LANCASTER
CITY COUNCIL

Promoting City, Coast & Countryside

Committee: **CABINET**

Date: **TUESDAY, 25 OCTOBER 2022**

Venue: **MORECAMBE TOWN HALL**

Time: **6.00 P.M.**

A G E N D A

1. **Apologies**

2. **Minutes**

To receive as a correct record the minutes of Cabinet held on Tuesday, 13 September 2022 (previously circulated).

3. **Items of Urgent Business Authorised by the Leader** (Pages 4 - 102)

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

(The Leader has agreed to two items of urgent business: Treasury Management (pages) and Acceptance of External Funding (pages): The second item of urgent business being exempt from publication will need to be considered in the private part of the meeting.

4. **Declarations of Interest**

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

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

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

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

5. **Public Speaking**

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

Reports from Overview and Scrutiny

None

Reports

6. **Asset Management Strategy (Non-Housing) 2022-26** (Pages 103 - 138)

(Cabinet Member with Special Responsibility Councillor Hamilton-Cox)

Report of Director for Economic Growth & Regeneration (report published on 19.10.22)

7. **Electricity Contract Renewal** (Pages 139 - 144)

(Cabinet Member with Special Responsibility Councillor Hamilton-Cox)

Report of Director for Economic Growth & Regeneration (report published on 19.10.22)

8. **Updated Reserves Strategy 2022/23** (Pages 145 - 151)

(Cabinet Member with Special Responsibility Councillor Whitehead)

Report of Head of Financial Services (report published on 25.10.22)

9. **Exclusion of the Press and Public**

This is to give further notice in accordance with Part 2, paragraph 5 (4) and 5 (5) of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 of the intention to take the following items in private.

Cabinet is recommended to pass the following recommendation in relation to the following items:-

"That, in accordance with Section 100A(4) of the Local Government Act, 1972, the press and public be excluded from the meeting for the following items of business, on the grounds that they could involve the possible disclosure of exempt information as defined in paragraph 3 of Schedule 12A of that Act."

Members are reminded that, whilst the following items have been marked as exempt, it is for Cabinet itself to decide whether or not to consider each of them in private or in public. In making the decision, Members should consider the relevant paragraph of Schedule 12A of the Local Government Act 1972, and also whether the public interest in maintaining the exemption outweighs the public interest in disclosing the information. In considering their discretion Members should also be mindful of the advice of Council Officers.

10. **Building and Fire Safety Update** (Pages 152 - 162)

(Cabinet Member with Special Responsibility Councillor Matthews)

Report of Head of Housing

11. **Fibre Network and Digital Exchange** (Pages 163 - 208)

(Cabinet Member with Special Responsibility Councillor Hamilton-Cox)

Report of Head of Financial Services (report published on 24.10.22)

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

Councillors Caroline Jackson (Chair), Kevin Frea (Vice-Chair), Dave Brookes, Gina Dowding, Tim Hamilton-Cox, Tricia Heath, Cary Matthews, Sandra Thornberry, Anne Whitehead and Jason Wood

(ii) Queries regarding this Agenda

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

(iv) Changes to Membership, substitutions or apologies

Please contact Democratic Support, telephone 582170, or alternatively email democracy@lancaster.gov.uk.

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

Published on Monday 17 October, 2022.

Cabinet Report

Treasury Management Mid-Year Review 2022/23
25th October 2022

Report of Chief Finance Officer

PURPOSE OF REPORT					
This report seeks Cabinet's consideration of various matters in connection with the Treasury Management Mid-Year Review 2022/23.					
Key Decision		**Non-Key Decision**	x	**Referral from Cabinet Member**	
Date of notice of forthcoming key decision					
This report is public					

RECOMMENDATIONS:

That Cabinet

(1) Consider the various matters in connection with the Treasury Management Mid-Year Review 2022/23

(2) Forward the Mid-Year Review 2022/23 on to Budget & Performance Panel and Full Council for consideration in accordance with CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code.

1.0 INTRODUCTION

1.1 The Council's Treasury Management Activities are regulated the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) issued under the Local Government Act 2003

1.2.1 During 2022/23 the minimum reporting requirements are that Full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 23 February 2022)
- a mid-year (minimum) treasury update report (This report).
- an annual review following the end of the year describing the activity compared to the strategy

1.3 In addition, Members will receive treasury management update reports on which are presented to Cabinet and Budget and Performance Panel.

2.0 BACKGROUND

2.1 The Mid-Year Review (Appendix A) sets out the performance of treasury operations for the first six months of the 2022/23 financial year in terms of long- and short-term borrowing, investment activities and relevant borrowing limits and prudential indicators.

2.2 Under CIPFA's Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) it is a requirement that an information report on these matters be presented to Cabinet and full Council.

3.0 SUMMARY DETAILS

Investments

3.1 The average level of funds available for investment purposes over the six-month period was £44.5M (2021/22 £38.3M). These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept and business rate related payments, the receipt of grants and progress on the Capital Programme.

3.2 The Council's investments returned an average rate c1.3% on deposit generating c£243K of interest against a profiled budget of c£17K.

Borrowing

3.3 The Capital Financing Requirement (CFR) measures the Council's underlining need to borrow for capital purpose, i.e. its borrowing requirement. The CFR is the amount of capital expenditure that has not yet been financed by capital receipts, capital grants or contributions from revenue

3.4 The Council's capital financing requirement (CFR) for 2022/23 was forecast as £104.00M with the current forecast CFR at quarter 2 is, however, £105.86M due to additional capital expenditure approved for decarbonisation works and the solar array and switchgear replacement at Gateway.

3.5 If the CFR is positive the Council may borrow from the PWLB, or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The Council currently has borrowings of £60.04M and has utilised £45.82M of cash flow funds in lieu of borrowing and with current forecasts estimating new borrowing of £10M later in the financial year. However, rising prices and ongoing in-year changes to the capital programme and slippage make this difficult to quantify with certainty at this point in time.

3.6 Consideration also needs to be given to the recent volatility in the markets leading to PWLB interest rates being in excess of 5% at the time of writing. In light of this it may be prudent to delay borrowing or consider the use of short-term borrowing as an interim measure.

Changes to Prudential Indicators

3.7 In compliance with the Prudential Framework the Council sets an annual Treasury Management Strategy including key indicators, determined under regulation, to assist Members in assessing the affordability of borrowing and in determining that it is prudent and sustainable.

3.8 This table shows the current estimates for the General Fund and Housing Revenue Account capital programmes, compared to the original estimates

Capital Expenditure by Service	2022/23 Original Estimate £m	2022/23 Quarter 2 Position £m
Communities and Environment	7.61	15.50
Economic Growth and Regeneration	4.10	4.99
Corporate Services	0.49	0.54
Development Pool	1.65	1.65
Total for General Fund	**13.85**	**22.68**
Council Housing (HRA)	**5.37**	**5.37**
Total Capital Expenditure	**19.22**	**28.05**

3.9 Capital Expenditure by service is in line with figures provided with the published Q2 monitoring (Delivering our Priorities Q2). The reduction in capital expenditure reflects programmes predominately within the Development Pool not being delivered.

3.10 This table shows the changes in the financing of the capital programmes, and the level of borrowing required

Capital Expenditure	2022/23 Original Estimate £m	2022/23 Quarter 2 Position £m
Total capital expenditure	**19.22**	***28.05***
Financed by:		
Capital receipts	0.54	0.54
Capital grants	5.79	8.74
Reserves	5.78	6.15
Revenue	0.00	0.00
Total Financing	**12.11**	**15.43**
Borrowing Requirement	**7.11**	**12.62**

3.11 The table below shows that the capital financing requirement (CFR) is £1.86M higher than the original estimate, due to additional capital expenditure approved for decarbonisation works and the solar array and switchgear replacement at Gateway.

Capital Financing Requirement	2022/23 Original Estimate £m	2022/23 Quarter 2 Position £m
General Fund	68.86	70.72
HRA	35.14	35.14
Total Capital Financing Requirement	**104.00**	**105.86**
Net movement in CFR	**3.38**	**1.86**

3.12 A key control over treasury management activity is to ensure that over the medium term, net borrowing (borrowings less investments) will only be for capital purposes. Gross external borrowing should not, except in the short term, exceed the total capital financing requirement.

3.13 The table below shows compliance with this control as the Council's external borrowing £60.04M compared to its CFR £105.86M

External Debt v Borrowing Need (CFR)	2022/23 Original Estimate £m	2022/23 Quarter 2 Position £m
External Debt	70.04	60.04
Expected Change in Other long term liabilities	13.96	0.00
Total Debt	**84.00**	**60.04**
Compared to current :		
Capital Financing Requirement	**104.00**	**105.86**
Operational Boundary:-		
Debt	**105.00**	**106.15**
Authorised Limit:-		
Debt	**120.00**	**121.15**

4.0 OPTIONS AND OPTIONS ANALYSIS

4.1 As the report is for consideration and progressing to Budget and Performance Panel and Full Council, no alternative options are put forward.

5.0 CONCLUSION

5.1 Consideration of Treasury Management Mid-Year Review and presentation to Full Council will ensure the Council complies with CIPFA's Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

RELATIONSHIP TO POLICY FRAMEWORK Treasury Management forms part of the Councils budget framework	
CONCLUSION OF IMPACT ASSESSMENT **(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, HR, Sustainability and Rural Proofing)** Effective Treasury Management and use of the Councils' resources is fundamental to the delivery of its priorities and outcomes	
LEGAL IMPLICATIONS None directly arising from this report	
FINANCIAL IMPLICATIONS There are no financial implications arising directly from this report. However, due to the financial pressures faced by the Council, and the significant increase in interest rates and borrowing costs areas of capital investment may be delayed, reprofiled or stopped. Financial due diligence and assessment will ensure that all the appropriate costs are considered for each proposal and external advice considered ahead of any borrowing being incurred.	
OTHER RESOURCE IMPLICATIONS There are no additional resource or risk implications	
SECTION 151 OFFICER'S COMMENTS The s151 Officer has written this report in his role as Chief Finance Officer	
MONITORING OFFICER'S COMMENTS The Monitoring Officer has been consulted and has no further comments	
BACKGROUND PAPERS	**Contact Officer:** Paul Thompson **Telephone:** 01524 582603 **E-mail:** pthompson@lancaster.gov.uk **Ref:** N/A

Appendix A

Treasury Management Strategy Statement and Annual Investment Strategy

Mid-Year Review 2022/23

Report of Chief Finance Officer

1. Background

Capital Strategy

In December 2017, CIPFA (Chartered Institute of Public Finance and Accountancy) issued revised Prudential and Treasury Management codes. These require all local authorities to prepare a Capital Strategy which is intended to provide the following:

- a high-level 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

A report setting out our Capital Strategy was taken to Council on 23 February 2022.

Treasury Management

The Council operates a balanced budget, which broadly means that cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management services 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 the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and, on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, treasury management is defined as:

> "the management of the local authority's borrowing, 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. Introduction

This report has been written in accordance with the requirements of CIPFA's Code of Practice for Treasury Management.

The primary requirements of the Code are as follows:

(i) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

(ii) Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

(iii) Receipt by full council of an annual Treasury Management Strategy Statement – including the Annual Investment Strategy and Minimum Revenue Provision Policy – for the year ahead, a Mid-year Review Report and an Annual Report, covering activities during the previous year.

(iv) Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

(v) Delegation by the council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is Budget and Performance Panel.

This mid-year report covers the following:

- An economic update for the first part of the 2022/23 financial year
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators
- A review of the Council's investment portfolio for 2022/23
- A review of the Council's borrowing strategy for 2022/23
- A review of any debt rescheduling undertaken during 2022/23
- A review of compliance with Treasury and Prudential Limits for 2022/23

3. Economics update (provided by Link Asset Services)

- *The second quarter of 2022/23 saw:*
  - *GDP revised upwards in Q1 2022/23 to +0.2% q/q from -0.1%, which means the UK economy has avoided recession for the time being;*
  - *Signs of economic activity losing momentum as production fell due to rising energy prices;*
  - *CPI inflation ease to 9.9% y/y in August, having been 9.0% in April, but domestic price pressures showing little sign of abating in the near-term;*
  - *The unemployment rate fall to a 48-year low of 3.6% due to a large shortfall in labour supply;*
  - *Bank Rate rise by 100bps over the quarter, taking Bank Rate to 2.25% with further rises to come;*
  - *Gilt yields surge and sterling fall following the "fiscal event" of the new Prime Minister and Chancellor on 23rd September.*
- *The UK economy grew by 0.2% q/q in Q1 2022/23, though revisions to historic data left it below pre-pandemic levels.*
- *There are signs of higher energy prices creating more persistent downward effects in economic activity. With the drag on real activity from high inflation having grown in recent months, GDP is at risk of contracting through the autumn and winter months.*
- *Consumer confidence is at a record low. Retail sales volumes fell by 1.6% m/m in August, which was the ninth fall in 10 months. There are also signs that households are spending their excess savings in response to high prices.*

- *The labour market remained exceptionally tight. The number of vacancies has started to level off from recent record highs but there have been few signs of a slowing in the upward momentum on wage growth. Indeed, in July, the 3my/y rate of average earnings growth rose from 5.2% in June to 5.5%.*
- *CPI inflation eased from 10.1% in July to 9.9% in August, though inflation has not peaked yet.*
- *Utility price inflation is expected to add 0.7% to CPI inflation in October when the Ofgem unit price cap increases to, typically, £2,500 per household (prior to any benefit payments).*
- *CPI inflation is expected to peak close to 10.4% in November and, with the supply of workers set to remain unusually low, the tight labour market will keep underlying inflationary pressures strong until early next year.*
- *During H1 2022, there was been a change of both Prime Minister and Chancellor. The new team made a step change in government policy.*
- *Fears that the government has no fiscal anchor on the back of these announcements has meant that the pound has weakened again, adding further upward pressure to interest rates*
- *The MPC has now increased interest rates seven times in as many meetings in 2022 and has raised rates to their highest level since the Global Financial Crisis.*
- *Since the fiscal event on 23rd September, we now expect the Monetary Policy Committee (MPC) to increase interest rates further and faster, from 2.25% currently to a peak of 5.00% in February 2023. The combination of the government's fiscal loosening, the tight labour market and sticky inflation expectations means we expect the MPC to raise interest rates by 100bps at the policy meetings in November (to 3.25%) and 75 basis points in December (to 4%) followed by further 50 basis point hikes in February and March (to 5.00%). Market expectations for what the MPC will do are volatile. If Bank Rate climbs to these levels the housing market looks very vulnerable, which is one reason why the peak in our forecast is lower than the peak of 5.50% - 5.75% priced into the financial markets at present.*
- *There is a possibility that the Bank continues with QE at the long-end beyond 14th October or it decides to delay quantitative tightening beyond 31st October, even as it raises interest rates. So far at least, investors seem to have taken the Bank at its word that this is not a change in the direction of monetary policy nor a step towards monetary financing of the government's deficit. But instead, that it is a temporary intervention with financial stability in mind.*

4. Interest Rate Forecast

The Council's treasury advisor, Link Asset Services, provided the following forecast on 27 September 2022:

Link Group Interest Rate View 27.09.22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

The UK has a new Prime Minister a new Chancellor and new economic policies that seek to grow the UK economy through tax cuts and regulatory simplification.

The MPC increased the bank rate at the end of September from 1.75% to 2.25% but held off from making any emergency Bank Rate increase in response to fear in the market following the fiscal event on 23 September and confirmed its commitment to ensure headline inflation, on the CPI measure drops back to 2% over a three-year timeframe. This calmed the market to an extent but we cannot be sure that further and extensive market volatility is not just around the corner.

The revised forecast assumes that there will not be an emergency Bank Rate change ahead of the next MPC meeting on 3 November. However, it is anticipated that we will then see the MPC hike rates aggressively to 3.25% with further increases to 4% in December, 4.5% in February and reach a peak of 5% in March 2023.

5. Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy (TMS) for 2022/23, which includes the Annual Investment Strategy was approved by the Council on 23 February 2022. There are no policy changes to the TMS; the details in this report update the position in light of the updated economic position and budgetary changes already approved.

6. Investment Portfolio

In accordance with the CIPFA Treasury Management Code of Practice the Council's investment priorities are set out as being:

- Security of capital
- Liquidity
- Yield

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

Following the Government's fiscal event on 23rd September, both S&P and Fitch have placed the UK sovereign debt rating on Negative Outlook, reflecting a downside bias to the current ratings in light of expectations of weaker finances and the economic outlook.

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

It is noted that sentiment in the current economic climate can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

The average level of funds available for investment purposes over the six-month period was **£44.5M**. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept and business rate related payments, the receipt of grants and progress on the Capital Programme.

In terms of performance against external benchmarks, the return on investments compared to the 7 day LIBID and bank rates at the end of the period is as follows. This is viewed as reasonable performance, given the need to prioritise security of investments, and liquidity (i.e. making sure that the Council's cashflow meets its needs):

Base Rate	2.25%
7 day LIBID	2.19%
Lancaster City Council investments	2.10%

Investment Balances – quarter ended 30 September 2022

At the start of the year investments totalled £52.5M falling to £38.8M by 30 September. Fixed term investments fell from £22.5M to £12M whilst Money Market Fund balances fell from £30.0M to £26.8M.

Investments

Other Investments	Term	Maturity Date	Opening 1.4.22 £	Closing 3.09.22 £	Indicative Rate (YTD)	Current Fixed Rate	Interest to Date £
Call Accounts							
Natwest (Cash Manager Plus)			925,000	518,000		0.03%	378
Money Market Funds							
Aberdeen Life Investments			6,000,000	0	1.69%		18,531
Blackrock Sterling Govt			0	6,000,000	1.74%		25,401
Blackrock Sterling Liquidity First Fund			6,000,000	6,000,000	1.76%		35,274
Goldman Sachs			0	0	1.66%		8,492
Insight			6,000,000	500,000	1.99%		27,101
Lancashire County Council			12,000,000	12,000,000	2.00%		61,644
LGIM			0	2,300,000	1.75%		25,136
Fixed Term Deposits							
DMO	154 days	16/05/2022	5,500,000	0		0.03%	203
DMO	152 days	16/05/2022	300,000	0		0.03%	11
DMO	124 days	19/04/2022	700,000	0		0.01%	3
DMO	3 days	04/07/2022	0	0		1.05%	276
DMO	7 days	08/08/2022	0	0		1.31%	251
DMO	7 days	12/08/2022	0	0		1.55%	297
DMO	7 days	15/08/2022	0	0		1.55%	446
East Hertfordshire Distrcit Council	181 days	02/03/2023	0	7,000,000		2.50%	13,904
Falkirk Council	101 days	10/06/2022	5,000,000	0		0.60%	5,753
Harringey Council	92 days	14/06/2022	5,000,000	0		0.75%	7,603
Leeds City Council	21 days	20/09/2022	0	0		1.59%	6,404
Suffolk County Council	151 days	27/02/2023	0	5,000,000		2.80%	767
Surrey County Council	92 days	31/05/2022	6,000,000	0		0.58%	5,720
Sub-total			**53,425,000**	**39,318,000**			**243,597**
						Budgeted income	17,252
							226,346

Investment Counterparty criteria

The current investment counterparty criteria selection approved in the TMS is meeting the requirement of the treasury management function.

Approved Limits

Officers can confirm that, with the exception of a small number of occasions where funds held in the Council's bank account overnight exceeded the £1M specified limit, the approved limits within the Annual Investment Strategy were not breached during the period ended 30th September 2022. The limit for funds held in the Council's bank account overnight is being reviewed with a view to implementing a more workable limit of £1.5M.

7. Borrowing

The Council's capital financing requirement (CFR) for 2022/23 was forecast as £104.00M as set out in **Annex A**. The current forecast CFR at quarter 2 is, however, £105.86M due to additional capital expenditure approved for decarbonisation works and the solar array and switchgear replacement at Gateway. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing), or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The Council currently has borrowings of £60.04m and has utilised £45.82m of cash flow funds in lieu of borrowing. This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring in the event that any upside risk to gilt yields prevails.

No new external borrowing has, to date, been undertaken. The capital programme is being kept under regular review due to the effects of inflationary pressures, shortages of materials and labour. Our borrowing strategy will, therefore, also be regularly reviewed and then revised, if necessary, in order to achieve optimum value and risk exposure in the long-term.

It is anticipated that further borrowing will need to be undertaken during this financial year. This is currently in the region of £10M, however, rising prices and ongoing in-year changes to the capital programme and slippage make this difficult to quantify with certainty at this point in time. Consideration also needs to be given to the recent volatility in the markets leading to PWLB interest rates being in excess of 5% at the time of writing. In light of this it may be prudent to delay borrowing or consider the use of short-term borrowing as an interim measure.

8. Debt Rescheduling

Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year. However, now that the whole of the yield curve has shifted higher there may be better opportunities in the future, although only prudent and affordable debt rescheduling will be considered.

9. Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30th September 2022, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2022/23. The Director of Finance reports that no difficulties are envisaged for the current or future years in complying with these indicators

All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

10. Other Issues

Changes in risk appetite

The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or to other types of investment instruments this change in risk appetite and policy should be brought to members' attention in treasury management update reports. There are no such changes to report.

ANNEX A

PRUDENTIAL INDICATORS - MID YEAR REVIEW

Prudential Indicator for Capital Expenditure

This table shows the current estimates for the General Fund and Housing Revenue Account capital programmes, compared to the original estimates.

Capital Expenditure by Service	2022/23 Original Estimate £m	2022/23 Quarter 2 Position £m
Communities and Environment	7.61	15.50
Economic Growth and Regeneration	4.10	4.99
Corporate Services	0.49	0.54
Development Pool	1.65	1.65
Total for General Fund	**13.85**	**22.68**
Council Housing (HRA)	**5.37**	**5.37**
Total Capital Expenditure	**19.22**	**28.05**

Changes to the Financing of the Capital Programmes

This table shows the changes in the financing of the capital programmes, and the level of borrowing required.

Capital Expenditure	2022/23 Original Estimate £m	2022/23 Quarter 2 Position £m
Total capital expenditure	**19.22**	***28.05***
Financed by:		
Capital receipts	0.54	0.54
Capital grants	5.79	8.74
Reserves	5.78	6.15
Revenue	0.00	0.00
Total Financing	**12.11**	**15.43**
Borrowing Requirement	**7.11**	**12.62**

Limits to Borrowing Activity

A key control over treasury management activity is to ensure that over the medium term, net borrowing (borrowings less investments) will only be for capital purposes. Gross external borrowing should not, except in the short term, exceed the total capital financing requirement.

External Debt v Borrowing Need (CFR)	2022/23 Original Estimate £m	2022/23 Quarter 2 Position £m
External Debt	70.04	60.04
Expected Change in Other long term liabilities	13.96	0.00
Total Debt	**84.00**	**60.04**
Compared to current :		
Capital Financing Requirement	**104.00**	**105.86**
Operational Boundary:-		
Debt	**105.00**	**106.15**
Authorised Limit:-		
Debt	**120.00**	**121.15**

Definitions:

Operational Boundary

The limit beyond which external debt is not normally expected to exceed is known as the operational boundary.

Authorised Limit for External Debt

A further prudential indicator controls the overall level of borrowing. This is the authorised limit which represents the limit beyond which borrowing is prohibited. It reflects the level of borrowing which, whilst not desired, could be afforded in the short term, but it is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements.

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

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CABINET

Asset Management Strategy (Non-Housing) 2022-26
25th October 2022

Report of Director for Economic Growth and Regeneration

PURPOSE OF REPORT					
To present the Asset Management Strategy (Non-Housing) 2022-2026 to Cabinet for approval					
Key Decision	X	**Non-Key Decision**		**Referral from Cabinet Member**	
Date of notice of forthcoming key decision	12th September 2022				
This report is public					

RECOMMENDATIONS OF Cllr Hamilton-Cox

(1) That Cabinet Approve the Asset Management Strategy 2022-26 and associated Delivery Plan

(2) That Cabinet approves the development of associated property related policies

(3) That a report confirming the Key Performance Indicators which will be used to monitor the performance of the council's portfolio is presented to Cabinet for agreement to allow for implementation from the beginning of the 2023/24 financial year

(4) That Cabinet agrees that the priority is to review the use of municipal office space with a report detailing findings provided for December Cabinet

(5) That Cabinet reviews the existing list of surplus assets to identify possible opportunities for disposal

1.0 Introduction

1.1 Lancaster City Council is currently without an Asset Management Strategy and several related polices. This has created a situation where many activities and decisions related to the council's land and property portfolio are undertaken on an ad hoc basis without reference to clear formally agreed policy or processes. To address this, the attached Asset Management Strategy (see Appendix) has been drafted for your consideration

Background

1.2 Lancaster City Council has a diverse range of land and property and the way in which it manages these assets has a direct impact on the quality of services that it delivers to the public and its underlying budget / income. However, unlike other key aspects of the council's activities, such as finance and planning, which are supported by established strategies (e.g., the Medium-Term Financial Strategy), there is no single overarching strategy or plan for the management of the council's property portfolio, and several policies or formalised processes to instruct how key property-related activities should be undertaken need to be agreed. The council's other strategies can help inform the context for property decisions / activities, improved direction, clarity, but a greater degree of certainty can be provided by a property specific Asset Management Strategy. The importance of land and property assets to the council cannot be understated, given the forecasted budget constraints over next two years.

1.3 Work undertaken to land or buildings is currently completed in accordance with recognised industry guidance (e.g., valuations), while other activities are being completed to meet statutory and reactive needs (e.g., repairs and maintenance). However, the lack of overarching strategic framework / structure to reference means the approach in commissioning works etc. is ad hoc and reactive and needs to be prioritised in a way the best meets operational objectives.

1.4 In the absence of a strategic framework, guidance and inadequate resources is leading to uncertainty due to an absence of broader strategic objectives. The risk of not having a strategic plan leads to the possibility that property assets may not be utilised in a way that maximises support to achieve service objectives. This puts the council in a position where it may be missing out on significant opportunities to maximise income and or mitigate future maintenance liabilities. This also means that property related decisions and activities are currently being undertaken in a policy vacuum with a short-term focus that clouds the possibilities achievable with a long-term strategic view. As priorities evolve, this leaves decisions open to challenge and creates the possibility that financial investment and officer time could have been better targeted towards those assets which better fulfil agreed objectives

1.5 The Asset management Strategy will provide an effective framework, enabling the council to prudently target its investment towards immediate priorities and assets that are at risk of falling into disrepair. This minimises the risk of unexpected urgent and expensive repairs being required but, more importantly, proactively addresses the latent risk of a significant accident or health and safety breach occurring.

1.6 To provide some context, the council currently has a portfolio which is valued at £85.1million. Based on 2021/22 figures, the council received an income from its commercial portfolio of £2.5million, and had expenditure on key areas (i.e. cleaning, repair and maintenance, rates, rents and utilities) totalling as follows:

Property Type	Expenditure
Commercial	£0.7million*
Municipal e.g. town halls, depots, Salt Ayre etc	£1.9million
Other e.g. open spaces	£1.6million
Total	£4.2million

*The expenditure against the commercial assets is largely recovered through service charges

2.0 Proposal Details

Asset Management Strategy

2.1 The Asset Management Strategy will provide a framework to support the development and management of the Council's non housing land and property assets to achieve our ambition of delivering collaborative property solutions, whilst realising corporate objectives. By launching this Strategy, we are taking a long term strategic approach to how we utilise our asset base ensuring we maximise commercial and social returns by rationalising the City Council's property to allow it to act as a catalyst for development and underpin the social fabric of communities across the district.

2.2 The Strategy will guide our future strategic property decisions to ensure we manage our property portfolio sustainably and efficiently, so that it can remain fit for the future and support frontline delivery. It will support asset-led transformation and innovation, giving direction and instruction to service areas in respect of how our assets and estate can help them achieve and exceed their objectives. And it will ensure that the that planning and programming of investment is properly considered. In doing so, the strategy sets out a number of key areas including:

(1) Vision and Priorities – what we seek to achieve with this strategy
(2) The local context – how this strategy sits alongside the council's ambitions and other notable strategy and policy documentation.
(3) Where are we now – A summary of the council's portfolio
(4) Delivering this strategy – Summarising how we will achieve this strategy
(5) Monitoring and Performance
(6) Delivery Plan – Details of the steps which we will take

2.3 The opportunities to utilise our property portfolio to support the achievement of our ambitions for the district are significant and there is more we can do to harness these assets. It is therefore intended that the strategy will be a starting point and will evolve to meet the future ambitions of Lancaster City Council. However, it is recognised that there will be pressing strategic decisions which may need to be made before the completion of the actions within the Strategy's Delivery Plan. The Asset Challenge Process element of the Strategy has therefore been separated into tranches, with baseline data currently being prepared to ensure it is available for the Outcome Based Resourcing (OBR) process. The OBR process will in turn inform immediate priorities for the council and the Asset Management Strategy will be revised to accommodate any such priorities which need to be brought forward

2.4 To ensure that the strategy targets high priority assets early in the process, assets have been provisionally categorised into tranches to illustrate the order in which they will be considered. This is detailed within the Strategy and demonstrates how the initial focus will be on key corporate buildings followed by the commercial and non-commercial assets.

2.5 The implementation of the strategy will be monitored through a number of Key Performance Indicators (KPIs). These are currently under development but will be designed to indicate how well the council's property is performing and could include, for example, occupancy rate, energy performance and maintenance spend. However, to ensure that they are relevant and capture all areas of interest, they will be presented to Cabinet for agreement before implementation

Resourcing

2.6 The Strategy will provide a cohesive plan to direct the council's activities. The council is currently in the process of reviewing its current capacity and resources set against the implications of delivering the Asset management Strategy. This will form part of the forthcoming discussions as the Council enters its OBR process for setting future budgets.

2.7 There is currently no business case or approved revenue budget in place to facilitate any increase in resources should this be deemed appropriate so these will need to be drafted and agreed with their own financial implications considered. The funding of any increase will need to be managed as part of the budget setting process

3.0 Details of Consultation

3.1 Consultation has taken place with relevant officers

4.0 Options and Options Analysis (including risk assessment)

	Option 1: Adopt the Asset Management Strategy (Non-Housing) 2022-26	**Option 2:** Do not adopt the Asset Management Strategy (Non-Housing) 2022-26
Advantages	Ensure that the council provides the right assets in the right place, time and cost to meet and support its current and future objectives. Allow the council to 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 the council can gain from its non-operational commercial	More resources available for other areas of ambition

	portfolio and surplus assets in both financial and social value terms. Allow the council, in a structured and clear way, to regularly challenge the use of its land and buildings to minimise revenue expenditure and maximise the generation of capital receipts/revenue income. Provide officers with clear decision-making framework for activities relating to asset use and acquisition.	
Disadvantages	Additional resources will be required to effectively deliver the priorities	Property decisions will be made reactively and from a siloed approach, and may not create the best outcomes for the Council financially, for its staff or its residents The Council will not be able to effectively manage its property portfolio Opportunities to maximise income from our portfolio will be missed
Risks	May identify spending requirements which have not previously been accounted for	Potential for wasted effort and resources being applied to activities which are found to not be in line with service or member aspirations. Increased risk of properties falling into disrepair and accidents occurring.

5.0 Officer Preferred Option (and comments)

5.1 The officer preferred option is Option 1. Only through the effective implementation of an Asset Management Strategy can the council be confident that it is efficiently and effectively managing its property portfolio

6.0 Conclusion

6.1 The opportunities to utilise our property portfolio to support the achievement of our ambitions for the district are significant and there is more we can do to harness these assets. It is therefore hoped that the strategy will be a starting point and will evolve to meet the future ambitions of Lancaster City Council

RELATIONSHIP TO POLICY FRAMEWORK

The report introduces the Asset Management Strategy which is concerned with matters relating to prudent management of the city council's property portfolio.

The Strategy itself sets out seven priorities which in turn contribute to all four of the council's overarching priorities. The relationships between the respective priorities are summarised within the Strategy.

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

The proposals set out in the report should not have any adverse effects and should have some positive impacts particularly on the health and safety, and ongoing sustainability of the council's property portfolio

LEGAL IMPLICATIONS

No direct legal implications arise at this time.

FINANCIAL IMPLICATIONS

There are no direct financial implications connected with adopting the strategy. However, the progression of the strategy will result in various financial issues arising in due course. These will be reported to Members for consideration at the appropriate time.

To reiterate section 2.7 of the report, there is currently no business case or approved revenue budget in place to facilitate any increase in resources should this be deemed appropriate so these will need to be drafted and agreed with their own financial implications considered. The funding of any increase will need to be managed as part of the budget setting process.

OTHER RESOURCE IMPLICATIONS

Human Resources:

As per section 2.6 and 2.7, the resource required to deliver the Asset Management Strategy will depend upon the direction of travel and linked to the current OBR review.

Information Services:

No implications at this time

Property:

As detailed in the report and Asset Management Strategy

Open Spaces:

As detailed in the report and Asset Management Strategy

SECTION 151 OFFICER'S COMMENTS

The Asset Management Strategy (AMS) plays a significant part in the Council's Outcomes Based Resourcing ambitions by providing a strategic view of our asset base. The AMS should identify how the Council's assets can be utilised to provide continued service provision, the associated costs, as well as opportunities for income generation and capital receipts.

However, it is essential that the associated financial analysis comes forward quickly if we are to meet the Council's budget timetable and so should be treated as a priority

MONITORING OFFICER'S COMMENTS	
The Monitoring Officer has been consulted and has no further comments to add	
BACKGROUND PAPERS n/a	**Contact Officer:** Daniel Wood **Telephone: 01524 582061** **E-mail:** dwood@lancaster.gov.uk **Ref:** [Click here and type Ref, if applicable]

Asset Management Strategy (Non-Housing) 2022-2026

Issue	3.03 DRAFT
Author	Dan Wood
Date of issue	18/10/2022

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2 Document Control

Document control			
Date	Document version number	Author	Summary of additions / changes
12/07/2022	2.06.6 Draft	DW	Updated draft for circulation
31/08/2022	2.06.7 Draft	DW	Re-ordering of appendices to improve the flow of the document
07/09/2022	3.00	DW	Section 7.1 Valuation table updated with latest data Section 8.2 Governance Arrangements table updated. Document version renumbered to 3.00 ready for presentation to Cabinet
28/09/2022	3.01	DW	Section 6.2.3 text revised Tranche table additions under public realm assets
13/10/2022	3.02	DW	Priority 7 updated in all areas referenced; Section 8.1 updated Action 1.05 Updated Action 7.01 updated
18/10/2022	3.03	DW	Section 8.2 flowchart updated

3 EXECUTIVE SUMMARY

This *Asset Management Strategy* provides a framework to support the development, investment and management of the Council's non housing land, property, and engineering assets to achieve our ambition of delivering collaborative property solutions, realising corporate objectives.

By launching this *Asset Management Strategy* we are taking a long term strategic approach to how we utilise our unique asset base ensuring we maximise commercial and social returns by re-aligning the City Council's property to act as a catalyst for development and underpin the social fabric of communities across the district.

It will guide our future strategic property decisions to make sure we manage our property portfolio sustainably and efficiently, so that it can remain fit for the future and support frontline delivery. It will support asset-led transformation and innovation, giving direction and instruction to service areas in respect of how our assets and estate can help them achieve and exceed their objectives. And it will ensure that the that planning and programming of investment is properly considered.

In doing so, this strategy sets out the following key areas:

- **Vision and Priorities –** what we seek to achieve with this strategy
- **The local context** – how this strategy sits alongside the council's ambitions and other notable strategy and policy documentation.
- **Where are we now** – A summary of the council's portfolio
- **Delivering this strategy** – Summarising how we will achieve this strategy
- **Monitoring and Reporting** – how we will ensure that the plan is effective
- **Delivery Plan** – Details of the steps which we will take

The opportunities to utilise our property portfolio to support the achievement of our ambitions for the City are significant and there is more we can do to harness these assets. It is therefore hoped that this strategy will be a starting point and will evolve to meet the future ambitions of Lancaster City Council

4 INTRODUCTION

Along with Finance, People and ICT, Property is one of the four principle corporate resources that support the delivery of all services. As such, how that resource is utilised can have a significant impact on the Council's delivery of services and financial standing.

Lancaster City Council has a diverse range of land and property that contributes in many ways to the Council's corporate objectives.

The council is also responsible for assets and structures within the public realm. Some of these can be considered as critical infrastructure, such as; cycle-routes, bridges, street lighting, and are fundamental to the safety of our communities.

It is therefore essential that all assets are considered concurrent with other resources to support delivery of the Corporate Plan and priorities.

This Asset Management Strategy therefore sets out the strategic direction for the management of the Council's non-housing property portfolio and reflects on all other relevant government policies, Council plans and strategies. It sets out our plans for the use of property assets to support Lancaster City Council's corporate and service objectives and provides a focus for strategic management and investment in our property portfolio.

Similarly, by including a focus on managing Engineering assets we can ensure the assets are maintained to an appropriate standard, and benefits to local communities, businesses and visitors is continued.

Asset management seeks to align the asset portfolio with the needs of the organisation. Corporate objectives express the needs and wishes of the organisation at high level; the asset requirements to deliver these objectives are expressed in a medium/long term plan. The conversion of these corporate aims and visions into asset reality is the business of the asset management plan.

This strategy is subject to ongoing review and will be updated annually to ensure that it adapts to new initiatives and challenges, and to ensure that property assets play a full, effective and efficient part in supporting innovative service delivery

The way that the Council manages its land and property assets has a direct impact on both the quality of services that it delivers to the public and the quality of the environment. It is therefore important that efficient and effective use is made of these assets to support the Corporate Plan and Priorities.

This document sets out the property context for the city and the Council's property holdings and functions linking these to the Corporate Plan. It aims to ensure that the Council's focus is on actions and outcomes that will maximise income whilst effectively supporting improved service delivery and customer satisfaction.

5 OUR VISION AND PRIORITIES

The overarching visions for this policy are to ensure that all of the Council’s property are:

- ‘Fit for purpose’ – property actively contributing to effective service delivery in terms of location, condition, suitability, compliance, accessibility, design and layout.
- ‘Efficient’ – in the way that property performs and in the way that property is used i.e. flexible and supporting new ways of working,
- ‘Sustainable’ – both in environmental and financial terms so that it supports the work of the authority and its partners whatever changes come our way

To help achieve these visions, this Asset Management Strategy has identified the following priorities:

1. Provide the right buildings to the right standards 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.
2. Optimise and prioritise the level of investment in property assets to ensure effective risk management and compliance, minimise maintenance backlog, improve fitness for purpose and optimise occupancy levels.
3. Maximize the value received from our non-operational commercial portfolio.
4. Continue to improve the environmental sustainability of the Council’s property portfolio.
5. Promote the innovative use of property by enabling urban regeneration and facilitating joint working with our partners and stakeholders.
6. Challenge the use of land and buildings held by the Council by using a consistent approach to property performance monitoring to minimize revenue expenditure and maximize the generation of capital receipts.
7. Improve the council’s approach to property management

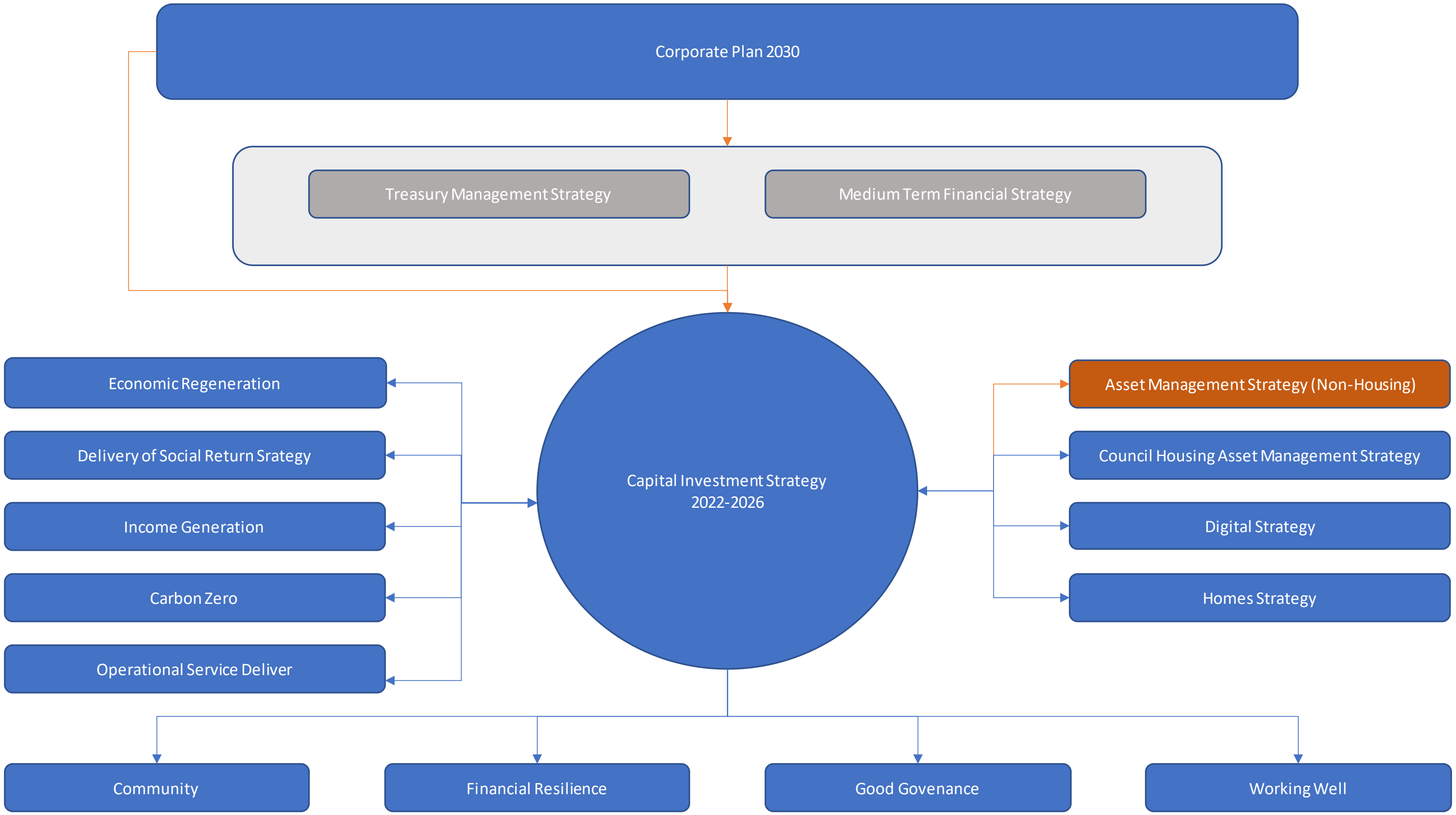
The next section details the local context to explain how the above priorities align with the Council's Medium Term Financial Strategy with a view to ensuring the Council optimises its land and property assets in a way which best supports financial/investment priorities.

The priorities of this strategy will be delivered through the development and implementation of the Delivery Plan as detailed in Appendix 1

6 The Local Context

6.1 Strategic Context

The *Asset Management Strategy* is not a standalone document and is informed by other key council documents as illustrated in the graphic below. Some of these associated key documents are expanded on in the sections which follow.



6.2 Associated Council Documents

6.2.1 Lancaster City Council Ambitions

Our *Council Plan* sets out our priorities and vision for the Lancaster district to thrive as a vibrant regional centre in the north-west of England. We know that to thrive and continue improving in a demanding environment, we will need to be innovative and creative in designing the way we deliver excellent, accessible services and address the district's needs.

The *Council Plan 2030*, sets out the following four *Priorities*:

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

It also identifies three *Themes* which describe the approach we will aim to take in all our work. These are:

- Climate Emergency
  Taking action to meet the challenges of the climate emergency
- Community Wealth-Building
  Building a sustainable and just local economy that benefits people and organisations
- Community Engagement
  Drawing on the wealth of skills and knowledge in the community and working in partnership

The *Plan* summarises how we can contribute to achieving our Ambitions by setting out:

- The available information which has influenced Council thinking
- How Council work currently contributes to our Ambitions
- Areas of work the Council will be focusing on during the period covered by this Plan
- How others can work with the Council in successfully delivering our priorities
- Outcomes the Council will be measuring our success against

The following table provides a visual representation of the links between the Council Plan and the *Asset Management Strategy* Priorities.

Asset Management Priority	Council Plan Priorities			
	A Sustainable District	An Inclusive and Prosperous Local Economy	Healthy and Happy Communities	A Co-operative, Kind and Responsible Council
Priority 1 Provide the right buildings to the right standards 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	✓	✓	✓	
Priority 2 Optimize and prioritize the level of investment in property assets to ensure effective risk management and compliance, minimize maintenance backlog, improve fitness for purpose and optimize occupancy levels.	✓		✓	✓
Priority 3 Maximize the value[1] received from our non-operational commercial portfolio.	✓			✓
Priority 4 Continue to improve the environmental sustainability of the Council's property portfolio.	✓	✓	✓	
Priority 5 Promote the innovative use of property by enabling urban regeneration and facilitating joint working with our partners and stakeholders.		✓	✓	✓
Priority 6 Challenge the use of land and buildings held by the Council by using a consistent approach to property performance monitoring to minimize revenue expenditure and maximize the generation of capital receipts.		✓		✓
Priority 7 improve the council's approach to property management	✓			✓

[1] Value is can be defined in financial and non-financial terms e.g. providing access to parks and recreation adds value in health and wellbeing

6.2.2 Medium Term Financial Strategy

The Medium-Term Financial Strategy (MTFS) sets out how Lancaster City Council will manage its finances to deliver against its corporate priorities, whilst protecting its financial standing and responding to the many challenges it faces, which will in turn inform the future budget setting process.

There remain significant uncertainties in terms of Local Government funding over the next couple of years. These uncertainties have been exacerbated by current COVID-19 and Brexit situations which have severely hampered the ability to forecast accurately with many key estimates and assumptions likely to change in the coming months.

However, it must be recognised that the overall size of the challenge the Council faces in addressing its underlying structural deficit is significant and the formulation of a balanced budget over the medium and longer term will require the delivery of considerable savings.

Continued focus on service transformation and continuous improvement will therefore play a significant part in achieving the level of savings required.

6.2.3 Investing in the Future: Capital Investment Strategy

The *Investing in the Future: Capital Investment Strategy* for the period 2022-26 sets out a framework for how the Council wishes to invest in the future of the Lancaster district through prudent use of capital funding, known as the Council's 'Capital Programme'.

The strategy will be approved by Council each year at budget setting time, and any material changes will be presented to Council prior to implementation.

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

6.2.4 Climate Change Action Plan

Since the council declared the Climate Emergency in January 2019, work has been taking place to examine the extent to which the council's direct activities contribute towards the district's carbon emissions and in November 2019, the council approved a Climate Change Action Plan to allow the council to become net zero carbon by 2030.

7 WHERE ARE WE NOW

Lancaster City Council is the second largest Lancashire authority in geographic terms covering 576 square kilometres. The number of people per square kilometre is the second lowest in Lancashire, well below the county and national averages. Lancaster City Council is responsible for activities such as:

- Local planning and development control
- Household bins and recycling
- Administering Council tax and housing benefit locally
- Providing Council housing and generally promoting good quality housing provision
- Environmental health and safety
- Parking enforcement
- Licensing
- Promoting economic development and tourism in the area

7.1 STATEMENT OF PORTFOLIO

The Council currently has a diverse portfolio predominantly focused on the major urban areas of Carnforth, Lancaster and Morecambe along with a number of villages across the Lancaster district.

The types of assets under the council's ownership or management are summarised in the table below:

Non-housing assets	Engineering / infrastructure assets
These include, but are not limited to: • Allotments • Cafes • Car Parks • Cemeteries / churchyards • Corporate buildings e.g. Town Halls • Depots • Land • Museums • Non-residential e.g. the Storey • Public conveniences • Residential (non-Housing Revenue Account) • Retail units • Sports centre	These include, but are not limited to: • Un-adopted Highways and amenity footpaths • Bollards (fixed and removable) • Boundary fencing • Bridges and retaining walls • Cycle parking e.g. lockers and stands • Cycle-routes • Land management e.g. river lune millennium park • Lighting e.g. cycle-routes, Ffrances passage • Paths • Power supplies e.g. market square • Promenade and coastline infrastructure e.g. coastal defences (sea walls and rock armour), access ramps, jetties, lifebelts, benches etc • Public art • Redundant structures e.g. pumping stations • River lune assets e.g. flap valves, flood walls, posts/rails etc

	• Road markings – statutory • Signage statutory and other e.g. direction, interpretation panels etc

Using the International Finance Reporting Standard (IFRS) these assets have been categorised as follows:

Category	Sum of Asset Value
Operational	
Other Land and Buildings	£54,370,378.00
Community Assets	£718,457.00
Infrastructure Assets	De minimis
Non-Operational	
Investment Properties	£28,991,355.00
Surplus assets held for disposal	£1,011,627.00
Grand Total	£85,091,817.00

*Valuations are currently underway and are due to be finalised before the end of the financial year

However, it is clear that there is a need to develop our understanding of our portfolio so, a key part of this strategy will be to set out a consistent process for identifying consistently, at property (and collated to portfolio scale) the function(s) operating costs, income, liabilities and value of our property assets. This process will inevitably lead to adjustments of how we classify and name assets but will help to improve our understanding of the assets which we hold.

8 Delivering this Strategy

To ensure that management of assets is undertaken by those with the best knowledge and skills, assets will continue to be managed through the existing teams i.e. engineering team, public realm etc. The exception to this will be the management of the non-housing assets where on-site teams will be supported by the introduction of a Corporate Landlord approach to property and land management.

8.1 Corporate Landlord

Lancaster City Council is committed to using its property assets in a corporate manner to realise their optimum benefit to the community and represent value for money. This requires proactive best practice management of the existing portfolio, a commercial approach to the development of new assets and the disposal of assets no longer required. Lancaster City Council will therefore explore an alternative approach to manage its land and property assets, with the Corporate Landlord approach being considered. A full business case will be prepared but, should it found to be advantageous, this approach should enable a local authority to:

- Utilise its assets to deliver better, more efficient services to communities to:
- Unlock the value of assets, seek efficiencies through joint arrangements with public sector partners and maximise investment.
- Support the delivery of the Council's priorities set out in the Corporate Plan.
- Integrate thinking about property with financial, regeneration and other considerations.

Under the corporate landlord approach, the ownership of an asset and the responsibility for its management, maintenance and funding are transferred from service departments to the Property Group who act as the centralised corporate body. There are specific responsibilities that fall to the tenant and landlord depending on the nature of the asset and service but this allows each service department to plan and deliver the service while the corporate landlord ensures each service is adequately accommodated in a well-managed and maintained asset. The benefits of this approach across the Council include:

- Clear and consistent focus on all land and buildings to deliver the authorities priorities
- Enables economies of scale
- Improved customer focus
- Improved value for money
- Improved risk management
- Improved focus on investment
- Increased opportunities for capital receipts

The concept of treating property as a corporate resource strengthens the Corporate Landlord's strategic control of the Council's property assets, providing a corporate and collaborative approach to review and change of use, integrated and shared use of premises, facilities management and maintenance, development and refurbishment. The objective being to provide property assets that are fit for purpose and supportive of service delivery. This in turn will free up services to focus upon the operational aspects of service delivery.

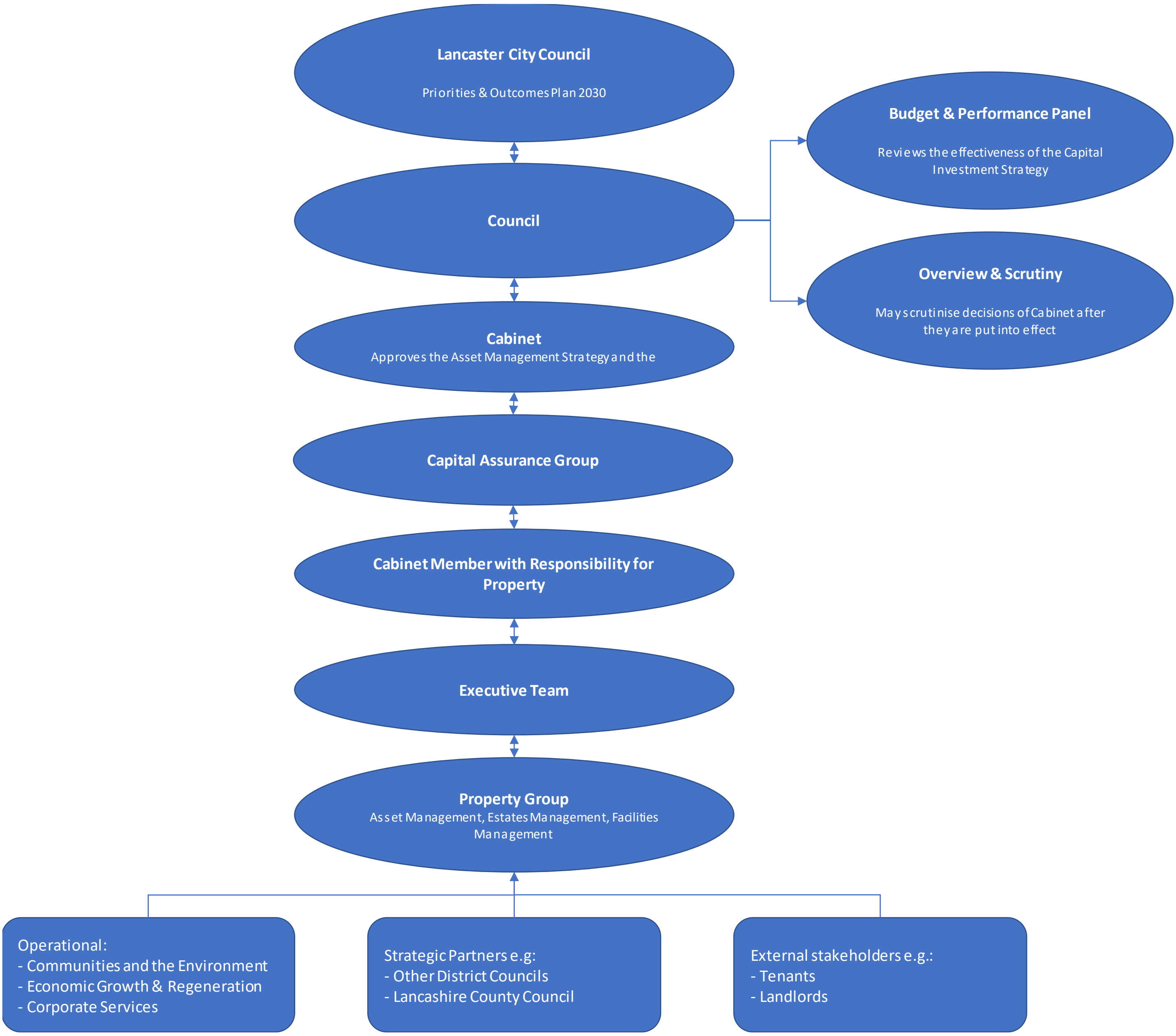
8.2 Governance Arrangements for Corporate Asset Management

Lancaster City Council has agreed a Constitution which sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people.

To ensure a consistent approach across the council's activities, governance arrangements will remain in line with the agreed project management protocols as set out by the council's Corporate Programme Team.

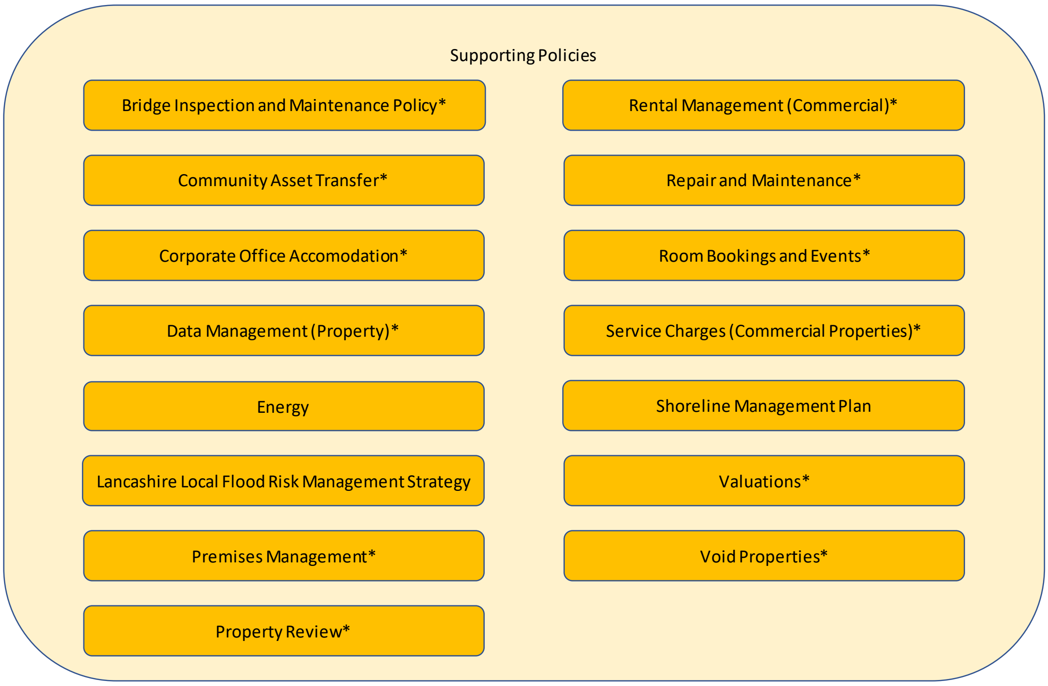
Where capital investment is required, the governance arrangements as set out in the Capital Investment Strategy will be followed.

Additional governance arrangements for Asset Management are summarised in the following chart:



8.3 Associated Policies

The implementation of this strategy will be supported by the following policies:



*Under Development

Action is currently being taken to implement those policies which are currently under development

9 Monitoring and Performance

The implementation of this strategy will be measured through the successful delivery of our seven Asset Management priorities.

We will also be monitoring a number of Key Performance Indicators (KPIs) which will be designed to indicate how well the council's property is performing against corporate and property priorities.

These KPIs will be developed as part of the delivery of this strategy and shared with the Budget and Performance Committee as a periodic standard report. Consideration will also be given to ensuring that this information feeds in to the Financial Resilience Advisory Group established by Cabinet as part of the wider financial resilience activities.

10 APPENDIX 1 - DELIVERY PLAN

10.1 INTRODUCTION

This final section of the Asset Management Strategy is the Delivery Plan which sets out the main steps which will be undertaken to achieve the priorities set out in Section 2.2.

The timescales in the delivery plan are defined as follows:

- High – To be completed within 9 months of the adoption of this strategy
- Medium – To be completed within 2 years of the adoption of this strategy
- Low – To be completed within 3 years of the adoption of this strategy

Responsibility for each action will be confirmed by the Head of Property, Investment and Regeneration following adoption of this strategy.

This plan is detailed in the subsequent sections as summarised below:

- Priority 1: 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
- Priority 2: Optimize and prioritize the level of investment in property assets to minimize maintenance backlog, improve fitness for purpose and optimize occupancy levels.
- Priority 3: Maximize the value received from our non-operational commercial portfolio
- Priority 4: Continue to improve the environmental sustainability of the Council's property portfolio.
- Priority 5: Promote the innovative use of property by enabling urban regeneration and facilitating joint working with our partners and stakeholders.
- Priority 6: Challenge the use of land and buildings held by the Council by using a consistent approach to property performance monitoring to minimize revenue expenditure and maximize the generation of capital receipts.
- Priority 7: Embed the Corporate Landlord approach to property management

Ref	Action	Timescale	Responsible Officer
10.2 Priority 1 Provide the right buildings to the right standards 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.			
1.01	Produce service asset management plans clearly inked to business plans, including strategies and service delivery plans.	High	TBC
1.02	Develop Detailed Management Plans for each property or asset type (as appropriate)	High*	TBC
1.03	Undertake a comprehensive review of the Council's asset base as per the Asset Challenge Process detailed in Appendix 2	High*	TBC
1.04	Review the Asset Management Strategy	Low	TBC
1.05	Rationalise properties to meet the council's objectives	Medium	TBC

*See also Appendix 3: Property Tranches

Ref	Action	Timescale	Responsible Officer
10.3 Priority 2 Optimize and prioritize the level of investment in property assets to ensure effective risk management and compliance, minimize maintenance backlog, improve fitness for purpose and optimize occupancy levels.			
2.01	Formalise a backlog maintenance programme	Medium	TBC
2.02	Undertake an internal audit of the Council's statutory compliance regime to ensure that all the Council's obligations are being effectively managed and risks mitigated	Medium	TBC
2.03	Develop Property Maintenance Plans for all buildings	Medium	TBC
2.04	Review contractor frameworks	Medium	TBC
2.05	Produce a planned preventative maintenance plan and capital/responsive funding plans.	Medium	TBC
2.06	Provide relevant compliance information to all tenants and undertake periodic checks throughout the duration of a tenancy to ensure ongoing compliance	Medium	TBC
2.07	Prioritise investment towards property that can provide strong stable long-term income.	Medium	TBC
2.08	Implement an approved contractor system – (this will include identifying environmentally approved product and sources)	Medium	TBC
2.09	Establish appropriate inspection and maintenance programmes to identify medium and long-term investment needs	Medium	TBC
2.10	Prioritise investment of maintenance to ensure longevity of existing assets and reduce whole life/renewal costs	Medium	TBC

Ref	Action	Timescale	Responsible Officer
10.4 Priority 3 Maximize the value received from our non-operational commercial portfolio.			
3.01	Deliver medium growth in gross income, including inflation, by 2024- recognising there will be a reduction during the period of strategic rationalisation,	Medium	TBC
3.02	Maximise income obtainable from the commercial estate – through rental increase but also through the implementation of creative usage.	Medium	TBC
3.03	Deliver a total return annually in line with property market conditions with performance reported regularly to Budget and Performance Panel	Medium	TBC
3.04	Implement a formalised process for managing the risks associated with outstanding or delayed rent reviews	Medium	TBC
3.05	Seek interim revenue generating uses on sites where regeneration schemes have been temporarily postponed	Medium	TBC
3.06	Prepare lease reports on a regular basis	Medium	TBC
3.07	Rationalise property budgets and how R&M budget might be better administered	Medium	TBC
3.08	Prioritise investment in strategic infrastructure to facilitate economic growth and future investment in targeted areas		

Ref	Action	Timescale	Responsible Officer
10.5 Priority 4 Continue to improve the environmental sustainability of the Council’s property portfolio.			
4.01	Ensure all buildings within the council's property portfolio comply with the council's carbon zero challenge	2030	TBC
4.02	Reduce our carbon footprint and promotes sustainable asset management	Low	TBC
4.03	Improve the biodiversity of our land and buildings estate by introducing more sustainable land management procedures and developing new habitats.	Low	TBC
4.04	Establish and evaluate the energy profile of all buildings to identify possible savings	Medium	TBC
4.05	Achieve an Energy Performance Certificate rating for our buildings of C or above	Low	TBC
4.06	Develop lifetime costs, environmental issues/costs/Carbon Footprint/energy costs for all property projects	Low	TBC
4.07	Work with partners and stakeholders to deliver multiple outcomes and benefits where investment and construction is necessary	Medium	TBC

Ref	Action	Timescale	Responsible Officer
10.6 Priority 5 Promote the innovative use of property by enabling urban regeneration and facilitating joint working with our partners and stakeholders.			
5.01	Identify opportunities for how the council can use its land and building assets to support the local economy and aid regeneration.	Low	TBC
5.02	To support agile working and to promote ‘Working Well’ initiatives.	High	TBC
5.03	Identify opportunities for collaborative working where it can provide benefit for service delivery, whilst securing efficiencies and value for money	Medium	TBC
5.04	Identify shared use and co-location of services in line with corporate and service objectives, corporate property objectives.	Medium	TBC

Ref	Action	Timescale	Responsible Officer
10.7 Priority 6 Challenge the use of land and buildings held by the Council by using a consistent approach to property performance monitoring to minimize revenue expenditure and maximize the generation of capital receipts.			
6.01	Undertake periodic reviews of all assets in line with the Asset Challenge Process (Appendix 2)	Medium*	TBC
6.02	Categorise all properties so that they are in line with strategy objectives	High	TBC
6.03	Develop an efficient consultation model and process to quickly establish the best use for identified/ released sites	High	TBC
6.04	Develop a list of sites available for development by either the Council or a partner or which are suitable for disposal	Medium	TBC
6.05	Review Community / Commercial Buildings to assess their management and ongoing effectiveness	Medium*	TBC
6.06	Locate all property and land title deeds and link to the Property Group asset database (TF)	Medium	TBC
6.07	Develop a set of meaningful performance indicators	High	TBC
6.08	Use performance data to challenge use of inefficient assets	Medium	TBC
6.09	Establish an Asset Management Group (or similar)	Medium	TBC
6.10	Review and develop an action plan for non-income generating, non-operational assets	Medium	TBC
6.11	Continue to improve the efficiency of space utilisation through the continuous programme of property reviews.	Medium	TBC
6.12	Undertake a review of available property information and fill any data gaps	Medium	TBC
6.13	Inform building performance by maintaining effective and accurate records on the utilisation of each Council building	Medium	TBC
6.14	Identification of potential sites for disposal	Medium	TBC

*See also Appendix 3: Property Tranches

Ref	Action	Timescale	Responsible Officer
10.8 Priority 7 Improve the council's approach to property management			
7.01	Undertake a full business case to explore different approaches to property management e.g. the Corporate Landlord, and embed the findings across the estate with any exceptions to be subject to an approved business case	Medium	TBC
7.02	Develop a clearly defined framework for the Council to manage its land and property assets	Medium	TBC
7.03	Ensure Property Group structure and resources are sufficient to meet the requirements of the Corporate Landlord function	Medium	TBC
7.04	Formalise asset management policies and processes to maintain best practice.	Medium	TBC
7.05	Maintain accurate and accessible records of the Council's property portfolio.	Medium	TBC
7.06	Property Group to administer ALL acquisitions / disposals of property and assets through a centralised asset register	Medium	TBC
7.07	Continue to manage repair and maintenance across the property portfolio on a corporate basis to ensure continuing improvement in the condition of the Council's property stock.	Medium	TBC
7.08	Reconcile records of buildings insured to the asset management system	Medium	TBC
7.09	Improve the Property Group asset management system	Medium	TBC
7.10	Ensure the Shoreline Management Plan is appropriately resourced	Medium	TBC

11 Appendix 2: Asset Challenge Process

The following summarises the process which will be followed to review the council's asset base, keeping in mind that not all steps will be appropriate for all assets

Property Details

- Description e.g. location, size, type, valuation etc.
- Who is accountable for the operation and performance of the asset?
- Is the asset currently in use

Strategic Purpose

- Why does the council hold the asset?
- How does the asset contribute to corporate objectives?
- How do we measure the asset's performance against its purpose?
- Confirm suitable frequency for future reviews

Performance Appraisal

- How has the asset performed against its intended purpose and what outcomes has it delivered (financial / non-financial)?
- How suitable is the asset for its intended purpose?
- How does the asset comply with appropriate statutory safety requirements?
- What maintenance costs are associated with the asset?
- What are the utility costs and profile of the asset?
- What other costs are associated with the management of the asset?
- What is the asset's occupancy rate?
- What income / expenditure results from the commercial lease(s) of the asset?
- What other income does the asset generate?

Opportunities and Risk*

- How could the financial performance be significantly increased through minor investment or better management?
- What redevelopment or other income or capital generating opportunities exist?
- What decarbonisation options exist for the asset?
- What other opportunities exist for the asset that could be exploited?

Option Appraisal*

- Undertake a full appraisal of all identified options including: costs, benefits, risks etc

Pre-Implementation Consultation*

- Undertake consultation with key internal stakeholders
- Undertake consultation with key external stakeholders and partners (as appropriate)

Outcome*

- Recommendations presented in accordance with agreed governance arrangements

*These sections will be undertaken after the initial baseline phase and in line with the Property Tranches detailed in Appendix 3

12 APPENDIX 3: PROPERTY TRANCHES

To ensure that this strategy targets high priority assets early in the process, assets have been provisionally categorised into tranches to illustrate the order in which they will be considered.

The following table summarises the tranches:

Tranche	Date for Completion (Months from adoption of this strategy)	Property Group Assets	Engineering Assets	Public Realm Assets
Baseline	3	An initial baseline of all Property Group Assets (See Appendix 3)	n/a	n/a
1	6	Key Corporate Buildings and Depots i.e.: - Lancaster Town Hall - Morecambe Town Hall - Old Fire Station - Palatine Hall - Vehicle Maintenance Unit - White Lund Depot	Coastal Flood Defences Bridges and Retaining walls Cycle-routes – surfacing, fencing etc.	Unadopted Highways and amenity footpaths Cycle-routes Signposts, seating and handrailing/boundary fencing Public Art
2	12	Commercial Assets - Café / Retail	Lighting	Cycle support infrastructure (parking lockers)
3	18	Commercial Assets - Non-residential properties	Ordinary watercourses on City land Pumping stations, flap valves, outlets	Promenade features (Tern features and artwork)
4	24	Non-commercial assets (not previously covered) - Buildings	Spillways, landing stages and navigation lights	Walls and other physical assets on council owned land
5	30	Non-commercial assets (not previously covered) - Land	n/a	n/a

END OF DOCUMENT

Document is Restricted

 Agenda Item 7

CABINET

Electricity Contract Renewal
25th October 2022

Report of Director for Economic Growth and Regeneration

PURPOSE OF REPORT					
To outline a proposal for the Council's electricity contract for the next 4 yrs.					
Key Decision	**X**	**Non-Key Decision**		**Referral from Cabinet Member**	
Date of notice of forthcoming key decision	05/10/2022				
This report is public					

RECOMMENDATIONS OF Cllr Hamilton Cox

(1) To renew the contract with Npower, via YPO, for four years.

(2) To pay the additional rate for the Renewable Energy Guarantees of Origin (REGO) backed tariff in order to support the Council's decision to be net zero-carbon by 2030

1.0 Introduction

1.1 The Council's electricity contract is due to expire on March 31st 2023. For the reasons outlined in this report it is recommended we renew this contract. For four years. The contract covers all the non-Council housing property portfolio, as well as some Council Housing properties.

2.0 Proposal Details

2.1 The council currently procures gas and electric through the Yorkshire Procurement Organisation (YPO) ; a Public Sector Procurement consortia whose energy contract is one of the country's largest collaborative agreements incorporating multiple other organisations. The YPO purchase energy in advance when the market conditions are optimal, and then set the rates for the full financial year thereby ensuring that we benefit from the best available prices. YPO have completed a tender exercise and the preferred supplier for the next four years is Npower; the council's current electricity provider.

2.2 The reasons to recommend the use of YPO are :

1. YPO have provided excellent service (e.g. energy advice and contract

issue resolution)

2. Approximately 120 councils currently use the YPO energy framework
3. YPO have provided consistently good contract administration
4. The Council does not have the skills, capacity or scale to procure bulk competitive electricity and gas tariffs

Current Market Conditions

2.3 Energy prices has featured prominently in the news in recent months. The associated costs for the council have risen significantly. The rates the council pay are fixed for each financial year which mitigates against sudden, sharp increases and allows for better financial planning.

2.4 During the 2021/22 financial year, the total payments made by the council for electricity were £873K. For the 2022/23 these are anticipated to rise to £1.9M (assuming current levels of usage) which will create further budget pressures on the general fund. The YPO and Npower are not able to provide the precise rates for the 2023/24 financial year but have cautioned that they are likely to rise significantly. However, based on current market conditions Npower have advised that the costs for the council could be as much as £3.2M per annum. These figures are estimated based on previous years consumption, and whilst significant improvements in our energy consumption have been made with the recent decarbonisation programme, these estimates are considered to be a fair reflection on likely costs.

2.5 We are advised that due to dramatic fluctuations in the energy market completed contracts should be returned before the end of October so that they are best placed to take advantage of optimal prices when/if they arise. If the decision is made to proceed with Npower, then this needs to be completed as soon as possible to ensure that opportunities are not missed.

Renewable Energy Guarantees of Origin (REGO)

2.6 The Renewable Energy Guarantees of Origin (REGO) scheme provides transparency to consumers about the proportion of electricity that suppliers source from renewable generation. This supports the council's Climate Emergency and allows us, for example, to claim that Salt Ayre Leisure Centre is a carbon zero site. However, the REGO backed tariffs include a premium which is currently estimated to be an additional £73K per annum.

2.7 Should the option for the REGO backed scheme be required the following information is important to note. When we buy REGO backed electricity we don't physically get the electricity, rather it is fed into the network and mixed with all the other electricity. However, the REGO provides us with a certificate which states how much of our electricity consumption was produced from renewable sources and confirms we are the sole beneficiary of the electricity (or the only person who can claim the associated carbon benefits for that electricity). With that certificate we can then calculate our CO_2 emissions using the conversion factors for the type of electricity we have "received" rather than the conversion factor for standard electricity.

3.0 Details of Consultation

3.1 Consultation has taken place with relevant officers

4.0 Options and Options Analysis (including risk assessment)

	Option 1: Remain with current provider (Npower) for a short contract period whilst the Council investigates other supplier options.	**Option 2:** Renew the electricity contract via the YPO and go with a standard electricity tariff	**Option 3:** Renew the electricity contract via the YPO and go with a REGO backed electricity tariff
Advantages	The Council will have completed its' own tender process and have contractor control Will allow the council the opportunity to identify if there are alternative suppliers who offer preferable rates/service	YPO have already completed an evaluation of various suppliers before opting for Npower. We will have continued support from YPO to help us address and solve any issues should they arise. The YPO will provide annual fixed rates costs which will allow the council to budget accordingly.	As Option 2 Additional REGO considerations: Contributes to the council's Carbon Zero agenda Provides a guarantee electricity is from renewable energy sources e.g. wind farms. Removes approx. 900 tCO2e (~20%) of the council's Scope 1 and 2 carbon emissions
Disadvantages	Additional resource will be needed within the Council to carry out this work as current staffing levels and expertise in energy markets are not sufficient to do this. The costs during the short period (likely one year) could increase above current rates if market conditions deteriorate further	There hasn't been an investigation into other options that might be available to us, i.e. other agents that may offer the same service as YPO.	As Option 2 Additional REGO considerations: There is an additional cost associated with the REGO. Costs will be confirmed once Npower have gone to market but current estimates are iro £73K per annum

Risks	This option has not been fully investigated so other advantages and disadvantages will be prevalent. The council could fail to find a better provider and incur higher energy costs	Other suppliers may offer preferable rates Energy rates for the next financial year have yet to be confirmed	As Option 2 Additional costs for the REGO have yet to be confirmed

5.0 Officer Preferred Option (and comments)

5.1 The officer preferred option is Option 3.

6.0 Conclusion

6.1 Renewing the current approach to managing our electricity contracts provides a degree of confidence that would not otherwise be possible without incurring additional time and expense. This will also provide the maximum available security during a period of volatility in the energy market and allow for the council to continue towards its Zero Carbon agenda.

RELATIONSHIP TO POLICY FRAMEWORK

This report contributes to the council's priorities most notably those associated with the Climate Emergency

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

As discussed in the report

LEGAL IMPLICATIONS

Contract is with Legal Services for review

FINANCIAL IMPLICATIONS

Energy prices is extremely topical in the current financial climate and significant increases are expected from previous years.

With regard to estimating budgets for future years, the latest pricing information has been used to produce draft budgets and the current latest projections for options 2 and 3 are outlined in the table below :

	21/22 Actual	22/23 Estimate	23/24 Estimate
General Fund	789	1,723	2,841
Housing Revenue Account	84	192	316
Total Option 2	**873**	**1,915**	**3,157**
add REGO Tariff		73	73
Total Option 3	**873**	**1,988**	**3,230**

Note that an element of the costs above are subject to recharging to tenants/customers via service charging. For 2022/23, this is estimated at £233K for the General Fund and £190K for the Housing Revenue Account.

Option 1 is difficult to substantiate at this point in time as the financial impact of moving on to a short-term tariff are not known and also whether or not another provider can be found with a cheaper price.

OTHER RESOURCE IMPLICATIONS

Human Resources:

No implications at this time

Information Services:

No implications at this time

Property:

As discussed in the report

Open Spaces:

No implications at this time

SECTION 151 OFFICER'S COMMENTS

The agreement of a long-term energy contract with Npower, via the YPO procurement framework should provide benefit to the Council through the collaborative nature and involvement of other parties. In addition, the 4-year timeframe affords a degree of certainty within our financial forecasts, in what is currently a very volatile area of significant expense to the Council.

The additional cost in relation to Renewable Energy Guarantees of Origin (REGO) will need to be considered against the current financial pressures the Council faces and if agreed will need to be addressed as part of the OBR process with monies potentially redirected from other areas. It is hoped the Asset Management Strategy will start to bring forward opportunities for the Council to address its level of energy consumption across its current asset base.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS	**Contact Officer:** Daniel Wood **Telephone: 01524 582061** **E-mail:** dwood@lancaster.gov.uk **Ref:**
None	

CABINET

Revision to Reserves Strategy 2022/23

25 October 2022

Report of Chief Finance Officer

PURPOSE OF REPORT					
To consider and approve the transfer from allocated reserves, the updated Reserves Strategy and note the s151 Officers assessment of the minimum level of reserves					
Key Decision		**Non-Key Decision**	**X**	**Referral from Cabinet Member**	
Date of notice of forthcoming key decision					

RECOMMENDATIONS OF COUNCILLOR ANNE WHITEHEAD

(1) **That Cabinet approve the transfer of £5.913M from the Councils allocated reserves to the General Fund unallocated reserve.**

(2) **To recommend that Full Council amend the Budget & Policy Framework to incorporate the amendment to the Reserves Strategy.**

(3) **To recommend that Full Council notes the s151 Officer revised minimum level of unallocated reserves**

1.0 INTRODUCTION

1.1 At its meeting on 23rd February 2022 Council approved its Budget and Policy Framework General Fund Revenue Budget 2022-23 incorporating the s151 Officer annual assessment of the Council's minimum level of reserves, the planned use of reserves throughout the financial year and the underpinning governance arrangements.

1.2 Recent Member briefings to the Council's Budget & Performance Panel (B&PP) and Financial Resilience Group (FRG), as well as Delivering our Priorities Q1 financial reporting outlined the current financial pressure the Council faces in regard to the ongoing cost of living crisis around energy costs, together with other factors including general and pay inflation. It also reaffirmed the known structural budget issues as documented within the Council's Medium Term Financial Strategy (MTFS).

2.0 Current Position

2.1 In order to address these significant issues Cabinet and the Council's Senior Leadership Team are currently undertaking a number of initiatives including:

- Engaging in an Outcomes Based Resourcing programme
- Review of Capital Programme and associated financing arrangements

- Review of Council's General Fund asset portfolio
- Review of the current level of reserves

2.2 Given the current financial climate, it is important that the Council retains an adequate level of reserves to provide an increased degree of financial resilience and that it deploys these reserves carefully to enable the Outcomes Based Resourcing programme to deliver the necessary changes to service provision.

2.3 Currently the Council holds a number of allocated reserves totalling £5.913M to support revenue expenditure and assist in the delivery of a variety of outcomes. It is requested that these amounts be transferred into the General Fund unallocated reserve to enable the Council to better manage the current financial pressures.

2.4 The transfer excludes expenditure incurred to date and proposes a revised Governance process for accessing remaining funds. This is outlined below along with the s151 Officer reassessment of the minimum level of reserves

3.0 RESERVES & 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. Ordinarily this assessment is undertaken annually and noted by Full Council as part of the budget setting process. However, given the extraordinary financial pressures faced by the Council, the s151 Officer has undertaken a revised assessment as noted in paragraph 3.4 below

3.2 As noted previously, reserve levels and their usage are an important part of the budget framework. It is important that the Council maintains a healthy level of reserves in order to maintain financial resilience but, at the same time, balances this with the prudent use of those reserves, usually on 'one-off' items in order to support key outcomes. Currently the Council has unallocated General Fund balance of £6.032M and holds allocated reserves totalling £5.913M. These allocated reserves are held for a variety of purposes to assist the Council in delivering a range of priorities.

3.3 It is requested that these amounts be transferred into the Council's General Fund unallocated reserve to boost financial resilience and to facilitate rationalisation of the application of these resources. Table 1 below provides summary details to the transfers and the forecast balance on the General Fund

Table 1: General Fund Balance

	£M
2022/23 Opening Balance	**(6.032)**
Forecast Budgeted Contribution 2022/23	(0.034)
Transfers from	
Covid 19 Support Reserve	(1.647)
Corporate Property Reserve	(0.025)
MAAP Reserve	(0.027)
Car Parks Renewals Reserve	(0.012)
Business Rates Retention Reserve	(2.019)
Economic Growth Reserve	(0.248)
Restructure Reserve	(0.251)
Corporate Priorities Reserve	(1.356)
Invest to Save Reserve	(0.328)
Total Proposed Transfer	(5.913)
2022/23 Forecast Balance:	**(11.979)**

Revised Assessment of Reserves Levels

3.4 The Section 151 Officer's annual review of the adequacy of reserve balances is a statutory requirement. Although usable revenue reserve levels have increased in the last two years, the Council faces significant inescapable inflationary pressures resulting from the cost of living crisis. Continuing uncertainties in respect of BREXIT, Local Government Funding levels and the results of the Council's OBR process also remain. **Taking all of these risks into account, the Section 151 Officer's advice is that the minimum level of balances held in the General Fund should be increased to £5M.**

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

- The General Fund Balance at 31/03/22 was £6.032M, Quarter 1 revenue budget monitoring forecasts an overspend of £3.181M in 2022/23. Preliminary indications from Quarter 2 monitoring suggest a further increase in the overspent position. This will need to be met from unallocated reserves.

- The Council's current MTFS suggests a structural budget gap in 2023/24 onwards of approximately £2.165M raising to £3.997M. If this is not closed, then balances will be required to make up the difference.

- There is continuing uncertainty in respect of levels of local government funding, the ongoing impact of Covid 19 & BREXIT and measures to address the Council's structural budget issues.

- Although Business rates retention volatility remains a risk to the Council in particularly the timing of the decommissioning of the Heysham nuclear reactors. This is managed via the Business Rates Retention Reserve, therefore, should not impact directly on the General Fund balance.

3.6 In calculating the minimum level of General Fund balance, an assessment of the risks that give rise to unanticipated expenditure or loss of income has been made and these are shown in Table 2 below.

Table 2: Risk Assessment

Risk	**Symptom of Risk**	**Balance Required £M**
Increased demand for services	3% increase in net revenue expenditure	0.600
Recession results in additional uncompensated reduction in fees and charges income than budget	5% reduction in major fees and charges income	0.850
Recession results in additional reduction in Council Tax collection rates than budget	3% reduction in collection rate	0.350
Budget savings not achieved	50% under achievement	0.200
Natural disaster such as flood etc	Additional unexpected expenditure	0.500
Additional uncertainty with respect to Cost of Living	Additional unexpected expenditure	2.500
Aggregate overspend if all of the above risks were to happen		**5.000**

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

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

Governance Arrangements on the Use of Reserves

3.9 Given the current financial pressures and the need for the prudent use of reserves revised arrangements for the approval of reserves expenditure is proposed:

- All applications will need to be supported by a bid document setting out how expenditure funded from Reserves will deliver corporate priorities with a clear costing statement schedule of specific outcome measures. Details of the bid proforma document is attached at appendix A

- Reserve bids should be agreed by Portfolio Holder in consultation with relevant Director.

- Once received bids will need to be formally agreed by the Leader of the Council, Chief Executive, Portfolio Holder for Finance and Resources, Monitoring Officer and the s151 Officer before expenditure is authorised and can be incurred.

3.10 These arrangements will be reviewed again as part of the annual revenue budget process

4.0 OPTIONS AND OPTIONS ANALYSIS

Option 1: Adopt the Revisions to the Strategy
Advantages • Improved clarity with respect to the use of reserves whilst enabling the Council to retain its financial resilience
Disadvantages • None
Risks • The agreement for the use of reserves reduces the risk that reserves expenditure is not adequately controlled which in turn might result in reduced financial resilience.
Option 2: Do not adopt the Revisions to the Strategy
Advantages • None
Disadvantages • Lack of clarity with respect to using reserves and processes for authorisation
Risks • That reserves expenditure is not adequately controlled and impact the Council’s financial sustainability

5.0 OFFICER PREFERRED OPTION

5.1 The officer preferred option is Option 1. This option is designed to clarify how reserves are managed and utilised in order to balance the delivery of Council priorities with securing financial resilience in light of the current pressures.

6.0 CONCLUSION

6.1 This report and appendices provide an update to the Council's Reserves Strategy which is part of the budget framework.

6.2 Any decision to amend the budget framework is a function of full Council.

RELATIONSHIP TO POLICY FRAMEWORK

The Reserves Strategy is part of the budget framework.

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

None identified.

LEGAL IMPLICATIONS

No specific legal implications.

FINANCIAL IMPLICATIONS

The Reserves Strategy aims to ensure that the Council retains sufficient reserves to provide financial resilience but, at the same time, balances this with the prudent use of those reserves in order to support key outcomes

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

None identified.

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has authored this report

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted when preparing this report.

BACKGROUND PAPERS Agenda for Council on Wednesday, February 2022, 6.00 p.m. - Lancaste Council	**Contact Officer:** Paul Thompson **Telephone:** 01524 582603 **E-mail:** pthompson@lancaster.gov.uk **Ref:**

Reserves Bid Document

Description of Expenditure/ Project		
Amount of Reserve Bid		
Reserve	General Fund Unallocated	
Essential or Previously Committed Expenditure	Yes	No
Strategy Link		
Corporate Project Link		
Council Outcomes		

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

Action Plan

What	**Who**	**When**

Outcomes and Impacts arising from Request

Measure	**Baseline**	**Target**

Director Sign Off:		**Date**
Portfolio Holder Sign Off :		**Date**

REQUIRED Governance

	Approval	Date
Council Leader		
Chief Executive		
Finance Portfolio Holder		
Monitoring Officer		
S151 Officer		

Reserves Monitoring Updated	
Deficit Monitoring Updated	

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

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