Appendix A –
The County Council's Budget 2024/25

Contents

1. Executive Summary

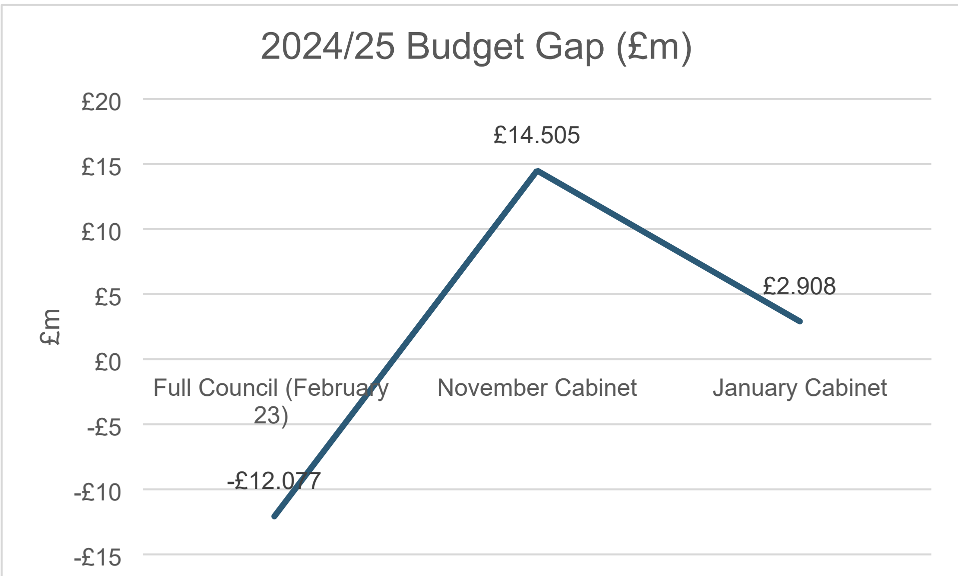
1.1 Councils across the country continue to face ongoing pressures, driven by increasing demand and inflation. When compounded with the current workforce challenges, local government as a whole must make difficult decisions and look to be as creative and innovative as possible. At the county council we have responded by focussing on productivity and efficiency in order to deliver our priority services. We have a track record of success with such programmes and sound financial stewardship means we are able to take a considered and measured approach.

1.2 The current financial year has been marked by volatility and uncertainty in terms of financial forecasting and we have made good progress in planning for and gripping these challenges as demonstrated in the graph below.

1.3 When setting the 2023/24 budget in February 2023, a surplus was forecast for the 2024/25 financial year of c£12m. The forecast deficit in 2024/25 reported to Cabinet in November 2023 was £14.5m, which included £23m of additional "management action" savings. However, increased pressures exceeded the additional savings put forward.

1.4 The most recent medium term financial strategy was reported to Cabinet in January 2024 and forecast a reduction in the forecast budget deficit in 2024/25 to £2.908m. This incorporated the Local Government Provisional Financial Settlement, a review of all assumptions in relation to inflation and demand and included additional savings totalling c£15m.

Graph 1



1.5 The Local Government Provisional Settlement announced on 18 December 2023, provided confirmation of additional funding that had been assumed for 2024/25, but did result in an overall small reduction in grants compared to the forecast. However, changes to the way in which compensatory grants for business rates are calculated, and also a clear indication through OBR forecasts that within the settlement calculations an assumption has been made that upper tier councils will increase council tax by 2.99% and use the Adult social care precept of 2% until 2026/27, resulted in additional levels of funding being included in the forecast when presented to Cabinet in January 2024.

1.6 The Council continues to retain relatively healthy reserves, with the current uncommitted transitional reserve being sufficient to meet the forecast funding gap for the next 3 years. A balance of £165m is forecast for the end of the 2023/24 financial year. However, the intention remains to identify further savings and/or deliver agreed savings earlier than currently planned, to reduce the forecast funding gap enabling further investment to be made into priority services.

1.7 A number of councils across the country are experiencing extreme financial challenges and whilst this council is not in that position it does have growing demand for its services in a number of key areas.

1.8 The 2024/25 budget and the medium-term financial strategy for future years, whilst focussing on the revenue budget, is considered alongside other significant areas affecting the Council's financial affairs including:

- The development of the capital programme
- The treasury management strategy
- The Council's position with regard to the High Needs Block within Education and Children's Services
- The Council's commitments to major projects

1.9 A series of 'service challenge' events will be carried out during the 2024/25 financial year to identify further savings and efficiencies that could be brought forward during 2024/25 and 2025/26.

2.0 To review the proposed budgets, the report is split into the following sections:

- Overall financial position for the years 2024/25 to 2026/27
- Revenue Budget 2024/25
  - Approved budget and spending plans
    - Pay and Pensions
    - Inflation and Cost Changes
    - Demand and Volume Pressures
    - Savings
    - Additional Grants
    - Capital Financing Costs
  - Funding (Council Tax, Business Rates and Government Grants)
  - Developing Future Year's Budgets

- Reserves
- Fees and Charges
- Capital Delivery Programme
- Capital Strategy
- Assurance statements and other policies
- Treasury Management
- S25 statement

2. Overall Budget Position

2.1 The Budget set within this report shows the spending plans for the coming year, where £1.9 billion will be spent on services for residents and also contains assumptions around the financial position facing the Council over the following two years.

2.2 The proposals in the report leave the Council with a budget gap of £2.908m in 2024/25 and £7.814m in 2025/26. A contribution from the Council's transitional reserve will be utilised to balance the budget over these years whilst the Council continues its aspiration to develop a balanced and sustainable budget.

3. Revenue Budget 2024/25

3.1 Members are asked to approve the 2024/25 revenue budget as detailed below in Table 1:

Table 1

	Gross (£m)	Income (£m)	Net Budget (£m)
Adult Services	827.997	-356.773	471.225
Education and Children's Services	326.617	-60.448	266.168
Growth, Environment, Transport and Health	406.294	-220.593	185.701
Resources and Chief Executive Services	287.184	-143.029	144.154
Sub-Total	**1,848.092**	**-780.844**	**1,067.248**
Financing Charges	46.817	-0.480	46.337
Revenue Budget 2024/25 (Budget Requirement)	**1,894.909**	**-781.324**	**1,113.585**
Use of one-off resources (funding from Transitional Reserve)	0.000	-2.908	-2.908
Revenue Budget 2024/25	**1,894.909**	**-784.232**	**1,110.677**

3.2 Annex A shows a more detailed breakdown of this expenditure and income across the Council's service budgets.

3.3 The production of all budgets requires a number of assumptions to be made. The assumptions made to support this budget and the future years medium-term financial strategy forecasts have been produced working with services and obtaining professional advice from external bodies. Those assumptions are shown in more detail in Annex B.

3.4 Further detailed budgets will be included as part of the Full Council budget report on 23 February 2024.

3.5 Table 2 provides details of the type of funding that the county council receives and the value of the funding that is supporting the budget shown in Table 1. The table below demonstrates changes to funding levels in 2024/25 compared to those received in 2023/24.

Table 2

	2023/24 £m	2024/25 £m	Change in funding levels
Government Grants			
Revenue Support Grant	38.206	40.737	2.531
New Homes Bonus	1.482	1.492	0.010
Improved Better Care Fund	47.145	47.145	0.000
Social Care Support Grant	94.569	111.558	16.989
Services Grant	7.663	1.206	-6.457
Sub-Total	***189.065***	***202.138***	***13.073***
Local Income			
Business Rates	236.738	253.175	16.437
Council Tax	604.416	645.364	40.948
Collection Fund	3.827	5.000	1.173
Sub-Total	***844.981***	***903.539***	***58.558***
Other			
Capital Receipts	5.000	5.000	0.000
Sub-Total	***5.000***	***5.000***	***0.000***
Total	**1039.046**	**1110.677**	**71.631**

3.6 The report explains the challenges and changes to the budget required over future financial years, with the table below presenting a summary of changes to the budget since 2023/24 with more details provided in the following section.

Table 3

	2024/25 £m	2025/26 £m	2026/27 £m
2023/24 base budget	1047.981		
Baseline Expenditure		1,113.586	1,120.057
Pay & Pensions	20.756	13.597	10.603
Inflation and Cost Changes	52.701	48.610	35.221
Service Demand and Volume Pressures	39.003	19.064	16.210
Additional Grant	-15.392	-39.478	0.000
Savings	-35.726	-37.859	-25.412
Capital Financing	5.368	1.180	-1.537
Other	-1.106	1.357	0.037
Budget Requirement	1,113.585	1,120.057	1,155.179
Funding (Council Tax, Business Rates and Government Grants)	1,110.677	1,112.242	1,160.070
Budget Gap	**2.908**	**7.814**	**-4.892**
Funding from transitional reserve (2024/25)	-2.908	0.000	0.000
Final Budget Gap	**0.000**	**7.814**	**-4.892**

4. Pay

4.1 The Council's pay costs have increased by £20.756m in 2024/25. These cost increases have arisen through a combination of the increase to the foundation living wage (which has increased from £10.90 per hour to £12.00 per hour - an increase of 10%) and an assumption that the pay award for staff will be around 3%. The additional budget required in 2024/25 includes a backdated element for the higher than budgeted pay award in 2023/24.

4.2 Any pay award estimate is subject to the national negotiations, with the outcome expected during the 2024/25 financial year. If the actual pay award agreed is higher in 2024/25 than the 3% assumed, the additional cost would be funded from the transitional reserve in-year and increase costs in subsequent years.

5. Inflation and Cost Changes

Table 4

	2024/25 (£m)
Adults Services	37.898
Children's Services	6.138
Waste Services	5.204
Highways Services	0.717
Transport Services	3.190
Property and Energy Costs	-1.899
Other Services	1.453
	52.701

5.1 In total, an additional £52.7m is required to support inflationary pressures across service budgets in 2024/25.

5.2 The largest area of inflationary pressure is Adult Social Care (c£38m) with payments to 3rd parties being subject to increases each year to reflect cost increases and the impact of increases in the national living wage. The increase in the national living wage was recently announced and was higher than had been assumed in earlier calculations. The increase in costs will be met from additional grant funding for adult social care, such as funding related to the delayed reforms and the market sustainability and improvement fund; both of which allow authorities to attribute inflation and fees to the grant.

5.3 There are also large contracts in children's social care, waste services and transport which are all significantly impacted by inflation levels.

5.4 As part of the preparation of the medium-term financial strategy, each service, in conjunction with finance, review historic and future inflation forecast for the costs and income that are expected in future years.

5.5 To support the forecast we use inflation forecast figures provided by our supporting professional bodies, but also compare this to benchmarking information provided by other county councils to ensure our assumptions are reasonable. Most service forecasts use a weighted average consumer price index or retail price index inflation figure, however, in some cases where a specific month's inflation is used an estimate of inflation for that month is used.

6. Demand and Volume Pressures

Table 5

	2024/25 £m
Adults Services	13.851
Children's Services	9.701
Highways Services	0.028
Transport Services	11.316
Other Services	4.107
Total	**39.003**

6.1 Table 5 above shows the Council faces a financial pressure of £39m in 2024/25 as a consequence of increased demand for its services. Some of the key drivers of this demand are:

a) Adult Social Care – the population of adults aged over 65 continues to increase, therefore additional budget is required to support demand levels across the budget. This is different across the various types of service provision, but a weighted average 2.9% increases have been provided within the 2024/25 budget. In addition, mental health services have seen increased demand since the pandemic in the domiciliary care service, with an additional £2m included in 2024/25.

b) Children's Services – demand continues to increase within Children's Social Care, although at a reduced rate to previous years. Projections indicate that demand will present the requirement for an additional 3.5% across the budget for placements and 7.0% for Special Guardianship Orders (SGOs).

In addition, the Special Educational Needs and Disabilities Service is experiencing high demand levels due to the level of referrals received across the service relating to education, health and care plans. The service has seen increased demand of 70% for new assessments since 2022. The number of Education Health and Care Plans have increased from 166 per 10,000 of population aged 0-24 to 246 in 2022 which mirrors trends seen both in the northwest and nationally. The service requires additional funding to meet this and an additional £2.5m has been included in the 2024/25 budget.

c) Home to School Transport – as part of the 2022/23 outturn and the 2023/24 budget monitoring forecast, there are significant pressures across the home to school transport budget, particularly relating to those pupils with Special Educational Needs and Disabilities (SEND). It is forecast that demand will increase by 14% in 2024/25 (linked to the data detailed in point b) above), with the modelling assuming that this is the peak in growth post pandemic and reducing levels of growth built into later years. This is a national issue being felt by every upper tier authority in the country and further work is being actively undertaken within the Council to implement mitigations.

d) Further additional funding of c£2m has been included in 2024/25 for digital services to reflect the changing approach to the provision of ICT systems. A majority of replacement systems are now cloud based and licenses need to be paid for from the Council's revenue budget (previously capital expenditure and funded from the capital programme).

7. Savings

7.1 As a county council we have a strong track record in identifying and delivering savings. The proposed 2024/25 budget and medium-term financial strategy includes almost £100m of previously agreed savings and new savings proposals. The Council continues to look for areas where it can be more productive and generate efficiency savings and also areas where different levels of service can be provided.

7.2 The 2024/25 budget contains a proposed programme of savings totalling c£36m. These savings are a combination of savings included as part of previous years budgets that had savings to be delivered over a number of years, and those savings agreed as part of medium-term financial strategy reports presented to Cabinet in both November 2023 and January 2024.

Table 6

	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Previously Agreed Savings	-20.754	-29.213	-10.822	-60.789
Management Action Savings	-12.292	-6.626	-4.350	-23.268
Policy Savings	-2.680	-2.020	-10.240	-14.940
Total	**-35.726**	**-37.859**	**-25.412**	**-98.997**

7.3 In line with the Council's pro-active approach to financial management work was undertaken by Directorates to identify financial savings and efficiencies during the early part of this year in recognition of the remaining budget gap. This resulted in "management action" savings totalling c£23m being included in the medium-term financial strategy. These savings cover aspects of the budget such as removal of budgets for vacant posts no longer required, more efficient ways of working, recurring underspends (following a review of the 2022/23 outturn), improved demand management and increasing levels of income. The management action savings in 2024/25 total c£12m.

7.4 In addition, there are new policy savings totalling £15m that are built into the budget over the next 3 years. The savings for delivery in 2024/25 total c£2.7m. The policy savings include proposals that will require specific consultation, that will be reported through Cabinet for approval prior to implementation.

7.5 A list of all new savings are included in Annex C with supporting Equality Impact Assessment forms shared on the link below:
Link to be included

7.6 At the Cabinet meeting on 8 January 2024 it was agreed to consult with stakeholders to seek views on the savings proposals mentioned in paragraph 7.4 above. The details of responses received and the Council's response to these will be included in the budget report to Full Council on 23 February 2024 once the consultation period is complete.

8. Additional Grant

8.1 The additional grants relate to adult social care and were confirmed as part of the Provisional Settlement. The grants are provided to support various aspects of adult social care, such as discharges from hospital, provider fees, workforce pressures.

9. Capital Financing Costs

9.1 The year has seen a steady increase in the Bank Rate. On 1 April 2023 it was at 4.25% with the Bank of England's Monetary Policy Committee (MPC) increasing the rate at its meetings in May, June and August to reach a level of 5.25%. This rate was maintained in September and then again in November. A proportion of the Council's accumulated borrowing to fund the historical capital programme is on variable interest rates and has resulted in a significant increase in cost along with the impact of the increased cost of current borrowing rates to fund new capital investment.

9.2 The Council's current interest rate payable on debt as measured by our Treasury Management advisors, Arlingclose, is 4.23%. Arlingclose have advised that their view is that the Bank Rate has peaked at 5.25% and the Bank of England’s Monetary Policy Committee will cut rates in the medium term to stimulate the UK economy, forecasting rate cuts from Q3 2024 to a low of around 3% by early/mid 2026.

9.3 This has resulted in an increase in the Council's capital financing costs of £5.368m in 2024/25.

10. Funding

10.0 The county council receives funding from a number of sources. The next section of the report identifies the expected sources of that income in 2024/25.

- Government Grants
- Local Income
- Other

Table 7

	2023/24 £m	2024/25 £m	Change in funding levels
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10.1 Government Grants

10.11 In 2024/25, the county council will receive c£202m of government grants to support the funding of services. An additional £13m of government grants have been received in 2024/25 when compared to 2023/24. Details of the specific changes are provided below as each grant is discussed.

10.12 The level of government grants is based on the known position at the time of writing. An announcement was made on 24 January 2024, which stated that an additional £500m would be provided to councils with social care responsibilities. It is expected that specific grant allocations for councils will be included within the final local government settlement in early February. This will be included in the final report to Full Council and a note will be prepared for all members explaining any changes between this report and the one that comes before Full Council.

10.13 The government provides several specific grants to the county council. The majority of these grants relate to social care; however, the Council also receives the long-standing revenue support grant and the services grant. The value of these grants are shown in Table 7.

10.15 With the exception of the services grant, it is assumed that all government grants are recurrent, and that the revenue support grant continues to increase in line with inflation. These assumptions have been built into future year budget planning.

Further details of each grant are shown below:

Revenue Support Grant

10.16 This grant is a long-standing grant provided to support the revenue budget and is not ringfenced. This grant has risen by inflation over recent years and as part of the 2024/25 provisional settlement the grant received an inflationary uplift (an additional £2.5m compared to 2023/24), meaning the grant for Lancashire will be £40.7m in 2024/25.

New Homes Bonus

10.17 The New Homes Bonus grant has been under review by the government for several years and consultations have taken place. The grant previously included legacy payments over 4 years, but these have been removed and the grant has gradually reduced.

10.18 In the provisional settlement, the value of the grant was awarded at a level very similar to 2023/24 (c£1.5m) and indications are that there would be a final year of the grant in 2025/26 which was not previously expected to be the case.

Improved Better Care Fund

10.19 The improved better care fund (£47m) is a grant that provides funding support towards expenditure in adult social care and was introduced from 2017/18. The grant must be pooled alongside NHS funding and is closely linked to the better care fund (BCF). The BCF is contained within the adult social care budget, as it is specific to that service. The total minimum contribution is c£124m, with the estimated contribution to social care being £46m.

Social Care Support Grant

10.20 The social care grant provides funding for adult and children's social care, without specific distributions outlined for each area. In 2023/24 the Social Care Grant was expanded to include funding for the Independent Living Fund, and repurposed social care reforms funding (although the reforms were delayed the funding is still being paid to councils). All aspects of this grant are assumed to be recurrent. The total grant in 2024/25 is £111.6m, which is an additional c£17m when compared to 2023/24. Additional market sustainability and improvement grant included in the budget to support areas such as workforce pressure and provider fees increases.

Services Grant

10.21 This grant was an additional grant provided in 2022/23, and was included in the 2023/24 settlement, but reduced to reflect a change in policy relating to national insurance contributions. The total grant for 2024/25 is £1.2m which is a reduction of c£6.5m compared to 2023/24. Information provided as part of the provisional settlement indicates this reduced grant has been used by the government to fund other grants provided to councils.

10.2 Locally Generated Income

Council Tax

10.22 Since 2016/17, for county councils, increases in council tax have included both a core council tax increase and an additional flexibility to increase the level further by applying a social care precept. In 2024/25, the budget requires £645.364m to be funded from council tax. This will be collected by district councils with the county council element being collected as a precept on the bill.

10.23 The medium-term financial strategy assumes that the Council will increase council tax in line with government and Office of Budget responsibility (OBR) assumptions over the period 2024/25 – 2026/27, however this is a decision taken by Full Council each year as part of the budget setting process. Any decisions not to increase council tax in line with the assumptions above would increase the financial gap; every 1% in council tax yields circa £6m.

10.24 The 2024/25 budget includes an increase of 2.99% in basic council tax and 2% levied through the social care precept to support expenditure in this specific area. This is the assumed level of council tax increase in both 2025/26 and 2026/27 as part of the medium-term financial strategy.

10.25 Each year there is an expectation that the tax base on which council tax is levied will increase as more houses are built (although there are other elements included in the tax base calculation). The assumption in the current medium-term financial strategy is that a 1.7% tax base increase will occur each year.

10.26 At this stage in the budget setting process the confirmed tax base position has not been provided by district councils. This will be included in the updated position provided as part of the budget report to Full Council on 23 February.

10.27 The Council budgets for a surplus on collection of council tax of £5m per annum as the district councils collectively have historically collected higher levels of income than the assumptions made for collection rates when budgets were set.

10.29 Cabinet is asked to consider and recommend, 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 **2024/25**.

a) Council Tax Requirement and Precept for **2024/25**:

That the band D council tax for **2024/25** is increased by 4.99% as follows:

- 2.99% for general council tax being an annual increase £47.09 for band D council taxpayers.
- 2% for the adult social care precept being an annual increase of £31.49 for band D council taxpayers.

This gives an overall position of:

Table 8

	£m
Budget Requirement	**1,110.677**
Less Revenue Support Grant	40.737
Less Business Rates	253.175
Less New Homes Bonus	1.492
Less Improved Better Care Fund	47.145
Less Social Care Grant	111.558
Less Collection Fund	5.000
Less Capital Receipts	5.000
Less Services Grant	1.206
Equals council tax cash	**645.364**
Divided by tax base (estimate)	390,351.62
Gives LCC Band D council tax for 2024/25	£1,653.29
LCC Band D council tax 2023/24	£1,574.71
Percentage increase	**4.99%**

b) The budget proposed in this report will require a council tax level of £1,653.29 (Band D equivalent) to be levied. The analysis over each tax band is shown in the table below.

Table 9

Council Tax Band	£
Band A	1,102.19
Band B	1,285.89
Band C	1,469.59
Band D (basic)	1,653.29
Band E	2,020.69
Band F	2,388.09
Band G	2,755.48
Band H	3,306.58

10.30 Consequently when this level of council tax is applied to the tax base figures provided by the district councils, the value of the precept levied to each district council will be calculated. Tax base figures will be confirmed by district councils by 31 January 2024 and at this point precept figures will be calculated. The current figures built into the medium-term financial strategy assume a 1.7% increase in tax base, however early provisional information from district councils would indicate that this value is not going to be achieved, although we await confirmed values at the end of January.

Business Rates

10.31 Business rates income is a significant portion of funding to local authorities. The baseline is an assessment of the business rate income required to meet service needs. For the county council, the amount it is anticipated will be received from the business rates collected in the area is less than the assessed need and therefore a top up grant is received. The total value of business rates that fund the Council's budget is £253.175m.

10.32 A small amount of growth continues to be built into the medium-term financial strategy for the county council's local share at 0.5%. This will however be confirmed by district councils as part of their statutory returns to the government, which will then be included in updated figures that are reported within the budget report to Full Council.

10.33 As the national review of business rates has been delayed on several occasions, and at the moment the existing scheme continues in its current form, with the 75% scheme unlikely to be in place before 2025/26. The county council is part of the Lancashire Business Rates Pool, with additional income of £0.800m anticipated in 2024/25.

10.34 The Autumn Statement and Provisional Settlement included changes to how the level of top up grant and compensatory Section 31 Grants are calculated and this has resulted in higher grant levels being included in the updated medium-term financial strategy in January 2024 (£12.2m). In addition, the inflationary factor used as part of calculations (commonly called the multiplier) was applied to the top up grant, which in previous years had been frozen.

10.35 An account held by the government funded from the business rates levy is generally used to fund safety net payments. In the past, the government has released funds from this account to local authorities. The position for this year has not yet been announced, however as part of the medium-term financial strategy an assumption has been made that the Council will receive £2m in 2024/25 and £1m in both 2025/26 and 2026/27. This will not be confirmed until the final settlement in February.

Collection Fund

10.36 Within the budget it is assumed that a £5m surplus is received upon reconciliations of the collection fund. This was built into the budget following consistent surpluses being reported late in the budget setting process, as returns are only provided at the end of January. Over recent weeks some provisional data has been provided by some districts, with early indications showing a challenging position for the collection fund with achievement of the £5m assumed surplus looking to be at risk. The final position will be confirmed as part of the budget report to Full Council in February.

10.4 Other Income sources

Capital Receipts

10.41 Traditionally, 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 1 April 2016 the Government introduced the flexibility for capital receipts to be used to fund revenue expenditure which meets certain criteria, primarily to generate ongoing revenue savings or improvements in the quality of service provision. This flexibility continues in 2024/25 and the medium-term financial strategy includes £5m of capital receipts to support the revenue budget.

10.42 The capital receipts in 2024/25 will be applied to the following areas:

Table 10

Service Area	Value (£m)
Organisational Development and Change	2.960
Children's Social Care	1.251
Human Resources	0.191
Adult Social Care	0.598
Grand Total	**5.000**

10.43 The table above does not cover all the costs of identified transformation activity but makes a contribution to those costs.

10.44 These receipts could be applied to the capital programme and therefore the impact is to effectively reduce flexibility within the capital programme.

11. Planning for a sustainable budget in future years

11.1 The Council remains in a relatively strong financial position in relation to the position reported in the media in some parts of the country. However, its budget is being set in uncertain times and contains a number of assumptions. Inevitably assumptions have to be made with the best information available at any point in time. There are a number of areas where the actual position has the potential to be different to the assumptions contained in this budget report and would potential to have a significant impact on budget plans.

- Demand – the demand for Council services (especially care, SEND and home to school transport) has been unpredictable over the last few years post COVID and some demand is driven by market factors and policies over which the Council has limited influence.

- Savings – The budget contains a large amount of savings to be delivered. Whilst the Council has a strong record of delivery, the savings proposed become more difficult to deliver each year and in a lot of areas require council-wide and partnership working.

- Inflation – the budget and medium term financial strategy includes forecasts for levels of pay award and the retail price index (RPI) and consumer price index (CPI). These are based on benchmarking information and predicted levels provided by our professional partners. These could however fluctuate both higher and lower than our forecast and impact on the budget position.

11.2 Given the potential uncertainty above and the Council's aspiration to develop a sustainable and balanced budget moving forward a number of areas are being reviewed at present:

- **Commissioning review** - all contracts over £1m that are let by the Council will be reviewed prior to procurement. Work will also be undertaken with suppliers and providers to help shape the markets going forward that the Council would wish to commission future services from.

- **Demand Management** - The Council is looking at areas where it can provide services differently and support individuals to develop independence or to provide services in a different manner that reduces the need for calls on Council services.

- **Devolution/working with partners** – work will be undertaken to develop the expected benefits of devolution and work will be undertaken to identify areas where closer work could be undertaken with partner organisations.

- **Invest to Save** – the Council will be looking at areas where it can invest to drive out further efficiencies

11.3 In addition, a series of service challenge events will be carried out during the 2024/25 financial year to identify further savings and efficiencies that could be brought forward during 2024/25 and 2025/26 focussing on the following themes:

- Identifying best practice across the country.
- Comparing unit cost levels to other councils to achieve better, or the same, outcomes at a lower cost.
- Ensuring full cost recovery for those services that generate external income.
- Reviewing service standards across the county.
- Utilising technology to be more efficient, increase productivity, and provide customer centred services.

All areas of the Council will be asked to bring forward proposals for consideration as part of this process.

These reviews will become particularly important given the recent announcement alongside the new social care grant that councils will need to produce ‘productivity plans’ to support the new expenditure.

12. Reserves

Table 11

Reserve Name	Estimated 2023/24 Closing Balance	2024/25 Forecast Exp	2025/26 Forecast Exp	2026/27 Forecast Exp	Forecast closing balance 31 March 2027
	£m	£m	£m	£m	£m
County Fund	-23.437	0.000	0.000	0.000	-23.437
SUB TOTAL - COUNTY FUND	**-23.437**	**0.000**	**0.000**	**0.000**	**-23.437**
Strategic Investment Reserve	-0.381	0.253	0.000	0.000	-0.128
OCE General Reserve	-2.550	1.422	1.005	0.000	-0.123
Downsizing Reserve	-5.267	1.756	1.756	1.755	0.000
Risk Management Reserve	-2.939	0.000	0.000	0.000	-2.939
Transitional Reserve	-165.198	-0.941	-2.707	-3.680	-172.526
Business Rates Volatility Reserve	-5.000	0.000	0.000	0.000	-5.000
LCC Service Reserves	-94.823	32.497	20.460	9.525	-32.341
Treasury Management Valuation Reserve	-27.317	0.000	0.000	0.000	-27.317
SUB TOTAL - LCC RESERVES	**-303.475**	**34.987**	**20.514**	**7.600**	**-240.374**
Non LCC Service Reserves	-21.907	6.611	0.444	0.025	-14.827
SUB TOTAL - NON LCC RESERVES	**-21.907**	**6.611**	**0.444**	**0.025**	**-14.827**
GRAND TOTAL	**-348.819**	**41.598**	**20.958**	**7.625**	**-278.638**

12.1 It is key that the Council holds an appropriate level of reserves to meet known future commitments and also an appropriate level to mitigate against unforeseen future events.

12.2 It is however also important that the Council doesn't hold higher than necessary level of reserves at the expense of service delivery. The total level of reserves forecast to be help by the county council at the end of the 2023/24 financial year is £303m. The county council also holds reserves totalling c£22m that are predominantly partnership-related reserves. The majority of the reserves held by the county council are earmarked for specific purposes and in some cases linked to grant conditions as to how funds should be spent.

12.3 The County Fund shown at the top of Table 11 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, equating to circa 2.2% of net budget.

12.4 The Council has established a transitional reserve to support the strategic delivery of a sustainable balanced budget position, including facilitating modernisation and transformation so that services can remain the best in class. The phasing of the introduction of the savings needed allows the Council to minimise the impact on residents and service users through the development of fully thought through proposals, with the transitional reserve supporting the budget whilst these are implemented.

12.5 The value of the uncommitted transitional reserve is currently forecast to be £165.198m by the end of March 2024 but this will also be impacted directly by the value of any final over or underspend for the current financial year. This will be sufficient to meet the currently forecast funding gap as shown in Table 12.

Table 12

	2024/25	**2025/26**	**2026/27**
	£m	**£m**	**£m**
Opening Balance	165.198	163.231	158.124
Gap funding	-2.908	-7.814	4.892
Commitments	0.941	2.707	3.680
Closing balance	**163.231**	**158.124**	**166.696**

13. Fees and Charges

13.1 Fees and charges are permissible charges for services provided by the county council.

13.2 The policy in place states that each year the fees and charges schedule will be updated using the Consumer Price Index (CPI) as at the September of the prior year as this is the value used to inflate pensions and benefit payments by the Government. The value of CPI in September 2023 was 6.7%.

13.3 The updated schedule for 2024/25 will be published on the county council website.

13.4 There are minor exceptions within the schedule where the increase of 6.7% has not been applied such as adult social care fees (as this links to a wider review of provider fees that form part of a separate report to Cabinet) and those fees where the level is nationally set.

13.5 Whilst an increase of 6.7% has been applied across almost all services, amounts have been rounded to more feasible cashable and marketable values therefore in some cases meaning the increase will be more than the outlined inflationary increase.

13.6 The schedule contains fees and charges for the registrars service and the trading standards service that were omitted from the previous published schedule. These are not new fees and charges but are included within the schedule for completeness.

13.7 The fee charged for inter library loans as been increased from 80 pence per loan to £5.00. The average charge for an inter-library loan, based on a survey of 26 other local authorities who continue to offer this service is £6.25. Charges vary between £1.15 and £12.50. The proposed charge of £5.00 is felt to be fair and proportionate given the cost of processing these requests in staff time, courier charges and loan fees charged between some authorities. An equality impact assessment has been undertaken and considered as part of the increase to this specific fee.

14. Risks and Uncertainty

14.1 There are a number of risks and uncertainties that could impact on the 2024/25 budget, these are detailed within and throughout this report.

15. Capital Delivery Programme

15.1 The Council plans to spend around £500m of capital investment over the next 3 years.

15.2 An indicative capital delivery programme has been drawn up for 2024/25 to 2026/27 using approved annual budgets in addition to the forecast delivery of any remaining prior year slippage less any future year budget already delivered. These figures are shown in Table 13 below, with the funding streams for the delivery programme then shown in Table 14.

15.3 The detailed capital programme with supporting narrative to describe the areas the funding will support is provided in Annex E.

Table 13 – Capital delivery programme by block

Service Area	2024/25 delivery plan (£m)	2025/26 delivery plan (£m)	2026/27 delivery plan (£m)
Schools (excl DFC)	30.429	29.068	21.514
Schools (DFC)	2.388	2.429	2.400
Highways	51.129	50.713	48.772
Transport	27.889	12.101	11.439
Externally Funded	3.137	0.000	0.000
Central Systems & ICT	2.596	0.800	0.000
Adults	18.174	18.174	18.174
Corporate - Property	10.513	4.002	0.000
Economic Development	35.270	49.561	14.200
East Lancs levelling up fund	10.000	36.000	5.000
Vehicles	4.000	4.000	4.000
Transforming Cities Fund	3.000	0.000	0.000
Totals	**198.524**	**206.848**	**125.500**

Table 14 – Funding streams by year

Service Area	2024/25 funding	2025/26 funding	2026/27 funding
Borrowing	61.393	70.187	43.800
Grant	118.563	136.161	81.200
Contributions	18.568	0.500	0.500
Totals	**198.524**	**206.848**	**125.500**

16. Capital Strategy

16.1 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.

16.2 It is a requirement for Members to approve this strategy (included as Annex F) as part of the overall budget report. The primary change since last year relates to the affordability of the capital programme developed within the longer term strategy with a proposed limit on the scale of additional prudential borrowing each year. This will be set by reference to the CIPFA national indices on financial resilience which include the proportion of a Council's net revenue budget that is being used to fund capital financing costs. The intention is to maintain or reduce this proportion from current levels accepting that this be directly impacted by interest rate changes and the scale of future increases in the net revenue budget.

16.3 The medium-term financial strategy assumes an annual headroom figure of £50m for additional prudential borrowing which will be reviewed annually. By utilising this borrowing headroom figure and developing this resilience plan going forward it is anticipated that future investment decisions are both sustainable and affordable.

16.4 Items where the borrowing is of a cash flow or an invest to save nature will be excluded from the borrowing headroom with the borrowing being repaid from the return on the investment. For clarity these items are still required to be shown in the minimum revenue position within the budget but can be excluded from the headroom calculation in determining levels of investment each year.

17. Associated Statements and Policies

17.0 The 2024/25 Budget is developed building on a number of associated strategies that require Full Council approval.

17.1 Treasury Management Strategy

Treasury Management

17.11 Treasury management is the management of the Council's investments and cash flows, its banking, money market and capital market transactions. It also includes the effective control and management of the risks associated with these activities, ensuring that the Council gets the best performance within acceptable risk parameters. Although the impact of treasury management decisions is considered over the long term, there is a requirement through regulations for the strategies to be approved annually.

17.12 The Council is required to produce and approve a Treasury Management Strategy before the beginning of each financial year. Treasury Management is overseen by the Audit, Risk and Governance Committee who met on 29 January to consider the proposed 2024/25 Treasury Management Strategy, Investment Strategy and the associated Minimum Revenue Provision Policy Statement and recommended the proposals be submitted to Full Council for approval.

Treasury Management Strategy

17.13 The Treasury Management Strategy sets out the Council’s approach for both its borrowing and investment activity. The borrowing strategy is determined by the need for the Council to borrow in accordance with the Prudential Code and the impact of the economic climate on the prevailing cost and availability of borrowing. The strategy identifies a likely need to borrow and notes that the Council will continue to review the balance between long- and short-term debt. It should be noted that the figures in the strategy will be subject to minor changes as the capital programme is developed and approved.

Investment Strategy

17.14 The then Ministry of Housing, Communities and Local Government's statutory guidance on local government investments includes provisions relating to investments 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 Investment Strategy. The Investment Strategy, whilst having regard to yield, has the key drivers continuing to be security and liquidity.

Minimum Revenue Provision Policy Statement

17.15 The Department for Levelling Up, Housing and Communities is currently consulting on proposed changes to Minimum Revenue Provision regulations which will limit the scope for authorities to: (a) make no Minimum Revenue Provision on parts of the capital financing requirement; and (b) to use capital receipts in lieu of a revenue charge for Minimum Revenue Provision. It is not anticipated that the outcome of the consultations will require for the Minimum Revenue Provision Policy Statement to be changed.

Changes from Prior Year

17.16 Aside from minor wording changes, updated context and commentary, the policies set out in the appendices are broadly in line with those approved for 2023/24, with the most significant change being within the Treasury Management Strategy where there is a proposal to amend credit ratings to reflect possible downgrading of the UK government and the subsequent effect on other credit ratings.

17.17 A new accounting standard on leases (IFRS 16) is to be implemented in 2024/25. This means that all leases are to be reflected as a liability on the balance sheet, rather than recorded as a finance lease. If the proposed Minimum Revenue Provision Policy Statement is approved whereby the Minimum Revenue Provision equals the principal repayment, then there will be no overall impact on the revenue account. However, the proposed authorised and operational prudential limits for 'other long-term liabilities' will be increased to reflect the additional liabilities to be recognised.

18. Chief Finance Officer – Assurance Statement

18.1 Under S25 of the Local Government Act 2003 the S151 officer is required to produce a report for Members that comments on the robustness of the estimates and the adequacy of the reserves that the Council holds.

18.2 The assurance statement is attached in full as Annex D.

18.3 In summary the Chief Finance Officer can give members assurance that the estimates contained within the budget are sufficiently robust and that an adequate level of reserves exist to meet known challenges and commitments.

18.4 As with most upper tier councils in the country there is considerable uncertainty over future finances especially given the growing demand for its services in some key areas. Whilst the Council remains financially well managed this is an area that will require focussed attention over the next few years. The Council will also be undertaking some ‘stress testing’ of its medium-term assumptions (especially demand) in comparison to statistical neighbour (most similar) councils.

Annex A – 2024/25 Revenue Budget Detail

	Gross (£m)	Income (£m)	Net (£m)
Adult Services			
Adult Care and Provider Services	82.689	-67.123	15.566
Adult Community Social Care	728.648	-287.718	440.930
Quality Improvement and Principal Social Worker	2.029	0.000	2.029
Quality, Contracts and Safeguarding Adults	7.504	0.000	7.504
Strategic and Integrated Commissioning	7.128	-1.932	5.196
Adult Services Total	**827.997**	**-356.773**	**471.225**
Education and Children's Services			
Children's Social Care	211.424	-8.050	203.374
Education, Culture and Skills	83.919	-34.682	49.236
Education and Children's Services	19.929	-8.275	11.654
Policy Commissioning and Children's Health	11.346	-9.442	1.904
Education and Children's Services Total	**326.617**	**-60.448**	**266.168**
Growth, Environment, Transport and Health			
Public Health	85.316	-88.817	-3.500
Highways and Transport	290.111	-107.233	182.878
Growth and Regeneration	23.597	-20.750	2.847
Environment and Planning	7.270	-3.793	3.476
Growth, Environment, Transport and Health Total	**406.294**	**-220.593**	**185.701**
Resources and Chief Executive Services			
Resources	12.611	-1.340	11.271
Finance Services	36.848	-16.526	20.322
Strategy and Performance	136.041	-97.071	38.971
Law and Governance	26.562	-5.500	21.062
Digital Service	52.933	-12.649	40.284
Communications	1.775	-0.198	1.577
People Services	16.110	-9.644	6.467
Organisational Development and Change	2.262	-0.102	2.160
Chief Executive Services	2.041	0.000	2.041
Resources and Chief Executive Services Total	**287.184**	**-143.029**	**144.154**
Sub-total	**1,848.092**	**-780.844**	**1,067.248**
Finance Charges	46.817	-0.480	46.337
Revenue Budget 2024/25 (Budget Requirement)	**1,894.909**	**-781.324**	**1,113.585**
Use of one-off resources (funding from transitional reserve)	0.000	-2.908	-2.908
Revenue Budget 2024/25	**1,894.909**	**-784.232**	**1,110.677**

Annex B

Funding and Expenditure Assumptions

	2024/25	£m	2025/26	£m	2026/27	£m	Description
Funding							
Council Tax - increase	4.99%	30.673	4.99%	32.751	4.99%	34.974	Increase included for each year based on government projections, including 2% adult social care precept. Decision to increase Council Tax is a decision taken by Full Council each year. The council tax increase is inflated after the tax base increase below has been applied, therefore they are interdependent.
Council Tax - tax base	1.70%	10.275	1.70%	10.971	1.70%	11.710	Tax base increase is based on historic trends and national benchmarking. This is subject to information provided by District Councils at the end of January each year.
Business Rates - growth	0.50%	0.162	0.50%	0.163	0.50%	0.163	Business rates growth is confirmed by District Council's at the end of January each year. 0.5% is an estimate at this stage in the budget setting process and is based on historical trends.
Inflation							
Pay	3.00%	12.3	3.00%	12.7	2.00%	13.0	Based on reducing inflation levels and benchmarking information from other county councils.
Children's Social Care	Various	5.0	Various	3.9	Various	3.5	CPI across contracts and type of expenditure varies with some areas using an average inflation figure and other having a very specific month's inflation as part of their contractual uplifts.

	2024/25	£m	2025/26	£m	2026/27	£m	Description
Adult Social Care	Various	37.9	Various	45.0	Various	26.9	Driven largely by National Living Wage increases and CPI which form the basis of the uplifts agreed annually to provider fees. Increases vary across each type of care provision.
Waste	4.30%	3.8	2.80%	2.6	2.80%	2.7	Contractual costs increased at RPI.
Highways	4.30%	0.8	2.80%	0.5	2.80%	0.5	Contractual costs increased at RPI.
Transport	4.30%	3.2	2.80%	2.0	2.80%	2.1	Contractual costs increased at RPI.
Electricity	4.60%	0.2	2.80%	0.1	2.80%	0.1	Electricity purchased in advance for 2024/25, later years increases assumed at RPI. Whilst this table demonstrates the CPI applied, as part of the medium-term financial strategy calculations an arbitrary adjustment to take out 2022/23 and 2023/24 significant levels of inflation have been included – therefore on the summary tables in Appendix A the overall adjustment is a budget reduction.
Gas	-9.50%	-0.1	2.80%	0.1	2.80%	0.1	Gas purchased in advance for 2024/25, later years increases assumed at RPI. Whilst this table demonstrates the CPI applied, as part of the medium-term financial strategy calculations an arbitrary adjustment to take out 2022/23 and 2023/24 significant levels of inflation have been included – therefore on the summary tables in Appendix A the overall adjustment is a budget reduction.

	2024/25	£m	2025/26	£m	2026/27	£m	Description
Other Premises Costs	4.30%	0.7	2.80%	0.5	2.80%	0.5	Running costs of building assumed increase at RPI.
Digital	4.30%	1.0	2.80%	0.4	2.80%	0.6	Contractual costs increased at RPI.
Demand							
CSC Placements	3.50%	3.9	0.83%	1.1	-0.54%	-0.3	Based on historical trends with assumption that demand will reduce in later years.
CSC Special Guardianship Orders	7.00%	0.9	7.00%	1.0	7.00%	1.1	SGOs have continued to rise over recent years, therefore a historical average has been used to project demand.
ASC	2.90%	11.3	2.90%	11.3	2.90%	11.8	Based on older people population increases, with variations applied across different types of service provision.
Waste	0%	0.0	0%	0.0	0%	0.0	Assumed growth remains the same as in 2023/24 at 400,000 tonnes per year.
SEND Transport	14%	11.5	11%	4.4	8%	3.4	Projected growth across Special Educational Needs and Disability service is 14%, which is currently forecast to be the peak of demand post-pandemic. It is then forecast that growth gradually reduces over later years.

Annex C – Policy Savings Proposals

Template Ref	Directorate	Service Area	Brief Description	2024/25 £	2025/26 £	2026/27 £
ECS001	Education and Children's Services	Education Improvement	Additional income from consultation and advisory work	-492,000	-400,000	-300,000
ECS002	Education and Children's Services	Children's Social Care	Children and Young People's Joint Funding	-800,000	-800,000	-800,000
ECS012	Education and Children's Services	Cultural Services	Using Collection HQ technology to improve collection management and performance	-200,000	-200,000	-200,000
GET005	Growth Environment and Transport	Highways	Walking and Cycling Routes - Budget Reduction	-150,000	-150,000	-150,000
GET007	Growth Environment and Transport	Highways	Pay & Display Income	1,950,000	-794,000	-794,000
GET008	Growth Environment and Transport	Transport	Young Persons Travel - Budget Removal	-155,000	-155,000	-155,000
GET009	Growth Environment and Transport	Transport	Discretionary Concessionary Travel - Budget Removal		-239,000	-239,000
GET011	Growth Environment and Transport	Waste	Anaerobic Digestion - Processing of Food Waste		2,500,000	-6,300,000
GET015	Growth Environment and Transport	Planning & Environment	Service Review of Transport Group plus Additional Planning Application Fee Income	-176,000	-176,000	-176,000
GET019	Growth Environment and Transport	Transport	Introduce Pay & Display Charges at Lancaster Park & Ride	50,000	-10,000	-10,000
RES001	Resources	Strategy and Performance	Save 10% on property running costs	-250,000	-550,000	-1,590,000
RES002	Resources	Strategy and Performance	Facilities Management - operational changes	-145,000	-470,000	-470,000

Template Ref	Directorate	Service Area	Brief Description	2024/25 £	2025/26 £	2026/27 £
ASC004	Adult Services	Learning, Disabilities and Autism	Enablement – Enhanced	-890,000	-1,662,000	-1,662,000
ASC006	Adult Services	All Adult Services	Offer a chargeable brokerage service for full cost payers	-250,000	-250,000	-250,000
ASC007	Adult Services	All Adult Services	Full cost payers moving to self-funding rates rather than LCC rates.	-172,000	-344,000	-344,000
ASC009	Adult Services	Older People Care Services	Reduction in net cost of in-house residential homes	0	0	-500,000
ASC010	Adult Services	All Adult Services	Full application of charging policy	-1,000,000	-1,000,000	-1,000,000
			TOTAL	**-2,680,000**	**-4,700,000**	**-14,940,000**

Annex D

REPORT OF THE CHIEF FINANCIAL OFFICER ON THE ROBUSTNESS OF THE 2024-25 BUDGET ESTIMATES AND THE ADEQUACY OF RESERVES

LOCAL GOVERNMENT ACT 2003 – SECTION 25

Introduction

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, currently the Executive Director of Resources, on the robustness of estimates and the adequacy of the Council's reserves.

This report has been prepared in accordance with those statutory requirements and covers the following two specific areas:

- Robustness of Budget estimates
- Adequacy of Reserves

Both are important in their own right as the first gives consideration to any risks contained with the estimates of the budget being approved and the reserves element ensures consideration is being given to the longer term financial health of the Council.

Robustness of Budget Estimates

This section will deal with two specific areas:

- The process by which the estimates were produced (to provide assurance to members)

- Potential risks to these estimates and the underlying assumptions

Process

The estimates contained within the budget have been through a rigorous process which includes:

- Identification of assumptions (on macros issues) using comparison with peer authorities and using external experts to provide advice.
- Estimates for demand for council services have been built up using local service knowledge within the Council.
- The estimates have been produced and owned by the directorates that will be managing the budgets.
- The budget package has been reviewed and signed off by the Council's leadership team.

In developing these estimates careful consideration has been given to:

- The uncertainty over future funding for Local Government

- The increasing demand for council services.
- The level of inflation at present and going forward – recognising the recent uncertainty.
- The national picture in terms of 'financial viability' of some councils.
- The track record of delivery of savings within the Council.
- The links between the revenue budget and capital programme in terms of the size of capital programme the Council can afford.

Inevitably given the complexity of the budget for a council of this size and the uncertainty around demand and funding there will be a number of potential risks to the position laid out in this budget report. These are set out in the next section.

Risks/variances

This section is concerned with the scale of financial risks faced by the Council as a result of the estimates and assumptions which underpin the budget. The basis of these estimates, as in previous years, relies on the forecast of activity and the impact of changes in policy previously agreed by the Council, and any changes in national policies. These forecasts are kept under review as part of the budget monitoring process and actions identified to address financial risks and capitalise on financial opportunities arising from changes in the forecasts.

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 medium term financial strategy (the backdrop against which this budget is set):

	Potential Full - Year Impact of 1% movement (£m)
Council Tax (Level ,taxbase and collection rates)	+/- 6.044
Pay	+/- 4.408
Price Inflation	+/- 8.161
Demand	+/- 5.546
Interest on borrowing	+/- 5.000

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

- **Government Funding** – there is uncertainty for future years over the level of government funding as the Council continues to receive one-year settlements. The national economic conditions and the prospect of a general election also add to the uncertainty in this area.

- **Inflation** – Assumptions have been made for inflation based on latest forecasts. The trajectory is downward since last year's budget was set. This Is an area the

Council will need to monitor carefully particularly in its relationship with contractors and their asks for inflationary increases.

- **Pay** – The Council has assumed a 3% increase in pay budgets for 24/25 given the lower inflation figures. There is potential the pay award could be more than this or that it is awarded on sliding scale that averages more than 3% across the full pay scales.

- **Service Demand** – demand for council services has been unpredictable over recent years especially post COVID and this is an area the Council will need to constantly monitor.

- **Interest rates** – The budget currently assumes a 5.25% interest rate for the majority of 2024/25 with small reductions forecast for the second half of the financial year.

- **Delivery of the savings programme** – the 3-year budget set out for members includes total savings to be delivered of c£99m. This is a significant ask and will require continuing regular monitoring and prioritisation from the officer leadership of the Council. The track record of the Council is good in this area but this remains a significant ask.

Mitigations in place

The Council has a number of mitigations in place for these risks:

- Cabinet members and the directors within the council regularly monitor the overall budget position and delivery of savings.

- A Strategic Finance Board has been created (with representatives from all directorates) to embed this approach and oversee delivery of the budget.

- A commissioning programme is being developed to review all future commissions with a view to providing sustainable services going forward.

- Market shaping is taking place in key areas of spend.

- An evidence-based service review process is being undertaken to support the development of a 'sustainable budget' going forward.

The Council has a transitional reserve which, at present, 'smooths' the annual financial gap as the Council aspires to deliver a balanced and sustainable budget going forward.

Future developments

A number of associated strategies are managed within the Council which may impact on the Council's overall budget position in the medium term. These will be included as specific sections in future budget reports.

High needs block (SEND) – there is a deficit building up on this block which based on current trends will only increase. This is a national position and one which is being actively reviewed. For Lancashire the estimated position at present is an overspend of £7.2m in 2023/24. This position will need to be monitored carefully. At present there is a statutory override which means the Council does not have to fund the deficit. There is no national solution to this challenge at present and the override expires in 2026/27. As part of its financial planning the Council holds a DSG reserve which covers these costs. However, going forward as the costs increase each year and if the statutory override is removed this will become a significant financial challenge to the Council.

At this moment in time this is not an issue reflected in the Council's budget due to the statutory override.

Treasury Management – The Council has a historically successful treasury management strategy. Given the changes to the macro-economic conditions over recent years this strategy will need to be continually monitored and will be included in future years budget reports.

Major Projects – The Council successfully supports a number of major projects to promote regeneration and economic growth across the County. For completeness the support for these will be included as a section in the budget reports.

Reserves Strategy

It is important the Council maintains and monitors an appropriate level of reserves in these challenging times and this needs to be a careful consideration between ensuring sufficient reserves exist for a sustainable financial future against not accumulating reserves at the expense of needing to make decisions in the short term that could be operationally damaging to the Council's ability to provide the services it needs to its residents, service users and other stakeholders.

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 or cost of 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 and opportunity 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.

The Council is forecast to hold c£349m in reserves in total at 31 March 2024. An element of this (£160m) is earmarked for specific purposes. The only reserves without identified commitments for the full balance forecast at the end of the 2023/24 financial year are the county fund reserve and the transitional reserve.

One particular 'earmarked reserve' the Council holds is the Treasury Management reserve, which is forecast to hold £27.3m by the end of the financial year as a formal to hedge against the uncertainty and volatility inherent in these markets. The reserve will enable the Council to manage unpredicted interest rate changes and associated risks over the short-term without directly impacting the revenue account.

In relation to the Council's general reserve (County Fund Balance), the forecast level at 31 March 2023 is £23.437m. This represents 2.2% of the net budget. Given the current uncertainty facing the Council in isolation this would be seen as a very low level of reserve to hold. However, the Council has a transition reserve which acts as a 'safety net' to support the Council developing a sustainable budget over the coming years. Over the next few years it will be important to give consideration to building the general reserve up to a sustainable level as part of the budget plans.

The value of the Council's uncommitted transitional reserve, which is available to support the revenue budget, is currently forecast to be £165.198m at the end of 2023/24 and is sufficient to meet the forecast funding gap within the current medium term financial strategy covering 2024/25 to 2026/27.

The CIPFA Financial Resilience Index is a comparative analytical tool that councils, and more particularly Chief Finance Officers, can use to compare the financial position of their respective council to others across various different measures, and help ensure good financial management. This is a tool that will be continuously used to measure the county council's position and is part of the responsibility of the strategic finance board to review and advise members accordingly.

Declaration by Chief Financial Officer

Overall, I can give assurance that the estimates within the budget proposals are sufficiently robust. There are inevitably challenges to producing these over 3 years but the Council has plans in place to look for further efficiencies and savings to mitigate against any variations to these.

There are a number of areas of uncertainty going forward that the Council needs to keep a watchful eye on (SEND High Needs Block, demand levels, Treasury Management) and monitoring is in place to oversee these.

Sufficient Governance exists within the Council through senior officers and members to provide oversight of delivery of the plans contained within this budget.

And finally, the reserves level of the Council are sufficient to manage any risks associated with the proposed budget.

M Wynn
Section 151 Officer

Annex E – Capital Programme 2024/25

1. Introduction

An indicative Capital delivery programme has been drawn up for 2024/25 to 2026/27 using approved annual budgets in addition to the forecast delivery of any remaining prior year slippage less any future year budget already delivered. These figures are shown in table 1 below, with the funding streams for the delivery programme then shown in table 2. A brief supporting narrative for the 2024/25 delivery programme by block is shown in section 2 of the report.

The figures in this report will be revised early in the new financial year following completion of the 2023/24 outturn position to allow for adjustment for final slippage and advanced delivery figures. Any additional funding agreed by Cabinet between February 2024 and June 2024 will also be added to the report to be considered by Cabinet in July 2024 with the resulting agreed delivery programme then being used as the basis for the Capital monitoring reports throughout 2024/25.

The delivery programme includes estimates for annual grants which have yet to be finalised by central government. When these grant allocations are confirmed the delivery plan will be updated. Any internal annual budget allocations funded through borrowing have not been included in the delivery plan and will only be included in the figures when they are Cabinet approved.

Some items of expenditure will require funding in year and do not have grant income attached to them. These items, ICT and property related will come forward in year as requirements are identified and cost estimates are worked up. Timescales for delivery will not be known until each project is identified and to add them to the delivery plan at this stage will result in a false baseline being used for monitoring purposes. As these projects will necessitate borrowing, to not identify the scale of that borrowing at this stage would also be misleading so table 3 has been added to show the annual borrowing commitment that could be needed. Projects will then come forward for this funding and will be added to the delivery plan and monitoring as they are approved.

To have regard to the affordability of the capital programme developed within the longer term strategy there will be a limit on the scale of additional prudential borrowing each year. This will be set by reference to the CIPFA national indices on financial resilience which include the proportion of a council's net revenue budget that is being used to fund capital financing costs. The intention is to maintain or reduce this proportion from current levels accepting that this be directly impacted by interest rate changes and the scale of future increases in the net revenue budget. The medium term financial strategy assumes an annual headroom figure of £50m for additional prudential borrowing which will be reviewed annually. By utilising this borrowing headroom figure it is anticipated that future investment decisions are both sustainable and affordable.

Items where the borrowing is of a cash flow or an invest to save nature will be excluded from the borrowing headroom with the borrowing being repaid from the return on the investment. For clarity these items are still required to be shown in the minimum revenue position within the budget but can be excluded from the headroom calculation in determining levels of new investment each year as the financing costs are already covered in the budget.

The tables below outline the indicative capital programme for 2024/25 and the following 2 years by service block and the sources of funding including a breakdown in Table 3 of which service blocks will require additional borrowing to support the capital investment.

TABLE 1 – Capital delivery programme by block

Service Area	2024/25 delivery plan (£m)	2025/26 delivery plan (£m)	2026/27 delivery plan (£m)
Schools (excl DFC)	30.429	29.068	21.514
Schools (DFC)	2.388	2.429	2.400
Highways	51.129	50.713	48.772
Transport	27.889	12.101	11.439
Externally Funded	3.137	0.000	0.000
Central Systems & ICT	2.596	0.800	0.000
Adults	18.174	18.174	18.174
Corporate - Property	10.513	4.002	0.000
Economic Development	35.270	49.561	14.200
East Lancs levelling up fund	10.000	36.000	5.000
Vehicles	4.000	4.000	4.000
Transforming Cities Fund	3.000	0.000	0.000
Totals	**198.524**	**206.848**	**125.500**

TABLE 2 – Funding Sources

Service Area	2024/25 funding	2025/26 funding	2026/27 funding
Borrowing	61.393	70.187	43.800
Grant	118.563	136.161	81.200
Contributions	18.568	0.500	0.500
Totals	**198.524**	**206.848**	**125.500**

TABLE 3 – Additional Borrowing Requirement

Service Area	24/25 delivery plan borrowing	25/26 delivery plan borrowing	26/27 delivery plan borrowing
Highways	13.090	13.655	15.155
Transport	3.179	0.074	5.445
Central Systems & ICT	2.596	0.800	0.000
Corporate - Property	9.608	3.648	0.000
Economic Development	28.920	48.010	14.200
East Lancs levelling up fund	0.000	0.000	5.000
Vehicles	4.000	4.000	4.000
Total	**61.393**	**70.187**	**43.800**
Adjustments for annual requirements:			
ICT	3.000	3.000	3.000
Property	10.000	10.000	10.000
Total	**74.393**	**83.187**	**56.800**
Less reduction for borrowing being repaid through additional income generation	-15.487	-26.462	-6.200
Net Borrowing Requirement	**58.906**	**56.725**	**50.600**

Whilst the net borrowing requirement in 2024/25 and 2025/26 exceeds the £50m ceiling this is more than offset by a significant lower of actual borrowing in 2023/24 of c£17m (expected borrowing of £33m compared to the £50m headroom available) than budgeted and therefore remains under the ceiling level over the 4-year period.

2. Detailed narrative for 2024/25 delivery plan

Schools

The schools capital programme has a 2024/25 delivery programme of £32.816m and a total 3 year delivery plan of £88.228m

The schools delivery programme is split into three areas:

2.1 **The basic need programme** is to increase school pupil places in targeted areas via grant funded school expansions or new school build projects. An amount of £14.755m has been included in the delivery programme for 2024/25, including large projects such as the expansions of Colne Primet academy and Billington St Augustine's high school and the demolition of Tulketh high school. A high delivery across basic need schemes in 2023/24 has resulted in a large number of projects forecast to partly slip into 2024/25, the 2024/25 delivery plan will be revisited and adjusted once the final 2023/24 slippage figures are known.

2.2 **The condition programme** delivers a variety of grant funded works to address priority condition issues at school buildings. An amount of £13.654m has been included in the delivery programme for 2024/25, an increase from the 2023/24 delivery plan figure which was affected by the drive on basic needs schemes for that year. The delivery plan figures assume the continuation of the school condition allocation grant from DfE based on prior year averages, from which Cabinet will agree a programme of works. If this grant is not received as usual, then the programme of works will need to be adjusted in 2024/25 and future years. Performance to delivery plan will be refined during the year as work programmes are developed and finalised. It is not unusual for some schemes to slip into the following year pending further preparatory work or funding requests if required.

The high needs grant has been awarded to LCC to support the provision of new school places and improve existing provision for children with special educational needs and disabilities or requiring alternative provision. The delivery plan for 2024/25 on high needs projects is set at £2.019m across 6 schemes. These schemes remain in the early phases but are expected to deliver most of the work in 2024/25. There is the potential for more schemes to be added to this programme during the year to fully utilise the grant, which will be reflected in the final delivery plan produced in July 2024.

2.3 **The devolved formula capital programme** is a grant funded programme for small to medium capital projects. It is allocated to schools on a formula basis by the DfE in order for schools to spend on capital projects within expenditure guidelines and a delivery programme amount of £2.388m has been included for 2024/25.

Highways

The Highways capital programme has a 2024/25 delivery programme of £51.129m and a total 3 year delivery plan of £150.614m

The Highways delivery programme contains £15.333m of projects previously planned and agreed prior to 2024 which are expected to be delivered within 2024/25. This includes c£9.000m programmed for bridge maintenance work including works to Higher Road North bridge A601(M) Carnforth and Derby Street bridge, Ormskirk.

The delivery plan includes funding from the 2024/25 confirmed grant from the department for transport of £32.472m. The transport asset management plan (TAMP), originally approved in 2014, sets out how the county council intends to maintain its publicly maintainable vehicular highway assets (i.e. A, B and C roads, unclassified road network, footways, street lighting, traffic signals and structures) over the period 2015/16 to 2029/30. Along with ongoing condition data, the TAMP priorities are used to draw up a detailed list of the projects that will be funded from the grant, this list will be drawn up prior to the submission of the final 2024/25 delivery programme in July 2024.

The DfT grant is supplemented by borrowing of £13.100m to deliver the level of work required to meet TAMP priorities and health and safety intervention criteria.

A risk to the 2024/25 delivery programme is the continued high numbers of structural defects meeting intervention levels. This will continue to be monitored going forward, if it is to remain at such a high level the funding of this programme may have to be reconsidered potentially reducing the grant allocations to other highways programmes to fund this prioritised work.

In October 2023 the government announced additional highways maintenance funding for the next ten years. The annual allocations beyond 2024/25 are yet to be confirmed therefore for 2025/26 and 2026/27 the delivery plan is anticipated to be £50.713m and £48.772m but will be revised once the figures are confirmed.

Transport

The transport capital programme has a 2024/25 delivery programme of £27.889m and a total 3 year delivery plan of £51.429m

The multi-year project for the build of the M55 Heyhouses link road is expected to complete in early 2024/25 with the final costs including all the surfacing to utilise £10.000m in year, with a further £0.500m per year included post 2024/25 for ongoing costs.

A further £10.189m is to be received from the DfT in 2024/25 for intelligent bus priority schemes with the original stipulation that it is utilised by March 2025. A six-month extension has been approved if projects can be shown to have begun in 2024/25 and therefore the remaining £4.990m of the grant is forecast to be used in 2025/26 to adhere to these conditions. A procurement framework to outsource these works is currently being drawn as a safeguard should internal teams have insufficient capacity to deliver within the timeframes.

The active travel programme has received £5.447m additional funding. An amount of £1.047m for the extension of Clifton Drive has been included for 2024/25 with the remaining £4.400m split over the following two years to fund the work on Sagar Street gateway, Nelson and the supplementary work on East Lancs strategic cycleway which links in with the East Lancs levelling up fund projects.

Externally Funded Schemes

The externally funded schemes capital programme has a 2024/25 delivery programme of £3.137m and a total 3 year delivery plan of £3.137m

The externally funded schemes block are projects funded from external contributions, predominately S106 and S278 contributions from developers.

The largest scheme within the delivery plan is the S278 Burnley Town2Turf project, which has a delivery plan of £1.270m of the overall block. The project is estimated to be completed by July 2024. It has been advised that expenditure is dependent on achieving good progress which is weather dependant.

The section 278 project with works at Botany Bay/ Harwood roundabout in Chorley has a delivery plan of £0.460m with the concept design having commenced.

The remaining delivery budget for 2024/25 covers slippage for a number of schemes. There are standard risks that could impact any of the externally funded projects. Such risks include supply chain issues, competitive prices and unfavourable weather conditions. Any of these issues could hinder the projects progress.

Delivery of any new schemes will be agreed with developers and added to the delivery plan as and when the project comes to fruition.

Central Systems and ICT

The central systems and ICT capital programme has a 2024/25 delivery programme of £2.596m and a total 3 year delivery plan of £3.396m

The ongoing document handling project to upgrade the software has a delivery plan of £0.136m and is forecast to be finalised in 2024/25.

The existing HAMS contract expires on 1 April 2023, but a two-year extension has been secured to 1 April 2025. An exercise to procure a new solution is underway has begun with an item to go to cabinet to approve the £1.800m capital cost. Of this, £1.000m has been added to the delivery plan for 2024/25 with the remainder added in 2025/26.

Completion of the social care reform project to upgrade the Lancashire patient records system will progress in collaboration with the NHS to improve sharing of information. A delivery budget of £0.301m has been included in 2024/25 to finalise the programme. The works on the Genesys telephony platform at the customer contact centre system will utilise the £0.744m that has slipped from 2023/24 in addition to the £0.348m already apportioned for 2024/25, spending £1.091 in 2024/25 to complete the upgrade.

There is a placeholder in the capital programme for £3m per year of additional borrowing to facilitate the ICT strategy and the potential need to replace or upgrade key systems, however this will only be added into the budget and monitoring when there is formal Cabinet approval for specific spend.

Adult Social Care

The adult social care capital programme has a 2024/25 delivery programme of £18.174m and a total 3 year delivery plan of £54.522m

The disabled facilities grant (DFG) is capital funding for the provision of home adaptations to help older and disabled people to live as independently and safely as possible in their homes.

The DFG allocation has been included in the delivery plan at the 2023/24 figure. This will be amended in the May 2024 delivery plan should the final confirmation of the grant from DLUHC award a different amount.

Corporate – Property

The corporate – property capital programme has a 2024/25 delivery programme of £10.513m and a total 3 year delivery plan of £14.515m

The 'where our children live' scheme is a strategy set to reshape children's residential provision. It has a total delivery plan of £3.603m which is allocated over several projects. It is expected to receive additional funding in 2024/25 for planned works which has been included in the delivery plan. The majority of the work will be completed and delivered in 2024/25, although it is expected that some will fall in to 2025/26. The 2024/25 delivery plan figure also includes works slipped from 2023/24.

The closed landfill site structural review project at Waidshouse has a delivery plan of £0.320m. It is estimated that the project will start and complete in 2024/25 but completion will be dependent upon several factors such as contractor availability, manufacturing lead time and weather conditions.

The operational premises programme has a 2024/25 delivery plan of £4.751m across 62 projects. A notable project is the repairs at Preston County Hall with a delivery plan figure of £0.647m. It is currently in the concept and design stage with delivery due in 2024/25. The workplan within the operational premises programme will be revised once the 2023/24 slippage figures are known and kept up to date in line with the moving priorities of the programme.

The building condition programme has a 2024/25 delivery plan of £1.252m. This is across 27 projects. There will be a further list of properties that require condition work following the latest building surveys – an estimate of the amount required for these for 24/25 is £10m and will be added to the programme when the list of schemes is brought forward for Cabinet approval.

Economic Development

The economic development capital programme has a 2024/25 delivery programme of £35.270m and a total 3 year delivery plan of £99.031m

The grant funded low carbon investment projects to implement energy savings options in council buildings is forecast to deliver £0.850m in 2024/25, which includes the forecasted slippage of £0.364m from 2023/24. After a protracted start, contracts are now in place for the majority of the larger projects and in the pipeline for those remaining.

Samlesbury enterprise zone will be a national centre of excellence for advanced engineering and manufacturing related companies. The earthworks on zones B and C have seen delays due to the weather over winter and will likely be completed in the second quarter of 2024/25. Works will then progress to drainage works for the site followed by the remaining utilities works. A delivery budget of £4.525m has been included for this in 2024/25.

The Farrington cricket facility in partnership with Lancashire cricket club programme has commenced work in December 23 with completion of the first and second phase estimated by May 2025 to allow cricket in the 2025 season. A delivery plan of £15.3m has been estimated for 2024/25 and a revised programme of work will be available for the final delivery plan in May 2024 following review by consultants which is underway.

Revised plans have now been approved for the Lancashire central site at Cuerden in conjunction with Maple Grove developments. Works on the commercial and residential areas are to commence initially and again an interim figure of £10.962m for both the onsite infrastructure and the off-site infrastructure has been included in the 2024/25 delivery plan but is expected to be refined as further information on the schedule will be available prior to the final delivery plan now planning has been achieved. The offsite infrastructure profile which will be updated when the current design and costing work is completed to tie into the business case submission for MRN funding and the profile of spend that will result.

The final settlements to the external schemes at Brierfield mill (0.407m), Lomeshaye industrial estate (£0.056m) and Eden North (£0.170m) are all included in the 2024/25 delivery plan.

East Lancs levelling up fund (ELLUF)

The ELLUF capital programme has a 2024/25 delivery programme of £10.000m and a total 3 year delivery plan of £51.000m

A £55m plan of works has been put together which will utilise Levelling Up funding along with a £5m contribution from Lancashire County Council. The business plan will be presented to the department for levelling up, housing and communities in May 2024 for approval. A rough estimate for the programme has been included in this delivery plan, however this will be removed should the funding fail to get approval. More details will be included in the July 2024 delivery plan once the business case has been finalised.

Vehicles

The vehicles capital programme has a 2024/25 delivery programme of £4.000m and a total 3 year delivery plan of £12.000m

Orders of £3.391m are expected to be placed throughout 2024/25 as part of the vehicle replacement programme, with anticipated vehicle delivery in 2024/25. This includes a number of wheelchair accessible vehicles and electric vehicles as well as 16 3.5t tipper wagons, 6 9-seater wheelchair accessible vehicles and 4 4x4 Gritters.

Additionally, slipped prior years schemes totalling £0.609m have been included in the 2024/25 delivery plan, the majority being the purchase of 11 Renault Master Minibuses. The vehicle replacement programme will be funded from borrowing.

The delivery plan for 2024/25 onwards will continue to deliver LCC's vehicle replacement strategy to ensure that all LCC owned vehicles are fit for purpose and repaired or replaced at the most cost-effective time. Supply chain issues are expected to continue to ease, however if this is not the case then it presents a risk to the 2024/25 delivery plan.

Transforming Cities Fund (TCF)

The TCF capital programme has a 2024/25 delivery programme of £3.000m and a total 3 year delivery plan of £3.000m

An indicative delivery budget of £3.000m has been included for 2024/25 for the transforming cities project. The continuation of the programme is dependent on DfT approving resubmitted plans for the delivery of the Cottam Parkway project. The indicative figure of £3.000m is included to finish the ongoing TCF project on Preston Friargate/Ringway. The delivery budget will be updated in May 2024 when final 2023/24 slippage figures are known and potentially a decision by the DfT regarding future funding allocations.

Annex F – Capital Strategy

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. However this needs to be within the boundaries of affordability so decisions might need to be made to reduce the asset base to a sustainable level given the investment required.

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 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 priorities 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 priorities.
- 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 and the annual budget report. 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 assets 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 are to limit the requirements in certain blocks to that of the funding available, this means fixing worse first in terms of condition of buildings including schools.

Additional expenditure for urgent projects has historically 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.

The property portfolio review being undertaken will also help to reduce the number of corporate property assets held to ensure that the demands on future capital funding will be sustainable. It is important to ensure that the development of the capital programme is carried out with due regard to risk management and prudent and sustainable resource management.

In relation to the available funding, being reflective of the current macro-economic position with respect to interest rates, and also being cognisant of the impact any additional borrowing has on the revenue budget, the capital financing costs within the revenue budget should remain at financially sustainable levels. The level of additional borrowing that can be supported within the revenue budget will be considered each year when setting the budget and capital programme with exceptions being considered for projects that will generate income towards, or repayment of, the financing costs over the short to medium term.

To have regard to the affordability of the capital programme developed within the longer term strategy there will be a limit on the scale of additional prudential borrowing each year. This will be set by reference to the CIPFA national indices on financial resilience which include the proportion of a council's net revenue budget that is being used to fund capital financing costs. The intention is to maintain or reduce this proportion from current levels accepting that this be directly impacted by interest rate changes and the scale of future increases in the net revenue budget. The medium term financial strategy assumes an annual headroom figure of £50m for additional prudential borrowing which will be reviewed annually. By utilising this borrowing headroom figure and developing this resilience plan going forward it is anticipated that future investment decisions are both sustainable and affordable.

Items where the borrowing is of a cash flow or an invest to save nature will be excluded from the borrowing headroom with the borrowing being repaid from the return on the investment. For clarity these items are still required to be shown in the minimum revenue position within the budget but can be excluded from the headroom calculation in determining levels of investment each year.

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 capital 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 priorities 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.
- 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 delivery of 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 or where capital investments reduce pressure on the revenue budget.

1.3 The county council corporate priorities.

The capital budgets within the capital programme will support the agreed corporate priorities:

- Delivering better services.
- Caring for the vulnerable.
- Protecting our environment.
- Supporting economic growth.

Each capital proposal will be required to clearly demonstrate the links to the priorities:

- 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 effectively or to deliver growth that would otherwise be undeliverable. The investment will also consider ways of supporting environmental improvement and decarbonisation.
- 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.
- 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.
- 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.
- 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 capital delivery programme agreed at Budget Full Council 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 corporate priorities.
- The resources available to fund the expenditure.
- 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 the Strategic Finance 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 Priorities.
- 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 the Strategic Finance 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 the Council's corporate priorities.
- Key dates and milestones.
- Cost of the scheme and the funding source to be applied.
- Affordability in terms of the MRP policy.
- Revenue budget implications over the asset life.
- Prioritisation scoring.
- Risks associated with the proposal including the implications of not proceeding.

Proposals recommended for approval by the Strategic Finance 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 the Strategic Finance 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 Full Council budget setting meeting.

Capital proposals are to be submitted to the Capital Finance Team during the summer 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 the Strategic Finance Board to identify those proposals that will be recommended to form the basis of the capital delivery programme submitted to the Executive 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 the 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 the Strategic Finance Board to be reviewed. The proposals should be submitted in the standard form and will be scored by Capital Finance and Asset Management, if supported by the Strategic Finance Board they will then be recommended to Management Team and Members for approval.

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 includes 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 financial 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 term financial strategy, and are reflected in both the Treasury Management Strategy and Prudential indicators as detailed in appendices of the 2023-24 Budget 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 the Strategic Finance 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 Council's 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 the Strategic Finance 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 the Strategic Finance Board.

Capital Strategy - Annex 1

Capital projects: evaluation and priority scoring
The criteria referred to in section 2.3 of the Capital Strategy to be applied for 2023-2024 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