LANCASTER
CITY COUNCIL

Promoting City, Coast & Countryside

COUNCIL MEETING

Wednesday, 26 February 2025 - 6.00 p.m.
Morecambe Town Hall

Lancaster City Council welcomes members of the public to attend meetings. However, space in the public gallery is limited to 30 seats due to Fire Regulations. The seats are allocated on a first come, first served basis and no standing is permitted. Meetings are livestreamed please click HERE to watch using MS Teams. Please contact Democratic Support via email democracy@lancaster.gov.uk if you wish to register to speak or ask a question at this meeting. The deadline to register is 12pm on Friday 21 February.

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

LANCASTER
CITY COUNCIL

Promoting City, Coast & Countryside

Sir/Madam,

You are hereby summoned to attend a meeting of the Lancaster City Council to be held in the Town Hall, Morecambe on Wednesday, 26 February 2025 commencing at 6.00 p.m. for the following purposes:

1. **APOLOGIES FOR ABSENCE**

2. **MINUTES**

   To receive as a correct record the Minutes of the Meeting of the City Council held on 22 January 2025 (previously circulated).

3. **DECLARATIONS OF INTEREST**

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

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

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

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

4. **ITEMS OF URGENT BUSINESS**

5. **ANNOUNCEMENTS**

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

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

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

7. **PETITIONS AND ADDRESSES**

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

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

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

REPORTS REFERRED FROM CABINET, COMMITTEES OR OVERVIEW AND SCRUTINY

9. **BUDGET & POLICY FRAMEWORK 2025/26 - 2029/30** (Pages 9 - 59)

Report of Cabinet.

10. **HOUSING REVENUE ACCOUNT BUDGET FRAMEWORK 2025 TO 2030** (Pages 60 - 70)

Report of Cabinet.

11. **FLEXIBLE USE OF CAPITAL RECEIPTS STRATEGY 25-26** (Pages 71 - 79)

Report of Cabinet.

Published 20 February 2025.

12. **CAPITAL PROGRAMME 2025/26 – 2034/35 & CAPITAL STRATEGY (INVESTING IN THE FUTURE)** (Pages 80 - 109)

Report of Cabinet.

Published 20 February 2025.

13. **MEDIUM TERM FINANCIAL STRATEGY 2025/26 – 2029/30** (Pages 110 - 126)

Report of Cabinet.

Report published 20 February 2025

Appendix published 25 February 2025

14. **TREASURY MANAGEMENT STRATEGY 2025/26** (Pages 127 - 156)

Report of Cabinet.

Published 20 February 2025.

OTHER BUSINESS

15. **COUNCIL TAX 25/26**

Report of Chief Finance Officer.

Report to follow.

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

Group Administrators to report any changes to Committee Membership.

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

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

18. **MINUTES OF CABINET** (Pages 157 - 174)

To receive the Minutes of Meetings of Cabinet held 3 December 2024 and 14 January 2025.

....

Chief Executive

Town Hall,
Dalton Square,
LANCASTER,
LA1 1PJ

Published on, 18 February 2025.

COUNCIL

Leader's Report

26 February 2025

Report of the Leader of the Council

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

RECOMMENDATIONS

To receive the report of the Leader of Council.

REPORT

1.0 Cabinet

1.1 Information on Cabinet matters is provided in the minutes from the meetings held 3 December and 14 January 2025.

2.0 Decisions required to be taken urgently.

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

3.0 Leader's Comments

3.1 The work of the council continues apace, involving all officers and many members, residents and stakeholders and I have done my best to represent the range of things achieved or in train.

3.2 **Budget**
Over the last month the Budget 25/26 has been finalised, consulted on through the public Budget and Performance scrutiny meeting and brought to Cabinet. We have held our annual meeting with local media representatives and answered some searching questions. The main recent change has been the reduction in expected government support with the National Insurance rise.

Government promised to cover the cost but in the event Lancaster received far less than 100%. This means the amount set aside to be put into reserves will be reduced. The amount of core funding has risen only by less than 1% so overall a cut when considered against inflation.

3.3 **Corporate Peer Challenge Review**

The core team returned to look at progress against the priorities we were given for action. A range of officers, members and stakeholders were involved in interviews with the team. Their overall report was very positive and they concluded that we had undersold our success in several areas.

3.4 **Cabinet matters**

Cabinet has met twice in the last month, its business mainly the budget matters which are coming to Full Council but also to welcome the adoption of the Climate Emergency Local Plan and to renew the strategy for Empty Homes. Informal cabinet continues to meet weekly. Following the Peer Challenge Review it has focused on looking at the priorities from the Council Plan which are currently in play and how they might be prioritised. A joint meeting with Senior Leadership Team in March will develop this work in partnership. MP Lizzi Collinge met with informal cabinet for a lively discussion on business rates, core spending, housing funding, climate and nature followed by further consideration of Morecambe Master Plan and other linked matters. All cabinet have been briefed on the Museums Review and the report should be available in March along with work on acquiring further funding for developing the museums.

3.5 **Partnerships**

Partnerships were seen as an outstanding area in the Peer Challenge. This month has seen a meeting with Morecambe Town council to develop the draft Memorandum of Understanding and with Carnforth Town Council to explore ways forward. On a wider front the Leader has attended the Civic Dinner at Lancaster University focused on partnerships with and between universities to further specific aims for the region's economic and skills agenda. We have also continued to contribute to the national campaign for Securing the Future of Council Housing initiated by Southwark Council. We have met with Arts and Festivals representatives and are hoping to bring a wider group of councillors together as an advisory group soon as possible. Unfortunately, the first meeting had to be cancelled due to councillor illness.

3.6 **UKSPF**

The allocation of UKSPF funding passported directly from Lancashire County Council is very welcome. Unfortunately, this government allocation arrived late, is much lower than previously and appears to be for one year only. There are more than fifty bids to consider so officers and members are working at pace to make funding decisions in the next few weeks.

3.7 **Assets and former assets**

Further work has taken place regarding the future of Ryelands House and officers are currently looking at establishing what commercial value it might have whilst considering strong community interest and expertise. Williamson Park Cafe has been a serious concern for several years because the temporary building had persistent problems with leaks, however the most recent storm did such serious damage that it is now closed and cannot be re-opened. A working group had already been established and is now looking at both immediate needs to provide facilities and the longer-term future. 1 Lodge Street (Musicians Co-op) is now re-roofed and watertight, the next phase of work is being worked through by the Co-op board, contractors and the city council.

3.8 **Devolution and Local government Re-organisation Landscape**

The Lancashire Combined Authority has now officially come into being. The shadow organisation has been meeting over the past year and the first official meeting will be 11th March. The city council working group on Local Government Reorganisation has met twice so far. The group membership has extended to include an MBI participant observer. Meetings have considered the requirements of the letter from the Minister, proposals to put forward as part of the countywide response in March and the principles on which we wish to make those proposals. At district and county-leaders level the same discussions have taken place. All involved have agreed that no one set of proposals could be agreed to at this stage and that our response will be to present the range of proposals which will be refined over the months leading to the November deadline. Chief Executives are tasked with setting out the range of information we will need to make these decisions and how we will proceed to acquire it. There is no appetite at present to employ consultants.

The Chief Executive and Leader have met with counterparts from Preston and Wyre: both meetings have been very useful in developing our thinking and joint understanding of LGR and the effect upon districts and Lancashire as a whole. A further meeting is planned with Ribble Valley.

3.9 **Eden**

The Leader has met with the Chair of the Eden Trustee Board and there has been a briefing for cabinet members. The design for the domes continues to be refined and the Community Conversations in Morecambe are due to restart. It is public knowledge that Eden Cornwall faces serious challenges but funding for Eden Morecambe is assured, and the Project Manager post recently advertised should have been filled by the time of Full Council.

3.10 **Events**

As a city we have seen Chinese New Year celebrated with a two week long programme of events including a big variety show showcasing North-West Chinese cultural heritage and the annual Dragon Dance in the centre of town. The city council organised the Holocaust Memorial this year: it was well attended and everyone agreed it was a fitting way to commemorate the day. Many thanks to officers who came together to make it happen. The Chief Executive and Leader were invited to the Chief Rabbi's visit to Lancaster University and had the opportunity to meet him and listen to his address.

We are about to welcome and support Bay Light this weekend and I hope to see many of you on Friday and Saturday during the event. Looking ahead there will be a National Day of Remembrance for Covid on 9th March. The city council will organise a short ceremony at 12 noon in the Remembrance Garden and there will be a walk of witness to remember those who died. Please do come along if you can.

Caroline Jackson

4.0 Decisions

The following decisions were scheduled to be considered by Cabinet on 11 February 2025:

Review of Lancaster City Council Housing Allocation Policy
General Fund Budget & Policy Framework 2025/26
General Fund Capital Programme & Capital Strategy
Housing Revenue Account and Capital Programme
Treasury Management Strategy
Medium Term Financial Strategy Update
Q3 Delivering our Priorities
Purchase of Housing Stock (Exempt from Publication)

No Officer Delegated Key Decisions have been taken since the last Leader's report.

The following Individual Cabinet Member Decisions have been taken since the last Leader's report.

ICMD 18	Refresh of Lancaster City Council's Tenancy Strategy and Tenancy Policy	Published on 12.02.25 Taken by: Cllr Caroline Jackson
ICMD 19	Procurement of Food Waste Caddies for Segregated Food Waste Collection	Published on 03.02.25 Taken by: Cllr Paul Hart Call-in Waived

Background Papers

Cabinet agenda of the meeting held on 11 February 2025

COUNCIL

Budget & Policy Framework 2025/26 – 2029/30

26 February 2025

Report of Cabinet

PURPOSE OF REPORT					
To present Cabinet's final budget proposals in order that the Council can complete its revenue budget setting for 2025/26					
Key Decision	**X**	**Non-Key Decision**		**Referral from Cabinet Member**	
Date of notice of forthcoming key decision				16th December 2024	
This report is public however the Appendices B1 and B2 are exempt by virtue of paragraphs 2, 3 & 4 of Part 1 of Schedule 12A of the Local Government Act 1972					

RECOMMENDATION OF CABINET

(1) That the General Fund Revenue Budget of £27.201M for 2025/26 be approved, resulting in a Council Tax Requirement of £11.550M, excluding parish precepts, and a Band D basic City Council tax rate of £264.30.

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

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

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

1.0 INTRODUCTION

1.1 Under the Constitution, Cabinet has responsibility for developing corporate planning proposals and a balanced budget for Council's consideration.

1.2 The Council meeting on 22 January 2025 considered Cabinet's proposed revenue budget for 2025/26 and approved a City Council Tax increase of 2.99% together with a year-on-year target of the maximum allowable under the Government's local referendum thresholds for future years.

1.3 Since that report, further information has become available which has a financial impact on the General Fund Revenue budget and subsequently an updated position is being presented. This included:

- Changes to prior year and forecasted business rates income
- NIC compensation changes following the confirmation of the local government finance settlement
- Minor operational changes

1.4 Cabinet met 11 February 2025 to consider its final budget proposals in order that the Council can complete its revenue budget setting for 2025/26.This report sets out:

- An update on local government funding following the outcome of the Final Local Government Settlement **(Section 2)**
- Cabinets final General Fund Revenue Budget proposals for 2025/26 **(Section 3)**
- A summary of the of Council Tax and Business Rates as reflected in the Council's Collection Fund. **(Section 4)**
- The s151 Officers Assessment of the Adequacy of the Council's Reserves Provision and Balances. **(Section 5)**

1.5 To provide an executive summary in relation to the above, the following analysis is provided which compares the projections considered by Council on 28 February 2024 against the latest projections provided for within this report :-

Table 1 – Executive Summary

	2025/26 Forecast £'M	2025/26 Latest £'M	Difference £'M	Report Section
Finance Settlement (Final)	(1.239)	(1.440)	(0.201)	2
General Fund Revenue	26.007	27.201	1.194	3
General Fund Revenue Budget Gap	1.435	0.000	(1.435)	3
Council Tax Income	(11.367)	(11.550)	(0.183)	4
Prior Year Council Tax Surplus	0.000	(0.280)	(0.280)	4
Business Rates Income	(13.205)	(14.275)	(1.070)	4
Prior Year Business Rates Surplus	0.000	(0.636)	(0.636)	4

As the table suggests, there is considerable movement within a few areas and these are discussed further within the relevant section of the report.

2.0 LOCAL GOVERNMENT FUNDING UPDATE

2.1 The government released the provisional local government finance settlement on 18 December 2024, and the final was received on 3 February 2025. There were no differences between the provisional and final settlements with the exception of the notification of the 'Employer NIC Contributions Grant. In the previous update report this was included at an estimated value of £0.400M however the actual amount to be received is £0.258M which is to contribute towards both the general fund and HRA additional staffing cost burden. A calculation has subsequently been performed and the general fund element is now included at £0.206M (£0.052M HRA).

2.2 A summary of the final settlement for Lancaster City Council highlighting the major differences from what was included in the previously approved budget forecast is shown in table 1 below. Assumptions have been included to estimate Government funding from 2025/26 onwards however actual allocations for this period are currently unknown.

Table 2 – Final Settlement allocations for Lancaster City Council

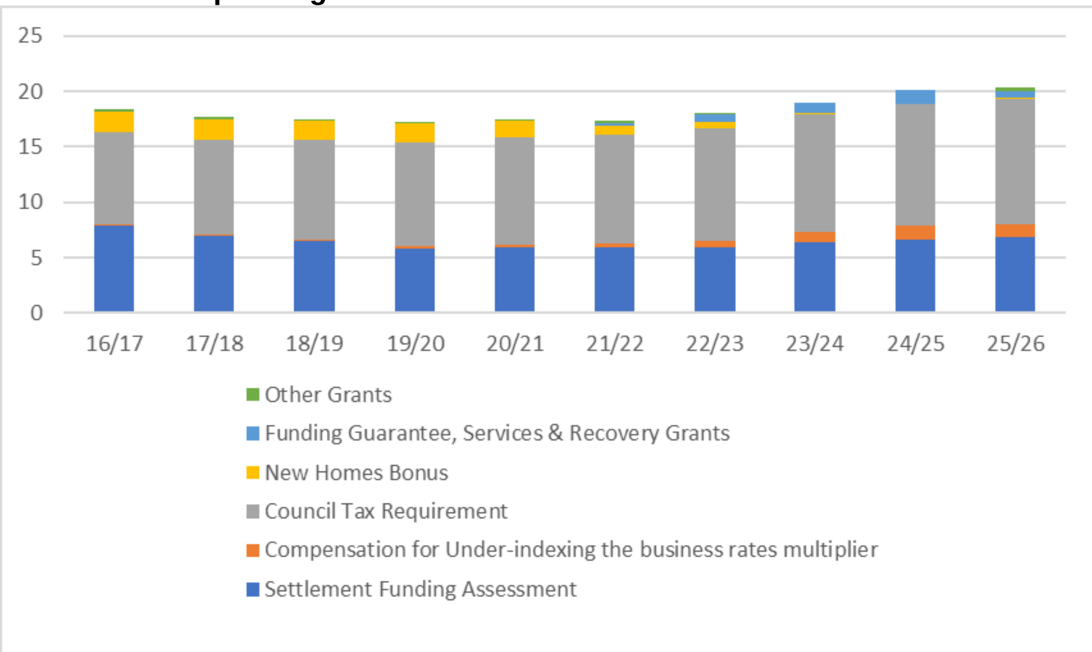
	Final Settlement £'M	LCC Forecast £'M	Difference £'M
Revenue Support Grant	0.460	0.000	0.460
New Homes Bonus	0.137	0.010	0.127
Funding Guarantee/Services Grant	0.000	1.229	(1.229)
Domestic/Recovery Grants	0.637	0.000	0.637
Employer NIC Contributions Grant	0.206	0.000	0.206
Total Government Funding	**1.440**	**1.239**	**0.201**

Core Spending Power

2.3 Core Spending Power (CSP) is a measure used by the Government to set out the resources available to a Council to fund service delivery. It combines certain grants payable to the Council together with estimates of Business Rates and Council Tax, these estimates are based on Government assumptions. CSP is used by the Government to make comparisons of the resources available to different Councils. As such, it is not necessarily the actual funding a Council will receive to fund service delivery.

Table 3 below compares the historic value of CSP, and shows the Council is now almost entirely reliant on Council Tax and Business Rates with a small amount of income from central government grants to fund net expenditure and it is, therefore, important to provide regular estimates of these key funding streams.

Table 3: Core Spending Power



Further analysis of the provisional settlement when considered against 2024/25 is provided in the following table :-

Table 4 – Core Spending Power (Breakdown)

	2024/25 £'M	2025/26 £'M
Compensation for under-indexing the business rates multiplier	1.162	1.209
Council tax requirement excluding parish precepts	11.005	11.315
Domestic Abuse Safe Accommodation Grant	-	0.034
Employer NIC Contributions Grant	-	0.206
Funding Guarantee	1.189	-
New Homes Bonus	0.010	0.137
Recovery Grant	-	0.603
Services Grant	0.040	-
Settlement Funding Assessment	6.682	6.804
Grand Total	**20.088**	**20.308**

2.4 On the basis of the final settlement, the Council's CSP for 2025/26 will increase from £20.09M to £20.31M, or 1.1%, when compared to CSP in 2024/25, and includes an assumption by Government that Councils will increase their Council Tax by the maximum allowable. This is in comparison to the average CSP for all Councils in England of 7.9% and in real terms is deemed to be a significant reduction on previously received amounts creating additional pressure to the net financial position of the general fund.

This is further compounded that the above analysis includes Employer NIC contributions which when excluded reduces the Council's CSP for 2025/26 to £20.10M, or 0.07%. against a previously reported average 6.0%, which again is deemed to be a significant reduction in real terms.

3.0 REVENUE BUDGET 2024/25

3.1 The General Fund Revenue Budget for 2025/26, summarised in Table 5, is included at ***Appendix A,*** with Service summary information given at ***Appendix B*** and more detailed budget savings proposals in exempt ***Appendices B1& B2***. The proposed budget is balanced, in line with statutory requirements, allowing for an additional contribution to the Council's reserves of £0.950M. As noted above the proposed budget takes account of the Final Local Government Finance settlement.

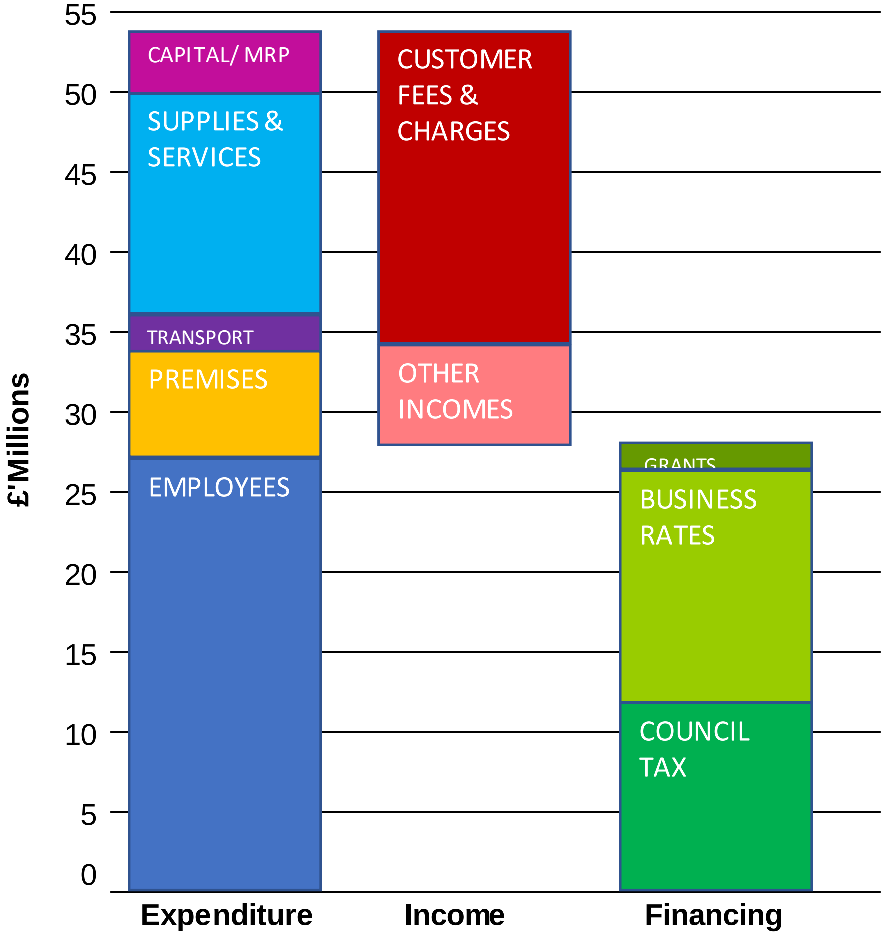
Table 5: General Fund Revenue Budget & Financing 2025/26

	2025/26 £'M
Revenue Budget Forecast as at 28 February 2024	**26.007**
Base Budget Changes Reported to Cabinet 3 December 2024	0.243
Revenue Budget Forecast as at 3 December 2024	**26.250**
Base Budget Changes	
Operational Base Budget Changes	(0.042)
Commercial & Corporate Property Review	1.541
Food Waste Collection (pEPR)	(0.764)
	26.985
Outcomes Based Resourcing Proposals	
Savings & Income Proposals	(0.051)
Growth Proposals	0.026
Impact of Review of the Capital Programme (MRP & Interest)	0.058
Impact of Review of the Capital Programme (Ongoing Revenue)	(0.076)
	26.942
Impact of Local Government Finance Settlement	0.259
General Fund Revenue Budget	**27.201**
Core Funding	
Revenue Support Grant	(0.460)
Prior Year Council Tax (Surplus)/Deficit	(0.280)
Prior Year Business Rates (Surplus)/Deficit	(0.636)
Net Business Rates Income	(14.275)
Council Tax Requirement	**11.550**
Estimated Council Tax Income (Increase Based on 2.99% for 2025/26 then maximum allowable)	**(11.550)**
Resulting Base Budget (Surplus)/ Deficit	**0.000**

3.2 The proposals set out in the Table 5 above produce a balanced revenue budget for 2025/26, which forms part of the recommendations of this report. Further details including the latest projections for future years to 2029/30 can be found at ***Appendix A.***

3.3 To provide further analysis of the proposed balanced revenue budget and it's financing the following Table 6 sets out the Council's revenue expenditure and subsequent income streams.

Table 6 – Revenue Budget for 2025/26



The above data confirms that, and shows the Council is now almost entirely reliant on Customer Fees & Charges, Other Incomes, Council Tax and Business Rates to meet the total expenditure proposed as part of this budget.

3.4 At its meeting on 28 February 2024 Council set its budget for 2024/25 and the base budget estimates for 2025/26 and future years. At the start of the budget setting process these "base" estimates are reviewed considering current circumstances and best information available and revised estimates produced before any saving, growth, or re-direction proposals are received. These estimates are under constant review during the budget setting process and often change as information comes forward.

3.5 Initial Operational and Base Budget changes for 2025/26 were reported to Cabinet 3 December and Council 11 December 2024. Since that reporting period further net changes have been required and a summary of these changes is given in the table 7 below:

Table 7 – Adjustments Since December 2024 Reporting to Cabinet & Council

	2025/26 £'M		Section
Resulting Base Budget (Surplus)/ Deficit as of 3 December 2024 (Cabinet)		**1.678**	
Minor Operational Changes	0.022		3.6
Building Control Contract	0.118		3.7
Fees & Charges Inflation	(0.182)		3.8
Commercial & Corporate Property Review	1.541		3.9
Waste Collection (pEPR payment)	(0.989)		3.10
Food Waste Collection	0.225		3.11
Impact of Provisional Local Government Settlement	0.259	0.994	2
Revenue Impact of Capital Programme Review (MRP & Interest)		0.058	3.12
Revenue Impact of Capital Programme Review (Ongoing Revenue)		(0.076)	3.13
Savings Proposals		(0.051)	App B1 & B2
Growth Proposals		0.026	App B1 & B2
Revenue Support Grant		(0.460)	2
Prior Year Council Tax (Surplus)/Deficit		(0.280)	4.2
Updated Council Tax Income Projection		(0.183)	4.3
Prior Year Business Rates (Surplus)/Deficit		(0.636)	5
Updated Net Business Rates Income		(1.070)	4.11
Resulting Base Budget (Surplus)/ Deficit as at 11 February 2025 (Cabinet)		**0.000**	

Operational Changes (£0.022M)

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

Building Control Contract £0.118M

3.7 The Council have recently gone out to tender to secure a provider to undertake its building control service, only one company provided a tender response. The previously reported draft budget included £0.372M per annum and the amount awarded is £0.490M. The costs of services have increased in line with the new regulatory requirements which have come out of the new Building Safety Act 2022 and Building Safety Regime. To part offset the additional costs, a proposal to increase fees is being considered (see Appendix B1 & B2) which will reduce the net cost of the service by an estimated £0.045M per annum.

Fees & Charges Inflation (£0.182M)

3.8 The figures reported to Cabinet on 11 December 2024 included a freeze on inflation for all fees and charges. Following review with Officers, where it is feasible that an inflationary increase can be achieved, inflation has been included at 2.6%.

Commercial & Corporate Property Review £1.541M

3.9 The Council manages an estate of 63 commercial and 49 corporate assets. An up-to-date condition survey was completed during 2024 identifying significant revenue and capital investment needed. The property team in discussion with the OBR Assets group and Cabinet have profiled an agreed programme of works over the next ten years and these amounts have been factored into both revenue and capital programmes. Further surveys and projects could result in some changes at agreed periods, and these will be reported as appropriate.

Waste Collection (pEPR payment (£0.989M)

3.10 With effect from 1 April 2025, the Council will receive a payment called Extended Producer Responsibility for packaging (pEPR), as a consequence of new government regulations being introduced. As a Waste Collection Authority (WCA), the payment covers estimated net efficient costs associated with collection of household packaging waste from kerbside and communal collections, and waste brought to bring sites only.

Food Waste Collection £0.225M

3.11 The collection of food waste from households is mandatory from 1 April 2026. The government have provided new burden funding in respect of capital set-up costs and these have been included within the capital programme. However, to meet this deadline it is anticipated that additional staffing and revenue costs will be required within 2025/26 in order to provide the service from that date.

Impact of Review of the Capital Programme (MRP & Interest) £0.058M

3.12 Further revisions to the draft capital programme have resulted in additional costs relating to budgetary provision for minimum revenue provision (MRP) and associated borrowing costs.

Impact of Review of the Capital Programme (Ongoing Revenue) (£0.076M)

3.13 Additions to the draft capital programme have resulted in savings to ongoing revenue as a consequence of alternate service delivery.

Budget Principles and Assumptions

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

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

3.15 Table 8 below, lists the major assumptions that have been made for the 2025/26 budget.

Table 8: Major Assumptions within General Fund Revenue Budget 2025/26

	(2024/25)	2025/26
Council Tax Increase	2.99%	2.99%
Council Tax Collection Rate	98.67%	98.67%
Business Rates Multiplier: Small Business Rates	Frozen	Frozen
Business Rates Multiplier: Standard	6.70%	1.60%
Fees & Charges	Various	2.60%
Inflation – Pay	5.95%	2.50%
Employer Pensions Contribution	16.30%	16.30%
Electricity	28p/kWh	25p/kWh
Gas	5p/kWh	5p/kWh
Inflation – Insurance	10.00%	10.00%
Other inflation	2.80%	2.60%
Interest Rate – investments	4.68%	3.50%
Interest Rate – new borrowing	4.50%	3.90%

4.0 COUNCIL TAX & BUSINESS RATES

Council Tax

4.1 Legislation requires that separate estimates be made for any Collection Fund surpluses or deficits on the Collection Fund relating to the Council Tax and Business Rates.

4.2 The Council is expected to benefit from prior year surpluses to the collection fund account in respect of council tax. This amount is currently valued at £0.280M and is included within the council tax requirement calculation in 2025/26.

4.3 The Council Tax increase of 2.99% agreed by Council on 22 January 2025 means that the City element of Council Tax for a band D property will be £264.30 resulting in expected income of £11.550M for 2025/26. This is an increase of £0.183M on the position reported in February 2024.

Business Rates

4.4 The Council is required to submit its annual business rates return (NNDR1) to the Government by the end of January in which it estimates business rates income for 2025/26 and the estimated deficit or surplus as at the end of 2024/25.

4.5 The inherent risk associated with the NNDR1 is that the final outturn surplus or deficit position differs substantially from the estimate, and this has indeed been the case at the Council in recent years. Members will recall that the Business Rates Retention Reserve (BRRR) is used to manage the impact of surpluses and deficits and also to manage fluctuations in income levels in order to provide budgetary stability and smooth out year on year peaks and troughs. As part of the 2024/25 budget setting process, a contribution of £0.130M to the BRRR and a contribution of £0.820M to the unallocated reserve were included within 2025/26 and these contributions remain in place. All detailed contributions are included within the general fund net financial postion.

The Council is expected to benefit from prior year surpluses to the collection fund account in respect of business rates. This amount is currently valued at £0.636M and is included within the council tax requirement calculation in 2025/26.

4.6 Members will be aware of decommissioning plans for the Heysham 1 and Heysham 2 nuclear reactors which will have a significant impact on the Council's finances. Currently the rateable value of the reactor's accounts for a substantial proportion of the Council's total rateable value. Central Government operates a "safety net" system to protect those Councils which see their year-on-year business rate income fall by more than 7.5 per cent. Given the Council's exposure it is expected that it will inevitably fall into a safety net scenario and will need to rely on the Business Rates Retention Reserve to smooth operational shortfalls in the short term. This is currently expected to arise in 2027/28 in line with the current decommissioning date for Heysham 1 of March 2027. EDF Energy have indicated that there may be some scope to extend generation and are keeping this under review being unable to provide any certainty at this stage.

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

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

4.9 The Council receives rating income from renewable energy schemes within the district, largely in relation to Walney Sub-Station. The value of this income is included as £4.004M in 2025/26 (£3.970M for 2024/25). A majority of the income currently falls outside of the main rate retention scheme, and so the Council retains the full benefit from it. Whilst it is evident that this 100% disregard will continue into 2025/26, there is a risk that the Government will discontinue this advantageous arrangement at some point in the future.

4.10 Council's make provision against future levels of appeals made by businesses against their Rateable Value. The timing and value of appeals is a matter of judgement informed by available data. Following the 2023 revaluation was a significant amount of uncertainty surrounding potential checks, challenges, and appeals but this is becoming more settled as we approach the next revaluation due in 2026. In addition, there is a disproportionate risk arising around the potential of any appeal or potential for outage at the Heysham Power Station. The uncertainties are managed by keeping the provision under review and retaining a buffer against risk in the business rates retention reserve. The appeals provision as at the end of 2025/26 is estimated at £9.137M with the City Council share being £3.655M.

4.11 The table below shows the income from the Business Rates Retention Scheme that will be recognised in the General Fund during 2025/26

Table 9: Income from the Business Rates Retention Scheme

	2025/26 £'M
Retained Business Rates	10.271
Renewable Energy Disregard Income	4.004
City Share of Prior Year Surplus	0.636
Total Retained Business Rates	**14.911**

The budget approved February 2024 included £13.205M in respect of 2025/26. The prior year surplus is a one-off income so when discounted from the above table an increased income level of £1.070M is predicted.

4.12 It should be noted that the Government have recently announced changes to come into effect from 1 April 2026 with regard to increasing the number of multipliers and introduction of new thresholds. As full details aren't yet available, the above information has been prepared on the existing rateable values and currently known multipliers. Further work will be undertaken when the systems offer the capability to output updated projections and will be included within the 2026/27 budget process.

The Government have also proposed to reset the baseline but haven't announced a timeline for this. The above analysis doesn't factor in any potential impact this may have on future projections and further information will be reported as appropriate when it becomes available.

5.0 PROVISIONS, RESERVES & BALANCES

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

5.2 The minimum level should be set to enable the Council to meet the current and forecast financial pressures it faces in regard to the structural deficit as referenced for several years. It is against this back drop the 2025/26 assessments are made.

Provisions

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

Reserves & Balances

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

Annual Assessment of Reserves Levels

5.5 The Section 151 Officer's annual review of the adequacy of reserve balances is a statutory requirement. Although usable revenue reserve levels have increased in the last two years, the Council still faces significant inescapable financial pressures. Continuing uncertainties in respect of Local Government Funding levels, pay and general inflation and other factors creating the cost of living as well as the results of the Council's Fit for the Future process also remain. **Taking all of these risks into account, the Section 151 Officer's advice is that the minimum level of balances held in the General Fund should remain at £5M.**

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

- The General Fund Balance at 31/04/24 was £10.327M, Quarter 3 revenue budget monitoring forecasts an underspend of £0.332M in 2024/25. Once confirmed as part of the closedown process, the final net position will be transferred to the unallocated reserves
- 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
- Although the Council is continuing to identify future efficiencies and savings via the Outcomes Based Resourcing programme, the Council's current Medium Term Financial Strategy (MTFS) suggests a structural budget gap in 2026/27 onwards of approximately £2.633M raising to £5.480M. If this is not closed, then balances will be required to make up the difference

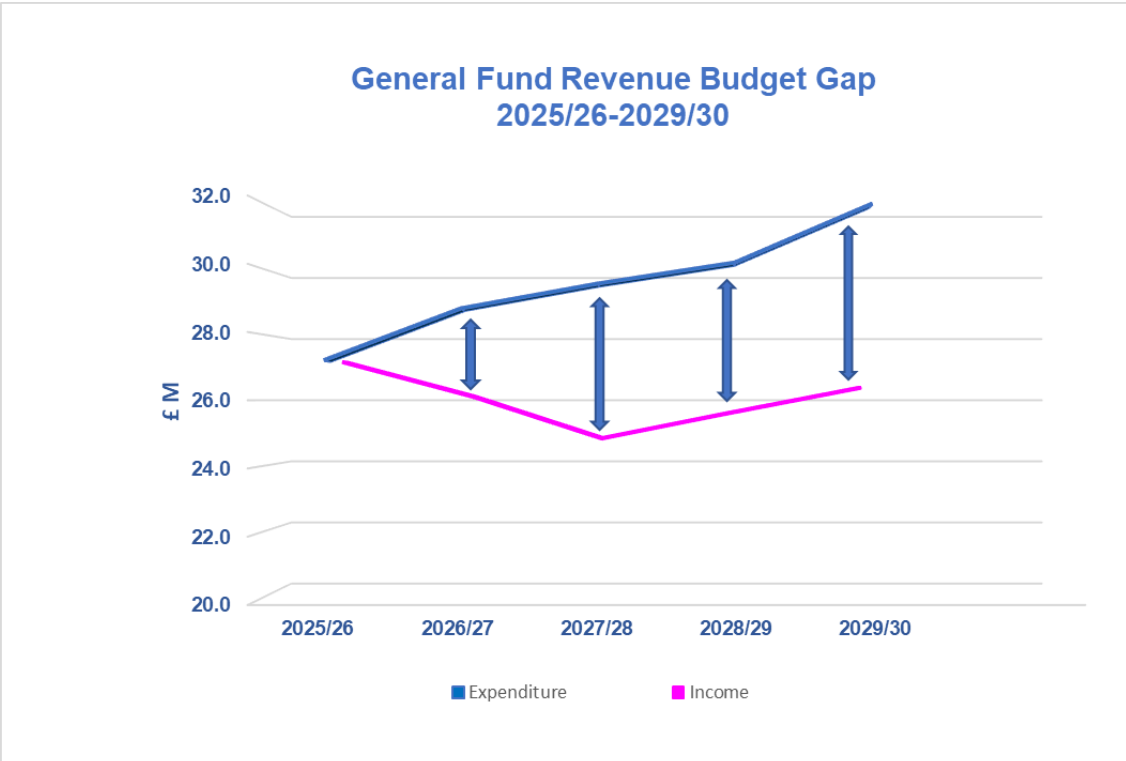


Table 10: Cumulative Deficit as Percentage of Revenue Budget

	2025/26 £'M	2026/27 £'M	2027/28 £'M	2028/29 £'M	2029/30 £'M
Net Revenue Budget	27.201	28.749	29.489	30.118	31.873
Budget Gap (Incremental)	0.000	2.633	4.699	4.513	5.480
% of Net Revenue Budget (Incremental)	0%	9%	16%	15%	17%
Budget Gap (Cumulative)	0.000	2.633	7.332	11.845	17.325
% of Net Revenue Budget (Cumulative)	0%	9%	25%	39%	54%

5.7 The forecast gaps are structural in nature, meaning that the Council's forecast spending exceeds the income it expects to receive, and this is compounded year on year. This position represents a significant challenge over the short and medium term. It is imperative that the Council's OBR process continues and this will be fundamental in driving down budget gaps from 2026/27 and beyond and in realising financial sustainability.

5.8 It should be noted that this forecast is based on a series of estimates and assumptions and so is subject to change when more up to date information becomes available. However, it provides Members with a clear view of the extent of the challenge facing the Council over the coming years.

5.9 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 11 below.

Table 11: Risk Assessment

Risk	Symptom of Risk	Balance Required £'M
Increased demand for services	3% increase in net revenue expenditure	0.800
Recession results in additional uncompensated reduction in fees and charges income than budget	5% reduction in major fees and charges income	1.000
Recession results in additional reduction in Council Tax collection rates than budget	5% reduction in collection rate	0.550
Budget savings not achieved	50% under achievement	0.025
Natural disaster such as flood etc	Additional unexpected expenditure	0.500
Additional uncertainty with respect to Cost of Living	Additional unexpected expenditure	2.000
Aggregate overspend if all of the above risks were to happen		**4.875**

5.10 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.

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

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

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

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

5.14 The estimated levels of General Fund Unallocated and combined Earmarked reserves balances are shown in ***Appendix C*** with the impact of the inclusion of forecast overspends summarised in table 12 below.

Table 12: Estimated Combined Level of Reserves (Available Reserves Only)

	2024/25 £'M	2025/26 £'M	2026/27 £'M	2027/28 £'M	2028/29 £'M	2029/30 £'M
Unallocated Reserve	(7.867)	(8.693)	(8.595)	(8.595)	(8.595)	(8.595)
Other Non-Ring Fenced Reserves	(1.242)	(1.137)	(1.173)	(1.210)	(1.246)	(1.283)
Business Rates Retention Reserve	(12.064)	(12.344)	(11.744)	(11.244)	(11.244)	(11.244)
Renewals Reserve	(1.880)	(2.372)	(2.864)	(3.355)	(3.847)	(4.339)
Forecast Cumulative Deficit Funded From Reserves	(0.322)	+0.000	+2.633	+7.332	+11.845	+17.325
Projected Balance as at 31 March 2025-30	**(23.375)**	**(24.546)**	**(21.743)**	**(17.072)**	**(13.087)**	**(8.136)**
Less Recomended Minimum Level of Balances	+5.000	+5.000	+5.000	+5.000	+5.000	+5.000
Available Balances	**(18.375)**	**(19.546)**	**(16.743)**	**(12.072)**	**(8.087)**	**(3.136)**

5.15 This table clearly highlights the significant pressure the Councils reserves are under should funding of the forecast level of overspends in future years not be addressed.

Governance Arrangements on the Use of Reserves

5.16 Given the continuing financial pressures and the need for the prudent use of reserves the following arrangements exist for the approval of reserves expenditure:

- All applications will need to be supported by a bid document setting out how expenditure funded from Reserves will deliver corporate priorities with a clear costing statement schedule of specific outcome measures. Details of the bid proforma document is attached at ***Appendix D.***
- Reserve bids should be agreed by Portfolio Holder in consultation with relevant Chief Officer.
- Once received bids will need to be formally agreed by the Leader of the Council, Chief Executive, Portfolio Holder for Finance and Resources, Monitoring Officer and the s151 Officer before expenditure is authorised and can be incurred.

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

6.0 DETAILS OF CONSULTATION

6.1 Cabinet's initial budget proposals were presented for scrutiny to Budget and Performance Panel at it meetings of 15 and 29 January 2025, to Council 22 January 2025 and subject to public consultation 29 January 2025.

6.2 At the Budget and Performance Panel meetings of 15 and 29 January, a number of questions were raised by Members of the Panel which included the following (as noted in the draft minutes):-

- The structural deficit not being addresses
- The life extension of Heysham Power Station and subsequent financial impact on business rates
- A request for the Cabinet Member to provide a report back on the Council's commercial property income

6.3 The feedback from these meetings has been considered by Cabinet and incorporated into a final budget proposal which is presented within this report and subsequently be recommended to Council on 26 February 2025.

7.0 OPTIONS & OPTIONS ANALYSIS

Revenue Budget

7.1 Council may adjust its revenue budget proposals, so long as the overall budget for 2025/26 balances and fits with the proposed Council Tax level.

7.2 Other Budget Framework Matters (Reserves and Provisions)

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

7.3 Section 151 Officer's Comments and Advice

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

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

8.0 OFFICER PREFERRED OPTION (AND COMMENTS)

Revenue Budget 2025/26 and Reserves Position

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

9.0 CONCLUSION

9.1 This report addresses the actions required to complete the budget setting process for 2025/26, and for updating the Council's associated financial strategy.

RELATIONSHIP TO POLICY FRAMEWORK The budget framework in general sets out a financial plan for achieving the Council's corporate priorities and outcomes which incorporate the above cross cutting themes. Equalities impact assessments are undertaken for the relevant activities which are reflected in the budget.
CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability etc) The proposed budget incorporates measures to address the climate emergency and digital improvements as well as activities to address wellbeing, health, and community safety.

FINANCIAL IMPLICATIONS
As set out in the report

SECTION 151 OFFICER'S COMMENTS

Robustness of Estimates and Adequacy of Council's Reserves
The Local Government Act 2003 places explicit requirements on the Section 151 Officer to report on the robustness of the estimates included in the budget and on the adequacy of the Council's reserves. A summary of the Section 151 Officer's advice to date is provided below for information, but it should be noted that some of this is provisional until Cabinet's final budget proposals are confirmed.

At Budget Council, Members will be recommended to note formally the advice of the s151 Officer.

Provisions, Reserves and Balances
Specific earmarked reserves and provisions are satisfactory at the levels currently proposed.
Unallocated balances of £5M for General Fund are reasonable levels to safeguard the Councils overall financial position, given other measures and safeguards proposed. This level assessment is consistent with that noted by Council 28 February 2024 and it reflects the uncertainty around the current economic climate and sensitivity of some of the underlying savings and income levels within the budget.

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

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

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

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

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

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

- availability of capital resources, including capital grants, capital receipts, etc
- existing commitments and planned service / priority changes
- options appraisal arrangements and robust business cases for the chosen options

- revenue consequences of any proposed capital schemes, including interest and debt repayment costs of any borrowing
- future years' revenue budget projections, and the scope to meet borrowing costs.
- the likely level of government support for revenue generally
- the extent to which other liabilities can be avoided, through investment decisions.

In considering and balancing these factors, the capital proposals to date are based on levels of "prudential borrowing" or CFR over the period to 2029/30. The bulk of this relates to schemes to support delivery of the Council's key Strategic Priorities and Outcomes such as Climate Emergency, Economic Prosperity and Regeneration and Housing as outlined in the Capital Programme.

Like all Councils, Lancaster City faces increased financial pressures and uncertainty because of the impact of the ongoing cost of living crisis and the effect it has on significant areas of expenditure such as energy costs as well as general and pay inflation. The Council has a level of reserves and benefits from the significant green energy disregard, both of which offers a degree of protection from volatilities.

Current spending plans are sustainable in the short term through the prudent allocation of funding from reserves. However, the current Medium Term Financial Strategy suggests a structural budget gap in 2026/27 onwards of approximately £2.633M raising to £5.480M. This is size of deficit is not sustainable and if not addressed by significant interventions and balances used, they will be quickly depleted. It is therefore of the utmost importance that Members and Officers work together and continue to support the Outcomes Based Resourcing/Fit for the Future programme as it must remain a core priority for the Council as it will be expected to deliver significant inroads into the deficit.

LEGAL IMPLICATIONS

Legal Services have been consulted and have no further comments.

MONITORING OFFICER'S COMMENTS

Where votes are taken at a budget meeting of Full Council on any decision relating to the making of a Council Tax calculation, estimates or the issuing of a precept, including any amendment motion, there must be recorded in the minutes of the proceedings of that meeting the names of the persons who cast a vote for the decision, against the decision, and who abstained from voting. The Proper Officer shall take the vote by calling the names of Councillors and recording how or whether they voted.

BACKGROUND PAPERS

Appendix A General Fund Revenue Budget 2025-26
Appendix B Service Summary
Appendix B1 Exempt
Appendix B2 Exempt
Appendix C Reserves Summary
Appendix D Budget Transfers Virements Carry Forwards

Contact Officer: Paul Thompson
Telephone: 01524 582603
E-mail: pthompson@lancaster.gov.uk
Ref: N/A

General Fund Revenue Budget Projections 2025/26 to 2029/30

For Consideration by Council 26 February 2025

	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000
GF Revenue Budget/Forecast as at 28 February 2024	**26,007**	**27,235**	**27,899**	**29,390**	**30,272**
GF Revenue Budget/Forecast as at 3 December 2024	**26,250**	**26,695**	**27,893**	**29,212**	**30,205**
Base Budget Changes					
Further Operational Changes	22	47	67	5	71
Building Control Contract	118	132	134	180	185
Fees & Charges Inflation	(182)	(182)	(182)	(182)	(182)
Commercial & Corporate Property Review	1,541	1,053	856	299	888
Waste Collection (pEPR payment)	(989)	(1,009)	(1,029)	(1,050)	(1,071)
Food Waste Collection	225	1,009	1,029	1,050	1,071
Impact of Provisional Local Government Settlement	259	381	375	370	365
Latest Budgetary Position	**27,244**	**28,126**	**29,143**	**29,884**	**31,532**
Outcomes Based Resourcing Proposals:					
Growth/(Savings) Proposals					
Environment & Place	(5)	(30)	(30)	(30)	(30)
Housing & Property	(13)	(49)	(124)	(124)	(124)
People & Policy	26	27	27	28	28
Planning & Climate Change	(45)	(45)	(45)	(45)	(45)
Sustainable Growth	12	(14)	(17)	(16)	(17)
Revenue Impact of Capital Programme Review (MRP & Interest)	58	860	761	647	755
Revenue Impact of Capital Programme Review (Ongoing Revenue)	(76)	(126)	(226)	(226)	(226)
General Fund Revenue Budget	**27,201**	**28,749**	**29,489**	**30,118**	**31,873**
Core Funding:					
Revenue Support Grant	(460)	(460)	(460)	(460)	(460)
Prior Year Council Tax (Surplus)/Deficit	(280)				
Prior Year Business Rates (Surplus)/Deficit	(636)				
Net Business Rates Income	(14,275)	(13,641)	(11,832)	(12,145)	(12,411)
Council Tax Requirement	**11,550**	**14,648**	**17,197**	**17,513**	**19,002**
Estimated Council Tax Income - **(Increases based on 2.99% for 2025/26 then max allowable)**	**11,550**	**12,015**	**12,498**	**13,000**	**13,522**
Resulting Base Budget (Surplus)/Deficit	**0**	**2,633**	**4,699**	**4,513**	**5,480**
Incremental Deficit as Percentage of Net Revenue Budget	**0%**	**9%**	**16%**	**15%**	**17%**

	2025/26	2026/27	2027/28	2028/29	2029/30
Revenue Budget (Surplus)/Deficit as at 28 February 2024	**1,435**	**3,947**	**3,830**	**4,567**	**(0)**
Increase/(Decrease)	**(1,435)**	**(1,314)**	**869**	**(54)**	**5,480**

BALANCES

General Fund Unallocated Balance	***£M***	***£M***	***£M***	***£M***	***£M***
Balance as at 1 April 2025-29	**(8.189)**	**(8.693)**	**(5.963)**	**(1.264)**	**+3.249**
In Year allocations	**(0.504)**	**+0.097**	**+0.000**	**+0.000**	**+0.000**
Forecast (Under)/Overspend	+0.000	+2.633	+4.699	+4.513	+5.480
Other Adjustments	+0.000	+0.000	+0.000	+0.000	+0.000
Projected Balance as at 31 March 2026-30	**(8.693)**	**(5.963)**	**(1.264)**	**+3.249**	**+8.729**
Reserves	**(8.693)**	**(5.963)**	**(1.264)**	**+3.249**	**+8.729**
Less Recomended Minimum Level of Balances	**5.000**	**5.000**	**5.000**	**5.000**	**5.000**
Available Balances	**(3.693)**	**(0.963)**	**+3.736**	**+8.249**	**+13.729**

APPENDIX B

Savings and Budget Proposals 2025/26 to 2029/30

		2025/26	2026/27	2027/28	2028/29	2029/30
		£'000	£'000	£'000	£'000	£'000
SAVINGS PROPOSALS	***Environment & Place***	(5)	(30)	(30)	(30)	(30)
	Housing & Property	(13)	(49)	(124)	(124)	(124)
	Planning & Climate Change	(45)	(45)	(45)	(45)	(45)
	Sustainable Growth	12	(14)	(17)	(16)	(17)
	Total Savings	**(51)**	**(138)**	**(216)**	**(215)**	**(216)**
GROWTH	***People & Policy***	26	27	27	28	28
	Total Growth	**26**	**27**	**27**	**28**	**28**
	Net (Savings)/Growth	**(25)**	**(111)**	**(189)**	**(187)**	**(188)**

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

Document is Restricted

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

Document is Restricted

Reserves Statement (Including Unallocated Balances)

	31 March 2025 £	From Revenue £	To / (From) Capital £	To Revenue £	31 March 2026 £	From Revenue £	To / (From) Capital £	To Revenue £	31 March 2027 £	From Revenue £	To / (From) Capital £	To Revenue £	31 March 2028 £	From Revenue £	To / (From) Capital £	To Revenue £	31 March 2029 £	From Revenue £	To / (From) Capital £	To Revenue £	31 March 2030 £
Unallocated Balances	**(8,189,200)**	**(820,000)**	**0**	**316,500**	**(8,692,700)**	**0**	**0**	**97,500**	**(8,595,200)**	**0**	**0**	**0**	**(8,595,200)**	**0**	**0**	**0**	**(8,595,200)**	**0**	**0**	**0**	**(8,595,200)**
Earmarked Reserves (Usable):																					
Amenity Improvements	**(29,000)**				**(29,000)**				**(29,000)**				**(29,000)**				**(29,000)**				**(29,000)**
Corporate Priorities	**(68,800)**			82,700	**13,900**				**13,900**				**13,900**				**13,900**				**13,900**
Capital Support	**(73,000)**				**(73,000)**				**(73,000)**				**(73,000)**				**(73,000)**				**(73,000)**
Corporate Property	**(313,500)**				**(313,500)**				**(313,500)**				**(313,500)**				**(313,500)**				**(313,500)**
Covid 19 Support Reserve	**(9,700)**				**(9,700)**				**(9,700)**				**(9,700)**				**(9,700)**				**(9,700)**
Homelessness Support	**(110,800)**				**(110,800)**				**(110,800)**				**(110,800)**				**(110,800)**				**(110,800)**
Investment Property Maint	**(84,900)**				**(84,900)**				**(84,900)**				**(84,900)**				**(84,900)**				**(84,900)**
Invest to Save	**(105,300)**				**(105,300)**				**(105,300)**				**(105,300)**				**(105,300)**				**(105,300)**
Museums Acquisitions	**(47,000)**	(4,500)			**(51,500)**	(4,500)			**(56,000)**	(4,500)			**(60,500)**	(4,500)			**(65,000)**	(4,500)			**(69,500)**
Restructure	**(400,000)**				**(400,000)**				**(400,000)**				**(400,000)**				**(400,000)**				**(400,000)**
SALC 3G Football Pitch	**0**				**0**	(32,000)			**(32,000)**	(32,000)			**(64,000)**	(32,000)			**(96,000)**	(32,000)			**(128,000)**
Business Rates Retention	**(12,064,400)**	(129,900)			**(12,194,300)**			600,000	**(11,594,300)**			500,000	**(11,094,300)**				**(11,094,300)**				**(11,094,300)**
Renewals Reserves	**(1,880,000)**	(491,800)	38,000		**(2,333,800)**	(491,800)			**(2,825,600)**	(491,800)			**(3,317,400)**	(491,800)			**(3,809,200)**	(491,800)			**(4,301,000)**
General Renewals	**(1,360,200)**	(295,800)			**(1,656,000)**	(295,800)			**(1,951,800)**	(295,800)			**(2,247,600)**	(295,800)			**(2,543,400)**	(295,800)			**(2,839,200)**
Salt Ayre Leisure Centre	**(167,700)**	(150,000)	38,000		**(279,700)**	(150,000)			**(429,700)**	(150,000)			**(579,700)**	(150,000)			**(729,700)**	(150,000)			**(879,700)**
Williamson Park	**(65,000)**	(18,000)			**(83,000)**	(18,000)			**(101,000)**	(18,000)			**(119,000)**	(18,000)			**(137,000)**	(18,000)			**(155,000)**
Car Parks	**(147,200)**	(12,000)			**(159,200)**	(12,000)			**(171,200)**	(12,000)			**(183,200)**	(12,000)			**(195,200)**	(12,000)			**(207,200)**
Happy Mount Park	**(63,900)**	(14,000)			**(77,900)**	(14,000)			**(91,900)**	(14,000)			**(105,900)**	(14,000)			**(119,900)**	(14,000)			**(133,900)**
Arnside & Silverdale AONB	**(76,000)**	(2,000)			**(78,000)**	(2,000)			**(80,000)**	(2,000)			**(82,000)**	(2,000)			**(84,000)**	(2,000)			**(86,000)**
Total Earmarked Reserves (Usable)	**(15,186,400)**	**(626,200)**	**38,000**	**82,700**	**(15,691,900)**	**(528,300)**	**0**	**600,000**	**(15,620,200)**	**(528,300)**	**0**	**500,000**	**(15,648,500)**	**(528,300)**	**0**	**0**	**(16,176,800)**	**(528,300)**	**0**	**0**	**(16,705,100)**
Earmarked Reserves (Ringfenced):																					
Elections	**(62,300)**	(45,000)			**(107,300)**	(45,000)			**(152,300)**	(45,000)		180,000	**(17,300)**	(45,000)			**(62,300)**	(45,000)			**(107,300)**
Lancaster District Hardship Fund	**(600)**				**(600)**				**(600)**				**(600)**				**(600)**				**(600)**
Planning Fee Income	**(10,600)**				**(10,600)**				**(10,600)**				**(10,600)**				**(10,600)**				**(10,600)**
Revenue Grants Unapplied	**(146,800)**			19,200	**(127,600)**				**(127,600)**				**(127,600)**				**(127,600)**				**(127,600)**
S106 Commuted Sums - Open Spaces	**0**				**0**				**0**				**0**				**0**				**0**
S106 Commuted Sums - Affordable Housing	**(218,800)**				**(218,800)**				**(218,800)**				**(218,800)**				**(218,800)**				**(218,800)**
S106 Commuted Sums - Highways, Cycle Paths etc.	**(1,411,400)**	(100,000)			**(1,511,400)**	(100,000)			**(1,611,400)**	(100,000)			**(1,711,400)**	(100,000)			**(1,811,400)**	(100,000)			**(1,911,400)**
Welfare Reforms	**(324,900)**				**(324,900)**				**(324,900)**				**(324,900)**				**(324,900)**				**(324,900)**
Reserves Held in Perpetuity:																					
Graves Maintenance	**(22,200)**				**(22,200)**				**(22,200)**				**(22,200)**				**(22,200)**				**(22,200)**
Marsh Capital	**(47,700)**				**(47,700)**				**(47,700)**				**(47,700)**				**(47,700)**				**(47,700)**
Total Earmarked Reserves (Ringfenced)	**(2,245,300)**	**(145,000)**	**0**	**19,200**	**(2,371,100)**	**(145,000)**	**0**	**0**	**(2,516,100)**	**(145,000)**	**0**	**180,000**	**(2,481,100)**	**(145,000)**	**0**	**0**	**(2,626,100)**	**(145,000)**	**0**	**0**	**(2,771,100)**
Total Combined Reserves	**(25,620,900)**				**(26,755,700)**				**(26,731,500)**				**(26,724,800)**				**(27,398,100)**				**(28,071,400)**

APPENDIX D

Budget Transfers (Virements, Carry Forwards & Reserves) 2025/26 Limits

Council 26 February 2025

1 Purpose and Scope

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

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

2 Virements

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

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

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

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

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

Delegated limit	**2025/26**
Total virement on any **expenditure** heading in any one financial year must not exceed:	£10,000
Total virement on any **income** heading in any one financial year must not exceed:	£10,000

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

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

3 **Treatment of Year-end Balances**

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

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

Overspends

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

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

Underspends

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

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

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

4.0 Governance Arrangements on the Use of Reserves

4.1 Given the continuing financial pressures and the need for the prudent use of reserves the following arrangements exist for the approval of reserves expenditure:

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

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

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

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

Reserves Expenditure Monitoring

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

Schedule of Earmarked Reserves

Reserve	**Purpose of the Reserve**
Business Rates Retention	To support the budget in the event that Business Rates Income does not reach budgeted levels or falls to Safety Net, due to fluctuations in appeals or other reductions in net income, and to hold any unbudgeted (surplus) rating income prior to use.
Planning Income	To hold surplus income generated as a result of the Government's 20% increase in planning fee income. To be used to fund additional costs/growth relating to Planning functions (in line with any regulatory guidance).
Capital Support	To provide cover for any revenue costs arising through shortfalls in capital financing (i.e. from capital receipts).
Elections	To even out the cost of holding City Council elections every four years.
Renewals	To provide for the renewal (replacement or upgrade) of existing facilities and infrastructure needed for service delivery, such as vehicles, plant, and equipment.
Amenity Improvements	To provide public realm amenity improvements.
Corporate Priorities	To provide resources to help finance capacity / feasibility / review and other development work in support of the Council's corporate priorities as adopted by Council in December 2023.
Corporate Property	To provide for feasibility studies, surveys and repair works to municipal buildings and facilities (in particular, for those that cannot be capitalised as part of the current works programme or are not otherwise budgeted for). In addition, to provide cover for any in-year rental shortfalls.
Invest to Save	To help finance any Invest to Save initiatives.
Investment Property Maintenance	A sinking fund to provide funds for future investment property maintenance
Restructure	To fund the costs associated with early termination of staff (in the interests of efficiency / redundancy) / Pay and Grading Review.
Revenue Grants Unapplied	Grants, usually for Government, which are provided for an expressed purpose.
Lancaster District Hardship Fund	To provide short term financial assistance for those in hardship and also address some of the reasons why people find themselves in acute financial hardship and provide discretionary support to prevent this.
S106 Commuted Sums	Three separate reserves to receive all sums paid to the Council from third parties for the maintenance of (1) open spaces adopted by the City Council (2) affordable housing schemes (3) other amenities such as cycle paths.
Museums Acquisitions	To acquire exhibition pieces for the City's museums.
Held in Perpetuity	Two small reserves that have a specific purpose which are administered by the Council. These are Graves Maintenance and Marsh Capital

APPENDIX D

Reserves Bid Document

Description of Project	
Amount of Reserve Bid	
Reserve	
Strategy Link	
Corporate Project Link	

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

Action Plan

What	**Who**	**When**

Outcomes and Impacts arising from Project

Measure	**Baseline**	**Target**

Has Social Value matrix been completed (attach to bid form)? YES / NO

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

APPENDIX D

Project Officer Sign Off:

Director Sign Off:
Section 151 Officer Sign Off:

Portfolio Holder Sign Off:
Finance Portfolio Sign Off:

Cabinet Minute (if app):

COUNCIL

Housing Revenue Account
Budget Framework 2025 to 2030
26 February 2025

Report of Cabinet

PURPOSE OF REPORT
To present Cabinet's final budget proposals in relation to the Housing Revenue Account in order that the City Council can complete its budget setting for 2025/26 and update its financial strategy to 2030.
This report is public.

RECOMMENDATIONS:

(1) That Cabinet's recommendation to approve the council housing rent levels for 2025/26, as set in accordance with statutory requirements, be noted.

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

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

(4) That the minimum level of HRA unallocated balances be retained at £750,000 from 01 April 2025, and that the full Statement on Reserves and Balances as set out at *Appendix C* be approved.

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

1 **Introduction**

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

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

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

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

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

2.3 The financial year 2025/26, the Regulator of Social Housing has confirmed that the Council has the freedom to increase formula rent by a maximum of CPI+1% (CPI is the Consumer Price Index). Subject to the outcome of the Government's consultation process, assumptions also include the additional 1% through to 2029/30, although an outcome may be a longer-term (10 year) settlement. For rent setting purposes for 2025/26, the September 2024 CPI figure of 1.7% is used, with forecast CPI of 2.0% used thereafter (being the target set by Government for the Bank of England's Monetary Policy Committee).

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

<table>
<tr><td>For general properties, average rent of £93.91 applies for 2025/26[1]</td><td>For independent living and supported properties, average rent of £89.01 applies for 2025/26</td></tr>
<tr><td colspan="2">Following relevant properties becoming vacant, they will be re-let at 'formula rent' in line with previously approved policy.</td></tr>
<tr><td colspan="2"><u>For 2026/27 onwards</u>, it is assumed that council housing rents will increase by 3.0% year on year until 2029/30 and 2.0% year on year thereafter, subject to annual review of inflation forecasts, and any future determinations that may be issued by Government from time to time.</td></tr>
</table>

2.5 The 30-year business plan has been updated to cover the period to 2054/55, and the updated position over the life of the plan is a cumulative surplus of £128.6M.

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

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

3 Revenue Budget

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

3.2 Key achievements:

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

- The Housing Support Team continued to support council tenants to sustain successful tenancies by, for example:
    - Securing an additional £363,000 in income through the first half of the year through benefit and other income maximisation work
    - Carrying out 151 Tenancy Health Checks, including all new tenancies, during the first half of the year
    - Carrying out drop-in sessions at independent living schemes to ensure support is available for those who most need it
    - Picking up a total of 136 new support cases during the first half of the year
- Continued delivery of a stock condition survey to all council homes, to support effective delivery of planned and capital programmes of maintenance work, in line with the regulator's requirements to 'know your stock'. 86% completion reached by the end of quarter 3.
- Continued embedding of the specialist community safety team and delivery of harm focussed services in response to anti-social behaviour, including:
    - Specialist training and BTEC qualification for team members
    - Development of cross service hoarding process to help support and tackle challenging cases
    - Advanced level tenancy fraud training carried out, in preparation for further work in this area by housing teams
    - Successful use of injunctions and granting of housing possession by the courts in support of the wellbeing of wider communities
- Further progress of the Mainway development has included planning permission being approved for the development of the former Skerton High School for a Council Housing scheme of 135 social and affordable new homes, and proposals for the wider Mainway Masterplan being presented to members of the Mainway Board.
- Plans to redevelop a number of existing garage sites for small scale Council Housing development has taken another step forward with the submission of a planning application for four new Council Homes at Hastings Road in December 2024. A planning decision is anticipated by April 2025. Brownfield Land Release Funding has been secured to support this.
- Completion of exemplar A-rated four-unit development on Alder Grove (anticipated March 2025) using modern methods of construction (MMC).
- The Council Housing Income Management Team has continued to deliver sector leading performance, supporting tenants to successfully manage their rent accounts and sustain tenancies. Key achievements include:
    - Providing support and advice to tenants in receipt of benefits in navigating the 53-week rent year
    - Maintaining excellent performance around current tenant rent arrears
    - Securing £31,000 in additional benefits or support for tenants during the first half of the year
    - Retaining Maximising Income and Sustaining Tenancies accreditation through the Housing Quality Network (HQN)
- Mandatory Tenant Satisfaction Measures (TSM) survey carried out, showing improvements in satisfaction across all 12 survey questions compared to the previous 12 months. Overall satisfaction rose 5% to 77%, with indication suggesting this places Lancaster in the top 25% of local authorities nationally.
- Full in-house planned and responsive repairs service delivered, projecting an estimated 12,750 repairs completed across the year, a total of 97 kitchens replaced on a planned programme, and delivery of wider planned and capital programmes of works contracted out.

- High levels of compliance and reassurance against all key areas (gas, electrical, water, asbestos, fire, lifts, smoke and CO detection)
- Reviews and updates of a range of service policies and strategies, to be found on the Council Housing web pages, including development of new Tenant Voice Strategy and Building Safety Strategy
- Merge of council housing and wider council customer services to deliver a more resilient, face to face service to all residents: 8% more calls answered year on year, with reduced waiting times overall.
- Customer services recognised in the 'digital impact' category at the 2024 LGC awards
- Continued development and delivery of programmes of works which deliver in line with the Council's climate emergency ambitions (see section 3 below). Application submitted to secure £1.3M match funding from government's Warm Homes programme – improving the energy efficiency of c150 council homes raising to EPC C over the next three years
- Tenant-led scrutiny panel established, with first project including report and recommendations on Repairs and Maintenance completed.
- Wide range of community engagement activities supported including residents' groups; summer community fun day; litter picks; garden competition; skip days; kids pumpkin carving; Christmas gatherings; and consultation events.

3.3 Looking ahead - key examples of ongoing service delivery and future planning developed in line with the Corporate Plan, Council priorities and forthcoming social housing legislation and regulation can be found within the Cabinet report of 11 February 2025.

4 The Council Housing response to the Climate Emergency

4.1 In response to the ongoing climate emergency, and the commitments set out by the Council in response, the Council Housing service has developed programmes of significant investment and activity in a number of areas which can be seen within the Cabinet Report of 11 February 2025. All of these areas of investment are built into the business planning and budgeting as outlined in this report.

5 Capital Programme

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

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

5.3 Future years' capital expenditure is informed by the completion of a full stock condition survey. Expenditure within 2025/26 reflects the priority areas coming from that survey while further refinement of capital expenditure is underway and will be reflected in subsequent years' capital programmes in due course.

5.4 The capital programme includes some provision for cyclical programmes of work on Mainway. Work is underway to define the scale and nature of this in the context of the ongoing Mainway regeneration project.

5.5 Taking account of the above points, the total draft ten-year programme for 2025/26 onwards now stands at £43.9M, the majority of which will be financed from revenue sources. There is no prudential borrowing requirement.

6 **Future Developments**

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

6.2 Mainway Masterplan:

- In 2024/25 we secured planning permission for the former Skerton High School development. This coming year will focus on the development of a full business case and procurement strategy.
- During the last 12 months changes within Homes England have resulted in funding applications for larger schemes currently being paused. We will await further announcements in the Spring budget which is expected to provide further information on future funding opportunities.
- The progression of the wider Mainway Masterplan is expected to continue into the start of 2025/26.
- While the design phase of the wider scheme continues, the decommissioning of properties on Mainway is factored into the estimates presented, over the coming years, with no rental income being recognised for any existing units from April 2030 currently.

6.3 Canal Quarter:

- Work is currently paused whilst the progress of the car parking strategy continues to be refined.

6.4 Garages:

- Work to advance Council Housing schemes on existing garage sites continues. In 2024, the Council secured Brownfield Land Release Funding to support this work. The most advance scheme is a proposed development on Hastings Road for four properties. The outcome of a planning application on this site is currently awaited and it is hoped that once confirmed work to progress to a start on site within the financial year will be realised. This would be the first of the Council's garage sites from a programme to follow this approach, with further opportunities to progress in future years.

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

7 **Provisions, Reserves and Balances**

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

7.2 In terms of Balances, after reviewing the Housing Revenue Account and General Fund in comparative terms and considering the key issues, assumptions and risks underlying the budget projections, the Section 151 Officer advises maintaining the minimum level of HRA Balances at £0.750M from 01 April 2025 to support the budget forecasts, as part of the overall medium term financial planning for the HRA.

7.3 As at 31 March 2025, HRA Balances are forecast to be £0.076M.

7.4 All other surplus resources are held in the Business Support Reserve. As at 31 March 2025, around £0.119M is expected to be available in this reserve. This may be relied upon to support the revenue overspend in 2024/25.

8 **Details of Consultation**

8.1 The budget headlines were presented to the Tenant Voice meeting on 30 January 2025 who were broadly in agreement with the proposals described, including the rent increase. There was, however, a range of debate which should be noted including:

- That details of planned maintenance and capital programmes be presented to a future meeting of the Tenant Voice
- That the housing service should remain focussed on improving performance to ensure value for money in the context of a rent increase.

8.2 The budget headlines and the wider context of housing finances were presented and discussed at the Council Housing Advisory Group (CHAG) on 31 January 2025.

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

9.1 Council may adjust its HRA revenue budget proposals, as long as the overall budget for 2025/26 balances and fits with its approved rent levels, which Council cannot change.

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

i) To approve the programme in full, with the financing as set out

ii) To incorporate other increases or reductions to the programme, with appropriate sources of funding being identified which still meet the required health and safety obligations to tenants.

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

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

Option 1: To note Cabinet's recommendation to approve the council housing rent levels for 2025/26; to approve the revenue budgets and capital programme, and the provisions, reserves and balances position (and their use), as set out; to note the Section 151 Officer's advice.
Advantages: Completion of the Housing Revenue Account's budget setting process for 2025/26, allowing the updating of the Council's associated financial strategy.

Disadvantages: None.
Risks: The HRA budget set out in this report is sustainable in the long term. The risk associated with Option 1 relates to any future Capital new-build projects (as referred to in section 6, above) and any borrowing or use of reserves in relation to this.
Option 2: To note Cabinet's recommendation to approve the council housing rent levels for 2025/26 but to propose alternatives to those outlined in Section 9 above, noting the following: Council may adjust its HRA revenue budget proposals, as long as the overall budget for 2025/26 balances and fits with its approved rent levels, which Council cannot change. Council may adjust its capital investment and financing proposals taking account of spending commitments and priorities, but its proposals for 2025/26 must balance.
Advantages: None.
Disadvantages: Depending on the nature of any alternative proposals put forward, Officers may need time to assess the risks and implications. This is to ensure that relevant considerations are taken into account, to support informed and lawful decision-making.
Risks: Delay to the completion of the Housing Revenue Account's budget setting process for 2025/26. Inability to maximise service provision and deliver on Council, and housing related ambitions. Impact on housing service and council housing tenants unknown but could impact on the health and safety of tenants.

10 **Conclusion**

10.1 This report provides an update on the council housing budgetary position and seeks Council's approval of Cabinet's budget proposals in relation to the Housing Revenue Account in order that the City Council can complete its budget setting for 2025/26 and update its financial strategy to 2030.

RELATIONSHIP TO POLICY FRAMEWORK The budget should represent, in financial terms, what the Council is seeking to achieve through its Policy Framework.
CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability etc) No additional impact identified – any specific issues have been (or will be) considered as part of the relevant aspect of the policy framework or individual budget proposals, etc. Where appropriate, equality impact assessments have been produced and are available in connection with Cabinet's specific budget proposals.

LEGAL IMPLICATIONS
Legal Services have been consulted and are content with the report. Officers will need to ensure that the statutory process for increasing council housing rent levels are adhered to.

FINANCIAL IMPLICATIONS
As set out in the report.

OTHER RESOURCE IMPLICATIONS
Human Resources / Information Services / Property / Open Spaces:

None identified.

SECTION 151 OFFICER'S COMMENTS

Like all Councils, Lancaster City faces increased financial pressures and uncertainty because of the impact of the ongoing cost of living crisis and the effect it has on significant areas of expenditure. These challenges are particularly prevalent in the HRA which has seen increased expenditure coupled with high demand and a reduction in income through effective capping of rent increases.

The Local Government Act 2003 places explicit requirements on the s151 Officer to report annually on the robustness of the estimates included in the budget and on the adequacy of the Council's reserves. The recommendation of a minimum level of unallocated reserves acts as an early warning that Council is facing financial pressure, and that action need to be taken to address the decline. For 2025/26 the s151 Officer set the minimum level of HRA unallocated balances at £0.750M.

The reports highlights that based on current projections the level of reserves will drop to £0.076M in 2024/25 and remain below the minimum level until 2027/28. The report articulates a number of reasons for this, most notably an increase in the depreciation charge. However, this is not the sole reason, as there has been significant expenditure funded from reserves in recent years. It should be noted that the HRA holds a number of non-ringfenced reserves such as the Business Support reserve (£0.119M) and Flats Planned Maintenance Reserve £0.309M and whilst the combined total would remain below the minimum, they could be utilised should there be a further deterioration in the financial position. This would however signal the end of available reserve funds within the HRA, and significant action would been to be taken. In addition, the use of any non-ringfenced reserves also impacts on the ability to undertake the purpose for which they were originally established.

Officers and Members are working on a variety of options that should see reserves maintained above the £0.750M minimum over a shorter time frame.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer reminds Council that the decisions (recommendations 2 and 4) fall within the Local Authorities (Standing Orders) (Amendment) (England) 2014 and Rule 19.7 of the Council Procedure Rules, and accordingly a recorded vote should be taken.

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

APPENDIX A

HOUSING REVENUE ACCOUNT BUDGET

For Consideration by Council 26 February 2025

	2025/26 Budget £	2026/27 Forecast £	2027/28 Forecast £	2028/29 Forecast £	2029/30 Forecast £
INCOME					
Rental Income - Council Housing	(16,920,000)	(17,477,300)	(18,041,200)	(17,998,400)	(18,557,100)
Rental Income - Other (Shops and Garages etc.)	(281,600)	(287,800)	(294,100)	(300,700)	(307,400)
Charges for Services & Facilities	(2,508,600)	(2,627,500)	(2,673,100)	(2,718,900)	(2,762,100)
Grant Income	(69,900)	(71,300)	(72,500)	(73,900)	(75,100)
Contributions from General Fund	(107,800)	(110,300)	(112,500)	(114,800)	(116,900)
Total Income	**(19,887,900)**	**(20,574,200)**	**(21,193,400)**	**(21,206,700)**	**(21,818,600)**
EXPENDITURE					
Repairs & Maintenance	6,526,700	6,694,300	6,833,800	6,934,000	7,062,300
Supervision & Management	5,915,200	5,349,300	5,414,300	5,518,500	5,642,000
Rents, Rates & Insurance	557,800	598,500	639,000	679,600	720,300
Contribution to Provision for Bad and Doubtful Debts	153,600	154,800	156,100	157,500	159,100
Depreciation & Impairment of Fixed Assets	4,774,700	4,774,700	4,774,700	4,774,700	4,774,700
Debt Management Costs	0	0	0	0	0
Total Expenditure	**17,928,000**	**17,571,600**	**17,817,900**	**18,064,300**	**18,358,400**
NET COST OF HRA SERVICES	**(1,959,900)**	**(3,002,600)**	**(3,375,500)**	**(3,142,400)**	**(3,460,200)**
(Gain)/Loss on disposal of non-current assets	0	0	0	0	0
Interest Payable & Similar Charges	1,607,900	1,568,200	1,528,200	1,487,800	1,447,200
Interest & Investment Income	(55,300)	(50,100)	(33,300)	(33,300)	(33,300)
Pensions Interest Costs & Expected Return on Pensions Assets	0	0	0	0	0
Capital Grants and Contributions Receivable	0	0	0	0	0
Premiums & Discounts from Earlier Debt Rescheduling	0	0	0	0	0
(SURPLUS) / DEFICIT FOR THE YEAR	**(407,300)**	**(1,484,500)**	**(1,880,600)**	**(1,687,900)**	**(2,046,300)**
Self Financing Debt Repayment	1,041,400	1,041,400	1,041,400	1,041,400	1,041,400
Net Charges made for Retirement Benefits	0	0	0	0	0
Adjustments to reverse out Notional Charges included above	0	0	0	0	0
Transfer to/(from) Earmarked Reserves - for Revenue Purposes	(660,800)	154,500	209,800	227,900	215,800
Capital Expenditure funded from Major Repairs Reserve	0	0	0	0	0
Transfer from Earmarked Reserves - for Capital Purposes	0	0	0	0	0
Financing of Capital Expenditure from Earmarked Reserves	0	0	0	0	0
TOTAL (SURPLUS) / DEFICIT FOR THE YEAR	**(26,700)**	**(288,600)**	**(629,400)**	**(418,600)**	**(789,100)**
Housing Revenue Account Balance brought forward	(76,000)	(102,700)	(391,300)	(1,020,700)	(1,439,300)
HRA BALANCE CARRIED FORWARD	**(102,700)**	**(391,300)**	**(1,020,700)**	**(1,439,300)**	**(2,228,400)**

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

APPENDIX B

Council Housing 10 Year Capital Programme
For Consideration by Council 26 February 2025

	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000	2028/29 Estimate £000	2029/30 Estimate £000	2030/31 Estimate £000	2031/32 Estimate £000	2032/33 Estimate £000	2033/34 Estimate £000	2034/35 Estimate £000	TOTAL £000
EXPENDITURE											
Adaptations	300	300	300	300	300	300	300	300	300	300	3,000
Energy Efficiency/Boiler Replacement	1,501	1,265	1,265	1,093	979	790	790	790	790	790	10,053
Internal Refurbishment	1,078	1,078	1,097	1,135	1,135	936	946	936	945	945	10,231
External Refurbishment	637	270	-	-	-	192	759	288	-	-	2,146
Environmental Improvements	500	260	260	110	110	140	140	140	140	140	1,940
Re-roofing/Window Renewals	595	527	1,024	1,423	744	686	-	1,256	1,288	1,288	8,831
Rewiring	88	88	90	90	90	88	90	88	90	90	892
Lift Replacements	-	-	-	-	-	-	-	-	-	-	-
Fire Precaution Works	210	150	150	180	180	180	180	180	180	180	1,770
Housing Renewal and Renovation	957	507	507	207	657	657	657	207	207	207	4,770
Acquisitions	250	-	-	-	-	-	-	-	-	-	250
TOTAL EXPENDITURE	**6,116**	**4,445**	**4,693**	**4,538**	**4,195**	**3,969**	**3,862**	**4,185**	**3,940**	**3,940**	**43,883**
FINANCING											
Capital Receipts	1,347	-	-	-	-	-	-	-	-	-	1,347
Contributions	-	-	-	-	-	-	-	-	-	-	-
Earmarked Reserves	-	-	-	-	-	30	30	30	30	30	150
Major Repairs Reserve	4,769	4,445	4,693	4,538	4,195	3,939	3,832	4,155	3,910	3,910	42,386
TOTAL FINANCING	**6,116**	**4,445**	**4,693**	**4,538**	**4,195**	**3,969**	**3,862**	**4,185**	**3,940**	**3,940**	**43,883**
SHORTFALL/(SURPLUS)	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

HOUSING REVENUE ACCOUNT - RESERVES AND PROVISIONS STATEMENT
For Consideration by Council 26 February 2025

	Balance as at 31/03/24	Contributions			Balance as at 31/03/25	Contributions			Balance as at 31/03/26	Contributions			Balance as at 31/03/27	Contributions			Balance as at 31/03/28	Contributions			Balance as at 31/03/29	Contributions			Balance as at 31/03/30
		To the Reserve from Revenue	From the Reserve			To the Reserve from Revenue	From the Reserve			To the Reserve from Revenue	From the Reserve			To the Reserve from Revenue	From the Reserve			To the Reserve from Revenue	From the Reserve			To the Reserve from Revenue	From the Reserve		
			To Capital	To Revenue			To Capital	To Revenue			To Capital	To Revenue			To Capital	To Revenue			To Capital	To Revenue			To Capital	To Revenue	
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
HRA General Balances	**750,000**			(674,000)	**76,000**	26,700			**102,700**	288,600			**391,300**	629,400			**1,020,700**	418,600			**1,439,300**	789,100			**2,228,400**
Earmarked Reserves:																									
Business Support Reserve	**581,923**			(462,700)	**119,223**				**119,223**				**119,223**				**119,223**				**119,223**				**119,223**
Major Repairs Reserve	**779,475**	4,774,700	(5,004,100)		**550,075**	4,774,700	(4,774,700)		**550,075**	4,774,700	(4,450,700)		**874,075**	4,774,700	(4,698,700)		**950,075**	4,774,700	(4,543,700)		**1,181,075**	4,774,700	(4,200,700)		**1,755,075**
Flats - Planned Maintenance	**404,527**			(95,400)	**309,127**	33,000		(147,900)	**194,227**	33,000		(22,900)	**204,327**	33,000		(22,900)	**214,427**	33,000		(22,900)	**224,527**	33,000		(22,900)	**234,627**
ICT and Systems Improvement	**974,205**			(261,000)	**713,205**			(640,700)	**72,505**			(72,500)	**5**				**5**				**5**				**5**
Sheltered - Equipment	**299,271**	60,400		(98,800)	**260,871**	62,600		(75,100)	**248,371**	62,300		(16,800)	**293,871**	59,600		(23,400)	**330,071**	58,700		(1,600)	**387,171**	57,100		(7,400)	**436,871**
Sheltered - Planned Maintenance	**284,087**	120,300		(25,000)	**379,387**	125,000		(80,300)	**424,087**	124,400		(15,300)	**533,187**	119,200		(15,300)	**637,087**	117,300		(15,300)	**739,087**	114,200		(15,300)	**837,987**
Sheltered Support Grant Maintenance	**279,467**	60,400			**339,867**	62,600			**402,467**	62,300			**464,767**	59,600			**524,367**	58,700			**583,067**	57,100			**640,167**
Total Earmarked Reserves	**3,602,956**	**5,015,800**	**(5,004,100)**	**(942,900)**	**2,671,756**	**5,057,900**	**(4,774,700)**	**(944,000)**	**2,010,956**	**5,056,700**	**(4,450,700)**	**(127,500)**	**2,489,456**	**5,046,100**	**(4,698,700)**	**(61,600)**	**2,775,256**	**5,042,400**	**(4,543,700)**	**(39,800)**	**3,234,156**	**5,036,100**	**(4,200,700)**	**(45,600)**	**4,023,956**

COUNCIL

Flexible Use of Capital Receipts Strategy 2025-26
26 February 2025

Report of Cabinet

PURPOSE OF REPORT
Statutory guidance from the Department for Levelling Up, Homes and Communities (DLUHC) and the Chartered Institute of Public Finance and Accountancy (CIPFA) enables local authorities to make flexible use of capital receipts to fund projects which are likely to generate savings to the authority and / or other public bodies. To make use of this provision, authorities must submit to the Secretary of State a Flexible Use of Capital Receipts Strategy setting out how the provision will be applied in the next financial year. This report proposes a Flexible Use of Capital Receipts Strategy for 2025-26 to complement the ongoing Council's Outcomes-Based Resourcing programme – Fit for the Future
This report is public.

RECOMMENDATION OF CABINET

(1) That Full Council approves the Flexible Use of Capital Receipts Strategy 2025/26 set out in this report, in accordance with the relevant statutory guidance.

1.0 INTRODUCTION

1.1 All Councils are limited in their ability to utilise capital receipts, usually arising from the disposal proceeds from the sale of fixed assets. Statutory guidance issued under section 15(1) of the Local Government Act 2003 by the Ministry of Housing, Communities and Local Government (as amended) generally precludes capital receipts being used to fund revenue expenditure and requires them to be applied to either fund capital expenditure or repay debt. The Act also requires local authorities to have regard to other guidance as issued or directed by the Secretary of State – this currently includes the following guidance issued by the Chartered Institute of Public Finance and Accountancy [CIPFA]:

- The Prudential Code for Capital Finance in Local Authorities; and
- The Code of Practice on Local Authority Accounting.

1.2 The Government's Spending Review 2015 included a relaxation of these regulations allowing the use of capital receipts for a limited period, between 2016/17 and 2018/19, to fund revenue expenditure "***that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs or improve the quality-of-service delivery in future years***". This announcement was implemented by the issuing of regulations in March 2016. The period over which these amended regulations applied has continued to be extended.

1.3 This was extended in an amended direction in December 2017 by a further three years up to and including 2021/22 to allow the continued flexible use of capital receipts for the above purposes. Further updated statutory guidance was issued by DLUHC in August 2022 which extended the scheme for the financial years 2022/23, 2023/24 and 2024/25.

1.4 The Autumn Policy Statement made clear Governments intention to extend flexible use of capital receipts to 2030. The government will also remove the restriction with respect to redundancy costs, imposed from April 2022, that limits the use of the flexibility to statutory redundancy costs only. This will support authorities in taking forward transformation and invest-to-save projects.

1.5 Cabinet considered this report at it's meeting on 11 February 2025 and make its recommendation to Council.

2.0 THE GUIDANCE / DIRECTIVE

2.1 The guidance on the use of capital receipts flexibility was issued by the Secretary of State under section 15(1) of the Local Government Act 2003, and authorities are therefore required to have regard to it. The Guidance specified that:

- Local authorities will only be able to use capital receipts from the sale of property, plant and equipment received in the years in which this flexibility is offered. They may not use their existing stock of capital receipts to finance the revenue costs of reform.

- Local authorities cannot borrow to finance the revenue costs of the service reforms.

- The expenditure for which the flexibility can be applied should be the up-front (set up or implementation) costs that will generate future ongoing savings and/or transform service delivery to reduce costs or to improve the quality-of-service delivery in future years. The ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure.

- The key determining criteria to use when deciding whether expenditure can be funded by the new capital receipts flexibility is that it is forecast to generate ongoing savings to an authority's, or several authorities,' and/or to another public sector body's net service expenditure net service expenditure.

- In using the flexibility, the Council will have due regard to the requirements of the Prudential Code, the CIPFA Local Authority Accounting Code of Practice and the current edition of the Treasury Management in Public Services Code of Practice.

3.0 REQUIREMENTS FOR THE STRATEGY

3.1 The guidance requires that authorities wishing to make use of this provision must submit their Strategy to the Secretary of State ahead of each financial year in which the provision is to be used; but that no approval or response is required from the Secretary of State for the Strategy to be implemented. Should Full Council approve the proposed Strategy, it will be submitted to the Secretary of State via the DELTA system.

3.2 The Strategy must as a minimum set out the projects which plan to make use of the provision, along with their projected savings and / or service transformation and a summary of the impact on the authority's Prudential Indicators for the forthcoming year and subsequent years. This information is set out in in sections 7 and 8.

3.3 The Strategy should also review use of any provision in previous years and report on the savings and / or transformation achieved through use of the provision so far. Lancaster City Council has not yet made use of the provision in 2024/25, and as such any benefits arising from this Strategy will be reported in subsequent years, this is set out in section 9.

3.4 The Strategy can be updated at any time during the financial year and re-submitted to the Secretary of State. Authorities must not exceed the amounts stated in their Strategy without first submitting an updated Strategy to the Secretary of State.

3.5 The Strategy must be made available to the public free of charge. This report, which is public, sets out Lancaster City Council's Flexible Use of Capital Receipts Strategy for 2025-26 in fulfilment of the above requirements.

4.0 MONITORING AND UPDATING THE STRATEGY

4.1 It is intended that the flexibility will be used to support the actions arising from the Outcomes-Based Resourcing/ Fit for the Future process. The legitimacy of the use of capital receipts will be determined by the Section 151 Officer to ensure eligibility and compliance with the requirements set out by the Secretary of State. Progress on delivery of the programme, including financial implications and the realisation of benefits, will be reported through Delivering Our Priorities quarterly monitoring via Cabinet and Budget & Performance Panel.

4.2 The Strategy may be updated within the financial year. Any updates will be proposed to Cabinet and then Council via a report, which subject to approval would then be submitted to the Secretary of State.

4.3 Adoption of the Strategy does not necessarily oblige the Council to utilise capital receipts and initiatives may still be financed in whole or in part from other sources, e.g., revenue budgets. This recognises that not all capital receipts may be realised and that decisions need to be taken in the context of the Council's overall revenue and capital financing position.

4.4 Inclusion in the Strategy also does not constitute approval to progress a project.

5.0 WHICH CAPITAL RECEIPTS ARE ELIGIBLE?

5.1 The guidance sets out the criteria by which capital receipts are eligible for flexible use, summarised in the below excerpt from the guidance:

"…a qualifying disposal is an asset sale made within the period for which the direction applies, by the local authority to an entity outside the local authority's group structure…

The intent of this condition is that capital receipts which are to be used by authorities under the flexibilities afforded by the direction should be from genuine disposals of assets by the authority. Where an authority retains some control of the assets, directly or indirectly, and retains exposure to the risks and rewards from those assets, the disposal does not give rise to a capital receipt that can be used in accordance with the direction."

5.2 It should be noted that the flexibility excludes Right-To-Buy capital receipts. It should also be noted that the Council's budget process has assumed that forecast capital receipts have not been relied upon to fund any future expenditure.

5.3 Forecast capital receipts from 2025/26 onwards have not been factored into the Council's Capital Financing Requirement (CFR) by way of either reducing debt or financing capital expenditure. The use of these receipts under this flexibility will, therefore, have no effect on the Council's Prudential Indicators.

6.0 WHICH EXPENDITURE IS ELIGIBLE?

6.1 The guidance also sets out the criteria by which expenditure would be considered eligible for flexible use of capital receipts. The guidance summarises as follows:

"Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners.

Set up and implementation costs of any new processes or arrangements can be classified as qualifying expenditure. The ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure. In addition, one off costs, such as banking savings against temporary increases in costs/pay cannot be classified as qualifying expenditure. Under the direction the in force from April 2022, with respect to redundancy payments, qualifying expenditure will be limited to those amounts that are necessarily incurred as statutory redundancy payments provided the other requirements of qualifying expenditure are met. This restriction does not apply to other severance costs, including pension strain costs; the treatment of these costs remains unchanged from the previous direction."

6.2 The guidance provides a range of examples of expenditure which could be considered eligible, although the list is intended to be neither prescriptive nor exhaustive; based on the principles above, it is intended for each individual authority to consider whether a project should be eligible under the provision. The examples from the guidance are summarised below:

- Sharing back-office and administrative services with one or more other council or public sector bodies.
- Investment in service reform feasibility work, e.g., setting up pilot schemes.
- Collaboration between local authorities and central government departments to free up land for economic use.
- Funding the cost-of-service reconfiguration, restructuring or rationalisation where this leads to ongoing efficiency savings or service transformation.
- Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible.
- Aggregating procurement on common goods and services where possible, either as part of local arrangements or using Crown Commercial Services or regional procurement hubs or Professional Buying Organisations.
- Improving systems and processes to tackle fraud and corruption in line with the Local Government Fraud and Corruption Strategy – this could include an element of staff training.
- Setting up commercial or alternative delivery models to deliver services more efficiently and bring in revenue (for example, through selling services to others); and
- Integrating public facing services across two or more public sector bodies (for example children's social care or trading standards) to generate savings or to transform service delivery.

7.0 THE COUNCIL'S PROPOSALS 2025/26

7.1 The Council intends to use its capital receipts flexibility to fund or part fund savings connected to its Fit for the Future process with the aim of successfully delivering priority outcomes for the Lancaster district whilst at the same time achieving long-term sustainability of finance and resources.

7.2 Within the revenue budget proposals for 2025/26 there are a number of savings and workstreams which underpin the corporate programmes listed in table 1 below. These programmes cover a wide range of areas such as the review of service operating models exploring opportunities around the increased use digital technologies, income generation as well the principals of Zero-Based Budgeting.

Table 1: Corporate Proposals for 2025/26

Project	Description	Estimated Investment/ Cost	Projected Savings £M
Service Levels & Efficiency	Revisions and rationalisation of levels of service offering efficiency measures, increased commercialisation, and review of income streams	TBC	TBC
Digitalization	Improvements to residents access reliable advice, consistent information, and efficient Council services Reduce failure demand and help the Council meet high volume, routine transactions in a cost-effective manner. Review the functionality and costs of each ICT system with the objective of maximising the use of the functionality available and reducing the total number of systems used.	TBC	TBC
Alternative Delivery Models & Partnerships	Shared service savings, opportunities, contract reviews & alternative options for achieving outcomes	TBC	TBC
Strategic Asset Management	Improved asset management planning, asset usage reviews, potential disposals, optimising use of operational assets and prospects for energy and carbon reduction measures.	TBC	TBC

7.3 Whilst these broad proposals are underpinned by a number of individual areas of which many are in their infancy and yet to be full costed. However, with all change programmes there will be a need for upfront investment in areas that will deliver capacity and objectivity.

7.4 As has been noted within both the Council's Medium Term Financial Capital Investment Strategies, the way the Council manages its assets will also play a significant part in not only delivering its services to its resident but also identify opportunities to fund both the Fit for the Future process but also its wider capital programme.

7.5 A significant amount of work has been undertaken by Officers to identify suitable assets and table 2 provides summary details of the class of assets currently being marketed by the Council.

Table 2: Assets for Disposal

Assets Currently Marketed 2025/26	Expected Capital Receipts 2025/26 £M
Investment Properties	0.635
Other Land & Buildings	0.000
Estimated Value of Applicable Capital Receipts	**0.635**

7.6 It should be noted that whilst only £0.635M of Capital Receipts are currently expected in 2025/26 there are 2 property sales in progress totalling £1.780M that are aiming for completion on 31st March 2025. Should these sales fail to complete before the end of this financial year these will slip into 2025/26 and could bring the value of applicable capital receipts up to £2.415M.

8.0 IMPACT ON PRUDENTIAL INDICATORS

8.1 As referenced in paragraph 5.3, forecast capital receipts from 2025/26 onwards have not been factored into the Council's Capital Financing Requirement (CFR) by way of either reducing debt or financing capital expenditure. The use of these receipts under this flexibility will, therefore, have no effect on the Council's Prudential Indicators.

9.0 MONITORING OF THE 2024/25 STRATEGY

9.1 The directive requires that progress against the strategy is reported and table 3 below summaries the level of savings identified as part of the 2024/25 budget process, with progress reported on a quarterly basis to Cabinet and B&PP as part the standard Delivering our Priorities quarterly reporting cycle.

Table 3: Savings Monitoring

Project	Description	Estimated Savings £M	Actual Savings £M	Variance £M
Service Levels & Efficiency	Revisions and rationalisation of levels of service offered efficiency measures and review of income streams	0.988	0.277	0.711
Alternative Delivery Models & Partnerships	Shared service savings, opportunities, contract reviews & alternative options for achieving outcomes	0.026	0.026	0.000
Organisational Structure & People	Senior leadership restructure, establishment review to ensure fitness for purpose, alignment with desired strategic outcomes, deletion of vacant posts	0.219	0.219	0.000
Strategic Asset Management	Improved asset management planning, asset usage reviews, potential disposals, optimising use of operational assets and prospects for energy and carbon reduction measures.	0.000	0.000	0.000
Total		**1.233**	**0.522**	**0.711**

9.2 To date £0.522M of the £1.233M (42%) of the savings identified within the 2024/25 budget are expected to be achieved with associated eligible costs of £0.220M. The Council expects to receive £1.933M of associated capital receipts which would be available to cover eligible expenditure. This is greater than the estimated level of costs incurred however, 2 property sales totalling £1.780M are expected to complete on 31st March and if these do not complete by that date, available capital receipts would only be £0.153M. Should this happen available receipts will be lower than the estimated level of cost incurred and result in an additional cost pressure on the revenue budget of £0.067M. Table 4 below summaries the associated eligible costs, capital receipts received and the overall impact on the Councils General Fund.

Table 4: Eligible Costs and Capital Receipts

Eligible Costs Incurred 2024/25	**£'M**
Statutory Redundancy	(0.040)
Pension Strain	(0.180)
Total Eligible Costs	**(0.220)**
Capital Receipts Received April to December 2024/25	**£'M**
Drainage easement at Brookhouse	0.045
Misc Vehicle Sales	0.004
Grants Clawed back	0.004
Expected Capital Receipts Q4	1.880
Total Expected Capital Receipts	**1.933**
Impact on the Council's General Fund	**0.220**

10.0 DETAILS OF CONSULTATION

10.1 The Council has undertaken substantial consultation including public briefings and a survey in establishing its overall budget proposals for 2025-26 onwards. This Strategy contributes to the delivery of those proposals by making use of the financial flexibility available to the Council in implementing its Fit for the Future approach.

11.0 OPTIONS AND OPTIONS ANALYSIS (including risk assessment)

Option 1: Adopt the Strategy
Advantages The Council will be able to make use of the Flexible Capital Receipts provision in delivering its Fit for the Future programme.
Disadvantages None identified from this report.
Risks Capital receipts, savings and transformation benefits may not be realised as anticipated in the Strategy; the associated risks will be mitigated through the implementation of the Fit for the Future programme.
Option 2: Do not adopt the Strategy
Advantages None identified from this report.
Disadvantages The Council will be unable to consider funding savings initiatives and service transformation through use of capital receipts, and may therefore be unable to achieve the savings, outcomes and benefits anticipated from these projects.
Risks Not adopting a Flexible Use of Capital Receipts Strategy at this point would severely constrain the Council's ability to deliver its Fit for the Future programme.

12.0 OFFICER PREFERRED OPTION

12.1 The officer preferred option is Option 1, to enable the Council to make use of the Flexible Capital Receipts provision in supporting its savings and service transformation initiatives over the coming years.

13.0 CONCLUSION

13.1 This report, if approved, will enable the council to use capital receipts to fund savings and service transformation initiatives. Failure to adopt a Flexible Use of Capital Receipts Strategy will severely constrain the council's ability to pursue these initiatives.

RELATIONSHIP TO POLICY FRAMEWORK

If adopted, the Flexible Use of Capital Receipts Strategy would form part of the council's Policy Framework. From a strategic perspective, enabling the use of capital receipts to deliver savings and service transformation initiatives will give the council scope to pursue its Outcomes-Based Resourcing programme with greater flexibility and effectiveness.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability etc)

No direct impact arising from this report. All initiatives supported by flexible use of capital receipts will be considered for their impact as appropriate.

FINANCIAL IMPLICATIONS

As outlined in the report, forecast capital receipts generated during the year will be used flexibly in compliance with the requirements of the Secretary of State to support projected savings identified as part of the Outcomes-Based Resourcing/ Fit for the Future process. Use will be determined by the s151 officer to ensure both eligibility and the impact on the Council's overall revenue and capital financing position.

SECTION 151 OFFICER'S COMMENTS

The s151 Officer has authored this report and his comments are reflected within it.

LEGAL IMPLICATIONS

The Local Government Act 2003 ("the Act"), section 15(1) requires a local authority "… to have regard (a) to such guidance as the Secretary of State may issue, and (b) to such other guidance as the Secretary of State may by regulations specify …

". Two codes of practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) contain guidance on capital receipts and local authority accounting that complement the Department for Levelling Up, Housing and Communities (DLUHC) guidance. These publications are:

- The Prudential Code for Capital Finance in Local Authorities
- The Code of Practice on Local Authority Accounting

Local authorities are required to have regard to the current edition of The Prudential Code for Capital Finance in Local Authorities by regulation 2 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and to the Local Authority Accounting Code as proper practices for preparing accounts under section 21(2) of the Act.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS	Contact Officer: Paul Thompson
Cabinet **FUCRD 2025/26** Agenda for Cabinet on Tuesday, 11th February 2025, 6.00 p.m. - Lancaster City Council **Council** **Revenue Budget 2025/26** Agenda for Council on Wednesday, 26th February 2025, 6.00 p.m. - Lancaster City Council **FUCRD 2024/25** Agenda for Council on Wednesday, 13th March 2024, 6.00 p.m. - Lancaster City Council	**Telephone**: 01524 582603 **E-mail:** pthompson@lancaster.gov.uk **Ref:** N/A

COUNCIL

Capital Programme 2025/26 – 2034/35
&
Capital Strategy (Investing in the Future)
26 February 2025

Report of Cabinet

PURPOSE OF REPORT					
To present Cabinet's final budget proposals in order that the Council can approve a General Fund Capital Programme for 2025/26 to 2034/35, and a Capital Strategy 2025/26 as required by regulation.					
Key Decision	**X**	**Non-Key Decision**		**Referral from Cabinet Member**	
Date of notice of forthcoming key decision				16h December 2024	

RECOMMENDATION OF CABINET

That Council notes the report and approves the following:

(1) That the General Fund Capital Programme as set out at Appendix A, be approved subject to recommendation 2 below

(2) That the Capital Strategy (Incorporating the Capital Investment Strategy: Investing in the Future) as set out at Appendix B, be approved

1.0 INTRODUCTION

1.1 Following its meeting on 11 February 2025 Cabinet has now finalised its budget framework proposals for the General Fund Capital Programme and accompanying Capital Strategy. These are all now reflected in the recommendations of this report.

1.2 In line with the Council's Constitution the Capital Strategy was considered by Budget and Performance Panel on 19 February 2025, no formal comments were made for inclusion in this report.

2.0 CAPITAL PROGRAMME

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

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

2.3 The proposed net investment programme for General Fund for the period to 2034/35 is included at ***Appendix A*** and summarised in the table below. Note that the shaded column (2024/25) is for information only and not included in the grand total.

Table 1: Capital Programme 2025/26 – 2034/35

	2024/25 £'M	**2025/26 £'M**	**2026/27 £'M**	**2027/28 £'M**	**2028/29 £'M**	**2029/30 £'M**
Approved Schemes	6.607	15.718	2.904	0.964	2.913	0.788
Schemes Under Development	0.000	5.146	0.240	0.000	0.000	0.000
Total	**6.607**	**20.864**	**3.144**	**0.964**	**2.913**	**0.788**

	2030/31 £'M	**2031/32 £'M**	**2032/33 £'M**	**2033/34 £'M**	**2034/35 £'M**	**Grand Total £'M**
Approved Schemes	2.936	6.159	3.701	2.107	2.837	**41.027**
Schemes Under Development	0.000	0.000	0.000	0.00	0.000	**5.386**
Total	**2.936**	**6.159**	**3.701**	**2.107**	**2.837**	**46.413**

2.4 The current year's net revised programme (2024/25) now stands at £6.607M. During the next 10 years, a further gross investment of £69.590M is currently planned with external funding of £23.177M anticipated to support this investment, giving a total net programme from 2025/26 to 2034/35 of £46.413M.

2.5 Schemes classified as Under Development have had strategic outline business cases approved in principle by the Cabinet but **cannot** commence until full business cases have been considered and approved, first by the Capital Assurance Group (CAG), and then by Cabinet. In addition, depending certain factors such as the complexity of the project, the level of investment required (c.£1.5M) etc the full business cases will be subject to independent 3rd party review, with the results forming part of the CAG and Cabinet submission.

2.6 The scheme that is classified as Under Development in 2026/27 SALC 3G Football pitch is hoped to be partially funded by external grant. The remainder of this scheme and all schemes Under Development in 2025/26, Electric Vehicle Charging hubs, Parks & Open Space, Salt Ayre Asset Management Plan, Wheelie Bins and Local Full fibre Network will need to be funded from borrowing. Business cases will be required showing the full costs to the General Fund Revenue budget before these can be approved and incorporated in the main Capital Programme.

2.7 Overall the programme is balanced, allowing for a gross increase in the underlying need to borrow (known as the Capital Financing Requirement or CFR), over the five-year period to 2029/30. The Council makes a revenue provision for the repayment of borrowing known as Minimum Revenue Provision (MRP) which reduces the CFR.

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

Capital Financing

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

- Capital receipts – monies received from the sale of a capital asset.
- Revenue contributions – monies set aside in specific reserves to support and fund schemes.

- External grants and contributions – monies received from third parties to fund schemes. These monies normally include conditions on what they can be used for.
- External borrowing – the Council is free to make its own borrowing decisions according to what is affordable, sustainable, and prudent as set out in the Prudential Code.

2.10 The Council's CFR is simply the total amount of capital expenditure (including that from prior years) that has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying need to borrow. Any capital expenditure, which has not immediately been paid for through a revenue or capital resource, will increase the CFR. Based on the draft capital programme the Council's CFR is set to fluctuate from the current estimated 2024/25 position of £101.17M rising to £117.96M in 2025/26 before reducing slightly to £103.09M in 2029/30, to reflect current planned levels of capital expenditure.

2.11 The CFR does not increase indefinitely as a statutory annual charge to revenue known as Minimum Revenue Provision (MRP), approximately reduces the borrowing need in line with each asset's life.

2.12 Based on the capital programme, the overall physical borrowing position of the Council is projected to increase over the next three to five years from its estimated current position of £63.93M to £83.84M (2026/27) as the Council looks to move forward with several ambitious schemes to enable delivery of its Strategic Priorities. It is then forecast to decrease slightly to £83.72M (2029/30).

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

Table 2: Capital Financing Requirement

	2023/24 Actual £'M	2024/25 Estimate £'M	2025/26 Estimate £'M	2026/27 Estimate £'M	2027/28 Estimate £'M	2028/29 Estimate £'M	2029/30 Estimate £'M
CFR – Non Housing	64.50	68.13	85.96	84.75	81.00	79.32	75.25
CFR – Housing	34.08	33.04	32.00	30.96	29.92	28.88	27.83
Total CFR	**98.58**	**101.17**	**117.96**	**115.71**	**110.91**	**108.20**	**103.09**
Movement in CFR							
Non Housing	0.93	3.63	17.83	-1.21	-3.75	-1.67	-4.07
Housing	-1.05	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04
Net Movement in CFR	**-0.12**	**2.59**	**16.79**	**-2.25**	**-4.79**	**-2.71**	**-5.11**

Movement in CFR represented by							
Net financing need for the year (above) re Non Housing	3.59	6.54	20.75	3.14	0.97	2.91	0.79
Less MRP/VRP and other financing	-3.71	-3.94	-3.96	-5.39	-5.76	-5.62	-5.90
Net Movement in CFR	**-0.12**	**2.59**	**16.79**	**-2.25**	**-4.79**	**-2.71**	**-5.11**

Table 3: Borrowing Projections

	2023/24 Actual £'M	2024/25 Estimate £'M	2025/26 Estimate £'M	2026/27 Estimate £'M	2027/28 Estimate £'M	2028/29 Estimate £'M	2029/30 Estimate £'M
External Debt							
Debt at 1 April - PWLB & short term actual	59.01	57.97	63.93	78.89	83.84	83.80	83.76
Debt - estimated	0.00	6.00	15.00	5.00	0.00	0.00	0.00
Expected change in Debt	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04
Other long-term liabilities	0.00	1.00	1.00	1.00	1.00	1.00	1.00
Expected change in OLTL	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Actual gross debt at 31 March	**57.97**	**63.93**	**78.89**	**83.84**	**83.80**	**83.76**	**83.72**
The Capital Financing Requirement	**98.58**	**101.17**	**117.96**	**115.71**	**110.91**	**108.20**	**103.09**
(Under) / over borrowing	**-40.61**	**-37.24**	**-39.07**	**-31.86**	**-27.11**	**-24.44**	**-19.37**

2.14 This level of borrowing is assessed for affordability, sustainability, and prudence in line with the Council's Treasury Management Strategy and requires annual approval by Council following consultation with Budget & Performance Panel. Council is being asked to formally approve the annual Treasury Management Strategy elsewhere on this agenda.

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

Table 4: Forecast MRP Charges

	2024/25 Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M	2029/30 Estimate £M
Interest	1.241	1.534	2.184	2.192	2.201	2.210
MRP	2.912	2.924	4.357	4.717	4.586	4.586
Total	**4.153**	**4.458**	**6.541**	**6.909**	**6.787**	**6.796**

Table 5: Ratio of Financing Costs to Net Revenue Stream

	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Non-HRA	17.98%	19.21%	17.82%	24.97%	25.19%	24.16%	23.89%
HRA	17.52%	15.78%	15.40%	14.69%	14.01%	13.82%	13.19%

2.16 This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. Benchmarking by the Local Government Association (2022) suggested a regional and national average of c14% for the General Fund and so with potential percentage rates close to 25%, care and consideration must be taken with future capital investment.

3.0 CAPITAL STRATEGY

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

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

- Schemes to be added to the Capital Programme will be subject to a gateway process following completion of a capital bid which will be scored against criteria set to measure strategic, economic, financial, commercial and management criteria in accordance with the Treasury's 5 case model. These will be reviewed by a corporate Capital Assurance Group comprising key Officers alongside the Finance Portfolio Holder and Chairs of Budget and Performance Panel and Overview and Scrutiny Committee.

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

- The Capital Assurance Group (CAG) will also oversee capital financing in order to ascertain that all capital expenditure is affordable, prudent, and sustainable as set out in the Treasury Management Strategy. CAG's terms of reference are provided at ***Appendix C***.

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

4.0 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

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

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

5.0 OFFICER PREFERRED OPTION (AND COMMENTS)

5.1 To approve Cabinet's General Fund Capital Programme for 2025/26 to 2034/25 and Capital Strategy as required by regulation.

6.0 CONCLUSION

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

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

RELATIONSHIP TO POLICY FRAMEWORK

The Council's revenue and capital budgets should represent, in financial terms what the Council is seeking to achieve through its Policy Framework.

The proposed capital programme and supporting strategy is part of the Council's budget and policy framework, and fits into the Medium Term Financial Strategy

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability etc)

The proposed budget incorporates measures to address the climate emergency and digital improvements as well as activities to address wellbeing, health and community safety.

FINANCIAL IMPLICATIONS

There are no financial implications arising directly from this report. However, the proposed levels and areas of capital investments will require borrowing and other associated costs. Financial due diligence and assessment will ensure that all the appropriate costs are considered for each proposal.

S151 OFFICER COMMENTS

The s151 Officer has authored this report and his comments are reflected within.

LEGAL IMPLICATIONS

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

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

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

MONITORING OFFICER'S COMMENTS

Capital and Investment Strategies form part of the Budget Framework and their adoption is a function of Full Council.

BACKGROUND PAPERS	**Contact Officer:** Paul Thompson
Appendix A Capital Programme 2025-26 to 2034-35 Appendix B Capital Strategy - Investing in the Future Appendix C: CAG Terms of Reference	**Telephone: 01524 582603** **E-mail:** pthompson@lancaster.gov.uk **Ref:** N/A

General Fund Capital Programme

Service / Scheme	2024/25 Gross Budget	2024/25 External Funding	2024/25 Net Programme	2025/26 Gross Budget	2025/26 External Funding	2025/26 Net Programme	2026/27 Gross Budget	2026/27 External Funding	2026/27 Net Programme	2027/28 Gross Budget	2027/28 External Funding	2027/28 Net Programme	2028/29 Gross Budget	2028/29 External Funding	2028/29 Net Programme	2029/30 Gross Budget	2029/30 External Funding	2029/30 Net Programme
		£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Environment & Place																		
Vehicle Renewals (Latest)	545,000		545,000	5,337,000		5,337,000	2,061,000		2,061,000	257,000		257,000	2,238,000		2,238,000	560,000		560,000
Electric Taxis Scheme	341,000	(341,000)	0			0			0			0			0			0
UK Shared Prosperity Fund - The Streets Are Ours Public Realm	205,000	(205,000)	0			0			0			0			0			0
UK Shared Prosperity Fund - Heysham Village Toilets	99,000	(99,000)	0			0			0			0			0			0
AONB Capital Access Works	76,000	(76,000)	0			0			0			0			0			0
LTA Tennis Court Refurbishment	80,000	(80,000)	0			0			0			0			0			0
Playground The Roods - Warton	60,000	(60,000)	0			0			0			0			0			0
Winchester Field and Nature Area			0	118,000	(47,000)	71,000			0			0			0			0
Food Waste Strategy			0	1,462,000	(1,462,000)	0			0			0			0			0
Public Bins			0	500,000		500,000			0			0			0			0
Commercial Venue Improvements			0	150,000		150,000			0			0			0			0
Housing & Property																		
Mellishaw Park	73,000		73,000			0			0			0			0			0
Disabled Facilities Grants	3,458,000	(3,458,000)	0	2,331,000	(2,331,000)	0	2,331,000	(2,331,000)	0	2,331,000	(2,331,000)	0	2,331,000	(2,331,000)	0	2,331,000	(2,331,000)	0
Home Improvement Agency Vehicles			0	40,000	(40,000)	0			0			0			0			0
1 Lodge Street Urgent Structural Repairs	250,000		250,000	172,000		172,000			0			0			0			0
Gateway Solar Array	10,000		10,000	974,000		974,000			0			0			0			0
UK Shared Prosperity Fund Lancs CVS Community Warm Hubs	37,000	(37,000)	0			0			0			0			0			0
Commercial & Corporate Property	347,000		347,000	1,459,000		1,459,000	462,000		462,000	351,000		351,000	494,000		494,000	52,000		52,000
White Lund Depot - Offices	1,834,000		1,834,000			0			0			0			0			0
Coopers Fiels - BLRF	117,000	(117,000)	0	180,000	(180,000)	0			0			0			0			0
King Street			0	600,000	(200,000)	400,000			0			0			0			0
People & Policy																		
UK Shared Prosperity Fund External Projects	506,000	(506,000)	0			0			0			0			0			0
Rural England Prosperity Fund External Projects	398,000	(398,000)	0			0			0			0			0			0
UK Shared Prosperity Fund Digital Tourism Transformation	42,000	(42,000)	0			0			0			0			0			0
Planning & Climate Change																		
Burrow Beck Solar	600,000		600,000	3,600,000		3,600,000			0			0			0			0
Property De-carbonisation Works	500,000		500,000	3,825,000	(1,892,000)	1,933,000			0			0			0			0
SALC -optimised solar farm, air source heating pumps & glazing	10,000	(10,000)	0			0			0			0			0			0
Resources																		
ICT Systems, Infrastructure & Equipment	303,000		303,000	392,000		392,000	351,000		351,000	326,000		326,000	181,000		181,000	176,000		176,000
ICT Laptop Replacement & e-campus screens	116,000		116,000			0			0			0			0			0
ICT Nimble	300,000		300,000			0			0			0			0			0
Local Full Fibre Network	1,378,000		1,378,000			0			0			0			0			0
Sustainable Growth																		
Lancaster Heritage Action Zone	197,000	(24,000)	173,000	200,000		200,000			0			0			0			0
Lancaster Heritage Action Zone - St John's Church			0	500,000		500,000			0			0			0			0
Caton Road Flood Relief Scheme	1,664,000	(1,664,000)	0			0			0			0			0			0
Centenary House Grant Funded Works	749,000	(749,000)	0			0			0			0			0			0
Lawsons Bridge S106 Scheme	63,000		63,000			0			0			0			0			0
Lancaster Square Routes	21,000	(16,000)	5,000			0			0			0			0			0
Coastal Revival Fund - Morecambe Co-Op Building	11,000	(11,000)	0			0			0			0			0			0
City Museum Shop	30,000		30,000			0			0			0			0			0
Morecambe Sea Front Parapet Repair	30,000		30,000	30,000		30,000	30,000		30,000	30,000		30,000			0			0
Bare Outfall Flooding	50,000		50,000			0			0			0			0			0
Our Future Coast	345,000	(345,000)	0	63,000	(63,000)	0	85,000	(85,000)	0			0			0			0
UK Shared Prosperity Fund Lodge St Environs Enabling Works	69,000	(69,000)	0			0			0			0			0			0
UK Shared Prosperity Fund Museums Accessible Engagement	34,000	(34,000)	0			0			0			0			0			0
Schemes Under Development																		
Canal Quarter - Nelson St/St Leonardsgate	2,389,000	(2,389,000)	0			0			0			0			0			0
Electrical Vehicle Charging Hubs			0	400,000		400,000			0			0			0			0
Parks & Open Spaces Improvement			0	871,000		871,000			0			0			0			0
SALC 3G Football Pitch			0			0	800,000	(560,000)	240,000			0			0			0
Salt Ayre Asset Management Plan			0	1,267,000		1,267,000			0			0			0			0
Wheelie Bins			0	2,208,000		2,208,000			0			0			0			0
Local Full Fibre Network (supplement)			0	400,000		400,000			0			0			0			0
GENERAL FUND CAPITAL PROGRAMME	**17,337,000**	**(10,730,000)**	**6,607,000**	**27,079,000**	**(6,215,000)**	**20,864,000**	**6,120,000**	**(2,976,000)**	**3,144,000**	**3,295,000**	**(2,331,000)**	**964,000**	**5,244,000**	**(2,331,000)**	**2,913,000**	**3,119,000**	**(2,331,000)**	**788,000**

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Financing :						
Capital Receipts	0	0	0	0	0	0
Direct Revenue Financing	0	0	0	0	0	0
Earmarked Reserves	(63,000)	(109,000)	0	0	0	0
Increase/(Reduction) in Capital Financing Requirement (CFR)	**6,544,000**	**20,755,000**	**3,144,000**	**964,000**	**2,913,000**	**788,000**

General Fund Capital Programme

Service / Scheme	2030/31			2031/32			2032/33			2033/34			2034/35			10 YEAR TOTAL (FROM 2025/26)		
	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Total Gross Programme	Total External Funding	Total Net Programme
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Environment & Place																		
Vehicle Renewals (Latest)	2,469,000		2,469,000	5,679,000		5,679,000	3,511,000		3,511,000	1,565,000		1,565,000	2,179,000		2,179,000	25,856,000	0	25,856,000
Electric Taxis Scheme			0			0			0			0			0	0	0	0
UK Shared Prosperity Fund - The Streets Are Ours Public Realm			0			0			0			0			0	0	0	0
UK Shared Prosperity Fund - Heysham Village Toilets			0			0			0			0			0	0	0	0
AONB Capital Access Works			0			0			0			0			0	0	0	0
LTA Tennis Court Refurbishment			0			0			0			0			0	0	0	0
Playground The Roods - Warton			0			0			0			0			0	0	0	0
Winchester Field and Nature Area			0			0			0			0			0	118,000	(47,000)	71,000
Food Waste Strategy			0			0			0			0			0	1,462,000	(1,462,000)	0
Public Bins			0			0			0			0			0	500,000	0	500,000
Commercial Venue Improvements			0			0			0			0			0	150,000	0	150,000
Housing & Property																		
Mellishaw Park			0			0			0			0			0	0	0	0
Disabled Facilities Grants	2,331,000	(2,331,000)	0	2,331,000	(2,331,000)	0	2,331,000	(2,331,000)	0			0			0	18,648,000	(18,648,000)	0
Home Improvement Agency Vehicles			0			0			0			0			0	40,000	(40,000)	0
1 Lodge Street Urgent Structural Repairs			0			0			0			0			0	172,000	0	172,000
Gateway Solar Array			0			0			0			0			0	974,000	0	974,000
UK Shared Prosperity Fund Lancs CVS Community Warm Hubs			0			0			0			0			0	0	0	0
Commercial & Corporate Property			0	152,000		152,000			0	208,000		208,000	379,000		379,000	3,557,000	0	3,557,000
White Lund Depot - Offices			0			0			0			0			0	0	0	0
Coopers Fiels - BLRF			0			0			0			0			0	180,000	(180,000)	0
King Street			0			0			0			0			0	600,000	(200,000)	400,000
People & Policy																		
UK Shared Prosperity Fund External Projects			0			0			0			0			0	0	0	0
Rural England Prosperity Fund External Projects			0			0			0			0			0	0	0	0
UK Shared Prosperity Fund Digital Tourism Transformation			0			0			0			0			0	0	0	0
Planning & Climate Change																		
Burrow Beck Solar			0			0			0			0			0	3,600,000	0	3,600,000
Property De-carbonisation Works			0			0			0			0			0	3,825,000	(1,892,000)	1,933,000
SALC -optimised solar farm, air source heating pumps & glazing			0			0			0			0			0	0	0	0
Resources																		
ICT Systems, Infrastructure & Equipment	467,000		467,000	328,000		328,000	190,000		190,000	334,000		334,000	279,000		279,000	3,024,000	0	3,024,000
ICT Laptop Replacement & e-campus screens			0			0			0			0			0	0	0	0
ICT Nimble			0			0			0			0			0	0	0	0
Local Full Fibre Network			0			0			0			0			0	0	0	0
Sustainable Growth																		
Lancaster Heritage Action Zone			0			0			0			0			0	200,000	0	200,000
Lancaster Heritage Action Zone - St John's Church			0			0			0			0			0	500,000	0	500,000
Caton Road Flood Relief Scheme			0			0			0			0			0	0	0	0
Centenary House Grant Funded Works			0			0			0			0			0	0	0	0
Lawsons Bridge S106 Scheme			0			0			0			0			0	0	0	0
Lancaster Square Routes			0			0			0			0			0	0	0	0
Coastal Revival Fund - Morecambe Co-Op Building			0			0			0			0			0	0	0	0
City Museum Shop			0			0			0			0			0	0	0	0
Morecambe Sea Front Parapet Repair			0			0			0			0			0	90,000	0	90,000
Bare Outfall Flooding			0			0			0			0			0	0	0	0
Our Future Coast			0			0			0			0			0	148,000	(148,000)	0
UK Shared Prosperity Fund Lodge St Environs Enabling Works			0			0			0			0			0	0	0	0
UK Shared Prosperity Fund Museums Accessible Engagement			0			0			0			0			0	0	0	0
Schemes Under Development																		
Canal Quarter - Nelson St/St Leonardsgate			0			0			0			0			0	0	0	0
Electrical Vehicle Charging Hubs			0			0			0			0			0	400,000	0	400,000
Parks & Open Spaces Improvement			0			0			0			0			0	871,000	0	871,000
SALC 3G Football Pitch			0			0			0			0			0	800,000	(560,000)	240,000
Salt Ayre Asset Management Plan			0			0			0			0			0	1,267,000	0	1,267,000
Wheelie Bins			0			0			0			0			0	2,208,000	0	2,208,000
Local Full Fibre Network (supplement)			0			0			0			0			0	400,000	0	400,000
GENERAL FUND CAPITAL PROGRAMME	5,267,000	(2,331,000)	2,936,000	8,490,000	(2,331,000)	6,159,000	6,032,000	(2,331,000)	3,701,000	2,107,000	0	2,107,000	2,837,000	0	2,837,000	69,590,000	(23,177,000)	46,413,000

	2030/31	2031/32	2032/33	2033/34	2034/35	10 Year Total
Financing :						
Capital Receipts	0	0	0	0	0	0
Direct Revenue Financing	0	0	0	0	0	0
Earmarked Reserves	0	0	0	0	0	(109,000)
Increase/(Reduction) in Capital Financing Requirement (CFR)	2,936,000	6,159,000	3,701,000	2,107,000	2,837,000	46,304,000

APPENDIX B

Lancaster City Council

Investing in the Future: Our Capital Investment Strategy

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

To be reviewed and approved annually by Council

Contents

1. Introduction

1.1. Investing in the Future

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

- **Services:** Regular ongoing activities such as Planning, Council Housing, Public Realm, and Public Protection. These services are generally funded by continuous **'Revenue'** funding through the Council's regular funding streams such as Council Tax and Business Rates.
- **Projects:** One-off development activities in areas such as Regeneration, Housing, Carbon Zero or Culture & Heritage initiatives, which may complement or transform an existing service, or create new assets or capacity (such as land, property or cultural & social assets) for the district. Projects generally require a one-off **'Capital'** funding allocation, often over a number of years. Capital funding will be sourced from external contributions and grants, bids, or joint arrangements with partners where possible. In some cases, capital funding may require use of the Council's reserves, disposal proceeds or borrowing from an external source.
- **Asset Maintenance and Renewal:** Where there is a known, long term need to regularly invest in an asset (e.g. regular vehicle fleet, planned reroofing, refurbishment cycles, ICT, or leisure equipment renewals etc), then these are presented initially as a project proposal, and then continue to make use of capital funding over a number of years. These may need periodic review or adjustment, and borrowing may be incurred to fund them. Because they either prolong, or add value to our assets, they are generally a capital funding allocation.
- **Review and Repurposing:** The Council holds a substantial number of assets to deliver its wide range of services. Regular stock condition surveys will be undertaken and form the basis of the Council's asset management plan. These will be used to inform future investment decisions to ensure best value is achieved.

Capital investment funded through unsupported borrowing also has an impact on the Council's revenue budget, through the requirement of a **'Minimum Revenue Provision' (MRP)** to provide for repayments against borrowed funds.

This strategy for the period 2025-34 sets out a framework for how the Council wishes to invest in the future of the Lancaster district through ambitious, prudent use of capital funding, known as the Council's **'Capital Programme'**.

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

1.2. Sustainable, Strategic Investment

Capital expenditure must be carried out in a way that aligns with the Council's future financial sustainability; whilst also contributing to strategic aspirations around the district's environment, economy and communities, as expressed in the Council's strategic priorities, summarised below.

A range of investment proposals will be developed, contributing to each of the four priorities, as part of the Council's corporate planning activity. This will ensure that the Council can respond to all opportunities for external investment and grant funding with viable, innovative and impactful schemes that are ready for implementation.

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

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

- Medium Term Financial Strategy
- Asset Management Strategy
- Homes Strategy
- Climate Emergency and Carbon Zero initiatives
- Regeneration and Economic Development activity

1.3. Investment Models

The strategy recognises that there are various ways in which the Council can use capital funding to achieve strategic goals. These may include shared investment with partners of good financial and reputational standing.

Another route is for the Council to establish Local Authority Trading Companies (LATCos), which are entirely separate commercial entities able to independently access capital funding as part of their operations. The LATCo model also has the potential to create established, long-term income streams including commercial income.

A LATCo is subject to its own governance and decision-making, as a wholly separate entity from the Council. This strategy does not set out the terms on which a LATCo may invest to generate a commercial return. However, it does recognise that the LATCo model may contribute to the achievement of the Council's wider investment goals. As Lancaster's existing LATCos are wholly owned by the Council, they are Assets of the Council, and we may choose to invest in them in order to grow their Asset value.

1.4. Housing Provision and the Housing Revenue Account

The Council operates a separate funding stream for the provision of local authority housing, known as the Housing Revenue Account (HRA). It is a legal requirement for HRA funding to be ring-fenced for the sole purpose of housing provision.

Maintaining and developing the Council's housing provision requires a substantial HRA capital programme, which is largely funded by housing revenue. The HRA capital programme is delivered in line with the Council's HRA Business Plan, and determined via the Council's budget-setting process, with HRA matters considered separately from General Fund activities.

Where HRA investments may contribute to the Council's overall social, environmental and place-making ambitions, decision-making will recognise the statutory HRA ring-fencing requirements.

1.5. Aims of the Strategy

Maintaining a focus on the outcomes described in the Council's strategic priorities (summarised above), the Capital Investment Strategy seeks to:

- Define the process for proposing, developing and delivering projects which require capital funding, including the acquisition of land and property.
- Provide a systematic structure for considering the risks, benefits and outcomes associated with capital investment.
- Articulate the relevant governance, financial, and monitoring requirements to support capital investment proposals.
- Support opportunities for investment through LATCos and co-investment with partner organisations.

2. The Strategy: Four Investment Streams

Investing in the future via the Council's Capital Programme, will be achieved through four core Investment Streams. These will provide a structure within which the balance of the Capital Programme can be maintained in order to deliver against the widest range of strategic objectives.

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

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

1) A Sustainable District

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

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

2) An Inclusive and Prosperous Local Economy

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

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

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

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

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

3) Healthy and Happy Communities

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

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

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

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

4) A Co-Operative, Kind and Responsible Council

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

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

Capital investment in property may also be considered where it complies with the Capital Investment Regulations and Guidance and meets the Council's priorities. – LATCos and other forms of special purpose vehicle may also be established to generate income that can be invested in delivering Council priorities to reduce reliance on Council expenditure and therefore support the Council's financial sustainability.

3. Capital Investments Regulation & Guidance

Alongside the Council's strategic ambitions, the Local Government Act 2003 (the Act) and supporting regulations requires the Council to have regard to the **Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code**, the **CIPFA Treasury Management Code of Practice** (the Code) and **Investment Guidance** (the Guidance) issued by The Ministry of Levelling Up, Housing and Communities (LUHC) to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

Depending on the circumstances, the Council will fund acquisitions through grants, contributions or capital receipts; or by utilising borrowing, reserves, or a combination of both. It is worth noting that following the review of local authority borrowing from Public Works Loan Board (PWLB) it is no longer possible to utilise PWLB to fund investment for yield projects.

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

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

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

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

A LATCo can source capital borrowing to fund investment for a commercial return as part of its activities, Although, the rates of any borrowing incurred to fund these projects would ordinarily reflect the prevailing financial market conditions to address any associated internal and external risks so likely exceed those available directly to the Council. In addition, as a wholly owned company, the Council would be liable for any debt entered into by such a company and the financial statements of a LATCo are required to be consolidated into the Council's annual statement of accounts. Any investments seeking a commercial return could be delivered via a LATCo and considered under the LATCo's independent governance and decision-making structure.

3.1. Revised CIPFA Treasury Management Code and Prudential Code

CIPFA published the revised codes on 20th December 2021. This Council has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement, and also related reports during the financial year, which are taken to Full Council for approval. The revised codes have the following implications:

- a requirement for the Council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;
- clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment;
- address ESG issues within the Capital Strategy;
- require implementation of a policy to review commercial property, with a view to divest where appropriate;
- create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices);
- ensure that any long term treasury investment is supported by a business model;
- a requirement to effectively manage liquidity and longer term cash flow requirements;
- amendment to Treasury Management Practice 1 to address ESG policy within the treasury management risk framework;
- amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council;
- a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).

In addition, all investments and investment income must be attributed to one of the following three purposes:

Treasury Management

Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery

Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

Commercial return

Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

4. Delivering the Strategy

4.1. The Capital Investment Lifecycle

Capital investment schemes across the four Investment Streams must be considered, prioritised and evaluated in a consistent way, ensuring a clear rationale for investment including:

- **Strategic Fit:** What is the proposal aiming to achieve, and how does this align with corporate priorities?
- **Financial:** What are the financial circumstances for the project, e.g. is funding readily available and is it affordable? Will the proposal deliver a return in line with the targets established for each Investment Stream?
- **Legislation and Compliance:** Is the proposal required in order to meet statutory or legislative requirements?
- **Risk:** What risks are identified, and how will the proposal mitigate and manage these?
- **Project Management:** How will the project be delivered in order to maximise its financial and social return in a timely way?

To achieve a capital funding allocation as part of the Capital Programme, all proposals will be subject to a comprehensive Business Case development process in five stages, known as the **'Capital Investment Lifecycle'**. The process will be designed to fit with the Council's corporate project management processes, to streamline the development and delivery of capital investment projects and allow for information to be shared and monitored consistently and effectively. Projects progressing through the stages will use the Council's project management systems and processes.

Stage 1: Inception

Prior to officer time being spent on scoping a project, a discussion will take place between the relevant Cabinet portfolio holder and officers, ensuring that the project fits with the Council's wider strategy before pursuing further development activity. The inception summary will provide advice on any capacity or funding associated with developing the project to Stage 2.

Stage 2: Scoping the Scheme and Preparing the Strategic Outline Case (SOC)

The purpose of this stage is to confirm the strategic context and provide a robust case for change. This stage will consider the strategic, economic, procurement, financial and management cases and include a financial analysis taking account of the targets set out for each Investment Stream. The SOC will also provide advice on the costs associated with developing the proposal to Stage 3. The SOC will be considered by the advisory Capital Assurance Group (CAG), which will provide comment to Cabinet and / or the relevant decision-making body. Approval of the SOC by Cabinet will confirm the project's position in the longlist of 'pipeline' schemes for which a full business case will be produced.

Stage 3: Full business case (FBC)

The purpose of this this stage is to propose a viable, feasible project. The FBC will

- Recommend the most economically advantageous offer
- Document any contractual arrangements
- Confirm funding sources and / or requirements
- Demonstrate compliance with the Prudential Framework and HM Treasury 'Green Book' investment appraisal guidance
- Set out the detailed management arrangements, costs and plans for successful delivery and post evaluation.

The FBC will be considered by CAG and Cabinet and / or the relevant decision-making body. Approval of the FBC by them will confirm the scheme's inclusion within the Capital Programme.

Stage 4: Implementation

The business case should be used during the implementation stage as a reference point for monitoring implementation, and for logging any material changes that the Council is required to make. The project will follow performance reporting protocols which will ensure that project progress, impact on outcomes and financial performance is measured throughout the project and following its completion.

Stage 5: Evaluation

The business case and its supporting documentation should be used as the starting point for post-implementation evaluation, both in terms of how well the project was delivered (project evaluation review) and whether it has delivered its projected benefits as planned (post implementation review) to the Council, in meeting strategic aims.

4.2. Governance Arrangements

All capital investment proposals must be subject to due diligence processes to ensure

- Transparency
- Democratic Accountability
- Ethical Responsibility
- Strategic Alignment

As part of the Capital Investment Lifecycle, proposals will be subject to a governance framework including the following elements:

Capital Assurance Group (CAG)

An advisory working group comprising representation from Cabinet, Strategic Leadership Team, Overview & Scrutiny, Budget & Performance Panel, Council Business Committee and relevant specialist officers. CAG will consider SOCs and FBCs and make advisory recommendations to budget holders. Comments from individual members will be provided to Cabinet. CAG's Terms of Reference can be found at Appendix B.

Capital Investments Appraisal Group (CIAG)

An officer group with relevant expertise from sustainable growth, housing & property, people & policy, and resources, supported by external expertise and resource as required. The group will consider all potential capital investments in the first instance, following approval from the relevant Cabinet portfolio holder. The group will develop proposals for consideration by CAG. Proposals will first be brought to CAG at Stage 2 (see above), accompanied by an SOC. SOCs approved by Cabinet will return to CAG at Stage 3, accompanied by an FBC.

Assets Group

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

Cabinet

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

Overview & Scrutiny (O&S)

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

Budget & Performance Panel (B&PP)

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

Council

Full Council is responsible for approving the Capital Investment Strategy as part of the annual Budget Framework, including any material changes. Revisions to the Capital Programme and any associated financing requirements that are outside of the budget and policy framework may be presented for approval throughout the year. However, there is the expectation that this would be of limited application and only reflect urgent situations and given the need to amend various prudential code indicators and be aligned to the Treasury Management Report October/ November committee cycle

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

4.3. Risk Management

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

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

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

The Council's asset portfolio will be risk managed through a regular, systematic asset challenge process which will review each asset's performance, investment requirements and ongoing viability within the portfolio. This process will be developed through a forthcoming Asset Management Strategy and managed through the Councils Fit for the Future Assets Group who will report into CAG.

4.4. Monitoring and Evaluation

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

The monitoring and evaluation process will include:

- **Delivering Our Priorities: Performance, Projects and Resources |** The capital programme will be regularly evaluated as part of overall performance monitoring which incorporates financial, project and performance measures. This information is reported quarterly to Cabinet and B&PP.
- **Capital Investment Strategy Monitoring |** As the strategy is key to delivering the Council's strategic goals, regular progress against the Council's Corporate Plan Priorities & Outcomes will take place to ensure resources are appropriately allocated.
- **LATCo Asset Monitoring |** Investments made by a LATCo for a commercial return will be considered by the LATCo's shareholder committee. The impact of the LATCo's financial return on the Council's financial position will be considered alongside other financial monitoring information.
- **Prudential Framework |** A half-yearly report on prudential indicators demonstrating the Capital Programme's ongoing prudence, affordability and sustainability will be considered by Council.

4.5. Capacity, Skills and Professional Advice

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

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

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

5. Our Assets

The Council has a range of assets which it utilises to deliver its wide range of services throughout the district. The total valuation of these at the start of the financial year 2024/24 was £344.71M. The main constituents of these assets are as follows

Asset Type	£M
Council Housing & Other Assets	157.71
Property Plant & Equipment	127.88
Community Assets	8.67
Investment Property	40.92
Heritage Assets	9.52
Intangible Assets	0.00
Total	**344.70**

Council Housing

At the start of the financial year the Council held 3,630 dwellings in total within its Housing Revenue Account. These dwellings include 1, 2, 3 & 4 bedroomed, houses, bungalows, flats maisonettes and bedsits.

Number and Type of Dwellings		
Bedsits		84
1 Bedroom	Houses & Bungalows	651
	Flats & Maisonettes	547
2 Bedroom	Houses & Bungalows	471
	Flats & Maisonettes	658
3 Bedroom	Houses & Bungalows	1,108
	Flats & Maisonettes	8
4 or more bedroomed dwellings		90
Total Dwellings		**3,617**

Property Plant & Equipment

These are assets which the Council predominately uses to deliver its services. These assets include Municipal Buildings, works depot, leisure centre and car parks. It also includes its refuse collection and vehicle fleet as well as various land holdings. The value of these assets at the start of 2024/25 financial year is provided in the table below

Land & Buildings £M	Vehicles, Plant Furniture & Equipment £M	Infrastructure Assets £M	Surplus Assets £M	Assets Under Construction £M	Total £M
77.19	11.85	35.95	2.21	0.68	127.88

Investment Assets

This type of Council asset is held primarily to generate income and comprise a mix of office and retail lets together with agricultural and commercial land and commercial buildings. Further detail in respect of the Council's investment properties is given in section 8.

Investment Asset Type	£M
Office	5.04
Retail	6.18
Agriculture & Allotments	0.03
Commercial Land	8.86
Commercial Building	11.72
Mixed Commercial	9.09
Total	**40.92**

Heritage Assets

The Council's heritage assets include over 80 pieces of civic regalia, its museums' collections at the Maritime, Cottage and City museums in Lancaster, pieces of artwork, items of Gillow furniture and public artwork including the statue of Eric Morecambe on Morecambe promenade.

Intangible Assets

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

Asset Management

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

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

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

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

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

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

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

Valuations

The Council is required by accounting regulations to value its assets on a regular basis and currently values its General Fund assets on a rolling 3-year cycle. It is required to undertake a formal valuation of is HRA assets every 5 years in line with Department for Levelling Up Housing & Communities requirements. The last formal valuation was undertaken 1st April 2021. A desktop revaluation is undertaken for HRA assets in the intervening years to ensure that values are current.

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

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

6. Capital Expenditure –

Capital Programme

The Council plans gross expenditure, which excludes grants from other bodies of approximately £44.86M on General Fund and £24.00M on HRA capital schemes between 2025/26 – 2029/30.

Gross Capital Expenditure	2024/25 Estimate £M	20256/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M	2029/30 Estimate £M	Total 2025/26 to 2029/30
General Fund	17.33	27.08	6.12	3.30	5.24	3.12	44.86
Housing Revenue Account (HRA)	8.34	6.12	4.45	4.69	4.54	4.20	24.00
Total	**25.67**	**33.20**	**10.57**	**7.99**	**9.78**	**7.32**	**68.86**

Financing & Affordability

The Council's Capital Programme is financed by a mixture of external grants, capital receipts generated from property and right to buy disposals, contributions from reserves and unsupported borrowing. The planned application of resources to capital projects is set out below:

Financed by:	2024/25 Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M	2029/30 Estimate £M	Total 2025/26 to 2029/30
Capital receipts	-2.01	-1.35	0.00	0.00	0.00	0.00	-1.35
Capital grants	-11.96	-6.22	-2.98	-2.33	-2.33	-2.33	-16.19
Capital reserves	-5.16	-4.88	-4.45	-4.69	-4.54	-4.20	-22.76
Revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Financing Total	**-19.13**	**-12.45**	**-7.43**	**-7.02**	**-6.87**	**-6.53**	**-40.21**
Net financing need for the year	**6.54**	**20.75**	**3.14**	**0.97**	**2.91**	**0.79**	**28.56**

This table shows a net need for financing the Capital Programme of £35.68M which would require the Council to undertake additional borrowing. Additional borrowing could be used only to finance capital expenditure in respect of General Fund and Housing Revenue Account.

The Council sets its level of capital investment in line with the statutory requirements of prudence, affordability and sustainability as set out in the Prudential Code for Capital Finance issued by CIPFA.

The Council assesses the affordability of the General Fund programme by looking at the financing costs of borrowing (interest and loan repayments) as a proportion of its net revenue stream. For general fund these are expected to increase over the life of the capital programme. The table below provides details of this key indicator

	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %	2027/28 Estimate %	2028/29 Estimate %	2029/30 Estimate %
General Fund	19.21	17.82	24.97	25.19	24.16	23.89
HRA	15.78	15.40	14.69	14.01	13.82	13.19

This table shows that the cost of debt financing is estimated to be between 17.82% and 25.19% of the Council's general fund net revenue budget between 2024/25 and 2029/30.

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

Further details on the impact of the Capital Programme on the Council's borrowing are included below

7. Treasury Management

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

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

Governance & Scrutiny

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

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

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

Investment

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

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

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

The Council's Investments at 31.12.2024 were:

Balance 31.12.2024	£M	Liquidity
Bank Accounts	0.37	Instant Access
Money Market Funds	21.00	Instant Access
Other Local Authorities	0.00	Instant Access
Money Market Funds	0.00	Fixed Term
Other Local Authorities	0.00	Fixed Term
Debt Management	0.40	Fixed Term
Total Investments	**21.77**	

Borrowing

As part of its treasury management activities the Council considers forward projections for borrowing to fund its capital expenditure plans working within the self-regulating framework of the Prudential Code for Capital Finance.

The framework requires authorities to determine that capital expenditure and investment decisions are affordable, prudent and sustainable and to set limits on the amount they can afford to borrow in the context of wider capital planning.

The Council's underlying need to borrow is represented by its Capital Financing Requirement (CFR). The CFR is the total amount of capital expenditure (including that from prior years) that has not yet been paid for from either revenue of capital resources.

	2024/25 Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M	2029/30 Estimate £M
CFR – Non-Housing	68.13	85.96	84.75	81.00	79.32	75.25
CFR – Housing	33.04	32.00	30.96	29.92	28.88	27.83
Total CFR	**101.17**	**117.96**	**115.71**	**110.91**	**108.20**	**103.09**

The authority currently maintains an under-borrowed position meaning that it uses cash backed reserves to defer the need to externally borrow for capital investment. Forecasting of cash backed reserves facilitates a long term view of the level of risk associated with borrowing internally.

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

	2024/25 Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M	2029/30 Estimate £M
Debt at 1 April	57.97	63.93	78.89	83.84	83.80	83.76
Expected change in Debt	5.96	14.96	4.95	-0.04	-0.04	-0.04
Actual gross debt at 31 March	**63.93**	**78.89**	**83.84**	**83.80**	**83.76**	**83.72**
The Capital Financing Requirement	**101.17**	**117.96**	**115.71**	**110.91**	**108.20**	**103.09**
Under Borrowing	**-37.24**	**-39.07**	**-31.86**	**-27.11**	**-24.44**	**-19.37**

The council is required to “repay” an element of its General Fund CFR each year through a revenue charge, the minimum revenue provision (MRP). The Treasury Management Strategy sets out the MRP policy adopted by the authority. The Council also makes physical cash repayments on a loan taken out to purchase the authority’s housing stock in 2012 which are counted as MRP.

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

	2024/25 Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M	2029/30 Estimate £M
General Fund MRP	-2.91	-2.92	-4.36	-4.72	-4.59	-4.86
HRA MRP	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04
Total	**-3.95**	**-3.96**	**-5.40**	**-5.76**	**-5.63**	**-5.90**

The Council sets an authorised limit for external debt. This represents a limit beyond which a local authority must not borrow unless prudential indicators have been renewed or amended. It also sets an operational boundary for external debt. This represents a limit that is based on the maximum external debt of the authority based on expectations. The expectation is that there would be no sustained breach of the operational boundary.

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

	2024/25 Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M	2029/30 Estimate £M
Operational Boundary	102.17	118.96	116.71	111.91	109.20	104.09
Authorised Limit	117.00	134.00	132.00	127.00	124.00	119.00

8. Commercial Activity

Current Position

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

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

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

Performance Monitoring

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

APPENDIX C

Capital Assurance Group: Terms of Reference

Role

1. The Capital Assurance Group (CAG) is a Member and officer working group with a clear remit to be the Council's advisory body on the Council's Capital Investment Strategy.

2. The Capital Investment Strategy has clear priority areas of work which although distinct from one another should be considered in an integrated manner when forming and delivering the Council's capital programme and related areas.

3. The types of Capital Investments which may be considered when forming the capital programme relate to the four priority areas of the Council Plan 2024-2027 and beyond.

    a) **A Sustainable District.** These include schemes to deliver demonstrable reduction to carbon emissions in line with the Council's goal of reaching net carbon zero by 2030, such as installation of solar panels, or investment in larger scale solar energy facilities, as well as supporting agile working to reduce our carbon footprint, and the increased electrification of our vehicle fleet. Schemes which mitigate the effects of climate change may also be included.
    b) **An Inclusive and Prosperous Local Economy.** These include schemes to assist the Council's lead role in place-making, regeneration and economic development activity, and the improvement of the District's town centres to improve economic performance and encourage future private sector investment. Initiatives to use public land and buildings to achieve long-term socio-economic development within the Lancaster District may also be included, as well as investment in supporting the district's rich creative and heritage assets to benefit local businesses and residents both economically and culturally.
    c) **Healthy and Happy Communities.** These include schemes to generate significant social returns in the District, such as the development of new housing, purchasing of existing housing with a view to improvements in quality and management, investment loans to third parties and re-use of Council assets, along with improving access to local culture, heritage and leisure to increase wellbeing.
    d) **A Co-operative, Kind and Responsible Council.** These are investments that sustain the day to day operational delivery of the Councils services which underpin a broad range of Council priorities. Such schemes may include upgrades of key information and communication systems, as well as transformation and 'Invest to Save' proposals, which provide one-off project funding to help services become more efficient and effective

Composition of CAG

4. The group will consist of the following Members and officers. Where representatives are not able to attend, a suitable alternative will attend in their place.

    Standing Membership –
    - Chief Executive
    - Overview and Scrutiny Chair
    - Budget and Performance Panel Chair
    - Business Committee Chair
    - Cabinet Finance & Resources Portfolio Lead
    - Cabinet Corporate Services Portfolio Holder
    - Chief Officer – Housing & Property
    - Section 151 Officer
    - Governance Officer Lead

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

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

Frequency and Format of Meetings

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

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

Remit

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

8. *With respect to Capital Investment Strategy*
   a) To keep the Capital Investment Strategy document under review ensuring that it reflects the Council's capital investment priorities and review the Strategy as part of the MTFS update.
   b) To ensure that the Capital Strategy is informed by and consistent with the Council Plan 2024-2027 and associated strategies, and the Asset Management Plan.

   With respect to the Capital Programme
   c) To consider all strategic outline cases and full business cases for capital investment, in terms of strategic fit, financial and resource implications, risk, benefits, outcomes and legislation and compliance. To make advisory recommendations to budget holders and to provide comments on these matters from individual members to Cabinet, having regard to the scrutiny process.
   d) To check that the information available for projects is complete and sufficient to inform evidence-led and effective decision-making, and to identify areas where information may need to be strengthened to enable an informed decision to be made.
   e) To monitor the progress of each scheme within the capital programme in terms of progress to date, expenditure, and delivery of outcomes including those classified within the pipeline.
   f) To review all completed schemes with respect to outcomes and impact as well as lessons learned
   g) To monitor the resources available to support the Capital Programme and ensure that, at all times, it remains affordable, sustainable and prudent.
   h) To maintain the capital bid and scoring assessment framework, which captures quantifiable measures in respect of broad economic, environmental, and social returns as defined by our priority outcomes

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

Each of the above areas of work are covered by the Capital Strategy and Capital Investment Strategy, which are the Council's overarching documents which aim to ensure that Council's capital investments priorities reflect Council priorities and are supported by a long term financing plan.

APPENDIX C

Decision Making

9. The CAG is a Member and Officer working group and as such is only advisory and does not have any formal decision-making authority. It will check whether the information being provided is sufficient to inform decision-making and, where appropriate, that the suitable project management documentation is available to support project delivery.

10. Following consideration of each strategic outline case and business case, it may make recommendations to budget holders in relation to due diligence costs and other matters. It will provide any comments from individual members to Cabinet. It also ensures that necessary consultation is carried out with Cabinet, relevant Portfolio Holders, Management Board, and relevant Directors as part of the decision-making process.

11. Any proposal that is outside the approved budget and policy framework will be referred to Cabinet or Council in accordance with the Constitution.

The role of Scrutiny Committee Members

12. The Chairs of both Budget & Performance Panel and Overview & Scrutiny form part of CAG. The early involvement of scrutiny at the pre-decision stage will allow them to add value by informing a decision rather than an after-the-event critique under the traditional process. This intention and their active involvement do not remove or negate the right to call in any decision made by Cabinet in this area.

Key Outcomes

10. The key outcomes from the CAG are:
    a) An effective Capital Investment Strategy aligned with relevant regulation and the priorities of the Council.
    b) An effective Capital Programme and investment projects pipeline optimising the capital investment resources within the Council Plan.
    c) Strategic property and asset management ensuring full optimisation of Council property assets, maximising income and return and reducing expenditure where possible but ensuring assets are well maintained.
    d) Enhanced long term planning of capital investment, better use and management of investments, assets (including property, infrastructure etc), and accountability.
    e) The integration of the Capital Investment Strategy in line with Council priorities as set out in the Core Plan 2030.

COUNCIL

Medium Term Financial Strategy 2025/26 – 2029/30

26 February 2025

Report of Cabinet

PURPOSE OF REPORT					
To provide Council with an updated position regarding the consolidated Medium Term Financial Strategy for 2025/26 to 2029/30					
Key Decision		**Non-Key Decision**	X	**Referral from Cabinet Member**	
Date of notice of forthcoming key decision					

RECOMMENDATION CABINET

(1) That the updated position regarding the production of the consolidated Medium-Term Financial Strategy (MTFS) as set out in the report is noted

(2) Delegated authority be given to the Portfolio Holder and Chief Finance Officer to undertake any required amendments to reflect minor additional content and/ or presentational adjustments

1.0 INTRODUCTION

1.1 The Councils MTFS consists on a number of key, interlinked documents and strategies including:-

- The Council Plan 2024-2027
- Current and future budgetary projections
- The Capital Strategy and accompanying and Capital Programme
- Flexible Use of Capital Receipts Policy
- Treasury Management Strategy
- Reserves Policy and Forecasts
- Risk Management Policy

1.2 All of these documents and strategies, considered elsewhere on the agenda have been presented and approved by Cabinet, Council, or the appropriate Committee in accordance with the Council's Constitutional requirements, and so no further approval is required.

1.3 Following formal approval by Council, these will be consolidated into a single document and published on the Council's website as appropriate. For information, the latest updated current and future budgetary projections are included at Appendix A.

2.0 MEDIUM TERM FINANCIAL STRATEGY

2.1 On the basis that all of these elements have already been subject to the appropriate approval this paper merely seeks to consolidate these into one single document. The MTFS demonstrates the linkages between the Council Plan 2024 – 27, its supporting financial strategies and our monitoring processes, which are key to its delivery.

3.0 DETAILS OF CONSULTATION

3.1 The Council undertook substantial consultation including public briefings and a survey in establishing its overall budget proposals for 2025-26 onwards, which are being considered elsewhere on this agenda.

4.0 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

4.1 The risks to the Council are contained throughout the MTFS and supporting strategies, as the report seeks to consolidate these areas Council may accept the consolidation, or not.

5.0 CONCLUSION

5.1 That Council accepts the consolidated MTFS.

RELATIONSHIP TO POLICY FRAMEWORK Performance, project, and resource monitoring provides a link between the Council Plan and operational achievement, by providing regular updates on the impact of operational initiatives against strategic aims.	
CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability etc) None identified at this stage	
FINANCIAL IMPLICATIONS As set out in the report	
S151 OFFICER COMMENTS The s151 Officer has authored this report.	
LEGAL IMPLICATIONS Legal Services have been consulted and have no further comments.	
MONITORING OFFICER'S COMMENTS The Monitoring Officer has been consulted and has no further comments.	
BACKGROUND PAPERS	**Contact Officer:** Paul Thompson **Telephone: 01524 582603** **E-mail:** pthompson@lancaster.gov.uk **Ref:** N/A

APPENDIX A

1.0 INTRODUCTION

1.1 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. A final consolidated medium term financial strategy will be agreed by the s151 officer in consultation with the portfolio holder before being presented to Full Council in the future. This will in turn inform the future budget setting process.

2.0 GOVERNMENT FUNDING PROSPECTS

Local Government Finance Settlement

2.1 The Government released the final local government finance settlement on 3 February 2025. The final settlement included an additional £0.258M (£0.206M general fund and £0.052M HRA) in respect of the 'Employer NIC Contributions Grant' which is to contribute towards both the general fund and HRA additional staffing cost burden as a result of the forthcoming rises. The main aspects of the settlement are set out below:

- The calculation of Core Spending Power
- The level of Council Tax increase (excluding social care) beyond which a referendum is required increased to 3% or £5 whichever is the greater for 2025/26
- Continuation of a number of funding streams including Revenue Support Grant, which was originally due to cease in 2020/21, Services Grant, although at a reduced level and New Homes Bonus. The future of New Homes Bonus in its current form remains uncertain

2.2 A summary of the provisional settlement for Lancaster City Council is provided in table 1 below.

Table 1 – Provisional Settlement allocations for Lancaster City Council

	Final Settlement £'M	LCC Forecast £'M	Difference £'M
Revenue Support Grant	0.460	0.000	0.460
New Homes Bonus	0.137	0.010	0.127
Funding Guarantee/Services Grant	0.000	1.229	(1.229)
Domestic/Recovery Grants	0.637	0.000	0.637
Employer NIC Contributions Grant	0.206	0.000	0.206
Total Government Funding	**1.440**	**1.239**	**0.201**

2.3 As table 1 shows, the provisional settlement allocates £0.201M more resources from Central Government than anticipated. However, if the 'Employer NIC Contributions Grant' is excluded then this would result in a forecasted reduction of £0.005M for the 2025/26 revenue budget. The impact of the provisional settlement and its effect on retained business rates is examined separately in Section 3. In addition, a number of additional pressures have been identified, many mirroring the wider economic environment. These pressures are reflected in the current budgeted position.

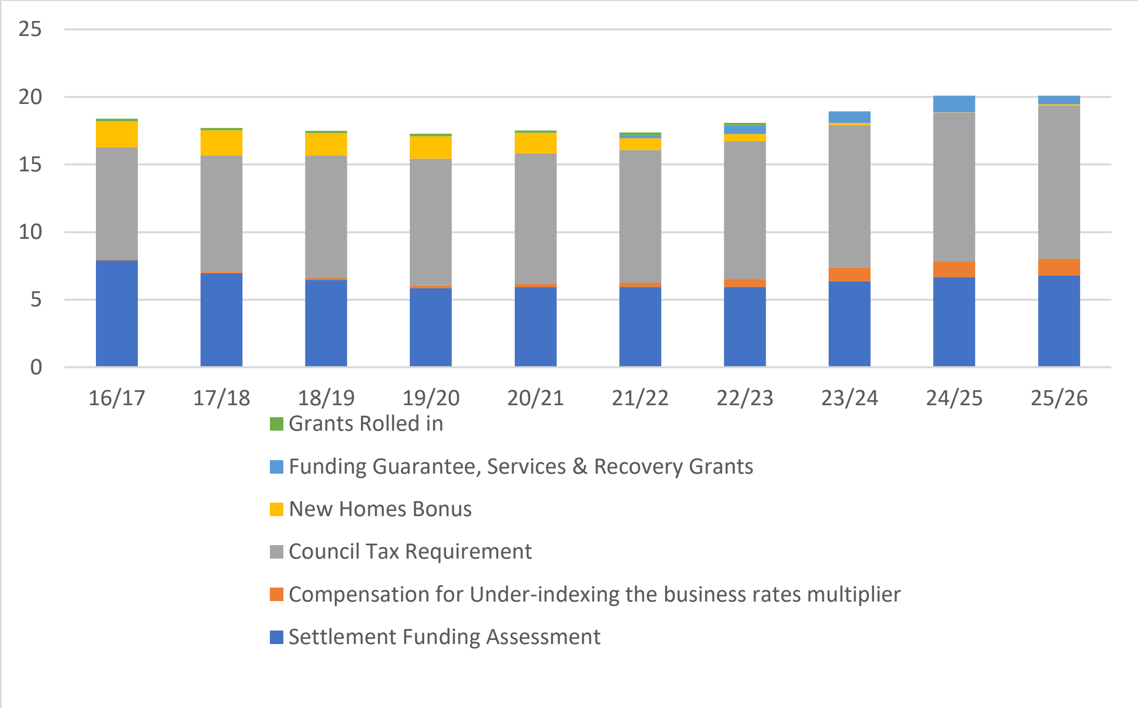
Core Spending Power

2.4 Core Spending Power (CSP) is a measure used by the Government to set out the resources available to a Council to fund service delivery. It combines certain grants payable to the

APPENDIX A

Council together with estimates of Business Rates and Council Tax, these estimates are based on Government assumptions. CSP is used by the Government to make comparisons of the resources available to different Councils. As such, it is not necessarily the actual funding a Council will receive to fund service delivery.

Table 2 – Core Spending Power



Further analysis of the provisional settlement when considered against 2024/25 is provided in the following table :-

Table 3 – Core Spending Power (Breakdown)

	2024/25 £'M	2025/26 £'M
Compensation for under-indexing the business rates multiplier	1.162	1.209
Council tax requirement excluding parish precepts	11.005	11.315
Domestic Abuse Safe Accommodation Grant	-	0.034
Employer NIC Contributions Grant	-	0.206
Funding Guarantee	1.189	-
New Homes Bonus	0.010	0.137
Recovery Grant	-	0.603
Services Grant	0.040	-
Settlement Funding Assessment	6.682	6.804
Grand Total	**20.088**	**20.308**

2.5 On the basis of the final settlement, the Council's CSP for 2025/26 will increase from £20.09M to £20.31M, or 1.1%, when compared to CSP in 2024/25, and includes an assumption by Government that Councils will increase their Council Tax by the maximum allowable. This is in comparison to the average CSP for all Councils in England of 7.9% and in real terms is deemed to be a significant reduction on previously received amounts creating additional pressure to the net financial position of the general fund.

This is compounded even further that the above analysis includes Employer NIC contributions which when excluded reduces the Council's CSP for 2025/26 to £20.10M, or 0.07% against a previously reported average 6.0%, which again is deemed to be a significant reduction in real terms.

3.0 COUNCIL TAX AND BUSINESS RATES

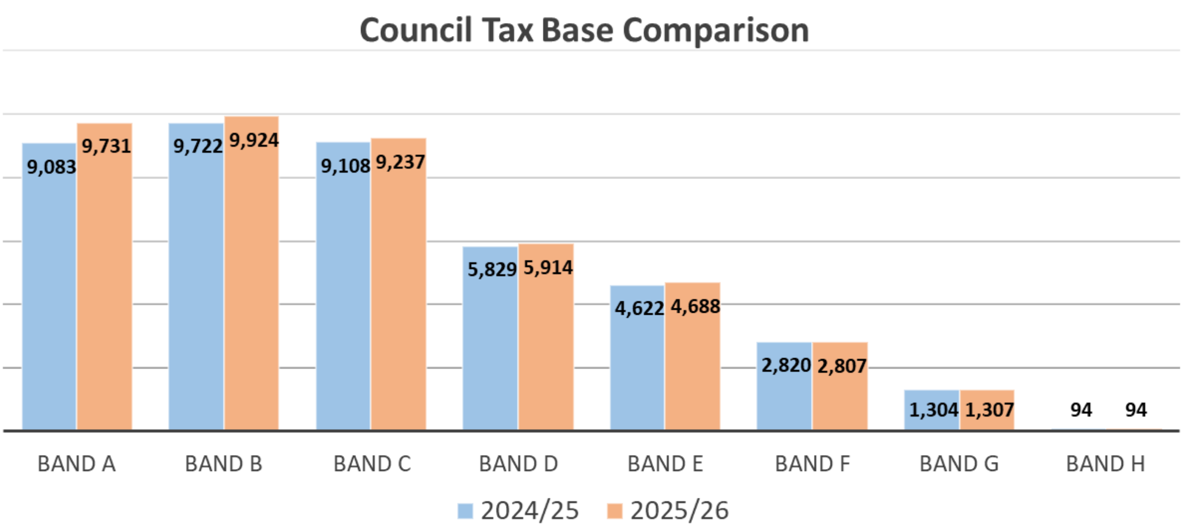
Council Tax

3.1 Council tax is a primary source of the Council's funding and is calculated by multiplying the tax base by the number of eligible residential properties (expressed in band D equivalents), and the level of the district council precept which is determined each year. Growth in housing numbers inevitably increases the taxbase and, therefore, Council Tax income.

3.2 The tax base for 2025/26 has been calculated as 43,702 Band D equivalent properties after allowing for a collection rate of 98.68%, the same as in previous years. This equates to a significant increase in the tax base from 42,583 (2.6%) in 2024/25. This increased number of Band D equivalents when compared to the forecast in 2024/25 is largely due to :-

- new properties built in the area
- holiday lets which have been brought back into council tax when they should meet the business rates criteria
- a reduction in exempt accounts due to a review of student exemptions
- an increase in eligibility for the Council Tax Reduction Scheme

From 2026/27 1% growth in the Tax base has been used for forecasting purposes.



3.3 The Council recognises the impact that Council Tax has on its residents and will always take their ability to pay into consideration when setting Council Tax levels. It provides a 100% Local Council Tax Support Scheme. However, the Council should adopt an approach where local sources of funding are maximised as far as is reasonably practicable to do so.

3.4 Government's referendum criteria limits increases in the Council's element of Council Tax to 3% or £5, whichever is greater. For the purposes of forecasting, it has been assumed that the Council will increase council tax by 2.99%, the maximum allowed, before triggering a referendum in each of the next three years.

3.5 The table below sets out Council Tax forecasts for the next five years including a sensitivity analysis showing the potential impact on council tax yield of different scenarios.

APPENDIX A

Table 4: Council Tax Forecasts

	Actual 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28	Forecast 2028/29	Forecast 2029/30
Council Tax Band D 2.99% increase	£256.63	£264.30	£272.20	£280.34	£288.72	£297.35
Council Tax Band D (£5 increase)	£256.63	£261.63	£266.63	£271.63	£276.63	£281.63
Tax base (1% growth from 2025/26)	42,583	43,702	44,139	44,580	45,026	45,476
Council Tax Income (based on 2.99%)	**£10,610,019**	**£11,550,439**	**£12,014,641**	**£12,497,672**	**£12,999,967**	**£13,522,428**
Previous MTFS		£11,367,000	£11,824,000	£12,300,000	£12,794,000	£13,177,000
Difference Increase or (Decrease)		**£183,439**	**£190,641**	**£197,672**	**£205,967**	**£345,428**
Scenario 1 – No increase in Council tax over period of MTFS		-£151,756	-£496,603	-£859,329	-£1,238,924	-£1,506,374
Scenario 2 – Council Tax Band D (£5 increase)		£66,754	-£55,213	-£190,623	-£338,400	-£369,462
Scenario 3 – 1.5% increase in tax base growth & 2.99% increase from 2025/26)		-£108,715	£250,248	£321,748	£399,927	£614,985

3.6 The Council is expected to benefit from prior year surpluses to the collection fund account in respect of council tax. This amount is currently valued at £0.280M and is included within the council tax requirement calculation in 2025/26.

Business Rates

3.7 Business rates is now a fundamental part of the local government finance settlement and, along with Council Tax, accounts for the majority of local government financing. There are currently several significant uncertainties which make forecasting and planning extremely difficult, these are set out below. The Council uses its business rates retention reserve to mitigate against significant fluctuations in income levels and provide some budgetary stability.

3.8 Since the Medium Term Financial Strategy Update reported on 3 December 2024, work has been undertaken on business rates modelling as further information has become available, particularly in respect of the changes to the small and the standard business rates multipliers and the consequent impact on Section 31 grant adjustments. Details of the calculation of the adjustment required was release in guidance which accompanied the National Non Domestic Rates (NNDR1) form issued after the provisional finance settlement. This has been used to determine the amount of the adjustment based on data in respect of the rateable value of heraditaments on the small and standard business rates multiplier from initial information supplied by the revenues team.

3.9 The Council is required to submit its annual business rates return (NNDR1) to the Government by the end of January in which it estimates business rates income for 2025/26 and the estimated deficit or surplus as at the end of 2024/25.

3.10 The inherent risk associated with the NNDR1 is that the final outturn surplus or deficit position differs substantially from the estimate, and this has indeed been the case at the Council in recent years. Members will recall that the Business Rates Retention Reserve (BRRR) is used to manage the impact of surpluses and deficits and also to manage fluctuations in income levels in order to provide budgetary stability and smooth out year on year peaks and troughs. As part of the 2024/25 budget setting process, a contribution of £0.130M to the BRRR and a contribution of £0.820M to the unallocated reserve were included within 2025/26 and these contributions remains in place. All detailed contributions are included within the general fund net financial postion.

APPENDIX A

3.11 The Council is expected to benefit from prior year surpluses to the collection fund account in respect of business rates. This amount is currently valued at £0.636M and is included within the council tax requirement calculation in 2025/26.

Heysham Power Stations

3.12 Members will be aware of decommissioning plans for the Heysham 1 and Heysham 2 nuclear reactors which will have a significant impact on the Council's finances. Currently the rateable value of the reactor's accounts for a substantial proportion of the Council's total rateable value. Central Government operates a "safety net" system to protect those Councils which see their year-on-year business rate income fall by more than 7.5 per cent. Given the Council's exposure it is expected that it will inevitably fall into a safety net scenario and will need to rely on the Business Rates Retention Reserve to smooth operational shortfalls in the short term. This is currently expected to arise in 2027/28 in line with the current decommissioning date for Heysham 1 of March 2027. EDF Energy have indicated that there may be some scope to extend generation and are keeping this under review being unable to provide any certainty at this stage.

Green Energy Disregard

3.13 The Council receives rating income from renewable energy schemes within the district, largely in relation to Walney Sub-Station. The value of this income is included as £4.004M in 2025/26 (£3.970M for 2024/25). A majority of the income currently falls outside of the main rate retention scheme, and so the Council retains the full benefit from it. Whilst it is evident that this 100% disregard will continue into 2025/26, there is a risk that the Government will discontinue this advantageous arrangement at some point in the future.

3.14 The table below provides Business Rates forecasts for the next five years in comparison to previously reported figures and the resultant net impact on the General Fund budget gap.

Table 5 – Business Rates Forecast

	2025/26 £'M	2026/27 £'M	2027/28 £'M	2028/29 £'M	2029/30 £'M
Retained Business Rates	13.946	13.641	11.577	11.884	12.146
Previously Reported	13.205	11.464	11.769	12.029	12.270
Net impact on General Fund Budget Gap	**0.741**	**2.177**	**(0.192)**	**(0.145)**	**(0.124)**

3.15 It should be noted that the Government have recently announced changes to come into effect from 1 April 2026 with regard to increasing the number of multipliers and introduction of new thresholds. As full details aren't yet available, the above information has been prepared on the existing rateable values and currently known multipliers. Further work will be undertaken when the systems offer the capability to output updated projections and will be included within the 2026/27 budget process.

Baseline Reset

3.16 The Government have also proposed to reset the baseline but haven't announced a timeline for this. The above analysis doesn't factor in any potential impact this may have on future projections and further information will be reported as appropriate when it becomes available.

APPENDIX A

4.0 GENERAL FUND PROJECTIONS

4.1 Table 6 below outlines the current forecast budgetary position for 2025/26 to 2029/30

Table 6: General Fund Revenue Projections 2025/26 to 2029/30

	2025/26 £'M	2026/27 £'M	2027/28 £'M	2028/29 £'M	2029/30 £'M
Revenue Budget Forecast as at 28 February 2024	**26.007**	**27.235**	**27.899**	**29.390**	**30.272**
Base Budget Changes					
Operational Base Budget Changes	1.260	0.742	0.700	0.436	2.430
Commercial & Corporate Property Review	1.541	1.053	0.856	0.299	0.888
Food Waste Collection (pEPR)	(0.764)	0.000	0.000	0.000	0.000
	28.044	**29.030**	**29.455**	**30.125**	**33.590**
Outcomes Based Resourcing Proposals					
Savings & Income Proposals	(0.051)	(0.138)	(0.216)	(0.215)	(2.160)
Growth Proposals	0.026	0.027	0.027	0.028	0.029
Impact of Review of the Capital Programme (MRP & Interest)	(1.001)	(0.425)	0.074	0.036	0.315
Impact of Review of the Capital Programme (Ongoing Revenue)	(0.076)	(0.126)	(0.226)	(0.226)	(0.266)
	26.942	**28.368**	**29.114**	**29.748**	**31.508**
Impact of Provisional Local Government Finance Settlement	0.259	0.381	0.375	0.370	0.365
General Fund Revenue Budget	**27.201**	**28.749**	**29.489**	**30.118**	**31.873**
Core Funding					
Revenue Support Grant	(0.460)	(0.460)	(0.460)	(0.460)	(0.460)
Prior Year Council Tax (Surplus)/Deficit	(0.280)				
Prior Year Business Rates (Surplus)/Deficit	(0.636)				
Net Business Rates Income	(14.275)	(13.641)	(11.832)	(12.145)	(12.411)
Council Tax Requirement	**11.550**	**14.648**	**17.197**	**17.513**	**19.002**
Estimated Council Tax Income					
(Increase Based on 2.99% for 2025/26 then maximum allowable	**(11.550)**	**(12.015)**	**(12.498)**	**(13.000)**	**(13.522)**
Resulting Base Budget (Surplus)/ Deficit	**0.000**	**2.633**	**4.699**	**4.513**	**5.480**

4.2 The table shows that, despite of the work undertaken by Officers and Members to balance the budget for 2025/26, there still remains a significant challenge, with the Council facing a shortfall of £2.633M in 2026/27 leading to an estimated total shortfall of £5.480M in 2029/30. This position is further outlined in section 6.

<u>Budget Principles and Assumptions</u>

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

i. Annually, a balanced revenue budget will be set with expenditure limited to the amount of available resources

ii. No long-term use of balances to meet recurring baseline expenditure

iii. Resources will be targeted to deliver corporate outcomes and value for money. Any additional investment and spending decisions will be made to reflect Council priorities and strategic commitments

4.4 Table 7 below, lists the major assumptions that have been made within the MTFS.

APPENDIX A

Table 7: 5 Year MTFS Planning Assumptions

	2025/26	2026/27	2027/28	2028/29	2029/30
Council Tax Increase	2.99%	2.99%	2.99%	2.99%	2.99%
Council Tax Collection Rate	98.67%	98.67%	98.67%	98.67%	98.67%
Business Rates Multiplier: Small Business Rates	Frozen	Frozen	Frozen	Frozen	Frozen
Business Rates Multiplier: Standard	1.60%	2.00%	2.00%	2.00%	2.00%
Fees & Charges	2.60%	2.30%	2.10%	2.10%	2.10%
Inflation – Pay	2.50%	2.50%	2.50%	2.50%	2.50%
Employer Pensions Contribution	16.30%	16.30%	16.30%	16.30%	16.30%
Electricity	25p/kWh	25p/kWh	25p/kWh	25p/kWh	25p/kWh
Gas	5p/kWh	5p/kWh	5p/kWh	5p/kWh	5p/kWh
Inflation – Insurance	10.00%	10.00%	10.00%	10.00%	10.00%
Other inflation	2.60%	2.30%	2.10%	2.10%	2.10%
Interest Rate – investments	3.50%	3.50%	3.50%	3.50%	3.50%
Interest Rate – new borrowing	3.90%	3.90%	3.90%	3.90%	3.90%

Savings and Income Generation Proposals

4.5 The budget savings, or income growth identified as part of the 2025/26 budget discussion, relate to several areas where actions are being undertaken by the Council and are incorporated within the MTFS. Some of the key areas are summarised by Service in the table below, with more information included within the Budget and Policy Framework General Fund Revenue Budget 2025/26 item on the agenda.

Table 8: Directorate Summary Savings & Growth Proposals

	2025/26 £'M	2026/27 £'M	2027/28 £'M	2028/29 £'M	2029/30 £'M
Environment & Place	(0.005)	(0.030)	(0.030)	(0.030)	(0.030)
Housing & Property	(0.013)	(0.049)	(0.124)	(0.124)	(0.124)
People & Policy	0.026	0.027	0.027	0.028	0.028
Planning & Climate Change	(0.045)	(0.045)	(0.045)	(0.045)	(0.045)
Sustainable Growth	0.012	(0.014)	(0.017)	(0.016)	(0.017)
Total (Savings)/Growth	**(0.025)**	**(0.111)**	**(0.189)**	**(0.187)**	**(0.188)**

4.6 Failure to deliver these savings will place additional pressure on the Council's resources and so as part of the Council's quarterly monitoring process (Delivering our Priorities), progress by Budget Holders against these targets will be monitored and reported to Members via Cabinet and Budget & Performance Panel.

Revenue Impact of Capital Programme Budget Process & Review

4.7 Cabinet and Strategic Leadership Team have considered new schemes for inclusion in the Capital Programme via the submission of strategic outline followed by full business cases during the budget process. The Council's previous Capital Programme has also been reviewed with a view to repositioning and reprofiling several capital schemes. This has altered the impact that capital projects have on revenue due to Minimum Revenue Provision (MRP) and interest costs, whilst some schemes will generate ongoing revenue implications. Details of the movement of estimated additional expenditure or savings since the programme approved 28 February 2024 are detailed in the table below:

APPENDIX A

Table 9: Revenue Impact of Capital Programme Budget Process & Review

	2025/26 £'M	2026/27 £'M	2027/28 £'M	2028/29 £'M	2029/30 £'M
MRP & Interest	(1.001)	(0.425)	0.074	0.036	0.315
Ongoing Revenue	(0.076)	(0.126)	(0.226)	(0.226)	(0.226)
Total Impact	**(1.077)**	**(0.551)**	**(0.152)**	**(0.190)**	**0.089**

5.0 CAPITAL INVESTMENT AND FINANCING

Capital Investment

5.1 Through its capital programme the Council plans net investment of £28.497M between 2025/26 and 2029/30 with a further £17.740M currently planned up to 2034/35. This investment will support the delivery of its key Strategic Priorities and Outcomes such as Climate Emergency, Housing and Regeneration as well as investing in existing property, facilities, and equipment to deliver services, or to meet legislative requirements.

5.2 The current programme is split between approved schemes, that is those which have a fully formed business case in line with Treasury Green Book requirements, and those still under development for which a provision has been made whilst work is undertaken to fully work up schemes. Schemes classified as Under Development have had strategic outline business cases approved in principle by Cabinet but **cannot** commence until full business cases have been considered and approved, first by the Capital Assurance Group, and then by Cabinet.

5.3 Schemes which are in this section of the Capital Programme which will require significant capital expenditures and borrowing will need a business case to demonstrate that income arising from the capital investment can cover all borrowing costs and delivering a positive return to the Council's revenue budget.

5.5 Summary details of the current 5-year capital programme are given at table 10 below, with the total in the final column referring to 2025/26 to 2029/30 only.

Table 10: Capital Programme

	2024/25 £'M	2025/26 £'M	2026/27 £'M	2027/28 £'M	2028/29 £'M	2029/30 £'M	Total £'M
Approved Schemes							
Environment & Place	0.545	8.196	2.061	0.257	2.238	0.560	**13.312**
Housing & Property	2.514	2.935	0.462	0.351	0.494	0.052	**4.294**
Planning & Climate Change	1.100	5.533	-	-	-	-	**5.533**
Resources	2.097	0.286	0.351	0.326	0.181	0.176	**1.320**
Sustainable Growth	0.351	0.730	0.030	0.030	0.000	0.000	**0.790**
Schemes Under Development	-	3.008	0.240	-	-	-	**3.248**
Total Net Capital Programme	**6.607**	**20.688**	**3.144**	**0.964**	**2.913**	**0.788**	**28.497**

Capital Financing

5.6 The Council's Capital Financing Requirement (CFR) is simply the total amount of capital expenditure (including that from prior years) that has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying need to borrow. Any capital expenditure, which has not immediately been paid for through a revenue or capital resource, will increase the CFR. Based on the draft capital programme the Council's

APPENDIX A

CFR is set to increase from the current estimated 2024/25 position of £101.17M to £117.96M in 2025/26 before decreasing in 2029/30 to £103.09M.

Table 11: Capital Financing Requirement

	2023/24 Actual £'M	2024/25 Estimate £'M	2025/26 Estimate £'M	2026/27 Estimate £'M	2027/28 Estimate £'M	2028/29 Estimate £'M	2029/30 Estimate £'M
CFR – Non Housing	64.50	68.13	85.96	84.75	81.00	79.32	75.25
CFR – Housing	34.08	33.04	32.00	30.96	29.92	28.88	27.83
Total CFR	**98.58**	**101.17**	**117.96**	**115.71**	**110.91**	**108.20**	**103.09**
Movement in CFR							
Non Housing	0.93	3.63	17.83	-1.21	-3.75	-1.67	-4.07
Housing	-1.05	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04
Net Movement in CFR	**-0.12**	**2.59**	**16.79**	**-2.25**	**-4.79**	**-2.71**	**-5.11**

Movement in CFR represented by							
Net financing need for the year (above) re Non Housing	3.59	6.54	20.75	3.14	0.97	2.91	0.79
Less MRP/VRP and other financing movements	-3.71	-3.94	-3.96	-5.39	-5.76	-5.62	-5.90
Net Movement in CFR	**-0.12**	**2.59**	**16.79**	**-2.25**	**-4.79**	**-2.71**	**-5.11**

5.7 Based on the capital programme, the overall physical borrowing position of the Council is projected to increase by £25.88M over the next three years from its estimated current position of £57.97M to £83.84M at the end of 2026/27 in order to finance the Council's capital ambitions. It is then forecast to reduce slightly year on year reflecting repayments of the HRA self-financing loan. See table 12 below.

Table 12: Forecast Borrowing Position

	2023/24 Actual £'M	2024/25 Estimate £'M	2025/26 Estimate £'M	2026/27 Estimate £'M	2027/28 Estimate £'M	2028/29 Estimate £'M	2029/30 Estimate £'M
External Debt							
Debt at 1 April	59.01	57.97	63.93	78.89	83.85	83.81	83.77
Expected Change in Debt	-1.04	4.96	13.96	3.96	-1.04	-1.04	-1.04
Other long-term liabilities (OLTL)	0.00	1.00	1.00	1.00	1.00	1.00	1.00
Expected change in OLTL	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Actual gross debt at 31 March	**57.97**	**63.93**	**78.89**	**83.85**	**83.81**	**83.77**	**83.73**
The Capital Financing Requirement	**98.58**	**101.17**	**117.96**	**115.71**	**110.91**	**108.20**	**103.09**
(Under) / over borrowing	**-40.61**	**-37.24**	**-39.07**	**-31.86**	**-27.10**	**-24.43**	**-19.36**

5.8 This level of borrowing is assessed for affordability, sustainability, and prudence in line with the Council's Treasury Management Strategy and requires annual approval by Council following consultation with Budget & Performance Panel. Council will be asked to formally approve the annual Treasury Management Strategy.

APPENDIX A

5.9 The Council is required to repay an element of the accumulated General Fund CFR each year through a revenue charge known as the minimum revenue provision (MRP) together with the interest charges associated with the borrowing. Council is asked to formally approve the MRP policy annually as part of the Treasury Management Strategy.

5.10 Tables 13 and 14 provide forecast levels of annual capital financing charges and their respective proportion of the revenue budget.

Table 13: Revenue Impact of Capital Decisions

	2024/25 Estimate £'M	2025/26 Estimate £'M	2026/27 Estimate £'M	2027/28 Estimate £'M	2028/29 Estimate £'M	2029/30 Estimate £'M
MRP	2.912	2.924	4.357	4.717	4.586	4.856
Interest	1.241	1.534	2.184	2.192	2.201	2.210
Total	4.153	4.458	6.541	6.909	6.787	7.066

Table 14: Ratio of Financing Costs to Net Revenue Stream

	2023/24 Actual %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %	2027/28 Estimate %	2028/29 Estimate %	2029/30 Estimate %
General Fund	17.98	19.21	17.82	24.97	25.19	24.16	23.89
HRA	17.52	15.78	15.40	14.69	14.01	13.82	13.19

5.11 As can be seen based on current General Fund capital programme and accompanying borrowing estimates, debt financing costs within the General Fund are set to increase to just over a quarter of the Council's annual net revenue budget. Levels will, therefore, need to be closely monitored and the impact on affordability of new capital schemes carefully considered as part of the business case assessment and governance processes. Estimates within the HRA are currently seen to decrease as the borrowing undertaken as part of HRA self-financing is repaid.

5.12 The financing of capital projects can be from a variety of sources, such as external grants, the use of reserves, and the application of capital receipts. A significant workstream for the OBR Assets Group is to review and realign the Council's existing asset base to identify those assets which no longer met the Council's objectives and may be able to generate a capital receipt. However, the OBR process does provide a priority order for the use of capital receipts. Firstly, to fund transformation costs, that is costs that are associated with service transformation and delivery of efficiencies. Secondly, investment to reduce costs, which is not necessarily investing in a new asset; and given the levels of current financing costs, giving consideration to financing existing short life assets such as ICT and vehicles to reduce the MRP burden on the General Fund. Finally, the use of receipts to fund other schemes within the Capital Programme.

6.0 THE SHORT & MEDIUM-TERM BUDGET GAP

6.1 Government funding and income forecasts covered previously within this report, together with the budget expenditure, savings and income estimates that have been calculated as part of the 2025/26 revenue budget process provide an updated forecast of the budget gaps over the next three years. This is shown below in the graph and Table 15 below:-

APPENDIX A

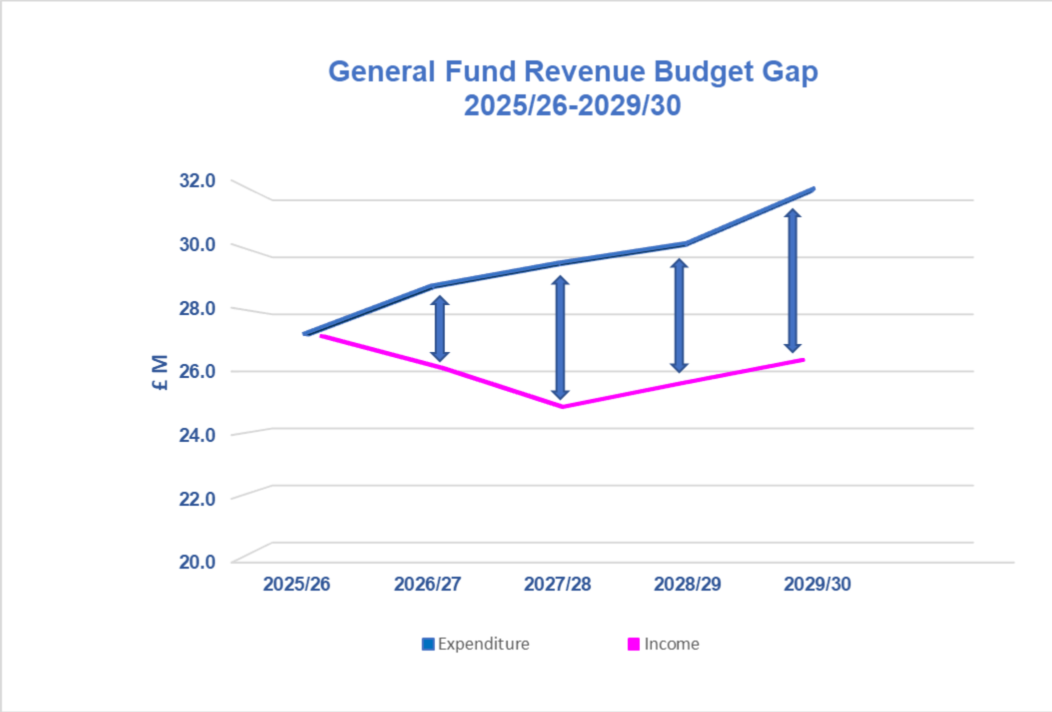


Table 15: Cumulative Deficit as Percentage of Revenue Budget

	2025/26 £'M	2026/27 £'M	2027/28 £'M	2028/29 £'M	2029/30 £'M
Net Revenue Budget	27.201	28.749	29.489	30.118	31.873
Budget Gap (Incremental)	0.000	2.633	4.699	4.513	5.480
% of Net Revenue Budget (Incremental)	0%	9%	16%	15%	17%
Budget Gap (Cumulative)	0.000	2.633	7.332	11.845	17.325
% of Net Revenue Budget (Cumulative)	0%	9%	25%	39%	54%

6.2 The forecast gaps are structural in nature, meaning that the Council's forecast spending exceeds the income it expects to receive, and this is compounded year on year. This position represents a significant challenge over the short and medium term. It is imperative that the Council's OBR process continues and this will be fundamental in driving down budget gaps from 2026/27 and beyond and in realising financial sustainability.

6.3 It should be noted that this forecast is based on a series of estimates and assumptions and so is subject to change when more up to date information becomes available. However, it provides Members with a clear view of the extent of the challenge facing the Council over the coming years.

7.0 PROVISIONS, RESERVES AND BALANCES

7.1 A Council's reserves are an essential part of good financial management. They help the Council to cope with unpredictable financial pressures and plan for future spending commitments. The level, purpose and planned use of reserves are important factors for the Council as part of the MTFS.

7.2 Councils generally hold two types of reserves, "Unallocated" to meet short term unexpected cost pressures or income reductions and "Earmarked". The latter can be held to provide for some future anticipated expenditure for identified projects, particularly in respect of corporate priorities, address specific risks such as the previously identified upcoming pressures on business rates retention reserve resulting from the decommissioning of H1 & H2, or to fund transitional arrangements resulting from the OBR process. They may also provide up-front funding for measures which specifically result in future efficiencies, cost savings or increased income, or to hold funding from other bodies (mainly Central Government), for specified purposes.

7.3 By their nature reserves are finite and, within the existing statutory and regulatory framework, it is the responsibility of the s151 Officer to advise the Council about the level of reserves that it should hold and to ensure that there are clear protocols for their establishment and use. In accordance with the s151 Officers advice the minimum level of General Fund unallocated reserve is £5M.

7.4 The graph and Table 16 below provide details of our current forecast level of General Fund Balances including the impact of funding the forecast deficit from this reserve.

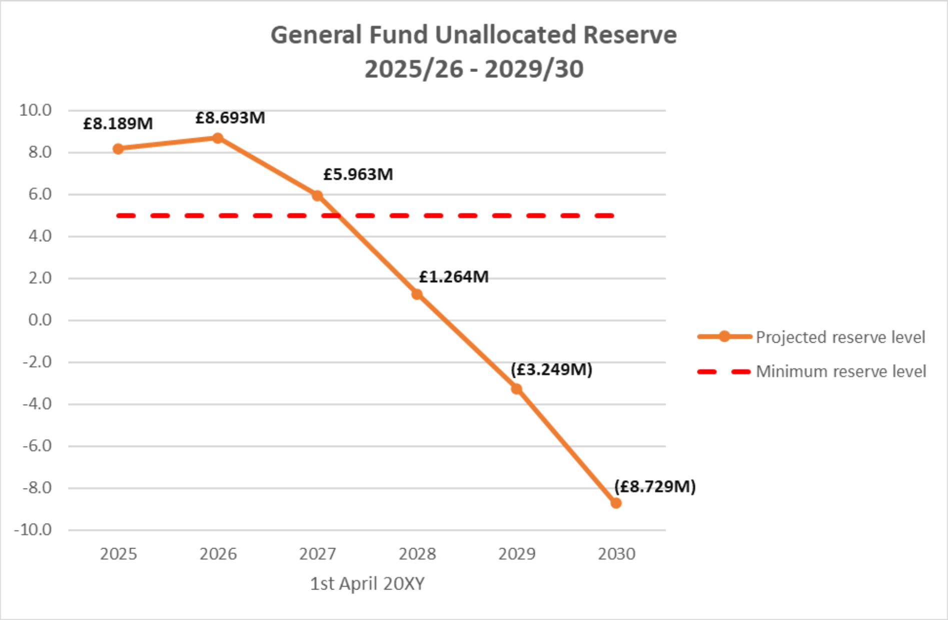


Table 16: Estimated Level of General Fund Unallocated Reserves

	2024/25 £'M	2025/26 £'M	2026/27 £'M	2027/28 £'M	2028/29 £'M	2029/30 £'M
Balance as at 1 April 2024-29	(10.327)	(8.189)	(8.693)	(5.963)	(1.264)	3.249
In Year allocations	2.460	(0.504)	0.097	0.000	0.000	0.000
Forecast (Under)/Overspend	(0.322)	0.000	2.633	4.699	4.513	5.480
Projected Balance as at 31 March 2025-30	**(8.189)**	**(8.693)**	**(5.963)**	**(1.264)**	**3.249**	**8.729**

7.5 The graph and Table 17 below provide details of our current forecast level of all available Council reserves. The analysis excludes a number of essentially ring-fenced reserves such as s106, reserves held in perpetuity, revenue grants unapplied & elections. It does include reserves such as Business Retention and Renewals Reserves.

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

APPENDIX A

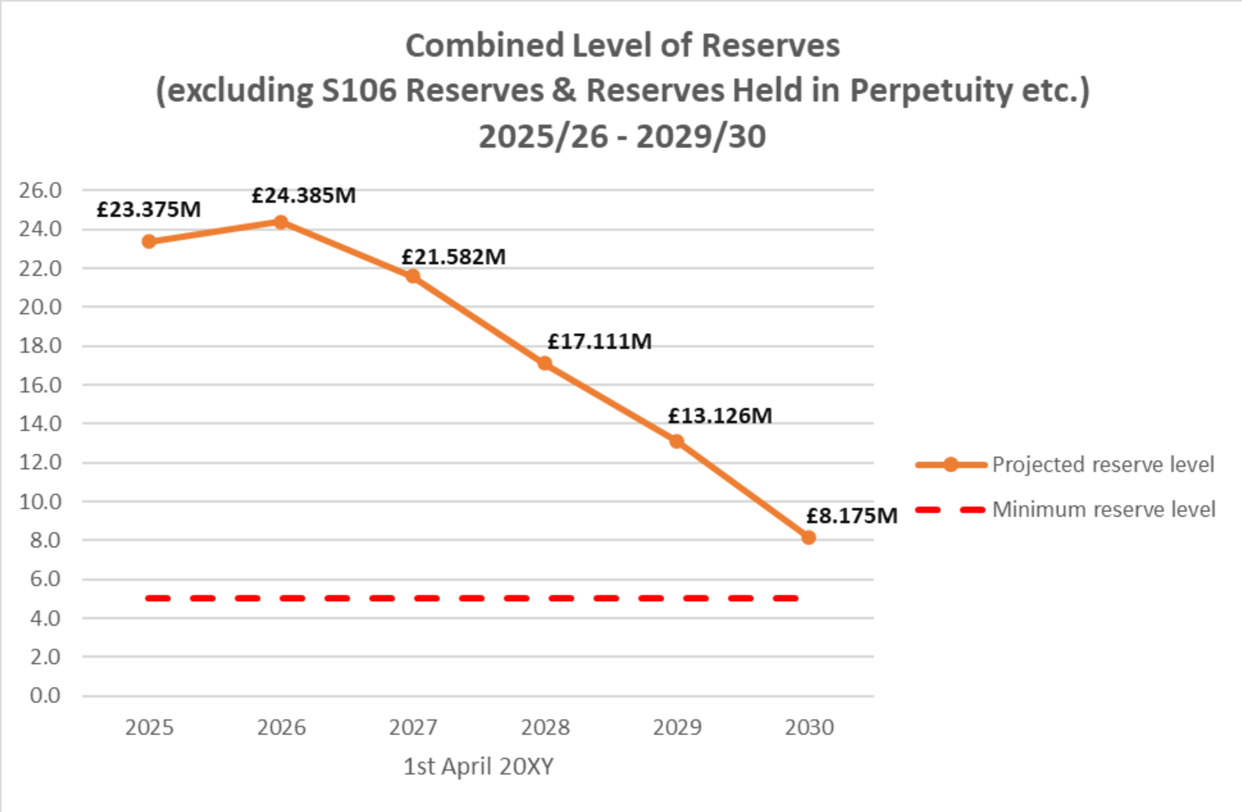


Table 17: Estimated Combined Level of Reserves
(excluding Ringfenced Reserves, S106 Reserves & Reserves Held in Perpetuity etc)

	2024/25 £'M	2025/26 £'M	2026/27 £'M	2027/28 £'M	2028/29 £'M	2029/30 £'M
Unallocated Reserve	(7.867)	(8.693)	(8.595)	(8.595)	(8.595)	(8.595)
Other Non-Ring Fenced Reserves	(1.242)	(1.164)	(1.200)	(1.237)	(1.273)	(1.310)
Business Rates Retention Reserve	(12.064)	(12.194)	(11.594)	(11.094)	(11.094)	(11.094)
Renewals Reserve	(1.880)	(2.334)	(2.826)	(3.317)	(3.809)	(4.301)
Forecast Cumulative Deficit Funded From Reserves	(0.322)	0.000	2.633	7.132	11.645	17.125
Projected Balance as at 31 March 2025-30	**(23.375)**	**(24.385)**	**(21.582)**	**(17.111)**	**(13.126)**	**(8.175)**
Less Recomended Minimum Level of Balances	+5.000	+5.000	+5.000	+5.000	+5.000	+5.000
Available Balances	**(18.375)**	**(19.385)**	**(16.582)**	**(12.111)**	**(8.126)**	**(3.175)**

7.7 Whilst this position represents a marginal improvement on the reported position in February 2024, these tables clearly highlight the significant pressure the Council's reserves are under should funding from reserves be required due to the forecast level of overspend in future years not being addressed.

8.0 BALANCING THE BUDGET TO 2029/30

8.1 The Council embarked on its OBR process in 2022/23 with its intention to ensure that funds are allocated according to a set of predefined outcomes, or priorities in order to ensure that funds are directed toward the Council's key ambitions and statutory functions and away from areas which contribute less or not at all against the predetermined objectives.

APPENDIX A

8.2 The table below shows the operational structure of OBR – Fit for the Future process and its governance processes along with the key Member and Senior Officer involvement. The process is split into task groups each charged with a discreet area of responsibility.

Fit for the Future Project Group Reporting Structure January 2025	**FIT FOR THE FUTURE**	**Key** Yellow = Service Delivery Green = Commercialisation Blue = Service Efficiency Peach = Digitalisation
Support Services Review Chief Officer: Alex Kinch Members: Sally Maddocks and Peter Jackson	**Fleet Replacement** Chief Officer: Will Griffith Members: Paul Hart, Tim Hamilton-Cox, and Gina Dowding	**Waste Management Review** Chief Officer: Will Griffith Members: Paul Hart and Tim Hamilton-Cox
Procurement Review Chief Officers: Paul Thompson and Luke Gorst Members: Sally Maddocks and Peter Jackson	**Re-imagining the Museums** Chief Officer: Jonathan Noad Members: Nick Wilkinson and Peter Jackson	**Digitalisation** Chief Officers: Jo Wilkinson, Alex Kinch and Luke Gorst Members: Sally Maddocks and Peter Jackson
Catering Review and Commercialisation Chief Officer: Will Griffith Members: Nick Wilkinson and Martin Bottoms	**Williamson Park** Chief Officer: Will Griffith Members: Paul Hart, Tim Hamilton-Cox and Caroline Jackson	**SALC Review** Chief Officer: Will Griffith Members: Peter Jackson, Nick Wilkinson and Martin Bottoms

8.3 Given the size of the ongoing financial issues the Council faces, this fundamental reshaping of the Council's services and realigning against its priorities through the OBR process will be key to shrinking the estimated £5.480M budget gap and securing the financial sustainability of the Council going forward. It is imperative that the OBR work, or similar principles continues. The application of OBR across the Council will be a significant piece of work and to fully achieve its stated aims will take an estimated further 12 to 24 months. In light of this, balancing the budget both in the short and the medium term will be a tough task and all Members must recognise that despite the hard work undertaken to date they will face a number of difficult but key decisions over the coming financial years which will affect the manner in which services are delivered.

8.4 Cabinet and Senior Leadership Team have agreed on principles and common goals as they continue to work through the OBR – Fit for the Future process.

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

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

- Exploration of closer working and collaboration with other Councils, Public Sector Bodies and Partner Institutions
- Application of alternative funding to deliver key Council outcomes

- Detailed review and sensitivity analysis on all key and significant income streams
- Further rationalisation work on the Council's asset base
- Expansion of the investment to reduce cost principle
- The potential use of capital receipts to finance existing projects
- Capitalisation of transformation costs where appropriate

8.6 Many of the financial pressures identified within the Councils General Fund are also present within the Housing Revenue Account (HRA). A full update on the HRA budget and financial outlook will be considered alongside the General Fund revenue budget including options to ensure that the service's 30-year business plan is viable and that its ongoing budget is balanced, whilst delivering value for money to tenants.

9.0 DETAILS OF CONSULTATION

9.1 As this paper is for noting only no formal consultation has been undertaken.

10.0 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

10.1 The risks to the Council are contained throughout the report and as the report is for noting, no alternative proposals have been put forward.

11.0 CONCLUSION

11.1 The Council continues to face unprecedented levels of financial and economic uncertainty as a result of National and International concerns. Local Government funding remains a key challenge for the Council as well as local issues such as those surrounding decommissioning plans for Heysham power station. This hampers the degree of confidence with forecasts can be made and inevitably some key estimates and assumptions are likely to change in the coming months.

11.2 Despite the work to date by Officers and Members to deliver on the Council's OBR programme, a significant budget gap remains which cannot be met from Council reserves. The overall size of the challenge the Council faces in addressing its underlying structural deficit and in formulating a balanced budget over the medium and longer term must be recognised as does the need to deliver considerable future savings.

11.3 The Council continues to deliver high-quality frontline services to the District's residents. Continued focus on the application of Outcomes Based Resourcing principles such as strategic prioritisation, service transformation and continuous improvement will play a significant part in achieving the level of savings required. ***The Council must, however, recognise that it will face a number of key decisions over the next financial year which will affect the manner in which it delivers its services.***

COUNCIL

Treasury Management Strategy 2025/26

26 February 2025

Report of Chief Finance Officer

PURPOSE OF REPORT					
In accordance with the Council's constitution this report seeks Council approval for the Council's Treasury Management 2025/26 framework					
Key Decision	X	**Non-Key Decision**		**Referral from Cabinet Member**	
Date of notice of forthcoming key decision				16th December 2024	

RECOMMENDATION OF CABINET

That the Council notes the report and approves:

1. **The Treasury Management Strategy 2025/26, Appendices A to C specifically the Council's The Authorised Limit for External Debt (section 4.7)**

1.0 INTRODUCTION

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

1.2 Following its meeting on 11 February 2025 Cabinet has now considered the Treasury Strategy.

1.3 In line with the Council's Constitution the Treasury Strategy was considered by Budget and Performance Panel on 19 February 2025, no formal comments were made for inclusion in this report.

1.4 Council are asked to approve the Treasury Management Strategy and associated attachments.

2.0 TREASURY MANAGEMENT FRAMEWORK 2025/26

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

2.2 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. During 2025/26 the minimum reporting requirements are that the Full Council should receive the following reports:

- an annual treasury strategy in advance of the year (this report)
- a mid-year (minimum) treasury update report
- an annual review following the end of the year describing the activity compared to the

strategy

3.0 TREASURY MANAGEMENT STRATEGY

3.1 Treasury management activities represent the placement of residual cash held in the bank resulting from the authority's day to day activities in relation to s12 Local Government Act investment powers. The Treasury Management Strategy, therefore, deals principally with investments and borrowing which are considered below.

3.2 CIPFA published an updated Treasury Management (the Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes) and Prudential Code on 20 December 2021. These apply with immediate effect, however, CIPFA has stated that there will be a soft introduction of the codes with any change to reporting requirements deferred until the 2023/24 financial year.

3.3 It should also be noted that the MHCLG has tightened up regulations around local authorities financing capital expenditure on investments in commercial projects for yield and has already closed access to all PWLB borrowing if such schemes are included in an authority's capital programme. The new CIPFA codes have also adopted a similar set of restrictions to discourage further capital expenditure on commercial investments for yield.

3.4 The proposed Strategy for 2025/26 to 2027/28 is set out at ***Appendix C***. The document contains the necessary details to comply with both the Code and Government investment guidance. Responsibilities for treasury management are set out at ***Appendix A*** and the policy statement is presented at ***Appendix B.***

4.0 BORROWING ASPECTS OF THE STRATEGY

Capital Financing Requirement (CFR)

4.1 The Council's CFR is simply the total amount of capital expenditure (including that from prior years) that has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying need to borrow. Any capital expenditure, which has not immediately been paid for through a revenue or capital resource, will increase the CFR. Based on the draft capital programme the Council's CFR is set to fluctuate from the current estimated 2024/25 position of £101.17M rising to £117.96M in 2025/26 before reducing slightly to £103.09M in 2029/30, reflecting current planned levels of capital expenditure

4.2 The CFR does not increase indefinitely as a statutory annual charge to revenue known as Minimum Revenue Provision (MRP), approximately reduces the borrowing need in line with each asset's life.

4.3 Based on the capital programme, the overall physical borrowing position of the Council is projected to increase over the next three to five years from its estimated current position of £63.93M to £83.84M (2026/27) as the Council looks to move forward with several ambitious schemes to enable delivery of its Strategic Priorities. It is then forecast to decrease slightly to £83.72M (2029/30).

4.4 Changes in the Council's Capital Financing Requirement and forward borrowing projections are summarised in tables 1 and 2 below.

Table 1 Capital Financing Requirement

	2023/24 Actual £'M	2024/25 Estimate £'M	2025/26 Estimate £'M	2026/27 Estimate £'M	2027/28 Estimate £'M	2028/29 Estimate £'M	2029/30 Estimate £'M
CFR – Non Housing	64.50	68.13	85.96	84.75	81.00	79.32	75.25
CFR – Housing	34.08	33.04	32.00	30.96	29.92	28.88	27.83
Total CFR	**98.58**	**101.17**	**117.96**	**115.71**	**110.91**	**108.20**	**103.09**
Movement in CFR							
Non Housing	0.93	3.63	17.83	-1.21	-3.75	-1.67	-4.07
Housing	-1.05	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04
Net Movement in CFR	**-0.12**	**2.59**	**16.79**	**-2.25**	**-4.79**	**-2.71**	**-5.11**

Movement in CFR represented by							
Net financing need for the year (above) re Non Housing	3.59	6.54	20.75	3.14	0.97	2.91	0.79
Less MRP/VRP and other financing movements	-3.71	-3.94	-3.96	-5.39	-5.76	-5.62	-5.90
Net Movement in CFR	**-0.12**	**2.59**	**16.79**	**-2.25**	**-4.79**	**-2.71**	**-5.11**

Table 2 Borrowing Projections

	2023/24 Actual £'M	2024/25 Estimate £'M	2025/26 Estimate £'M	2026/27 Estimate £'M	2027/28 Estimate £'M	2028/29 Estimate £'M	2029/30 Estimate £'M
External Debt							
Debt at 1 April - PWLB & short term - actual	59.01	57.97	63.93	78.89	83.84	83.80	83.76
Debt - estimated	0.00	6.00	15.00	5.00	0.00	0.00	0.00
Expected change in Debt	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04
Other long-term liabilities (OLTL)	0.00	1.00	1.00	1.00	1.00	1.00	1.00
Expected change in OLTL	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Actual gross debt at 31 March	**57.97**	**63.93**	**78.89**	**83.84**	**83.80**	**83.76**	**83.72**
The Capital Financing Requirement	**98.58**	**101.17**	**117.96**	**115.71**	**110.91**	**108.20**	**103.09**
(Under) / over borrowing	**-40.61**	**-37.24**	**-39.07**	**-31.86**	**-27.11**	**-24.44**	**-19.37**

4.5 **The Operational Boundary**
This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources. Changes to the operational boundary are included in table 3 below.

Table 3: Operational Boundary

Operational boundary	2023/24 Actual £'M	2024/25 Estimate £'M	2025/26 Estimate £'M	2026/27 Estimate £'M	2027/28 Estimate £'M	2028/29 Estimate £'M	2029/30 Estimate £'M
Debt	99.00	101.17	117.96	115.71	110.91	108.20	103.09
Other Long-Term Liabilities	0.00	1.00	1.00	1.00	1.00	1.00	1.00
Total	**99.00**	**102.17**	**118.96**	**116.71**	**111.91**	**109.20**	**104.09**

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

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

- Council is asked to approve the following authorised limit for 2025/26 - £134M:

Table 4: Authorised Limit

Authorised limit £m	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Debt	115.00	116.00	133.00	131.00	126.00	123.00	118.00
Other Long-Term Liabilities	0.00	1.00	1.00	1.00	1.00	1.00	1.00
Total	**115.00**	**117.00**	**134.00**	**132.00**	**127.00**	**124.00**	**119.00**

4.7 **Affordability Prudential Indicators**
Prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

Table 5: Ratio of Financing Costs to Net Revenue Stream

	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Non-HRA	17.98%	19.21%	17.82%	24.97%	25.19%	24.16%	23.89%
HRA	17.52%	15.78%	15.40%	14.69%	14.01%	13.82%	13.19%

4.8 This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. Benchmarking by the Local Government Association (2022) suggested a regional and national average of c14% for the General Fund and so with potential percentage rates at around 25%, care and consideration must be taken with future capital investment.

5.0 Minimum Revenue Provision (MRP) Policy

5.1 Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP).

5.2 Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) regulations 2008 require the Authority to calculate a prudent provision of MRP whilst having regard to the current MRP Guidance (2018). The broad aim of prudent provision is to ensure that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The Guidance gives four ready-made options for calculating MRP, but the Authority can use any other reasonable basis that it can justify as prudent. Following a review, the Council's external advisors recommended a change to the MRP policy switching from the "Asset Life Method" to calculation using the annuity method using a weighted average useful life. This revision was formally approved by Council 22 February 2023.

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

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

Table 6 Forecast MRP Charges

	2024/25 Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M	2029/30 Estimate £M
Interest	1.241	1.534	2.184	2.192	2.201	2.210
MRP	2.912	2.924	4.357	4.717	4.586	4.586
Total	**4.153**	**4.458**	**6.541**	**6.909**	**6.787**	**6.796**

5.5 Interest rates used for the above calculations were as per the MUFG Corporate Markets Interest Rate Review 28 May 2024. It is worth noting that the most recent interest rate review 10 February 2025 shows that PWLB borrowing rates are now anticipated to fall more slowly. Should borrowing rates remain higher than forecast at 5% this would result in an additional budget pressure of £101,250 in 2025/26 and £312,000 from 2026/27 onwards. Should borrowing rates increase to 6% this would see that budget pressure increase to £198,750 in 2025/26 and £572,000 from 2026/27. However, it is anticipated that temporary borrowing would be utilised until rates fell to a level where longer term borrowing becomes attractive.

6.0 OPTIONS & OPTIONS ANALYSIS

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

6.2 Furthermore, the Strategy must fit with other aspects of Cabinet's budget proposals, such as deposit interest estimates and underlying prudential borrowing assumptions, feeding into Prudential and Treasury Management Indicators. There are no options available regarding other components of the overall framework.

7.0 OFFICER PREFERRED OPTION (AND COMMENTS)

7.1 To approve the framework as attached.

8.0 CONCLUSION

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

8.2 If Council changes its Capital Programme from that which is proposed in the Capital Programme 2025 to 2035 & Capital Strategy Report then this would require a change in the prudential indicators which are part of the Treasury Management Strategy.

RELATIONSHIP TO POLICY FRAMEWORK Treasury Management forms part of the Council's budget framework	
CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability etc) Effective Treasury Management and use of the Council's resources is fundamental to the delivery of its priorities and outcomes	
FINANCIAL IMPLICATIONS The Treasury Management Strategy is in support of achieving the borrowing cost and investment interest estimates included in the budget.	
S151 OFFICER COMMENTS The s151 Officer has authored this report and his comments are reflected within	
LEGAL IMPLICATIONS Legal Services have been consulted and have no further comments	
MONITORING OFFICER'S COMMENTS The Monitoring Officer has been consulted and has no further comments	
BACKGROUND PAPERS Appendix A - Council Responsibility Appendix B - TM Policy Appendix C - Treasury Management Strategy 2025-26	**Contact Officer:** Paul Thompson **Telephone: 01524 582603** **E-mail:** pthompson@lancaster.gov.uk **Ref:** N/A

Appendix A

TREASURY MANAGEMENT FRAMEWORK DOCUMENTS AND RESPONSIBILITIES

For consideration by Council 26 February 2025

DOCUMENT	RESPONSIBILITY
CODE of PRACTICE	To be adopted by Council (as updated 2021).
POLICY STATEMENT	The Code of Practice recommends a specific form of words to be used, to set out the Council's objectives within the Policy Statement for its Treasury Management activities. It is the responsibility of Council to approve this document, and then note it each year thereafter if unchanged. This reflects the revised code issued in 2021.
TREASURY MANAGEMENT STRATEGY	The Strategy document breaks down the Policy Statement into detailed activities and sets out the objectives and expected market forecasts for the coming year. This also contains all the elements of an Investment Strategy as set out in the Government guidance; it is the responsibility of Council to approve this document, following referral from Cabinet.
TREASURY MANAGEMENT INDICATORS	These are included within the Strategy Statement as part of the framework within which treasury activities will be undertaken. It is the responsibility of Council to approve these limits.
INVESTMENT STRATEGY	The Investment Strategy is included within the Treasury Management Strategy. It states which types of investments the Council may use for the prudent management of its treasury balances during the financial year. Under existing guidance, the Secretary of State recommends that the Strategy should be approved by Council.
TREASURY MANAGEMENT PRACTICES	These are documents that set out the procedures that are in place for the Treasury Management function within the Council. The main principles were approved by Cabinet following initial adoption of the Code of Practice; they include: TMP 1: Risk management TMP 2: Performance measurement. TMP 3: Decision-making and analysis. TMP 4: Approved instruments, methods & techniques. TMP 5: Organisation, clarity and segregation of responsibilities, and dealing arrangements. TMP 6: Reporting requirements & management information requirements. TMP 7: Budgeting, accounting & audit. TMP 8: Cash & cash flow management. TMP 9: Money laundering. TMP 10: Staff training & qualifications. TMP 11: Use of external service providers. TMP 12: Corporate governance. It is the Section 151 Officer's' responsibility to maintain detailed working documents and to ensure their compliance with the main principles.
FINANCIAL REGULATIONS	The Financial Regulations must contain four specific clauses. These are substantially unchanged in the 2021 Code; it is the Section 151 Officer's responsibility to ensure their inclusion.

Appendix B

LANCASTER CITY COUNCIL

TREASURY MANAGEMENT POLICY STATEMENT

For consideration by Council
26 February 2025

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

1. This organisation defines its treasury management activities as:

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

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

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

Appendix H

Treasury Management Strategy 2025/26 to 2029/30

For Consideration by Council 26 February 2025

1 INTRODUCTION

1.1 Background

The Council is required to operate a balanced budget, which means broadly that income to be raised during the year will meet expenditure to be incurred, after allowing for any changes in reserves and balances. Part of the treasury management operation is to ensure that the associated cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities (arising usually from capital expenditure) and are separate from the day to day treasury management activities.

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

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

1.2 Reporting Requirements

Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare an additional report, a capital strategy report, which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

Treasury Management Reporting
The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report) – The first, and most important report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an Annual Investment Strategy (the parameters on how investments are to be managed).

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

An annual treasury report – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

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

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

1.3 Treasury Management Strategy for 2025/26

The strategy for 2025/26 covers two main areas:

Capital Issues

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

Treasury Management Issues

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

- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, DLUHC (now MHCLG) Investment Guidance; DLUHC (now MHCLG) MRP Guidance, the CIPFA Prudential Code, and the CIPFA Treasury Management Code.

Training

The CIPFA Treasury Management Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny.

Furthermore, pages 47 and 48 of the Code state that they expect “all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

The scale and nature of this will depend on the size and complexity of the organisation’s treasury management needs. Organisations should consider how to assess whether treasury management staff and board/council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/council members.
- Require treasury management officers and board/council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis.”

In further support of the revised training requirements, CIPFA’s Better Governance Forum and Treasury Management Network have produced a ‘self-assessment by members responsible for the scrutiny of treasury management’, which is available from the CIPFA website to download.

A member training session was arranged prior to Budget & Performance Panel on 14 February 2024, and ad hoc training has been provided as required throughout 2024/25. Further training sessions will be arranged during the forthcoming year as and when required.

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

The training needs of treasury management Officers are periodically reviewed.

1.4 Treasury Management Consultants

The Council uses MUFG Corporate Markets (formally Link Group) as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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

2 CAPITAL PRUDENTIAL INDICATORS 2024/25 – 2029/30

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

2.1 Capital Expenditure

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

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

Capital expenditure	**2023/24 Actual £'M**	**2024/25 Estimate £'M**	**2025/26 Estimate £'M**	**2026/27 Estimate £'M**	**2027/28 Estimate £'M**	**2028/29 Estimate £'M**	**2029/30 Estimate £'M**
General Fund	7.60	17.33	27.08	6.12	3.30	5.24	3.12
Housing Revenue Account (HRA)	6.76	8.34	6.12	4.45	4.69	4.19	3.97
Total	**14.36**	**25.67**	**33.20**	**10.57**	**7.99**	**9.43**	**7.09**
Financed by:							
Capital receipts	-0.08	-2.01	-1.35	0.00	0.00	0.00	0.00
Capital grants	-4.52	-11.96	-6.22	-2.98	-2.33	-2.33	-2.33
Capital reserves	-4.11	-5.16	-4.88	-4.45	-4.69	-4.19	-3.97
Revenue	-2.06	0.00	0.00	0.00	0.00	0.00	0.00
Net financing need for the year	**3.59**	**6.54**	**20.75**	**3.14**	**0.97**	***2.91***	**0.79**

2.2 The Council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total amount of capital expenditure (including that from prior years) that has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying need to borrow. Any capital expenditure, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

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

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

Members are asked to approve the CFR projections below:

Capital Financing Requirement	2023/24 Actual £'M	2024/25 Estimate £'M	2025/26 Estimate £'M	2026/27 Estimate £'M	2027/28 Estimate £'M	2028/29 Estimate £'M	2029/30 Estimate £'M
CFR – Non Housing	64.50	68.13	85.96	84.75	81.00	79.32	75.25
CFR – Housing	34.08	33.04	32.00	30.96	29.92	28.88	27.83
Total CFR	**98.58**	**101.17**	**117.96**	**115.71**	**110.91**	**108.20**	**103.09**
Movement in CFR							
Non Housing	0.93	3.63	17.83	-1.21	-3.75	-1.67	-4.07
Housing	-1.05	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04
Net Movement in CFR	**-0.12**	**2.59**	**16.79**	**-2.25**	**-4.79**	**-2.71**	**-5.11**

Movement in CFR represented by							
Net financing need for the year (above) re Non Housing	3.59	6.54	20.75	3.14	0.97	2.91	0.79
Less MRP/VRP and other financing	-3.71	-3.94	-3.96	-5.39	-5.76	-5.62	-5.90
Net Movement in CFR	**-0.12**	**2.59**	**16.79**	**-2.25**	**-4.79**	**-2.71**	**-5.11**

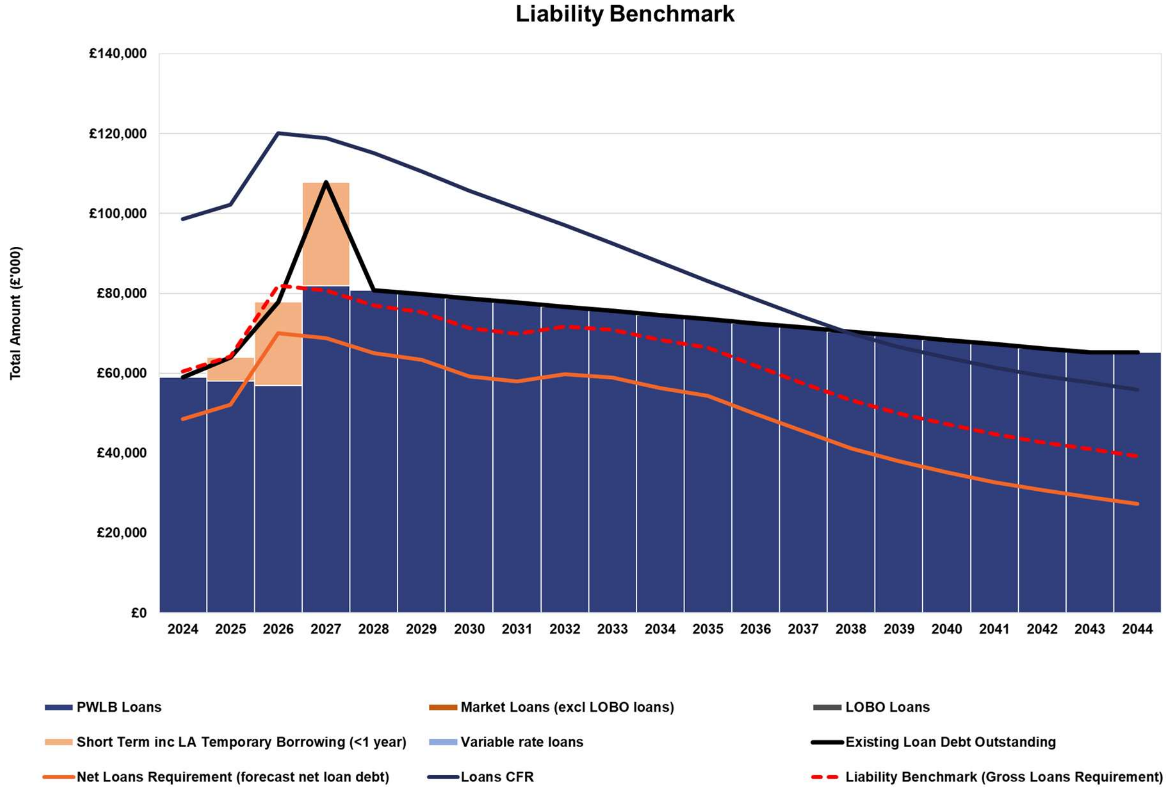
2.3 Liability Benchmark

The Council is required to estimate and measure the Liability Benchmark (LB) for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB: -

1. **Existing loan debt outstanding:** the Council's existing loans that are still outstanding in future years.
2. **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
3. **Net loans requirement:** this will show the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

The Council's liability benchmark presented as a chart of the above four balances is shown below:



Any years where actual loans are less than the benchmark indicate a future borrowing requirement.

During 24/25, forecast levels of funds available for treasury investments is falling in line with cash flow forecasts and as overall levels of General Fund and HRA reserves decrease.

There is, therefore, a need to borrow to cover the net loans requirement. Given PWLB interest rates at present, temporary borrowing from other local authorities will be utilised until PWLB rates reduce.

It is intended that the gap between the net loans requirement and the liability benchmark (gross loans requirement) will be covered by day-to-day working cashflow surpluses.

2.4 Core Funds and Expected Investment Balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments, unless resources are supplemented each year from new sources (e.g. asset sales). The following table provides estimates of the year end balances for each resource and anticipated year end cash flow balances from other day to day activities:

Year End Resources	2023/24 Actual £'M	2024/25 Estimate £'M	2025/26 Estimate £'M	2026/27 Estimate £'M	2027/28 Estimate £'M	2028/29 Estimate £'M	2029/30 Estimate £'M
Fund balances / reserves	31.82	29.46	29.75	27.30	23.78	20.73	16.98
Capital receipts	3.33	0.00	0.00	0.00	0.00	0.00	0.00
Provisions	3.98	5.00	5.00	5.00	5.00	5.00	5.00
Total core funds	**39.13**	**34.46**	**34.75**	**32.30**	**28.78**	**25.73**	**21.98**
Working capital*	10.86	15.00	15.00	15.00	15.00	15.00	15.00
Under/over borrowing**	-40.61	-37.24	-39.07	-31.86	-27.11	-24.44	-19.37
Expected investments	**9.38**	**12.21**	**10.67**	**15.44**	**16.67**	**16.29**	**17.61**

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

2.5 Minimum Revenue Provision (MRP) Policy Statement

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP). The 2003 Regulations have been further amended with full effect from April 2025 to expressly provide that in determining a prudent provision local authorities cannot exclude any amount of CFR from its calculation, unless by an exception set out in statute.

The Council is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance (2024) gives four ready-made options for calculating MRP, the Council can use a mix of these options if it considers it appropriate to do so.

The Government considers that the methods of making prudent provision include the options set out in the statutory guidance. However, this does not rule out or otherwise preclude an authority from using an alternative method should it decide that is more appropriate. Any method used is subject to the conditions in paragraphs 61 to 65 of the guidance as far as these are relevant.

It is recommended that Council approves the following MRP Policy Statement.

- Supported borrowing incurred before 1st April 2008 will apply the Asset Life Method using an annuity method over 60 years.
- Unsupported borrowing will be subject to MRP using the Asset Life Method, which will be charged over a period which is reasonably commensurate with the average estimated useful life of the assets. An annuity method will be applied for the MRP calculation.
- Unsupported borrowing on vehicles will be subject to MRP using the Asset Life Method, which will be charged over a period which is reasonably commensurate with the estimated useful life of the vehicles. An annuity method will be applied for the MRP calculation.
- The interest rate applied to the annuity calculations will reflect the market conditions at the time. For the current financial year, the interest rate used will be the Authority's weighted average borrowing rate.
- MRP will commence in the financial year following the one in which the expenditure was incurred, or in the year after the asset becomes operational.
- MRP in respect of unsupported borrowing taken to meet expenditure, which is treated as capital expenditure by virtue of either a capitalisation direction or regulations, will be determined in accordance with the asset life method as recommended by the MRP guidance.
- MRP in respect of assets acquired under PFI or Finance Leases will be charged at a rate equal to the principal element of the annual lease rental for the year in question.

- MRP Overpayments - The MRP Guidance allows that any charges made in excess of the statutory MRP, i.e. voluntary revenue provision (VRP) or overpayments, can be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. The VRP overpayments up to 31st March 2024 are £13.821M.
- On an annual basis the Section 151 officer shall review the level of MRP to be charged, to determine if this is at a level which is considered prudent based on the Authority's circumstances at that time, taking into account medium / long term financial plans, current budgetary pressures, and current and future capital expenditure plans. Dependant on this review the Section 151 officer will adjust the annual MRP charge by making VRP or reclaiming previous VRP. The amount of MRP charged shall not be less than zero in any financial year.

2.6 Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. Members are asked to approve the following indicators:

Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

% Ratio of Financing Costs to Net Revenue	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Non-HRA	17.98%	19.21%	17.82%	24.97%	25.19%	24.16%	23.89%
HRA	17.52%	15.78%	15.40%	14.69%	14.01%	13.82%	13.19%

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

3 BORROWING

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

3.1 Current Portfolio Position

The overall treasury management portfolio as at 31.03.24 and for the position as at 31.12.24 are shown below for both borrowing and investments

	Actual 1.4.24 £	Actual 1.4.24	Closing 31.12.24 £	Closing 31.12.2024
Treasury Investments	**£'000**	**%**	**£'000**	**%**
Call Accounts				
Natwest (Cash Manager Plus)	610	5.49	371	1.70
Money Market Funds				
Aberdeen Life Investments	0	0.00	6,000	27.56
BlackRock Gov	0	0.00	0	0.00
BlackRock 1st	0	0.00	6,000	27.56
Goldman Sachs	0	0.00	0	0.00
Insight	0	0.00	3,000	13.78
LGIM	500	4.50	6,000	27.56
Fixed Term Deposits				
DMADF	0	0.00	400	1.84
West Dunbartonshire	5,000	45.00	0	0.00
Waltham Forest Council	5,000	45.00	0	0.00
Total treasury investments	**11,110**	**100.00**	**21,771**	**100.00**
Treasury external borrowing				
PWLB	57,960	100.00	57,439	100.00
Total external borrowing	**57,960**	**100.00**	**57,439**	**100.00**
Net treasury investments/(borrowing)	(46,850)		(35,668)	

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

	2023/24 Actual £'M	2024/25 Estimate £'M	2025/26 Estimate £'M	2026/27 Estimate £'M	2027/28 Estimate £'M	2028/29 Estimate £'M	2029/30 Estimate £'M
External Debt							
Debt at 1 April - PWLB & short term actual	59.01	57.97	63.93	78.89	83.84	83.80	83.76
Debt - estimated	0.00	6.00	15.00	5.00	0.00	0.00	0.00
Expected change in Debt	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04
Other long-term liabilities	0.00	1.00	1.00	1.00	1.00	1.00	1.00
Expected change in OLTL	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Actual gross debt at 31 March	**57.97**	**63.93**	**78.89**	**83.84**	**83.80**	**83.76**	**83.72**
The Capital Financing Requirement	**98.58**	**101.17**	**117.96**	**115.71**	**110.91**	**108.20**	**103.09**
(Under) / over borrowing	**-40.61**	**-37.24**	**-39.07**	**-31.86**	**-27.11**	**-24.44**	**-19.37**

There are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2025/26 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Chief Officer Resources & Section 151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

3.2 Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary

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

Operational boundary	2023/24 Actual £'M	2024/25 Estimate £'M	2025/26 Estimate £'M	2026/27 Estimate £'M	2027/28 Estimate £'M	2028/29 Estimate £'M	2029/30 Estimate £'M
Debt	99.00	101.17	117.96	115.71	110.91	108.20	103.09
Other Long Term Liabilities	0.00	1.00	1.00	1.00	1.00	1.00	1.00
Total	**99.00**	**102.17**	**118.96**	**116.71**	**111.91**	**109.20**	**104.09**

The Authorised Limit for External Debt

A further key prudential indicator represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

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

Council is asked to approve the following Authorised Limit:

Authorised limit £m	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Debt	115.00	116.00	133.00	131.00	126.00	123.00	118.00
Other Long Term Liabilities	0.00	1.00	1.00	1.00	1.00	1.00	1.00
Total	**115.00**	**117.00**	**134.00**	**132.00**	**127.00**	**124.00**	**119.00**

3.3 Prospects for Interest Rates

The Council has appointed MUFG Corporate Markets as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. MUFG Corporate Markets provided forecasts on 11.11.2024. These are forecasts for Bank rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps:

MUFG Corporate Markets Interest Rate View 11.11.24													
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

Additional notes by MUFG Corporate Markets on this forecast table: -

- *Following the 30 October Budget, the outcome of the US Presidential election on 6 November, and the 25bps Bank Rate cut undertaken by the Monetary Policy Committee (MPC) on 7 November, we have significantly revised our central forecasts for the first time since May. In summary, our Bank Rate forecast is now 50bps – 75bps higher than was previously the case, whilst our PWLB forecasts have been materially lifted to not only reflect our increased concerns around the future path of inflation, but also the increased level of Government borrowing over the term of the current Parliament.*

- *If we reflect on the 30 October Budget, our central case is that those policy announcements will be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% y/y by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be 2.7% y/y (Q4 2025) and 2.2% (Q4 2026) before dropping back in 2027 to 1.8% y/y.*

- *The anticipated major investment in the public sector, according to the Bank, is expected to lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.*

- *There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises, and a tepid GDP performance.*

- *Our central view is that monetary policy is sufficiently tight at present to cater for some further moderate loosening, the extent of which, however, will continue to be data dependent. We forecast the next reduction in Bank Rate to be made in February and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank's Quarterly Monetary Policy Reports (February, May, August and November).*

- *Any movement below a 4% Bank Rate will, nonetheless, be very much dependent on inflation data in the second half of 2025. The fact that the November MPC rate cut decision saw a split vote of 8-1 confirms that there are already some concerns around inflation's stickiness, and with recent public sector wage increases beginning to funnel their way into headline average earnings data, the market will be looking very closely at those releases.*

- *Regarding our PWLB forecast, the short to medium part of the curve is forecast to remain elevated over the course of the next year, and the degree to which rates moderate will be tied to the arguments for further Bank Rate loosening or otherwise. The longer part of the curve will also be impacted by inflation factors, but there is also* *the additional concern that with other major developed economies such as the US and France looking to run large budget deficits there could be a glut of government debt issuance that investors will only agree to digest if the interest rates paid provide sufficient reward for that scenario.*

- *So far, we have made little mention of the US President election. Nonetheless, Donald Trump's victory paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of further tax cuts and an expansion of the current US budget deficit. Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks abound in Europe, the Middle East and Asia.*

- *Our revised PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012. Please note, the lower Housing Revenue Account (HRA) PWLB rate started on 15 June 2023 for those authorities with an HRA (standard rate minus 60 bps).*

Gilt Yields and PWLB rates

The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, but the risks to our forecasts are to the upsides. Our target borrowing rates are set two years forward (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below: -

PWLB debt	Current borrowing rate as at 11.11.24 p.m.	Target borrowing rate now (end of Q3 2026)	Target borrowing rate previous (end of Q3 2026)
5 years	5.02%	4.30%	3.90%
10 years	5.23%	4.50%	4.10%
25 years	5.66%	4.90%	4.40%
50 years	5.42%	4.70%	4.20%

Borrowing advice: *Our long-term (beyond 10 years) forecast for Bank Rate has been increased to 3.25% (from 3.00%). As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should also be considered. Temporary borrowing rates will, generally, fall in line with Bank Rate cuts.*

3.4 Borrowing Strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's provisions, reserves, balances and working capital has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels, albeit only once prevailing inflation concerns are addressed by restrictive near-term monetary policy. That is, Bank Rate remains relatively elevated in 2025 even if some rate cuts arise.

Against this background and the risks within the economic forecast, caution will be adopted with the 2025/26 treasury operations. The Section 151 Officer, under delegated powers will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates* then borrowing would be postponed.
- *if it was felt that there was a significant risk of a much sharper in RISE borrowing rates* than that currently forecast, fixed rate funding would be drawn whilst interest rates are lower than they are projected to be in the next few years.

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

Maturity Structure of Borrowing

Maturity structure of fixed interest rate borrowing 2024/25	£'M	%	Lower	Upper
Under 12 months	1.04	*1.83%*	0.00	100.00%
12 months and within 24 months	1.04	*1.83%*	0.00	100.00%
24 months and within 5 years	3.12	*5.49%*	0.00	100.00%
5 years and within 10 years	5.21	*9.14%*	0.00	100.00%
10 years and within 20 years	7.31	*12.84%*	0.00	100.00%
20 years and within 30 years	23.92	*42.00%*	0.00	100.00%
30 years and within 40 years	15.30	*26.87%*	0.00	100.00%

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

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

3.6 Policy on Borrowing in Advance of Need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

3.7 Debt Rescheduling

Rescheduling of current borrowing in our debt portfolio may be considered whilst premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate.

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

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment Policy – Management of Risk

The Ministry of Housing, Communities and Local Government (MHCLG) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy (a separate report).

- Council's investment policy has regard to the following:
- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

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

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite.

In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but also to consider "laddering" investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

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

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings
2. **Other Information**: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this the council will engage with its advisors to maintian a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties
4. The authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in **annex B2** under the categories of 'specified' and 'non-specified' investments
    - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity, if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.
    - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being 20% of the total investment portfolio (see paragraph 4.3)
6. **Lending limits** (amounts and maturity) for each counterparty will be set through applying the matrix table in paragraph 4.2
7. **Transaction limits** are set for each type of investment in 4.2
8. The Council will set a limit for the amount of its investments which are invested for **longer than 365 days** (see paragraph 4.4)
9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** (see paragraph 4.3)
10. The Council has engaged **external consultants** (see paragraph 1.5), to provided expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year
11. All investments will be denominated in **sterling**
12. As a result of the change in accounting standards for 2023/24 under IFRS9, the authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.

The Council will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year

The above criteria are unchanged from last year

4.2 Creditworthiness Policy

This Council will apply the creditworthiness service provided by the MUFG Corporate Markets. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- **Yellow (Y)** – up to but less than 1 year
- **Dark pink** (Pi1) liquid – Ultra-Short Dated Bond Funds with a credit score of 1.25
- **Light pink** (Pi2) liquid – Ultra-Short Dated Bond Funds with a credit score of 1.5
- **Purple (P)** – up to but less than 1 year

- **Blue (B)** – up to but less than 1 year (only applies to nationalised or part- nationalised UK Banks)
- **Orange (O)** – up to but less than 1 year
- **Red (R)** – 6 months
- **Green (G)** – 100 days
- **No colour (N/C)** – not to be used

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7

	Colour (and long-term rating where applicable)	Money Limit	Time Limit
Banks /UK Govt. backed instruments*	**yellow**	**£12m**	**≤1 year**
Banks	**purple**	**£6m**	**≤1 year**
Banks	**orange**	**£6m**	**≤1 year**
Banks – part nationalised	**blue**	**£12m**	**≤1 year**
Banks	**red**	**£6m**	**≤6 mths**
Banks	**green**	**£3m**	**≤100 days**
Banks	**No colour**	**Not to be used**	
Limit 3 category – Council's banker (for non-specified investments)	**n/a**	**£1.5m**	**1 day**
DMADF	**UK sovereign rating**	**unlimited**	**≤6 months**
Local authorities	**n/a**	**£12m**	**≤1 year**
	Fund rating**	**Money and/or % Limit**	**Time Limit**
Money Market Funds CNAV	**AAA**	**£6m**	**liquid**
Money Market Funds LVNAV	**AAA**	**£6m**	**liquid**
Money Market Funds VNAV	**AAA**	**£6m**	**liquid**

Ultra-Short Dated Bond Funds with a credit score of 1.25	**Dark pink / AAA**	**£6m**	**liquid**
Ultra-Short Dated Bond Funds with a credit score of 1.5	**Light pink / AAA**	**£6m**	**liquid**

** the yellow colour category includes UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt –see Annex B2.*

*** "fund" ratings are different to individual counterparty ratings, coming under either specific "MMF" or "Bond Fund" rating criteria.*

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

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

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

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

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

Creditworthiness

Significant levels of downgrades to Short- and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. Nonetheless, when setting minimum sovereign debt ratings, the Council will not set a minimum rating for the UK.

CDS prices

Although bank CDS prices (these are market indicators of credit risk) spiked upwards during the days of the Truss/Kwarteng government in the autumn 2022, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. MUFG Corporate Markets monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information via its MUFG Corporate Markets-provided Passport portal.

4.3 Limits

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors

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

b) **Country limit.** The Council has determined that it will only use approved counterparties from other countries with a minimum sovereign credit rating of AAA (Fitch) or equivalent from each of the credit rating agencies. This list will be added to, or deducted from, by Officers should ratings change in accordance with this policy.

4.4 Investment Strategy

In-house Funds: Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that the risks are relatively balanced between Bank Rate staying higher for longer, if inflation picks up markedly through 2025 post the 30 October 2024 Budget, or it may be cut quicker than expected if the economy stagnates. The economy only grew 0.1% in Q3 2024, but the CPI measure of inflation is now markedly above the 2% target rate set by the Bank of England's Monetary Policy Committee two to three years forward

While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be reliably identified that could be invested for longer periods the value to be obtained from longer term investments will be carefully assessed.

Investment Returns Expectations: The current forecast includes a forecast for Bank Rate to fall to a low of 3.5%.

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

- 2024/25 4.60%
- 2025/26 4.10%
- 2026/27 3.70%
- 2027/28 3.50%
- 2028/29 3.50%
- 2029/30 3.50%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Investment treasury indicator and limit - the total principal funds that can be invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end. Council is asked to approve the following treasury indicator and limit:

4.5 End of year investment report

Maximum principal sums						
	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Principal sums invested > 365 days	Nil	Nil	Nil	Nil	Nil	Nil

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

ANNEX B1

Treasury Management Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

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

- **Gilts** – the name given to bonds issued by the U K Government. Gilts are issued bearing interest at a specified rate; however, they are then traded on the markets like shares and their value rises or falls accordingly. The Yield on a gilt is the interest paid divided by the Market Value of that gilt.
  E.g. a 30-year gilt is issued in 1994 at £1, bearing interest of 8%. In 1999 the market value of the gilt is £1.45. The yield on that gilt is calculated as 8%/1.45 = 5.5%.
  See also PWLB.

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

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

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

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

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

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

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

- **Yield** – see Gilts

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

ANNEX B2

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

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

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

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

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

ANNEX B3

Background information on credit ratings

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

What is a Credit Rating?
A credit rating is:

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

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

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

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

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

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

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

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

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

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

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

CABINET

6.00 P.M. **3RD DECEMBER 2024**

PRESENT:- Councillors Caroline Jackson (Chair), Martin Bottoms, Gina Dowding, Tim Hamilton-Cox, Paul Hart, Peter Jackson, Sally Maddocks, Sue Tyldesley and Nick Wilkinson

Officers in attendance:-

Mark Davies	Chief Executive
Luke Gorst	Chief Officer - Governance and Monitoring Officer
Liz Bateson	Principal Democratic Support Officer, Democratic Services

43 MINUTES

The minutes of the meeting held on Tuesday 22 October 2024 were approved as a correct record.

44 ITEMS OF URGENT BUSINESS AUTHORISED BY THE LEADER

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

45 DECLARATIONS OF INTEREST

No declarations were made at this point.

46 PUBLIC SPEAKING

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

The Leader welcomed new members of Cabinet to the meeting and confirmed that any non-Cabinet members in attendance would be permitted to ask questions on the various reports as they were presented (Cabinet Procedure Rule 17 refers).

47 APPOINTMENTS TO OUTSIDE BODIES (Page 8)

Cabinet received a report from the Chief Executive to enable Cabinet to make appointments to a number of Outside Bodies and Partnerships following the revisions to the composition of Cabinet.

Councillors were reminded that Members nominated to outside bodies, partnerships and boards by Cabinet were representing the views of Cabinet in such positions, rather than any views they might hold as individuals. It was recommended that appointments be aligned as closely as possible to individual Cabinet Members' portfolios.

It was proposed by Councillor Caroline Jackson and seconded by Councillor Dowding:

"That the appointments to the Outside Bodies be agreed and appended to the minutes."

Resolved unanimously:

That the appointments to the Outside Bodies be agreed and appended to the minutes.

Officer responsible for effecting the decision:

Chief Officer Governance

Reasons for making the decision:

Representation on Outside Bodies is part of the City Council's Leadership role.

48 LOCALISED COUNCIL TAX SUPPORT

(Cabinet Member with Special Responsibility Councillor Hamilton-Cox)

Cabinet received a report from the Assistant Director (Head of Revenues and Benefits) to enable Cabinet to consider the existing Localised Council Tax Support ("LCTS") Scheme and the options available, ahead of formal consideration and approval by Council for application in 2025/26.

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

The challenge for the Council is to adopt a scheme that fits with its ambitions and priorities and is considered fair, deliverable and affordable, given statutory obligations and competing pressures for resources. Council is presented with two basic options:

Option 1:
Retain the existing Localised Council Tax Support (LCTS) scheme, subject to minor consequential amendments to match changes in Housing Benefit rules.

- The existing scheme is considered soundly structured and works well, and offers maximum support for low-income families, who may otherwise find themselves in mounting debt.

- Current forecast assumes the continuation of the existing LCTS system and as such, maintaining current levels of support would normally have no impact on the Council's financial forecast. However, costs have increased in recent years with increased take-up due to Covid-19, the cost-of living crisis and annual Council tax increases. 2024/25 has seen a small reduction in residents receiving LCTS from 9,574 in 2023/24 to 9,310 in 2024/25. Should this trend continue, this could reduce costs of the scheme in the long term.

- Retaining existing policy principles of keeping various positive entitlement provisions for LCTS in line with other key welfare benefits promotes equality.

Option 2:
Make changes to the existing Localised Council Tax Support (LCTS) Scheme to

reduce benefit entitlement for working age claimants.

- Currently 9,310 residents claim LCTS in the Lancaster district. As pensioners make up 38% (3,565) of claimants, it means any cut in the level of support provided falls on the remaining 62% (5,745) of working age people on low incomes.

- A reduction in the levels of support provided could arguably provide claimants with further incentives to work, reducing their reliance on benefits, although the jobs market is particularly uncertain at this difficult time.

- This option will have greater adverse financial impact on working age households but would help protect other Council services by requiring less savings to be made by them.

- If levels of support are reduced, the Council would be tasked with the difficulty of collecting this debt from the more vulnerable members of our society, increasing workloads and costs associated with council tax recovery.
- Additional costs associated with developing new scheme options, consultation exercise, legal changes to scheme etc.

	Option 1: Retain the existing LCTS scheme	Option 2: Amend the LCTS scheme to reduce entitlement
Advantages	The current scheme provides support up to a level of 100% and assists. those on low incomes	Financial savings to Lancaster City Council and the other precepting authorities.
Disadvantages	The Government does not fully fund the cost of a 100% LCTS scheme. The additional cost falls on Lancaster City Council and the other precepting authorities.	A reduction in support would result in Council Tax increases for those on low incomes. The Council Tax team would need to recover more money, often from those least able to make payments.
Risks	The cost of the scheme may increase due to an increase in new claims as the cost-of-living crisis progresses.	Reduced collection rates and increased debt. Potential reputational damage.

The officer preferred option is to retain the existing Localised Council Tax Support Scheme for 2025/26 (Option 1). This will assist financially vulnerable Council Tax customers in the Lancaster City Council District.

The Council’s existing LCTS scheme works well in terms of providing support, but at a cost, particularly for the County Council. To date the Council has attached a high priority to maintaining council tax support levels available to working age claimants (pensioners being unaffected by the Council’s decision).

Adoption of a particular option should be informed by the Council’s views regarding the relative priority of LCTS, compared with other services and activities in support of future corporate priorities.

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

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

Councillors then voted:-

Resolved unanimously:

That the existing Localised Council Tax Support Scheme for 2025/26 (Option 1 to the report) be retained.

Officer responsible for effecting the decision:

Chief Officer Resources

Reasons for making the decision:

The decision is consistent with the Council Plan:

The LCTS scheme is developed in support of ambitions withing the Council Plan regarding "Healthy and Happy Communities" to optimise access for those that need it most, together with welfare benefits and related support. The ambition is to continue with a LCTS scheme for the Council, which supports the objective of simplicity, but protects the most vulnerable residents in the district. The Council must continue to ensure that it has due regard to equality in making its local scheme, including how it will minimise disadvantage.

49 DELIVERING OUR PRIORITIES - QUARTER 2- 2024-25

(Cabinet Member with Special Responsibility Councillor Hamilton-Cox)

Cabinet received a report from the Chief Executive and 151 Officer to provide members with an update on financial performance during the first two quarters of 2024/25 (April – September 2024).

As the report was for commenting and noting no options were provided. The Cabinet Member with Special Responsibility talked to the report and responded to questions.

Resolved:

That the report be noted.

Reasons for making the decision:

Performance, project and resource monitoring provides a link between the Council plan and operational achievement by providing regular updates on the impact of operational initiatives against strategic aims.

50 PROJECTS AND PERFORMANCE

(Cabinet Member with Special Responsibility Councillor Hamilton-Cox)

Cabinet received a report from the Chief Executive to provide members with an update on performance and projects during quarter two of 2024 - 25 (July - September 2024).

As the report was for commenting and noting no options were provided. The Cabinet Member with Special Responsibility talked to the report and made particular reference to the reduction in both statutory homeless figures and sickness absence.

Resolved:

That the report be noted.

Reasons for making the decision:

Monitoring of strategic projects and key performance indicators provides a link between the Council Plan 24-27 by providing progress updates.

51 STRATEGIC RISK REGISTER

(Cabinet Member with Special Responsibility Councillor Hamilton-Cox)

Cabinet received a report from the Chief Executive that provided an update on the authority's progress in updating the Strategic Risk Register.

As the report was for noting no options were provided. Councillor Philip Black suggested that there might be several projects masked under a broader heading that might deserve an independent line e.g. Mainway and Skerton High. These were currently within SR08 and the Leader confirmed that this would be considered further.

Resolved:

That the report be noted.

Reasons for making the decision:

The Council have a Risk Management Policy which is written to provide guidance on the management of risk. Risk Management is identified in the Council Plan 2024-27.

52 MEDIUM TERM FINANCIAL STRATEGY UPDATE 2025/26 - 2029/30

(Cabinet Member with Special Responsibility Councillor Hamilton-Cox)

Cabinet received a report from the Chief Finance Officer to provide an update on the Council's Medium Term Financial Strategy forecasts for 2025/26 to 2029/30 and outline the approach to balancing the budget.

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

As the report is for consideration and alternative options are put forward, the Cabinet could make supplementary recommendations regarding any matters.

It must be reiterated that the current forecasts do not include any interventions by Cabinet, Senior Leadership Team or the outcomes of the Local Government Settlement. Whilst some savings have been delivered, the forecasts show that potential annual and cumulative budget deficits still remain over the next 5 years and continue to need to be addressed. In light of this, balancing the budget both in the short and the medium term remains a tough task and all Members must work together and recognise that they will face a number of difficult but key decisions as part of the forthcoming budget and over the coming financial years which will affect the manner in which it delivers its services.

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

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

Councillors then voted:-

Resolved unanimously:

(1) That the draft future years estimates as set out in the report as the latest information available, accepting that this is an interim position be noted.

(2) That the update be referred on to December Council for information.

(3) That the Council Tax Base for 2025/26 as set out in paragraph 3.12 to the report be noted.

Officers responsible for effecting the decision:

Chief Finance Officer

Reasons for making the decision:

Performance, project, and resource monitoring provides a link between the Council Plan and operational achievement, by providing regular updates on the impact of operational initiatives against strategic aims.

....
Chair

(The meeting ended at 7.03 p.m.)

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

MINUTES PUBLISHED ON THURSDAY 5 DECEMBER, 2024.

EFFECTIVE DATE FOR IMPLEMENTING THE DECISIONS CONTAINED IN THESE MINUTES: FRIDAY 13 DECEMBER, 2024.

CABINET APPOINTMENTS TO OUTSIDE BODIES – DECEMBER 2024

BID Company Ltd (Morecambe) *Cllr Bottoms*

Community Safety Partnership (Cabinet Member and reserve) *Cllr P Jackson (Cllr C Jackson reserve)*

Growth Lancashire Limited (Cabinet Member and reserve) *Cllr Wilkinson (no reserve appointed)*

Health and Wellbeing Partnership (Cabinet Member and reserve) *Cllr P Jackson (Cllr C Jackson reserve)*

Lancashire Leaders Meeting (Leader of the Council) *Cllr C Jackson*

Lancashire Waste Partnership *Cllr Hart*

Lancaster Community Fund Grants Panel (1 place; the other place is by nomination and voting at Council) *Cllr P Jackson*

Lancaster Business Improvement District (BID) Management Group *Cllr Wilkinson*

LGA General Assembly (Leader of the Council) *Cllr C Jackson*

Yorkshire Dales National Park Board *Cllr P Jackson*

CABINET

6.00 P.M. **14TH JANUARY 2025**

PRESENT:- Councillors Caroline Jackson (Chair), Peter Jackson, Martin Bottoms, Gina Dowding, Tim Hamilton-Cox, Paul Hart, Sally Maddocks, Sue Tyldesley and Nick Wilkinson

Officers in attendance:-

Mark Davies	Chief Executive
Luke Gorst	Chief Officer - Governance and Monitoring Officer
Paul Thompson	Chief Officer - Resources and Section 151 Officer
Mark Cassidy	Chief Officer - Planning and Climate Change
Jonathan Noad	Chief Officer - Sustainable Growth
Joanne Wilkinson	Chief Officer - Housing and Property
Liz Bateson	Principal Democratic Support Officer

53 MINUTES

The minutes of the meeting held on Tuesday 3 December 2024 were approved as a correct record.

54 ITEMS OF URGENT BUSINESS AUTHORISED BY THE LEADER

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

55 DECLARATIONS OF INTEREST

No declarations were made at this point.

56 PUBLIC SPEAKING

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

The Leader confirmed that any non-Cabinet members in attendance would be permitted to ask questions on the various reports as they were presented (Cabinet Procedure Rule 17 refers).

57 EMPTY HOMES STRATEGY

Cabinet Member with Special Responsibility Councillor Caroline Jackson)

Cabinet received a report from the Chief Officer Sustainable Growth to approve the submission of the Empty Homes Strategy for its consideration, approval, and adoption into the council's Policy Framework.

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

	Option 1: The final version of the Empty Homes Strategy is approved for adoption into the council's Policy Framework.	Option 2: The final version of the Empty Homes Strategy is not adopted as corporate council policy.
Advantages	Enables the council to progress its empty homes work to an agreed framework, objectives, and action plan. While having some flexibility the Strategy defines the council's objectives and approach and the future targeting of empty homes priorities.	No advantages identified unless Members require substantive amendments to the document or seek further consultation on the final document.
Disadvantages	A delay in the adoption of the Strategy may create further uncertainty around the council's intentions for this area of policy and work.	Ongoing work of the Empty Homes Officer takes place outside of an agreed priority framework and Action Plan.
Risks/ Mitigation	Risks are around reputational risk to the council of approving an approach which does not meet the objectives and/or does not find favour with the wider community. However, it is considered that the Strategy reflects the stakeholder and community aspirations (as expressed through consultation) and the council's overarching and current corporate policy framework.	Work proceeds ad hoc and outside of an agreed policy framework.

The officer preferred option is Option 1. The Empty Homes Strategy 2025-2030 is a comprehensive plan to address long-term vacancies in Lancaster District's housing stock. It combines proactive and reactive measures, aiming to balance supportive interventions with necessary enforcement actions. By bringing empty homes back into use, the council aims to reduce housing shortages, improve neighbourhood conditions, and contribute to Lancaster's broader goals of community sustainability and well-being. Regular monitoring, effective partnerships, and targeted resource use are essential to achieving the strategy's objectives and making a positive impact on Lancaster's housing landscape.

Councillor Caroline Jackson proposed, seconded by Councillor Hamilton-Cox:-

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

Councillors then voted:-

Resolved unanimously:

(1) That the Empty Homes Strategy 2025 - 2030 is adopted into the Council's Corporate Policy Framework.

Officer responsible for effecting the decision:

Chief Officer Sustainable Growth

Reasons for making the decision:

The decision is consistent with the Council Plan: Access to Quality Housing plays a fundamental role in health and well-being by ensuring that communities have access to homes for people of all incomes which are comfortable, warm and allows them to maintain their independence. The collective actions of the council in making an active contribution to the provision of new homes, achieving its housing regeneration ambitions, and making the best use of Lancaster district's existing housing stock, including empty homes will positively contribute to meeting its corporate objectives.

58 ADOPTION OF THE CLIMATE EMERGENCY REVIEW OF THE LANCASTER DISTRICT LOCAL PLAN

Cabinet Member with Special Responsibility Councillor Dowding)

Cabinet received a report from the Chief Officer – Planning and Climate Change Service to advise Cabinet Members of the receipt and publication of the Inspector's Report of the Examination of the Climate Emergency Review of the Lancaster District Local Plan and seek an endorsement of the intention that a report is presented to Council, provisionally on 22 January 2025, recommending that the Council adopts the updated Local Plan Development Plan Documents as elements of its statutory development plan.

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

Members are advised that there is only one realistic course of action in response to the recommendations of this report; that is to acknowledge the receipt and publication of the Inspector's report and endorse the intention that a report is presented to Council, provisionally on 22 January 2025, with the recommendation that Council adopts the Climate Emergency Review of the Strategic Policies & Land Allocations Development Plan Document (DPD) and the Climate Emergency Review of the Development Management.

The officer preferred option was to support the recommendations and have the adoption process proceed to Full Council. Given the resource that the Council has deployed between 2020 and 2024 to update its Local Plan to better respond to the Climate Emergency and the very public commitment it made to the community to be pro-active in addressing Climate Change including though the formal submission of the revised documents to the Government, to then subsequently decide not to proceed to the conclusion of that process by supporting an adoption recommendation to full Council would likely have immediate consequences for the reputation of the Council and potentially cause the Secretary of State to intervene in the adoption process.

It was noted that this had received a lot of publicity both locally and nationally and Cabinet recognised the determination, resilience and tenacity of all those involved in the process of placing the council in a leading position in this area.

Councillor Dowding proposed, seconded by Councillor Tyldesley:-

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

Councillors then voted:-

Resolved unanimously:

(1) That Cabinet acknowledge the receipt and publication of the Inspector’s report of the Examination of the Climate Emergency Review of the Lancaster District Local Plan, which concludes that the reviewed planning documents provide an appropriate basis for the planning of the district, subject to compliance with her binding recommendations.

(2) That Cabinet endorse the intention that a report is presented to Council, provisionally on 22 January 2025, with the recommendation that Council adopts the Climate Emergency Review of the Strategic Policies & Land Allocations Development Plan Document (DPD) and the Climate Emergency Review of the Development Management Policies DPD.

Officers responsible for effecting the decision:

Chief Officer – Planning and Climate Change

Reasons for making the decision:

The decision is consistent with the Council Plan which is underpinned by four principles:
- A Sustainable District
- An Inclusive and Prosperous Local Economy
- Healthy and Happy Communities
- A Co-operative, Kind and Responsible Council,

and four themes:
- The Climate Emergency
- Community Wealth Building
- Increasing Wellbeing. Reducing Inequality
- Deliver Effective Services, Take Responsibility.

Work to update the Local Plan through the preparation of a Climate Emergency Review addresses all these principles and themes as development outcomes that better address the Climate Emergency will bring benefits to the community, the environment and the economy.

The City Council is legally obligated to maintain a Policy Framework and the Local Development Plan and Development Plan Documents are components of that Framework. The constitution states that decisions made about documents on the Policy Framework must be made by Full Council, usually on the recommendation of Cabinet. This report enables the expectations of the processes described in the constitution and facilitates decision making.

59 CORPORATE FEES & CHARGES 2025/26

Cabinet Member with Special Responsibility Councillor Hamilton-Cox)

Cabinet received a report from the Chief Officer Resources which asked Members to endorse the Fees and Charges Policy for 2025/26 and also to consider a range of charging options as deemed appropriate to the service area.

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

	Option 1: To support the inflationary increases/freezes as outlined in the report.	Option 2: To not support the inflationary increases/freezes as outlined in the report.
Advantages	Fees and charges contribute further to the general fund net position. Costs of delivering Council services have increased as has demand in some areas. Not increasing costs means that further pressure is created on the Council's ability to deliver its core services.	Maintains the cost of services at 24/25 levels or at less than proposed in this report.
Disadvantages	The draft revenue budget has been prepared with the inclusion of the items raised in this report. Any further proposals would require further consideration prior to being fed into the budget process.	Costs of delivering Council services have increased as has demand in some areas. Not increasing costs means that further pressure is created on the Council's ability to deliver its core services.
Risks	Increasing fees to higher than suggested levels would most likely result in further resistance and potentially not achieve the targets originally set.	Cost of living increases and the return from the pandemic have reshaped people's habits. The income targets already set may not achieve projected levels in 24/25, resulting in a shortfall within the accounts.

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

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

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

Councillors then voted:-

Resolved unanimously:

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

(2) That for 2025/26, Cabinet endorses the freezing of selected fees and charges as detailed within section 3 of the report with particular reference to Car Parking charges, Salt Ayre Sports Centre, Markets and Rodent Control.

(3) That Cabinet endorses the application of inflationary increases to fees and charges across all remaining areas as appropriate, as reported as part of the current 2025/26 budget setting process.

(4) That Cabinet endorses a £1 per bin increase (2.2%) in contribution towards households using the opt-in garden waste collection service, thus making the annual cost of the service £46 per bin.

(5) That Cabinet endorses the introduction of new fees and charges within Planning & Climate Change as detailed in section 3.7 of the report.

Officer responsible for effecting the decision:

Chief Officer Resources

Reasons for making the decision:

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

60 BUDGET AND POLICY FRAMEWORK UPDATE 2025/26 TO 2029/30

Cabinet Member with Special Responsibility Councillor Hamilton-Cox)

Cabinet received a report from the Chief Finance Officer to provide an update on the Council's budget strategy for 2025/26 and financial outlook up to 2029/30. Specifically, the report considered the budget and Council Tax proposals for 2025/26.

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

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

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

In terms of the actual budget position, this report puts forward a balanced budget. If Cabinet agrees the budget, then it will form their proposal to be presented for scrutiny on 15 January prior to public consultation/stakeholder meeting on 29 January (both by Budget and Performance Panel). The feedback from these meetings will be considered by Cabinet and incorporated into a final budget proposal which will be presented at the Cabinet meeting on 11 February 2025 and recommended to Council on 26 February 2025.

The current budget proposal produces a balanced budget for 2025/26 without the need to call on reserves.

Whilst the longer-term financial forecasts contain numerous estimates and assumptions, which will change over time, the forecasts clearly highlight potential annual and cumulative budget deficits over the next 5 years and the position the Council faces. Although this position is not unique to this Council, it is reflected nationally across many public sector bodies. The gaps identified for 2026/27 and beyond are of a level that both Members and Officers need to recognise the size of the challenge ahead and manage the transitional change to the way that the Council delivers both its statutory and non-statutory services across the district

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

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

Councillors then voted:-

Resolved unanimously:

(1) That Cabinet make recommendations to Council regarding the Lancaster City Council element of the Council Tax as set out in paragraph 3.3 (option one) of this report which is a 2.99% increase to the Band D Council Tax (from £256.63 to £264.30).

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

(3) That the recommendations and proposals in the report be referred to Council on 22 January for initial consideration as well as being presented for scrutiny on 15 January prior to public consultation/stakeholder meeting on 29 January (both by Budget and Performance Panel), in order that any feedback can be provided to Cabinet at its 11 February meeting.

Officer responsible for effecting the decision:

Chief Finance Officer

Reasons for making the decision:

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

The decision enables the proposals to be considered by the Budget and Performance Panel and at January Council allowing Cabinet to make further recommendations back to Council to complete the budget setting process for 2025/26.

61 HOUSING REVENUE ACCOUNT AND CAPITAL PROGRAMME

Cabinet Member with Special Responsibility Councillor Caroline Jackson)

Cabinet received a joint report from the Chief Officer for Housing & Property and the Chief Officer Resources which sought Cabinet decisions on Council Housing rent setting proposals and the consideration of HRA revenue and capital budget proposals.

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

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

In relation to garage rents, it is recommended that following recent rent freezes an increase in line with dwelling rent increases is appropriate and will support maintenance requirements without adversely impacting occupancy levels.

The provision, reserves and balances position (and their use); Revenue budgets; Capital Programme; and other wider budget considerations referred to in this report will be presented fully to Cabinet on 11th February 2025.

	Option 1: Set housing and garage rent levels as set out in this report	Option 2: To propose alternatives to those outlined in Section 11 above.
Advantages	Increased rental income supports the Council to deliver against its Regulatory requirements and ensuring homes are safe and decent	Unknown
Disadvantages	Increased rent levels for tenants.	Would require further options analysis
Risks/ Mitigation	The HRA budget outlined in this report and to be presented to Cabinet in February 2025 is sustainable in the long term. The risks associated with Option 1 are outlined in Appendix F –	Impact on housing service and council housing tenants unknown. Potential for housing service to fall foul of legislative and regulatory requirements, leading to unlimited fines and being 'named and shamed' by

	Risks and Assumptions. In addition, the contents of this report have not yet been presented to tenants for consultation. This consultation will take place later in January 2025 place and details will be included in February 2025 report.	government.

The officer preferred option is Option 1 : Set housing and garage rent levels as set out in this report in advance of consideration of wider HRA budget at February 11th 2025 Cabinet.
The report highlights challenges faced within the current economic climate, particularly in the context of the increased regulatory and legislative requirements being placed on the social housing sector.

The longer-term financial forecasts contain numerous estimates and assumptions, and the service remains attuned to the risks contained within Appendix F, and in particular the impacts of further legislative and regulatory change which could affect business planning within the HRA.

Lancaster City Council's Housing Service remains ambitious, while continuing to operate a sensible but forward-looking approach, seeking to meet Regulatory requirements and deliver safe and decent homes.

In response to a question regarding the installation of gas boilers the Leader advised the meeting that she would request a report to a future Cabinet meeting on how the Housing Service was progressing towards net zero.

Councillor Caroline Jackson proposed, seconded by Councillor Hamilton-Cox:-

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

Councillors then voted:-

Resolved unanimously:

(1) That council housing rents be set in accordance with statutory requirements as follows (subject to tenant consultation and ratification at February 11th 2025 Cabinet):
- for existing tenancies, rents will increase by 2.7% from 7th April 2025
- for new tenancies within 2025/26, rents will be set at 'formula rent'1

(2) That garage rents be increased at CPI +1% in line with dwelling rents

(3) That subject to the above, the resulting Housing Revenue Account budget for 2025/26 onwards, as set out at Appendix A to the report, together with the resulting Capital Programme as set out at Appendix C to the report, be considered by Cabinet, ahead of final presentation on 11th February 2025 and pending tenant consultation.

Officer responsible for effecting the decision:

Chief Officer for Housing & Property

Reasons for making the decision:

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

The proposals set out in the report will have positive impacts residents within Council Housing dwellings specifically climate change, wellbeing / social value, health and safety and community safety.

62 REPORTING IN OF URGENT DECISION - WORKWELL

In accordance with the Scheme of Delegation to Officers (Part 2, Section 7 – Delegations to the Chief Executive Matters of Urgency) the Chief Executive submitted a report to Cabinet with details of an urgent decisions taken under Rule 15 following consultation with the Chair of Overview & Scrutiny. The Urgent Decision related to the Workwell Vanguard and the acceptance of allocated funding (UB137 refers).

Resolved unanimously:

That the Urgent Decision taken by the Chief Executive on 25 November 2024 be noted.

....

Chair

(The meeting ended at 7.36 p.m.)

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

MINUTES PUBLISHED ON THURSDAY 16 JANUARY, 2025.

EFFECTIVE DATE FOR IMPLEMENTING THE DECISIONS (SUBJECT TO CALL-IN) CONTAINED IN THESE MINUTES: FRIDAY 24 JANUARY, 2025