FINANCIAL STRATEGY AND BUDGET PROPOSALS 2025/26

Preston City Council

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Section 1: Introduction Financial Strategy

1. The Council's Financial Strategy provides the strategic financial framework for managing the Council's finances, assisting in the long-term financial planning and resourcing of the Council's new Corporate Priorities, delivering a robust budget for 2025/26 and ensuring long term financial sustainability. Members should note that this document is the initial version of the financial strategy and mainly includes key financial data. Once the Corporate Plan and new vision and corporate priorities are approved, future versions of this document will include greater narrative on priority spending areas and set out budgets available for each along with capital spending plans in the specific corporate priority area.

2. During 2024/25 the Council has been formulating its new Vision and Corporate Priorities and a new Corporate Plan will be presented to Members in Spring 2025. Previously, the information on corporate priorities has been combined with the financial strategy as one document 'Achieving Preston's Priorities', moving forward this will now be two separate documents. The strategy documents will be intrinsically linked as the financial strategy will play a key role in providing Members with the necessary financial information needed when formulating and prioritising plans for resourcing its new corporate priorities. Initial Cabinet budget proposals for 2025/26 budget based on the new draft corporate priorities are included in the Budget Proposals section of this document. The Budget Working Group will continue to meet throughout 2025. Following formal approval of the new corporate plan at Council this document will be updated to reflect the new priority spending areas and how these link to the financial forecast and capital.

3. The Government recently announced plans for local government devolution and reorganisation. In a white paper, the government has said it wants to devolve more powers from national to local government and to reorganise local government across England by replacing county and district councils, consolidating the services they provide, with unitary authorities. There are 14 local government districts in Lancashire, twelve are part of the two-tier county of Lancashire (Lancashire County Council and the Districts Burnley, Chorley, Fylde, Hyndburn, Lancaster, Pendle, Preston, Ribble Valley, Rossendale, South Ribble, West Lancashire and Wyre) and two are unitary authorities (Blackpool and Blackburn with Darwen). The Government agreed a County Deal for Lancashire in 2024 but no formal decision has yet been made on the arrangements for the reorganisation into unitaries. Therefore the financial forecast and strategy is based on the Council continuing on an ongoing basis until more formalised arrangements are known.

4. This document contains the Five Year Revenue Financial Forecast 2024/25 to 2028/29, Capital Strategy including five-year Capital Programme, Treasury Management Strategy including prudential indicators, Investment Strategy and Minimum Revenue Provision (MRP) Strategy, Reserves position and key financial risks for the Council.

5. The key influences in formulating the update to the financial strategy are:

Table 1: Key Influences on Financial Strategy

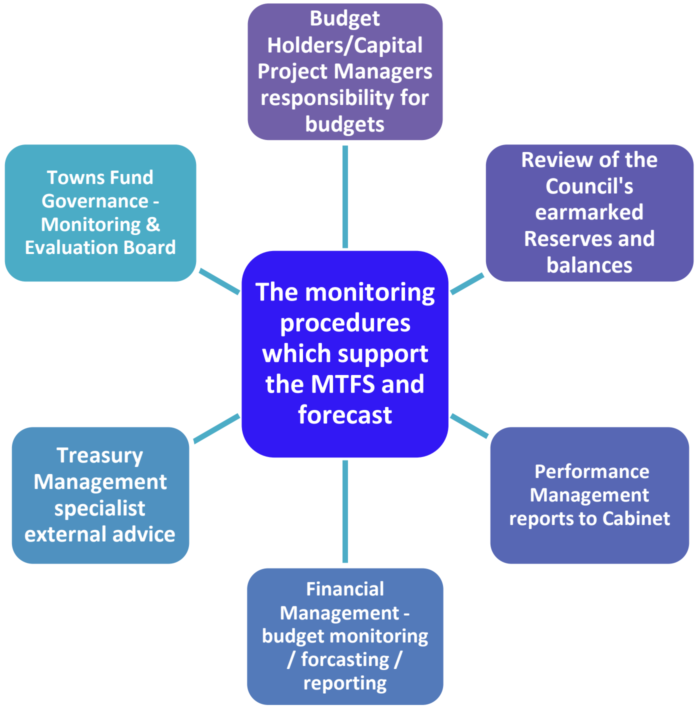
6. The Council reviews all key financial assumptions on an on-going basis and identifies whether there are any material changes which need to be incorporated. These may include changes in assumptions made, either as a direct result of changes in external factors, economic climate, legislation or decisions made locally.

7. Set out in the financial strategy is the general fund revenue forecast. It builds on the platform of the previous strategy. The longer-term view of the Council's financial position enables the Council to effectively forward plan.

8. The Council reviews its finances over a longer financial period for major development plans, the vehicle replacement programme, the core and major asset management plan, long-term investment and borrowing decisions and individual business case decisions. A full review of the Councils operational assets has been carried out and proposals for capital spend included as budget proposals. A number of the Councils new corporate priorities will require feasibility studies and business cases. Expert external professional advice is sought when required.

9. The financial strategy is supported by a number of monitoring procedures to ensure the basis for formulating estimates are up to date and reflect all current factors such as changes in levels of fees and charges, increases in costs etc.

Chart 1: The monitoring procedures which support the MTFS and forecast



10. Additional Governance arrangements have been put in place for Towns Fund, Levelling Up and UKSPF Government funding. This includes boards such as the Monitoring and Evaluation Board which is tasked with monitoring the major Towns Funds schemes and has both internal and external representatives and reports to the Towns Fund Board. These arrangements are in addition to the Councils financial procedure rules. The performance framework will set out the latest performance indicators linking to strategic priorities

11. A new Performance Framework will be published alongside the new Corporate Plan. Performance Management reports have been published for quarter 2 in 2025/26

12. New Place data performance indicators have been published alongside the Service Operational performance indicators.

13. **Performance Management** is a key part of strategy planning of the Council of which finance plays a key role. The following arrangements are now in place for the new performance framework. A document setting out these governance arrangements will be presented the same time as the Corporate Plan.

The Council will be presenting the new draft Corporate Plan and Corporate Priorities to Members in Spring 2025. These have been formulated with Members through priority planning sessions. These will form the key framework for how the Council will deliver services in 2025/26 and the following years.

The purpose of a performance framework is to clearly understand and report (internally and publicly) how well public bodies are operating and progressing towards the achievement of their agreed priorities and objectives. That applies for both for the place (where there is shared ownership between the council and partners) and the council specifically as the lead place shaping partner and its duties under Best Value.

The tiered approach is:

- **PLACE.**

  - **Place dashboard**. Update on the 'plan for Preston'. Long-term socio-economic outcomes. Reported at Corporate Management Team (CMT), Cabinet, Scrutiny and Anchor Partnership as a shared dashboard.

- **COUNCIL**.

  - **Corporate dashboard**. Progress against the new Corporate Plan and the core measures of local government (e.g. former Oflog). Short-term / medium-term process and output measures. How the council is running at present. Regular reporting to CMT, and some in public to Cabinet and Scrutiny (alongside the place dashboard).
  - **Service dashboards**. The relevant information for that service that is also in the above (i.e. services direct responsibilities). Plus, additional service specific information for internal monitoring.

All Directorates complete **Service Delivery Plans**. The Service Delivery Plans contain performance indicators and key work areas. The key work areas will include links to the new corporate priorities once these are formally approved.

Quarter 2 Performance data has been reported Cabinet to during December 2024. Quarter 3 performance is soon to be published. The Monitoring and Evaluation group meet review the performance on the Towns Fund major projects. The Council also has performance management arrangements in place for the UKSPF schemes and Levelling Up scheme. The full Performance Framework document setting out more details on all the arrangements in place will be published at the same time as the Corporate Plan.

Section 2: The Provisional Local Government Finance Settlement 2025/26

1. On 19 December 2024, the Government published the provisional Local Government Finance Settlement for 2025/26. The announcement included funding for 2025/26 only. The Government have announced they are aiming for a multi-year settlement for 2026/27 with hopefully more details being published during Summer 2025. The final Local Government Finance Settlement 2025/26 announcement is expected early February.

2. The Finance Settlement report sets out the level of Government funding the Council can retain through nondomestic business rates income or can receive in grants such as Revenue Support Grant(RSG), New Homes Bonus and Recovery grant. Recovery Grant is a new grant being introduced for 2025/26 which targets money towards areas with greater need and demand for services (as proxied by deprivation), and less ability to raise income locally (specifically, council tax). There are a number of discontinued grants which the Council has received in 2024/25 which are not continuing in 2025/26 – namely the Services grant and Minimum Funding Guarantee. The Rural Services grant has also been removed however the Council has never received a share of this funding.

3. The Local Government Finance Settlement sets out the Core Spending Power (CSP) for each Authority. Core spending power is a measure of the resources available to local authorities to fund service delivery. This measures the core revenue funding available for local authority services through the local government finance settlement, including Revenue Support Grant, locally retained business rates and council tax. The full time series of CSP contains other grants that have now either been discontinued, rolled into RSG, or merged into other grants.

4. The financial forecast has been updated to reflect the provisional settlement figures. In the event the final settlement figures are different from provisional the financial forecast will be updated to reflect the change. Estimates are included for Government funding levels from 2026/27 onwards as these are currently unknown. To assist Members in understanding the impact on changes to future Government grant allocations a number of scenarios have been produced to assess the sensitivity to change on the financial forecast.

5. The Government have published **Council Tax referendum principles** for 2025/26. These allow district Councils to increase Council Tax by up to 3% in 2025/26. This means if the Council sets a Council Tax of 3% or above it would have to hold a referendum to agree the increase. These principles do not include Parish Councils.

6. The Cabinet proposals include a **2.99% Council Tax increase** for 2025/26: a new Band D charge of £364.45. This is within the Council Tax referendum principles limit of 3%.

7. The Government have published **New Homes Bonus allocations** (NHB) for 2025/26. The New Homes Bonus is a grant paid by central government to local councils to reflect housing growth in their areas. The allocation for 2025/26 is a one-year only payment of £2.136m. The Government have indicated 2025/26 will be the final allocation.

8. The Council has been paying over its New Homes Bonus into the City Deal since 2014. This was towards funding infrastructure as part of the City Deal agreement with Government, Lancashire County Council, South Ribble Council and Homes England. During 2024 the Council has entered into a revised agreement which has changed some of the main financing principles such as NHB being retained by the Council in 2024/25 and 2025/26 instead of being paid over to the City Deal, and developer contributions paid over to the City Deal for an extended period. The forecast has been updated to reflect this change.

9. The Government have introduced a new recovery grant for 2025/26 The Recovery Grant allocates funding to local authorities with a greater share of 'need' than share of 'resource' where:
   - 'Need' is based on deprivation and population
   - 'Resource' is based on council tax base

   An allocation is made for upper tier services and lower tier services based on these variables. In the Provision Finance Settlement the Council has been allocated £743k for Recovery Grant Funding.

10. The Government have announced funding to compensate Councils for the increase National Insurance Contributions and draft methodology has been published. Base on the draft methodology the Council has estimated there will be a shortfall in compensation and costs will not be fully covered by the funding by approximately £271k p.a. The forecast has been adjusted to reflect this cost. In the event the final allocation is different from the estimate, say if the Government use a different methodology for the final settlement, then the forecast will be updated accordingly.

Section 3: Cabinet Budget Proposals for 2025/26 including Growth Proposals

1. The Cabinet have put forward the following budget strategy in working towards setting the 2025/26 Budget and Council Tax:

- **Council Tax Increase** – it is proposed to increase Council Tax in **2025/26** by **2.99%.**

Growth Proposals

Table 2: Cabinet Growth Proposals

	Key Area	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	Adv (A)/ Fav (F)	Directorate	Description
	Growing City							
i	Championing Preston and City Centre Regeneration	25	25	0	0	(A)	Development & Housing	Promoting Preston as a City to invest in
ii	Devolution Policy post	70	70	70	70	(A)	Chief Executive	New policy post with involvement in local government reorganisation
	Creative, Safe, Liveable City							
iii	Housing Standards Officer post	50	50	50	50	(A)	Development & Housing	Improving housing standards in private rented sector
iv	Selective licensing (consultants)	125	125	0	0	(A)	Development & Housing	Improving housing standards in private rented sector

Growth Proposals continued

	Key Area	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	Adv (A)/ Fav (F)	Directorate	Description
v	Waste enforcement officer	57	57	57	57	(A)	Environment & Property	Tackling littering and flytipping and providing information to increase recycling rates and cleaner streets
vi	Street Cleansing/Flytipping	83	83	83	83	(A)	Environment & Property	Increasing the marketing and education to Preston residents to increase recycling rates and cleaner streets
vii	Increasing CCTV in the Preston Area	56	56	56	56	(A)	Community & Wellbeing	Installation of 14 CCTV cameras and ongoing monitoring arrangements to increase safety in the Preston area
viii	Planning Enforcement Compliance Team Leader	62	62	62	62	(A)	Development & Housing	Appointment of an Enforcement Compliance Team Leader to increase enforcement on empty properties in the City
ix	Parks play strategy	0	25	50	50	(A)	Community & Wellbeing	Spending £250k per annum on Play Areas in the Preston Area 2025/26 to 2028/29. This represents the borrowing costs.
x	Telephone boxes art installation	80	0	0	0	(A)	Community & Wellbeing	Installation of digital art work in the newly renovated red telephone boxes to enhance the cultural offer in the Harris Quarter of the City Centre

Growth Proposals continued

	Key Area	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	Adv (A)/ Fav (F)	Directorate	Description
xi	Preston Weekender	25	0	0	0	(A)	Community & Wellbeing	Contribution to the Preston Weekender to enhance the events offer and achieve greater numbers attending
xii	Arts & Cultural Investment	50	50	0	0	(A)	Community & Wellbeing	Contribution to enhance the arts and cultural offer for Preston and increase footfall into the City
	Healthy, Inclusive City							
xiii	New Health Officer - re-purpose residual leisure budget	0	0	0	0		Community & Wellbeing	Re-purpose residual leisure funding in order to appoint a new Health Officer who will target health inequalities in the City
xiv	Proposed increase to Cemetery opening hours	40	40	40	40	(A)	Community & Wellbeing	Extension to Cemetery opening hours
xv	Women's safety	40	0	0	0	(A)	Community & Wellbeing	£40k contribution to the Red Umbrella project run by Changing Futures to support women at risk of being sexually exploited
xvi	DFG Officer Post	50	50	0	0	(A)	Development & Housing	Increase in officer support to reduce the average number of days to process Disabled Facilities Grants
xvii	Cosy Homes In Lancashire Post	50	50	0	0	(A)	Development & Housing	Additional officer support to maximise investment in Preston and ensure residents stay warm and well

Growth Proposals continued

	Key Area	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	Adv (A)/ Fav (F)	Directorate	Description
	Sustainable City							
xviii	Decarbonisation	50	0	0	0	(A)	Chief Executive	Contribution to fund feasibility studies on decarbonisation schemes
xix	Extended producer responsibility £1.2m	0	0	0	0		Environment & Property	Defra funding to implement food waste collection and increase recycling
	Enabling Council							
xx	Capacity - Legal/Finance/Property	50	50	50	50	(A)	Resources	Increased capacity to support departments working on corporate priorities
xxi	GIS Infrastructure	70	70	70	70	(A)	Community & Wellbeing	Maximising the use of GIS system to improve data intelligence
xxii	Mayoralty	25	25	25	25	(A)	Resources	Increased budget allocation for the Mayor when carrying out mayoralty duties.
		1,058	**888**	**613**	**613**			

Contribution to and from Earmarked Reserves

1. **Contribution to the Guild 2032** – At Budget Council February 2023 the Council agreed to contribute an annual 0.5% increase of council tax each year to set aside funds towards the next Preston Guild 2032.

Capital Proposals

1. The Budget Proposals for 2025/26 include capital spending on new draft corporate priorities. These include £250k per annum for Play Areas and installation of additional CCTV in the Preston area. The new Play Strategy will set out plans for spend on Play Equipment in the Preston Area and target deprived areas. The proposals also include schemes which have been identified as Health & Safety capital works following a full review of Councils operational assets. Further work will continue during 2025 when Budget Working Group meet to target resourcing the New Corporate Priority Areas. This will include the long term future of the Guild Hall and Leisure provision in the Preston area. Any major capital spending areas will require a feasibility studies/full business cases. Further details on capital spending are included later in this document within the Capital Strategy and Five Year Capital Programme section.

Stakeholder Consultation

1. Cabinet carries out stakeholder consultations on the proposals including raising Council Tax by 2.99%. The results of the consultation will be provided to Members at the Budget Council meeting.

2. Proposals are subject to an Equality Impact Assessment (EIA). The EIAs consider the effect on people within all the equality strands in relation to the wider community; and, if and how one group is disproportionately disadvantaged by the savings and growth in relation to other groups.

Resourcing the New Corporate Plan and Corporate Priorities

1. The Budget Working Group will be meeting throughout 2025 to formulate plans for resourcing the new Corporate Priorities and Council services. This will involve prioritising spending, feasibility studies, business cases and reviewing existing budget spend. Future consultation will be carried out on new proposals or changes to existing services. Further updates will be included in the Financial Strategy document planned for October 2025.

Section 4: Medium Term Financial Strategy

Latest Five Year General Fund Revenue Forecast

1. The General Fund Revenue Forecast includes the budget for the day-to-day running costs associated with the delivery of the Council's services. The Council agreed the original 2024/25 Revenue Budget and set a Council Tax increase of 2.99% at the Budget Council meeting in February 2024. The forecast at that time showed general fund reserves being used over the life of the forecast and a saving requirement of £1.1m per annum from 2025/26. The Council maintains a £1.1m minimum working balance in the General Fund.

2. The Council reviews key financial assumptions on an on-going basis and identifies material changes. Currently the Council only receives annual Government funding allocations for one year only which makes it difficult to estimate with any certainty. The Government have announced they are aiming for a multi settlement from 2026/27 onwards.

3. The forecast has been updated to reflect the underspend position in 2023/24, slippage of budget from 2023/24 into 2024/25, funding from Government and other organisations and in-year budget decisions made by Members. The latest estimated position is included in the table below:

Table 3: Estimated Revenue Budget 2024/25

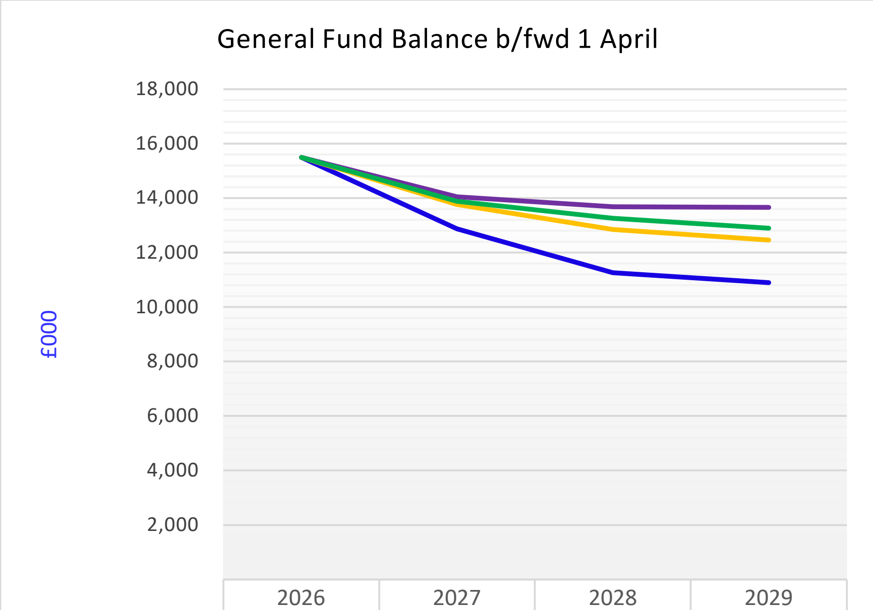
Revenue Budget:	2024/25 £m
Original Budget: set at Budget Council February 2024	**24,725**
Impact of 2023/24 Outturn (slippage of budget into 2024/25)	**2,263**
Other forecast issues included in this update	**-6,598**
Latest Estimate: Revenue Budget 2024/25	**20,390**

4. The Council has embedded financial monitoring procedures and processes. This includes the operational budget process procedures including budget plans, budget timetables, guidance and briefing notes to Directors and budget holders. These arrangements assist in effective budget planning and as a result this financial forecast has been updated with latest financial projections and the Cabinet budget proposals for 2025/26.

5. The financial forecast approved at Budget Council February 2024 showed a savings requirement from 2025/26 onwards. Since that time the Council has signed a revised City Deal agreement which means the Council retains New Home Bonus for 2024/25 onwards (£2.043m in 2024/25 & £2.136m in 2025/26) which would otherwise have been paid over to the City Deal. The Council will also receive capital contributions of £3.25m for the Animate scheme and £1m for the re-imagining the Harris Scheme in 2024/25. Along with these changes the salary estimates have been reduced based on the actual 2024/25 pay claim agreed with the Unions which was lower than estimate. The favourable changes have improved the financial forecast position.

6. Forecast scenarios have been produced to review the impact and sensitivity of changes in Local Government funding from 2026/27 and timing of long-term borrowing from 2026/27 onwards. Each scenario produces different results:

Chart 2: Scenarios Finance Forecast future assumptions



	2026	2027	2028	2029
Scenario i	15,492	12,875	11,262	10,895
Scenario ii	15,492	13763	12842	12465
Scenario iii	15,492	14040	13681	13660
Scenario iv	15,492	13875	13262.1	12895

Scenarios:

i. Removal of New Homes Bonus from 2026/27 and Government funding reducing but limited to floor, £1m savings requirement 2028/28 delay savings until the final year of the financial forecast. Assumes £1m savings from 2028/29 needed, nine times the level of General Fund minimum reserves £1.1m remaining.

ii. Government funding levels at the same level as 2025/26, long-term borrowing from 2026/27 onwards. Assumes £0.5m savings target from 2028/29. Eleven times the level of General Fund minimum reserves £1.1m remaining

iii. Government funding levels including inflationary increase 2026/27 onwards, long term borrowing from 2026/27 onwards. No savings required. Twelve times the level of General Fund minimum reserves £1.1m remaining

iv. Government funding as per scenario i, delay to long term borrowing. Eleven times the level of General Fund minimum reserves £1.1m remaining

7. Since 2020 the Council has been underspending against budgets mainly due to slippage but also due to capacity in services which have had difficulties recruiting staff and services which had backlogs from the pandemic. We have also benefited from one-off additional treasury investment income returns due to high interest rates and which has delayed external borrowing requirements. This has resulted in the Council's reserves increasing over the last five years. Furthermore, the additional £4.179m of income from retained New Home Bonus due to the new City Deal Agreement, means the Council is forecast to further add to reserves in 2024/25 and 2025/26. Therefore, the Council is using reserves set aside from the underspends and additional income to fund the shortfall in 2026/27 and 2027/28 while the Council recruits to the professional positions and is ensuring all outstanding tasks/work is performing against set targets.

General Fund Forecast Assumptions

The following table set out the assumptions used in formulating the updated General Fund budget and medium term financial forecast

Table 4: Revenue Budget Assumptions

Key Area	Assumption	Comment
Slippage of budgets	£2.263m in 2024/25, some funded schemes rephased into 2025/26	Underspend from 2023/24 agreed by Cabinet (July 2024) slipped into 2024/25. Funded budgets rephased into 2025/26 in this forecast to reflect phasing of spend
Pay Related changes:		
Pay Award	£1,290/2.5% for 2024/25 2.5% for 2025/26 then 2% annually	The pay award is £1,290/2.5% on each salary point for 2024/25 then 2.5% in 2025/26, 2% in 2026/27 and 2% p.a. thereafter. For information, an additional 1% pay award increase equates to c£235k per annum.
Employers Pension Contribution	Currently includes 12.8% pa.	Figures included as per the outcome of the 2022 Triennial Review which covers 2023/24 to 2025/26.
Employer National Insurance Contributions	Employer's standard rate of 13.8% for 2024/25 and 15.0% for 20256/26 onwards	The average employer's percentage for the Council is 10% in 2024/25 and 12% in 2025/26 onwards.
Vacancy Savings	£450k per annum	Estimated savings from vacant posts. £450k pa ongoing based on current vacancy rate.
General Price Inflation/Cost increases or reductions		
Insurance / Audit / Fuel / Utilities / Building maintenance and loss of planning fee income	As per forecast actual cost	Changes relating to one-off or multi-year cost increases due to inflation, additional demand, and variable pricing such as external audit fees and insurance, building costs, or due to reduction of income. And changes relating to reductions in costs on items such as fuel and utilities, and due to reductions in demand.
Funding Assumptions		
Government Grant Support	2024/25- 2025/06 Local Government Settlement figures 2026/27 onwards figures estimated	2024/24 & 2025/26 (provisional) based on Local Government Finance Settlement published figures. Future figures based on estimates.
Council Tax Increase	2.99%	The increase set for 2024/25 was 2.99%. This council tax principles remain the same for District Councils in that they may increase the council tax up to 3% for 2025/26.
New Homes Bonus Grant	One-off allocation for 2024/25 One-off allocation for 2025/26	The income receivable in 2024/25 from New Homes Bonus reflects the Government's allocations as announced February 2024 and for 2025/26 reflects the provisional allocation announced in December 2024.
Fees and Charges	Various	The 2025/26 Fees and Charges are in the process of being reviewed by the Cabinet Members. Increases to fees and charges are agreed by Cabinet Members annually in line with delegations.
Treasury Management & Capital Borrowing	Various	Minimum Revenue Provision (MRP) and interest included in revenue budget for the cost of borrowing on relevant Capital Programme schemes

Latest General Fund Forecast Changes

The following table sets out a summary of the changes in the medium term financial forecast since the forecast agreed at Budget Council in February 2024.

Table 5: Latest General Fund Forecast Changes

	Key Area	2024/25 £000		2025/26 £000		2026/27 £000		2027/28 £000		2028/29 £000		Adv (A)/ Fav (F)
	Impact of Outturn 2023/24 and forecast extension											
i	Slippage from 2023/24	2,263		0		0		0		0		**(A)**
ii	2028/29 Forecast Extension - Salaries	0		0		0		0		470		
	Other unavoidable spending pressures & changes to assumptions											
iii	Pay related changes	79		708		708		708		708		**(A)**
iv	Inflation and cost pressures	1,702		904		829		872		915		**(A)**
v	Cost reductions, volume changes	-456		-279		-170		-170		-170		**(F)**
vi	Impact of Fees & Charges review	-85		-365		-365		-365		-365		**(F)**
vii	Major regeneration schemes	3,645		147		147		147		147		**(A)**
viii	Rephasing & project slippage	-1,613		1,613		0		0		0		
ix	Reports brought or to be brought to Members since February 2024	204		129		408		373		373		**(A)**
x	Technical adjustment, release of contingency, other minor adjustments	-257		-5		-21		-65		-65		**(F)**
xi	Treasury Management	-1,488		-1,470		0		0		0		**(F)**
xii	MRP and interest payable rephasing	-277		-1,306		249		1,033		1,153		**(F)**
xiii	Changes in contributions to/from Earmarked Reserves	-6,009		-1,782		-1,297		-1,765		-1,765		**(F)**
xiv	New City Deal agreement - retention of New Homes Bonus	-2,043		0		0		0		0		**(F)**
	Total	**-4,335**	**(F)**	**-1,706**	**(F)**	**488**	**(A)**	**768**	**(A)**	**1,401**	**(A)**	

The following notes relate to the adjustments made to the medium term financial forecast

Table 6: Notes on the Latest General Fund Forecast Changes

	Key Area	Comment
	Impact of Outturn 2023/2024 and forecast extension	
i	Slippage from 2023/2024	Slippage of £2.263m relating to underspends in 2023/24.
ii	2028/29 Forecast Extension - Salaries	The impact of adding a year to the financial forecast
	Other unavoidable spending pressures & changes to assumptions	
iii	Pay related changes	The 2024/25 national local government pay award negotiations was finalised at £1,290 increase on all salary scales up SCP 43 then a fixed percentage of 2.5% for salary points above. Increase from base 2% assumption to 2.5% for 2025/26. A decrease in the costs of discretionary pensions payments due to an increase in mortality rates. The cost of the employers NI increase from 13.8% to 15%, plus banding changes.
iv	Inflation and cost pressures	Changes relating to one-off or multi-year cost increases due to inflation additional demand and variable pricing such as external audit fees, insurance, or reduction of income such as planning fee income.
v	Cost reductions and volume changes	Changes relating to one-off or multi-year cost reductions such as contract renegotiations, variable pricing changes on items such as fuel and utilities, and reductions in demand.
vi	Impact of Fees and Charges review	Various minor changes to fees and charges budgeted income. Increases to fees and charges are agreed by Cabinet Members annually in line with delegations.
vii	Major regeneration schemes	The revenue impact of major city centre regeneration schemes such as the Animate leisure complex.
viii	Rephasing & project slippage	Rephasing of 2024/25 budgets to future years where projects have been delayed
ix	Reports brought or to be brought to Members since February 2024	The impact of various reports brought to members during 2024/25 since the budget was approved in February 2024.
x	Technical adjustment, release of contingency, & other minor adjustments	Various budget adjustments including technical accounting changes, corrections to budgets, and release of contingency amounts not required
xi	Treasury Management	Increase in investment income returns due to increase in interest rates set by the Bank of England. Future budgets reduced as the Council has forecast to use cash balances and reserves by later in the forecast.
xii	Interest payable and MRP re-phasing	Re-phasing of interest and MRP budgets due to the update to the capital programme
xiii	Change in contributions to/from Earmarked Reserves	Use of Earmarked Reserves to fund income losses and additional expenditure, or contributions to Earmarked Reserves to fund future expenditure commitments
xiv	New City Deal arrangement – retention of New Homes Bonus	Retention of the New Homes Bonus under the renegotiated City Deal agreement finalised in October 2024.

Cabinet Budget Proposals and Medium Term Financial Forecast February 2025

Table 7: Cabinet Budget Proposals and Medium Term Financial Forecast February 2025

	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	Adv (A)/ Fav (F)
Forecast agreed February 2024*	24,576	25,927	26,384	26,261	26,261	
Forecast Changes	- 4,335	- 1,706	488	768	1,401	**(A)**
Savings Proposals						
Growth Proposals		1,058	888	613	613	**(A)**
Contribution to Guild Reserve	149	248	338	442	555	**(A)**
Savings Requirement					- 1,000	**(F)**
Total Expenditure	**20,390**	**25,527**	**28,098**	**28,084**	**27,830**	
Financed by:						
Services Grant	39					
Minimum Funding Guarantee	486					
Recovery Grant		743	743	743	743	
Revenue Support Grant	226	256	264	272	280	
Business Rates Baseline Funding	6,019	6,086	6,269	6,457	6,651	
New Homes Bonus	2,043	2,136				
Funding Floor/LG Finance Funding Review			1,057	1,057	1,057	
Compensation Grant for NI Increase		246	246	246	246	
Council Tax	14,916	16,535	16,902	17,697	18,485	
	23,729	**26,002**	**25,481**	**26,472**	**27,462**	
Call on Reserves	**- 3,339**	**- 475**	**2,617**	**1,612**	**368**	
General Fund Reserves						
Balance of Reserves b/f	11,678	15,017	15,492	12,875	11,262	
Less transfer to/(-)from reserves to Revenue in Year	3,339	475	- 2,617	- 1,612	- 368	
Year End Balance	**15,017**	**15,492**	**12,875**	**11,262**	**10,895**	
Band D Council Tax	**£353.87**	**£364.45**	**£375.34**	**£386.56**	**£398.11**	
Council Tax Increase	**2.99%**	**2.99%**	**2.99%**	**2.99%**	**2.99%**	

*Adjusted for previously calculated Contribution to Guild Reserve in February 2024

Section 5: Statement on Reserves

1. The Council holds a General Fund Reserve and a number of Earmarked Reserves and Provisions. These are held for various purposes: -

Table 8: General Fund Reserve and Earmarked Reserves and Provisions

General Fund Reserve	Earmarked Reserves and Provisions
• A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing • As a contingency to cushion the impact of unexpected events or emergencies	• Monies set aside for future events or liabilities
Balance 31 March 2024: **£11.678m**	Balance 31 March 2024: **£33.006m**

The following table forecasts the year end balances of General Fund and Earmarked Reserves based on the forecast usage in the medium term financial forecast

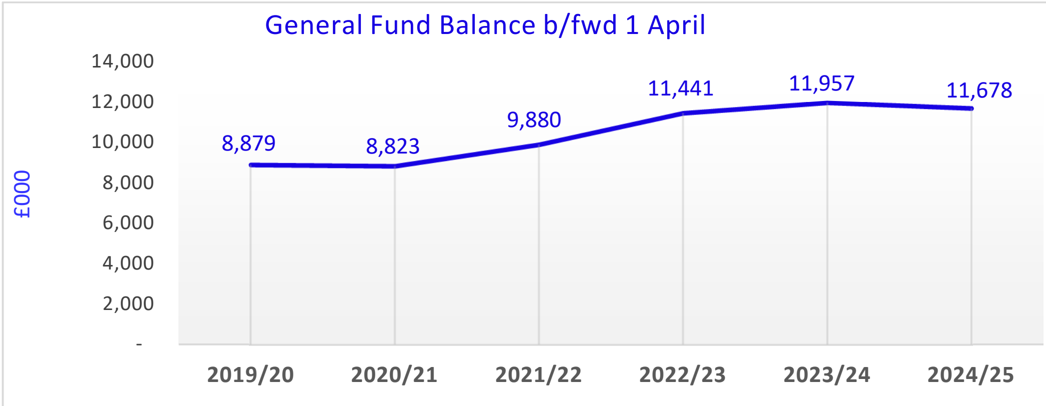
Table 9: General Fund Reserve and Earmarked Reserves Forecast

Category	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m	2028/29 Forecast £m
Specific Risks	7.501	7.699	9.158	10.659	12.161
Planned future revenue & capital spending	17.669	16.224	14.698	12.736	10.774
Estimated unallocated reserves (General Fund Reserve)	15.017	15.492	12.875	11.262	10.895
Other earmarked reserves	1.218	1.466	1.804	2.246	2.801
Estimated Expenditure	**41.406**	**40.881**	**38.535**	**36.904**	**36.631**

2. The Cabinet Member for Resources is updated with the Reserves and Balances position. In line with the policy the current level of balance sheet provisions and earmarked reserves will be reviewed to take into consideration any proposed call on the reserves during this financial year. It is proposed that the budgeted transfer in 2024/25 to the NNDR compensation for under indexation does not go to the NNDR Equalisation Reserve in 2024/25 as a review of the reserve has been undertaken and is sufficient to fund the fluctuations accounting for the NNDR. As in previous years the Vehicle Replacement Reserve is being used to fund repair costs and short term hire as a result of the age of vehicles. Future use of this reserve is shown within the forecast to cover the MRP charged to revenue relating to the purchase of vehicles in line with the main intention of this reserve to fund the vehicle replacement programme.

3. In recent years the Council has underspent and has been able to transfer to reserves In line with previous agreed budget proposals the Council has been using available reserves to enable a managed phased programme of savings and a balanced forecast. Other earmarked reserves may be used to (i) act as a contingency if the savings targets are not achieved; and (ii) be used for any significant one-off costs arising from the budget plan.

Chart 3: Showing the General Fund Balance since 2019/20



4. In line the current financial strategy, the Council is proposing release of specific ear-marked reserves which have previously had approval such as release of reserves to fund vehicle borrowing costs, use of reserves towards Animate regeneration scheme, use of reserves to fund legal and insurance fees.

Section 6: Annual Accounts and External Audit

1. The Section 151 Officer signed off the 2023/24 accounts by the statutory deadline of 31st May 2024 and authorised them for issue. The deadline for signing of the Accounts was 30th September 2024. However, the Government published 'The Accounts and Audit (Amendment) Regulations 2024' on 5 September 2024 amending the 'The Accounts and Audit Regulations 2015 in response to the high level of Local Authorities with outstanding audits. Authorities with outstanding audits for the financial years 2015/16 to 2022/23 had to publish the final accounts and statements by 13th December 2024. The deadline for publication for the financial years 2023/24 to 2027/28 are as follows:

Table 10: Audit Backstop Dates

Relevant Date beginning	Date
2023	"28th February 2025"
2024	"27th February 2026"
2025	"31st January 2027"
2026	"30th November 2027"
2027	"30th November 2028".

As at 9th January only 9% of District Councils had an unmodified opinion and completion of their audited 2023/24 accounts. The Councils accounts for 2023/24 are to be presented for approval at the 11th February Audit Committee. Subject to Grant Thornton presenting an unmodified opinion and Audit Committee approving the Annual Accounts, the Council will achieve the backstop deadline of 28th February 2025. On approval by Audit Committee the accounts will be signed by the S151 Officer and Chair of Audit Committee for publications. Measures are already in place to ensure more timely responses to audit queries for the 2024/25 accounts. A cloud-based system for Asset Management is currently being implemented along with segregation of duties for valuation work and earlier valuation meetings.

2. As part of the Audit, Grant Thornton is required to report a Value for Money and financial resilience conclusion. The Value for Money conclusion for 2023/24 will be reported at the same meeting of the Annual Accounts 2023/24, 11th February 2025. The Value for Money conclusion for 2023/24 sets out an unqualified opinion however it includes VFM recommendations which Corporate Management Team are implementing.

Section 7: The Preston, South Ribble and Lancashire City Deal

1. The Preston, South Ribble and Lancashire City Deal was signed by partners – the Lancashire Local Enterprise Partnership, Preston City Council, South Ribble Borough Council, Lancashire County Council and Government in September 2013. The original City Deal was a 10 year Deal with a 5 year run-on period

2 To deliver the City Deal, partners established an infrastructure delivery and investment programme worth £430m over the lifetime of the Deal. The purpose of the City Deal is to cash flow the infrastructure required to unlock housing and commercial growth envisaged by Central Lancashire's local development plan and the funding will be recovered through developer contributions / New Homes Bonus / Business Rates. The programme facilitates a significant commercial development (more than 20,000 net new private sector jobs) and housing (approximately 17,400 homes); this includes four highway schemes and local community infrastructure required to support the scale of such ambitious development. As set out in the programme, a fundamental review of the City Deal has been undertaken and discussions are still ongoing.

3. The City Deal Infrastructure Delivery Programme (IDP) has been funded through pooled local and national private and public sector resources. This includes Community Infrastructure Levy (CIL), section106 contributions, local major transport schemes, Homes and Communities Agency land receipts, New Homes Bonus, business rates, local authority capital programme resources and land receipts. Lancashire County Council are the accountable body and project manage the schemes, take responsibility for the cash flow of the overall plan, and ultimately have the majority of the financial risk.

7. As the programme progressed, the likelihood of housing delivery not meeting the original forecasts became apparent and key infrastructure projects were reaching detail design stage and projecting higher outturn costs, than the budget allocations earmarked for the projects at the outset of the original deal. In response to the risks, the City Deal Executive commissioned a review with the aim of restructuring the programme to ensure its long-term viability. In light of the ongoing forecast position at that time, a pause on spend on non-essential activity was also introduced in March 2020 to limit any further risk to the programme.

City Deal Continuation

8. In April 2024 the City Deal Executive & Stewardship agreed a revised deal and the heads of terms was signed in October 2024. The revised deal includes a financially balanced deal with planned expenditure (cash flowed by LCC as accountable body) equating to the forecast income from partners and achievable within timescales that are considered to be appropriate to the ability of each partner to achieve their respective funding level.

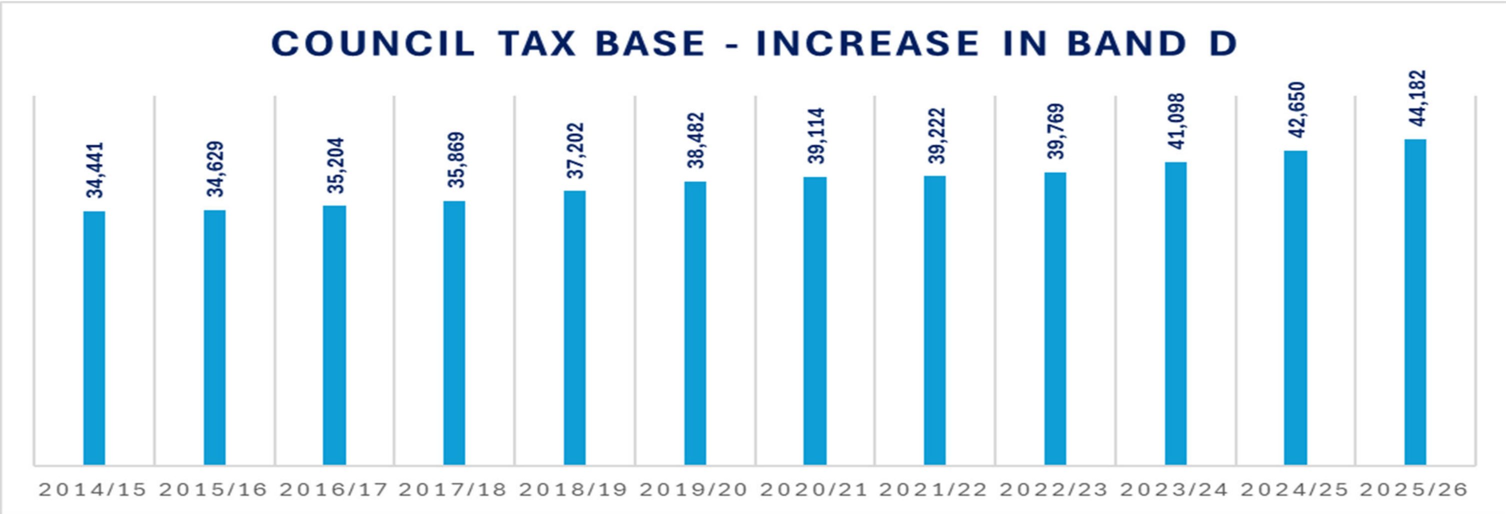
9. The revised deal includes all the completed projects in Preston and South Ribble (see diagram on next page) ongoing costs such as monitoring, landscape and ecology management, land acquisition and compensation payments on completed and ongoing schemes. The main schemes included in the revised deal include:
   - A capital contribution of £3.25m towards the Animate Preston Cinema and Leisure Scheme.

• A capital contribution of £1m towards the Harris Library Scheme.
• A capital contribution of up to £10m towards the North West Preston Linear Park Project.
• Delivery of a focused A582/Lancashire Central highway corridor scheme including enhanced sustainable transport measures in South Ribble.

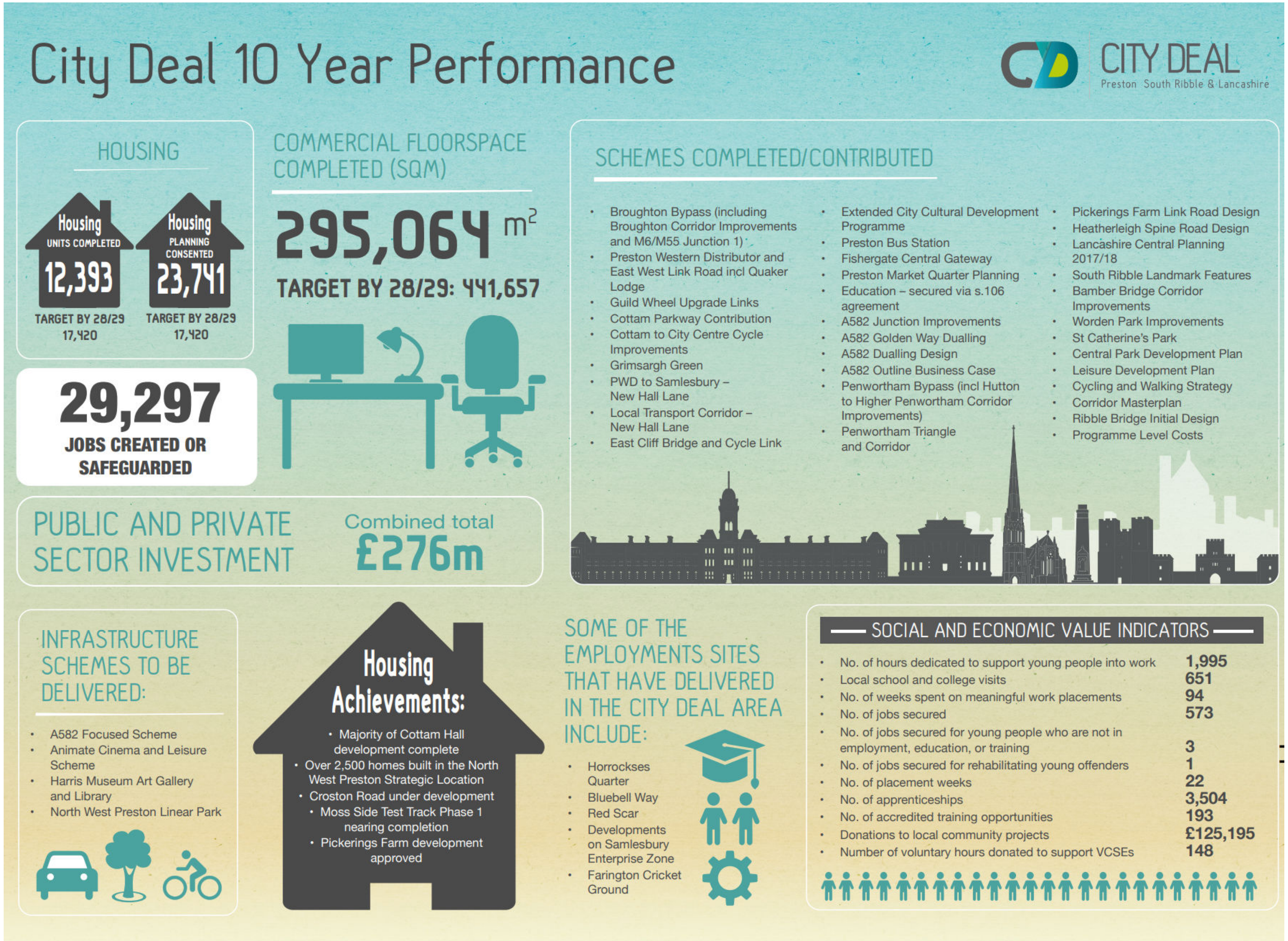
10. Under the revised deal the Council pays over additional developer contributions for a longer period of time and retains New Homes Bonus which was previously paid over to the City Deal. The forecast has been updated to reflect New Homes Bonus income of £2.043m in 2024/25 and £2.136m in 2025/26.

11. There has been a significant increase in housing growth in the Preston area as a result of the road infrastructure in North West Preston financed from the City Deal. This increase brings in additional council tax resources for the council and assists in financing the Councils priorities. The are costs associated with the additional housing such as waste collection and council tax administration however the additional resource outweighs the costs. Under the original agreement the Council received community provision allocation which was set aside in a reserve to be brought into the financial forecast in line with house building.

Chart 4: Increase in Band D Council Tax Base used as a base for setting the Council Tax Requirement



12. The following diagram shows the performance to date of the City Deal


City Deal 10 Year Performance
CITY DEAL
Preston South Ribble & Lancashire
HOUSING
Housing UNITS COMPLETED 12,393
TARGET BY 28/29 17,420
Housing PLANNING CONSENTED 23,741
TARGET BY 28/29 17,420
COMMERCIAL FLOORSPACE COMPLETED (SQM)
295,064 m2
TARGET BY 28/29: 441,657
29,297
JOBS CREATED OR SAFEGUARDED
PUBLIC AND PRIVATE SECTOR INVESTMENT
Combined total
£276m
SCHEMES COMPLETED/CONTRIBUTED
• Broughton Bypass (including Broughton Corridor Improvements and M6/M55 Junction 1)
• Preston Western Distributor and East West Link Road incl Quaker Lodge
• Guild Wheel Upgrade Links
• Cottam Parkway Contribution
• Cottam to City Centre Cycle Improvements
• Grimsargh Green
• PWD to Samlesbury – New Hall Lane
• Local Transport Corridor – New Hall Lane
• East Cliff Bridge and Cycle Link
• Extended City Cultural Development Programme
• Preston Bus Station
• Fishergate Central Gateway
• Preston Market Quarter Planning
• Education – secured via s.106 agreement
• A582 Junction Improvements
• A582 Golden Way Dualling
• A582 Dualling Design
• A582 Outline Business Case
• Penwortham Bypass (incl Hutton to Higher Penwortham Corridor Improvements)
• Penwortham Triangle and Corridor
• Pickerings Farm Link Road Design
• Heatherleigh Spine Road Design
• Lancashire Central Planning 2017/18
• South Ribble Landmark Features
• Bamber Bridge Corridor Improvements
• Worden Park Improvements
• St Catherine's Park
• Central Park Development Plan
• Leisure Development Plan
• Cycling and Walking Strategy
• Corridor Masterplan
• Ribble Bridge Initial Design
• Programme Level Costs
INFRASTRUCTURE SCHEMES TO BE DELIVERED:
• A582 Focused Scheme
• Animate Cinema and Leisure Scheme
• Harris Museum Art Gallery and Library
• North West Preston Linear Park
Housing Achievements:
• Majority of Cottam Hall development complete
• Over 2,500 homes built in the North West Preston Strategic Location
• Croston Road under development
• Moss Side Test Track Phase 1 nearing completion
• Pickerings Farm development approved
SOME OF THE EMPLOYMENTS SITES THAT HAVE DELIVERED IN THE CITY DEAL AREA INCLUDE:
• Horrockses Quarter
• Bluebell Way
• Red Scar
• Developments on Samlesbury Enterprise Zone
• Farington Cricket Ground
SOCIAL AND ECONOMIC VALUE INDICATORS
• No. of hours dedicated to support young people into work 1,995
• Local school and college visits 651
• No. of weeks spent on meaningful work placements 94
• No. of jobs secured 573
• No. of jobs secured for young people who are not in employment, education, or training 3
• No. of jobs secured for rehabilitating young offenders 1
• No. of placement weeks 22
• No. of apprenticeships 3,504
• No. of accredited training opportunities 193
• Donations to local community projects £125,195
• Number of voluntary hours donated to support VCSEs 148

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Section 8: Collection Fund Overview and Update

1. The Council as Billing Authority is responsible for billing and collection of Council Tax and National Non-Domestic Rates (NNDR) in the Preston Area. This includes maintaining a separate fund (the Collection Fund) for the collection and distribution of amounts due, and making subsequent payments to the Council's General Fund, the County Council, Police and Crime Commissioner and Fire and Rescue precept authorities and Central Government. The fund records transactions for billing, exemptions and discounts granted, provision for bad debts and appeals.

Council Tax

1. The accumulated deficit on the Collection Fund for Council Tax as at 31 March 2024 was £0.598m. This deficit is being shared between the Council (15%), Lancashire County Council (70%), the Police and Crime Commissioner (11%) and the Fire and Rescue Authority (4%). The City Council's share of the Council Tax deficit is £0.096m. This deficit has reduced from the previous year due to an in year surplus in 2023/24, predominantly due to more properties being available to pay Council Tax than expected.

2. Surpluses and deficits are distributed in the following year based on estimates calculated in January. The balance is expected to be a surplus as at 31 March 2025 of £2.822m. This is mainly due to an increase in the properties available to pay Council Tax during the year at higher rate than expected. The surplus estimated in January 2025 will be shared out between the Council and precepting authorities during 2025/26. The Council's share of the forecast surplus is £0.434m.

Business Rates (NNDR)

1. Under the Business Rates Retention Scheme the Council retains a 40% share of its NNDR. The remaining income is shared between Central Government (50%), the County Council (9%) and the Fire and Rescue Authority (1%). The Council is not part of any Business Rates Pool for 2024/25 or 2025/26.

2. As at 31 March 2024 there was an accumulated surplus on the Collection Fund for NNDR of £1.628m. The surplus is being shared between the City Council, the County Council, the Fire and Rescue Authority and Central Government in 2024/25 and 2025/26. The City Council's share of the surplus is £0.651m. Section 31 Government Grant is received by the Council to compensate for the new NNDR reliefs the Council is statutorily obliged to grant, but this accounted for outside the Collection Fund.

3. The forecast for 2024/25 is an in-year deficit of £1.066m but due to the surplus brough forward, the forecast year-end Collection Fund balance for NNDR is a surplus of £0.494m. The Council's share of the surplus is £0.198m and this will be shared between the preceptors during 2025/26 and 2026/27.

4. Funding is being set aside in an earmarked reserve to smooth peaks and troughs over the life of the forecast.

Collection Rates (Council Tax and NNDR)

5. One of the key financial risk areas for the Council is current collection rates for Council tax. The collection rates are being closely monitored by the Council due to the in-year collection rates being lower than pre-Covid. A review of the in-year collection rates was carried out previously which identified the following main reasons for the change:

   a. There has been a significantly high level of housebuilding in the North West Preston area. This takes additional staffing resource to process changes and time to put in place direct debits and payment arrangements or deal with claims for exemptions and discounts.
   b. The collection rate for residents claiming council tax support are significantly lower than those who are not.
   c. During the previous year there had been turnover of experienced staff some as a result of retirements.

Table 11: Year End Collection Rates Council Tax and NNDR

Year End Collection Rates		
	Council Tax	**Business Rates**
	%	**%**
2023/24	90.2	95.7
2022/23	90.8	94.8
2021/22	90.3	94.3
2020/21	90.2	90.5
2019/20	92.9	95.2
2018/19	93.6	95.6

The Assistant Director has been putting in place proactive measures to improve collection rates such as:
- Additional staffing resource is being put in place to concentrate on collection rates,
- Target recovery of outstanding debt and review reasons for non-payment to enable support for those residents in financial difficulty.
- More electronic ways of working
- Process automation and integrations

Members have approved a decision at the December 2024 Council meeting to amend the localised council tax support scheme for 2025/26 which would allow an up to 100% maximum award. This should improve the overall collection rate.

5. The Council has written off a number of business rates debts over the last financial year. These are mainly due to closure of the businesses. Whilst measures are in place to collect debts using the Councils debt collection procedures, external legal advisors, or debt collection organisations, if the company has ceased trading or filed for bankruptcy there is no route to collect the outstanding debt. The Council will also proactively challenge NNDR avoidance schemes.

6. The Council is remaining out of the Lancashire Business Rates pool in 2024/25 and 2025/26. This is based on the reduced protection (i.e. no individual safety net) of the Lancashire Business rates pool.

Section 9: The Capital Strategy Report 2025/26 and Five-Year Capital Programme

1. Introduction

The Capital Strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

Decisions made this year on capital and treasury management will have financial consequences for the Council for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

2. Capital Expenditure and Financing

Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £20,000 are not capitalised and are charged to revenue in year.

In 2025/26, the Council is planning capital expenditure of £45.843m as summarised in Table 1.

Table 12: Prudential Indicator: Estimates of Capital Expenditure:

Summary	2024/25 Forecast £m	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m	2028/29 Budget £m	Total £m
Schemes in progress	21.092	30.044	4.625	1.680	1.680	59.121
Harris Quarter Cinema and Leisure Scheme (Animate)	12.361	1.006	-	-	-	13.367
Schemes Awaiting Approval	1.432	4.337	0.555	0.220	-	6.544
New Schemes Awaiting Business Case	0.500	8.576	-	-	-	9.076
Cabinet Budget Proposals	-	1.880	3.055	2.435	0.300	7.670
Estimated Expenditure	**35.385**	**45.843**	**8.235**	**4.335**	**1.980**	**95.778**

The table above usually highlights planned capital spend in relation to the Council's key priorities. The new draft Corporate Plan is still to be approved and is planned to be presented to Full Council in Spring 2025. Following approval, the financial strategy and capital programme will be updated to reflect capital and revenue spend for each of the new priority areas.

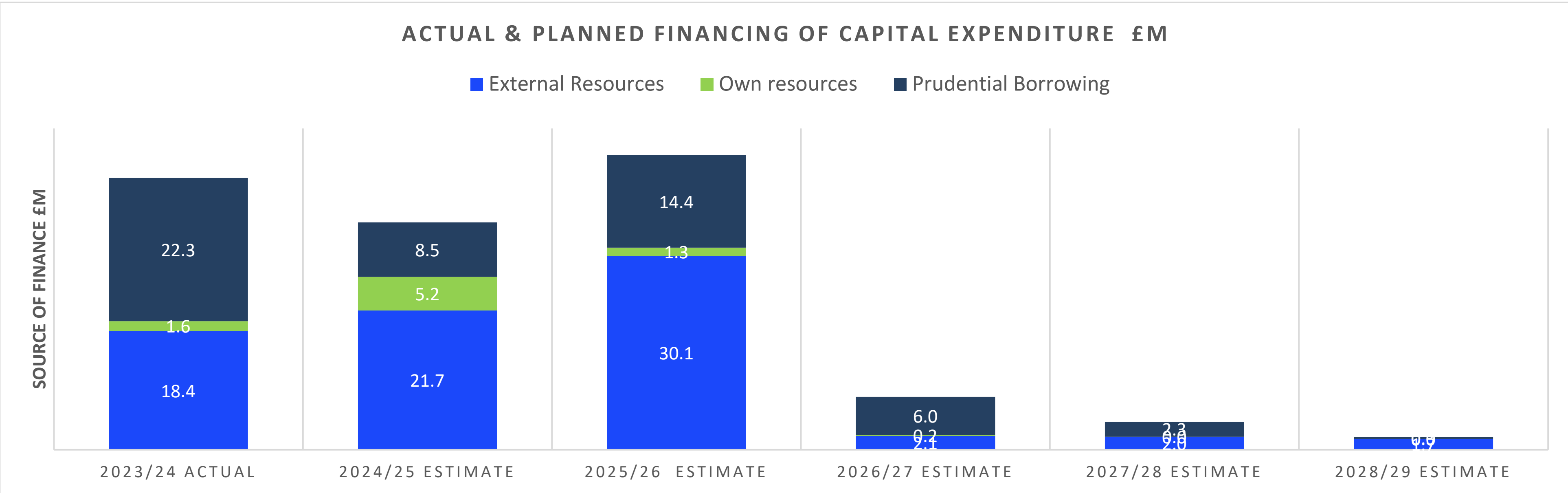
Governance: A strategic review of the Capital Programme including a review of the Council's investment assets and operational assets is carried out annually. The reviews take into consideration works identified from stock condition surveys especially those highlighted as health and safety works. In addition Members consider new capital spending on key corporate priority areas. The Budget Working Group consisting of Cabinet Members, backbenches and Corporate Management Team appraise proposals based on a comparison of strategic priorities against financing costs. The final capital programme is then presented along with the Cabinet budget proposals in early February and to Council in early March each year. The Budget Working group will be continuing reviewing future capital spending on the new corporate priority areas during 2025. Two areas, Parks play areas and CCTV have been included within the 2025/26 capital budget proposals.

During 2024/25, in addition to work commitments on the major investment schemes such as the Towns Fund programme, Levelling Up the Budget Working Group have considered new capital requirements which are included below as capital growth additions:

The capital budget growth proposals are show within the last section of the capital programme within this document.

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves, and capital receipts) or debt (borrowing or leasing). The planned financing of the expenditure in Table 1 is as follows:

Chart 5: Capital Financing



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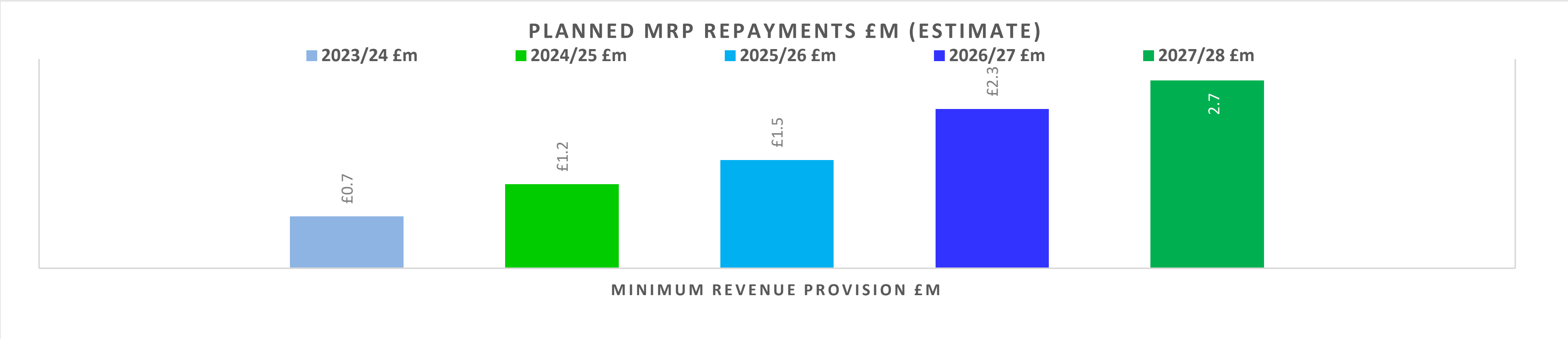
Prudential Borrowing is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP). Planned MRP repayments are as follows.

Chart 6: Repayment of Debt Finance

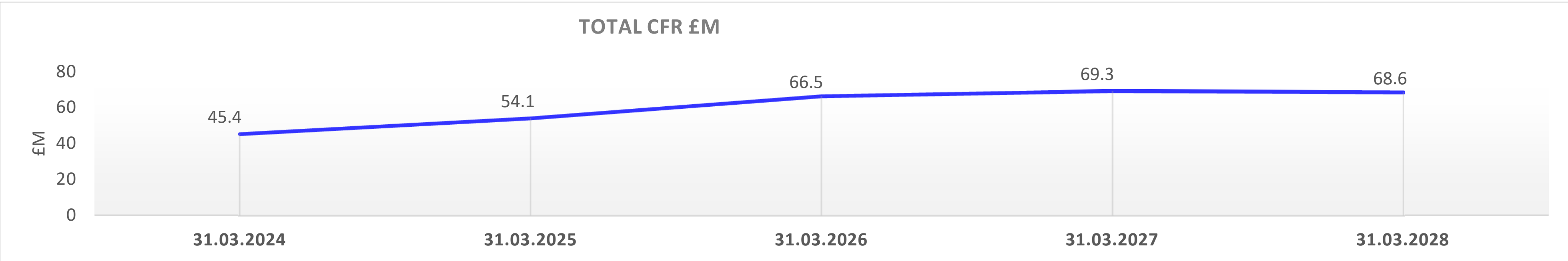


The overall trend of MRP is increasing due to the cost of financing the Capital Programme.

- The Council's Minimum Revenue Provision statement is available in within this document.

The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Chart 7: Estimates of Capital Financing Requirement



The CFR increases significantly each year until 2027 due to capital expenditure on projects that are financed by Prudential Borrowing e.g. vehicles and Amounderness House.

Asset management: To ensure that capital assets continue to be of long-term use, the Council has an asset management strategy.

A review of the future capital requirements of the council's investment and operational assets has recently been carried out and updates made to the capital programme. Further work is planned during 2025 to review the Investment Properties long term requirements along with regeneration and development opportunities and the future of the Guild Hall.

Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is also permitted to spend capital receipts on service transformation projects until 2025/26. The Council plans to receive £0.893m of capital receipts in the coming financial year as follows:

Table 12: Capital Receipts

	2023/24 Actual £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	Total Estimate £m
Asset sales	0.377	0.838	0.743	0.000	1.315
Right to Buy Receipts	0.535	0.150	0.150	0.150	2.100
TOTAL	**0.912**	**0.988**	**0.893**	**0.150**	**3.415**

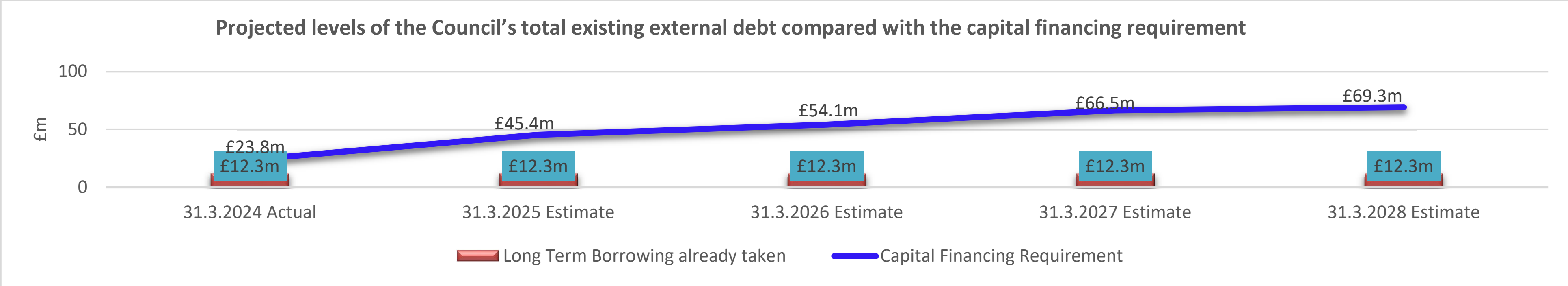
- Further details of financing from capital receipts are included within the capital programme section.
- The Council has formally agreed to the flexible use of capital receipts however there are no specific plans to use capital receipts to fund efficiency plan revenue expenditure in the budget's forecasts.
- The Council previously agreed to review sale opportunities to obtain a higher level of capital receipts thereby reducing the borrowing requirement. However, capital receipts are also being achieved from restructuring existing leases. Further work will be carried out on reviewing strategic assets as part of the work being undertook during 2025 on resourcing the Councils new corporate priorities once the new Corporate Plan has been approved.

3. Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account.

- **Borrowing strategy:** The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. Due to decisions taken in the past, the Council currently has £12.3m borrowing at an average interest rate of 4.8%.
- The Council does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board.
- Projected levels of the Council's total outstanding debt are shown below, compared with the capital financing requirement.

Chart 8: Actual Debt and the Capital Financing Requirement



Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term and the Council expects to comply with this in the medium term.

Liability Benchmark: a liability benchmark has been calculated showing the lowest risk level of borrowing. This is a key baseline for assessing the appropriate volume and maturity of borrowing to take. The Liability Benchmark assumes that cash and investment balances are kept to a minimum level of £10M at year end.

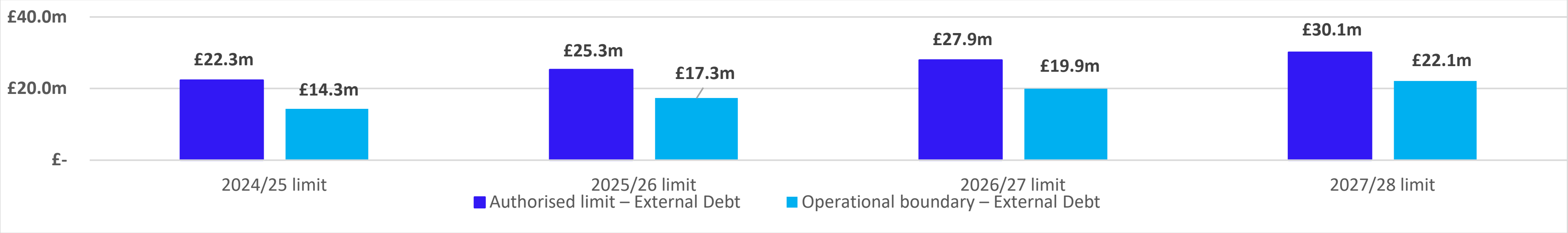
Table 13: Liability Benchmark

	31.03.2024 Actual £m	31.03.2025 Estimate £m	31.03.2026 Estimate £m	31.03.2027 Estimate £m	31.03.2028 Estimate £m
Liability Benchmark	(22.6)	(7.6)	13.2	17.9	20.2

The Table shows that the Council may need borrowing of up to £13.2m from 2025/26 (Nb. £12.3m of this borrowing already taken.)

Affordable borrowing limit: The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set and is based on the Council's estimate of most likely but not worst-case scenario and should equate to the maximum level of external debt projected by this estimate.

Chart 9: Prudential Indicators: Authorised limit and Operational Boundary for External Debt

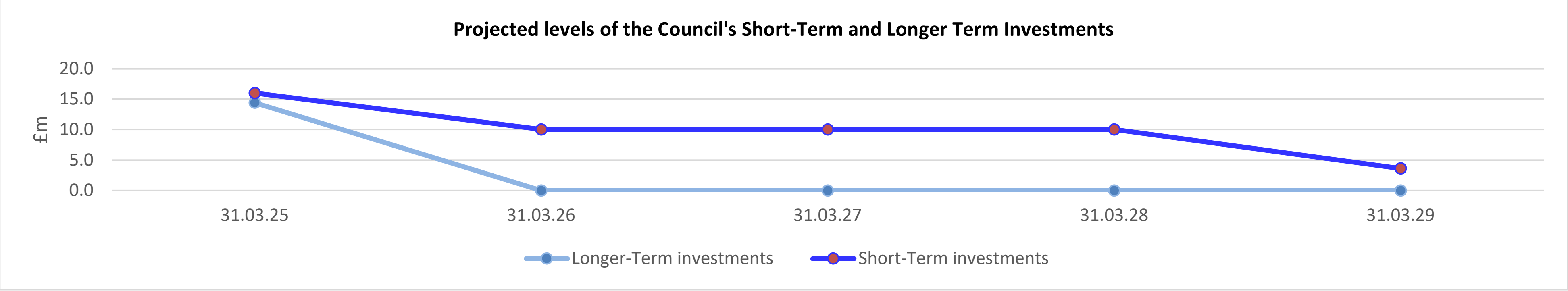


Further details on borrowing are in the treasury management strategy within this document.

Treasury Investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Council's policy on treasury investments is to prioritise security and liquidity over yield in that order with an ethical approach. That is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy, and the Council may request its money back at short notice.

Chart 10: Treasury Management Investments



Further details on treasury investments and the treasury management prudential indicators are in the Treasury Management Strategy section within this document.

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Section 151 Officer (Director of Resources) who must act in line with the treasury management strategy approved by Council. Quarterly reports on treasury management activity are presented to the Cabinet Member for Resources and summary to Cabinet. The Audit Committee is responsible for scrutinising treasury management.

4. Investments for Service Purposes

The Council may make investments to assist local public services, including making loans to local service providers and small businesses to promote economic growth. Total investments for service purposes are currently valued at £0.15m in the form of a loan for a local music venue.

Governance: Decisions on service investments are made by the relevant service manager in consultation with the Director of Resources and must meet the criteria and limits laid down in the investment fund strategy and the Director of Resources will ensure that adequate due diligence is carried out before an investment is made. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme.

5. Commercial Activities

The Council invests in commercial property for the aim of regeneration of the Preston Area. Whilst carrying out investment for regeneration purpose the Council will always seek to achieve value for money and safeguard future investment returns financial gain in order to minimise the charges to Council Taxpayers. The commercial investments are currently valued at £45.4m and providing a net return after all costs of 4.42%.

With regeneration being the main objective, the Council accepts higher risk on commercial investment than with treasury investments. The principal risk exposures include increased vacancies and potential fall in capital values. These risks are managed by the Property Services team monitoring and actively seeking to lease vacant premises and effective monitoring of performance of investment portfolio including reports to the Cabinet Member for Resources. A programme of works is underway to undertake rent reviews and identify surplus areas of land and freeholds to maximise the rental returns and achieve future capital receipts along with regeneration opportunities all within the Preston area.

Governance: Decisions relating to capital expenditure for all purposes, including for the acquisition of property assets, are made in accordance with the Financial Regulations of the Council, this requiring the approval of Full Council/Cabinet or Cabinet Member for Resources as appropriate. The Director of Resources is responsible for ensuring that adequate due diligence is carried out before an investment is made. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme.

- Further details on commercial investments and limits on their use are in the Investment Strategy section within this document.

6. Liabilities

In addition to debt of £12.3m detailed above, the Council has set aside £2.7m (as at 31st March 2024) in a Business Rates Appeal Provision to cover risks arising from the costs of Business Rates appeals as a consequence of the transference of such risks under the localisation of business rates arrangements introduced in 2013. The Council is also committed to making future payments to cover its pension fund deficit (valued at £5.5m 31st March 2024).

Governance: Decisions on incurring new discretional liabilities are taken in consultation with the Section 151 Officer (Director of Resources). Further details on liabilities and guarantees are on pages 87 to 88 of the 2023/24 unaudited statement of accounts see Statement of Accounts - Preston City Council.

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e., the amount funded from Council Tax, business rates and general government grants.

Table 14: Prudential Indicator: Proportion of Financing Costs to Net Revenue Stream

		2023/24 Actual	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
Financing costs (£m)		1.4	1.8	2.5	5.0	5.3
Proportion of net revenue stream		6.0%	7.7%	9.5%	19.7%	20.0%

- Further details on the revenue implications of capital expenditure are included within the Capital Programme on the following page.

Sustainability: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years may extend for up to 50 years into the future. The Director of Resources is satisfied that the proposed capital programme is prudent, affordable, and sustainable.

8. Knowledge and Skills

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Director of Resources (Section 151 Officer) is a qualified accountant with over 30 years of Local Government experience and the Deputy Section 151 Officer has 25 years of Local Government experience. The Council pays for accountancy staff to study towards relevant professional accountancy qualifications and the staff within the treasury team, whom are all qualified accountants, attend treasury seminars and workshops provided by CIPFA and other external service providers. Training is provided to Councillors as part of the financial management training delivered by the Director of Resources and more detailed treasury management training to Councillors on the Audit Committee by treasury management advisors Arlingclose Limited.

The Councils appoints external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers, Jones Lang LeSalle (JLL) as property consultants on the Animate development scheme. This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills.

Five Year Capital Programme

Table 15: Capital Financing Statement

	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	Total 2024/25 - 2028/29 £'000
Estimated Expenditure						
Schemes in Progress	21,092	30,044	4,625	1,680	1,680	59,121
Harris Quarter Cinema and Leisure Scheme (Animate)	12,361	1,006				13,367
Schemes Awaiting Approval	1,432	4,337	555	220		6,544
Schemes Awaiting Business Case	500	8,576				9,076
Cabinet Budget Proposals		1,880	3,055	2,435	300	7,670
Total Capital Payments	**35,385**	**45,843**	**8,235**	**4,335**	**1,980**	**95,778**
Estimated Resources						
Direct Revenue Finance	460	97				557
Disabled Facilities Grant	1,833	1,680	1,680	1,680	1,680	8,553
Towns Fund	3,072	7,350				10,422
Levelling Up Funding	4,649	12,268	24			16,941
UKSPF	783					783
Other External Finance	8,816	6,697	350	350		16,213
Community Infrastructure Levy	2,524	2,123	64			4,711
Prudential Borrowing	3,861	11,943	3,359	2,305	300	21,768
Prudential Borrowing - Animate	4,635	391				5,026
Prudential Borrowing - Vehicle Replacement		2,057	2,608			4,665
Reserves	3,764	344				4,108
Capital Receipts	988	893	150			2,031
Total Resources	**35,385**	**45,843**	**8,235**	**4,335**	**1,980**	**95,778**

Table 16: Programme 2024/25 to 2028/29

Scheme Cost Centre	Schemes in Progress	Key	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	Total 2024/25 - 2028/29 £'000	Directorate
	PCC Schemes								
2103	Harris Museum & Library - Internal Works			12				12	Community & Wellbeing
2137	General Car Park Repairs Ph 2			6				6	Environment & Property
2143	Town Hall - Window Replacement				199			199	Environment & Property
2149	Miller Park Offices - Rebuilding of WC & Mess Room			77				77	Environment & Property
2151	Core & Major Assets Review 2019/20 to 2022/23		25	312	50			387	Environment & Property
2153	City Centre Asset Management		89					89	Environment & Property
2158	Argyll St. Depot - Concrete repairs		325					325	Environment & Property
2159	Grand Hall and Charter Theatre Preparatory Works		125					125	Environment & Property
2160	Visual Surveillance		200					200	Community & Wellbeing
3219	Traffic Management Schemes			55				55	Environment & Property
3220	Rough Hey Road			150				150	Environment & Property
3236	The Guild Wheel			25				25	Environment & Property
3238	Riversway Lock Gates		19					19	Environment & Property
3239	Riversway Crane Repairs		14	211				225	Environment & Property
5651	Alleygating		16					16	Community & Wellbeing
5952	Making Homes From Houses		231	410				641	Development & Housing
7302	Corporate Geographical Information System (GIS)	**ICT**	14					14	Community & Wellbeing
7320	Civica Property Management System		64					64	Environment & Property
7947	Grange Farm Essential Repairs		7					7	Environment & Property
7948	Mete House Farm building improvements			98				98	Environment & Property
7952	City Centre Investment Fund			120				120	Environment & Property
7961	COVID Recovery / Climate Change Schemes			260				260	Resources
7967	Music Venue Loan		150					150	Resource
7969	Riversway Managed Workshops - Roof Works		462					462	Environment & Property
8317	Vehicle Replacement Scheme 2022 to 2026			2,057	2,608			4,665	Environment & Property
	Total PCC schemes		**1,741**	**3,793**	**2,857**	**-**	**-**	**8,391**	

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Scheme Cost Centre	Schemes in Progress	Key	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	Total 2023/24 - 2027/28 £'000	Directorate
	Schemes funded wholly/partly by External Finance or Government Grants								
2157	Leighton St. Traveller Site Improvements		10					10	Environment & Property
3221	Grimsargh Cycle Route			353				353	Environment & Property
5930	Disabled Facilities Grants		1,833	1,680	1,680	1,680	1,680	8,553	Development & Housing
5953	Lancs Affordable Warmth Grant		151					151	Development & Housing
6342	Re-Imagining the Harris - Delivery Ph 1	**TF**	4,426	157				4,583	Community & Wellbeing
6343	Re-Imagining the Harris - Ph 2 Towns Fund	**TF**	750	38				788	Community & Wellbeing
6344	Re-imagining the Harris Ph 4 External Masonry Work		204					204	Community & Wellbeing
6345	Re-Imagining the Harris Ph 5 Special Exhibition		159					159	Community & Wellbeing
6346	Re-Imagining the Harris - Additional works	**TF**	1,339	28				1,367	Community & Wellbeing
6347	Harris Changing Places Facility		60					60	Community & Wellbeing
6348	Re-imagining the Harris Delivery Programme Extension/Underwrite		0					0	Community & Wellbeing
6354	Re-Imagining the Harris Ph 3 2nd Floor Galleries		153	7				160	Community & Wellbeing
6350	Preston Youth Zone (approved interim costs)	**TF**	150	3,682				3,832	Environment & Property
6351	Renewal of Harris Quarter Assets/Amounderness Hse	**TF**	437					437	Development & Housing
6352	Harris Quarter Cinema and Leisure Scheme (Animate)	**TF**	12,361	1,006				13,367	Development & Housing
6353	Illuminate & Integrate	**TF**	1,111	1,100				2,211	Development & Housing
6355	Towns Fund Programme Management	**TF**	74	85				159	Development & Housing
6800	LUF Ashton Park	**LUF**	165					165	Environment & Property
6801	LUF Waverley Park	**LUF**	201	2,955	8			3,164	Environment & Property
6802	LUF Moor Park	**LUF**	341	3,798	9			4,148	Environment & Property
6803	LUF Grange Park	**LUF**		30				30	Environment & Property
6804	LUF North-South Cycle Link	**LUF**	289	2,621	4			2,914	Development & Housing
6805	LUF East - West Cycle Link	**LUF**	298	1,118	2			1,418	Development & Housing

6806	LUF Mobility Hub	**LUF**	2					2	Development & Housing
6807	LUF Ribble Bridge Crossing	**LUF**	3,364	4,572				7,936	Development & Housing
6978	Moor Park Changing Places Facility		20					20	Environment & Property
6979	Conway Park Play Area Phase 2 Refurbishment		6					6	Environment & Property
6986	Food Waste Collection Vehicles & Equipment			1,065				1,065	Environment & Property
6987	Fishwick BMX Track		30					30	Environment & Property
6988	Miller Park Replacement Garages		78					78	Environment & Property
6989	Coronation walk, Conway park		28					28	Environment & Property
6990	Cottam Tree Replacement Project		22					22	Environment & Property
7964	Community Infrastructure Levy		2,524	2,123	64			4,711	Development & Housing
7965	Preston Towns Fund - Harris Quarter Pop Ups	**TF**	24					24	Development & Housing
7968	Local Housing Fund		128					128	Development & Housing
7970	UK Shared Prosperity Fund		811					811	Community & Wellbeing
NEW	FAM Community Hub		40					40	Resources
			31,712	**27,257**	**1,768**	**1,680**	**1,680**	**64,097**	
	Total of Schemes in Progress		**33,453**	**31,050**	**4,625**	**1,680**	**1,680**	**72,488**	

Scheme Cost Centre	Schemes Awaiting Approval	Key	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	Total 2024/25 - 2028/29 £'000	Directorate
capua1	Avenham Car Park - Lift Replacement		130					130	Environment & Property
capua2	Moor Park Football ion - Refurbishment			75				75	Environment & Property
capua13	Parks Electrical, Heating & Security Upgrades				235			235	Environment & Property
capua15	Mutual Bank		250	750				1,000	Resources
capua16	Town Hall - Window Replacement				200	220		420	Environment & Property
capua17	Energy Efficiency works		113					113	Environment & Property
capua18	Avenham Car Park Security	**PB**	100					100	Environment & Property
capua20	City Centre Asset Management		250	2,430				2,680	Environment & Property
capua22	Core & Major Assets 2021/22 - Parks & Open Spaces		489		120			609	Environment & Property
capua23	Core & Major Assets 2021/22 - Operational Bldgs			762				762	Environment & Property
capua26	Community Related Asset Infrastructure		100	320				420	Development & Housing
	Total of Schemes Awaiting Approval		**1,432**	**4,337**	**555**	**220**	**-**	**6,544**	
	Towns Fund Programme - subject to approval of business cases								
6351	Renewal of Harris Quarter Assets	**TF**	500	8,576				9,076	Development & Housing
	Total New Schemes		**500**	**8,576**	**-**	**-**	**-**	**9,076**	

Scheme Cost Centre	Schemes Awaiting Approval	Key	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	Total 2024/25 - 2028/29 £'000	Directorate
	Ashton Pk - Resurfacing Roadways/Footpaths/Car Pks				500			500	Environment & Property
	Cemetery - Resurfacing of Roadways & Paths			100				100	Environment & Property
	Town Hall - New Passenger Lift			150				150	Environment & Property
	Town Hall - Upgrade to LED Light Fittings			50	50	50	50	200	Environment & Property
	Allotments - Improvements to Security				60	60		120	Environment & Property
	Repairs to Pool Platt Bridge			50				50	Environment & Property
	Euston St/Fitzroy St - Rebuilding of Retaining Wall			80				80	Environment & Property
	Moor Park - Replacement of Culvert				120			120	Environment & Property
	Winckley Square - Repairs to Boundary Fence			120				120	Environment & Property
	Moor Park Football Pitches			100				100	Environment & Property
	Avenham & Miller Parks Balustrades to Derby Walk			150				150	Environment & Property
	Heritage & Development Match Funding			150				150	Environment & Property
	Parks Play strategy			250	250	250	250	1,250	Environment & Property
	CCTV			210				210	Community & Wellbeing
	Repairs to Bridges/Decking/Walkways etc			250	250	250		750	Environment & Property
	Community Related Assets			220	100	100		420	Environment & Property
	Contingency - Major Operational Assets				1,725	1,725		3,450	Environment & Property
	Total of Cabinet Capital Proposals			**1,880**	**3,055**	**2,435**	**300**	**7,670**	
	Capital Programme Total		**35,385**	**45,843**	**8,235**	**4,335**	**1,980**	**95,778**	

Key:	
Payback schemes	**PB**
ICT Strategy Fund	**ICT**
Towns Fund Programme	**TF**
Levelling Up Fund	**LUF**

Section 10: Treasury Management Strategy 2025/26

1. Introduction

Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

Investments held for service purposes or for commercial profit are considered in a different section, the Investment Strategy included within this document. The current investment strategy is to seek to ensure sufficient liquidity so that investment balances are available to fund all of the Council's approved capital schemes.

2. Economic background

UK consumer price inflation (CPI) rose by 2.5% in the 12 months to December 2024, down from 2.6% in November 2024. On a monthly basis, CPI rose by 0.3% in December 2024, down from 0.4% in December 2023.

The Bank of England cut the bank rate from 5.25% to 5.00% at the August Monetary Policy Committee meeting followed by an expected cut in November to 4.75%.

UK Gross Domestic Product (GDP) recovered in 2024 from a technical recession, but underlying growth appears relatively subdued. The new government's budget will significantly boost government spending over the short-term, with few offsetting measures to subdue household demand, so GDP growth is likely to rise relatively steeply.

Private sector wage growth and services inflation remain elevated. The increase in employers National Insurance Contributions, minimum and public sector wage levels could have wide ranging impacts on private sector employment demand and costs, but the near-term impact will likely be inflationary as these additional costs get passed to consumers.

Interest rate forecast: Arlingclose, the Council's treasury management adviser, consider that Bank Rate will continue to reduce gradually. Another bank rate cut is expected in February 2025, followed by further cuts to a low of 3.75% by December 2025.

Table 17: Arlingclose Interest Rate Forecast

Quarter Ending	Bank Rate %	Investment Rates		Borrowing Rates		
		3 month %	5 year %	5 year %	20 year %	50 year %
Dec 2024	4.75	4.90	4.34	5.14	5.85	5.32
Mar 2025	4.50	4.60	4.30	5.10	5.80	5.50
Jun 2025	4.25	4.35	4.20	5.00	5.70	5.40
Sep 2025	4.00	4.10	4.10	4.90	5.60	5.30
Dec 2025	3.75	3.90	4.00	4.80	5.50	5.20
Mar 2026	3.75	3.85	3.90	4.70	5.45	5.15
Jun 2026	3.75	3.85	3.90	4.70	5.45	5.15
Sep 2026	3.75	3.85	3.95	4.75	5.45	5.15
Dec 2026	3.75	3.85	4.00	4.85	5.45	5.15
Mar 2027	3.75	3.85	4.05	4.85	5.45	5.15
Jun 2027	3.75	3.85	4.05	4.85	5.45	5.15
Sep 2027	3.75	3.85	4.05	4.85	5.45	5.15

3. Treasury Balances Forecast

On 31st December 2024, the Council held £12.3m of borrowing and £40.4m of investments. This is set out in further detail in Table 17.

Forecast changes in these sums are shown in the balance sheet analysis in Table 18.

Table 18: Existing Investment & Debt Portfolio Position at 31.12.23

	Actual Portfolio £M
External Borrowing:	
Public Works Loan Board	1.9
Bank Loans	10.4
Total External Borrowing	**12.3**
Treasury investments:	
<u>Short Term</u>	
Banks	1.1
Local Authorities	7.0
Money Market Funds	17.9
<u>Long Term</u>	
Other pooled funds	
- Cash Funds	10.9
- Bond Funds	3.5
Total Treasury Investments	**40.4**
Net Lending (Investments less borrowing)	**28.1**

The forecast balances below in Table 19 show the impact on the treasury balances of the Council's existing approved Capital Programme.

Table 19: Treasury Balances Forecast

	31.03.25 Forecast £M	31.03.26 Forecast £M	31.03.27 Forecast £M	31.03.28 Forecast £M	Notes
Capital Financing Requirement (CFR)	54.1	66.5	69.3	68.6	1
Less: External Borrowing already taken	(12.3)	(12.3)	(12.3)	(12.3)	2
Cumulative Borrowing Requirement	**41.8**	**54.2**	**57.0**	**56.3**	3
Balance Sheet Resources	71.8	65.9	61.5	58.5	4
Less: Internal Borrowing	(41.8)	(54.2)	(57.0)	(56.3)	5
Treasury Investments by 31st March	**30.0**	**11.7**	**4.5**	**2.2**	6

Notes:

1. The CFR is the amount the Council needs to borrow for a capital purpose. The CFR increases when Prudential Borrowing is used to finance the capital programme. The Council's capital expenditure plans are the key driver of treasury management activity and are summarised in the Capital Strategy Report. The CFR increases in 2025/26 and beyond due to the capital expenditure on projects including Amounderness House and the purchase of new vehicles.
2. This is the amount of debt that the Council has already borrowed.
3. This is the cumulative amount of new borrowing that is required to finance the Capital Programme. The timing of new borrowing will be determined by the profile of capital expenditure and the availability of Internal Borrowing (Note 6).
4. This line represents the amount of usable reserves, balances, provisions and working capital which are available as cash. The forecast changes to the amount of usable reserves and provisions are determined by the drawdown of reserves, balances and provisions as estimated in the Financial Forecast Update 2024/25 to 2028/29 and the Capital Programme, and known changes to working capital
5. Internal Borrowing occurs when the Council uses its own cash resources to finance capital expenditure rather than new external borrowing. This is a prudent approach when investment returns are low. The amounts shown are the cumulative amount of borrowing required for each year.
6. This is the forecast amount of cash available for investment after allowing for the funding of Internal Borrowing.

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy in the short-term is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The Council has an increasing CFR due to the capital programme. The cash available for investing reduces as reserves are drawn down and internal borrowing is used to fund the Capital Programme.

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should remain lower than the highest forecast CFR over the next three years. Table 20 shows that the Council expects to comply with this recommendation during 2025/26.

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. The liability benchmark is a measure of how well the existing loans portfolio matches the Council's planned borrowing needs. It tells the Council how much it needs to borrow, when, and the maturity of investments needed to match the planned borrowing needs. It is made up of four balances:

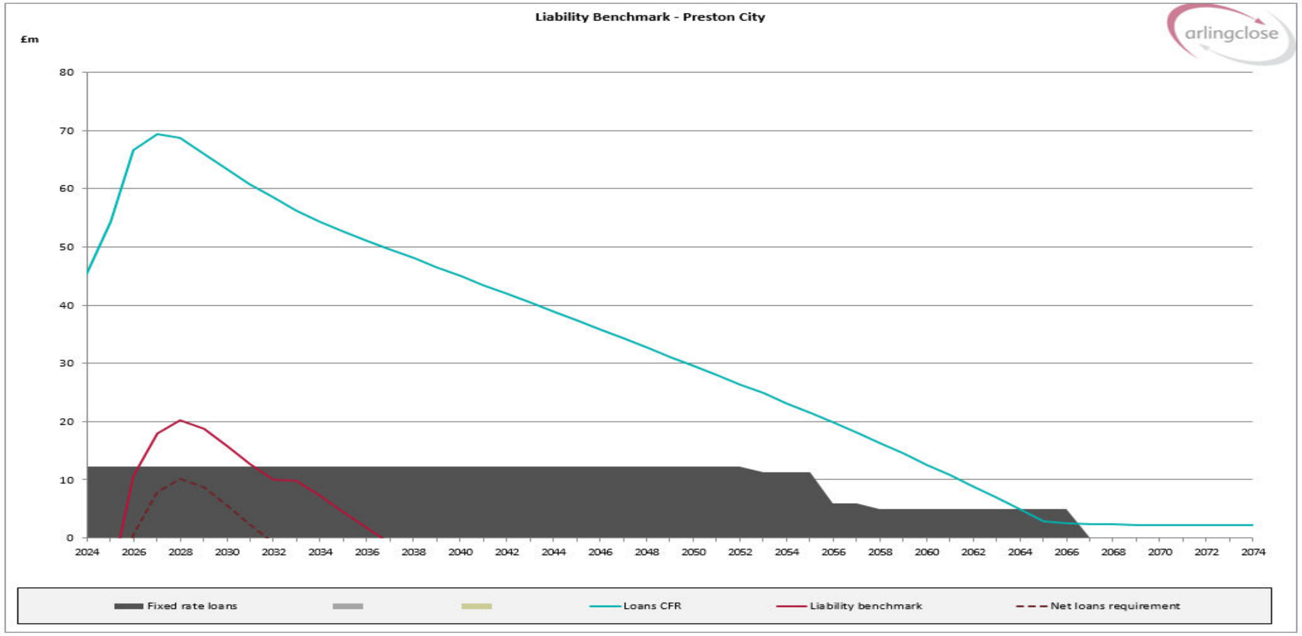
- Existing borrowing
- CFR – projected into the future
- Net loans requirement – a forecast of the Council's net loan debt (net of investments for treasury management purposes)
- Liability benchmark – a forecast of the Council's gross loan debt

Table 20: Liability Benchmark

	31.03.24 Actual £m	31.03.25 Estimate £m	31.03.26 Estimate £m	31.03.27 Estimate £m	31.03.28 Estimate £m
Loans CFR	45.4	54.0	69.0	69.3	68.5
Less: Usable Reserves & Provisions / Balance Sheet Resources	(78.0)	(71.8)	(65.9)	(61.5)	(58.5)
Net loans requirement	**(32.6)**	**(17.8)**	**3.1**	**7.8**	**10.0**
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0
Liability benchmark	**(22.6)**	**(7.8)**	**13.1**	**17.8**	**20.0**

Using the forecasts in Table 20, the long-term liability benchmark includes capital expenditure that is funded by borrowing, the minimum revenue provision on capital expenditure, and includes expenditure and reserves (all increasing by inflation of 2.5% a year). This is shown in the Arlingclose chart below over a 50 year period together with the maturity profile of the Council's existing borrowing.

Chart 11: Arlingclose Liability Benchmark for Preston Cit Council



Any years where actual fixed rate loans are less than the liability benchmark indicate a potential future borrowing requirement. Any years where actual fixed rate loans exceed the benchmark represent an overborrowed position which will result in excess cash requiring investment. The liability benchmark suggest that the Council will need to borrow from 2026 for a short period.

4. Borrowing Strategy

The Council currently holds £12.3m of loans as part of its strategy for funding previous years' capital programmes. The Liability Benchmark chart shows that the Council may need to borrow short term to fund the capital programme. The Council may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £25.3m in 2025/26.

Objectives: The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans in the event that the Council's long-term plans change is a secondary objective.

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability. Short-term interest rates are currently higher than the recent past, but are expected to fall in the coming years and it is therefore likely to be more cost effective over the medium-term to either use internal resources or borrow short-term loans instead.

By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. Arlingclose will assist the Council with determining when to borrow with a view to keeping long-term interest costs low. The Council may borrow short-term to cover unexpected cash flow movements.

The Council has previously raised some of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities and will consider the possibility of issuing bonds and similar instruments in order to lower interest costs. PWLB loans are no longer available to local authorities who are planning to buy investment assets primarily for yield and the Council intends to avoid this activity in order to retain its access to PWLB loans.

Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set and is based on the Council's estimate of most likely but not worst case scenario and should equate to the maximum level of external debt projected by this estimate. The Operational Boundary and the Authorised Limit are increasing to allow sufficient headroom for new external borrowing for the approved Capital Programme which includes significant new borrowing for the Animate project.

Table 21 Prudential Indicators: Authorised limit and Operational Boundary for External Debt

	2024/25 Limit £M	2025/26 Limit £M	2026/27 Limit £M	2027/28 Limit £M
Authorised Limit – maximum external debt	22.3	25.3	27.9	30.1
Operational Boundary – total external debt	14.3	17.3	19.9	22.1

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- National Wealth Fund Ltd (formerly UK Infrastructure Bank Ltd)
- Any institution approved for investments (see below)
- Any other bank or building society authorised to operate in the UK
- Any other UK public sector body
- UK public and private sector pension funds (except Lancashire County Pension Fund as it is the Council's own pension fund)
- Capital market bond investors
- Retail investors via a regulated peer-to-peer platform
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local Council bond issues

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as debt liabilities:

- Leasing
- Hire purchase
- Private Finance initiative
- Sale and leaseback and similar arrangements
- Similar asset based finance

All decisions on borrowing will be reported to the Cabinet Member for Resources in the Quarterly Treasury Management Report.

5. Investment Strategy

The Council holds significant invested treasury funds, representing income received in advance of expenditure, monies held on behalf of the Collection Fund (Lancashire County Council, the Police and Crime Commissioner for Lancashire and Lancashire Combined Fire Council) plus balances and reserves held. At 31st December 2024 the Council had treasury investments of £40.4m but these are expected to reduce in the next year as cash is required to fund the Capital Programme.

Objectives: The CIPFA Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

Strategy: The Council will continue to adopt a prudent approach to investment management to ensure that cash balances are readily available to fund capital projects and meet revenue needs.

ESG Policy: Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's ESG policy does not include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

Approved counterparties: The Council may invest its surplus funds with any of the counterparty types in Table 22 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 22: Approved investment counterparties and limits

Investment Type / Minimum Credit Rating (Note 1)	Banks Unsecured (Note 2)	Banks Secured (Note 3)	Government (Note 4)
UK Government	n/a	n/a	£ Unlimited 50 years
UK Treasury Bills	n/a	n/a	£7m in Total for 6 months
UK Local Authorities	n/a	n/a	£4m each for periods of up to 1 year £4m each for overnight/call deposits
Investment Rated A-	£2m each for up to 1 year	£3m each for 1 year	n/a
Building Societies (unsecured) (Note 2)	£2m each (maximum of £4m) for up to 1 year	n/a	n/a
Money Market Funds (Note 5)	£3.5m per Fund		
Cash Plus Funds (Note 6)	£6m per Fund (£20m in Total)		
Bond Funds (Note 6)	£5m in Total		
Registered Providers (Preston area) (Note 67)	£1m in Total for 5 years		
Any other organisation (Note 8)	£200k each for 5 years		

Notes:

1. **Credit rating:** Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.
2. **Banks and building societies unsecured:** Includes accounts, deposits, certificates of deposit and unsecured bonds with banks and building societies. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.
3. **Banks secured:** Includes covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits.
4. **UK Government:** Sterling-denominated investments with or explicitly guaranteed by the UK Government, including the Debt Management Account Deposit Facility, treasury bills and gilts. These are deemed to be zero credit risk due to the government's ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.
5. **Money Market Funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

5. **Strategic Pooled Funds**: These Funds offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but can be either withdrawn after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.
6. **Registered providers:** These are longer term loans or bonds that are secured or guaranteed on the assets of Registered Providers of Social Housing. These bodies are regulated by the Regulator of Social Housing (in England) and are likely to receive government support if needed.
7. **Other organisation:** This is subject to an external credit assessment and specific advice from the Council's treasury management adviser.
8. **Foreign Countries**: Investments with institutions domiciled in foreign countries rated AA+ or higher will be limited to £2m per foreign country. This limit does not apply to Pooled Funds as these funds spread their investments over many countries in order to reduce risk.
9. **Operational bank accounts:** The Council's own bank account which is used for all of the Council's operational activities will have a minimum credit rating of BBB- and assets greater than £25 billion. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity. The balances in the Council's own bank account will ideally be kept below £2m. Due to cash flow fluctuations this limit may be exceeded on occasion and if the limit is exceeded for more than three working days the Section 151 Officer will review.
10. **Risk assessment and credit ratings**: Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
    - No new investments will be made,
    - Any existing investments that can be recalled or sold at no cost will be, and
    - Full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

    Where a credit rating agency announces that a credit rating is on review for possible downgrade so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.
11. **Other information on the security of investments**: Credit ratings are not the only predictors of investment default. Other information is also used to assess the credit quality of counterparties. This information includes credit default swap prices, financial statements, potential government support and reports in the financial press. This information is analysed by the Council's treasury advisors and no investments will be made with an organisation if there are doubts about its credit Full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.
12. **Reputational aspects**: The Council is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020, and 2022 this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned but will protect the principal sum invested.
13. **Liquidity management**: The Council uses a detailed daily cash flow forecast to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments.

Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast. The Council spreads its liquid cash over a number of providers (e.g. Bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

6. Treasury Management Prudential Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators.

Maturity structure of borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Table 23 Maturity Structure of Debt

Refinancing Risk Indicator	Lower Limit	Upper Limit
Under 12 months	0%	40%
12 months to 2 years	0%	50%
2 years to 5 years	0%	85%
5 years to 10 years	0%	90%
10 years and above	0%	100%

No lower limit is set in order to allow flexibility when managing the debt portfolio in the current economic conditions. Time periods start on the first day of each financial year.

Long Term Treasury Management Investments: The Council's only investment that can be considered as long term for Prudential Indicator purposes is a historic £3.5M investment in the Payden bond fund. The following indicator is set to control the Council's exposure to the risk of incurring losses by seeking early repayments of this investment. The monies in the bond fund are forecast to reduce as cash is required to fund the capital programme. The timings of any withdrawals will be planned based on cash flow forecasts and in conjunction with treasury advisors. The prudential limit on the long-term treasury management investments will be as stated in Table 24.

Table 24 Price Risk Indicator

Price Risk Indicator	2024/25	2025/26	2026/27
Limit on principal invested beyond year end	£3.5m	£2.0m	£1.0m

- **Security** – the Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio with a target rating of A-.

- **Liquidity** – the Council will continue to manage its cashflow so as not to go overdrawn.
- **Yield** – the benchmark for returns on investments is the Sterling Overnight Index Average (SONIA) and actual investment returns are monitored against budget.

Table 25: Interest Rate Risk Indicator

Interest rate exposures: The following indicator shows the sensitivity of the Council's existing investments and borrowing to a change in interest rates.

Interest rate risk indicator Sums subject to variable interest rates:	£m	Impact of a 1% rate rise			Impact of a 1% rate fall		
		2024/25 £m	2025/26 £m	2026/27 £m	2024/25 £m	2025/26 £m	2026/27 £m
Investments	32.2	(0.14)	(0.29)	(0.32)	0.14	0.29	0.32
Borrowing	n/a	All existing borrowing is at a fixed rate.					

There are a number of additional items that the Council is obliged to include in the Treasury Management Strategy. These are:

- **Policy on Use of Financial Derivatives** – the Council will only use financial derivatives (such as swaps, forwards, futures and options) where it can be clearly demonstrated to reduce the level of financial risks that the Council is exposed to. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy. In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

- **Markets in Financial Instruments Directive –** the Council has opted up to professional client status with its providers of financial services allowing it access to a greater range of services but with the greater regulatory protections afforded to individuals and small companies. This is the most appropriate status given the size and range of the Council's treasury management activities.

Financial Implications

The budget for investment income in 2024/25 is £0.22m based on an average investment portfolio of £10m at 4.5% for the first six months of the year after which time cash may be redeemed to fund the capital programme. The budget for debt interest payable in 2024/25 is £1.1m based on an existing debt portfolio of £12.3m at an average fixed interest rate of 4.8% and new borrowing for approved capital projects at an average interest rate of 4.9%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.
Where investment income exceeds budget or debt interest paid falls below budget then the revenue savings will be transferred to a treasury management earmarked reserve to cover the risk of higher interest rates payable in future years for the Council's capital projects.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Section 151 Officer, having consulted the Cabinet Member for Resources and Deputy Leader, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Table 25: Alternative Treasury Management Strategies

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults and reduced liquidity
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Penalties for repaying debt early will significantly impact on Revenue budgets	Long-term interest costs may be less certain

Section 11: Non-Treasury Investment Strategy

1. Introduction

The Council invests its money for three broad purposes:

1. 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**),
2. to support local public services by lending to or buying shares in other organisations (**service investments**), and
3. to earn investment income (known as **commercial investments** where this is the main purpose).

This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.

The statutory guidance defines investments as "all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios." The Authority interprets this to exclude (a) trade receivables which meet the accounting definition of financial assets but are not investments in the everyday sense of the word and (b) property held partially to generate a profit but primarily for the provision of local public services. This aligns the Council's definition of an investment with that in the 2021 edition of the CIPFA Prudential Code, a more recent piece of statutory guidance.

Treasury Management Investments

The Council typically receives its income in cash (e.g., from taxes and grants) before it pays for its expenditure in cash (e.g., through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from 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 2025/26 for treasury management investments are covered in the treasury management strategy within this document.

2. Commercial Investments

Service Investments: Loans

The Council does not currently hold any loans to or shares in other organisations that will provide a commercial investment return. On 25th January 2023 Council approved a 'loan in principle' of £0.15m to a Community Interest Company in Preston to facilitate the purchase of the freehold of a local music venue. This is a loan for service purposes, not investment or commercial and interest will be charged on the loan with a legal charge being secured on the property.

Contribution: The Council may lend money to local businesses, local charities, housing associations, local residents and its employees to support local public services and stimulate local economic growth. For example, the Council participates in a Cycle to Work scheme for employees to enable them to hire a bike to encourage them to cycle to work, and as stated above, the Council has approved in principle a loan to a Community Benefit Society.

Security: The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk and ensure that total exposure to service loans remains proportionate to the size of the Council, upper limits on the outstanding loans to each category of borrower have been set as follows in Table 26.

Table 26: Loans for Service Purposes

Category of borrower	31.3.2024 Actual Balance Owing £m	2025/26 Forecast Approved Limit £m
Local businesses	0.15	0.15

Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for service loans in the Council's accounts will be shown net of this loss allowance. However, the Council will make every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue payments.

Risk Assessment: The Council assesses the risk of loss before entering into and whilst holding service loans. In assessing the risk the Council will consider:-

1. The market, the nature and level of competition, customer needs, barriers to entry and exit and ongoing investment requirements
2. Use of external advisors
3. Credit ratings
4. Other sources of information to assess and monitor risk

Service Investments: Shares

Contribution: The Council may make investments in shares to support local public services and stimulate local economic growth. The Council is currently considering the purchase of a share in the North West Mutual Bank with the aim of providing banking services to indviduals and businesses in the Northwest of England. The bank will be regionally owned by the bank's customers as a means to reduce financial exclusion for households and extend the availability of loans and finance to businesses in Preston.

Security: One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, the upper limit on the sum invested has been set as follows:

Table 27: Shares for Service Purposes

Category of Borrower	Balance at 31.03.2024 £m	2025/26 Approved Limit £m
Co-operative Society	Nil	0.25

Risk Assessment: The Council assesses the risk of loss before entering into and whilst holding shares by considering:-

1. The market, the nature and level of competition, customer needs, barriers to entry and exit and ongoing investment requirements
2. Use of external advisors
3. Credit ratings
4. Other sources of information to assess and monitor risk

Liquidity: The Council has a capital scheme awaiting approval in the Capital Programme which is a proposed investment of £1m into the North West Mutual Bank in return for one share without voting rights.

Non-specified Investments: Shares are the only investment type that the Council has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Council's upper limits on non-specified investments. The Council has not adopted any procedures for determining further categories of non-specified investments since none are likely to meet the definition.

Commercial Investments: Property

Contribution: The Council invests in land and property within its boundary with the sole intention of facilitating economic development and regeneration. The Council holds historic investment assets which are providing a financial return that contributes to spending on local public services.

In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

A fair value assessment of the Council's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2024/25 year end accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to full council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

The Council assesses the risk of loss before entering into and whilst holding property investments by completing due diligence including full business cases and the use of expert external advisors, where necessary.

Compared with other investment types, property is relatively difficult to sell and convert to cash (liquidity) at short notice and can take a considerable period to sell in certain market conditions.

Table 28: Property held for Investment Purposes

Property	Actual Purchase Cost £m	31.03.23 Value in accounts £m	31.03.24 Actual		Note
			Value in accounts £m	Cumulative Gains £m	
Agriculture Land & Buildings	0.8	1.3	1.7	0.4	
Ground Leases	18.2	30.0	33.0	-0.1	1
Industrial Land & Property	5.1	8.0	8.0	0.3	
Retail Property	1.0	1.7	1.7	-0.1	
Other Investment Land & Buildings	0.5	1.0	1.0	-0.3	
TOTAL	**25.6**	**45.4**	**45.4**	**0.2**	

Note:
The market value of Ground leases has increased in 2023/24 based on the assumptions of professional valuers however there has been a disposal during the financial year.

3. Proportionality

Table 29: Proportionality of Property Investments

	2023/24 Actual £m	2024/25 Budget £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m
Investment Income	3.0	3.5	4.2	4.2	4.2
Gross Service Expenditure	58.3	62.1	68.3	71.7	71.9
Proportion	5.15%	5.64%	6.15%	5.86%	5.84%

The proportion is the property investment income divided by the gross service expenditure. Property investment income increases from 2024/25 due to the rental income generated by Animate complex.

Capacity, Skills and Culture

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Director of Resources/S151 Officer is a qualified accountant with over 30 years of Local Government experience and the Deputy Section 151 Officer has 25 years of Local Government experience. The Council pays for accountancy staff to study towards relevant professional accountancy qualifications and the staff within the treasury team, whom are all qualified accountants, attend treasury seminars and workshops provided by CIPFA and other external service providers. Training is provided to Councillors as part of the financial management training delivered by the Section 151 Officer and more detailed treasury management training to Councillors on the Audit Committee by treasury management advisors Arlingclose Limited.

The Councils appoints external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers, Cushman & Wakefield as property consultants, Jones Lang LeSalle (JLL) as property consultants on a major City development scheme. This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

4. Investment Indicators

The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator in the table below shows the Council's total exposure to potential investment losses. The valuation of Property assets takes place at the end of the financial year and information is not currently available to forecast the value of these assets in future years, so the forecast value shown for Property in the Table below for later years is the position as at 31 March 2024.

Table 30: Total Investment Exposure

Investment Exposure	31.03.2024 Actual £m	31.03.2025 Forecast £m	31.03.2026 Forecast £m
Treasury management investments	47.2	30.0	10.0
Commercial investments: Property	45.4	45.4	45.4

How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

Major capital expenditure on investment properties is typically funded through prudential borrowing which is incorporated into the five-year capital programme. Expenditure on investment properties that has been funded by prudential borrowing and which is reported in the table below includes expenditure on managed workshops, car parks, and agricultural properties. The Council is currently reviewing its property investment programme in order to reduce the impact of borrowing through the use of capital receipts.

Table 31: Investments Funded by Borrowing

Investments funded by borrowing	31.03.2024 Actual £m	31.03.2025 Forecast £m	31.03.2026 Forecast £m
Commercial investments: Property	17.4	4.9	05.3

Rate of return received: This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 32: Investment Rate of Return (net of all costs)

Investments net rate of return	2023/24 Actual	2024/25 Forecast	2025/26 Forecast
Treasury management investments	5.51%	4.63%	3.95%
Commercial investments: Property	3.94%	4.74%	4.79%

The rate of return on Treasury management investments is reducing in line with the forecast changes to Bank rate.

Section 12: Statement of Policy on the Minimum Revenue Provision

1. Introduction

1.1 Where the Council funds capital expenditure with debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Council to have regard to the Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the MHCLG Guidance) most recently issued in April 2024.

1.2 The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is aligned with that over which the capital expenditure provides benefits.

1.3 MRP is calculated by reference to the capital financing requirement (CFR) which is the total amount of past capital expenditure that has yet to be permanently financed, noting that debt must be repaid and therefore can only be a temporary form of funding. The CFR is calculated from the Council's balance sheet in accordance with the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Expenditure in Local Authorities, 2021 edition.

1.4 The MHCLG guidance requires the Council to approve an annual MRP statement each year and provides a number of options for calculating a prudent amount of MRP. **The guidance states that Local Authorities can use a mix of the options for debt taken out at different times should they consider it appropriate to do so.** The following statement incorporates options recommended in the Guidance.

2. Annual Minimum Revenue Provision Statement 2025/26

2.1 From 2008/09 to 2014/15 the MRP charge for capital expenditure incurred before 1st April 2008 was determined as 4% of the Capital Financing Requirement. This charge was based on a 4% reducing balance which never effectively repays the debt and means that debt is being repaid long after the assets are no longer in use. From 2015/16 the MRP charge was revised and calculated with reference to the Capital Financing Requirement based upon a 50 year asset life. MRP of £3.2m has been incurred using this method between the years 2015/16 and 2024/25. This means that the capital expenditure incurred before 1st April 2008 will now be fully repaid in 40 years time.

2.2 Therefore, for Capital expenditure incurred before 1st April 2008 – MRP will continue to be charged in equal instalments over a 50 year asset life as it is considered to be more prudent that the 4% reducing balance method.

2.3 Capital expenditure incurred after 1st April 2008 – MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments starting in the year after the asset becomes operational.

2.4 For capital expenditure incurred on the Cinema and Leisure Scheme (Animate), MRP will be determined by charging the expenditure over the expected useful life of the asset as the principal repayment on an annuity basis with an annuity rate equivalent to the average relevant PWLB rate for the year of expenditure, starting in the year after the asset becomes operational. The annuity asset life method takes account of the time value of money (whereby paying £100 in 10 years' time is less of a burden than paying £100 now). The annuity asset life method matches the repayment profile to show how the benefits of the asset financed by borrowing are consumed over its useful life.

2.5 Where former operating leases have been brought onto the balance sheet due to the adoption of the IFRS 16 Leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the MRP charges will be adjusted so that the overall charge for MRP over the life of the lease reflects the value of the right-of-use asset recognized on transition rather than the liability.

2.6 For capital expenditure loans to third parties which were made primarily for service purposes, the Council will make nil MRP except as detailed below for expected credit losses. Instead, the Council will apply the capital receipts arising from the repayments of the loan principal to finance the expenditure in the year they are received.

2.7 For capital loans made after 7th May 2024 where an expected credit loss is recognised during the year, the MRP charge in respect of the loan will be no lower than the loss recognised. Where expected credit losses are reversed, for example on the eventual repayment of the loan, this will be treated as an overpayment.

2.8 Based on the Council's latest estimate of its capital financing requirement (CFR) on 31st March 2025, the budget for MRP has been set as follows:

Table 33: MRP Budget

	31.03.2025 Estimated CFR £m	2025/26 Estimated MRP £m
Capital expenditure before 01.04.2008	12.7	0.3
Unsupported capital expenditure after 31.03.2008	41.3	1.1
Capital loans to third parties	0.15	0.1
Total	**54.15**	**1.5**

3. Capital Receipts

3.1 Proceeds from the sale of capital assets are classed as capital receipts, and are typically used to finance new capital expenditure. Where the Council decides instead to use capital receipts to repay debt and hence reduce the CFR, the calculation of MRP will be adjusted as follows:

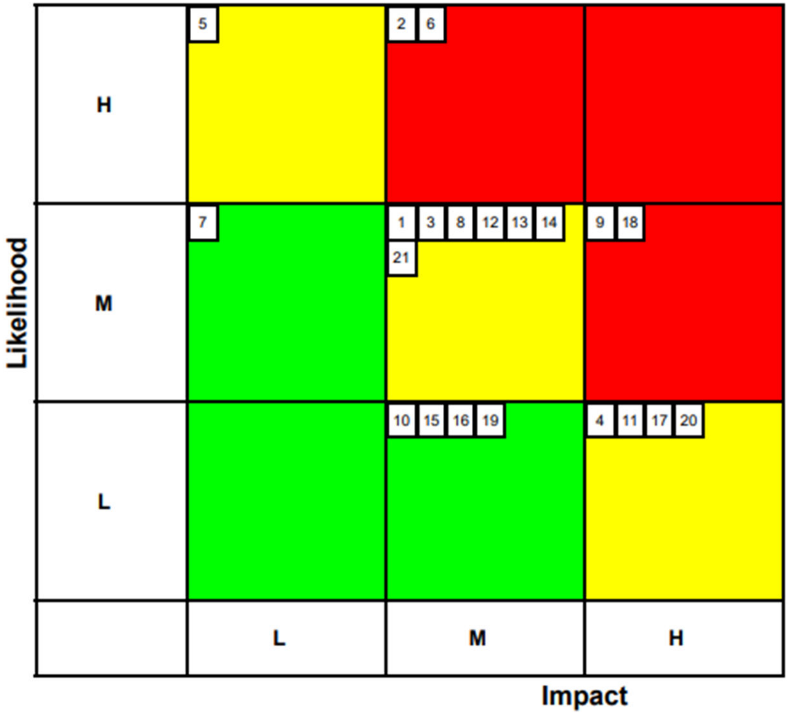
- Capital receipts arising on the repayment of principal on capital loans to third parties will be used to lower the MRP charge in respect of the same loans in the year of receipt, if any.
- Capital receipts arising from other assets which form an identified part of the Council's MRP calculations will be used to reduce the MRP charge in respect of the same assets over their remaining useful lives, starting in the year after the receipt is applied.
- Any other capital receipts applied to repay debt will be used to reduce MRP in 10 equal instalments starting in the year after the receipt is applied.

Section 13: Key Financial Risks

1. Risk Management

The Council has in place risk management arrangements. As part of these arrangements the Council monitors its key financial risks as to the impact and likelihood. The following diagram shows the residual risk position of the key financial risks. **Please refer to the full risk register included as an appendix to this document for full details and identification of the individual financial risks.**

Chart 12: Financial Risk Matrix



High Risk (H)

- Potentially a significant sum;
- A high probability of occurrence;
- Relatively little mitigation available to spread or defer the impact; and,
- Probable need for major change to the forecast if it materialises.

Medium Risk (M)

- Potentially a large sum with a medium probability of occurrence;
- Some mitigation possible to spread or defer the impact; and,
- Possible need for change to the forecast if it materialises.

Low Risk (L)

- Potentially a substantial sum, with a low probability of occurrence;
- Some mitigation possible to spread or defer the impact; and,
- Impact should be capable of being dealt with without major forecast changes.

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Section 14: Financial Strategy Conclusion

1. As highlighted within this financial strategy document there are a number of key financial areas for the Council during 2025/26 and beyond. These include:-
    - *The new Corporate Plan, new Vision and Corporate Priorities*. Budget Working Group meetings will continue throughout 2025 to assist in the prioritisation and resourcing of the strategic plans. This will involve undertaking feasibility studies and business cases for capital spend priority areas, review of existing budget spend areas and priority sessions to plan phasing of future spend.
    - *Local Government reorganisation and future plans for the Lancashire authorities*. This is a major change for Lancashire if the twelve district councils, the county council and two unitary authorities merge into 3 or 4 unitaries. Further details and information will be published once plans for Lancashire are known.
    - *Future Local Government Finance Settlement from 2026/27 onwards and multi-year settlements*. From the multiple funding scenarios we have developed, half show a savings requirement in the final year of the forecast in order to balance ongoing spend and funding, but the other half do not require savings to be found. The Local Government Finance Settlement has provided Recovery grant for those areas with high deprivation and the Council, when taking into consideration the increase in council tax levels, has seen one of the highest increases in spending power for 2025/26 of all district councils. The announcement of a multi-year settlement during 2025 will assist the Council to effectively forecast its financial position over the full period of the financial forecast which aid in decision making and provide certainty in strategy and planning.

2. The financial forecast shows the Council contributing to reserves during 2024/25 and 2025/26. The latest forecast includes slippage for some funded budgets from 2024/25 into 2025/26 however only the expenditure budgets are being rephased into 2025/26 as the income must be accounted for in the year of receipt (2024/25) in line with existing accounting regulations. There are also a number of contributions from earmarked reserves in 2024/25 such as the planned contributions set aside towards the Animate Regeneration scheme.

3. The Council has previously forecast that long-term borrowing would be required during 2024/25 for financing the Animate scheme. However, the higher returns on treasury investments and the signing of the City Deal agreement (retaining £2.043m New Homes Bonus and securing £4.25m capital contributions) means the Council has more cash funds available which has delayed the requirement for external borrowing. The current procedure is that the Council funds capital expenditure via internal borrowing whilst sufficient cash funds are available. This is a more cost-effective way of financing capital expenditure. The delaying of external borrowing results in a saving of £1m in budgeted interest costs. If the Council can delay external borrowing further, which is potential scenario, then this will improve the financial forecast position. Note, the Minimum Revenue Provision (MRP) will still be charged.

4. The Councils major regeneration scheme Animate, a £44m leisure development in the City Centre, has been achieved within budget and within the set time frame. The planned opening is during February 2025. This major scheme, along with the City Centre Living Strategy, is driving regeneration in the City Centre.

5. The Re-imagining the Harris scheme has seen delays and increased costs during 2024/25, mainly as a result of a supplier going into administration, but also due to the nature of the historical building and unforeseen works. The Harris will be open during 2025. Another regeneration scheme, Amounderness House, has also seen increases in cost estimates for construction. Reports on these projects have been presented to Council for approval.

6. The Council undertakes longer term financial planning when considering major capital schemes. Business cases are in accordance with the green book methodology for the Towns Fund schemes. There are a number of major potential spend areas being identified within the new Corporate Priorities. Any major spend items will be subject to feasibility studies and businesses cases in accordance with green book methodology where appropriate. These include the future of the Guild Hall and long term position of the Leisure.

7. This document sets out the Council's use of reserves and sensitivity to changes such as future Government funding levels and delaying long term external borrowing. The aim is to match how much the Council spends and how much the Council receives in funding to ensure long-term sustainability and an ongoing balanced budget. The Council's General Fund reserve has increased in recent years, however some of this has been due to capacity issues. It is the intention to use some of these increased reserves to fund capacity in services which have suffered from backlogs in recent years. There is a higher use of Earmarked Reserves planned over the coming years as a result of decisions such as to finance the borrowing costs for purchase of vehicles from the vehicle replacement reserve. There have been delays to purchasing the vehicles in recent years which has meant a higher level of reserves than would normally have been retained.

8. It will be clearer, when the multi-year settlement is published, which of our forecast scenarios is the more likely outcome. Until future Local Government Reorganisation plans are firm, these forecasts will be based on the Council continuing business on an ongoing basis. Even then, accounting rules require that our annual accounts would still be prepared on a going concern basis, as transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern, i.e. the services will still be required and funded but just delivered under another name/organisation.

9. The forecast includes a proposed 2.99% Council Tax increase in 2025/26 and thereafter. The capping rules allow for setting the Council Tax up to the 3% in 2025/26. If the Council set Council Tax above this percentage, then it would be required to hold a referendum which we estimate would cost in excess of £110k.

10. The Council carefully considers and monitors the risks set out in this report and in the Corporate Risk Register.

Section 15: Financial Assurance Statement (Section 151 Officer)

1. In setting the budget the Council must act in accordance with its statutory duties and set a balanced budget for the following financial year by the statutory deadline. As the Council's designated Finance Officer, I have a legal duty to report to Full Council in March 2025 on the robustness of the Council's budget and the adequacy of reserves.

2. I have considered the major items of expenditure and income and their sensitivity to change, such as the economy, legislation, future spending plans, the financial risks with major regeneration schemes, estimated levels of future Government funding, the Cabinet budget proposals and the level of reserves. It is my opinion that the estimates have been prepared and reviewed utilising the most up to date and accurate information available and that all assumptions made are reasonable.

3. I can confirm the recommendations contained in this report will provide the Council with a robust financial position in 2025/26. I am of the view that the Council is pursuing a sound financial strategy. The Council has healthy reserve levels. From 2026/27 onwards the forecast position may change as a result of a multi-year funding announcement or when local government reorganisation plans in Lancashire are firm. The Council monitors, updates and reports on the Councils financial forecast position throughout the year. Additional governance arrangements including risk mitigations and monitoring arrangements are in place for the major funding schemes.

Key Financial Risks

Likelihood			
H	5	2, 6	
M	7	1, 3, 8, 12, 13, 14, 21	9, 18
L		10, 15, 16, 19	4, 11, 17, 20
	L	M	H
		Impact	

Risk #	Risk	Risk Description	Caused by	Leads to	Gross Risk Score	Control Measure	Control Description	Control Strategy	Residual Risk Score
1	Business Rates & Future Government funding	It is still unknown how the Business Rates scheme will operate from 2026/27 onwards although a full reset has been confirmed. Future detailed allocations and split between two-tier authorities are still unknown. The outcome of the fair funding consultation carried out early in 2018 is the suggested basis of the baseline calculation. The new government has committed to multi year funding settlements from the summer of 2025 and has begun to change the funding methodology which has lead to improved levels of funding for PCC.	The Government delayed the change in the Business Rates scheme. Still a one year settlement for 2025/26.	Until further information is known this is a significant financial risk for the Council	7	Settlement Evaluation	Utilisation of LG Finance advisors and own staff to analyse and understand the LG Finance Settlement to better predict government policy and likely grant amounts.	Treat	5
						Scenario analysis	Scenario analysis has been carried out on the financial forecast to evaluate the impact of future potential changes in business rate income and other government grant funding.		
2	Cost of Living	Increased demand on services such as delivering energy rebate and grant schemes, along with financial risk. The Council is also seeing increases in it's own utility costs and general cost of supplies and services.	Expected increase in demand on service due to the impact of the cost of living on residents.	Could impact future years such as impact on council tax collection rates, impact on NNDR collection rates, increase in the cost of council tax support.	9	Working group	A working group has been established to identify help that can be provided to residents.	Treat	7

Risk #	Risk	Risk Description	Caused by	Leads to	Gross Risk Score	Control Measure	Control Description	Control Strategy	Residual Risk Score
3	Council Tax Administration Grant	The Council previously received a combined Housing and Council Tax Administration grant of approximately £0.7m per annum paid by the Department of Work & Pensions (DWP) and Department of Levelling Up, Housing and Communities (DLUHC). The Council Tax element has now been “rolled up” into our baseline funding assessment from 2023/24 onwards.	Change in government policy	Inability to identify funding for specific service and therefore whether that funding has changed which would require changes to the service, as a result any increased cost falls on the tax payer.	5	Monitoring	Funding settlement monitored closely for increases and decreases. Service costs closely monitored to understand impact on financial forecast	Tolerate	5
4	Council Tax income	The Council Tax income projections include increases based on housing projections and may be inaccurate.	New housing build not in line with projections.	If the level of anticipated new housing built is less that expected Council tax income projections may have to be reduced.	8	Monitoring	New house building is closely monitored as part of the City Deal	Treat	6
5	Council Tax Support scheme	The Council approved a revised 100% Council Tax Support Scheme in December 2024. While this increased the cost of the scheme, this cost has been largely mitigated through increased council tax base through significant housebuilding, expected improvements in collection rates and the introduction of additional premiums. Covid-19 and the cost of living crisis has impacted on the levels of council tax support and the scheme has seen significant increases in recent years.	An increase in claimant numbers resulting in greater number of discounts being allowed and thus reducing Council Tax collected.	A reduction in Council Tax collection rates and reduction in the council tax base.	7	Policy	The Council approved a revised 100% Council Tax Support Scheme in December 2024. This means that work on collection of unpaid Council Tax from LCTS claimants can now be switched to those who can pay.	Treat	4
						Monitoring	The Council closely monitors Council Tax collection rates		

Risk #	Risk	Risk Description	Caused by	Leads to	Gross Risk Score	Control Measure	Control Description	Control Strategy	Residual Risk Score
6	Guild Hall	The Guild Hall is a major asset which incurs significant costs. RAAC is believed to be present in the roof of the Charter Theatre and the Grand Hall however specialists are still investigating.	Previous building practices	Asset remaining closed and needs significant investment	9	Monitoring	The Council seeks to mitigate the financial risk of all assets.	Treat	7
7	Income streams	Some income streams continue to face pressure as a result of the cost-of-living crisis.	Cost-of-living crisis	Reduced income receipts and greater resource to try and undertake debt recovery.	5	Monitoring	All income streams continue to be closely monitored within the budget monitoring to Budget holders, CMT and Cabinet Members	Treat	2
8	New Homes Bonus (NHB)	The Government announced in the provisional local government finance settlement that the scheme for 2025/26 will be a one-year allocation.	Still awaiting confirmation for future funding, whether there will be a replacement for 2026/27.	Reduced funding	8	Monitoring	Changes to NHB is closely monitored	Treat	5
9	Pay Inflation	The forecast includes 2.5% for 2025/26 and 2% thereafter.	Higher pay awards agreed.	The cost of an additional 1% increase is c£225k per annum. Any variation above this estimate will impact on the Council's resources.	8	Assumptions	The forecast includes provision to fund the award for 2024/25. However, assumptions for future pay awards is currently considered.	Tolerate	8

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Risk #	Risk	Risk Description	Caused by	Leads to	Gross Risk Score	Control Measure	Control Description	Control Strategy	Residual Risk Score
10	Pension Guarantee	Under the terms of the 1993 buyout agreement Preston City Council entered into an agreement to act as Pension Fund guarantor, in perpetuity, for former Council employees who transferred to Preston Bus (now owned by Rotala PLC). Rotala agreed to take on the pension liabilities of Preston Bus and have been making pension contributions in line with the Actuaries requirements. Under the terms of the Leisure Transfer agreement with GLL, Preston City Council are the Pension Fund guarantor, in perpetuity, for former Council employees who transferred to GLL.	Liability to pay pension for former employees in the event operator fails.	Financial cost	3	Monitoring	The Council continues to monitor the situation and estimates the potential liability.	Tolerate	3
11	Savings Plan delays	Savings plans to be identified to achieve the required target to balance the forecast	Delays to the identification and implementation of the savings targets	Negative impact on the forecast	8	Monitoring	Savings plans are reviewed by CMT and Budget Working group	Treat	6

Risk #	Risk	Risk Description	Caused by	Leads to	Gross Risk Score	Control Measure	Control Description	Control Strategy	Residual Risk Score
12	Stock transfer Issues	There are still a number of residual financial risks associated with the Council Housing stock transfer mainly (i) The Disposals Clawback agreement provides that the Community Gateway Association (CGA) has a full warranty for land transferred in respect of ground conditions (ii) The Council provides (as standard practice) a 35 year Asbestos Warranty (which ends in 2040) based on the criteria that the first £4.2m of any expenditure would be met by the Community Gateway Association (CGA); the next £5.8m would be shared 50/50 between the CGA and the Council; and, any expenditure above £10m would be met fully by the Council.	Requirements of the stock transfer agreement	Financial cost	7	Policy	An Asbestos Management Policy is in place.	Treat	5
						Monitoring	The Council is monitoring CGA's progress with asbestos removal from their properties; to date the cost of removal does not give cause for concern. Members should note the balance set aside in an earmarked capital reserve is currently £4.474m.		
13	Towns Fund & City Centre Projects	Volatile markets, changing interest rates, changing project scope and increasing construction costs are impacting on the borrowing costs of the major Towns Fund and City Centre projects.	Volatile markets, changing interest rates, changing project scope and increasing construction costs	Impacting on the borrowing costs of the major projects.	8	Treasury Advise	The Council will continue to engage its expert Treasury advisors to ensure borrowing is taken at the optimum time and ensure all funding options are considered in order to minimise costs.	Treat	5

Risk #	Risk	Risk Description	Caused by	Leads to	Gross Risk Score	Control Measure	Control Description	Control Strategy	Residual Risk Score
14	Universal Credit	The Government is consolidating a number of current welfare benefit allowances into a revised Universal Credit Scheme which went live in July 2018 in Preston. One of these is Housing Benefits which is currently administered by the Council. The Universal Credit Scheme is provided on-line and administered by Department of Work and Pensions with support required from the Council. The scheme is being rolled out in stages and has had minimal impact on the Council's operations to date.	Change in government policy	Change in service requirements, potential change in staffing levels which could lead to redeployment or redundancy.	5	Monitoring	This is being monitored closely including seeking information on how the introduction of universal credit has impacted in those authorities where it was introduced earlier.	Tolerate	5
15	Vehicle Fleet	The vehicle fleet requirements continue to be evaluated, linked to future service needs. However, a risk remains that current revenue provision may be insufficient to meet future long-term requirements especially if specialist vehicles need to be procured or if infrastructure to support electric vehicles is required.	Poor understanding of service need and the vehicle requirements to meet that need. Failure to procure correctly or in time.	Lack of funding, additional costs, inadequate resources to deliver services.	5	Vehicle replacement plan	The Council has a 10-year vehicle replacement plan in place which monitors costs of vehicle replacements and if funds are sufficient.	Treat	3
						Government Funding	Additional funding has been provided by government for the waste service to meet new requirements.		

Key Financial Risk (Capital)

Items in Group: 6

Risk #	Risk	Risk Description	Caused by	Leads to	Gross Risk Score	Control Measure	Control Description	Control Strategy	Residual Risk Score
16	Capital Receipts	Capital receipts are a best estimate. The actual sales are dependent on future market conditions and cannot be predicted with certainty.	Capital receipts do no meet estimates.	This results in an inherent risk in the forecast level of programmed resources particularly in the latter years of the Programme.	5	Monitoring	Updates on potential sale of assets is supplied by Property Services	Treat	3
						Monitoring	Capital plans made are affordable without the reliance on capital receipts		

Risk #	Risk	Risk Description	Caused by	Leads to	Gross Risk Score	Control Measure	Control Description	Control Strategy	Residual Risk Score
17	City Centre Assets	The Council has ambitious plans for the City and has been successful in achieving significant levels of external funding. The Council is accountable body for these funding streams and therefore this brings risk of clawback/funding overspends/funding delays.	Clawback/funding overspends/funding delays	Financial cost to the Council	8	Governance arrangements	The Council has put in place specific governance arrangements for the Towns Fund/Levelling Up/UKSPF schemes in addition to the Councils existing controls.	Treat	6
18	City Centre Projects	The Council is currently undertaking a major programme of Towns Fund city centre development schemes and Levelling Up schemes which bring with them significant financial and operational risk. Furthermore, there are substantial monitoring and reporting requirements in relation to Towns Fund schemes which must be met.	There is the potential for cost increases, delays and project overruns, and an impact on the capacity of officers.	Financial costs and clawback. Reputational damage if projects are not completed	9	Monitoring	The Council closely monitors progress on capital schemes.	Treat	8
						Project boards	The Towns Fund has its own Board responsible for delivery and a sub-board responsible for Monitoring and Evaluation of the schemes. Similar arrangements are in place for the Levelling Up scheme.		
19	Disabled Facilities Grant (DFG)	From 2015/16 the budget became the responsibility of the Department of Health who incorporated the Disabled Facilities Grant (DFG) into a much larger pooled social care and health fund known as the Better Care Fund (BCF). The DFG is paid to upper-tier authorities within their BCF allocation. However, the statutory duty is on the Local Housing Authorities to provide DFG to those that qualify. Currently Lancashire County Council has agreed to transfer the funding allocations to the Districts in line with grant received.	Reduction in DFG received	A direct impact on the level of Capital Programme work that can be undertaken or would require additional resources from the Council.	5	Capital performance monitoring	Updates are provided as part of the quarterly capital performance monitoring.	Treat	3
						Resource allocation	Additional staffing resource has been proposed for the DFG service with the aim of delivering more adaptations and having projects ready should additional resources become available. A high quality service valued by recipients and delivering outputs successfully is less likely to have funding reduced or removed.		

Risk #	Risk	Risk Description	Caused by	Leads to	Gross Risk Score	Control Measure	Control Description	Control Strategy	Residual Risk Score
20	Treasury Management	Risks to the Medium-Term Financial Strategy as a result of Treasury Management activity	• Unexpected movement in cash flow - income not received or delayed and/or unplanned payments made. • Unexpected movement in interest rates – generated by changes made by the Bank of England. • Difference between actual interest rates and rates used in the forecast – actual investment returns or borrowing costs may differ from the forecasts used to set budgets. • Security of monies invested with counterparties – in the event of a collapse of a financial institution with whom the Council has invested funds e.g. Icelandic banks.	Additional costs, loss of investment income, loss of cash balances resulting in a need to borrow.	8	Monitoring	Experienced Accountancy staff monitor cash flows on a daily basis and forecast with a high degree of accuracy. The capital programme is monitored closely to ensure its impact on treasury management activities is incorporated into plans.	Treat	6
						Treasury Advisors	The Council has expert external treasury advisors.		

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Risk #	Risk	Risk Description	Caused by	Leads to	Gross Risk Score	Control Measure	Control Description	Control Strategy	Residual Risk Score
21	Vehicle Replacement Programme	The Council has a large vehicle fleet which requires replacing on a rolling programme. The procurement of vehicles can take a significant length of time which can mean delays in replacing the fleet.	Delays	Additional revenue costs from ad hoc maintenance costs.	7	Annual reviews	A review of the replacement programme is carried out annually resulting a list being compiled of those vehicles ready for replacement.	Treat	5
						Reserves	A Vehicle Replacement Reserve is utilised to fund the revenue costs of the vehicle replacement programme. Delays in procurement can lead to the availability of these funds to cover additional maintenance costs in the short term.		