Full Council

Thursday, 11th February, 2021, at 1.00 pm to be held as a Virtual Teams Meeting

Agenda

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1. **Apologies and Announcements**

2. **Disclosure of Pecuniary and Non-Pecuniary Interests**

A. Matters for Decision

3. **Revenue Budget 2021/22 and Financial Strategy 2021/22 to 2023/24; Capital Delivery Programme 2021/22; Capital Strategy 2021 - 2041; Council Tax and Precept 2021/22; Treasury Management Strategy and Non-Treasury Investment Strategy 2021/22; Minimum Revenue Provision Statement 2021/22** (Pages 1 - 74)

B. Matters for Information

There are no matters to be reported at this meeting.

C. Notices of Motion

4. **To consider Notices of Motion Submitted under Standing Order B36**

Angie Ridgwell
Chief Executive and Director
Resources

County Hall
Preston

03 February 2021

Agenda Item 3

Meeting of the Full Council
Meeting to be held on Thursday, 11 February 2021

Report of the Chief Executive and Director of Resources

Part A

Electoral Division affected:
All

Revenue Budget 2021/22 and Financial Strategy 2021/22 to 2023/24
Capital Delivery Programme 2021/22
Capital Strategy 2021-2041
Council Tax and Precept 2021/22
Treasury Management Strategy and Non-Treasury Investment Strategy 2021/22
Minimum Revenue Provision Statement 2021/22
(Appendices 'A' - 'F' refer)

Contact for further information:
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Executive Summary

To consider the recommendations of the Cabinet regarding:

1. The revenue budget 2021/22 and financial strategy 2021/22 to 2022/23: section 1 of this report and Appendix A;

2. The capital delivery programme 2021/22: section 2 of this report and Appendix A;

3. The capital strategy 2021-2041: section 3 of this report and Appendix C; and

4. The council tax and precept 2021/22: section 4 of this report.

To consider the recommendations of the Audit, Risk and Governance Committee on 25 January 2021 regarding:

5. The treasury management strategy and non-treasury investment strategy and the minimum revenue provision policy statement for 2021/22, as shown in Appendices D, E & F.

Lancashire County Council

Recommendation

The Full Council is asked to consider and approve:

- The revenue budget for 2021/22 and financial strategy 2021/22 to 2023/24;
- The capital delivery programme for 2021/22;
- The capital strategy 2021-2041;
- The council tax requirement and precept for 2021/22 including the level of Band D council tax for 2021/22 reflecting a 4.99% increase including 3% to be used for adult social care as per the new flexibilities.
- The treasury management strategy, non-treasury investment strategy and minimum revenue provision policy statement 2021/22 (as set out at Appendices D, E & F).

The Full Council is asked to note and have regard to the advice of the Chief Executive and Director of Resources in relation to the robustness of the budget and the adequacy of reserves.

Background and Advice

1. Revenue Budget 2021/22

The revenue budget as set out in Appendix A and in the tables below, presents the proposed budget allocations to services and other budget areas. In reports throughout the financial year to cabinet, it is clear that the council remains committed to the delivery of a significant savings programme (c£24m over the period 2021/22 to 2022/23). There are inherent risks with saving plans of this scale and scope, particularly in light of the impact of the current pandemic, and any significant under-delivery of agreed savings will further increase the funding gap. This has been identified as one of the highest level risks in the council's risk and opportunity register and there are comprehensive arrangements in place to track delivery of financial savings and take corrective actions as required. Following the Provisional Settlement and the announcement of additional funding for social care and the flexibility to raise an Adult Social Care Precept, the council is able to set a balance budget without recourse to reserves.

Revenue Budget 2021/22	Net Budget £m
Adult Services	376.740
Adult Services and Public Health and Wellbeing	7.547
Chief Executive Services	3.545
Children's Social Care	162.705
Corporate Services	21.286
Education and Skills	55.811
Finance Services	17.774
Growth, Environment and Planning	6.164
Waste Management	69.398
Highways and Transport	71.015
Organisational Development and Change	2.042
Public Health and Wellbeing	-4.923
Strategy and Performance	63.076
Sub-Total	**852.180**
Financing Charges	30.457
Available Resources	4.322
Revenue budget 2021/22	**886.959**

2. Capital Programme Delivery 2021/22

Full Council are asked to consider and approve the proposals for the capital programme delivery 2021/22 as set out at Appendix A.

3. Capital Strategy 2021-2041

Full Council are asked to consider and approve the proposals for the capital strategy 2021-2041 as set out at Appendix C.

4. Council Tax and Precept 2021/22

Full Council are asked to consider and authorise, in pursuance of the provisions of the Local Government Finance Act 1992, and in order to meet the general expenses of the county council for the financial year 2021/22.

a) Budget, Council Tax Requirement and Precept for 2021/22:

That the band D council tax for 2021/22 is increased by:

- 3% for the adult social care precept being an annual increase of £42.01 for band D council taxpayers.

- 1.99% for general council tax being an annual increase £27.87 for band D council taxpayers

- This gives an overall position of:

	£m
Budget Requirement	**886.959**
Less Revenue Support Grant	33.615
Less Business Rates	202.816
Less New Homes Bonus	2.416
Less Improved Better Care Fund	45.532
Less Social Care Grant	41.943
Less Collection Fund Deficit	-0.197
Less Local Council Tax Support Grant	11.479
Less Capital Receipts	4.000
Equals council tax cash	**545.355**
Divided by tax base	370,939.32
Gives Band D council tax for 2021/22	£1,470.20
2020/21 council tax	£1,400.32
Percentage increase	**4.99%**

b) Council Tax (on the basis of a budget requirement of £886.959m and the Council Tax base for each property valuation band:

Council Tax Band	**£**
Band A	980.13
Band B	1,143.49
Band C	1,306.84
Band D (basic)	1,470.20
Band E	1,796.91
Band F	2,123.62
Band G	2,450.33
Band H	2,940.40

c) The share for each district council of the net total raised from the council tax of £545,354,988:

District	**£**
Burnley	34,208,614
Chorley	55,097,509
Fylde	45,539,445
Hyndburn	29,755,378
Lancaster	61,013,300
Pendle	35,134,840
Preston	57,664,184
Ribble Valley	35,295,091
Rossendale	29,962,676
South Ribble	53,249,762
West Lancashire	54,065,223
Wyre	54,368,966
Total raised from the Council Tax	**545,354,988**

Consultations

As part of the budget process the contents of the report to cabinet has been subject to a consultation with a variety of stakeholders and partners, including with the trade unions.

For the budget consultation, an email was sent out on behalf of the county council on 6 January 2021 outlining the proposal for Council Tax and an Adult Social Care Precept and containing a link to the relevant reports with respondents then able to e-mail or send in their written feedback. The closing date for the consultation was 15 January 2021, and all responses received will be shared at the meeting (Appendix B). We recognise that this is a short timeframe to consult, however any responses received after the deadline will still be shared with Members.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
None		

Reason for inclusion in Part II, if appropriate

N/A

The County Council's Revenue Budget and Council Tax for 2021/22 and Capital Delivery Programme for 2021/22

1. Introduction

The council has faced an unprecedented period of financial challenge since austerity began in 2010 and, like all councils, we are facing financial pressures across the period of our medium term financial strategy. Whilst good progress has been made to date in addressing the forecast financial shortfall over the strategy period as a result of significant savings programmes and the improved funding envelope for social care, further work is required to ensure the council can achieve a financially sustainable position over the medium term.

The scale of savings agreed to be delivered over future financial years remains significant with £24.876m currently forecast to be delayed in 2020/21 as a result of refocussing officer priorities to the response to the current pandemic. In addition there are forecast savings of £24.241m to be delivered across 2021/22 and 2022/23. Should the Covid emergency response continue for a protracted period it is likely that there will be further slippage.

Any significant under-delivery or slippage to delivery timeframes will create an additional pressure and impact on the ongoing and longer-term financial health of the council if those costs are not mitigated by the Government providing additional funding than what has been announced to date for 2021/22.

There are inherent risks in the delivery of any savings programme of this scale, particularly where they are directly linked to reducing the future demand for services. However, there is a strong track record of delivery of the vast majority of previous savings plans and there are comprehensive arrangements in place to track delivery of financial savings and take corrective actions where required.

The value of the council's uncommitted transitional reserve, which is available to support the revenue budget, by the end of the financial year including the 2020/21 forecast underspend is currently forecast to be £159.420m,and is sufficient to meet the forecast funding gap within the current MTFS covering the period 2021/22 to 2023/24.

Overall, the council has an appropriate level of reserves available to manage the financial risks it is facing from 2021/22 to 2023/24. However, on current forecasts, which reflect significant uncertainties as to future funding levels, it will be necessary that additional savings are identified to be delivered to bring the council to a financially sustainable position. Any utilisation of remaining reserves should support, wherever possible, activities which reduce ongoing revenue costs.

The medium term financial strategy (MTFS) includes government funding as announced in the provisional settlement on 17th December 2020, and we await the final settlement which is expected on 10th February 2021 with any changes therefore needing to be reported at the Full Council meeting.

Whilst a multi-year Spending Review was originally expected, the Chancellor and the Prime Minister decided to conduct a one-year Spending Review, setting department's resource and capital budgets for 2021/22 only in order to prioritise the response to Covid-19 and focus on supporting jobs. The provisional settlement provided confirmation of funding announcements made by the Chancellor as part of the Spending Review 2020, however these are subject to consultation and could change as part of the final financial settlement. This included the ability to raise additional council tax through an adult social care precept and additional funding to support the costs of the Covid-19 pandemic. The changes have had a significant impact on the forecast gap in 2021/22, however it must be noted that many of these changes are non-recurrent and it is likely that there will be longer term pressures within the budget due to the impact of Covid-19 which are difficult to quantify at this stage in the pandemic.

As this was a one year settlement in 2021/22, in conjunction with the news that the fair funding review would be delayed until at least April 2022, assumptions have therefore been made based on the provisional finance settlement for funding levels from 2021/22-2023/24.

During 2021, a multi-year spending review will take place which will allow more time for the impact of funding changes to be effectively planned for.

The provisional settlement also confirmed that revenue support grant would continue at 2020/21 inflated amounts, and that the social care funding allocated in 2020/21 would continue into 2021/22.

The MTFS reported to cabinet in January 2021 included a 3% adult social care precept in 2021/22 as a result of flexibilities offered by Government. The Government have confirmed the 3% additional precept can be spread across 2021/22 and 2022/23 if not taken fully in 2021/22.

As the MTFS assumes the full 3% being taken in 2021/22, it is therefore assumed that the maximum increase will revert back to 1.99% from 2022/23 onwards. Council tax increases are subject to a full council decision each year when setting the budget, but any decisions taken not to increase council tax as per the assumptions above would increase the financial gap.

Taking account of updated resources information there will be a relatively small budget surplus of £4.322m in 2021/22 which will result in a contribution to reserves. However, this is clearly dependent on all service challenge savings agreed and delivered fully within the timeframes identified, along with the other savings agreed in previous budget cycles.

There also remains an overall funding gap of £47.591m by 2023/24. Current forecasts indicate that that there will be sufficient funds within the transitional reserve to support the identified budget gap through to and beyond 2023/24. However the intention is to identify further savings and thereby reduce any call on the transitional reserve, for 2022/23 and beyond.

This report presents for consideration by the full council the recommendations in relation to:

- The revenue budget for 2021/22;
- A revised capital delivery programme for 2021/22;
- The council tax and precept for 2021/22.

In addition the report sets out the advice of the Chief Executive and Director of Resources, as the council's statutory Chief Finance Officer, on the robustness of the budget and the adequacy of reserves as required by Section 25 of the Local Government Act 2003.

Reports will be provided regularly to cabinet in 2021/22 to update the financial position for the county council based on the latest information.

2. The Budget Process

The county council's approach is driven by a formal requirement to deliver a balanced budget in 2021/22. This needs to be undertaken whilst recognising the position for future years. The cabinet has considered the budget for 2021/22 and future years at a number of its meetings. The reports considered can be found at:

http://council.lancashire.gov.uk/ieListMeetings.aspx?CommitteeId=122

3. The Revenue Budget 2021/22 to 2023/24

The county council's medium term financial strategy (MTFS) was approved by full council in February 2020 covering the 2020/21 budget and the forecast position for 2021/22 to 2023/24. This identified the funding gap in each year as follows:

Table 1

Aggregated Funding Gap	2020/21	2021/22	2022/23	2023/24
2020/21 (£m)	-1.358	-1.358	-1.358	-1.358
2021/22 (£m)		8.121	8.121	8.121
2022/23 (£m)			13.563	13.563
2023/24 (£m)				18.076
Total	**-1.358**	**6.763**	**20.326**	**38.401**

During 2020/21 cabinet has received a number of MTFS reports that have identified further changes to the expected level of spending and in the anticipated level of resources available for that period including an additional year of 2023/24. The latest MTFS shows a revised spending gap of £47.591m. The profile of the funding gap is shown in Table 2:

Table 2

Aggregated Funding Gap	2021/22	2022/23	2023/24
2021/22 (£m)	-4.322	-4.322	-4.322
2022/23 (£m)		39.356	39.356
2023/24 (£m)			12.557
Total	**-4.322**	**35.034**	**47.591**
Previous position (£m) **(January cabinet – Quarter 3)**	2.319	41.198	53.956
Variance (£m)	**-6.641**	**-6.164**	**-6.365**

4. The level of resources available to support the 2021/22 revenue budget

The level of resources reflected in the MTFS for 2021/22 and future years is as follows:

Table 3

	2021/22 £m	2022/23 £m	2023/24 £m
Revenue Support Grant	33.615	34.220	34.904
Business Rates	202.816	205.420	209.278
Council Tax	545.355	561.770	582.689
New Homes Bonus	2.416	1.645	0.809
Improved Better Care Fund	45.532	45.532	45.532
Social Care Support Grant	41.943	41.943	41.943
Collection Fund	-0.197	-0.619	-0.619
Capital Receipts	4.000	0.000	0.000
Local Council Tax Support Grant	11.479	0.000	0.000
Total	**886.959**	**889.911**	**914.536**

As the final settlement has not been announced, these figures reflect the provisional settlement and have been adjusted for the impact of the final council tax base figures and surplus and deficit position (across council tax and business rates collection funds) as discussed below.

4.1 The resources received through the local government finance settlement

The Secretary of State announced the provisional local government finance settlement on 17th December 2020, and at the time of writing the final settlement has not been announced. This is expected in early February. It is important to note that the settlement only covers one year (2021/22), therefore assumptions have been made for 2022/23 onwards. As part of the announcement of the provisional settlement the secretary of state could not provide certainty at this stage of the revised date that the fair funding formula and changes to the business rates system will take place due to the ongoing impact of the pandemic. Therefore, details of the scheme and the impact on Lancashire are not known at this stage.

4.2 Council Tax in 2021/22

On 14th January 2021 a report was presented to cabinet recommending that Band D council tax for 2021/22 has a 4.99% increase, including 3% to be used for the adult social care precept. The council tax figures within the MTFS include the impact of a 4.99% increase in council tax in 2021/22, 1.99% increase in 2022/23 and 2023/24.

There is a requirement for section 151 officers in those authorities levying the adult social care precept to provide information demonstrating that an amount equivalent to the additional council tax has been allocated to adult social care. Any proposals for a council tax increase above these thresholds will be subject to a referendum.

As part of the budget setting process district councils must confirm both the council tax base and the surplus/deficit on the collection fund by 31st January 2021. The information provided by district councils has resulted in a tax base decrease of 0.04% for 2021/22. This is an improved position compared to the estimate built into the MTFS at quarter 3 and therefore results in an increased level of funding of £5.233m in 2021/22. The tax base growth for Lancashire in previous years has generally been between 1% - 2%, however due to the impact of the pandemic and the increased application of the council tax support scheme the tax base is lower. The Government has compensated authorities for their losses in both 2020/21 and 2021/22 through supporting grants. The budget for 2021/22 includes an estimate of the funding that is expected to received, however this will not be confirmed until later in the financial year.

The growth for future years within the MTFS has been forecast at 1% in 2022/23 and 1.7% in 2023/24 as it is anticipated that post pandemic tax bases will start to return to previous years' growth levels, however this will be kept under review with district councils.

As part of the budget setting process district councils must confirm the surplus/deficit on the council tax collection fund by 31st January 2021. The information received from district councils state a deficit position on the council tax collection fund of £2.689m. However, as part of the provisional settlement, the Government will provide funding to support 75% of irrecoverable losses in 2020/21 that can be spread over 3 years. Therefore as part of the MTFS we have reduced the impact in each of the next 3 years by 75% of the 2020/21 deficit, resulting in a revised council tax collection fund deficit of £1.293m in 2021/22 and £0.466m in both 2022/23 and 2023/24. This is our best estimate based on our current understanding, having sought advice from professional advisors, of how the financial support calculation will work.

4.3 Business Rates in 2021/22

From 2013/14 an element of the county council's funding is received from the locally retained element of business rates collected by the district councils. It is estimated that the county council will receive funding of £202.816m from business rates. The County Council will be part of the Lancashire Business Rates Pool in 2021/22, but as yet the budget does not include a contribution/benefit from the pool due the inherent uncertainty and risk in relation to business rates during the pandemic.

As part of the budget setting process district councils must confirm the surplus/deficit on the business rates collection fund by 31st January 2021. The information received from district councils state that a deficit has been achieved on the business rates collection fund of £12.528m. In order to support this significant pressure the Government has provided additional funding (currently to District Councils, but we anticipate this will be passported to precepting authorities) to offset the 2020/21 pressure on business rates collection fund. Following submission of data from District Councils as part of their statutory returns we are forecasting to receive £13.165m in grant. In addition, as part of the provisional settlement, the Government will provide funding to support 75% of irrecoverable losses in 2020/21 that can be spread over 3 years. Therefore as part of the MTFS we have reduced the impact in each of the next 3 years by 75% of the 2020/21 deficit, resulting in a revised business rates collection fund surplus of £1.096m in 2021/22 and a deficit of £0.153m in both 2022/23 and 2023/24. This is our best estimate based on our current understanding, having sought advice from professional advisors, of how the financial support calculation will work.

4.4 Capital receipts

In previous years the use of capital receipts (income derived from the sale of long term assets) has been restricted to funding capital expenditure or the repayment of debt. However, from 1st April 2016 the Government introduced the flexibility for capital receipts to be used to fund revenue expenditure which meets certain criteria. To meet the qualifying criteria the revenue expenditure needs to relate to activity which is designed to generate ongoing revenue savings or to transform a service which results in revenue savings or improvements in the quality of service provision. The flexibility was extended with the final year of permitted flexibility being 2021/22.

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 service reform.

The current estimates of the capital receipts to be generated, and utilised in supporting revenue expenditure total £4.000m, and are included within the 2021/22 budget. This is one-off one year funding as this is the final year of this accounting flexibility.

The actual receipts received in any one year will fluctuate in line with local property markets and the type of asset available for sale. Therefore, there is a risk that in any given year the receipts actually received will be less than assumed and therefore the situation will be monitored closely.

The capital receipts in 2021/22 will be applied to the following areas (shown in Table 5) to generate ongoing revenue savings or to transform a service which results in revenue savings or improvements in the quality of provision.

Table 4

Service Area	**Value (£m)**
Business Intelligence	0.023
Children's Social Care	1.310
Disability Services (Adults)	0.592
Exchequer Services	0.309
Financial Management (Development and Schools)	0.082
Learning Disabilities, Autism & Mental Health	0.117
Organisational Development	0.659
Safeguarding and Quality Improvement Services	0.090
Social Care Services (Adults)	0.818
Grand Total	**4.000**

At full council in February each year the county council's prudential indicators are reviewed and approved. As part of the treasury management strategy, that is requesting approval at this full council meeting, the level of indicators incorporate the budgeted level of capital receipts that will be used to support the revenue budget rather than the capital delivery programme. The indicators are reviewed on a regular basis and reported to members on a quarterly basis.

4.4 Specific Grants and contributions to be received by the County Council in 2021/22

The following table summarises the more significant specific grants to be received by the council in 2021/22:

Table 5

Grant	Estimated Allocation 2021/22 £m	Description
Improved Better Care Fund	47.8	The Better Care Fund is a pooled budget to help improve the integration of health and care services.
Public Health	69.6*	Ring fenced funding only able to be spent in accordance with the conditions of the grant.
COVID-19 Expenditure Pressures Grant	26.0	To cover any COVID-related costs in 2021-22.

** Public Health Grant allocations announced in March – estimated allocation based on 2020/21 grant awarded*

4.5 Reserves

The latest reserves position agreed by Cabinet is shown in Table 6 this includes the impact of the forecast revenue outturn.

<u>Table 6</u>

Reserve Name	Opening balance 2020/21	2020/21 Forecast Exp	2020/21 Forecast transfers to/from other reserves	2020/21 Forecast Closing Balance	2021-22 Forecast Exp	2022-23 Forecast Exp	Forecast closing balance 31 March 2023
	£m	£m	£m	£m	£m	£m	£m
County Fund	-23.437	0.000	0.000	-23.437	0.000	0.000	-23.437
SUB TOTAL - COUNTY FUND	**-23.437**	**0.000**	**0.000**	**-23.437**	**0.000**	**0.000**	**-23.437**
Strategic Investment Reserve	-5.819	-1.292	1.979	-5.132	3.319	0.812	-1.001
COVID-19 Reserve	-33.961	33.961	0.000	0.000	0.000	0.000	0.000
Downsizing Reserve	-5.642	0.000	0.000	-5.642	2.821	2.821	0.000
Risk Management Reserve	-1.935	0.000	0.000	-1.935	0.876	1.059	0.000
Transitional Reserve	-151.199	-7.862	-0.359	-159.420	0.494	0.199	-158.727
Service Reserves	-18.201	1.391	-1.966	-18.776	17.042	0.459	-1.275
Treasury Management Reserve	-11.597	-5.403	0.000	-17.000	0.000	0.000	-17.000
SUB TOTAL - LCC RESERVES	**-228.354**	**20.795**	**-0.346**	**-207.905**	**24.552**	**5.350**	**-178.003**
Non-LCC Service Reserves	-16.305	1.258	0.346	-14.701	1.677	0.257	-12.767
SUB TOTAL - NON LCC RESERVES	**-16.305**	**1.258**	**0.346**	**-14.701**	**1.677**	**0.257**	**-12.767**
GRAND TOTAL	**-268.096**	**22.053**	**0.000**	**-246.043**	**26.229**	**5.607**	**-214.207**

The county fund shown at the top of table 6 is the balance set aside to cover the authority against a serious emergency situation (e.g. widespread flooding); a critical and unexpected loss of income to the authority and for general cash flow purposes. In considering these various factors the county council is forecast to maintain its County Fund balance at £23.437m.

The value of the uncommitted transitional reserve is currently forecast to be £158.727m by the end of March 2023 providing there is no requirement for structural funding support from reserves to the 2021/22 or 2022/23 budgets (however this is not the current forecast).

The transitional reserve is forecast to be sufficient to meet the identified funding gaps through to and beyond 2023/24 as set out in table 6. However, the intention is to identify further savings to reduce the gap, and hence the call on reserves, in the future.

Table 7

	2021/22	**2022/23**	**2023/24**
Opening Balance	159.420	163.248	128.015
Gap funding	-4.322	35.034	47.591
Commitments	0.494	0.199	0.000
Closing balance	**163.248**	**128.015**	**80.424**

5. The Overall Revenue Budget Position for 2021/22

5.1 Summary of revenue budget proposals

A report was presented to Cabinet In January including the medium term financial strategy and proposed revenue budget for 2021/22. The position presented to cabinet and the potential changes are set out in Table 8.

The table reflects the following:

- impact of further cost pressures;
- changes in the level of resources that are currently known;
- a council tax increase of 4.99% in 2021/22; and
- the provision of estimated figures by the city and borough councils in respect of council tax base and business rates income.

Table 8

		2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Spending Gap as reported to Cabinet quarter 2		**50.368**	**13.186**	**15.237**	**78.791**
Add change to forecast of spending:					
Pay & Pensions		2.058	-0.854	-0.982	**0.222**
Inflation and Cost Changes		-2.538	0.141	-0.739	**-3.136**
Service Demand and Volume Pressures		3.521	-1.313	-0.851	**1.357**
Other		22.252	-18.690	0.000	**3.562**
Additional Grant		-28.694	28.621	0.000	**-0.073**
Undeliverable Savings		0.370	0.000	0.000	**0.370**
Additional Savings		-6.065	-0.288	0.000	**-6.353**
Reprofiled Savings		0.247	-0.507	-0.299	**-0.559**
Covid Impact/Pressures		-1.343	0.388	0.624	**-0.331**
Total Change to Forecast of Spending		**-10.192**	**7.498**	**-2.247**	**-4.941**
Change to forecast of resources:					
Funding		-37.857	18.195	-0.232	**-19.894**
Total Change to Forecast of Resources		**-37.857**	**18.195**	**-0.232**	**-19.894**
Funding Gap reported to Cabinet 14th January (Quarter 3)		**2.319**	**38.879**	**12.758**	**53.956**
Funding Update		-7.633	0.477	-0.201	-7.357
Expenditure Update		0.992	0.000	0.000	0.992
Revised Funding Gap		**-4.322**	**39.356**	**12.557**	**47.591**

5.2 Revenue Budgets for Services in 2021/22

The budget outlined below results in a net revenue budget of £886.959m. The budget by service is summarised below:

Table 9

Revenue Budget 2021/22	Net Budget £m
Adult Services	376.740
Adult Services and Public Health and Wellbeing	7.547
Chief Executive Services	3.545
Children's Social Care	162.705
Corporate Services	21.286
Education and Skills	55.811
Finance Services	17.774
Growth, Environment and Planning	6.164
Waste Management	69.398
Highways and Transport	71.015
Organisational Development and Change	2.042
Public Health and Wellbeing	-4.923
Strategy and Performance	63.076
Sub-Total	**852.180**
Financing Charges	30.457
Available Resources	4.322
Revenue budget 2021/22	**886.959**

6. The Capital Delivery Programme

This section of the report sets out the following:

- An outline of the 2021/22 capital delivery programme including known projects.

- A summary of the proposed funding of the 2021/22 capital delivery programme.

- An indicative capital delivery programme for the 2 further years 2022/23 and 2023/24.

6.1 Capital Delivery Programme for 2021/22 to 2023/24

Table 10 below details a summary of the proposed capital delivery programme for 2021/22 subject to amendments following year-end together with indicative programmes for the further two years.

The proposals for 2021/22 include the provisions to complete works already in the programme, those already approved for inclusion, and those identified for utilising the anticipated capital grant funding to be received in 2021/22 and for which programmes will be developed in the delivery programme in April 2021 when the position for 2020/21 is finalised.

The proposals for 2022/23 and 2023/24 are indicative based on the likely grant funding to be received and will be further developed through 2021/22.

Table 10

Service Area	**2020/21 Forecast £m**	**2021/22 Delivery Plan £m**	**2022/23 Delivery Plan £m**	**2023/24 Delivery Plan £m**
Schools (excl DFC)	18.404	21.909	22.925	22.418
Schools (DFC)	3.140	2.247	2.365	2.360
CYP	1.436	3.628	0.457	0.000
Highways	43.190	43.970	9.135	0.395
Transport	12.982	13.665	20.866	17.385
Externally Funded	8.266	5.430	0.276	0.264
Waste and other	0.000	0.000	0.000	0.000
Adults	16.640	15.087	15.193	14.731
Corporate	7.533	11.071	15.238	4.600
Economic Development	9.181	16.160	21.338	6.000
Vehicles	3.000	4.924	3.000	0.000
Transforming Cities Fund	1.000	14.348	25.198	2.428
Total	**124.772**	**152.439**	**135.991**	**70.581**

The programmes and projects within the above blocks will be developed fully at the start of the new year and programme detail where required will be taken to cabinet for approval. The delivery programme includes an increased budget of £2.5m for the development at Bowgreave Rise. Cabinet on 3rd September 2020 gave approval to the outline proposals for the procurement, funding, delivery and operation of a residential care home and extra care scheme at Bowgreave, following a statutory consultation process. The original Cabinet report referred to a very high level cost estimate of £5.5m for the care home element of the proposals. Whilst the outcome of the submitted planning application is awaited, the detailed design continues to be developed to ensure continuity of programme. Through the design process and initial market testing of the works packages, the cost estimates are continually being refined with the result that the budget needs to be increased by £2.5m to £8.0m. This increase includes ongoing impacts of both Covid and EU exit, whilst cost saving options will continue to be explored.

6.2 Proposed Funding

The capital delivery programme is currently funded by a variety of funding streams, the funding by block for each of the 3 years is shown below and the revenue budget implications for financing charges are reflected within the medium term financial strategy:

Table 11

Funding Source	2021/22 Delivery plan £m	2022/23 Delivery Plan £m	2023/24 Delivery plan £m
Borrowing	74.724	83.144	49.883
Grant	70.141	51.467	19.929
Contributions	7.574	1.380	0.769
Totals	**152.439**	**135.991**	**70.581**

7. Council Tax 2021/22

Full council is advised that the council tax requirement is that the band D council tax for 2021/22 be increased by 4.99% which includes the 3% social care precept. The impact of these increases are:

Table 12

	Band D Council Tax	**Council Tax income**
Adult Social Care Precept increase at 3%	£42.01	£15.583m
General Council Tax increase at 1.99%	£27.87	£10.338m

The overall position is summarised as follows:

Table 13

	£m
Budget Requirement	**886.959**
Less Revenue Support Grant	33.615
Less Business Rates	202.816
Less New Homes Bonus	2.416
Less Improved Better Care Fund	45.532
Less Social Care Grant	41.943
Less Collection Fund Deficit	-0.197
Less Local Council Tax Support Grant	11.479
Less Capital Receipts	4.000
Equals council tax cash	**545.355**
Divided by tax base	370,939.32
Gives Band D council tax for 2021/22	£1,470.20
2020/21 council tax	£1,400.32
Percentage increase	**4.99%**

8. The Robustness of the Budget and the Adequacy of Reserves

Section 25 of the Local Government Act 2003 requires that, in giving consideration to budget proposals, Members must have regard to the advice of the Council's Chief Finance Officer (in the case of the county council the Chief Executive and Director of Resources) on the robustness of the estimates and the adequacy of the council's reserves.

Robustness of the Estimates

This section is concerned with the scale of financial risks faced by the council as a result of the estimates and assumptions which support any budget. The basis of the estimates on which the budget has been prepared, as in previous years, relies on the forecast of activity and the impact of changes in policy previously agreed by the council. These forecasts are kept under review as part of the budget monitoring process and actions identified to address financial risks arising from changes in the forecast as they occur.

The table below demonstrates the scale of just a small variance in the assumptions made, showing the potential impact of both a positive and negative movement of 1% across the main areas within the MTFS:

	Potential Full - Year Impact (£m)
Funding - Council Tax (1%)	+/- 5.197
Pay (1%)	+/- 2.950
Price Inflation (1%)	+/- 6.197
Demand (1%)	+/- 5.931

A number of specific risks remain within the budget as follows:

- **Government Funding**

On 25th November the Chancellor announced the Spending Review 2020 (SR20). Whilst a multi-year Spending Review was originally expected, the Chancellor and the Prime Minister decided to conduct a one-year Spending Review, setting department's resource and capital budgets for 2021/22 only in order to prioritise the response to Covid-19 and focus on supporting jobs.

The Provisional Settlement was announced on 17th December 2020 and confirmed the funding streams that were included within SR20 and provided more detailed information and allocations for councils.

The MTFS contains a best estimate of the funding envelope that the county council expects to achieve over coming years. However, the only information we have in relation to future funding is for 2021/22 and we anticipate the delayed fair funding review, business rates system review and the adult social care green paper to take place soon. This is however dependent upon the duration of the pandemic.

Assumptions have been made that include the continuation of social care grants, improved better care fund and that business rates will change to a 75% share from 2022/23.

As part of the provisional settlement it was confirmed that the maximum increase that we will be able to apply to council tax, without a referendum, will be 1.99%. In addition those authorities with responsibility for adult social care have the ability to raise council tax by an additional 3% through an adult social care precept. It has also been confirmed that this increase can be included within 2021/22, spread over the next 2 years, or indeed the total 3% can be levied in 2022/23.

- **Service Demand**

In 2020/21 we have seen the impact of the pandemic on demand levels, with areas such as nursing and residential care being lower than budgeted, due to a number of factors including lockdown, social distancing measures and the impact of the acute health sector commissioning some residential placements as part of NHS funded scheme to create capacity in hospitals in support of the crisis. Longer term, we do not expect these factors to drive permanent reductions and expect a drift back up in demand as a new normal settles post Covid. It is also anticipated that over the coming months we will see additional demand across our children's services as a result of the pandemic.

In addition to current lower than budgeted demand levels, we have some benefits from the current remote working arrangements with costs such as building occupancy, printing and mileage being reduced.

Over the period 2021/22 to 2023/24 c£48m has been provided in the MTFS for demand pressures of which c£29m relates to adult social care and c£9m children's social care. These have been identified based on current and historical trends and population projections where appropriate (particularly linked to the ageing population in respect of adult social care). Estimates are based on assumptions that have previously been a reasonable prediction of demand, during the current financial year.

Detailed work continues to be undertaken focused on a better understanding of the causes of increasing demand and what steps can be taken to mitigate the financial impact, which along with grant funding reductions, is a major contributing factor towards the funding gap reported in the MTFS.

- **Pay**

The majority of the pay bill is driven by the national pay agreement and the announcement of a new pay spine in 2020/21 which represented a significant additional cost pressure reflected in previous MTFS. The county council also remains committed to paying its employees as an accredited member of the Living Wage Foundation.

As part of the Spending Review it was announced that public sector pay would not be increased in 2021/22, however as the pay award will need to go through pay awarding bodies prior to being decided for 2021/22 a pay freeze has not been reflected at this stage.

- **Inflation**

Levels of inflation have fallen due to economic pressures as a result of the pandemic, with the Chancellor confirming that CPI is currently 0.5% (September 2020)

Provision made within the budget is limited to areas where the council has no choice but to pay increased prices e.g. due to contractual terms. The inflation forecasts used in recent years are based on the future level of inflation implied by yields on interest linked gilts. Historically, this has tended to give a more accurate forecast than the methodology previously used. It is anticipated that the continued use of this methodology will reduce the risk of needing to make catch up additions to the budget for "missed" inflation or the need to absorb additional inflationary costs in year.

A particularly significant area is the care market, primarily residential, nursing and homecare, the funding of which is recognised as a significant issue regionally and nationally. A significant amount of resource has been included within the MTFS to fund price increases and the estimated impact of the national living wage on care providers.

- **Interest Rates**

The Bank of England, which had held rates steady at 0.75% through most of 2019/20, moved in March to cut rates to 0.25% and then swiftly thereafter brought them further down to the record low of 0.1% along with an asset purchase programme to help stimulate the economy. Whilst the central forecast is for Gross Domestic Product to continue to recover, the county council's treasury advisors expects Bank Rate to remain at the current 0.1% level for the foreseeable future and that Gilt yields will remain very low in the medium term. Shorter term Gilt yields are currently negative and will remain around zero or below until either the Bank expressly rules out a negative Bank Rate or growth/inflation prospects improve.

- **Savings Programme Delivery**

The scale of savings agreed to be delivered over future financial years remains significant with £24.876m currently forecast to be delayed in 2020/21 as a result of refocussing officer priorities to the response to the current pandemic. In addition there are forecast savings of £24.241m to be delivered across 2021/22 and 2022/23.

Should the Covid emergency response continue for a protracted period it is likely that there will be further slippage.

Any significant under-delivery or slippage to delivery timeframes will create an additional funding pressure and impact on the ongoing and longer-term financial health of the council if those costs are not mitigated by the Government providing additional funding in future years.

There are inherent risks in the delivery of any savings programme of this scale, particularly where they are directly linked to reducing the future demand for services. However, there is a strong track record of delivery of the vast majority of previous savings plans and there are comprehensive arrangements in place to track delivery of financial savings and take corrective actions where required.

This has been identified as one of the highest level risks in the council's Risk and Opportunity Register and there are comprehensive arrangements in place to track delivery of financial savings and take corrective actions as required.

Adequacy of Reserves

The council holds reserves for a number of reasons:

- to enable the council to deal with unexpected events such as flooding or the destruction of a major asset through fire,
- to enable the council to manage variations in the demand for services which cause in year budget pressures, and
- to fund specific projects or identified demands on the budget.

There is no 'right' answer to the question of the appropriate level of reserves for a local authority; this is a matter of judgement taking into account:

- the level of risk evident within the budget as set out above,
- a judgement on the effectiveness of budgetary control within the organisation, and

- the degree to which funds have already been set aside for specific purposes which will reduce the need for general reserves.

In relation to the council's general reserve (County Fund Balance), the forecast level at 31 March 2021 is £23.437m. In addition the council is forecast to hold £17m by the end of the financial year as a formal treasury management reserve to reflect that, whilst the council's treasury management performance (covering both investment activity and financing costs) has been positive over an extended period, the outlook post-Brexit is particularly uncertain and volatile. The reserve is there to hedge against that volatility, including interest rate changes and associated risks over the short-term without directly impacting the revenue account.

The value of the council's uncommitted transitional reserve, which is available to support the revenue budget, by the end of the financial year including the 2020/21 forecast underspend is currently forecast to be £159.420m,and is sufficient to meet the forecast funding gap within the current MTFS covering 2021/22 to 2023/24.

The level of risk evident within the budget has been significant in recent years and has been exacerbated by the initial and longer-term impact of the pandemic and the ongoing longer-term uncertainty regarding funding levels. The revenue budget for 2021/22 will need to be supported by reserves with an increasing gap forecast in subsequent years. The transitional reserve allows decisions to be made in a more measured and considered way but does not of itself negate the need for a sustainable budget to be achieved. While the council's budgetary control procedures are strong in terms of managing in year expenditure, the effectiveness of budgetary control is a combination of systems and processes as well as the risk environment within which the council is operating. It therefore remains an essential requirement that the council continues to ensure that processes are effective in maintaining a grip on in year expenditure and also that there is a clear focus on delivering a balanced and sustainable budget.

As part of the MTFS report, scenario analysis and stress tests of the current financial gap and reserves position have been undertaken.

Overall, the council has an appropriate level of reserves available to manage the financial risks it is facing from 2021/22 to 2023/24. However, on current forecasts it will be necessary that additional savings are identified to be delivered to bring the council to a financially sustainable position. Any utilisation of remaining reserves should support, wherever possible, activities which reduce ongoing revenue costs.

From:
Sent: 07 January 2021 14:18
To: Modern Gov Enquiries <moderngov@lancashire.gov.uk>;

Subject: Money saving ideas

I understand LCC is to discuss increasing the council tax by up to 5 per cent, which is very worrying in these troubled times, when people who are just above the breadline and therefore not open to benefits, are really struggling.

I would ask as Labour leader to push for the following money saving ideas.
(1) Scrap the grant given to the Lancashire Association of Town and Parish Councils, this service is very much under used these days and with modern technology is not needed and there are only a minority of parish and town councils who support it.

(2) Call for a decrease in councillor allowances, I realise this will not be popular, but many councillors have jobs, so do not need to take the allowances given and really those who receive extra money for special responsibility should be looked at, as how much real input do they add to the service? I would also ask for you to ensure Councillor Christian Wakeford, now an MP, is not paid his allowance for LCC, morally this is wrong and payment would be seen as taking advantage of the pandemic.

Regards

From:
Sent: 12 January 2021 09:41
To: Modern Gov Enquiries <moderngov@lancashire.gov.uk>
Subject: Re: Lancashire County Council - Budget Consultation

Dear sir/madam

The Parish Council discussed your email last night at our budget meeting, and they feel that, due to the current situation, more services will be called upon from Council's so the increase is necessary.

Thanks

Trawden Forest Parish Council

From:
Sent: 14 January 2021 15:51
To: Modern Gov Enquiries <moderngov@lancashire.gov.uk>
Subject: LCC - Budget Consultation

Aughton Parish Council, having considered the Cabinet's budget proposals 2021/2022, would offer the following comments:

'Members believe that given there has been so much hardship in some areas during the COVID-19 Public Health Pandemic, any necessary increase should be closer to the current rate of inflation, ie 0.4% approximately, making use of transitional reserves to meet the shortfall.'

Aughton Parish Council

From:
Sent: 15 January 2021 10:04
To: Modern Gov Enquiries <moderngov@lancashire.gov.uk>
Subject: Budget consultation comments

Dear Legal and Democratic Services,

Following the request to consult on Lancashire County Council's proposed budget for 2021 / 2022, members of Whitworth Town Council have considered the budget documents and discussed them at their meeting yesterday evening. It was resolved that Whitworth Town Council ask Lancashire County Council to consider limiting the increase of the precept to a 3% increase. Members suggested that Lancashire County Council have received funding from central Government and also made operational savings through having staff remote working during the pandemic.

Families are struggling to feed themselves and eat their homes and authorities need t support them by restricting any increases in the next financial year. This was moved by Councillor Neal and seconded by Councillor Barnes.

Kindest regards

Whitworth Town Council, info@whitworth.gov.uk,

The Council Office, The Riverside, Market Street, Whitworth OL12 8DP

From:
Sent: 20 January 2021 10:37
To: Modern Gov Enquiries <moderngov@lancashire.gov.uk>
Subject: LCC - Budget Consultation 2021/22

Dear Legal & Democratic Services,

Please accept my apologies for the late submission of the Parish Council views on the Budget proposals for 2021/22. I am afraid the Parish Council only met last Monday.

The Parish Council have considered the proposals and object to the proposed 4.99% increase in Council Tax. The Council believe that the ongoing Covid-19 pandemic has placed enough stress and pressure on peoples resources over the past 10 months. The Parish Council feel that the proposed increase could be catastrophic for many residents whose finances are already stretched and, whose mental health is already under considerable pressure.

The Parish Council believe that LCC should be funding these costs from their reserves as many homeowners are now having to do to handle their own finances.

Therefore, Charnock Richard Parish Council object to the proposed increase in Council Tax.

Kind regards

From:
Sent: 20 January 2021 10:36
To: Modern Gov Enquiries <moderngov@lancashire.gov.uk>
Subject: LCC -Budget Consultation

Dear Legal & Democratic Services,

Please accept my apologies for the late submission of the Parish Council views on the Budget proposals for 2021/22. I am afraid the Parish Council only met last Monday.

The Parish Council have considered the proposals and object to the proposed 4.99% increase in Council Tax. The Council believe that the ongoing Covid-19 pandemic has placed enough stress and pressure on peoples resources over the past 10 months. The Parish Council feel that the proposed increase could be catastrophic for many residents whose finances are already stretched and, whose mental health is already under considerable pressure.

The Parish Council believe that LCC should be funding these costs from their reserves as many homeowners are now having to do to handle their own finances.

Therefore, Wrightington Parish Council object to the proposed increase in Council Tax.

Kind regards

Wrightington Parish Council

From:
Sent: 20 January 2021 09:43
To: Modern Gov Enquiries <moderngov@lancashire.gov.uk>
Cc:
Subject: RE: Lancashire County Council - Budget Consultation

Good morning legal team
I'm following up my email detailed below,
Garstang TC met on Monday evening, 18/01/2021 and resolved the following:
220(2020-21) Lancashire County Council (LCC) - Budget Consultation
Resolved: The Council noted and made no comment on the Lancashire County Council (LCC) - Budget Consultation for 2021/22.
Thanks,

Garstang Town Council

From:
Sent: 02 February 2021 21:01
To: Modern Gov Enquiries <moderngov@lancashire.gov.uk>
Subject: CONSULTATION ON LCC BUDGET

The Parish Council feel that LCC should allocate more funds to its responsibilities in relation to Public Rights of Way, both in terms of its own duties and reminding landowners of their duties. Since the onset of COVID 19 PROW have become of even more significance and value to the community It is understood that there is only a small team of staff to cover the whole of the County Council area.

Kind Regards,

Bretherton Parish Council

Appendix C

Capital Strategy

2021-2041

www.lancashire.gov.uk

Lancashire County Council

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Section 1. Background, purpose and aims of the Capital Strategy
Section 2. Approach to investment prioritisation
Section 3. Funding sources and investment decisions.
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Section 6. Stewardship
Section 7. Overview of capital requirements.

1. Background, purpose & aims of the Capital Strategy

1.1 Purpose and aims of the Capital Strategy

The purpose of a capital strategy is to set the long term strategic framework within which the authority will use as the framework and context for capital and investment decisions. It is a requirement of the Chartered Institute of Public Finance and Accountancy (CIPFA)'s Treasury Management Code of Practice and the Prudential Code that authorities have in place a long term capital strategy, the definition of long term is generally accepted to be 15-20 years and as such the strategy cannot set a detailed programme of works to be delivered, or a level of investment to be guaranteed each year, but aims to set a context within which future programmes are developed. The long term funding requirements of the existing asset base should be considered as a priority to maintain the existing asset base required by the services, to the standards set by the individual asset management strategies. This, whilst not being a developed delivery plan, forms an important part of the contextual assessment and provides a background within which individual funding decisions can be made

The council is keen to ensure that there is efficient and effective usage of its capital assets and the resources tied up in them. This 20 year capital strategy therefore sets out the corporate aims and principles that underpin the production of the rolling 3 year capital programme to be approved each February. The strategy will be reviewed at this time each year to ensure that it reflects the changing regulatory environment and the needs and priorities of the council.

The Capital Strategy aims to support the delivery of the council's Corporate Strategy by investing in our capital asset base within the resources available and with due regard to risk management within our asset management.

Key priorities for application of capital expenditure are:

- Delivering the policy ambitions of the Corporate Strategy
- Managing the risks within the existing asset base
- Exercising financial prudence and maintaining debt levels that are sustainable within the council's revenue budget.

- Investing in schemes which will reduce the council's revenue costs
- Being alert to opportunities to lever in additional resources including external funds to help deliver the Corporate Strategy priorities.

The Capital Strategy should be read in conjunction with the Treasury Management Strategy, Prudential Indicators, Minimum Revenue Provision and Capitalisation policies, as well as the Medium Term Financial Strategy 2021/22-2023/24, Capital Programme 2021/22-2023/24 and the annual budget 2021-22. The principles of the Capital Strategy are the basis for the development of the Asset Management Strategies.

The Asset Management Strategies will set out the standard to which each class or type of asset will be maintained to and will ensure there is consistency of approach between the types of asset used by different services.

The council has set out this strategy being fully aware that there will be competing pressures on the limited resources to fund the capital programme each year from the diverse range of services that the council provides, the large and diverse asset base that the council needs to maintain as well as the finite amount of funding that is available. The current processes within the setting of the capital delivery programme is to limit the requirements in certain blocks to that of the funding available, this means fixing worse first in terms of condition of buildings. Additional expenditure for urgent projects has been on a reactive basis which can lead to higher cost projects than could otherwise be the case or repeated visits to the same building over time which is not efficient. This approach does not address all the risks within the asset portfolio and is therefore not sustainable in the long term over which this strategy is to be applied. A move to a more proactive capital programme delivery, which focuses on managing risks within the asset base and control of demand for capital resources, is required. This will require leadership at all levels to ensure that the resources available are deployed in the most effective and efficient way and a process for the prioritisation of capital expenditure being included in the capital programme has been developed. This will be managed by Capital Board at an officer level to ensure that the development of the capital programme is carried out with due regard to risk management and prudent and sustainable resource management.

1.2 The key objective of Lancashire's Capital Strategy

The key objective of the Capital Strategy is to provide a framework within which the Capital Programme for delivery will be developed. The rolling 3 year programme will:

- Ensure the council's existing asset base is available to support the delivery of services according to the corporate strategy and vision;
- Regularly review the asset base to ensure assets no longer supporting the corporate strategy are disposed of and the capital receipts used to support the investment in remaining asset base;
- Be affordable, financially prudent and sustainable, and ensure that decisions are made with regard to the long running financial implications and potential risks to the authority; and
- Ensure all new capital investment is deployed in such a way to ensure the asset base can be utilised in the most effective way.

The resources employed to fund the deliver the Capital Strategy are allocated through the annual budget process that sets the three year rolling capital programme and will include the following,

- Capital Grants received, due regard will be made to the terms and conditions of the grant funding to apply the grants to the appropriate schemes;
- Capital Receipts;
- Borrowing, to a level which can be sustained through the revenue budget;
- Revenue contributions, where investment schemes can be demonstrated to provide a revenue savings in future years through a business case process.

1.3 The county councils corporate objectives and priorities.

The capital budgets within the capital programme as directed by the capital strategy will support the key priorities laid out in the corporate strategy. Each capital proposal will be required to clearly demonstrate the links to these priorities:

- **Lancashire will be the place to live –** assets will be invested in to allow provision of first class schools, and good quality reliable roads and public transport, vulnerable people are protected and supported as well as connected to their community. Technology investments will allow digital access to services as well as efficient use of information by services. Investment will be made, subject to prioritisation, where it is necessary to provide the council's services to be delivered or to deliver growth that would otherwise be undeliverable.
- **Lancashire will be the place to work –** capital investments will be made to develop infrastructure and transport links where the private sector alone cannot. By working with partner local authorities, Transport for Lancashire and Transport for the North, as well as the private sector, individual partners' transport and infrastructure priorities can be supported through the council's local highway authority process and grant funding potential by utilising partner funding where this is available as match funding. Any requirement for county council borrowing to match fund a scheme would be subject to the principles of the capital strategy as documented above including the prioritisation process, sustainability of revenue provision to support the investment and the ranking against other proposals.
- **Lancashire will be the place to prosper –** Capital investment proposals will be considered for prioritisation and ranking that support the development of economic growth where they link with the Lancashire Plan and Lancashire Industrial Strategy and the investment or supporting infrastructure cannot be brought forward by the private sector due to viability issues
- **Lancashire will be the place to visit –** Capital investments will be made, where financially prudent to do so, to preserve our cultural, leisure and heritage assets. Where it is not financially prudent to do so the council will work with partners to ensure the long term security of heritage, culture and leisure assets valued by our communities.
- **Lancashire will be the place where everyone acts responsibly** – Capital investments will be prioritised in our asset base including information technology assets that allow services to promote and enable communities to meet their own needs.

2. Approach to investment prioritisation

2.1 The capital programme

There will be a 3 year rolling capital programme agreed every February set within the context of this capital strategy.

2.2 Identification and prioritisation of capital investment needs.

The formulation of the Capital Programme is driven by the budget and service planning process. The size of the Capital Programme is determined by the following,

- The need to incur capital expenditure to protect and preserve the existing asset base;
- To enhance the exiting asset base where this is required to preserve service delivery;
- The proposals for extending the asset base to provide services which deliver the priorities in the corporate strategy;
- The resources available to fund the expenditure; and
- The revenue implications flowing from the capital expenditure, both positive and negative.

As part of the budget setting process, services will be required to submit capital proposals which are considered by Members for investment decisions. This will be after a triage process at officer level led by Capital Board which will have ensured the proposal's strategic fit in line with the principles of the Capital Strategy and will have scored the projects for prioritisation in line with all competing proposals. The capital investment appraisal process will take into consideration:

- Corporate Strategy Visions and Principles
- Affordability and Resources
- Risk Management
- Value for Money, taking into account options appraisals and cost benefit analysis
- Capability and capacity within the council to manage and deliver the project.

Capital investment proposals will be presented initially to capital board in a standard form that includes the following sections:

- Description of the proposal
- The outputs and outcomes to be achieved
- The projects fit with council's Corporate Strategy
- Key dates and milestones
- Cost of the Scheme and the funding source to be applied
- Revenue implications over time
- Evaluation comments and recommendations from Capital Board including prioritisation scoring
- Risks associated with the proposal including the implications of not proceeding.

Proposals recommended for approval by capital board will be submitted to members for approval along with any recommended changes to the agreed to delivery plan required to accommodate the proposal.

2.3 Capital projects: evaluation and priority scoring

It is acknowledged that the council has limited resources to meet all the requests for capital investment and will need to prioritise requests and set benchmarks for investment decisions. Members ultimately determine the projects to be included within the capital programme but to assist this decision making process and ensure decisions are not taken in isolation and with full knowledge of the competing priorities the council will implement a priority scoring matrix to be overseen by Capital Board and used to determine which proposals are recommended for Cabinet approval and aid the comparison with other proposals. The criteria will be reviewed on an annual basis to ensure that it continues to provide an effective tool for evaluation and is set out in Annex 1.

2.4 Assessment of proposals and timetable

The council's policy is to agree the rolling 3 year capital programme on an annual basis at the February council budget setting meeting.

In future years capital proposals will be submitted to the Capital Finance Team in autumn of each year to inform the budget setting process. The proposals will be assessed and evaluated, using the matrix as referred to in section 2.3 and included at Annex 1, by officers from Capital Finance and Asset Management and the appraisals considered by Capital Board to identify those proposals that will be recommended to form the basis of the capital delivery programme submitted to Corporate Management Team and members for consideration and approval.

2.5 Invest to save capital proposals

Service departments are to be encouraged to consider innovative ways that service provision can drive efficiency in both the revenue and capital budget provision and help drive cash savings and reduce long term funding commitments where possible. On occasion this may include the identification of assets which are no longer considered to be financially sustainable, or fit for purpose, in relation to the delivery of council services and priorities.

Invest to save bids will be considered for capital funding on the same basis as other proposals, subject to funding resources being available and as long as there is a business case demonstrating the savings and benefits which will be achieved as result of the intervention. Where the benefits of these schemes outweigh the costs including the revenue costs of repaying the borrowing, and taking the lifetime of the intervention into account, there is a greater likelihood of the projects being prioritised using the matrix in annex 1; where the costs outweigh the benefits over the lifetime of the intervention, services may be asked to contribute the funding from their revenue budgets to reduce dependency on the limited borrowing capacity available.

2.6 Charges to the capital programme

Service departments should follow the council's capitalisation policy and only charge allowable expenditure to projects in the capital programme. This will reduce the risk of regulatory infringements and also the burden on capital funding by borrowing as well as increase number of projects that can be funded with the limited resources available. This will ensure the most effective use of the resources as directed by this strategy.

2.7 Approvals outside of the normal budget setting process.

Any additional capital investment proposals received outside of the budget setting process in 2.4 above must in the first instance be submitted to Capital Board to be reviewed at the quarterly approvals meetings. The proposals should be submitted in the standard form and will be scored by

Capital Finance and Asset Management, if supported by Capital Board they will then be recommended to Management Team for approval and to Members.

2.8 Loans to external bodies or organisations

The council's capital programme can also provide the facility to loan monies to, or cash flow projects on behalf of, partner organisations where the activities to be funded align to one or more corporate objective or service priorities.

There are statutory regulations which govern the accounting treatment of loans, provided towards expenditure which, if incurred by the authority itself, would be classed as capital expenditure. Loans for this purpose must be State Aid compliant and will be subject to a financial appraisal and due diligence checks, and where possible the council will seek to minimise the risks assessed to the council. This may be in the form of a loan agreement or by security provided by a charge on partner assets.

The rate of interest charged on these facilities will be dependent on the nature and structure of the loan and its assessed risks but will only be provided on the basis that there is no net cost to the council over time.

3. Funding sources and investment decisions

The main sources of capital funding are summarised below:

3.1 Grant funding and external contributions

The Council will endeavour to maximise grant allocations and allocate them to most effectively address the corporate priorities identified and that are highest in the prioritisation scoring matrix, whilst ensuring all conditions of the grant are met.

The majority of 'planned' capital expenditure for maintenance of highway infrastructure and school buildings are funded by the appropriate grants.

Contributions will be sought from developers towards the provision of public or private assets and facilities. This will include agreements with developers to mitigate the impact of their development on communities. This will include using Section 106 (Town and Country Planning Act 1990) agreements or community infrastructure levy towards education infrastructure, as specifically highlighted in Department for Education guidance "securing developer contributions for education" issued in

November 2019 and contributions towards Highways infrastructure requirements associated with developments under section 38 and 278 (Highways Act).

Contributions may also be sought from users of the council's asset base where a proposal for investment will generate benefits for that user, this could be a partner organisation, internal service department or school.

3.2 Capital receipts

A capital receipt is an amount of money exceeding £10,000 which is generated from the sale of an asset.

Capital receipts from asset disposals are a finite funding source and it is important to utilise them to the most effective long term advantage of the council be that funding new capital investment or offsetting debt or transitional costs.

The council's policy is to treat all capital receipts as a corporate resource, enabling investment to be directed towards those proposals scoring highest in the prioritisation matrix but where grant funding is not appropriate to be applied to.

The council has a substantial property estate mainly held for operational service requirements, which include administrative buildings and a range of other land and property assets. The estate is to be managed through the asset management strategy which identifies property requirements and where appropriate properties which are surplus to operational requirements which will be disposed of.

The council will continue to work with other organisations to utilise redundant assets and vacant land to bring them into a useful economic purpose and facilitate employment and job creation, subject to the proposals fitting the principles and criteria previously outlined in this strategy.

3.3 Borrowing

The council will seek to minimise the level of borrowing required to finance required capital expenditure by maximising grants and contributions received, minimise the costs charge to each project and ensuring any surplus assets are sold.

The Local Government act 2003 enables local authorities to determine their programmes for capital investment and associated borrowing requirements provided they have regard to the Prudential Code for Capital Finance in Local authorities developed by CIPFA.

The key objectives of the Prudential Code are to ensure, within a clear framework that the capital investment plans of the authority are affordable, prudent and sustainable. To demonstrate that local authorities have fulfilled these obligations the Code sets out a series of indicators – known as prudential indicators – the Council must consider as part of its budget setting process and also give consideration to CIPFA resilience indicators.

3.4 Revenue funding

Capital expenditure may be funded from revenue, for example where a service requests a capital investment to improve its productivity or where funds can be contributed by a school towards improvement or expansion plans. Pressures on the council's revenue budget and council tax limits may restrict the extent to which revenue funding can be exercised as a source of capital funding.

4. Revenue implications and links to MTFS, Treasury Management Strategy, and prudential indicators.

The impact of the revenue implications has to be a significant factor in determining approval of projects. All capital investment decisions should consider the revenue implications both in terms of servicing the finance but also running and maintaining the new asset. Life cycle costing should be a key factor in the rolling capital strategy requirements and feed through into the rolling three year capital delivery programme.

It may be more financially beneficial where service requirements change in the short to medium term to pursue a different model for asset holding which reduces the capital requirements for investment. An example of this could be leasing buildings for service delivery when the demand for the service in that area is shorter than the long term financial strategy or the leasing of vehicles.

The use and financing of capital resources has been fully taken into account in the production of the council's annual budget and Medium tern financial strategy, and are reflected in both the Treasury Management Strategy Statement for [2021-2022] and Prudential indicators for [2021-

2022 to 2023-2024] as detailed in appendix [ ] and [ ] of the Budget 2021-22 report.

5. Performance monitoring of the capital programme.

The capital finance team, working with programme and project managers and heads of service for delivery, monitor the progress of the capital programme on a monthly basis and report to Cabinet on a quarterly basis. All delivery projects within the capital programme are managed through the corporate system (PPMS) and reports will be taken to capital board where there are issues that increase the risks in the capital programme.

All processes and procedures relating to the monitoring of the capital programme are set out in the councils Financial Regulations. The key controls are:

- All expenditure must be carried out in accordance with Financial Regulations and the capitalisation policy.
- The expenditure must comply with the statutory definition of 'capital purpose as interpreted in guidance by the Section 151 officer.
- Where the budget setting process approves a programme budget, a further report on individual schemes to be taken from this budget needs to be approved by Capital Board unless delegated powers in the financial regulations apply.
- Budgets and responsibility for each project must be under the control of a nominated project manager.

The monitoring work above will ensure these controls are enforced.

6. Stewardship of assets.

The council's Asset Management Strategy sets out the standard and condition each of its assets should be maintained to and the arrangements for managing these effectively. The implications of that strategy are included in the long term capital strategy requirements and form an important context in which to make future asset management and capital investment decisions.

7. Overview of capital requirements for the existing asset base

The assessment of investment required over the term of the strategy is updated regularly. A detailed capital programme will be set each year to deliver the investments that score the highest in the prioritisation scoring and can be delivered within the funding available. Items which cannot be funded by the available resources will remain unfunded requirements in future strategy assessments and the risk associated with not delivering them will be highlighted in the capital risk register managed by Capital Board.

Annex 1

Capital projects: evaluation and priority scoring

The criteria referred to in section 2.3 of the Capital Strategy to be applied for 2021-2022 is set out below.

- The contribution the proposal will make to one or more of the corporate strategy priorities.
- The impact the proposal will have on the council's revenue budgets either as additional running costs or as a saving including allowing service to be delivered in a more effective way.
- The proposals contribution to maintain existing assets to the standard in the specific assent management strategy or to allow services to be delivered as per directorate strategies for non property assets.
- The proposals ability to assist in attracting a wider investment such as external funds
- The proposals ability to meet statutory compliance and regulatory requirements including those relating to information assets.
- The proposal meets specific government initiatives.
- The proposal addresses non statutory Health and safety risks identified by survey data or mitigates issues included in the corporate capital risk register

Treasury Management Strategy 2021/22

Under the Local Government Act 2003, local authorities must have regard to statutory proper practices in their treasury management activities. In effect this means the council must adhere to the Chartered Institute of Public Finance and Accountancy's 'Treasury Management in the Public Services: Code of Practice' (the CIPFA Code), and the Ministry of Housing, Communities and Local Government (MHCLG) statutory guidance on local authority investments.

The Chartered Institute of Public Finance and Accountancy's Code requires the Treasury Management Strategy to be produced and approved annually. The updated Ministry of Housing, Communities and Local Government statutory guidance on local government investments, now covers a wider definition of investments. It includes those that support local public services by lending to or buying shares in other organisations (service investments), and those made to earn investment income (known as commercial investments where this is the main purpose). These investments held for service purposes or for commercial profit are considered in the Non-Treasury Investment Strategy.

Together with the detailed treasury management practices approved by the Director of Finance, the strategy provides the policy framework for the engagement of the council with financial markets in order to fund its capital investment programme, to maintain the security of its cash balances considering credit, liquidity, inflation and interest rate risk.

The strategy includes provisions for borrowing, treasury investments, financial derivatives and the indicators that will be used for monitoring purposes throughout the year. It is designed to achieve the following objectives:

- To ensure the security of the principal sums invested which represent the council's various reserves and balances.
- To ensure that the council has access to cash resources as and when required.
- To minimise the cost of the borrowing required to finance the council's capital investment programme, and manage interest and inflation rate risks appropriately.
- To maximise investment returns commensurate with the council's policy of minimising risks to the security of capital and its liquidity position.

In setting the treasury management strategy, the following factors are important:

- the economic position,
- the council's current investment and borrowing portfolio and
- estimates of future borrowing and investment requirements

Economic position

The impact on the UK economy from coronavirus, together with its exit from the European Union, is a major influence on the economy from the start of 2021. Although the trade deal agreed with the European Union means there will be no taxes on goods (tariffs) or limits on the amount that can be traded (quotas) between the UK and the European Union from 1 January 2021, there are new checks and custom declarations on goods. Also the agreement does not allow the UK automatic right of access to European Union markets for services such as banking and accounting.

The Bank of England maintained the Bank Rate at 0.10% in November 2020 and also extended its Quantitative Easing programme by £150 billion to £895 billion. The Monetary Policy Committee voted unanimously for both, but no mention was made of the potential future use of negative interest rates. Within the latest forecasts, the Bank expects the UK economy to shrink -2% in quarter 4 2020, before growing by 7.25% in 2021, lower than the previous forecast of 9%. The Bank of England also forecasts the economy will now take until quarter 1 2022 to reach its pre-pandemic level rather than the end of 2021 as previously forecast.

UK Consumer Price Inflation (CPI) for September 2020 registered 0.5%, up from 0.2% in the previous month. Core inflation, which excludes the more volatile components, rose to 1.3% from 0.9%. The most recent labour market data for the three months to August 2020 showed the unemployment rate rose to 4.5% while the employment rate fell to 75.6%. Both measures are expected to deteriorate further due to the ongoing impact of coronavirus on the jobs market, particularly when the various government job retention schemes start to be unwound in 2021, with the Bank of England forecasting unemployment will peak at 7.75% in quarter 2 2021.

Gross Domestic Product (GDP) growth fell by -19.8% in the second quarter of 2020, a much sharper contraction from -2.0% in the previous three months, with the annual rate falling -21.5% from -1.6%. All sectors fell quarter-on-quarter, with dramatic declines in construction (-35.7%), services (-19.2%) and production (-16.3%), and a more modest fall in agriculture (-5.9%). Monthly Gross Domestic Product estimates have shown the economy is recovering, but remains well below its pre-pandemic peak. Looking ahead, the Bank of England's November Monetary Policy Report forecasts economic growth will rise in 2021 with Gross Domestic Product reaching 11% in quarter 4 2021, 3.1% in quarter 4 2022 and 1.6% in quarter4 2023.

Gross Domestic Product growth has been impacted throughout the world by coronavirus. The euro zone rebounded by 12.7% in quarter3 2020 after contracting by -3.7% and -11.8% in the first and second quarters respectively, while the US economy contracted at an annualised rate of 31.7% in quarter2 2020 and then rebounded by 33.1% in quarter3.

Credit outlook

The credit ratings for many UK institutions were downgraded in 2020 on the back of downgrades to the sovereign rating. However, credit conditions more generally in banks and building societies have tended to be relatively benign, despite the impact of the pandemic.

Looking forward, the potential for bank losses to be greater than expected when government and central bank support starts to be removed remains a risk, suggesting a cautious approach to bank deposits in 2021/22 remains advisable.
Interest rate forecast:

The authority’s treasury management adviser, Arlingclose, is forecasting that the Bank of England Bank Rate will remain at 0.1% until at least the end of 2023. The risks to this forecast are judged to be to the downside as the Bank of England and UK government continue to react to the coronavirus pandemic and the new trading arrangements with the European Union. The Bank of England extended its asset purchase programme to £895 billion in November while keeping Bank Rate on hold. However, further interest rate cuts to zero, or possibly negative, cannot yet be ruled out but this is not part of the Arlingclose central forecast.

Gilt yields are expected to remain very low in the medium-term while short-term yields are likely remain below or at zero until such time as the Bank of England expressly rules out the chance of negative interest rates or growth/inflation prospects improve. The central case is for 10-year and 20-year Gilt yields to rise to around 0.5% and 0.75% respectively over the time horizon. The risks around the gilt yield forecasts are judged to be broadly balanced between upside and downside risks, but there will almost certainly be short-term volatility due to economic and political uncertainty and events.

Current portfolio

The council’s treasury portfolio as at 30 November 2020 was as follows.

	£m
Call accounts	19
Local authority deposits	89
Government, local government and supra-national bonds	451
Corporate bonds	245
Total Investments	804
Short term loans	305
Shared investment scheme	70
Long term loans - local authorities	20
Long Term Bonds	600
Long term loans - Public Works Loan Board	448
Total Borrowing	1,443
Net Borrowing	639

In addition the authority held some £225m of non-treasury investments, further details are contained in the Non-Treasury Strategy.

Estimates of future borrowing and investment requirements

In the medium term, the Chartered Institute of Public Finance and Accountancy’s Prudential Code requires that the council's borrowing adjusted for transferred debt is for capital purposes only. The underlying need to borrow for capital purposes is measured by the capital financing requirement, while usable reserves and working capital are the underlying resources available for investment. The following table compares the estimated capital financing requirement to the borrowing at 30

November 2020. This gives an indication of the borrowing required and the resources available for investment.

The capital financing requirement forecast assumes a capital programme which includes borrowing of £50m a year in each of years 2020/21 to 2023/24 however, this will be subject to change as the capital programme develops.

	31/3/2021	31/3/2022	31/3/2023	31/3/2024
	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m
Capital financing requirement	1,117	1,142	1,164	1,184
Other long term liabilities	-139	-133	-126	-119
Borrowing capital financing requirement	978	1,009	1,038	1,065
External borrowing	-1,313	-900	-885	-875
Borrowing requirement for capital	-335	109	153	190
Other borrowing requirements*	84	79	74	69
Reserves and working capital	-550	-550	-550	-550
Borrowing/ - Investment need	-801	-362	-323	-291

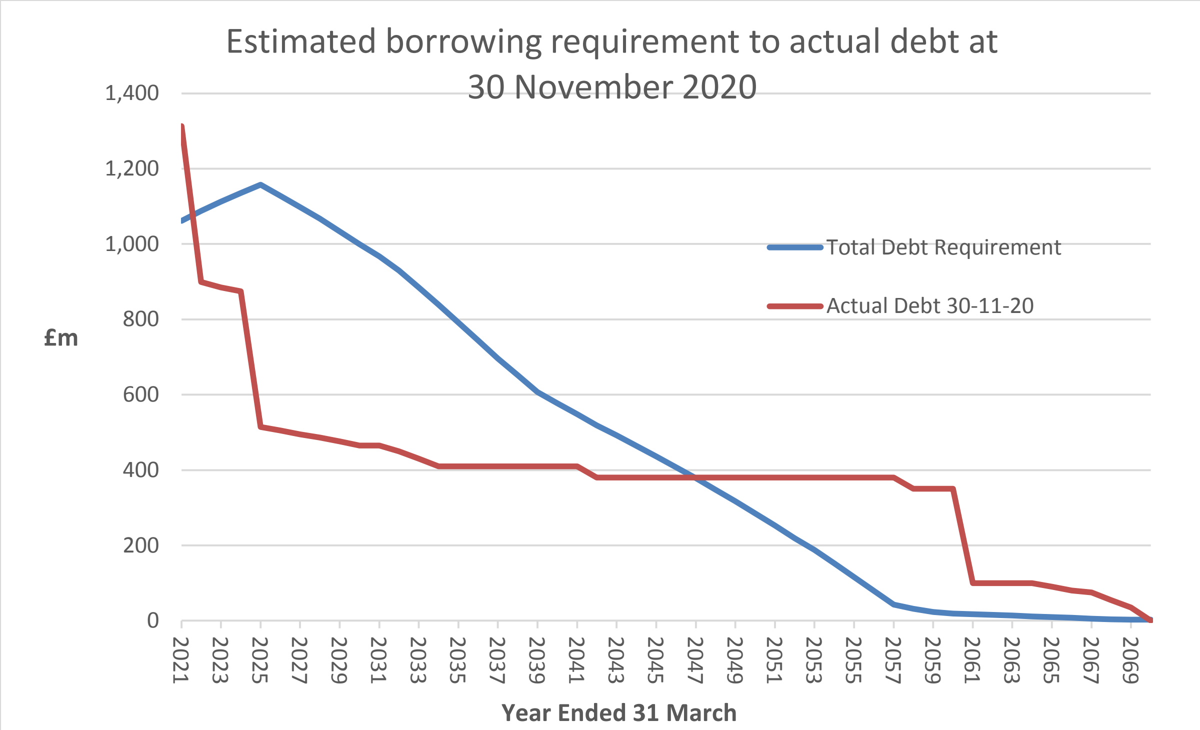
*shared investment scheme, debt held on behalf other local authorities and premiums

The table shows that there is an identified need for borrowing from 2021/22, although some of this could be satisfied by the use of internal reserves.

Borrowing Strategy

The borrowing strategy will be determined by the need for the council to borrow in accordance to the Prudential Code and the impact of the economic climate on the prevailing cost and availability of borrowing. The council will continue to ensure the borrowing needs are met whilst balancing the aim of keeping costs as low as possible and providing certainty of cost over the long term.

The council has a borrowing requirement over the next three years, this being the minimum period covered by the Code. However in assessing the need to borrow, consideration is given to the requirement to borrow for the longer term. The graph below compares the estimated total debt requirement and debt maturity for holdings at 30 November 2020 for the next 50 years given the current capital programme and minimum revenue provision policy.



The graph demonstrates that there is a need to borrow, however, the requirement reduces over time up to 25 years, when the borrowing becomes above current identified need. This has arisen as there has been a move towards fixing a higher proportion of debt long term, including the issuance of a 40 year bond, while interest rates have been at historically low levels. It is anticipated that there will be new borrowing needed beyond year 25 to fund capital programmes over that included in the above graph and therefore the apparent borrowing above need is not considered to be a concern.

There is a large requirement in the early years, due to the impact of new capital schemes in the programme and the need to replace maturing debt. With short-term interest rates currently lower than long-term rates, it is still cost effective to borrow short-term. Given the economic outlook, significant increases in interest rates are not forecast in the medium term and therefore it is anticipated that short term borrowing will still form a part of the debt portfolio. However, there is economic uncertainty and rates are at historically low levels and as such, the council has moved to secure greater certainty of costs and reduce the re-financing risk in its debt portfolio by taking some long term debt. This will continue to be reviewed in 2021/22 especially in relation to debt with 10-20 years to maturity where the council does already have an identified need to borrow.

There are a range of options available for borrowing in 2021/22:

- Variable rate borrowing is expected to be cheaper than fixed rate long term borrowing and this will be attractive during the financial year, particularly as variable rates are closely linked to Bank Rate.
- Under 10 years loan duration, rates are expected to be lower than long term rates, so this opens up a range of choices that may allow the council to spread maturities.

- The issuance of a 'commercial paper'/euro medium term note (an unsecured, short-term debt instrument). This is a flexible debt instrument that facilitates direct issuance into the public or private markets. The UK Municipal Bonds Agency euro medium term note documentation allows for "Non-Guaranteed" single council bond issuance under UK Municipal Bonds Agency documentation, provided the council has its own long term credit rating. This will represent a cheaper route to market than a stand-alone bond issue and it is this method that the council has used to issue two bonds previously. If a third bond was considered beneficial then it is the likely route to be chosen by the council.
- The UK Municipal Bonds Agency is proposing a product which does not include a joint and several guarantee. Instead, a council's liability will be proportional to its share of the outstanding borrowing. Consideration as to whether or not this would be an appropriate form of borrowing will be given when the full details are available.
- The Public Works Loan Board continues to be available as a source of borrowing, and recent changes have meant this once again becomes a viable option.

Against this background, the Director of Finance will, in conjunction with the council's advisers, monitor the interest rate situation closely and will adopt a pragmatic approach to delivering the objectives of this strategy within changing economic circumstances. All decisions on whether to undertake new or replacement borrowing to support previous or future capital investment will be subject to evaluation against the following criteria:

a) Overall need, namely whether a borrowing requirement to fund the capital programme or previous capital investment exists.
b) Timing, when such a borrowing requirement might exist given the overall strategy for financing capital investment, and previous capital spending performance;
c) Market conditions, to ensure borrowing that does need to be undertaken is achieved at minimum cost.
d) Scale, to ensure borrowing is undertaken on a scale commensurate with the agreed financing route.
e) To consider whether to use cash balances as a form of internal borrowing, however this will reduce the level of investments that can be made.

All long term decisions will be documented reflecting the assessment against these criteria.

Sources of borrowing

Traditionally the Public Works Loan Board has been the main source of long term borrowing for local authorities. The interest rate charged on Public Works Loan Board loans is linked to the gilt yield. Currently the council can obtain a Public Works Loan Board loan at 0.8% higher than the gilts yield (this rate is referred to as the margin). Recently the council has used the issuance of bonds to meet its requirements at rates lower than those available from the Public Works Loan Board.

The approved sources of long-term and short-term borrowing will be:

- Public Works Loan Board
- UK Local Authorities

- Any institution approved for investments including high quality supranational banks such as the European Central Bank
- UK public and private sector pension funds
- Any other financial institution approved by the Prudential Regulation Authority, (this is part of the Bank of England and is responsible for the regulation and supervision of around 1,700 banks, building societies, credit unions, insurers and major investment firms)
- Capital market bond investors, either over the counter or through electronic trading platforms

Borrowing instruments

The council may only borrow money by use of the following instruments:

- Bank overdrafts
- Fixed term loans
- Callable loans or revolving credit facilities where the council may repay at any time (with or without notice)
- Callable loans where the lender may repay at any time, but subject to a maximum of £150m in total
- Lender's option borrower's option loans, but subject to a maximum of £100m in total
- Bonds, notes, bills, commercial paper and other marketable instruments
- Sale and repurchase (repo) agreements

Loans may be borrowed at either a fixed rate of interest, or at a variable rate linked to a market benchmark interest rate, such as the Sterling Overnight Index Average (often referred to as SONIA) which is administered by the Bank of England. The balance between fixed and variable rates will be subject to the limits on interest rate risk approved in this Treasury Management Strategy.

Debt restructuring

The council regularly monitors both its debt portfolio and market conditions to evaluate potential savings from debt restructuring.

Other borrowing

The council may borrow for short periods of time to cover unexpected cash flow shortages and to take deposits on the shared investment scheme. Also to provide cash flow support for the Preston, South Ribble and Lancashire City Deal project. This is to cover the gap between the cost of construction of infrastructure and the payment of contributions from other organisations including the government and developers. This borrowing is temporary but will be reflected within the prudential limits.

Policy on Borrowing in Advance of Need

The council will not borrow more than, or in advance of need, with the objective of profiting from the investment of the additional sums borrowed. However, borrowing in advance of need is appropriate in the following circumstances:

a) Where there is a defined need to finance future capital investment that will materialise in a defined timescale of two years or less; and
b) Where the most advantageous method of raising capital finance requires the council to raise funds in a quantity greater than would be required in any one year, or
c) Where in the view of the Section 151 Officer, based on external advice, the achievement of value for money would be prejudiced by delaying borrowing beyond the two year horizon.

Having satisfied the criteria above, any proposal to borrow in advance of need would be reviewed against the following factors:

a) Whether the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered and reflected in those plans and budgets, with the value for money of the proposal fully evaluated.
b) The merits and demerits of alternative forms of funding.
c) The alternative interest rate bases available, the most appropriate periods over which to fund and repayment profiles to use.

All decisions will be documented reflecting the assessment of these circumstances and criteria.

Treasury Management Investments Strategy

The council holds reserves and other cash items on its balance sheet which are invested. In investing these cash balances the council follows guidance issued by the Chartered Institute of Public Finance and Accountancy and the Ministry of Housing, Communities and Local Government.

The guidance requires treasury management investments to prioritise security, liquidity and yield in that order of importance. The council will not make any investments with low credit quality bodies, nor any that are defined as capital expenditure by legislation, such as company shares.

The council has in recent years pursued a policy to hold as investments a sum as close as possible to the cash value of its reserves and balances. This policy will continue in 2021/22 but it will be regularly reviewed to ensure value for money is achieved especially when bearing in mind the potential for negative interest rates.

Business model for holding investments

Under the IFRS 9 (International Financial Reporting Standard), the accounting for certain investments depends on the council's "business model" for managing them. In general, the authority holds investments to either collect the contractual cash-flows or a mixture of holding for the contractual cash-flows and sale proceeds. Neither of these would result in changes in market value to be charged against council tax at year end. However, if investment assets are held for the purpose of trading, any changes in the asset value is charged to the revenue account. The business model for the main treasury management investments are as follows:

Local authority investments - these are principally investments for a fixed term which are held to maturity. In addition, the authority holds some long term bonds issued by local authorities which are also held to maturity. In both cases interest is received on agreed dates and are held for the contractual cash-flows therefore they will be valued at amortised cost.

Gilts - the holding of gilts represent a key part of the strategy for holding investments to back up the reserves and balances while maintaining a low credit risk portfolio. They are also a liquid asset and periodic sales will be incurred in reaction to market movements to enhance the overall yield of the holdings but this is not the primary aim of the holding and therefore gilts will be held at fair value through 'other comprehensive income' which means that market value changes will not be charged against council tax.

Other bonds - the council also holds other high credit quality corporate bonds. These are held primarily for the purposes of liquidity providing a low credit risk holding. These are bought and sold in relation to cash needs and therefore the valuation will be such that the market value changes will not be charged against council tax.

Approved counterparties

The counterparty credit matrix is at the heart of the council's Treasury Management Strategy and has always been conservatively constructed to protect the council against credit risk whilst allowing for efficient and prudent investment activity.

However, the council does not rely solely on credit ratings in assessing counterparties. Other market information is also monitored such as information from the credit default swap market and any press releases in general, to ensure the council transacts with only the highest quality counterparties.

The council requires very high credit ratings for an organisation to be considered a suitable counterparty for investment purposes. These are set out as follows:

For short term lending of up to one year, the short term ratings from the ratings agencies will be used and that a counterparty must have a minimum of the following:

Moody's	P1
S&P	A1
Fitch	F1

Short term ratings were specifically created by the agencies for money market investors as they reflect specifically the liquidity positions of the institutions concerned.

For medium term investments in the form of tradeable bonds or certificates of deposit (1 to 5 years, where immediate liquidation can be demonstrated), a blended average of the ratings will be taken (averaging across all available ratings), with a minimum of:

Long term	AA3/AA-,
Short term	P1/F1+/A1+

For longer term investments (five years and above) in the form of tradeable bonds where immediate liquidation can be demonstrated, a blended average of the ratings will be taken, with a minimum of:

Long term AA2/AA
Short term P1/A1+/F1+

The detailed calculation methodology of the blended average will be agreed with the council's advisers and set out in the treasury management practices document.

If the counterparty of an existing investment falls outside the policy due to a change in credit rating, full consideration will be made, taking into account all relevant information, as to whether a premature settlement of the investment should be negotiated.

The minimum sovereign rating for investment is AA- with the exception of the UK. The UK's latest rating issued by Moody's is a long term rating of Aa2 which is the third highest grade.

Although the rating still falls within the current strategy, it is possible if there is an economic downturn that there will be further downgrades. This could result in investments in UK government gilts, treasury bonds and bodies guaranteed by the UK government falling outside the Treasury Management Strategy. However, even if there is a further reduction in the UK credit rating, the UK government is still deemed a safe investment. The government has never defaulted on its payments and as an ultimate solution it could prevent insolvency by printing money. Therefore it is proposed that the AA- minimum sovereign rating is not applied to the UK.

The following table shows the approved investment counterparties and limits:

Instrument	Minimum Credit Rating (blended average)	Maximum individual Investment (£m)	Maximum total Investment (£m)	Maximum Period
UK Government Gilts, Treasury Bills, Debt Management Office & bodies guaranteed by UK Government	UK Government	unlimited	unlimited	No limit
Sterling Supranational Bonds & Sterling Sovereign Bonds	AA-	150	300	No limit
Corporate Bonds (Short Term less than 1 year to maturity)	P1/A1/F1	50	200	1 year
Corporate Bonds (Medium term up to 5 years)	AA- P1/A1/F1	100	300	5 years
Corporate Bonds (Long term)	AA P1/A1+/F1+	50	200	No limit
Government Bond Repurchase Agreements (Repo/ Reverse Repo)	UK Government	500	500	3 years
Repurchase Agreements (Repo/ Reverse Repo)	Other AA-	200	200	1 year
Bond Funds with weighted average maturity maximum 3 years	AA Rated weighted average maturity 3yrs	50	100	These investments do not have a defined maturity date

Bond Funds with weighted average maturity maximum 5 years	AAA Rated	50	100	These investments do not have a defined maturity date
Collateralised lending agreements backed by higher quality government or local government and supra national sterling securities	AA- with cash or AA- for any collateral	300	300	25 years
Call accounts with UK and Overseas Banks/Building Societies (domiciled in UK)	P1/A1/F1 Long term A -Government support	100	200	Overnight in line with clearing system guarantee (currently 4 years)
Unsecured deposits/CDs to Banks and Building Societies	AA	10	50	1 year
Equity, property, multi asset or credit Pooled Funds	Ratings are not produced for such Funds	50	100	These investments do not have a defined maturity date
Local authority fixed term deposits	Government	30	450	50 years
Local authority bonds	Government	50	300	60 years

Other than call account and operational bank accounts the council does not currently make unsecured investments with banks. This is as a result of the risk following the implementation of 'bail-in' legislation, which ensures that large investors, including local authorities, will rescue failing banks instead of taxpayers in the future. However, the option to undertake small scale lending, widely spread, may have some value and is therefore included in the policy.

Regarding investments with other local authorities, Arlingclose state that they are comfortable with clients making loans to UK local authorities for periods up to two years, subject to this meeting the approved strategy. For periods longer than two years they recommend that additional due diligence is undertaken prior to a loan being made. On this basis it is proposed that the nominal value of investments to local authorities are limited as follows:

	Maximum individual investment	Maximum total investment	Maximum period
Up to 2 years	£30m	£450m	2 years
Over 2-10 years	£25m	£300m	10 years
Over 10 years	£25m	£100m	50 years

In addition to fixed term deposits, local authorities occasionally issue bonds. The investment policy allows the county council to purchase such bonds as an investment which are generally held to maturity. The holding of the bonds is considered to be outside the limits expressed above but for the purpose of risk management, the total of the bonds plus fixed term deposits with any one authority should not exceed £50m.

The council's day to day transactional bank, National Westminster, lies outside the investment credit matrix but overnight deposits may be placed with them. In practice the balances are considered on a daily basis. If there was a failure of National Westminster it is anticipated that they would be subject to bank bail-in rather than made insolvent. This increases the chance of the council maintaining operational continuity but any monies in the bank would be at risk of at least a partial loss.

Long term investments

The Treasury Management Code requires that where an authority invests, or plans to invest, for periods longer than one year, an upper limit for investments maturing in excess of one year is set. The authority does have fixed term deposits which are for longer than a year and the bonds usually purchased have a maturity date which is in excess of one year and these could be held to maturity.

However, the investments are held in government and supranational securities, which are highly liquid. In addition the council holds a secondary liquidity investment book of very high quality covered floating rate notes which are typically issued for a three to seven year term. Because these instruments have their rates re-fixed, at current market rates every three months, their price shows a very low sensitivity to changes in market rates. This means that although they are classified as long term instruments, in practice they operate as fixed instruments with a maximum of three months to maturity and can be liquidated with one or two days' notice. Therefore the 'long term investments' total contains instruments which operate with a short term horizon and which are central to achieving the council's security and liquidity objectives.

As a result of the nature of the assets held it is considered appropriate to have a high limit which is related to the forecast of reserves and balances held (currently forecast to be £550m at 31 March 2022. However, it is anticipated that during the year cash-flow will be positive requiring a higher level of investments to be held. In particular, if a borrowing is taken before the debt it is replacing matures or the capital expenditure is incurred then there will be a temporary increase in cash which will be invested. Therefore the proposed limit for 2021/22 is £800m.

In recent times, a wider range of investment instruments within the area of sterling deposits have been developed by financial institutions. All of these afford similar security of capital to basic sterling deposits but they also offer the possibility, although never of course the certainty, of increased returns. The Director of Finance will, in liaison with the council’s external advisers, consider the benefits and drawbacks of these instruments and whether any of them are appropriate for the council. Decisions on whether to utilise such instruments will be taken after an assessment of whether their use achieves the council's treasury management objectives.

Policy on the Use of Financial Derivatives

The council will only use financial derivatives (such as swaps, forwards, futures and options) on a standalone basis, where it can clearly be demonstrated that, as part of the prudent management of the council's financial affairs, the use of financial derivatives will have the effect of reducing the level of financial risks that the council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Many embedded derivatives are already used by local authorities across England and Wales including Lancashire, although unlike the government, commercial sector and other public service areas, stand-alone derivatives have not generally been used.

A derivative is a financial instrument with three main features:

- The value changes in response to an underlying variable.
- The transaction requires no initial investment, or an initial net investment smaller than would be required for other types of contract with a similar expected response to market changes.
- The contract is settled at a predetermined future date.

The underlying variable represents an existing external risk for which the hedge is required. Examples are a specified interest rate, a commodity price, a credit rating, a foreign exchange rate or any other variable. However as the council's treasury activity is not directly exposed to all of these risks, for example foreign exchange or commodity prices, the council's use of derivatives would be restricted to the management and hedging of interest and inflation rate risk only.

The embedded and standalone derivatives which can be used by the council to manage interest rate risk are summarised as follows:

Class	**Use**	**Standalone**	**Embedded**
Forwards	To fix an interest or inflation rate for a single period in the future	Forward Rate Agreement, gilt lock, interest rate or gilt futures	Forward Deal
Swaps	To exchange interest or inflation rate exposures (e.g. fixed to floating)	Interest or inflation rate swap (IRS), basis swap.	Variable rate deposit.
Purchased Options	The right but no obligation to fix an interest or inflation rate in exchange for paying a premium	Caps, floors, collars, swaptions, puts, calls	Callable loan Collared deposit

The council will not sell interest rate or inflation rate options, (i.e. give another party the right to fix a rate) since these cannot reduce the council's risk. The only exception is where a sold option is combined with a purchased option of equal or higher premium to create a collar or other structured outcome where maximum net loss is the total premium.

There are two methods of engaging in derivative contracts, exchange traded or settled derivatives and over the counter derivatives. The former are available in public markets and trade over a physical exchange with a clearing house acting as an intermediary and include futures and options. Over the counter contracts are privately negotiated and traded between two counterparties and can include swaps and forwards.

In a derivative contract both parties are often required to provide collateral (i.e. pools of valuable and liquid assets set aside specifically to back liabilities arising from the contract) to reduce credit risk. The method of assessing counterparty quality and suitability of collateral within the structure of the contracts is shown as follows:

Product	**Counterparty Quality**	**Security**	**Method**
Exchange traded or cleared product	Credit rating of exchange	Credit rating of clearing agent	Margin netting
Bilateral Forward rate agreements and swaps assuming netting	Credit rating of counterparty	Full 2-way collateral arrangements	Types of collateral agreed and any haircuts
Over the Counter Options	Credit rating of counterparty	Agreed full 2-way collateral	Types of collateral and haircuts
Intra Local Authority swaps	Assumed Credit rating	2-way collateral (cash)	No haircut

The credit quality of the collateral acceptable to the county council will be determined by the credit rating of the counterparty or exchange, along with credit default swap prices which react much quicker than credit rating agencies and can be used as early indicators of credit or liquidity problems.

The following table defines the appropriate limits for collateral quality:

Counterparty type	**Documentation**	**Collateral types**	**CDS levels**	**Rating**
Exchange	MIFCA	Cash margins	<75bp	AA
Bank	International Swaps and Derivatives Association/Credit Support Annex	Cash and Government bonds	<100bp	A3
Insurer and Pension Fund	International Swaps and Derivatives Association/ Credit Support Annex	Cash and Government bonds	<100 (Insurers)	A3 (Insurers)
Local Authority	Contract	Cash and Government bonds	England/Wales None	England and Wales None

The council will only use derivative contracts to hedge existing risks. This is reflected in the limits below. The 100% upper limit means that the council has the option to hedge all of, but not more than, its interest rate risk if felt appropriate.

Exposure Metric	Min Hedge	Max Hedge	Granularity	Tool
Interest rate	0%	100%	0-3 months 3-6 months, 6-12m months, 1 to 2 years, 2-5 years and 5 year blocks	Forward rate agreements, Futures, Options, Swaps Swaption
Inflation rate	0%	100%	1 to 2 years, 2-5 years and 5+ years blocks	Swap, Swaption, Option

In addition hedge accounting will be used to periodically test the effectiveness of the hedge. It is expected the hedge will work with between 80% and 125% effectiveness in accordance with accounting standards. If the effectiveness is measured as falling outside these parameters, the structure of the hedge will be changed in response.

The calculation method of interest rate risk to be hedged and hedge effectiveness will be set out in the treasury management practices document.

At all times the council will comply with Chartered Institute of Public Finance and Accountancy advice and guidance on the use of financial derivatives and have regard to their publications on risk management. However the council may need to seek its own legal advice.

It is anticipated that there may be occasions when it is appropriate to undertake transactions which seek to reduce the council's specific exposure to interest rate risk. A standard market technique involves selling gilts to be paid for at an agreed date in the future rather than the normal next working day. It is proposed that the advance date is restricted to one month and the limit on the transaction(s) outstanding is £250m in total.

Impact on the Council's Revenue Budget

With base rates at low levels, investment returns are likely to continue to be far lower than has previously been the case. However, in the knowledge that a portion of cash invested will not be required in the short term and to protect against continued low investment rates, investments may be made for longer time periods, depending on cash flow considerations and the prevailing market conditions.

The performance target on investments is a return above the average rate for seven day notice money.

The following table outlines the budget for the financing charges element of the council's revenue budget, and this will be amended to reflect the council's approved Medium Term Financial Strategy. The budgets will also be reviewed in light of any changes in the capital programme.

	Revenue Budget 2020/21 £m	Revenue Budget 2021/22 £m	Revenue Budget 2022/23 £m	Revenue Budget 2023/24 £m
Minimum Revenue Provision	15	19	21	21
Interest paid	25	27	26	26
Interest and other income earned	-14	-15	-15	-15
Total	26	31	32	32

The revenue budget above reflects a position which takes account of the views of both internal and external advisers, particularly in relation to interest rate movements. The position will be closely monitored by the Director of Finance and any changes will be reflected in forecasts presented to Cabinet.

Treasury Management Indicators

In line with the relevant legislation the county council has adopted the Prudential Code for Capital Finance in Local Authorities and the Treasury Management in the Public Services Code of Practice (2017) as setting the framework of principles for its treasury management activities. In accordance with the requirements of these codes the council produces each year prudential indicators which provide a framework for the prudent management of its treasury management including limits with regard to certain types of activity such as borrowing. The indicators below are a consequence of the activities set out within the treasury management strategy.

Authorised and operational Limits for debt

The 'authorised limit' is a prudent estimate of external debt, but allows sufficient headroom for unusual cash flow movements. Taking into account the capital plans and estimates of cash flow and its risks, the authorised limits for external debt are as follows:

	2020/21 Revised	2021/22	2022/23	2023/24
	£m	£m	£m	£m
Borrowing	1,600	1,600	1,600	1,600
Other long term liabilities	150	400	400	400
TOTAL	1,750	2,000	2,000	2,000

Accounting standards are changing in relation to recording leases are anticipated during this period In effect more leases will be included on the council's balance sheet and therefore will be included against the other long term liabilities indicators. At this stage work is on-going to quantify the impact of the change and therefore the other long term liabilities limits will be subject to change.

The 'operational limit' for external debt is based on the same estimates as the authorised limit. However, although it reflects a prudent estimate of debt, there is no provision for unusual cash flow movements. In effect, it represents the estimated maximum external debt arising as a consequence of the council's current plans. As required under the Code, this limit will be carefully monitored during the year. The proposed operational limits for external debt are:

	2020/21 Revised	2021/22	2022/23	2023/24
	£m	£m	£m	£m
Borrowing	1,200	1,200	1,200	1,200
Other long term liabilities	150	150	150	150
TOTAL	1,350	1,350	1,350	1,350

The actual external debt at 31 March 2020 was £1,545m.

Gross debt and the capital financing requirement (capital financing requirement)

Chartered Institute of Public Finance and Accountancy s Prudential Code for Capital Finance in Local Authorities recommends that the authority's total debt should be lower than its highest forecast capital financing requirement over the next three years. The county council's borrowing is in excess of the capital financing requirement, however, in making this comparison certain borrowing is included in the total borrowing but does not count against the capital financing requirement. These include the premiums paid and the transferred debt.

	As at 31 March			
	2021	2022	2023	2024
	£m	£m	£m	£m
Borrowing capital financing requirement	978	1,009	1,038	1,066
Estimated total borrowing	1,062	1,088	1,112	1,135
Borrowing in excess of capital financing requirement	84	79	74	69
Represented by:				
Premiums	41	38	35	32
Borrowing relating to other authorities	43	41	39	37

The indicators and limits relating to specific treasury management activities are set out as follows.

Interest rate exposure

In order to control interest rate risk, the council measures its exposure to interest rate movements. These indicators place limits on the overall amount of risk the council is exposed to. The one year impact indicator calculates the theoretical impact on the revenue account of an immediate 1% rise in all interest rates over the course of one financial year.

	Upper Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£50m

Maturity structure of debt

Limits on the maturity structure of debt help control refinancing risk.

	Upper Limit
Under 12 months	75%
12 months and within 2 years	75%
2 years and within 5 years	75%
5 years and within 10 years	75%
10 years and above	75%

Investments over 1 year

Limit on the level of long term investments helps to control liquidity, although the majority of these investments are currently held in securities which are readily saleable. The limit is largely determined by the forecast of reserves and balances held at the year-end (currently forecast to be £550m). The level of investments will be managed to be in line with the estimated reserves and balances and cash flow at 31 March 2022 (deemed an operational limit which will be reviewed during the year). However, it is anticipated that there will be positive cash-flows in year which will require a higher level of investments to be held including bonds held specifically for liquidity purposes. Therefore it is proposed that the limit for maturities in excess of one year is £800m for each of the years.

	Upper limit
Total invested over 1 year	£800m
Operational or forecast limit at 31 March 2022	£550m

Minimum average credit rating

To control credit risk the council requires a very high credit rating from its treasury counterparties.

	Benchmark
Average counterparty credit rating	A

Non-Treasury Investment Strategy 2021/22

This covers investments held to:

- support local public services by lending to or buying shares in other organisations, and
- earn investment income

In general, the council will continue its current policies regarding loans and the acquisition of shares. In addition the council will continue to review its services and if the opportunity exists to develop services that will provide opportunities for additional income generation (e.g. providing services to other authorities) these will be considered in the first instance by the appropriate service manager.

In considering any potential activity under the Non-Treasury Investment Strategy, the council will take into consideration statements from the Chartered Institute of Public Finance and Accountancy (CIPFA). This re-iterates that a local authority should avoid exposing public funds to unnecessary or unquantified risk.

Chartered Institute of Public Finance and Accountancy have also stated that "Both the Prudential Code and the Statutory Guidance on Local Government Investments (3rd Edition) (Statutory Investment Guidance) issued by the Ministry for Housing, Communities and Local Government are very clear that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed".

As part of the statement there is a reminder that the informal commentary on the statutory guidance cautions local authorities against:

- becoming dependent on commercial income;
- taking out too much debt relative to net service expenditure; and
- taking on debt to finance commercial investments.

Service Investments: Loans

The council provides loans as part of its service delivery and not primarily to generate of income. The authority has made loans to Lancashire County Development Ltd, which is an owned company that promotes economic development within the county and Local Pensions Partnership, which provides pension investment and administration services. The council also has an arrangement with Blackpool Council with respect to the waste service and Parish Councils and an employee loan scheme to promote alternatives to travelling by car.

The key risk when making service loans is that the borrower is unable to repay the loan. Currently, the exposure faced by the council is low and it is proposed that this continues in 2020/21. The following table provides details of the loans outstanding at 31 March 20 and proposed limits for 2021/22.

Category of borrower	Outstanding at 31 March 20 £m	Proposed Limit 2020/21 £m
Subsidiaries	7.2	15.0
Other councils	29.2	40.0
Employees	0.1	1.0
Schools	0.2	5.0
Total	**36.7**	**61.0**

Service Investments: shares

The county council holds shares in Local Pensions Partnership and the Municipal Bond Agency for specific service delivery objectives**.**

Commercial Activities

The Ministry of Housing, Communities & Local Government - defines property to be an investment if it is held primarily or partially to generate a profit. Although the council promotes income generating activity, it is generally within the context of providing a service efficiently and covering costs rather than profit seeking. Areas where it is considered the definition is met, is in relation to smallholdings and Lancashire County Development Ltd. In 2020/21 the income generated from smallholdings was less than £0.1m while Lancashire County Development Ltd made a contribution to costs of some £2m.

Bonds including gilts - most of the bonds held are for treasury management purposes and not trading purposes, as outlined in the Treasury Management Strategy. However, there are occasions when cash flow and market projections make it possible to buy and sell bonds purely on a trading basis.

Bonds purchased for trading reasons will potentially be appraised at market value in the accounts. Therefore, any change in market value at year end will be charged against council tax therefore adding volatility to the council's financial position. It is proposed that the Director of Investments can invest in bonds for commercial purposes where cash-flow permits, but investments outside the current treasury management credit matrix will only be incurred after agreement with the Director of Finance.

Other investment proposals may arise during the year. The proposals could involve changes to current services or changing the use of existing assets. These will be examined by officers and approval sought from the appropriate council members.

Minimum Revenue Provision Statement 2021/22

1. Introduction

This annual Statement required to be approved by the county council arises from statutory guidance initially issued by the then Department of Communities and Local Government (DCLG) in 2008. This has been updated with the latest guidance issued by the Ministry for Housing, Communities and Local Government (MHCLG) in 2018.

Local authorities are required each year to make a charge to the revenue account in respect of provision to repay capital expenditure financed by borrowing or credit arrangements (mainly finance leases or Private Finance Initiative contracts). The charge to revenue is one that the authority considers to be prudent and is referred to as the Minimum Revenue Provision (MRP).

Guidance issued by the Ministry for Housing Communities and Local Government continues to identify four options which can be used for the purpose of calculating the Minimum Revenue Provision. However the legal requirement is to set a prudent charge and therefore authorities are free to move away from the guidance if they feel it is appropriate.

2. The Four Options Explained

The first two options, the Regulatory and Capital Financing Requirement methods, can be applied to borrowing which is supported by government via Revenue Support Grants.

For capital expenditure financed by unsupported borrowing, as allowed under the Prudential Code, the guidelines identify the Asset Life method or the Depreciation method as possible alternatives.

• Regulatory Method

Before the Prudential Code system of capital finance was introduced in 2004 the Minimum Revenue Provision was calculated at 4% of the credit ceiling. On the introduction of the Prudential Code this was changed to a charge of 4% of Capital Financing Requirement, which is derived from the Balance Sheet and broadly represents the outstanding debt used to finance the fixed assets. However, to avoid changes in the charge to revenue in 2004/05 an adjustment figure was calculated which would then remain constant over time. For technical accounting reasons this methodology would have led to an increase in the charge to revenue, and would therefore have had an impact upon the county council's budget, so this method has not been used and is not recommended for future use.

• Capital Financing Requirement (CFR) method

This option allows for the Minimum Revenue Provision to be calculated as 4% of the Capital Financing Requirement. This is derived from the Balance Sheet and represents the value of the fixed assets, for which financing provision has not already been made. This method of calculation has been used at the county council since the introduction of the Minimum Revenue Provision in 2004.

• Asset Life Method

Guidelines for this method allow for the charge to be calculated based on the estimated life of the asset. The actual calculation can be made in two ways, namely:

a) .A calculation to set an equal charge to revenue over the estimated life of the asset. This charge will not be varied by the state of the asset.
b) An annuity method. This provides for greater charges in the later years of the assets life and should only be used if it can be demonstrated that benefits are likely to increase in the later years.

The latest guidance states that the asset lives to be used should not usually exceed 50 years. This maximum can be exceeded if the authority has received an opinion from an appropriately qualified valuer or the asset is leased or acquired under a Private Finance Initiative which is for a duration in excess of 50 years.

• Depreciation method

This requires a charge to be made of depreciation in line with normal accounting purposes. This could include the impact of any revaluations, and would be calculated until the debt has been repaid.

3. Finance Leases and Private Finance Initiative

Assets held under a Private Finance Initiative contract form part of the Balance Sheet. This has increased the capital financing requirement and, on a 4% basis, the potential charge to revenue. To prevent the increase the guidance permits a prudent charge to equate to the amount charged to revenue under the contract to repay the liability.

4. Application at Lancashire County Council

The relevant regulations require that the council make "prudent provision" for the repayment of debt, and departure from the options outlined above, which is permissible if an alternative option is considered more appropriate.

Supported borrowing

From 2008/09 to 2014/15 the Capital Financing Requirement option has been applied to all supported borrowing incurred before 1 April 2007. This charge was based on 4% of the outstanding capital financing. However, the charge was based on a 4% reducing balance which never effectively repays the debt. It was also considered that the 4% charge over-estimated the level of support within the revenue support grant. From 2015/16 the charge has still been made in reference to the capital financing requirement but it is based upon a 50 year life rather than a reducing balance. In 2017/18 it was considered that there had been an over-payment of Minimum Revenue Provision in earlier years and therefore the Minimum Revenue Provision for years from 2017/18 would be reduced to £1 until the overpayment had been recovered. This will continue to be the case in 2021/22 and therefore the Minimum Revenue Provision charge for the supported debt will be £1.

Unsupported borrowing

The Minimum Revenue Provision for Capital expenditure financed from unsupported borrowing has been calculated using the Asset Life Method on an annuity basis. It is proposed that this continues for calculating the Minimum Revenue Provision for 2021/22. This includes expenditure incurred in 2008/09 to 2014/15, when the Minimum Revenue Provision was initially calculated using the Asset Life method (Equal Charge approach).

Private Finance Initiative payments will be made in line with the amounts due to repay the liability under the contract.

Minimum Revenue Provision will not be made in relation to the following specific circumstances:

For assets constructed as part of the Preston, South Ribble and Lancashire City Deal where the borrowing will be repaid from other capital financing sources within the life of the City Deal. This is temporary borrowing that will be repaid from sources such as Community Infrastructure Levy and funding from the Homes and Communities Agency when the development facilitated by the construction of County Council assets has taken place. Thus an alternative prudent plan for repayment is in place. However, this position will be reviewed each year in the light of progress with the City Deal.

For new assets no Minimum Revenue Provision will be charged until the financial year after which the project is deemed to be operational.

Overpayments

The guidance does allow for charges in excess of the minimum to be made. It is not proposed that any overpayments will be made in 2021/22.

5. Recommendations

In respect of the methodology for applying the minimum revenue provision for the repayment of debt, it is recommend that the Full Council:

a) Approves the Capital Financing Requirement method and the Asset Life method for expenditure as outlined in section four.
b) Charges to revenue a sum equal to the repayment of any credit liability.
c) Approves the proposed treatment of assets constructed under the Preston, South Ribble and Lancashire City Deal subject to annual review.
d) Approve the policy of not starting charging revenue until the capital project is operational.