

Agenda



HYNDBURN

The place to be
an excellent council

Council

Thursday, 25 February 2016 at 7.00 pm,
Council Chamber, Town Hall, Accrington

Membership

Councillor Marlene Haworth (Mayor) in the Chair, Councillors Judith Addison, Lisa Allen, Mohammad Ayub, Noordad Aziz, Peter Britcliffe, Clare Cleary, Loraine Cox, Paul Cox, Munsif Dad, Bernard Dawson, Tony Dobson, Wendy Dwyer, Diane Fielding, Chris Fisher, Melissa Fisher, Harry Grayson, June Harrison, Eamonn Higgins, Terry Hurn, Abdul Khan, Julie Livesey, Gareth Molineux, Kerry Molineux, Ken Moss, Jenny Nedwell, Tim O'Kane, Bernadette Parkinson, Miles Parkinson, Bill Pinder, Joyce Plummer, Kath Pratt, Malcolm Pritchard and Paul Thompson

A G E N D A

1. **Apologies for absence**
2. **Declarations of Interest and Dispensations**

3. **Announcements**

To receive announcements from the Mayor, Leader of the Council, or Chief Executive.

4. **Confirmation of Minutes** (*Pages 3 - 6*)

To confirm as a correct record the minutes of the Council meeting held on 21st January 2016 (attached).



5. Prudential Indicators and Treasury Management and Investment Strategy 2016/17 - 2018/19 (Pages 7 - 68)

To consider the attached report, which was considered by Cabinet on 3rd February 2016 and is referred to Cabinet for approval.

6. Medium Term Financial Strategy 2016/17 - 2018/19 (Pages 69 - 118)

To consider the attached report, which was approved by Cabinet on 3rd February 2016.

7. General Revenue Budget, Council Tax Levels and Capital Programme 2016/17 (Pages 119 - 200)

To determine the General Revenue Fund, Capital Programme and Council Tax levels for 2016/17. To enable Council to make the required decisions, the following documents are submitted:-

a) Revenue Budget 2016/17

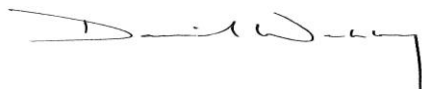
The proposals put forward by Cabinet on 3rd February 2016 are set out in the attached report; the final proposals of the controlling group will be submitted at the meeting.

b) Capital Programme 2016/17

The proposals put forward by Cabinet on 3rd February 2016 are set out in the attached report; the final proposals of the controlling group will be submitted at the meeting.

c) Comments and Recommendations of Overview and Scrutiny

The Resources Overview and Scrutiny Committee met on 16th February 2016 to consider the budget proposals for 2015/16. The Committee's comments will be circulated in due course.



Chief Executive
Scaitcliffe House,
Ormerod Street,
ACCRINGTON BB5 0PF

Wednesday, 17 February 2016

COUNCIL

Thursday, 21st January, 2016

Present: Councillor Marlene Haworth (Mayor), Councillors Judith Addison, Lisa Allen, Mohammad Ayub, Peter Britcliffe, Clare Cleary, Loraine Cox, Paul Cox, Munsif Dad, Bernard Dawson, Tony Dobson, Wendy Dwyer, Diane Fielding, Chris Fisher, Melissa Fisher, June Harrison, Eamonn Higgins, Terry Hurn, Abdul Khan, Julie Livesey, Kerry Molineux, Ken Moss, Jenny Nedwell, Tim O'Kane, Bernadette Parkinson, Miles Parkinson, Bill Pinder, Joyce Plummer, Kath Pratt, Malcolm Pritchard and Paul Thompson

Apologies: Councillors Noordad Aziz, Harry Grayson and Gareth Molineux

360 Apologies for absence

Apologies for absence were submitted on behalf of Councillors Noordad Aziz, Harry Grayson and Gareth Molineux.

361 Declarations of Interest and Dispensations

Councillor Lisa Allen declared a personal interest in minute 289, Hyndburn Used Furniture Store, due to her being employed as the manager.

362 Announcements

- 1) The Mayor referred to a letter circulated to all Councillors, from the Post Office, advising of changes to Post Office branches at Blackburn Road, Accrington and Union Road, Oswaldtwistle, with extended services and longer opening hours.
- 2) The Mayor referred to the resignation of former Councillor Joan Smith and paid tribute to her work as a Councillor. She indicated that she would be sending her a letter of thanks and best wishes. The political group leaders indicated their support for these remarks.

363 Confirmation of Minutes

Resolved - That the minutes of the Council meeting held on 19th November 2015 be approved as a correct record.

364 Question Time

No questions had been submitted under Council Procedure Rule 2.2(v).

365 Approval of Development Management DPD

Council was requested to approve for consultation a Development Management Development Plan Document, which would form part of the new Local Plan for Hyndburn. The document set out the more detailed planning policies to be used by Development Management Officers in determining planning applications for the Borough. Once complete,

it would sit alongside the Core Strategy and Accrington Area Action Plan, parts of the Local Plan already adopted by the Council (in 2012), as part of the statutory development plan for the Borough. It would replace the majority of Local Plan (1996) policies that remained extant, though we now considered to be out of date.

The consultation draft document took into account relevant national policy and guidance, responses received to previous consultation exercises, recommendations of a sustainability appraisal, and any up to date evidence of relevance.

Cabinet, on 6th January 2016, had approved the content of the Plan and had given delegated authority to the Executive Director (Legal and Democratic Services) and the Chief Planning and Transportation Officer, in consultation with the Portfolio Holder for Planning, to make further necessary changes as they considered necessary or appropriate, prior to commencing public consultation.

- Resolved**
- (1) That approval be given to the Development Management Development Plan Document (consultation draft), subject to any amendments made under the delegated authority given by Cabinet on 6th January 2016; and**
 - (2) That a statutory six-week public consultation period on the draft document should commence in February 2016.**

366 Dementia Friendly Hyndburn

The Cabinet Portfolio Holder for Health and Communities, Councillor Munsif Dad, presented a report, which informed Council of the work underway to establish a Local Dementia Action Alliance in Hyndburn and asked the Council to sign up to the National Dementia Declaration and to approve and deliver a Dementia Action Plan.

It was reported that in Lancashire, there were around 16,000 dementia sufferers, with approximately 1000 Hyndburn residents suffering from dementia. These figures were expected to increase by 25% by 2025.

Over recent months, Public Health colleagues supported by a representative from the Alzheimer's Society had been working to establish a Local Dementia Action Alliance for Hyndburn, comprising the public, private and community sector. Hyndburn Council had been involved in this work and was seen as an important member of the developing alliance. Alliance members were being asked to sign up to the National Dementia Declaration and to develop and publish a Dementia Action Plan. Organisations signing up to the National Dementia Declaration would commit to:

- Ensuring that the work they do is planned and informed by the views of people with dementia and their carers and showing evidence for this.
- Being an ambassador for the National Dementia Declaration and securing commitment from partners for the second phase of the Declaration.
- Reporting publicly on their progress against the plan they have set out to support delivery of the National Dementia Declaration.
- Working in partnership with other organisations to share knowledge about best practice in dementia.
- Improving understanding about dementia.

Separate to the declaration, each signatory organisation was being asked to set out in an action plan what it intended to do in order to deliver better quality of life for people living with dementia and their carers, with three specific actions:-

- To raise awareness of dementia and the Dementia Friends initiative
- To develop Dementia Champions in each of our main public buildings
- To undertake a dementia friendly review of the public areas of our buildings

As this matter was an executive function, resting with Cabinet, Council was asked to support the contents of the report in principle and to refer the matter to Cabinet.

- Resolved**
- **That Council supports the contents of the report and requests Cabinet to:**
 - **Continue to be an active member of the Dementia Action Alliance for Hyndburn**
 - **Sign up to the National Dementia Declaration**
 - **Approve the Dementia Action Plan**
 - **Implement, monitor and report progress against the objectives in the Dementia Action Plan.**

367 Minutes of Cabinet

The minutes of Cabinet meetings held on 2nd December 2015 and 6th January 2016 were submitted.

- Resolved**
- **That the minutes be received and noted.**

368 Minutes of Committees

The minutes of the following meetings were submitted:-

<u>COMMITTEE</u>	<u>DATE</u>
Planning Committee	11 th November 2015
Licensing Sub-Committee	12 th November 2015
Judicial Committee (Private Hire and Hackney Carriage Licensing)	18 th November 2015
Management Review Committee	1 st December 2015
Judicial Committee (Private Hire and Hackney Carriage Licensing)	8 th December 2015
Communities and Wellbeing Overview and Scrutiny Committee	11 th December 2015
Judicial Committee (Private Hire and Hackney Carriage Licensing)	14 th December 2015
Resources Overview and Scrutiny Committee	15 th December 2015
Planning Committee	16 th December 2015

Resolved - That the minutes be received and noted.

369 Motion(s) submitted on Notice

No motions had been submitted under Council Procedure Rule A9.

370 Council Tax Support Scheme

The Mayor had agreed that this matter be submitted as an urgent item, as a Council Tax Support Scheme needed to be approved by Council and in place before the Council's budget is determined at the Council meeting on 25th February 2016.

Council Members were presented for approval with the proposed Council Tax Support Scheme for 2016/17. The scheme remained largely the same as that approved by the Council for 2013/14, with the exception of one major change - the maximum subsidy to a working age claimant was proposed to be reduced from 80% to 73%. Other minor changes proposed related to alterations to the scheme to keep it consistent with changes to national Housing Benefit regulations.

- Resolved**
- (1) That Council approves the new Council Tax Support Scheme for 2016/17 and beyond.**
 - (2) The Council approves the reduction in the maximum subsidy available to a working age claimant of Council Tax Support from 80% to 73% and the other minor amendments to keep the scheme consistent with the changes in Housing Benefit regulations.**
 - (3) That it be noted that the Council Tax Support Scheme may be subject to change in the future due to budgetary and operational requirements and Council delegates authority to the Deputy Chief Executive to make amendments to the scheme to comply with national guidelines and to ensure the scheme remains fiscally neutral.**
 - (4) That the Deputy Chief Executive be given delegated power to take all reasonable steps to undertake the calculation, collection, administration and recovery of Council Tax and Non-domestic Rates in accordance with the Local Government Finance Act 2012, the Local Government Finance Act 1992 and the Local Government Finance Act 1988, (or as amended from time to time) and further government regulations and guidance that may be issued.**

Signed:.....

Date:

Chair of the meeting
at which the minutes were confirmed

REPORT TO:		CABINET; COUNCIL	
DATE:		3 FEBRUARY 2016; 25 FEBRUARY 2016	
PORTFOLIO:		Cllr Gareth Molineux - Resources	
REPORT AUTHOR:		Amanda Martin – Principal Accountant Stephen Brindle – Head of Accountancy Services	
TITLE OF REPORT:		PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT & INVESTMENT STRATEGY 2016/17 – 2018/19. MINIMUM REVENUE PROVISION POLICY STATEMENT 2016/17. TREASURY MANAGEMENT POLICY STATEMENT 2016/17. TREASURY MANAGEMENT PRACTICES 2016/17	
EXEMPT REPORT (Local Government Act 1972, Schedule 12A)	No	The report does not contain exempt information under the Local Government Act 1972, Schedule 12A and all information can be disclosed under the Freedom of Information Act 2000.	
KEY DECISION:	No	If yes, date of publication:	

1. PURPOSE OF REPORT

- 1.1 To set out the Council's policy and objectives with respect to treasury management, to explain how it will achieve its objectives and manage its activities; and to agree an investment strategy for 2016/17.

2 RECOMMENDATIONS

- 2.1 Cabinet are requested to recommend Council to:

- (i) adopt the prudential indicators and limits detailed in the report
- (ii) approve the treasury management strategy, and associated indicators, as set out in section 8 of the report
- (iii) approve the investment strategy as set out in section 13 of the report
- (iv) approve that the Minimum Revenue Provision (MRP) for year 2016/17 – Appendix 1
- (v) approve the Treasury Management Policy Statement 2016/17 – Appendix 2
- (vi) approve the Treasury Management Practices Statement 2016/17 – Appendix 3

3 REASONS FOR RECOMMENDATIONS

3.1 Treasury management is defined as:

The management of the Council's investment and cash flows, its banking, money market and capital market transactions;

The effective control of the risks associated with these activities;

And the pursuit of optimum performance consistent with those risks.

- 3.2 The Council is required to operate a balanced budget which means that cash raised during the year will meet cash expenditure. Part of treasury management is to ensure the cash flow is properly planned with cash available when needed. Surplus monies are invested in line with the Council's low risk preferences.
- 3.3 The second function of treasury management is funding the Council's capital plans. The plans give a guide to the future borrowing need of the Council. The management of this longer term cash flow may involve arranging long or short term loans or using longer term cash flow surpluses. Occasionally outstanding debt may be restructured to reduce Council risk or meet cost objectives.
- 3.4 The report has been prepared in line with the Treasury Management Code and Guidance (2013) written by The Chartered Institute of Public Finance & Accountancy (Cipfa). In the case of local authorities in England and Wales, the Code is significant under the provisions of the Local Government Act 2003. This requires local authorities 'to have regard (a) to such guidance as the Secretary of State may issue, and (b) to such other guidance as the Secretary of State may by regulations specify'. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 in paragraph 24 require local authorities to have regard to this guidance. Acceptance of this report fulfills those obligations.

4 THE PRUDENTIAL CODE AND PRUDENTIAL INDICATORS

- 4.1 The Prudential Code is a professional code that sets out the framework for self-regulation of capital spending and financing. This allows councils to invest in capital projects without any limit as long as such investment is affordable, prudent and sustainable. The Code was produced by Cipfa.
- 4.2 The Code requires the Council to agree and monitor a minimum number of prudential indicators (including limits and statements). They relate to affordability, prudence, capital expenditure, external debt and treasury management.
- 4.3 The indicators are purely for internal use and are not designed to be used as comparators between councils.

5 CAPITAL EXPENDITURE AND THE CAPITAL FINANCING REQUIREMENT

- 5.1 There is currently no specific restriction by the Government on Local Authorities' capital investment, subject to reserve powers. The Government has withdrawn the use of Capital Grants for capital expenditure purposes since 1st April 2011 as part of its measures to reduce public sector expenditure. Hyndburn Council's future financial plans assume no reliance on any direct capital grants from Government; expenditure will be funded by external funding, section 106 monies, capital receipts and contributions from revenue.

- 5.2 The projections in these tables are based on current continuing operations and no assumptions have been included for availability of new external finance for capital schemes or assessment for major organisational restructure.

ESTIMATED CAPITAL EXPENDITURE

	2014/15 Actual £000	2015/16 Revised Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
General Fund	4,191	5,834	4,893	2,640	785

The programme in 2016/17 and beyond is reducing due to the reduction in external funding and capital receipts which are available.

- 5.4 The Capital Financing Requirement (CFR) represents the Council's outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying need to borrow. Any capital expenditure, which has not immediately been paid for, will increase the CFR.
- 5.5 The movement in the CFR over the next three years is dependent on capital expenditure decisions. The CFR is currently reducing due to the payment of Minimum Revenue Provision (MRP), a statutory annual revenue charge, which broadly reduces the borrowing need.
- 5.6 The limiting factors on the Councils ability to finance additional capital expenditure are:
- Whether the revenue resource is available to support in full the implications of both resource and running costs.
 - Use of Government reserve powers.
- 5.7 The Council's expectations for the CFR in the next three years are shown in the table below. The table also shows the expected external debt for each year.
- 5.8 A key risk for these indicators is that the level of government support and other funding sources may change.
- 5.9 If and when borrowing is used to finance the Authority's additional spend, the full cost of the borrowing will be included within the revenue budget and forecasts.

	2014/15 Actual £'000	2015/16 Revised Estimate £'000	2016/17 Estimate £,000	2017/18 Estimate £,000	2018/19 Estimate £,000
Capital Financing Requirement					
CFR – General Fund	11,058	10,703	10,303	10,007	9,447
External Debt					
Borrowing	9,595	9,595	9,595	9,595	9,595
Other Long Term Liabilities	396	322	271	376	201
Total Debt 31 st March	9,991	9,917	9,866	9,971	9,796

Borrowing outstanding as at year-end 2014/15 and 2015/16 is based on, respectively, the Council's actual /revised estimated gross borrowing. The borrowing amount is also within the Operational Boundary (as defined below).

Other long-term liabilities relate to finance leases.

6 MINIMUM REVENUE PROVISION

- 6.1 Local Authorities are required each year to set aside an amount within their accounts to meet the cost of borrowings. This is historically known as the minimum revenue provision (for capital).
- 6.2 The MRP system was revised in March 2008 by regulation, which provides a duty on local authorities to make a prudent provision in respect of their debt levels rather than following a nationally set amount. In the statutory guidance issued by the Department for Communities & Local Government (DCLG), authorities were asked to prepare an Annual Minimum Revenue Provision (MRP) policy for approval by the Council. The four options are set out in (Appendix 1).
- 6.3 For year 2015/16, the Council's Budget has provided for MRP to be calculated on the regulatory basis (option 1). This will continue for 2016/17 for all current outstanding borrowing.
- 6.4 If and when the Council reconsiders the options (3) or (4), estimated life periods will be determined on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure.
- 6.5 The Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the DCLG guidance would not be appropriate.

7 AFFORDABILITY PRUDENTIAL INDICATORS

- 7.1 Within the prudential code framework, the Council is required to assess the affordability of the capital investment plans. These provide an indication of the impact of capital investment plans on the Councils overall finances.
- 7.2 **Actual and Estimates of the ratio of financing costs to net revenue stream**
This indicator identifies the ratio of financing costs as a percentage of the net revenue budget.

Ratio of Financing Costs to net revenue stream

	2014/15 Actual	2015/16 Revised Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
General Fund	4%	4%	4%	4%	4%

7.3 **Estimates of the incremental impact on capital investment decisions on the Council Tax**

This identifies the revenue impact of the proposed changes in the three year capital programme on Band D Council Tax.

Incremental impact from 2015/16 of capital investment decisions on the Band D Council Tax

	Proposed Budget 2016/17	Forward Projection 2017/18	Forward Projection 2018/19
Council Tax – Band D	£-0.73	£0.10	£1.48

In calculating this indicator allowance is made for the impact of any borrowing supported by revenue grant from the Government.

8 TREASURY MANAGEMENT STRATEGY 2016/17 – 2018/19

8.1 The importance of treasury management has increased as a result of the freedoms provided by the Prudential Code. Treasury Management covers the borrowing and investment activities and the effective management of associated risks; and the activities are strictly regulated by statutory requirements and a professional code of practice (CIPFA Code of Practice on Treasury Management in public services, as revised or supplemented by CIPFA from time to time).

8.2 This strategy covers the:

- current treasury position;
- expected movement in interest rates;
- Council's borrowing and debt strategy;
- Treasury Management indicators;
- Debt re-scheduling; and the
- Council's investment strategy.

8.3 Current Treasury Position

	2014/15 Actual £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
External Debt					
Debt at 1 st April	11,295	9,595	9,595	9,595	9,595
Expected Change in Debt	(1,700)				
Other long-term liabilities	396	252	271	376	201
Actual Gross Debt at 31 st March	9,991	9,847	9,866	9,971	9,796
The Capital Financing Requirement	11,282	10,702	10,303	10,007	9,447
Under / (Over) Borrowing	1,291	855	437	36	(349)

- 8.3.1 The current position of the treasury function, and its expected change in the future, introduces risk to the Council from an adverse movement in interest rates. The Prudential Code is constructed on the basis of affordability, part of which is related to borrowing costs and investment returns.
- 8.3.2 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. In general the requirement is that CFR exceeds gross debt. This is currently the situation in 2015/16, and it is expected to continue throughout 2016/17 and 2017/18. However in 2018/19 it is possible that the gross debt will exceed CFR. This will be due to the annual payment of Minimum Revenue Provision. The remaining debt would attract excessive premiums if it were prematurely repaid.
- 8.3.3 The requirement to have CFR exceed gross debt centers around providing an assurance that borrowing is not taking place for revenue purposes. However, as the Council is not borrowing any additional funds at this time, this is not an issue.

8.4 **Expected movement in interest rates**

- 8.4.1 The Council appointed Capita Asset Services Ltd as treasury advisor to the Council and part of their service is to assist the Council to formulate a view on interest rates. The following table gives Capita's view of the movement in interest rates.

	Qtr 1 2016	Qtr 2 2016	Qtr 3 2016	Qtr 4 2016	Qtr 1 2017	Qtr 2 2017	Qtr 3 2017	Qtr 4 2017	Qtr 1 2018	Qtr 2 2018	Qtr 3 2018
Base Rate	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
5 yr PWLB	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%
10 yr PWLB	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%
25 yr PWLB	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%
50 yr PLWB	3.20%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%

- 8.4.2 Capita have also provided comprehensive economic forecasts which are available for inspection if required.

8.5 **Borrowing and Debt Strategy 2016/17 – 2018/19**

- 8.5.1 The Prudential Code and the uncertainty over future interest rates increases the risks associated with the treasury strategy. As a result the Council needs to take a cautious approach to its treasury strategy.
- 8.5.2 The borrowing strategy for 2016/17 should be set to take short dated borrowings at any time in the financial year. Short term borrowing is expected to be cheaper than long term borrowing and will therefore be attractive throughout the financial year compared to simply taking long term fixed rate borrowing.
- 8.5.3 The borrowing strategy will be to borrow on fixed rate terms rather than variable.

9 EXTERNAL DEBT OVERALL LIMITS

- 9.1 There are two Prudential Indicators which control the overall level of borrowing. These are:
- The authorised limit
 - The operational boundary
- 9.2 The authorised limit represents the Councils total borrowing limit, covering short and long term debt. It is the **maximum level** of borrowing which the authority is expected to experience at any point within the year, inclusive of headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003 and needs to be set by Members and later (if necessary) revised by Members.
- 9.3 The operational boundary is the **anticipated level** of external debt during the course of the year. This indicator is primarily an internal monitoring tool that provides a warning of the potential breach of the Authorised Limit for External Debt; and it also informs whether the plans regarding capital expenditure are on target and whether cash flows are proceeding as planned.

	2015/16 Revised Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
Authorised limit for external debt				
Borrowing	35,000	35,000	35,000	35,000
Other long term liabilities	0	0	0	0
Total	35,000	35,000	35,000	35,000
Operational boundary for external debt				
Borrowing	20,000	20,000	20,000	20,000
Other long term liabilities	0	0	0	0
Total	20,000	20,000	20,000	20,000

- 9.4 The Authorised Limit includes the borrowing requirement for unexpected cash movements, which is permitted under the Code. Examples of unexpected cash movements include service delivery failure, or possible clawback of government monies.

10 EXTERNAL v INTERNAL BORROWING

	2014/15 Actual £000	2015/16 Probable outturn £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
Actual external Debt	9,991	9,917	9,866	9,971	9,796
Cash balances	20,216	20,268	4,920	50	50
Net Debt	(10,225)	(10,351)	4,946	9,921	9,746

- 10.1 The Council currently has a difference between gross debt and net debt (after deducting cash balances) of £10.351m.

- 10.2 The general aim of this treasury management strategy is to reduce the difference between the two debt levels in order to reduce the credit risk incurred by holding investments. However, measures previously taken have already reduced substantially the level of credit risk so another factor which will be carefully considered is the difference between borrowing rates and investment rates to ensure the Council obtains value for money once an appropriate level of risk management has been attained to ensure the security of its investments.
- 10.3 The next financial year is expected to continue to be one of historically abnormally low Bank Rate, at least for most of the financial year.
- 10.4 Against this background caution will be adopted with the 2016/17 treasury operations. The Deputy Chief Executive will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the appropriate decision making body.

11 LIMITS ON ACTIVITY

- 11.1 The Prudential code in April 2004 introduced four indicators:
- Upper limits on variable rate exposure. This indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments.
 - Upper limits of fixed rate exposure. Similar to the previous indicator this covers a maximum limit on fixed interest rates.
 - Maturity structures of borrowing. These gross limits are set to reduce the Council's exposure to large fixed sums falling due for refinancing at the same time.
 - Total principal funds invested for a period longer than 364 days.
- 11.2 The aim of the prudential indicators is to contain the activity of the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest or borrowing decisions which could impact negatively on the Council's overall financial position.
- 11.3 The proposed local limit of 100% on variable rate loan debt, as shown in the following table, relates to the potential situation where maturing fixed rate is not replaced.

Treasury Management Indicators

	2015/16 Upper	2016/17 Upper	2017/18 Upper
Limits on fixed interest rates	0%	100%	100%
Limits on variable interest rates	100%	100%	100%
Maximum principal sums invested for over 364 days	£3m	£3m	£3m

11.4 The Council must set upper and lower limits for the maturity structure of its borrowings.

Proposed limits for Maturity Structure of Borrowing

Period to maturity of debt	Upper Limit	Lower Limit
Under 12 months	100%	0%
12 months and within 24 months	0%	0%
24 months and within 5 years	0%	0%
5 years and within 10 years	0%	0%
10 years and above	0%	0%

The maturity in the under 12 month period relates to a short term fixed rate loan and also Lender Option, Borrower Option (LOBO) loans. From 2011/12 the maturity date of a LOBO is now deemed to be the next call date. The LOBO's have six monthly call dates.

12 DEBT RESCHEDULING

12.1 CIPFA issued an updated Statement of Recommended Accounting Practice (SORP 2007) incorporating, for financial instruments, Financial Reporting Standard 25 (Presentation & Disclosure), FRS 26 (Recognition & Measurement) and FRS 29 (replacement disclosure requirements). This presented major potential changes in the treatment of the valuation of debt and investments, the calculation of interest and the treatment of premiums and discounts arising from debt rescheduling. The SORP removed the ability to spread premiums and discounts arising under debt rescheduling over the life of replacement borrowing.

In the main, the above mentioned financial reporting standards have converged with international standards for 2011/12 and onwards reporting.

In exceptional circumstances the Deputy Chief Executive may approve rescheduling under emergency powers, e.g. where swift action is required to secure favourable rates.

This action would be reported to Cabinet.

13 INVESTMENT STRATEGY

13.1 The Council will have regard to the DCLG revised guidance on Local Government Investments; and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance notes revised in 2011. The Council's investment priorities are:-

- The security of capital
- The liquidity of its investments

The Council will also aim to achieve optimum return on its investments commensurate with proper levels of security and liquidity.

13.2 The borrowing of monies purely to invest or on-lend and make a return is unlawful and the Council does not engage in the activity.

13.3 If the Council is in a position where it has surplus funds for a period of time, competitive quotations will be sought from a range of institutions with a view to making a temporary investment. Investments will be placed with the most cost-effective institution, taking dealing

costs into account. The Council uses the services of City brokers to identify the optimum investment opportunities.

13.4 The Council uses the credit ratings available from the three major credit rating agencies; Fitch, Moodys and Standard & Poor, to derive its lending criteria. All credit ratings will be monitored weekly. The Council is alerted to changes in Credit ratings through its use of the Capita Asset Services Ltd creditworthiness service. The creditworthiness service uses a sophisticated modeling approach with credit ratings from all three credit rating agencies. If a downgrade results in the counterparty no longer meeting the Councils minimum criteria, its further use as a new investment will be withdrawn immediately. If required new counterparties which meet the criteria are added to the list. The Credit ratings are supplemented by use of Credit Default Swap (CDS) spreads which give an early warning of likely changes in credit ratings.

13.5 Fully Nationalised Banks in the UK have credit ratings which do not conform to the credit criteria usually used by local authorities to identify banks which are of high credit worthiness. In particular, as they are no longer separate institutions in their own right, it is impossible for Fitch to assign to them an individual rating for their stand alone financial strength. Accordingly, Fitch have assigned an F rating which means that at a historical point of time, this bank has failed and is now owned by the Government. However, these institutions are now recipients of an F1+ short term rating as they effectively take on the credit worthiness of the Government itself i.e. deposits made with them are effectively being made to the government. They also have a support rating of 1; in other words, on both counts, they have the highest rating possible.

The other situation which could arise is where the Bank hasn't been fully nationalised but receives support from the UK Government, in which case the individual rating is E i.e. the Fitch definition is "A bank which requires external support".

13.6 Investment instruments identified for use in the financial year are classified as 'Specified' and 'Non-Specified' Investments. Counterparty limits will be as set through the Council's Treasury Management Practices.

13.7 Specified Investments are sterling investments of not more than one-year maturity. These are low risk assets and the possibility of loss of principal or investment income is very low. The investments are defined as:

1. The UK Government (such as the Debt Management Office, UK Treasury Bills or a gilt with less than one year to maturity).
2. A local authority, parish council or community council.
3. An investment scheme that has been awarded a high credit rating by a credit rating agency such as Standard and Poor, Moody's or Fitch.
4. Pooled Investment Vehicles (such as Money Market Funds) that have been awarded a high credit rating by a credit rating agency.
5. A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society).

13.8 Non Specified Investments include any other type of investment (i.e. not defined as specified above). These are sterling investments with:

1. Securities admitted to the Official List of the Stock Exchange, which are guaranteed by the UK Government (such as supranational bonds).
2. Gilt edged securities with a maturity of greater than one year.
3. Institutions not meeting the basic security requirements under the specified investments.

4. A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society), for deposits with a maturity of more than one year.

At the present time, the Council has no immediate plans to invest in non specified investments, in order to maintain the high security and liquidity of Council funds.

14 TREASURY MANAGEMENT PRACTICES (TMP)

CIPFA recommend that all of the following TMPs should be adopted, with the schedules where appropriate to the scope and nature of the treasury management activities undertaken:

TMP1 Risk Management

The Deputy Chief Executive will implement and monitor all arrangements for the identification, management and control of treasury management risk, reporting at least annually on this; relevant issues include liquidity risk management, interest rate risk management, security of investments, refinancing risk management, legal and regulatory risk management, fraud error and corruption issues, market risk management.

TMP2 Best Value and Performance Measurement

Commitment to best value and performance measurement in treasury management activities.

TMP3 Decision-making and Analysis

Full records to be maintained.

TMP4 Approved Instruments, Methods and Techniques

To list the instruments, methods and techniques that the authority will use to ensure that any risks involved are fully understood and evaluated.

TMP5 Organization, clarity, segregation of responsibilities, dealing arrangements.

Clear written statements of responsibilities, and arrangements for absence cover.

TMP6 Reporting requirements and management information arrangements

As a minimum, reports to be submitted to the Executive and Council on the strategy and plan to be pursued in the coming year, and on performance in the past year.

TMP7 Budgeting, accounting and audit arrangements

To be fully documented.

TMP8 Cash and cash flow management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation will be under the control of the Deputy Chief Executive and aggregated for cash flow and investment management purposes. Cash flow projections to be prepared on a regular and timely basis.

TMP9 Money laundering

Where appropriate, to be alert to the possibility of money laundering, and to maintain procedures for verifying and recording the identity of counterparties etc.

TMP10 Staff training and qualifications

Recognising the importance of ensuring that staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them.

TMP11 Use of external service providers

Recognising the potential value of employing external providers of treasury management services in order to access specialist skills and resources, subject to evaluation of costs and benefits and proper documentation.

TMP12 Corporate governance

Commitment to the pursuit of proper corporate governance and the key recommendations of this Code; accordingly, the treasury management function to be undertaken with openness and transparency, honesty, integrity and accountability.

A full description of each TMP is at appendix 3.

15 POLICY ON THE USE OF EXTERNAL SERVICE PROVIDERS

The Council uses Capita Asset Services Ltd as its external treasury management advisor.

The Council recognises that responsibility for treasury management stays with the organisation at all times and will ensure that undue reliance is not placed upon external service providers.

It also recognises there is value in employing external providers of treasury management services in order to acquire specialist skills and resources.

16 TREASURY MANAGEMENT STRATEGY IN-YEAR AND YEAR-END REPORTING

As well as the half-year update report to Cabinet , treasury management features, when appropriate, in revenue budget monitoring reports during the year; and the annual outturn of treasury management and indicators is reported to Cabinet as soon as practicable after the year end. In addition, in light of the revised code of practice, the Resources Overview and Scrutiny Committee was given by the Full Council, from March 2010 via addition to terms of reference, a role to monitor and review the Council's treasury management strategy and policies; and changes made to the Financial Procedures Rules include for that.

17 IMPLICATIONS

Issue	Comments
Financial Implications (including any future financial implications for the Council)	There are none arising directly from this report.
Legal and human rights implications	The Local Government Act 2003 (part 1) and associated regulations gave statutory recognition to the Prudential Code. Therefore there is a statutory backing to the background and local purpose of the report. Treasury Management activities of local authorities are prescribed by statute – the source of powers is, in England & Wales, the 2003 Act. 'Statutory Guidance' on investment is given by the DCLG to local authorities.
Assessment of Risk	There are inherent risks in capital finance and treasury management. When appropriate the risks are identified and assessed as part of the various recommendations made on Prudential Capital Finance and in the Council's Treasury Management Strategy. Risks arising from Financial Instruments are also described and addressed in the Statement of Accounts' related note.
Equality and diversity implications <i>A Customer First Analysis should be completed in relation to policy decisions and should be attached as an appendix to the report.</i>	There are no specific implications for customers' equality and diversity arising directly from the recommendations in this report.

18 LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

List of Background Papers:

- [Part 1](#) of the Local Government Act 2003 and related regulations
- [The Prudential Code for Capital Finance in Local Authorities \(CIPFA 2011\)](#)
- CIPFA Code of Practice on Treasury Management in Public Services (revised 2011)
- The Council's [Policy Statement on Treasury Management](#) (Full Council February 2015)
- The Council's [Policy on Treasury Management Practices](#) (Full Council February 2015)
- Capital Programme reports
- Revenue Budget reports.

19 FREEDOM OF INFORMATION

The report does not contain exempt information under the Local Government Act 1972, Schedule 12A and all information can be disclosed under the Freedom of Information Act 2000.

Appendix 1

Minimum Revenue Provision Policy Statement 2016/17

Options in statutory guidance

Option 1: Regulatory method

Under the previous MRP regulations, MRP was set at a uniform rate of 4% of the adjusted CFR (i.e. adjusted for "Adjustment A") on a reducing balance method (which in effect meant that MRP charges would stretch into infinity). This historic approach must continue for all capital expenditure incurred in years before the start of this new approach. It may also be used for new capital expenditure up to the amount which is deemed to be supported by Government through the 'SCE allocation' (supported capital expenditure).

Option 2: Capital Financing Requirement method

This is a variation on Option 1 which is based upon a charge of 4% of the aggregate CFR without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation. The CFR is the measure of an authority's outstanding debt liability as depicted by their balance sheet.

Option 3: Asset Life method.

Under this option, it is intended that MRP should be spread over the estimated useful life of either an asset created, or other purpose of the expenditure.

There are two methods of calculating charges under option 3:

- a. equal instalment method – equal annual instalments;
- b. annuity method – annual payments gradually increase during the life of the asset.

Option 4: Depreciation Method

Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions) i.e. this is a more complex approach than option 3.

Appendix 2

Treasury Management Policy Statement 2016/17

Hyndburn Borough Council defines its treasury management activities as follows:-

1. The management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
2. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
3. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Hyndburn Borough Council Treasury Management Practices 2016/17

Contents

		Paragraph
TMP 1	Treasury risk management	1.1 – 1.8.1
TMP 2	Performance measurement	2.1 – 2.3.5
TMP 3	Decision–making and analysis	3.1 – 3.1.3.3
TMP 4	Approved instruments, methods and techniques	4.1 – 4.6
TMP 5	Organisation, clarity and segregation of responsibilities, and dealing arrangements	5.1 – 5.10
TMP 6	Reporting requirements and management information arrangements	6.1 – 6.9
TMP 7	Budgeting, accounting and audit arrangements	7.1 – 7.4
TMP 8	Cash and cash flow management	8.1 – 8.6
TMP 9	Money laundering	9.1 – 9.6
TMP 10	Training and qualifications	10.1 – 10.7
TMP 11	Use of external service providers	11.1 – 11.2
TMP 12	Corporate governance	12.1

TMP1 Risk Management

The responsible officer – Deputy Chief Executive - will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting requirements and Management Information Arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set below.

1.1 Credit and Counterparty Risk Management

Credit and counter-party risk is the risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.

This organisation regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments Methods And Techniques. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

1.1.1 Policy on the use of credit risk analysis techniques

This organisation will use the Capita Asset Services creditworthiness service based on using the Fitch matrix tabled below and secondly applying the colours determined by minimum combinations of ratings to derive maturity limits as follows: -

Fitch Table

Minimum ratings 1	Fitch	Fitch
Short term	F1+	F1
Long term	AA-	A
Viability	AAA to A+	AAA to A+
support	1 or 2 or 3	1 or 2 or 3

Colour Table

- Yellow 5 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)

- Orange 1 year
- Red 6 months
- Green 100 days
- No Colour not to be used

In addition a credit default swap overlay is used as a further safeguard to give early warning of potential creditworthiness problems which may only belatedly lead to actual changes in credit ratings.

As this methodology is complex, readers are referred to the document “Capita Asset Services Credit Policy 2013-14” and “Modification to the Capita Suggested Methodology November 2015” for a full explanation. This document is available on the Capita website (www.capitaassetservices.com)

1. The Council will use credit criteria in order to select creditworthy counterparties for placing investments with.
2. Credit ratings will be used as supplied from all three rating agencies - Fitch, Moodys and Standard & Poors
3. The Treasury Management Consultant will also provide regular updates of changes to all ratings relevant to the council.
4. The responsible officer will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising maturity periods, type, group, sector, country and counterparty limits.
5. Credit ratings for individual counterparties can change at any time. The Principal Accountant is responsible for applying approved credit rating criteria for selecting approved counterparties. Treasury management staff will add or delete counterparties to/from the approved counterparty list in line with the policy on criteria for selection of counterparties
6. The Council will not rely solely on credit ratings in order to select and monitor the creditworthiness of counterparties. In addition to credit ratings it will therefore use other sources of information including: -
 - The quality financial press

- Market data
- Information on government support for banks
- The credit ratings of that government support

7. Maximum maturity periods and amounts to be placed in different types of investment instrument are as follows: -

Maturities up to a maximum of 1 year

Organisation	Minimum 'High' Credit Criteria	Max Amount	Max Period
Debt Management Agency Deposit Facility	-	£2m	1 year
Term Deposits - Local Authorities	-	£2m	1 year
Term Deposits – Banks & Building Societies	Short-term, Long-term, Viability, Support.	£2m	Colour Code Dependant but max of 1 year
Liquid Deposits - Nat West Bank	Short-term, Long-term, Viability, Support.	£3m	1 year
Money Market Funds	AAA long-term rating	£2m	1 year
UK Government Support to the banking sector	Sovereign Rating	£2m	1 year

Maturities in excess of 1 year

Organisation	Minimum 'High' Credit Criteria
Debt Management Agency Deposit Facility	-
Term Deposits - Local Authorities	-
Term Deposits – Banks & Building Societies **	Short-term, Long-term, Viability, Support.

Money Market Funds	AAA long-term rating
UK Government Support to the banking sector	Sovereign Rating

8. Diversification: this organisation will avoid concentrations of lending and borrowing by adopting a policy of diversification. It will therefore use the following: -
- Maximum amount to be placed with any one institution - £2m - with the exception of a deposit in Nat West Liquidity Account where the investment will not exceed £3m.
 - Group limits where a number of institutions are under one ownership – maximum of £10m.
9. Investments will not be made with counterparties that do not have a credit rating in their own right. The definition of **‘high credit quality’** in order to determine what are specified investments as opposed to non specified investments which do not have high credit ratings is set out at the end of TMP1 in schedule 1.

1.2 Liquidity Risk Management

This is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation’s business/service objectives will be thereby compromised.

This organisation will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives. This organisation will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

1.2.1. Amounts of approved minimum cash balances and short-term investments

The Treasury Management section shall seek to minimise the balance held in the Council’s main bank accounts at the close of each working day. Borrowing or lending shall be arranged in order to achieve this aim.

1.2.2. Details of:

a. Standby facilities

At the end of each financial day any unexpected surplus funds are transferred to the Nat West Liquidity Account which is available from the Council’s main bank. The balance on this account is instantly accessible if the group bank account becomes overdrawn.

b. Bank overdraft arrangements

There is no overdraft arrangement for the Council's accounts. Bank Charges will be calculated on overdrawn amounts at base rate (currently 0.5%) plus 4%.

c. Short-term borrowing facilities

The Council may access temporary loans through approved brokers on the London money market. The approved borrowing limit for short term debt is £10m.

d. Insurance/guarantee facilities

There are no specific insurance or guarantee facilities as the above arrangements are regarded as being adequate to cover all unforeseen occurrences.

1.3 Interest Rate Risk Management

There is a risk that fluctuations in the levels of interest rates would create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

This Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

1.3.1 Details of approved interest rate exposure limits

The Treasury Indicators for 2016/17 include a figure of £35 million for External Debt – Authorised Limit.

1.3.2 Trigger points and other guidelines for managing changes to interest rate levels

The Treasury Indicators for 2016/17 include a figure of £20 million for External Debt – Operational Boundary.

1.3.3 Upper limit for fixed interest rate exposure

The Prudential Indicators for 2016/17 include an estimated exposure of 100% of principal sums outstanding in respect of borrowing at fixed interest rates.

1.3.4 Upper limit for variable interest rate exposure

The prudential Indicators for 2016/17 include an estimated exposure of 100% of principal sums outstanding in respect of borrowing at variable interest rates.

1.3.5 Policies concerning the use of instruments for interest rate management.

a. Forward Dealing

Consideration will be given to dealing from forward periods dependent upon market conditions.

b. Callable Deposits

The Council may use callable deposits as part as of its Annual Investment Strategy (AIS). The credit criteria and maximum periods are set out in the Schedule of Specified and Non Specified Investments appended to the AIS.

c. LOBOS (borrowing under lender's option/borrower's option)

Use of LOBOs are considered as part of the annual borrowing strategy. All borrowing for periods in excess of 364 days must be approved by the Deputy Chief Executive.

1.4 Exchange Rate Risk Management

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

The Council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

1.5 Refinancing Risk Management

The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancing, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

This Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

1.5.1. Debt/Other Capital Financing, Maturity Profiling, Policies and Practices

The Council will establish through its Prudential and Treasury Indicators the amount of debt maturing in any year/period.

Any debt rescheduling will be considered when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored in order to take advantage of any perceived anomalies in the yield curve. The reasons for any rescheduling to take place will include:

- a) the generation of cash savings at minimum risk;

- b) to reduce the average interest rate;
- c) to amend the maturity profile and /or the balance of volatility of the debt portfolio.

All rescheduling will be reported to the Cabinet at as soon as possible after the debt rescheduling exercise.

1.5.2. Projected Capital Investment Requirements

The Deputy Chief Executive will prepare a three year plan for capital expenditure for the Council. The capital plan will be used to prepare a three year revenue budget for all forms of financing charges.

The definition of capital expenditure and long term liabilities used in the Code will follow recommended accounting practice as per the Code of Practice on Local Authority Accounting.

1.5.3. Policy Concerning Limits on Affordability and Revenue Consequences of Capital Financing

In considering the affordability of its capital plans, the Council will consider all the resources currently available/estimated for the future together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the two following years and the impact these will have on council tax. It will also take into account affordability in the longer term beyond this three year period.

The Council will use the definitions provided in the Prudential Code for borrowing (65), capital expenditure (66), capital financing requirement (67), debt (68), financing costs (69), investments (70), net borrowing (71), net revenue stream (72), other long term liabilities (73).

1.6 Legal and Regulatory Risk Management

The risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

1.6.1. References to Relevant Statutes and Regulations

The treasury management activities of the Council shall comply fully with legal statute, guidance, Codes of Practice and the regulations of the Council. These are:

English Authorities: -

- Local Government Finance Act 1988 section 114 – duty on the responsible officer to issue a report if the Council is likely to get into a financially unviable position
- Requirement to set a balanced budget – Local Government Finance Act 1992 section 32
- Local Government Act 2003
- S.I. 2003 No.2938 Local Government Act 2003 (Commencement No.1 and Transitional Provisions and Savings) Order 2003 13.11.03
- S.I. 2003 No.3146 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and associated commentary 10.12.03
- S.I. 2004 No.533 Local Authorities (Capital Finance) (Consequential, Transitional and Savings Provisions) Order 2004 8.3.04
- S.I. 2004 No.534 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2004 8.3.04
- Guidance on Investments ODPM 12.3.2004 (revised 1.4.10)
- Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2006 Statutory Instrument No. 521
- S.I. 2007 no. 573 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007
- Local Government and Public Involvement in Health Act 2007 s238(2) – power to issue guidance; to be used re: MRP
- S.I. 2008 no. 414 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2008
- S.I. 2009 no. 321 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2009
- S.I. 2009 no. 2272 The Local Authorities (Capital Finance And Accounting) (England) (Amendment) (No.2) Regulations 2009
- S.I. 2009 no. 3093 The Local Government Pension Fund Scheme (Management and Investment of Funds) Regulations 2009
- S.I. 2010 no. 454 (Capital Finance and Accounting) (Amendment) (England) Regulations 2010
- Localism Act 2011
- S.I. 2012 no.265 Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2012
- S.I.2012 no 711 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No.2) Regulations 2012

- S.I. 2013 no 476 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2013
- 2012 no.1324 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No.3) Regulation 2012

Guidance and codes of practice

- CLG Revised Guidance on Investments 1.4.2010
- CLG guidance on minimum revenue provision – Feb 2012
- CIPFA's Treasury Management Codes of Practice and Guidance Notes 2011,
- CIPFA Prudential Code for Capital Finance in Local Authorities revised 2011
- CIPFA Prudential Code for Capital Finance in Local Authorities – guidance notes for practitioners 2013
- CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities 1996
- CIPFA Standard of Professional Practice on Treasury Management 2002
- CIPFA Standard of Professional Practice on Continuous professional Development 2005
- CIPFA Standard of Professional Practice on Ethics 2006
- The Good Governance Standard for Public Services 2004
- LAAP Bulletins
- IFRS - Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of recommended Practice
- PWLB circulars on Lending Policy
- The Non Investment Products Code (NIPS) - (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.
- Financial Conduct Authority's Code of Market Conduct
- The Council's Standing Orders relating to Contracts
- The Council's Financial Regulations
- The Council's Scheme of Delegated Functions

1.6.2. Procedures for Evidencing the Council's Powers/Authorities to Counterparties

The Council's powers to borrow and invest are contained in legislation.

Investing: Local Government Act 2003, section 12

Borrowing: Local Government Act 2003, section 1

Required Information on Counterparties

Lending shall only be made to counterparties on the Approved Lending list. This list has been compiled using advice from the Council's treasury advisers based upon credit ratings supplied by Fitch, Moodys and Standard & Poors.

1.6.3 Statement on the Council's Political Risks and Management of Same

The Deputy Chief Executive shall take appropriate action with the Council, the Chief Executive and the Leader of the Council to respond to and manage appropriately political risks such as change of majority group, leadership in the Council, change of Government etc.

1.6.4 Monitoring Officer

The monitoring officer is the Executive Director – Legal & Democratic Services; the duty of this officer is to ensure that the treasury management activities of the Council are lawful.

1.6.5. Chief Financial Officer

The Chief Financial Officer is the Deputy Chief Executive; the duty of this officer is to ensure that the financial affairs of the Council are conducted in a prudent manner and to make a report to the Council if he has concerns as to the financial prudence of its actions or its expected financial position.

1.7 Fraud, Error and Corruption, and Contingency Management

There is a risk that an organisation could fail to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fail to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. This is commonly referred to as operational risk.

The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

The Council will therefore:-

- a) Seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.
- b) Fully document all its treasury management activities so that there can be no possible confusion as to what proper procedures are.

- c) Staff will not be allowed to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.
- d) Records will be maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

1.7.1. Details of Systems and Procedures to be Followed, Including Internet Services

Authority

- The Scheme of Delegation to Officers sets out the delegation of duties to officers.
- All loans and investments are negotiated by the responsible officer or authorised persons.
- Loan procedures are defined in the Council's Financial Regulations.

Procedures

- Electronic Banking procedures – A password and PIN number is required to access the Bankline system which is used to make electronic payments.
- CHAPS payments – Payments can only be authorised by agreed officers who have been notified to the current provider of our banking services.

Investment and borrowing transactions

- A detailed register of all loans and investments is maintained by the treasury team. This is regularly checked to the ledger.
- Adequate and effective cash flow forecasting records are maintained on spreadsheets to support the decision to lend or borrow.
- A written acknowledgement of each deal is sent promptly to the lending or borrowing institution.
- Written confirmation is received and checked against the dealer's records for the transaction.
- Any discrepancies are immediately reported to the Principal Accountant for resolution.
- All transactions placed through brokers are confirmed by a broker note showing details of the loan arranged. Written confirmation is received and checked against the dealer's records for the transaction. Any discrepancies are immediately reported to the Principal Accountant for resolution.

Regularity and security

- Lending is only made to institutions on the Approved List of Counterparties.
- All loans raised and repayments made go directly to and from the bank account of approved counterparties.
- Counterparty limits are set for every institution that the Council invests with.
- Brokers have a list of named officials authorised to agree deals..
- There is a separation of duties in the section between dealers and the checking and authorization of all deals.
- The Council's bank holds a list of Council officials who are authorised signatories for treasury management transactions.
- Payments can only be authorised in a formal letter by an authorised signatory, the list of signatories having previously been agreed with the current provider of our banking services.
- There is adequate insurance cover for employees involved in loans management and accounting.

Checks

- The bank reconciliation is carried out monthly from the bank statement to the financial ledger.
- A debt charge/investment income listing is produced monthly when a review is undertaken against the budget for interest earnings and debt costs.

Calculations

- The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated by the Treasury Team.

1.7.2. Emergency and Contingency Planning Arrangements

Disaster Recovery Plan.

Treasury Management related files (word and excel) are stored on the Council's 'H' Drive with arrangements for contingency/back-up. Backup facilities can be accessed off site.

In the event of a 'Bankline System' failure, manual procedures would be followed with information being provided from the Council's Bankers by telephone.

All members of the treasury management team are familiar with this plan and new members will be briefed on it.

1.7.3. Insurance Cover Details

Fidelity Insurance

The Council has 'Fidelity' insurance cover with Zurich Municipal Insurance. This covers the loss of cash by fraud or dishonesty of employees.

This cover is limited to £2m for 12 designated officers, and for all other officers £140k, for any one event with an excess of £5,000 for any one event

Officials Indemnity Insurance

The Council also has an 'Officials Indemnity' insurance policy with Travellers which covers loss to the Council from the actions and advice of its officers in the course of their duty which are negligent and without due care. This cover is limited to £2m for any one event with an excess of £25,000 for any one event.

Business Interruption

The Council also has a 'Business Interruption' cover as part of its property insurance with Zurich Municipal Insurance

1.8 Market Risk Management

The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

1.8.1. Details of Approved Procedures and Limits for Controlling Exposure to Investments Whose Capital Value May Fluctuate (Gilts, CDs, Etc.)

These are controlled through setting limits on investment instruments where the principal value can fluctuate. The limits are determined and set through the Annual Investment Strategy.

TMP 1 SCHEDULE 1 – SPECIFIED AND NON SPECIFIED INVESTMENTS

The guidance and CIPFA TM Code distinguishes between specified and non-specified investments, as follows:-

- **Specified Investments:** All such investments will be sterling denominated with maturities up to a maximum of 1 year, meeting the minimum 'high' quality criteria where applicable.
- **Non-Specified Investments:** These are investments which do not meet the Specified Investment Criteria.

Organisation – Specified unless otherwise stated	Minimum credit criteria / colour band	Max Amount	Max Period
Term deposits with UK Clearing Banks	Purple Blue Orange Red Green No Colour	£2m	Up to 2 years Up to 1 year* Up to 1 year Up to 6 months Up to 100 days Not for use
Liquid deposits with Nat West Liquidity Account	Purple Blue Orange Red Green No Colour	£3m	Up to 2 years Up to 1 year* Up to 1 year Up to 6 months Up to 100 days Not for use
Term deposits with UK Building Societies	Purple Blue Orange Red Green No Colour	£2m	Up to 2 years Up to 1 year* Up to 1 year Up to 6 months Up to 100 days Not for use
UK Local Authorities	N/A	£2m	Up to 1 year
Money Market Funds	Minimum AAA	£2m	Up to 1 year

* Nationalised and part Nationalised banks

TMP 2 Performance Management

2.1 Evaluation and Review of Treasury Management Decisions

The Council has a number of approaches to evaluating treasury management decisions: -

- a. reviews with our treasury management consultants
- b. annual review after the end of the year as reported to full council
- c. half yearly reports to Cabinet

2.1.1 Reviews with our treasury management consultants

The treasury management team holds reviews with our consultants every 12 months to review the performance of the investment and debt portfolios.

2.1.2 Review reports on treasury management

An Annual Treasury Report is submitted to the Council each year after the close of the financial year which reviews the performance of the debt and investment portfolios. This report contains the following: -

- a. total debt and investments at the beginning and close of the financial year and average interest rates
- b. borrowing strategy for the year compared to actual strategy
- c. investment strategy for the year compared to actual strategy
- d. explanations for variance between original strategies and actual
- e. debt rescheduling done in the year
- f. actual borrowing and investment rates available through the year
- g. compliance with Prudential and Treasury Indicators
- h. other

2.1.3 Half Yearly Monitoring Reports

A half yearly Report on Treasury Management is submitted to Cabinet in October which reviews the performance of the debt and investment portfolios. This report contains the same information as the annual report but only includes information for the first 6 months

2.1.4 Comparative reviews

When data becomes available, comparative reviews are undertaken to see how the performance of the authority on debt and investments compares to other authorities with

similar size portfolios (but allowing for the fact that Prudential and Treasury Indicators are locally set). Data used will be sourced from: -

- CIPFA Treasury Management statistics published each year for the last complete financial year
- CIPFA Benchmarking Club
- other

2.2 Benchmarks and Calculation Methodology:

2.2.1 Debt management

- Average rate on all external debt
- Average rate on external debt borrowed in previous financial year
- Average rate on internal borrowing
- Average period to maturity of external debt
- Average period to maturity of new loans in previous year

2.2.2 Investment.

The performance of investment earnings will be measured against the following benchmarks: -

- a. in house investments
- b. Capita Asset Services model

Performance will also be measured against other local authority funds with similar benchmark and parameters managed by other fund managers.

2.3 Policy Concerning Methods for Testing Value for money in Treasury Management

2.3.1 Frequency and processes for tendering

Tenders are normally awarded on a 3 year basis. The process for advertising and awarding contracts will be in line with the Council's Contract Standing Orders.

2.3.2 Banking services

The Council's banking arrangements are to be subject to competitive tender unless it is considered that there will be changes in the volume of transactions in the foreseeable future which renders a shorter period appropriate.

2.3.3 Money-broking services

The Council may use money broking services in order to make deposits or to borrow, and will establish charges for all services prior to using them.

2.3.4 Consultants'/advisers' services

This Council's policy is to appoint full-time professional treasury management consultants (Capita Asset Services) and separate leasing advisory consultants (Chrystal Consulting Ltd).

2.3.5 Policy on External Managers (Other than relating to Superannuation Funds)

The Council's policy is not to appoint external investment fund managers.

TMP 3 Decision-Making and Analysis

3.1 Funding, Borrowing, Lending, and New Instruments/Techniques:

3.1.1 Records to be kept

All loan transactions are recorded on a spreadsheet.

The following records will be used relative to each loan or investment.

- Daily cash balance forecasts
- Money market rates obtained by telephone and e-mail from brokers or direct
- Dealing slips for all money market transactions
- Brokers' confirmations for investment and temporary borrowing transactions
- Confirmations from borrowing /lending institutions where deals are done directly
- PWLB loan confirmations
- PWLB debt portfolio schedules.
- Certificates for market loans, local bonds and other loans

3.1.2 Processes to be pursued

- Cash flow analysis.
- Debt and investment maturity analysis
- Ledger reconciliation
- Review of opportunities for debt restructuring (if applicable)
- Review of borrowing requirement to finance capital expenditure (and other forms of financing where those offer value for money)
- Performance information (e.g. monitoring of actuals against budget for debt charges, interest earned, debt management; also monitoring of average pool rate, investment returns, etc).

3.1.3 Issues to be addressed.

3.1.3.1. In respect of every treasury management decision made the Council will:

- a) Above all be clear about the nature and extent of the risks to which the Council may become exposed
- b) Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained

- c) Be content that the documentation is adequate both to deliver the Council's objectives and protect the Council's interests, and to deliver good housekeeping
- d) Ensure that third parties are judged satisfactory in the context of the Council's creditworthiness policies, and that limits have not been exceeded
- e) Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

3.1.3.2 In respect of borrowing and other funding decisions, the Council will:

- a) consider the ongoing revenue liabilities created, and the implications for the organisation's future plans and budgets
- b) evaluate the economic and market factors that might influence the manner and timing of any decision to finance capital schemes
- c) consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and external grant providers
- d) consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

3.1.3.3 In respect of investment decisions, the Council will:

- a) Consider the optimum period, in the light of cash flow availability and prevailing market conditions;
- b) Consider the alternative investment products and techniques available, especially the implications of using any which may expose the Council to changes in the value of its capital.

TMP 4 Approved Instruments, Methods and Techniques

4.1 Approved Activities of the Treasury Management Operation

- borrowing;
- lending;
- debt repayment and rescheduling;
- consideration, approval and use of new financial instruments and treasury management techniques;
- managing the underlying risk associated with the Council's capital financing and surplus funds activities;
- managing cash flow;
- banking activities;
- leasing.

4.2 Approved Instruments for Investments

Refer to the Annual Investment Strategy (updated February 2016)

4.3 Approved Techniques

- Forward dealing
- LOBOs – lenders option, borrower's option borrowing instrument
- The use of structured products such as callable deposits

4.4 Approved Methods and Sources of Raising Capital Finance

Finance will only be raised in accordance with the Local Government Act 2003, and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

On Balance Sheet	Fixed	Variable
PWLB	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Local temporary	●	●
Local Bonds	●	
Overdraft		●
Internal (capital receipts & revenue balances)	●	●
Leasing (not operating leases)	●	●
Deferred Purchase	●	●

Other Methods of Financing

Government and EC Capital Grants

Lottery monies

Operating leases

Borrowing will only be done in Sterling. All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Deputy Chief Executive has delegated powers in accordance with Financial Regulations, Standing Orders, the Scheme of Delegation to Officers Policy and the Treasury Management Strategy to take the most appropriate form of borrowing from the approved sources.

4.5 Investment Limits

The Annual Investment Strategy sets out the limits and the guidelines for use of each type of investment instrument.

4.6 Borrowing Limits

See the Treasury Management Strategy Statement and Prudential and Treasury Indicators.

TMP 5 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements

5.1 Allocation of responsibilities

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.

(ii) Full Council / Cabinet

- approval of amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Resources Overview & Scrutiny Committee

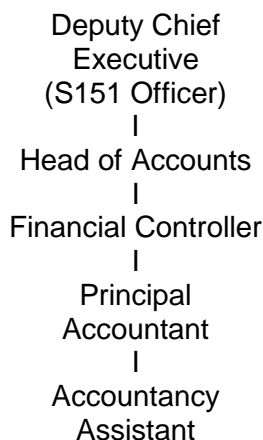
- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

5.2 Principles and Practices Concerning Segregation of Duties

5.2.1 The following duties are undertaken by separate officers: -

Dealing	Negotiation and approval of deal. Receipt and checking of brokers confirmation note against loans diary. Reconciliation of cash control account. Bank reconciliation
Accounting Entry	Processing the expenditure or income i.e.posting the entries into the accounting system.
Authorisation/Payment of Deal	Entry onto system. Approval and payment. Approval of deals

5.3 Treasury Management Organisation Chart



5.4 Statement of the treasury management duties/responsibilities of each treasury post

5.4.1. The responsible officer

The responsible officer is the person charged with professional responsibility for the treasury management function and in this Council is the Deputy Chief Executive *(This post is also the S151 officer.)* This person will carry out the following duties: -

- a) Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- b) Submitting regular treasury management policy reports
- c) Submitting budgets and budget variations
- d) Receiving and reviewing management information reports
- e) Reviewing the performance of the treasury management function
- f) Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- g) Ensuring the adequacy of internal audit, and liaising with external audit
- h) Recommending the appointment of external service providers.
- i) The responsible officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.
- j) The responsible officer may delegate his power to borrow and invest to members of his staff. The Financial controller, the Principal Accountant or the Accountancy Assistant Treasury Management Team must conduct all dealing transactions, or staff authorised by the responsible officer to act as temporary cover for leave/sickness. All transactions must be authorised by at least two of the named officers above.

- k) The responsible officer will ensure that Treasury Management Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.
- l) Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the responsible officer to be satisfied, by reference to the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations
- m) It is also the responsibility of the responsible officer to ensure that the Council complies with the requirements of The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

5.4.2. Financial Controller / Principal Accountant

The responsibilities of this post will be: -

- a) Execution of transactions
- b) Adherence to agreed policies and practices on a day-to-day basis
- c) Maintaining relationships with counterparties and external service providers
- d) Supervising treasury management staff
- e) Monitoring performance on a day-to-day basis
- f) Submitting management information reports to the responsible officer
- g) Identifying and recommending opportunities for improved practices

5.4.3. The Head of the Paid Service – the Chief Executive

The responsibilities of this post will be: -

- a) Ensuring that the system is specified and implemented
- b) Ensuring that the Deputy Chief Executive reports regularly to the full Council and Cabinet on treasury policy, activity and performance.

5.4.4. The Monitoring Officer – Executive Director – Legal & Democratic Services

The responsibilities of this post will be: -

- a) Ensuring compliance by the Deputy Chief Executive with the treasury management policy statement and treasury management practices and that they comply with the law.
- b) Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.

- c) Giving advice to the Deputy Chief Executive when advice is sought.

5.4.5. Internal Audit

The responsibilities of Internal Audit will be: -

- a) Reviewing compliance with approved policy and treasury management practices.
- b) Reviewing division of duties and operational practice.
- c) Assessing value for money from treasury activities.
- d) Undertaking probity audit of treasury function.

5.5 Absence Cover Arrangements

The Head of Accounts is also the deputy S151 Officer.

5.6 Dealing Limits

The following posts are authorised to deal: -

- Head of Accounts
- Financial Controller
- Principal Accountant

The dealing limits are set out in TMP 1.1.1

5.7 Direct Dealing Practices

The Council will consider dealing direct with counterparties if it is appropriate and the Council believes that better terms will be available. At present, most deals are arranged through brokers. There are certain types of accounts and facilities, however, where direct dealing is required, as follows;

- Business Reserve Accounts:
- Call Accounts:
- Money Market Funds.

5.8 Settlement Transmission Procedures

For payments a transfer will be made through the CHAP's system to be completed by the appropriate bank deadlines in place that day.

5.9 Documentation Requirements

For each deal undertaken a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payment date(s), broker.

5.10 Arrangements Concerning the Management of Third-Party Funds.

The Council holds a number of trust funds. The cash in respect of these funds is held in the Council's bank account but transactions are separately coded. Interest is given on credit balances at the bank base rate for internal balances for the year.

TMP 6 Reporting Requirements and Management Information Arrangements

6.1 Annual programme of reporting

- a) Annual reporting requirements before the start of the year: -
 - a. review of the organisation's approved clauses, treasury management policy statement and practices
 - b. strategy report on proposed treasury management activities for the year comprising of the Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy Statement
- b) Mid-year review
- c) Annual review report after the end of the year

6.2 Annual Treasury Management Strategy Statement

1. The Treasury Management Strategy Statement sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the Cabinet and then to the full Council for approval before the commencement of each financial year.
2. The formulation of the annual Treasury Management Strategy Statement involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter term variable interest rates. For instance, the Council may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early if fixed interest rates are expected to rise.
3. The Treasury Management Strategy Statement is concerned with the following elements:
 - a) Prudential and Treasury Indicators
 - b) current Treasury portfolio position
 - c) borrowing requirement
 - d) prospects for interest rates
 - e) borrowing strategy
 - f) policy on borrowing in advance of need
 - g) debt rescheduling
 - h) investment strategy

- i) creditworthiness policy
 - j) policy on the use of external service providers
 - k) any extraordinary treasury issue
 - l) the MRP strategy
4. The Treasury Management Strategy Statement will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable), and highlight sensitivities to different scenarios.

6.3 The Annual Investment Strategy Statement

At the same time as the Council receives the Treasury Management Strategy Statement it will also receive a report on the Annual Investment Strategy which will set out the following: -

- a) The Council's risk appetite in respect of security, liquidity and optimum performance
- b) The definition of 'high credit quality' to determine what are specified investments as distinct from non specified investments
- c) Which specified and non specified instruments the Council will use
- d) Whether they will be used by the in house team, external managers or both (if applicable)
- e) The Council's policy on the use of credit ratings and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list
- f) Which credit rating agencies the Council will use
- g) How the Council will deal with changes in ratings, rating watches and rating outlooks
- h) Limits for individual counterparties and group limits
- i) Country limits
- j) Levels of cash balances
- k) Interest rate outlook
- l) Budget for investment earnings
- m) Policy on the use of external service providers

6.4 The Annual Minimum Revenue Provision Statement

This statement will set out how the Council will make revenue provision for repayment of its borrowing using the four options for so doing and will be submitted at the same time as the Annual Treasury Management Strategy Statement.

6.5 Policy on Prudential and Treasury Indicators

1. The Council approves before the beginning of each financial year a number of treasury limits which are set through Prudential and Treasury Indicators.
2. The responsible officer is responsible for incorporating these limits into the Annual Treasury Management Strategy Statement, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the responsible officer shall submit the changes for approval to Cabinet and then full Council.

6.6 Mid year review

The Council will review its treasury management activities and strategy on a six monthly basis. This review will consider the following: -

- a) activities undertaken
- b) variations (if any) from agreed policies/practices
- c) interim performance report
- d) regular monitoring
- e) monitoring of treasury management indicators for local authorities.

6.7 Annual Review Report on Treasury Management Activity

An annual report will be presented to the Cabinet and then to the full Council at the earliest practicable meeting after the end of the financial year, but in any case by the end of September. This report will include the following: -

- a) transactions executed and their revenue (current) effects
- b) report on risk implications of decisions taken and transactions executed
- c) compliance report on agreed policies and practices, and on statutory/regulatory requirements
- d) performance report
- e) report on compliance with CIPFA Code recommendations
- f) monitoring of treasury management indicators

6.8 Management Information Reports

Management information reports will be prepared every month by the Principal Accountant and will be presented to the Financial Controller.

These reports will contain the following information: -

- a) a summary of transactions executed and their revenue effect; and
- b) the effect on loan charges/investment income; and
- c) any non compliance with Prudential limits or other treasury management limits.

6.9 Publication of Treasury Management Reports

Reports presented to Council and Cabinet are available to view on the Council's website www.hyndburnbc.gov.uk.

TMP 7 Budgeting, Accounting and Audit Arrangements

7.1 Statutory/Regulatory Requirements

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain that is recognised by statute as representing proper accounting practices.

The Council has also adopted in full the principles set out in CIPFA's 'Treasury Management in the Public Services - Code of Practice' (the 'CIPFA Code'), together with those of its specific recommendations that are relevant to this Council's treasury management activities.

7.2 Sample Budgets / Accounts / Prudential and Treasury Indicators

The Deputy Chief Executive will prepare a three year medium term financial plan with Prudential and Treasury Indicators for treasury management which will incorporate the budget for the forthcoming year and provisional estimates for the following two years. This will bring together all the costs involved in running the function, together with associated income. The Deputy Chief Executive will exercise effective controls over this budget and monitoring of performance against Prudential and Treasury Indicators, and will report upon and recommend any changes required in accordance with TMP6.

7.3 List of Information Requirements of External Auditors.

- Reconciliation of loans outstanding in the financial ledger to Treasury Management records
- Maturity analysis of loans outstanding
- Certificates for new long term loans taken out in the year
- Reconciliation of loan interest, discounts received and premiums paid to financial ledger by loan type
- Calculation of loans fund interest and debt management expenses
- Details of interest rates applied to internal investments
- Calculation of interest on working balances
- Interest accrual calculation
- Analysis of any deferred charges
- Calculation of loans fund creditors and debtors
- Annual Treasury Report
- Treasury Management Strategy Statement and Prudential and Treasury Indicators
- Review of observance of limits set by Prudential and Treasury Indicators
- Calculation of the Minimum Revenue Provision

7.4 Monthly Budget Monitoring Report

Monthly Budget Monitoring reports are produced for the Deputy Chief Executive, whilst a six monthly budget monitoring report goes to Cabinet. The report is intended to highlight any variances between budgets and spend in order that the Council can assess its financial position. Details of treasury management activities are included within this report.

TMP 8 Cash and Cash Flow Management

8.1 Arrangements for Preparing/Submitting Cash Flow Statements

Cash flow projections are prepared annually, monthly and daily. The annual and monthly cash flow projections are prepared from the previous years' cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known.

8.2 Bank Statements Procedures

The Council receives daily bank statements and a monthly download of data from its bank. All amounts on the statement are checked to source data from Payroll, Creditors etc. A formal bank reconciliation is undertaken on a monthly basis by the Finance Department.

8.3 Payment Scheduling and Agreed Terms of Trade With Creditors

Our policy is to pay creditors (including sub-contractors) as per the agreed terms of trading.

8.4 Arrangements for Monitoring Debtors / Creditors Levels

The Administration Services Manager is responsible for monitoring the levels of debtors and creditors.

8.5 Procedures for Banking of Funds

All money received by an officer on behalf of the Council will without unreasonable delay be passed to the collection office to deposit in the Council's bank accounts. Cash and cheques banked the previous day will be taken into account in the daily cash flow.

8.6 Practices Concerning Prepayments to Obtain Benefits

The Council has no formal arrangement in place. Where such opportunities arise, the prepayment would be sought and authorised by the responsible officer.

TMP 9 Money Laundering

9.1 Proceeds of Crime Act 2002

Money laundering has the objective of concealing the origin of money generated through criminal activity. Legislation has given a higher profile to the need to report suspicions of money laundering. The Proceeds of Crime Act (POCA) 2002 established the main offences relating to money laundering. In summary, these are:

- concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland
- being concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention, use or control of criminal property
- acquiring, using or possessing criminal property.

These apply to all persons in the UK in a personal and professional capacity. Any person involved in any known or suspected money-laundering activity in the UK risks a criminal conviction. Other offences under the POCA include:

- failure to disclose money-laundering offences
- tipping off a suspect, either directly or indirectly
- doing something that might prejudice an investigation – for example, falsifying a document.

9.2 The Terrorism Act 2000

This act made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism, or resulting from acts of terrorism. All individuals and businesses in the UK have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from, or finance likely to be used for, terrorism or its laundering, where it relates to information that comes to them in the course of their business or employment

9.3 The Money Laundering Regulations 2007

Organisations pursuing relevant business (especially those in the financial services industry regulated by the FSA) are required to appoint a nominated officer and implement internal reporting procedures; train relevant staff in the subject; establish internal procedures with respect to money laundering; obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken and report their suspicions. In December 2007 the UK Government published the Money Laundering Regulations 2007, which replaced the Money Laundering Regulations 2003.

9.4 Local authorities

Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and may commit most of the principal offences under the POCA, but are not legally obliged to apply the provisions of the Money Laundering Regulations 2007. However, as responsible public bodies, they should employ policies and procedures which reflect the essence of the UK's

anti-terrorist financing, and anti-money laundering, regimes. Accordingly this Council will do the following: -

- a) evaluate the prospect of laundered monies being handled by them
- b) determine the appropriate safeguards to be put in place
- c) require every person engaged in treasury management to make themselves aware of their personal and legal responsibilities for money laundering awareness
- d) make all its staff aware of their responsibilities under POCA
- e) appoint a member of staff to whom they can report any suspicions. This person is Head of Accounts.
- f) in order to ensure compliance is appropriately managed, this Council will require senior management to give appropriate oversight, analysis and assessment of the risks of clients and work/product types, systems for monitoring compliance with procedures and methods of communicating procedures and other information to personnel.
- g) The officer responsible for the creation and monitoring the implementation of a corporate anti money laundering policy and procedures is Executive Director – Legal & Democratic Services and it shall be a requirement that all services and departments implement this corporate policy and procedures.

9.5 Procedures for Establishing Identity / Authenticity Of Lenders

It is not a requirement under POCA for local authorities to require identification from every person or organisation it deals with. However, in respect of treasury management transactions, there is a need for due diligence and this will be effected by following the procedures below.

The Council does not accept loans from individuals.

All loans are obtained from the PWLB, other local authorities or from authorised institutions under the Financial Services and Markets Act 2000. This register can be accessed through the FCA website on www.fca.gov.uk.

When repaying loans, the procedures in 9.6 will be followed to check the bank details of the recipient.

9.6 Methodologies for Identifying Deposit Takers

In the course of its Treasury activities, the Council will only lend money to or invest with those counterparties that are on its approved lending list. These will be local authorities, the PWLB, Bank of England and authorised deposit takers under the Financial Services and Markets Act 2000. The FCA register can be accessed through their website on www.fca.gov.uk.

All transactions will normally be carried out by CHAP's for making deposits or repaying loans.

TMP 10 Training and Qualifications

The Council recognises that relevant individuals will need appropriate levels of training in treasury management due to its increasing complexity. There are two categories of relevant individuals: -

- a) Treasury management staff employed by the Council
- b) Members charged with governance of the treasury management function

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. The Council operates a Personal Development Review system which identifies the training requirements of individual members of staff engaged on treasury related activities.

Additionally, training may also be provided on the job and it will be the responsibility of the Deputy Chief Executive to ensure that all staff under his authority receives the level of training appropriate to their duties. This will also apply to those staff who from time to time cover for absences from the treasury management team.

10.1 Details of Approved Training Courses

Treasury management staff and members attend courses provided by our treasury management consultants, CIPFA, money brokers etc.

10.2 Records of Training Received by Treasury Staff

The relevant line manager will update the relevant officers Personal Development Review with details of training received. This will be passed the Human Resources Department who will maintain records on all staff and the training they receive.

10.3 Record of Secondment of Senior Management

Records will be kept of senior management who are seconded into the treasury management section in order to gain first hand experience of treasury management operations.

10.4 Statement of Professional Practice (SOPP)

1. Where the Chief Financial Officer is a member of CIPFA, there is a professional need for the CFO to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.
2. Other staff involved in treasury management activities who are members of CIPFA must also comply with the SOPP.

10.6 Member training records

Records will be kept of all training in treasury management provided to members.

10.7 Members charged with governance

Members charged with diligence also have a personal responsibility to ensure that they have the appropriate skills and training for their role.

MP 11 Use of External Service Providers

11.1 Details of Contracts with Service Providers, Including Bankers, Brokers, Consultants, Advisers

This Council will employ the services of other organisations to assist it in the field of treasury management. In particular, it will use external consultants to provide specialist advice in this ever more complex area. However, it will ensure that it fully understands what services are being provided and that they meet the needs of this organisation, especially in terms of being objective and free from conflicts of interest.

It will also ensure that the skills of the in house treasury management team are maintained to a high enough level whereby they can provide appropriate challenge to external advice and can avoid undue reliance on such advice.

Treasury management staff and their senior management will therefore be required to allocate appropriate levels of time to using the following sources of information so that they are able to develop suitable levels of understanding to carry out their duties, especially in challenge and avoiding undue reliance.

- The quality financial press
- Market data
- Information on government support for banks and
- The credit ratings of that government support

11.1.1 Banking Services

- a) Name of supplier of service is the National Westminster Bank.
- b) Regulatory status – banking institution authorised to undertake banking activities by the FSA
- c) The branch address is:

PO Box No.2
St James Street
Accrington
Lancashire
BB5 1NB
Tel :- 0845 366 0613
- d) Contract commenced 13/6/1975 and is reviewed annually.
- e) Cost of service is variable depending on schedule of tariffs and volumes
- f) Payments monthly and quarterly

11.1.2 Money-Broking Services

The Council may use money brokers for temporary borrowing and investment and long term borrowing. It will seek to give an even spread of business amongst the approved brokers.

- Name of supplier of service:
- a) RP Martin Brokers (UK) Ltd
- 20th Floor
 1 Churchill Place
 Canary Wharf
 London
 E14 5RD
 Tel: 0207 894 8698
 Regulatory Status: FCA registered counterparty 187916
- b) Tullet Prebon Europe Ltd
 155 Bishopsgate
 2nd Floor
 London
 EC2M 3TQ
 Tel: 020 7200 7042
 Regulatory Status: FCA Authorised 146880

When undertaking temporary borrowing. The brokers currently charge commission at 0.1% of the amount borrowed for the duration of the loan. There is no commission charge for undertaking investment transactions.

11.1.3 Consultants'/Advisers' Services

Treasury Consultancy Services

The Council will seek to take expert advice on interest rate forecasts, annual treasury management strategy, timing for borrowing and lending, debt rescheduling, use of various borrowing and investment instruments, how to select credit worthy counterparties to put on its approved lending list etc.

The performance of consultants will be reviewed by the Deputy Chief Executive annually to check whether performance has met expectations.

- a) Name of supplier of service is Capita Asset Services Limited. Their address is 40 Dukes Place, London, EC3A 7NH Tel: 0871 664 6800
- b) Regulatory status: Investment Adviser authorised by the FCA
- c) Contract commenced 2003 and is re-negotiated annually.
- d) Cost of service is currently £9,100 per year.
- e) Payments due annually

Leasing Consultancy Services

- a) The name of the supplier is Chrystal Consulting Ltd.

- b) Their address is 500 Styal Road, Manchester, M22 5HQ.
- c) Tel: 0161 493 9770
- d) Fee is agreed at 0.5% of the capital cost of drawdown and at 25% of any savings negotiated on secondary lease rentals.

Other Consultancy services may be employed on short term contracts as and when required.

11.1.4 Credit Rating Agency

The Council receives a credit rating service through its treasury management consultants, the costs of which is included in the consultant's annual fee.

11.2 Procedures & Frequency for Tendering Services

The procedure for awarding contracts will be as per the Councils contract procedure rules.

TMP 12 Corporate Governance

12.1 List of Documents to be Made Available for Public Inspection

- a. The Council is committed to the principle of openness and transparency in its treasury management function and in all of its functions.
- b. It has adopted the CIPFA Code of Practice on Treasury Management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the Code.
- c. The following documents are available for public inspection: -

- Treasury Management Policy Statement
- Treasury Management Strategy Statement
- Annual Investment Strategy
- Minimum Revenue Provision policy statement
- Annual Statement of Accounts
- Annual revenue budget and capital programme
- 3 Year Capital Plan
- Medium Term Financial Plan

Minutes of Council / Cabinet / committee meetings

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REPORT TO : **CABINET**
DATE : **3rd February 2016**
REPORT OF : **Councillor Gareth Molineux**
Portfolio Holder Resources
PREPARED BY : **Joe McIntyre**
Deputy Chief Executive

MEDIUM TERM FINANCIAL STRATEGY

2016/17 TO 2018/19

February 2016 Update

1. Purpose of Report

The report informs the Cabinet of the 3 year projections of income and spending for the Council ahead of formulating its 2016/17 Revenue and Capital Budget.

2. Recommendations

The Cabinet approves the report and the accompanying Medium Term Financial Strategy (MTFS).

3. Summary

The Medium Term Financial Strategy is attached to this report.

4. Detail

See the attached report on the Medium Term Financial Strategy.

5. Reasons for Recommendations

The Cabinet requires an update on its medium term financial outlook ahead of setting the Budget for 2016/17 and determining the level of Council Tax. This report also ensures those decisions are taken with a view to the overall position of the Council going forward and are not limited to a narrow one year perspective.

6. Alternative Options considered & Reasons for Rejection

Not applicable

7. Implications

Issue	Comments
Financial (inc mainstreaming)	As outlined in the report
Legal (including Human Rights Act requirements)	Not applicable
Assessment of Risk	<p>The Report contributes to the effective risk management of the Council by contributing to the overall financial context in which the Council takes budgetary and other operational decisions.</p> <p>The MTFS is revised on a regular basis to ensure it remains current and that changes in the financial outlook of the Council over the Medium Term are communicated to Members and appropriate action taken.</p>
Equality : Customer First Analysis	Not applicable as this report is for information only.
Key Decision	No

8. Consultations

Service Managers and their key staff are consulted during the early work on the compilation of the MTFS. CMT and Senior Councillors are regularly engaged in formulating forward views and policy objectives and these are taken into consideration when formulating the MTFS. Also an updated version of this report will be presented to the Council's Overview & Scrutiny Panel during February 2016, where both Councillors and Members of the Public are invited to attend and make comment on the report. All input is considered.

9. Links to Corporate Priorities

Priority	Comments
Corp Governance and Community Leadership	The Medium Term Financial Strategy covers all aspects of these objectives.
Community Safety	
Housing and the Environment	
Economy and Employment	
Culture and Leisure	
Other priorities with partners: Health and Social Care Education and Lifelong Learning	

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

[Medium Term Financial Strategy October 2016](#)

11. Freedom of Information

The report does not contain any exempt information under the Local Government Act 1972, Schedule 12a and all information can be disclosed under the Freedom of Information Act 2000.

12. Equality Impact Assessment

There are no specific measures within the report that require an Equality Impact Assessment. Individual proposals stemming from the budgetary process will be Equality Impact Assessed as required over the coming months.

HYNDBURN BOROUGH COUNCIL

MEDIUM TERM

FINANCIAL STRATEGY

February 2016

INTRODUCTION

1. This document sets out, for the next three years,
 - the way in which the Council goes about its financial planning processes, especially in relation to the corporate budget planning cycle, which is subject to the Budget and Policy Framework Procedure Rules,
 - an updated action plan for the process and arrangements for reporting on progress to date in formulating and updating future years' budgets. Specifically this report updates the Medium Term Financial Strategy presented to Cabinet in October 2015.
2. Appendix 1 sets out the background to the current budget predictions in figures to give an idea of commitments, funding and potential Council Tax levels. It indicates that the Council will see a reduction in its resources of £235,000 in 2016/17 compared to the previous year with costs increasing by £666,000. In the following year 2017/18, the Council will lose £913,000 of revenue compared to the previous year and it is likely to see its cost rise by £961,000. In the final year of the MTFS, the resource decrease compared to the previous year is £448,000, with expected extra costs of £1,773,000.
3. Two further scenarios are provided in the following appendices to outline the potential range of values over the coming period, the first at Appendix 2 indicating the outer level of what the Council could face in a

pessimistic future, while Appendix 3 shows an optimistic forecast based on many things going in the Council's favour over the next 3 years.

4. There is significant divergence in the financial predictions for the 3 years between the Pessimistic and Optimistic Models. The divergence between the Pessimistic and Optimistic Models in terms of annual savings that need to be identified is almost £1.95m in 2017/18 and over £1.6m in 2018/19.
5. The Pessimistic Scenario shows, in addition to the losses caused by the reduction in Revenue Support Grant (RSG), a loss of 5% of Business Rates income over the next two years, decreasing resources by £175,000 in 2017/18 and £166,000 in 2018/19. Cost pressures over the same two years add £1,926,000 in 2017/18 and £2,113,000 in 2018/19. The largest items of cost increases are the ending of the Cost Share Agreement with Lancashire County Council and the potential need to fund Capital expenditure from the Revenue Account.
6. The Optimistic Scenario sees increased revenues from NNDR and Council Tax adding £382,000 of Revenue thereby offsetting the £713,000 loss of Revenue Support Grant in 2017/18 and a further £386,000 in 2018/19 to offset the RSG £447,000 loss. While costs only increase by £733,000 in 2017/18 and £1,051,000 in 2018/19, with the removal of the need to finance capital expenditure in 2018/19, the largest single contributor to the improved financial position.
7. Both scenarios are meant to show the outer limits of what might occur and what the Council would face in these circumstances and the reality is that the Council is very unlikely to suffer from all bad news or all good

news over the next 3 years and its fortunes will therefore lie somewhere between the two scenarios.

8. The figures in Appendix 1 therefore remain our current best estimate of the likely financial position over the next 3 years.

OBJECTIVES

9. The objectives of the Medium Term Financial Strategy are:

- to be the financial expression of the Corporate & Performance Plan; it is a financial strategy's role to provide the resources to deliver this plan, and in turn, the Corporate & Performance Plan and service plans need to be consistent with the Financial Plan,
- to ensure that commitments do not exceed forecasted anticipated resources over the period and for each year,
- that expenditure is increasingly focused on those areas which the Council has determined are its priority areas,
- that the level of Council Tax is planned in line with what the Council and the community as a whole regard as being acceptable, albeit within the context of guidelines from Central Government,
- to review the effectiveness of delivery of additional resources into priority areas, to ensure that the objectives set for these target areas are actually being achieved,

- to ensure that the Council is in a strong financial position as measured by size of balances and reserves (consistent with the Chief Financial Officer's recommendations),
- to improve value for money assessments in all services by delivering increased efficiency savings,

All of which must ensure compliance with the Council's Budget and Policy Framework Procedure Rules.

ELEMENTS OF THE MEDIUM TERM FINANCIAL STRATEGY

10. The key elements of the Medium Term Financial Strategy (MTFS) are:-

Forecasting

Resources

The Medium Term Financial Strategy needs to be underpinned by sound forecasting mechanisms for the likely resources available to the Authority over a three year period. The Cabinet receives reports on the achievement of the financial plan with future projections for the following three years at regular intervals.

Budget Monitoring &

Forecasting

Commitments

Budget monitoring reports and forecast commitments are reported to Cabinet, and are developed as the year progresses, as indeed are ways of balancing resources with any new commitment if potentially outside the financial plan.

Corporate strategic
direction & priorities

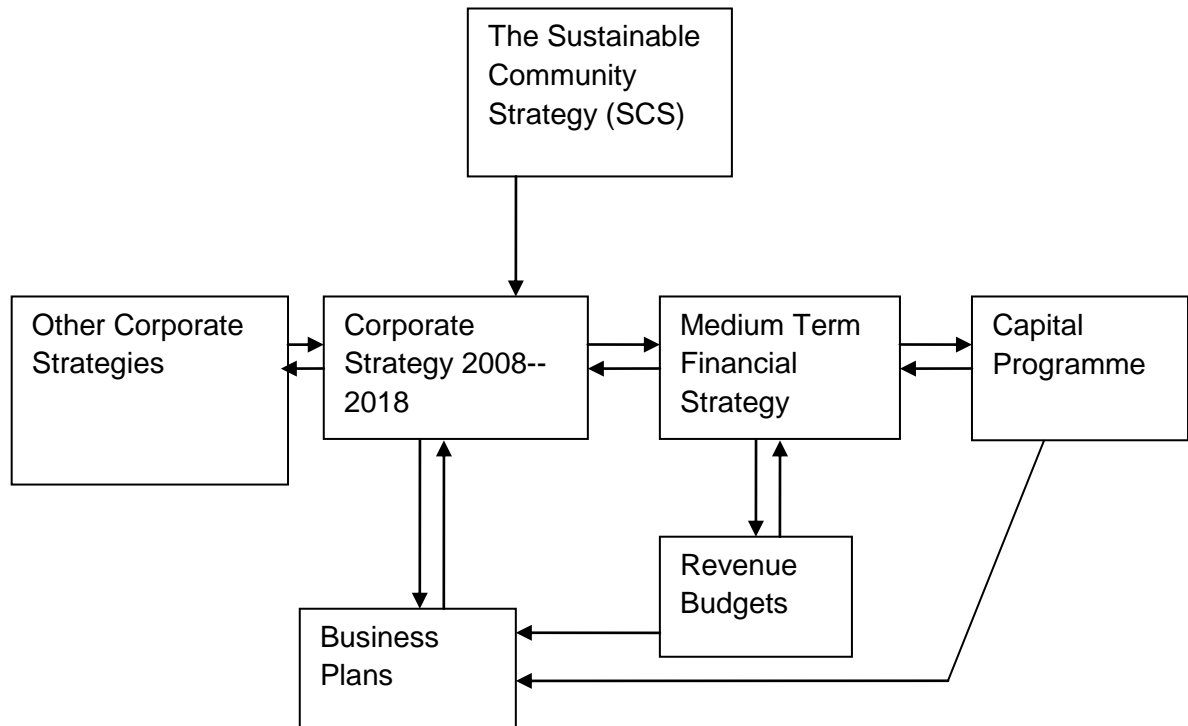
In the context of the Medium Term Financial Strategy (MTFS) the Council

of the Council

has a clear hierarchy of strategy documents (see chart below) headed by the Sustainable Community Strategy (SCS) which sets out the vision and high level priorities for the Council. The SCS drives the Corporate Strategy 2008-18 which links to the MTFS with details of committed events and their budget implications. These commitments are reflected in accordance with the Budget and Policy Framework Rules and consequently in Services' Business Plans. This hierarchy of plans gives clear direction on the Council's priorities and actions.

It is for the Cabinet, subject to overall decision by the Council, to recommend precisely which areas are their priorities to receive additional investment and which will receive less in the light of such priorities. This process reaches its natural conclusion in the Annual Budget Report.

11. Strategy Hierarchy:-



Service planning to support overall strategy

12. The Corporate Strategy, together with Service Business Plans, provides a service planning structure that translates the priorities and aims of the overall strategy into measurable actions at the point of service delivery.

13. The Medium Term Financial Strategy, as it impacts on individual services' budgets, is reflected in service plans so that proper planning can take place in line with available resources. The preparation of service plans is also required in parallel with future years' budget plans since realistic levels of savings have to be determined for services in line with any overall shortfall in corporate funding. The Coalition Government's steps to balance the overall financial pressure stemming from the Economic

Recession have led to significant reductions of funds available from Government to support Hyndburn's activity up to the General Election in May 2015 and the new Conservative Government has announced plans to further reduce the public sector funding over the course of the new Parliament. This has further increased the pressures on Hyndburn to reduce costs. The impact of these changes can be seen at Appendix 1 and requires the Council to continue to make savings over the lifetime of the MTFS.

Integrated Resource Planning with Service Plans

14. Growth items in future years (both revenue and capital schemes as applicable) and areas for savings, need to be identified in the Service Plans and Financial Plans should be developed consistently so that the impact of one on the other is fully appreciated, subject of course to Service Plans remaining within the limits allowed in the agreed Medium Term Financial Strategy. This precludes bids for extra resources arising during the course of the year for implementation in that year unless other funding can be identified. Developments are planned in accordance with a timetable well ahead of the year of implementation. They form part of an agreed strategy and need to be consistent with the priorities identified within the plan. Individual bids for resources, taken in isolation from the overall planning process, should therefore not occur.

Capital Strategy and Asset Management Plan

15. The Capital Strategy and the Asset Management Plan have been approved by Cabinet. Having determined the Capital Strategy it will be

vital for the Council to comply with it in determining schemes within the Capital Programme. Not doing so will have a detrimental effect on the achievement of the Medium Term Financial Strategy.

Background Information

16. The MTFS covers the period from 2016/17 to 2018/19. It is set against a background of continuing global financial volatility stemming from worldwide Recession that began as a result of the banking crisis in 2007/8. There are some indications that parts of the globe have recovered and are achieving positive economic growth.
17. However the picture remains fragile in both the US and the UK and there remains a concern of a long period of stagnation before any meaningful economic recovery is achieved.
18. There is continuing concern that Greece may not be able to meet its financial commitments and may not be able to continue with the Euro as its currency. If Greece defaults on its debts or exits the Euro there is concern this may lead to other Governments defaulting on their debts or leaving the Euro, all of which could create a long period of sustained economic uncertainty and a potential sharp downturn in the global economy.
19. Elsewhere, China and other nations are continuing to show strong relative growth compared to the West but with some indications the level of growth is slowing compared to recent years. There is also a continuing backdrop of increasing concern over currency rates and the potential escalation of these tensions into increased protectionism of national economies and the danger of trade wars emerging which will

further inhibit global recovery. The continuation of conflicts in Ukraine, Iraq and Syria, the mass migration into Europe, the recent Volkswagen emission scandal, North Korea's claim to have successfully tested the detonation of a nuclear bomb and recent falls in the Chinese Stock Market are all contributing to nervousness over the potential extent of any sustained world-wide economic recovery. The large drop in oil prices over the last 12 months is also causing some economists to express concerns over the future of worldwide economic growth.

20. Against this backdrop Britain has emerged from Recession and currently has the strongest level of growth among the major Western economies. The recovery has however been achieved on the back of major reductions in public spending and a commitment that this will need to continue for the next 3 to 5 years.

21. Local Government and particularly District Councils have faced significant reduction in Government funding as a consequence and the Local Government Settlement announced in late December 2015 maps out a continuing reduction in funding from Central Government to Local Government over the next 4 years, with District Councils again suffering the most from these reductions.

22. The estimated figures for the next 3 years, 2016/17 to 2018/19 are shown at the end of this document in Appendix 1. They show that by

2018/19, Hyndburn will be receiving £1.9m from Government compared to the £7.1m, it was receiving in 2010/11.¹ This is a reduction of 78%.

23. The Medium Term Financial Strategy assumes that the Council is able to deliver its 2015/16 Budget as planned. The Cabinet has requested that the Corporate Management Team continue to look to improve the position during 2015/16 to ensure value for money is being delivered across all services and further savings are made. The Council currently predicts that it will achieve a surplus on its Budget for 2015/16. The General Fund Balance stands at £2.5m at the end of March 2015, though with a number of commitments already against it². This level of Reserve would normally be viewed as providing strong cover against the potential liabilities the Council faces. However with:-

- large reductions in Central Government support for the next 3 to 5 years,
- Council Tax revenues likely to remain static over the period, due to strong local political desires to avoid increasing the burden of taxation on the public at the time of other significant financial pressures for the people of Hyndburn and changes in collection rates due to Council Tax Support replacing Council Tax Benefit.

¹ The figure is adjusted for a like for like basis and now excludes Business Rate funding which was part of government funding in 2010/11 but no longer forms part of Government funding in 2016/17. An adjustment of £3.1m has been applied to earlier figures to allow for like for like comparisons over the period. This is based on the Government's figure that £3.1m is the correct business rate figure currently for Hyndburn Council. No adjustment for inflation has been made as it is viewed this would be relatively small compared to the overall figure.

² These include repayment of taxi license fees incorrectly charged in previous years, amounts relating to Municipal Mutual Insurance which was liquidated in the 1990s and for which the Council has continuing liabilities, potential land search fees which may have to be repaid, historic insurance claims and invest to save and other expenditure authorised since the 31st March 2015.

- Cost inflation continuing while overall revenues decline,
- and the need to incur upfront costs to secure long term savings,

the level of Reserves at £2.5m can be viewed as just above the minimum level of provision in the much more volatile financial climate which we now face.

24. The format of the Medium Term Financial Strategy considers the current estimated resources available for 2016/17 and builds upon anticipated changes to income and costs over the 3 year period beyond. At this stage, the Medium Term Financial Strategy considers the broad strategic impact of known changes. As always, it is possible for new events to affect the budget position and these will be considered in future revisions to the Medium Term Financial Strategy. It is anticipated that the next update to the Medium Term Financial Strategy will occur in October 2016, immediately ahead of the Council starting its Budget process for 2017/18.

25. Despite the difficulties over the last 3 financial years the Council has continued to maintain its finances and provide value for money services. Balances stand in excess of £2.5m and we have generated significant savings in each of the last 10 financial years and expect to manage our finances during 2015/16 to once more achieve an underspend. It is likely that any savings this year will be used to fund the achievement of future savings, capital spend and investment.

Financial Analysis 2016/17 to 2018/19

26. This report at Appendices 1, 2 and 3 sets out the numerical values of the combined impact of the different financial assumptions for the next 3 years. Detailed commentary on the assumptions and their financial value is provided below. The report looks at the strategic shift in a number of the largest areas of the Council's Budget, before examining those changes which are a more persistent element within our financial forecasts.

Resources

27. From April 2011 the Council faced major changes in how it is funded as a result of Central Government decisions taken to reduce overall public sector spending in light of the worldwide recession and pressure to reduce the national deficit. These changes include:-

- ❖ The ending of the system of direct government funding to local government based on need;
- ❖ The introduction of a new system centred around how much revenue is collected locally as business rates, adjusted via a series of tariffs and top-ups;
- ❖ The transfer of the risk of non-collection of business rates and the cash flow impact to Councils away from HM Treasury;
- ❖ The ending of the national universal system for Council Tax benefit and its replacement by locally determined schemes with an accompanying 10% reduction in funding at a national level.

28. These changes have a high potential to significantly reduce the core funding of the Council in future years. The changes also create a much greater risk of volatility between years as business rate collection is much more prone to fluctuate than the previous system of government grants and Council Tax Support levels may vary significantly depending on the state of the economy and the number of claimants.
29. These changes effectively signal a period of decline in the overall resources available to the Council over the period of the Medium Term Financial Strategy. More detail on the nature of the changes and their impact is provided below.

Government Grant

30. The Local Government Settlement for 2016/17 has furthered altered the funding allocations for the Council compared to previous years. In 2015/16 Hyndburn Council was receiving Revenue Support Grant, Efficiency Support Grant and Council Tax Freeze Grant, as well as Homelessness Prevention Grant, Housing Benefit Administration Grant and New Homes Bonus. For 2016/17, the Government has merged Efficiency Support Grant and Council Tax Freeze Grant into Revenue Support Grant so that the individual amounts can no longer be identified and reduced the overall funding by £806,000 or 16%%.
31. The impact on the overall Revenue Budget is 14% or £600,000 as our previous practice has been not to use all Government funding for Revenue purposes with some elements of Efficiency Support Grant, Council Tax Freeze Grant and all of New Homes Bonus being used to

support the Capital Programme³. Funding of the money we used to finance Capital Spend is down £206,000 or 24%. The impact of Capital Funding within the MTFS is dealt with later in the report.

Change In Government Support 2016/17 compared to 2015/16				
	2015/16	2016/17	Variance	Percentage Change
Overall Change				
HBC REVENUE				
Revenue Support Grant	£ 2,312,430	£ 3,159,264	£ 846,834	
Efficiency Support Grant	£ 1,272,186		-£ 1,272,186	
Council Tax Freeze Grant Part 1	£ 78,146		-£ 78,146	
Housing Benefit Admin Grant	£ 605,143	£ 508,403	-£ 96,740	
Homelessness Prevention	£ 35,339	£ 35,423	£ 84	
HBC Revenue Change	£ 4,303,244	£ 3,703,090	-£ 600,154	-13.9%
HBC CAPITAL				
Efficiency Support Grant Part 2	£ 223,435		-£ 223,435	
Council Tax Freeze Grant Part 2	£ 106,814		-£ 106,814	
Council Tax Freeze Grant 2015/16	£ 53,171		-£ 53,171	
New Homes Bonus Main	£ 451,787	£ 639,204	£ 187,417	
New Homes Bonus Additional	£ 10,564		-£ 10,564	
HBC Capital Change	£ 845,771	£ 639,204	-£ 206,567	-24.4%
HBC Total Change	£ 5,149,015	£ 4,342,294	-£ 806,721	-15.67%

32. The Local Government Settlement for 2016/17 comes with an offer from the Government of a 4 year funding deal. It is not clear as yet what this offer entails. So far the Government has provided settlement figures for the next 4 years assuming local Councils accept the offer and has only so far stated that local Councils accepting the offer would have to produce an efficiency plan. More detail is expected to emerge over the next few months of any further criteria in return for the 4 year offer. Caution is also required over the published figures for the next 4 years as the Government will no doubt reserve the right to alter them in the future if

³ This was done to remove the dependency on Government Funds that were considered to be time limited and avoid building into the Revenue Budget additional spending which would subsequently be removed and thereby create further funding pressures once withdrawn by the Government. Using these “extra” funds from the Government for Capital purposes allowed us to finance key capital projects.

they need to and may alter them for all sorts of other reasons that they consider necessary. However, the published figures from DCLG are the best guide to the likely settlement we will receive over the next 4 years and they are presented below and used as the new basis for forecasting the most likely financial position of Government funding for the Council in its Medium Term Financial Strategy.

Change in Government Funding 2016/17 to 2019/20

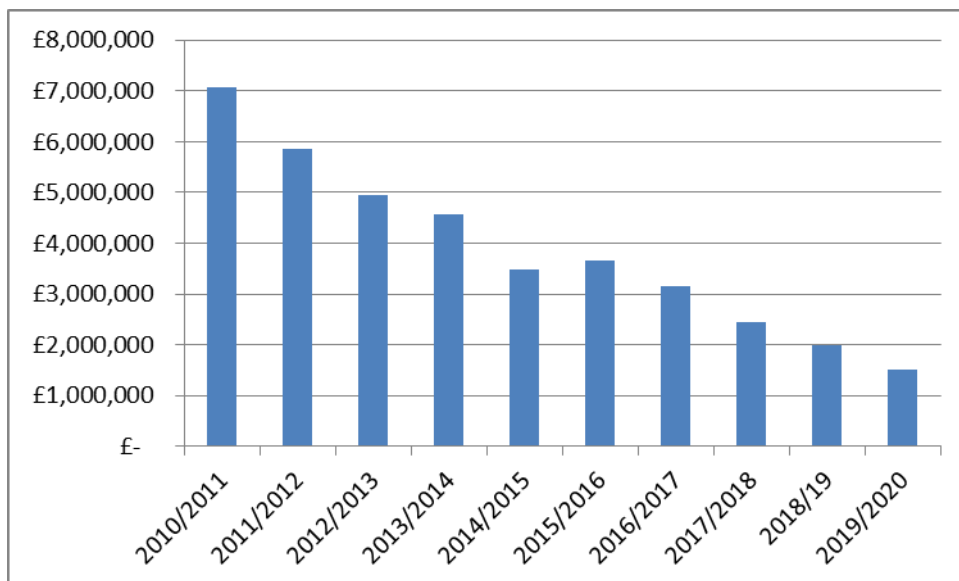
Year	RSG	Change	Cumulative Change	Percentage Change
2016/17	£ 3,159,264			
2017/18	£ 2,449,264	£ 710,000		22.5%
2018/19	£ 1,999,264	£ 450,000	£ 1,160,000	18.4%
2019/20	£ 1,499,264	£ 500,000	£ 1,660,000	25.0%

33. This shows a total reduction of £1.6m over the next 4 years, with a 22.5% reduction of £710,000 in 2017/18, a 18.4% further reduction in 2018/19 with a further loss of £450,000 of government funding, followed by another £500,000 removed from Revenue Support Grant in 2019/20, which will be a 25% reduction. Given we received £3.66m in RSG or the equivalent Government funding in 2015/16 this is a total loss of £5.54m of resources over the period 2016/17 to 2019/20 compared to having been funded at the same level as 2015/16 and represents a loss of 38% of potential revenue for that period.⁴

⁴ The total reduction in funding is likely to be higher than this in reality as we expect New Homes Bonus (which is not included in the figures above) to decline over this period as the Government has announced that it intends to cut funding for New Homes Bonus by around a third in additions to the reductions in RSG.

34. The total reduction in core Government funding for our Revenue Budget since 2010/11 is shown in the diagram below. This shows a drop from just over £7m in 2010/11 to £1.5m by 2019/20. A fall of £5.5m or 78%.

Reduction In Government Funding to Hyndburn Council 2010/11 to 2019/20



35. For the purposes of the MTFS the reduction in Government Funding remains significant over the next 3 years and is the largest variable factor in the Council's finance over this period. Setting aside the actual physical loss of cash over the period the Government's offer of a 4 years funding settlement is attractive if the requirements for accessing this certainty are not too onerous and the Government does not use other methods to adjust the figures subsequently. If the Government conditions are not onerous and some assurance around the stability of the commitment to 4 years funding can be substantiated it would be sensible to accept this

offer and recommendations will be made within the Revenue Budget 2016/17 papers to this effect.

Business Rates

36. The Government introduced changes to Council funding from April 2013, which ended the previous system of business rates collected locally but pooled nationally and redistributed by the Government via an assessment of “need”.
37. The new system from April 2013 attempts to allow Councils to retain the business rates raised locally. However the implementation of the new system significantly altered the original aspiration of local business rates retained locally and the current system sees the vast majority of business rates transferred away from Hyndburn. This is due to Government rules which firstly top-sliced 50% of locally collected business rates into a Central Government pot to support a variety of Government policies across Local Government. A further 10% of the monies collected is transferred to Lancashire County Council and the Fire and Rescue Authority, leaving Hyndburn with only 40% of the locally raised business rates. The 40% remaining is then further reduced under the rules introduced by the Government to further redistribute funds between local Councils. In a system called “Top-Ups and Tariffs” the Government determined amounts to be deducted from “Tariff” Councils to help fund Councils which did not have sufficient funding in their view to meet their expenditure needs.
38. As a consequence Hyndburn which raises around £20m in Business Rates each year is only allowed to retain about £3.1m from this source of funding.

39. The current system is designed to encourage local Councils to benefit from economic growth in its local area and therefore currently Hyndburn can benefit from local economic growth that increases business rates within its borders. The growth is split 50:50 with the Government, unless the Council enters into a Pooling arrangement for business rates with other Councils in which case it can retain 100% of the growth locally.⁵
40. The new system while providing a vehicle for local Councils to potentially benefit from growth in the local economy also has transferred the financial risk of declining business rates to local Councils and a local Council that was seeing local business premises close or move away from their local area would suffer declines in revenues. As well as closures, local councils are also facing the financial consequences of large scale business rating appeals, where businesses claim their properties have been over valued for business rating purposes and they require lowering. Successful appeals lead to both a lowering of the amount of business rates we can collect locally going forward and therefore to a lower amount of resources for the Council to spend and for the need to recompense for previous “over charged” years reducing further the sums that can be deployed to finance local public services.
41. The current estimate for 2016/17 of Business Rates income for the Council is £3,495,000. This is up from £3,245,000 in 2015/16 to reflect some local growth slightly outstripping local closures and appeals, the benefit of a proposed pooling agreement across 10 Lancashire Councils and a small surplus from previous years. The assumption over the

⁵ The downside to Pooling arrangements are that outside of a Pool, the Government guarantees every local council a minimum of 92.5% of their baseline funding, once a Pool is formed this guarantee is ended and Councils run the risk of being financially worse off if their business rates income plunges.

following two years within the MTFS is that this figure remains constant, with growth continuing to outperform negative factors such as closures, appeals and bad debts but only marginally, the Business Rate Collection Fund remaining in surplus and Business Rate Pooling continuing.

42. While for financial forecasting purposes it is assumed that Business Rate income to the Council will remain constant over the period between 2016/17 and 2018/19, it is possible that it could move in either direction, positively for the Council if local businesses continue to grow and appeals on business rates are largely unsuccessful. Or negatively, if the local or national economy weakens or appeals on business rate values are largely successful. This is covered in detail later in the report on the section on the various financial scenarios the Council faces.
43. The negative impact from a declining economy is currently viewed as less likely to occur given the signs of local business expansion and investment, as well as the United Kingdom's recovery from the Recession. However world markets remain volatile and there are a small but significant number of warnings in the financial press of the dangers of another major contraction in the global economy.
44. Business Rates growth does provide one of the few areas in which the Council could substantially increase its income and in the Optimistic Scenario up to £500,000 in each year of extra revenue is viewed as potentially possible in the right economic circumstances.

Council Tax

45. The Council expects to raise £4.4m in Council Tax in 2016/17. This is up 1.3% on the previous year and represents an additional £56,000 of

revenue at the Council's disposal. The increased revenue comes from growth in the council tax base via a small increase in the number of houses eligible to pay Council Tax from a combination of new builds and declining numbers of empty properties.

46. The assumption in the MTFS is that the charge to individual households for Council Tax by Hyndburn Council does not increase in any of the three years covered by the financial forecasts. Council Tax has not increased in Hyndburn since 2009/10 and there has been strong local political commitment not to add to the burden of local residents through the Recession by increasing Council Tax.
47. The Government has however signalled a change in the position it held throughout the last Parliament. Previously it strongly promoted that Council Tax should not be increased. Now the Government is indicating that a small amount of increase is to be expected. It has done this by building into its own forecasts for each local council an amount of revenue growth stemming directly from Council Tax increases, increasing the cap from 2% to 4% for adult social care councils, allowing small councils to increase their council tax by £5 or 2% whichever is the greater and not providing a council tax freeze grant.
48. In these circumstances and given the further reductions the Council faces in core Government Grant the Council may need to consider raising Council Tax from 2017/18 and this is considered in the Optimistic Scenario, where it added approximately £90,000 to the Council's revenue in 2017/18 and a similar amount in 2018/19. The cumulative impact of increasing council tax is important as raising Council Tax by 2% in both 2017/18 and 2018/19 leads to the Council having £180,000 more

revenue in 2018/19 than it had in 2016/17. It is not expected that Council Tax income will decline over the coming period and therefore the Pessimistic Scenario mirrors the Standard prediction.

Collection Fund Adjustment

49. The Collection Fund is the account into which all Council Tax is paid and then distributed to the relevant precepting authorities, Lancashire County Council, the Lancashire Police and Crime Commissioner, the Lancashire Fire & Rescue Authority and Altham Parish Council. The Fund should fluctuate year on year around a neutral position and for forecasting purposes for 2016/17 we have assumed a surplus of £200,000 with the Fund in balance in the following two years. Any additional surplus above this figure of £200,000 will be held used in the first instance to assist in balancing the overall budget and any remaining funds above the requirement will be used to support Capital Expenditure or Invest to Save initiative or transferred to Reserves.

Expected Loss of Income

50. As part of its proposed reforms to the national Benefits System the Coalition Government announced plans to consolidate most benefit payments into a single system called Universal Credit. As part of this process Housing Benefit which is administered by local authorities will end, at least for those of working age and as such the Government is substantially reducing the amount it pays local councils to undertake this work. The Government announced an original timetable in which it envisages that all working age Housing Benefit Claims will cease by the start of the financial year 2018/19. This deadline does not look like it will now be achieved and the MTFS therefore adjusts for the loss of this

income over the next three years. The Optimistic Scenario shows a slightly lower reduction in the grant, assuming that the Government is unable to keep to its current timetable and has to delay the transfer of work away from the Council and continues to fund the work at a higher level.

51. The Government cancelled its direct funding for the Housing Market Renewal from the end of 2010/11. Our remaining activity in this area is limited to the residual funds we hold and as this funding is deployed our ability to fund capitalised costs disappears.
52. The remaining funds are expected to allow between one and two more years of funding in this area based on the money available to be carried forward. This reduction in Housing Market Renewal activity will bring with it a reduction in the amount of fees and capitalised time the Council can charge against this project. It is estimated that we will see no decline in income in 2016/17, with the remainder of the funding largely disappearing over the following 2 years. Again, for financial forecasting purposes we have shown this change as leading to an increase in the net spending of the Council, though clearly as this work comes to an end, we would expect to reduce the resources committed to this area or to switch the resource and funding to other programmes such as Empty Homes Cluster and Town Centre Regeneration.
53. Similar to the decline in the Housing Market Renewal Programme, our declining Capital Programme will also have a knock-on impact on our Revenue position. (See the section below for the impact on Capital Expenditure within the MTFS.) Over the last decade the Council has operated a significant Capital Programme in excess of £15m. The ending

of HMR and the substantial decline in external funding and the Council's other sources of finance for capital projects, has led to a large decline in Capital spend and the subsequent impact on fees and capitalisation of staff time to these types of projects. For 2016/17 we have reduced this income source from capital projects to revenue budgets by around £50,000 and we expect this to further decrease by £58,000 in 2017/18.

54. Currently the Council's Waste Service activity receives around £800,000 from recycling activities. This money comes from a combination of payments from Lancashire County Council for helping to avoid waste going to landfill and the sale of material which can be re-used. The County Council has announced that it will stop the payments to District Councils under this scheme known as "Cost Sharing" from 2018/19 and therefore the MTFS recognises the loss of this income and the potential knock-on loss of income from the money earned from recycling other materials. The combined loss of income of £800,000 is reduced by estimated savings of £150,000 that would have to be made as a minimum should this activity cease. More detailed figures will be produced when the final details are known nearer the time. The potential redundancy costs from these changes are also shown in the MTFS in 2017/18 and are covered below.

Changes in Costs

Salaries Costs

55. As an individual line across all budget areas the cost of employing staff at over £10m is the largest expense faced by the Council. Upward pressures

on this budget stemming from pay awards should be very low over the period of the MTFS.

56. The Government has signalled that it intends to limit pay increases in the public sector to 1% in each of the next few years. While no formal agreement has been reached between the local government employers side and the Trade Unions it is expected that pay settlements will be in line with the Government's objective and a 1% increase has been used over the 3 years.
57. It is possible that wage settlements will be higher if the economy shows stronger signs of recovery and this scenario is covered in the Pessimistic model. Given that resource levels are likely to shrink over the period, wage increases add to the overall pressures to make savings and may lead to redundancies.
58. There is no uplift in payroll costs expected to occur due to the introduction of the Living Wage. Currently the Council is paying above the levels proposed and estimates indicate that it will only have a small impact on our overall wage bill in 2018/19.
59. The 2017/18 salary projections figure also includes an uplift in National Insurance Contributions of £140,000 due to the additional charge all employers will face from the introduction of the Common State Pension.

60. The Government has also announced an Apprentice Levy on all employers of 0.5% of the payroll bill from April 2017. It is estimated that this could cost the Council an additional £50,000 per year depending on how it is to be calculated.

Pension Costs

61. Pension costs are not expected to increase over the period except in line with the small increase in the overall wages bill and therefore are considered negligible. A new Triennial Review of the Pension Funds overall position is expected over the next 3 years. Historically the Council has faced increased employer's contributions when the new rates are announced by the Actuary. However the Council has taken a number of steps to stem the tide of increased costs over recent years including paying contributions at a higher level than required by the Actuary and making one-off additional contributions into the Pension Fund whenever it could do so. This ensured at the last Triennial Valuation the Council's employer's contribution level was reduced for the first time and we would expect this to be the case at the next revaluation. It has also seen the Council move from one of the Employers required to make the highest contribution amongst Lancashire Districts to the third lowest. The MTFS does not show a saving resulting from this potential reduction at this time as it is expected we will continue our existing policy of paying at the current levels to further reduce the overall deficit and ease our long term financial commitments. The Council also intends to continue to make additional contributions to the Pension Fund when it has funds available to do so.

Pension Auto-Enrolment

62. The auto-enrolment of staff into pensions will enter its final phase in October 2017 with full years costs of £166,000 expected to be created. The MTFS therefore carries an additional £83,000 of costs for 2017/18 with a further £83,000 to be included the following year.

Potential Redundancy Costs

63. The MTFS recognises the potential for the Council to face significant redundancy costs in 2017/18 as it prepares to deal with a major shift in the funding of Waste Services in 2018/19. (Previous potential redundancy costs in relation to Housing Benefit have been removed from the forecast as the Government has indicated that it will reimburse any such costs to local government.⁶).
64. The proposed changes that lead to the redundancy costs stem from proposals from Lancashire County Council to end a Cost Share Agreement for the separate collection of different types of waste material that can be recycled. These changes are explained in detail above in the section on loss of income.

Supplies and Service Costs

65. General inflation continues across the economy and has been close to 5% in the recent past but has been declining over the last few years. It has fallen below the Bank of England target of 2% over the last year and dipped into deflation in the recent published figures. There is some belief that it will remain

⁶ The offer on redundancy costs will be closely monitored over the coming years, as the Government's offer on this point was not unconditional and there is potential scope for disagreement over the actual costs to be reimbursed.

below 2% over the next few years as well as some concern that it might be too low and that the Bank of England should take steps to push it upward.

66. Predicting the level of general inflation in the economy remains therefore a major challenge and one fraught with uncertainty. The MTFS therefore assumes that there is no need to increase Budgets for goods and services in 2016/17, but that inflation will push prices up in 2017/18 and 2018/19 by around an additional £200,000 per year. Fuel and utility costs which in previous years have been separately reported upon within the MTFS are now subsumed within the general inflationary category.

Capital Costs

67. The Council has over the last 11 years maintained a strong commitment not to borrow to finance Capital Expenditure. In doing so, it has ensured that it has not added to the burden of its revenue budget by having to pay increased loan costs. The intention within the MTFS is to maintain that commitment. The Capital Programme will be funded from a mixture of carry forward receipts from the Housing Market Renewal Programme, the use of one-off grants from the Government, external funding and existing Capital resources.
68. The ending of direct Housing Market Renewal Programme (HMR) has led to a substantial reduction in the overall size of the Capital Programme.

Residual HMR funds will be used over the next 36 months to complete work in this area.

69. External Funds are also likely to be less in abundance and this will further restrict the amount of capital works we will be able to undertake. It should however remain possible to secure some external funds to deliver specific projects.
70. The MTFS in February 2012 showed a need for the Council to begin to set aside a substantial amount (£750,000) from within its Revenue Budget in both 2013/14 and 2014/15 to fund a modest Capital Programme in these years. However due to careful financial management of the Capital Programme and effective husbandry of other resources, it should be possible in this MTFS to delay the need to fund future Capital Programmes from revenue spend until 2018/19.
71. This assumes a continuing commitment to limiting financial spend to a modest programme with only the highest priority capital projects receiving approval to proceed. It also assumes we will continue to earmark one-off grants such as New Homes Bonus for Capital and we will also support the Capital Programme from any additional revenue from surpluses on the Collection Fund or the Pooling of Business Rates etc. as well as any in-year savings that are generated and capital receipts.
72. This will enable us to escape the need to borrow over the period of the MTFS and we will therefore not increase our debt burden over the next 3 years.
73. The Capital Programme is always oversubscribed and the Council will continue to have to make tough choices over which projects to support in

line with its key objectives. It should however be able to fund its highest priority projects over the coming 3 years, without burdening future tax payers with an increased legacy of debt and interest payments, but this will mean earmarking an amount of revenue resources from 2018/19 to fund capital projects and this will have a big impact in the initial years in which this money is earmarked for this purpose, forcing the Council to generate additional savings in order to make that money available unless additional capital receipts or grants are generated.

74. Being able to delay having to start to make this revenue contribution to finance our capital expenditure is the single largest contribution to savings the Council can make on its MTFS in 2018/19. In the standard prediction (Appendix 1) this costs the Council £500,000 in 2018/19 and is equivalent to 22.5% of the savings it has to make that year. Therefore husbanding its current capital resources and applying intense scrutiny to any Capital Programme proposals over the next 3 years to determine if they are truly necessary will be the major factor at the Council's disposal in limiting the squeeze on spending and job reductions in those years. If the Council is able to make a major asset sale over the next few years, this would allow this receipt to fund future Capital Spend for a number of years and therefore delay substantially the need to finance future capital spend directly from the Revenue Budget.

Growth

75. With the current intense pressure around generating savings, no allowance has been made for additional finance within the MTFS for growth. Any such bids for new items of expenditure would need to be

considered very carefully as they would add pressure to the savings target in any year that they are proposed and would lead to further reductions in expenditure in other areas of Council funding as this would be the only means to fund them.

76. The Council does however need to find the £64,000 of corporate saving costs it committed to finding during 2014/15 on a permanent basis and this has been included as a growth item for 2016/17 as a means of ensuring the budget position for 2016/17 commences in a balanced state.

Reserves

77. Over the last 10 years, the Council has been able to rebuild its Revenue Reserves. This has seen the negative position of 2003/04 replaced by Balances at the 31st March 2015 of just over £2.5m though there are a number of commitments already against this balance that will see it reduced during the year unless further sums are added to it from in-year surpluses or other sources.
78. This level of Reserve would normally be viewed as healthy given an overall spend of around £11.4m in 2015/16, with a prediction this level of spend will decrease over the next few years. However the level of challenges faced by the Council would indicate that this level of Reserve may only be a minimum level of what is needed given the significant increase in costs and the reduction to its revenue funding that it faces. It is therefore recommended that Reserves are maintained at a minimum of £2.0m or strengthened at this time to meet any major challenges

which might occur over the next 3 years, which could not be dealt with via the normal budgetary process.

79. The threats to the Council outside its normal budgetary pressures include,

- ❖ the continuing economic uncertainty which may lead to the Government having to reduce public sector expenditure further or requiring Local Government sector to shoulder more of the burden
- ❖ the Government's transfer of responsibility to local Councils for determining Council Tax Benefit and capping the amount it will reimburse in the future regardless of whether there is a surge in the numbers claiming
- ❖ the continuing risk of challenges to planning decisions and the costs of defending these through the legal process
- ❖ the threat of substantial claims under employment law
- ❖ the threat of having to repay some land charge search fees following a claim that these fees may have been levied contrary to European Environmental Law.
- ❖ the increased threat of industrial action during a period of public sector pay restraint and job losses
- ❖ emergency spend pressures in-year, due to one-off items of capital or revenue spend
- ❖ risks around the conclusion of the Housing Market Renewal Programme

- ❖ the continuing trading difficulties experienced by Hyndburn Leisure and the financial pressures on partner organisations and the third sector in general
- ❖ insurance claims for which cover is not in place, in particular claims relating to items formerly covered by Municipal Mutual Insurance which has gone into liquidation and historic employee health claims dating back to the 1960s, 1970s and 1980s.
- ❖ supplier failure during an elongated recession
- ❖ environmental warranties on our land and guarantees provided to Hyndburn Homes over land transferred to them
- ❖ the threat that Central Government will pass fines from Europe directly to Councils if the UK fails to meet its targets on climate change and environmental improvements.
- ❖ continuing reductions in our fees and charges income as the Recession continues
- ❖ the need to meet the cost of land acquisitions under the Community Right to Purchase legislation.

Other Assumptions

80. The MTFS assumes that the Council is able to present a balanced budget each year and operate within that budget and that it does not need to draw upon reserves or overspend within any financial year.

81. It assumes that any draw down of reserves is either immediately replenished within the financial year or a top slice of funding from the next year's budget is made to ensure they remain at the stated level.
82. It assumes that service provision remains largely within the current confines and that no major initiatives are imposed upon the Council without suitable funding provision. For instance, the MTFS does not allow for the return to weekly refuse collection without the Government providing the necessary funds not only to manage the change process, but also to meet the additional on-going revenue costs.

Equality Impact Assessment

83. There are no specific proposals within the MTFS that would require the completion of an Equality Impact Assessment (EIA). This document remains a high level strategic overview. Individual EIAs will be completed for relevant policy developments, service alterations and savings plans as they occur, as a response to the overall financial plans of the Council.

Scenarios

84. As with the previous MTFS we have attempted to outline the potential range of scenarios around the Council's Finances over the next few years, by varying some of the key assumptions. In order to avoid a myriad of possible scenarios, we have presented in Appendix 2 and Appendix 3, two scenarios towards either extreme side of the MTFS forecast. This allows the potential maximum and minimum range of savings over the next 3 years to be broadly established.

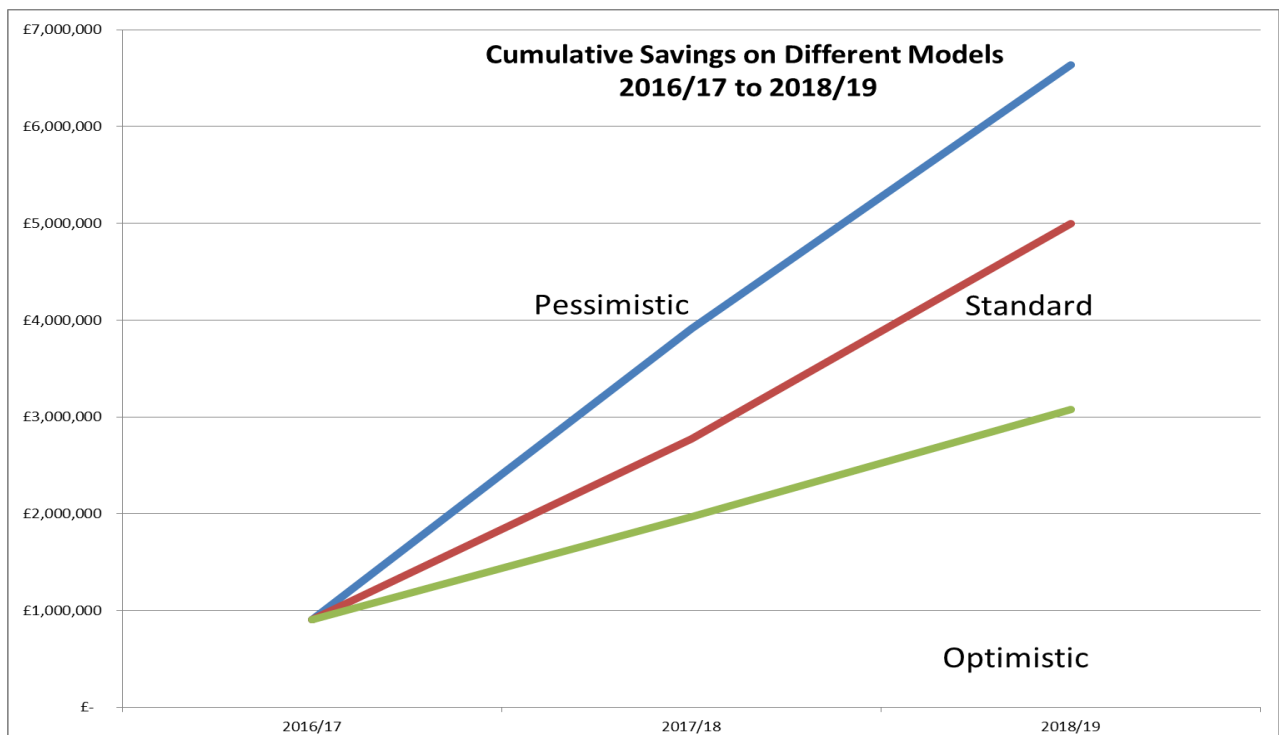
85. The Pessimistic Scenario presented at Appendix 2 looks at the baseline assumptions for the MTFS and adjusts them for the following reasons.
86. Business Rate Income is shown to decline by 5% each year representing a down turn in economic activity in Hyndburn, either due to local or national or international factors coupled with a lowering of the overall amounts collectable as a result of business rate appeals. A 5% downturn in these figures is the equivalent loss of around £170,000 per year. This is the only Revenue forecast altered in the Pessimistic Scenario as the Government Grant figures and Council Tax figures used in the Standard Model are not subject to variation and the Collection Fund is unlikely to trip into a deficit over the coming few years.
87. Housing Benefit Administration Grant is also shown as reducing by a further £175,000 in 2017/18 compared to the Standard Model on the basis that the conversion to Universal Credit is more aggressively pursued and reduction in local government support reduced as a consequence.
88. The Pessimistic Scenario also assumes that the Housing Market Renewal work moves at a faster pace in 2016/17 and as such there is less monies remaining in 2017/18 to finance revenue fees by £50,000. (This however does reduce the decrease the following year by £50,000, as there is only a finite amount of money remaining in the programme.)
89. Finally in the “Reductions to Income Section” of the calculation we have assumed that the Council is unable to extract £150,000 worth of savings from its Waste Services operations under the new arrangement that replaces the Cost Share Agreement and it is therefore left with the full impact of the £800,000 loss in income.

90. In our standard MTFS we have assumed a 1% pay award over each year of three years of the forecast. The Pessimistic Scenario allows for a 2% wage settlement in the two later years within the forecast, recognising that upward pressure may build for an enhanced settlement after a large number of years of enforced pay restraint. This potentially adds £280,000 to our costs over these years. This is not seen as a likely occurrence as the economy is unlikely to have sufficiently recovered to finance such rises and with little prospects of additional funding to finance such wage increases this level of wage settlement would simply lead to a reduction in the workforce.
91. General inflation continues to be difficult to predict. For the Pessimistic Scenario an assumption has been made that the costs of supplies and services rise by £300,000 in each of the next 2 years beyond 2016/17. This level of inflation to some extent would indicate an economy on the mend with suppliers confident of passing price increases on to customers and excess supply disappearing from the economy.
92. The combined impact of all these potential changes are illustrated at Appendix 2 and show that the savings target for 2017/18 would rise to £3.0m from £1.8m and increase the savings target to 26% from 16%. The savings target for 2018/19 of the MTFS increases from £2.2m to £2.7m.
93. While it is viewed as unlikely, though possible, that all these factors would combine against the Council, the Pessimistic Scenario at Appendix 2 indicates the Council does face a number of potential challenges, which would require the Council to take a number of much tougher decisions around its spending plans and priorities.

94. The level of savings required under the Pessimistic Scenario would put the Council's finances under severe strain and it is likely it would need to use a considerable amount of its reserves while it attempted to reconfigure its operations so that it could achieve the cost reductions necessary to continue to set a long term balanced budget.
95. The Optimistic Scenario is presented at Appendix 3. It assumes that an expanding local economy contributes to a growth in Business Rate Funding available to the Council of £250,000 each year and that Pooling operates in all 3 years. There is some indication that local manufacturing businesses are looking to increase their output and invest to expand which will lead to higher business rates being paid. This has however to be tempered by a potential downturn in the retail sector which could potentially limit any real gains achieved from the manufacturing side. In these circumstances a £250,000 annual growth figure would be viewed as towards the top end of what could be achieved.
96. The Optimistic Model also assumes the Council will be able to boost its Council Tax income from growth in the number of houses, reducing the number of people claiming Council Tax Support, increasing the yield from reducing empty properties, improving collection rates and raising council tax levels. There is some indication that Developers are now returning to Hyndburn and planning applications are being discussed for new housing in a variety of locations. Again assuming a high level of performance in all these areas it would be possible to boost council tax income by around £130,000 per year. The model also assumes that the Collection Fund can generate a surplus of £200,000 in each of the three financial years.

97. These changes see the Council's increased resources from business rates and council tax offset a large chunk of the loss of income from the Government and the Council has almost £600,000 more to spend in 2017/18 compared to the Standard Model and almost £1m more in 2018/19.
98. The model also assumes that the Department of Work & Pensions will not reduce the Grant for the administration of Housing Benefit at the level predicted in the Standard Model, but that it will slow down the reductions by £100,000 in 2017/18.
99. The speed at which the Housing Market Renewal programme uses its available fees budget is also assumed to be slower and therefore the reduction in 2017/18 is not as great as in the Standard Model and the residual amount is removed in 2018/19.
100. There is also an assumption that the cost impact of the ending of the Cost Share Agreement with Lancashire County Council over the collection of waste will not impact at the level of £650,000 as originally predicted but can be reduced downwards to around £500,000, by either agreeing a further funding stream from the County Council or finding further savings within the operational budgets from not doing this work.
101. Inflation is also assumed to be lower with the reductions we have seen over the last few months feeding into much lower prices in 2017/18 and 2018/19 leading to a reduced forecast by £100,000 in each of these years for the general impact of inflation.
102. The Optimistic Scenario considerably eases the overall savings required in each of the three years with the level of savings required below 8% in

2016/17 and around 10% in the following years. However this is a very optimistic view of what might occur and the most likely outcome remains those predicted in Appendix 1. The diagram below shows the potential range from the most optimistic to the most pessimistic put forward in this document.



103. The Overall best prediction of the savings required for the next three years are those presented at Appendix 1 of the report. This requires £900,000 of savings to be generated in 2016/17 to balance the Council's budget with further savings of £1.8m in 2017/18 and £2.2m in 2018/19. The Pessimistic and Optimistic Scenarios at Appendix 2 and Appendix 3 provide the most likely boundaries within which the savings target will fluctuate over the coming three years. There remains a potential for the savings target to fall outside these boundaries, though this is viewed as remote.

104. It is likely that the Council will encounter a mix of fortunes over the coming three years with some income and expenditure moving in a positive manner while others move negatively.

Robustness of Forecast

105. The robustness of the forecasts within the MTFS has improved with the announcement of a potential 4 year funding deal from the Government. This has removed a significant amount of the uncertainty around a major element of revenue forecasting. However there remains a number of large scale potential variables that will need to be closely monitored over the coming years to ensure the Council is able to effectively manage its Budget.

Overall Net Position

106. The Council faces continuing pressure on its finances over the next 3 years. The reductions in the level of government grant for 2016/17 and beyond are significant and the Council will need to take tough decisions over service provision to maintain a balanced budget in these circumstances. In addition it faces two major challenges around the ending of the Cost Share Agreement and the potential need to fund Capital Expenditure from Revenue resources in 2018/19, which add over a £1m to its budget problems. This is in addition to the usual pressures around wage settlements, goods and service inflation and changes to tax and pension rules which add costs to its operation.

107. The key to the future financial wealth of the Council remains tied to the performance of the national economy and Central Government finances

but a significant additional risk has been transferred to local government around the performance of business rates.

108. The Council therefore needs to continue to manage its revenue costs aggressively over the next 3 years. The single largest area of influence it can exert on its future financial position is around its Capital Programme. If the Capital Programme can continue to be self-financing beyond 2017/18 this will substantially ease the cumulative financial pressures on the Council over the 3 years of the MTFS.

Appendix 1

Three Year Standard Model Medium Term Financial Strategy 2016/17 to 2018/19

Available Resources	2016/17	2017/18	2018/19
Revenue Support Grant	£ 3,159,265	£ 2,446,543	£ 1,998,601
Efficiency Support Grant		£ -	£ -
Business Rates Funding	£ 3,494,786	£ 3,494,786	£ 3,494,786
Council Tax Freeze Grant		£ -	£ -
Council Tax	£ 4,400,396	£ 4,400,396	£ 4,400,396
Collection Fund Surplus Council Tax	£ 200,000	£ -	£ -
Total Available Resources	£ 11,254,447	£ 10,341,725	£ 9,893,783
Prior Year Spend	£ 11,489,122	£ 11,254,447	£ 10,341,725
Reductions in Income			
HB Admin Grant	£ 200,000	£ 200,000	£ 100,000
Operational Budget Adjustments	£ -	£ -	
Ending of ABG Support	£ -	£ -	
Reduction in Capitalisation	£ 50,000	£ 58,000	
Decreased HMR Fees	£ -	£ 100,000	£ 100,000
Corporate Savings Target Adjustment	£ 64,000	£ -	
Waste Service Ending of LCC Recycling Payments			£ 650,000
Expected Cost Increases			
Salaries & Pension Costs	£ 212,376	£ 140,000	£ 140,000
Additional National Insurance Costs	£ 140,000		
Apprenticeship Levy		£ 50,000	
Pension Auto Enrolment		£ 83,000	£ 83,000
Redundancy Costs		£ 130,000	
General Supplies & Services	£ -	£ 200,000	£ 200,000
Capital Funding Direct From Revenue			£ 500,000
Growth Items		£ -	£ -
Predicted New Operating Cost	£ 12,155,498	£ 12,215,447	£ 12,114,725
Costs Exceed Resources by	£ 901,051	£ 1,873,722	£ 2,220,942
Percentage Savings Required to Balance Budget	7.84%	16.65%	21.48%

Appendix 2

Three Year Pessimistic Model Medium Term Financial Strategy 2016/17 to 2018/19

Available Resources	2016/17	2017/18	2018/19
Revenue Support Grant	£ 3,159,265	£ 2,446,543	£ 1,998,601
Efficiency Support Grant		£ -	£ -
Business Rates Funding	£ 3,494,786	£ 3,320,047	£ 3,154,044
Council Tax Freeze Grant		£ -	£ -
Council Tax	£ 4,400,396	£ 4,400,396	£ 4,400,396
Collection Fund Surplus Council Tax	£ 200,000	£ -	£ -
Total Available Resources	£ 11,254,447	£ 10,166,986	£ 9,553,041
Prior Year Spend	£ 11,489,122	£ 11,254,447	£ 10,166,986
Reductions in Income			
HB Admin Grant	£ 200,000	£ 375,000	£ 100,000
Operational Budget Adjustments	£ -	£ -	
Ending of ABG Support	£ -	£ -	
Reduction in Capitalisation	£ 50,000	£ 58,000	
Decreased HMR Fees	£ -	£ 150,000	£ 50,000
Corporate Savings Target Adjustment	£ 64,000	£ -	
Waste Service Ending of LCC Recycling Payments			£ 800,000
Expected Cost Increases			
Salaries & Pension Costs	£ 212,376	£ 280,000	£ 280,000
Additional National Insurance Costs	£ 140,000		
Apprenticeship Levy		£ 50,000	
Pension Auto Enrolment		£ 83,000	£ 83,000
Redundancy Costs		£ 130,000	
General Supplies & Services	£ -	£ 300,000	£ 300,000
Capital Funding Direct From Revenue		£ 500,000	£ 500,000
Growth Items		£ -	£ -
Predicted New Operating Cost	£ 12,155,498	£ 13,180,447	£ 12,279,986
Costs Exceed Resources by	£ 901,051	£ 3,013,461	£ 2,726,944
Percentage Savings Required to Balance Budget	7.84%	26.78%	26.82%

**Three Year Optimistic Model
Medium Term Financial Strategy
2016/17 to 2018/19**

Available Resources	2016/17	2017/18	2018/19
Revenue Support Grant	£ 3,159,265	£ 2,446,543	£ 1,998,601
Efficiency Support Grant		£ -	£ -
Business Rates Funding	£ 3,494,786	£ 3,744,786	£ 3,994,786
Council Tax Freeze Grant		£ -	£ -
Council Tax	£ 4,400,396	£ 4,532,396	£ 4,668,368
Collection Fund Surplus Council Tax	£ 200,000	£ 200,000	£ 200,000
Total Available Resources	£ 11,254,447	£ 10,923,725	£ 10,861,755
Prior Year Spend	£ 11,489,122	£ 11,254,447	£ 10,923,725
Reductions in Income			
HB Admin Grant	£ 200,000	£ 100,000	£ 100,000
Operational Budget Adjustments	£ -	£ -	
Ending of ABG Support	£ -	£ -	
Reduction in Capitalisation	£ 50,000	£ 30,000	£ 28,000
Decreased HMR Fees	£ -	£ 100,000	£ 100,000
Corporate Savings Target Adjustment	£ 64,000	£ -	
Waste Service Ending of LCC Recycling Payments			£ 500,000
Expected Cost Increases			
Salaries & Pension Costs	£ 212,376	£ 140,000	£ 140,000
Additional National Insurance Costs	£ 140,000		
Apprenticeship Levy		£ 50,000	
Pension Auto Enrolment		£ 83,000	£ 83,000
Redundancy Costs		£ 130,000	
General Supplies & Services	£ -	£ 100,000	£ 100,000
Capital Funding Direct From Revenue			£ -
Growth Items		£ -	£ -
Predicted New Operating Cost	£ 12,155,498	£ 11,987,447	£ 11,974,725
Costs Exceed Resources by	£ 901,051	£ 1,063,722	£ 1,112,970
Percentage Savings Required to Balance Budget	7.84%	9.45%	10.19%

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Report to		Cabinet
Report by		Councillor Gareth Molineux Portfolio Holder Resources
Date		3rd February 2016
Report Prepared by		Joe McIntyre Deputy Chief Executive

GENERAL FUND REVENUE BUDGET

2016/17

Purpose of the Report

1. This report sets out proposals for the 2016/17 General Fund Revenue Budget. It also provides an overview of key issues arising from the Medium Term Financial Strategy.
2. The decision to set the Budget will be a key decision of the Council.
The role of the Cabinet is to recommend a proposed Budget to the Council.

Recommendations

3. I recommend:

- a) That Cabinet proposes not to increase Council Tax for 2016/17. The Budget for 2016/17 will therefore be £11,283,000 as detailed in Appendices 1 and 2.
- b) That Cabinet recommend approval of the list of savings for 2016/17 as set out in Appendix 3.
- c) That Cabinet note the significant improvement made in relation to budget monitoring and cost reduction within the Authority over the past 12 years and confirms its commitment to continuing this approach in the year ahead.
- d) That Cabinet recommends during the financial year 2016/17, the Deputy Chief Executive be delegated responsibility to amend the Budget (following consultation with the Leader of the Council) for technical reasons, such as the restructuring of cost centres, the re-apportionment

and re-allocation of overheads etc., provided such amendments have an overall neutral impact on the Budget.

- e) That to aid future financial management planning any surpluses generated during 2016/17 are set aside to help the Council reduce its cost base over the next three years.
- f) That Cabinet recommends that the New Homes Bonus and any additional non-specific funding from the Government as well as any further surplus on the Collection Fund can be used if required to support Capital expenditure as determined by the Deputy Chief Executive in the overall financing of capital expenditure or be transferred to Reserves.

Summary

- 4. This Report sets out the Council's Revenue Budget for 2016/17. This will require a net expenditure of £11, 283,000. Under these proposals, Council Tax for Hyndburn residents will not rise for Hyndburn

Council provided services. The amounts due for each band are shown at Appendix 4.

5. This is the seventh year in which the Council's sound financial management has ensured local taxpayers have not had to face an increase in their bills. If the Council had increased Council Tax simply by inflation over the last 7 years rather than not increasing it at all, Council Tax for Hyndburn's services would have been over £50 higher for each average Band D property within Hyndburn.
6. We understand that Lancashire County Council, the Police & Crime Commissioner and the Combined Fire & Rescue Service are all considering whether to increase the amount they tax local residents and decisions are due over the coming weeks. For illustrative purposes we have assumed each of these three preceptors will increase their Council Tax element by the maximum amount they can without triggering the requirement for a local referendum. This is 1.99% for Lancashire County Council plus a further 2% linked directly to

expenditure on Adult Social Care and 1.99% for the Police and Crime Commissioner and the Fire and Rescue Authority.¹

7. Councillors should note that Altham Parish Council has issued a separate precept requirement for its activities for the eighth time in 2016/17. The Local Precept is expected to be set at £11,366. The Parish Council is not expected at this point to increase its charge to its residents and it will remain at £38.27 for a Band D property. Details of the impact of other Bandings for properties in Altham are shown in Appendix 6.
8. In setting the Budget for 2016/17 the Council faces greater volatility than ever before in its main sources of revenue. Major reforms of local government finance have transferred the risk of business rate revenues and Council Tax benefits to the Council for the first time. The certainty on which the Council could budget and manage its finances has therefore decreased since 2013 and it will be important going forward to plot any deviations away from the expected figures and take appropriate action if these should start to emerge. This might

¹ Each preceptor will notify the Council of its increase in Council Tax after their own meetings to determine their Budget. The actual increases will be incorporated into Hyndburn Council's Budget Reports to Full Council on the 25th February 2016.

result in the need to reduce spending during the year, if revenue is predicted to fall short of the target.

9. The Cabinet intends to continue the good financial stewardship of the Council's affairs by continuing the successful policies introduced over the last 12 years to manage cost effectively and promote appropriate service investment. Once again, we have given emphasis to shifting resources from central and support services into front line services. This has been done at the express request of the Cabinet and is in accordance with the national agenda to improve the value of local government services. It is also worth noting that proposals for savings and new investment have all been vetted by the Corporate Management Team and Cabinet against the priorities in the Corporate Strategy. The outcome of this process is that there is a continuing shift of resources in this budget toward front line, priority areas. This Budget will therefore deliver,

- *A major reduction in back office costs, with Policy & Corporate Governance contributing almost half of the savings the Council has to achieve to balance its*

budget next year, despite being less than a 1/3rd of the overall size of the Council.

- *A continuation of our established approach of limiting enhancements on early retirement, continuing our rigorous approach to absence management and committing to minimising borrowing costs. These actions have already stemmed the build-up of unproductive costs within the organisation. In each of these cases we have put a stop to the costly and financially damaging policies of the past and created a healthier and more financially stable culture within the Council.*
- *While the Council is not incurring any further borrowing costs it is able to invest over £5.5m in total for the year with £2.4m going to housing and regeneration projects with the remainder of the funds invested in our Cemetery and Cremation Service, Hyndburn Leisure Trust, Rhyddings Park,*

Disabled Facility Grants and other smaller areas of expenditure.

- *Despite costs of over £75,000 to provide car parking in Hyndburn for residents and visitors and particularly for shoppers, we will continue to provide this facility free of charge and not introduce charges for parking in Hyndburn. We believe this action will help bolster our town centres through these difficult economic times and provide an incentive for people to shop locally rather than drive and pay to shop elsewhere across the North-West*
- *Further reductions in our accommodation costs, building on the success over the last 8 years including further rationalising our accommodation and looking at more ways of using our accommodation more effectively. We will also continue our actions to reduce our carbon emission and our energy costs and continue contributing to*

*the improvements of our environmental footprint by
positive action.*

10. We intend to continue to deliver all of the above and remain committed to a radical agenda of improvement while managing within our available resources. This will be more difficult in the years to come, given our reduced resources from the Government. However, there remains a firm commitment and absolute determination amongst Members and Officers of the Council to control the finances of the Council, drive forward on the efficiency agenda and continue to improve service delivery. We wish to continue to push forward on the drive for delivering value for money as a key priority for the Council.

11. The rewards of strong financial control remain clearly evident. The Council has built itself back from experiencing major difficulties in controlling expenditure and a position of negative reserves in 2003/04 to a situation by March 2015, in which Balances are over £2.5m and the Revenue Budget for 2015/16 is predicting a saving of around £240,000 which will contribute to improving the strength of our underlying financial position.

12. Within the Budget for 2016/17 there are a number of areas which are subject to our best estimation. There are therefore a number of risks around the budget, should these estimated costs or revenue amounts vary during the year.

13. After the introduction of the Government reforms to Business Rates Funding of Local Government, the Council now carries a significant risk around the level of monies available fluctuating substantially from this source. In addition as the calculation of how much funds will be available is dependent on a number of factors including debt collection rates, the size of appeals against business rates assessment and the success of these appeals, new rules around levies and safety nets, the introduction of new rules on rates relief on retail premises and small businesses, as well as predicted levels of growth or decline in business activities and the estimation of a number of figures which will only truly emerge after the end of the financial year, the imprecision in these estimates is regarded as high and could be subject to variations of hundreds of thousands of pounds. The volatility around these forecasts is expected to remain for a number of years

until the new system becomes bedded down and more robust data emerges on which to make more reliable forecasts.

14. The threat of pay inflation during 2016/17 is viewed as low. No agreement has been reached between the Employers' Organisation and the Trade Unions. However the Government has set out a clear agenda around public sector pay restraint and the reductions in local government funding indicate that any pay settlement beyond 1% is unaffordable and would lead to further potential job losses. In these circumstances we do not envisage a settlement at over 2% and have constructed the Budget around a 1% increase.

15. Inflation in non-pay areas is also considered to be low risk over the next 12 months, as the most recent data from the Office of National Statistics shows that the Consumer Price Index is at 0.2%² and there is widespread belief that it will continue to remain below the Bank of England's target rate of 2% for the rest of the calendar year.

16. With inflation likely to be low over the period and our strong past record on tracking in-year spend, plus the level of our Reserves, the

² December 2015

Council should have confidence going into the year ahead that it will be able to deliver its Budget.

Background

Introduction

17. Over the last 12 months, the Council has continued to work hard to stabilise and improve its underlying financial position. The Financial Year 2014/15 ended with the Council achieving a surplus on its Revenue Account. The improvement has meant it has not been necessary to strengthen reserves from the Council's Revenue budget in any of the last nine years, which has freed up resources to go directly into service provision and we are again proposing that there is no need to direct resources away from front line services for this purpose during 2016/17.

18. Since taking office in May 2011, cost control has continued to be high on the Controlling Group's agenda and they have responded with positive steps to a number of external pressures on costs and loss of

income over the years. These extra pressures have not only been contained within overall budget, but additional savings generated each year and there is an expectation that a budget surplus will be generated in 2015/16 of approximately £240,000. This money has been earmarked to assist the Council to reduce its cost base over the next few years.

19. Although it is worth noting the major improvements in financial management and cost control over the last 10 years, the Council needs to press this home in the year ahead in order to continue to drive value for money across its operations. Members of all parties have made it clear that this is an absolute priority for the Authority and have supported a rigorous approach to this issue.

20. The Council must also deal clearly and effectively with the challenges ahead. The Medium Term Financial Strategy continues to indicate major savings pressures over the next three years, most of which stem from the loss of Government funding for our core activities. For Hyndburn this will require a focus on and commitment to tough decisions for a number of years ahead. Indications from right across local government, but particularly at Shire District level, suggest there

is huge pressure on services due to the limited amount of funding available. The Local Government Finance Settlement has reduced our available resources by £4.1m since 2010/11 and our forecast is that we will need to save almost £5.0m over the period 2016/17 to 2018/19. Nevertheless, the Council has developed a very strong record of limiting Council Tax increases over many years while continuing to improve and provide key local services for local people and will look to make appropriate responses to meet those financial challenges.

Medium Term Financial Strategy

21.The Medium Term Financial Strategy (MTFS) has been updated by the Deputy Chief Executive ahead of the preparation of the Council's Budget and submitted to the Cabinet meeting of the 3rd February 2016 and will be placed before the Council on the 25th February 2016.

22.The MTFS indicates that the Council faces a major challenge to balance its Budget beyond the current year and that in taking decisions in regard to 2016/17, it needs to recognise the savings agenda it will potentially face in 2017/18 and 2018/19. The main pressure stems

from the Government's reduction in funding to the Council. The other major pressures stem from

- The Council using up its available resources to finance capital spend and having to fund this from the Revenue Budget from 2018/19. This is expected to add £500,000 to costs in 2018/19.
- The impact of Lancashire County Council ending its Waste Cost Share Agreement in 2018/19.
- The reduction of grant to support the payment of housing benefits.
- The Apprenticeship Levy that the Government has indicated will be introduced in 2017/18.
- Loss of the ability to generate fees and capitalised income from a much smaller capital programme
- Inflationary pressures on wages and the purchase of goods and services

Continuation Budget

23. Work has been undertaken with Service Managers and Finance Staff to establish a roll-forward budget based on our corporate priorities,

current expenditure patterns in 2015/16 and known financial pressures for 2016/17. Our Corporate Priorities are detailed within our “Corporate Strategy 2008-18” with the overall objective of removing Hyndburn from the list of 100 most deprived areas in the Country. This objective has clearly become more difficult to achieve with the reduction of Government funding and the impact of the Recession.

24. Our current budgets are aligned to these objectives. Service Plans are updated on an on-going basis as required by Managers throughout the year and Service Managers are invited to update their medium term running costs and changes of strategic or tactical direction ahead of the compilation of the Medium Term Financial Strategy. Equally the existing MTFS guides managers over the likely resources available over the future period and gives an indication of the potential boundaries and challenges they may face and need to address within their Service Plans. Cost pressures are initially dealt with internally within service areas, as are developments in new services provision with managers exercising their abilities to re-organise between priorities and choose between competing demands based on the guidance set out in the Corporate Strategy and discussions with

Cabinet Members. Plans for improvements or service development not internally funded are detailed below.

25. Pay costs are assumed to increase in line with the guidance issued by Government in respect of public sector pay. This limits the overall increase in wage costs to around £212,000 after uprating salary costs for 2015/16 and allowing for increments and the knock-on impacts on national insurance contributions and employer pension contributions. With the Consumer Price Indicator at 0.2% in December we have assumed that Non-pay inflation will be effectively zero over the year and any price increases will be absorbed within existing budgets.

26. These calculations indicated a Continuation Budget of just over £12.15m and this figure has been used in Appendix 1 to show the level of potential spend the Council faces compared to the resources available and establish the savings target for the Council going into 2016/17.

Growth Pressures

27. Due to the major reductions in spend this year, there are no growth items proposed for the 2016/17 Budget. Other service pressures are

being dealt with by Service Managers within their own budgets when they deem that new ideas and initiatives require support. In these circumstances they will generate additional savings above their target savings to finance these changes.

Available Resources

Revenue Support Grant (RSG)

28. Revenue Support Grant for 2016/17 has indicatively been set at £3,159,265. This figure is awaiting confirmation from Government after consultation and is usually finalised in late February or early March. On a like for like basis Revenue Support Grant is £922,000 down compared to the previous year. This is 22% down compared to the amounts we received in the previous year, spread over a number of grants in addition to RSG such as Efficiency Support Grant and Council Tax Freeze Grant which were paid as separate amounts in previous years.

Business Rates

29. Business Rates which until 2013/14 came in the form of a grant from Central Government is now collected and partially retained locally and is therefore a new separate revenue source for the Council. The

Council currently shares the business rates collected locally with the Government who take 50% of the sums raised, Lancashire County Council who receive 9% and the Fire and Rescue Authority who receive 1%. In addition the Government operates a system of Tariffs and Top-ups which sees the amount retained by Hyndburn Council reduce by a further £5m. The Council also now has the risk around non-collection and the impact of late payments. For 2016/17 the estimated revenue from Business Rates is expected to be £3.2m

Council Tax

30. It is expected that the Council Tax will raise the equivalent of £4.4m of revenue for the Council in 2016/17. This will be the seventh year of a freeze in the Council Tax for Hyndburn, following on from the 0% increase in 2010/11, 2011/12, 2012/13, 2013/14, 2014/15 and 2015/16. This freeze in Council Tax over these seven years represents a saving to each tax payer of over £50 on the average Band D bill of £230.52. The Council will also benefit from an anticipated surplus on the Collection Fund for Council Tax of £471,000.

New Homes Bonus

31. The Council will also receive some additional resources from the New Homes Bonus. This is additional funding from the Government to encourage local Councils to support the building of new homes. The amount each Council receives is determined by the increase in homes as shown on the annual returns to the DCLG. For Hyndburn the expectation is that the number of new homes built will remain small and we will only receive £640,000 for 2016/17. As the value of the grant will be small, liable to fluctuate from year to year and will be difficult to determine each year in advance, the recommendation is that these monies are used to supplement the Capital resources of the Council.

Resource Summary

32. The Council's estimated Resources for 2016/17 are £11,283,000 and this compares to an expected roll forward cost of operating the organisation of £12,155,000. This indicates a saving gap for the year of £872,000. Individual savings from Service Departments of £872,000 have been identified equal to the savings target and these are shown at Appendix 3.

Budget Proposals 2016/17

33.The Cabinet recognises that it needs to maintain services and continue to deliver on its key priorities. It also has a clear duty to set a balanced financial budget for 2016/17 and continue its financial strategy to ensure its financial stability over the medium term.

34.The Corporate Management Team has been working with Service Managers to develop proposals to meet these broad aims. The major elements of these plans to reduce the overall costs are set out below and further details on the savings and income generation are provided in Appendix 3. Given that over the last 11 years we have looked to save around £1m a year on average, some of the proposals put forward present the Council with hard choices. However in order to continue with the good work done over the last 11 years and to keep the District precept to a minimum, these decisions need to be made. If any of the proposals are not accepted a comparable and compensating proposal will need to be found.

35.The proposals for 2016/17 assume that savings activated to deliver previous budgets continue to be used and that where one-off savings

were identified, Budget Holders bring forward equivalent amounts in 2016/17 to buttress their budgets ahead of any further proposed savings for 2016/17 onwards.

36. Needless to say, the authority's financial circumstances require us to focus sharply on our priorities so that we can be clear both about the areas for targeted cost reduction and also the areas for new or additional investment. On this basis, the budget has been designed to allow the Council to pursue a range of saving initiatives – a selection of which are set out below:

- Community Services will save £301,000 compared to its roll forward budget position from a combination of more effective working, generating additional income through fees and charges, reducing some staff costs and making savings on supplies and services via renegotiation of contracts and better procurement management.
- The Planning Service will reduce its cost by £47,000 through an exercise to re-organise the way the department operates and other cost saving measures

- Culture and Leisure Services will reduce expenditure by £150,000 via lowering amounts paid to Hyndburn Leisure.
- Policy and Corporate Governance will provide over £389,000 worth of savings through a mixture of staff efficiencies, limiting the spend on non-essential items, and reducing overhead costs. The overall budget will also be improved by income generation and efficiency measures.
- Regeneration Services have provided a variety of savings measures for the year totalling almost £128,000. However it is faced with operating in an area of declining revenue and we have adjusted their budget this year to remove unobtainable income targets worth £148,000, leaving a net increase of £20,000 to this budget.

37. The pattern of savings to achieve the overall average saving of 7.1% shows that protecting fundamental services and reducing our back office costs remains our highest priority with corporate costs reduced

on average by almost 10% compared to their roll-forward position, while front line services were reduced by around 5%.

38.Full details of the savings are set out in Appendix 3.

Reserves

39.The Council has recognised the need to refresh its financial reserves over the last few years after they became dangerously low as a result of the financial difficulties we experienced over a decade ago.

40.However after the significant improvement achieved over the last few years it has not been necessary to make an additional provision since 2006/07 from the Revenue Budget and it is possible for 2016/17 to continue with this policy. Reserves are currently over £2.5m and an underspend is predicted for 2015/16. The strong position on Reserves therefore allows the Council to commit its entire available budget to service provision, further improving the delivery to the public of Hyndburn.

41. Reserves while having been restored after the difficulties of a few years ago need to be maintained and increased when possible. The MTFS outlines the large number of potential claims on our expenditure from items that are not contained within the Budget and a minimum provision to face these threats of £2.0m is considered appropriate. Some of the potential calls upon the Reserves are listed below from the MTFS.

- Any further reduction in core Government Grants stemming from how the Government determines to manage public sector finances over the next few years.
- The ending of the Cost Share Agreement with Lancashire County Council for the separation of waste and the potential loss of income stemming from the termination of this agreement.
- the threat of having to repay land charge search fees after a ruling from Europe that these fees have been levied contrary to European Environmental Law.

- the threat of substantial increased costs from the Government's proposals to cap the amount it reimburses the Council in relation to Council Tax support.
- The increased threat of industrial action during a period of public sector pay restraint and job losses.
- The Government's stated intention to end paying Housing Benefit and the potential for large residual costs that may fall upon Councils in terminating this service.³
- The increased threat of settling employment disputes as a result of employment tribunal decisions and changes in employment law
- Emergency spend pressures in-year, due to one-off items of capital or revenue spend
- Risks around the conclusion of the Housing Market Renewal Programme

³ The Government has recently announced a longer roll-out period for the introduction of Universal Credit and has said it will meet redundancy costs associated with the ending of Housing Benefit, however there are a number of caveats around this proposal and the Council may still face exit costs from terminating the service.

- The continuing trading difficulties experienced by Hyndburn Leisure and financial pressures on other partner organisations
- Supplier failure during an elongated recession
- Environmental warranties on our land and guarantees provided to Hyndburn Homes over land transferred to them
- Legal challenges over the operation of our fees and charges
- The threat that Central Government will pass fines from Europe directly to Councils if the UK fails to meet its targets on climate change and environmental improvements.
- Continuing reductions in our fees and charges income as the Recession continues
- Financial pressures around ensuring our pension fund is properly financed

42. This is not a fully comprehensive list of all of the potential calls that could be made on the Reserves, however it provides some indication of the financial risks outside the core Budget that the Council could face.

43. While some events are more likely than others and they vary in their potential cost to the Council, the extent and monetary range of these unbudgeted challenges have the potential to severely damage the Council's finances if they mature.

Risks and Risk Management

44. The 2016/17 Budget is constructed on a number of estimates, because exact figures are not known for many future events. There are a number of these estimations which are subject to uncertainty and volatility. In order to complete the Budgetary exercise it is necessary to make a series of judgements around the level at which certain items should be costed. The significant areas in the Budget around which judgements have been applied are explained below.

45. There is significant estimation in the figure for Business Rates paid in the year and these are liable to fluctuate significantly for a wide variety of reasons.

46. Inflation should not be a major factor in either pay or non-pay costs over the next 12 months. While no pay deal has been struck between the Employers' Organisation and the Trade Union side, we have used a 1% increase within the Budget and we expect due to the pressures that continue to exist around public sector expenditure that there will be little deviation away from this figure. There appears to be continuing global economic weakness and this is expected to keep the cost of Goods and Service stable over the 12 months of the Budget and therefore inflation in this area is not expected to create a degree of risk within the financial forecast.

47. The Governor of the Bank of England has recently indicated that he does not foresee a change in the Bank of England Base Rate during 2016 and therefore we do not expect the cost of borrowing money to alter over the period and present a risk to our overall budget position.

48. The next 12 months therefore sees a Budget period with the only major risk around Business Rates actuals diverging significantly from

the estimates made. The Council however has sufficient financial reserves to draw upon if necessary to deal with any such fluctuations.

49. The normal risks around in-year pressures on spending and income will be dealt with via our well-developed budget reporting mechanisms, which not only display how much is spent each month within the Council, but require Service Managers to estimate their spend to the end of the year. We should therefore receive early warnings of any overspends allowing corrective action to be taken. Reserve Levels are also sufficient to allow us to protect us from any immediate threat, while we take action to adjust our cost base to cope with any external financial pressures.

Consultation

50. This year we are asking the public to attend the Council's Overview and Scrutiny Meeting on the Budget. At this meeting they will get to hear the questions put to each of the main parties around their Budget proposals and the public will be invited to put questions to the Leaders of each group and make any general comments. This direct

involvement with the Public at the key meeting to debate the Cabinet's budget proposals is seen as a continuing innovative way to engage the public and create a dialogue that informs Councillors and the public of the choices and difficulties around setting the budget.

51.The Council Tax due to Hyndburn Borough Council for each property by Band is shown at Appendix 4.

52.The overall estimated Council Tax per household for 2016/17 is shown at Appendix 5.

Conclusion

53.The overall Revenue Budget 2016/17 is set out at Appendix 2. The Budget for 2016/17 will be £11,283,000 and will be supported by a Council Tax levy of £230.52 for a Band D property—translating into a revenue source of £4,400,000 to meet services to the local community. The Budget has been determined in light of continuing upward pressure on costs, previous financial difficulties that continue to overhang the Council, the available funding from Government and

the Council's strong desire to provide high levels of service to the Community in line with its priorities.

CONSULTATIONS

54.As outlined in the Report, the public have been invited to participate in the Council's Overview & Scrutiny Meeting on the 17th February to review in detail the Budget proposals of all parties, consider the proposals put forward and make suggestions on changes and improvements to the Budget plans to be submitted to Full Council on the 25th February 2016.

REASONS FOR RECOMMENDATIONS

55.The recommendations in the report provide an appropriate platform on which the Cabinet can recommend a Budget to the Council which meets the objectives and key priorities of the people of Hyndburn.

ALTERNATIVE OPTIONS

CONSIDERED AND REASONS FOR

REJECTION

56. There have been a wide number of individual proposals put forward to produce a Balanced Budget. Options have been rejected on a variety of grounds including policy objectives, practicalities and the potential for additional costs to be incurred. Further options may be presented at the Council meeting.

BUDGET IMPLICATIONS

57. As outlined in the report

LINKS TO CORPORATE PRIORITIES

58. The Budget report links to all corporate priorities in determining the funding levels for expenditure in the year ahead.

EQUALITY

59. Any detailed policy changes, changes in service provision or operational changes as a result of the budget proposals will have an EIA produced by the relevant Service Head where this is required.

RISKS

60. There are a number of financial risks around setting the Budget. These are set out in detail in the report and cover the impact of making estimations of a number of large financial areas which contain a degree of volatility. The Council is able to offset these risks by the effective management it has in place over budgets during the year and the ability to take early corrective action and make additional savings and re-prioritise spending decisions if necessary. It can also draw upon its reserves as a short term measure while it takes corrective action.

LEGAL IMPLICATIONS

61. The Council is required to set a Balanced Budget for the Financial Year ahead and needs to take into consideration the Government's threat of Capping.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

62. See the relevant supporting papers from the Cabinet Feb 2015 available from the Hyndburn Borough Website and other items on today's agenda.

[Council Budget Papers 2015/16](#)

[Medium Term Financial Strategy October 2015](#)

[Cabinet Budget Papers 2016/17 February 3rd 2016](#)

APPENDIX 1

Initial Outline Budget	
2016/17	
	£000
Revenue Support Grant	3,159
Business Rates	3,252
Council Tax	4,400
Collection Fund Surplus	472
Total Resources Available 2016/17	11,283
Roll Forward Budget	12,155
Growth Items	0
Unadjusted Total Predicted Spend	12,155
Savings Required	872
Savings Identified	872
Predicted Spend 2016/17	11,283
Unfunded Spend at this time	0

Revenue Budget 2016/17	
Service Expenditure	£000
Community Services	4,606
Culture & Leisure Services	1,239
Planning & Transportation	814
Regeneration Services	1,751
Policy & Corporate Governance	3,661
Non Service Related Budgets	-788
Contribution to Reserves	0
Net Total Expenditure	11,283
Band D Property 2015/16	£ 230.52
Band D Property 2016/17	£ 230.52
Increase on Previous Year	ZERO
% Increase on Previous Year	ZERO
Band A Property 2015/16	£ 153.52
Band A Property 2016/17	£ 153.52
Increase on Previous Year	ZERO
% Increase on Previous Year	ZERO

APPENDIX 3

Saving Proposals 2016/17		
	£	
Environmental Health		
Deletion of Post	50,000	Pest Control Officer Post
Waste Services		
Refuse		
Deletion of Post	30,000	Vacant Posts Removed from Staffing Structure
Deletion of Post	30,000	Vacant Posts Removed from Staffing Structure
Trade Waste	35,000	Additional Income from Price and Volume increase
Vehicle Signage	1,400	No further signage on vehicles
Printing	1,700	Move to on-line messages
Diesel Costs	10,000	Reduced usage with lower vehicle numbers, more efficient vehicles and lower price
Land Fill Tax	-2,500	Increased customer numbers
Tipping Charges	-2,100	Increased customer numbers
Additional Leasing Costs for Upgrade to Euro 6	-10,035	
Recycling		
Lower number of	8,000	

Containers		
Vehicle Signage	200	No further signage on vehicles
Printing	500	Move to on-line messages
Calendars	1,000	On line Calendars
Leaflets reduction	1,500	Reduced use of leaflets - communicate via on-line media
Recycling Income Reduction	-35,000	Reduced income from sales due to fall in prices
Street Cleansing		
Remove Mechanical Sweeper Driver Post	26,000	Vacant Post
Reduce Weekend Overtime for Hand sweepers	5,000	
Diesel Costs	8,000	Reduced usage with lower vehicle numbers, more efficient vehicles and lower price
Reduce replacement of Sweeper Brushes	1,500	Due to less vehicles and extending life
Hand Cart Repairs	570	Saving from overall decrease in usage
Printing	1,300	Making more use of on-line messages etc.
Leaflets reduction	140	Reduced use of leaflets - communicate via on-line media
Advertising	570	No further use of paid advertising
Dog Bags for Bins	-4,000	Additional Expenditure on Street Cleaning Budget
Saving from reduced leaf removal work	640	

Loss of income from LCC on Weed Control removal from Highways	-2,180	
Vehicle Maintenance	7,000	Savings on parts etc. due to smaller fleet
Vehicle Leasing	23,000	Mechanical Sweeper & 2 4x4s
Parks & Cemeteries		
Parks & Open Spaces		
Reduction in staff	30,000	Post to be deleted from establishment
Floral Market Town	5,000	Switch to sustainable horticultural displays and planting.
Pets Corner	1,000	Residual savings from closure of this facility
Electricity	2,000	Reduction in electricity costs
Gas	3,000	Reduction in gas costs
Diesel	2,000	Savings from lower costs
Works Vehicle Costs	4,000	Reduce fleet by not replacing 4x4
Agency Staff Budget reduction	3,000	
Public Realm Work loss of income from LCC trees, verges & shrubs	-3,000	
Cemeteries & Cremations		
Reduction in subsidy on exclusive rights to burial	7,000	Increase charge of £100 from £700 to £800
Reduction in subsidy on internments	23,000	Increase cost of a burial from £525 to £700

Reduce subsidy on cremations	37,500	Increase cost of cremation by £50 from £575 to £625
Culture & Leisure		
Reduction in subsidy to Hyndburn Leisure	150,000	Reduction in line with agreement
Planning & Transportation		
Deletion of Post	34,282	Deletion of Vacant Post
Deletion of Post	6,302	Deletion of Vacant Post--residual savings
Increase in Garage Rents	2,000	
Increase in Allotment Charges	2,500	
Savings on Allotment Maintenance costs	2,000	
Saving on Public Participation on Planning Policy	1,000	
Reduction in expenditure on Bus Shelter Cleaning	1,023	
Savings on Street Benches	1,000	
Savings on Car allowances	2,000	
Saving on Lump Sum Allowance	1,000	
Saving on loan allowance	1,000	
Decrease in Parking Enforcement Income	-5,900	
Additional ICT costs from existing systems	-879	

Regeneration & Property Services		
Town Centre	1,000	Increased income
CCTV monitoring	25,241	Deletion of Vacant Post
Housing Advice	16,500	Savings on Standby Payments, Overtime, Rent dependency scheme
Department Management	27,656	Deletion of Vacant Post
Development	7,500	Reduction in hours to 4 days
Environmental Protection	26,000	Savings from vacant post and overtime reduction.
Property Services Business Unit	3,000	Reduce consultancy payments
Corporate Repairs & Maintenance	17,000	Reduce repairs and maintenance budgets
Christmas Decorations and Amenities	4,000	Reduced electricity costs and reduced purchases
Adjust Corporate Property Income Target	-40,000	
Adjust Regeneration Income Target	-77,000	
Termination of LCC Grant income for Senior Citizens	-14,734	
Reduction in Commercial Activity at Sadler St	-15,826	
Policy & Corporate Governance		
Reduce funding to Police Commissioner	34,771	

Managing Director	7,000	Reduction in Miscellaneous expenditure
Deputy Chief Executive	7,000	Reduction in Miscellaneous expenditure
Cannon Street Offices	1,290	Miscellaneous savings across budget headings
Other P&R General Grants	15,000	Hardship Grant Council Tax Support
	9,760	Miscellaneous savings
	7,000	Loss of Income Contingency
	2,500	Cabinet Action Fund
Insurances	37,107	Savings on Excess and Other Costs
Unapportioned Central Overheads	12,000	Savings from Reduced number of payments required
Accountancy		
Audit & Treasury Management Costs	7,928	Reduction in External Audit Fees etc.
Interest on Deposits	4,000	
Business Rate Pooling Admin costs	-2,000	
Audit		
Reduction of Budgets allocated to Fraud Post	51,827	
Benefits & Customer Service		
Revenues Team	100	Printing
	100	Stationery
	500	Office Consumables
	500	Postage
	75,000	Discretionary Relief Budget

Benefits	500	Security Services
	230	Car allowance
	464	Lump Sum Allowance
	500	Car Leasing
	100	Office Consumables
	387	Customer Survey
	1,000	Postage
	227	Document Management
	2,000	Swipe Cards
	596	Advertising
Contact Centre	911	General Expenditure
	1,000	BPR contact Centre
	8,000	Misc. LCC
	20,928	Deletion of Vacant Post
	5,531	Application for Reduced Hours
ICT	2,000	Savings on rationalisation of line rentals etc.
	1,067	Rationalisation of servers etc.
	111	Reduce Travel Costs based on historical usage
	74	Reduced Budget required for Disaster Planning
	500	Savings from using larger printers
	400	Reduced stationery expenditure due to paperless billing
	2,000	Saving on Sim card costs via new contract
	345	Miscellaneous saving on

		training budget
Members Expenses		
	6,700	Unused Basic & Special responsibility allowances
	1,566	Carers Allowance
	600	Travelling expenses
	150	Refreshments
Member Services		
	3,120	Printing
	1,822	Office Consumables
	584	Rent & Hire of Premises
	79	Overview & Scrutiny Support
	200	Postage
	122	Refreshments
	250	Miscellaneous Expenses
Mayoralty		
	1,700	Civic Lunch
	50	Car hire
	200	Protective Clothing
	250	Stationary
	200	Postage
	256	Car Allowance
	2,000	Hire of Vehicle
Human Resources		
	7,684	Deletion of Payroll Post
Legal		
	1,500	Savings on Publications Budget

	3,000	Saving on Legal Fees
	1,000	Savings on Postage
	10,000	Increased Fee Income
Licensing		
	500	Saving on Testing
Elections		
	150	Advertising
	150	Equipment Repairs
	400	Fees re Poll cards
	250	Transportation Costs
	127	Counting Votes
	2,500	Postage
	1,000	Postal Ballot Fees
Register of Electors		
	24,814	Deletion of Post
Total Savings 2016/17	872,548	

Hyndburn Borough
Council Tax Increase 2016/17
by Property Band

Valuation Band and statutory ratios of Band D Council Tax		Council Tax 2016/17	Council Tax 2015/16	Annual Increase
Band A	6/9	£153.68	£153.68	£0.00
Band B	7/9	£179.29	£179.29	£0.00
Band C	8/9	£204.91	£204.91	£0.00
Band D	9/9	£230.52	£230.52	£0.00
Band E	11/9	£281.75	£281.75	£0.00
Band F	13/9	£332.97	£332.97	£0.00
Band G	15/9	£384.20	£384.20	£0.00
Band H	18/9	£461.04	£461.04	£0.00

Appendix 5

Overall Change in Council Tax 2016/17

	Household Bills 2015/16					Increase In Annual Bills 2016/17				
	Lancashire County Council	Lancashire Police & Crime Commissioner	Lancashire Fire & Rescue	Hyndburn Borough Council	Total	Lancashire County Council	Lancashire Police & Crime Commissioner	Lancashire Fire & Rescue	Hyndburn Borough Council	Total
Band A	£ 753.19	£ 106.04	£ 43.24	£ 153.68	£ 1,056.15	£ 30.05	£ 2.11	£ 0.86	£ -	£ 33.02
Band B	£ 878.72	£ 123.71	£ 50.45	£ 179.29	£ 1,232.17	£ 35.06	£ 2.46	£ 1.00	£ -	£ 38.53
Band C	£ 1,004.25	£ 141.39	£ 57.65	£ 204.91	£ 1,408.20	£ 40.07	£ 2.81	£ 1.15	£ -	£ 44.03
Band D	£ 1,129.78	£ 159.06	£ 64.86	£ 230.52	£ 1,584.22	£ 45.08	£ 3.17	£ 1.29	£ -	£ 49.53
Band E	£ 1,380.84	£ 194.41	£ 79.27	£ 281.75	£ 1,936.27	£ 55.10	£ 3.87	£ 1.58	£ -	£ 60.54
Band F	£ 1,631.90	£ 229.75	£ 93.69	£ 332.97	£ 2,288.31	£ 65.11	£ 4.57	£ 1.86	£ -	£ 71.55
Band G	£ 1,882.97	£ 265.10	£ 108.10	£ 384.20	£ 2,640.37	£ 75.13	£ 5.28	£ 2.15	£ -	£ 82.56
Band H	£ 2,259.56	£ 318.12	£ 129.72	£ 461.04	£ 3,168.44	£ 90.16	£ 6.33	£ 2.58	£ -	£ 99.07

This assumes a 1.99% increase by other preceptors and that Lancashire County Council exercise their option to increase their precept by a further 2% in relation to financing Adult Social Care.

Appendix 6

Altham Parish Precept 2016/17 by Property Valuation Band

Valuation Band and statutory ratios of Band D Council Tax	Council Tax 2016/17	Council Tax 2015/16	Annual Increase
Band A; 6/9	£25.51	£25.51	£0.00
Band B; 7/9	£29.77	£29.77	£0.00
Band C; 8/9	£34.02	£34.02	£0.00
Band D; 9/9	£38.27	£38.27	£0.00
Band E; 11/9	£46.77	£46.77	£0.00
Band F; 13/9	£55.28	£55.28	£0.00
Band G; 15/9	£63.78	£63.78	£0.00
Band H; 18/9 *	£76.54	£76.54	£0.00

* There are currently no band H properties in Altham parish

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**Report to
Report by**

**Cabinet
Councillor Gareth Molineux
Portfolio Holder Resources**

**Date
Report Prepared by**

**3rd February 2016
Joe McIntyre
Deputy Chief Executive**

GENERAL FUND
CAPITAL PROGRAMME
2016/17

Purpose of the Report

To invite the Cabinet to consider the Council's capital investment priorities for 2016/17 and to recommend to the Council a capital programme for approval at its meeting on the 25th February 2016, having regard to key linkages between the management of the Council's capital and revenue resources.

Recommendations

I recommend that the Cabinet proposes to Council

1. A Capital Programme for 2016/17 of £5,503,903 as set out in Appendix 1.
2. That the programme is funded by anticipated direct external grants and other funding streams of £4,356,958 and £1,146,945 of new resources from within the Council. External grant funding must be secured

before any internal funds are committed to projects that rely on external funding to proceed.

3. That delegated authority is given to the Deputy Chief Executive, in consultation with the Portfolio Holder for Resources to flex the programme in accordance with the available funding, provided this does not require any additional borrowing.
4. That the individual projects within the Capital Programme require the written authorisation of the Deputy Chief Executive following consultation with the Portfolio Holder for Resources before commencing and incurring expenditure and that Service Managers provide the Deputy Chief Executive, with written details of estimated costs of schemes with full justification of the need and benefits from undertaking the capital investments before approval is provided and that approval to commence is delegated to the Deputy Chief Executive, in consultation with the Portfolio Holder for Resources.
5. That Projects are timed to minimise the need for borrowing and the Deputy Chief Executive be requested to seek project start dates after September 2016 whenever this is practical.
6. That in-year underspends are not made available to fund new projects during the year.

Summary

The Report sets out the Council's Capital Programme for 2016/17. In recent years, the Council has funded significant programmes of Capital Expenditure which have

exceeded £15m per annum. In these more austere times it is not possible to fund investment into the local community at these levels. However the Council is able to put forward a substantial capital investment programme of over £5.5m, despite the severe reductions in public spending that have been necessary due to the Recession. This has only been made possible by the Council's effective financial management over recent years, which has seen it avoid additional borrowing and increased its revenue reserves, while reducing its operating costs.

It is intended that the Council will continue these strong policies of financial management and this year will again avoid increasing its borrowing. It will rely on securing external sources of funding, using capital receipts, making revenue contributions to capital projects and use unspent monies to fund its programme. It will also apply a rigorous approach to selecting projects to fund by examining all proposals against its corporate objectives and only selecting the most pressing and deserving projects to fund. This is in accordance with the Council policy of limiting the increase in debt and borrowing costs, while ensuring the Council's objectives are met.

The Revenue implications of the strategy to finance the Capital Programme are a key element in the affordability issues on the Revenue Budget this year. The programme contains a limited amount of risk this year. The level of risk is significantly down from previous financial years. This is largely due to the smaller programme and the removal of much of the risk around the level of available capital funds to meet the proposed expenditure. The main risks within the programme relates to the potential volatility around costs within the Housing Regeneration Programme as the project enters its final phase and the usual risks around inflation and project management.

The Council's overall resources and management systems are believed to be sufficiently robust to effectively monitor these risks and ensure appropriate action is taken if they should materialise.

The Council will continue with its strategy adopted 10 years ago to reduce significantly its level of debt wherever possible by restricting borrowing and repaying debt and will continue to work extensively with external funders to bring forward realistic plans for Capital investment in the area.

Detail

1. The Council fundamentally altered its capital investment strategy with the Capital Programme it announced in March 2004. Up until that point, the Council had looked to maximise the capital investment it made each year. The upper limit of investment each year was the Basic Credit Approval provided by the Government plus any specific Supplementary Credit Approvals. This system of Capital Credit Approvals allowed local authorities to spend up to a maximum amount each year on Capital Schemes. This figure was pre-determined by the Government.
2. By taking advantage of these Credit Approvals, the Council made significant investments in the local infrastructure, however this came at the cost of steep increases in revenue costs to meet the interest payments in relation to these borrowings. Further underlying problems were also being built-up by the use of Capital Receipts to further support more Capital expenditure rather than

repaying existing debt. The issue of debt repayment was accentuated still further by the significant reduction in Grant Commutation which was impacting on the revenue costs of the Council.

3. Work undertaken in 2004, showed the Council was moving on a course that would see its General Fund Debt rise from £16.3m in 2002/3 to £27.5m by March 2007 and would see its financing costs rise from just over £1m in 2002/3 to almost £2.9m by 2006/7. This analysis predicted the proportion of the General Fund Revenue Account required to fund debt-financing would rise from around 8% in 2002/3 to almost 25% by 2006/7 and continue on an upward path in subsequent years. At times of increased pressure on the General Fund from a wide variety of sources it was recognised that the previous strategy was unsustainable and a new approach was developed around limiting capital investment to essential projects and using capital receipts to repay debt. This strategy has proved very successful and the predicted debt financing costs in 2016/17 are expected to be 4% or less of general revenue spend. This transformation has saved the Council around £2.275m per year over the last 9 years, based on the current ratio of cost to total net expenditure. This action, in light of the severe reduction in funding the Council has faced over the last 5 years, has ensured that the Council has been able to manage its financial position appropriately. If the Council still had the levels debt it had in 2003/4 or had allowed the amounts borrowed to grow over the last 10 years its financial position would have been precarious under the present financial climate.
4. Debt financing costs are expected to remain stable over the next 3 years. Our loan portfolio has interest rates that are unlikely to significantly alter over the

period of the Medium Term Financial Strategy (MTFS). Interest rates, with the Bank of England Base Rate currently at 0.5% are not expected to increase until 2017 at the earliest. The increase when it comes in 2017 is only expected to be by 25 base points, raising it to 0.75% and further increases are expected to be limited to 25 base points and only introduced on a quarter year basis at the most.

5. The Council via its successful financial management of its resources repaid the last of its short term loans during 2015/16 and now only has long term debts of just under £10m that it cannot repay for around 25 years. The loans outstanding are held as “lender option, borrower option” (LOBO) loans and interest rate increases are not expected to change sufficiently for our lenders to exercise their options to “call” the loan and have it repaid within 6 months in the expectation that they can produce a better return on their money. At some point in the future the Council should consider starting to build sufficient cash reserves to effectively terminate these loans when they are either “called” or mature. However the current pressure on the Council’s financial position over the next few years and the remote likelihood of any “call” in that period suggest this would not be an effective strategy at the present time.
6. The current Capital Projections for 2016/17 show that our estimated debt has decreased from the projected £27m in 2004 to under £10m currently and that we do not estimate that there will be a need for this position to worsen in the near future.

7. This demonstrates that our early prudent action in the management of the debt position has produced a significant improvement in our debt position and we have achieved our objectives as detailed in last year's Capital Programme.
8. The Capital Programme Working Group (CPWG) received bids considerably in excess of the available resources for the 2016/17 year and all of these applications have gone through a process of rationalisation to come up with a proposed programme for 2016/17.
9. The proposed programme is outlined in Appendix 1 and a summary of the major projects are given below.
 - a) The Council is committing over £2.3m into Housing and Town Centre Renewal Projects with £643,000 for the Accrington Town Centre Improvement Project, further works taking place in Woodnook and West Accrington, money is earmarked for regeneration in Rishton and funds set aside to complete changes to Pendle Street
 - b) There is also almost £1.7m for Parks and Leisure services activities to support our drive to encourage people to be active with £1.4m to revitalise Rhyddings Park and £150,000 to help Hyndburn Leisure provide its sport and leisure facilities, as well as £71,000 for the development of the Aspen Colliery Coke Oven heritage site.
 - c) This year we are also providing £650,000 of funds for our cemetery and crematory service so that we can create a new cemetery facility for the people of Great Harwood and Rishton and replace our aging cremators at Accrington Cemetery.
 - d) The Council will continue to prioritise expenditure to assist the community within Hyndburn. Despite all the budget pressures the

Council faces we will spend almost £449,000 this year on Disabled Facility Grants. This will ensure that the Council continues to provide all the assistance it can to ensure that the disabled are able to continue to live dignified and safe lives in their own homes by providing direct grants for the provision of stair lifts, walk-in showers and other adjustments. We will also provide funds to assist with the establishment of facilities for those suffering from domestic violence.

- e) We will also spend over £296,000 on a variety of projects and purchases such as improving our assets, upgrading our ICT systems and fire alarm system at the Market Hall, replacing vehicles and buying Christmas decorations.

Improving the Management of Capital Investments

10. The Council needs to continue to develop its financial control over its major capital investment programme. It is critical that during 2016/17 the Council continues to adequately manage this spend, to ensure it gains as much benefit from this investment as possible and effectively controls its costs.

11. The 2016/17 Capital Programme outline of schemes can be seen in Appendix 1. However the Council needs to ensure these schemes can provide the positive benefits the level of spend requires. Following on from the successful approach introduced 10 years ago, each scheme is required to provide more detailed analysis, if requested, before final spending is committed to ensure that the project can be delivered within the funds made available, that revenue costs of the schemes can be accommodated within existing revenue budgets

and most importantly that the benefits from the scheme are clearly identified and delivered.

12. The Deputy Chief Executive, will be instructed only to release funds for capital investment once the required written detail has been submitted to him for approval. Until this has been given, Service Managers are not allowed to commit expenditure. Additional projects may be authorised by the Deputy Chief Executive, in consultation with the Portfolio Holder for Resources during the year if the projects have sufficient external funding to meet their costs or other funding sources can be obtained.

13. Under the previous regime of Credit Approvals from the Government there was an in-built incentive to spend up to the maximum each year—as failure to do so, might have led to reduced credit approvals in the future and subsequently lost the Council flexibility in future spending decisions. Therefore if parts of the Capital Programme slipped, came in under budget or were cancelled, there was a strong tendency to seek to replace these with other projects, to maintain the overall spend close to the maximum Credit Approval.

14. Under the new regime of Prudential Borrowing, there is no requirement to spend up to a budgeted amount. The Council should determine its needs for Capital spend purely on rational grounds and underspends in the programme should not automatically lead to other projects being brought forward to soak up potentially available funds. Given that a rigorous process of determining the need for Capital spend has taken place at the start of the year and the Council's strong commitment for reducing the overall level of debt, there

should be a major predisposition to continued banking of these underspends as a genuine saving to the Council.

Conclusion

15. Overall the Council will be investing £5.5m in Capital investment in 2016/17.

Almost £2.4m will be invested in the regeneration of our housing and town centres and almost £1.7m will be spent to improve the leisure, sporting and community facilities provided by the Council. The Cemetery and Cremation Service will benefit from £650,000 of investment in new equipment and facilities. In addition there is also almost £449,000 to assist the disabled to continue to live in their own homes, and a further £328,000 on various other projects, investing in services to the public and protecting our assets.

16. The details behind all of these proposals remain at the outline stage only and further work is required to ensure that these projects provide positive benefits to the Community and the Council. Each project is therefore required to submit further detailed plans if required in order to obtain final approval for expenditure to occur and to obtain final clearance from the Deputy Chief Executive, in consultation with the Portfolio Holder for Resources.

17. The Capital Programme does require a degree of flexibility within it, to respond to sudden demands for Capital expenditure, actions to be taken on the receipts of monies and revisions to proposals as projects are not financially viable or encounter other problems such as securing external funding. CPWG will report back to Cabinet at frequent intervals throughout the year to ensure

Cabinet is kept appraised of the current situation and any approvals necessary for alteration are obtained.

CONSULTATIONS

A variety of schemes are recommended from a number of sources to the Council. These are considered by the Council's CPWG against a list of corporate priorities and other assessment criteria before the final list is determined.

REASONS FOR RECOMMENDATIONS

These schemes represent the best value for money and meet the Council's overall corporate policy objectives, within the funding envelop for the year.

ALTERNATIVE OPTIONS CONSIDERED AND REASONS FOR REJECTION

A wider programme of funding has not been considered due to the Council's policy commitment to limiting Capital Expenditure to affordable levels and seeking to repay debt.

BUDGET IMPLICATIONS

As outlined in the report.

Risk Management

The programme for 2016/17 should be low risk and has much less risk attached to it compared to recent years, due to its decreased size and the level of certainty around its

funding. As with previous years we look to monitor the individual transactions closely and arrange the overall programme so that we do not commit expenditure in areas where we have some degree of control, until these risky transactions are concluded.

LINKS TO CORPORATE PRIORITIES

The Council's Corporate Objectives are delivered through its Capital and Revenue Budget.

EQUALITY

The report is for information and does not contain any changes to Council Policies which would require an equality impact assessment to take place.

LEGAL IMPLICATIONS

Not applicable

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

No specific background papers applicable, other than previous reports on this subject in previous years but they do not relate directly to the content of this report.

APPENDIX 1

Capital Programme

2016/17

Scheme	Gross Cost	External Funding	Other Funding	Net Cost 2016/17
Rhyddings Heritage Lottery Fund	1,461,000	1,411,000		50,000
Accrington Townscape Heritage Initiative	643,000	432,500	210,500	0
Rishton Regeneration	600,000		600,000	0
Transitional Housing Programme	535,597	495,591	40,006	0
New Cremators for Accrington Crematorium (VAT implication?)	450,000			450,000
Disabled Facilities Grant	448,935	448,935		0
Pendle Street	373,839		373,839	0
Clusters of Empty Homes	241,961	241,961		0
New Cemetery on Lee Lane	200,000			200,000
Planned Asset Improvement	100,000			100,000
Hyndburn Leisure centres Energy Efficiency Improvements	75,000			75,000
Hyndburn Leisure Centres Mechanical and electrical Plant Replacement	75,000			75,000
Aspen Colliery Coke ovens	71,500	71,500		0
Capitalised Salaries	57,945			57,945
Future Vehicle Set Aside	50,000			50,000
Safe Houses	31,126	31,126		0
Accrington Market Hall fire systems renewal	30,000			30,000
Technology refresh scheme	25,000			25,000
Vehicle replacement	19,000			19,000
Christmas Decoration Replacement	15,000			15,000
Total Expenditure 2016/17	5,503,903	3,132,613	1,224,345	1,146,945

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REPORT TO:		Council	
DATE:		25 February 2016	
REPORT OF:		Cllr Noordad Aziz, Chair of the Resources Overview and Scrutiny Committee	
REPORT AUTHOR:		Overview and Scrutiny Officer	
TITLE OF REPORT:		Overview and Scrutiny Consideration of the 2016/17 Budget Proposals	
EXEMPT REPORT:	No		
KEY DECISION:	No	If yes, date of publication:	

1. **Purpose of Report**

- 1.1 This report informs Council of the recent consideration of the budget proposals for 2016/17 by the Resources Overview and Scrutiny Committee, at its meeting held on Tuesday 16th February, 2016.

2. **Recommendations**

- 2.1 That Council notes the following resolutions of the Resources Overview and Scrutiny Committee:
- (1) That the Committee notes the content of the reports relating to; Prudential Indicators, Treasury Management and Investment Strategy 2016/17 – 2018/19, Medium Term Financial Strategy 2016/17 – 2018/19, General Fund Revenue Budget 2016/17 and General Fund Capital Budget 2016/17;
 - (2) That having reviewed and debated the budget submitted, the Committee supports the content of the revenue and capital budget reports;
 - (3) That the Committee requests that an accurate reserves figure is provided to Council;
 - (4) That Council write to Central Government to request that final grant settlement figures are provided earlier in future years in order for the Council to set an accurate budget, and that this letter be given cross party support.

3. Reasons for Recommendations and Background

- 3.1 In accordance with the Council's Constitution, Part 3 - Responsibility for Functions, Appendix 1 - Terms of Reference, the main terms of reference request the Resources Overview and Scrutiny Committee ("The Committee") 'to consider the Cabinet's proposals to achieve a balanced budget in advance of the budget being determined by the Council'.
- 3.2 The Leader of the Council and the Portfolio Holder for Resources were requested to submit the following reports, which were considered by the Committee:
- a) Prudential Indicators, Treasury Management and Investment Strategy 2016/17 to 2018/19
 - b) Medium Term Financial Strategy 2016/17 to 2018/19
 - c) General Fund Revenue Budget 2016/17
 - d) General Fund Capital Programme 2016/17
- 3.3 The Conservative and UKIP groups were invited to submit their own budget proposals to the Committee to be scrutinised. Both groups indicated that they would not be putting forward any budget proposals to the Committee meeting.
- 3.4 Members of the Public were invited to attend the meeting to hear about budget proposals and to ask questions about the budget if they so wished. A press release was issued, however, no written questions were received.
- 3.5 Individual Members were invited to the meeting of the Committee and to submit their ideas for the budget for the forthcoming financial year. No ideas were put forward by individual members of the Council.
- 3.6 The Leader of the Council, Portfolio Holder for Resources and the Deputy Chief Executive attended the meeting to submit their reports, and responded to the questions raised at the meeting by the Committee and other Members. The questions related to:-
- New Homes Bonus
 - The deletion of several posts
 - Charges for burials and cremations
 - Responsibility for bus shelters
 - Grants to Hyndburn Leisure
 - Increasing income through trade waste
 - Rishton Regeneration
 - Planned asset improvements
- 3.7 Council's attention is drawn to the Committee's resolutions arising from this budget scrutiny meeting, as detailed in paragraph 2 of this report.

4. **Alternative Options considered and Reasons for Rejection**

- 4.1 The Conservative and UKIP groups were invited to submit alternative budget proposals. One suggestion regarding sponsorship opportunities for events was put forward UKIP and discussed.

5. **Consultations**

- 5.1 Members of the public and all Councillors were invited to put forward their suggestions for the budget. The Conservative and UKIP groups were also invited to submit their budget proposals.

6. **Implications**

Financial implications (including mainstreaming)	The Council Budget setting affects all services.
Legal and human rights implications	It is a Constitutional requirement for the Council to set the Budget.
Assessment of risk	Not applicable to this report
Equality and diversity implications <i>A Customer First Analysis should be completed in relation to policy decisions and should be attached as an appendix to the report.</i>	Not applicable to this report

7. **Local Government (Access to Information) Act 1985:** **List of Background Papers**

Agenda, Reports and Minutes of the Resources Overview and Scrutiny Committee on Tuesday 16th February 2016.

<http://democracy.hyndburnbc.gov.uk/ieListDocuments.aspx?CId=132&MId=184&Ver=4>

8. **Freedom of Information**

- 8.1 The report does not contain exempt information under the Local Government Act 1972, Schedule 12A and all information can be disclosed under the Freedom of Information Act 2000.

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REPORT TO:		Council	
DATE:		25 th February 2016	
PORTFOLIO:		Cllr Miles Parkinson, Leader	
REPORT AUTHOR:		Joe McIntyre Deputy Chief Executive	
TITLE OF REPORT:		<u>GENERAL FUND REVENUE & CAPITAL BUDGET 2016/17</u>	
EXEMPT REPORT (Local Government Act 1972, Schedule 12A)	No		
KEY DECISION:	No	:	

PURPOSE OF THE REPORT

The report sets out the Council's budget requirement for 2016/17 as presented to Cabinet on 3rd February 2016, its Precept on the Collection Fund and the formal details surrounding the Precept of other bodies on the Collection Fund and seeks permission to continue to allow former Area Council budgets for Capital and Revenue to be retained by these groups or their successors and for additional payment or payments to be made to Lancashire Pension Authority if surplus funds exist.

Recommendations

I recommend

1. the acceptance and adoption of the Cabinet's recommendations on the Revenue and Capital Budgets for 2016/17 made at the Cabinet meeting on 3rd February 2016 (a copy of the report and recommendations have been supplied with the Agenda for today's meeting), with one amendment that

reduces the savings required on the Culture and Leisure Services Budget by £50,000 and inserts a Corporate Savings Target of £50,000 instead.¹

2. that Council Tax for Hyndburn Borough Council remains at £230.52 for the year for a Band D property.
3. that the Council commits to continuing to strengthen its Reserves during the year and requires the Chief Executive and the Deputy Chief Executive to take appropriate action to protect the Council's overall financial position and further strengthen its Reserves during the forthcoming year.
4. that the Council delegates authority to the Chief Executive to take such action as he considers necessary to implement the measures contained in this budget.
5. that it be noted that on 6th January 2016 the Council at its Cabinet calculated:

the Council Tax Base 2016/17 for the whole Council area as 19,089 (Item T in the formula in Section 31B(3) of the Local Government Finance Act 1992, as amended (the "Act")) and,

for dwellings in those parts of its area to which a Parish precept relates as 301.

6. that Council agrees that the Council Tax requirement for the Council's own purpose for 2016/17 (excluding Parish precepts) is £4,400,396.
7. that Council agrees that the following amounts be calculated for the year 2016/17 in accordance with Sections 31 to 36 of the Act:
 - a) £52,325,000 being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) of the Act taking into account all precepts issued to it by Parish Councils
 - b) £47,913,085 being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) of the Act.
 - c) £4,411,915 being the amount by which the aggregate at 7(a) above exceeds the aggregate at 7(b) above, calculated by the Council in accordance

¹ Appendix 3 General Fund Revenue Budget 2016/17 Cabinet 3rd February 2016 Page49

with Section 31A(4) of the Act as its Council Tax requirement for the year (Item R in the formula in Section 31A(4) of the Act).

- d) £231.12 being the amount at 7(c) above (Item R), all divided by Item T (5 above), calculated by the Council, in accordance with Section 31B(1) of the Act, as the basic amount of its Council Tax for the year (including Parish precepts).
 - e) £11,519 being the aggregate amount of all special items (Parish precepts) referred to in Section 34(1) of the Act (as per the attached Appendix B).
 - f) £230.52 being the amount at 7(d) above less the result given by dividing the amount at 7(e) above by Item T (5 above), calculated by the Council, in accordance with Section 34(2) of the Act, as the basic amount of its Council Tax for the year for dwellings in those parts of its area to which no Parish precept relates.
8. that Council note that the County Council, the Lancashire Police & Crime Commissioner and the Fire Authority have issued precepts to the Council in accordance with Section 40 of the Local Government Finance Act 1992 for each category of dwellings in the Council's area as indicated in the table below.
9. that the Council, in accordance with Sections 30 and 36 of the Local Government Finance Act 1992, hereby sets the aggregate amounts shown in the table below as the amounts of Council Tax for 2016/17 for each part of its area and for each of the categories of dwellings.

	2015/16	2016/17	Increase
	£	£	
Hyndburn Borough Council	230.52	230.52	0.00%
Lancashire County Council	1,129.78	1,174.86	3.99%
Lancashire Police & Crime Commissioner	159.06	162.22	1.99%
Lancashire Fire & Rescue Authority	64.86	65.50	0.99%
Sub Total	1,584.22	1,633.10	3.09%
Altham Parish Council	38.27	38.27	0.00%
Total	1,622.49	1,671.37	3.01%

- 10.that the Council note the basic amount of Council Tax for 2016/17 is not considered excessive in accordance with principles approved under Section 52 ZB Local Government Finance Act 1992.
- 11.that the Deputy Chief Executive, is given delegated authority to amend the budget (following consultation with the Leader of the Council) for technical reasons or to comply with legal requirements, such as the restructuring of cost centres, the re-apportionment and re-allocation of overheads etc., so long as these changes have an overall neutral impact on the budget.
- 12.that any continuing balances on Revenue or Capital previously earmarked for Area Councils continues to be set aside for use by these or their successor bodies.
- 13.that the Chief Executive is given delegated authority to use the unallocated surplus generated in 2015/16 to fund any future shortfall in income or additional expenditure, to support "Invest to Save" projects that will help reduce the Council's long term costs(including additional payments to the Pension Fund as outlined below), or support specific capital projects, or finance other commitments that he deems to be in the best long term interest of the Council or to transfer funds to Reserves as required.
- 14.that the Chief Executive is given delegated authority following consultation with the Leader to make a payment to the Lancashire Pension Authority to help reduce the extent of the Council's pension liabilities that have amassed from previous years (£45.8m as at the 31st March 2015)
- 15.that the Council renews its short term loan to Barnfield & Hyndburn Ltd of £150,000 if required to assist our joint venture, manage its short term loan

position with its Bank, while it continues to develop its site at Mill Gardens Great Harwood pending the arrival of receipts from sales.

Reasons for Recommendations and Background

The Localism Act 2011 has made significant changes to the Local Government Finance Act 1992, and now requires the billing authority to calculate a Council Tax requirement for the year, not its budget requirement as previously. Details of the budgetary proposals are contained with this Agenda and in the supporting papers to this Council meeting from the Cabinet Meeting on the 3rd February 2016.

The Cabinet Budget proposals (3rd February 2016) have been submitted with the agenda for today's meeting. There is only one alteration to the reports previously submitted. The Council has received representations from Hyndburn Leisure Trust to defer part of the savings that it was due to implement for 12 months and we have agreed to this request. The £50,000 reduction in savings from the Grant to the Leisure Trust will be offset by the creation of a £50,000 Corporate Savings Target for the year. The report outlines the precepts from the other councils and seeks permissions to roll forward any unspent Area Council Capital and Revenue balances and make a transfer of sums to the Local Government Pension Scheme to reduce our long term pension liability.

The overall Council Tax requirement for a Band D property remains at £230.52 and the Council's Budget for 2016/17 is £11,283,000.

Council Tax for Hyndburn Borough Council services is therefore not increased from the previous year.

The County Council notified Hyndburn Council on the 16th February 2016 that it would be increasing its Council Tax requirement for each household by 3.99%. This is an increase of £45.08 for a Band D property from the previous year's figure of £1,129.78 to £1,174.86.

The Lancashire Police & Crime Commissioner notified Hyndburn Council the 16th February 2016 that it would be increasing its Council Tax requirement for each household by 1.99%. This is an increase of £3.16 for a Band D property from the previous year's figure of £159.06 to £162.22.

The Lancashire Combined Fire Authority notified Hyndburn Council on the 15th February 2016 that it would be increasing its Council Tax requirement for each household by 0.99%. This is an increase of £0.64 for a Band D property from the previous year's figure of £64.86 to £65.50.

Altham Parish Council have confirmed that they do not intend to increase Council Tax bill this year for the services they provide.

The overall increase in Council Tax for 2016/17 compared with 2015/16 is 3.01% (3.01% in Altham). A Band D property will have to pay an additional £48.88 over the year. The amounts charged by each council for each Council Tax Band is shown at Appendix A along with the combined amount due for each Band. Information is also provided in Appendix A over the charges for each band payable for residents in the parish of Altham. Details of the parish precept compared to the previous year are shown at Appendix B.

Currently the Council operates a policy that requires surplus funds to be returned to a central pot at the end of the year. The Cabinet has previously indicated that it would allow Area Councils or their successor bodies to utilise unspent monies into the future until these sums are exhausted. This recommendation paves the way for this to continue to occur.

The Council's Balance Sheet is currently dominated by its Net Liability on its Pension Fund. At the end of 2014/15 it was £45.8m. The figure represents the amounts owed by the Council to meet its obligation to former and current employees for the cost of their pensions.

The liability figure largely accumulated in the 1970s, 1980s and 1990s when accounting for pension liabilities was not a part of local authority accounting and insufficient monies were paid into the pension fund by the Council, particularly for early retirements and pension enhancements. This practice stopped over 10 years ago, but most of the residual liability remains from that time.

The liability is scheduled to be financed over the next 19 years from annual contributions from Hyndburn Council. These costs represent a significant additional burden on the Revenue Budget and in 2016/17 the Council is budgeted to pay almost £2m in pension costs.

The payment of additional funds into the Pension Fund can help to significantly reduce the overall future annual amounts the Council will have to pay. This action has been taken three times before in the last ten years, in 2006/7, 2007/8 and 2013/14 when the Council made additional contributions of £999,000, £476,000 and £2.5m .

The additional payments are invested by the Pension Fund and our action in making additional contributions previously was a major contributing factor in ensuring that at the latest revaluation of our pension assets and liabilities the Actuary did not increase our annual contributions. Some other District Councils in Lancashire who underwent the same process have seen their annual pension contributions increased by between £200,000 and £400,000.

Our previous prudent action of paying additional contributions has therefore paid dividends in terms of helping us to avoid significant future costs and it is now recommended that the Council uses some of the additional resources it has currently available to further reduce its pension liability. Taking this action now should help to ensure that future amounts we have to pay towards pension costs do not increase and potentially start to diminish. This will provide great assistance to the Council in future years as it struggles to find ever more demanding savings against a backdrop of Government reduction in grant funding.

The Cabinet currently anticipates that it will end the 2015/16 financial year in surplus. Any surplus generated in 2015/16 will be used to assist the Council to address any shortfall in funding occurring in future years, the need to continue to reduce its long term cost base via invest to save (including making additional payments to the pension fund), funding additional capital expenditure, meeting other costs and enhancing its reserves. The surplus will be placed under the direction of the Chief Executive to ensure it can be used effectively and flexibly in response to the continuing financial pressures the Council faces.

The Council has a joint venture with Barnfield Construction Limited to develop the Mill Gardens site in Great Harwood. The development was initially being funded from internal funds generated from previous projects. However due to the downturn in the housing market it has been necessary for both partners to provide short term loans to the partnership to complete the development. Permission is requested via this report to finance these short term loans once again.

Overall Financial Position and Robustness (Local Government Act Section 25 Statement)

There are a number of significant areas within the Budget for 2016/17 that require a degree of estimation. These estimates are based on the best professional judgements, developed upon data that is available to the Council at the time of drawing up its budget. However there is always potential for the actual figures to vary from the estimates during the year. Within the Budget there is therefore a degree of risk. The most notable areas of risk are:-

- the impact of non-pay inflation,
- further fluctuations in interest rates and the collapse of any Bank where we deposit our funds,
- the impact of changes on funding around business rates and council tax, particularly council tax support
- vacancy target savings at a corporate level that have to be achieved during the year

In arriving at this Budget the Council has taken appropriate advice from its Deputy Chief Executive and the overall budget position is based on sound and reasonable professional judgements. In addition the Council, will monitor its in-year budget performance on a monthly basis and take appropriate management action to control any overspends.

The Council has also at its disposal its Reserves and it is predicted that they will be between £2m and £3m at the start of the financial year. The Deputy Chief Executive has confirmed that this level of Reserve should be adequate for the majority of spending pressures the Council may face in 2016/17. More detail on Financial Risk and its Management is provided in the Cabinet Report.

Alternative Options considered and Reasons for Rejection

The budget represents the culmination of many months of deliberation over the level of service and savings to be made. Within the budget many options have been considered. No substantial reasons for rejecting the proposed budget have been provided and the Overview & Scrutiny Panel that reviewed the Budget proposals in detail at their meeting on the 16th February 2016 made no recommendations to formally alter the budget.

Consultations

Details on the consultations surrounding the Budget proposals are contained within the papers submitted to Cabinet on the 3rd February 2016.

In addition a formal consultation was held by the Council on the 16th February 2016 by the Overview & Scrutiny Panel. Members of the Public were invited to attend and put questions to the Leaders of each of the main groups.

Implications

Financial implications (including any future financial commitments for the Council)	As outlined in the report.
Legal and human rights	The Council is required to set a balanced budget

implications	
Assessment of risk	There are a number of risks within the Budget. These have been highlighted in the Cabinet Report and covered under the detail of the report in the section on Overall Financial Position and Robustness.
Equality and diversity implications <i>A Customer First Analysis should be completed in relation to policy decisions and should be attached as an appendix to the report.</i>	In line with the latest Government Guidance the Council has not produced a specific customer first analysis of the overall budget. Individual services remain responsible for the production of any customer first analysis required where it is deemed the proposed budgetary adjustments may impact on different groups in different ways. Due to the nature of the savings proposals for 2016/17 no individual customer first analysis was undertaken by individual services as none were deemed to impact directly on service provision and therefore would not disproportionately impact on any of the protected characteristics.

Local Government (Access to Information) Act 1985:

List of Background Papers

Background Papers:

Cabinet 3 rd February 2016	
Item 6	Prudential Indicators & Treasury Management Strategy 2016/17 to 2018/19
Item 7	Medium Term Financial Strategy 2016/17 to 2018/19
Item 10	General Fund Revenue Budget 2016/17
Item 11	Capital Programme 2016/17

All these papers and the Overview & Scrutiny Committee Report can be obtained from following the links at our web page for the Cabinet Meeting on the 4th February 2016 or by clicking on the links below.

[Cabinet 3rd February 2016 Budget Reports](#)

[Overview & Scrutiny Committee 16th February 2016 Budget 2016/17 Review](#)

Freedom of Information

The report does not contain exempt information under the Local Government Act 1972, Schedule 12A and all information can be disclosed under the Freedom of Information Act 2000.

Appendix A

Council Tax 2016/17 by Council Tax Band & By Precepting Authority

Council Tax Schedule	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
2016/17	£	£	£	£	£	£	£	£
Hyndburn Borough Council	153.68	179.29	204.91	230.52	281.75	332.97	384.20	461.04
Lancashire County Council	783.24	913.78	1,044.32	1,174.86	1,435.94	1,697.02	1,958.10	2,349.72
Lancashire Police & Crime Commissioner	108.15	126.17	144.20	162.22	198.27	234.32	270.37	324.44
Lancashire Fire & Rescue Authority	43.67	50.94	58.22	65.50	80.06	94.61	109.17	131.00
Total Council Tax Payable (outside Altham Parish)	1,088.74	1,270.18	1,451.65	1,633.10	1,996.02	2,358.92	2,721.84	3,266.20
Altham Parish Council	25.51	29.77	34.02	38.27	46.77	55.28	63.78	76.54
Altham & Hyndburn	179.19	209.06	238.93	268.79	328.52	388.25	447.98	537.58
Total for Altham	1,114.25	1,299.95	1,485.67	1,671.37	2,042.79	2,414.20	2,785.62	3,342.74

Appendix B

TOWN & PARISH COUNCIL PRECEPTS

		2015/16			2016/17	
	Tax	Precept	Council Tax	Tax	Precept	Council Tax
Parish/Town Council	Base	£	Band D (£)	Base	£	Band D (£)
Altham Parish Council	299	11,443	38.27	301	11,519	38.27
Total/Average	299	11,443	38.27	301	11,519	38.27

Budget Debate, 25th February 2016

Budget 2016/17

1. The **Leader of the Council**, Councillor Miles Parkinson, will present the revenue and capital budget and council tax levels for 2016/17. Other group leaders will be invited to share any papers – **no speeches at this stage**.
2. The **Chair the Resources Overview & Scrutiny Committee, Councillor Noordad Aziz**, will present scrutiny's comments on the budget proposals - **up to 5 minutes**.
3. The **Council Leader** will respond (up to 5 minutes); no other speakers at this stage.
4.
 - a) The **Council Leader** will move the motion to approve the revenue and capital budget proposals and council tax levels for 2016/17
 - b) The motion will be seconded; the seconder may reserve the right to speak.
 - c) Any formal amendments that either opposition group wishes to propose should be tabled at this time. Any amendments will require a recorded vote.
 - d) Leader of the Council: **up to 10 minutes**
 - e) **5 minutes for each subsequent speaker**
 - f) Leader's summing up (**5 minutes**)
 - g) The vote will be taken **by recorded vote** *.

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*** N.B.**

It is a requirement under the Local Authorities (Standing Orders) (England) (Amendment) Regulations 2014 to have a recorded vote when determining the budget, as set out in Council Procedure Rules 16.7 below:-

Immediately after any vote is taken on a budget decision at the budget decision meeting of the Council, there must be recorded in the minutes of the proceedings of that meeting the names of the persons who cast a vote for the decision or against the decision or who abstained from voting. This will include a recorded vote on any amendment proposed at the meeting.

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