Lancashire County Council

Full Council

Friday, 23rd February, 2024 at 10.30 am in Council Chamber, County Hall, Preston

Agenda

Index

There are no matters to be reported at this meeting.

Angie Ridgwell
Chief Executive

County Hall
Preston

15 February 2024

Lancashire County Council

Meeting of the Full Council
Meeting to be held on Friday, 23 February 2024

Report submitted by: Executive Director of Resources

Part A

Electoral Division affected:
(All Divisions);

Corporate Priorities:
Delivering better services;

2024/25 Budget Report
(Appendix 'A' refers)

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Brief Summary

This report brings together recommendations from Cabinet (8 February 2024), Audit Governance and Risk Committee (29 January 2024) and Employment Committee (25 January 2024) in relation to the 2024/25 Budget.

Appendix A contains details of the 2024/25 budget and associated policies for approval by Full Council. The report also highlights changes to the budget and medium-term financial strategy that have occurred since the Cabinet meeting on 8 February 2024, and their impact on the proposed Council budget.

In considering the above, Full Council is asked to:

a) Note and have regard to the advice of the Executive Director of Resources in relation to the robustness of the budget and the adequacy of reserves (Appendix A, Annex D).

b) Note the summary of consultation responses received and officer advice (Appendix A, Annex K).

Recommendation

Full Council is asked **to approve:**

(i) A revenue net budget requirement of £1,112.610m for 2024/25.

(ii) A council tax requirement of £642.208m (equating to Band D Council Tax of £1,653.29) for 2024/25 reflecting a 2.99% core increase and a further 2% to be used for adult social care.

(iii) A contribution from the transitional reserve of £0.856m to provide a balanced budget position in 2024/25.

(iv) Policy savings totalling c£14m, with £3.655m profiled to be delivered in the 2024/25 budget, detailed in Annex C of Appendix A, with consideration given to the equality impact assessments. Specific consultations will be undertaken for a small number of proposals as outlined in the report with the outcomes reported at future Cabinet meetings and decisions taken as to their implementation.

(v) The indicative capital programme for 2024/25 of £198.524m (Appendix A, Annex E).

(vi) The capital strategy (Appendix A, Annex F).

(vii) Exceptions to the agreed uplift policy for fees and charges as outlined in Appendix A Section 13.

Full Council is asked **to approve** the associated documents referred from Audit, Risk and Governance Committee (29 January 2024):

(viii) Treasury Management and Investment Strategies and the Minimum Revenue Provision Policy for 2024/25. (Appendix A, Annex G – I).

Full Council is asked **to approve** the associated documents referred from Employment Committee (25 January 2024):

(ix) The Pay Policy Statement 2024/25 (The Localism Act 2011) were considered and approved by Employment Committee on 25 January 2024. (Appendix A, Annex J).

Full Council is asked to note and have regard to the advice of the Executive Director of Resources in relation to the robustness of the budget and the adequacy of reserves (Appendix A, Annex D) and the outcome of the budget consultation process (Appendix A, Annex K).

Detail

Appendix 'A' sets out the proposals for the 2024/25 Budget. The proposals have been developed in the context of one the most difficult scenarios facing the Local Government sector for many years.

Subsequently, this year is perhaps the hardest year many local authorities have faced in terms of setting budgets. The challenges have been significant, with costs impacted by demand for services continuing to rise post covid and also in response to recognised national challenges, e.g. Home to School Transport. It has been an incredibly challenging year financially for budget-setting due to the significant changes in the rate of inflation and the impact on service costs, however we are now seeing reductions in the headline rate and progress towards the Bank of England 2% target. The recent announcement of extra funding for local government recognises these challenges.

Changes to the 2024/25 Revenue Budget since the Cabinet Meeting 8 February 2024

Due to the timing of the report to Cabinet on 8 February 2024, there have been some significant changes which are outside of the Council's control:

- As part of the Final Local Government Financial Settlement on 5 February 2024 the Council was informed its share of an additional £500m social care grant announced on 24 January 2024 was £11.5m. This has resulted in additional income from the position reported to Cabinet and the increase has been assumed to be recurrent in the medium-term financial strategy.

- Final information relating to council tax and business rates was received from the district councils on 31 January 2024. Historically, a surplus of £5m has been achieved across Lancashire on the council tax and business rates collection funds and built into our annual budget, however districts have advised that they are anticipating a deficit of £2.079m this year. The resulting impact is therefore a financial challenge of £7.079m for the county council in 2024/25.

- The assumed increase in council tax base for 2024/25 and future years has been reduced from the 1.7% growth achieved on average in previous years and built into our annual budget, to 1.2% based on latest information from district councils across the county (equivalent of assuming growth of 4,575 new homes per year rather than 6,485 previously). The financial impact on the Council is c£3.2m in 2024/25.

- Adjustments have been made to the following savings templates:

    - GET011 (Anaerobic Digestion – Processing of food waste) – reduced to reflect partnership arrangement with Blackpool Council.

    - GET007 (Pay and Display) – reduced to reflect initial consultation feedback from district councils.

All of the adjustments detailed have been included in the 2024/25 revenue budget (and medium-term financial strategy for later years) as set out in Appendix 'A', resulting in a revised deficit of £0.856m, which will be funded from the transitional reserve.

Content

The attached report (Appendix 'A') sets out:

- The proposals for spending c£1.9bn on services across the County over the coming year and the allocation of budgets across directorates (Appendix 'A' & Annex A).
- The assumptions that underpin the proposed budget and future years medium-term financial strategy planning (Annex B).
- The increased costs (c£117m) being incurred by the Council in comparison to those agreed for 2023/24. (Appendix 'A' - Sections 3 – 9).
- New policy savings proposals (c£14m) that will require the approval of Full Council (Annex C).
- The sources of funding to support the budgets (Appendix 'A' - Section 10).
- The impact on council tax levels within the county (Appendix 'A' – Section 10.2).
- Proposals for the development of options for consideration in planning for a sustainable budget (Appendix 'A' – Section 11).
- Proposals for a capital delivery programme of c£531m over the next 3 years, with a planned delivery programme of £198.524m in 2024/25 (Annex E).
- The level of reserves that the county council holds (Appendix 'A – Section 12).
- The Section 25 Statement – it is a statutory requirement that the budget report for Full Council includes an assurance from the Chief Finance Officer on the robustness of the estimates and adequacy of reserves. This is included as Annex D within Appendix 'A'.
- The Capital Strategy – This document sets out the rationale for the Council's capital investment and the governance process the Council adopts for oversight and assurance of the programme. (Appendix 'A', Annex F).
- The Treasury Management Strategy, Investment Strategy and Minimum Revenue Provision policy were considered and approved by Audit Risk and Governance Committee on 29 January 2024. (Appendix 'A', Annex G – I).
- The Pay Policy Statement 2024/25 (The Localism Act 2011) were considered and approved by Employment Committee on 25 January 2024. (Appendix 'A', Annex J).

Summary of report

The key messages contained within the detailed report (Appendix 'A') are summarised below:

- The Council will spend £1,893.934m of revenue expenditure over the coming year, whilst generating £781.324m of income, which will leave a net budget requirement of £1,112.610m.
- £1,111.754m of this will be funded from a mixture of government grants, business rates, council tax and other local funding.

- The county council will therefore have a budget deficit in 2024/25 of £0.856m which will be funded from the transitional reserve.
- The Council faces significant demand and inflationary pressures of c£117m in 2024/25 (and c£261m over the 3-year period to 2026/27).
- The Council continues to evidence strong financial management and has identified a further £37m of new savings that will be required over 2024/25 - 2026/27. In total there are savings of £98m to be delivered over the next 3 years.
- There are a number of risks inherent in the assumptions within the budget and considerable challenges and uncertainty within the local government sector at present. The Council has, therefore, also developed a strategy for identifying further efficiencies and productivity improvements utilising best practice and technology designed to improve outcomes at lower cost.
- The approved budget includes a council tax requirement of £642.208m (equating to Band D Council Tax of £1,653.29) for 2024/25 reflecting a 2.99% increase in general council tax and a further 2% to be used for adult social care.
- A capital delivery programme is proposed of c£531m over the next 3 years, with a planned delivery programme of £198.524m in 2024/25.
- Section 25 Statement – it is a statutory requirement that the budget report for Full Council includes an assurance from the Chief Finance Officer on the robustness of the estimates and adequacy of reserves.
- The Treasury Management Strategy, Investment Strategy and Minimum Revenue Provision policy were considered and approved by Audit Risk and Governance Committee on 29 January 2024.
- The Pay Policy Statement 2024/25 (The Localism Act 2011) were considered and approved by Employment Committee on 25 January 2024.

Appendices

Appendix 'A', including Annexes A – K, is attached to this report. For clarification they are summarised below and referenced at relevant points within this report:

Appendix	Title
Appendix 'A'	The County Council's Budget 2024/25
Annex A	2024/25 Revenue Budget Detail
Annex B	Funding and Expenditure Assumptions
Annex C	Policy Savings Proposals
Annex D	Report of the Chief Financial Officer on the robustness of the 2024/25 budget estimates and the adequacy of reserves.
Annex E	Capital Programme 2024/25
Annex F	Capital Strategy
Annex G	Treasury Management Strategy
Annex H	Investment Strategy
Annex I	Minimum Revenue Provision Policy
Annex J	Annual Pay Policy Statement 2024/25 (The Localism Act 2011)
Annex K	Stakeholder Budget Consultation 2024/25

Consultations

The budget consultation process took place from 12 January 2024 – 9 February 2024, with over 150 stakeholders asked for their feedback on the 2024/25 budget proposals for the county council.

In total 4 responses were received with details of these and an officer response to the feedback provided in Annex K.

The budget for 2024/25 includes several savings proposals that will require their own respective consultation, with reports in relation to these proposals seeking approval from Cabinet following consultation, in order to be implemented.

Implications:

This item has the following implications, as indicated:

Risk management

The county council's overall approach to managing financial risks continues to identify and acknowledge risks early and build their impact into financial plans while continuing to develop strategies which will minimise their impact. This approach operates in parallel with the identification and setting aside of sufficient resources to manage the financial impact of the change risks facing the organisation.

The statutory report of the Chief Financial Officer on the robustness of the 2024/25 budget estimates and adequacy of reserves (Section 25 of the Local Government Act 2003) reviews the risks included as part of the 2024/25 budget and future years.

Legal

- The Council has a legal duty to set a balanced budget for each financial year and is obliged to set a Council Tax that ensures a balanced budget.

- The proposals in this report meet this requirement.

- Should the Council wish to raise the basic level of Council Tax by more than 2.99% (excluding the Adult Social Care Precept) it would be necessary to hold a referendum. As the proposals set out within this paper do not require an increase in the Council Tax above this level, the requirement for a referendum will not be triggered.

- Section 106 of the Local Government Finance Act 1992 restricts any member of the Council from voting on the budget or council tax requirement if they owe any amount of council tax to any local authority which has been outstanding for more than two months. If this applies to a member and they attend a meeting at which the council tax requirement is to be set, they must declare this fact and they cannot vote. It is an offence to vote or to fail to make this declaration.

- In accordance with the Local Government Finance Act 1992 as amended by the Localism Act 2011 the Council is required to set the amounts of the Council Tax for 2024-25 for each of the categories of dwelling in the Council Tax area. This requirement will be achieved by approving the statutory resolution shown in this report.

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

Paper	Date	Contact/Tel
None		

Reason for inclusion in Part II, if appropriate

N/A

Lancashire County Council

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

Contents

1. Executive Summary

1.01 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.

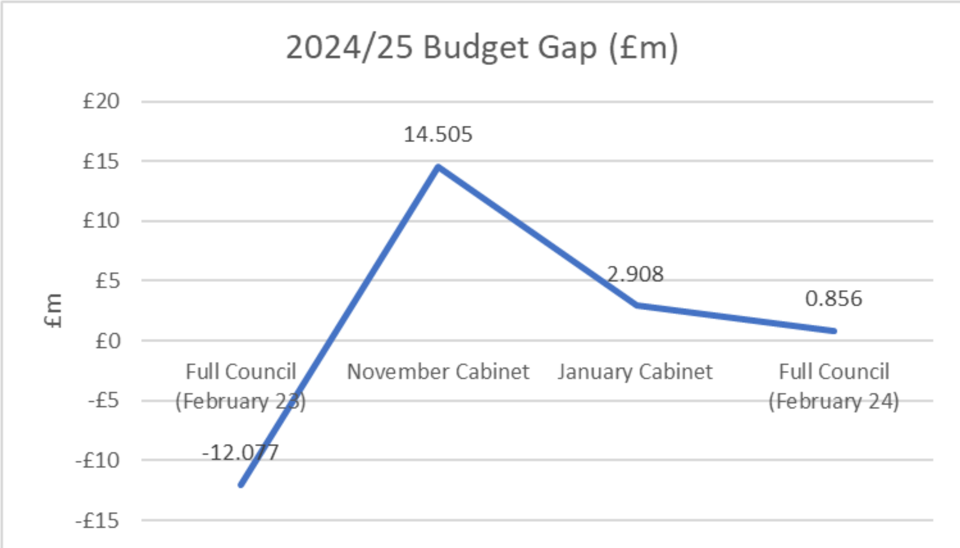
1.02 The current financial year has been marked by volatility and uncertainty in terms of financial forecasting and we have made good progress in planning for and gripping these challenges as demonstrated in the graph below.

1.03 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.

1.04 The medium-term financial strategy was updated and reported to Cabinet in January 2024 and February 2024 and forecast a reduction in the budget deficit for 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.

1.05 The updated medium-term financial strategy includes the impact of returns provided by district councils relating to tax base, collection fund and business rates. The position also reflects the impact of the Final Local Government Financial Settlement. In addition, adjustments have been made in relation to the policy saving proposal related to parking and also the proposal relating to waste management anaerobic digestion (however this impacts only from 2025/26 onwards).

Graph 1



1.06 The Final Local Government Financial Settlement announced on 5 February 2024, provided confirmation of levels of grant funding included within the budget report provided to Cabinet on 8 February 2024. The final settlement included additional social care funding totalling c£11.5m and small increases to the services grant and new homes bonus funding compared to the provisional settlement announced in December 2023.

1.07 A further update compared to the budget report provided to Cabinet on 8 February 2024 relates to information provided by district councils in respect of their tax base, business rates and collection fund position. This position has not achieved the target built into the 2024/25 budget and therefore has resulted in a pressure of £10.2m that must be reflected in the 2024/25 budget and will also have an impact on later years. More details on the changes to the position are included in Section 10.

1.07 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.

1.08 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.

1.09 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

1.10 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.

1.11 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
- Treasury Management Strategy
- Investment Strategy
- Minimum Revenue Provision Policy
- Annual Pay Policy Statement (The Localism Act 2011)
- S25 statement
- Budget Consultation

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 £0.856m in 2024/25, £10.488m in 2025/26 and £3.351m in 2026/27. 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	405.319	-220.593	184.726
Resources and Chief Executive Services	287.184	-143.029	144.154
Sub-Total	**1,847.117**	**-780.844**	**1,066.273**
Financing Charges	46.817	-0.480	46.337
Revenue Budget 2024/25 (Budget Requirement)	**1,893.934**	**-781.324**	**1,112.610**
Use of one-off resources (funding from Transitional Reserve)	0.000	-0.856	-0.856
Revenue Budget 2024/25	**1,893.934**	**-782.180**	**1,111.754**

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 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	1.497	0.015
Improved Better Care Fund	47.145	47.145	0.000
Social Care Support Grant	94.569	123.055	28.486
Services Grant	7.663	1.323	-6.340
Sub-Total	***189.065***	***213.757***	***24.692***
Local Income			
Business Rates	236.738	252.868	16.130
Council Tax	604.416	642.208	37.792
Collection Fund	3.827	-2.079	-5.906
Sub-Total	***844.981***	***892.997***	***48.016***
Other			
Capital Receipts	5.000	5.000	0.000
Sub-Total	***5.000***	***5.000***	***0.000***
Total	**1039.046**	**1,111.754**	**72.708**

3.5 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		1,112.610	1,120.153
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	-36.701	-36.787	-24.356
Capital Financing	5.368	1.180	-1.537
Other	-1.106	1.357	0.037
Budget Requirement	1,112.610	1,120.153	1,156.331
Funding (Council Tax, Business Rates and Government Grants)	1,111.754	1,109.665	1,152.980
Budget Gap	**0.856**	**10.488**	**3.351**
Funding from transitional reserve (2024/25)	-0.856	0.000	0.000
Final Budget Gap	**0.000**	**10.488**	**3.351**

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 has 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£37m. 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	-3.655	-0.948	-9.184	-13.787
Total	**-36.701**	**-36.787**	**-24.356**	**-97.844**

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 c£14m that are built into the budget over the next 3 years. The savings for delivery in 2024/25 total c£3.6m. The policy savings that include proposals that will require specific consultation, that will be reported through Cabinet for approval prior to implementation are as follows:

- GET007 – Pay and Display Income
- GET008 – Young Persons Travel
- GET009 – Discretionary Concessionary Travel

7.5 A list of all new savings are included in Annex C with supporting Equality Impact Assessment forms shared on the link below: https://council.lancashire.gov.uk/ecSDDisplayClassic.aspx?NAME=SD2822&ID=2822&RPID=29820232&sch=doc&cat=14956&path=14955%2c14956

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 outcome of the budget consultation process is included in Annex K.

8. Additional Grant

8.1 The additional grants relate to adult social care and were confirmed as part of the final 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
Government Grants			
Revenue Support Grant	38.206	40.737	2.531
New Homes Bonus	1.482	1.497	0.015
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Collection Fund	3.827	-2.079	-5.906
Sub-Total	***844.981***	***892.997***	***48.016***
Other			
Capital Receipts	5.000	5.000	0.000
Sub-Total	***5.000***	***5.000***	***0.000***
Total	**1039.046**	**1,111.754**	**72.708**

10.1 Government Grants

10.11 In 2024/25, the county council will receive c£214m of government grants to support the funding of services. An additional c£25m 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 reflects the allocations outlined in the final settlement. This includes an additional £11.5m social care grant announced between the provisional settlement and final settlement.

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 final 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 final 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 £123.055m, which is an additional c£28m 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 £1.3m which is a reduction of c£6.3m compared to 2023/24.

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 £642.208m 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 2024/25 budget did assume that an increase of 1.7% for tax base would be achieved, however, following returns from district councils this has been confirmed at 1.2%, meaning c£3.2m less income will be yielded from council tax. It has been assumed this level of increase is more likely in future years and forecasts in 2025/26 and 2026/27 also include a forecast tax base of 1.2%.

10.29 Full Council is asked to approve, 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 (post reserve contribution)	**1,111.754**
Less Revenue Support Grant	40.737
Less Business Rates	252.868
Less New Homes Bonus	1.497
Less Improved Better Care Fund	47.145
Less Social Care Grant	123.055
Less Collection Fund	-2.079
Less Capital Receipts	5.000
Less Services Grant	1.323
Equals council tax requirement	**642.208**
Divided by tax base	388,442.24
Gives LCC Band D council tax for 2024/25	1,653.29
LCC Band D council tax 2023/24	1,574.71
Percentage increase (including ASC precept)	**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

c) The contribution from each district council is shown in the table below using the tax base calculations provided.

Table 10

District	£
Burnley	39,421,047
Chorley	63,884,448
Fylde	53,249,164
Hyndburn	36,529,443
Lancaster	70,402,048
Pendle	41,260,828
Preston	70,512,653
Ribble Valley	41,862,956
Rossendale	34,538,881
South Ribble	62,424,444
West Lancashire	63,414,501
Wyre	64,707,258
Total	**642,207,671**

Business Rates

10.30 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 £252.868m.

10.31 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 £1.155m anticipated in 2024/25.

10.32 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. As part of the final settlement, it was announced that £100m of funding would be provided with the county council expected to receive £1.589m. In the budget report that was presented to Cabinet on 8 February 2024, it was assumed that £2m would be received in 2024/25 and £1m in each subsequent year. The 2024/25 value has been updated and it has been assumed that no levy will be received in future years.

Collection Fund

10.33 The final position from district councils has now been received in relation to their respective council tax and business rates collection fund, with the collection fund reporting a deficit position of £2.079m. This position, when combined with the budgeted target of a £5m surplus results in a pressure of £7.079m in the 2024/25 budget. In future years it has been assumed that there is no surplus from the collection fund.

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 held 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 2.1% 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	165.283	157.502
Gap funding	-0.856	-10.488	-3.351
Commitments	0.941	2.707	3.680
Closing balance	**165.283**	**157.502**	**157.831**

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.

<u>Table 13 – Capital delivery programme by block</u>

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**

<u>Table 14 – Funding streams by year</u>

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.

Treasury Management (Annex G)

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 which 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 (Annex G)

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 (Annex H)

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 (Annex I)

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.

Annual Pay Policy Statement 2024/25 (The Localism Act 2011) (Annex J)

17.18 The Localism Act 2011 requires local authorities to prepare a Pay Policy Statement each year. The Pay Policy Statement must articulate the council's approach to the remuneration of chief officers on appointment, subsequent progression and any use of bonus or performance related pay. In preparing Pay Policy Statements, local authorities must have regard to any guidance issued or approved by the Secretary of State. In preparing this statement, regard has also been given to guidance issued by the former Department for Communities and Local Government.

17.19 The purpose of the statement is to provide transparency with regard to the council's approach to setting pay for its employees (except staff in schools), in particular its chief officers. The Pay Policy Statement must be approved by a resolution of Full Council before it comes into force on 1 April each year and must then comply with the statement for the financial year to which it relates (although amendments may be made to the statement after the beginning of the financial year to which it relates). Once approved, the statement (or an amended statement) must be published in such manner as the local authority sees fit, which must include publication on the local authority's website.

Updated Pay Policy Statement

17.20 A proposed Pay Policy Statement for the financial year 2024/25 is provided at Appendix 'A' to this report. Rates effective from 1 April 2024 have been provided where these are known. Allowances and expenses, payable enhancements and pension contribution rates will need updating, as will the pay information in the Pay Policy Statement and pay scale at Annex 1, when the Local Government Services pay award for 2024/25 has been agreed. The Pay Policy Statement and annexes will be updated when this information is available to provide an accurate position for the financial year.

17.21 The Pay Policy Statement also takes account of the recommendations within the Hutton Review of Fair Pay in the Public Sector (March 2011) that "government should not cap pay across public services, but should require that from 2011/12 all public service organisations publish their top to median pay multiples each year to allow the public to hold them to account." The statement therefore sets out the council's aim that the pay multiple between the median full-time equivalent (FTE) salary and that of the Chief Executive will not exceed 1:16.

17.21 The pay multiple between the 2023 median FTE salary and that of the Chief Executive is 1:9.26, which represents a decrease from the figure (1:10.37) reported in the last Pay Policy Statement. This multiple is based on current salaries, pay award pending, and has reduced due to higher Local Government Services pay awards over two consecutive years.

17.22 The guidance also provides that Full Council should be offered the opportunity to consider salary packages in excess of £100,000 before any new appointment is made. In this regard the Pay Policy Statement sets out the grading structure for all posts at Director 1 and above. All appointments are currently made in line with this grading structure and any proposal to make a new appointment, otherwise than in accordance with it, would first be referred to Full Council to consider.

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	289.136	-107.233	181.903
Growth and Regeneration	23.597	-20.750	2.847
Environment and Planning	7.270	-3.793	3.476
Growth, Environment, Transport and Health Total	**405.319**	**-220.593**	**184.726**
Resources and Chief Executive Services			
Resources & Chief Executive Services	14.876	-1.340	13.536
Finance Services	36.623	-16.526	20.097
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
Resources and Chief Executive Services Total	**287.184**	**-143.029**	**144.154**
Sub-total	**1,847.117**	**-780.844**	**1,066.273**
Finance Charges	46.817	-0.480	46.337
Revenue Budget 2024/25 (Budget Requirement)	**1,893.934**	**-781.324**	**1,112.610**
Use of one-off resources (funding from transitional reserve)	0.000	-0.856	-0.856
Revenue Budget 2024/25	**1,893.934**	**-782.180**	**1,111.754**

1. Adult Services Directorate

	2024/25 Budget (£m)
Expenditure	
Employees	126.876
Premises	0.018
Transport	0.997
Supplies and Services	76.083
Third Party Payments	529.019
Transfer Payments	90.422
Capital Financing	-
Contribution to Reserves	4.582
Total Expenditure	**827.997**
Income	
Customer and Client Receipts	133.413
Government Grants	41.266
Recharges	-
Other Grants and Contributions	163.123
Contribution from Reserves	18.971
Total Income	**356.773**
Net Expenditure	**471.225**

1.1 Director of Adult Care and Provider Services

	2024/25 Budget (£m)
Expenditure	
Employees	76.211
Premises	-
Transport	0.266
Supplies and Services	6.093
Third Party Payments	0.119
Transfer Payments	-
Capital Financing	-
Contribution to Reserves	-
Total Expenditure	**82.689**
Income	
Customer and Client Receipts	8.345
Government Grants	-
Recharges	-
Other Grants and Contributions	58.778
Contribution from Reserves	-
Total Income	**67.123**
Net Expenditure	**15.566**

1.2 Director of Adult Community Social Care

	2024/25 Budget (£m)
Expenditure	
Employees	37.129
Premises	0.018
Transport	0.679
Supplies and Services	67.502
Third Party Payments	528.317
Transfer Payments	90.422
Capital Financing	-
Contribution to Reserves	4.582
Total Expenditure	**728.648**
Income	
Customer and Client Receipts	124.789
Government Grants	40.961
Recharges	-
Other Grants and Contributions	104.282
Contribution from Reserves	17.687
Total Income	**287.718**
Net Expenditure	**440.930**

1.3 Director of Quality Improvement and Principal Social Worker

	2024/25 Budget (£m)
Expenditure	
Employees	0.937
Premises	-
Transport	-
Supplies and Services	1.092
Third Party Payments	-
Transfer Payments	-
Capital Financing	-
Contribution to Reserves	-
Total Expenditure	**2.029**
Income	
Customer and Client Receipts	-
Government Grants	-
Recharges	-
Other Grants and Contributions	-
Contribution from Reserves	-
Total Income	**-**
Net Expenditure	**2.029**

1.4 Director of Quality, Contracts and Safeguarding Adults

	2024/25 Budget (£m)
Expenditure	
Employees	7.181
Premises	-
Transport	0.044
Supplies and Services	0.018
Third Party Payments	0.261
Transfer Payments	-
Capital Financing	-
Contribution to Reserves	-
Total Expenditure	**7.504**
Income	
Customer and Client Receipts	-
Government Grants	-
Recharges	-
Other Grants and Contributions	-
Contribution from Reserves	-
Total Income	**-**
Net Expenditure	**7.504**

1.5 Director of Strategic and Integrated Commissioning

	2024/25 Budget (£m)
Expenditure	
Employees	5.418
Premises	-
Transport	0.008
Supplies and Services	1.379
Third Party Payments	0.323
Transfer Payments	-
Capital Financing	-
Contribution to Reserves	-
Total Expenditure	**7.128**
Income	
Customer and Client Receipts	0.280
Government Grants	0.305
Recharges	-
Other Grants and Contributions	0.062
Contribution from Reserves	1.284
Total Income	**1.932**
Net Expenditure	**5.196**

2. Education and Children's Services Directorate

	2024/25 Budget (£m)
Expenditure	
Employees	142.764
Premises	0.016
Transport	1.739
Supplies and Services	20.194
Third Party Payments	114.438
Transfer Payments	44.443
Capital Financing	-
Contribution to Reserves	3.023
Total Expenditure	**326.617**
Income	
Customer and Client Receipts	5.035
Government Grants	15.954
Recharges	-
Other Grants and Contributions	30.483
Contribution from Reserves	8.976
Total Income	**60.448**
Net Expenditure	**266.168**

2.1 Director of Children's Social Care

	2024/25 Budget (£m)
Expenditure	
Employees	55.406
Premises	0.016
Transport	0.956
Supplies and Services	3.228
Third Party Payments	107.575
Transfer Payments	44.243
Capital Financing	-
Contribution to Reserves	-
Total Expenditure	**211.424**
Income	
Customer and Client Receipts	-
Government Grants	5.825
Recharges	-
Other Grants and Contributions	1.630
Contribution from Reserves	0.595
Total Income	**8.050**
Net Expenditure	**203.374**

2.2 Director of Education, Culture and Skills

	2024/25 Budget (£m)
Expenditure	
Employees	64.694
Premises	-
Transport	0.644
Supplies and Services	12.275
Third Party Payments	6.278
Transfer Payments	-
Capital Financing	-
Contribution to Reserves	0.028
Total Expenditure	**83.919**
Income	
Customer and Client Receipts	4.799
Government Grants	6.912
Recharges	-
Other Grants and Contributions	21.393
Contribution from Reserves	1.578
Total Income	**34.682**
Net Expenditure	**49.236**

2.3 Education and Children's Services

	2024/25 Budget (£m)
Expenditure	
Employees	17.160
Premises	-
Transport	0.137
Supplies and Services	- 0.363
Third Party Payments	-
Transfer Payments	-
Capital Financing	-
Contribution to Reserves	2.995
Total Expenditure	**19.929**
Income	
Customer and Client Receipts	0.236
Government Grants	0.725
Recharges	-
Other Grants and Contributions	7.314
Contribution from Reserves	-
Total Income	**8.275**
Net Expenditure	**11.654**

2.4 Director of Policy Commissioning and Children's Health

	2024/25 Budget (£m)
Expenditure	
Employees	5.506
Premises	-
Transport	0.002
Supplies and Services	5.053
Third Party Payments	0.585
Transfer Payments	0.200
Capital Financing	-
Contribution to Reserves	-
Total Expenditure	**11.346**
Income	
Customer and Client Receipts	-
Government Grants	2.493
Recharges	-
Other Grants and Contributions	0.145
Contribution from Reserves	6.804
Total Income	**9.442**
Net Expenditure	**1.904**

3. Growth, Environment, Transport and Health Directorate

	2024/25 Budget (£m)
Expenditure	
Employees	92.395
Premises	4.548
Transport	43.118
Supplies and Services	54.446
Third Party Payments	210.812
Transfer Payments	-
Capital Financing	-
Contribution to Reserves	-
Total Expenditure	**405.319**
Income	
Customer and Client Receipts	24.783
Government Grants	83.016
Recharges	-
Other Grants and Contributions	93.275
Contribution from Reserves	19.519
Total Income	**220.593**
Net Expenditure	**184.726**

3.1 Director of Public Health

	2024/25 Budget (£m)
Expenditure	
Employees	13.559
Premises	0.292
Transport	0.123
Supplies and Services	1.329
Third Party Payments	70.013
Transfer Payments	-
Capital Financing	-
Contribution to Reserves	-
Total Expenditure	**85.316**
Income	
Customer and Client Receipts	1.007
Government Grants	74.839
Recharges	-
Other Grants and Contributions	2.596
Contribution from Reserves	10.375
Total Income	**88.817**
Net Expenditure	**- 3.500**

3.2 Director of Highways and Transport

	2024/25 Budget (£m)
Expenditure	
Employees	67.730
Premises	3.952
Transport	42.937
Supplies and Services	34.584
Third Party Payments	139.933
Transfer Payments	-
Capital Financing	-
Contribution to Reserves	-
Total Expenditure	**289.136**
Income	
Customer and Client Receipts	22.255
Government Grants	3.660
Recharges	-
Other Grants and Contributions	81.318
Contribution from Reserves	-
Total Income	**107.233**
Net Expenditure	**181.903**

3.3 Director of Growth and Regeneration

	2024/25 Budget (£m)
Expenditure	
Employees	6.147
Premises	0.180
Transport	0.030
Supplies and Services	17.240
Third Party Payments	-
Transfer Payments	-
Capital Financing	-
Contribution to Reserves	-
Total Expenditure	**23.597**
Income	
Customer and Client Receipts	1.157
Government Grants	3.559
Recharges	-
Other Grants and Contributions	6.890
Contribution from Reserves	9.144
Total Income	**20.750**
Net Expenditure	**2.847**

3.4 Director of Environment and Planning

	2024/25 Budget (£m)
Expenditure	
Employees	4.960
Premises	0.125
Transport	0.027
Supplies and Services	1.292
Third Party Payments	0.866
Transfer Payments	-
Capital Financing	-
Contribution to Reserves	-
Total Expenditure	**7.270**
Income	
Customer and Client Receipts	0.364
Government Grants	0.957
Recharges	-
Other Grants and Contributions	2.472
Contribution from Reserves	-
Total Income	**3.793**
Net Expenditure	**3.476**

4.0 Resources and Chief Executive Services

	2024/25 Budget (£m)
Expenditure	
Employees	132.897
Premises	41.240
Transport	1.481
Supplies and Services	85.600
Third Party Payments	3.425
Transfer Payments	-
Capital Financing	22.114
Contribution to Reserves	0.425
Total Expenditure	**287.182**
Income	
Customer and Client Receipts	14.186
Government Grants	22.104
Recharges	-
Other Grants and Contributions	100.866
Contribution from Reserves	5.873
Total Income	**143.029**
Net Expenditure	**144.154**

4.1 Executive Director of Resources & Chief Executive Services

	2024/25 Budget (£m)
Expenditure	
Employees	7.993
Premises	-
Transport	-
Supplies and Services	6.883
Third Party Payments	-
Transfer Payments	-
Capital Financing	-
Contribution to Reserves	-
Total Expenditure	**14.876**
Income	
Customer and Client Receipts	0.594
Government Grants	-
Recharges	-
Other Grants and Contributions	0.746
Contribution from Reserves	-
Total Income	**1.340**
Net Expenditure	**13.536**

4.2 Director of Finance Services

	2024/25 Budget (£m)
Expenditure	
Employees	28.386
Premises	1.125
Transport	0.690
Supplies and Services	6.422
Third Party Payments	-
Transfer Payments	-
Capital Financing	-
Contribution to Reserves	-
Total Expenditure	**36.623**
Income	
Customer and Client Receipts	1.181
Government Grants	0.189
Recharges	-
Other Grants and Contributions	15.098
Contribution from Reserves	0.058
Total Income	**16.526**
Net Expenditure	**20.097**

4.3 Director of Strategy and Performance

	2024/25 Budget (£m)
Expenditure	
Employees	48.122
Premises	40.114
Transport	0.374
Supplies and Services	23.467
Third Party Payments	1.850
Transfer Payments	-
Capital Financing	22.114
Contribution to Reserves	-
Total Expenditure	**136.041**
Income	
Customer and Client Receipts	7.155
Government Grants	21.915
Recharges	-
Other Grants and Contributions	65.604
Contribution from Reserves	2.397
Total Income	**97.071**
Net Expenditure	**38.971**

4.4 Director of Law and Governance

	2024/25 Budget (£m)
Expenditure	
Employees	12.883
Premises	-
Transport	0.339
Supplies and Services	11.340
Third Party Payments	1.575
Transfer Payments	-
Capital Financing	-
Contribution to Reserves	0.425
Total Expenditure	**26.562**
Income	
Customer and Client Receipts	3.107
Government Grants	-
Recharges	-
Other Grants and Contributions	2.253
Contribution from Reserves	0.140
Total Income	**5.500**
Net Expenditure	**21.062**

4.5 Director of Digital Service

	2024/25 Budget (£m)
Expenditure	
Employees	22.231
Premises	0.001
Transport	0.050
Supplies and Services	30.651
Third Party Payments	-
Transfer Payments	-
Capital Financing	-
Contribution to Reserves	-
Total Expenditure	**52.933**
Income	
Customer and Client Receipts	1.874
Government Grants	-
Recharges	-
Other Grants and Contributions	7.738
Contribution from Reserves	3.037
Total Income	**12.649**
Net Expenditure	**40.284**

4.6 Head of Communications

	2024/25 Budget (£m)
Expenditure	
Employees	1.612
Premises	-
Transport	0.001
Supplies and Services	0.162
Third Party Payments	-
Transfer Payments	-
Capital Financing	-
Contribution to Reserves	-
Total Expenditure	**1.775**
Income	
Customer and Client Receipts	0.005
Government Grants	-
Recharges	-
Other Grants and Contributions	0.193
Contribution from Reserves	-
Total Income	**0.198**
Net Expenditure	**1.577**

4.7 Director of People Services

	2024/25 Budget (£m)
Expenditure	
Employees	9.462
Premises	-
Transport	0.020
Supplies and Services	6.628
Third Party Payments	-
Transfer Payments	-
Capital Financing	-
Contribution to Reserves	-
Total Expenditure	**16.110**
Income	
Customer and Client Receipts	0.271
Government Grants	-
Recharges	-
Other Grants and Contributions	9.234
Contribution from Reserves	0.139
Total Income	**9.644**
Net Expenditure	**6.467**

4.8 Director of Organisational Development and Change

	2024/25 Budget (£m)
Expenditure	
Employees	2.209
Premises	-
Transport	0.007
Supplies and Services	0.046
Third Party Payments	-
Transfer Payments	-
Capital Financing	-
Contribution to Reserves	-
Total Expenditure	**2.262**
Income	
Customer and Client Receipts	-
Government Grants	-
Recharges	-
Other Grants and Contributions	-
Contribution from Reserves	0.102
Total Income	**0.102**
Net Expenditure	**2.160**

Annex B

Funding and Expenditure Assumptions

	2024/25	£m	2025/26	£m	2026/27	£m	Description
Funding							
Council Tax - increase	4.99%	30.524	4.99%	32.431	4.99%	34.458	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	1.20%	7.268	1.20%	7.706	1.20%	8.188	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	N/A		0.50%	0.170	0.50%	0.170	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	975,000	-397,000	-397,000
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		2,200,000	-5,544,000
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	**-3,655,000**	**-4,603,000**	**-13,787,000**

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)	+/- 6.420
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 2024/25 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£98m. 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 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 level 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 Department for Education (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 the county council 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 Department for Transport (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 Lancashire strategic cycleway which links in with the East Lancashire 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 Department for Levelling Up, Housing and Communities (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 Farington cricket facility in partnership with Lancashire cricket club programme has commenced work in December 2023 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.

Provision has been made in the 2024/25 programme for schemes slipped in the 2023/24 delivery programme, should the external projects draw down the funding.

East Lancashire 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 May 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 the county council's vehicle replacement strategy to ensure that all county council 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 Transforming Cities Fund 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, monitors 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.

Annex G

Treasury Management Strategy 2024/25

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

The CIPFA code requires the treasury management strategy to be produced and approved annually before the start of each financial year. In addition, the then Ministry of Homes, Communities and Local Government has issued updated statutory guidance on local government investments. This now covers a wider definition of investments and includes those that support local public services by lending to or buying shares in other organisations (service investments), and those made to earn investment income (known as commercial investments where this is the main purpose). Investments held for service purposes or for commercial profit are considered in the separate investment strategy.

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

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

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

In setting the treasury management strategy, the following factors have a strong influence:

- The economic position;
- The council's current investment and borrowing portfolio; and
- Estimates of future borrowing and investment requirements.

Economic position

Economic background:

The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, are major influences on the council's treasury management strategy for 2024/25.

The Bank of England (BoE) increased the Bank Rate to 5.25% in August 2023, before maintaining this level in September and then again in November

The November quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) growth with the potential for a mild contraction due to ongoing weak economic activity. The outlook for CPI inflation was deemed to be highly uncertain, with near-term risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.

The UK economy grew by 0.2% between April and June 2023. The BoE forecasts GDP will likely stagnate in the first quarter of 2024 and forecasts that higher interest rates will constrain GDP growth, which will remain weak over their entire forecast horizon.

Office for National Statistics (ONS) figures showed CPI inflation was 6.7% in September 2023, unchanged from the previous month but above the 6.6% expected. Core CPI inflation fell to 6.1% from 6.2%, in line with predictions. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling however taking until early 2025 to reach the 2% target and then falling below target during the second half 2025 and into 2026.

Arlingclose forecast

The council's treasury management adviser Arlingclose forecasts that although UK inflation and wage growth remain elevated, that Bank Rate has peaked at 5.25%.

The Bank of England's Monetary Policy Committee will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from the third quarter of 2024 to a low of around 3% by early-mid 2026.

Arlingclose expects long-term gilt yields to eventually fall from current levels (amid continued volatility) reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

Like the BoE, the Federal Reserve and other central banks see persistently high policy rates through 2023 and 2024 as key to dampening domestic inflationary pressure. Bond markets are expected to need to absorb significant new supply, particularly from the US government.

Current portfolio

The council's treasury portfolio as at 30 November 2023 was as follows.

	£m
Call accounts	68
Local authority deposits	10
Corporate Bonds	374
Government, local government and supra-national bonds	365
Total Investments	**817**
Short term loans	276
Shared investment scheme	118
Long term loans - local authorities	5
Long Term Bonds	600
Long term loans - PWLB	280
Total Borrowing	**1,279**
Net Borrowing	**462**

Estimates of future borrowing and investment requirements

In the medium term CIPFA's Prudential Code requires that the council's borrowing adjusted for transferred debt is for capital purposes only. The underlying need to borrow for capital purposes is measured by the capital financing requirement, while usable reserves and working capital are the underlying resources available for investment. The following table compares the estimated capital financing requirement to the borrowing at 30 November 2023. This gives an indication of the borrowing required and the resources available for investment.

The capital financing requirement forecast assumes a capital programme which includes borrowing of £50m in 2024/25 and then £50m in each of years 2025/26 to 2027/28. Clearly, this will be subject to change as the capital programme develops.

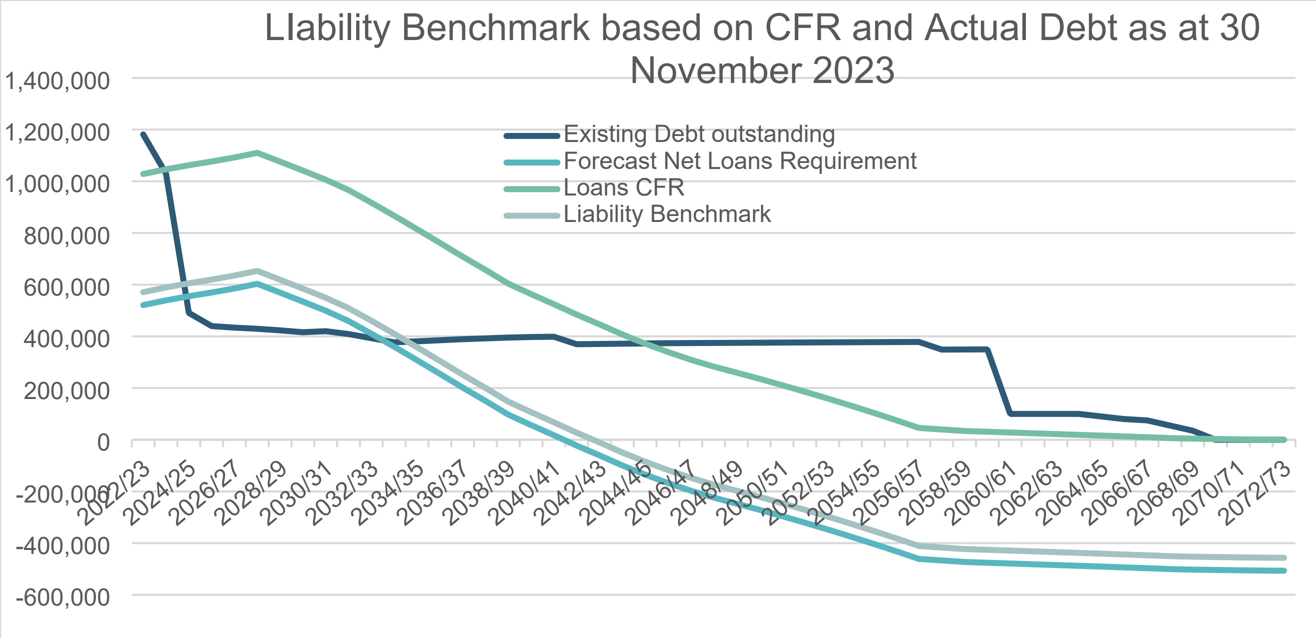
	31/03/2024	31/03/2025	31/03/2026	31/03/2027
	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m
Capital financing requirement	1,165	1,172	1,178	1,183
Other long term liabilities	-119	-110	-102	-90
Borrowing capital financing requirement	1,046	1,062	1,076	1,093
External borrowing	-1,102	-560	-505	-495
Borrowing requirement for capital	-56	502	572	598
Other borrowing requirements*	73	69	65	60
Reserves and working capital	-550	-550	-550	-550
Borrowing/ - Investment need	-533	21	87	108

* debt held on behalf other local authorities and premiums

The table above shows that there is an identified need for borrowing from 2024/25 if all reserves are cash backed which is the general policy adopted by the county council. However, an alternative would be to use internal reserves which is demonstrated by the liability benchmark which is a proposed indicator in the Prudential Code.

Liability benchmark

To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as the table above, but that cash and investment balances are kept to a minimum level of £50m at each year-end to maintain sufficient liquidity. The liability benchmark is shown in the graph below:



The liability benchmark graph above shows that although the existing debt falls below the CFR it would be above the liability benchmark until March 2025. This suggests that that there is actually only a small amount of borrowings (£21m) required in 2024/25 if investments were reduced to meet the cash flow requirements. It is also worth noting that even when the debt falls below the benchmark it is for a relatively short period (up to 10 years) and that in the longer-term current debt is already above the benchmark which implies that any new borrowing in-line with the liability benchmark should be of a fairly short duration. To be clear, this analysis includes no future Capital Programme borrowing beyond the next three years.

Borrowing Strategy

As indicated earlier in the report there is a current borrowing holding of £1,279m. It has been noted that under the liability benchmark model there is probably limited need to further borrow in 2024/25 to meet the capital needs in the year. However, this is only one model for treasury management. Alternatively, the council can maintain a level of investments and look to borrow to cover its capital needs. With the impact of new capital schemes in the programme and the need to replace maturing debt there is an estimated borrowing requirement of approximately £571m in 2024/25.

The borrowing strategy will be determined by the impact of the economic climate on the prevailing cost and availability of borrowing and the level at which it is considered appropriate to maintain investments. The council will continue to ensure the borrowing needs are met while balancing the aims to keep net costs as low as possible in the short term and providing certainty of cost over the long term.

In the last couple of years the council has moved to secure greater certainty of costs and reduce the re-financing risk in its debt portfolio by taking some long-term debt including the issuance of a 40-year bond. This has resulted in the long-term debt exceeding the estimated CFR. It is anticipated that there will be new borrowing to fund capital programmes beyond that currently approved which will increase the overall need and therefore the apparent borrowing above need is not considered to be a problem. However, it does mean that any longer-term debt taken is likely to be for maturity in 10-20 years.

There are a range of options available for borrowing in 2024/25:

- Variable rate borrowing may be cheaper than fixed rate long-term borrowing and will be attractive during the financial year, particularly as variable rates are closely linked to Bank Rate.
- Under 10 years loan duration rates are expected to be lower than long term rates, so this opens up a range of choices that may allow the council to spread maturities.
- the issuance of a 'commercial paper (an unsecured, short-term debt instrument issued by a corporation) - euro medium term note. This is a flexible debt instrument that facilitates direct issuance into the public or private markets in a range of formats, with fixed or floating payments across a range of maturities from 1-50yrs. The UK Municipal Bonds Agency euro medium term note documentation allows for "Non-Guaranteed" single council bond issuance under UK Municipal Bonds Agency documentation provided the council has its own long term credit rating. This will represent a cheaper route to market than a stand-alone bond issue and it is this method that the council has used to issue two bonds and if a third bond was considered beneficial then it is the likely route to be chosen by the council
- The UK Municipal Bonds Agency is proposing a product which does not include a joint and several guarantee. Instead, a council's liability will be proportional to its share of the outstanding borrowing. Consideration as to whether or not this would be an appropriate form of borrowing will be given when the full details are available.
- There is a developing new market in debt finance for 'ESG bonds'. The term ESG stands for Environmental, Social and Governance and in bond markets the label is being used where the issuer has identified specific ESG or green criteria for the use of the bond proceeds. Local Government activities are naturally aligned with ESG criteria and as the concept and practice of socially responsible investing becomes more widespread there may be the opportunity for issuers to access lower interest rates as a result of increased demand. There are currently no available vehicles for the county council to access ESG funding but market developments will be closely monitored for possible future access.
- The possibility of using Fixed/Floating rate swap will be examined to see if it is a beneficial method of borrowing.

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

a) Overall need, namely whether a borrowing requirement to fund the capital programme or previous capital investment exist.
b) Timing, when such a borrowing requirement might exist given the overall strategy for financing capital investment, and previous capital spending performance.
c) Market conditions, to ensure borrowing that does need to be undertaken is achieved at minimum cost.

d) Scale, to ensure borrowing is undertaken on a scale commensurate with the agreed financing route.
e) To consider whether to use cash balances as a form of internal borrowing, but this will reduce the level of investments that can be made.

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

Sources of borrowing

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

The approved sources of long-term and short-term borrowing will be:
- Public Works Loan Board
- UK Local Authorities
- Any institution approved for investments including high quality supranational banks such as the European Central Bank
- UK public and private sector pension funds
- Any other financial institution approved by the Prudential Regulation Authority, (this is part of the Bank of England and is responsible for the regulation and supervision of around 1,700 banks, building societies, credit unions, insurers and major investment firms)
- Municipal Bond Agency
- Capital market bond investors either over the counter or through electronic trading platforms.

Borrowing instruments

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

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

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

Debt restructuring

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

Other borrowing

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

Policy on Borrowing in Advance of Need

The council will not borrow more than, or in advance of need, with the objective of profiting from the investment of the additional sums borrowed. However, borrowing in advance of need is permitted to pre-fund future years' capital requirements, providing this does not exceed the authorised limit for borrowing. Therefore, the Council may look to borrow in advance if the need to finance the future capital investment will materialise in two years or less; and

a) Where the most advantageous method of raising capital finance requires the council to raise funds in a quantity greater than would be required in any one year, or
b) Where in the view of the section 151 officer, based on external advicethe achievement of value for money would be prejudiced by delaying borrowing.

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

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

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

Treasury Management Investments Strategy

The council holds reserves and other cash items on its balance sheet which if not used to reduce borrowing requirements are invested. In investing these cash balances the council follows guidance issued by CIPFA and the government department.

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

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

Business model for holding investments

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

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

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

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

Approved counterparties

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

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

The council requires very high credit ratings for an organisation to be considered a suitable counterparty for investment purposes. The 2024/25 policy continues to be based on the UK credit quality, as measured by Moody's long-term ratings, of Aa3. However this rating is subject to change. The credit ratings are as follows:

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

Moody's	P1
S&P	A1
Fitch	F1

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

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

Long term	A2/A
Short term	P1/F1+/A1+

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

Long term	A1/A+
Short term	P1/A1+/F1+

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

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

The minimum sovereign rating for investment as issued by Moody's is A1 which is one notch below the UK and the same as Lancashire County Council. The UK's latest rating issued by Moody's is a long-term rating of Aa3 which is the fourth highest grade.

Although the rating still falls within the current strategy it is possible if there is an economic downturn that there will be further downgrades and the UK is currently on negative watch with all the main rating agencies for both short and long term ratings. This could result in investments in UK government gilts, treasury bonds and bodies guaranteed by the UK government falling outside the treasury management strategy. However, even if there is a further reduction in the UK credit rating, the UK government is still deemed a safe investment. The government has never defaulted on its payments and as an ultimate solution it could prevent insolvency by printing money. Therefore, it is proposed that the minimum sovereign rating is not applied to the UK.

The 2023/24 Investment Strategy included the holding of government Gilts and other long term corporate and supra-national bonds. The holding of these at the 30 November was some £700m. However, the market value of these assets are subject to significant volatility. In recent years this volatility has been such that gains have been made on the sale of assets. Recent market movement has seen the price of the bonds generally falling. If the current holding had to be sold there would be a significant loss. While there is no pressure to sell the assets for cash flow purposes this apparent loss will not be realised. It is not currently anticipated that these assets will need to be sold in 2024/25 for cash flow purposes and it is anticipated that prices will increase in the medium term.

In the 2023/24 investment strategy the investment in UK government including Gilts was unlimited whilst long term corporate and government backed bonds had class limits of up to £400m. With the financial uncertainty facing local government and the possible impact this will have on reserves and cash flow to minimise the risk of having to sell such bonds at a loss it is proposed that the total holding of Gilts and long term corporate bonds (with more than 5 years to maturity) is limited to 50% of total value of the investments held, reducing to 35% if market circumstances allow over the next 3 years.

The council also holds corporate bonds which mature in 5 years or less. These are often floating rates notes where the interest payment is adjusted quarterly. Although the market value of these do fluctuate the prices are fairly stable. The limits for these are therefore to remain unchanged.

The counterparty limit of the UK government will remain as unlimited as the county council has the ability to invest with the Debt Management Office for periods from overnight and up to 6 months.

The following table shows the approved investment counterparties and limits:

Instrument	Minimum Credit Rating (blended average)	Maximum individual Investment (£m)	Maximum total Investment (£m)	Maximum Period
UK Government Gilts, Treasury Bills, Debt Management Office & bodies guaranteed by UK Government	UK Government	unlimited	Unlimited subject to limit on Gilts	No limit
Sterling Supranational Bonds & Sterling Sovereign Bonds	AA-	150	300	No limit
Corporate Bonds (Short Term less than 1 year to maturity)	P1/A1/F1	50	200	1 year
Corporate Bonds (Medium term up to 5 years)	AA- P1/A1/F1	100	300	5 years
Corporate Bonds (Long term)	AA P1/A1+/F1+	50	200	No limit
Corporate Bonds - government owned/backed companies	A3	200	400	No limit
Government Bond Repurchase Agreements (Repo/ Reverse Repo)	UK Government	500	500	3 years
Repurchase Agreements (Repo/ Reverse Repo)	Other AA-	200	200	1 year
Bond Funds with weighted average maturity maximum 3 years	AA Rated weighted average maturity 3yrs	50	100	These investments do not have a defined maturity date
Bond Funds with weighted average maturity maximum 5 years	AAA Rated	50	100	These investments do not have a defined maturity date
Collateralised lending agreements backed by higher quality government or local government and supra national sterling securities	AA- with cash or AA- for any collateral	300	300	25 years
Call accounts and unsecured bank deposits up to 7 days with UK and Overseas Banks	P1/A1/F1 Long term A Government support	100	250	Overnight in line with clearing system guarantee (currently 4 years)
Unsecured deposits/CDs to Banks and Building Societies	AA	10	50	1 year
Equity, property, multi asset or credit Pooled Funds	Ratings are not produced for such Funds	50	100	These investments do not have a defined maturity date
Local authority fixed term deposits	Government	30	450	50 years
Local authority bonds	Government	50	300	60 years

Local Housing Associations	1st lien on sufficient collateral	100	300	50 years

Note: if the credit rating of assets already held fall below the relevant limit action to address this will be taken at an appropriate time considering the financial impact of any decision to disinvest.

As referred to earlier in this report the UK is subject to credit ratings and has recently been on negative outlook. If the UK rating is reduced then some of the ratings in the credit matrix above may need to be revisited. It is proposed that if the UK credit rating is downgraded in the year then for the longer term investments (over 5 years) credit limits will be the UK's rating minus a notch, and the shorter term investments (5 years and under) the rating minus 2 notches. These would then be reviewed in setting the strategy for 2025/26 or if the ratings fell below investment grade ratings.

UK bank bail-in legislation provides that should a bank fail the authorities can impose losses on the bank's creditors which includes local authority deposits. Although the Treasury Management policy does allow unsecured bank deposits for up to one year, to reduce risk exposure to bank credit and 'bail-in legislation', deposits are used as call accounts and usually placed as overnight deals. However occasionally they may have to be placed for a few days at a time, therefore for clarification unsecured bank deposits up to one week have been included alongside call accounts in the Treasury Management policy matrix above. The only other unsecured deposits used relate to the operational bank accounts which are used for day to day and overnight business and, by virtue of being operational rather than investment accounts, fall outside Treasury Management investment limits.

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

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

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

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

Long term investments

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

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

As a result of the nature of the assets held it is considered appropriate to have a high limit which is related to the forecast of reserves and balances held (currently forecast to be £800m at 31 March 2025, However, it is anticipated that during the year cash-flow will be positive requiring a higher level of investments to be held. In particular, if a borrowing is taken before the debt it is replacing matures or the capital expenditure incurred, and this cash will be invested. Therefore, the proposed limit for 2024/25 is £1,200m.

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

Policy on the Use of Financial Derivatives

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

A derivative is a financial instrument with three main features:

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

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

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

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

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

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

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

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

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

The following table defines the appropriate limits for collateral quality:

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

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

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

The Council is now able to transact in Exchange Traded Futures and Options and has opened a Derivative Clearing Account with Royal Bank of Canada. The specific instruments appropriate for the council's treasury management are 3-month Sonia Futures and options (Sonia is the replacement for Sterling Libor 3-month interest rate index). These instruments allow the mitigation of the effects of interest rate shocks out to 5 years maturity. Having analysed the risk profile of the council treasury management it was considered appropriate only to establish positions to mitigate “unusual risk” in any specific period rather than the more regular risks. Effectively the council will look, where appropriate, to “insure” against specific risk for a specific upfront premium. (Technically, insuring against events more than 1.5 Standard Deviations away from the median expected outcome at each maturity).

Where appropriate and if advised necessary by the treasury management consultants, hedge accounting will be used to periodically test the effectiveness of the hedge. It is expected the hedge will work with between 80% and 125% effectiveness in accordance with accounting standards. If the effectiveness is measured as falling outside these parameters, the structure of the hedge will be changed in response.

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

At all times the council will comply with CIPFA advice and guidance on the use of financial derivatives and have regard to CIPFA publications on risk management. However, the council may need to seek its own legal advice.

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

Impact on the council's revenue budget

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

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

The following table outlines the budget for the financing charges element of the council's revenue budget as reflected in the medium-term financial strategy. However, this budget will be amended to reflect changes in the capital programme and interest rates.

	Revenue Budget 2023/24 £m	Revenue Budget 2024/25 £m	Revenue Budget 2025/26 £m	Revenue Budget 2026/27 £m
Minimum Revenue Provision	29	34	36	35
Interest paid	51	52	47	44
Interest and other income earned	-39	-40	-36	-33
Total	41	46	47	46

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

Treasury Management Indicators

In line with the relevant legislation the county council has adopted the Prudential Code for Capital Finance in Local Authorities and the Treasury Management in the Public Services Code of Practice (2021) as setting the framework of principles for its treasury management activities. In accordance with the requirements of these codes the council produces each year prudential indicators which provide a framework for the prudent management of its treasury management including limits with regard to certain types of activity such as borrowing. The indicators below are a consequence of the activities set out within the treasury management strategy.

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

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Borrowing	1,700	1,700	1,700	1,700
Other long-term liabilities	400	400	400	400
TOTAL	2,100	2,100	2,100	2,100

Changes to accounting standards in relation to recording leases are due to be implemented from 1 April 2024. In effect more leases will be included as a liability on the council's balance sheet and therefore will be included against the other long term liabilities indicators. At this stage work is on-going to quantify the impact of the change and therefore the 'other long-term liabilities' limits will be subject to change.

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

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Borrowing	1,200	1,200	1,200	1,200
Other long-term liabilities	160	160	160	160
TOTAL	1,360	1,360	1,360	1,360

The actual external debt as at 31 March 2023 was £1,176m.

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

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

	As at 31 March			
	2024	2025	2026	2027
	£m	£m	£m	£m
Borrowing capital financing requirement	1,046	1,062	1,076	1,092
Estimated total borrowing	1,119	1,131	1,141	1,153
Borrowing in excess of capital financing requirement	73	69	65	61
Represented by:				
Premiums	35	33	31	29
Borrowing relating to other authorities	38	36	34	32

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

Interest rate exposure

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

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

Maturity structure of debt

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

	Upper Limit	Lower limit
Under 12 months	75%	0%
12 months and within 2 years	75%	0%
2 years and within 5 years	75%	0%
5 years and within 10 years	75%	0%
10 years and above	75%	25%

Investments over 1 year

Limit on the level of long-term investments helps to control liquidity, although the majority of these investments are currently held in securities which are readily saleable. The limit is largely determined by the forecast of reserves and balances held at the year-end (currently forecast to be £800m). The level of investments will be managed to be in line with the estimated reserves and balances and cash flow at 31 March 2024 (deemed an operational limit which will be reviewed during the year). However, it is anticipated that there will be positive cash-flows in year which will require a higher level of investments to be held including bonds held specifically for liquidity purposes. Therefore, it is proposed that the limit for maturities in excess of one year is £1,200m for each of the years.

	Upper limit
Total invested over 1 year	£1,200m
Forecast at 31 March 2025	£800m

Minimum average credit rating

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

	Benchmark
Average counterparty credit rating	A

Liquidity Risk Indicator

	Target
Total sum borrowed in past 3 months without prior notice	£50m

The council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount it can borrow each quarter without giving prior notice.

Annex H

Investment Strategy 2024/25

The council can make or hold investments for the following purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments),
- support local public services by lending to or buying shares in other organisations (service investments), and
- earn investment income (commercial investments)

In making investments the council will take into consideration guidance issued by Chartered institute of Public Finance and Accountancy (CIPFA) and government departments. The Prudential Code issued by CIPFA states that local authorities should avoid exposing public funds to inappropriate or unquantified risk. The prime policy objective of their treasury management investment activities is the security of funds. Investments for 'commercial purposes', which are taken primarily for financial return, are likely to be higher risk, and local authorities must not borrow to invest primarily for financial return. Statutory Guidance on Local Government Investments (3rd Edition) (Statutory Investment Guidance) issued by the then Ministry for Housing, Communities and Local Government (MHCLG) also state local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The guidance makes it clear that it extends to borrowing taken on to finance the acquisition of non-financial as well as financial investments.

Treasury Management Investments

The authority holds reserves and in general the authority has positive cash flows with grants and other income often being received prior to the expenditure, such as payroll, being incurred. These along with the potential for borrowing being raised before the capital expenditure is incurred leads to positive cash balances which need investing. These investments are made in line with the guidance on treasury management issued by the Chartered institute of Public Finance and Accountancy.

The contribution that these investments make to the objectives of the council is to support effective treasury management activities.

Full details of the council's policies and its plan for 2024/25 for treasury management investments are covered in a separate document, the treasury management strategy.

Service Investments

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

The key risk when making service loans is that the borrower is unable to repay the loan. Currently, the exposure faced by the council is low and it is proposed that this continues in 2024/25. The table below provides details of the loans outstanding at 31 March 23 and proposed limits for 2024/25.

Category of borrower	Outstanding at 31 March 23 £m	Proposed Limit 2024/25 £m
Subsidiaries	7.2	15.0
Other councils	25.7	40.0
Employees	0.1	1.0
Schools	0.1	5.0
Total	**33.1**	**61.0**

Service Investments: shares

The county council holds shares in the Municipal Bond Agency for specific service delivery objectives**.** It is not expected that any significant return will be made on these shares.

Commercial Activities

The MHCLG defines property to be an investment if it is held primarily or partially to generate a profit. Although the council promotes income generating activity it is generally within the context of providing a service efficiently and covering costs rather than profit seeking. Areas where it is considered the definition is met is in relation to smallholdings and Lancashire County Development Ltd. In 2022/23 the income generated from smallholdings was less than £0.1m while Lancashire County Developments Ltd made a contribution to costs of around £2m.

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

Total Investments

The table below summarises the total investments:

Total investment exposure	**31/03/2023 Actual**	**31/03/2024 Forecast**	**31/03/2025 Forecast**
	£m	**£m**	**£m**
Treasury management investments	856	800	800
Service investments: Loans	33	33	33
Commercial investments: other	0	0	0
Total Investments	**889**	**833**	**833**

It is anticipated that borrowing will remain within the capital requirements and therefore none of the investments are funded from borrowing. The income derived from service and commercial activities is not material to the funding of the council's revenue budget. Income from treasury management investments is shown in the treasury management strategy.

Annex I

Minimum Revenue Provision Statement 2024/25

1. Introduction

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

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

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

2. The Four Options Explained

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

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

Regulatory Method

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

Capital Financing Requirement (CFR) method

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

Asset Life Method

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

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

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

Depreciation method

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

3. Leases* and Private Finance Initiative
(*Now includes all leases not just finance leases)

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

4. Application at Lancashire County Council

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

Supported borrowing

From 2008/09 to 2014/15 the Capital Financing Requirement option has been applied to all supported borrowing incurred before 1 April 2007. This charge was based on 4% of the outstanding capital financing. However, the charge was based on a 4% reducing balance which never effectively repays the debt. It was also considered that the 4% charge over-estimated the level of support within the revenue support grant. From 2015/16 the charge was made with reference to the capital financing requirement based upon a 50-year life rather than a reducing balance. In 2017/18 it was considered that there had been an over-payment of Minimum Revenue Provision in earlier years and therefore the Minimum Revenue Provision for years from 2017/18 would be reduced to £1 until the overpayment had been recovered. This will continue to be the case in 2024/25 and therefore the Minimum Revenue Provision charge for the supported debt will be £1. In summary the overpayment position is:

MRP Overpayments	£m
Actual balance 31.03.2023	83.2
Approved drawdown 2023/24	-8.5
Expected balance 31.03.2024	74.7
Planned drawdown 2024/25	-8.8
Forecast balance 31.03.2024	65.9

Unsupported borrowing

The Minimum Revenue Provision for Capital expenditure financed from unsupported borrowing has been calculated using the Asset Life Method on an annuity basis. It is proposed that this continues for calculating the Minimum Revenue Provision for 2024/25. This includes expenditure incurred in 2008/09 to 2014/15, when the Minimum Revenue Provision was initially calculated using the Asset Life method (Equal Charge approach).

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

Minimum Revenue Provision will not be made in relation to new assets until the financial year after which the project is deemed to be operational.

Overpayments

The guidance does allow for charges in excess of the minimum to be made. It is not proposed that any overpayments will be made in 2024/25.

5. Recommendations

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

a) Approves the Capital Financing Requirement method and the Asset Life method for expenditure as outlined in section four.
b) Charges to revenue a sum equal to the repayment of any credit liability.
c) Approve the policy of not starting charging revenue until the capital project is operational.

Annex J – Annual Pay Policy Statement 2024/25 (The Localism Act 2011)

Introduction

The Localism Act 2011 (the Act) requires the council to prepare a Pay Policy Statement each year. The pay policy statement must articulate the council's approach to a range of issues relating to the pay of its workforce, particularly its senior staff (or 'chief officers') and its lowest paid employees.

The following Pay Policy Statement has been recommended by the Employment Committee for approval by Full Council and will come into effect from 1 April 2024. This annual Pay Policy Statement will be subject to annual review and approval by Full Council by 31 March each year. In exceptional circumstances the statement may be reviewed/amended mid-year by the Full Council.

This statement will be published on the council's website following each review and approval by Full Council.

The purpose of this statement is to provide transparency with regard to the council's approach to setting the pay of its employees (excluding staff working in local authority schools) by identifying:

- the methods by which salaries of all employees are determined;
- the detail and level of remuneration of the council's most senior staff;
- the remuneration of the council's lowest-paid employees, and
- the relationship between the remuneration of chief officers and those employees who are not chief officers.

This Pay Policy Statement sets out the council's approach to pay policy in accordance with the requirements of Section 38 of the Act. Section 40(1) of the Act requires local authorities to have regard to guidance issued by the Secretary of State in performing their functions and approving Pay Policy Statements. In preparing this Pay Policy Statement regard has been given to the guidance issued by the Department for Communities and Local Government in February 2012 alongside the supplementary guidance issued in February 2013.

1. The Council's Pay and Grading Structure

1.1 Section 112 of the Local Government Act 1972 provides that a local authority shall appoint such officers as they think fit for the proper discharge of their functions. Officers so appointed shall hold office on such reasonable terms and conditions, including conditions as to remuneration, as the local authority thinks fit.

1.2 In determining the pay and remuneration of all of its employees, the council will comply with all relevant employment legislation. The council will ensure that there is no pay discrimination within its pay and grading structures and that all pay differentials can be objectively justified through the use of job evaluation mechanisms, which directly establish the relative levels of posts in grades according to the requirements, demands and responsibilities of the role.

1.3 The remuneration of the vast majority of employees of the council, other than those employee groups set out below, is in accordance with an objectively evaluated grade profile or job description as determined under the council's job evaluation scheme. The evaluated score for the grade profile/job description will determine the grading level paid within a locally agreed pay spine (the Lancashire Pay Spine (see Annex 1)). The council presently uses the Local Government Single Status Job Evaluation Scheme (the NJC scheme) to evaluate posts up to Grade 6 on the Lancashire Pay Spine and the Hay Group Job Evaluation Scheme for other managerial and professional grades.

1.4 The following employee groups are not presently paid in accordance with an evaluated grade profile/job description determined by the council, unless employees have subsequently been appointed to a post that is paid in accordance with the Lancashire Pay Spine, and instead nationally or locally determined rates apply:

- Employees whose pay and conditions are determined by the Soulbury Committee;
- Employees whose pay and conditions of service are determined by the Joint Negotiating Committee for Youth and Community Workers;
- Employees who have transferred from the NHS to the council following a TUPE or statutory transfer;
- Employees who have retained terms and conditions of employment from other employers following a Transfer of Undertakings (Protection of Employment) regulations (TUPE) transfer to the council.

1.5 The council presently adopts the national pay bargaining arrangements in respect of the revision of pay spines through any agreed annual pay increases negotiated with joint trade unions.

1.6 All other pay related enhancements and payable allowances/expenses are the subject of either nationally or locally negotiated and/or determined rates. The enhancements to pay and allowances/expenses payable as determined from time to time are provided at Annex 2 (Payable Enhancements) and Annex 3 (Allowances and Expenses) respectively.

1.7 New appointments will normally be made at the minimum of the relevant pay scale for the grade, although recruiting managers have discretion to offer a higher scale point to secure the best candidate.

1.8 Progression within each grade will normally be by annual increment at 1 April each year subject to the maximum of the grade. However, heads of service have discretion to advance an individual employee's incremental progression within the grade on the grounds of special merit or ability to assist in the retention of able professional or other staff.

1.9 Any temporary supplement to the salary scale for the grade for taking on additional duties or responsibilities must be approved in accordance with the council's agreed policy relating to honoraria and acting up payments.

1.10 From time to time it may be necessary to take account of the external pay levels in the labour market in order to attract and retain employees with particular experience, skills and capacity. Where necessary, the council will ensure the requirement for such is objectively justified by reference to clear and transparent evidence of relevant market comparators, using data sources available from within the local government sector and outside, as appropriate.

3. Chief Officer Remuneration

2.1 The Act defines chief officers as the following (the post titles in brackets identify the relevant posts within the council's senior management structure):

- The Head of the Paid Service (the Chief Executive);
- The Monitoring Officer (the Director of Law and Governance);
- A statutory chief officer (the Executive Director of Education and Children's Services, the Executive Director of Adult Services, the Executive Director Resources, and the Director of Public Health, Wellbeing and Communities).
- A non-statutory chief officer (the Executive Director of Growth, Environment, Transport and Health, and any other postholder reporting directly to the Chief Executive or a statutory chief officer);
- A deputy chief officer (all other director grade posts, and any other postholder reporting directly to a non-statutory chief officer).

2.2 The terms and conditions of employment applicable to officers on director grades and above are as determined by the NJC for Local Government Services ('Green Book') as amended, supplemented or superseded by decisions on conditions of service made by the council from time to time. This also applies to the Chief Executive with the exception of an additional provision relating to remuneration in relation to acting as returning officer (see below) and a time limited restriction on re-employment.

2.3 The council's pay and grading structure is as approved by Full Council. The grade profile/job description of each chief officer post has been objectively evaluated using a recognised job evaluation scheme (the Hay Group Job Evaluation Scheme). The evaluated score of the grade profile/job description will determine the grading level paid within the Lancashire Pay Spine. Salary packages take account of such factors as the requirements of the job, the relative size of the organisation, local and national market rates and the relationship with other posts within the grading structure.

2.4 Details of chief officers' basic salaries are set out below (salaries are as applicable at 1 April 2023, as a national pay agreement for 2024-25 for Local Government Services has not yet been reached). A structure chart identifying all posts covered by the statutory definition of chief officer posts is provided at Annex 4.

Chief Executive

The current basic salary package of the post of Chief Executive is £231,180 per annum, a single, spot salary (SCP 90).

The Chief Executive also acts as Returning Officer for all county council elections for which an additional allowance is payable in relation to the overall supervision and ultimate responsibility for the conduct of council elections.

The fee payable is calculated in accordance with a formula approved by Full Council, currently 15% of the total fees payable to Deputy Returning Officers employed by district councils (which are based on a set amount for each councillor to be elected, currently £71.25). In a contested election, the council presently has 84 elected members. Elections take place on a 4 year cycle although by-elections may take place at other times.

Executive Directors

The current basic salary package for posts designated as Executive Director fall within a range of five incremental points between £139,030 (SCP 85) rising to a maximum of £150,922 (SCP 89).

The post of Executive Director of Education and Children's Services attracts a market supplement of £17,201 per annum, which is paid in addition to the salary for an Executive Director graded post.

The post of Executive Director Resources attracts a market supplement of £12,254 per annum, which is paid in addition to the salary for an Executive Director graded post.

The post of Executive Director of Adult Services attracts an additional payment of £14,655 per annum, which is paid in addition to the salary for an Executive Director graded role. This additional payment is a salary uplift due to the postholder being seconded to Lancashire and South Cumbria Integrated Care Board (LSC ICB) as Director of Health and Care Integration until 4 December 2025. This additional payment brings the overall package for the Executive Director/Director of Health and Care Integration in line with the NHS VSM grade. The postholder is working 80% of their time for the LSC ICB and 20% of their time with the council for the period of the secondment. They continue to hold the statutory Director of Adult Services role in relation to their council post. The LSC ICB are paying 80% of the salary costs, superannuation costs and national insurance contributions, in addition to the full additional payment (salary uplift) for the duration of the secondment. A Deputy

Executive Director of Adult Services post has been created, to deputise for the Executive Director of Adult Services. The salary grade for this post is Director 3 and further information about the salary package is set out below.

Director Grades

The current basic salary package of posts within the director grades fall within a range of three levels each comprising of five incremental points as set out below:

- Director Grade 1 (D1) - £92,011 (SCP 70) rising to £100,801 (SCP 74)
- Director Grade 2 (D2) - £102,757 (SCP 75) rising to £111,550 (SCP 79)
- Director Grade 3 (D3) - £123,028 (SCP 80) rising to £134,554 (SCP 84)

The post of Director of Investment attracts a market supplement of £26,688 per annum, which is paid in addition to the salary for a Director Grade 3 (D3) post.

The post of Director of People attracts a market supplement of £7,600 per annum, which is paid in addition to the salary for a Director Grade 2 (D2) post.

Officers Reporting Direct to the Chief Executive, Statutory and Non-statutory Chief Officers

There are currently a number of officers at head of service level who meet the statutory definition of non-statutory chief officer, or deputy chief officer, but who are not employed on director grades or chief officer terms and conditions. These posts are identified on the structure chart provided at Annex 4.

2.5 Progression through the grade is by annual increment, which normally happens on 1 April each year.

2.6 Salary levels are increased in accordance with any nationally agreed pay settlement negotiated through the NJC for Local Government Services.

2.7 Other Remuneration Elements

2.7.1 In addition to basic salary, all chief officer posts are entitled to:

- A lease car. The current maximum contribution by the council, based on the annual rental payable for any vehicle, is £6,000 (£6,500 for the Chief Executive); or,

- As an alternative to a lease car, or where engaged on a contract for less than three years, a chief officer may opt to receive a cash equivalent sum of £5,300 per annum (as at 1 April 2024) (this sum is subject to annual review);

- The council operates a policy of reimbursing the membership fees incurred by a chief officer in relation to membership of a professional body;

- Official business mileage undertaken by chief officers is reimbursed at the prevailing advisory rate set by HMRC in relation to company cars. This rate is calculated on the basis that it does not include any taxable profit and no national insurance contribution liability as the rate is intended to reflect actual fuel costs.

- Other allowances and expenses that chief officers may claim are as set out within the list provided at Annex 3 (Allowances and Expenses). The allowances and expenses that may be claimed are as applicable to other employees of the council.

- Chief officers are not permitted to claim any payable enhancements as documented at Annex 2 (for example, planned overtime payments or enhancements for weekend working).

2.7.2 To meet specific operational requirements it may be necessary in exceptional circumstances for an individual to temporarily take on additional duties or responsibilities. Where this is necessary and justified a temporary supplement to the salary scale for the grade must be approved in accordance with the council's agreed policy relating to honoraria and acting up payments.

2.8 Performance Related Pay/Bonus Scheme

With the exception of progression through the incremental scale of the relevant grade, the level of remuneration is not variable or dependent upon the achievement of defined targets.

The council does not operate a performance related pay scheme in relation to its chief officers nor does it pay bonuses or any other cash incentive.

2.9 Recruitment of Chief Officers

2.9.1 The council has delegated the appointment and dismissal of the Chief Executive (Head of the Paid Service), Executive Directors, the Monitoring Officer and the Chief Financial Officer (s.151 Officer), collectively referred to as 'senior officers', to the Employment Committee. The committee is also responsible for the appointment of Directors who hold the statutory responsibilities for Children's Services (the Executive Director of Education and Children's Services), Adult Services (the Executive Director of Adult Services) and Public Health (the Director of Public Health, Wellbeing and Communities).

2.9.2 When recruiting to all chief officer posts the council is required to comply with the statutory requirement that no appointment or dismissal (including dismissal by reason of redundancy) may proceed until all Cabinet Members have been notified of the proposed appointment or dismissal to allow them the opportunity to object. Where the committee is appointing or dismissing the Head of the Paid Service, the Monitoring Officer or the Chief Financial Officer, the Full Council must also approve the appointment or dismissal before an offer of appointment is made or notice of dismissal is given.

2.9.3 Remuneration on appointment is determined by the committee at a scale point within the evaluated grade for the post, having regard to the qualifications and experience of the successful candidate. The committee has further discretion to agree the payment of an additional market supplement, where appropriate.

2.9.4 Relocation allowances paid to chief officers are in accordance with the council's relocation allowances scheme, which applies to permanent employees (and fixed term appointments of two years or more) who are appointed as a result of external advertisement, and who are obliged to relocate their place of residence as a direct result of taking up their initial appointment with the council.

The maximum amount payable under the relocation scheme is £9,364 net of VAT (as at 1 April 2023) plus an additional discretionary element of £2,000 is payable in exceptional circumstances. The Employment Committee has further discretion to agree to relocation allowances outside the provisions of the relocation scheme where they consider this to be reasonable and appropriate.

2.9.5 Where the council is unable to recruit chief officers, or there is a need for interim support to provide cover for a substantive chief officer post, the council will, where necessary, consider engaging individuals under a ‘contract for service’. These will be sourced through an appropriate procurement process ensuring that the council is able to demonstrate the maximum value for money benefits from competition in securing the relevant service. In making such assessments it should be noted that in respect of such engagements the council is not required to make either pension or national insurance contributions for such individuals. A Public Health Consultant post is being covered by an interim. If an interim worker uses an intermediary personal service company the council is responsible for assessing their tax and national insurance liability under the IR35 rules, alongside deducting and paying the correct tax.

2.10 Payments on Termination of Employment

2.10.1 The council's policies in relation to redundancy payments and early retirement are set out respectively within its Employer Discretions Policy, Redundancy Payments Scheme, Early Retirement and Business Efficiency (Early Retirement) Policies. These policies are subject to review in light of possible future reforms to exit payments. The council's policy in relation to payments on termination is as summarised below:

Redundancy payments, for both voluntary and compulsory redundancy, are based upon the statutory redundancy payments scale. Under the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006, the council does not apply its discretion under Regulation 5 to base any redundancy payments on an employee's actual week's pay where this exceeds the statutory week's pay limit, nor does it apply its discretion under Regulation 6 to award lump sum compensation over and above that which is set out under the statutory redundancy payments scale. A week's pay does not include other payments (unless these are deemed to be contractual) nor does it include employer pension contributions.

Under Regulation 31 of the Local Government Pension Scheme Regulations 2013, the council may award additional pension of not more than £7,579 a year (as at 1 April 2023) in exceptional and justifiable circumstances.

2.10.2 The council does not operate a policy of making any specific or general payment to its chief officers on their ceasing to hold office or to be employed by the council but it may, where appropriate, agree to waive or pay contractual notice.

2.10.3 Any other forms of severance payment falling outside these provisions must be authorised by or on behalf of the Full Council.

2.11 Tax Avoidance Measures

All chief officers are remunerated via monthly salary payments. Appropriate tax and national insurance deductions are made in accordance with HMRC regulations and there are no arrangements in place for the purpose of minimising tax payments.

3. Lowest Paid Employees

3.1 The lowest paid persons employed under a contract of employment with the council are employed on full time equivalent (37 hours) salaries in accordance with the minimum spinal column point currently in use within the council's grading structure (the Lancashire Pay Spine).

3.2 With effect from 1 April 2014 the council became a Foundation Living Wage employer. From 1 April 2024 all employees, with the exception of apprentices, will be paid a minimum of £12.00 per hour, which is the equivalent of £23,152 per annum. (This excludes staff in schools, as the decision as to whether to adopt the Foundation Living Wage sits with the individual Governing Body of each school). The council has committed to adjusting its Foundation Living Wage rate within six months of the national rate being updated, subject to Full Council approval.

3.3 As at 1 April 2024, the lowest pay level is an apprentice rate of £22,366 per annum. This applies to entry level apprentice posts and is currently aligned to Spinal Column Point 2 on the National Joint Council for Local Government Services' National Pay Spine, pending an alternative pay rate. The council's apprentice rate will be increased in line with the upper limit of the National Living Wage from 1 April 2024 onwards but as this rate is currently higher than the new government rate, effective from 1 April, this will be "red circled" for this year and increased in line with the National Living Wage from April 2025 onwards.

4. The relationship between the remuneration of Chief Officers and those employees who are not Chief Officers

4.1 The relationship between the rate of pay for the lowest paid and chief officers is determined by the job evaluation process used for establishing the grading of posts and grade profiles/job descriptions as set out earlier in this policy statement.

4.2 Local authorities are recommended to publish the pay multiple between the highest paid employee and the median average earnings across the organisation. The current pay levels within the council define the multiple between the average full time equivalent salary (excluding chief officer posts) and the Chief Executive as being:

Median average 1:9.26 (figures based upon 2023 median average FTE salary of £25,545 and Chief Executive salary of £231,180 plus the £5,300 lease car cash equivalent sum).

4.3 As part of its overall and ongoing monitoring of alignment with external pay markets, both within and outside the sector, the council will use available benchmark information as appropriate.

In addition, upon the annual review of this statement, the council will also monitor any changes in the relevant 'pay multiples' and benchmark against other comparable local authorities.

The council's policy aim is for the multiple between the median salary and that of the highest paid officer to not exceed 1:16 (currently 1:9.26 based on 2023 salary data).

5. Accountability and Decision Making

The Local Authorities (Functions and Responsibilities) (England) Regulations 2000 prescribe certain functions that may not be exercised by a local authority's executive (Cabinet or Cabinet Member) and includes the power to appoint staff and to determine the terms and conditions on which they hold office, including procedures for their dismissal. These functions must therefore be exercised by the Full Council or delegated by the Full Council to a committee or officer.

The Local Authorities (Standing Orders) (England) Regulations 2001 and Local Authorities (Standing Orders) (England) (Amendment) Regulations 2015 provide that the functions of dismissal of, and taking disciplinary action against, a member of staff must be discharged by the Head of the Paid Service (the Chief Executive) or an officer nominated by him/her. However, this provision does not apply to the posts identified in paragraph 2.1 above (chief officers) and the council's constitution currently provides that these functions in relation to the Chief Executive and some other senior posts are discharged on behalf of the Full Council by the Employment Committee (subject to the requirements set out in paragraph 2.9.1 and 2.9.2 above).

The Employment Committee was established by Full Council to discharge all functions in relation to the terms and conditions of employment of all staff, including chief officers.

Section 42 of the Localism Act 2011 provides that the function of approving an annual Pay Policy Statement may not be delegated to a committee, therefore the function of the Employment Committee in this regard is to recommend a Pay Policy Statement to Full Council for approval.

6. Re-employment / Re-engagement of former Chief Officers

6.1 The council in its role as administrator of the Lancashire Pension Fund has adopted a policy for scheme employers participating in the Lancashire Pension Fund regarding re-employment within local government or by an employer who offers membership of the Local Government Pension Scheme (LGPS). Under the policy only members in receipt of ill health pensions will be subject to abatement where, accounting for the effect of index linking, the aggregate of the pension and the earnings in the new employment exceed the rate of pay on leaving the first employment. However, any benefits built up from 1 April 2014 within the LGPS are unaffected by the effect of any re-employment.

The benefits are adjusted where the aggregate of the pension and the earnings in the new employment exceed the rate of pay on leaving the first employment.

6.2 In addition to the policy highlighted above, re-employed pensioners who have previously retired on redundancy or efficiency grounds before October 2006 and been awarded compensatory added years, are also subject to abatement. This abatement applies only to the benefits which are payable in relation to the added years awarded.

There is no discretion for the council as administrator of the Lancashire Pension Fund on whether or not they apply this particular abatement in respect of benefits payable as a result of the previous award of compensatory added years.

6.3 It is a condition of the council's redundancy procedure that employees wishing to apply for voluntary redundancy must agree in writing that they will not apply for future employment with the council for a period of three years following the date of the termination of their former employment.

6.4 The council will not re-engage as a chief officer under a contract for services any former employee of the council who, on ceasing employment with the council, was in receipt of a severance payment, a redundancy payment or a pension from the council for a period of three years following the date of the termination of their former employment.

7. Pension Contributions

7.1 Where employees become members of the Local Government Pension Scheme, the council is required to make a contribution to the scheme representing a percentage of the pensionable remuneration due under the contract of employment of that employee. The rate of contribution is set by Actuaries advising the Lancashire Pension Fund and reviewed on a triennial basis in order to ensure the scheme is appropriately funded. The rate effective from 1 April 2023 (set at 31 March 2023) is 16.3% and this rate is applicable for the full valuation period up to 31 March 2026. Although this is the certified rate, the council has exercised an option to pre-pay this contribution as a lump sum payment (there are no deficit payments for this valuation period).

7.2 The employee contribution rates for members of the Local Government Pension Scheme are reviewed on 1 April each year. The rates as effective from 1 April 2023 are as set out below:

Actual pensionable pay	Employee contribution rate
Up to £16,500	5.5%
£16,501 to £25,900	5.8%
£25,901 to £42,100	6.5%
£42,101 to £53,300	6.8%
£53,301 to £74,700	8.5%
£74,701 to £105,900	9.9%
£105,901 to £124,800	10.5%
£124,801 to £187,200	11.4%
£187,201 or more	12.5%

Teachers' Pension Scheme (applicable to those employees whose pay and conditions of service are determined by the Joint Negotiating Committee for Youth and Community Workers) – rates effective from 1 April 2023

Annual salary rate	Employee contribution rate
Up to £32,135.99	7.4%
£32,136 to £43,259.99	8.6%
£43,260 to £51,292.99	9.6%
£51,293 to £67,979.99	10.2%
£67,980 to £92,697.99	11.3%
£92,698 and above	11.7%

The current employer contribution rate, effective from 1 September 2019, is 23.68% of contributory pay (this includes the administration levy of 0.08%).

NHS Pension Scheme (applicable to those employees who are able to retain membership of the NHS Pension Scheme) – rates from 1 April 2023. The Department of Health and Social Care (DHSC) has introduced changes to the amounts that members pay towards their NHS pension. These are being phased in in two stages that started on 1 October 2022, with further changes planned for a future date.

Pensionable salary range from 1 April 2023	Contribution rates from 1 April 2023	Future planned contribution rates (based on actual annual pensionable pay)
Up to £13,246	5.1%	5.2%
£13,247 to £17,673	5.7%	6.5%
£17,674 to £24,022	6.1%	6.5%
£24,023 to £25,146	6.8%	6.5%
£25,147 to £29,635	7.7%	8.3%
£29,636 to £30,638	8.8%	8.3%
£30,639 to £45,996	9.8%	9.8%
£45,997 to £51,708	10%	10.7%
£51,709 to £58,972	11.6%	10.7%
£58,973 to £75,632	12.5%	12.5%
£75,633 and above	13.5%	12.5%

The current employer contribution rate is 20.6% (plus the employer levy of 0.08%), though employers in the scheme have continued to pay 14.38% (plus 0.08% employer levy) under a transitional arrangement in place for 2019/20 that continued in 2020/21, 2021/22 and 2022/23, and will continue again in 2023/24.

Annex K – Stakeholder Budget Consultation 2024/25

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

For the budget consultation, an email was sent out on behalf of the county council on 12 January 2024 seeking views on Cabinet's budget proposals for the coming financial year which were contained within the "Medium Term Financial Strategy Update 2024/25 – 2026/27" considered at the Cabinet meeting on 18 January 2024. A link was provided to the report which included savings proposals for the 2024/25 budget and proposed council tax and adult social care precept increases. The closing date for the consultation was 9 February 2024 and 4 responses have been received, with feedback provided on a small number of the savings proposals.

Consultation Response
3 respondents raised concerns about the proposed introduction of on street pay and display car parking across the county. Concerns were raised at the impact on local businesses and visitors to local areas and the impact on the economy. 2 of the respondents recognised that there would be a public consultation prior to the introduction of any new pay and display facilities and also that the County Council has already acknowledged the opposition to the implementation of this proposal from a number of district councils.

Officer Response
The county council has already reduced the level of saving to reflect a reduction in the scale of the proposal following recent conversations with a number of Lancashire Leaders and a commitment not to proceed in any district where the Council has expressed opposition. Conversations are ongoing with the remaining district councils and a Traffic Regulation Order process will include a statutory consultation process for the public with Cabinet then to make the final decision with regard to any new pay and display machines being introduced.

Consultation Response
3 respondents raised concerns regarding the proposal to make a saving of £150k in the cost of clearing vegetation from walking and cycling routes across Lancashire through the implementation of more effective and efficient working practices. The primary issue raised was at to whether the reduction would actually constitute a reduction in service provision.

Officer Response
The work undertaken funded from this budget is reactive in that it responds to requests from the public. The service is confident that the budget saving can be fully delivered though improving working practices with no reduction in service based on the continuation of the level of requests experienced in recent years.

Consultation Response
3 respondents raised concerns that the withdrawal of the £1 concessionary travel fare option for those with a disabled person's NoWcard, English National Concessionary

travel pass, who travel by bus before 9.30 Monday to Friday would discourage residents using public transport across Lancashire.

Officer Response
The Council, following the approval of the joint Bus Service Improvement Plan, is, in partnership with bus operators, investing significantly in the bus network and infrastructure to support bus travel throughout the county to the benefit of all residents. The Council will undertake a specific consultation exercise on this proposal with the outcome reported back to a future cabinet meeting for a final decision to be made regarding its implementation.

Consultation Response
2 respondents raised concerns about the impact on young people getting in to work, education or training through the withdrawal of the Young Persons Travel scheme. The scheme is not well used, and its removal will release resources that will be reassigned to support other services delivering school transport and Bus Service Improvement Plan objectives.

Officer Response
The scheme is not well used, and its removal will release resources that will be reassigned to support other services delivering school transport. The Council, following the approval of the joint Bus Service Improvement Plan, is, in partnership with bus operators, investing significantly in the bus network and infrastructure to support bus travel throughout the county to the benefit of all residents. The council will undertake a specific consultation exercise on this proposal with the outcome reported back to a future cabinet meeting for a final decision to be made regarding its implementation.

Consultation Response
2 respondents raised concerns about the impact of the adult social care savings proposals on service users choice and the quality of their care. Both respondents also requested a full equality impact assessment being undertaken of all relevant proposals.

Officer Response
An equality impact assessment has been produced for all relevant proposals and are provided via the link in the budget report. Any charges made to a service user are made on the basis of their ability to pay which is identified through the offer and completion of a detailed financial assessment. The proposed charges are in line with those in place in most other councils.

Consultation Response
2 respondents welcomed the proposal to innovate in the collection and treatment of food waste through the anaerobic digestion proposal through the installation and modification of facilities at Farington Waste Recovery Park. 1 of the respondents raised a concern regarding an increase in cost to the district council of collecting food waste and that some of the saving should help offset this cost.

Officer Response
The positive response to the proposal is welcomed. In terms of the collection costs, the government has committed to meet the 'full cost' of any food waste collections so district councils should not need assistance with collection costs. This includes

transitional funding being provided from the 2024/25 financial year and ongoing resource/revenue costs will be provided from 1 April 2026 to all waste collection authorities, including those that have already fully implemented a food waste collection service.

In addition, disposal authorities are not receiving any additional funding and the county council is investing heavily to realise the benefits. The material recovery facility (MURF) also requires more investment as other recycling requirements come into force as a result of the Environment Act which will make recycling simpler, and more economical, for collection authorities with fewer containers to collect.

Consultation Response
A respondent did not want the proposal to introduce pay and display machine at Lancaster Park and Ride to be proceed due to the potential impact on sustainable transport in the district.

Officer Response
The proposal is in line with arrangements in place at other Park and Rides.

Officers therefore recommend no change to the budget as proposed to Full Council.