly, Council finances.
- The MTFS provides forecasts on funding and on net expenditure and sensitivities associated with these forecasts. The Treasury Management Strategy documents collectively provide assurance with respect to the affordability, sustainability and prudence of capital expenditure.

3.7 In calculating the minimum level of General Fund balance, an assessment of the risks that give rise to unanticipated expenditure or loss of income has been made and these are shown below.

Risk	Symptom of risk	Balance required £000
Increased demand for services	3% increase in net revenue expenditure	530
Recession results in reduced fees and charges income	10% reduction in major fees and charges income	1,300
Recession results in reduced council tax collection rates	3% reduction in collection rate	300
New Homes Bonus scrapped	Significant reduction in funding income	1,300
Next year’s budget savings not achieved	50% under achievement	250
Next year’s commercial income target not achieved	30% under achievement	120
Natural disaster such as flood	Additional unanticipated expenditure	500
Uncertainty with respect to Brexit	Additional unanticipated expenditure	500
Aggregate overspend if all above risks were to happen		**4,800**
Estimated General Fund Balance as at 31/03/20		**5,392**

3.8 The analysis shows that, in the unlikely event of a ‘Perfect Storm’ of risks happening all within the next year, there are sufficient balances to meet all these risks in the short term which would give the Council time to adapt in the longer term

3.9 Usable revenue reserves have increased significantly over the last two years, mainly due to business rates growth. The strategy sets out the change in reserves and compares this with other districts as a benchmark. As at 31 March 2019, Lancaster had 114% of its net revenue expenditure held in reserve (increased from 62% 31 March 2017) which is equal to the Lancashire districts average.

3.10 The minimum level of balances will be kept under review as part of the MTFS and reported to Cabinet on a regular basis.

Re-organisation of Earmarked Reserves

3.11 Cabinet adopted a revised Reserves Strategy on 1 October 2019 following on from a review by the Financial Resilience Group. The revised Strategy set out the key changes:

- The transfer of the Budget Support Reserve balance into a new Corporate Priorities Reserve and the transfer of any committed balances from the Canal

Quarter, Capital Support, Economic Growth, Welfare Reforms, Morecambe Area Action Plan and Amenity Improvements into this reserve.

- The calculation of the level of Business Rates Reserve required to support the budget, over the medium term, should business rates income fall to safety net levels and the transfer of any surplus funds to the new Corporate Priorities Reserve.

3.12 The updated Reserves Strategy included in ***Appendix D*** calculates a requirement of £3.569M to support the budget over the next four years should business rates fall to safety net levels. This means that £2.348M can be transferred to the Corporate Priorities reserve. It is also recommended that the balances of the Canal Quarter, Capital Support, Economic Growth, Welfare Reforms, Morecambe Area Action Plan and Amenity Improvements are transferred to the Corporate Priorities reserve at the financial year end.

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

3.13 The estimated reserves balances are shown in ***Appendix C*** and are summarised below

	2019/20	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Balance brought forward	20,557	18,560	15,917	15,189	14,764
Net transfer to revenue	(1,409)	(1,700)	(278)	(35)	(57)
Net transfer to capital	(588)	(943)	(450)	(390)	(364)
Balance carried forward	**18,560**	**15,917**	**15,189**	**14,764**	**14,343**

3.14 It should be noted that the above analysis reflects allocated use of reserves which are subject to the completion and authorisation of a reserves bid template to ensure the effective use of resources to meet corporate priorities. If no bid is made or the bid is rejected then allocations will not be used.

3.15 It should also be noted that any business rates growth above budget and/or returns from invest to save projects will, all other things being equal, increase reserves balances from those set out in the above analysis.

Governance Arrangements

3.16 The Reserves Strategy sets out improved arrangements for the approval of reserves expenditure which include:

- a requirement to complete a bid document setting out how reserves expenditure will deliver corporate priorities with a clear costing statement and schedule of outcome measures

- a process to ensure that all use of reserves are approved by Cabinet either as part of the annual budget or via consideration of bids during the year, usually as part of strategy or project approval Cabinet report

- decision limits to ensure that Cabinet approval of reserves bids is delegated appropriately

4 Options and Options Analysis (including risk assessment)

4.1 Revenue Budget

Council may adjust its General Fund Revenue Budget proposals, as long as the overall budget for 2020/21 balances and fits with its approved council tax level.

Similarly, Council could consider alternative budget proposals for the HRA, but it cannot change rent levels.

4.2 Other Budget Framework Matters (Reserves and Provisions / MTFS)

Given known commitments, risks and council tax restrictions there is little flexibility in financial terms, but Council could consider different budget strategies to be appraised for future years, or alternative arrangements for approving the use of various reserves, or different virement and/or carry forward limits. On the whole, however, previous arrangements have worked reasonably well and so no other fundamental changes are proposed.

4.3 Section 151 Officer's Comments and Advice

Council is required to note this formally in the minutes of the meeting, hence it is reflected in the recommendations

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

5 CONCLUSION

5.1 This report addresses the actions required to complete the budget setting process for 2020/21, and for updating the Council's associated financial strategy.

RELATIONSHIP TO POLICY FRAMEWORK The budget should represent, in financial terms, what the Council is seeking to achieve through its Policy Framework.
CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability etc) No additional impact identified – any specific issues have been (or will be) considered as part of the relevant aspect of the policy framework or individual budget proposals, etc.
FINANCIAL IMPLICATIONS As set out in the report.
LEGAL IMPLICATIONS Legal Services have been consulted and are content with the report but will consider further the development and implementation of relevant budget proposals in due course to ensure legal aspects are fully considered.
SECTION 151 OFFICER'S COMMENTS The Local Government Act 2003 placed explicit requirements on the Section 151 Officer to report on the robustness of the estimates included in the budget and on the adequacy of the Council's reserves. A summary of the Section 151 Officer's advice to date is provided below for information, but it should be noted that some of this is provisional until Cabinet's final budget proposals are confirmed. At Budget Council, Members will be recommended to note formally the advice of the Section 151 Officer.

Provisions, Reserves and Balances

- Specific earmarked reserves and provisions are satisfactory at the levels currently proposed.
- Unallocated balances of £2.5M for General Fund are reasonable levels to safeguard the Council's overall financial position, given other measures and safeguards proposed, and taking a medium to longer term view. This level has been increased by £0.5M compared with last year to reflect increased uncertainty with respect to government funding after the Fair Funding review and Brexit and reflects the sensitivity of some of the underlying savings and income targets within the budget.

Robustness of Estimates

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

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

These measures ensure that as far as is practical, the estimates and assumptions underpinning the base budget are robust.

Affordability of Spending Plans

In addition, the Section 151 Officer is responsible for ensuring that when setting and revising Prudential Indicators, including borrowing limits, all matters to be taken into account are reported to Council for consideration as part of the Treasury Management Framework.

In considering affordability, the fundamental objective is to ensure that the Council's capital investment remains within sustainable limits, having particular regard to the impact on council tax (for General Fund). Affordability is ultimately determined by judgements on what is 'acceptable' - this will be influenced by public, political and national influences.

The factors that have been (and should be) taken into account in considering capital investment plans include the following.

- availability of capital resources, including capital grants, capital receipts, etc
- existing commitments and planned service / priority changes
- options appraisal arrangements and robust business cases for the chosen options
- revenue consequences of any proposed capital schemes, including interest and debt repayment costs of any borrowing
- future years' revenue budget projections, and the scope to meet borrowing costs
- the likely level of government support for revenue generally
- the extent to which other liabilities can be avoided, through investment decisions.

In considering and balancing these factors, the capital proposals to date are based on an increase in "prudential borrowing" or CFR over the period to 2023/24. The bulk of this relates to schemes to support delivery of the Council's key Strategic Priorities as outlined in the Capital Programme.

MONITORING OFFICER'S COMMENTS The Monitoring Officer reminds Council that the decisions (recommendations 1 and 2) fall within the Local Authorities (Standing Orders) (Amendment) (England) 2014 and Rule 19.7 (Part 4 section1 constitution) of the Council Procedure Rules, and accordingly a recorded vote should be taken.	
BACKGROUND PAPERS Cabinet reports on budget proposals 14 January 2020 & 11 February 2020 Medium Term Financial Strategy 2020/21 – 2023/24	**Contact Officer:** Paul Thompson **Telephone**: 01524 582603 **E-mail**: pthompson@lancaster.gov.uk

Appendix A

General Fund Revenue Budget Projections 2019/20 to 2023/24

For Consideration by Council 26 February 2020

BUDGET PROJECTIONS

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Revenue Budget/Forecast as at 5 November 2019	**15,937**	**17,700**	**18,493**	**19,066**	**20,091**
Base Budget Changes after Cabinet 15 January					
Increased LCTS & HB Admin Grant	-	(40)	(48)	(56)	(41)
Further Job Evaluation Changes	-	268	103	(4)	(19)
Cabinet Budget Proposals:					
Savings Proposals	-	(511)	(408)	(605)	(845)
Growth Proposals	-	2,356	890	399	(63)
Contributions from Reserves re Budget Proposals	-	(2,096)	(1,206)	(927)	(829)
Revenue Implication of New Capital Schemes	-	-	307	449	589
Contribution to GF Unallocated Reserve	-	226	-	-	-
General Fund Revenue Budget	**15,937**	**17,903**	**18,131**	**18,322**	**18,883**
Core Funding:					
Revenue Support Grant	(200)	(203)	-	-	-
Net Business Rates Income	(6,341)	(8,028)	(6,593)	(6,797)	(7,006)
Council Tax Requirement	**9,396**	**9,672**	**11,538**	**11,525**	**11,877**
Estimated Council Tax Income - (Increases based on £5 for 20/21 then max allowable)	**9,396**	**9,672**	**9,980**	**10,291**	**10,607**
Resulting Base Budget Deficit	**0**	**0**	**1,558**	**1,234**	**1,270**
Original MTFS Savings Requirement	***-***	***2,253***	***2,835***	***2,630***	***N/A***
Change	***+0***	***(2,253)***	***(1,277)***	***(1,396)***	***N/A***

BALANCES

General Fund Unallocated Balance	*£M*
Original Projected Balance as at 31 March 2019	**(5.054)**
2018/19 Reverse Forecast Under/(Overspend)	(0.013)
2018/19 Actual (Under)/Overspend	(0.647)
2019/20 Budgeted Contribution	+0.000
2019/20 Forecast (Under)/Overspend	+0.322
Projected Balance as at 31 March 2020	**(5.392)**
Less Agreed Minimum Level of Balances	**2.500**
Available Balances	**(2.892)**

Summary of Cabinet's Budget Proposals 2020/21 to 2023/24

SAVINGS PROPOSALS

	Reserves Funding	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Non-Reserve Savings					
Minimum Revenue Provision		-	-	-	-
Refuse/Recycling (delay of additional round)		(200)	-	-	-
Inflation Savings		-	(129)	(194)	(273)
Increase in Income Achieved - Car Parking		(160)	-	-	-
Increase in Income Achieved - Williamson Park		(17)	-	-	-
Annual non pay inflation uplifts and increase in other incomes					
- Trade Refuse		(29)	(62)	(78)	(108)
- Other Incomes		(7)	(15)	(23)	(39)
- Improved venues management		(51)	(108)	(170)	(238)
- Co-ordinated approach to catering		(12)	(24)	(36)	(48)
- Support Services Efficiencies		(21)	(42)	(63)	(84)
- Reducing general office supplies		(14)	(28)	(41)	(55)
Sub Total	**£0K**	**(511)**	**(408)**	**(605)**	**(845)**
Funding From Reserves		**0**	**0**	**0**	**0**
Net Savings		**(511)**	**(408)**	**(605)**	**(845)**

GROWTH PROPOSALS

	Reserves Funding	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Non-Reserve Growth					
Unavoidable					
Job Evaluation		218	438	615	705
Communities & the Environment					
Energy including Phase 1 Solar		36	(94)	(94)	(95)
Salt Ayre Boiler Replacement		10	(2)	(2)	(3)
Two Electric Refuse Vehicles		46	41	40	40
Electric Fleet Replacement Programme		31	10	10	10
Pool Cars		18	(3)	(4)	(4)
Salt Ayre Leisure Centre		(4)	(114)	(108)	(135)
Mellishaw Park		37	-	-	-
Economic Growth & Regeneration					
Development Management		20	24	28	32
Planning Policy & Local Plan: Staff		96	102	108	115
Building Control		77	(47)	(46)	(50)
Prosperity Skills Wealth Building		55	56	57	58
Regeneration		(93)	8	47	57
Cultural Development					
- Arts, Festivals and Events Development		15	29	29	29
Property Investment		(383)	(832)	(1,264)	(1,696)
Corporate Services					
Staff Development		50	40	30	10
Member Training		11	8	6	15
Digital Strategy MRP		14	14	14	14
Office of the Chief Executive					
VCSE Miscellaneous Grants		6	6	6	6
Approved Growth funded from Reserves					
Job Evaluation	**£293K**	293	147	73	-
RCCO Mellishaw Park	**£240K**	240	240	240	240
Growth funded from Reserves (Subject to Business Case Approval)					
Digital Stratgey	**£90K**	90	-	-	-
Cultural Development	**£99K**	99	43	23	23
Economic Prosperity Plan	**£40K**	40	-	-	-
Economic Development	**£110K**	110	110	110	85
Housing Feasibility (Housing Co and PS Stock Survey)	**£107K**	107	7	7	7
Committee System Investigation	**£30K**	30	-	-	-
Energy Management Hardware and Software	**£50K**	50	-	-	-
CE recruitment and consultant costs	**£30K**	30	-	-	-
Planning Policy & Local Plan: Commissioning Advice	**£148K**	148	148	148	148
Future High Streets Fund (delivery capacity) (if successful)	**£76K**	76	76	76	76
Canal Quarter	**£124K**	124	150	-	-
Heysham Gateway	**£279K**	279	35	-	-
Bailrigg Garden Village / Morecambe High Streets	**£280K**	280	250	250	250
Housing Feasibility Invest to Save	**£100K**	100	-	-	-
Total Growth	**£2,096K**	**2,356**	**890**	**399**	**(63)**
Less Funding from Reserves		**(2,096)**	**(1,206)**	**(927)**	**(829)**
Add Payback to Reserves					
Net Cost of Growth		**260**	**(316)**	**(528)**	**(892)**

APPENDIX C

Reserves Statement (Including Unallocated Balances)

		31 March 2019	From Revenue	To / (From) Capital	To Revenue	31 March 2020	From Revenue	To / (From) Capital	To Revenue	31 March 2021	From Revenue	To / (From) Capital	To Revenue	31 March 2022	From Revenue	To / (From) Capital	To Revenue	31 March 2023	From Revenue	To / (From) Capital	To Revenue	31 March 2024
		£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
	Unallocated Balances	**(5,713,800)**				**(5,713,800)**	226,000			**(5,487,800)**				**(5,487,800)**				**(5,487,800)**				**(5,487,800)**
	Earmarked Reserves:																					
Business Rates Reserve'!A1	**Business Rates Retention**	**(6,283,400)**			367,000	**(5,916,400)**			815,100	**(5,101,300)**			96,500	**(5,004,800)**			604,500	**(4,400,300)**			831,300	**(3,569,000)**
Budget Support Reserve'!Print_Area	**Corporate Priorities**	**(2,532,100)**			844,000	**(1,688,100)**	(882,800)	444,000	930,800	**(1,196,100)**		240,000	384,900	**(571,200)**	(491,300)	240,000	364,900	**(457,600)**	(579,800)	240,000	339,800	**(457,600)**
Canal Corridor Reserve'!Print_Area	**Canal Quarter**	**(237,400)**			213,000	**(24,400)**			24,400													
Capital Support Reserve'!A1	**Capital Support**	**(262,200)**		4,000		**(258,200)**		73,000	185,200													
Corporate Property Reserve'!A1	**Corporate Property**	**(371,800)**			36,600	**(335,200)**				**(335,200)**				**(335,200)**				**(335,200)**				**(335,200)**
Economic Growth Reserve'!Print_Area	**Economic Growth**	**(203,500)**	(367,000)		551,100	**(19,400)**	(117,500)		136,900		(96,500)		96,500		(96,500)		96,500		(96,500)		96,500	
Elections Reserve'!A1	**Elections**	**(108,800)**	(40,000)		148,800		(40,000)			**(40,000)**	(40,000)			**(80,000)**	(40,000)			**(120,000)**	(40,000)		160,000	
Homelessness Reserve'!A1	**Homelessness Support**	**(101,300)**	(6,600)			**(107,900)**	(6,600)			**(114,500)**	(6,600)			**(121,100)**	(6,600)			**(127,700)**	(6,600)			**(134,300)**
Invest to Save Reserve'!A1	**Invest to Save**	**(1,450,400)**			139,800	**(1,310,600)**	(60,800)		782,600	**(588,800)**	(55,100)		434,500	**(209,400)**	(40,600)		250,000		(250,000)		250,000	
Local Plan Reserve'!A1	**Local Plan**	**(23,700)**			23,700																	
MAAP Reserve'!A1	**Morecambe Area Action Plan**	**(27,300)**				**(27,300)**			27,300													
Museums Acquisitions'!Print_Area	**Museums Acquisitions**	**(16,500)**	(3,000)			**(19,500)**	(3,000)			**(22,500)**	(3,000)			**(25,500)**				**(25,500)**				**(25,500)**
Planning Fee Income Reserve'!Print_Area	**Planning Fee Income**	**(74,600)**	(14,400)			**(89,000)**			31,200	**(57,800)**			39,600	**(18,200)**			18,200					
	Renewals Reserves	**(330,400)**	(479,300)	493,000	122,400	**(194,300)**	(481,800)	356,000	42,100	**(278,000)**	(481,800)	210,000	34,200	**(515,600)**	(481,800)	150,000	34,200	**(813,200)**	(481,800)	124,000	34,200	**(1,136,800)**
Restructure (BS) Reserve'!A1	**Restructure**	**(530,700)**				**(530,700)**			66,000	**(464,700)**			36,000	**(428,700)**			19,000	**(409,700)**				**(409,700)**
Revenue Grants Unapplied'!Print_Area	**Revenue Grants Unapplied**	**(693,900)**	(15,000)		47,200	**(661,700)**	(5,300)		189,300	**(477,700)**			27,100	**(450,600)**				**(450,600)**				**(450,600)**
s106 Reserves'!A1	**S106 Commuted Sums -** Open Spaces	**(44,000)**			15,600	**(28,400)**			11,800	**(16,600)**			11,800	**(4,800)**			4,700	**(100)**				**(100)**
s106 Reserves'!A1	**S106 Commuted Sums -** Affordable Housing	**(897,400)**				**(897,400)**				**(897,400)**				**(897,400)**				**(897,400)**				**(897,400)**
s106 Reserves'!A1	**S106 Commuted Sums -** Highways, Cycle Paths etc.	**(206,000)**	(200,000)	91,000		**(315,000)**	(200,000)	70,000		**(445,000)**	(200,000)			**(645,000)**	(200,000)			**(845,000)**	(200,000)			**(1,045,000)**
Welfare Reforms Reserve'!A1	**Welfare Reforms**	**(349,000)**			25,000	**(324,000)**				**(324,000)**				**(324,000)**				**(324,000)**				**(324,000)**
Amenity Improvement Reserve'!Print_Area	**Amenity Improvements**	**(29,000)**				**(29,000)**			29,000													
	Reserves Held in Perpetuity:																					
Reserves held in perpetuity'!A1	**Graves Maintenance**	**(22,200)**				**(22,200)**				**(22,200)**				**(22,200)**				**(22,200)**				**(22,200)**
Reserves held in perpetuity'!A1	**Marsh Capital**	**(47,700)**				**(47,700)**				**(47,700)**				**(47,700)**				**(47,700)**				**(47,700)**
	Total Earmarked Reserves	**(14,843,300)**	**(1,125,300)**	**588,000**	**2,534,200**	**(12,846,400)**	**(1,797,800)**	**943,000**	**3,271,700**	**(10,429,500)**	**(883,000)**	**450,000**	**1,161,100**	**(9,701,400)**	**(1,356,800)**	**390,000**	**1,392,000**	**(9,276,200)**	**(1,654,700)**	**364,000**	**1,711,800**	**(8,855,100)**
	Total Combined Reserves	**(20,557,100)**				**(18,560,200)**				**(15,917,300)**				**(15,189,200)**				**(14,764,000)**				**(14,342,900)**

APPENDIX D

Reserves Strategy

Introduction

1. Reserves are an essential part of good financial management. They help the Council to cope with unpredictable financial pressures and plan for future spending commitments. The level, purpose and planned use of reserves are important factors for the Council as part of the Medium Term Financial Strategy (MTFS).

2. The Council may choose to fund some of its spending from its reserves, or set aside some of its income to increase reserves for future spending.

3. Lancaster City Council, in common with most local authorities, face significant financial challenges. The unprecedented reduction in government funding from 2010/11 to 2019/20 and continuing uncertainties with respect to funding as well as, rising costs and growing demand for many services are all testing the Councils' financial management and resilience.

4. The introduction of local business rates retention in particular has created additional risks to all Councils' finances and particularly for Lancaster as it is one of a handful of authorities which has a nuclear power station within its area. The Council, therefore, bears a significant risk of a temporary or permanent shut down at the power station which would immediately and significantly reduce funding from business rates. The magnitude of such a financial shock is sufficient that the Council must hold a reserve to provide resilience in the event that this happens.

5. Current and future financial challenges pose significant risks for the Council. The Council will continue to use reserves to balance competing pressures for example:

   - Using reserves to offset funding reductions and protect services – although this can only be a short-term strategy as reserves are a one-off funding resource.
   - Using reserves to provide 'one-off' expenditure to meet corporate priorities.
   - Investing in making changes that reduce the cost of providing services in the longer-term.
   - Increasing reserves to strengthen resilience against future, uncertain cost pressures.

The approach to setting the Reserves Strategy.

6. The Reserves Strategy covers the following aspects:

   - Information showing the current level of reserves, individually and in aggregate and an assessment of the adequacy of reserve levels.
   - A summary of the financial risks facing the Council, how it will mitigate these risks, and the minimum and maximum level of residual risk for which the council may need to hold funds in its reserves, particularly its General Fund and HRA reserves.
   - Consideration of the forward strategy for reserves needed to support the Medium Term Financial Strategy.
   - Summary of each individual reserve covering its purpose and governance arrangements for its use.

7. Reserves will be monitored throughout the year as part of the quarterly financial monitoring and the level of reserves reported as part of the year-end accounting processes.

APPENDIX D

Level of reserves and principles to assess adequacy

8. Within the existing statutory and regulatory framework, it is the responsibility of the Chief Financial Officer (at Lancaster this is the Financial Services Manager who is the Section 151 Officer) to advise the Council about the level of reserves that it should hold and to ensure that there are clear protocols for their establishment and use.

9. For clarity, within the legislation the minimum level of any reserve is not quantified. It is not considered appropriate or practical for the Chartered Institute of Public Finance and Accountancy (CIPFA), or other external agencies, to give prescriptive guidance on the minimum, or maximum, level of reserves required either as an absolute amount or a percentage of the budget. This is an assessment which the Council should make with advice from the Section 151 Officer.

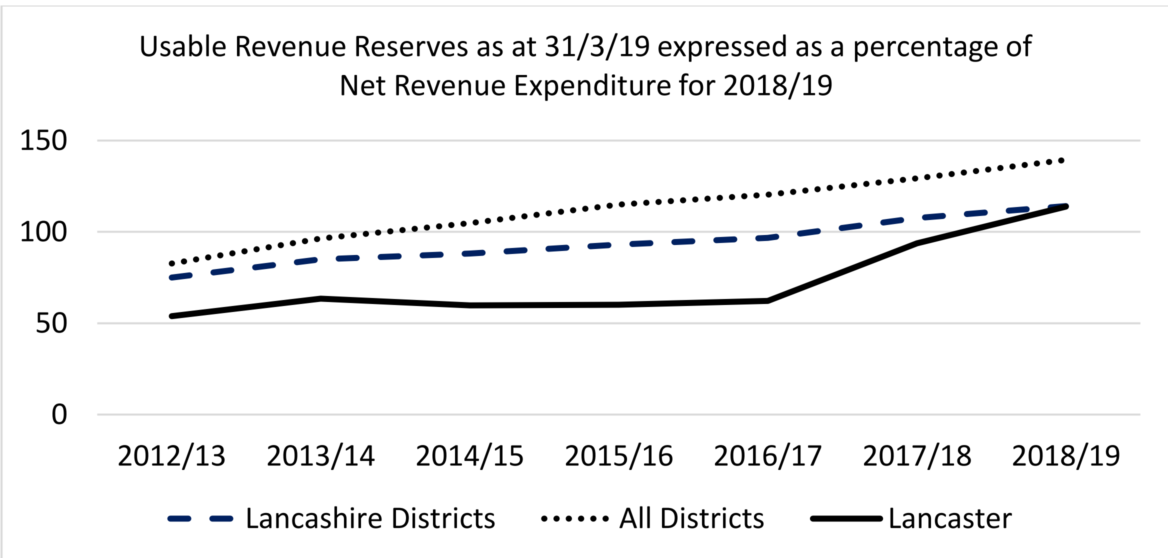
10. At the end of the 2018/19 financial year, Lancaster City Council had levels of usable reserves as set out in the table below.

	2017/18 £000s	2018/19 £000s	Change £000
General Fund Reserve	5,067	5,714	647
Earmarked Revenue Reserves	11,869	14,843	2,974
Usable Capital Receipts	0	0	0
Capital Grants Unapplied	103	103	0
Total General Fund Reserves	**17,039**	**20,566**	**3,527**
HRA balance	2,017	2,235	218
Earmarked HRA Reserves	10,561	10,537	(24)
Total HRA Reserves	**12,578**	**12,772**	**194**

11. The table shows that reserves increased during 2018/19. This was mainly due to an increase in the business rates reserve from the Council's share of retained rates associated with business rates growth in the district. The increase in reserves is a significant boost to the Council's financial resilience.

12. Media focus on reserves has tended to focus on General Fund revenue reserves as it is these which provide the financial resilience to guard against unanticipated increases in expenditure or reductions in income.

13. The graph below shows the level of reserves at Lancaster City Council expressed as a percentage of net revenue expenditure compared with all other district councils.



14. Lancaster City Council has the equivalent of about one year's net revenue expenditure held in usable revenue reserves. In general terms, reserve levels should be adequate to meet any short term unanticipated financial shock.

15. In specific terms, it is important to assess the adequacy of reserves taking account of the financial assumptions underpinning the budget alongside a consideration of the authority's financial management arrangements. These include:

    Budget Assumptions
    - Levels of Government funding, council tax and business rates.
    - The treatment of inflation and interest rates.
    - Estimates of the level and timing of capital receipts.
    - The treatment of demand led pressures.
    - The treatment of planned efficiency savings/gains.
    - The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments.
    - The availability of other funds to deal with major contingencies and the adequacy of provisions.

    Financial Standing and Management
    - The overall financial standing of the authority (level of borrowing, debt outstanding, council tax collection rates, etc.).
    - The authority's track record in budget and financial management including the robustness of the medium term financial plans.
    - The authority's capacity to manage in-year budget pressures.
    - The strength of the financial information and reporting arrangements.
    - The adequacy of the authority's insurance arrangements to cover major unforeseen risks.

General Fund Balance

16. The general fund balance is an unearmarked revenue reserve and as such should be sufficient to cover all unanticipated expenditures or reductions in income that may arise so that the authority has sufficient balances to meet these in the medium term.

17. In calculating the minimum level of General Fund balance, an assessment of the risks that give rise to unanticipated expenditure or loss of income has been made and these are shown in the table below. The analysis shows that in the unlikely event of a 'perfect storm' of risks happening all within the next year then there are sufficient balances to meet all these risks. This would give the Council time to adapt to such risks in the medium term.

Risk	Sympton of risk	Balance required £000
Increased demand for services	3% increase in net revenue expenditure	530
Recession results in reduced fees and charges income	10% reduction in major fees and charges income	1,300
Recession results in reduced council tax collection rates	3% reduction in collection rate	300
New Homes Bonus Scrapped	Significant reduction in funding income	1,300
Next year's budget savings not achieved	50% under achievement	250
Next year's commercial income target not achieved	30% under achievement	120
Natural disaster such as flood	Additional unanticipated expenditure	500
Uncertainty with respect to Brexit	Additional unanticipated expenditure	500
Aggregate overspend if all above risks were to happen		4,800
General Fund Balance as at 31/03/20		5,392

HRA Balance

18. The HRA balance and earmarked reserves are considered each year in conjunction with the annual budget at update of the 30 year business plan.

Earmarked Reserves

19. The Council holds a number of earmarked reserves, which it has chosen to set aside for one of the following purposes:
    - To manage fluctuations in income or funding.
    - To provide for some future anticipated expenditure for identified projects, particularly in respect of corporate priorities.
    - To provide up-front costs which specifically result in future efficiencies, cost savings or increased income.
    - To hold funding from other bodies, mainly Government, for specified purposes.

20. A schedule of earmarked reserves is included at the end of this document with details, for each reserve, showing its purpose. Specific issues arising from a review of earmarked reserves (see para. 21) are detailed in a reserves action plan shown below (para. 22).

21. The Financial Resilience Advisory Group (FRAG) has undertaken a review of usable reserves which has looked at each of the following areas:

    - The reasons for holding reserves, ensuring that each reserve has a clear and unambiguous purpose which relates to the Council's operations and priorities.
    - The appropriate level of reserves, both collectively and individually, ensuring that there is sufficient to cover future commitments and priorities whilst maintaining good levels of financial resilience.
    - Authorisation processes for the use of reserves including the adequacy of reserve bid documents, Cabinet and Portfolio Holder as well as Officer accountabilities and the timing of reserve bids.
    - Reporting on the levels of reserves in terms of financial reporting and performance reporting in respect of the effectiveness of reserves use.

APPENDIX D

22. The following actions are now proposed.

Budget Support Reserve

It is proposed that the reserve be named the Corporate Priorities reserve and its purpose be expanded to provide resources to help finance capacity or development and feasibility work in support of the Council's priorities as adopted by Council in January 2020. Furthermore, it is proposed to transfer the year end balances (and any future allocations) of the Canal Quarter, Capital Support, Economic Growth, Welfare Reforms, Morecambe Bay Area Action Plan, Amenity Improvements and Museums Acquisitions into the Corporate Priorities reserve. The rationale behind this is to ensure that all reserve bids are considered equally through the lens of the corporate priorities and are subjected to consistent rigour in the consideration and approval process.

Business Rates Reserve

The business rates reserve has collected all the gains from business rate growth which have accrued since the commencement of the localised business rates scheme. Its balance as at 31/3/19, at nearly £6.3m, now exceeds the amount required to support the budget over the medium term should business rates income fall to safety net levels. The calculation below shows the level of reserves that should be held to protect business rates income over the next four years.

	2020/21	2021/22	2022/23	2023/24
Difference between Safety Net and Baseline	430,556	409,227	417,412	425,760
Business Rates Growth	1,067,743	195,850	271,610	350,689
Total	1,498,300	605,077	689,022	776,449
Total over four-year period		3,568,848		

The difference between the existing balance on the Business Rates Reserve and the amount calculated above is £2,714,505. It is proposed to transfer this to the Corporate Priorities reserve. An annual review of the balance on the business rates reserve will take place at year end to determine adequacy of balances in the context of expected business rates incomes and calculated risks.

Invest to Save Reserve

It is proposed that the Invest to Save Reserve should be used for all projects which arise from the Funding the Future Strategy (incorporating efficiency reviews, commercialisation and property investment) and any other project which is aimed at delivering efficiencies, reducing costs or increasing income. The bid document (covered in paragraph 23 and appendix two) requires a financial yield/return calculation to be appended to the bid document.

Reserves Bid Document

23. All future bids for reserves use will be supported by a bid document (included as appendix two) which sets out in detail the resources required, an action plan and outcomes and measures which reconcile to corporate priorities. All bid documents should be approved, in the first instance, by the Section 151 Officer and Finance Portfolio Holder in addition to the authorisation limits set out in paragraph 24 below.

Reserves Bid Authorisation

24. Reserve bids decision limits will be as follows:
    - Up to £25k – to be agreed by Portfolio Holder in consultation with relevant Director. Bid should have been pre-approved by Cabinet.
    - £25k to £100k – to be agreed by Portfolio Holder in consultation with relevant Director. Individual Cabinet Member Decision to be published. Bid should have been pre-approved by Cabinet.
    - Over £100k – to be agreed by Cabinet Meeting.

The pre-approval concept, which should apply to all financial bids is explained overleaf. All reserve bids should also be approved and signed off by the Section 151 Officer and the Finance Portfolio Holder.

Reserves Expenditure Monitoring

25. The monitoring of reserves will be incorporated into the quarterly performance and financial monitoring reporting process.

Pre-Approval

The annual budget framework process will consider revenue, capital and reserves bids in the context of corporate priorities. Where bids are considered at times other than the annual Budget Council it is just as important that these can show that they meet these priorities. This will be achieved if the projects are ‘pre-approved’ by Cabinet, usually when corporate strategies are considered and approved. Any financial bids made during the financial year (up to £100k in the case of reserves) can be approved by the relevant Portfolio Holder, supported by the relevant bid document, as long as the project has been previously identified and pre-approved in a report to Cabinet.

This will ensure that governance transparency is balanced with speed of decision.

It is important to note that the pre-approval process is not an approval to spend but rather an approval to bring forward a reserves bid which is subject to the process set out within paragraphs 23 and 24 above.

APPENDIX D

Schedule of Earmarked Reserves

Reserve	Purpose of the Reserve
Business Rates Retention	To support the budget in the event that Business Rates Income does not reach budgeted levels or falls to Safety Net, due to fluctuations in appeals or other reductions in net income, and to hold any unbudgeted (surplus) rating income prior to use.
Planning Income	To hold surplus income generated as a result of the Government's 20% increase in planning fee income. To be used to fund additional costs/growth relating to Planning functions (in line with any regulatory guidance).
Canal Quarter	***To cover commissioning costs relating to external support and advice for the CCN development.***
Capital Support	***To cover contractual liabilities on West End properties and to provide cover for any revenue costs arising through shortfalls in capital financing (i.e. from capital receipts).***
Economic Growth	***To support economic growth activities in the district.***
Elections	To even out the cost of holding City Council elections every four years.
Local Plan	To support the adoption of the Local Plan.
Morecambe Area Action Plan	***To support implementation of the MAAP (Cabinet report 11 February 2014).***
Renewals	To provide for the renewal (replacement or upgrade) of existing facilities and infrastructure needed for service delivery, such as vehicles, plant and equipment.
Welfare Reforms	***To help manage the cost and administration pressures of any welfare reforms (in particular, localisation of council tax support and Universal Credit).***
Amenity Improvements	***To provide public realm amenity improvements.***
Corporate Priorities (previously Budget Support)	To provide resources to help finance capacity / feasibility / review and other development work in support of the Council's corporate priorities as adopted by Council in January 2020.
Corporate Property	To provide for feasibility studies, surveys and repair works to municipal buildings and facilities (in particular, for those that cannot be capitalised as part of the current works programme or are not otherwise budgeted for). In addition, to provide cover for any in-year rental shortfalls.
Invest to Save	To help finance any Invest to Save initiatives.
Restructure	To fund the costs associated with early termination of staff (in the interests of efficiency / redundancy) / Pay and Grading Review.
Revenue Grants Unapplied	Grants, usually for Government, which are provided for an expressed purpose.
Homelessness Support	To hold related government grants or other specific external funding until needed for homelessness prevention measures.

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

It is proposed (see para 22) to transfer the year end balances (and any future allocations) of those reserves in bold itallics into the Corporate Priorities reserve

APPENDIX D

Appendix Two – Reserves Bid Document (project is for illustrative purposes)

Description of Project	Pilot project for 'proof of concept' to test agile working. To set up the old telephony room in Lancaster Town Hall as an agile working space. Project will deliver new ICT, furniture, decoration, electrics, lighting in order to test prior to larger whole building project. It will also allow for new policies, procedures and cultural factors to be tested. These include managing by results (as opposed to presence) which allow for working from home.
Amount of Reserve Bid	Circa £36k
Reserve	Budget Support – project will support key corporate project which will address the A Smart and Forward Thinking and Climate Change Emergency priorities
Strategy Link	Smart and Forward Thinking Council
Corporate Project Link	CS14 – Agile Project

Type of Expenditure (and budget code)	**Amount**	**Details**
Furniture Costs	£19,500	Quote from Senator
ICT costs	£7,989	8 x Dell Latitude 5290 with travel keyboard and active pen
Redecoration Costs	£5,000 (est)	To make good after lighting and electrical works, including new flooring
Electrical Works	£2,880 + £2,500 (est)	Additional network cabling and power sockets added to pilot room
Lighting Costs	£12,000	New lighting in pilot room, as proposed for many areas of LTH
Total	**£49,869**	
Income	(£14,000)	Funding From Existing Budgets
Net Expenditure	£35,869	

Action Plan

What	**Who**	**When**
Detailed Agile action plan has been produced as part of the project including HR agile policies and intranet page and staff engagement		
Electrics completed	Sarah	September 2019
Lighting completed	Sarah	September 2019
Furniture procurement exercise completed	Sarah	September 2019
Additional agile ICT for pilot users	Joe	September 2019
Decoration completed	Sarah	October 2019
Furniture delivered and installed	Sarah	October 2019
Pilot space opens for use	Claire / Sarah	November 2019
Business Case for whole of LTH completed based on pilot findings	Claire / Sarah / Elaine	February 2020

APPENDIX D

Outcomes and Impacts arising from Project

Measure	Baseline	Target
Reduced travel from home to office (time spent for each individual)	Survey of those involved to find out their current travel time (to be carried out in Sept/Oct 2019)	20% reduction
Reduced travel from home to office (CO2 reduction)	Calculation based on km travelled to work currently (where using motor vehicle)	20% reduction
Reduced amount of printing and paper	TBD	20% reduction in printing and reduced paper storage (TBC)
Energy Savings	Calculated from average cost per square meter in LTH	Reduced heating and electricity (assuming 2 offices are merged into 1)
Contentment with technology set up	Determined by individuals using sliding scale	More contented
Productivity increased	Determined by individuals using sliding scale	More productive
Staff Wellbeing – reduced stress (through more empowerment)	Determined by individuals using sliding scale	Reduced stress
Contentment with working environment	Determined by individuals using sliding scale	More contented

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

Project Officer Sign Off:

Director Sign Off:
Section 151 Officer Sign Off:

Portfolio Holder Sign Off:
Finance Portfolio Sign Off:

Cabinet Minute (if app):

APPENDIX E

Budget Transfers (Virements and Carry Forwards) 2020/21 Limits

Budget Council 27 February 2020

1 **Purpose and Scope**

1.1 Budget transfers (virements and carry forwards) enable the Cabinet and Chief Officers to manage budgets with a degree of flexibility within the overall policy framework determined by full Council, to optimise the use of resources and promote good financial management.

1.2 Other detailed operational guidance will be provided to budget holders, but Council approval is required for the basic limits, as proposed below.

2 **Virements**

2.1 The term covers in-year transfers between budget headings.

2.2 The Scheme of virement applies to revenue and capital budgets, and it allows only in-year, non-recurring budget adjustments.

2.3 Virement must not increase the Council's net budget; the first priority for any virements must be to address any expected budget overspendings.

2.4 Chief Officers (or their nominated representatives) may approve virements up to any limit within the specific cost centres in their control (or the equivalent level as set out in the budget book), as long as the virement does not substantially change how the activity is to be delivered, or have adverse impact on performance. For example, high staff turnover in a service area may result in an interim need to buy in additional external support or services. This would require a virement from the salaries budget, into the relevant supplies & services budget, as long as the virement does not increase the overall net cost for the service area.

2.5 With the agreement of the s151 Officer, Chief Officers (or their nominated representatives) may approve virements in budgets under their control, between cost centres (or the equivalent level as set out in the budget book), subject to the following limits:

Delegated limit	**2020/21**
Total virement on any **expenditure** heading in any one financial year must not exceed:	£10,000
Total virement on any **income** heading in any one financial year must not exceed:	£10,000

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

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

3 Treatment of Year-end Balances

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

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

Overspends

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

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

Underspends

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

- the carry forward amount being used for the same purpose as budgeted; and

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

COUNCIL

Housing Revenue Account
Budget Framework 2020 to 2024
26 February 2020

Report of Cabinet

PURPOSE OF REPORT
To present Cabinet's final budget proposals in relation to the Housing Revenue Account in order that the City Council can complete its budget setting for 2020/21 and update its financial strategy to 2024.
This report is public.

RECOMMENDATIONS:

(1) That Cabinet's recommendation to approve the council housing rent levels for 2020/21, as set in accordance with statutory requirements, be noted.

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

(3) That the revenue growth proposals as set out at *Appendix B* be approved.

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

(5) That the minimum level of HRA unallocated balances be retained at £500,000 from 01 April 2020, and that the full Statement on Reserves and Balances as set out at *Appendix D* be approved.

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

1 Introduction

1.1 Following its meeting on 11 February, Cabinet has now finalised its budget framework proposals for the Housing Revenue Account (HRA). These are all now reflected in the recommendations of this report.

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

2.1 The Council has a legal requirement to maintain a separate ring-fenced account for the provision of local authority housing, known as the Housing Revenue Account (HRA). This covers the maintenance and management of the Council's housing stock.

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

2.3 The financial year 2020/21 sees Local Authorities released from the restrictions within the government's four-year rent setting policy to reduce social housing rents by 1% per annum to 2020. From 2020 the Council has the freedom to increase rent by a maximum of CPI+1% for the next five years. For rent setting purposes for 2020/21, the September 2019 CPI figure of 1.7% is used, with forecast CPI used thereafter.

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

<table>
<tr><td>For general properties, average rent of £73.54 applies for 2020/21, representing a 2.7% year on year increase.</td><td>For sheltered and supported properties, average rent of £68.64 applies for 2020/21, also representing a 2.7% year on year increase.</td></tr>
<tr><td colspan="2">Following relevant properties becoming vacant, they will be re-let at 'formula rent'.</td></tr>
<tr><td colspan="2"><u>For 2021/22 onwards</u>, it is assumed that council housing rents will increase by 3.0% year on year for a period of four years and 2.4% thereafter, subject to annual review of inflation forecasts, and any future determinations that may be issued by Government from time to time.</td></tr>
</table>

2.5 The 30-year business plan covers the period from 2012/13 to 2042/43, and the updated position over the remaining life of the plan is a cumulative surplus of £24.0M. Should the growth items in section 3 be approved then the combined level of reserves will be reduced to £8.9M by the end of the term.

2.6 It should be reinforced that the cumulative balance is primarily driven by Government's decisions on future rent policy. For simplicity, the business plan now assumes that rents will continue to increase by CPI plus 1% per year from 2020/21 for five years and CPI thereafter, but this is by no means certain. The risks surrounding this assumption must be appreciated.

3 **Revenue Budget**

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

3.2 Despite the rent policy uncertainties, Cabinet remains committed to improving services to its housing tenants, and it also recognises the ongoing challenges that tenants face in the wake of ongoing welfare and other potential social housing reforms.

3.3 Against the financial pressure of four consecutive years of 1% rent decreases the Council has continued to deliver a responsive, ambitious service through the HRA. Across household and tenancy management, sheltered housing, allocations and lettings, as well as repairs and maintenance, a number of notable successes have been delivered in 2019/20. For example:

- Sustained improvements to voids performance; current empty property turnaround time at Q3 19/20 is 23.99 days. This compares to 66.31 days at the same point in 17/18 and delivers significant additional rental income. Current voids in process (at Q3 19/20) is around 30, compared to over 100 at the same point in 2017/18.
- Reduced the amount of current tenant rent arrears by almost 30% (from £308,000, Quarter 3 2018/19 to £222,000 as at Quarter 3 2019/20). Proactive early intervention and support saw recourse to court action reduce significantly; a 50% reduction on court applications against tenants year on year.
- Provided over one hundred disabled adaptations within Council properties to support tenants to remain independent in their own home.
- Summer community events held at Branksome, Carnforth and Ryelands, with sustained positive involvement from residents.
- Contacting 72 residents over the age of 80 in non-sheltered accommodation as part of a Winter Welfare visit service before Christmas to facilitate support over this period and beyond where required.
- Developed a more robust approach to hoarding: more positive outcomes for extreme cases, and about to launch a new Hoarders Support Group.
- Introduced more convenient repair appointments for tenants e.g. before / after school run time.
- Undertook preventative river-bank erosion works at Artlebeck, Caton – installing over three hundred tonnes of rock and vegetation.
- Installed energy efficient movement sensor ‘Dull-down’ LED light replacements to communal areas.
- Commenced replacement of the Repairs and Maintenance vehicles with Electric Vehicles.

3.4 As a result of the business planning process, strategies are being developed to address identified issues and drawing on this, as set out in ***Appendix B,*** there are a number of growth areas included in Cabinet’s HRA budget proposals:

- Creation of a separate budget for Neighbourhood Projects, to allow collaborative working with residents to deliver community projects
- To increase the resources of the Estate Management and Income Management teams
- Creation of an Energy Support Officer post
- RMS Development Plan Phase 3
- To continue the exploration of new build feasibility
- To convert vacant general needs properties to supported housing
- Following the approval of growth bids for the General Fund, the resulting impact of the HRA of job evaluation, electric vehicles and savings on car allowances.

3.5 These items represent a committed reinvestment into our communities, people and places, and aspire to improve the district as a whole, whilst contributing to improved housing standards, climate change initiatives plus other Council priorities.

3.6 This growth should also be seen in the context of wider organisational development work taking place Council wide which aims to develop modern, cost focussed, efficient working practices. In addition, several of the growth items above would be expected to deliver increased income and wider social value outcomes.

4 **Capital Programme**

4.1 The proposed Council Housing capital programme is included at ***Appendix C.***

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

4.3 The 2020/21 capital programme includes no provision for any major refurbishment works on the Mainway Estate. This is due to the proposed major capital project for a transformational refurbishment of the estate so any works undertaken may be seen as being wasteful.

4.4 The scheme will look to incorporate the highest standards of thermal efficiency practicable thus contributing to the council's priorities around renewable energy and reducing our carbon footprint.

4.5 The project is still at feasibility stage and it is hoped that over the forthcoming year a proposed project will be developed and reported back to Cabinet and Council as required for subsequent approval. The total project value is not included in the current Capital programme as this is dependent on the project options. However, it is anticipated that the cost of repair and the attendant upgrading will ultimately require us to draw substantially on reserves and borrowing; potentially £10M+, with significant further preparatory work within 2020/21, and a start date within 2021/22.

4.6 2020/21 will also see an increase in the Council's adaptations budget from £250,000 to £300,000. By providing adaptations the Council is able to assist tenants in remaining independent in their own homes; by increasing the budget provision this vital service continues to meet this aim, in the context of a known ageing population within the district.

4.7 Taking account of the above points, the total draft four year programme for 2020/21 onwards now stands at £16.6M, the majority of which will be financed from revenue sources. There is no prudential borrowing requirement.

5 **Provisions, Reserves and Balances**

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

5.2 In terms of Balances, after reviewing the Housing Revenue Account in comparative terms and considering the key issues, assumptions and risks underlying the budget projections, the Section 151 Officer has advised maintaining the minimum level of

HRA Balances at £0.5M from 01 April 2020, to support the budget forecasts as part of the overall medium term financial planning for the HRA.

5.3 As at 31 March 2020, HRA Balances are forecast to be £1.840M (prior to growth items), which is £1.340M above the recommended minimum level.

5.4 All other surplus resources are held in the Business Support Reserve. As at 31 March 2020, around £8.1M is expected to be available in this reserve. The first spending priority is still to support existing commitments over the lifetime of the 30-year Business Plan, but the Government's changes to the rent policy from 2020/21 (for at least five years) should give more flexibility to the service and its future sustainability.

6 Climate Emergency

6.1 Council Housing service priorities and objectives, as underpinned by the budget requirements set out here, are set in the context of the Climate Emergency declared by the Council on 30 January 2019. Examples of service delivery which directly contribute to tackling the Climate Emergency include:

- Roll out of electric fleet vehicles across RMS (including provision of electric charging points located at sheltered schemes and for general use)
- Installation of 'dull down' movement sensor LED communal area lighting
- Growth Item: Energy Support Officer
- Increased energy efficiency/boiler replacement within the five-year Capital Programme:
  - Energy saving and conservation measures pilot
  - Loft insulation programme
  - Extend energy efficient boiler programme
- The capital programme 2020/21 includes provision for the refurbishment of four properties at Mount Avenue / Hill Road – this allows a small-scale programme to allow for learning followed by the provision for 56 properties to receive similar works in the following 2-3 years
- Major capital project on Mainway Estate: to incorporate the highest standards of thermal efficiency practicable, contributing to the Council's priorities around renewable energy and reduction of carbon footprint.

6.2 Council Housing will continue to utilise the services of independent energy assessors to support in developing and measuring the effectiveness of a 'menu' of energy saving measures and specifications. Advice and support will also be gained from the newly appointed Climate Change Manager. It is important that a range of solutions are considered for different scenarios including solid wall properties, off gas areas, low SAP ratings, poor air tightness and low energy efficiency.

6.3 Through business planning, Council Housing will continue to seek opportunities to contribute to the priorities of the Climate Emergency declaration.

7 Details of Consultation

7.1 Consultation with tenants took place through the District Wide Tenants Forum held at Ridge Community Centre on 22 January 2020. The meeting was openly advertised to all tenants through a variety of platforms, with personal invitations also provided to those tenants who have previously engaged in consultation activity with four tenants attending the meeting.

7.2 Tenants were reminded that 2019/20 is the final year of the annual 1% rent reduction and that a rent increase of 2.7% is proposed which would support us in maintaining stock condition but also with a new focus around reinvesting money back into communities and working more closely with residents for this.

7.3 Service charges were also discussed with tenants at this event, with the focus on the principle that these charges would be increased so that they would pay for themselves and not be subsidised from rents. Finally, it was discussed that a freeze in garage rents would be proposed to seek to guarantee this income stream for 2020/21.

7.4 Tenants views and Officers responses are summarised below:-

- A question was raised as to whether we planned to look at retrofitting further properties in the next year, it was confirmed we would seek to continue this work, and continue to learn and adapt with this programme.
- The consensus of the Forum was that the proposed rent increases were reasonable.
- The consensus of the Forum was that the growth items as set out were very positive and would help to deliver an improved service to tenants and residents across the district.

8 Options and Options Analysis (including risk assessment)

8.1 Council may adjust its HRA revenue budget proposals, as long as the overall budget for 2020/21 balances and fits with its approved rent levels, which Council cannot change.

8.2 With regards to the growth proposals, Council should consider the costs and benefits of the proposals and whether they are affordable, in particular over the medium to longer term.

8.3 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.

8.4 The options available in respect of the minimum level of HRA balances are to retain the level at £500,000 in line with the advice of the Section 151 Officer or adopt a different level. Should Members choose not to accept the advice on the level of balances, this should be recorded formally in the minutes of the meeting and it could have implications for the Council's financial standing, as assessed by its external auditor.

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

Option 1: To note Cabinet's recommendation to approve the council housing rent levels for 2020/21; to approve the revenue budgets and capital programme, all growth proposals and the provisions, reserves and balances position (and their use), as set out; to note the Section 151 Officer's advice.
Advantages: Completion of the Housing Revenue Account's budget setting process for 2020/21, allowing the updating of the Council's associated financial strategy.
Disadvantages: None.
Risks: Proposed areas of growth, though sustainable in the long term, may increase the need for borrowing to deliver on new build ambitions.
Option 2: To note Cabinet's recommendation to approve the council housing rent levels for 2020/21 but to propose alternatives to those outlined in Section 8 above, noting the following: Council may adjust its HRA revenue budget proposals, as long as the overall budget for 2020/21 balances and fits with its approved rent levels, which Council cannot change. Council may adjust its capital investment and financing proposals taking account of spending commitments and priorities, but its proposals for 2020/21 must balance.
Advantages: Non-approval of growth items may lead to greater HRA surpluses over the life of the 30-year business plan.
Disadvantages: Depending on the nature of any alternative proposals put forward, Officers may need time to assess the risks and implications. This is to ensure that relevant considerations are taken into account, to support informed and lawful decision-making. Non-approval of growth items would cause a scaling back of ambitions.
Risks: Delay to the completion of the Housing Revenue Account's budget setting process for 2020/21. Inability to maximise service provision and deliver on Council, and housing related ambitions. Impact on housing service and council housing tenants unknown.

9 Conclusion

9.1 This report provides an update on the council housing budgetary position and seeks Council's approval of Cabinet's budget proposals in relation to the Housing Revenue Account in order that the City Council can complete its budget setting for 2020/21 and update its financial strategy to 2023.

RELATIONSHIP TO POLICY FRAMEWORK
The budget should represent, in financial terms, what the Council is seeking to achieve through its Policy Framework.

CONCLUSION OF IMPACT ASSESSMENT
(including Diversity, Human Rights, Community Safety, Sustainability etc)
No additional impact identified – any specific issues have been (or will be) considered as part of the relevant aspect of the policy framework or individual budget proposals, etc. Where appropriate, equality impact assessments have been produced and are available in connection with Cabinet's specific budget proposals.

LEGAL IMPLICATIONS
Legal Services have been consulted and are content with the report but will consider further the development and implementation of relevant budget proposals in due course to ensure legal aspects are fully considered.

FINANCIAL IMPLICATIONS
As set out in the report.

OTHER RESOURCE IMPLICATIONS
Human Resources / Information Services / Property / Open Spaces:
Various budget proposals have resource implications and these have been taken account of in Cabinet's consideration of budget options as far as possible at this stage. Their implementation would be in accordance with council policies and procedures, as appropriate. Furthermore, it is recognised that additional resource needs may be required and arrangements are in hand to assess and address these.

SECTION 151 OFFICER'S COMMENTS

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

Provisions, Reserves and Balances

- Specific HRA earmarked reserves and provisions are satisfactory at the levels currently proposed.
- An unallocated minimum balance of £0.5M for the Housing Revenue Account is a reasonable level to safeguard the Council's overall financial position, given other measures and safeguards in place, taking a medium to longer term view.

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

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

Robustness of Estimates

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

- producing a base budget, taking account of service commitments, pay and price increases and expected demand / activity levels as appropriate, and the consideration of key assumptions and risks;
- reviewing the Council's services and activities, making provision for expected changes;
- reviewing the HRA Thirty Year 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 Budget Support reserve provides scope to help address any shortfalls in capacity etc.

Affordability of Spending Plans

In addition, the s151 Officer is responsible for ensuring that when setting and revising Prudential Indicators, including borrowing limits, all matters to be taken into account are reported to Council for consideration.

In considering affordability, the fundamental objective is to ensure that the Council's capital investment remains within sustainable limits, having particular regard to the impact on housing rents for Council Housing investment. Affordability is ultimately determined by judgements on what is 'acceptable' - this will be influenced by public, political and national influences.

The factors that have been (and should be) taken into account in considering capital investment plans include the following.

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

The HRA has a Capital Financing Requirement which reflects underlying need to borrow. This is reviewed periodically to ensure that borrowing is, at all times, 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 reminds Council that the decisions (recommendations 1 and 2) fall within the Local Authorities (Standing Orders) (Amendment) (England) 2014 and Rule 19.7 of the Council Procedure Rules, and accordingly a recorded vote should be taken.	
BACKGROUND PAPERS Equality Impact Assessments for budget proposals**.**	**Contact Officer: Mark Davies** **Telephone: 01524 582401** **E-mail:mdavies@lancaster.gov.uk**

APPENDIX A

HOUSING REVENUE ACCOUNT BUDGET
For Consideration by Council 26 February 2020

	2020/21 Forecast £	2021/22 Forecast £	2022/23 Forecast £	2023/24 Forecast £
INCOME				
Rental Income - Council Housing	(13,745,900)	(14,164,200)	(14,575,000)	(14,982,900)
Rental Income - Other (Shops and Garages etc.)	(275,800)	(279,600)	(283,500)	(287,500)
Charges for Services & Facilities	(1,640,400)	(1,626,600)	(1,664,600)	(1,697,900)
Grant Income	(7,700)	(7,700)	(7,700)	(7,700)
Contributions from General Fund	(111,800)	(113,100)	(116,900)	(116,900)
Total Income	**(15,781,600)**	**(16,191,200)**	**(16,647,700)**	**(17,092,900)**
EXPENDITURE				
Repairs & Maintenance	5,248,600	5,378,500	5,558,400	5,678,600
Supervision & Management	3,533,700	3,619,700	3,751,300	3,843,700
Rents, Rates & Insurance	210,200	227,300	244,300	261,300
Contribution to Provision for Bad and Doubtful Debts	158,800	160,700	162,800	165,200
Depreciation & Impairment of Fixed Assets	2,772,300	2,772,300	2,771,700	2,771,700
Debt Management Costs	1,100	1,100	1,100	1,100
Total Expenditure	**11,924,700**	**12,159,600**	**12,489,600**	**12,721,600**
NET COST OF HRA SERVICES	**(3,856,900)**	**(4,031,600)**	**(4,158,100)**	**(4,371,300)**
Capital Grants and Contributions Receivable	0	0	0	0
Interest Payable & Similar Charges	1,756,900	1,718,300	1,679,400	1,640,300
Premiums & Discounts from Earlier Debt Rescheduling	0	0	0	0
Interest & Investment Income	(23,800)	(33,100)	(43,100)	(44,800)
Pensions Interest Costs & Expected Return on Pensions Assets	232,400	231,900	231,900	231,900
Self Financing Debt Repayment	1,041,400	1,041,400	1,041,400	1,041,400
(SURPLUS) / DEFICIT FOR THE YEAR	**(850,000)**	**(1,073,100)**	**(1,248,500)**	**(1,502,500)**
Adjustments to reverse out Notional Charges included above	0	0	0	0
Net Charges made for Retirement Benefits	0	0	0	0
Transfer to/(from) Earmarked Reserves - for Revenue Purposes	3,900	165,400	144,100	154,600
Capital Expenditure funded from Major Repairs Reserve	722,200	881,200	802,800	631,800
Transfer from Earmarked Reserves - for Capital Purposes	(72,000)	0	(100,000)	(100,000)
Financing of Capital Expenditure from Earmarked Reserves	72,000	0	100,000	100,000
TOTAL (SURPLUS) / DEFICIT FOR THE YEAR	**(123,900)**	**(26,500)**	**(301,600)**	**(716,100)**
GROWTH PROPOSALS				
Job Evaluation	102,500	140,900	167,100	221,600
Neighbourhood Projects	50,000	50,000	50,000	50,000
Estate Manager (G4) (16hrs)	14,600	15,500	16,200	17,100
Income Management Support Officer (G3)	24,100	24,600	25,100	26,200
RMS Energy Support Officer (G3)	27,300	25,900	27,000	28,700
RMS Development Plan (funded from ICT & Systems Improvement Reserve)	0	0	0	0
New Build Feasibility Studies (funded from Business Support Reserve)	0	0	0	0
Property Conversions (funded from Business Support Reserve)	0	(10,000)	(10,200)	(10,400)
Capital charges for electric vehicles (see GF growth bid 5)	0	21,600	21,600	21,600
Savings on car allowances re additional pool cars (see GF growth bid 6)	(6,700)	(11,800)	(12,100)	(12,400)
TOTAL GROWTH	**211,800**	**256,700**	**284,700**	**342,400**
UPDATED TOTAL (SURPLUS) / DEFICIT FOR THE YEAR	**87,900**	**230,200**	**(16,900)**	**(373,700)**
Housing Revenue Account Balance brought forward	(1,840,085)	(1,752,185)	(1,521,985)	(1,538,885)
HRA BALANCE CARRIED FORWARD	**(1,752,185)**	**(1,521,985)**	**(1,538,885)**	**(1,912,585)**

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.

LANCASTER CITY COUNCIL
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APPENDIX B

Outcome-Based Budgeting | 2020-24
Resource Growth / Refocus Proposal

Directorate: Corporate Services

Cost Centre Name: JOB EVALUATION

Cost Centre Number:

What is the Proposal?

Please summarise the proposal and what impact it will have.

Job evaluation project: After the last job evaluation exercise in 2010, it was agreed that a review would take place two years later, and this unfortunately did not take place. In 2018, the Council took the decision to progress with this piece of work for a variety of reasons; an opportunity to procure a more modern and commercial method of evaluation with a better fit for our organisation and its ambitions, a chance to review the pay and grading of all roles, and support with recruitment, retention and development of staff.

We have engaged with members and trade unions throughout the project and kept them aware of each key stage as we have achieved it.

What difference will it make? It will make a significant difference to staff engagement, morale and retention by appropriately grading roles based on role requirements and deliverables and not based on line manager judgement or the person.

What will it look like? It will support Our Values and the new skills and behavioural framework to develop and support our staff. It is a new Global Grading System and scheme that will support job evaluation for years to come.

Who will be impacted by the project and how? Every employee of the council will receive a letter to advise their new grade and any impact to salary from April 2020.

Priorities

How does the project contribute to the draft council Priorities?

A Sustainable District	
An Inclusive and Prosperous Local Economy	
Healthy & Happy Communities	
A Co-operative Kind and Responsible Council	Contributes to staff engagement, retention, recruitment of future talent and development of future talent for critical roles

LANCASTER CITY COUNCIL
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Outcome-Based Budgeting | 2020-24
Resource Growth / Refocus Proposal

Cross-Cutting Themes

How does the project contribute to the draft council Themes?

Climate Emergency	
Community Wealth Building	
Citizen Engagement	

How will the outcomes be measured?

Outcome	**Performance Measure**	**Target**
Staff engagement	Engagement Surveys	Regularly throughout 2020
Staff retention	HR data, showing decrease in leavers, good attrition through development opportunities rather than negative attrition based on pay and being able to recruit into critical roles	Ongoing
Staff development	New pay scale incorporates development/progression points for staff to be able to develop in to. HR and payroll data will measure this.	Ongoing

Estimated Resource Requirements

Total Revenue (General Fund & HRA)

	2020/21 £	**2021/22 £**	**2022/23 £**	**2023/24 £**
Total Increases (a)	620,110	907,031	1,129,104	1,289,961
Total Decreases(b)	(300,069)	(327,874)	(347,109)	(363,504)
Pay Protection - Funded from Restructuring Reserve (c)	300,069	150,034	75,017	
Total (a + b + c)	**620,110**	**729,191**	**857,012**	**926,456**

General Fund

	2020/21 £	**2021/22 £**	**2022/23 £**	**2023/24 £**
General Fund Increases	510,617	758,528	951,843	1,059,062
General Fund Decreases	(293,104)	(320,293)	(336,934)	(354,221)
Total	**217,513**	**438,235**	**614,909**	**704,841**

LANCASTER CITY COUNCIL
Promoting City, Coast & Countryside

Outcome-Based Budgeting | 2020-24
Resource Growth / Refocus Proposal

HRA

	2020/21 £	2021/22 £	2022/23 £	2023/24 £
HRA Increases	109,494	148,503	177,260	230,899
HRA Decreases	(6,964)	(7,581)	(10,175)	(9,283)
Total	**102,530**	**140,922**	**167,085**	**221,616**

Application of Reserves

	2020/21 £	2021/22 £	2022/23 £	2023/24 £
General Fund	293,104	146,552	73,276	
HRA	6,964	3,482	1,741	
Total	**300,068**	**150,034**	**75,017**	

Business Case

At what stage is the business case for the proposal?

Not written	
Outline	
Developed	Ready to implement in Feb 2020

Funding the Future

Will the project deliver financial efficiencies?	No, but it will deliver staff retention, recruitment and development efficiencies
Will the project contribute to the Council's Commercial Strategy?	
Will the project lever in finance from other organisations?	
What is the expected lifespan of the project?	Project will be complete by April 2020

Are there any other support requirements?

Details of any further resources that may be required to support the proposal.

N/A good progress being made ready for project delivery in Feb 2020.

Directors Signature

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Outcome-Based Budgeting | 2020-24
Resource Growth / Refocus Proposal

Directorate: Communities and the Environment

Cost Centre Name: Neighbourhood Management

Cost Centre Number: H2210

What is the Proposal?

Neighbourhood Projects

Please summarise the proposal and what impact it will have.

Significant budget savings have been achieved in recent years through improved income management and void property management. The proposal seeks to re-invest this at a neighbourhood level; working collaboratively with residents to deliver community led projects.

What difference will it make?

It will empower communities, with the support of the council, to drive positive change and improvement in their neighbourhoods. It also has the potential to promote a sense of ownership and community spirit through delivery of practical, visible projects.

What will it look like?

This proposal requires a £50k annual budget within the Housing Revenue Account; a budget which is ring-fenced for this designated purpose and which can be accessed/drawn on with a minimum of bureaucracy (whilst under the required oversight).

Neighbourhood plans are being developed which will underpin and help identify and deliver on outcomes.

Who will be impacted by the project and how?

The main neighbourhood of focus in 2020 will be the Branksome Estate, where the momentum of current positive work with residents can form a springboard for future projects, although residents from other neighbourhoods will also be supported to access funding for their communities. Council tenant and residents alike will benefit from successful project work. Further neighbourhoods will be focussed on in subsequent years.

Priorities

How does the project contribute to the draft council Priorities?

A Sustainable District	Unknown – dependant on specific projects. Sustainability will be a consideration at the inception of any project.
An Inclusive and Prosperous Local Economy	Where appropriate, project funding will be spent within the local economy.
Healthy & Happy Communities	It is hoped that neighbourhood level projects can contribute to wellbeing at a local level, whether through the provision of improvements in the built environment; the addition of services and

	facilities; or by assisting groups of people in coming together to deliver with a shared purpose.
A Co-operative Kind and Responsible Council	The Council will act as enabler and facilitator; delegating decision-making to groups of residents where possible, and working co-operatively rather than in an authoritative landlord and tenant relationship.

Cross-Cutting Themes

How does the project contribute to the draft council Themes?

Climate Emergency	Dependant on specific projects. Neighbourhood plans currently in development will include climate related outcomes; neighbourhood projects will be required to deliver on these.
Community Wealth Building	Dependant on specific projects. Opportunities for community wealth building will be identified on a project by project basis, and maximised where possible.
Citizen Engagement	The engagement of residents is at the root of the proposal, providing residents with opportunities to be creative and inventive, and to deliver neighbourhood level projects which have a positive impact on lives and community.

How will the outcomes be measured?

Outcome	**Performance Measure**	**Target**
The Neighbourhood Plan for each area will include stated aims and objectives and measurable outputs. At the inception of any project it will be aligned with these – specific projects will contain specific performance measures and outputs.		

Estimated Resource Requirements

Revenue

	2020/21 £	**2021/22 £**	**2022/23 £**	**2023/24 £**
Specific Project Work	50,000	50,000	50,000	50,000
Total	**50,000**	**50,000**	**50,000**	**50,000**

Outcome-Based Budgeting | 2020-24
Resource Growth / Refocus Proposal

Business Case

At what stage is the business case for the proposal?

Not written	
Outline	Outline
Developed	

Funding the Future

Will the project deliver financial efficiencies?	Unknown
Will the project contribute to the Council's Commercial Strategy?	Unknown
Will the project lever in finance from other organisations?	Unknown
What is the expected lifespan of the project?	Annual £50k budget for a five year programme

Are there any other support requirements?

Support will be required from other services in line with the principles of area based working. Resource requirements will be identified on a project by project basis.

Directors Signature

LANCASTER CITY COUNCIL
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Outcome-Based Budgeting | 2020-24
Resource Growth / Refocus Proposal

Directorate: Communities and the Environment

Cost Centre Name: Council Housing Management and Admin

Cost Centre Number: H1000/E0100

What is the Proposal?

Additional 16 hrs p/week Estate Management resource

Please summarise the proposal and what impact it will have.

To increase the Estate Management team within council housing by 16 hrs per week. This additional resource will be directed towards the co-ordination and delivery of neighbourhood projects (see Neighbourhood Projects growth proposal)

What difference will it make?

It will allow a dedicate focus on delivery of neighbourhood projects; projects that are developed with residents and in response to local conditions and priorities at a neighbourhood level. Projects will be underpinned by neighbourhood plans. This additional resource will strengthen the commitment by the housing team to deliver area based services which focus on people and place.

What will it look like?

A current job share estate management officer role is made up of a 21/16 hour p/week split. The 21 hour element is currently vacant. This growth proposal will allow recruitment for one 37 hour p/week Estate Manager

Who will be impacted by the project and how?

Neighbourhoods on which project work is delivered will benefit from a single, focussed Estate Manager, as a resource and point of contact. The EM will be available to support and empower residents to own and influence neighbourhood improvements.

Priorities

How does the project contribute to the draft council Priorities?

A Sustainable District	Unknown – dependant on specific projects. Sustainability will be a consideration at the inception of any project.
An Inclusive and Prosperous Local Economy	Where appropriate, neighbourhood projects will utilise local resources and help promote the local economy
Healthy & Happy Communities	It is hoped that neighbourhood level projects can contribute to wellbeing at a local level, whether through the provision of improvements in the built environment; the addition of services and facilities; or by assisting groups of people in coming together to deliver with a shared purpose. This increased resource will facilitate this.

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Outcome-Based Budgeting | 2020-24
Resource Growth / Refocus Proposal

A Co-operative Kind and Responsible Council	The post-holder will act as enabler and facilitator; delegating decision-making to groups of residents where possible, and working co-operatively rather than in an authoritative landlord and tenant relationship.

Cross-Cutting Themes

How does the project contribute to the draft council Themes?

Climate Emergency	Dependant on specific projects. Neighbourhood plans currently in development will include climate related outcomes; neighbourhood projects will be required to deliver on these.
Community Wealth Building	Dependant on specific projects. Opportunities for community wealth building will be identified on a project by project basis, and maximised where possible. The post holder will facilitate this.
Citizen Engagement	The engagement of residents is at the root of the proposal, providing residents with opportunities to be creative and inventive, and to deliver neighbourhood level projects which have a positive impact on lives and community. The post holder will facilitate this.

How will the outcomes be measured?

Outcome	**Performance Measure**	**Target**
The Neighbourhood Plan for each area will include stated aims and objectives and measurable outputs. At the inception of any project it will be aligned with these – specific projects will contain specific performance measures and outputs. Estate Management will be the owners of these outcomes		

Estimated Resource Requirements

Revenue

	2020/21 £	**2021/22 £**	**2022/23 £**	**2023/24 £**
Salary Costs	14,600	15,500	16,200	17,100
Total	**14,600**	**15,500**	**16,200**	**17,100**

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Outcome-Based Budgeting | 2020-24
Resource Growth / Refocus Proposal

Business Case

At what stage is the business case for the proposal?

Not written	
Outline	
Developed	

Funding the Future

Will the project deliver financial efficiencies?	
Will the project contribute to the Council's Commercial Strategy?	
Will the project lever in finance from other organisations?	
What is the expected lifespan of the project?	

Are there any other support requirements?

Directors Signature

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Outcome-Based Budgeting | 2020-24
Resource Growth / Refocus Proposal

Directorate: Communities and the Environment

Cost Centre Name: Council Housing Management and Admin

Cost Centre Number: H1000

What is the Proposal?

New HRA post: Income Management Support Officer

Please summarise the proposal and what impact it will have.

A new post within the council housing Income Management Team. The post holder will offer support to the Income Management Officers in general, but will have a main focus on former tenant rent arrears. It is anticipated that such a post would enable prevention and collection of thousands of pounds of rent arrears annually from outgoing council tenants.

What difference will it make?

Currently, the former tenant debt stands at over £400k.

Resources in recent years have been intentionally directed towards current tenant arrears, and the provision of an inclusive and proactive service. This has been a great success, realising falling rent arrears levels, a significant drop in recourse to legal action against tenants, and delivery of a supportive service to assist tenants in navigating the welfare benefit system and making positive financial decisions.

This new post would allow a similarly ambitious approach to *former* tenant arrears, which would further reduce tenant debt (and therefore increase council income) whilst offering practical supporting to tenants in managing debt.

What will it look like?

A single fixed term full time position within the Income Management Team.

Who will be impacted by the project and how?

The project is underpinned by the potential for significantly increased income collection; potentially tens of thousands of pounds annually. This can then be reinvested via the business planning process, allowing the council to continue delivery of improved services.

It will directly impact outgoing tenants, who will be supported through the process of clearing any debt with the council upon leaving a tenancy.

Priorities

How does the project contribute to the draft council Priorities?

A Sustainable District	
An Inclusive and Prosperous Local Economy	

Healthy & Happy Communities	A proactive approach to assisting tenants with debt and financial issues helps to promote healthy and happy communities. This new post will allow the Income Management Team to continue to develop an approach to tenant debt based on prevention, early intervention, and empowerment of tenants to make sound financial decisions.
A Co-operative Kind and Responsible Council	

Cross-Cutting Themes

How does the project contribute to the draft council Themes?

Climate Emergency	
Community Wealth Building	
Citizen Engagement	A forward thinking approach to former tenant debt is underpinned by genuine engagement with residents, and the ability to build relationships of trust. This post will contribute to this.

How will the outcomes be measured?

Outcome	**Performance Measure**	**Target**
Prevention of FTA's	Total arrears of outgoing council tenants	
Improved collection of FTA's	Total FTA's owed to the Council	

Estimated Resource Requirements

Revenue

	2020/21 £	**2021/22 £**	**2022/23 £**	**2023/24 £**
Salary Costs	24,100	24,600	25,100	26,200
Total	**24,100**	**24,600**	**25,100**	**26,200**

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Outcome-Based Budgeting | 2020-24
Resource Growth / Refocus Proposal

Business Case

At what stage is the business case for the proposal?

Not written	
Outline	Outline
Developed	

Funding the Future

Will the project deliver financial efficiencies?	Yes. The new post will be created to both prevent and reduce rent arrears. This is a project about income generation.
Will the project contribute to the Council's Commercial Strategy?	
Will the project lever in finance from other organisations?	
What is the expected lifespan of the project?	

Are there any other support requirements?

Directors Signature

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Outcome-Based Budgeting | 2020-24
Resource Growth / Refocus Proposal

Directorate: Communities and the Environment

Cost Centre Name: RMS Management & Admin

Cost Centre Number: C1001

What is the Proposal?

Please summarise the proposal and what impact it will have.

The appointment of an Energy Support Officer will provide support to Council tenants enabling them to maximise the efficient use of heating and energy. The postholder will also be expected to liaise with a range of utility providers and the Climate Change Manager.

What difference will it make?

The post will support Council tenants who may be experiencing fuel poverty, to seek financial support/grants and identifying a range of energy efficiency measures to improve living conditions and well-being.

What will it look like?

The post will be visible in the community with surgeries and events planned for Council tenants and visits to individual homes.

Who will be impacted by the project and how?

Individual tenants who require energy advice and support plus contributing towards the Council's overall objective to be carbon neutral by 2030

Priorities

How does the project contribute to the draft council Priorities?

A Sustainable District	
An Inclusive and Prosperous Local Economy	
Healthy & Happy Communities	The appointment of an Energy Support Officer will improve the homes and well-being of Council tenants
A Co-operative Kind and Responsible Council	

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Outcome-Based Budgeting | 2020-24
Resource Growth / Refocus Proposal

Cross-Cutting Themes

How does the project contribute to the draft council Themes?

Climate Emergency	The Energy Support Officer will fully embrace and contribute towards the Council being carbon neutral by 2030
Community Wealth Building	
Citizen Engagement	

How will the outcomes be measured?

Outcome	**Performance Measure**	**Target**
Reduced repair requests from new Council tenants to heating installations	To visit every new tenant within the 1st week of their tenancy to provide advice and guidance	300 home visits annually
Provide advice, guidance and support for all Council tenants to ensure they can access the best energy tariffs and available energy grants	To promote and hold monthly energy advice surgeries working in collaboration with Council Housing Income Officers	12 x monthly surgeries
To inform the Asset Manager of any property visited that may require draught proofing, insulation or ventilation works	To identify any energy efficiency measures to improve the physical conditions of a Council property and improve the overall EPC rating	To maintain a property condition register of all homes visited

Estimated Resource Requirements

Revenue

	2020/21 £	**2021/22 £**	**2022/23 £**	**2023/24 £**
Salary Costs	24,800	25,900	27,000	28,700
Equipment & Training	2,500			
Total	**27,300**	**25,900**	**27,000**	**28,700**

Business Case

At what stage is the business case for the proposal?

Not written	
Outline	
Developed	

Outcome-Based Budgeting | 2020-24
Resource Growth / Refocus Proposal

Funding the Future

Will the project deliver financial efficiencies?	
Will the project contribute to the Council's Commercial Strategy?	
Will the project lever in finance from other organisations?	Potential to attract external funding from energy suppliers for individual tenants and the Council
What is the expected lifespan of the project?	Ongoing

Are there any other support requirements?

Directors Signature

Outcome-Based Budgeting | 2020-24
Resource Growth / Refocus Proposal

Directorate: Communities and the Environment

Cost Centre Name: RMS Development Plan – Stores Bar Coding

Cost Centre Number: C1001

What is the Proposal?

Please summarise the proposal and what impact it will have.

The implementation of a bar coding system called "Immobile" (Software supplied by Total Mobile) will enable the Stores service at White Lund Depot to scan in material deliveries, allocate materials and replenish stock at pre-determined levels more efficiently.

What difference will it make?

Making better use of available technology will reduce manual errors when accepting deliveries/allocating stock and provide an accurate ongoing audit of stock levels. A reporting facility will provide accurate details on stock and the frequency of use to aid stock replenishment. Accurate retention of materials will make better use of limited storage space, replenish operative van stocks more quickly and support the completion of more repairs Right First Time.

What will it look like?

"Immobile" has wireless functionality and will interface with the existing Total Mobile/Total Repairs system. Bar coding of stock/materials will support and ensure accurate stock levels are maintained at all times.

Who will be impacted by the project and how?

The stores handling service will be able to account for incoming/outgoing stock more quickly and efficiently. This will support operatives and the stores facility to ensure stock levels are maintained at pre-determined volumes and avoid any errors associated with manual counting of stock retained in storage. It will also aid an ongoing audit of stock levels/value at any point in time. Bar coding will support other activities (van stock replenishment) specified within the agreed RMS Development Plan.

Priorities

How does the project contribute to the draft council Priorities?

A Sustainable District	
An Inclusive and Prosperous Local Economy	

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Healthy & Happy Communities	The implementation of "Immobilise" will support the delivery of a 1st class excellent, modern repairs and maintenance service to Council tenants.
A Co-operative Kind and Responsible Council	

Cross-Cutting Themes

How does the project contribute to the draft council Themes?

Climate Emergency	
Community Wealth Building	"Immobilise" will support the purchase of stock where possible from local merchants and suppliers
Citizen Engagement	

How will the outcomes be measured?

Outcome	**Performance Measure**	**Target**
Reduced write off value of redundant materials/stock with improved control of stock	Reduction in value of stock written off due to becoming obsolete	Less than £5k P/A
Ongoing audit of stock levels at any point in time – and will remove the need for manual counting which could lead to inaccuracies	Reporting facility to measure value of incoming stock/outgoing stock at any point in time. Removing the potential for human errors will ultimately reduce materials expenditure	TBD

Estimated Resource Requirements

Revenue

	2020/21 £	**2021/22 £**	**2022/23 £**	**2023/24 £**
Software Costs	23,850	3,000	3,000	3,000
Efficiency savings		(3,000)	(3,000)	(3,000)
Total	**23,850**	**0**	**0**	**0**

Outcome-Based Budgeting | 2020-24
Resource Growth / Refocus Proposal

Application of Reserves

	2020/21 £	2021/22 £	2022/23 £	2023/24 £
ICT & Systems Improvement Reserve	(23,850)			
Total	**(23,850)**			

Business Case

At what stage is the business case for the proposal?

Not written	
Outline	
Developed	

Funding the Future

Will the project deliver financial efficiencies?	Yes – more accurate control over the maintenance of incoming and outgoing stock
Will the project contribute to the Council's Commercial Strategy?	Yes – increased emphasis on using local merchants and suppliers
Will the project lever in finance from other organisations?	No
What is the expected lifespan of the project?	Ongoing – with support from the software provider Total Mobile.

Are there any other support requirements?

Directors Signature

Outcome-Based Budgeting | 2020-24
Resource Growth / Refocus Proposal

Directorate: Communities and the Environment

Cost Centre Name: Planned Maintenance

Cost Centre Number: C2201

What is the Proposal?

New Build Feasibility

Proposal

Following the re-affirmation of the 2014 Council Housing New Build Programme by the Strategic Housing Group and Portfolio Holder, it is proposed to draw down reserves to fund feasibility, design and the preparation and submission of pre-planning advice to explore the potential of building social housing on suitable sites, including exploration of an Extra Care scheme.

This project will determine the feasibility of future social housing development on identified sites within existing land holdings or other associated sites of interest to the Council.

Priorities

How does the project contribute to the draft council Priorities?

A Sustainable District	The properties will incorporate energy conservation measures
An Inclusive and Prosperous Local Economy	Generate opportunities for work and supply of goods and services for local companies
Healthy & Happy Communities	Increase the housing stock and opportunities for our tenants to benefit from high quality new homes
A Co-operative Kind and Responsible Council	Projects meet obligation to provide social housing and efficient management of Council assets

Cross-Cutting Themes

How does the project contribute to the draft council Themes?

Climate Emergency	Incorporation of energy saving and efficiency measures and design
Community Wealth Building	Project procurement with local companies and suppliers
Citizen Engagement	Consultation with communities and social housing provision

How will the outcomes be measured?

Outcome	Performance Measure	Target
Site selection	Initial assessment, feasibility and viability filters	Development potential
Feasibility	Is the project possible, practical and achievable with our capabilities?	Positive assessment
Viability assessment	Is the project affordable? Income v expenditure	Positive profile within 40 years
Pre-planning advice	Preparation of submission documents	Positive determination

Estimated Resource Requirements

Revenue

	2020/21 £	2021/22 £	2022/23 £	2023/24 £
Feasibility studies	60,000	30,000		
Total	**60,000**	**30,000**		

Application of Reserves

	2020/21 £	2021/22 £	2022/23 £	2023/24 £
Business Support Reserve	(60,000)	(30,000)		
Total	**(60,000)**	**(30,000)**		

Business Case

At what stage is the business case for the proposal?

Not written	
Outline	Yes, supports decision to re-affirm new build housing programme
Developed	

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Resource Growth / Refocus Proposal

Funding the Future

Will the project deliver financial efficiencies?	Yes, by reducing development risk and making a determination of viability
Will the project contribute to the Council's Commercial Strategy?	Yes, by seeking to develop potential sites
Will the project lever in finance from other organisations?	Yes, Homes England Grant
What is the expected lifespan of the project?	This financial year and on-going

Are there any other support requirements?

Preparation of pre-planning documentation will be outsourced, other resources are within RMS capabilities

Directors Signature

Outcome-Based Budgeting | 2020-24
Resource Growth / Refocus Proposal

Directorate: Communities and the Environment

Cost Centre Name: Sheltered Scheme Conversions

Cost Centre Number: H8407

What is the Proposal?

To convert a total of 2 ex scheme manager occupied properties this year and additionally a failed shop unit. This will bring back vacant property into long term use and address tenant housing demand, provide adapted accommodation and generate a return on redundant assets.

This supports a review the provision of Scheme Managers housing across the estate and the viability of converting these units into self-contained sheltered flats. Additionally, a former shop unit occupying a corner plot in Galgate is deemed suitable for conversion to wheelchair accessibility and living accommodation standards.

The conversions will increase the supply of sheltered housing and adapted accessible accommodation. It will also reduce the risk of maintaining vacant property and generate rental income from the asset.

To meet business requirements, properties will be selected to meet tenant demand and support Council Housing in their efficient management of the estate as the management of sheltered schemes is made non-residential. Each the 3 conversion projects will be approved by the Head of Service.

This will increase housing provision by creating four fully refurbished sheltered apartments and one wheelchair fully accessible property.

Priorities

How does the project contribute to the draft council Priorities?

A Sustainable District	The properties will incorporate sustainable energy saving features
An Inclusive and Prosperous Local Economy	The construction will generate opportunities, for work and supply of goods and services for local companies
Healthy & Happy Communities	Increased provision of sheltered accommodation for vulnerable and differently abled people
A Co-operative Kind and Responsible Council	Projects meet obligation to provide social housing and efficient management of Council assets.

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Outcome-Based Budgeting | 2020-24
Resource Growth / Refocus Proposal

Cross-Cutting Themes

How does the project contribute to the draft council Themes?

Climate Emergency	Incorporation of energy saving and efficiency measures and design.
Community Wealth Building	Project procurement with local companies and suppliers
Citizen Engagement	Social housing provision

How will the outcomes be measured?

Outcome	**Performance Measure**	**Target**
Energy conservation	SAP rating	exceeding 72
Conversion brief	Design and layout	Client acceptance
Quality construction	specification for materials and workmanship	Snag free handover
Delivery	Design and contract programme	Completion date
Financial control	Valuations and final account	Not to exceed budget limits

Estimated Resource Requirements

Capital

	2020/21 £	**2021/22 £**	**2022/23 £**	**2023/24 £**
Property 1	70,000			
Property 2	70,000			
Property 3	70,000			
Total	**210,000**			

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Outcome-Based Budgeting | 2020-24
Resource Growth / Refocus Proposal

Application of Reserves

	2020/21 £	2021/22 £	2022/23 £	2023/24 £
Business Support Reserve	(210,000)			
Total	**(210,000)**			

Revenue Implications of Capital Investment

	2020/21 £	2021/22 £	2022/23 £	2023/24 £
Additional net rental income		(10,000)	(10,200)	(10,400)
Total		**(10,000)**	**(10,200)**	**(10,400)**

Business Case

At what stage is the business case for the proposal?

Not written	
Outline	Yes, supports decision to move towards non-residential sheltered accommodation management
Developed	

Funding the Future

Will the project deliver financial efficiencies?	Yes, it will generate rental income
Will the project contribute to the Council's Commercial Strategy?	Yes, by reducing risk and providing a return on otherwise redundant assets
Will the project lever in finance from other organisations?	No, contained within HRA
What is the expected lifespan of the project?	This financial year

Are there any other support requirements?

No, the resources to complete the project are within RMS capabilities

Directors Signature

APPENDIX C

Council Housing 5 Year Capital Programme
For Consideration by Council 26 February 2020

	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	TOTAL £000
EXPENDITURE					
Adaptations	300	300	300	300	1,200
Energy Efficiency/Boiler Replacement	755	778	764	780	3,077
Internal Refurbishment	888	945	986	936	3,755
External Refurbishment	277	-	299	263	839
Environmental Improvements	552	360	280	250	1,442
Re-roofing/Window Renewals	792	871	614	513	2,790
Rewiring	84	56	88	88	316
Lift Replacements	-	-	-	-	-
Fire Precaution Works	145	150	150	180	625
Housing Renewal and Renovation	327	747	747	747	2,568
TOTAL EXPENDITURE	**4,120**	**4,207**	**4,228**	**4,057**	**16,612**
FINANCING					
Capital Receipts	558	558	558	558	2,232
Contributions	-	-	-	-	-
Earmarked Reserves	72	-	100	100	272
Major Repairs Reserve	3,490	3,649	3,570	3,399	14,108
TOTAL FINANCING	**4,120**	**4,207**	**4,228**	**4,057**	**16,612**
SHORTFALL/(SURPLUS)	**0**	**0**	**0**	**0**	**0**

APPENDIX D

HOUSING REVENUE ACCOUNT - RESERVES AND PROVISIONS STATEMENT
For Consideration by Council 26 February 2020

	Balance as at 31/03/20	Contributions			Balance as at 31/03/21	Contributions			Balance as at 31/03/22	Contributions			Balance as at 31/03/23	Contributions			Balance as at 31/03/24
		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	
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
HRA General Balances	**1,840,085**	123,900			**1,963,985**	26,500			**1,990,485**	301,600			**2,292,085**	716,100			**3,008,185**
Earmarked Reserves:																	
Business Support Reserve	**8,080,179**				**8,080,179**				**8,080,179**				**8,080,179**				**8,080,179**
Major Repairs Reserve		3,494,500	(3,494,500)			3,653,500	(3,653,500)			3,574,500	(3,574,500)			3,403,500	(3,403,500)		
Flats - Planned Maintenance	**501,974**	133,000	(72,000)	(22,900)	**540,074**	133,000		(22,900)	**650,174**	133,000	(100,000)	(22,900)	**660,274**	133,000	(100,000)	(22,900)	**670,374**
ICT and Systems Improvement	**580,189**			(141,000)	**439,189**			(1,000)	**438,189**			(1,000)	**437,189**				**437,189**
Office Equipment Reserve	**39,009**				**39,009**				**39,009**				**39,009**				**39,009**
Sheltered - Equipment	**315,382**	23,600		(44,100)	**294,882**	21,300		(13,400)	**302,782**	20,500		(31,600)	**291,682**	18,200		(12,900)	**296,982**
Sheltered - Planned Maintenance	**228,269**	47,000		(15,300)	**259,969**	42,400		(15,300)	**287,069**	40,900		(15,300)	**312,669**	36,300		(15,300)	**333,669**
Sheltered Support Grant Maintenance	**529,224**	23,600			**552,824**	21,300			**574,124**	20,500			**594,624**	18,200			**612,824**
Total Earmarked Reserves	**10,274,224**	**3,721,700**	**(3,566,500)**	**(223,300)**	**10,206,124**	**3,871,500**	**(3,653,500)**	**(52,600)**	**10,371,524**	**3,789,400**	**(3,674,500)**	**(70,800)**	**10,415,624**	**3,609,200**	**(3,503,500)**	**(51,100)**	**10,470,224**

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.

`

Service Council Housing

Title of policy, service, function, project or strategy

HRA Budget Report - Rent Setting

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

Lead Officer Pete Linsley

People involved with completing the EIA

David Holme; Rachel Page

Step 1.1: Make sure you have clear aims and objectives

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

To set council housing rents in line with current regulation, and in order to complete the HRA budgeting process which sets out ambitions for the housing service over the short and medium term

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

The setting of council housing rents, and the subsequent service planning process which derives from it, affects council tenants and other residents within the district. The aims of the housing service involve tenancy and asset management, but also an investment in communities and neighbourhoods and the delivery of social value. Prudent rent setting underpins this. The potential for a detrimental impact exists in as much as an increase in rent will put pressure on those individuals in, or at risk of, financial hardship. It should be noted that rent levels 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. In addition, the Council's in-house Income Management Team takes a pro active, supportive approach to preventing rent arrears and offering 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). Thus it is concluded that the detrimental effects of a rent increase are mitigated where appropriate.

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?

Group	Negative	Positive/No Impact	Unclear
Age	☐	☒	☐
Disability	☐	☒	☐
Faith, religion or belief	☐	☒	☐

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

Equality Impact Assessment

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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

As a key part of the rent setting process we have consulted with the District Wide Tenants Forum; a group made up of council officers, councillors, and residents from across the district. The group discussed and debated the proposed rent increase and the future plans of the Council Housing Service and were broadly supportive of the decision to propose an increas in rents following four years of rent decrease, and were in support of the plans of the service to invest in additional areas of service.

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
Disability: The increase in the adaptations budget for the year 2020/21 has the potential to postively impact those with disability, offering increased opportunity for individuals and families to remain independeng in their homes
Faith, Religion or Belief: No significant impact
Gender including Marriage, Pregnancy and Maternity: No significant impact
Gender Reassignment: No significant impact
Race: No significant impact
Sexual Orientation including Civic Partnership: No significant impact
Rural Communities: Click here to enter text.

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, how mitigation is outlined in Q1 regarding potential adverse effects of a rent increase.

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

No

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

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

Equality Impact Assessment

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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 individuals and groups may be adversely impacted by a rent increase, though not as a direct result of any protected characteristics. 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.

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

COUNCIL

Capital Strategy and Capital Programme 2020/21 to 2023/24
26 February 2020

Report of Cabinet

PURPOSE OF REPORT
To present Cabinet's final budget proposals in order that the City Council can approve a Capital Strategy and General Fund Capital Programme for 2020/21 to 2023/24
This report is public.

RECOMMENDATIONS:

(1) **That the General Fund Capital Programme be approved, as set out at Appendix A.**

(2) **That the Capital Strategy at Appendix B be approved.**

1. INTRODUCTION

1.1 Following its meeting on 11 February Cabinet has now finalised its budget framework proposals for the General Fund Capital Programme. These are all now reflected in the recommendations of this report.

2 **STRATEGIC OVERVIEW FROM CABINET**

2.1 In strategic terms the main challenge of budget setting is to match priorities and corporate planning objectives against what is affordable financially.

2.2 This year we undertook a strategic review of the Council's existing priorities and services, including performance, as well as looking at options to innovate and modernise. The Council Plan and its Strategic Priorities, were updated and approved by Council 29 January 2020 providing the following priorities and cross cutting themes:

Priorities
- A Sustainable District
- An Inclusive and Prosperous Local Economy
- Healthy and Happy Communities
- A Co-operative, Kind and Responsible Council

Cross Cutting Themes

- Climate Emergency
- Community Wealth-Building
- Community Engagement

3 CAPITAL PROGRAMME

3.1 The proposed General Fund investment programme for the period to 2023/24 is included at ***Appendix A*** and summarised in the table below.

	2019/20	2020/21	2021/22	2022/23	2023/24
Approved Schemes	1,797	8,472	2,024	1,935	424
Development Pool	15,022	24,687	27,306	27,285	22,608
Total	**16,819**	**33,159**	**29,330**	**29,220**	**23,032**

3.2 The current year's revised programme now stands at £16.82M. During the next 4 years years, a further £114.74M of investment is currently planned, giving a total 5 year programme from 2019/20 to 2023/24 of £131.56M.

3.3 Development pool schemes 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 Strategy Group, and then by Cabinet.

3.4 A number of significant schemes are included in the Development Pool including Canal Quarter, general fund housing schemes, Heysham Gateway development and investment property acquisitions. All of these schemes will require significant capital expenditures and borrowing but each business case will have to show that income arising from the capital investment is capable of covering all borrowing costs and delivering a positive return to the Council's revenue budget.

3.5 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 2023/24. The Council makes a revenue provision for the repayment of borrowing known as Minimum Revenue Provision (MRP) which reduces the CFR.

3.6 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.

4 CAPITAL STRATEGY

4.1 The Council is required to adopt a Capital Strategy and this is included as ***Appendix B***. The strategy 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, Property Investment Strategy and Treasury Management Strategy.

4.2 The Capital Strategy sets out core principles that underpin the Capital Programme. These are

- Capital investment decisions will reflect the priorities included within the Council Plan: Strategic Priorities and supporting strategies including Funding the Future, the Property Investment Strategy and the Asset Management Plan.
- Schemes to be added to the Capital Programme will be subject to a gateway process following completion of a capital bid which will be scored against criteria set to measure strategic, economic, financial, commercial and management criteria. These will be reviewed by a corporate Capital Strategy Group comprising key Officers alongside the Finance Portfolio Holder and Chairs of Budget and Performance Panel and Overview and Scrutiny Committee.
- The Capital Strategy Group 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.

4.3 The Council recognises that it will play a pivotal role in key projects which will enable the district to thrive and grow. Further development of the Capital Programme is needed over the next few years in order to properly encapsulate these major economic development projects. An Economic Growth Plan is currently being developed by the Director of Economic Growth and Regeneration setting out an overarching coherent medium term plan for the district. As the plan develops individual capital schemes contributing to its delivery will be identified and brought forward to Capital Strategy Group for assessment.

4.4 In addition capital bids will come forward in respect of property investments and asset management rationalisations. For such bids, accompanying business cases should be able to show that the revenue costs relating to capital expenditure are covered by income arising out of investment and/or reductions in premises net expenditure.

5 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

5.1 Capital Investment and Programming
For capital, Council may adjust its capital investment and financing proposals taking account of spending commitments and priorities, but its proposals for 2020/21 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 CONCLUSION

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

RELATIONSHIP TO POLICY FRAMEWORK
The budget should represent, in financial terms, what the Council is seeking to achieve through its Policy Framework.

CONCLUSION OF IMPACT ASSESSMENT
(including Diversity, Human Rights, Community Safety, Sustainability etc)
No additional impact identified – any specific issues have been (or will be) considered as part of the relevant aspect of the policy framework or individual budget proposals, etc.

FINANCIAL IMPLICATIONS
As set out in the report

OTHER RESOURCE IMPLICATIONS
Human Resources / Information Services / Property / Open Spaces:
Various budget proposals have resource implications and these have been taken account of in Cabinet's consideration of budget options as far as possible at this stage. Their implementation would be in accordance with council policies and procedures, as appropriate.

SECTION 151 OFFICER'S COMMENTS

Affordability of Capital Spending Plans
The s151 Officer is responsible for ensuring that when setting and revising Prudential Indicators, including borrowing limits, all matters to be taken into account are reported to Council for consideration.

In considering affordability, the fundamental objective is to ensure that the Council's capital investment remains within sustainable limits, having particular regard to the impact on council tax for General Fund. Affordability is ultimately determined by judgements on what is 'acceptable' - this will be influenced by public, political and national influences.

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

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

In considering and balancing these factors, the capital proposals to date are based on a substantial net increase in the Council's Capital Financing Requirement (CFR) for General Fund over the period to 2023/24, with the bulk of this relating to commercial investments and schemes to support the Council's Strategic Priorities. A minimum revenue provision is set aside each year for the repayment of debt and this reduces the CFR. The Treasury Management Strategy prudential indicators provide an assurance that the Council's borrowing is, at all times, affordable sustainable and prudent
.

LEGAL IMPLICATIONS	
LEGAL IMPLICATIONS Legal Services have been consulted and are content with the report but will consider further the development and implementation of relevant budget proposals in due course to ensure legal aspects are fully considered.	
MONITORING OFFICER'S COMMENTS The Monitoring Officer has been consulted and has no further comments.	
BACKGROUND PAPERS Equality Impact Assessments for budget proposals.	**Contact Officer:** Paul Thompson **Telephone**: 01524 582603 **E-mail**: pthompson@lancaster.gov.uk

General Fund Capital Programme

Council 26 February 2020

Service / Scheme	2019/20 Gross Budget	2019/20 External Funding	2019/20 Net Programme	2020/21 Gross Budget	2020/21 External Funding	2020/21 Net Programme	2021/22 Gross Budget	2021/22 External Funding	2021/22 Net Programme	2022/23 Gross Budget	2022/23 External Funding	2022/23 Net Programme	2023/24 Gross Budget	2023/24 External Funding	2023/24 Net Programme	4 YEAR PROGRAMME Total Gross Programme	4 YEAR PROGRAMME Total External Funding	4 YEAR PROGRAMME Total Net Programme
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Communities and Environment																		
Vehicle Renewals	94,000		94,000	3,595,000		3,595,000	515,000		515,000	787,000		787,000				4,991,000		4,991,000
Electronic Vehicle Charging Points	14,000	(14,000)														14,000	(14,000)	0
Happy Mount Park Pathway Replacements	112,000		112,000													112,000		112,000
Cable Street Car Park Extension	4,000		4,000													4,000		4,000
Solar installation Salt Ayre Phase 1				1,400,000		1,400,000										1,400,000		1,400,000
Vehicle Maintenance Unit Plant	75,000		75,000													75,000		75,000
Beech Avenue Play Area	58,000	(37,000)	21,000													58,000	(37,000)	21,000
Far Moor Playing Fields s106 Scheme				70,000		70,000										70,000		70,000
Disabled Facilities Grants	2,208,000	(2,208,000)	0	2,600,000	(2,600,000)	0	1,890,000	(1,890,000)	0	1,890,000	(1,890,000)	0	1,890,000	(1,890,000)	0	10,478,000	(10,478,000)	0
Salt Ayre Play Area and Outdoor Café	152,000		152,000													152,000		152,000
Half Moon Bay Car Park Extension				60,000		60,000										60,000		60,000
Salt Ayre Boiler Replacement				300,000		300,000										300,000		300,000
2 x Electric Refuse Vehicles				400,000		400,000										400,000		400,000
Pool Cars				174,000		174,000										174,000		174,000
Salt Ayre Replacement Equipment				648,000		648,000	1,109,000		1,109,000	511,000		511,000	124,000		124,000	2,392,000		2,392,000
One Million Trees				25,000		25,000	25,000		25,000	30,000		30,000	30,000		30,000	110,000		110,000
Mellishaw Park				240,000		240,000	240,000		240,000	240,000		240,000	240,000		240,000	960,000		960,000
Electronic Vehicle Charging Points - Phase 2				58,000	(30,000)	28,000										58,000	(30,000)	28,000
Economic Growth and Regeneration																		
Sea & River Defence Works & Studies	4,350,000	(3,845,000)	505,000	5,189,000	(4,766,000)	423,000	3,000	(3,000)	0							9,542,000	(8,614,000)	928,000
Amenity Improvements (Morecambe Promenade)	1,000		1,000													1,000		1,000
Lancaster Square Routes	8,000	(3,000)	5,000	26,000	(26,000)	0										34,000	(29,000)	5,000
Lancaster District Empty Homes Partnership	4,000		4,000	73,000		73,000										77,000		77,000
S106 Highways Works	70,000		70,000													70,000		70,000
Coastal Revival Fund - Morecambe Co-Op Building	41,000	(41,000)	0													41,000	(41,000)	0
Coastal Revival Fund - Morecambe Winter Gardens	9,000	(9,000)	0	86,000	(86,000)	0										95,000	(95,000)	0
Hale Carr Lane Cemetery Chapel	260,000		260,000	290,000		290,000										550,000		550,000
City Museum Roof & Boiler	126,000		126,000	6,000		6,000										132,000		132,000
Lancaster Town Hall Steps	40,000		40,000													40,000		40,000
Palatine Recreation Ground Pavillion	11,000		11,000	114,000		114,000										125,000		125,000
Queen Victoria Memorial	81,000		81,000	169,000		169,000										250,000		250,000
Royal Albert Playing Field Pavilion	7,000		7,000	75,000		75,000										82,000		82,000
Ryelands Park - Ryelands House	32,000		32,000													32,000		32,000
Winter Gardens Loan				103,000		103,000										103,000		103,000
Corporate Services																		
ICT Systems, Infrastructure & Equipment	197,000		197,000	219,000		219,000	105,000		105,000	337,000		337,000				858,000		858,000
ICT Laptop replacement & ecampus screens				60,000		60,000	30,000		30,000	30,000		30,000	30,000		30,000	150,000		150,000

Appendix A

General Fund Capital Programme

Council 26 February 2020

Service / Scheme	2019/20 Gross Budget	2019/20 External Funding	2019/20 Net Programme	2020/21 Gross Budget	2020/21 External Funding	2020/21 Net Programme	2021/22 Gross Budget	2021/22 External Funding	2021/22 Net Programme	2022/23 Gross Budget	2022/23 External Funding	2022/23 Net Programme	2023/24 Gross Budget	2023/24 External Funding	2023/24 Net Programme	4 YEAR PROGRAMME Total Gross Programme	4 YEAR PROGRAMME Total External Funding	4 YEAR PROGRAMME Total Net Programme
Development Pool																		
Lancaster Town Hall Phase 3				485,000		485,000										485,000		485,000
Lancaster Town Hall Second Lift & Associated Works				622,000		622,000										622,000		622,000
Palatine Hall				122,000		122,000										122,000		122,000
Cable Street Christmas Lights				24,000		24,000										24,000		24,000
Heysham Gateway - Demolition & Removal of Tanks				487,000		487,000										487,000		487,000
Demolition of Edward Street Dance Studio	19,000		19,000	90,000		90,000										109,000		109,000
ICT Telephony				200,000		200,000										200,000		200,000
Williamson Park				1,000,000		1,000,000										1,000,000		1,000,000
Energy Efficiency Works - Williamson Park Boiler				311,000		311,000										311,000		311,000
Investment Acquisitions (Council December 2019)	15,000,000		15,000,000													15,000,000		15,000,000
1 Lodge Street Urgent Structural Repairs	3,000		3,000	497,000		497,000										500,000		500,000
Customer Contact System				115,000		115,000	85,000		85,000							200,000		200,000
Morecambe Co-op Building Renovation				250,000		250,000	175,000		175,000							425,000		425,000
Lancaster Heritage Action Zone				132,000		132,000	348,000		348,000	962,000		962,000	208,000		208,000	1,650,000		1,650,000
Museums Redevelopment				142,000		142,000	140,000		140,000	110,000		110,000	400,000		400,000	792,000		792,000
LLFN network bids				5,350,000	(4,547,000)	803,000	5,785,000	(4,917,000)	868,000	421,000	(358,000)	63,000				11,556,000	(9,822,000)	1,734,000
Digital Strategy Collaboration Space							300,000		300,000							300,000		300,000
Future High Streets				274,000		274,000	750,000		750,000	1,000,000		1,000,000	1,000,000		1,000,000	3,024,000		3,024,000
Improvements to Ashton Hall				150,000	(30,000)	120,000	150,000	(10,000)	140,000	150,000		150,000				450,000	(40,000)	410,000
Canal Quarter							4,000,000		4,000,000	4,000,000		4,000,000				8,000,000		8,000,000
Heysham Gateway Development				13,000		13,000	1,500,000		1,500,000							1,513,000		1,513,000
General Fund Housing including Canal Quarter				3,000,000		3,000,000	3,000,000		3,000,000	5,000,000		5,000,000	5,000,000		5,000,000	16,000,000		16,000,000
Property Investment Acquistions				16,000,000		16,000,000	16,000,000		16,000,000	16,000,000		16,000,000	16,000,000		16,000,000	64,000,000		64,000,000
GENERAL FUND CAPITAL PROGRAMME	22,976,000	(6,157,000)	16,819,000	45,244,000	(12,085,000)	33,159,000	36,150,000	(6,820,000)	29,330,000	31,468,000	(2,248,000)	29,220,000	24,922,000	(1,890,000)	23,032,000	160,760,000	(29,200,000)	131,560,000

	2019/20	2020/21	2021/22	2022/23	2023/24	4 Year Total Net Programme
Financing :						
Capital Receipts	(100,000)	(13,000)	(13,000)	(13,000)	(13,000)	(152,000)
Direct Revenue Financing	0	0	0	0	0	0
Earmarked Reserves	(588,000)	(943,000)	(450,000)	(390,000)	(364,000)	(2,735,000)
Increase / (Reduction) in Capital Financing Requirement (CFR) (Underlying Change in Borrowing Need)	16,131,000	32,203,000	28,867,000	28,817,000	22,655,000	128,673,000

Lancaster City Council

Capital Strategy 2020/21
February 2020

To be reviewed annually

Contents

1. Introduction

1.1 The Capital Strategy gives a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local services. It also outlines how associated risk is managed and the implications for future financial sustainability.

1.2 The Strategy is set within the framework of The Prudential Code for Capital Finance in Local Authorities and the Treasury Management Code, both of which were updated in 2017. Key objectives are to demonstrate that the Council's capital investment plans are affordable, prudent and sustainable; that local strategic planning, asset management planning and proper option appraisal are supported; and that treasury management decisions are taken in accordance with good professional practice.

The District

1.3 Lancaster City and District is unique in containing a diverse mix of City, Coast and Countryside locations, including Lancaster, Morecambe, Heysham and Carnforth and coastal and rural villages.

The Council

1.4 The Council is a highly complex organisation that has to meet a variety of needs and objectives. It has a gross revenue budget approaching circa £88M and has a capital programme that can vary in size but typically can be around c £15M per annum.

1.5 Whilst the Council is clearly one entity, financially it has two elements – the General Fund, which is financed by Council Tax and the Housing Revenue Account, which is financed by tenant's rents, service charges and other smaller income streams. The Council is only one of two in Lancashire that has retained its housing stock and as such the approach and capital financing arrangements around this part of the organisation are more distinct than the General Fund. This is partly due to regulation and legislation but also the differing financial challenges that each of these sections face. Primarily the General Fund is subject to a reduction in financial resources due to the challenges that central government is setting in order to reduce the Country's financial debt obligations.

2. Context

Strategic Aims, Objectives and Priorities

2.1 The Council Plan sets out the authority's key priorities and its ambitions to optimise opportunities to ensure that the district is a great place to live, work and visit. Our strategic priorities are detailed in the diagram overleaf.

2.2 The Medium Term Financial Strategy supports and informs the Council's vision and strategic priorities as set out over the next four years. It also incorporates the key principles of the "Funding the Future" strategy which takes a proactive approach to building the future financial resilience of the Council by:

- Developing and implementing a commercial strategy
- Focusing efforts around efficiency
- Adopting a zero based outcomes approach to budgeting
- Investing to obtain a commercial income

The Council has adopted a Property Investment Strategy which will impact on the capital strategy and this is considered in more detail in section 6.

2.3 The Council's Asset Management Strategy sets out the strategic direction for the management of the Council's property portfolio. It seeks to align the asset portfolio with corporate objectives and informs the Capital Strategy.

2.4 The Capital Strategy sets out how the Council determines its priorities for capital investment, decides how much it can afford to borrow and sets its risk appetite within the overarching context outlined above. Its aim is to ensure that all elected Members fully understand the overall long-term policy objectives and resulting strategy requirements, governance procedures and risk appetite.

Council Priorities Update 2020

Priorities / Themes	A Sustainable District	An Inclusive and Prosperous Local Economy	Healthy and Happy Communities	A Co-operative, Kind and Responsible Council
Climate Emergency *Taking action to meet the challenges of the climate emergency* **Community Wealth-Building** *Building a sustainable and just local economy that benefits people and organisations* **Community Engagement** *Drawing on the wealth of skills and knowledge in the community and working in partnership*	➢ net zero carbon by 2030 while supporting other individuals, businesses and organisations across the district to reach the same goal ➢ moving towards zero residual waste to landfill and incineration ➢ increasing the amount of sustainable energy produced in the district and decreasing the district's energy use ➢ transitioning to an accessible and inclusive low-carbon and active transport system ➢ supporting our communities to be resilient to flooding and adapt to the wider effects of climate change ➢ increasing the biodiversity of our district	➢ supporting the development of new skills and improved prospects for our residents within an environmentally sustainable local economy ➢ advocating for fair employment and just labour markets that increase prosperity and reduce income inequality ➢ supporting new and existing enterprises in sustainable innovation and the strengthening of local supply networks ➢ using our land, property, finance and procurement to benefit local communities and encouraging residents, businesses, organisations and institutions to do the same ➢ securing investment and regeneration across the Lancaster and South Cumbria Economic Region	➢ supporting wellbeing and ensuring local communities are engaged, involved and connected ➢ addressing health and income inequality, food and fuel poverty, mental health needs, and loneliness ➢ focused on early-intervention approaches and involving our communities in service design and delivery ➢ (re)developing housing to ensure people of all incomes are comfortable, warm and able to maintain their independence ➢ improving access to the arts, culture, leisure and recreation, supporting our thriving arts and culture sector ➢ keeping our district's neighbourhoods, parks, beaches and open space clean, well-maintained and safe	➢ listening to our communities and treating everyone with equal respect, being friendly, honest, and empathetic ➢ working in partnership with residents, local organisations and partners recognising the strengths and skills in our community ➢ investing in developing the strengths and skills of our staff and councillors ➢ focused on serving our residents, local organisations and district ➢ embracing innovative ways of working to improve service delivery and the operations of the council ➢ providing value for money and ensuring that we are financially resilient and sustainable

3. Our Assets

3.1 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 2019/20 was £279.98M. The main constituents of these assets are as follows

Asset Type	£M
Council Housing & Other Assets	131.42
Property Plant & Equipment	106.81
Community Assets	8.60
Investment Property	23.33
Heritage Assets	9.52
Intangible Assets	0.30
Total	**279.98**

Council Housing

3.2 At the start of the financial year the Council held 3,702 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		77
1 Bedroom	Houses & Bungalows	654
	Flats & Maisonettes	547
2 Bedroom	Houses & Bungalows	483
	Flats & Maisonettes	669
3 Bedroom	Houses & Bungalows	1,178
	Flats & Maisonettes	7
4 or more bedroomed dwellings		87
Total Dwellings		**3,702**

Property Plant & Equipment

3.3 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 2019/20 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
64.088	7.063	34.013	1.101	0.545	106.81

Investment Assets

3.3 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 6.

Investment Asset Type	£M
Office	3.96
Retail	2.77
Agriculture & Allotments	1.43
Commercial Land	4.72
Commercial Building	2.20
Mixed Commercial	8.26
Total	**23.33**

Heritage Assets

3.4 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

3.5 These comprise software and software licenses held for the Council's key systems.

Asset Management

3.6 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

3.7 The Council is required by accounting regulations to value its assets on a regular basis and currently values its General Fund assets on a rolling 3 year cycle. It is required to undertake a formal valuation of is HRA assets every 5 years in line with Ministry of Housing Communities and Local Government (MHCLG) requirements. The last formal valuation was undertaken 1 April 2016 and so is not due until 1 April 2021. A desktop revaluation is undertaken for HRA assets in the intervening years to ensure that values are current.

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

3.9 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

4. Capital Expenditure

Capital Programme

4.1 The Council plans to spend approximately £160.76M on General Fund and £21.39M on HRA capital schemes between 2019/20 – 2023/24.

Capital expenditure £m	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**5 Year Estimate**
General Fund	7.98	29.24	20.15	15.47	8.92	81.76
Housing Revenue Account (HRA)	4.77	4.12	4.21	4.23	4.06	21.39
Commercial activities/non-financial investments	15.00	16.00	16.00	16.00	16.00	79.00
Total	**27.75**	**49.36**	**40.36**	**35.70**	**28.98**	**182.15**

Affordability & Financing

4.2 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:

Capital expenditure £m	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**5 Year Estimate**
Financed by:						
Capital receipts	-0.59	-0.57	-0.57	-0.57	-0.57	-2.87
Capital grants	-6.17	-12.09	-6.82	-2.25	-1.89	-29.22
Capital reserves	-4.86	-4.51	-4.10	-4.06	-3.86	-21.39
Revenue						0.000
Net financing need for the year	**16.13**	**32.20**	**28.87**	**28.82**	**22.66**	**128.68**

4.3 This table shows a net need for financing the Capital Programme of £128.68M which would require the Council to undertake additional borrowing. Additional borrowing would only be used only to finance capital expenditure in respect of General Fund.

4.4 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.

4.5 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.

4.6 The Housing Revenue Account capital programme has its prudence, affordability and sustainability set out in a thirty year business plan.

4.7 Further details on the impact of the Capital Programme on the Council's borrowing is included within Section 5

Governance

Capital Strategy Group (CSG)

4.8 The CSG is a Member and officer working group with a clear remit to be the Council's advisory body on the Council's Capital Strategy and has three clear priority areas of work which although distinct from one another should be considered in an integrated manner. These are:

a) Capital Programme – overseeing the Council's capital programme which includes assessing initial bids all the way through to delivering the programme and assessing its effectiveness in respect of corporate priorities.

b) Asset Management – overseeing the implementation of the Asset Management Plan (AMP) to ensure that the Council gets the most from its asset inventory having regard to effective utilisation and ongoing maintenance and investment needs.

c) Property Investment Strategy - will look to use capital investment in properties in the Lancaster district in order to make a financial return in support of the revenue budget. The group will consider property investment proposals and monitor the effectiveness of the Strategy.

4.9 The CSG meets monthly and makes recommendations to Executive Team and Cabinet regarding inclusion of the proposal within the capital programme. It may also support the proposal in principle subject to it being further developed, request more information or reject the proposal.

Capital Investment Priorities and compilation of Capital Bids

4.10 The Council's capital investment priorities are to:

- deliver the Council's Priorities as set out in 'Ambitions' Council Plan
- ensure that council services can be effectively and efficiently delivered
- support the Asset Management Plan by ensuring that assets are effectively utilised and maintained
- identify opportunities for using capital investment to provide more effective arrangements as set out in Funding the Future
- ensure that the Council meets statutory, legal and health and safety requirements

4.11 All bids for capital resources are put forward on a standard capital bid template, based upon the HM Treasury Business Case Guidance covering strategic, economic, commercial, financial and management dimensions. The bid template has been designed to draw out the proposal's strategic fit against the capital investment priorities in 4.10 and facilitate the scoring of schemes against each other using a scoring matrix. The template also considers:

- whether staff and project resources are available to start the project,
- alternative options for delivery,
- scheme phasing,
- cost (including estimated revenue consequences)
- procurement.

4.12 Given the diverse nature of potential capital schemes four separate scores are developed separately assessing:

Fit against statutory, legal and health and safety requirements
Determining whether the scheme is required to fulfil a statutory obligation, prevent a failure to meet a legislative or health and safety requirement. The main focus being on what would be the impact of not progressing the proposal.

Fit against Corporate Priorities
Determining which priority or priorities in the 'Ambitions' corporate plan the proposal contributes to and to what extent ascertaining measurable outcomes and impacts.

Contribution to Funding the Future strategy
Identifying whether the proposal will achieve financial efficiencies, contribute to the Council's commercial strategy by generating income, lever in funding from other organisations or create an "invest to save" opportunity.

Project Risk & Risk Mitigation
Establishes to what extent risks have been realistically identified and what steps have been taken to mitigate these. It focuses on factors which may cause the project to fail or be delayed, any internal or external factors which may impact the project and considers how sensitive the forecast costs are to both internal and external risk.

Future Plans

4.13 The Council recognises that it will play a pivotal role in key projects which will enable to district to thrive and grow. Further development of the Capital Programme is needed particularly in years 3 – 5 in order to properly encapsulate these major local development projects. An Economic Growth Plan is currently being developed by the Director of Economic Growth and Regeneration setting out an overarching coherent medium term plan for the district. As the plan develops individual capital schemes contributing to its delivery will be identified and brought forward to Capital Strategy Group for its assessment. Similarly other strategies under development in the coming months which have capital expenditure implications will also be considered by the group.

5. Treasury Management

5.1 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.

5.2 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

5.3 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.

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

5.5 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

5.6 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.

5.7 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)

5.8 The Council's Investments at 31.03.2019 were:

Balance 31.03.2019	£M	Liquidity
Money Market Funds	4.00	Instant Access
Other Local Authorities	12.00	Fixed Term
Total Investments	**16.00**	

Borrowing

5.10 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.

5.11 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.

5.12 The Council's underlying need to borrow is represented by it's 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.

Capital Financing Requirement £M	2018/19 Actual £M	2019/20 Estimate £M	2020/21 Estimate £M	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M
General Fund	43.55	43.33	57.67	68.00	77.91	81.25
Housing Revenue Account	39.34	38.29	37.25	36.21	35.17	34.13
Commercial Activities	0.00	15.00	30.75	46.19	61.62	77.06
Total	**82.89**	**96.62**	**125.67**	**150.40**	**174.70**	**192.44**

5.13 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.

5.14 The table below shows the projection of external debt and internal borrowing using cash backed reserves:

	2018/19 Actual £M	2019/20 Estimate £M	2020/21 Estimate £M	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M
External Debt	63.17	62.13	94.09	118.05	143.01	161.97
Capital Financing Requirement	82.89	96.62	125.68	150.4	174.7	192.43
(Under)/Over borrowing	**(19.72)**	**(34.49)**	**(31.59)**	**(32.35)**	**(31.69)**	**(30.46)**

5.15 The council is required to “pay off” 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.

5.16 The following table sets out how MRP will be used to repay the underlying debt:

	2018/19 Actual £M	2019/20 Estimate £M	2020/21 Estimate £M	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M
General Fund MRP	(1.66)	(1.60)	(2.11)	(2.87)	(3.15)	(3.57)
HRA MRP	(1.04)	(1.04)	(1.04)	(1.04)	(1.04)	(1.04)
Total	**(2.70)**	**(2.71)**	**(2.61)**	**(2.92)**	**(3.23)**	**(3.17)**

5.17 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.

5.18 The Treasury Management Strategy sets out the following operational boundary and authorised limit for borrowing:

	2019/20 Estimate £M	2020/21 Estimate £M	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M
Operational Boundary	96.62	125.67	150.40	174.70	192.43
Authorised Limit	113.00	142.00	166.00	191.00	208.00

6. Commercial Activity

Current Position

6.1 The Council’s existing investment property portfolio generates approximately £941K per annum to support the General Fund Revenue Budget. It is comprised of a mix of office and retail lets together with agricultural and commercial land and commercial buildings as set out below:

Investment Asset Type	**£M**
Office	3.96
Retail	2.77
Agriculture & Allotments	1.43
Commercial Land	4.72
Commercial Building	2.20
Mixed Commercial	8.26
Total	**23.33**

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

6.3 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.

Future Plans

6.4 However one of the key objectives of the Council's Funding the Future strategy is investing in commercial property to obtain a commercial return.

6.5 The Property Investment Strategy was considered and approved by Council on 27 February 2019. The key objectives of the Strategy are to:

- Acquire properties that provide long term investment in accordance with the Councils corporate and financial objectives,
- Maximise return whilst minimising risk through management processes
- Prioritise properties that yield optimal rental growth and stable income, Protect capital invested in acquired properties,
- Build a balanced property investment portfolio

6.7 A number of local authorities have invested significant amounts outside of their boundaries as this provides increased opportunities for acquiring good yields. At this stage, the Council is focusing its efforts on properties inside the district. However, it recognises that with such a relatively small geographical area the opportunities may be limited. This situation will remain under review and with Council's approval could be extended to cover a wider footprint

6.8 As investment opportunities are identified and assessed the Council will ensure that the amount invested in proportional to the level of resources available to the authority and will determine the extent to which a balanced budget and council tax calculation is dependent on commercial activity.

Risk Management

6.9 There is a recognition that, in undertaking investments primarily for financial return the Council needs to ensure that these decisions are subject to an enhanced decision making process as a result of the additional risk being taken on and the potential impact on the sustainability of the authority.

6.10 The principal risk exposures in commercial property investment are:

- A downturn in the property market. This could lead to falling rents or higher vacancies, potentially meaning that the Council will need to find other sources of revenue, or reduce costs to balance its budgets. This scenario could also lead to falling property values with a risk that the asset would be worth less than the purchase price.
- Lack of expertise in specialist areas leading to poor acquisition decisions
- Government intervention to set limits on commercial activities

6.11 In order to ensure that the authority is not over exposed to any one of the following sectors: retail, industrial, office, hotel, food & beverage, other, a limit of 30% exposure, both in terms of property value and rental income, has been set. No future investments will be considered where they take the portfolio exposure over these limits.

Governance & Scrutiny

6.12 The governance arrangements proposed for commercial property investment reflect the fact that the timing of opportunities is often competitive and fast moving. They seek to provide sufficient flexibility to enable proper evidence led scrutinised decisions to be made in a timely manner without diminishing the mitigation of risk. The proposals are as follows:

- Full council will set a policy framework for the delegation of decision making within that framework to approve decisions up to £5 million
- The decision must be evidence-led and members must approve the investment strategy and the assessment tools, yield calculator, assessment matrix, social outcome matrix.
- Scrutiny will engage in pre-cabinet/scrutiny briefing sessions where they can test the proposal against the background of the information they have already seen
- Scrutiny will also reviewing performance over time

Decision-Making Process

6.13 Capital Strategy Group will review proposals and present a series of phased business cases to Executive Team and Members using an evidence made decision making framework with a scoring matrix which assesses the viability of any proposal. The scoring matrix includes:

- Long term Cashflow forecasts models based on a number of different scenarios and option
- A Gross and Net Yield calculation to ensure that all financial implications from any property investment including cost of borrowing and MRP are captured
- An 11 point Risk Assessment Matrix including but not restricted to location, tenant quality, building quality, lease-term, repairing obligations, rent review mechanisms, liquidity etc.
- An Outcomes Matrix giving clarity over links to ambitions in the corporate plan, measurable short and medium-term outcomes and social and economic impact.

Performance Monitoring

6.14 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.

7. Knowledge & Skills

7.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions.

7.2 The key decision making officers within the Executive Team include Kieran Keane, Chief Executive Daniel Bates Director of Corporate Services and the Council's, Section 151 Officer Paul Thompson all of whom are qualified accountants with many years' experience. The Director for Economic Growth & Regeneration, Jason Syers is a qualified Chartered Surveyor and Town Planner with over 20 years' public and private sector experience of delivering complex development and regeneration projects in the UK and internationally.

7.3 Underpinning the Executive Team are teams of experienced finance, property and legal professionals.

7.4 Where the appropriate level of knowledge and skills required is not available in-house the Council will use external advisers and consultants that are specialists in their field. The Council currently uses Link Asset Services, Treasury solutions as treasury management advisors. In respect of its commercial property investment sector specialists Carigiet Cowen have been engaged to supplement the experience of internal staff.

COUNCIL

Treasury Management Strategy 2020/21
26 February 2020

Report of Cabinet

PURPOSE OF REPORT
This report sets out the 2020/21 treasury management framework for Council's approval.
This report is public.

RECOMMENDATIONS:

(1) That the Council notes the report and approves the Treasury Management Framework and associated Prudential Indicators as set out in Appendices A to C.

1 INTRODUCTION

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

1.2 Over the years, the regulatory and economic environment has changed significantly and this has led the sector to consider more innovative types of investment activity. Reflecting this, Members will be aware that changes have been made regarding the capital and treasury management framework.

1.3 The main objective of these changes was to respond to the major expansion of local authority investment activity over the last few years into the purchase of non-financial investments, particularly property. The updated framework distinguishes between treasury management activities and investment in non-financial investments.

1.4 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.

1.5 Non-treasury investments include commercial investments where the objective is primarily to generate capital or revenue resources. The resources generated help facilitate the delivery of council services.

1.6 The Prudential Code 2017 also introduced a new requirement to produce an annual capital strategy. This is an over-arching corporate document which deals with the key areas of strategic context, corporate priorities, capital investment ambition, available resources, affordability, capacity to deliver, risk appetite, risk management and determining an appropriate split between non-financial and treasury management investments in the context of ensuring the long term financial sustainability of the authority. It sets the context for the Treasury Management and Investment Strategies.

2 TREASURY MANAGEMENT FRAMEWORK

2.1 The proposed Strategy for 2020/21 to 2023/24 is set out at ***Appendix C*** for Cabinet's consideration. The document contains the necessary details to comply with both the Code and Government investment guidance. The strategy put forward reflects the more ambitious nature of the Council and facilitates the principles outlined in both the Funding the Future and Property Investment Strategies. Responsibilities for treasury management are set out at ***Appendix A*** and the policy statement is presented at ***Appendix B***.

2.2 Key elements and assumptions feeding into the proposals are outlined below. These take account of Cabinet's existing budget proposals as far as possible at this stage. Should there be any changes to the budget, then the treasury framework would need to be updated accordingly before being referred on to Budget Council. For these reasons, delegated arrangements are being sought for finalising the framework.

3 BORROWING ASPECTS OF THE STRATEGY

3.1 Based on the draft budget, the overall physical borrowing position of the Council is projected to increase significantly over the next three to five years from its current position of £62M to £118M (2021/22) potentially raising to £162M (2023/24) as the Council looks to move forward with several ambitious schemes to enable delivery of its Strategic Priorities.

3.2 This level of borrowing is assessed for affordability, sustainability and prudence in line with the Council's Treasury Management Strategy and requires annual approval by Council. Changes in the Council's Capital Financing Requirement and forward borrowing projections are summarised below

Table 1: Capital Financing Requirement

	2018/19 Actual £M	2019/20 Estimate £M	2020/21 Estimate £M	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M
Capital Financing Requirement						
CFR – Non Housing	43.55	43.33	57.67	68.00	77.91	81.25
CFR – Housing	39.34	38.29	37.25	36.21	35.17	34.13
CFR – Commercial activities/non-financial investments	0.00	15.00	30.75	46.19	61.62	77.06
Total CFR	**82.89**	**96.62**	**125.67**	**150.40**	**174.70**	**192.44**

Table 2: Borrowing Projections

	2018/19 Actual £M	2019/20 Estimate £M	2020/21 Estimate £M	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M
External Debt						
Debt at 1 April	64.21	63.17	62.13	94.09	118.05	143.01
Expected change in Debt	(1.04)	(1.04)	(1.04)	(1.04)	(1.04)	(1.04)
Other long-term liabilities (OLTL)	0.00	0.00	0.00	0.00	0.00	0.00
Expected change in OLTL	0.00	0.00	33.00	25.00	26.00	20.00
Actual gross debt at 31 March	**63.17**	**62.13**	**94.09**	**118.05**	**143.01**	**161.97**
The Capital Financing Requirement	**82.89**	**96.62**	**125.68**	**150.40**	**174.70**	**192.43**
Under Borrowing	**(19.72)**	**(34.50)**	**(31.59)**	**(32.35)**	**(31.69)**	**(30.46)**

4 INVESTMENT ASPECTS OF THE STRATEGY

4.1 Where short term treasury management investments are required the Council retains a comparatively low risk appetite with focus on high quality deposits. The 2020/21 strategy continues to use the same short term investment criteria as approved by Members in 2019/20.

4.2 The proposed investment aspects of the strategy for treasury activities continues to provide for investing with other local authorities given that these, in effect, are as secure as investing with the Government but they offer greater returns, and from an Officer perspective, it makes sense to keep the benefits of such temporary cash investing/ borrowing wholly within the local authority family. Where this is not possible for liquidity reasons the Council is looking to place more emphasis on investment counterparties that are consistent with its own Priorities in particularly around climate change and ethical investments.

5 CONSULTATION

5.1 Officers have liaised with Link Asset Services, the Council's Treasury Advisors, in developing the proposed framework. The framework will be considered by Budget and Performance Panel at its meeting on 18 February.

6 CONCLUSION

6.1 The Treasury Management Framework must fit with other aspects of the budget, such as such as commercial investments together with traditional deposit interest estimates and underlying prudential borrowing assumptions, feeding into Prudential and Treasury Management Indicators

6.2 Any alternative proposals or amendments to the proposed Strategy in ***Appendix A*** would have to be considered in light of legislation, professional and economic factors, and importantly, any alternative views regarding the Council's approach to risk

RELATIONSHIP TO POLICY FRAMEWORK
The proposed Treasury Management framework forms part of the Council's budget and policy framework, and fits into the Medium Term Financial Strategy.

CONCLUSION OF IMPACT ASSESSMENT
(including Diversity, Human Rights, Community Safety, Sustainability etc) No direct implications arising.

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

OTHER RESOURCE IMPLICATIONS
None directly arising.

SECTION 151 OFFICER'S COMMENTS
The s151 Officer has authored this report and his comments and advice are reflected in its content.

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 None	**Contact Officer:** Paul Thompson **Telephone**: 01524 582603 **E-mail**: pthompson@lancaster.gov.uk

APPENDIX A

TREASURY MANAGEMENT FRAMEWORK DOCUMENTS AND RESPONSIBILITIES

For consideration by Council 26 February 2020

DOCUMENT	RESPONSIBILITY
CODE of PRACTICE	To be adopted by Council (as updated 2017).
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 2017.
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 2020/21, 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 2017 Code; it is the Section 151 Officer's responsibility to ensure their inclusion.

APPENDIX B

LANCASTER CITY COUNCIL

TREASURY MANAGEMENT POLICY STATEMENT

For consideration by Council
26 February 2020

This reflects the revised CIPFA Treasury Management Code of Practice (Code updated in 2017).

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 2020/21 to 2023/24

For Consideration by Council 26 February 2020

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 revised 2017 Prudential and Treasury Management Codes require, for 2020-21, 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.

This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy will show:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (MRP policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.

If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are show throughout this report.

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 investment strategy (the parameters on how investments are to be managed).

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

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

In addition, Members will receive high level update reports for Quarters 1 and 3.

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

1.3 Treasury Management Strategy for 2020/21

The strategy for 2020/21 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. A training session was held for members on 5 December 2019 supplemented by further internal briefings on 16 and 22 January 2020. The training needs of treasury management Officers are periodically reviewed.

1.5 Treasury Management Consultants

The Council uses Link Asset Services, 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.

The scope of investments within the Council's operations now includes bothe conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments such as investment properties. The commercial type investments require specialist advisers. The Council used Carigiet Cowan Chartered Surveyors in relation to this activity.

2 CAPITAL PRUDENTIAL INDICATORS 2019/20 – 2023/24

The Council's capital expenditure plans are the key driver of treasury management activity. The plans are reflected in various prudential indicators, as determined under regulation, to assist Members in their overview of such capital expenditure planning.

2.1 Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

The table below provides that summary, showing how the plans are being financed by capital or revenue resources. Any shortfall of resources results in an underlying borrowing or financing need.

Capital expenditure	2018/19 Actual £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
General Fund	7.27	7.98	29.24	20.15	15.47	8.92
Housing Revenue Account (HRA)	3.99	4.77	4.12	4.21	4.23	4.06
Commercial activities/non-financial investments*	0.00	15.00	16.00	16.00	16.00	16.00
Total	**11.26**	**27.75**	**49.36**	**40.36**	**35.70**	**28.98**
Financed by:						
Capital receipts	(0.37)	(0.59)	(0.57)	(0.57)	(0.57)	(0.57)
Capital grants	(4.86)	(6.17)	(12.09)	(6.82)	(2.25)	(1.89)
Capital reserves	(4.43)	(4.86)	(4.51)	(4.10)	(4.06)	(3.86)
Revenue	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Net financing need for the year	**1.60**	**16.13**	**32.19**	**28.87**	**28.82**	**22.66**

Commercial activities/non-financial investments related to areas such as capital expenditure on property investments

The net financing need for commercial activities/non-financial investments included in the above table against expenditure is shown below:

Commercial activities/non-financial	2018/19 Actual £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2022/23 Estimate £m
Capital Expenditure	0.00	15.00	16.00	16.00	16.00	16.00
Financing Costs	0.00	0.00	0.72	1.04	1.04	1.04
Net financing need for the year	**0.00**	**15.00**	**16.72**	**17.04**	**17.04**	**17.04**
Percentage of total net financing need %	**0.00**	**92.99**	**51.92**	**59.02**	**59.13**	**75.20**

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 underlying need to borrow.

Any capital expenditure, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely. This is because the Minimum Revenue Provision (MRP), which is a statutory annual charge to revenue, broadly reduces the borrowing need in line with each asset's life.

The CFR includes any other long term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no leases within the CFR.

Members are asked to approve the CFR projections below:

£m	2018/19 Actual £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Capital Financing Requirement						
CFR – Non Housing	43.55	43.33	57.67	68.00	77.91	81.25
CFR – Housing	39.34	38.29	37.25	36.21	35.17	34.13
CFR – Commercial activities/non-financial investments	0.00	15.00	30.75	46.19	61.62	77.06
Total CFR	**82.89**	**96.62**	**125.67**	**150.40**	**174.70**	**192.44**
Movement in CFR						
Non Housing	(0.06)	(0.22)	14.34	10.33	9.91	3.34
Housing	(1.06)	(1.04)	(1.04)	(1.04)	(1.04)	(1.04)
Commercial activities/non-financial investments	0.00	15.00	15.75	15.43	15.43	15.43
Net Movement in CFR	**(1.12)**	**13.74**	**29.05**	**24.72**	**24.30**	**17.73**

Movement in CFR represented by						
Net financing need for the year (above) re Non Housing	1.60	16.13	32.20	28.87	28.82	22.66
Less MRP/VRP and other financing movements	(2.72)	(2.39)	(3.15)	(4.14)	(4.52)	(4.93)
Net Movement in CFR	**(1.12)**	**13.74**	**29.05**	**24.73**	**24.30**	**17.73**

.A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures and details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Authority's remaining activity.

2.3 Minimum Revenue Provision (MRP) Policy Statement

The Council is required to ‘pay off’ an element of the accumulated General Fund CFR each year through a revenue charge (the minimum revenue provision - MRP), and it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

Government Regulations require full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision being made. In approving this Strategy, Council approves the following MRP Statement*:*

From 1 April 2008 for all unsupported borrowing the MRP will be:

- **Asset life method –** MRP will be based on the estimated life of each asset created as a result of the related capital expenditure, in accordance with the Regulations (this option must also be applied for any expenditure capitalised under a Capitalisation Direction).

This option provides for a reduction in the borrowing need over the approximate life of the asset concerned.

In line with Government guidance, the MRP in respect of capital expenditure incurred before 01 April 2008 will be charged over a period of 60 years.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

Repayments included in annual finance leases are applied as MRP.

MRP Overpayments – A change introduced by the revised Government MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision, voluntary revenue provision or overpayments, can, if needed 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. Up until 31 March 2019 the total VRP overpayments were £7.28m

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	2018/19 Actual £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Fund balances / reserves	33.33	30.67	28.09	27.79	27.71	28.06
Capital receipts	0.00	0.00	0.00	0.00	0.00	0.00
Provisions	4.04	4.04	4.04	4.04	4.04	4.04
Total core funds	**37.37**	**34.71**	**32.13**	**31.83**	**31.75**	**32.10**
Working capital*	9.18	9.18	9.18	9.18	9.18	9.18
Under borrowing	(19.72)	(34.50)	(31.59)	(32.35)	(31.69)	(30.46)
Expected investments	**26.83**	**9.39**	**9.72**	**8.66**	**9.24**	**10.82**

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

2.5 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:

2.6 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.

	2018/19 Actual %	2019/20 Estimate %	2020/21 Estimate %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %
General Fund	17.04	16.53	20.11	26.31	30.05	32.88
HRA	21.26	20.88	19.96	19.11	18.31	17.56
Commercial activities/non-financial investments	0.00	0.00	64.27	79.09	83.24	86.02

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.

	2018/19 Actual £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
External Debt						
Debt at 1 April	64.21	63.17	62.13	94.09	118.05	143.01
Expected change in Debt	(1.04)	(1.04)	(1.04)	(1.04)	(1.04)	(1.04)
Other long-term liabilities (OLTL)	0.00	0.00	0.00	0.00	0.00	0.00
Expected change in OLTL	0.00	0.00	33.00	25.00	26.00	20.00
Actual gross debt at 31 March	**63.17**	**62.13**	**94.09**	**118.05**	**143.01**	**161.97**
The Capital Financing Requirement	**82.89**	**96.62**	**125.68**	**150.40**	**174.70**	**192.43**
Under Borrowing	**(19.72)**	**(34.50)**	**(31.59)**	**(32.35)**	**(31.69)**	**(30.46)**

Within the above figures the level of debt relating to commercial activities/non financial investment is:

	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
External Debt for commercial activities / non-financial investments						
Actual debt at 31 March £m	0.00	0.00	16.00	32.00	48.00	64.00
Percentage of total external debt %	0.00	0.00	17.01	27.11	33.57	39.52

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 2020/21 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Head of Financial Services reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

3.2 Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary

This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Debt*	81.62	94.92	104.21	113.08	115.37
Other long term liabilities	0.00	0.00	0.00	0.00	0.00
Commercial activities/non-financial investments	15.00	30.75	46.19	61.62	77.06
Total	**96.62**	**125.67**	**150.40**	**174.70**	**192.43**

- *The term debt in this instance is CFR minus the effect of leases*

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	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Debt	97.00	110.00	119.00	128.00	130.00
Other long term liabilities	1.00	1.00	1.00	1.00	1.00
Commercial activities/non-financial investments	15.00	31.00	46.00	62.00	77.00
Total	**113.00**	**142.00**	**166.00**	**191.00**	**208.00**

Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This limit is currently:

HRA Debt Limit	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
HRA debt cap*	60.19	60.19	60.19	60.19	60.19
HRA CFR	38.29	37.25	36.21	35.17	34.13
HRA headroom	**21.90**	**22.94**	**23.98**	**25.02**	**26.07**

- ***Abolition of the HRA debt cap**. In October 2018 prime Minister Theresa May announced a policy change of abolition of the HRA debt cap. The Chancellor announced in the Budget that the applicable date was 29.10.18*

3.3 Prospects for Interest Rates

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view.

	Mar-20	Mar-21	Mar-22	Mar-23
Bank Rate	0.75	0.75	1.00	1.25
3 Month LIBID	0.70	0.90	1.20	1.30
6 Month LIBID	0.80	1.00	1.40	1.50
12 Month LIBID	0.90	1.20	1.60	1.70
5yr PWLB rate	2.30	2.50	2.90	3.10
10yr PWLB rate	2.50	2.70	3.10	3.30
25yr PWLB rate	3.00	3.30	3.70	3.90
50yr PWLB rate	2.90	3.20	3.60	3.80

The above forecasts have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the prime minister has pledged.

2019 was a weak year for UK economic growth as political and Brexit uncertainty depressed confidence. It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% during the year. However, during January 2020, financial markets were predicting a 50:50 chance of a cut in Bank Rate at the time of the 30 January MPC meeting. Admittedly, there had been plenty of downbeat UK economic news in December and January which showed that all the political uncertainty leading up to the general election, together with uncertainty over where Brexit would be going after that election, had depressed economic growth in quarter 4 of 2019. However, that downbeat news was backward looking; more recent economic statistics and forward looking business surveys, all pointed in the direction of a robust bounce in economic activity and a recovery of confidence after the decisive result of the general election removed political and Brexit uncertainty. The MPC clearly decided to focus on the more recent forward-looking news, rather than the earlier *downbeat news, and so left Bank Rate unchanged. Provided that the forward-looking surveys are borne out in practice in the coming months, and the march Budget delivers With a fiscal boost, then it is expected that Bank Rate will be left unchanged until after the December trade deal deadline. However, the MPC is on alert that if the surveys prove optimistic and/or the Budget disappoints, then they may still take action and cut Bank Rate in order to stimulate growth.*

Economic and interest rate forecasting remains difficult with so many external influences weighing on UK gilt yields and PWLB rates. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

Investment and borrowing rates

- *Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with and agreed Brexit, then there is upside potential for earnings.*
- *Borrowing interest rates were on a major falling trend during the first half of 2019-20 but then jumped up by 100bps on 9.10.19. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, the unexpected increase of 100bps in PWLB rates requires a major rethink of local authority treasury management strategy and risk management. As Link Asset Services' long-term forecast for Bank Rate is 2.25%, and all PWLB certainty rates are close to or above 2.25%, there is little value in borrowing from the PWLB at present. Accordingly the Council will reassess its risk appetite in terms of either seeking cheaper alternative sources of borrowing or switching to short term borrowing in the money markets until such time as the Government might possibly reconsider the margins charged over gilt yields. Longer term borrowing could also be undertaken for the purposes of certainty where that is desirable.*
- *While this authority will not be able to avoid borrowing to finance £104m, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns) to any new short or medium-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.*

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 investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 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* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), 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, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would be re-appraised

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 2019/20	£m	Current %	Lower %	Upper %
Under 12 months	1.04	1.68	0	100
12 months and within 24 months	1.04	1.68	0	100
24 months and within 5 years	3.12	5.02	0	100
5 years and within 10 years	5.20	8.37	0	100
10 years and within 20 years	10.40	16.74	0	100
20 years and within 30 years	2.12	3.40	0	100
30 years and within 40 years	39.20	63.11	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, allowing for authorised increases, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

3.7 Debt Rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100b ps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.

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

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment Policy

The MHCLG 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:

- MHCLG Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

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

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

1. Minimum acceptable **credit criteria** are appliedin order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor cournerparties are the short term and long term ratings.

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

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

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

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

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

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

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

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

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

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

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

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

12. As a result of the change in accounting standards for 2020/21 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	£1m	1 day
DMADF	AAA	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, collateralised deposits where the collateral is UK Government debt –see Annex B2.*

*** Under UK Statute the loans to any Council have priority and first call over the revenues of the authority, which under-writes any concerns over the ability of a local authority to repay its debt. As the UK Government also acts as a lender of last resort, the ranking of UK local authorities is usually considered equivalent to that of the UK Government. As the UK Government has a long term rating of AA+, this is usually applied to local authorities and as such all local authorities have equal rating.*

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

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

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

- If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- In addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition, the Council will also use to some limited extent market data and market information, information on sovereign support for banks and the credit ratings of that supporting government to help support its decision making process.

UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2020. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

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

The proposed investment aspects of the strategy for treasury activities continues to provide for investing with other local authorities given that these, in effect, are as secure as investing with the Government but they offer greater returns, and from an Officer perspective, it makes sense to keep the benefits of such temporary cash investing/ borrowing wholly within the local authority family. Where this is not possible for liquidity reasons the Council is looking to place more emphasis on investment counterparties that are consistent with its own Priorities in particularly around climate change and ethical investments.

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 (iup to 12 months).

Investment Returns Expectations: On the assumption that the UK and EU agree a Brexit deal including the terms of trade by the end of 2020 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.25% by quarter 1 2023. Bank Rate forecasts for financial year ends (March) are:

- Q1 2020/21 0.75%
- Q1 2021/22 1.00%
- Q1 2022/23 1.25%

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

- 2019/20 0.75%
- 2020/21 0.75%
- 2021/22 1.00%
- 2022/23 1.25%
- 2023/24 1.50%
- 2024/25 1.75%

The overall balance of risks to economic growth in the UK is probably relatively even due to the weight of al the uncertainties over post-Brexit trade arrangements and the impact of an expansionary governmnet spending policy (as expected in the Budget on 11 March).

The balance of risks to increases or decreases in Bank Rate and shorter term PWLB rates are also broadly even..

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					
	2019/20	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Principal sums invested > 365 days	Nil	Nil	Nil	Nil	Nil

4.5 End of year investment report

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

ANNEX B1

Treasury Management Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- **Yield** – see Gilts

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

ANNEX B2

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

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

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

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

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

ANNEX B3

Background information on credit ratings

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

What is a Credit Rating?
A credit rating is:

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

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

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

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

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

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

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

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

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

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

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

COUNCIL

Budget Framework 2019 to 2023
Medium Term Financial Strategy Update – 2020/21 to 2023/24
26 February 2020

Report of Director of Corporate Services and Section 151 Officer

PURPOSE OF REPORT
To provide an update of the Council's Medium Term Financial Strategy for 2020/21 to 2023/24.
This report is public.

RECOMMENDATIONS:

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

1 **INTRODUCTION**

1.1 The previous reports on this agenda consider the annual process for setting the revenue budget and capital programme. This report takes the 2020/21 revenue budget and agreed capital programme as a starting point and looks forward to the next three financial years which cover the period of this Council.

1.2 In proposing the revenue budget and capital programme, Cabinet has had regard to the medium term impact of decisions made and particularly the financial impact on 2021/22 to 2023/24. Local Government funding remains volatile and uncertainties with respect to the Government's Fair Funding review, the future of New Homes Bonus and local business rates retention persist. It is therefore important to regularly review future funding estimates in the context of current financial decision making.

2 **STRATEGIC OVERVIEW FROM CABINET**

2.1 In strategic terms the main challenge of budget setting is to match priorities and corporate planning objectives against what is affordable financially. The Medium Term Financial Strategy covers this challenge over a longer timeframe of four years.

2.2 This year we undertook a strategic review of the Council's existing priorities and services, including performance, as well as looking at options to innovate and modernise. The Council Plan and its Strategic Priorities, were updated and approved by Council on 29 January 2020 providing the following priorities and cross cutting themes:

<u>Priorities</u>
- A Sustainable District
- An Inclusive and Prosperous Local Economy
- Healthy and Happy Communities

- A Co-operative, Kind and Responsible Council

Cross Cutting Themes
- Climate Emergency
- Community Wealth-Building
- Community Engagement

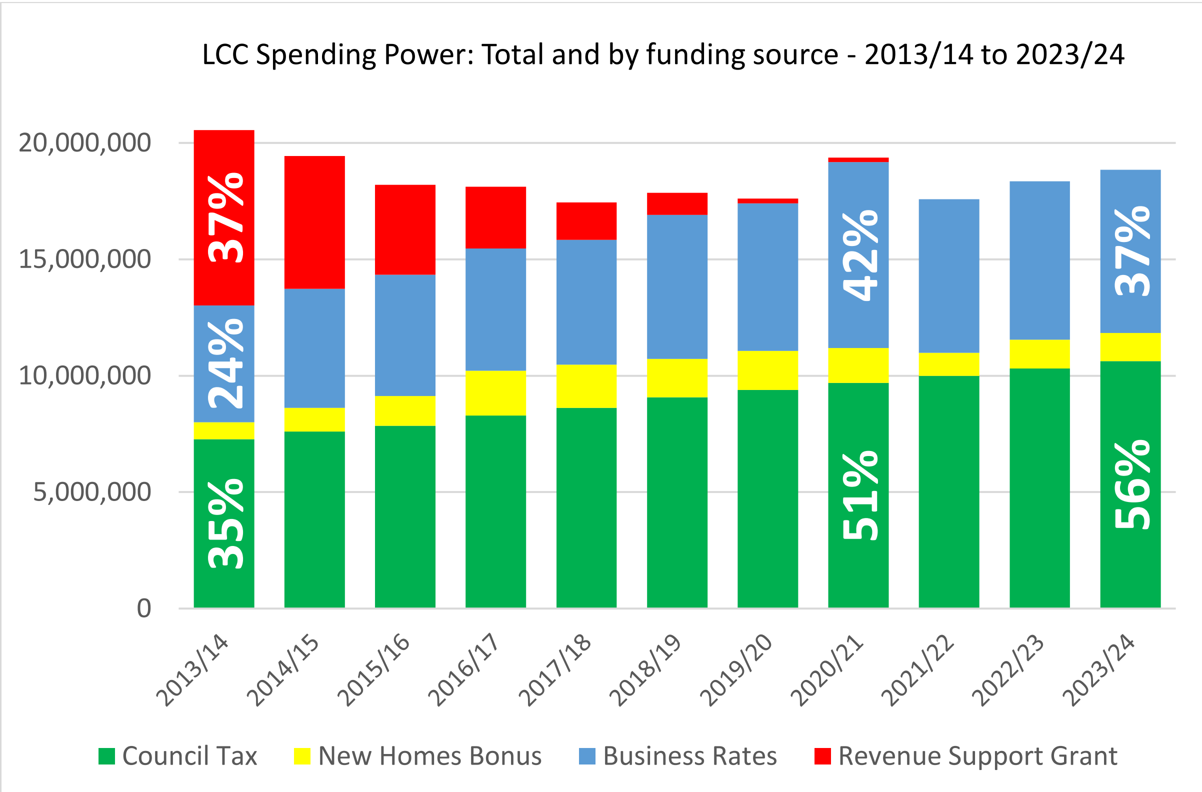
2.3 This reports sets out the latest funding estimates covering:
- Council Tax
- Revenue Support Grant
- New Homes Bonus
- Business Rates

It also provides an estimate of the revenue budget gap for the three years beyond the balanced 2020/21 revenue budget (set out on an earlier report on this agenda).

3. FUNDING OUTLOOK

3.1 Local Government funding has changed significantly over recent years. Significant reductions in central funding have taken place and Revenue Support Grant which accounted for more than half of Lancaster City Council's funding in 2010/11 will disappear entirely next year. As the graph below shows the Council is now almost entirely reliant on Council Tax and Business Rates to fund net expenditure and it is therefore important to provide regular estimates of these important funding streams.

3.2 The Government is expected to publish the results of its Fair Funding review over the next year and it is expected that the review will be implemented from next year, 2021/22. The estimates in this section factor in an expected reduction in funding from business rates as it is anticipated that the Government redirects Local Government resources to upper tier authorities in order to address social care pressures.



Council Tax

3.3 Council tax is the Counci's primary source of funding. It is calculated by multiplying the taxbase, the number of eligible residential properties (expressed in band D equivalents), by the level of the district council precept which is determined each year. The table below shows council tax forecasts for the next four years.

Council Tax Forecasts and Sensitivities – 2019/20 to 2023/24

	Actual 2019/20	**Budget 2020/21**	**Forecast 2021/22**	**Forecast 2022/23**	**Forecast 2023/24**
Taxbase	41,400	41,768	42,186	42,608	43,034
Taxbase Growth	0.49%	0.89%	1.00%	1.00%	1.00%
Band D level	226.95	231.95	236.95	241.95	246.95
Band D increase	2.99%	2.20%	2.16%	2.11%	2.07%
Council Tax Income	**9,395,730**	**9,688,194**	**9,996,007**	**10,309,007**	**10,627,268**
Above Assumptions: 1% taxbase growth from 2021/22 onwards and £5 increase in band D throughout the medium term					
Scenario A: No increase in Council Tax over period of MTFP		-208,842	-421,861	-639,120	-860,682
Scenario B: Property growth at 18/19 growth levels (0.49%)		-49,792	-103,324	-160,806	-222,459
Scenario C: Increase in property growth to 1.5% per annum		48,383	100,905	157,832	219,445
Scenario D: 1% drop in council tax collection rate		-97,732	-101,661	-105,749	-109,999

3.4 The Council's taxbase is the number of properties in the district expressed in band D equivalents, taking account of exemptions, discounts, reliefs and council tax support. Growth in housing numbers inevitably increases the taxbase and therefore council tax income. Taxbase growth for 2020/21 is 0.72%, up from 0.49% in 2019/20. Prior to 2019/20, taxbase growth was over 1% for a number of years. Going forward growth is forecast at 1% per annum. However, scenarios B and C in the sensitivity analysis above show the impacts on the budget of slower and quicker growth in the taxbase.

3.5 On 29 January 2020, Council approved a £5 increase in the Band D council tax . This is the maximum allowable within the Government's referendum criteria which limits increases to 2% or £5, whichever is greater. For the purposes of forecasting, it has been assumed that the Council will increase council tax by £5, the maximum allowed, in each of the next three years. Scenario A in the sensitivity analyses shows the impact on the budget of freezing council tax over the MTFS period.

3.6 As the graph above shows council tax has become the most significant funding income for the Council, accounting for more than half the Council's income in 2020/21 onwards. As such decisions to freeze council tax and/or low growth in property numbers can have a significant impact on the revenue budget (as shown by scenarios A and B) and if either or both were to happen then the Council would have to look to expenditure reductions or increases to other incomes in order to balance the budget.

Business Rates

3.7 Localised business rates is now a fundamental part of the local government finance settlement and, with council tax, accounts for the majority of local government financing. There are three main elements to the system:

- ***Business rates funding baseline*** – this is an amount set by the Government based on assessed needs which the local authority is permitted to retain from business rates payers. It has no correlation whatsoever to the level of rates paid.
- ***Business rates growth retention*** – this is the share of business rates growth above a preset baseline which the Council is permitted to retain. So far the council has benefitted significantly from this source of income though it is set to be reset to zero in 2021/22.
- ***Green 'disregard'*** – councils are incentivised to support renewable energy businesses and get to keep 100% of business rates which are paid by hereditaments associated with renewable energy production and Lancaster has one of the highest level of such hereditaments in England.

Business Rates Forecasts and Sensitivities – 2019/20 to 2023/24

Business Rates	**Budget**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**
	2019/20	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Business Rates	24,924,776	26,890,116	27,483,984	28,173,832	28,880,995	29,605,908
less tariff	19,279,987	19,279,987	19,607,747	22,325,769	22,772,284	23,227,730
Rates Income	5,644,789	7,610,129	7,876,237	5,848,064	6,108,711	6,378,179
Baseline	5,644,789	5,644,789	5,740,750	5,456,363	5,565,490	5,676,800
Rates Surplus	0	1,965,340	2,135,487	391,701	543,222	701,379
Levy on growth	0	982,670	1,067,744	195,851	271,611	350,690
Income						
Baseline	5,221,430	5,644,789	5,740,750	5,456,363	5,565,490	5,676,800
Cap Comp	212,537	212,537	251,532			
Green Energy	906,729	906,729	922,143	940,586	959,398	978,586
Growth	0	982,670	1,067,744	195,851	271,611	350,690
	6,340,696	7,746,725	7,982,169	6,592,799	6,796,499	7,006,075
Above Assumptions: 10% reduction in SFA from Fair Funding Review shown as reduction in baseline in 2020/21, 0.5% growth in net rates, budgeted at worst case due to power station risk.						
Scenario E: The power station closes down for a significant period.			1,498,300	605,078	689,023	776,450
Scenario F: No reduction in baseline following Fair Funding Review				303,131	309,193	315,378
Scenario G: 1% net rates growth every year			68,368	140,517	216,604	296,792

3.8 The first two columns of the above analysis show the difference between the Council budget and actual forecasts for business rates. To date, the Council has budgeted assuming a 'worst case' scenario which includes no growth and an expectation that rates income will fall 7.5% below baseline at which point the Government protects the Council from further losses. The worst case scenario, which is scenario E in the above table, is based upon the significant proportion of the rates that are due from Heysham Power Station and the fact that a maintenance period would result in a significant reduction in rates income. However, in actual fact, there has been only very limited reduction in rates associated with the power station and business rates have grown at a modest rate meaning the Council has accrued significant surpluses over and above the ‘worst case’. These sit in the Business Rates reserve.

3.9 The budget from 2020/21 onwards is no longer based on ‘worst case’ but rather the annual estimates. Any future losses associated with power station closedown will be funded from the Business Rates reserve. This has resulted in an increase in business rates income. The Reserves Strategy, considered earlier on this agenda, covers the Business Rates Reserve which hold a sum to address the ‘worst case’ scenario so that this would not impact on the revenue budget in the short or medium term.

3.10 The Government has delayed its fair funding review by a year and it is now expected to implement this from 2021/22. A number of assumptions that will arise from this review have been modelled in the figures in the above table:

- A 10% reduction in Settlement Funding Assessment (SFA) to be affected through a reduced funding baseline – this is a best estimate based on a view that the Government will seek to redistribute from lower tier to upper tier authorities to reflect social care authorities. Scenario E shows the improved position if no reduction in Lancaster’s SFA was to be implemented.

- Cap compensation (compensation for past Government decisions not to increase business rates by inflation) to be rolled into a revised funding baseline.

- A business rates growth reset effectively removing all growth from the system by setting the business rates baseline to equal actual rates levels. This will result in a loss to Lancaster of about £1m per year and is the single largest anticipated ‘shock’ to the financial resilience of the Council.

Taken together the above impacts have a substantially detrimental impact on business rates income which result in a forecast reduction of almost £1.4m. It is important therefore that the assumptions and corresponding estimates are reviewed as soon as the Government releases the results of its Fair Funding review.

3.11 In the six years since the localised business rates system was introduced, Lancaster City Council has retained over £6m in rates growth, averaging at over £1m per year. Although growth is uncertain, past experience might inspire further confidence in setting growth estimates going forward. The modelling assumes a 0.5% annual growth but Scenario G provides information on the additional receipts which would accrue if that growth was 1%.

New Homes Bonus

3.12 New Homes Bonus is a reward grant which is calculated from council taxbase figures. Since the implementation of New Homes Bonus in 2013/14, the Government has reduced the reward grant to cover only 4 years (down from 6) and has introduced a threshold below which no reward grant is paid. There is a risk that the Government will seek to further reduce the grant in future years which would increase the budget gap at the Council.

New Homes Bonus Forecasts and Sensitivities – 2019/20 to 2023/24

New Homes Bonus	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Annual Reward	361,030	274,251	466,299	250,000	250,000	250,000
Previous Years Grant	1,288,487	1,397,410	1,035,682	1,101,611	990,581	966,330
New Homes Bonus	**1,649,517**	**1,671,662**	**1,501,981**	**1,351,611**	**1,240,581**	**1,216,330**
Above Assumptions: NHB remains in place with modest housing growth over the MTFP period						
Scenario H: NHB phased out over four years				-500,000	-750,000	-1,000,000
Scenario I: NHB scrapped & returned as SFA				-1,308,282	-1,197,252	-1,173,001
Scenario J: NHB is shared equally with County				-506,842	-465,206	-456,112

3.13 Government has confirmed New Homes Bonus allocations for 2020/21 as set out in the table above. It has also set out its intention to consult on the future of the grant amidst reports that is not satisfied with the effectiveness of the reward grant. It is unclear at this stage as to whether the Government intends to replace the grant with an alternative mechanism for recognising housing growth or will simply redirect resources via other mechanisms. The sensitivity scenarios above all reflect a view that any change is likely to be detrimental to Lancaster City Council.

3.14 The future of New Homes Bonus is uncertain with reports that the Government is unsatisfied that the reward grant has been effective. Looking to 2020/21 and beyond, there are a number of threats to this funding income. These uncertainties, which are modelled in the scenario analysis above, include:

- Scenario H and I: The Government scrapping or significantly reducing New Homes Bonus

- Scenario J: The Government changing the way the reward is shared between districts and counties. The current 80/20 split in favour of districts might be deemed unfair to County Councils which appear to have more significant problems with respect to financial resilience. The scenario assumes a 50:50 split.

Additionally the Government may choose alternative mechanics to effectively reduce grant such as raising the minimum amount of housing growth which is disregarded before paying grant. A slow down in housing growth in the district would also reduce grant.

Revenue Support Grant

3.15 Revenue Support Grant has been increased by CPI in 2020/21. It will be rolled into the Council's business rates baseline form 2021/22.

Revenue Support Grant	2019/20	2020/21	2021/22	2022/23	2023/24
Grant	199,691	203,086	0	0	0

Funding Outlook: Conclusion

3.16 There remain significant uncertainties in terms of Local Government funding over the next couple of years associated with the imminent Government Fair Funding review. The main threats to funding income are related to the reset of business rates baselines and removal of accumulated rates growth both of which are anticipated and modelled (see 3.10). Additionally, uncertainty with respect to the future of New Homes Bonus (see 3.13) poses a significant threat to the Council's funding position. Whilst these uncertainties and sensitivities have been modelled into the estimates going forward, it will be important to monitor this position over the next year as the Government releases its plans.

4. THE MEDIUM TERM BUDGET GAP AND NEXT STEPS

4.1 Funding outlook forecasts covered in section 3 when combined with the budget expenditure estimates that have been calculated as part of the revenue budget process when taken together provide a forecast of the budget gap over the next three years. This is shown in the table below.

	2020/21	2021/22	2022/23	2023/24
Budget Gap	£0	£1.558m	£1.234m	£1.270m

4.2 It is important to recognise that the above figures are based on best estimates at this point in time and that these estimates will be reviewed constantly to take account of events such as Government announcements, pay settlements etc. The estimates show a 'one-off' structural gap of around £1.5m from 2021/22 onwards. A large proportion of this gap is a consequence of the anticipated funding reductions which are covered in 3.16 above.

4.3 Cabinet have undertaken to progress an Outcomes Based Budgeting process early in the new financial year. Further work will be undertaken on funding estimates as information becomes available from Government and a Medium Term Financial Strategy action plan will be adopted early in 2020/21.

5. CONCLUSION

2.1 This report provides an update on the Council's medium term financial position taking account of the latest funding estimates and the decisions made on the revenue budget and capital programme which are considered earlier on this agenda.

RELATIONSHIP TO POLICY FRAMEWORK
The budget and medium term financial estimates should represent, in financial terms, what the Council is seeking to achieve through its Policy Framework.

CONCLUSION OF IMPACT ASSESSMENT
(including Diversity, Human Rights, Community Safety, Sustainability etc)
No additional impact identified – any specific issues have been (or will be) considered as part of the relevant aspect of the policy framework or individual budget proposals, etc.

LEGAL IMPLICATIONS
No direct legal implications.

FINANCIAL IMPLICATIONS
As set out in the report.

OTHER RESOURCE IMPLICATIONS
Human Resources / Information Services / Property / Open Spaces:
No specific implications

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has co-authored this report with the Director of Corporate Services. The report should be read alongside the other budget framework documents and provides an estimate of the future budget gap based upon decisions to be made in respect of those other reports.

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

BACKGROUND PAPERS	**Contact Officer: Dan Bates**
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