



**LANCASTER**  
**CITY COUNCIL**

*Promoting City, Coast & Countryside*

# **COUNCIL MEETING**

**Wednesday, 27 February 2019 -  
6.00 p.m.  
Morecambe Town Hall**

*Lancaster City Council welcomes members of the public to attend meetings. However, space in the public gallery is limited to 30 seats due to Fire Regulations. The seats are allocated on a first come, first served basis and no standing is permitted. If you require support in accessing the building, please contact Democratic Services on 01524 582132, or email [democracy@lancaster.gov.uk](mailto:democracy@lancaster.gov.uk)*

Susan Parsonage,  
Chief Executive,  
Town Hall,  
Dalton Square,  
LANCASTER,  
LA1 1PJ



# LANCASTER CITY COUNCIL

*Promoting City, Coast & Countryside*

Sir/Madam,

You are hereby summoned to attend a meeting of the Lancaster City Council to be held in the Town Hall, Morecambe on Wednesday, 27 February 2019 commencing at 6.00 p.m. for the following purposes:

1. **APOLOGIES FOR ABSENCE**

2. **MINUTES**

To receive as a correct record the Minutes of the Meeting of the City Council held on January 30<sup>th</sup> 2019 (previously circulated).

3. **DECLARATIONS OF INTEREST**

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

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

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

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

4. **ITEMS OF URGENT BUSINESS**

5. **ANNOUNCEMENTS**

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

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

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

**7. PETITIONS AND ADDRESSES**

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

**ITEMS DEFERRED FROM THE JANUARY MEETING**

**8. PROPERTY INVESTMENT STRATEGY (Pages 1 - 15)**

Referral from Cabinet

**9. PROPOSALS FOR THE GOVERNANCE ARRANGEMENTS FOR INVESTMENT DECISIONS (Pages 16 - 26)**

Referral from Cabinet

**REPORTS REFERRED FROM CABINET, COMMITTEES OR OVERVIEW AND SCRUTINY**

**10. BUDGET FRAMEWORK 2019 TO 2023 REVENUE BUDGET 2019/20 (Pages 27 - 70)**

To consider the report of Cabinet.

**11. BUDGET FRAMEWORK 2019 TO 2023 CAPITAL STRATEGY AND CAPITAL PROGRAMME 2018/19 TO 2022/23 (Pages 71 - 92)**

To consider the report of Cabinet

**12. TREASURY MANAGEMENT STRATEGY 2019/20 (Pages 93 - 118)**

To consider the report of Cabinet

**13. BUDGET FRAMEWORK 2019 TO 2023 MEDIUM TERM FINANCIAL STRATEGY UPDATE - 2019/20 TO 2023/24 (Pages 119 - 135)**

To consider the report of Cabinet

**14. HOUSING REVENUE ACCOUNT BUDGET FRAMEWORK 2019 TO 2023 (Pages 136 - 152)**

To consider the report of Cabinet

**15. PAY POLICY STATEMENT 2019-20 (Pages 153 - 160)**

To consider the report of Personnel Committee

**OTHER BUSINESS**

**16. COUNCIL TAX 2019/20**

To consider the report of the Interim Financial Services Manager

*Report to follow*

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

Group Administrators to report any changes to Committee Membership.

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

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

19. **MINUTES OF CABINET** (Pages 161 - 170)

To receive the Minutes of Meeting of Cabinet held 15<sup>th</sup> February 2019.



.....  
Chief Executive

Town Hall,  
Dalton Square,  
LANCASTER,  
LA1 1PJ

Published on Tuesday 19<sup>th</sup> February 2019.

**COUNCIL****Property Investment Strategy  
30 January 2019****Report of Cabinet****PURPOSE OF REPORT**

To consider the Property Investment Strategy for approval.

**This report is public.**

**RECOMMENDATIONS OF COUNCILLOR WHITEHEAD**

- (1) That Council approves the Property Investment Strategy included as Appendix A.

**1.0 Introduction**

- 1.1 The Cabinet meeting on 4 December 2018 approved the principles of the overarching financial resilience strategy, *Funding the Future* and their incorporation into the Medium Term Financial Strategy. On from this on 18 December, Cabinet approved the key principles of the Property Investment Strategy.
- 1.2 One of the key pillars of the financial resilience strategy is 'investing for a return or to reduce costs' which looks to careful risk managed investment in commercial property in order to make a net yield which contributes to the net revenue budget. This reports sets out the principles that will be included in the Council's Property Investment Strategy.
- 1.3 A number of informal sessions on the Property Investment Strategy have been held with members and, on 11 January 2019, a workshop testing out the key strategy principles was well attended by members.
- 1.4 A separate paper covering the Governance arrangements for the Property Investment Strategy is included on this Council agenda.

**2.0 Proposal Details**

- 2.1 The Property Investment Strategy is included as Appendix A to this report.
- 2.2 A separate report on the governance arrangements for this strategy is considered on this agenda and if agreed, these arrangements will be included within and appended to the strategy.

**3.0 Details of Consultation**

- 3.1 Officers have provided a series of briefing sessions on the *Funding the Future* strategy which have been open to all members. In respect of the Property Investment Strategy, briefings have been made available to Cabinet and Scrutiny before Christmas with an

invitation to all members. A workshop open to all members was held on the 11 January 2019, after which the strategy was updated.

- 3.2 At the workshop on the 11 January 2019 members had the opportunity to work through the investment matrices and scoring systems. In general members indicated they approved the approach of a scoring matrix to assess the viability of any proposal, the yield matrix to confirm the likely return and the social value scoring to give clarity over any benefits to the district.
- 3.4 Members also made a number of suggestions for additional information and changes to the matrix. The feedback was recorded but of particular note was the desire to have clarity that the proposal was within the framework, e.g. ethical, geographical and environmental. Members also requested additional evidence to be provided in the matrices in respect to particular market segments. This included information of wider sector performance, local and national competition, and for retail product lines/market and exit proposals.
- 3.5 Members also requested the yield and social value documents provided greater clarity on additional benefits that may accrue such as business rates, impact on a high street frontage, detail on any social impact such as employment and how this would be measured.
- 3.6 Member feedback has been incorporated into the appended documents.

**4.0 Options and Options Analysis [including risk assessment]**

	<b>Option 1: Approve</b>	<b>Option 2: Not Approve</b>
<b>Advantages</b>	The prospect of long term financial resilience to help maintain the provision of good quality council services	None
<b>Disadvantages</b>	New ways of working and adapting reasonably quickly to new approaches.	A series of hard and unpalatable decisions will need to be taken on cuts and service reductions.
<b>Risks</b>	Commercial property investment brings some risks and these are covered in some detail in this report.	Potential financial instability delivery of services being reduced.

**5.0 Officer Preferred Option (and comments)**

- 5.1 Option 1 Is the preferred option as the development of a robust Property Investment Strategy is the next logical step following the agreement by Cabinet to the principles of the *Funding the Future* Financial Resilience Strategy

**6.0 Appendices**

- 6.1 The strategy document and appendices are appended to this report as follows:

- Appendix One – Property Investment Strategy
- Appendix Two – Yield Calculator
- Appendix Three – Risk Matrix
- Appendix Four – Outcomes Matrix

**RELATIONSHIP TO POLICY FRAMEWORK**

This is design to facilitate the implementation of the Medium Term Financial Strategy and to facilitate *Funding the Future*.

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

None

**LEGAL IMPLICATIONS**

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

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

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

**FINANCIAL IMPLICATIONS**

Property investments will require borrowing and will make a financial return. The yield calculation within the strategy is designed to ensure that all financial implications from any property investment are captured.

**OTHER RESOURCE IMPLICATIONS, such as Human Resources, Information Services, Property, Open Spaces:**

This policy will be developed and led by the Regeneration Team

**SECTION 151 OFFICER'S COMMENTS**

The Section 151 Officer is the author of this report.

**MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted in the drafting of this report and has no further comments

**BACKGROUND PAPERS**

Cabinet paper (18 December 2018) on property investment principles.

**Contact Officer:** Dan Bates

**Telephone:** 01524 58 2000

**E-mail:** dbates@lancaster.gov.uk

**Lancaster City Council**

**Property Investment Strategy**

**2019 – 2024**



## 1.0 Introduction

- 1.1 This Property Investment Strategy has been developed for the period 2019 to 2024 to reflect the aspiration in *Funding the Future* and the Medium Term Financial Strategy (MTFS) to seek a return from commercial property investments in order to contribute to the revenue budget and protect service provision.
- 1.2 This strategy is designed to provide a framework for Lancaster City Council to compete in that market on an equal footing enabling the acquisition of properties for investment at pace whilst ensuring that governance processes are in place, full assessments are made and risks are minimised.

## 2.0 Background

- 2.1 The Council recognised, some time ago, that it needed to move towards a more commercial way of operating if it was to move towards its aim of being more financially independent. To that end, the Council agreed its *Funding the Future* strategy as part of the MTFS – a four pillared approach to challenge existing budgets around outcomes, seek efficiencies, consider more commercial approaches to service delivery and invest for a return.
- 2.2 In order to deliver the Property Investment Strategy as well as other aspirations with respect to capital investment and property management, a Corporate Asset Management Group (CAMG) has been constituted with representation from Regeneration, Property, Finance and Legal.
- 2.3 The CAMG, or whichever arrangement supersedes it in due course, has the responsibility for overseeing the development of this investment strategy and, subsequently, for monitoring the performance of the investments at an aggregate level (i.e. the overall performance of the portfolio against an agreed benchmark of performance).
- 2.4 This Strategy is to be agreed by the Council and will set the strict parameters within which property investment activity will take place. These parameters are designed to ensure that investments are ethical, that all risks are assessed and managed and that effective due diligence takes place in establishing the financial business case as well as any link to corporate priorities. Governance and management arrangements are covered in section 5.

## 3.0 Strategy Objectives

- 3.1 This Strategy forms part of the *Funding the Future* plan within the Medium Term Financial Strategy which aims to secure the financial sustainability of Lancaster City Council and provide a good level of resources to meet corporate priorities in spite of significant funding reductions. As such, the objectives outlined below focus on building a risk managed, balanced property portfolio to deliver a financial return to the General Fund Revenue Budget.
- 3.2 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 the management processes as outlined in this strategy,
  - Prioritise properties that yield optimal rental growth and stable income, Protect capital invested in acquired properties,
  - Develop a governance framework that enables the Council to move at a timely pace in line with the market.
  - Build a balanced property investment portfolio

#### 4.0 **Investment Principles and the Decision Making Process**

- 4.1 In order to maximise returns from investment whilst minimising risk, each investment proposal will be subjected to a detailed review which will include:
- Full Gross and Net Yield Calculation including scenario analyses
  - Risk Assessment Matrix
  - Outcomes Matrix

#### ***Yield Calculator***

- 4.2 The yield calculator is included as appendix one to this strategy. It covers total costs of acquisition, income from rental of the property and all expenses associated with holding the property including the cost of borrowing and a provision to repay the borrowing. The appendix details the rigour that will be adopted in completing the financial information and the importance of ensuring not only that the information is complete and accurate but the need to consider scenarios in which income may fall or expenditure increase to ensure that the property holdings can endure downturns in economic conditions.
- 4.3 The results from the yield calculator will be used to compare returns with other properties in the portfolios and industry benchmarks in order to assess the relative attractiveness of return.

#### ***Risk Assessment Matrix***

- 4.4 The risk assessment matrix is included as appendix two to this strategy. It will ensure that every potential acquisition is scored against a number of factors which reflect the relative risks and mitigations of holding each asset. Each of the factors will be weighted and scores will be assigned according to pre-agreed definitions of what constitutes low and high risk. Every proposition would have to achieve a minimum score in order to satisfy the requirement to minimise the risk to the Council of holding the property.
- 4.5 The majority of factors will be assessed on a five point scale (set out in appendix two) from excellent to poor; these are summarised in paragraphs 4.10 to 4.19. Paragraph 4.6 deals with those proposals in which the Council will not invest on ethical grounds. Additionally, there are two binary assessments; paragraphs 4.7 and 4.8 detail how only proposals based inside the Council's area will be considered and paragraph 4.9 outlines that only proposals that maintain a balance portfolio will be considered.

#### ***Exclusions***

- 4.6 There are a number of types of tenants that the Council would not want to support, on ethical grounds, with respect to property investments. The list below, which will be reviewed, outlines those sectors in which the Council will not invest:
- Tobacco production
  - Animal exploitation
  - Armaments
  - Environmentally damaging practices
  - Bookmakers
  - Human Rights Abuse / Oppressive regimes
  - Pornography

## *Property Location*

- 4.7 A number of local authorities have invested outside of their boundaries as this provides an increase in the opportunities for acquiring good yields. However at this early stage, it is recommended that the authority focusses its efforts on properties inside the Lancaster City Council boundaries. Once a balanced portfolio is achieved, members might choose to extend these boundaries to cover wider areas such as LEP boundaries and this is something which will be reviewed when the Strategy is refreshed each year.
- 4.8 The Government has expressed concerns about commercial property investments outside of an authority's boundaries and this strategy's focus on local properties will not be subject to any risks of potential Government sanctions on out of area investments.

## *Portfolio Strategy*

- 4.9 There are six recognised types of property investment. These are retail, industrial, commercial, food and beverage, office and other. In order to ensure that the authority is not over exposed to any one sector, a limit of 30% exposure, both in terms of property value and rental income, will be set. No future investments will be considered where they take the portfolio exposure over these limits.

Additional evidence should be provided in each proposal with respect to particular market segments. This should include information on wider sector performance, local and national competition, and for retail product lines/market and exit proposals.

## *Location - Micro*

- 4.10 This factor is designed to assess the quality of the individual location with regard to the property use. This will change according to the property sector. For example, excellent links for a retail proposal would cover footfall where a central city centre location might be deemed excellent whereas for an industrial location, proximity to transport links might be assessed as more important. As there is a degree of subjectivity to this assessment, the proposal will be scored by the Capital Strategy Group

## *Tenant Covenant*

- 4.11 This is an assessment of the financial strength of the tenant which will be undertaken using a recognised company search agency. The assessment will be objective as it will use the search agency's independent risk scoring.

## *Building Quality*

- 4.12 This factor is designed to assess the quality of the building. A building which is new or recently refurbished scoring highly. As there is a degree of subjectivity to this assessment, the proposal will be scored by the Capital Strategy Group. Any refurbishment costs to improve the scoring would have to be factored into the yield calculator.

## *Lease Term*

- 4.13 This factor is designed to measure the longevity of the income to the council with longer lease terms scoring more highly. The assessment will be based on a Weighted Average Unexpired Lease Term (WAULT) calculation and as such is objective.

## *Tenants Repairing Obligations*

- 4.14 This factor is designed to determine the authority's responsibility and liability for property repairs with a higher score attributable to those properties where all responsibilities are passed to the leaseholder. This is an objective assessment which will be made by the Monitoring Officer or nominated representative.

### *Rent Review Mechanisms*

- 4.15 This factor is designed to determine the robustness of the rent review process where more regular rent reviews based on open market rental values scoring more highly. As this will be specified in the lease, the assessment will be made by the Monitoring Officer or nominated representative.

### *Occupational Demand*

- 4.16 This factor is designed to determine demand for the property. It will usually be determined by external advice and will be assessed by the Capital Strategy Group.

### *Management Intensity*

- 4.17 This factor measures the number of tenants that the Council will deal with for each property with lower number of tenants, and therefore less complexity, scoring more highly. This is an objective criteria and will be assessed by the Monitoring Officer or nominated representative based on the number of leases issued.

### *Liquidity*

- 4.18 This factor considers the attractiveness of the property to other investors if the Council was to seek to dispose of the property. As it is a partially subjective assessment, the authority will seek independent external advice which will be assessed by the Capital Strategy Group.

### *Tenure*

- 4.19 This factor considers the tenure of the property with freehold and long leaseholds scoring more highly. This is an objective criteria which will be clear from the property deeds and as such the assessment will be made by the Monitoring Officer or nominated representative.

### ***Outcomes Matrix***

- 4.20 The outcomes matrix is included as appendix three to this strategy. This provides an analysis of any outcomes and impacts that will be delivered by property acquisition. Outcomes should be reconcilable to corporate plan priorities and importantly be measurable both before and after the acquisition so that the benefits accruing can readily be identified.

- 4.21 Practically, there may be an inverse relationship between the finance and outcomes tests. The Council may choose to accept a lower yield where an investment is capable of delivering favourable outcomes in respect of its priorities.

## **5.0 Processes and Governance**

- 5.1 Commercial investment proposals will usually be developed by the Regeneration Team who will be required to complete the assessment appendices for yield, risk and outcomes. All assessments will be considered by the Capital Strategy Group which comprises the Assistant Chief Executive, Monitoring Officer, Section 151 Officer (and/or nominated representatives) as well as representatives from the Property and Regeneration teams. The meetings will be open to the Portfolio Holders for Regeneration and Finance and the Chair of Overview and Scrutiny.

- 5.2 Governance processes are set out in appendix four (appendix to be added following consideration by Cabinet on 15 January 2019).
- 5.3 All formal decisions made will be formally recorded and supporting information held for subsequent scrutiny.
- 5.4 A separate monitoring of the effectiveness of the Property Investment Strategy will be incorporated into the quarterly financial and performance monitoring processes.

## **Appendices**

Appendix One – Financial Yield Calculator

Appendix Two – Risk Matrix

Appendix Three – Outcomes Matrix

Appendix Four – Governance arrangements (to follow once considered by Cabinet on 15 January 2019)

**Appendix 2 - Yield**

Property: Illustration Only

PURCHASE COSTS	
Property Purchase Price	3,000,000
Stamp Duty	0
Valuation Fees	3,000
Survey Fees	10,000
Legal Fees	3,000
Refurbishment Fees	
Other Purchase Costs	
<b>Total Purchase Cost</b>	<b>3,016,000</b>

PROPERTY INCOME	
Annual Rent	225,000
Service Charge	0
<b>Total Annual Income</b>	<b>225,000</b>

PROPERTY EXPENSES		
MRP	2%	60,320
Interest Charge	2.99%	90,178
<u>Landlord Costs</u>	-	
Repairs and Maintenance		
Ground Rent		0
Insurances		0
Utilities payable by Landlord		0
Other Landlord Costs		5,000
Void Allowance	5%	11,250
		<b>166,748</b>

**GROSS YIELD 7.46%****NET YIELD 1.94%****NET CASH £58,252**



How will this be assessed?	The financial covenant of the tenant (s) will be assessed using an external search company which will provide us with a company report on the financial health of the company. The scoring will be based on the search company's assessment of financial health and is therefore objective.
Who will assess?	Section 151 Officer or nominated representative based on externally produced score

Building Quality - State of Repair	Excellent	Good	Acceptable	Marginal	Poor
	5	4	3	2	1
	New, modern or recently refurbished	Good quality, no spend required for 20+ years	Good quality but spend required in 10-20 years	Spend required in 5-10 years	Tired, Spend required in next 5 years
How will this be assessed?	The quality of the building assessment is partly subjective and so will be challenged by the Capital Strategy Group. The submission should detail any improvement/refurbishment works that will improve the score and the cost of any such works, and the cost of any ongoing maintenance requirements, will be incorporated into the yield calculator.				
Who will assess?	Capital Strategy Group				

Building Quality - EPC Rating	Excellent	Good	Acceptable	Marginal	Poor
	5	4	3	2	1
	A/B	C	D	E	F/G
How will this be assessed?	The EPC is an externally calculated and accredited rating and as such is objective. The Capital Strategy Group will seek confirmation of the rating.				
Who will assess?	Capital Strategy Group				

Lease Term	Excellent	Good	Acceptable	Marginal	Poor
	5	4	3	2	1
	Greater than 15 years	Between 10 and 15 years	Between 6 and 10 years	Between 2 and 6 years	Under 2 years
How will this be assessed?	The assessment will be based upon a Weighted Average Unexpired Lease Term calculation which provides an objective assessment of the number of guaranteed years of rental income until the end (or break clause) within the lease.				
Who will assess?	Section 151 Officer or nominated representative based on accepted calculation				



	Excellent	Good	Acceptable	Marginal	Poor
	5	4	3	2	1
Tenants Repairing Obligations	Full repairing and insuring	Full repairing and insuring - partially recoverable	Internal repairing	Internal repairing - partial recovery	Landlord responsible
How will this be assessed?	The lease terms will allow this to be an objective assessment to be made by the Council's legal representative.				
Who will assess?	Monitoring Officer or nominated representative based upon final lease				

	Excellent	Good	Acceptable	Marginal	Poor
	5	4	3	2	1
Rent Review Mechanisms	Open Market Rental Value every 5 years		Consumer Price Index/Retail Price Index		No proper review mechanism
How will this be assessed?	The lease terms will allow this to be an objective assessment to be made by the Council's legal representative.				
Who will assess?	Capital Strategy Group based upon advice from the Monitoring officer.				

	Excellent	Good	Acceptable	Marginal	Poor
	5	4	3	2	1
Occupational Demand	Demand from many tenants	Demand from a few tenants, but low number of competing buildings	Reasonable prospect of securing new tenants	Poor demand	Landlord responsible
How will this be assessed?	The occupation demand is partially subjective but the proposal should seek to include external advice with respect to the level of demand. The Capital Strategy Group would seek to rely on any such external advice in coming to its assessment of the proposal.				
Who will assess?	Capital Strategy Group based upon any independent expert advice offered.				

	Excellent	Good	Acceptable	Marginal	Poor
	5	4	3	2	1
Management Intensity					

	1-2 tenants	3 -5 Tenants	5 - 9 tenants	10 - 15 tenants	16 plus tenants
How will this be assessed?	This is an objective assessment based upon the number of leases included within the proposal. As such the assessment will be made by the Council's legal representative.				
Who will assess?	Monitoring Officer or nominated representative based upon number of leases issued				

	<b>Excellent</b>	<b>Good</b>	<b>Acceptable</b>	<b>Marginal</b>	<b>Poor</b>
	5	4	3	2	1
Liquidity	Lot size and sector attractive to investors	Lot size not attractive to investors but sector is	Lots size attractive to investors but sector is not	Generally unattractive	Attractive to niche investors only
How will this be assessed?	This is a more subjective criteria and a such the assessment should, where possible, seek external independent advice with respect to lot size and attractiveness				
Who will assess?	Capital Strategy Group based upon any independent expert advice offered.				

	<b>Excellent</b>	<b>Good</b>	<b>Acceptable</b>	<b>Marginal</b>	<b>Poor</b>
	5	4	3	2	1
Tenure	Freehold	Long leasehold 125+ years / peppercorn ground rent	Lease between 100 and 125 years / peppercorn ground rent	Lease between 50 and 100 years	Lease less than 50 years and/or high ground rent
How will this be assessed?	This is an objective criteria that will be clear from lease paperwork.				
Who will assess?	Monitoring Officer or nominated representative based upon information held within lease agreement.				

**Appendix 4: Outcomes**

Example: Conversion of previously empty shop unit to 3 retail units (Illustration only)

**Outcomes and Impact Matrix**

Council Priority: A Thriving and Prosperous Economy

Success Factor:

**Outcomes:**

*The likely achieved short-term and medium-term effects from the commercial investment*

Measures: before

Measures: after

**Impact**

*The likely longer term effects produced, directly or indirectly, from the commercial investment*

Measures: before and after

**Social Value Outcomes**

This matrix should capture all of the non financial benefits accruing from the potential property investment. Reference should be made to the Council's 'Ambitions' Corporate Plan and any other strategic plan arising from the Ambitions plan (eg. Economic Growth strategy). This matrix should provide a good level of clarity on additional benefits that may accrue such as business rates, impact on a high street frontage, detail on any social impact such as employment and how this would be measured.

**COUNCIL****Proposals for the Governance Arrangements for  
Investment Decisions  
30 January 2019****Report of Cabinet****PURPOSE OF REPORT**

To provide a proposal for the governance of investment decisions for Council to consider for approval.

**This report is public.**

**RECOMMENDATIONS OF Councillor Whitehead**

- (1) Council approves the delegation of investment decisions to the leader in accordance with the policy framework set out in the Medium Term Financial Strategy.
- (2) Council notes the further proposed Constitutional change to allow delegations to Cabinet Member and Officers.
- (3) Council approves the principles and outline process in Appendix A, B, C and D.
- (4) Council requires Scrutiny Committee to consider and approve the detailed scrutiny process and recommend any changes to the procedure rules.
- (5) Council requires the Overview and Scrutiny Committee to consider a work programme to include i) review the effectiveness and outcomes of any individual decision ii) carry out a review of the investment portfolio. Such review to make any recommendations for improvement to the decision making or governance by January 2020.

**1.0 Introduction**

- 1.1 The City Council has a key decision limit of £50,000. The effect of this is to allow a key decision to be 'called in' by members through the route of scrutiny.
- 1.2 The City Council has delegated amounts in excess of this limit to the Leader and to officers to facilitate the daily activities of the council. These decisions are made in accordance with policy and budget set by full council. To permit this for commercial property investment, Council will need to be confident the approach is appropriate and then agree to amendment of Article 7 at paragraph 7.09 to allow key decisions to be taken by an individual cabinet member. Council is asked to note this in anticipation of a future paper which may amend the constitution.
- 1.3 The commercial investment strategy will be undertaken in accordance with the policy set by council. This paper is to approve the delegation to the Leader to act in accordance with the investment strategy contained within the Medium Term Financial Strategy, as and when it is approved by full Council and to require the creation of the detailed process and to consider any changes need to the procedure rules of any relevant committee.

## **2.0 Proposal Details**

- 2.1 Full council will set a policy framework for the delegation of decision making. This will be set out in the Medium Term Financial Strategy (MTFS). The Property Investment Strategy will be considered and approved by Council as part of the MTFS.
- 2.2 The Leader will have delegated authority to make these decisions.
- 2.3 This sits within the existing constitutional framework but Council will be aware that operationally it reduces the length of the processes we have adopted. The most significant proposal does not require any amendment of the constitution but a change in methods of working between Cabinet and Scrutiny. In the event this process is impacted by some constitutional limitation subsequent changes that can be addressed as the process develops.
- 2.4 The delegation to the leader will be exercised by Cabinet, which will be the decision making body for all decisions.
- 2.5 It is proposed in the future the Leader will (subject to Council decision in the future) delegate to the Cabinet Portfolio Holder for Finance, in consultation with the Chief Executive and agreement of the Section 151 Officer and Monitoring Officer, authority to approve decisions up to £5 million. This will require amendment to Article 7.09 of the Constitution to allow individual cabinet members to make property investment decisions.
- 2.6 If this is successful, the Leader will consider future policy proposals to Council for the delegation to the Chief Executive, in agreement with the Section 151 Officer and the Monitoring Officer, any decision up to £1 million.

## **3.0 Details of Consultation**

- 3.1 Officers have provided a series of briefing sessions on the *Funding the Future* strategy which have been open to all members. In respect of the commercial investment strategy, briefings have been made available to Cabinet and Scrutiny before Christmas with an invitation to all members. A workshop open to all members was held on the 11 January 2019, after which this report was updated. A questionnaire was also provided to all members and announced at the 19 December 2018 council meeting. Analysis on the 7 January 2019 indicated only 3 responses.
- 3.2 The briefing sessions, workshop and survey all indicated a desire for early involvement of scrutiny (pre-decision) as members indicated they could add value by informing a decision rather than an after-the-event critique.
- 3.3 At the workshop on the 11 January 2019 members had the opportunity to work through the investment matrices and scoring systems. In general, members indicated they approved the approach of a scoring matrix to assess the viability of any proposal, the yield matrix to confirm the likely return, and the social value scoring to give clarity over any benefits to the district.
- 3.4 Members also made a number of suggestions for additional information and changes to the matrix. The feedback was recorded but of particular note was the desire to have clarity that the proposal was within the framework, e.g. ethical, geographical and environmental. Members requested additional evidence to be provided in the matrices

in respect to particular market segments. This included information of wider sector performance, local and national competition, and for retail product lines/market and exit proposals.

- 3.5 Members also requested the yield and social value documents should provide greater clarity on additional benefits that may accrue such as business rates, impact on a high street frontage, employment, skills creation, community impact and how this would be measured.
- 3.6 When considering the use of Scrutiny, there were no unanimous views but some areas of consensus emerged. Firstly, in respect of any individual investment proposal, the need to act within a market, it was felt the early involvement of scrutiny in the process could be helpful. This may involve the chairman or other members of scrutiny being consulted at early stages of any proposal. It was also suggested for an investment decision, that a Cabinet and Scrutiny briefing could be combined and members could be free to ask officers questions allowing for the Scrutiny perspective to be incorporated prior to any individual decision being made by Cabinet. Scrutiny will need to consider the appropriate person to put forward to engage with this process.
- 3.7 Some members felt the matrix scoring system was positive and fact-led, therefore the reasons for just checking the scoring were limited and the use of call- in would have limited value, and Scrutiny members could be better engaged earlier in the process rather than causing delay. There was no clear consensus for removing call-in for any individual decision, but there were proposals which, when scrutiny had been properly consulted and involved, the prospect of 'call-in' in any particular case was reduced and in cases of urgency may be waived. (Constitution part 4, Rules of Procedure, Section 5 (17))
- 3.8 This approach was closely linked to members indicating that risk for a proposal eg voids, retail sector, needed to be clearly articulated and the mitigation of those risk made clear for Scrutiny.
- 3.9 It was also clear from the workshop that members felt the opportunity to review actual performance on any decision and the overall performance of any investment portfolio was extremely important. Scrutiny will have a clear role in that process of review which is why inclusion in the work programme is suggested. This will inevitably lead to proposals to sell investments and that procedure will also need to be considered.
- 3.10 The principles set out in Appendix A are based upon the responses and feedback of members who have participated in the consultation. If Council is minded to agree those principles it will be for Cabinet and Scrutiny to developed the detailed policy and rules of procedure to give effect to those principles.

**4.0 Options and Options Analysis [including risk assessment]**

	<b>Option 1:</b> agree the approach	<b>Option 2:</b> Do nothing
<b>Advantages</b>	Allow the investment policy to be implemented.	No increase in risk.
<b>Disadvantages</b>	Investments can be volatile.	The <i>Funding the Future</i> gap is not met.
<b>Risks</b>	The Council may not make the expected return and may place capital at risk.	Managed decline in service provision.

- 4.1 The overall policy framework will be included in the Medium Term Financial Strategy and will be set by Council and the investment decisions will be made within that framework. The purpose of this is to ensure the resources allocated by Council are used for their intended purpose, are properly accounted for, achieve best value and are within the risk profile agreed by Council. The decision must be evidence-led and members must approve the investment strategy and the assessment tools, yield calculator, assessment matrix, social outcome matrix.
- 4.2 The future proposal for the transactions to be delegated to the Cabinet member is designed to allow for flexibility in decision making. The delegation is permissive, meaning that, where appropriate, the Cabinet Member may wish to refer the matter to Cabinet.
- 4.3 The values attached to the future policy proposals to delegate decision making are suggested at a level to allow for a realistic valuation and progress on smaller proposals, as these investments will usually involve a land transaction in a commercial setting and the values are usually higher. The proposal for a lower limit of £1 million will ensure only the most modest proposals are delegated to officers in the future, limiting risk and liability on officer only decisions.

**5.0 Officer Preferred Option (and comments)**

- 5.1 If Council wishes to pursue the investment strategy it will need a method of implementing that policy.

<p><b>RELATIONSHIP TO POLICY FRAMEWORK</b></p> <p>This is design to facilitate the implementation of the Medium Term Financial Strategy and to facilitate <i>Funding the Future</i>.</p>
<p><b>CONCLUSION OF IMPACT ASSESSMENT</b>  <b>(including Health &amp; Safety, Equality &amp; Diversity, Human Rights, Community Safety, Human Resources, Sustainability and Rural Proofing)</b></p> <p>None</p>
<p><b>LEGAL IMPLICATIONS</b></p> <p>The proposals are within the Constitution, and will require procedures to be refined by the relevant Committees. Any additional proposed delegations to individual Cabinet Member or Officers will require Constitutional amendments to Article 7.</p>
<p><b>FINANCIAL IMPLICATIONS</b></p> <p>There are no direct financial implications associated with the governance process. However, property investments will require borrowing in order to make a financial return. The yield calculation within the Property Investment Strategy is designed to ensure that financial implications from any property investment are captured.</p>
<p><b>OTHER RESOURCE IMPLICATIONS, such as Human Resources, Information Services, Property, Open Spaces:</b></p> <p>This policy will be developed and led by the Regeneration Team</p>

**SECTION 151 OFFICER'S COMMENTS**

The Section 151 Officer has been involved in the drafting of this paper.

**MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been involved in the drafting of this paper.

**BACKGROUND PAPERS**

**Contact Officer:** Monitoring Officer  
**Telephone:** 01524 58 2000  
**E-mail:** [dbrown@lancaster.gov.uk](mailto:dbrown@lancaster.gov.uk)

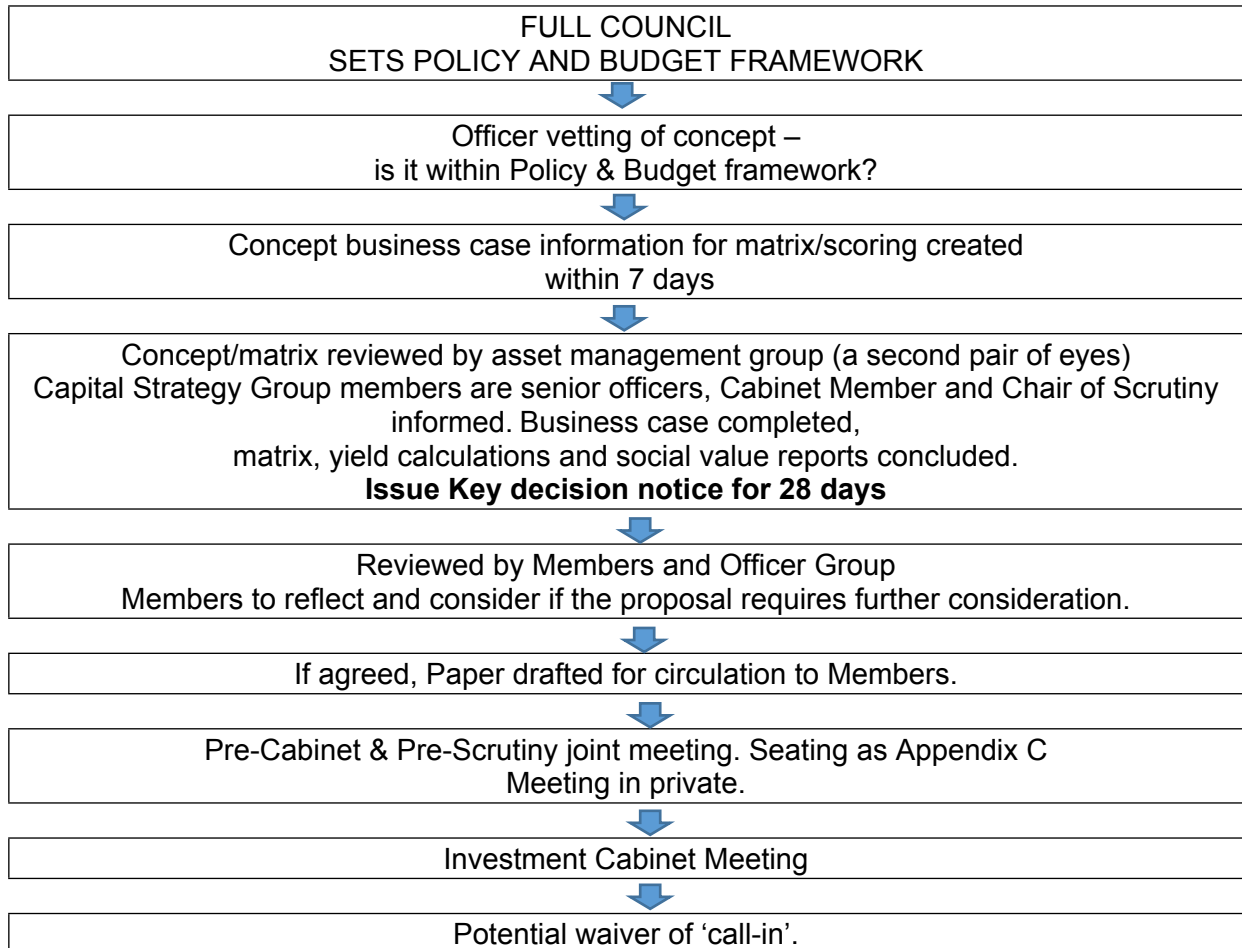


### **Governance Principles**

1. Cabinet and Scrutiny will work within the existing constitutional arrangements and make such future recommendation for amendments as required.
2. Cabinet will take all reasonable steps to ensure the process in Appendix B, which is designed to operate within the existing Constitutional framework, is used.
3. Key Decision notices will be issued as soon as reasonable practicable, however this recognises that some proposals and Key Decision may be withdrawn before a decision is required.
4. Cabinet and Scrutiny will hold meetings in a timely manner and, if necessary, outside of the scheduled meetings.
5. The Portfolio Member or Leader and/or other Members of Cabinet will attend and participate in early business case meetings to assist in developing the scoring matrices for any individual investment decision. The Cabinet Members will work with any Scrutiny Members attending.
6. Cabinet will facilitate the engagement of Scrutiny in joint pre-Cabinet/Scrutiny briefing sessions on investment proposals. The meetings will be in private and will allow sufficient time for the merits of the investment proposal to be considered.
7. The subsequent Cabinet report will state if the proposal has been supported at pre-scrutiny.
8. Cabinet and Portfolio Members will give serious and proper consideration to references, reports and recommendations from Scrutiny. In particular recommendations for amendments to the scoring matrices and investment strategy, which will be properly considered when the decision is made.
9. The objective of Cabinet is to work within the policy framework and make robust evidence-led decisions. To achieve this, Cabinet will develop a process and amend any procedure rules necessary to facilitate a robust independent, flexible and timely process for investment decisions.
10. Scrutiny has no executive powers. It must therefore work by probing, investigating, enquiring, encouraging, persuading, reporting and recommending. The relationship between Scrutiny and the Cabinet is not adversarial. Council has set the policy (and where the decision is clearly within the policy framework) the role of Cabinet and Scrutiny is to facilitate the decisions. To this end the scrutiny of individual decisions to invest on any individual proposal may be less helpful than a scrutiny role of reviewing performance over time and suggesting improvements to scoring and strategy. Scrutiny may choose to waive 'call in' in cases of urgency and if it considers any individual decision has been appropriately considered.
11. The functions of Scrutiny in the investment process are to:
  - i) contribute to the development of policies and strategies of the Council.

- ii) ensure the implementation of best value including the programme of individual investment reviews, and investment portfolio review.
  - iii) to suggest improvements to the governance and management of individual decisions and the investment portfolio.
  - iv) to facilitate the will of Council by ensuring the best investment decisions are made.
12. Scrutiny should not be used to block, delay or frustrate the legitimate will of the Council or Cabinet.
13. Scrutiny recommendations to Cabinet must be supported with evidence.
14. Scrutiny Chairmen and/or other Members will attend and participate in early business case meetings to assist in developing the scoring matrices for any individual investment decision. They will work with any Cabinet or Portfolio Members attending. Scrutiny and B&PP will consider the most appropriate members to attend.
15. Scrutiny will engage in pre-cabinet/scrutiny briefing sessions on investment proposals where Scrutiny committee can test the proposal against the background of the information they have already seen and their knowledge of local circumstances and they are also able to bring a cross party perspective to investment issues. The result of this process is more likely to be a soundly based proposal, which has the support of Scrutiny and can then be reported to the Cabinet with a recommendation for approval. This significantly reduces the risk of conflict and delay.
16. Scrutiny will consider performance information, such as how does the matrix scoring relate to actual outcome? It will assist Cabinet in setting performance indicators. The role of Scrutiny is to expose poor performance in the investment, to celebrate excellent performance and to challenge targets which are either unrealistic or not sufficiently ambitious by reference to the matrices or *Funding the Future* proposals.
17. The objective of Scrutiny should always be to identify opportunities for improvement beyond what is already planned. To achieve this, Scrutiny will develop a process and amend any procedure rules necessary to facilitate a robust independent, flexible and timely process.

**Draft Process chart**



***Time elapsed between proposal and decision 35 days. Additional time depending on call-in.***

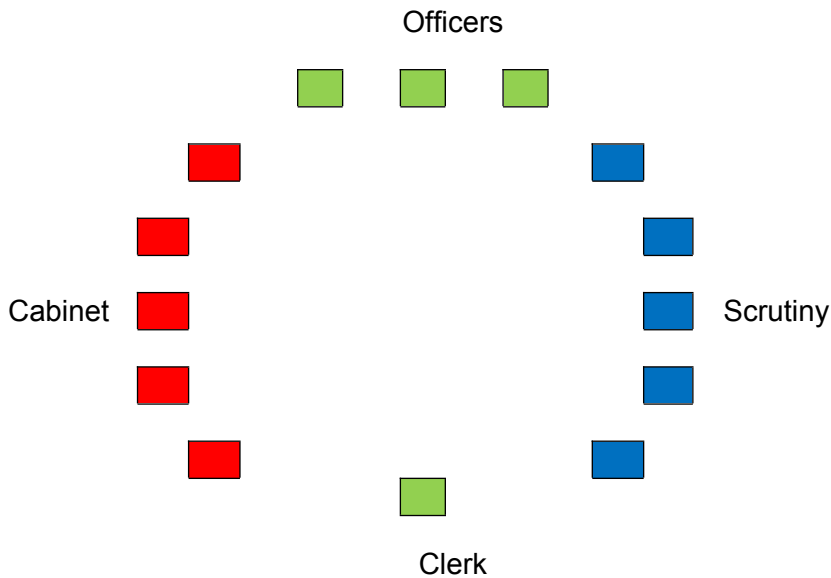
**INVESTMENT CABINET AND SCRUTINY BRIEFING**

Principles for scrutiny to be effective – must have relevant information and must be sufficiently engaged to add value.

Suggestions for the round table Cabinet/Scrutiny Briefing :

1. This pre-briefing must be sufficiently in advance to make any meaningful changes to the proposal.
2. Cabinet and Scrutiny members to sit at the same time in private.
3. Cabinet receives the paper. Officers are present to answer questions and inform debate.
4. Leader invites Scrutiny to ask questions of officers and debate issue. Leader asks Scrutiny if they wish to make any observations.
5. Cabinet, having considering their own questions and having listened to Scrutiny questions and debate and having considered any representations from Scrutiny, make a decision whether this should go forward and whether any changes need to be made.
6. Scrutiny indicates if it are content and call-in waived – officers may proceed and Cabinet report will state Scrutiny engagement.

**Layout**





	<b>Option 1:</b> Asset acquisition/disposal	<b>Option 2:</b> Do nothing
Advantages		
Disadvantages		
Risks		

<b>RELATIONSHIP TO POLICY FRAMEWORK</b>	
[Not an excluded investment or similar]	
<b>CONCLUSION OF IMPACT ASSESSMENT</b> (including Health & Safety, Equality & Diversity, Human Rights, Community Safety, HR, Sustainability and Rural Proofing)	
[Insert conclusion of impact assessment]	
<b>LEGAL IMPLICATIONS</b>	
[Insert Legal Implications before submitting to Legal Services]	
<b>FINANCIAL IMPLICATIONS</b>	
[Insert Financial Implications]	
<b>OTHER RESOURCE IMPLICATIONS, such as Human Resources, Information Services, Property, Open Spaces:</b>	
[Insert Other Resource Implications]	
<b>SECTION 151 OFFICER'S COMMENTS</b>	
[Insert Section 151 Officer comments prior to Management Team]	
<b>MONITORING OFFICER'S COMMENTS</b>	
[Insert Monitoring Officer comments prior to Management Team]	
<b>BACKGROUND PAPERS</b>  Framework for Budget and Policy	<b>Contact Officer:</b> Richard Crompton <b>Telephone:</b> 01524 582000 <b>E-mail:</b> rcrompton@lancaster.gov.uk <b>Ref:</b>

<b>COUNCIL</b>
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**Budget Framework 2019 to 2023  
Revenue Budget 2019/20  
27 February 2019**

Report of Cabinet

<b>PURPOSE OF REPORT</b>
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To present Cabinet's final budget proposals in order that the City Council can complete its revenue budget setting for 2019/20.
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This report is public.
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**RECOMMENDATIONS:**

- (1) That the General Fund Revenue Budget of £15.937m for 2019/20 be approved, resulting in a Council Tax Requirement of £9.396m, excluding parish precepts, and a Band D basic City Council tax rate of £226.95.
- (2) That the supporting General Fund Revenue Budget proposals be approved, as summarised at Appendices 1 and 2.
- (3) That the Reserves Strategy be approved, as set out at Appendix 4.
- (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 £2m (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 5

**1 Introduction**

- 1.1 Following its meeting on 12 February 2019 Cabinet has now finalised its budget framework proposals for General Fund Revenue Budget for 2019/20. 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 Last 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's Corporate Plan, *Ambitions*, was approved during 2017/18 with the following priorities:

- Clean and Safe Neighbourhoods
- Healthy and Happy Communities
- A Thriving and Prosperous Economy
- An Ambitious and Forward-Thinking Council.

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 2019/20.

### **Revenue Budget**

2.4 The general fund revenue budget for 2019/20, summarised below, is included at **Appendix 1** with more detailed budget proposals in **Appendix 2**. 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 5 February 2019.

<b>2019/20 Revenue Budget and Council Tax Requirement</b>	<b>£000</b>	<b>Note</b>
Net Rev. Budget for 2019/20 per 2018/19 MTFS	16,664	
Changes made outside annual budget process	47	
Savings proposals	(1,083)	)
Growth proposals	669	) <b>Appendices 2 &amp; 3</b>
Less funding of growth from reserves	(360)	)
<b>General Fund Revenue Budget</b>	<b>15,937</b>	
Funded by:		
Revenue Support Grant	(200)	
Retained Business Rates	(6,341)	
<b>Council Tax Requirement</b>	<b>9,396</b>	<b>2.99% CT Increase</b>

2.5 At £15.937m, the General Fund Net Revenue Budget for 2019/20 is 1.6% lower than for 2018/19.

2.6 Individual growth bids and savings proposals are shown in **Appendix 3**.

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

- The General Fund Balance at 31/03/18 was £5,069m.



- Latest revenue budget monitoring forecasts a very modest overspend of £13k in 2018/19. This would reduce the General Fund Balance to £5,056m.
- The Council's MTFS suggests a budget gap in 2020/21 onwards in excess of £2m. 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 to 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 and therefore should not impact on the General Fund balance.
- There is continuing uncertainty with respect to Brexit and the impact that decisions made might impact, directly or indirectly, on Council finances.
- The MTFS provides forecasts on funding and on net expenditure and sensitives associated with these forecasts. Moreover, the Capital Strategy documents collectively provide assurance with respect to the affordability, sustainability and prudence of capital expenditure.

3.4 **Given the increase in uncertainty set out above, particularly with respect to the Fair Funding review, the Section 151 Officer's advice is that the minimum level of balances held in the General Fund should be set at £2m, an increase of £0.5m. This is reflected in Recommendation 4.**

#### ***Earmarked Reserves***

3.5 The Council's earmarked reserve balances have increased over the last few years, mainly due to the retention of business rates growth held in reserve to manage the ongoing risks to the Council inherent in the business rates retention scheme. The Reserves Strategy in **Appendix 4** sets out to balance the use of earmarked reserves between managing financial risks whilst providing for future 'one off' expenditures to meet corporate priorities or deliver ongoing savings.

3.6 The Reserves Strategy includes the following recommendations:

- All bids for the use of reserve balances should be supported by a business case outlining how funding will be used along with a summary of measurable outcomes and impacts.
- The Budget Support Reserve's purpose should be extended to include any upfront costs which are attributable to work in undertaking in respect of Funding the Future. Any such bid to the reserve should be accompanied with a business case showing the need for intervention and outcomes and impact arising from the use of the reserve.
- Following the year end, the balance on the Business Rates Reserve should be reviewed and any surplus funds, over and above those required to provide funding certainty, are redesignated towards the delivery of corporate priorities as set out in the Council Plan or accompanying strategic documents.

**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 2019/20 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 2019/20, 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.

**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.

**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 earmarked reserves and provisions are satisfactory at the levels currently proposed.
- Unallocated minimum balances of £2.0m for General Fund 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 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. 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.

**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 section 1 constitution) of the Council Procedure Rules, and accordingly a recorded vote should be taken.

**BACKGROUND PAPERS**

Equality Impact Assessments for budget proposals.

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## General Fund Revenue Budget Projections 2018/19 to 2022/23

For Consideration by Council 27 February 2019

BUDGET PROJECTIONS	2018/19	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000
<b>Original Revenue Budget / Forecast</b>	<b>16,204</b>	<b>16,664</b>	<b>18,318</b>	<b>19,344</b>	<b>19,759</b>
<b>Operational changes made during budget process prior to Cabinet 15 January</b>	-	(48)	(261)	(278)	(284)
<b>Base Budget Changes after Cabinet 15 January</b>					
Additional Govt Grants re New Burdens	-	(68)	-	-	-
Reduction in New Homes Bonus Grant	-	133	-	-	-
Other net changes across all services	-	30	51	106	101
<b>Cabinet Budget Proposals:</b>					
Savings Proposals	-	(1,083)	(585)	(592)	(569)
Growth Proposals	-	669	468	510	440
Contributions from Reserves re Budget Proposals	-	(360)	(34)	(39)	(71)
<b>General Fund Revenue Budget</b>	<b>16,204</b>	<b>15,937</b>	<b>17,957</b>	<b>19,051</b>	<b>19,376</b>
<b>Core Funding:</b>					
Revenue Support Grant	(941)	(200)	-	-	-
Net Business Rates Income	(6,184)	(6,341)	(5,931)	(6,050)	(6,171)
<b>Council Tax Requirement</b>	<b>9,079</b>	<b>9,396</b>	<b>12,026</b>	<b>13,001</b>	<b>13,205</b>
<b>Estimated Council Tax Income - (Based on 2.99% increase from 2019/20 onwards)</b>	<b>9,079</b>	<b>9,396</b>	<b>9,773</b>	<b>10,166</b>	<b>10,575</b>
<b>Resulting Base Budget Deficit</b>	<b>0</b>	<b>0</b>	<b>2,253</b>	<b>2,835</b>	<b>2,630</b>
<i>Original MTFS Savings Requirement</i>	-	649	1,942	2,403	N/A
<i>Change</i>	+0	(649)	+311	+432	N/A

<b>General Fund Unallocated Balance</b>	
	£M
<b>Original Projected Balance as at 31 March 2018</b>	<b>(4.668)</b>
2017/18 Actual (Under)/Overspend	(0.399)
2018/19 Budgeted Contribution	+0.000
2018/19 Forecast (Under)/Overspend	+0.013
<b>Projected Balance as at 31 March 2019</b>	<b>(5.054)</b>
<b>Less Agreed Minimum Level of Balances</b>	<b>2.000</b>
<b>Available Balances</b>	<b>(3.054)</b>

## Summary of Cabinet's Budget Proposals 2019/20 to 2022/23

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
<b>BUDGET DEFICITS PRIOR TO CABINET'S BUDGET PROPOSALS</b>	774	2,404	2,956	2,830

SAVINGS PROPOSALS		Reserves Funding	2019/20	2020/21	2021/22	2022/23
			£'000	£'000	£'000	£'000
<b>Non-Staffing Savings</b>						
	Minimum Revenue Provision		(310)	-	-	-
	Refuse/Recycling (delay of additional round)		(203)	-	-	-
	Inflation Savings		(201)	(201)	(201)	(201)
	Additional Car Parking Income		(35)	(36)	(36)	(37)
	Reduction in R&M Expenditure		(39)	(40)	(41)	(41)
	Empty Property Council Tax Relief		(13)	(24)	(27)	-
	External Grants		(12)	(12)	(12)	(12)
	Additional Planning Income		(9)	(9)	(9)	(9)
<b>Staffing Savings</b>						
	Reduction in Building Cleaning Contract		(20)	(20)	(21)	(21)
	Additional Staff Turnover Target		(111)	(113)	(115)	(118)
	Restructuring Savings		(130)	(130)	(130)	(130)
<b>Sub Total</b>		<b>£0K</b>	<b>(1,083)</b>	<b>(585)</b>	<b>(592)</b>	<b>(569)</b>
<b>Funding From Reserves</b>			<b>0</b>			
<b>Net Savings</b>			<b>(1,083)</b>	<b>(585)</b>	<b>(592)</b>	<b>(569)</b>

<b>INDICATIVE NET (SURPLUS) / SAVINGS TO BE IDENTIFIED C/FWD</b>	(309)	1,819	2,364	2,261
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<b>INDICATIVE NET (SURPLUS) / SAVINGS TO BE IDENTIFIED B/FWD</b>	(309)	1,819	2,364	2,261
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GROWTH PROPOSALS		Reserves Funding	2019/20	2020/21	2021/22	2022/23
			£'000	£'000	£'000	£'000
<b>Non-Staffing Growth</b>						
	Garden Waste Charging Freeze/Removal of Savings Target		71	49	49	49
	Car Parking Charging Freeze		60	60	60	60
	Fibre Network		10	-	-	-
	CCTV		23	33	89	34
	Anti-Social Behaviour Team		3	82	85	88
<b>Staffing Growth</b>						
	Legal Services		47	59	62	66
	ICT		22	40	47	49
	Human Resources		20	40	25	-
	Health & Housing		34	7	-	-
	Marketing		19	72	74	76
<b>Growth funded from Reserves</b>						
	Economic Growth Initiatives	<b>£145K</b>	145	95	95	95
	Williamson Park Zoo Extension	<b>£24K</b>	24	(9)	(9)	(9)
	Street Cleaning Bin Sensor Pilot	<b>£11K</b>	11	(19)	(20)	(21)
	Grassland Management Study	<b>£35K</b>	35	(10)	(15)	(15)
	Lancaster VIC Relocation	<b>£70K</b>	70	(31)	(32)	(32)
	Friends of Parks	<b>£75K</b>	75	-	-	-
<b>Total Growth</b>		<b>£360K</b>	<b>669</b>	<b>468</b>	<b>510</b>	<b>440</b>
<b>Less Funding from Reserves</b>			<b>(360)</b>	<b>(95)</b>	<b>(95)</b>	<b>(95)</b>
<b>Add Payback to Reserves</b>				<b>61</b>	<b>56</b>	<b>24</b>
<b>Net Cost of Growth</b>			<b>309</b>	<b>434</b>	<b>471</b>	<b>369</b>

<b>REMAINING NET SAVINGS TARGET</b>	0	2,253	2,835	2,630
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## 2019 to 2023 BUDGET PROCESS GROWTH/REDIRECTION PROPOSAL

**SERVICE:** Governance

**PROPOSAL:** Increase budget for Legal Assistant post

**Legal Assistant post (extra funding for Standards investigations)**

Over the last two years the Council has spent £36,617 on standards investigations with external consultants.

In order to reduce the expenditure on external consultants, the Council has since recruited a new Legal Assistant, an ex Police Officer, who has assisted the Monitoring Officer with various investigations (including standards investigations) as well as on litigation matters. This has meant that the Council has not had to out-source its standards investigation work and has resulted in significant savings to the Council over the last 4 months. The use of this internal resource in 2018/19 has saved the Council an estimated £20k when compared to out sourcing the work.

If the Council deals with just one substantive investigation a year, the use the Legal Assistant, as opposed to an external appointment, should save the Council £9-£10k a year. This does not include the additional savings to be made from the minor investigative work/involvement in standards matters.

The Legal Assistant is currently contracted to work 2 days a week and the growth bid is for a further two days per week.

**ESTIMATED REVENUE COSTS/(SAVINGS)**

	2019/20	2020/21	2021/22	2022/23
	£	£	£	£
Legal Assistant Increased Hours	10,200	10,500	10,700	10,900
<b>Total</b>	<b>10,200</b>	<b>10,500</b>	<b>10,700</b>	<b>10,900</b>

**FOLLOWING BUDGET COUNCIL – 28 FEB 2019**

**ESTIMATED LEAD-IN:** None

**IMPLEMENTATION DATE:** March 2019

**PERFORMANCE MEASURES/OUTPUTS** (e.g. what key performance improvements will be achieved / what measurable outputs will be achieved):

The provision of 2 extra days will create savings for the Council in efficiency and in external costs. Based on the assumption that the Council normally deals with at least one large standards enquiry a year, the Council should save £9-10k per annum.

Without the extra provision, it is likely that the Council will have to outsource some of its major standards investigations work.

## 2019 to 2023 BUDGET PROCESS GROWTH/REDIRECTION PROPOSAL

**SERVICE:** Governance

**PROPOSAL:** Increase budget for Property and Planning Solicitor posts

**Planning and Property Lawyers post – market supplements / new post**

The Council's planning solicitor left the authority in March 2018 and the Council's Property Lawyer left in October 2018. The Authority has sought to recruit both of these posts but have been unable to find suitable candidates to take up the roles. In addition to this, an additional planning solicitor's post was also identified as needed to support the Regeneration and Planning Service. Regeneration and Planning have provided legal services with the budget to recruit the additional planning lawyer from June 2018.

Over the last couple of years the Legal Services' team has changed. The Legal Services Manager, retired in 2014 and Chief Officer (Governance) retired in 2016. The position of Legal Services' Manager was deleted and was offered up, to an extent, as a saving to the Council. Line management responsibilities for all staff was moved to the Senior Solicitor post and a new legal assistant position was created.

The post of Chief Officer (Governance) has been deleted under the Council's recent restructure. Many of the responsibilities of the Chief Officer's post will come under the oversight of the Council's new Director of Corporate Services. The Head of Legal Services position will sit under the new director.

In consequence of the recent restructure and creation of the new director posts, it is understood that one of the planning positions has been deleted. This appears to be in consequence of the removal of the Chief Officer (Governance) role and the consequent need to use one of the planning solicitor post to cover the Acting Head of Legal Service's position.

The Council had until very recently been recruiting two planning solicitors. It now appears that there is only one post available. This needs to be corrected to ensure that the Council has a sufficient resources to deal with planning matters and to grow commercially. This is a need that has specifically been identified by Planning and Regeneration department.

Bearing in mind the need to resurrect the grade 6 planning solicitor post, Legal Services needs to obtain and fill the following posts: one commercial property lawyer post and two planning solicitor posts.

Unfortunately, there is a high demand for planning and commercial property lawyers. Given the high demand, they can both command a greater level of pay. This is driven by the lack of lawyers specialising in these areas and the salary levels being offered in other areas of the country.

In order to attract the level of expertise that the Council requires it is thought that it should raise the pay scale in respect of one of the planning posts from Grade 6 to Grade 7. This is to incorporate line management responsibility for our land charges officer and to increase salary levels generally. In addition to this, it is thought that the second planning solicitor and the commercial property lawyer's posts should be given a market supplement. The Council's HR department has carried out research into market supplements and it is thought that a commercial

lawyer's market supplement should be £2,500 and that a planning solicitor's market supplement should be £2,500.

It is proposed that:

- (1) the deleted planning post be resurrected
- (2) the Property Lawyer post be given a market supplement of £2,500
- (3) One of the Planning Solicitors' post be upgraded from pay scale 6 to pay scale 7 – incorporating some line management responsibility
- (4) The second Planning Solicitor post be given a market supplement of £2,500

#### ESTIMATED REVENUE COSTS/(SAVINGS)

	2019/20	2020/21	2021/22	2022/23
	£	£	£	£
Lawyer Market Supplements	4,200	5,000	5,000	5,000
Increase pay scale from grade 6 to 7	-1,000	0	1,000	2,500
Resurrected planning post	33,600	43,400	45,600	48,100
<b>Total</b>	<b>36,800</b>	<b>48,100</b>	<b>51,600</b>	<b>55,600</b>

#### FOLLOWING BUDGET COUNCIL – 28 FEB 2019

ESTIMATED LEAD-IN: 3 months  
2019

IMPLEMENTATION DATE: June

#### PERFORMANCE MEASURES/OUTPUTS (e.g. what key performance improvements will be achieved / what measurable outputs will be achieved):

The Council is entering to a new phrase in which issues of commercialisation, asset realisation, property acquisition and investment are key. To achieve these outcomes it important to ensure that the Council's legal services recruits lawyers with specialist knowledge and expertise. This will include both a skilled commercial lawyer and a specialist planning solicitor.

Without recruitment of a skilled commercial property/planning lawyers, the Council will have to continue employing locum staff which is both expensive and less than ideal. The hourly rates for locums is far higher than that of an employee and their position and commitment to on-going work is uncertain (given their ability to give short notice to cease the working relationship).

The recruitment of specialist lawyers should reduce the amount of work outsourced and should save the Council monies.



## 2019 to 2023 BUDGET PROCESS GROWTH/REDIRECTION PROPOSAL

**SERVICE:** ICT

**PROPOSAL:** Increase in staffing by 2 people to improve service offering

Due to the increase of ICT systems in use in the organisation, tied in to most projects and work plans, an increase in the size of the ICT department is required to meet service expectations and provide adequate support for projects. The need for two roles has been identified to support the organisation in the coming years:

### **Service Desk Assistant**

The Service Desk is the first point of contact and customer facing function for all of the Council's ICT incident reporting, requests for service and enquiries. First line resolution is key to all ICT customers as it enables the fix or delivery of a service in the quickest amount of time possible. Handling over 10,000 communications a year, the Service Desk team provide all 1st line ICT end user and device support as well as administration for all fixed and mobile telephony, printing and multifunction device recharging, and the procurement of all ICT equipment and services. The Service Desk aim for a 95% resolution within service level agreement (SLA) target for all incidents and service requests. At the current capacity, the Service Desk is only able to achieve 70-75% within SLA, which is having a detrimental effect on the operation of Council services, which rely on ICT systems and support.

### **Project Support Assistant**

The ICT department are constantly involved in projects. Some of these will be mainly using ICT resources but having a major impact on the organisation, such as the Windows 10 rollout; others involve cross council working groups, such as the Customer Experience Platform. With each project there is a certain amount of paperwork and reporting to be done, and across the teams there is also a requirement for resource planning to ensure that the required team members are available for the projects. This work is currently undertaken by the project managers, which distracts from the high level oversight of the project, and the tasks needing to be completed to progress the project. The recruitment of a Project Officer, who could undertake project support and the required documentation, would free Project Manager resources which could then be better utilised.

### **Recruitment method**

Given the previous positive results of using the apprenticeship scheme (with 4 of the 21.5 posts in the department filled by former or current apprentices) it is envisaged that the Service Desk Assistant and Project Support Assistant roles would be apprenticeships (levels 2 and 3 respectively).

### **ESTIMATED REVENUE COSTS/(SAVINGS)**

	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Service Desk Assistant	11,100	22,700	23,600	24,600
Project Support Assistant	11,100	17,600	23,200	24,100
<b>Total</b>	<b>22,200</b>	<b>40,300</b>	<b>46,800</b>	<b>48,700</b>

**FOLLOWING BUDGET COUNCIL – 28 FEB 2019**

**ESTIMATED LEAD-IN: 3 months**  
2019

**IMPLEMENTATION DATE: June**

**PERFORMANCE MEASURES/OUTPUTS** *(e.g. what key performance improvements will be achieved / what measurable outputs will be achieved):*

The impact of the Service Desk Assistant will be measurable via the Service Level Agreements for call response time, and feedback gathered from periodic user satisfaction surveys conducted by the department.

A qualitative approach will be taken for the Project Support Assistant to check that services have seen an improvement in ICT support for projects. Key corporate projects, such as the Customer Experience Platform, are the most difficult to administer as they require input from multiple departments and a number of third parties. The role will reduce project overruns/overspends on these key projects. No time recording is currently undertaken within ICT so we do not have a measure of time spent on project administration but there are hopes to introduce this which will give a quantitative measure of officer time transferred to this post.

## 2019 to 2023 BUDGET PROCESS GROWTH/REDIRECTION PROPOSAL

**SERVICE:** Office of the Chief Executive

**PROPOSAL:** Extend Temporary HR Partner

To extend the current fixed term contract of one of the current HR Business Partners for a further two-year period, beyond their current end date of employment of 30<sup>th</sup> September 2019, to 30<sup>th</sup> September 2021.

This request for a two year fixed term contract extension is made within the context of an impending period of significant change for the Council, for employees, for structures and for processes, and follows on from the decision to introduce the new Directorate structure and is set within the context of the financial challenges ahead.

The HR Team will play a central role implementing the new structures, working closely with senior officers to deliver timely, solution-focused outcomes to ensure that restructures and other change management activities are successfully completed, so that the Council has the right staff in the right roles to deliver its services. The retention of the existing post holder is crucial to enabling the HR Team to accommodate the increase in workload and to be able to manage this within reasonable timescales.

Inevitably, restructuring and change management activities will involve contentious staffing reductions, as well as other associated people management issues, and it is essential that those activities are managed in an effective and timely manner. Ensuring that these activities are carried out in an appropriate manner, in consultation with our recognised Trade Unions, will form a key part of the Council's approach to reducing overall staff costs. The HR Team's involvement in these activities will protect the Council from employee relations difficulties, legal challenge and negative publicity, whilst seeking to maintain levels of employee engagement at what will be a difficult time for the organisation and its employees.

The current post holder is an experienced HR practitioner who has developed a wealth of knowledge of service areas and who will positively contribute to all necessary activities that will arise from restructures, etc. and will ensure that change is effectively implemented.

NB – as the post will exceed two years duration in total, a small redundancy payment will be due to the post holder at the point of termination of employment.

### ESTIMATED REVENUE COSTS/(SAVINGS)

	2019/20	2020/21	2021/22	2022/23
	£	£	£	£
2 Year Extension – HR Partner	19,500	40,200	20,400	0
Potential Redundancy	0	0	4,800	0
<b>Total</b>	<b>19,500</b>	<b>40,200</b>	<b>25,200</b>	<b>0</b>

### FOLLOWING BUDGET COUNCIL – 28 FEB 2019

**ESTIMATED LEAD-IN:** None **IMPLEMENTATION DATE:** Immediate

**PERFORMANCE MEASURES/OUTPUTS** (e.g. what key performance improvements will be achieved / what measurable outputs will be achieved):

This post will contribute to a range of change management activities and restructures, which will result in changes to the shape of Council by the point of termination of contract.

## 2019 to 2023 BUDGET PROCESS GROWTH/REDIRECTION PROPOSAL

**SERVICE:** Health & Housing

**PROPOSAL:** Public Health Project Coordinator (1 year fixed-term)

Healthy & Happy Communities, the third area of Ambitions in the corporate plan includes several priorities around public health – health inequalities, food & fuel poverty, mental health and social isolation. There is some expertise and existing community engagement within the Directorate for Communities and the Environment to help take forward this area of work. However there is no existing staffing capacity to coordinate and deliver reductions in food and fuel poverty, social isolation or health inequalities.

This growth proposal is offered to coordinate and deliver of public health project work over a 12 month period:

- Coordinating the council's support to tackle food poverty and fuel poverty within our communities
- Researching and identifying priorities / scope for tangible improvement on health inequalities where the council can make a positive and rapid impact
- Attracting partner support and external funding to help to deliver this area of the corporate plan

During this time it will become clear how far the council can impact on key detrimental factors affecting the most vulnerable in our communities. Priority attention would be given to attracting external funding both improves health outcomes for local people whilst – if possible – covering part of the costs of this post.

The dedicated public health coordinator working to the Public Health & Protection Manager in Health & Housing would offer the capacity to coordinate a range of projects (including researching, designing, planning, delivering, evaluating and reporting) demonstrating the council's commitment. It would make a real and measurable impact on these public health priorities. It would also identify external funding sources and opportunities, making the case for and maximising prospects of grant funding for health improvement in the Lancaster district. Finally, the coordinating role would involve a significant element of partnership working with public, private and voluntary sector bodies along with the ability to negotiate and influence decision makers across a range of organisations.

It might be possible to attract a graduate at a lower grade, however that would limit the potential of this temporary role and reduce the potential impact over this short period.

### ESTIMATED REVENUE COSTS/(SAVINGS)

	2019/20	2020/21	2021/22	2022/23
	£	£	£	£
1.0 FTE at Grade 5	34,000	6,900	0	0
<b>Total</b>	<b>34,000</b>	<b>6,900</b>	<b>0</b>	<b>0</b>

**FOLLOWING BUDGET COUNCIL – 28 FEB 2019**

**ESTIMATED LEAD-IN:** 3 months

**IMPLEMENTATION DATE:** June 2019

**PERFORMANCE MEASURES/OUTPUTS** (*e.g. what key performance improvements will be achieved / what measurable outputs will be achieved*):

It is difficult at this stage to detail specific quantitative performance measures, however the demonstrable outputs in community-based working and health project working will immediately offer tangible evidence. Each project area will involve the delivery of several projects that will have formalised monitoring and evaluation processes in place.

The main performance improvement will be that there is a dedicated results-focussed project-working capacity to work on corporate public health priorities.

## 2019 to 2023 BUDGET PROCESS GROWTH/REDIRECTION PROPOSAL

**SERVICE:** Regeneration & Planning

**PROPOSAL:** Economic Growth Initiatives

In 2016/17 and 2018/19 initial funding was provided from the Economic Growth Reserve to re-establish and develop business and skills services; to raise the profile of the district as a place for business and investment, to study, live and visit; and to develop a range of approaches to local Wealthbuilding. This request is for the budgets required to maintain current level of capacity so that economic growth services can be delivered in 2019/20 and future years.

A strong start has been made. During 2017 and 2018, although there were some challenges, a successful recruitment drive into the Business and Skills and Marketing teams took place. With capacity in place reserve funds were used to deliver a range of services. Key activities during the last year include:

- Economic Growth Plan developed in partnership (draft Plan due January)
- Investment in sub regional business support services via Growth Lancashire
- Developed and launched the Lancaster Story
- Developed the Place brand, website and social media platforms
- Developed (with partners) the Place social media reach at over 3.6m (865% increase)
- Developed the council's social media reach to almost 1.6m (310% increase)
- Established the Place Board
- Showcased the district at the national MIPIM investment exhibition
- Supported delivery of the North Lancs Expo and 100 plus exhibiting businesses
- Business directory and guide to the district developed (due for publication January 2019)
- Property register and agents network developed
- The council's business gateway and web pages established
- Direct engagement with 309 local businesses
- Business survey undertaken with 179 responses
- District Skills Forum established
- Sub regional Energy Sector Partnership established
- The Employment and Skills Supplementary Planning document developed and agreed
- Coastal Communities Team established and their Economic Plan agreed
- City of Culture research undertaken
- Baseline data established for local spend by the Council
- Local community economic projects supported benefitting 30 local people
- Funding achieved for the Coop building in Morecambe
- Lune Industrial Estate businesses supported
- Major investors supported (GVS, Veolia, Eden)
- Local economic partners supported including Business Improvement Districts, Chamber, Lancaster Vision, Universities
- Worked with the Lancaster and South Cumbria Local Authorities to develop arrangements for a new economic region, prospectus and strategic investment requirements

The Council's more recent approach to economic growth has been strongly welcomed and supported by economic partners and stakeholders, including the Chamber of Commerce, the BID's, the Universities, Lancaster and Morecambe College and a large number of businesses, all of which have generated strong, positive feedback and support relating to economic initiatives enabled by the Council including, for example, the Lancaster story and Place Board, the district

Skills Forum, the Coastal communities Team, City of Culture discussions and the Lancaster and South Cumbria Economic Region.

The economic growth initiatives and marketing services that require support provide the Council's primary and direct contribution to its Priority: A Thriving and Prosperous Economy, to:

- Create strong conditions for growth so that businesses thrive and jobs are created
- Support development of new skills and improved prospects for our residents
- Ensure that growth is good for all and increased wealth benefits our local communities
- Work with partners to drive growth and achieve major investment across the Lancaster and South Cumbria Economic Region

Building on work so far, the next stage will direct activities to deliver against Council Plan Success Measures to significantly improve the profile and perceptions of the Lancaster region, generating confidence and investment; encourage business growth and start ups; create and safeguard local jobs; improve skills and prospects for local people, increase visitor numbers and spend.

Planned economic growth activities have recurring costs that are not currently included in annual budgets. Funds are now requested to support developments planned for 2019/20 and beyond, as follows:

**Business and Skills:** Business enquiries, advice and support services working with Growth Lancashire, the Chamber and other partners; business events programme; local business exhibitions and sponsorship (such as EXPO); monitoring the local economy; business information and communications; support for the district Skills Forum; skills development projects; trade and investment activities particularly following Brexit; external funding for key projects; Coastal Communities Team developments; specific support for major local initiatives, for example jobs and supply chain development for Eden North.

**Place marketing:** Significantly raise the national and international profile of the area, achieve new investment in the district and increase numbers of businesses and jobs by providing support for development of the Place Board and Place Champions programme; development of Place brand products including website, comprehensive social media strategy and marketing tools; delivery of planned PR and marketing campaigns, showcasing the district nationally and globally.

The temporary marketing capacity that has been brought in is only funded until late 2019/20 and to deliver the council's element of the ambitious marketing and promotion plan for the district, working with the Place Board and Place Champions, this resource needs to be secured. This includes a Place Marketing Manager and a Marketing and Communications Assistant (currently apprentice). The Place Marketing manager had had a huge impact on delivery of the place work so far and the Marketing and Comms Assistant is majoring on digital marketing, which is extremely cost effective and hugely increases audiences for all Council services with the potential to lead to significant additional commercial income. For example, global reach following the Lancaster story launch reached 3.7m within less than 24 hours. Overall social media reach is projected to increase by 225% to 8 million by March 2020.

Within the Council, there has been a significant increase in demand from the corporate Marketing and Communications team for marketing services, development of commercial services, public relations support, internal and external communications. These two posts are also making a contribution to these areas of work, including increasing income generation via commercial services.

**Local Wealthbuilding:** support for Wealthbuilding projects led by local leaders and community groups particularly those excluded from mainstream funding and programmes, such as small business start-ups, micro businesses, the independent business sector, women entrepreneurs, local skills development initiatives.

**Lancaster and South Cumbria Economic Region:** Additional resource to part finance a shared officer post for one year to support development of the partnership and to coordinate delivery of joint projects.

### ESTIMATED REVENUE COSTS/(SAVINGS)

	2019/20	2020/21	2021/22	2022/23
	£	£	£	£
Business and Skills activities	40,000	40,000	40,000	40,000
Place Marketing activities	75,000	45,000	45,000	45,000
Marketing Manager	15,700	48,800	49,800	50,800
Marketing and Comms Assistant	3,100	23,100	24,100	25,100
Local Wealthbuilding	10,000	10,000	10,000	10,000
LSCER	20,000	0	0	0
<b>Total</b>	<b>163,800</b>	<b>166,900</b>	<b>168,900</b>	<b>170,900</b>

### FOLLOWING BUDGET COUNCIL – 28 FEB 2019

ESTIMATED LEAD-IN:

IMPLEMENTATION DATE:

**REDIRECTION FROM OTHER BUDGETS** – *Where else from within the Services could this proposal be funded from?* None identified. Economic development services have managed efficiency savings over a number of years. The services discussed in this document have been recently re-established in line with Council priorities.

**PERFORMANCE MEASURES/OUTPUTS** (*e.g. what key performance improvements will be achieved / what measurable outputs will be achieved*):

**The following measures underpin delivery of the Council Plan Success Measures**

Performance Measure	Achievements 2018/19 (to date)	Expected achievement 2019/20	Council Plan Success Measures
Business exhibitions	2	3	Growing local economy
Businesses directly engaged with the council	309	600	
Businesses supported	94	300	More local jobs and people in employment
New businesses created	5	12	
Jobs created	34.5	90	More new businesses and investment in our district
Jobs safeguarded	-	550	
Investment enquiries	12	20	More successful businesses
Investment in the district	-	£262m	
Skills sector Action Plans developed	1	4	More visitors and greater spend
People accessing work or training opportunities	40	320	



Local businesses accessing support re Council procurement opportunities	23 +	150	Increased perception of the district as a place to visit
Total digital audiences (Place)	3.6m	8m	
Total digital audiences (Council)	1.6m	3.5m	More of the Council's services being sourced locally
Visitor numbers (lagging data)	7.55 million	7.8 million	
Visitor spend (lagging data)	£476m	£500m	Increased level of public sector spend retained in the district
People benefitting from Local Wealthbuilding initiatives supported by the Council	30	50	
Council spend within the district	14% (£m)	16%	
Sq. ft. business space created / improved	-	50,000	
External funding brought into the district	£50,000	£200,000 (est)	

Services/ products	2019/20 (£'s)	2020/21 (£'s)	2021/22 (£'s)	2022/23 (£'s)
<b>Place marketing</b>				
Place Board contribution	5,000	5,000	5,000	5,000
Place Champions programme	5,000	2,000	1,000	2,000
Place promotion campaigns, PR, media	25,000	20,000	20,000	20,000
Creative brand products, including images	10,000	5,000	5,000	5,000
Place website and content development	10,000	-	2,000	-
"Invest in Lancaster" web pages	5,000	-	2,000	-
Business and community brand/ place engagement	5,000	3,000	-	3,000
Exhibitions and events e.g. Northern Powerhouse Expo, MIPIM	10,000	10,000	10,000	10,000
<b>Total</b>	<b>75,000</b>	<b>45,000</b>	<b>45,000</b>	<b>45,000</b>
<b>Business and Skills</b>				
Business support services (e.g. Growth Lancashire)	15,000	15,000	15,000	15,000
Local business events and sponsorship	5,000	5,000	5,000	5,000
Skills Forum activities/Education and Business links	3,000	3,000	5,000	5,000
Business communications and information	2,000	2,000	2,000	2,000
Destination/ Place/ Coastal Communities team projects	5,000	5,000	5,000	5,000
Support for key sector developments, trade and investment activities (e.g. Irish and Isle of man trade links)	10,000	10,000	10,000	10,000
<b>Total</b>	<b>40,000</b>	<b>40,000</b>	<b>40,000</b>	<b>40,000</b>

## 2019 to 2023 BUDGET PROCESS GROWTH/REDIRECTION PROPOSAL

**SERVICE:** Regeneration and Planning

**PROPOSAL:** Lancaster Full Fibre Network Development Funding

In 2017 the Government launched the Local Full Fibre Network Programme (LFFN) – a competitive, exclusively capital, grant scheme to help local bodies deliver fast and reliable digital communications networks. The aim is to harness public sector connectivity and aggregate private sector demand to stimulate improvements in broadband connectivity. In August 2018 the Government issued revised LFFN guidance. There is now no fixed date for future submissions - an iterative approach to project selection has been initiated where:

- Local bodies with an interest in bidding to the LFFN are invited to submit an informal expression of interest (EoI) to the programme.
- A dialogue will take place to assess the project.
- A full proposal would be invited when the strategic approach is deemed satisfactory by Government.

While stated as being "informal", the EoI has a series of DCMS specific requirements to allow them to make an initial comparative analysis and initiate pre-dialogue. Bidders are expected to have a good idea of the coverage, project cost, funding required, delivery method and likely impact of the proposed investment. In its simplest form the project as a basic utility infrastructure project - like any other electricity/gas/water project. The bulk of the cost is digging trenches and laying broadband capable fibre the ownership of which is then invested in an independent management organisation which rents access and communication capacity to broadband providers. Costs are related to how far and how easy it is to dig and reinstate across any particular ground (highway/grass verge/footpaths/city centre pedestrianised areas and so on). The more money the further the network can go / or harder areas you can reach. Successful bids to the LFFN are usually in the order of a few million pounds.

Officers are working in partnership with the Lancaster Digital and other stakeholders – NHS, Lancaster University and County Council on the development of proposal. There is a need for expert input to assist in bringing together key information which will allow the partnership to understand what can reasonably be achieved and to give an idea of the broad shape and costs of a proposal. The group is in the process of commissioning work which will: provide a sound basis on which to make a proposal under the EoI terms; gives stakeholders a clear understanding of the resources required to develop and agree a full proposal through the DCMS's full dialogue stage and Investment Panel requirements. The work should allow the Council to understand its own potential resource commitments required in engaging in a "full dialogue" with DCMS and the likely costs and benefits of developing and delivering any proposal.

The proposal secured is attached and comes in at a cost of £8.4k which the group is hoping to finance in the current financial year from current council and partner resources. The outcome of this work will lead to more resource requirement for further development work needed next financial year to get through DCMS full dialogue stage and to agree a capital project. It is difficult to estimate the costs of work required to progress through DCMS dialogue but a contribution of £10K should generate similar partner resources to cover any information needs.

While officers are looking to the Government's capital LFFN Grant Fund, there is scope for something to be delivered outside the Government's Capital scheme given the amount of strategic infrastructure and funds / projects being proposed at the current time— Eden, Bailrigg Garden Village, HIF, Canal quarter are all relevant. There is also, according to IT services, scope for some significant savings in Council broadband costs by implementing a capital fibre project

connecting our (and other) public buildings – although at the moment it’s hard to define exactly what these be in real terms.

Councillor Nathan Burns is supportive of this proposal as Portfolio Holder for IT Services

**ESTIMATED REVENUE COSTS/(SAVINGS)**

	2019/20	2020/21	2021/22	2022/23
	£	£	£	£
Design development contribution	10,000	0	0	0
<b>Total</b>	<b>10,000</b>	<b>0</b>	<b>0</b>	<b>0</b>

**FOLLOWING BUDGET COUNCIL – 28 FEB 2019**

**ESTIMATED LEAD-IN: 6 months**

**IMPLEMENTATION DATE: May 2019**

**PERFORMANCE MEASURES/OUTPUTS** (e.g. what key performance improvements will be achieved / what measurable outputs will be achieved):

- Additional public buildings expected to be provided with Fibre to the Premises
- increase the number of premises likely to be connected to the gigabit capable infrastructure as a result of the build (either premises passed or premises closer to fibre by type; business / public sector / home)
- Locally specific economic and other benefits of the project e.g. regeneration areas and projects connected
- Improvements in backhaul availability (decreased distance to existing gigabit capable broadband services)
- Cost savings on IT / Broadband support

## 2019 to 2023 BUDGET PROCESS GROWTH/REDIRECTION PROPOSAL

**SERVICE:** Environmental Services

**PROPOSAL:** CCTV – Extend Funding

The existing 18 month pilot is due to end on 30<sup>th</sup> June 2019. The pilot has proved successful and has supported the police with serious investigations on 18 occasions from March – November 2018, whilst delivering savings over the previous, manned system.

Due to the success of the pilot, the proposal is to extend the funding and retain the system. Further work is scheduled to take place with the Council's Antisocial Behaviour Team, Environmental Enforcement and Civil Contingencies Officer to explore how the system can help tackle antisocial behaviour, assist with fly tipping investigations and provide support for local emergencies and large-scale events.

### Explanation of Costs

**Service (Data) Package:** The Service Package is the data package provided by Vodafone. Each of the cameras operates using a 4G sim card. Recordings are then transferred to the 'cloud' over Vodafone's 4G network. Vodafone estimated the annual aggregated data package that would be needed for the public space cameras. This equated to £26.8k p/a (excluding inflation).

**Maintenance Contract:** Estimated £10k p/a for ongoing maintenance of the system. This verbal estimate was provided by the current maintenance contractor. Once the system is officially handed over from Cloudview/Vodafone to LCC, we'll be fully responsible for basic maintenance *i.e. Repairs to cameras, columns, electricity boxes, lens cleaning, call-out's etc.*

**Camera Renewals:** A renewal reserve is required, to cover the cost of replacing the cameras at the end of their life. Camera warranties expire in two years, so this should be factored in and considered when profiling the replacement year.

**Funding – Annual Contributions:** Contributions have been made by Lancaster and Morecambe BID's, as well as Morecambe Town Council.

Estimated costs listed below. Estimates include inflation.

### ESTIMATED REVENUE COSTS/(SAVINGS)

	2019/20	2020/21	2021/22	2022/23
	£	£	£	£
Service (Data) Package	26,800	36,400	37,100	37,800
Maintenance Contract	10,000	10,200	10,400	10,600
Camera Renewals	0	0	55,700	0
Annual Contributions (L&M BID's, MTC) (tbc)	(14,000)	(14,000)	(14,000)	(14,000)
<b>Total</b>	<b>22,800</b>	<b>32,600</b>	<b>89,200</b>	<b>34,400</b>

### FOLLOWING BUDGET COUNCIL – 28 FEB 2019

**ESTIMATED LEAD-IN:** N/A

**IMPLEMENTATION DATE:** 1<sup>st</sup> July 2019

**PERFORMANCE MEASURES/OUTPUTS** (*e.g. what key performance improvements will be achieved / what measurable outputs will be achieved*):

The system has a deterrent effect which is difficult to measure. Since implementation it has proved invaluable in terms of allowing the Police to investigate serious crimes and providing evidence when the public realm has been vandalised

## 2019 to 2023 BUDGET PROCESS GROWTH/REDIRECTION PROPOSAL

**SERVICE: Health & Housing**

### PROPOSAL: Anti-Social Behaviour Team

The council introduced a dedicated Anti-Social Behaviour team in 2017-18, bridging prior gaps between council services on anti-social behaviour (ASB) and bringing them together. As mentioned in Member briefings, the council's Anti-Social Behaviour team has made a major positive impact with communities, key partner agencies and as a key part of the Community Safety Partnership.

#### Existing funding

The formation of the ASB team was made possible by Transformational Challenge Award funding over a two year period, coming to an end early in 2019-20. Some additional funding was provided over a two year period extending into early 2019-2020 under a growth bid drawing on the Housing Revenue Account. The balance of existing funding has come from the city council's single permanent part-time post of 1 x Anti-Social Behaviour Officer\*. Finally, Morecambe Town Council has provided some single-year funding towards ASB service delivery in the previous and current financial years.

#### Mainstreaming the Anti-Social Behaviour team

Securing continued Anti-Social Behaviour service through 2019-20 and beyond, along its existing lines, will require growth funding as previously advised. A separate growth bid now proposes £50k per year funding of the ASB team from the Housing Revenue Account. The balance of existing funds\* means that only a half year of funding is required in 2019/20 (commencing October 2019) as outlined in the table below. From 2020/21 onwards there will be the need for full-year funding.

(\* This growth proposal is for the balance of funding, as there is permanent funding already of 1 x Grade 4 post 0.4FTE. There is also a corresponding growth bid proposing that the Housing Revenue Account provides continued funding towards the Anti-Social Behaviour team and this has been accounted for in the balance of funding requirement shown below)

#### What the funding will cover

Full Anti-Social Behaviour team staffing based on the existing delivery model, together with all existing provision relating to transport, equipment and training.

### ESTIMATED REVENUE COSTS/(SAVINGS)

	2019/20	2020/21	2021/22	2022/23
	£	£	£	£
Balance of funding required to mainstream the Anti-Social Behaviour team from September 2019 onwards	53,200	132,700	137,400	140,800
Contribution from HRA (as per Growth proposal)	(50,000)	(51,000)	(52,000)	(53,000)
<b>Total</b>	<b>3,200</b>	<b>81,700</b>	<b>85,400</b>	<b>87,800</b>

**FOLLOWING BUDGET COUNCIL – 28 FEB 2019**

**ESTIMATED LEAD-IN:** 6 months

**IMPLEMENTATION DATE:** Sep 2019

**PERFORMANCE MEASURES/OUTPUTS** *(e.g. what key performance improvements will be achieved / what measurable outputs will be achieved):*

The Anti-Social Behaviour team is performing well with high-profile presence and impact. A number of successful enforcement interventions have been made including community protection warnings/notices, prosecutions and formal closure orders. A number of specific Initiatives have been delivered to prevent, minimise and tackle anti-social behaviour. Some have been timed for school holidays and mischief/bonfire night. Others have targeted specific community concerns and lessened the local geographical impact of for example youth ASB. Local communities have reported favourably on the impact made by the council's ASB team working closely with other services and partners. We will develop further key indicators of anti-social behaviour service impact and community reassurance.

## 2019 to 2023 BUDGET PROCESS GROWTH/REDIRECTION PROPOSAL

**SERVICE:** Directorate for Communities and the Environment

### PROPOSAL: Mini-Zoo Development

It is proposed to further develop the mini-zoo area located in Williamson Park. Over the last 3 years the area has seen small, but effective redevelopment within budget, resulting in significant increase in visitor numbers and popularity.

In Feb 2016, the Meerkat exhibit was opened and early 2018 the common marmoset exhibit. Both developments paid back their investment within two years and have led to a rise in visitor numbers, revenue through admissions and secondary spend in the gift shop and café. Out turn in admissions alone has risen from £104,840 in 16/17 to a predicted £135,012 by the end of March 2019 whilst net income through the gift shop has risen from £50,744 in 16/17 to a predicted £62,657 by March 2019. Developments have assisted in the following increase in visitor numbers:

2015/16 – 38,593    2016/17 – 43,236    2017/18 – 50,604

It is requested that consideration is taken to continue to further develop the zoo area to enable momentum to continue, otherwise the collection will stagnate and visitor numbers will decrease.

An investment of £30,000 is required to develop the small mammal area further, to improve the standard and increase the value to our visitors. The proposed development would see the inclusion of a mixed exhibit, of which would house animals within the Mustelid family (Racoon, skunk, porcupine) to enable the further study of the post grad employee which would continue to increase the reputation of the collection within the zoo world, BIAZA (British and Irish Association of Zoos and Aquaria), EAZA (European Association of Zoos and Aquaria) and ZSL (Zoological Society of London) but would also be a popular addition to the visiting public.

The funds would also be used to further improve interpretation, lighting, and interactive displays for visitors. We would also look to develop the disused habitat trail area and build a raised wildlife pond that will contribute to educational sessions and assist in income generation for the park.

This investment will assist the facilities achieve the targets set as part of the Council Ambitions to be self financing by 2022 and recognised at a regional and national visitor attraction

### ESTIMATED REVENUE COSTS/(SAVINGS)

	2019/20	2020/21	2021/22	2022/23
	£	£	£	£
Upfront Investment	30,000	0	0	0
Additional Vets Fees, Food etc	1,500	1,500	1,500	1,500
Net Income (of materials for resale)	(6,500)	(10,000)	(10,000)	(10,000)
Use of Invest to Save Reserve	(25,000)	8,500	8,500	8,000
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(500)</b>

### FOLLOWING BUDGET COUNCIL – 28 FEB 2019

**ESTIMATED LEAD-IN:** 3 months

**IMPLEMENTATION DATE:** 1<sup>st</sup> July 2019

**PERFORMANCE MEASURES/OUTPUTS** (e.g. what key performance improvements will be achieved / what measurable outputs will be achieved):

Visitor Numbers/Income Generation are currently monitored to a high standard and the continuation of this would happen.

## 2019 to 2023 BUDGET PROCESS GROWTH/REDIRECTION PROPOSAL

**SERVICE:** Environmental Services

**PROPOSAL:** Bin Sensor Technology Trial

It is proposed that consideration is taken to use a bin sensor trial in conjunction with Vodafone and to assist us become more streamlined with collection of pedestrian bins in the Lancaster City area of the district. Bins are currently emptied on a traditional cyclical basis, rather than based on the need of it to be emptied.

Should the trial be successful then we would look to roll-out to the rest of the district from 2020/21 onwards.

### ESTIMATED REVENUE COSTS/(SAVINGS)

	2019/20 £	2020/21 £	2021/22 £	2022/23 £
Upfront Investment	26,300	0	0	0
Annual Subscription	9,000	9,200	9,400	9,600
Salary Savings	(19,400)	(23,100)	(24,100)	(25,100)
Vehicle Savings	(5,000)	(5,000)	(5,000)	(5,000)
Use of Invest to Save Reserve	(10,900)	10,900	0	0
<b>Total</b>	<b>0</b>	<b>(8,000)</b>	<b>(19,700)</b>	<b>(20,500)</b>

**FOLLOWING BUDGET COUNCIL – 28 FEB 2019**

**ESTIMATED LEAD-IN:** 1 month

**IMPLEMENTATION DATE:** 1/4/19

**PERFORMANCE MEASURES/OUTPUTS** (e.g. what key performance improvements will be achieved / what measurable outputs will be achieved):

See attached business case.



## 2019 to 2023 BUDGET PROCESS GROWTH/REDIRECTION PROPOSAL

**SERVICE:** Environmental Services

### PROPOSAL: Grassland Management Study

The current way Public Realm manage grass around the district is dated and potentially inefficient. The current way of working doesn't take into account modern management techniques which will improve the aesthetics of the district and improve areas of biodiversity and sustainability.

The project is to review over 3,500 different areas of grass within the district. The aspiration for the study is to offer 3 key outcomes, which will help us to deliver on the council's ambitions:

- financial saving (which is yet to be fully worked up),
- increase efficiency,
- Improve the public realm in terms of amenity, aesthetics and biodiversity.

The one off consultancy costs will be to undertake the study for us and offer recommendations for how we manage grassland in the future. Areas the consultants will undertake will include:

- Draft management development (inc financial inputs)
- Consultations with key stakeholders
- Site work and surveys
- GIS gap analysis
- Assisting with implementation

Other Authorities have been through this process and have gained positive operational/financial rewards.

### ESTIMATED REVENUE COSTS/(SAVINGS)

	2019/20 £	2020/21 £	2021/22 £	2022/23 £
One-Off Consultancy Costs (per quote)	35,000	0	0	0
Ongoing Savings	0	(10,000)	(15,000)	(15,000)
Use of Invest to Save Reserve	(35,000)	10,000	15,000	10,000
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(5,000)</b>

**FOLLOWING BUDGET COUNCIL – 28 FEB 2019**

**ESTIMATED LEAD-IN:** N/A

**IMPLEMENTATION DATE:** 1<sup>st</sup> July 2019

**PERFORMANCE MEASURES/OUTPUTS** (e.g. what key performance improvements will be achieved / what measurable outputs will be achieved):

Would lead to more effective management information and invariably operating/financial savings,

Appreciating that financial savings are the priority, this would also complement area based working and would allow for savings in capacity, allowing us to signpost staff to other areas of resident need e.g. weeding, graffiti, cleansing, parks etc.

## 2019 to 2023 BUDGET PROCESS SAVINGS PROPOSAL

### SERVICE: REGENERATION & PLANNING

#### PROPOSAL: LANCASTER VIC MERGER WITH CITY MUSEUM

Following the successful transfer of the City Council's Museums from County Council control to City Council control, officers are now exploring the potential merger of Lancaster Visitor Information Centre (VIC) with Lancaster City Museum.

Benefits include increased visitors (local and from outside the district) to both the City Museum and Lancaster VIC, increased income from retail sales and new opportunities such as catering, a more central and accessible location for the VIC, efficiency savings and wider economic impact by signposting more people to other attractions, events, cafes, restaurants and accommodation providers within the District. The proposal also creates the opportunity to develop a wider cultural offer around Lancaster and Morecambe, helping to display museum collections beyond the walls of the museums, as well as to develop work with other cultural partners.

During 2019/20 investment will be required to relocate and merge Lancaster VIC with Lancaster City Museum. Towards the end of 2019/20 and future years there will be a return on this investment.

The investment/relocation cost is circa £69K, are based on the original cost to move the VIC from its Castle Hill premises to The Storey back in 2001, and knowledge of more recent museum reception/shop refits in Doncaster of a similar scale to what is being proposed. The recurring savings will include rent, service charges and potentially staffing, however this will be considered at a later date as it is too early to determine the overall staffing requirements across the Council's museums following the transfer. This merger will create opportunities to increase income from catering and retail sales as footfall will significantly increase.

The catering offer will be of good quality but basic to start with, administered by the reception/VIC staff, with the potential to be developed and expanded in the future subject to demand and additional resources. In terms of retail sales, the expertise and quality of the existing VIC offer, combined with specific museum related products will result in an increase in spend per head at the City Museum from £0.06p per head to £0.20p per head (net profit).

The VIC currently achieves 50,000 (in person) visits per annum, it's acknowledged that some (estimated at 30,000) will visit both the City Museum and VIC. The City Museum achieves 54,000 per annum. Therefore a conservative estimate of annual visits to the combined VIC/City Museum could be in the region of 74,000 from 2020/21. We calculate therefore that income will increase from £0.06 per head to £0.20 per head for around 24,000 visitors who currently will visit the City Museum but not the VIC in any single year – representing a net increase (profit) of £0.14 per head for these visitors. We anticipate this growth based on the wider and more successful offer of the VIC offer.

As the new VIC/Museum reception will be located on the ground floor in part of the temporary exhibition space, it is proposed that some additional small-scale exhibition space be created on the first floor. The Storey and other cultural venues will also be used for larger scale temporary exhibitions, some of these could be ticketed events.

The table below shows the investment required and minimum net savings to the VIC /City Museum, further savings should be achieved.

***Please refer to growth/reduction proposal 'Morecambe VIC TUPE' as this will also impact on Lancaster VIC/City Museum in future years.***

Efficiency Saving  Service Reduction  Income Generation  Invest to Save

#### **BREAKDOWN OF ESTIMATED COSTS/(SAVINGS)**

	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Lancaster VIC rent & service charge	-6,300	-30,700	-30,900	-31,100
Storey temporary loss of rent	6,300	0	0	0
Make good vacated space at Storey for letting	10,000	0	0	0
Design, relocation, equipment and contingency costs	50,000	0	0	0
Additional temporary exhibition space at City Museum	9,000	0	0	0
Cultural venue hire (exhibitions)	1,000	4,000	4,000	4,000
Additional net income (shop)	-800	-3,400	-3,400	-3,400
Additional net income (catering)	-300	-1,300	-1,300	-1,300
Use of Invest to Save Reserve	-68,900	31,400	31,600	6,900
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-24,900</b>

**TIMESCALE FOR COMPLETION FROM BUDGET COUNCIL 27 FEB 2019:** Relocation of VIC to City Museum, target date December 2019. Ongoing savings in late 2019 and future years.

#### **POTENTIAL RISKS INHERENT IN THE PROPOSAL:**

Relocation costs require further detailed consideration. There could be a short-term impact on The Storey (loss of rent) due to vacated space. However there is unfulfilled demand for digital and creative business space within the city so this is likely to be a short term issue. Future income from the current VIC accommodation will be genuine additional income for the council. A strong cultural programme developing from a council and partners cultural and arts offer can create additional footfall in Storey and other venues if spaces are available for museums and arts exhibitions, events and performances.

## **Appendix 4 - 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
  - 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.

### **Level of reserves and principles to assess adequacy**

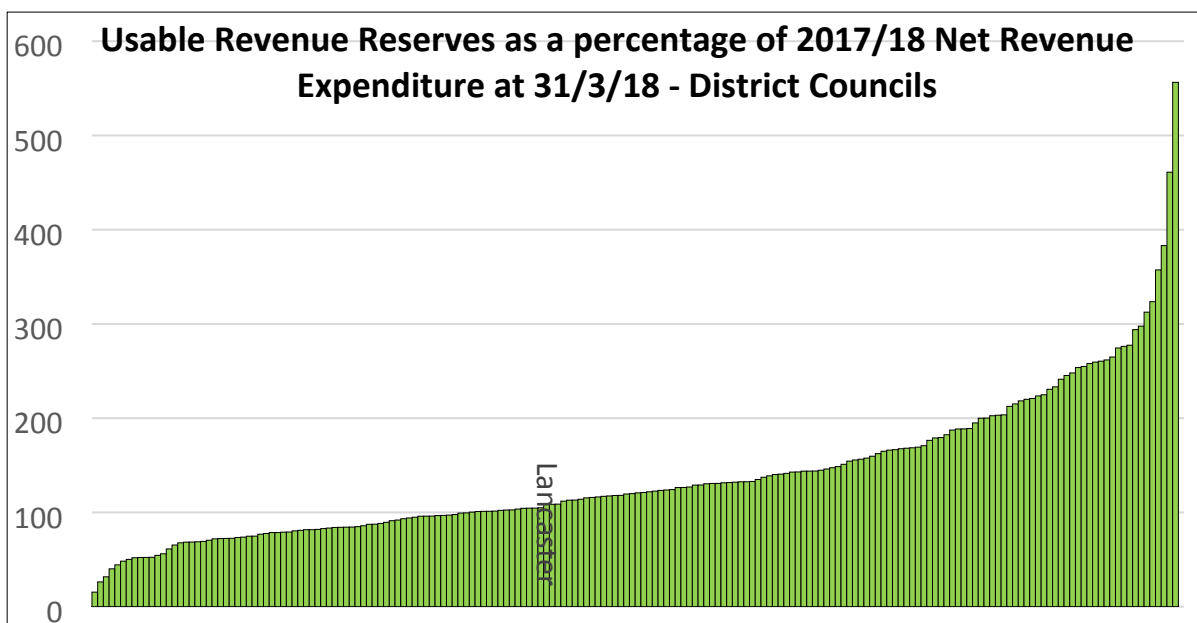
8. Within the existing statutory and regulatory framework, it is the responsibility of the Chief Financial Officer (at Lancaster this is the Financial Services Manager who is the Section

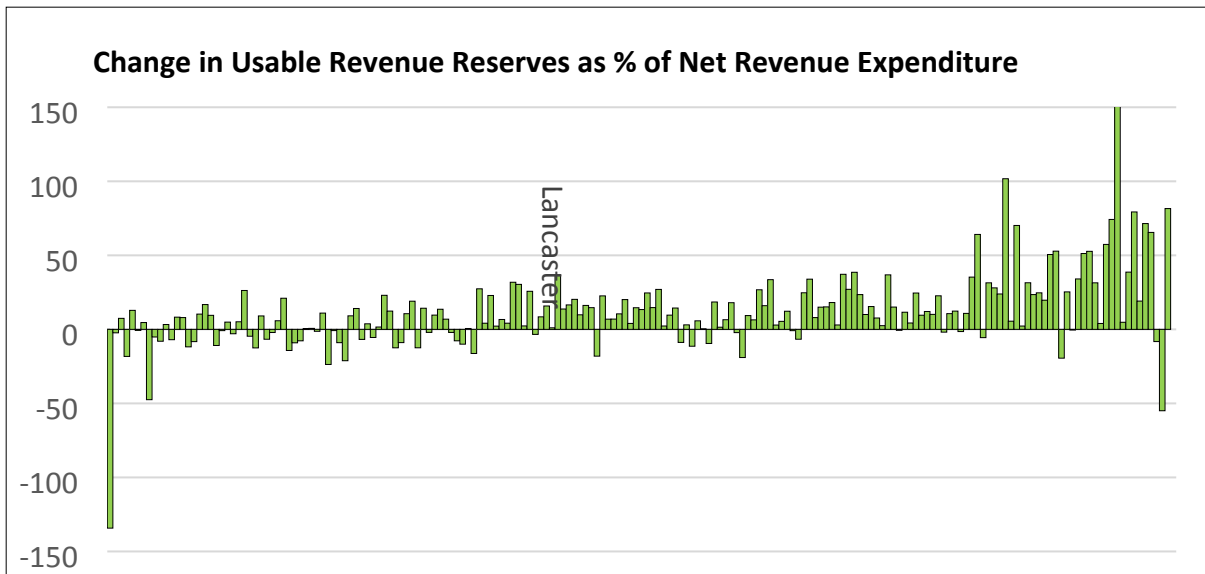
151 Officer) to advise local authorities about the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use.

9. For clarity, within the legislation the minimum level of any reserve is not quantified, and 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.
10. At the end of the 2017/18 financial year, Lancaster City Council had levels of usable reserves as set out in the table below.

	2016/17 £000s	2017/18 £000s	Change £000
General Fund Reserve	4,725	5,067	342
Earmarked Revenue Reserves	6,510	11,869	5,359
Usable Capital Receipts	0	0	0
Capital Grants Unapplied	103	103	0
<b>Total General Fund Reserves</b>	<b>11,338</b>	<b>17,039</b>	<b>5,701</b>
HRA balance	1,937	2,017	80
Earmarked HRA Reserves	10,709	10,561	(148)
<b>Total HRA Reserves</b>	<b>12,646</b>	<b>12,578</b>	<b>(68)</b>

11. The table shows that reserves increased significantly during 2017/18. 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*

- 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 which would give the Council time to adapt to such risks in the medium term.

Risk	Symptom of risk	Balance required £000
Increased demand for services	3% increase in net revenue expenditure	500
Recession results in reduced fees and charges income	10% reduction in major fees and charges income	657
Recession results in reduced council tax collection rates	3% reduction in collection rate	282
New Homes Bonus Scrapped	Significant reduction in funding income	1,242
Next year's budget savings not achieved	Significant overspend	1,083
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		4,764
General Fund Balance as at 31/03/18		5,069

**Given the increase in uncertainty set out above, particularly with respect to the Fair Funding review, the Section 151 Officer's advice is that the minimum level of balances held in the General Fund should be set at £2m, an increase of £0.5m**

#### **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.

#### **Review of Earmarked Reserves**

19. The Council holds a number of earmarked reserves, which the Council 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
  - 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

A schedule of earmarked reserves is included at the end of this document with details of the reserve balance, the purpose of the reserve and governance arrangements. Specific issues arising from the annual review of earmarked reserves are detailed below.

#### ***General***

The Council has strengthened its focus on providing business cases for all new projects and areas of spend. This discipline should be extended to the use of reserves with any such use supported by a case outlining the need for reserve funding and providing a summary of measurable outcomes and impacts arising from the use of reserves.

The schedule of earmarked reserves shows, for each reserve, how the reserve will be used and the authorisation requirements for use. Any use of reserves which exceeds £50k would have to be supported by a Council or Cabinet decision.

### ***Business Rates Reserve***

This reserve was set up to manage fluctuations in business rates income and ensure that risks attributable to business rates appeals and the potential shutdown of Heysham Power Station. However, in six years these risks have not been realised and the Council has been able to accrue the rewards from good levels of business rates growth in the Lancaster district. Going forward, the risks persists but as part of the MTFS, an assessment of the exposure to those risks has been undertaken and it is possible to calculate that there are surplus funds in the business rates reserve over and above those which are required to protect business rates income over the medium term. As the surplus funds are effectively attributable to economic growth it seems appropriate that these are now used for future corporate priority initiatives.

It is therefore recommended that following the year end, the balance on the Business Rates Reserve is reviewed and any surplus funds, over and above those required to provide funding certainty, are redesignated towards the delivery of corporate priorities as set out in the Council Plan or accompanying strategic documents as and when revised by the new Council.

### ***Budget Support***

The Budget Support Reserve purpose should be extended to include any upfront costs which are attributable to work undertaken in respect of Funding the Future. Any such bid to the reserve should be accompanied with a business case showing the need for intervention and outcomes and impact arising from the use of the reserve.

### ***Restructure***

All three Directorates created under the recent reorganisation will commence structural reviews during 2019/20. There may be a significant call upon this reserve for costs relating to redundancy and pension strain but any call on the reserve should be accompanied by a payback calculation which compares the upfront cost with ongoing savings.

## **Schedule of Earmarked Reserves**

20. A schedule of reserves is shown below. The schedule sets out for each reserve, its purpose, how and when it will be used, management and control processes and timescale for review.
21. Any use of reserves at a level over £50k should be supported by a Council or Cabinet decision.
22. To aid transparency, as part of the Council's quarterly monitoring a statement on the movement of reserves and provisions, including key transactions, will be reported.



## Reserves Statement (Including Unallocated Balances)

	31 March 2018	From Revenue	To / (From) Capital	To Revenue	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	
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	
<b>Unallocated Balances</b>	(5,067,000)			21,400	(5,045,600)				(5,045,600)				(5,045,600)				(5,045,600)				(5,045,600)	
<b>Earmarked Reserves:</b>																						
<b>To manage fluctuations in income or funding:</b>																						
<b>Business Rates Retention</b>	(4,602,000)	(4,347,700)		2,666,300	(6,283,400)				(6,283,400)				(6,283,400)				(6,283,400)				(6,283,400)	
<b>Planning Fee Income</b>		(61,800)			(61,800)	(14,400)			(76,200)			31,200	(45,000)				39,600				(5,400)	
<b>To provide for some future anticipated expenditure for identified projects:</b>																						
<b>Canal Quarter</b>	(214,200)	(186,000)		216,400	(183,800)			103,500	(80,300)			23,200	(57,100)				(57,100)				(57,100)	
<b>Capital Support</b>	(485,200)		36,000	379,000	(70,200)		65,000		(5,200)				(5,200)				(5,200)				(5,200)	
<b>Economic Growth</b>	(358,700)		25,000	140,900	(192,800)			109,100	(83,700)			41,900	(41,800)			1,500	(40,300)				(40,300)	
<b>Elections</b>	(80,000)	(40,000)			(120,000)	(40,000)		160,000	(40,000)	(40,000)			(40,000)	(40,000)			(80,000)	(40,000)			(120,000)	
<b>Local Plan</b>	(124,900)			124,900																		
<b>Morecambe Area Action Plan</b>	(27,300)				(27,300)		11,000		(16,300)				(16,300)				(16,300)				(16,300)	
<b>Renewals Reserves</b>	(451,400)	(479,300)	415,000	243,100	(272,600)	(479,300)	402,000	122,400	(227,500)	(481,800)	117,000	34,200	(558,100)	(481,800)	60,000	34,200	(945,700)	(481,800)		34,200	(1,393,300)	
<b>Welfare Reforms</b>	(223,500)	(154,100)		25,000	(352,600)			25,000	(327,600)				(327,600)				(327,600)				(327,600)	
<b>Amenity Improvements</b>		(29,000)			(29,000)				(29,000)				(29,000)				(29,000)				(29,000)	
<b>To provide up-front costs which specifically result in future efficiencies, cost savings or increased income:</b>																						
<b>Budget Support</b>	(710,800)	(2,666,300)	160,000	1,292,300	(1,924,800)		196,000	496,300	(1,232,500)			93,000	(1,139,500)			46,600	(1,092,900)				(1,092,900)	
<b>Corporate Property</b>	(411,700)			40,000	(371,700)				(371,700)				(371,700)				(371,700)				(371,700)	
<b>Invest to Save</b>	(1,506,000)		53,000		(1,453,000)			139,800	(1,313,200)	(60,800)			(1,374,000)	(55,100)			(1,429,100)	(23,900)			(1,453,000)	
<b>Restructure</b>	(565,700)			33,500	(532,200)				(532,200)				(532,200)				(532,200)				(532,200)	
<b>To hold funding from other bodies, mainly Government, for specified purposes:</b>																						
<b>Revenue Grants Unapplied</b>	(744,100)	(30,000)		125,900	(648,200)	(15,000)		47,200	(616,000)	(5,300)		13,500	(607,800)				(607,800)				(607,800)	
<b>Homelessness Support</b>	(101,600)	(6,600)			(108,200)	(6,600)			(114,800)	(6,600)			(121,400)	(6,600)			(128,000)	(6,600)			(134,600)	
<b>S106 Commuted Sums - Open Spaces</b>	(60,600)			16,600	(44,000)			15,600	(28,400)			11,800	(16,600)			11,800	(4,800)				4,700	(100)
<b>S106 Commuted Sums - Affordable Housing</b>	(687,300)				(687,300)				(687,300)				(687,300)				(687,300)				(687,300)	
<b>S106 Commuted Sums - Highways, Cycle Paths etc.</b>	(444,200)	(300,000)	167,000	9,300	(567,900)	(200,000)	190,000		(577,900)	(200,000)			(777,900)	(200,000)			(977,900)	(200,000)			(1,177,900)	
<b>Reserves Held in Perpetuity:</b>																						
<b>Graves Maintenance</b>	(22,200)				(22,200)				(22,200)				(22,200)				(22,200)				(22,200)	
<b>Marsh Capital</b>	(47,700)				(47,700)				(47,700)				(47,700)				(47,700)				(47,700)	
<b>Total Earmarked Reserves</b>	(11,869,100)	(8,300,800)	856,000	5,313,200	(14,000,700)	(755,300)	864,000	1,218,900	(12,673,100)	(794,500)	117,000	248,800	(13,101,800)	(783,500)	60,000	133,700	(13,691,600)	(752,300)		38,900	(14,405,000)	
<b>Total Combined Reserves</b>	(16,936,100)				(19,046,300)				(17,718,700)				(18,147,400)				(18,737,200)				(19,450,600)	

# **PROVISIONS AND RESERVES 2019/20**

(Including Balances)

**6 Provisions & Reserves Protocol : General Fund**

<b>Reserve</b>	<b>Purpose</b>	<b>How and When Used</b>	<b>Management and control</b>	<b>Timescale for review</b>
Business Rates Reserve	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.	Any transfers to be determined and reported to Cabinet by Chief Officer (Resources) – with transfers out subject to consultation with the Finance Portfolio Holder.	Resources.	Budget & Outturn, & mid-year MTFS review.
Budget Support	To provide resources to help finance capacity / feasibility / review and other development work in support of the Council's corporate planning and budgeting arrangements, including any transformation or modernisation plans etc.	Key decisions on use are subject to Cabinet approval. Non-key decisions are delegated to the Chief Officer (Resources), in consultation with the Finance Portfolio Holder.	Resources.	Budget & Outturn, & mid-year MTFS review.
Canal Corridor	To cover commissioning costs relating to external support and advice for the CCN development.	Use of the reserve will be in line with the CCN decisions of Council.	Planning & Regeneration / Resources.	Budget & Outturn, & mid-year MTFS review.
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).	Any use to be determined and reported to Cabinet by Chief Officer (Resources).	Resources.	Budget & Outturn, & mid-year MTFS review.
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.	Use of the reserve to be determined and reported to Cabinet by Chief Officer (Resources), in consultation with the Property Portfolio Holder.	Resources.	Quarterly reporting, Budget & Outturn.
Economic Growth	To support economic growth activities in the district.	Use of the reserve will be in line with the decisions of Cabinet. Any remaining available amounts (non-key decisions) will be delegated to the Chief Officer (Resources), in consultation with Cabinet.	Regeneration & Planning / Resources.	Budget & Outturn, & mid-year MTFS review.

<b>Reserve</b>	<b>Purpose</b>	<b>How and When Used</b>	<b>Management and control</b>	<b>Timescale for review</b>
Elections	To even out the cost of holding City Council elections every four years.	Contributions to and from the reserve to be approved by the Chief Officer Governance, in consultation with the Chief Officer (Resources) - generally as part of annual budget process, rather than specifically.	Governance / Resources.	Budget & Outturn.
Homelessness	To hold related government grants or other specific external funding until needed for homelessness prevention measures.	Contributions to or from the reserve to be approved by Chief Officer (Health & Housing), in consultation with Chief Officer (Resources).	Health & Housing / Resources.	Budget & Outturn.
Invest to Save	To help finance any Invest to Save initiatives.	Use linked to capital or revenue schemes that can generate future savings in the medium term. Contributions to or from reserve to be approved by Cabinet.	Resources. Pay back periods must be in accordance with MTFS, and as advised by Chief Officer (Resources).	Budget & Outturn, and mid-year MTFS review.
Local Plan	To support the adoption of the Local Plan.	Use of the reserve to be approved by Chief Officer (Regen & Planning), in consultation with Chief Officer (Resources). The reserve to be closed following adoption.	Regeneration & Planning / Resources.	Budget & Outturn
Morecambe Area Action Plan (MAAP)	To support implementation of the MAAP (Cabinet report 11 February 2014).	Contributions to and from the reserve to be approved by Cabinet (or relevant Portfolio Holder/s for non-key decisions).	Regeneration & Planning / Resources.	Budget & Outturn.
Planning Fee 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).	Contributions to and from the reserve to be approved by the Chief Officer Resources in consultation with the Chief Officer (Regen and Planning), in line with the budget decisions of Council. Any further use to be agreed by Cabinet.	Regeneration & Planning / Resources.	Budget & Outturn.
Renewals (Including Williamson Park, ICT, AONB Vehicle, Car Park Equipment, Courier Vehicle, Parks vehicles & Salt Ayre Leisure Centre renewals)	To provide for the renewal (replacement or upgrade) of existing facilities and infrastructure needed for service delivery, such as vehicles, plant and equipment.	Contributions are made into the reserve on an annual basis as part of the budget, and transferred to revenue or capital as and when renewals are undertaken. Use of the reserve to be agreed by Chief Officer (Resources).	Resources.	Budget & Outturn.

<b>Reserve</b>	<b>Purpose</b>	<b>How and When Used</b>	<b>Management and control</b>	<b>Timescale for review</b>
Restructuring	To fund the costs associated with early termination of staff (in the interests of efficiency / redundancy) / Pay and Grading Review.	Use of this reserve will be subject to the respective approvals of Personnel Committee and/or Cabinet.	Human Resources / Resources.	Budget & Outturn, and mid-year MTFS review.
Open Spaces – Commuted Sums	To receive all sums paid to the Council from third parties for the maintenance of open spaces adopted by the City Council.	Lump sums are credited to the reserve and appropriated either to revenue or capital dependent upon the nature of the agreement.	Environmental Services / Resources/ Planning & Regen.  Any use of reserve must be in accordance with specific s106 agreements.	Budget & Outturn.
S106 Commuted Sums – Affordable Housing	To receive all sums paid to the Council from third parties in respect of affordable housing schemes.	Lump sums are credited to the reserve and appropriated either to revenue or capital dependent upon the nature of the agreement and subject to approved policy for use (Cabinet: November 2009).	Regeneration & Planning / Resources.  Any use of reserve must be in accordance with specific s106 agreements.	Budget & Outturn.
S106 Commuted Sums – Highways, cycle paths and crossings.	To receive all sums paid to the Council from third parties other than for affordable housing and grounds maintenance.	Lump sums are credited to the reserve and appropriated either to revenue or capital dependent upon the nature of the agreement.	Regeneration & Planning / Resources.  Any use of reserve must be in accordance with specific s106 agreements.	Budget & Outturn.
Welfare Reforms	To help manage the cost and administration pressures of any welfare reforms (in particular, localisation of council tax support and Universal Credit).	Contributions to and from the reserve to be determined and reported to Cabinet by Chief Officer (Resources), in consultation with the Finance Portfolio Holder. Contributions to the reserve are based on receipt of relevant specific grants.	Resources.	Budget & Outturn, and mid-year MTFS review.

**Reserves held in perpetuity:**

<b>Provision</b>	<b>Purpose</b>	<b>How and When Used</b>	<b>Management and control</b>	<b>Timescale for review</b>
Graves Maintenance	This reserve holds monies donated to the City Council by individuals, specifically for the maintenance of graves.	The capital sum must be maintained at the original level of contribution, with interest earned being appropriated to revenue to offset maintenance costs.	Health & Housing / Resources.  No changes to its use are permitted.	Outturn.
Marsh Capital	The monies held in this reserve came from the proceeds of land sold at Willow Lane on the Marsh, as set out by the Lancaster Corporation Act 1900. The Act determines that the interest generated on this reserve be applied in perpetuity to the payment to the freemen of the City.	Investment interest generated on the reserve is used to make annual payments to the freemen of the City.	Resources.  No changes to its use are permitted.	Outturn.

<b>Provision</b>	<b>Purpose</b>	<b>How and When Used</b>	<b>Management and control</b>	<b>Timescale for review</b>
<b>PROVISIONS</b>				
Bad & Doubtful Debts	This provision is used to write off all General Fund bad debts that have been approved.	The provision is funded by an annual contribution based on assessment of the level of debt outstanding.	Resources.	Budget, Outturn & mid-year MTFS review.
Insurance	The cost of insurance claims, premiums and brokerage are charged to the provision.	Contributions are made to the provision from individual services at a level sufficient to cover the anticipated claims experience and premiums.	Resources.	Budget & Outturn, and mid-year MTFS review.

All provisions will be applied by the Chief Officer (Resources) (or his nominated representative) and reported through to Members, primarily as part of the normal monitoring, budgeting and outturn reporting arrangements.

## 7 Provisions &amp; Reserves Protocol : Housing Revenue Account

Reserve	Purpose	How and When Used	Management and control	Timescale for review
<b>Capital Reserves</b>				
Business Support Reserve	To provide support to additional business plan commitments and planned investment opportunities.	Use of the reserve to be approved by Cabinet.  Contributions to the reserve to be approved annually as part of the budget.	Health & Housing /Resources.	Budget & Outturn.
Major Repairs Reserve (MRR)	Set up following the introduction of Resource Accounting in the HRA. To be credited with the amount of depreciation charged to the HRA and topped up with additional funds required to finance the capital programme in-year.	Use of reserve to be determined and reported by Chief Officer (Resources) (or her nominated representative). Can be applied to capital improvements to HRA housing stock (specifically excluding demolition) and, additionally from 1st April 2004, repayment of HRA debt and credit liabilities (including premia on early repayment of PWLB loans).	Health & Housing /Resources.	Budget & Outturn.

Reserve	Purpose	How and When Used	Management and control	Timescale for review
<b>Revenue Reserves</b>				
Flats – Planned Maintenance	To smooth the costs of major revenue and capital works to flats funded from Service Charges.	Contributions from Service Charges made to this reserve, together with additional appropriations in lieu of interest.  Reserve to be applied to major works to communal facilities in flats.	Health & Housing /Resources.	Budget & Outturn.
ICT and Systems Improvement	To fund future major IT systems replacement and improvement.	To be applied to future replacements and system/process improvements.	Health & Housing /Resources.	Budget & Outturn.

<b>Reserve</b>	<b>Purpose</b>	<b>How and When Used</b>	<b>Procedures for management and control</b>	<b>Timescale for review</b>
Office Equipment	To fund purchases of minor I T and other office equipment.	Used to fund ad-hoc purchases of major office furnishings resultant from health & safety legislation and risk assessments (desk, chairs, cabinets etc) and minor office equipment items.	Health & Housing /Resources.	Budget & Outturn.
Sheltered Equipment	To fund purchases of equipment for Sheltered schemes funded from Service Charges.	Contributions from Service Charges made to this reserve, together with additional appropriations in lieu of interest. Reserve to be applied to purchases of equipment for common area services for Sheltered schemes.	Health & Housing /Resources	Budget & Outturn.
Sheltered – Planned Maintenance	To smooth the costs of major revenue and capital works to flats funded from Service Charges	Contributions from Service Charges made to this reserve, together with additional appropriations in lieu of interest. Reserve to be applied to major works to communal facilities in Sheltered schemes.	Health & Housing /Resources.	Budget & Outturn.
Sheltered – Support Grant Maintenance	To fund purchases of equipment for Sheltered schemes funded from Service Charges, but classed as Support Costs under County Guidelines.	Contributions from Service Charges made to this reserve, together with additional appropriations in lieu of interest.	Health & Housing /Resources.	Budget & Outturn.

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

<b>PROVISIONS</b>				
Bad Debts	This provision is used to write off all Housing Revenue Account bad debts that have been approved.	The provision is funded by an annual contribution based on assessment of the level of debt outstanding.	Resources.	Budget & Outturn.

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



## Budget Transfers (Virements and Carry Forwards)

### 2019/20 Limits Budget Council 27 February 2019

#### 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:

<b>Delegated limit</b>	<b>2019/20</b>
Total virement on any <b>expenditure</b> heading in any one financial year must not exceed:	£10,000
Total virement on any <b>income</b> 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.)

<b>COUNCIL</b>
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**Budget Framework 2019 to 2023  
Capital Strategy and Capital Programme 2018/19 to 2022/23  
27 February 2019**

**Report of Cabinet**

<b>PURPOSE OF REPORT</b>
To present Cabinet's final budget proposals in order that the City Council can approve a Capital Strategy and General Fund Capital Programme for 2018/19 to 2022/23.
This report is public.

**RECOMMENDATIONS:**

- (1) **That the General Fund Capital Programme be approved, as set out at Appendix 1.**
- (2) **That the Capital Strategy at Appendix 2 be approved.**

**1 Introduction**

- 1.1 Following its meeting on 12 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. For capital this involves agreeing an affordable, sustainable and prudent capital programme which reflects the Council's priorities as set out in the Council's Corporate Plan, *Ambitions*, shown below:

- Clean and Safe Neighbourhoods
- Healthy and Happy Communities
- A Thriving and Prosperous Economy
- An Ambitious and Forward-Thinking Council.

### 3 Capital Programme

- 3.1 The proposed General Fund investment programme for the period to 2022/23 is included at **Appendix 1**. This now reflects Cabinet's budget proposals. A number of bids were included in the Capital Programme Development Pool; these were bids that were agreed in principle but it was felt by Cabinet that more work was required for the bid to be elevated into the full programme.
- 3.2 The proposed programme retains a strong focus on ensuring that the Council's infrastructure and facilities are fit for purpose, as well as retaining previously approved public realm improvements to help promote economic growth and generate income.
- 3.3 The current year's revised programme now stands at £9.20m. During the next three years, a further £10.94m of investment is currently planned, giving a total 5 year programme from 2018/19 to 2022/23 of £27.59m.
- 3.4 Overall the programme is balanced, allowing for a gross increase of £13.02m in the underlying need to borrow (known as the Capital Financing Requirement or CFR), over the five year period to 2022/23. The Council makes a revenue provision for the repayment of borrowing which reduces the CFR and the Treasury Management Strategy contains prudential indicators which ensure that the increase in the need to borrow remains affordable.

### 4. Capital Strategy

- 4.1 For the first time in 2019/20, the Council has adopted a Capital Strategy and this is included as **Appendix 2**. This 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, *Ambitions* 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. Similarly other strategies under development in the coming months which have capital expenditure implications, such as the Climate Change Action Plan, will also be considered by the group.

- 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.
- 4.5 The Treasury Management Strategy and Property Investment Strategy are considered separately on this Budget Council agenda.

**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 2018/19 and 2019/20 must balance.

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.

**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.

**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 (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.

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 2022/23, with the bulk of this relating to service infrastructure. 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.

**MONITORING OFFICER'S COMMENTS**

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

**BACKGROUND PAPERS**

Equality Impact Assessments for budget proposals.

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# General Fund Capital Programme

For consideration by Budget Council 27 February 2019

Service / Scheme	2018/19			2019/20			2020/21			2021/22			2022/23			5 YEAR PROGRAMME		
	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Total Gross Programme	Total External Funding	Total Net Programme
<b>Environmental Services</b>	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Vehicle Renewals	662,000		662,000	1,389,000		1,389,000	2,300,000		2,300,000	515,000		515,000	787,000		787,000	5,653,000		5,653,000
Vehicle Fleet Review	59,000		59,000													59,000		59,000
Vehicle Ramp	34,000		34,000													34,000		34,000
Vehicle Maintenance Unit Plant				75,000		75,000										75,000		75,000
Electronic Vehicle Charging Points	54,000	(49,000)	5,000													54,000	(49,000)	5,000
Cable Street Car Park Extension	35,000		35,000													35,000		35,000
CCTV Extension to White Lund Depot	53,000		53,000													53,000		53,000
Happy Mount Park Pathway Replacements				112,000		112,000										112,000		112,000
Bolton Le Sands Young Peoples' Facilities	15,000		15,000													15,000		15,000
Williamson Park							1,000,000		1,000,000							1,000,000		1,000,000
Solar Installation Salt Ayre Phase One				360,000		360,000	325,000		325,000							685,000		685,000
<b>Health and Housing</b>																		
Disabled Facilities Grants	2,650,000	(2,650,000)	0	2,362,000	(2,362,000)	0	1,607,000	(1,607,000)	0	1,607,000	(1,607,000)	0	1,607,000	(1,607,000)	0	9,833,000	(9,833,000)	0
Heysham School Capital Funding	36,000		36,000													36,000		36,000
Salt Ayre Sports Centre - Redevelopment	164,000		164,000	10,000		10,000										174,000		174,000
<b>Regeneration and Planning</b>																		
Sea & River Defence Works & Studies	2,427,000	(2,427,000)	0	450,000	(26,000)	424,000	426,000	(3,000)	423,000	3,000	(3,000)	0				3,306,000	(2,459,000)	847,000
Amenity Improvements (Morecambe Promenade)	6,000		6,000													6,000		6,000
Lancaster Square Routes	21,000	(2,000)	19,000	29,000	(29,000)	0										50,000	(31,000)	19,000
Morecambe TH12: A View for Eric	15,000	(11,000)	4,000													15,000	(11,000)	4,000
MAAP Improving Morecambe's Main Streets	44,000		44,000	141,000		141,000										185,000		185,000
Far Moor Playing Fields s106 Scheme				70,000		70,000										70,000		70,000
Lancaster District Empty Homes Partnership	36,000		36,000	65,000		65,000										101,000		101,000
Coastal Revival Fund - Morecambe Co-Op Building	77,000	(77,000)	0													77,000	(77,000)	0
S106 Highways Works	148,000		148,000	70,000		70,000										218,000		218,000

# General Fund Capital Programme

For consideration by Budget Council 27 February 2019

Service / Scheme	2018/19			2019/20			2020/21			2021/22			2022/23			5 YEAR PROGRAMME		
	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Total Gross Programme	Total External Funding	Total Net Programme
<b>Resources</b>																		
ICT Systems, Infrastructure & Equipment	293,000		293,000	229,000		229,000	130,000		130,000	105,000		105,000	337,000		337,000	1,094,000		1,094,000
Residual Corporate Property Works	25,000		25,000													25,000		25,000
Hale Carr Lane Cemetery Chapel				132,000		132,000										132,000		132,000
City Museum Roof & Boiler	316,000		316,000	125,000		125,000										441,000		441,000
Lancaster Town Hall Steps	43,000		43,000													43,000		43,000
1 Lodge Street Urgent Structural Repairs				358,000		358,000										358,000		358,000
Palatine Recreation Ground Pavillion				125,000		125,000										125,000		125,000
Queen Victoria Memorial				250,000		250,000										250,000		250,000
Royal Albert Playing Field Pavilion				82,000		82,000										82,000		82,000
Ryelands Park - Ryelands House	100,000		100,000													100,000		100,000
Energy Efficiency Works				311,000		311,000										311,000		311,000
<b>Development Pool</b>																		
Half Moon Bay Car Park Extension				60,000		60,000										60,000		60,000
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	132,000	(8,000)	124,000	479,000		479,000										611,000	(8,000)	603,000
Canal Quarter				550,000		550,000										550,000		550,000
Demolition of Edward Street Dance Studio				109,000		109,000										109,000		109,000
ICT Telephony							200,000		200,000							200,000		200,000
<b>GENERAL FUND CAPITAL PROGRAMME</b>	<b>7,445,000</b>	<b>(5,224,000)</b>	<b>2,221,000</b>	<b>9,196,000</b>	<b>(2,417,000)</b>	<b>6,779,000</b>	<b>5,988,000</b>	<b>(1,610,000)</b>	<b>4,378,000</b>	<b>2,230,000</b>	<b>(1,610,000)</b>	<b>620,000</b>	<b>2,731,000</b>	<b>(1,607,000)</b>	<b>1,124,000</b>	<b>27,590,000</b>	<b>(12,468,000)</b>	<b>15,122,000</b>
<b>Financing :</b>																		
Capital Receipts			(200,000)			0			0			0			0			(200,000)
Direct Revenue Financing			(5,000)			0			0			0			0			(5,000)
Earmarked Reserves			(856,000)			(864,000)			(117,000)			(60,000)			0			(1,897,000)
<b>Increase / (Reduction) in Capital Financing Requirement (CFR) (Underlying Change in Borrowing Need)</b>			<b>1,160,000</b>			<b>5,915,000</b>			<b>4,261,000</b>			<b>560,000</b>			<b>1,124,000</b>			<b>13,020,000</b>



# **Capital Strategy**

## **February 2019**

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## 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 has ambitious plans for enhancing the economy well-being and presence of the district to deliver its vision for the area to thrive as a vibrant regional centre in the North West of England.

## 2. Context

### Strategic Aims & Objectives

- 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 ambitions are detailed in the diagram overleaf.
- 2.2 The Medium Term Financial Strategy supports and informs the Council's vision and key priorities as set out in the Council Plan 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:
  - Increasing income from investment
  - Developing and implementing a commercial strategy
  - Focusing efforts around efficiency
  - Adopting a zero based outcomes approach to budgeting
- 2.3 The Capital Strategy is a key component of the Medium Term Financial Strategy. It sets out how the Council determines its priorities for capital investment alongside a long term financing plan which includes calculations which confirm that any borrowing is affordable, sustainable and prudent

2.4 The Capital Strategy covers the following:

- The Council’s asset holdings and **Asset Management Plan** which sets out a long term strategic plan to ensure that the Council effectively utilises and maintains its property holdings – this is covered in more detail in section 3.
- The rolling five year **Capital Programme** which covers the Council’s medium term capital expenditure plans. Section 4 covers the capital programme from the inception of projects, the compilation and scoring of bids to the monitoring of the programme and the review and assessment of completed schemes.
- The **Treasury Management Strategy** which considers the affordability, sustainability and prudence of the capital programme – this is covered in section 5.
- The **Property Investment Strategy** (to be considered by Budget Council on 27 February 2019) which will focus on delivering a financial yield from property investments in the Lancaster district – this is covered in section 6.

**Corporate Priorities**

 <p><b>A Thriving and Prosperous Economy</b></p> <p><b>Our Priorities   We want to...</b></p> <ul style="list-style-type: none"> <li>• Create strong conditions for growth so that businesses thrive and jobs are created</li> <li>• With our partners, deliver major regeneration and infrastructure projects</li> <li>• Support development of new skills and improved prospects for our residents</li> <li>• Ensure that growth is good for all, and increased wealth benefits our local communities</li> <li>• Work with partners to drive growth and achieve major investment across the Lancaster and South Cumbria Economic Region</li> </ul>	 <p><b>Clean, Green and Safe Neighbourhoods</b></p> <p><b>Our Priorities   We want to...</b></p> <ul style="list-style-type: none"> <li>• Deliver, work in partnership and influence to make our district’s neighbourhoods, parks, beaches and open space clean, well-maintained and safe</li> <li>• Work towards key parks and public spaces becoming financially self-sustaining</li> <li>• Use innovation, technology and partnership with others to help improve the efficiency of services, improve customer satisfaction and reduce our impact on the environment</li> </ul>
 <p><b>A Smart and Forward-Thinking Council</b></p> <p><b>Our Priorities   We want to...</b></p> <ul style="list-style-type: none"> <li>• Be customer-focused and customer-friendly</li> <li>• Ensure our future financial resilience and be financially sustainable</li> <li>• Use business intelligence to design our organisation to respond to needs</li> <li>• Use digital and other technology to provide quality services</li> <li>• Use our land and other property to benefit our communities</li> <li>• Invest in our staff to ensure we have the internal expertise to deliver our plans</li> <li>• Be recognised for providing value for money</li> </ul>	 <p><b>Healthy and Happy Communities</b></p> <p><b>Our Priorities   We want to...</b></p> <ul style="list-style-type: none"> <li>• Work with others to address health inequality, food and fuel poverty, mental health, loneliness</li> <li>• Enhance community cohesion</li> <li>• Improve access to arts and leisure, meaningful work, public open space, quality housing</li> <li>• Protect and improve health focussing on early intervention and involving our communities in service design and delivery</li> </ul>

### 3. Our Assets

3.1 The Council's asset base at 31 March 2018 comprised:

	£m
Council Housing	126.86
Property Plant & Equipment	114.18
Investment Property	33.16
Heritage Assets	8.68
Intangible Assets	0.35
<b>Total</b>	<b>283.23</b>

#### Council Housing

3.2 The Council has 3,717 dwellings in total. These include 1, 2, 3 & 4 bedroomed, houses, bungalows, flats maisonettes and bedsits.

#### Property Plant & Equipment

Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction
64.09m	7.68m	24.15m	8.59m	0.77m	8.90m

#### Investment Properties

3.3 These are properties 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.

#### Heritage Assets

3.4 The Council's heritage assets include 82 pieces of civic regalia, its museums' collection 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 Plan

3.6 The key objectives of the Council's Asset Management Plan 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.

3.7 Projects which come forward from the Asset Management Plan will be assessed by the Capital Strategy Group alongside other capital bids based upon the criteria set out in the next section. The affordability, sustainability and prudence of any projects put forward will be considered by having regard to prudential indicators which are set out in section 5 of this strategy.

## 4. Capital Expenditure

### Capital Programme

- 4.1 The Council plans to spend £27.59m on General Fund and £21.49m on HRA capital schemes between 2018/19 – 2022/23. Expenditure falls into the following areas:

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Council Housing	4.16	4.77	4.15	4.25	4.16	<b>21.49</b>
Disabled Facilities Grants	2.65	2.36	1.61	1.61	1.61	<b>9.84</b>
Vehicles & Plant	0.81	1.46	2.30	0.51	0.79	<b>5.87</b>
Sea & River Defence Works	2.43	0.45	0.42	-	-	<b>3.30</b>
Council Properties	0.48	2.72	-	-	-	<b>3.20</b>
Economic Development & Regeneration	0.33	1.29	-	-	-	<b>1.62</b>
Parks, Sport & Recreation	0.21	0.12	1.00			<b>1.33</b>
ICT Infrastructure & Equipment	0.29	0.23	0.33	0.10	0.34	<b>1.29</b>
Solar Energy	-	0.36	0.32	-	-	<b>0.68</b>
S106 Funded Schemes	0.15	0.14	-	-	-	<b>0.29</b>
Car Parks & CCTV	0.1	0.07	-	-	-	<b>0.17</b>
<b>Total</b>	<b>11.61</b>	<b>13.97</b>	<b>10.13</b>	<b>6.47</b>	<b>6.90</b>	<b>49.08</b>

### Affordability & Financing

- 4.2 The 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:

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Capital Receipts	(0.69)	(0.49)	(0.49)	(0.49)	(0.49)	<b>(2.65)</b>
Capital Grants & Contributions	(5.23)	(2.44)	(1.61)	(1.61)	(1.61)	<b>(12.50)</b>
Capital Reserves	(3.67)	(5.13)	(3.77)	(3.81)	(3.68)	<b>(20.06)</b>
Revenue	(0.86)	-	-	-	-	<b>(0.86)</b>
*Unsupported Borrowing	(1.16)	(5.91)	(4.26)	(0.56)	(1.12)	<b>(13.01)</b>
<b>Total</b>	<b>(11.61)</b>	<b>(13.97)</b>	<b>(10.13)</b>	<b>(6.47)</b>	<b>(6.90)</b>	<b>(49.08)</b>

*\*unsupported borrowing is used only to finance capital expenditure in respect of General Fund*

- 4.3 The City 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.
- 4.4 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 remain at a constant level of circa 17% over the life of the capital programme.
- 4.5 The Housing Revenue Account capital programme has its prudence, affordability and sustainability set out in a thirty year business plan.
- 4.6 The Treasury Management Strategy, covered in section 5, covers the calculation, monitoring and review of prudential indicators which provide an assessment of the affordability, sustainability and prudence of the Council's capital expenditure plans.

## **Governance – The Capital Strategy Group**

- 4.6 Bids for capital resources are brought to Capital Strategy Group which has been constituted with representation from Regeneration, Property, Finance and Legal.
- 4.7 The group initially made up of officers has been expanded to include both the Cabinet Portfolio for Finance and the Chairs of Budget and Performance Panel and Overview Scrutiny Committee to ensure early member engagement and involvement with the assessment and capital monitoring processes.
- 4.8 Full terms of reference for the group are included at appendix one. The group will ensure that potential capital schemes are appropriate, viable and robust, that progress against the capital programme is measured and that final scheme outcomes are properly reviewed with lessons learned being fed back into the assessment process. The Group will also consider proposals which arise from the Asset Management Plan and Property Investment Strategy.
- 4.9 The group makes recommendations to 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 Council 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 the 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 assessment. Similarly other strategies under development in the coming months which have capital expenditure implications will also be considered by the group.
- 4.14 The Property Investment Strategy is being considered by Budget Council on 27 February 2019. If approved, proposals will come forward for consideration and subjected to assessment by the Capital Strategy Group against criteria which are set out in section 6. In most cases, it is anticipated that proposals will require capital expenditure funded from prudential borrowing.
- 4.15 The Council's current capital programme has been assessed as affordable, sustainable and prudent and this is covered by the prudential indicators in section 5. Any future plans as set out in 4.13 and 4.14 will require those prudential indicators to be recalculated to ensure that additional plans can be accommodated within the programme in terms of affordability.

## **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 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 Investments held at 31.3.18 were:

<b>31.3.18</b>	<b>£m</b>	<b>Liquidity</b>
Money Market Funds	8.1	Instant Access
Other Local Authorities	17.0	Fixed Term
<b>Total Investments</b>	<b>25.1</b>	

- 5.9 Estimated Balances Available for Investments are set out in the table below:

	<b>31.3.19</b>	<b>31.3.20</b>	<b>31.3.21</b>	<b>31.3.22</b>	<b>31.3.23</b>
<b>Investments £m</b>	33.29	27.46	25.59	27.88	29.67

### 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 its capital financing requirement (CFR). The CFR is the total amount of capital expenditure (including that from prior years) that has not yet been paid for from either revenue or capital resources.

Capital Financing Requirement £m	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
General Fund	43.65	43.15	47.49	49.87	48.25	47.24
Housing Revenue Account	40.40	39.35	38.31	37.27	36.23	35.19
<b>Total</b>	<b>84.05</b>	<b>82.50</b>	<b>85.80</b>	<b>87.15</b>	<b>84.48</b>	<b>82.43</b>

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:

£m	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
External Debt	64.21	63.17	62.13	61.08	60.04	59.00
Capital Financing Requirement	84.05	82.50	85.80	87.15	84.48	82.43
<b>(Under)/Over borrowing</b>	<b>(19.84)</b>	<b>(19.34)</b>	<b>(23.68)</b>	<b>(26.06)</b>	<b>(24.43)</b>	<b>(23.43)</b>

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:

£m	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
General Fund MRP	(1.37)	(1.67)	(1.57)	(1.88)	(2.19)	(2.13)
HRA MRP	(1.06)	(1.04)	(1.04)	(1.04)	(1.04)	(1.04)
<b>Total</b>	<b>(2.43)</b>	<b>(2.71)</b>	<b>(2.61)</b>	<b>(2.92)</b>	<b>(3.23)</b>	<b>(3.17)</b>

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:

£m	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Operational Boundary	82.50	85.80	87.15	84.48	82.43
Authorised Limit	99.00	102.00	103.00	100.00	98.00

## 6. Commercial Activity

### Current Position

- 6.1 The Council's existing investment property portfolio generates approximately £954k 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:

	£m
Office	3.95
Retail	2.77
Agriculture & Allotments	5.96
Commercial Land	10.08
Commercial Buildings	2.07
Mixed Commercial	8.33
<b>Total</b>	<b>33.16</b>

- 6.2 To date the majority of this portfolio has been accumulated by the Council rather than actively acquired. Tenancy agreements are produced by the 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 The Council is currently proposing to consider opportunities for investing in commercial property primarily for financial return; this being one of the four key objectives of the "Funding the Future" strategy.
- 6.5 The principles of the Property Investment Strategy were considered and approved by Cabinet on 18 December 2018. A draft Strategy was presented to Cabinet on 15 January 2019 and was referred on to Budget Council for approval together with proposed governance arrangements to underpin the strategy.
- 6.6 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 outside of their boundaries as this provides increased opportunities for acquiring good yields. However at this early stage, it is intended that the authority focusses its efforts on properties inside the Lancaster City Council boundaries.
- 6.8 As investment opportunities are identified and assessed the Council will ensure that the amount invested is 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, will be 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 The Capital Strategy Group will review proposals and make recommendations using an evidence made decision making framework with a scoring matrix which assesses the viability of any proposal.

The scoring matrix includes:

- 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, Assistant Chief Executive and Daniel Bates, Section 151 Officer both 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 use will be made of external advisers and consultants that are specialists in their field. The Council currently uses Link Asset Services, Treasury solutions as treasury management advisors.
- 7.5 In respect of commercial property investment sector specialist consultants will be used to supplement the experience of internal staff.

## **8. Review of the Capital Strategy**

- 8.1 As set out in 2.4, the Capital Strategy is an overarching document which covers the provisions set out in the separate Capital Programme, Asset Management Plan, Property Investment Strategy and Treasury Management Strategy. As such it covers all aspects of capital expenditure and financing. It follows that management and monitoring of these strategies should be brought together within a single governance process.
- 8.2 The Capital Strategy Group (set out in 4.6 to 4.9 and appendix one) will be the working group which will oversee the Capital Strategy and its associated strategies. Membership of this group includes the Finance Portfolio Holder, the Chairs of the Budget and Performance Panel and Overview and Scrutiny Committee alongside key officers. Although advisory in nature, the group will ensure that necessary consultation is carried out with Cabinet, relevant Portfolio Holders, Management Board and relevant Directors as part of decision making processes.
- 8.3 The remit of the group covers all capital expenditure assessment, monitoring and review processes. As such it will receive all progress and monitoring reports with respect to capital expenditure for review and scrutiny prior to submission to Cabinet, Budget and Performance Panel and Overview and Scrutiny Committee.

Appendix One

## Capital Strategy Group: Terms of Reference

### Role

1. The Capital Strategy Group (CSG) is a Member and officer working group with a clear remit to be the Council's advisory body in respect to the Council's Capital Strategy.
2. The Capital Strategy 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.

Each of the above areas of work are covered by the Capital Strategy, which is the Council's overarching document which aims to ensure that Council's capital investment priorities reflect Council priorities and are supported by a long term financing plan.

### Composition of CSG

3. The group will consist of the following Members and officers. Where representatives are not able to attend, a suitable alternative will attend in their place.
  - Cabinet Finance Portfolio Lead – Cllr Anne Whitehead
  - Overview and Scrutiny Chair – Cllr Nigel Goodrich
  - Budget and Performance Panel Chair – Cllr Dave Brooks
  - Relevant Cabinet Portfolio Holder – as required by nature of bids / investment proposals
  - Capital Strategy Officer Lead – Elaine Dowling
  - Section 151 Officer – Paul Thompson
  - Asset Management Plan Officer Lead – Gary Watson
  - Property Investment Strategy Officer Lead – Kieran Keane
  - Governance Lead – David Brown
  - Property Section Rep – Sarah Price
  - Regeneration/Economic Growth Lead – Jason Syers
  - ICT Rep – Ben Wainwright
  - Community and Environment Rep – Will Griffiths
  - Programme Manager – Claire Doublebois
  - MTFs Officer Lead – Dan Bates

### Frequency of Meetings

4. The CSG will meet every quarter by routine but will also meet on an ad-hoc basis as required as and when key proposals come forward. Routine meetings will be co-ordinated so that they inform quarterly monitoring processes to Cabinet and Budget and Performance Panel.

## Remit

### 5. *With respect to Capital Strategy*

- a) To keep the Capital Strategy document under review ensuring that it reflects the Council's capital investment priorities and review the Strategy as part of the MTFS update (around late summer each year).
- b) To maintain the capital bid and scoring assessment framework.
- c) To ensure that the Capital Strategy is informed by and consistent with the Corporate Plan and associated strategies, the Asset Management Plan and Property Investment Strategy.

### *With respect to the Capital Programme*

- d) To ensure that the Capital Programme broadly reflects the Council Plan/MTFS Objectives.
- e) To consider and score all bids to the capital programme and make accept/develop/reject recommendations to Cabinet.
- f) To monitor the progress of each scheme within the capital programme in terms of progress to date, expenditure and delivery of outcomes.
- g) To review all completed schemes with respect to outcomes and impact as well as lessons learned.
- h) To monitor the resources available to support the Capital Programme and ensure that, at all times, it remains affordable, sustainable and prudent.

### *With respect to the Asset Management Plan*

- i) Own and ensure the development of the Asset Management Plan and long term property strategy, ensuring that it is line with Council Plan / MTFS objectives.
- j) To undertake annual review of property holding in order to ensure that all property is utilised appropriately and consider any capital expenditure / receipt proposals associated with maintaining, updating, transferring or disposing of property assets.

### *With respect to the Property Investment Strategy*

- k) Own and ensure the development of the Property Investment Strategy ensuring that it is line with Council Plan /MTFS/Funding the Future objectives.
- l) Consider all property investment proposals in accordance with the three matrices set out in the Property Investment Strategy and make recommendations to Cabinet with respect to any agreed proposals having regard to the scrutiny process.
- m) Monitor performance with respect to the Property Investment Strategy in terms of individual proposals and in aggregate to ensure that it is meeting its stated outcomes.

## Decision Making

6. The CSG is a Member and Officer working group and as such is advisory and takes any decision-making power from the delegated authority of officers attending as set out in the Council's Constitution. It makes decisions only where priorities are already agreed by the Cabinet as part of the Council's budgetary framework. It also ensures that necessary consultation is carried out with Cabinet, relevant Portfolio Holders, Management Board and relevant Directors as part of the decision making process. Any proposal that is outside the approved budget and policy framework will be referred back to Cabinet or Council in accordance with the Constitution.

## Key Outcomes

### 7. The key outcomes from the CSG are:

- a) An effective Capital Programme optimising the capital investment resources to meet Council Plan objectives.
- b) Strategic property management ensuring full optimisation of Council property assets, maximising income and return and reducing expenditure where possible but ensuring assets are well maintained.
- c) Effective property investment contributing to the Council savings whilst managing risk and, where possible, delivering Council Plan outcomes.
- d) Enhanced long term planning of capital investment, better use and management of property assets, and accountability.
- e) The integration of the Capital Strategy in line with Council priorities as set out in the Council Plan.



<b>COUNCIL</b>
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**Treasury Management Strategy 2019/20  
27 February 2019**

**Report of Cabinet**

<b>PURPOSE OF REPORT</b>
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This report sets out the 2019/20 treasury management framework for Council's approval.
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This report is public
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**RECOMMENDATIONS:**

- 1) **That the Council notes the report and approves the Treasury Management Framework and associated Prudential Indicators as set out in Appendices 1 to 3.**

**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 would include commercial investments whereby the objective is primarily to generate capital or revenue resources. The resources thus generated would then help facilitate the delivery of council services.
- 1.6 The Prudential Code 2017 also introduced a new requirement to produce and 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. The Capital Strategy is included elsewhere on this agenda.

## **2 TREASURY MANAGEMENT FRAMEWORK**

2.1 The proposed Strategy for 2019/20 to 2022/23 is set out at **Appendix 3**. The document contains the necessary details to comply with both the Code and Government investment guidance. Responsibilities for treasury management are set out at **Appendix 1** and the policy statement is presented at **Appendix 2**.

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.

### **2.3 Borrowing Aspects of the Strategy**

2.3.1 Based on the draft budget, for now the physical borrowing position of the Council is projected to remain fairly constant over the next three years, allowing for scheduled repayments. It is also projected that the HRA capital programme will not require any additional borrowing.

### **2.4 Investment Aspects of the Strategy**

2.4.1 Overall, the strategy put forward follows on from 2018/19 in that it is based on the Council having a comparatively low risk appetite with focus on high quality deposits. The 2019/20 strategy continues to use the same investment criteria as approved by Members in 2018/19.

2.4.2 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.

## **3 Consultation**

3.1 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 19 February.

## **4 Conclusion**

4.1 The Treasury Management Framework must fit with other aspects of the budget, such as investment interest estimates and underlying prudential borrowing assumptions, feeding into Prudential and Treasury Management Indicators.

4.2 Any alternative proposals or amendments to the proposed Strategy in **Appendix 3** 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.

- 4.3 The proposed framework is based on the Council continuing to have a comparatively low risk appetite regarding the security and liquidity of investments. It is stressed though that in terms of treasury activity, as with many other functions, there is no risk free approach.

**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**

This report is in the name of the s151 Officer. His comments and advice are reflected in the report.

**LEGAL IMPLICATIONS**

Legal Services have been consulted and have no further comments.

**MONITORING OFFICER'S COMMENTS**

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

**BACKGROUND PAPERS**

None.

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## TREASURY MANAGEMENT FRAMEWORK DOCUMENTS AND RESPONSIBILITIES

For consideration by Council 27 February 2019

DOCUMENT	RESPONSIBILITY
<b>CODE of PRACTICE</b>	To be adopted by Council (as updated 2017).
<b>POLICY STATEMENT</b>	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.
<b>TREASURY MANAGEMENT STRATEGY</b>	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.
<b>TREASURY MANAGEMENT INDICATORS</b>	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.
<b>INVESTMENT STRATEGY</b>	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.
<b>TREASURY MANAGEMENT PRACTICES</b>	<p>These are documents that set out the procedures that are in place for the Treasury Management function within the Council. The main principles were approved by Cabinet following initial adoption of the Code of Practice; they include:</p> <ul style="list-style-type: none"> <li>TMP 1: Risk management</li> <li>TMP 2: Performance measurement.</li> <li>TMP 3: Decision-making and analysis.</li> <li>TMP 4: Approved instruments, methods &amp; techniques.</li> <li>TMP 5: Organisation, clarity and segregation of responsibilities, and dealing arrangements.</li> <li>TMP 6: Reporting requirements &amp; management information requirements.</li> <li>TMP 7: Budgeting, accounting &amp; audit.</li> <li>TMP 8: Cash &amp; cash flow management.</li> <li>TMP 9: Money laundering.</li> <li>TMP 10: Staff training &amp; qualifications.</li> <li>TMP 11: Use of external service providers.</li> <li>TMP 12: Corporate governance.</li> </ul> <p>It is the Section 151 Officer's responsibility to maintain detailed working documents and to ensure their compliance with the main principles. The content of the TMPs will be reviewed during 2018/19, in view of the recent changes to the treasury management regulatory framework.</p>
<b>FINANCIAL REGULATIONS</b>	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.

**LANCASTER CITY COUNCIL**  
**TREASURY MANAGEMENT POLICY STATEMENT**

**For consideration by Council**  
**27 February 2019**

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.

## Treasury Management Strategy 2019/20 to 2022/23

For Consideration by Council 27 February 2019

### 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."*

Revised reporting is required for the 2019/20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide

a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is being reported separately.

## 1.2 Reporting Requirements

### Capital Strategy

The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, 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.

## **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 2019/20**

The strategy for 2019/20 covers two main areas:

#### **Capital Issues**

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

#### **Treasury Management Issues**

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, Government MRP Guidance, the CIPFA Treasury Management Code and Government Investment Guidance.



## 1.4 Training

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate associated training. This especially applies to Members responsible for scrutiny. A training session will be arranged during 2019 accordingly with further training provided as required. 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.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

## 2 CAPITAL PRUDENTIAL INDICATORS 2018/19 – 2021/22

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	2017/18 Actual £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
General Fund	11.64	7.44	9.20	5.99	2.23	2.73
Housing Revenue Account (HRA)	4.03	4.16	4.77	4.15	4.25	4.16
<b>Total</b>	<b>15.67</b>	<b>11.60</b>	<b>13.97</b>	<b>10.14</b>	<b>6.48</b>	<b>6.89</b>
<b>Financed by:</b>						
Capital receipts	-1.28	-0.69	-0.49	-0.49	-0.49	-0.49
Capital grants	-5.59	-5.22	-2.44	-1.61	-1.61	-1.61
Capital reserves	-4.26	-3.67	5.13	-3.78	-3.82	-3.67
Revenue	-0.13	-0.86	0.00	0.00	0.00	0.00
<b>Net financing need for the year</b>	<b>4.41</b>	<b>1.16</b>	<b>5.91</b>	<b>4.26</b>	<b>0.56</b>	<b>1.12</b>

## 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 that is not wholly financed in-year 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	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
<b>Capital Financing Requirement</b>						
CFR – Non Housing	43.65	43.15	47.49	49.87	48.25	47.24
CFR – Housing	40.40	39.35	38.31	37.27	36.23	35.19
<b>Total CFR</b>	<b>84.05</b>	<b>82.50</b>	<b>85.80</b>	<b>87.15</b>	<b>84.48</b>	<b>82.43</b>
<b>Movement in CFR</b>						
Non Housing	3.00	-0.51	4.34	2.38	-1.63	-1.01
Housing	-1.06	-1.04	-1.04	-1.04	-1.04	-1.04
<b>Net Movement in CFR</b>	<b>1.98</b>	<b>-1.55</b>	<b>3.30</b>	<b>1.34</b>	<b>-2.67</b>	<b>-2.05</b>

<b>Movement in CFR represented by</b>						
Net financing need for the year (above) re Non Housing	4.41	1.16	5.91	4.26	0.56	1.12
Less MRP/VRP and other financing movements	-2.43	-2.71	-2.61	-2.92	-3.23	-3.17
<b>Net Movement in CFR</b>	<b>1.98</b>	<b>-1.55</b>	<b>3.30</b>	<b>1.34</b>	<b>-2.67</b>	<b>-2.05</b>

## 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 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:

For capital expenditure incurred after 01 April 2008, MRP will be based on:

- 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.

## 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	2017/18 Actual £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Fund balances / reserves	29.52	29.43	27.94	28.45	29.11	29.90
Capital receipts	0.00	0.00	0.00	0.00	0.00	0.00
Provisions	0.58	0.50	0.50	0.50	0.50	0.50
<b>Total core funds</b>	<b>30.10</b>	<b>29.93</b>	<b>28.44</b>	<b>28.95</b>	<b>29.61</b>	<b>30.14</b>
Working capital*	14.81	22.70	22.70	22.70	22.70	22.70
Under borrowing	-19.84	-19.34	-23.68	-26.06	-24.43	-23.43
<b>Expected investments</b>	<b>25.07</b>	<b>33.29</b>	<b>27.46</b>	<b>25.59</b>	<b>27.88</b>	<b>29.67</b>

\*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.

	2017/18 Actual £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
General Fund	15.5%	16.8%	16.8%	16.6%	17.4%	16.9%
HRA	21.7%	21.5%	20.9%	20.3%	19.5%	18.7%

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

## 3 BORROWING

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

### 3.1 Current Portfolio Position

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

	2017/18 Actual £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
<b>External Debt</b>						
Debt at 1 April	65.25	64.21	63.17	62.13	61.08	60.04
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	0.00	0.00	0.00	0.00
<b>Actual gross debt at 31 March</b>	<b>64.21</b>	<b>63.17</b>	<b>62.13</b>	<b>61.08</b>	<b>60.04</b>	<b>59.00</b>
<b>The Capital Financing Requirement</b>	<b>84.05</b>	<b>82.50</b>	<b>85.80</b>	<b>87.15</b>	<b>84.48</b>	<b>82.43</b>
<b>Under Borrowing</b>	<b>-19.84</b>	<b>-19.34</b>	<b>-23.68</b>	<b>-26.06</b>	<b>-24.43</b>	<b>-23.43</b>

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 the current year 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 Interim 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	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Debt*	82.50	85.80	87.15	84.48	82.43
Other long term liabilities	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>84.05</b>	<b>85.80</b>	<b>87.15</b>	<b>84.48</b>	<b>82.43</b>

- *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	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Debt	98.00	101.00	102.00	99.00	97.00
Other long term liabilities	1.00	1.00	1.00	1.00	1.00
<b>Total</b>	<b>99.00</b>	<b>102.00</b>	<b>103.00</b>	<b>100.00</b>	<b>98.00</b>

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

HRA Debt Limit	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
HRA debt cap*	60.19	60.19	60.19	60.19	60.19
HRA CFR	39.35	38.31	37.27	36.23	35.19
<b>HRA headroom</b>	<b>20.84</b>	<b>21.88</b>	<b>22.92</b>	<b>23.96</b>	<b>25.01</b>

- **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-19	Mar-20	Mar-21	Mar-22
Bank Rate	0.75%	1.25%	1.50%	2.00%
3 Month LIBID	0.90%	1.30%	1.60%	2.00%
6 Month LIBID	1.00%	1.50%	1.80%	2.20%
12 Month LIBID	1.20%	1.60%	2.00%	2.40%
5yr PWLB rate	2.10%	2.30%	2.60%	2.80%
10yr PWLB rate	2.50%	2.80%	3.00%	3.20%
25yr PWLB rate	2.90%	3.20%	3.40%	3.60%
50yr PWLB rate	2.70%	3.00%	3.20%	3.40%

*The flow of generally positive economic statistics after the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, from 0.5% to 0.75%. Growth became increasingly strong during 2018 until slowing significantly during the last quarter. At their November quarterly Inflation Report meeting, the MPC left Bank Rate unchanged, but expressed some concern at the Chancellor's fiscal stimulus in his Budget, which could increase inflationary pressures. However, it is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. On a major assumption that Parliament and the EU agree a Brexit deal in the first quarter of 2019, then the next increase in Bank Rate is forecast to be in May 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.*

*Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. 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 2019/20 but be on a gently rising trend over the next few years;*
- *Borrowing interest rates have been volatile so far in 2018-19 and while they were on a rising trend during the first half of the year, they have backtracked since then until early January. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt;*
- *There will remain a cost of carry, (the difference between higher borrowing costs and lower investment returns) to any new long-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 2019/20 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 long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then any long term borrowings would be postponed, and potential rescheduling from fixed rate funding into short term borrowing would be considered.*
- *if it was felt that there was a significant risk of a much sharper RISE in long and short term 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. Most likely, if need be, fixed rate funding would be drawn if interest rates were lower than projected to be in the next few years.*

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

### **3.5 Maturity Structure of Borrowing**

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

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

	2018/19	2019/20	2020/21	2021/22	2022/2023
<b>Interest rate exposures</b>					
	<b>Upper</b>	<b>Upper</b>	<b>Upper</b>	<b>Upper</b>	<b>Upper</b>
<b>Limits on fixed interest rates based on net debt</b>	100%	100%	100%	100%	100%
<b>Limits on variable interest rates based on net debt</b>	30%	30%	30%	30%	30%

<b>Maturity structure of fixed interest rate borrowing 2019/20</b>	<b>£m</b>	
Under 12 months	1.04	1.65%
12 months and within 24 months	1.04	1.65%
24 months and within 5 years	3.12	4.94%
5 years and within 10 years	5.20	8.23%
10 years and within 15 years	5.20	8.23%
15 years and within 25 years	8.35	13.22%
25 years and within 50 years	39.22	62.08%

### 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

As short term borrowing rates are expected to be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- \* the generation of cash savings and / or discounted cash flow savings;
- \* helping to fulfil the treasury strategy;



- \* enhance the balance of the portfolio (amend the maturity profile and / or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

Any rescheduling will be reported to Cabinet at the earliest meeting following any 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 applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long term ratings.
2. **Other Information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this the council will engage with its advisors to maintain a monitor on market pricing such as “**credit default swaps**” and overlay that information on top of the credit ratings.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. The authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in **annex B2** under the categories of ‘specified’ and ‘non-specified’ investments.

- **Specified investments** are those with a high level of credit quality and subject of a maturity limit of one year.
  - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or more complex instruments which require greater consideration by members and officers before being authorised for use.
5. **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being 20% of the total investment portfolio. (see paragraph 4.3)
  6. **Lending limits** (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2
  7. **Transaction limits** are set for each type of investment in 4.2
  8. The Council will set a limit for the amount of its investments which are invested for **longer than 365 days** (see paragraph 4.4)
  9. Investments will only be placed with counterparties from countries with a specified minimum sovereign rating (see paragraph 4.3)
  10. The Council has engaged **external consultants** (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
  11. All investments will be denominated in **sterling**.

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
<b>Banks /UK Govt. backed instruments*</b>	<b>yellow</b>	£12m	≤1 year
<b>Banks</b>	<b>purple</b>	£6m	≤1 year
<b>Banks</b>	<b>orange</b>	£6m	≤1 year
<b>Banks – part nationalised</b>	<b>blue</b>	£12m	≤1 year
<b>Banks</b>	<b>red</b>	£6m	≤6 mths
<b>Banks</b>	<b>green</b>	£3m	≤100 days
<b>Banks</b>	<b>No colour</b>	<b>Not to be used</b>	
<b>Limit 3 category – Council’s banker (for non-specified investments)</b>	<b>n/a</b>	£1m	1 day
<b>DMADF</b>	<b>AAA</b>	<b>unlimited</b>	<b>≤6 months</b>
<b>Local authorities**</b>	<b>n/a</b>	£12m	≤1 year
	Fund rating	Money and/or % Limit	Time Limit
<b>Money Market Funds CNAV</b>	<b>AAA</b>	£6m	liquid

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

*\* 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 2019. 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 investment portfolio to non-specified investments, countries, groups and sectors

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

### 4.4 Investment Strategy

**In-house Funds:** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (iup to 12 months).

**Investment Returns Expectations:** On the assumption that the UK and EU agree a Brexit deal in spring 2019, the Bank Rate is forecast to increase steadily but slowly over the next few years to reach 2.00% by quarter 1 2022. Bank Rate forecasts for financial year ends (March) are:

- 2018/19 0.75%
- 2019/20 1.25%
- 2020/21 1.50%
- 2021/22 2.00%

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

- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.50%
- 2021/22 1.75%
- 2022/23 2.00%

The overall balance of risks to economic growth in the UK is probably neutral. The balance of risks to increases in Bank Rate and shorter term PWLB rates are probably also even and are dependent on how strong GDP growth turns out, how slowly inflation pressures subside and how quickly the Brexit negotiations move forward positively.

**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:

<b>Maximum principal sums invested &gt; 365 days</b>					
	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/22</b>
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.

## 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
<b>DMADF – UK Government</b>	N/A	<b>100%</b>	<b>N/A</b>	<b>6 months</b>
UK Government gilts	UK sovereign rating	100%	<b>N/A</b>	1 year
UK Government Treasury bills	UK sovereign rating	100%	<b>N/A</b>	1 year
Bonds issued by multilateral development banks	AAA	100%	<b>N/A</b>	6 months
Money Market Funds CNAV	AAA	100%	<b>N/A</b>	Liquid
Money Market Funds LVNAV	AAA	100%	<b>N/A</b>	Liquid
Money Market Funds VNAV	AAA	100%	<b>N/A</b>	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	100%	<b>N/A</b>	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	100%	<b>N/A</b>	Liquid
Local authorities	N/A	100%	<b>N/A</b>	1 year
Term deposits with banks and building societies	Yellow	100%	20%	Up to 1 year
	Purple	100%	20%	Up to 1 year
	Blue	100%	N/A	Up to 1 year
	Orange	100%	20%	Up to 1 year
	Red	100%	20%	Up to 6 Months
	Green	100%	20%	Up to 100 days
	No Colour	0%	0%	Not for use
Certificates of Deposit and corporate bonds with banks and building societies	Yellow	20%	0%	Up to 1 year
	Purple	20%	0%	Up to 1 year
	Blue	20%	0%	Up to 1 year
	Orange	20%	0%	Up to 1 year
	Red	0%	0%	Up to 6 Months
	Green	0%	0%	Up to 100 days
	No Colour	0%	0%	Not for use

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

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

## 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

<b>COUNCIL</b>
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**Budget Framework 2019 to 2023  
Medium Term Financial Strategy Update – 2019/20 to 2023/24  
27 February 2019**

**Report of Cabinet**

<b>PURPOSE OF REPORT</b>
To provide a refresh of the Council's Medium Term Financial Strategy for 2019/20 to 2023/24.
This report is public.

**RECOMMENDATIONS:**

- (1) **That the Medium Term Financial Strategy (MTFS) be approved as set out at Appendix 1.**

**1 INTRODUCTION**

- 1.1 The previous reports on this agenda consider the annual processes for setting the revenue budget and capital programme. The MTFS takes the 2019/20 revenue budget and agreed capital programme as a starting point and looks forward to the next four financial years.

**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 MTFS looks to do this over the medium term which covers the life of the next Council.

- 2.2 Last 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's Corporate Plan, *Ambitions*, was approved during 2017/18 with the following priorities:

- Clean and Safe Neighbourhoods
- Healthy and Happy Communities
- A Thriving and Prosperous Economy
- An Ambitious and Forward-Thinking Council.

- 2.3 From 2020/21, The MTFS update recognises significant financial challenges and a budget gap which is greater than £2m. It will be essential for the Council to start addressing these challenges during 2019/20 and the MTFS sets out the importance of Funding the Future initiatives to make efficiency savings and seek alternative sources of income in order to protect service delivery and a focus on corporate priorities.
- 2.4 Proposals are set out, in a previous report, for the capital programme up to 2022/23 which provides a strong focus on Council infrastructure as well as corporate priority areas. The MTFS anticipates future schemes coming forward in respect of the Economic Growth Plan, Climate Change Action Plan, Property Investment Strategy and in respect of maximising asset utilisation. A Member and Officer Capital Strategy Group has been constituted to ensure that these ambitious plans are effectively incorporated into the capital programme in a way which is affordable, sustainable and prudent.
- 2.5 The MTFS effectively sets the Council’s financial strategy going forward. If the Council is to deliver in its corporate priority areas whilst securing its financial resilience, the strategy will need to be regularly reviewed and monitored. To this end, the document includes an action plan and governance arrangements to ensure that progress is carefully managed.

**3 CONCLUSION**

- 3.1 This report addresses the actions required to set the budget framework for the next four years.

<p><b>RELATIONSHIP TO POLICY FRAMEWORK</b></p> <p>The budget should represent, in financial terms, what the Council is seeking to achieve through its Policy Framework.</p>
<p><b>CONCLUSION OF IMPACT ASSESSMENT</b></p> <p>(including Diversity, Human Rights, Community Safety, Sustainability etc)</p> <p>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.</p>
<p><b>LEGAL IMPLICATIONS</b></p> <p>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.</p>
<p><b>FINANCIAL IMPLICATIONS</b></p> <p>As set out in the report and appendix.</p>
<p><b>OTHER RESOURCE IMPLICATIONS</b></p> <p><b>Human Resources / Information Services / Property / Open Spaces:</b></p> <p>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.</p>

**SECTION 151 OFFICER'S COMMENTS**

The Medium Term Financial Strategy is a key financial strategy document.

In revenue terms, the MTFS sets out the significant challenge that the Council is facing in terms of budget gaps for the next four years. The funding and expenditure outlook assumptions which give rise to the budget gap will need to be carefully monitored over the next year as the Government finalises its Fair Funding Review which will set levels of Government funding from 2020/21 onwards. Importantly, the MTFS proposes a strategy and action plan for bridging the budget gap via efficiencies and increasing income whilst protecting services. As such the monitoring of progress will be essential throughout 2019/20.

In capital terms, the MTFS anticipates significant large scale projects coming forward particularly in the area of Sustainable Economic Growth. The Strategy considers the 'building blocks' that will be required in order to deliver such projects in a way that is affordable, sustainable and prudent.

**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: Dan Bates**

**Telephone: 01524 582138**

**E-mail: [dbates@lancaster.gov.uk](mailto:dbates@lancaster.gov.uk)**

**Medium Term Financial Strategy (MTFS) – 2019/20 to 2023/24**

**1. Purpose of the Medium Term Financial Strategy**

- 1.1 The Medium Term Financial Strategy sets out how Lancaster City Council will manage finances over the next four years in support of the council’s priorities which are set out in the Council Plan, *Ambitions*.
- 1.2 This Strategy provides an overview of the Council’s financial outlook. It is effectively a collection of interrelated strategies and action plans which will support the delivery of ambitious plans for Lancaster, Morecambe, Heysham and Carnforth and coastal and rural villages in a financially sustainable way.
- 1.3 The Council has faced significant financial challenges over the last seven years as government grant, its main source of funding, has been significantly reduced. With little prospect of any real terms increase in government funding over the next four years, the Council will need to take positive action to deliver its ambitions without reducing service provision whilst seeking to build financial and organisational resilience and capacity.
- 1.4 This will be achieved by effectively managing the Council’s finances, seeking new sources of income, reviewing our spending priorities and pursuing efficiencies in the way we work.

**2 Council Priorities**

- 2.1 The Council Plan, *Ambitions* sets out four priorities as shown in the diagram below. It follows that key spending and investment decisions will have regard to these priorities as well as to the protection of effective customer focussed day to day Council services.



### 3 Objectives of the Medium Term Financial Strategy

- 3.1 The key aim of this document is to set out the financial plans and processes which underpin the Council's Corporate Plan whilst ensuring that finances are managed effectively and in accordance with relevant statutory, legislative and good practice requirements.
- 3.2 A number of objectives are set out below together with the key strategic documents which have been developed to address those objectives.

MTFS Objective	How will we achieve this?
<ul style="list-style-type: none"> <li>To set out the Council's financial position and forecasts for income, expenditure and funding for the next four years.</li> </ul>	The <b>Four Year Revenue Budget and Capital Programme</b> will set out expenditure and funding forecasts for the next four years, identifying budget gaps.
<ul style="list-style-type: none"> <li>To seek innovative solutions to overcome the impact of funding reductions and enable balanced revenue budgets over the next four years which protect service provision and direct resources towards the Council's priorities.</li> </ul>	<p>The <b>Funding the Future</b> financial resilience strategy sets out four pillars for positively addressing budget gaps. These include:</p> <ul style="list-style-type: none"> <li>A zero based budget challenge to ensure that the revenue budget focusses on priority outcomes</li> <li>Pursuing efficiency with rigour</li> <li>A <b>Property Investment Strategy</b> focussed on delivering a net positive yield from property investments in the Lancaster district.</li> <li>A commercial strategy to consider alternative service delivery vehicles</li> </ul>
<ul style="list-style-type: none"> <li>To provide an ongoing assurance that the Council remains financially sustainable and resilient.</li> </ul>	The <b>Reserves Strategy</b> will ensure that the Council identify the levels of balances that are required to manage risks associated with funding uncertainties as well as earmarked projects. Levels will be regularly monitored against known risks to ensure that the Council remains financially resilient.
<ul style="list-style-type: none"> <li>To direct capital investment towards ambitious projects that deliver measurable impact in respect of the Council Plan.</li> </ul>	The <b>Capital Strategy</b> will set out the Council's capital investment priorities alongside a long term financing plan. It will also establish effective arrangements for managing capital expenditure from the inception of projects through to scheme delivery and post project assessment.
<ul style="list-style-type: none"> <li>To ensure that the Council gets the most from its asset inventory having regard to effective utilisation and ongoing maintenance and investment needs.</li> </ul>	The <b>Asset Management Plan</b> will set out a long term strategic plan to ensure that the Council effectively utilises and maintains its property holdings. It will seek to establish the best use for all asset holdings having regard to financial return and community benefits.
<ul style="list-style-type: none"> <li>To ensure that the authority effectively manages cashflows so that surplus monies are invested wisely and borrowing for capital investment is prudent and affordable.</li> </ul>	The <b>Treasury Management Strategy</b> sets out the procedures for maximising return from investing surplus monies having regard to risk and the Council's cashflow requirements. It will also cover the funding of the Capital Programme ensuring long term cashflows are prudential and affordable.
<ul style="list-style-type: none"> <li>To ensure that the Council provides value for money and, where possible, its spending benefits the local economy.</li> </ul>	The <b>Procurement Strategy</b> will seek to optimise Council expenditure both in terms of value for money and, whenever possible, to provide positive wider social, economic and environmental impacts for the Lancaster district.
<ul style="list-style-type: none"> <li>To oversee effective financial governance by regular review and scrutiny of financial performance and an ongoing review of the effectiveness of this Medium Term Financial Strategy.</li> </ul>	The <b>MTFS Action Plan</b> is derived from a gap analysis assessment between the aspirations set out in this MTFS and existing processes to focus on the actions and decisions required by the Council to maximise financial management in support of Council's priorities.

3.3 The above objectives are considered in more detail in the main body of this strategy. Specifically:

- **Section Four - Understanding the Budget Gap**  
Section four sets out the extent of the Budget Gap in the medium term. Starting with a balanced 2019/20 revenue budget, it considers the funding outlook over the next few years incorporating the Government's Fair Funding Review which will set funding totals for Lancaster in the medium term as well as scenarios for council tax and business rates. Taken together with forecasts for expenditure and income, the budget gap and the extent of the medium term financial challenge is summarised in this section.
- **Section Five - Bridging the Budget Gap**  
Having established the extent of the financial challenge, section five considers plans for bridging the gap in a way which seeks to protect services by delivering savings and efficiencies via the Funding the Future strategy, directorate restructures and proactive asset management.
- **Section Six - Financial Resilience and Reserves Strategy**  
Section six looks at the Council's financial resilience and more specifically the level of usable reserves available to the Council. The Council's Reserves Strategy seeks to determine the optimum level of usable reserves in order to balance the need to protect against financial risks with providing for the future investment in support of the MTFS so that ongoing savings can be achieved.
- **Section Seven – Capital Investment Priorities**  
Section seven covers the Council's Capital Programme and a new Capital Strategy which introduces enhanced governance processes including a new capital bids process and a Capital Strategy Group made up of the Finance Portfolio Holder and the Chairs of Overview and Scrutiny and Budget and Performance. The Strategy anticipates future expenditure that may arise from detailed actions plans covering economic growth and tackling climate change. Combined with the new Property Investment Strategy and proactive asset management plan, the Capital Strategy Group will oversee a robust approach to project assessment and monitoring in order to ensure that capital investment plans reflect key corporate priorities and generate revenue savings in a way which is prudent, affordable and sustainable.
- **Section Eight – The MTFS Action Plan**  
The MTFS and associated strategies set out objectives and principles which govern financial management at the Council over the medium term. Section eight sets out an action plan to ensure that management translate strategy into specific and measurable actions, focussed on making an early start (ie. in 2019/20) towards delivering the savings required to meet the 2020/21 budget gap.
- **Section Nine – Monitoring and Review**  
Having set the Medium Term Financial Strategy and action plan, section nine sets out how this will be monitored throughout the next year. Monitoring will focus, in year, on the revenue budget and capital programme but also on Funding the Future initiatives both in terms of process (ie. how we do it) and outcome (ie. what is it achieving). Whilst monitoring the Council's financial performance is important, this should sit alongside performance monitoring in respect of corporate priority outcomes, service delivery and the impact of Council's plans in terms of social value.



## The Four Year Revenue Budget

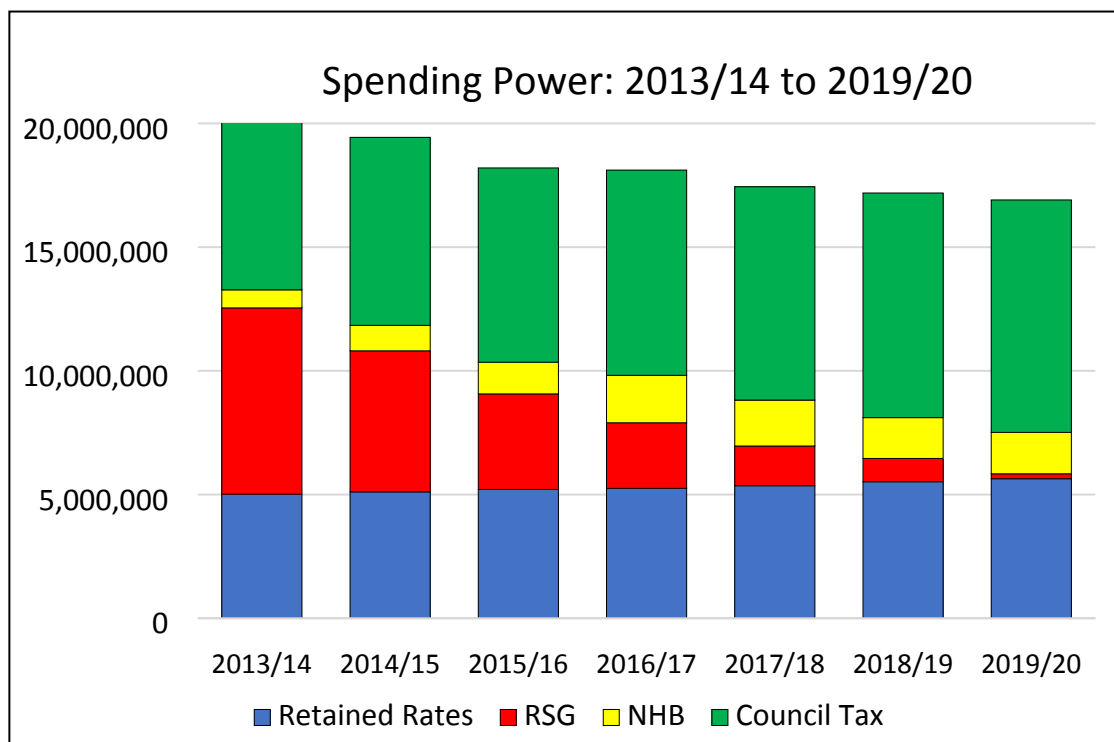
**MTFS Objective:** To set out the Council's financial position and forecasts for income, expenditure and funding for the next four years.

### Revenue Budget 2019/20

- 4.1 A balanced revenue budget for 2019/20 was proposed by Cabinet to Full Council on 30 January 2019 and this is shown in appendices A and B. The balanced budget acts as the baseline for future funding estimates and net revenue expenditures for the next four years which when taken together provide a gap analysis for the medium term.

### Funding Outlook

- 4.2 Like all local authorities, Lancaster City Council has experienced significant reductions in Government funding since 2010/11. The graph below shows local authority funding after 2013/14 when localised business rates was introduced. Over this period, the Council's Settlement Funding Assessment, made up of Revenue Support Grant and retained rates, has reduced by £6.704m (53.44%) with the Revenue Support Grant element reducing from £7.533m in 2013/14 to just £200k in 2019/20.



- 4.3 Looking forward, Revenue Support Grant will disappear entirely after 2019/20, and Lancaster City Council will be entirely funded from council tax, New Homes Bonus and retained business rates. The next section provides an outlook in respect of each of these funding sources.

### Council Tax

- 4.4 Council tax has become, by far, the most important funding source for Lancaster City Council over the past decade. In 2010/11, Council Tax accounted for 34% of the Council's funding but by 2019/20 it will account for 56%.
- 4.5 Council on 30 January 2019 voted to increase the City Council's element of council tax by 2.99%, the maximum allowable without reference to a referendum and, for the purposes of financial planning, to increase council tax by 2.99% in each subsequent year to 2023/24.
- 4.6 Council tax forecasts are shown below together with alternative scenario analyses.

<b>Council Tax</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
Taxbase	41,200	41,400	41,814	42,232	42,654	43,081
Taxbase Growth		0.49%	1.00%	1.00%	1.00%	1.00%
Band D	220.36	226.95	233.73	240.72	247.92	255.33
Band D increase		2.99%	2.99%	2.99%	2.99%	2.99%
<b>Council Tax Requirement</b>	<b>9,078,832</b>	<b>9,395,730</b>	<b>9,773,186</b>	<b>10,166,121</b>	<b>10,574,894</b>	<b>10,999,873</b>
<i>Above Assumptions: 1% taxbase growth from 2020/21 onwards. 2.99% increase in band D throughout the medium term</i>						
<i>Scenario A: No increase in Council Tax over period of MTFS</i>		-272,826	-559,053	-859,846	-1,175,557	-1,506,543
<i>Scenario B: Slow down in property growth to 18/19 growth levels (0.49%)</i>			-49,792	-103,324	-160,806	-222,459
<i>Scenario C: Increase in property growth to 1.5%</i>			48,383	100,905	157,832	219,445
<i>Scenario D: 1% drop in council tax collection rate</i>		-93,957	-97,732	-101,661	-105,749	-109,999

- 4.7 Scenario A shows the significant revenue budget impact that freezing council tax would have over the MTFS period, demonstrating the increased importance of council tax to achieving a balanced budget. Scenarios B and C show the impact of slower or faster taxbase growth over the period and scenario D covers the reduction in income from lower collection rates. Scenarios B and D are covered as potential risks when considering adequacy of the General Fund reserve as part of the reserves strategy.

### **New Homes Bonus**

- 4.8 New Homes Bonus was introduced in 2011 to provide an incentive for local authorities to encourage housing growth in their area. In 2019/20, the Council will receive £1,671 for every new band D equivalent property above a baseline growth of 0.4% as well as £350 for each affordable home. Each year the total NHB is the aggregate of the reward in each of the last four years.
- 4.9 New Homes Bonus forecasts are shown below together with alternative scenarios.

<b>New Homes Bonus</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
Annual Reward	361,030	274,251	250,000	250,000	250,000	250,000
Previous Years Rewards	1,288,487	1,397,410	1,035,682	885,281	774,251	750,000
<b>New Homes Bonus</b>	<b>1,649,517</b>	<b>1,671,662</b>	<b>1,285,682</b>	<b>1,135,281</b>	<b>1,024,251</b>	<b>1,000,000</b>
<i>Above Assumptions: NHB remains in place as currently and similar levels of housing growth as currently are experienced over the MTFS period</i>						
<i>Scenario E: NHB phased out over four years</i>			-250,000	-500,000	-750,000	-1,000,000
<i>Scenario F: NHB scrapped and returned as SFA</i>			-1,242,384	-1,091,983	-980,953	-956,702

- 4.10 A significant reduction (-£386k) in New Homes Bonus is anticipated in 2020/21, this is because the annual reward for 2016/17 which was £636k will fall out of the bonus and be replaced by an estimated 2020/21 annual reward of £250k. Of greater concern are reports that New Homes Bonus is to be phased out or scrapped altogether (covered in scenarios E and F). Additionally, there is a risk that districts 80% share of the bonus might be reduced in order to increase the share to County Councils.

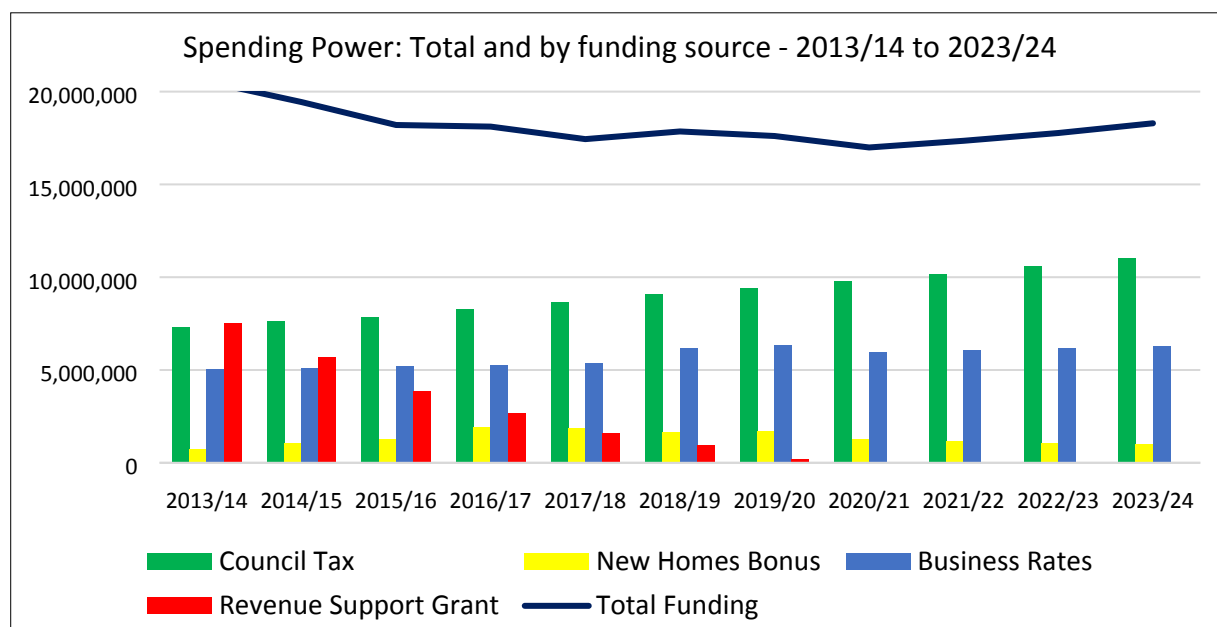
### **Business Rates**

- 4.11 From 2020/21 onwards, the Council's entire Government funding will be received in the form of localised business rates. The fair funding review will reassess needs for all local authorities and this will change the amount of business rates which the Council is permitted to retain. In addition to this, the Council will continue to retain a share of any growth in business rates that occurs in the district. At the same time the business rates baseline will be reset which will return any accumulated growth in Lancaster to the government and this is reflected in the business rates estimates in the table below.

- 4.12 Lancaster City Council has always carried the risk of having in its rates base Heysham Nuclear Power Station. The risk arises from the possibility of a shut down at the power station which would immediately cancel their business rates liability reducing the Council's business rates income significantly. The council has for a number of years reflected this risk in its revenue budget and as it has not materialised a business rates reserve with a balance of £6.3m has accumulated.
- 4.13 The forecasts for business rates below continue to provide for the power station risk which is why the alternative scenarios provide significantly higher funding outcomes.

Business Rates	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
- Baseline	5,518,328	5,644,789	5,177,685	5,281,238	5,386,863	5,494,601
- Growth	962,009	982,670	243,286	318,443	396,867	478,668
- Green Disregard	927,700	906,729	924,864	943,361	962,228	981,473
- Compensation for uplifts lower than RPI	151,764	212,537	216,787	221,123	225,546	230,056
- Risk factor (Power Station closedown)		-1,406,029	-631,613	-714,536	-800,882	-890,763
- Business Rates Surplus	2,971,600					
- Transfer to Bus. Rates Res.	-4,347,700					
<b>Business Rates Income</b>	<b>6,183,700</b>	<b>6,340,695</b>	<b>5,931,009</b>	<b>6,049,629</b>	<b>6,170,622</b>	<b>6,294,035</b>
<i>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.</i>						
<i>Scenario G: The power station does not closedown</i>			631,613	714,536	800,882	890,763
<i>Scenario H: No reduction in baseline following Fair Funding Review</i>			385,113	463,106	544,423	629,175
<i>Scenario I: 1% net rates growth every year</i>			68,570	140,932	217,243	297,667

- 4.14 Whilst Lancaster City Council is likely to retain the risk associated with Heysham Power Station going forward, it has accumulated sufficient reserves to cover the risk over the medium term. The reserves strategy considers how this accumulation of reserves may be redeployed towards council priorities.
- 4.15 Scenario I highlights the possible benefits of economic growth to Lancaster. It is important that, when looking forward consideration is given to the potential additional retained rates that will accrue from successful promotion of economic growth, which is a key council priority.
- 4.16 Taken together, the funding outlook for the medium term 2013/14 to 2023/24 is shown below.



**Net Expenditure Outlook**

- 4.17 The Council's strategy is to identify cost pressures and growth items as early as possible and incorporate these into the Medium Term Financial Strategy. These can arise for a variety of reasons and can be annual or 'one-off' in nature.
- 4.18 All growth items considered as part of the 2019/20 revenue budget have been incorporated into the four year revenue budget. Other main areas of cost pressure are considered below.

**Salaries**

- 4.19 Employee costs account for the largest proportion of Council expenditure. Forecasts for 2020/21 onwards take account of an estimated 2% pay increase each year as well as incremental progression. The 2019/20 revenue budget incorporates savings related to increasing the vacancy allowance of £111k (shown separately in the table below) as well as preliminary savings of £130k from directorate reorganisations. More work will be undertaken during 2019/20 to model the future impact of reorganisation plans, both in terms of savings and potential redundancy and pension strain costs, and this is included in the MTFs Action Plan.

	2018/19 (£000)	2019/20 (£000)	2020/21 (£000)	2021/22 (£000)	2022/23 (£000)	2023/24 (£000)
Employee costs including pensions	19,650	20,745	21,642	22,146	22,538	22,988
Vacancy allowance	(407)	(518)	(528)	(539)	(549)	(560)

**Pension liabilities**

- 4.20 The Council's pension liability is subject to a triennial review, next due in 2020/21. A number of factors can impact on the pension liability such as fund performance and demographic factors such as people living longer and these factors will impact on annual employer pension contributions. In the above table, an increase of approximately £0.5m has been factored into employees costs for 2020/21 onwards and this will be reviewed when the triennial review is completed.

**Inflation**

- 4.21 Inflation for supplies and services is modelled within the medium term forecasts. In order to make savings in 2019/20, inflation was removed from a number of budget lines and this contributed savings of £203k. No further inflation savings have been factored in beyond 2019/20 but this remains a viable option.

**Procurement Strategy**

- 4.22 The development of an updated procurement strategy has been included in the MTFs Action Plan. The strategy will be updated to take account of the Council's ambitions with respect to community wealth building and to ensure that social, environmental and economical impact on the area is positively maximised.

**Waste Management / Recycling round**

- 4.23 A cost pressure for a new refuse and recycling round (£203k) was deferred in 2019/20 as the existing rounds were deemed to be sufficient to absorb all new properties. However, at some point a tipping point will be reached where a new round is required to meet additional housing numbers. The budget for 2020/21 assumes that the additional round will be needed and this will be reviewed during 2019/20. There is potential that route optimisation work might enable the Council to defer the extra round for a longer period.

## Premises

4.24 The Council has a significant property portfolio and premises related expenditure in 2019/20 is set to be £9.5m with additional net expenditure over the medium term as set out below. The MTFS action plan includes a specific focus on the Asset Management plan to include a review of all property holdings to ensure that they meet the aims of the council, particularly in respect of optimisation and financial efficiencies. This review should be capable of reducing the Council's net expenditure on property.

	2018/19 (£000)	2019/20 (£000)	2020/21 (£000)	2021/22 (£000)	2022/23 (£000)	2023/24 (£000)
Repairs & Maintenance*	3,616	3,632	3,475	3,443	3,553	3,645
Rates	1,155	1,185	1,244	1,291	1,323	1,359
Utilities	1,370	1,492	1,519	1,564	1,611	1,651
Grounds Maintenance	1,556	1,610	1,642	1,660	1,694	1,728
Other Premises Costs	1,673	1,628	1,592	1,596	1,640	1,684
<b>Total Premises Costs</b>	<b>9,370</b>	<b>9,546</b>	<b>9,471</b>	<b>9,553</b>	<b>9,821</b>	<b>10,066</b>

\* Repairs and Maintenance expenditure includes some items which are recharged to the HRA

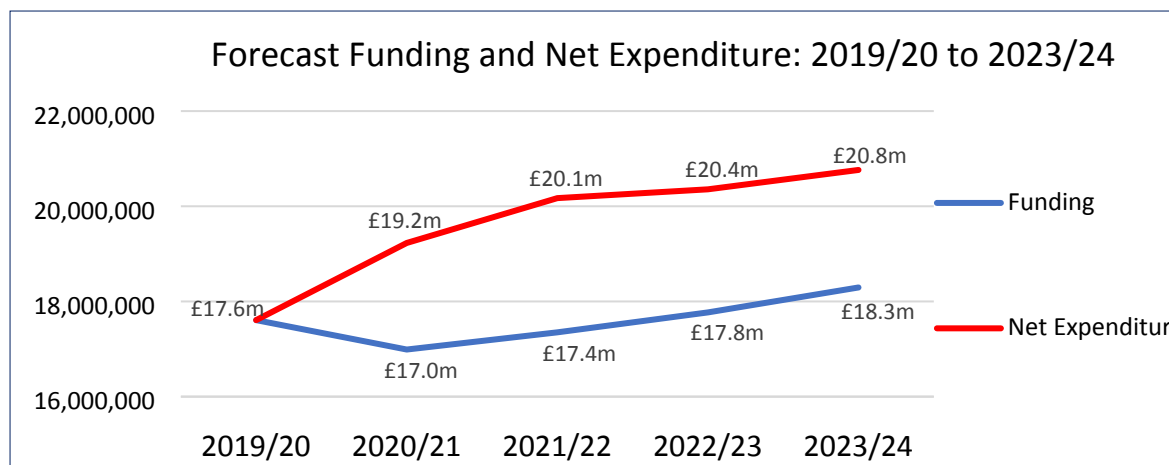
## Incomes

4.25 Income from fees and charges in 2019/20 is budgeted at £17.4m and the additional income over the medium term period is shown in the table below. A full review of fees and charges is included in the MTFS Action Plan.

	2018/19 (£000)	2019/20 (£000)	2020/21 (£000)	2021/22 (£000)	2022/23 (£000)	2023/24 (£000)
Salt Ayre	2,425	2,511	2,640	2,719	2,785	2,841
Car Parks	2,767	2,828	2,917	2,975	3,033	3,092
Trade Refuse Collections	1,417	1,426	1,461	1,490	1,518	1,547
Planning Application Fees	900	1,000	1,000	1,000	1,000	1,000
Green Waste Collection	960	903	903	921	939	957
Rental Income	1,037	1,049	1,058	1,065	1,067	1,069
H.B. Overpayment Recoveries	1,182	1,162	1,162	1,162	1,162	1,162
Business Rates from Green Energy	928	928	907	969	990	990
Other Incomes	5,149	5,611	5,804	5,851	5,948	6,044
<b>Total Direct Incomes</b>	<b>16,765</b>	<b>17,418</b>	<b>17,852</b>	<b>18,152</b>	<b>18,442</b>	<b>18,702</b>

## Budget Gap

4.26 Taking account of the funding outlook (paras 4.4 to 4.16) and the net expenditure outlook (paras 4.17 to 4.25) the budget gap analysis is shown in the graph and table below.



- 4.27 A thorough review of the funding and net expenditure outlook will be undertaken during the first part of 2019/20 as part of the budget 'decluttering' exercise covered in 5.2 below. This exercise will take account of latest estimates as well as the improvement initiatives arising from the Funding the Future strategy covered in the next section in order to establish where future savings might arise.

## 5. Meeting the Budget Gap: Funding the Future

**MTFS Objective:** To seek innovative solutions to overcome the impact of funding reductions and enable balanced revenue budgets over the next four years which protect service provision and direct resources towards the Council's priorities.

- 5.1 Cabinet adopted its Financial Resilience strategy, *Funding the Future* at a meeting on 4 December 2018. This strategy acknowledged the budget gaps outlined in the previous section and sets out an objective to bridge those gaps via a combination of four related improvement initiatives as an alternative to managing decline. These are:
- Developing proposals for revisiting and effectively zero basing the budget using an outcomes based approach
  - Pursuing efficiency with rigour right across the Council
  - Developing and implementing a Commercial Strategy
  - Investing for a return or to save on cost whilst adding to wealth building in the area
- 5.2 The Funding the Future strategy stresses the urgency to address financial resilience during 2019/20 so that savings are identified prior to the annual budget process for 2020/21. With this in mind, the MTFS Action Plan provides more specificity with respect to early actions to be taken in 2019/20 which will include:
- The establishment of a budget book tool to understand the cost of all services including support services by 'decluttering' the budget of notional charges including recharges and a benchmarking exercise to compare net service expenditure with similar authorities
  - Commencement of end to end efficiency reviews for HR and payroll, purchase to payment, debt management and development management
  - Conclusion of work on a Local Authority Trading Company for Salt Ayre Leisure Centre and completion of a scoping document which considers appropriate alternative service delivery mechanisms across other Council services
  - Approval of property investment strategy and consideration of first property investment proposals by the Member/Officer Capital Strategy Group
- 5.3 The initiatives highlighted above will require, in some instances, upfront investment which will be funded from the Budget Support Reserve based upon a medium term payback from ongoing savings.

### **Staff Reorganisations**

- 5.4 The senior management reorganisation will have been completed in 2018/19 and the three new Directors will be putting forward reorganisation plans for the three new Directorates. Proactive workforce planning aims to ensure that the costs of reorganisations are minimised through vacancy control and the offer of flexible working. Savings of £130k have been identified from staff reorganisation in the 2019/20 budget and whilst no additional savings have been identified from 2020/21, it is expected that the three reorganisations will identify significantly more reductions in staff expenditure over the next four years.
- 5.5 Each of the Directors will report to Cabinet with a costed reorganisation proposal during 2019/20. It is expected that there will be some up front costs associated with redundancy and pension strain which will be funded from the restructuring reserve based upon a medium term payback from ongoing savings.

**Premises Reorganisation**

**MTFS Objective:** To ensure that the Council gets the most from its asset inventory having regard to effective utilisation and ongoing maintenance and investment needs.

- 5.6 The Asset Management Plan sets out clear objectives to review the Council's asset portfolio with a view to ensuring that operational assets are optimised and any surplus assets are utilised for maximum return, both financially and in terms of the Council's priorities. A corporate property reserve is available for initiatives that maximise the use of property assets based upon a medium term payback from ongoing savings. Additionally, the capital programme bidding process favours property bids where an effective contribution is made to reduced costs or increased income.
- 5.7 One key corporate property review will cover the Council's offices to see whether a rationalisation of office space might be capable of freeing up property assets where alternative use might bring in income and/or reduce premises expenditure.
- 5.8 The MTFS Action Plan includes the overall review of property holdings in terms of return and utilisation as well as the specific review of the Council's own offices.

**6. Financial Resilience and the Reserves Strategy**

**MTFS Objective:** To provide an ongoing assurance that the Council remains financially sustainable and resilient.

- 6.1 The level of reserves is often used as a key measure of local authority financial resilience as reserves can be used in case of a financial shock, to fund a budget gap during a transitional period or to provide 'one-off' upfront investment which allows for future savings.
- 6.2 The Section 151 Officer is required to provide a statement on the adequacy of reserve levels having regard to the risks faced by the authority, financial assumptions in constructing budgets and the adequacy of the authority's financial management. Lancaster City Council has built up its usable reserves over the last few years and is reasonably financially resilient; an assessment of potential scenarios which may give rise to unanticipated expenditure has demonstrated that the Council has sufficient General Fund balances to withstand significant financial shocks in the short term.
- 6.3 The Council's largest earmarked reserve is its Business Rates Reserve. The purpose of this reserve is to protect the Council against funding fluctuations associated with risks which the Council is exposed to with respect to the localised business rates system, particularly regarding Heysham Nuclear Power Station. To date the Council has set aside sufficient reserves to manage funding risks for the MTFS period and the Reserves Strategy sets out the possibility that some of the surplus in this reserve might now be redirected towards corporate priority areas.
- 6.4 The Reserves Strategy also focusses the forward use of reserves in support of the MTFS. In the previous section, a number of reserves have been identified where initial upfront investments might be funded from reserves in order to make ongoing savings. The Reserves Strategy proposes a process, similar to revenue growth and capital bids, which requires reserve bids to be supported by complete business cases setting out the outcomes and impacts that will arise from any initial investments.

## 7. Capital Strategy and Capital Programme

**MTFS Objective:** To direct capital investment towards ambitious projects that deliver measurable impact in respect of the Council Plan.

7.1 The Capital Programme for 2019/20 to 2022/23 is set out in Appendix C and is summarised in the table below.

	18/19 £m	19/20 £m	20/21 £m	21/22 £m	22/23 £m	Total £m
Council Housing	4.16	4.77	4.15	4.25	4.16	<b>21.49</b>
Disabled Facilities Grants	2.65	2.36	1.61	1.61	1.61	<b>9.84</b>
Vehicles & Plant	0.81	1.46	2.30	0.51	0.79	<b>5.87</b>
Sea & River Defence Works	2.43	0.45	0.42	-	-	<b>3.30</b>
Council Properties	0.48	2.72	-	-	-	<b>3.20</b>
Econ. Dev. & Regeneration	0.33	1.29	-	-	-	<b>1.62</b>
Parks, Sport & Recreation	0.21	0.12				<b>1.33</b>
ICT Infrastructure & Equip.	0.29	0.23	0.33	0.10	0.34	<b>1.29</b>
Solar Energy	-	0.36	0.32	-	-	<b>0.68</b>
S106 Funded Schemes	0.15	0.14	-	-	-	<b>0.29</b>
Car Parks & CCTV	0.1	0.07	-	-	-	<b>0.17</b>
<b>Total</b>	<b>11.61</b>	<b>13.97</b>	<b>10.13</b>	<b>6.47</b>	<b>6.90</b>	<b>49.08</b>
<b>Funded by</b>						
Capital Receipts	(0.69)	(0.49)	(0.49)	(0.49)	(0.49)	<b>(2.65)</b>
Capital Grants & Contributions	(5.23)	(2.44)	(1.61)	(1.61)	(1.61)	<b>(12.50)</b>
Capital Reserves	(3.67)	(5.13)	(3.77)	(3.81)	(3.68)	<b>(20.06)</b>
Revenue	(0.86)	-	-	-	-	<b>(0.86)</b>
*Unsupported Borrowing	(1.16)	(5.91)	(4.26)	(0.56)	(1.12)	<b>(13.01)</b>
<b>Total</b>	<b>(11.61)</b>	<b>(13.97)</b>	<b>(10.13)</b>	<b>(6.47)</b>	<b>(6.90)</b>	<b>(49.08)</b>

7.2 For the first time in 2019/20, the Council has adopted a Capital Strategy. This 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.

7.3 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, *Ambitions* 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 the strategic, economic, financial, commercial and management cases. 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

7.4 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 particularly over the next couple of 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 its



assessment. Similarly other strategies under development in the coming months which have capital expenditure implications, such as the Climate Change Action Plan, will also be considered by the group.

### ***Property Investment Strategy***

7.5 The 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 Strategy will look to build a balanced property portfolio which maximises net yield, after taking account of costs including financing costs, but also, where appropriate, contributes to the Council's corporate priorities. All proposals will be considered by the Capital Strategy Group focussing on three separate assessments including financial yield, risk management and outcomes. The Group will also consider the capital expenditure implications in respect of all proposals.

### ***Asset Management Plan***

- 7.6 The Councils' Asset Management Plan sets out the following objectives:
- 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.
- 7.7 Projects which come forward from the Asset Management Plan will be assessed by the Capital Strategy Group alongside other capital bids based upon the criteria set out in the Capital Strategy as well as capital expenditure implications.

### ***Treasury Management Strategy***

- 7.8 The Treasury Management Strategy is a CIPFA Code of Practice requirement which needs to be reviewed annually and sets out our investing and borrowing activities for the next 4 years.
- 7.9 On the investing side, the Council usually has large sums of cash available and the Strategy covers how surplus monies will be invested having regard to a low risk appetite. The Strategy covers the organisations that the Council will deal with in order to maximise return whilst minimising risk. It also sets maximum levels of investment with any one organisation in order to spread that risk.
- 7.10 On the borrowing side, the Strategy considers the impact on the Council's Capital Programme on its borrowing to ensure that all borrowing is affordable, prudent and sustainable. A key part of this is the Minimum Revenue Provision (MRP) policy which ensures that an adequate charge is made to the revenue budget based on the estimated life of each asset created as a result of the related capital expenditure. The MRP ensures that the Council is able to repay borrowing when it becomes due and so prevents the Council from borrowing beyond its means.

## **8 MTFS Action Plan**

8.1 It is clear from the funding and expenditure outlook in section 4 that the Council has a significant challenge in the form of a greater than £2m budget gap from 2020/21 onwards and whilst section 5 sets out the Funding the Future Strategy aimed at bridging the gap, it is essential that the Council starts delivering against this plan in 2019/20. Accordingly, an Action Plan covering the important areas of work to deliver the Medium Term Financial Strategy is set out below and section 9 covers monitoring and governance arrangements for this plan.

Area of MTFS (para ref)	Action	Responsibility	Reporting to
4 year revenue budget (4.26)	Refresh funding outlook as part of MTFS update to reflect Government fair funding review and latest updates for Council Tax and Business Rates as well as review of areas of net expenditure.	Director of Corporate Services	September 2019 Cab, B&P
Decluttered Budget Book (5.2)	Publish revised budget book showing expenditure on all service areas excluding recharges and capital charges.	Section 151 Officer	June 2019 Cab, B&P
Benchmarking Revenue Expenditure (5.2)	Benchmarking toolkit showing costs of services (including support services) compared with similar authorities. Income, fees and charges also to be considered.	Director of Corporate Services	June 2019 Cab, B&P
Zero Based Budgeting (5.1)	Formation of Member/Officer Group to undertake Zero Based Budgeting exercise including considering the process for undertaking the exercise including consultation	Director of Corporate Services	June 2019 O&S
Efficiency Reviews (5.2)	Completion of end to end efficiency reviews for <ul style="list-style-type: none"> <li>• HR and payroll,</li> <li>• Purchase to payment</li> <li>• Debt management</li> <li>• Development management</li> </ul>	Director of Corporate Services  Director of Economic Growth & Regeneration	December 2019 O&S
Procurement Strategy (4.22)	Revise procurement strategy to ensure that the Council's procurement positively maximises the economic, social and environmental impact on the Lancaster district.	Section 151 Officer	September 2019 Cab
Commercial Strategy (5.2)	Finalise LATC Business Case for Salt Ayre Leisure	Deputy Director Communities & Environment	June 2019 Cab, O&S
	Produce recommendations considering priorities for bringing forward future commercial arrangements for delivery of Council services.	Chief Executive	June 2019 Cab, O&S
Property Investment Strategy (5.2/7.5)	Bring forward first Property Investment proposals via Capital Strategy Group.	Director of Economic Growth & Regeneration	April 2019 Cab, O&S, B&P
	Produce quarterly monitoring report covering all property investments incorporating existing commercial properties.	Director of Corporate Services	July 2019 Cab, B&P
Funding the Future Strategy (section 5)	Produce quarterly monitoring report covering progress in respect of Funding the Future including proposed, actual and future savings targets.	Chief Executive	September 2019 Cab, B&P
Staff Reorganisations (5.4)	Complete all three Directorate organisations, providing fully costed business plans to be incorporated into 4 year revenue budget.	Directors (C&E, P&R, CS)	September 2019 Cab
Asset Management Plan (5.6/7.6)	Produce action plan for the maximum utilisation of all key property assets covering the MTFS period.	Senior Property Officer	June 2019 Cab, O&S
Developing the Corporate Plan (7.4)	Complete Economic Growth Plan incorporating all revenue and capital programme considerations.	Director of Planning & Regeneration	June 2019 Cab
	Complete Climate Change Action Plan incorporating all revenue and capital programme considerations.	Director of Communities & Environment	June 2019 Cab
Capital Strategy Group (7.3)	Finalise the capital bidding and scoring process.	Capital Accountant	September 2019

## 9 Monitoring, Review and Governance

9.1 This MTFS update covers a balanced revenue budget for 2019/20 and a capital programme for the years 2019/20 to 2022/23. It also takes a closer look at funding and spending assumptions in the medium term to 2023/24 to establish the medium term budget gap and section 5 of this MTFS considers plans for closing this budget gap. In terms of monitoring and review the following key areas are identified.

Area of MTFS	Monitoring	Governance
Revenue Budget 2019/20	<ul style="list-style-type: none"> <li>Quarterly finance monitoring report of revenue budget</li> <li>Review of growth bids in respect of planned outcomes</li> <li>Review of planned savings</li> <li>Review of council tax and business rates collection performance</li> </ul>	Quarterly reporting to: <ul style="list-style-type: none"> <li>Cabinet</li> <li>Budget and Performance Panel</li> </ul>
Four Year Budget Gap	<ul style="list-style-type: none"> <li>Half year review of council tax funding (taxbase growth and collection rate)</li> <li>Half year review of business rates funding including growth retention</li> <li>Reset of Council's Baseline Funding Level and share of business rates growth and New Homes Bonus forecasts</li> </ul>	Half Yearly reporting to: <ul style="list-style-type: none"> <li>Cabinet</li> <li>Budget and Performance Panel</li> </ul>
Bridging the Gap	<ul style="list-style-type: none"> <li>Progress in respect of Funding the Future and establishment of saving targets arising from the four pillars</li> <li>Consideration of three directorate restructures, savings targets and use of restructure reserve</li> </ul>	Progress reported to Cabinet and Overview and Scrutiny
Reserves	<ul style="list-style-type: none"> <li>Reserves position to be incorporated into quarterly finance reporting</li> <li>Use of reserves to be reviewed against planned outcomes on reserves bid</li> </ul>	Quarterly reporting to: <ul style="list-style-type: none"> <li>Cabinet</li> <li>Budget and Performance Panel</li> </ul>
Capital Programme	<ul style="list-style-type: none"> <li>Detailed financial and outcomes based monitoring on a scheme by scheme basis as well as programme monitoring to be considered by Capital Strategy Group</li> <li>Capital monitoring incorporated into quarterly finance monitoring report</li> </ul>	Capital Strategy Group  Quarterly reporting to: <ul style="list-style-type: none"> <li>Cabinet</li> <li>Budget and Performance Panel</li> </ul>
New Capital Schemes	<ul style="list-style-type: none"> <li>All new capital schemes will be considered and scored by Capital Strategy Group prior to recommendation to Council</li> </ul>	Capital Strategy Group
MTFS Action Plan	<ul style="list-style-type: none"> <li>Quarterly report on progress</li> </ul>	Overview and Scrutiny Committee

## 10 Appendices

Please note that the appendices referred to in this report are included elsewhere within the Budget Council reports. Once approved, they will be incorporated into this document.

**COUNCIL****Housing Revenue Account  
Budget Framework 2019 to 2023  
27 February 2019****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 2019/20 and update its financial strategy to 2023.

This report is public.

**RECOMMENDATIONS:**

- (1) That Cabinet's recommendation to approve the council housing rent levels for 2019/20, 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 minimum level of HRA unallocated balances be retained at £0.5M from 01 April 2019, and that the full Statement on Reserves and Balances as set out at *Appendix C* be approved.
- (5) That the Council Housing Capital Programme be approved, as set out in *Appendix D*.
- (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 12 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 Prior to 2016/17 the HRA was well placed to invest and enhance its service provision significantly, but the Council's opportunities in this area fundamentally reduced as a result of subsequent Government policy changes.
- 2.3 Unfortunately, through the Welfare Reform and Work Act 2016, the Government removed the ability of the Council to determine its own rent policy and these restrictions are in place until 2019/20. From 2020/21 onwards – or at least for a five year period – local authorities should be able to revert to increasing general average rents year on year by Consumer Price Index (CPI) inflation plus 1%.
- 2.4 Taking the above points into account, the Council's current rent policy is summarised as follows:

For general properties, average rent of £71.05 applies for 2019/20, representing a 1% year on year reduction.	For sheltered and supported properties, average rent of £66.08 applies for 2019/20, also representing a 1% year on year reduction.
Following relevant properties becoming vacant, they will be re-let at 'formula rent' less the relevant cumulative year on year reduction applicable (i.e. generally -4% in 2019/20).	
For 2020/21 onwards, it is assumed that council housing rents will increase by 3.0% year on year, subject to annual review of inflation forecasts, and any future determinations that may be issued by Government from time to time.	

- 2.5 The Government's new policy on rent setting from 2020/21 onwards has resulted in a sustainable position over the life of the 30-year business plan culminating in a surplus of £65.9M by the end of the 30-year period, albeit recognising the risks regarding long term rent policy.
- 2.6 It should be reinforced that the healthy 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, for all years from 2020/21 onwards, but this is by no means certain. The risks surrounding this assumption must be appreciated.
- 2.7 To demonstrate, should Government legislate to allow only CPI inflationary increases in rents from 2025/26 onwards (with no plusage), then the £65.9M projected surplus would reduce down to somewhere nearer £34M.

### 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 three 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 2018/19. For example:
- A reduction in empty property re-let time from an average of 60+ days per property to 25 days over a twelve months period, efficiencies which have realised over £100k in previously uncollected rental income
  - Housing Quality Network (HQN) accreditation achieved for best practice within Income Management; successes achieved in preventing rent arrears and promoting tenancy sustainment for council tenants
  - European funding obtained through ECIF for More Positive Together (MPT), match funding utilised to fund two Employability Coaches for the district, in partnership with KEY (Lancashire based charity)
  - Continued development of Household Intervention Service; offering intensive support for tenants with complex needs
  - Repair and Maintenance (RMS) development plan underway; to deliver system improvements, efficiencies, and enhancements to the customer experience
- 3.4 Through the business planning process the following needs have been identified:
- Develop and implement a marketing strategy to rebrand council housing to become 'housing of choice'
  - Continue with aspirations for new build council housing to meet demand and investigate alternative vehicles for delivery
  - Continue to develop shared resources and expertise with the corporate ASB team
  - Further develop agile/mobile working technology and system changes to improve efficiencies and quality of service
  - Protect current income, continued focus on reduction in empty home turnover and improvements to the 'end to end' lettings process, ensuring sustainability of improved performance
  - Continue to improve the effectiveness and efficiency of the Repairs and Maintenance Service (RMS) through investment in technology to extend mobile working
  - Growing expertise and developing partnerships to better meet the needs of vulnerable tenants, with a focus on tenancy sustainment and delivering services in line with the needs of residents
  - Continue with existing support to community centres and continued development of community led services through cross-service working

- 3.5 Strategies are being developed to address these 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:
- To continue with existing support to community centres
  - Creation of System Implementation Project Manager post
  - To increase the HRA contribution to the Anti-Social Behaviour team
  - RMS Development Plan Phase 2

#### 4 **CAPITAL PROGRAMME**

- 4.1 The proposed Council Housing capital programme is included at **Appendix D**.
- 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 2019/20 capital programme includes provision for development work to prepare plans and options for a major capital project for a transformational refurbishment of the Mainway Estate.
- 4.4 The scope of the project is ambitious and will incorporate all planned capital works to the communal areas, replacement lifts, and new roofs, and co-ordinate these into an estate wide scheme to refurbish the windows, facades and entrance ways. Proposals will consider remodelling of the external spaces, facilities and traffic.
- 4.5 Work over the forthcoming year will define the proposed project. 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; potentially £3M-£4M, with significant preparatory work within 2019/20, and a start date within 2020/21.
- 4.6 In terms of increasing council housing supply, planning applications for two new-build schemes at Carnforth have been withdrawn pending further consultation. New-build ambitions remain, however, and the search for potential sites and opportunities is ongoing. The conversion of other buildings is currently taking place at Ripley Court with further schemes at Melling House and Beech Avenue due to start in the forthcoming months.
- 4.7 On that note, Government produced a Green Paper, 'A New Deal for Social Housing', in August 2018, based around five themes, one of which, "Expanding supply and supporting home ownership" could clearly have an influence on the Council's future strategies to provide more social housing in the district. At this stage the impact of the Green Paper is uncertain, but may have wider implications for the future direction of the HRA.
- 4.8 Also, based on Government's proposal on rent setting from 2020/21, it is more feasible for other options to be explored in terms of how the Council might seek to help increase housing stock within (or alternatively outside of) the HRA.

- 4.9 Taking account of the above points the total draft five year programme for 2018/19 onwards now stands at £21.496M, 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 C**.
- 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 2019 to support the budget forecasts as part of the overall medium term financial planning for the HRA.
- 5.3 As at 31 March 2019 HRA Balances are forecast to be £1.798M, which is £1.298M above the recommended minimum level.
- 5.4 All other surplus resources are held in the Business Support Reserve. As at 31 March 2019, around £8.3M 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 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

- 6.1 Revenue Budget  
Council may adjust its HRA revenue budget proposals, as long as the overall budget for 2019/20 balances and fits with its approved rent levels, which Council cannot change.
- 6.2 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 2018/19 and 2019/20 must balance.
- 6.3 Other Budget Framework Matters (Reserves and Provisions)  
Given known commitments, risks and housing rent 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.
- 6.4 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
- 6.5 Depending on the nature of any alternative proposals put forward, Officers may need time to assess the risks and implications. This is to ensure that relevant



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

**7 CONCLUSION**

7.1 This report addresses the actions required to complete the budget setting process for 2019/20, 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. 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 (Part 4 section1 constitution) of the Council Procedure Rules, and accordingly a recorded vote should be taken.

**BACKGROUND PAPERS**

Equality Impact Assessments for budget proposals.

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## HOUSING REVENUE ACCOUNT BUDGET

For Consideration by Council 27 February 2019

	2018/19 Budget £	2018/19 Revised £	2019/20 Budget £	2020/21 Forecast £	2021/22 Forecast £	2022/23 Forecast £
<b>INCOME</b>						
Rental Income - Council Housing	(13,336,700)	(13,436,700)	(13,529,700)	(13,708,000)	(14,128,200)	(14,541,400)
Rental Income - Other (Shops and Garages etc.)	(282,500)	(268,300)	(290,900)	(295,000)	(299,200)	(303,500)
Charges for Services & Facilities	(1,496,600)	(1,525,400)	(1,553,000)	(1,588,100)	(1,620,000)	(1,651,600)
Grant Income	(7,700)	(7,700)	(7,700)	(7,700)	(7,700)	(7,700)
Contributions from General Fund	(103,200)	(104,300)	(105,000)	(111,800)	(113,100)	(116,900)
<b>Total Income</b>	<b>(15,226,700)</b>	<b>(15,342,400)</b>	<b>(15,486,300)</b>	<b>(15,710,600)</b>	<b>(16,168,200)</b>	<b>(16,621,100)</b>
<b>EXPENDITURE</b>						
Repairs & Maintenance	5,097,500	5,167,100	5,106,600	5,228,800	5,338,100	5,444,200
Supervision & Management	3,155,000	3,195,600	3,243,700	3,367,100	3,438,000	3,522,000
Rents, Rates & Insurance	212,700	177,900	193,300	208,700	224,200	239,600
Contribution to Provision for Bad and Doubtful Debts	181,800	181,800	183,800	186,100	188,500	188,500
Depreciation & Impairment of Fixed Assets	2,601,200	2,786,100	2,786,100	2,772,300	2,772,300	2,771,700
Debt Management Costs	1,100	1,100	1,100	1,100	1,100	1,100
<b>Total Expenditure</b>	<b>11,249,300</b>	<b>11,509,600</b>	<b>11,514,600</b>	<b>11,764,100</b>	<b>11,962,200</b>	<b>12,167,100</b>
<b>NET COST OF HRA SERVICES</b>	<b>(3,977,400)</b>	<b>(3,832,800)</b>	<b>(3,971,700)</b>	<b>(3,946,500)</b>	<b>(4,206,000)</b>	<b>(4,454,000)</b>
Capital Grants and Contributions Receivable	(2,000)	0	0	0	0	0
Interest Payable & Similar Charges	1,883,700	1,882,900	1,845,000	1,806,900	1,768,600	1,730,000
Premiums & Discounts from Earlier Debt Rescheduling	0	0	0	0	0	0
Interest & Investment Income	(76,600)	(62,000)	(72,900)	(97,700)	(102,000)	(82,000)
Pensions Interest Costs & Expected Return on Pensions Assets	169,400	169,400	177,800	232,400	231,900	231,900
Self Financing Debt Repayment	1,041,400	1,041,400	1,041,400	1,041,400	1,041,400	1,041,400
<b>(SURPLUS) OR DEFICIT FOR THE YEAR</b>	<b>(961,500)</b>	<b>(801,100)</b>	<b>(980,400)</b>	<b>(963,500)</b>	<b>(1,266,100)</b>	<b>(1,532,700)</b>
Adjustments to reverse out Notional Charges included above	2,000	0	0	0	0	0
Net Charges made for Retirement Benefits	0	0	0	0	0	0
Transfer to/(from) Earmarked Reserves - for Revenue Purposes	0	0	0	0	0	0
Capital Expenditure funded from Major Repairs Reserve	971,100	703,200	1,099,200	799,200	896,200	807,200
Transfer from Earmarked Reserves - for Capital Purposes	(346,500)	(94,800)	(227,300)	76,400	80,000	73,500
Financing of Capital Expenditure from Earmarked Reserves	485,000	200,000	405,000	100,000	100,000	100,000
<b>TOTAL (SURPLUS) / DEFICIT FOR THE YEAR</b>	<b>150,100</b>	<b>7,300</b>	<b>296,500</b>	<b>12,100</b>	<b>(189,900)</b>	<b>(552,000)</b>
<b>GROWTH PROPOSALS</b>						
Community Development	0	0	14,300	14,600	14,900	15,200
System Implementation Project Manager	0	0	34,400	36,800	38,700	40,700
Anti-Social Behaviour	0	0	50,000	51,000	52,000	53,000
RMS Development Plan (funded by ICT Replacement Reserve)	0	0	0	0	0	0
<b>TOTAL GROWTH</b>	<b>0</b>	<b>0</b>	<b>98,700</b>	<b>102,400</b>	<b>105,600</b>	<b>108,900</b>
<b>UPDATED TOTAL (SURPLUS) / DEFICIT FOR THE YEAR</b>	<b>150,100</b>	<b>7,300</b>	<b>395,200</b>	<b>114,500</b>	<b>(84,300)</b>	<b>(443,100)</b>
Housing Revenue Account Balance brought forward	(1,716,702)	(2,017,736)	(2,010,436)	(1,615,236)	(1,500,736)	(1,585,036)
<b>HRA BALANCE CARRIED FORWARD</b>	<b>(1,566,602)</b>	<b>(2,010,436)</b>	<b>(1,615,236)</b>	<b>(1,500,736)</b>	<b>(1,585,036)</b>	<b>(2,028,136)</b>

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.

## 2019 to 2023 BUDGET PROCESS GROWTH PROPOSAL

**DIRECTORATE:** Communities and the Environment (HRA)

**PROPOSAL:** Community Centres - Community Development and Support

The purpose of this proposal is to provide ongoing financial support to both the Ridge and Marsh Community Centres over a three year period to enable the Centres to contribute to the Council's community development and support ambitions, as set out in the Council Plan, in a planned and sustained way.

The costs outlined below represent a continuation of the funding provided to both the Ridge and Marsh community centres for 17/18 and 18/19.

### ESTIMATED REVENUE COSTS/(SAVINGS)

	2019/20	2020/21	2021/22	2022/23
	£	£	£	£
Ridge Community Centre – Community Development Grant (above existing budget figure)	300	300	300	300
Marsh Community Centre – Community Development Grant	14,000	14,300	14,600	14,900
<b>Total</b>	<b>14,300</b>	<b>14,600</b>	<b>14,900</b>	<b>15,200</b>

### FOLLOWING BUDGET COUNCIL – 28 FEB 2019

**ESTIMATED LEAD-IN:** Not applicable

**IMPLEMENTATION DATE:** 1<sup>st</sup> April 2019

### REDIRECTION FROM OTHER BUDGETS –

Funded from internal resources, impacts on HRA 30 year business plan but plan still sustainable

### PERFORMANCE MEASURES/OUTPUTS (e.g. what key performance improvements will be achieved / what measurable outputs will be achieved):

Support for the delivery hubs within the community; providing community space for local voluntary and community organisations to offer support and shared activities, for example delivering clubs, activities, meetings, and other valuable services and activities.

From 2019 a focused, quarterly monitoring programme will be in place, reporting on the nature and frequency of activities and services being delivered, and including qualitative and quantitative data demonstrating delivery of a community hub which meets the expectations of residents.

### AGREED SUPPORT REQUIREMENTS / PROGRAMMING IMPLICATIONS:

Service Level Agreement, Support, and Programme will be managed by the Community Engagement Officer (Council Housing)

## 2019 to 2023 BUDGET PROCESS GROWTH PROPOSAL

**DIRECTORATE:** Communities and the Environment (HRA)

**PROPOSAL:** New post – System Implementation Project Manager

Over the next 5 years there are major renewals of ICT systems required relating to the delivery of council housing services including homelessness prevention, housing options, maintenance of the housing register, allocations and lettings, housing management, lifeline upgrade, asset management, and repairs and maintenance.

It has been identified that the organisation as a whole does not have current capacity to lead and project manage the procurement and implementation of these housing ICT systems, or to manage the project teams over this time period to ensure the projects run to plan, within budget, and that the overall risks are effectively managed.

Discussions with ICT have confirmed that they are not able to fully resource these projects and that they would support the addition of this position within council housing.

The potential implications of not creating the resource is that the council will not be able to efficiently and effectively deliver or manage its services relating to its housing function. The difficulties, over the past three years, in failing to achieve routine upgrades to the Northgate OHMS housing management system, are an illustration of this fact.

Without the necessary planned upgrades to current systems, for example, council housing are currently operating an unsupported system; failure of this system would threaten the ability to raise weekly rent debits, and collect rent.

The additional resource and expertise provided by this post will facilitate the procurement, delivery, and maintenance of systems, and allow effective management of any associated risk.

### ESTIMATED REVENUE COSTS/(SAVINGS)

	2019/20	2020/21	2021/22	2022/23
	£	£	£	£
System Implementation Project Manager Salary (G5)	34,400	36,800	38,700	40,700
<b>Total</b>	<b>34,400</b>	<b>36,800</b>	<b>38,700</b>	<b>40,700</b>

**FOLLOWING BUDGET COUNCIL – 28 FEB 2019**

**ESTIMATED LEAD-IN:** 3 Months

**IMPLEMENTATION DATE:** 1<sup>st</sup> July 2019

**REDIRECTION FROM OTHER BUDGETS –** *Where else from within the Services could this proposal be funded from?*

Funded from internal resources, impacts on HRA 30 year business plan but plan remains sustainable

**PERFORMANCE MEASURES/OUTPUTS** *(e.g. what key performance improvements will be achieved / what measurable outputs will be achieved):*

- Effective procurement, implementation, and upgrade of vital ICT systems.

**AGREED SUPPORT REQUIREMENTS / PROGRAMMING IMPLICATIONS:**

System procurement, implementation, and upgrade requires ICT support. This additional post would reduce the resource requirement burden on ICT.

## 2019 to 2023 BUDGET PROCESS GROWTH PROPOSAL

**DIRECTORATE:** Communities and the Environment (HRA)

**PROPOSAL:** HRA contribution to the ASB Team

Health and Housing Services have developed a capacity within the Public Protection Team to respond to ASB issues across the district.

The ASB Team is funded through a variety of sources including funding through the HRA to provide additional intervention and enforcement capacity on the council's estates. Cabinet previously approved funding into 2019/20. The additional intervention and enforcement capacity has proven to be an important resource in the toolkit for tackling ASB.

It is proposed that the funding should be increased and extended to 2022/23 ongoing as a substantive budget to fund the ASB team.

### ESTIMATED REVENUE COSTS/(SAVINGS)

	2019/20	2020/21	2021/22	2022/23
	£	£	£	£
ASB Team contribution (additional funding)	50,000	51,000	52,000	53,000
<b>Total</b>	<b>50,000</b>	<b>51,000</b>	<b>52,000</b>	<b>53,000</b>

### FOLLOWING BUDGET COUNCIL – 28 FEB 2019

**ESTIMATED LEAD-IN:** one month

**IMPLEMENTATION DATE:** 1 April 2019

**REDIRECTION FROM OTHER BUDGETS** – *Where else from within the Services could this proposal be funded from?*

Funded from internal resources, impacts on HRA 30 year business plan but plan still sustainable

**PERFORMANCE MEASURES/OUTPUTS** (e.g. what key performance improvements will be achieved / what measurable outputs will be achieved):

Co-ordinated support for the resolution of ASB cases within the community – across tenure.  
See "Anti-Social Behaviour Team" growth proposal submitted via General Fund budget reporting for detailed measures/outputs.

### AGREED SUPPORT REQUIREMENTS / PROGRAMMING IMPLICATIONS:

Post proposed to continue to sit within the public protection team.



## 2019 to 2023 BUDGET PROCESS GROWTH/REDIRECTION PROPOSAL

**SERVICE:** Communities and the Environment

**PROPOSAL:** RMS Development Plan Phase 2

To implement and utilise a dynamic scheduling tool for repairs and maintenance appointments and work scheduling. Following on from the introduction of a new Schedule of Rates (originally detailed in the RMS Development Plan) a more dynamic scheduling tool will be required. The current system of offering appointments at the point of call is fragmented and not fit for purpose. Staff processing incoming repair requests have limited appointment slots which do not consider the geographical spread of requests. This results in duplication of effort in having to rearrange appointments due to insufficient time to complete repairs – and impacts on the number of repairs completed Right 1<sup>st</sup> Time. This also inconveniences tenants in having to wait in for a second or third visit to complete a repair.

Currently two IT systems are used for processing incoming repair requests (Northgate OHMS for initial receipt of request) and allocation/completion of works (Totalmobile). The new Schedule of Rates details accurate times (Standard Minute Values – SMV) to complete specific tasks. Aligned with a scheduling tool capable of allocating specific appointment times based on geographical location will equate to increased efficiencies and tenant satisfaction.

A suitable dynamic scheduling tool (Optimise – supplied and supported by Totalmobile) has all the functionality required to provide more accurate appointments and reduced travel time between jobs due to allocating work based on post code locations. Optimise also has the capability to interface with Repairs Finder (an on-line diagnostic tool) for improved accuracy in diagnosing repairs at the point of call. Repairs Finder is installed on OHMS however is currently not used. An added benefit of Optimise is a Dashboard for improved performance management and overall productivity. The combined benefits of utilising Optimise with the new Schedule of Rates and Repairs Finder will ensure the maximise benefits from available technology.

A review of the existing process and scheduling of works will also be required to generate further efficiencies and reduce duplication of effort. Additionally, the Repairs Quality Group will be consulted regarding the review of appointment slots.

### ESTIMATED REVENUE COSTS/(SAVINGS)

	2019/20	2020/21	2021/22	2022/23
	£	£	£	£
Initial costs for the purchase and installation of Optimise including on site consultancy/training	35,000			
Annual costs of support and upgrades		1,000	1,000	1,000
ICT Replacement Reserve	(35,000)	(1,000)	(1,000)	(1,000)
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**FOLLOWING BUDGET COUNCIL – 28 FEB 2019**

**ESTIMATED LEAD-IN: 3 months**

**IMPLEMENTATION DATE:** July 2019

**REDIRECTION FROM OTHER BUDGETS** – *Where else from within the Services could this proposal be funded from?*

None identified, this is to be funded from the ICT replacement reserve – efficiency savings and reduced travel costs are expected in due course and will be monitored as part of the corporate monitoring arrangements.

**PERFORMANCE MEASURES/OUTPUTS** (*e.g. what key performance improvements will be achieved / what measurable outputs will be achieved*):

- Improved diagnosis of repairs will increase the volume of repairs completed Right 1<sup>st</sup> Time
- Dynamic scheduling based on post code location will reduce travel time/costs
- Increase productivity and reduce lost time due to improved accuracy of appointment slots
- Increased tenant satisfaction
- Potential to generate capacity to undertake additional (external – commercialisation) works

**AGREED SUPPORT REQUIREMENTS / PROGRAMMING IMPLICATIONS:**

Mainly within service but some ICT support required for implementation.



## HOUSING REVENUE ACCOUNT - RESERVES AND PROVISIONS STATEMENT

	Balance as at 31/03/18	Contributions			Balance as at 31/03/19	Contributions			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			
		To the Reserve from Revenue	From the Reserve			To the Reserve from Revenue	From the Reserve			To the Reserve from Revenue	From the Reserve			To the Reserve from Revenue	From the Reserve			To the Reserve from Revenue	From the Reserve			To the Reserve from Revenue	From the Reserve	
			To Capital	To Revenue			To Capital	To Revenue			To Capital	To Revenue			To Capital	To Revenue			To Capital	To Revenue				
£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£					
HRA General Balances	2,017,736	7,300		(226,700)	1,798,336			(27,800)	1,770,536			(13,300)	1,757,236	185,200			1,942,436	544,700		2,487,136				
<b>Earmarked Reserves:</b>																								
Business Support Reserve	8,332,106			(75,000)	8,257,106			(185,000)	8,072,106				8,072,106				8,072,106			8,072,106				
Major Repairs Reserve		3,471,000	(3,471,000)			3,867,000	(3,867,000)			3,567,000	(3,567,000)			3,664,000	(3,664,000)			3,575,000	(3,575,000)					
Flats - Planned Maintenance	586,362	133,000	(100,000)	(22,900)	596,462	133,000	(220,000)	(22,900)	486,562	133,000	(100,000)	(22,900)	496,662	133,000	(100,000)	(22,900)	506,762	133,000	(100,000)	(22,900)	516,862			
ICT and Systems Improvement	622,636	57,000		(140,300)	539,336	57,000		(16,700)	579,636	57,000		(16,700)	636,636	57,000		(16,700)	693,636	57,000		750,636				
Office Equipment Reserve	39,009				39,009				39,009				39,009				39,009			39,009				
Sheltered - Equipment	330,987	26,700		(12,900)	344,787	23,600		(51,800)	316,587	17,700		(46,100)	288,187	16,200		(36,400)	267,987	14,500		(36,400)	246,087			
Sheltered - Planned Maintenance	173,676	53,200	(25,000)	(15,300)	186,576	47,200		(15,300)	218,476	35,300		(15,300)	238,476	32,200		(15,300)	255,376	29,100		(15,300)	269,176			
Sheltered Support Grant Maintenance	475,975	26,700			502,675	23,600			526,275	17,700			543,975	16,200			560,175	14,500			574,675			
<b>Total Earmarked Reserves</b>	<b>10,560,750</b>	<b>3,767,600</b>	<b>(3,596,000)</b>	<b>(266,400)</b>	<b>10,465,950</b>	<b>4,151,400</b>	<b>(4,272,000)</b>	<b>(106,700)</b>	<b>10,238,650</b>	<b>3,827,700</b>	<b>(3,667,000)</b>	<b>(84,300)</b>	<b>10,315,050</b>	<b>3,918,600</b>	<b>(3,764,000)</b>	<b>(74,600)</b>	<b>10,395,050</b>	<b>3,823,100</b>	<b>(3,675,000)</b>	<b>(74,600)</b>	<b>10,468,550</b>			

<b>COUNCIL</b>
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**Pay Policy Statement 2019-20**  
**27 February 2019**  
**Report of Personnel Committee**

<b>PURPOSE OF REPORT</b>
To enable Council to approve the revised Pay Policy Statement for 2019 – 2020 for approval by Council, as required by the Localism Act 2011.
<b>This report is public</b>

**RECOMMENDATIONS****(1) That Council approves the Pay Policy Statement for 2019 – 2020****Introduction**

- 1.1 Section 38 of the Localism Act 2011 places a requirement on local authorities to publish a Pay Policy Statement by the 31st March in each year. This includes the remuneration of its chief officers, This Statement must be approved by resolution of Council, and this function may not be delegated. The Statement sets out the Council's arrangements relating to:
- the remuneration of its Chief Officers;
  - the remuneration of its lowest-paid employees, and
  - the relationship between the remuneration of its Chief Officers and the remuneration of its employees who are not Chief Officers.
- 1.2 The Council's constitution currently refers to Chief Officers by their designations as Chief Officer (Environment); Chief Officer (Legal and Governance); Chief Officer (Housing and Health); Chief Officer (Regeneration and Planning) and Chief Officer (Resources). These posts have been revised by the appointment the Assistant Chief Executive, the three Directors and the Deputy Director (Senior Chief Officers).
- 1.3 The constitution is to be amended to reflect the changes to the Chief Officers posts.
- 1.4 Section 43 of the Localism Act 2011 provides that Chief Officers includes the Head of Paid Services, the monitoring officer, the chief financial officer (s151 officer), non-statutory chief officers and deputy chief officers. The 'non-statutory chief officers' are defined, inter alia, as staff for whom the head of the authority's paid service is directly responsible. Deputy Chief Officers are defined as persons who, in respects all or most of their duties, are required to report directly or is directly accountable to one or more of the statutory or non-statutory chief officers.
- 1.5 As the Council's Senior Chief Officers report directly to the Chief Executive or a Non-Statutory Chief Officer they are to be considered as 'Chief Officers', for the purpose of s38 of the Localism Act 2011 and for the purpose of the Pay Policy Statement.
- 1.6 The Pay Policy Statement should be read in conjunction with the arrangements for other aspects of Chief Officer Remuneration and Lancaster City Council's Pay and Grading Structure, 1 April 2019, which are appended to the report.

- 1.3 The Pay Policy Statement has been prepared in accordance with the requirements of the Localism Act 2011 and having regard to the guidance issued by the Department for Communities and Local Government (DCLG) under Section 40 of the Act.
- 1.4 During the course of the year, if the Authority makes any determination relating to the remuneration or any other terms and conditions of a Chief Officer, it must comply with its Pay Policy Statement.
- 1.5 It is recommended that the revised Pay Policy Statement be effective from 1<sup>st</sup> April 2019.

**2.0 Proposal Details**

- 2.1 The Pay Policy Statement has been amended from the version agreed by Full Council in September 2018 to reflect the fact that appointments have now been made to all Director positions within the Council, and that the previous ‘Chief Officer’ roles have been deleted from the establishment. Council is now asked to approve the Pay Policy Statement.

**3.0 Details of Consultation**

- 3.1 There has been no consultation, but in preparing the revised Statement, regard has been had to Government guidance and to advice given by North West Employers.

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

- 4.1 In order to comply with the Localism Act 2011, it is necessary for Council to approve a Pay Policy Statement. The attached draft document has been prepared by officers in order to comply with the statutory requirements.

**5.0 Conclusion**

- 5.1 Council is requested to approve the revised Pay Policy Statement for 2019-20.

<b>CONCLUSION OF IMPACT ASSESSMENT</b> <b>(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</b> None directly arising from this report.
<b>LEGAL IMPLICATIONS</b>  There are no legal implications stemming from this report.
<b>FINANCIAL IMPLICATIONS</b> There are no financial implications arising from approval of the Pay Policy Statement. Salaries and payments within the statement have previously been agreed at full Council, and budget provision has made in accordance with previous agreements.
<b>OTHER RESOURCE IMPLICATIONS</b> Open Spaces, ICT, Property: None <b>Human Resources,</b> The Pay Policy Statement 2019-20 has been prepared by the HR Project Manager.
<b>SECTION 151 OFFICER'S COMMENTS</b>

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

**MONITORING OFFICER'S COMMENTS**

The role of Chief Officers is critical to the performance of the Council. The Head of Paid Service, S151 Officer and Monitoring Officer are statutory post and must be maintained.

**BACKGROUND PAPERS**

None

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**Ref:**

## **Lancaster City Council Pay Policy Statement 2019-20**

### **1. Introduction and Purpose**

- 1.1 In accordance with the requirements of Section 38 of the Localism Act 2011, this Pay Policy statement has been produced to reflect the Council's approach to pay policy for the year 2019/20.
- 1.2 This statement sets out the Council's policies in relation to the remuneration of our Chief Officers and all other employees. It also clarifies the relationship between Chief Officer remuneration and the remuneration of our lowest paid employees.
- 1.3 The purpose of this statement is to demonstrate transparency with regards to setting the pay of Council employees.

### **2. Setting Terms and Conditions**

- 2.1 The Council's Chief Officers, including the Chief Executive, are employed under the nationally agreed Joint Negotiating Committee (JNC) terms and conditions. All other employees are employed under the nationally agreed National Joint Council (NJC) terms and conditions.
- 2.2 Pay increases relating to cost of living are agreed nationally by the NJC and JNC negotiating bodies.

### **3. Definitions of Chief Officers within Lancaster City Council**

- 3.1 Chief Officers (in senior positions) within this Council are currently defined as the Chief Executive, the Assistant Chief Executive, and:
  - Director for Economic Growth and Regeneration
  - Director for Communities and the Environment
  - Director of Corporate Services
  - Deputy Director for Communities and the Environment
  - Chief Finance Officer (S151)
  - Monitoring Officer
- 3.2 In addition to the above, the Council has a number of posts which may fall into the wider statutory definition of Chief Officer posts via reporting lines, although they are not designated as such within this Council. These other posts are as follows
  - Business Support Manager
  - Commercial Centre Manager
  - Council housing Building Programme Manager
  - Democratic Services Manager
  - Economic Development Manager
  - HR Manager
  - ICT Manager
  - Internal Audit Manager
  - Officer
  - Planning Manager
  - Principal Housing Manager
  - Private Sector Housing Manager
  - Public Protection Group Manager
  - Operations Manager- Public Realm
  - Regeneration Manager
  - Repairs and Maintenance Manager
  - Senior Property Officer
  - Sports and Leisure Manager
  - Waste & Recycling Manager
- 3.3 All the posts named at 3.2 above fall into a pay grade which currently has a maximum pay point below £50,000. The terms of service for these posts are governed by the



National Joint Council for Local Government National Agreement on Terms and Conditions of Service (the NJC Green Book).

- 3.4 The Head of Legal Services & Monitoring Officer post, and the Head of Finance and S151 Officer post both attract annual allowances of £6,000 to reflect the additional responsibility the statutory roles bring.

#### **4. Remuneration of the Chief Executive**

- 4.1 The post of Chief Executive (which also acts as Head of Paid Service) is paid on a fixed salary of £113,560 as at 1 April 2019, inclusive of the 2% pay award effective from that date.
- 4.2 The Council's Head of Paid Service as at 1 April 2019 is appointed for a defined term through to 31 October 2019. Once an appointee to the permanent role is confirmed, the Head of Paid Service will be subject to a pay band of £110,000 to £121,000, where progression through the band will be linked to the achievement of objectives.

#### **5. Remuneration of other Chief Officers**

- 5.1 The 3 Director roles and the Assistant Chief Executive role are paid within a band which starts from £81,600 up to a maximum of £89,760, with the band maximum being set at 10% higher than the minimum. These amounts are inclusive of the 2% pay award effective from 1 April 2019. These Chief Officers will move up the band through incremental progression, linked to the achievement of objectives, following approval from Personnel Committee.

Deputy Directors are paid within a band which starts at £66,300 and has a maximum of £72,930, which again provides for 10% progression. Deputy Directors will move up the band through incremental progression, linked to the achievement of objectives, following approval from Personnel Committee.

Statutory Chief Officers are remunerated in accordance with their technical expertise and background

Incremental progression for Chief Officer level roles will commence on 1<sup>st</sup> April 2020, at the end of the first full financial year of the new roles being in place.

#### **6. Policy on Other Aspects of Chief Officer Remuneration**

- 6.1 Aside from 'pay' there are other aspects of Chief Officer remuneration which are outlined below:
- 6.1.1 **Travel and other expenses:** reimbursed through normal Council policies and procedures in the same way for all staff.
- 6.1.2 **Bonuses:** The terms of employment do not provide for the payment of any bonuses.
- 6.1.3 **Performance Related Pay:** There is an element of performance related pay applicable to Chief Officers and the Head of Paid Service, in the form of incremental progression.
- 6.1.4 **Honoraria:** Honoraria payments do not apply to Chief Officer posts.
- 6.1.5 **Severance arrangements (for Chief Officers ceasing to hold office):**

The Council's normal policies in relation to redundancy and early retirement apply to these posts, in line with relevant regulations. Arrangements are the same for all employees of the Council.

Any payments falling outside the provisions above or the relevant periods of notice within the contract of employment shall be subject to formal decision made by Personnel Committee.

- 6.2 There are no provisions for any other increases or additions to Chief Officer remuneration, other than as outlined in this policy.

## **7. Returning Officer Fees**

- 7.1 Fees for Returning Officers and other electoral duties are identified and paid separately for local government elections, elections to the UK Parliament and EU Parliament and other electoral processes such as referenda. As these relate to performance and delivery of specific election duties as and when they arise, they are distinct from the process for the determination of pay for Chief Officers.

## **8 Other Chief Officer Conditions of Service**

- 8.1 The other terms and conditions of service are set out in the relevant conditions of service handbooks, as follows:

**Chief Executive:** The Joint Negotiating Committee for Local Authority Chief Executives – Conditions of Service

**All other Chief Officers:** The Joint Negotiating Committee for Chief Officers in Local Authorities – Conditions of Service

## **9. Pension Contributions**

- 9.1 For all employees, including Chief Officers, where employees have exercised their right to be a member of the Local Government Pension Scheme, the Council will make contributions to the Pension Fund in line with the Employer contribution rates determined by the Actuary.

## **10. Recruitment of Chief Officers**

- 10.1 The Council's policy and procedures in relation to the recruitment of Chief Officers is set out within the Council's Constitution.
- 10.2 When recruiting for all posts, the Council will take full and proper account of all provisions of employment legislation and its own agreed policies.
- 10.3 The remuneration offered to any newly appointed Chief Officer will be in accordance with the pay structure and relevant policies in place at the time of recruitment. New appointments for staff up to and including Chief Officers are normally made at the minimum of the grade for the post, although this can be varied if necessary, to ensure the best candidate can be appointed.
- 10.4 Where the Council is unable to recruit Chief Officers, or there is a need for interim support to provide cover for a substantive Chief Officer post, the Council will, where necessary, consider engaging individuals under a 'contract for service' (rather than them being direct employees of the Council). These will be sourced through a relevant recruitment process, under relevant Officer delegations, ensuring the Council is able to demonstrate the maximum value for money from securing the service.

## **11. Approval of Salary Packages in Excess of £100K**

- 11.1 Before any offer of appointment is made, the Council will ensure that salary packages in excess of £100,000 will be considered by full Council. This salary package will be defined as base salary, bonuses, fees, routinely payable allowances and any benefits in kind which are due under the contract.

## **12. Re- Employment of Former Chief Officers**

- 12.1 Former Chief Officers who were in receipt of redundancy, or other severance payments, may only be considered for re-employment with the Council (which includes engagement through a contract for services) after a period of 12 months has elapsed since their termination date.

## **13. Publication and Access to Information regarding Chief Officer Remuneration**

- 13.1 Upon approval by Council, the Pay Policy Statement will be published on the Council's website. In addition, relevant information will be reported in the Council's annual Statement of Accounts.

## **14. Payment of Lower Paid Employees within the Council**

- 14.1 The Council uses the NJC negotiated pay spine (i.e. a nationally agreed and defined list of salary points) as the basis for its local pay structure, which determines the salaries for most of its workforce.
- 14.2 The Council operates a Job Evaluation Scheme to determine the pay grade for posts below Chief Officer level and uses the Greater London Provincial Councils (GLPC) scheme.
- 14.3 The Council ensures that all staff (aside from Apprentices) are paid at least the 'Real Living Wage' rate. Spinal Column Point (SCP) 10 automatically defaults to the Living Wage on 01 April each year and the Council uses this to define its 'lowest paid' employees.
- 14.4 Where the Council experiences a difficulty in recruiting or retaining staff to a post, a temporary market supplement may be applied to the salary grade in accordance with the Council's Market Supplement Policy.
- 14.5 The Council employs Apprentices who are not considered within the definition of 'lowest paid employees'. They are paid under the separate Apprentice Pay Rates, the highest of which equates to the real Living Wage rate.
- 14.6 The Council does not have a policy on maintaining a specific pay ratio between its Chief Officers and its lowest paid staff, although it is conscious of the need to ensure that Chief Officer salaries are not excessive.
- 14.7 The pay levels from 1 April 2019 within the Council define the multiple between the median full time equivalent earnings and:
- the Chief Executive as 1:5.0
  - the Directors as 1:3.6
  - the Deputy Director as 3.0
- 14.8 The pay levels from 1 April 2019 within the Council define the multiple between the lowest earnings and
- the Chief Executive as 1:6.3
  - the Directors as 1:4.5
  - the Deputy Director as 1:3.8

**15. Pension Contributions**

- 15.1 Where employees have exercised their right to join the Local Government Pension Scheme, the Council agrees to contribute to the Scheme at rates set by Actuaries.

**16. Payments on Termination**

- 16.1 The Council's approach to statutory and discretionary payments on termination of employment of Chief Officers, prior to retirement, is set out within its policy statement and in accordance with:
- Local Government (Early Termination of Employment Discretionary Compensation) (England and Wales) Regulations 2006.
  - Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007.
  - Local Government Pension Scheme (Admin) Regulations 2008 (regulation 66).
  - The Local Government Pension Scheme Regulations 2013.
  - The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

**17. Changes to Pay Policy**

- 17.1 Should any amendments be required to this policy during the year, then matters will be reported to the Personnel Committee for consideration, for subsequent referral to Council.

**18. Accountability and Decision Making**

- 18.1 In accordance with the Constitution of the Council, the Personnel Committee is responsible for decision making in relation to the recruitment, pay, terms and conditions and severance arrangements in relation to employees of the Council.

**CABINET**

6.00 P.M.

12TH FEBRUARY 2019

**PRESENT:-** Councillors Eileen Blamire (Chairman), Janice Hanson (Vice-Chairman), Darren Clifford, Brendan Hughes, Margaret Pattison, Andrew Warriner and Anne Whitehead

Officers in attendance:-

Susan Parsonage	Chief Executive
Kieran Keane	Assistant Chief Executive
Daniel Bates	Interim Financial Services Manager/Section 151 Officer
Mark Davies	Director for Communities and the Environment
David Brown	Interim Head of Legal and Democratic Services and Monitoring Officer
Paul Thompson	Accountancy Manager
Liz Bateson	Principal Democratic Support Officer

**80 MINUTES**

The minutes of the meeting held on Tuesday 15 January 2019 were approved as a correct record.

**81 ITEMS OF URGENT BUSINESS AUTHORISED BY THE LEADER**

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

**82 DECLARATIONS OF INTEREST**

Councillor Hanson declared an interest with regard to the Agenda item 7 – Housing Revenue Account and Capital Programme in view of a close relative living in council supported housing and advised the meeting that she would not be participating in any discussion or voting on that item. (Minute 85 refers.)

**83 PUBLIC SPEAKING**

Members were advised that Councillor Hamilton-Cox had requested to speak at the meeting in accordance with Cabinet's agreed procedure, as set out in Cabinet Procedure Rule 2.7 with regard to the Budget & Policy Framework (Agenda item 6). Councillor Hamilton-Cox addressed Cabinet with alternative budget ideas aligned to the Climate Emergency Motion, which had recently been debated at Full Council.

**84 BUDGET & POLICY FRAMEWORK UPDATE 2019/2023****(Cabinet Member with Special Responsibility Councillor Whitehead)**

Cabinet received a report from the Interim Head of Financial Services, which set out the latest position in respect of the Budget & Policy Framework including Cabinet's proposed revenue budget for 2019/20 and Capital Programme for 2019/20 to 2022/23. The report also set out the Treasury Management Framework for Cabinet adoption and

provided an update on the revision of the Medium Term Financial Strategy.

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

### **Revenue Budget**

Cabinet may adjust its revenue budget proposals, as long as the overall budget for 2019/20 balances and fits with the proposed council tax level.

### **Capital Programme**

Cabinet may adjust its capital investment and financing proposals to reflect spending commitments and priorities but in deciding, its final proposals should have regard to the prudential code requirements that all capital expenditure should be prudent, affordable and sustainable.

### **Treasury Management Framework**

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

Furthermore, the Strategy must fit with other aspects of Cabinet's budget proposals, such as investment interest estimates and underlying prudential borrowing assumptions, feeding into Prudential and Treasury Management Indicators. There are no options available regarding other components of the overall framework, as covered in **Appendices E and F** to the report.

### **Officer preferred option and justification**

#### **Revenue Budget, Capital Programme and Reserves Position**

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

#### **Treasury Management Strategy**

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

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

Portfolio Holder is therefore requested in order to ensure that Cabinet's final capital programme proposals are reflected in the Treasury Management Strategy.

Councillor Whitehead proposed, seconded by Councillor Clifford:-

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

Councillors then voted:-

***Resolved unanimously:***

- (1) That Cabinet recommend the following for approval to Budget Council:
  - The 2019/20 General Fund Net Revenue Budget and resulting Council Tax Requirement excluding parish precepts (Appendix A to the report) and supporting budget proposals (Appendix B to the report).
  - The S151 Officer's statement on the adequacy of reserves and advice that the minimum level of balances be increased to £2m, subject to annual review.
  - The resulting position on provisions and reserves (Appendix C to the report)
  - The updated five year Capital Programme (Appendix D to the report) covering financial years 2018/19 to 2022/23.
- (2) That the Finance Portfolio Holder be given delegated authority to agree the Treasury Management Framework, as updated for Cabinet's final budget proposals, for referral on to Council.
- (3) That the Finance Portfolio Holder be given delegated authority to agree the revision of the Medium Term Financial Strategy, as updated for Cabinet's final budget proposals, for referral on to Council.

**Officer responsible for effecting the decision:**

Interim Head of Financial Services

**Reasons for making the decision:**

The decision enables Cabinet to make recommendations back to Full Council in order to complete the budget setting process for 2019/20.

**85 BUDGET AND POLICY FRAMEWORK UPDATE 2018 TO 2022 - HOUSING REVENUE ACCOUNT AND CAPITAL PROGRAMME**

**(Cabinet Member with Special Responsibility Councillor Warriner)**

Cabinet received a report from the Director for Communities and the Environment, which provided an update on the council housing budgetary position and sought decisions on council housing rent levels for 2019/20 and targets for future years. The report also sought Cabinet's approval of supporting revenue budget and capital programme proposals for referral on to Budget Council in order to complete the HRA budget setting process for 2019/20.

The options, options analysis, including risk assessment and officer preferred option,

were set out in the report as follows:

There is currently no other alternative available in respect of 2019/20 housing rent setting, given legislative requirements.

With regard to the revenue budget generally, Cabinet could consider other proposals that may influence spending in current and future years, as long their financing is considered and addressed.

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, then this should be recorded formally in the minutes of the meeting and it could have implications for the Council's financial standing, as assessed by its external auditor.

With regards to the savings and growth proposals as set out in section 7 of the report, Cabinet should consider the costs and benefits of the proposals and whether they are affordable, in particular over the medium to longer term.

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.

Any risks attached to the above would depend very much on what 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.

The relevant Officer preferred options are to:

- Set housing rent levels in line with Government legislation.
- Approve / refer on the provisions, reserves and balances position (and their use) as set out.
- Approve / refer on the revenue budgets and capital programme, allowing for Cabinet's recommendations regarding specific savings and growth proposals.

Councillor Warriner proposed, seconded by Councillor Pattison:-

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

Councillors then voted:-

**Resolved:**

***(6 Members (Councillors Blamire, Clifford, Hughes, Pattison, Warriner & Whitehead) voted in favour, and 1 Member (Councillor Hanson) having previously declared an interest in the item, abstained.)***

- (1) That the Housing Revenue Account Revised Budget for 2019/20, as set out at Appendix A to the report, be referred on to Council for approval, with the short-term funding requirement of £296.5K being met from unallocated balances.



- (2) That the minimum level of HRA unallocated balances be retained at £500,000 from 01 April 2019, and that the full Statement on Reserves and Balances as set out at Appendix F to the report, be endorsed and referred on to Budget Council for approval.
- (3) That council housing rents be set in accordance with statutory requirements as follows:
- for general properties let as at 01 April 2019, average rent be set at £71.05 for 2019/20, representing a reduction of 1% from the previous year;
  - for sheltered and supported housing properties let as at 01 April 2019, average rent be set at £66.08 for 2019/20, representing a reduction of 1% from the previous year;
  - for any relevant property becoming vacant the following policy be reaffirmed: that they be re-let at the higher 'formula rent' less the relevant cumulative % reduction applicable (i.e. generally 4% for 2019/20).
- (4) That the growth proposals as set out at Appendix E to the report, be included in Cabinet's budget proposals for referral on to Council, noting that any approvals be met from unallocated balances.
- (5) That subject to the above, the resulting Housing Revenue Account budget for 2019/20 onwards, as set out at Appendix A to the report, together with the resulting Capital Programme as set out at Appendix C to the report, be referred on to Budget Council for approval.

**Officers responsible for effecting the decision:**

Director for Communities and the Environment  
Interim Head of Financial Services

**Reasons for making the decision:**

The Council is required under statutory provisions to maintain a separate ring-fenced account for all transactions relating to 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. The decision ensures there are sufficient resources to maintain and manage the Council's Housing Revenue Account (HRA) assets.

**86 CORPORATE FEES AND CHARGES REVIEW - 2019/20**

**(Cabinet Members with Special Responsibility Councillors Whitehead & Hughes)**

Cabinet received a joint report from the Interim Financial Services Manager and Director for Communities and the Environment to consider the annual review of fees and charges for 2019/20.

The options, options analysis, including risk assessment and officer preferred option,

were set out in the report as follows:

The policy attached to the report remains substantively unchanged and it is considered that it remains fit for purpose (at least in the short term) and it adequately covers Cabinet's budget proposals. As such, no options are presented and Cabinet is simply requested to endorse the policy, with a review being undertaken next year.

With regard to car parking charges and garden waste charges, Members have proposed to freeze charges for the forthcoming financial year. Should inflation be applied, further work to determine charging levels would need to take place and be fed into the budget setting process as appropriate.

Councillor Whitehead proposed, seconded by Councillor Hughes:-

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

Councillors then voted:-

***Resolved unanimously:***

- (1) That the Fees and Charges Policy as set out at Appendix A to the report, be approved.
- (2) That car parking charges be frozen as part of the current budget setting process for 2019/20.
- (3) That garden waste collection charges be frozen as part of the budget setting process for 2019/20.

**Officers responsible for effecting the decision:**

Interim Financial Services Manager  
Director for Communities and the Environment

**Reasons for making the decision:**

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

**87 DELIVERING OUR AMBITIONS - PERFORMANCE MONITORING: QUARTER 3 2018-19**

**(Cabinet Member with Special Responsibility Councillor Whitehead)**

Cabinet received a report from the Executive Support Manager to report on the performance of key indicators for October to December 2018.

As the report was primarily for noting and comments, no options were provided.

***Resolved unanimously:***

- (1) That the performance of key indicators for Quarter 3 be noted.

**88 CORPORATE FINANCIAL MONITORING 2018/19 - QUARTER 3****(Cabinet Member with Special Responsibility Councillor Whitehead)**

Cabinet received a report from the Interim Financial Services Manager, which provided an overview of the Council's financial position for Quarter 3 of the 2018/19 monitoring cycle and the supporting actions underway.

As the report was primarily for noting and comments, no options were provided.

***Resolved unanimously:***

- (1) That the report be noted.

**89 COMMUNITIES AND THE ENVIRONMENT - FUTURE DIRECTION****(Cabinet Members with Special Responsibility Councillor Burns, Clifford, Hughes & Warriner)**

Cabinet received a report from the Director for Communities and the Environment, which sought agreement to the strategic direction, outlined in the report.

All three directorates are considering the most effective way of delivering services in the future. Whilst the range of services being delivered by each directorate is diverse, the principles of future direction will all be consistent with the Council's Ambitions, Medium Term Financial Plan and financial resilience plan agreed in Funding the Future.

For the Directorate of Communities and the Environment the guiding principles contained in the strategies above, which form the basis for future direction are-

- Working in a commercial way- through improving internally delivered services, establishing new delivery models and income generation.
- Pursuing efficiency and rigour – by reducing waste and re-engineering processes.
- Identifying alternative and efficient methods of using limited resources. Including staffing, equipment, vehicles, plant and physical assets.
- Demonstrating Community Leadership and Shaping the Place through meaningfully involving communities, service users and partners in the design and delivery of services.
- Fully involving all our staff in the way the strategic direction is delivered. Making the best use of our staff by training, redeployment and reskilling.
- Being customer focussed and customer- friendly

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

Option 1- to agree the recommended strategic direction that has been outlined in the report as it provides the intended outcomes of the Council's senior management

structure, Council plan and financial context. The report outlines the steps that will be put in place to monitor the effectiveness of this new way of working.

Option 2- to maintain status quo. This will fail to achieve the above.

Option 1 – is the officer preferred option for reasons as outlined in the report.

Councillor Hughes proposed, seconded by Councillor Clifford:-

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

Councillors then voted:-

***Resolved unanimously:***

- (1) That the strategic principles outlined in paragraphs 1.5 & 1.6 of the report be approved.
- (2) That the commencement of staff consultation be approved and consequent development and implementation of the proposals be delegated to the Director for Communities and the Environment.
- (3) That it be noted that further reports on the proposals would be brought to Cabinet or Personnel Committee as appropriate.
- (4) That Cabinet approves the future use of the Restructuring Reserve as appropriate, subject to minimum reserve levels being retained.

**Officer responsible for effecting the decision:**

Director for Communities and the Environment

**Reasons for making the decision:**

Successful delivery of the council's ambitious plans will require a new approach especially in the context of reducing resources and increasing customer demands. The proposals outlined in the report will put our residents and communities at the heart of our front line service delivery, improve collaboration with other partner agencies and generate ongoing revenue savings.

**90 CABINET LIAISON GROUP- CLIMATE CHANGE (Page 10)**

**(Cabinet Member with Special Responsibility Councillor Clifford)**

Cabinet received a report from the Director for Communities and the Environment to consider whether to establish a Climate Change Cabinet Liaison Group.

The option was to agree to the principle and the terms of reference as set out in the report. Whilst the Council joined the UK100 network of local government leaders committed to transitioning toward 100% green energy by 2050 this date would be revised to 2030 following the Climate Change Motion debated at Full Council in January 2019. (Council 30.01.19 Minute 108 refers.)

Councillor Clifford proposed, seconded by Councillor Warriner:-

“That the recommendation, as set out in the report, be approved with the terms of reference revised to reflect the revision to the ‘achieve by’ date.”

Councillors then voted:-

***Resolved unanimously:***

That a Climate Change Cabinet Liaison Group be established and that the terms of reference, as amended and appended to the minutes, be approved.

**Officer responsible for effecting the decision:**

Director for Communities and the Environment

**Reasons for making the decision:**

The establishment of Liaison Groups assists the Cabinet in the discharge of executive functions. The Council Plan includes the ambition of ‘clean, green and safe neighbourhoods’ and the aims and objectives of the Climate Change Liaison Group will be aligned to support the Council Plan.

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Chairman

(The meeting ended at 6.43 p.m.)

**Any queries regarding these Minutes, please contact  
Liz Bateson, Democratic Services - telephone (01524) 582047 or email  
ebateson@lancaster.gov.uk**

**MINUTES PUBLISHED ON THURSDAY 14 FEBRUARY, 2019.**

**EFFECTIVE DATE FOR IMPLEMENTING THE DECISIONS CONTAINED IN THESE MINUTES:  
FRIDAY 22 FEBRUARY, 2019.**

## **CLIMATE CHANGE CABINET LIAISON GROUP**

### **Chairman:**

- Cabinet Member with Special Responsibility for Climate Change**

### Composition

- Up to 10 members of the group
- Open invitation to all Councillors from all political groups
- No substitute members attending
- The Chairman may invite other representation to join the group

### **Terms of Reference**

1. To advise the Cabinet member and Cabinet on how to achieve 100% clean energy across the council's full range of functions by 2030, in a way that complements our other aims and objectives, is ambitious and cost effective
2. To assist the Cabinet member and Cabinet to best work in partnership with our residents, and stakeholders to deliver against this commitment.
3. To assist the Cabinet member and Cabinet to develop a plan by 2021 that sets out how the Council will practically achieve this ambition.
4. To invite and consider external presentations and examples of best practice.
5. To assist with consultation with business, public and other stakeholders and to advise the Cabinet Member of outcomes.
6. To gather existing information on the District and City Council to identify the priority areas and to establish a baseline to monitor progress.
7. To meet every two months.