

Delivering Our Priorities: Q2 2025/26 2 December 2025

Report of Chief Executive & s151 Officer

PURPOSE OF REPORT				
To provide members with an update on financial performance during the first two quarters of 2025/26 (April – September 2025).				
Key Decision	N	Non-Key Decision		Referral from Cabinet Member
Date of notice of forthcoming key decision		N/A		
This report is public				

RECOMMENDATIONS OF COUNCILLOR HAMILTON-COX

That Cabinet

- (1) Consider the update on financial performance for Quarter 2 2025/26.

1.0 INTRODUCTION

- 1.1 The primary purpose of this report is to present information relating to the Council's financial performance for the period April-September 2025, which can be found within the appendices.

2.0 FINANCIAL MONITORING

- 2.1 The 2025/26 Budget and Medium-Term Financial Strategy (MTFS) 2025-2030 approved by Council in February 2025 set a balanced budget for the year based on the assumptions made at that time.
- 2.2 All portfolios are required to examine their revenue budgets and meet with their budget holders regularly and reports are submitted to Cabinet and Budget & Performance Panel for review. To enable Portfolio Holders to meet this requirement, Financial Services continually reviews and refreshes how it presents the Council's corporate monitoring information, with the Quarter 2 information distributed members of both committees on 31 October 2025.
- 2.3 In an attempt to aid understanding Members should note that where **projected variances** values are presented with brackets () this reflects a negative, or adverse movement from the budgeted position. Conversely, projected variances accompanied with a + sign represents a positive, or favourable movement from the budgeted position. The following financial appendices accompany the financial monitoring section of this report.

Appendix A: General Fund Service Analysis
Appendix B: General Fund Subjective Analysis

Appendix C:	HRA Service Analysis
Appendix D:	General Fund Capital Projects
Appendix E:	HRA Capital Projects
Appendix F:	Reserves Projected Outturn
Appendix G:	Approved Savings Monitoring
Appendix H:	Service Analysis
Appendix I:	Aged Debt Summary By Service
Appendix J:	Treasury Management Quarterly Update

- 2.4 It should also be noted that **projected outturn figures are monitored against the working budget** and not the original budget within this report. The working budget includes approved virements and in-year budget adjustments. This reduces a number of variances in respect of items such as 'grossing-up' of grant income/expenditure and the movement of employees to different costs centres which is especially needed during times of service restructuring. It provides a more accurate up-to date forecast and eliminates the need for duplicate reporting at service and subjective levels.

3.0 SALARY PROJECTIONS

- 3.1 Salary expenditure is one of the largest areas of expenditure in the Council and the latest budgeted pay bill for direct employee expenses is £33.572M (£26.772M General Fund, £6.800M HRA).
- 3.2 As part of the 2025/26 budget setting process, an inflationary uplift of 2.5% was included to salaries across all services of the Council. The National Employers latest offer of an increase of 3.2% on all NJC pay points was agreed in July 2025.

For the purposes of the projected outturn calculations used within this report, the agreed offer of 3.2% has been included. For information, additional annual costs in the region of £0.228M (£0.182M General Fund, £0.046M HRA) have been forecasted.

- 3.3 The latest salary position is detailed in the table below.

Table 1 Quarter 2 Financial Monitoring – Salary Monitoring

	Salaries Variance £'000	Pay Award £'000	Agency Variance £'000	Other Variance £'000	Total Variance £'000
<u>General Fund</u>					
Environment & Place	163	(88)	(104)	0	(29)
Governance	130	(12)	(55)	0	+63
Housing & Property	236	(28)	(39)	(104)	+65
People & Policy	26	(11)	0	0	+15
Planning & Climate Change	250	(18)	0	(22)	+210
Resources	216	(15)	(8)	0	+193
Sustainable Growth	122	(10)	0	11	+123
Provision for Staff Turnover	(486)	0	0	0	(486)
TOTAL FAVOURABLE VARIANCE	657	(182)	(206)	(115)	+154
<u>Housing Revenue Account</u>					
Housing & Property	214	(46)	(72)	70	+166
Provision for Staff Turnover	(11)	0	0	0	(11)
TOTAL FAVOURABLE VARIANCE	203	(46)	(72)	70	+155

As the above table demonstrates, the council salary related position as a whole (including the additional pay award, agency and consultancy costs) is expected to be underspent by +£0.309M (£0.154M General Fund, £0.155M HRA). However, it should be noted that this includes an in-year re-assessment of the 'Provision for Staff Turnover' which is estimated at this point in time.

4.0 OUTCOMES BASED RESOURCING

- 4.1 As part of the 2025/26 budget setting process, Members approved savings and budget proposals to save the Council £0.025M in 2025/26. The process to implement these savings is now underway and Appendix G details the progress of each proposal.

5.0 COMMERCIAL & CORPORATE PROPERTY REVIEW

- 5.1 Following a review of the Council's commercial and corporate property portfolio, Members approved an ongoing programme of capital and revenue works over the next ten years to initially address the immediate issues whilst formulating an ongoing strategy to maintain the asset portfolio. This was included as part of the 2025/26 budget setting process and year one (2025/26) included a base budget amount of £1.541M which once adjusted for inflation amounted to £1.426M for specific work and £0.150M for project management costs.
- 5.2 Since budgetary approval was gained, an ongoing review of works required has been taking place. This review has highlighted changes required which mainly fall into the following categories:-
- Additional works identified including these industrial style roofs
 - Deletions / removal of works for properties subject to further review
 - Acceleration of works originally scheduled for future years
 - Slippage of works to later years
 - Movement between capital and revenue expenditure.

Usually, this will affect the net position of the Council in terms of net under or overspend being presented. However, due to the required reprofiling of expenditure across future financial years identified within the review, the consolidated underspend will be transferred into the Corporate Property Reserve.

In order to assist in providing a clearer financial position for services going forward, the connected financial budgetary positions have been removed from individual service lines reported within section 6 of this report and associated appendices. This is a differing approach to that taken within the quarter 1 report where they were included within service totals.

- 5.3 The following table outlines the latest position of the project.

Table 2 Quarter 2 Financial Monitoring – Corporate Property Review

	Original Budget 2025/26 £'000	Working Budget 2025/26 £'000	Q2 Actual 2025/26 £'000	Projected Outturn 2025/26 £'000	Projected Variance 2025/26 £'000
<u>Environment & Place</u>					
Hospitality & Events Management	13	13	0	0	+13
Parks & Open Spaces	5	5	0	0	+5
Salt Ayre Leisure Centre	395	395	0	0	+395
Service Support	159	159	0	0	+159
Williamson Park	75	75	0	0	+75
<u>Housing & Property</u>					
Commercial Land & Properties	142	142	0	0	+142
Facilities Management	51	51	14	50	+1
Municipal Buildings	505	505	0	101	+404
Other Land & Buildings	80	80	0	0	+80
<u>Sustainable Growth</u>					
Markets	1	1	0	0	+1
<u>Other Items</u>					
Contribution to Reserve	0	0	0	1,275	(1,275)
Total Revenue	1,426	1,426	14	1,426	0

The review of the programme of works has been included within the draft estimates as part of the ongoing 2026/27 budget process.

6.0 GENERAL FUND SUMMARY POSITION

- 6.1 Quarter 2 (Q2) monitoring covers the period for April – September 2025. At the end of Q2 (September 2025) a year end underspend of **£0.331M** is projected against the Council's approved original net revenue budget of **£27.201M**.
- 6.2 A summary of the Q1 revenue position for the main service accounts of the Council is set out in table 3 below with commentary on significant variances provided in the following paragraphs.

Table 3 Quarter 2 Financial Monitoring – Service Analysis

	Provisional Outturn 2024/25 £'000	Original Budget 2025/26 £'000	Working Budget 2025/26 £'000	Q2 Actual 2025/26 £'000	Projected Outturn 2025/26 £'000	Projected Variance 2025/26 £'000
Environment & Place	8,105	8,240	8,240	2,905	8,596	(356)
Governance	1,708	1,707	1,707	1,195	1,757	(50)
Housing & Property	1,605	3,536	3,536	(2,008)	3,007	+529
People & Policy	2,454	2,432	2,432	1,290	2,458	(26)
Planning & Climate Change	2,004	2,274	2,274	910	2,093	+181
Resources	4,710	5,084	5,084	1,781	5,041	+43
Sustainable Growth	(1,306)	(978)	(978)	(454)	(693)	(285)
Corporate Accounts	1,838	(87)	(87)	105	704	(791)
Other Items	5,661	4,810	4,810	(731)	3,724	+1,086
Sub Total	26,779	27,018	27,018	4,993	26,687	+331
Net Recharges to Housing Revenue Account	(1,026)	(1,026)	(1,026)	(1,026)	(1,026)	0
RMS Capital Charges (now Housing Revenue Account)	(200)	(218)	(218)	790	(218)	0
Corporate Property Review (Revenue)	0	1,427	1,427	14	152	+1,275
Corporate Property Review (Appropriation)	0	0	0	0	1,275	(1,275)
Revenue Reserve funded items (Revenue)	3,185	456	2,266	856	2,167	+99
Revenue Reserve funded items (Appropriation)	(3,134)	(456)	(2,266)	0	(2,167)	(99)
Sub Total	(1,175)	183	183	634	183	0
General Fund Revenue Budget	25,604	27,201	27,201	5,627	26,870	+331
Financing Income	(14,676)	(15,651)	(15,651)	7,297	(16,023)	+372
Council Tax Requirement	10,928	11,550	11,550	12,924	10,847	+703

Environment & Place (-£0.356M) Adverse

6.3 Significant budget variances : -

- Pay award (-£0.089M)
- General staff turnover savings +£0.059M due to vacancies across the service offset by overspend within waste collection due sickness levels plus the collection of recycling boxes now being delivered in-house
- Asset and Compliance Review (-£0.155M)
- Energy savings across service +£0.060M
- Vehicle hire costs (-£0.090M) within waste collection due to vehicles being off-road for repair as they approach renewal offset by R&M savings +£0.020M and fuel savings due to price +£0.035M
- Rental income to concessions on promenade not budgeted for +£0.033M
- Income shortfalls at SALC, including Spa, Swimming and Café (-£0.165M) partially offset by reduction in stock purchases +£0.032M and staffing contained within the general turnover savings above
- Income shortfall relating to trade waste (-£0.050M) in-line with previous years outturn and loss of custom due to not being able to make food waste collections
- Income shortfall relating Williamson Park Café and Shop due to closure of buildings (-£0.197M) partially offset by reduction in stock purchases +£0.089M

Governance (-£0.050M) Adverse

6.4 Significant budget variances : -

- Pay award (-£0.012M)
- Agency cover within service for two key posts (-£0.055M) offset by vacant post savings within service +£0.130M
- Potential City Council by-election not included within budget (-£0.024M)
- Reduced Legal Fee income (-£0.037M) plus a further (-£0.018M) fees due to specialist advice required
- Street Trading Consent scheme not yet commenced (-£0.020M)

Housing & Property +£0.529M Favourable

6.5 Significant budget variances : -

- Pay award (-£0.028M)
- General staff turnover savings, net of agency services +£0.093M
- Reduction in rent income due to commercial property lease changes (-£0.325M)
- Additional rent income due to ongoing lease negotiations +£0.290M, offset by increase in provision for bad debts (see Corporate Accounts)
- Net additional business rates on void units (-£0.297M)
- Reduction in B&B expenditure in line with quality assurance of placements and utilisation of Council voids +£0.691M
- Asset and Compliance Review +£0.167M
- Energy savings across service +£0.060M
- Removal of utilities savings target due to delays in recruitment (-£0.037M)

People & Policy (-£0.026M) Adverse

6.6 Significant budget variance: -

- Pay award (-£0.011M)
- Net impact of Morecambe VIC premises being empty (-£0.035M)

Planning & Climate Change +£0.181M Favourable

6.7 Significant budget variances: -

- Pay award (-£0.018M)
- Vacancies particularly within Planning Advice & Control. A small restructure is being explored to attract more applicants +£0.228M
- Reduced demand for pre-application advice particularly for the higher value, larger developments (-£0.035M)

Resources +£0.043M Favourable

6.8 Significant budget variances: -

- Pay award (-£0.015M)
- Salary savings +£0.208M including key accountancy and ICT vacancies
- Consultancy fees for Mainway scheme (-£0.049M)
- Increased shared service management fees for Revenues (-£0.040M)

Sustainable Growth (-£0.285M) Adverse

6.9 Significant budget variances: -

- Pay award (-£0.010M)
- Salary savings +£0.133M which includes 5 vacant Engineer posts and a reduction in post hours
- Reduced income levels at Morecambe Market partially due to less stall holders (-£0.057M)
- Revaluation of VAT classification at Morecambe Market resulting in 4 year VAT adjustments (-£0.209M)

- Off-street parking R&M and software costs (-£0.026M)
- Off-street parking pay and display income (-£0.100M)

Corporate Accounts (-£0.791M) Adverse

6.10 Significant budget variances: -

- The provision for staff turnover target (-£0.486M) is held within Corporate Services whilst the additional costs/savings generated are attributed to the individual service lines. The council salary related position within the general fund (including the additional pay award, agency and consultancy costs) is expected to be underspent by +£0.153M
- Provision for Bad Debts is anticipated to increase by (-£0.290M) due to ongoing lease negotiations (see Housing & Property)
- Costs for works relating to oil spill incident February 2025 (-£0.046M)
- Recovery of costs for works in default relating to incident at Supa Skips December 2023 +£0.034M

Other Items +£1.086M Favourable

6.11 Significant budget variances: -

- The removal of the an annual contribution to the renewals reserve following a review of reserve levels +£0.293M
- The new borrowing in 2024/25 was not incurred as anticipated largely due to significant levels of slippage on schemes in the capital programme leading to higher levels of cash balances. Further borrowing anticipated in 2025/26 is not expected until later in the year +£0.240M
- Interest rates have remained higher than the 3.5% forecast in September 2024 due to inflationary pressures. Also cash balances have been higher than forecast largely due to slippage on schemes in the capital programme +£0.332M
- Minimum Revenue Provision (MRP) savings arising due to slippage of schemes in the Capital Programme during 2024/25 and the use of capital receipts to finance short life assets in 2024/25 +£0.221M

6.11 Appendix A: General Fund Service Analysis (Q2) set out the above information in more detail and provides summary percentage variations for variances +/- £0.030M. Appendix H provides additional analysis across individual service areas.

6.12 The revenue position provided within table 3 above is analysed across the Council's subjective headings and is set out in table 4 below.

Table 4 Quarter 2 Financial Monitoring – Subjective Analysis

	Provisional Outturn 2024/25 £'000	Original Budget 2025/26 £'000	Working Budget 2025/26 £'000	Q2 Actual 2025/26 £'000	Projected Outturn 2025/26 £'000	Projected Variance 2025/26 £'000
Employees	24,967	27,219	27,350	13,213	27,095	+255
Premises Related Exp	5,634	5,960	5,964	2,847	6,032	(68)
Transport Related Exp	1,661	1,720	1,720	916	1,747	(27)
Supplies and Services	16,743	14,609	17,822	7,507	16,841	+981
Transfer Payments	25,186	21,977	21,977	8,050	21,977	0
Support Services	217	142	160	1	160	0
Capital Charges	0	17	17	0	17	0
Capital Financing Costs	1,146	1,535	1,535	268	1,295	+240
Appropriations	8,858	4,515	4,515	0	4,001	+514
Income	(57,633)	(50,376)	(53,742)	(27,809)	(52,478)	(1,264)
Capital Financing Inc	0	(300)	(300)	0	0	(300)
Sub Total	26,779	27,018	27,018	4,993	26,687	+331
Net Recharges to Housing Revenue Account	(1,026)	(1,026)	(1,026)	(1,026)	(1,026)	0
RMS Capital Charges (now Housing Revenue Account)	(200)	(218)	(218)	790	(218)	0
Corporate Property Review (Revenue)	0	1,427	1,427	14	152	+1,275
Corporate Property Review (Appropriation)	0	0	0	0	1,275	(1,275)
Revenue Reserve funded items (Revenue)	3,185	456	2,266	856	2,167	+99
Revenue Reserve funded items (Appropriation)	(3,134)	(456)	(2,266)	0	(2,167)	(99)
Sub Total	(1,175)	183	183	634	183	0
General Fund Revenue Budget	25,604	27,201	27,201	5,627	26,870	+331
Financing Income	(14,676)	(15,651)	(15,651)	7,297	(16,023)	+372
Council Tax Requirement	10,928	11,550	11,550	12,924	10,847	+703

6.13 Appendix B: General Fund Subjective Analysis covers this information in more detail.

7.0 HOUSING REVENUE ACCOUNT SUMMARY POSITION

7.1 As at the end of Q2, a year end overspend against budget of **(-£0.696M)** is projected. A summary of the Q2 revenue position for the HRA is set out in table 5 below.

Table 5 Quarter 2 Financial Monitoring – HRA Service Analysis

	Provisional Outturn 2024/25 £'000	Original Budget 2025/26 £'000	Working Budget 2025/26 £'000	Q2 Actual 2025/26 £'000	Projected Outturn 2025/26 £'000	Projected Variance 2025/26 £'000
Policy & Management	2,495	3,071	3,279	1,391	3,248	+31
Repairs & Maintenance	7,048	6,704	6,734	3,112	6,978	(244)
Welfare Services	(241)	(238)	(238)	(243)	(182)	(56)
Special Services	221	253	277	163	312	(35)
Miscellaneous Expenses	1,380	1,158	1,158	724	1,154	+4
Income Account	(18,919)	(18,255)	(18,255)	(8,960)	(17,968)	(287)
Capital Charges	(1,373)	7,424	7,424	0	7,424	0
Appropriations	8,872	(634)	(896)	0	(787)	(109)
Sub Total	(517)	(517)	(517)	(3,813)	179	(696)
Net Recharges to General Fund	517	517	517	517	517	0
Housing Revenue Account Budget	0	0	0	(3,296)	696	(696)

7.2 Significant budget variances: -

- Pay award (-£0.046M)
- General staff turnover savings, net of agency services +£0.212M
- Additional repairs costs relating to defending and settling disrepair claims (-£0.271M)
- Costs relating to fire at Bronte House (-£0.150M), reviewing options for capitalisation of costs
- Additional rent loss from voids due to ongoing capital projects and high levels of Right to Buy sales (-£0.242M)
- Additional council tax on re-lets due to major voids and capital projects (-£0.109M)
- Additional admin fees re high levels of Right to Buy sales +£0.039M
- Increase in contribution to reserves to fund Bridge House homeloss payments (-£0.200M)
- Removal of in-year contribution to Flats Planned Maintenance reserve +£0.033M
- Decrease in contribution to bad debt provision +£0.107M

7.3 Appendix C: Housing Revenue Account Service Analysis covers this information in more

detail and provides summary percentage variations for variances +/- £30K.

8.0 CAPITAL PROJECTS (General Fund & HRA)

- 8.1 At Q2 a year end variance against budget of **(-£4.920M)** (General Fund (-£4.760M), HRA (-£0.160M)) is projected. Summary details for both the General Fund and HRA are set out in table 6 below.

Table 6 Quarter 2 Financial Monitoring – Capital Projects

	Original Budget 2025/26 £'000	Working Budget 2025/26 £'000	Q2 Actual 2025/26 £'000	Projected Outturn 2025/26 £'000	Projected Variance 2025/26 £'000	Slippage/ (Accelerated Expenditure) £'000
General Fund						
Environment & Place	10,404	8,122	(1,206)	8,122	0	0
Housing & Property	3,005	3,391	(2,774)	1,991	+1,400	(115)
People & Policy	0	0	0	0	0	0
Planning & Climate Change	5,933	6,986	56	4,000	+2,986	(2,433)
Resources	792	1,853	401	1,724	+129	(129)
Sustainable Growth	730	811	(4,566)	566	+245	(227)
Other Items	0	0	(158)	0	0	0
GENERAL FUND - TOTAL	20,864	21,163	(8,247)	16,403	4,760	(2,904)
Housing Revenue Account						
Adaptations	300	300	138	300	0	0
Energy Efficiency / Boiler Replacement	1,501	1,834	608	1,834	0	0
Internal Refurbishment	1,078	1,078	440	964	+114	0
External Refurbishment	637	855	155	855	0	0
Environmental Improvements	500	500	142	417	+83	0
Re-roofing / Window Renewals	595	693	39	693	0	0
Rewiring	88	128	45	122	+6	0
Lift Replacement	0	42	0	42	0	0
Fire Precaution Works	210	335	142	345	(10)	0
Housing Renewal & Renovation	957	939	503	972	(33)	0
Acquisitions	250	795	136	795	0	0
HOUSING REVENUE ACCOUNT - TOTAL	6,116	7,499	2,348	7,339	160	0
GRAND TOTAL	26,980	28,662	(5,899)	23,742	+4,920	(2,904)

- 8.2 The forecast underspending against budget relates to both General Fund and HRA. The table above highlights the slippage and accelerated expenditure, which is anticipated to be requested at the end of 2025/26. Once accounted for, the following differences represent the latest position of any forecast under/(over)spends :-

- Housing & Property: +£1.067M of Corporate and Commercial Property works have been reclassified as revenue and a newly updated programme will be picked up as part of the budget setting process.
A forecast underspend of +£0.226M is expected in relation to the Gateway Solar Array due to economies of scale anticipated from tying in these works with works at Burrow Beck Solar Farm.
-£0.008M overspend due to final valuation for works carried out at Mellishaw Park.
- Planning & Climate Change: A forecast underspend of +£0.533M relating to Burrow Beck Solar Farm due to the preparatory works carried out to ensure the contractor received a cleared site for construction and economies of scale achieved by using the same contractor for these works and works on the Gateway Solare Array.
- Sustainable Growth: Bare Outfall flooding project is complete with and underspend of -£0.018M

- 8.3 With regard to the overall projected favourable variance on the HRA Capital Programme of +£0.160M, this is largely due to a projected underspend of +£0.114M on internal refurbishment works. This will continue to be monitored throughout the year.

- 8.4 Appendix D General Fund Capital Projects and Appendix E HRA Capital Projects provide further information and summary commentary.

9.0 RESERVES

- 9.1 The Council's General Fund unallocated balances are projected to be **£9.491M**. This takes account of the projected net overspend reported here. Overall, the combined level of reserves is forecast to be **£29.735M**. Table 7 Quarter 2 Financial Monitoring – General Fund Reserves provides summary details for both Unallocated and Earmarked Reserves.

Table 7 Quarter 2 Financial Monitoring – General Fund Reserves

	<----- ORIGINAL BUDGET ----->					<----- PROJECTED OUTTURN ----->				
	31 March 2025 £	From Revenue £	To / (From) Capital £	To Revenue £	31 March 2026 £	31 March 2025 £	From Revenue £	To / (From) Capital £	To Revenue £	31 March 2026 £
Unallocated Balances	(8,189,200)	(820,000)	0	316,500	(8,692,700)	(10,027,832)	(1,151,000)	0	1,687,461	(9,491,371)
Total Earmarked Reserves (Usable)	(15,186,400)	(626,200)	38,000	82,700	(15,691,900)	(16,163,943)	(1,900,700)	38,000	269,400	(17,761,343)
Total Earmarked Reserves (Ringfenced)	(2,245,300)	(145,000)	0	19,200	(2,371,100)	(2,547,210)	(145,000)	0	210,400	(2,481,810)
Total Combined Reserves	(25,620,900)	(1,591,200)	38,000	418,400	(26,755,700)	(28,738,985)	(3,196,700)	38,000	2,167,261	(29,734,524)

- 9.2 The increase in usage of balances since the budget was approved include :-
- The inclusion of slippage (-£1.244M) as detailed within the Provisional Outturn report which was considered by Cabinet on 31 July 2025
 - Funding for a new fuel tank at White Lund Depot (-£0.025M)
 - Installation and setup costs relating to the Love Clean Streets app (-£0.028M)
 - Hostile vehicle mitigation for organised events (-£0.025M)
 - The installation of the temporary catering offer at Williamson Park and demolition of the café building, plus feasibility works and park lighting (-£0.200M)
 - Parking ANPR for Lancaster City Centre (-£0.032M)
 - Car parking strategy feasibility works (-£0.118M)
 - Additional Microsoft licenses to enable all staff access the council network (-£0.024M)
 - Cyber response security (-£0.078M)
 - Consultancy works in relation to commercial properties (-£0.035M)

- 9.3 The Council's Housing Revenue Account unallocated balances are projected to be **£0.517M** (deficit). This takes account of the projected net overspend reported here. Overall, the combined level of usable reserves is forecast to be **£0.650M**. Table 8 Quarter 2 Financial Monitoring – Housing Revenue Account Reserves provides summary details for both Unallocated and Earmarked Reserves.

Table 8 Quarter 2 Financial Monitoring – Housing Revenue Account Reserves

	<----- ORIGINAL BUDGET ----->					<----- PROJECTED OUTTURN ----->				
	31 March 2025	From Revenue	To / (From) Capital	To Revenue	31 March 2026	31 March 2025	From Revenue	To / (From) Capital	To Revenue	31 March 2026
	£	£	£	£	£	£	£	£	£	£
HRA Unallocated Balances	(76,000)	(26,700)	0	0	(102,700)	(151,800)	(26,700)		695,900	517,400
Total Earmarked Reserves	(2,671,800)	(5,057,900)	4,774,700	944,000	(2,011,000)	(3,303,500)	(5,168,200)	6,097,100	1,207,400	(1,167,200)
Total Combined Reserves	(2,747,800)	(5,084,600)	4,774,700	944,000	(2,113,700)	(3,455,300)	(5,194,900)	6,097,100	1,903,300	(649,800)

- 9.4 As the projected net overspend will cause HRA unallocated balances to fall into deficit, the financial health of the HRA is under close review and detailed plans are being developed to address the situation. Work is continuing to closely monitor areas of expenditure known to be under pressure and to evaluate all forecast spends against service priorities. In particular, the various factors which affect the depreciation charge are being reviewed, given the increases seen in recent years. These factors include:
- The quinquennial valuation of dwellings
 - Consideration of the methodology used in reaching a valuation that reflects the current use of the assets (social housing, EUV-SH)

- Assessment of the remaining useful life of properties
- Utilisation via the Major Repairs Reserve, including the potential funding of the self-financing loan principal repayment

Officers are optimistic that these reviews will ease the financial position, at least in the short to medium term, and allow the restatement of opening HRA unallocated balances to above the recommended minimum level. Further work is required regarding the methodology used in reaching a valuation of dwellings used for social housing, including liaison with external auditors and consideration of any impact on future years' capital programmes.

These reviews are informing the 2026/27 budget-setting process and when available, a clear updated net financial position will be presented which will allow the opportunity to inform decision making over the medium term.

- 9.5 Appendix F: Reserves Projected Outturn provides further detailed analysis for both funds.
- 9.6 The Council's reserves are used to manage pressures such as the cost of living crisis and also support the work to address the underlying structural deficit through the OBR process. As a result, they are fundamental to ensuring the financial sustainability of the Council as it deals with these pressures and will be kept under review by Officers and Members.

10.0 COLLECTION FUND

Business Rates

- 10.1 At the Autumn Budget on 30th October 2024 the Chancellor announced that for 2025/26:

- 2025/26 Multipliers – It was confirmed that the small business rates multiplier would be frozen at 49.9p with the standard multiplier uprated from 54.6p to 55.5p
- Retail, Hospitality and Leisure Relief – This relief has been decreased from 75% to 40% and the cap has remained the same i.e., £110,000.
- Removing Charitable Rate Relief from Private Schools – The existing mandatory business rates relief of 80% for private schools with charitable status will end from 1st April 2025.

Local authorities will be expected to use their discretionary relief powers (under section 47 of the Local Government Finance Act 1988) to grant Retail, Hospitality and Leisure Relief in line with the relevant eligibility criteria. Authorities are compensated for the cost of granting these reliefs via a section 31 grant from the government.

Section 1 of the Non-Domestic Rating Act (2023) created a mandatory relief to businesses making improvements to properties they occupy. Businesses that have made qualifying improvements may benefit from 100% relief from higher bills for 12 months. The scheme will run until 1st April 2029.

- 10.2 The collection rate for Business Rates is currently 54.6%, which is ahead of the profiled target of 51.4%. The annual target is 98.0%.
- 10.3 Business rates monitoring to the end of quarter 2 predicts a favourable in year variance of +£0.337M. This relates to a lower Levy payment than forecast in budget projections +£0.415M and a change in section 31 grants payable for the current year of (-£0.077M). Additionally, there is a forecast year end deficit of (-£0.788M) which will be recognised in 2026/27, however this will be fully funded from the Business Rates Retention Reserve (BRRR).
- 10.4 With regard to 2026/27, the proposed business rates reset will take place and this will affect the collection fund in a number of ways :-
- A revised business rates baseline which is the amount that we are expected to collect as an Authority

- A revised baseline funding level which is the funding need as determined by the government
- Expected changes to the tariff payable by the Authority and S31 grants due to the Authority

The overall effect of the above is expected to be addressed within transitional arrangements but it is proposed to utilise the BRRR to mitigate any significant financial impact.

At the time of writing this report, the various models required to calculate the future impact have not been released. However, it is expected before the end of November and the financial impact will be considered within future iterations of the Medium Term Financial Strategy (MTFS) report as appropriate.

Council Tax

- 10.5 The current collection rate for Council Tax is 54.4% which is behind the profiled target of 56.5%. The annual target is 95.0%. The number of Local Council Tax Support claimants at Q2 is 9,227.

11.0 WRITE OFFS

- 11.1 Appendix I details the 'Aged Debt Summary by Service'. Note that the analysis does not include any debtors relating to collection fund, housing benefit and HRA housing rents income.
- 11.2 Table 9 below provides details of the debts have been written off by the Council's Revenues and Benefits service in relation to Council Tax, Business Rates and Housing Benefits Overpayments.

Table 9: Write Offs

	Q1	Q2	Q3	Q4	Total
Council Tax	239,172	454,898			694,070
Business Rates	209,793	199,776			409,569
Housing Benefit Overpayments	6,999	2,844			9,843
Housing Rents (HRA)	12,522	20,129			32,651
Total	468,486	677,647	0	0	1,146,133

- 11.3 The write-off of other sundry debts in excess of £500 must be approved by the Chief Officer (Resources), in consultation with the Chief Officer (Governance). The value of these debts written-off in quarter 2 (including those under £500) is £30,551.
- 11.4 Debts are deemed non recoverable after all reasonable recovery steps have been taken and can be written off in accordance with the Council's Debt Management Policy in a number of circumstances such as unable to trace, uneconomical to pursue, insolvency as well as imprisonment and death.

12.0 TREASURY MANAGEMENT

- 12.1 The Treasury Management Mid-Year Review report, as being reported elsewhere on this agenda, gives a quarterly update in respect of treasury management activities and the most recent economic prospects.
- 12.2 The average level of funds available for investment at the end of quarter 2 was £27.6M. In terms of performance against external benchmarks the return on investment at the end of the period was as follows:

Base Rate	– 4.00%
7 day SONIA	– 4.19%
Lancaster City Council	– 4.09%

Details of investment holdings are set out in the Treasury Management Mid-Year Review report.

- 12.3 No new borrowing was undertaken during quarter 2 with balance sheet projections indicating that temporary borrowing may be required before the end of the financial year. The ultimate amount and timing of this will depend on working capital cashflows in the run up to year end which are kept under close review with a further update being made available at quarter 3.
- 12.4 The Council has operated within the treasury and prudential indicators set out in its Treasury Management Strategy Statement for 2025/26. The Treasury Management Mid-Year Review report gives an update in respect of prudential indicators showing the current forecast for the year against estimate and last year's actuals.

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 Health & Safety, Equality & Diversity, Human Rights, Community Safety, HR, Sustainability and Rural Proofing)
None directly identifiable, due to the high level nature of this report.
LEGAL IMPLICATIONS
There are no legal implications directly arising.
FINANCIAL IMPLICATIONS
As set out in the report.
OTHER RESOURCE IMPLICATIONS
Human Resources / Information Services / Property / Open Spaces: References and any related implications are contained within the report and related appendices.
SECTION 151 OFFICER'S COMMENTS
The report has been written by the Section 151 Officer.
MONITORING OFFICER'S COMMENTS
The Monitoring Officer has been consulted and has no further comments.
BACKGROUND PAPERS
None.
Contact Officers: Paul Thompson Chief Finance Officer & s151 Officer Telephone: 01524 582603 E-mail: pthompson@lancaster.gov.uk Ref: