

Agenda



HYNDBURN

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Council

Thursday, 22 February 2018 at 7.00 pm,
Council Chamber, Town Hall, Accrington

Membership

Councillor Peter Britcliffe (in the Chair),
Councillors Judith Addison, Lisa Allen, Mohammad Ayub, Noordad Aziz, Jean Battle,
Stephen Button, Clare Cleary, Loraine Cox, Paul Cox, Munsif Dad, Bernard Dawson, Tony Dobson,
Stewart Eaves, Diane Fielding, Melissa Fisher, Glen Harrison, June Harrison, Stephanie Haworth,
Eamonn Higgins, Terry Hurn, Abdul Khan, Julie Livesey, Gareth Molineux, Jenny Molineux,
Ken Moss, Tim O'Kane, Bernadette Parkinson, Miles Parkinson, Joyce Plummer, Kath Pratt,
Malcolm Pritchard, Jeff Scales and Paddy Short

AGENDA

1. **Apologies for Absence**
2. **Declarations of Interest and Dispensations**
3. **Announcements**
4. **Confirmation of Minutes** (*Pages 3 - 10*)

To confirm as a correct record the minutes of the Council Meeting held on 11th January 2018.



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Published on Wednesday, 14 February 2018

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5. Medium Term Financial Strategy 2018/19 to 2020/2021 (Pages 11 - 62)

To consider the attached report which was approved by Cabinet on 14th February 2018.

6. Prudential Indicators and Treasury Management Strategy (Pages 63 - 116)

To consider the attached report which was considered by Cabinet on 14th February 2018 and is referred to Council for approval.

7. General Revenue Budget, Council Tax Levels and Capital Programme 2018/19
(Pages 117 - 182)

To determine the General Revenue Budget, Capital Programme and Council Tax Levels for 2018/19. To enable Council to make the required decisions, the following documents are submitted:-

a) Revenue Budget 2018/19

The proposals put forward by Cabinet on 14th February 2018 are set out in the attached report. The final proposals of the Controlling Group will be submitted at the meeting.

b) Capital Programme 2018/19

The proposals put forward by Cabinet on 14th February 2018 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 14th February 2017 to consider the budget proposals for 2018/19. The Committee's comments will be reported at the meeting.



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

Wednesday, 14 February 2018

COUNCIL

Thursday, 11th January, 2018

Present: Councillor Peter Britcliffe (Mayor), Councillors Judith Addison, Lisa Allen, Mohammad Ayub, Noordad Aziz, Jean Battle, Stephen Button, Clare Cleary, Loraine Cox, Paul Cox, Munsif Dad, Bernard Dawson, Tony Dobson, Stewart Eaves, Diane Fielding, Melissa Fisher, Glen Harrison, June Harrison, Terry Hurn, Abdul Khan, Julie Livesey, Gareth Molineux, Jenny Molineux, Ken Moss, Tim O'Kane, Bernadette Parkinson, Miles Parkinson, Joyce Plummer, Kath Pratt, Malcolm Pritchard, Jeff Scales and Paddy Short

Apologies: Councillors Stephanie Haworth and Eamonn Higgins

290 Apologies for Absence

Apologies for absence were submitted from Councillors Stephanie Haworth and Eamonn Higgins.

291 Declarations of Interest and Dispensations

There were no declarations of interest or dispensations.

292 Announcements

1) The Late Derek Scholes and Geoffrey Hanson

The Mayor paid tribute to Derek Scholes and Geoffrey Hanson who had both died in November 2017. Derek had been a Hyndburn Borough Councillor from 1994 to 2002, representing the Baxenden Ward, and had held the position of Deputy Mayor for the Municipal Year 2001/02. Geoffrey had been awarded the Honour of Freeman of the Borough of Hyndburn in May 2017 and had been well-known for his work in the Great Harwood area, particularly in regard to the Great Harwood Agricultural Show.

A minutes silence was held as a mark of respect.

2) Lancashire County Council Health Scrutiny Committee

The Mayor reported that at a meeting of the Lancashire County Council Health Scrutiny Committee held on 12th December 2017, it had been agreed that each District Council in Lancashire be requested to consider identifying an elected member for the role of Mental Health and Suicide Prevention Champion to take part in meetings and activities with the aim of reducing suicides by 10%. Hyndburn was one of the two top affected areas in Lancashire.

3) NHS Stay Well This Winter Campaign

The Mayor referred to the NHS Stay Well This Winter Campaign and reported that Lancashire County Council had made adult flu vaccine available to staff. The Mayor asked

the Leader of the Council to consider making flu jabs available to Hyndburn Borough Council employees in preparation for Winter 2018/19.

4) Mayoral Charity Ball 2018

The Mayor informed Councillors that the 2018 Mayoral Charity Ball was to be held on Saturday, 10th March 2018 at Accrington Town Hall and asked that they support the event in order to help raise funds for the chosen Mayoral Charities.

5) Accrington Market Hall

The Leader of the Council invited the Portfolio Holder for Housing and Regeneration (Councillor Clare Cleary) to report in relation to a proposed rent and service charge reduction for Accrington Market Hall Tenants during 2018. Councillor Cleary indicated that a report seeking approval of those proposals was to be submitted to a meeting of the Council's Cabinet in February 2018 and that a Cabinet Working Group was to be set up to look at a new charging policy.

293 Confirmation of Minutes

The Minutes of the meeting of the Council held on 9th November 2017 were submitted for approval as a correct record.

Resolved - **That the Minutes of the Council meeting held on 9th November 2017 be approved as a correct record.**

294 Question Time

The Mayor reported that the following question had been received from Mr. Nick Whittaker of Accrington in accordance with Council Procedure Rule 2.2(vi). The question was put to the Leader of the Council (Councillor Miles Parkinson):-

“Can the Leader of the Council call on all Members of Hyndburn Borough Council to work with Hyndburn's Member of Parliament to create legislation which would mean that all stone merchants and transporters of stone are accountable in the same way as scrap metal dealers, this issue is at epidemic rates in Hyndburn and it would seem obvious and sensible to me that we mirror image the “scrap metal act” for this particular issue.”

The Leader of the Council responded that he had been in contact with the local Member of Parliament (Graham Jones) and read out the contents of the resultant reply. Mr. Whittaker was present at the meeting and the Leader of the Council indicated that his request would be taken on board.

295 Police Inspector Steve Rides

Police Inspector Steve Rides who had replaced Inspector Pam Holgate at Hyndburn Police indicated that he was looking forward to working with the Council and in the Hyndburn area. He referred to his background as a police officer, having worked in the Lancashire area since 2007 and reported that police officers in the Great Harwood area would be utilising facilities at the Great Harwood Fire Station. The Mayor and Councillors welcomed Inspector Rides to the area.

Resolved - **That Police Inspector Rides be invited to attend a future meeting of the Council to take part in a question and answer session with elected members in regard to the**

prevention of anti-social behaviour and criminal activities in the Hyndburn area.

296 Suspension of Council Procedure Rules

The Mayor submitted a report proposing the suspension of Council Procedure Rules to facilitate a presentation by the Skipton East Lancs Rail Action Partnership (SELRAP).

Resolved - **That the Council Procedure Rules be suspended for the purposing of receiving a presentation by the Skipton East Lancs Rail Action Partnership.**

297 Presentation from Skipton East Lancs Rail Action Partnership (SELRAP)

Mr. Peter Byron, accompanied by Messrs. Derek Jennings and Andy Shackleton, gave a presentation to Councillors regarding the role the Skipton East Lancs Rail Action Partnership (SELRAP) was playing in relation to the Skipton to Colne Project, The Northern Link. The presentation comprised the following:-

- a) SELRAP Stakeholders
- b) Fast Tracking the Project
- c) Project Agenda
- d) Connecting Communities Across the North and Completing the Northern Link (The Missing Link)
- e) East – West Strategic Rail Freight Route
- f) Regeneration and Economic Growth
- g) Stakeholder Comments

Mr. Byron responded to questions raised by Councillors.

Resolved - **That the SELRAP representatives be thanked for the presentation and that the Mayor and Leader of the Council be requested to send a joint letter to Lancashire County Council in support of SELRAP's aims and proposed needs for the area.**

298 Development Management Development Plan Document Adoption

The Leader of the Council submitted a report advising Council of the receipt of the Planning Inspector's Report following the Examination in Public of the Hyndburn Development Management Development Plan Document. The main points of the Inspector's Report were outlined and approval for adoption of the Development Plan Document was sought.

The Development Plan Document formed an important part of the new Local Plan for Hyndburn and set out the more detailed planning policies to be used by Development Management Officers and Planning Committee in determining planning applications for the Borough. Once adopted, the Document would sit alongside the Core Strategy and Accrington Area Action Plan and parts of the Local Plan already adopted by the Council. It would replace the majority of Local Plan policies (1996) that remained extant).

Resolved (1) **That the Planning Inspector's Report and recommendations on 'Main Modifications' necessary to make the Development Management Development Plan Document sound, be noted; and,**

- (2) That the incorporation of all 'Main Modifications' recommended by the Planning Inspector into the Development Management Development Plan Document and the formal adoption of that Document be approved.

299 Nominations for the Title of Honorary Freeman

The Leader of the Council submitted a report seeking approval for the conferment of the title of Honorary Freeman of the Borough of Hyndburn to Councillor Bernard Dawson and Mr. David Lloyd. The title was the highest honour that the Council could award, the right being contained in Section 249(5) of the Local Government Act 1972. In accordance with the Council's Constitution, the nominations had been considered in the first instance by the Leader's Policy Development Board who had recommended that the nominations be supported. The Leader of the Conservative Group (Councillor Tony Dobson) and the Leader of the Council respectively proposed and seconded the nominations. Councillor Dawson and Mr. Lloyd had both been consulted and had agreed to accept the title.

Resolved

- (1) That in accordance with Section 249(5) of the Local Government Act 1972, Councillor Bernard Dawson and Mr. David Lloyd be conferred with the title of Honorary Freeman of the Borough and be presented with the award at the Mayor-making meeting of the Council on 16th June 2018, or should that not prove possible due to the unavailability of the recipients, at some stage during the remainder of the Municipal Year 2018/19; and,
- (2) That the Chief Executive, in consultation with the Portfolio Holder for Resources, be authorised to make the necessary arrangements.

300 Minutes of Cabinet

The Minutes of the meeting of the Cabinet held on 6th December 2017 were submitted.

Resolved

- That the Minutes be received and noted.

301 Minutes of Committees

The Minutes of the following meetings were submitted:-

<u>COMMITTEE</u>	<u>DATE</u>
Communities and Wellbeing Overview and Scrutiny Committee	25 th October 2017
Resources Overview and Scrutiny Committee	26 th October 2017
Planning Committee	15 th November 2017
Judicial Committee (Private Hire and Hackney Carriage Licensing)	20 th November 2017
Management Review Committee	28 th November 2017
Audit Committee	11 th December 2017

Planning Committee	13 th December 2017
Resources Overview and Scrutiny Committee	14 th December 2017
Licensing Sub-Committee	14 th December 2017

Resolved - That the Minutes be received and noted.

302 Motion Submitted on Notice - Shadow Lancashire Combined Authority - East-West Connectivity

The following **motion** was moved by Councillor Noordad Aziz and seconded by Councillor Munsif Dad under Council Procedure Rule A9:-

“That this Council resolves to write to the Shadow Lancashire Combined Authorities and approves Leader Miles Parkinson, to request that they adopt a position of support in calling for better East-West Connectivity in Lancashire by the Department of Transport and Transport for the North (TfN), undertaking a significant investment programme in Road and Rail Infrastructure development, especially the following two infrastructure schemes:

1. The Re-Establishment of the Skipton to Colne Rail Link.
2. The M65 linking to Yorkshire potential to the A1 (M) and M62.

The above two are vital connections for infrastructure to link East and West in the North of England. The benefits of these two infrastructure projects to the whole region would be considerable. East Lancashire communities are amongst the most deprived in the UK and improved transport links would provide a significant boost to economic and social mobility of many of these communities, as well as provide improved infrastructure for business. The economic and social impact of these two infrastructure projects would extend across the North connecting millions of people in the North East with millions of people in the North West and provide relief to the congested M62. It would help the North redress the imbalance of infrastructure investment in comparison to the South and shows that Government is serious in its vision of the ‘Northern Powerhouse’.

This continues the calls by this Council to drive economic growth in the region as we require substantial infrastructure investment to unlock significant economic growth areas.”

After a debate, the **motion** was put to the vote and declared carried.

Resolved - That this Council resolves to write to the Shadow Lancashire Combined Authorities and approves Leader Miles Parkinson, to request that they adopt a position of support in calling for better East-West Connectivity in Lancashire by the Department of Transport and Transport for the North (TfN), undertaking a significant investment programme in Road and Rail Infrastructure development, especially the following two infrastructure schemes:

1. The Re-Establishment of the Skipton to Colne Rail Link.
2. The M65 linking to Yorkshire potential to the A1 (M) and M62.

The above two are vital connections for infrastructure to link East and West in the North of England. The benefits of these two infrastructure projects to the whole region would be considerable. East Lancashire communities are amongst the most deprived in the UK and improved transport links would provide a significant boost to economic and social mobility of many of these communities, as well as provide improved infrastructure for business. The economic and social impact of these two infrastructure projects would extend across the North connecting millions of people in the North East with millions of people in the North West and provide relief to the congested M62. It would help the North redress the imbalance of infrastructure investment in comparison to the South and shows that Government is serious in its vision of the 'Northern Powerhouse'.

This continues the calls by this Council to drive economic growth in the region as we require substantial infrastructure investment to unlock significant economic growth areas.

303 Motion Submitted on Notice - VAT on Defibrillators

The following **motion** was moved by Councillor Noordad Aziz and seconded by Councillor Bernadette Parkinson under Council Procedure Rule A9:-

"That this Council resolves to write to the Department of Health and the Treasury Department to review the addition of VAT on automated external defibrillators (AEDs) and look at abolishing the charge of VAT on this vital medical aid which has been proven to save lives. In Great Harwood, we have the Philip Maher foundation, a UK registered charity, who provide Defibrillator in memory of an active Great Harwood resident who lost his life after a sudden heart attack. The charity's aim is providing public access to automated external defibrillators (AEDs). The impact of no VAT on AEDs to this charity would lead them to be able to provide 20% more defibrillators to the residents of Hyndburn and Lancashire.

That Council also recognises the impact of abolishing VAT on the AEDs will reduce the cost in purchasing them and will lead to them being more readily available in more public places, therefore potentially saving lives."

After a debate, the **motion** was put to the vote and declared carried.

Resolved

- (1) That this Council resolves to write to the Department of Health and the Treasury Department to review the addition of VAT on automated external defibrillators (AEDs) and look at abolishing the charge of VAT on this vital medical aid which has been proven to save lives. In Great Harwood, we have the Philip Maher foundations, a UK registered charity, who provide Defibrillator in memory of an active Great Harwood resident who lost his life after a sudden heart attack. The charity's aim is providing public access to automated external defibrillators (AEDs). The impact of

no VAT on AEDs to this charity would lead them to be able to provide 20% more defibrillators to the residents of Hyndburn and Lancashire;

- (2) That Council also recognises the impact of abolishing VAT on the AEDs will reduce the cost in purchasing them and will lead to them being more readily available in more public places, therefore potentially saving lives; and,**
- (3) That when writing to the Department of Health and the Treasury Department, the letters be signed by both the Leader of the Council and the Leader of the Conservative Group.**

Signed:.....

Date:

Chair of the meeting
at which the minutes were confirmed

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REPORT TO : **COUNCIL**
DATE : **22nd February 2018**
REPORT OF : **Councillor Gareth Molineux**
Portfolio Holder Resources
PREPARED BY : **Joe McIntyre**
Deputy Chief Executive

MEDIUM TERM FINANCIAL STRATEGY

2018/19 TO 2020/21

February 2018 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 2018/19 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 2018/19 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 this report will be presented to the Council's Overview & Scrutiny Panel during February 2018, 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 2017/18 to 2019/20 October 2017](#)

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 2018

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 2017.
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 for 2018/19 the Council's Total Income forecast will be down from £11,197,000 in 2017/18 to £11,174,000 a net decrease of £23,000, with the removal of £447,000 (18%) of Government Grant offset by increased business Rates of £136,000, additional Council Tax of £176,000, the use of Reserves for a one-year support contributing £100,000 and £13,000 of additional Collection Fund surplus, while Costs are expected to rise by £1.6m.
3. In the following year 2019/20, the Council faces a somewhat easier task of finding £560,000 of net savings which is 5% of its Budget. In

the third year of the Medium Term Financial Strategy (MTFS) 2020/21, however the Council will need to generate £1.4m of savings to balance its Budget, which is almost 13% of its net expenditure figure. As part of its overall financial strategy the Council should consider attempting to smooth the level of savings between the 2019/20 and 2020/21 financial years.

4. 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.
5. 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 over £859,000 in the second year, rising to over £2.5m in 2020/21 and cumulatively the difference exceeds £3.4m over the three years.
6. The Pessimistic Scenario shows, in addition to a reduction of £100,000 in each year on the Collection Fund Surplus, growth in Business Rates only being limited to inflationary increases, Council Tax increases only limited to a £5 increase in 2018/19 and 2019/20 and the previous practice of freezing the increase returning in 2020/21, the need for an additional £80,000 in the two later years of the Strategy to finance the changes stemming from the Department for Work and Pensions on Housing Benefit, extra costs from higher

value wage settlements of £125,000 each year and a doubling of the cost of non-pay inflation from £130,000 per year to £260,000. The Strategy also recognises the potential of an extra £500,000 being added to the cost of revenue expenditure in 2020/21, if the Council is unable to contain its Capital expenditure over the next few years or is not able to achieve a sufficient level of capital receipts compared to forecast and is forced to finance part of its Capital Programme in 2020/21, directly from Revenue.

7. The Optimistic Scenario sees significantly increased revenues of nearly £1.1m compared to the Standard Model stemming from the anticipated removal of all Revenue Support Grant not materialising and from additional NNDR and Council Tax in 2020/21 adding £311,000. There is also some easing of cost pressures around the wage settlement and a decreased impact on income from the DWP in relation to Housing Benefit.
8. Both scenarios are meant to show the outer limits of what might occur and what the Council would face in these circumstances. 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.
9. The figures in Appendix 1 therefore remain our current best estimate of the likely financial position over the next 3 years.

OBJECTIVES

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

- to be the financial expression of the Corporate Plan; it is a financial strategy's role to provide the resources to deliver this plan, and in turn, the Corporate 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 remains in a strong financial position as measured by the 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

11. 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

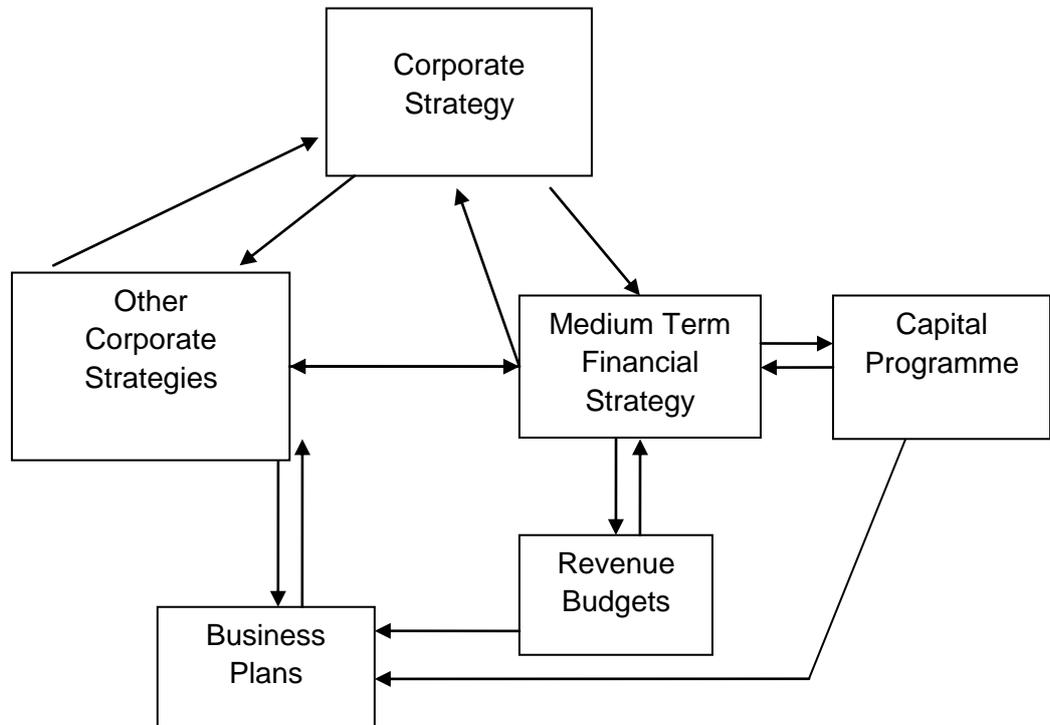
financial plan.

Corporate strategic
direction & priorities
of the Council

In the context of the Medium Term Financial Strategy (MTFS) the Council has a clear hierarchy of strategy documents (see chart below) headed by the Corporate Strategy which sets out the vision and high level priorities for the Council. The Corporate Strategy drives 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.

12. Strategy Hierarchy:-



Service planning to support overall strategy

13. 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.
14. 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.

15. The Government's agenda since 2010 of substantially reducing public expenditure has added further pressures on Hyndburn to reduce its 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

16. 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.

Background Information

17. The MTFS covers the period from 2018/19 to 2020/21. It is set against a background of continuing global financial volatility stemming from the 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 sustainable positive economic growth.

18. 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. The uncertainty surrounding the UK economy has been further heightened by the Referendum vote to leave the EU.
19. There is also 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. The move by Catalonia to achieve independence from Spain has the potential to not only undermine the stability of Spain but to have implications for the political and financial strength of the European Union.
20. 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 election last year of Donald Trump in the USA with a commitment to bringing jobs

back into the USA from offshore and ending major free trade talks and agreements may add further to the volatility of the world economy.

21. The continuation of conflicts in Ukraine, Iraq and Syria, the mass migration into Europe, democracy protests in Iran, the Volkswagen emission scandal, heightened tensions in the Pacific between China and some of its neighbours over territorial claims, North Korea's regular missile launches over the Pacific Ocean and claims around its nuclear capabilities and recent volatility 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 5 years is also causing some economists to express concerns over the future of worldwide economic growth and while the latest attempt by OPEC to cut output and force prices up appears to be enjoying some success, the sustainability of limiting output is questioned by many commentators.

22. Against this backdrop Britain has emerged from Recession and currently has good levels of growth compared with other major Western economies. Employment continues to fall, the pound has recovered against major world currencies, wage demands remain reasonable and inflationary pressure appears to continue to be weak by historical standards. 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. The Brexit vote has also created a further degree of uncertainty going forward

and this has been accentuated by the General Election Result in 2017, which left the Country with a minority Government.

23. Local Government and particularly District Councils have faced significant reduction in Government funding as a consequence of the global financial pressures and the Local Government Settlement announced in late December 2017 confirms the on-going reduction in funding from Central Government to Local Government is continuing, with District Councils again suffering the most from these reductions.

24. The snap General Election in June 2017 effectively removed the previous guarantee of funding agreed by the Government up to 2020/21 and therefore there is increased uncertainty over the level of Revenue Support Grant and other sources of Government funding over the next 3 years. The 2018/19 Settlement figures do match those previously indicated by the previous Government and while there have been some general statements around sticking to the previous notified figures until 2020/21, the new Government has not formally committed to the figures announced prior to the General Election. Certainly there has been no retraction of the indications previously given that Revenue Support Grant will end in 2020/21 and for Hyndburn this will mean that we will have lost £7.1m in Government support since 2010/11, with 65% already disappearing by 2017/18, a further 6.4% disappearing in 2018/19 and the remaining 18% going in 2019/20 and 2020/21.

25. For 2020/21 and beyond the Government has indicated its preference to embark on a major review of local government finance. Previously our MTFs had imagined the final loss of Revenue Support Grant would be the end of the major upheavals in our finances stemming from the World Wide Recession and we would at least enter into a period of stability once we reached the point in which the Government could no longer reduce our funding, as we had none left to remove. However a major review of local government finance could lead to a new redistribution model which might transfer away more of our resources via the Tariff methodology or some new mechanism the Government introduces.

26. The Medium Term Financial Strategy assumes that the Council is able to deliver its 2017/18 Budget as planned. The Cabinet has requested that the Corporate Management Team continue to look to improve the position during 2017/18 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 2017/18. The General Fund Balance stands at £2.8m at the end of March 2017. 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 few years continuing and the prospect of a major review of local government finances,
- Cost inflation continuing while overall revenues decline,

- and the need to incur upfront costs to secure long term savings,

the level of Reserves at £2.8m can be viewed as just above the minimum level of provision in the much more volatile financial climate which we now face.

27. The format of the Medium Term Financial Strategy considers the current estimated resources available for 2018/19 and builds upon anticipated changes to income and costs over the following 2 years. 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 2018, immediately ahead of the Council commencing the process of setting its Budget for 2019/20.
28. Despite the difficulties over the last 3 financial years caused by further reductions in our funding from Government, the Council has continued to maintain its finances and provide value for money services. Balances stand in excess of £2.8m and we have generated significant savings in each of the last 11 financial years and expect to manage our finances during 2017/18 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 further investment.

Financial Analysis 2018/19 to 2020/21

29. 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

30. 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 away from HM Treasury to local government;
- 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 in the first year and subject to further grant reductions in subsequent years.

31. 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.
32. 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

33. The Local Government Settlement for 2016/17 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. From 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 £722,000 or 16% in 2016/17 and this level of reduction has been rolled into the 2017/18 and 2018/19 settlement as a baseline, ahead of further reductions being made. The total reduction in funding between 2015/16 and

2018/19 is a further £1.2m and the combined impact over the three years is almost £2m on the Revenue side of our Budget alone. This is shown in Table 1 below.

34. The overall loss in Government funding over the period is however greater 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 Programme¹. Funding of the money we used to finance Capital Spend is down £524,000 or 62%. The impact of Capital Funding within the MTFS is dealt with later in the report. When the impact of the funding on Revenue and Capital are combined the analysis shows the Council has lost almost £2.5m of resources from the Government since 2015/16, which is almost half of the funds the Government had previously made available.

Overall Change	2015/16	2016/17	2017/18	2018/19	Variance	Percentage Change
HBC Revenue						
Revenue Support Grant	£ 2,312,430	£ 3,159,264	£ 2,446,543	£ 1,998,484	-£ 313,946	
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	£ 386,958	£ 351,860	£ 312,201	-£ 292,942	
Homelessness Prevention	£ 35,339	£ 35,423	£ 35,483	£ 35,540	£ 201	
HBC Government Support Revenue Total	£ 4,303,244	£ 3,581,645	£ 2,833,886	£ 2,346,225	-£ 1,957,019	45.48%
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 Grant	£ 451,787	£ 639,204	£ 546,634	£ 321,587	-£ 130,200	
New Homes Bonus Additional Grant	£ 10,564				-£ 10,564	
HBC Government Support Capital Total	£ 845,771	£ 639,204	£ 546,634	£ 321,587	-£ 524,184	61.98%
HBC Total Government Support Change	£ 5,149,015	£ 4,220,849	£ 3,380,520	£ 2,667,812	-£ 2,481,203	48.19%

¹ 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.

35. The best current estimate we have of Government Funding over the next two years is based on the figures provided previously before the General Election of 2017, which showed our Grant falling from £2.0m in 2018/19 to £1.5m in 2019/20, coupled with the statements that Revenue Support Grant would end in 2020/21. The Table below shows the impact of the latest round of reduction in our funding since 2016/17 projected forward, based on our current knowledge to 2020/21.

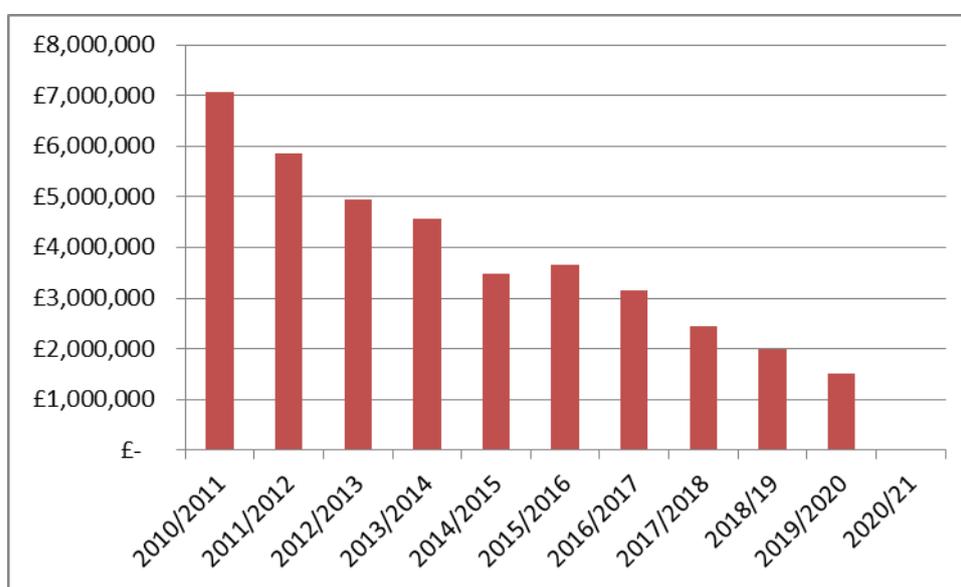
Table 2 Change in Revenue Support Grant 2016/17 to 2019/20

Year	Revenue Support Grant	Change	Percentage Change	Cumulative Change	Culumatic Percentage Change
2016/17	£ 3,159,264.00				
2017/18	£ 2,445,625.00	£ 713,639.00	23%	£ 713,639.00	22.59%
2018/19	£ 1,998,484.00	£ 447,141.00	18%	£ 1,160,780.00	36.74%
2019/20	£ 1,499,264.00	£ 499,220.00	25%	£ 1,660,000.00	52.54%
2020/21	£ -	£ 1,499,264.00	100%	£ 3,159,264.00	100.00%

36. This shows a total expected reduction of £3.1m over the period 2016/17 to 2020/21, with a 22.5% reduction of £713,000 in 2017/18, a 18.4% further reduction in 2018/19 with a further loss of £447,000 of government funding, followed by another £500,000 removed from Revenue Support Grant in 2019/20, which will be a 25% reduction and all the remaining funding disappearing by 2020/21.

37. 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 zero by 2020/21.

Table 3 Reduction In Government Funding to Hyndburn Council 2010/11 to 2020/21



38. 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.

39. 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”.

40. 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 are 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.

41. As a consequence Hyndburn which raises around £21m in Business Rates each year is only allowed to retain about £3.7m (18%) from this source of funding.

42. The previous Government indicated that it wished to move to a system of 100% of Business Rates going directly to Local Government, expanding upon an earlier decision to earmark 50% of Business Rate income to be retained by local government. However after that

announcement, the Government made almost no progress towards its implementation as various difficulties in devising and introducing such a scheme emerged.

43. Since the June 2017 General Election, the Government has concentrated more of its announcement around a Fair Funding Review of Local Government Finance that it intends to commence soon with the intention of having this active for the 2020/21 financial year.
44. Any such review is likely to be fraught with difficulties and there have been many unsuccessful attempts over the last few decades to reform local government finance all of which have failed and this latest attempt must be considered as likely to be delayed or abandoned as it is to be implemented by 2020/21.
45. This therefore creates significant uncertainty for the Council around its Medium Term Financial Strategy in its third year of 2020/21. The Council already faced the strong prospect that it would lose all of its remaining Revenue Support Grant in 2020/21 from the statements previously made by Government and it now faces the additional risk that its other sources of income could be threatened if the Fair Funding Review redistributes existing resources in a different manner to that done currently.
46. It is, of course possible, that the Fair Funding Review, if introduced could provide Hyndburn with additional funding which would ease the significant financial pressures we face in 2020/21 and this is modelled in the Optimistic Scenario below. However the general

thrust of funding reform since 2010 has tended to penalise the North compared to the South and penalised District Councils compared to Unitary and County Councils. The Government has also made it clear in the past that if Local Government appeared to be benefitting generally from additional resources flowing to it, the Government would look to pass new responsibilities and requirements on it to soak up this extra money. In some circumstances depending on the requirements, this could leave Hyndburn in a worse financial position, if delivering the new requirements actually cost more than any extra funding we received or were generating.

47. 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.²

48. The current 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

² 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.

businesses claim their properties have been valued too highly for business rating taxation purposes and they require a re-assessment leading to a lowering of the amount of tax they have to pay. 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 businesses for previous “over charged” years reducing further the sums that can be deployed to finance local public services.

49. The current estimate for 2018/19 of Business Rates income for the Council is £3,744,000. This is up from £3,607,000 in 2017/18 but largely reflects the increase in the chargeable amount to be paid due to inflation rather than any substantial growth in the local economy. This would seem to indicate that despite a number of companies expanding in the local area the value of successful appeals and business closures is offsetting this growth, leaving the Council with no practical benefit from the additional investment that is currently taking place.

50. The assumption over the following two years within the MTFS is that Hyndburn does start to benefit from economic growth and there is an assumption that the local economy will expand and this will produce a 5% growth in Business Rates income to the Council along with a general inflation increase of 3% in 2019/20 and 2020/21.³ The speed

³ A 5% Business Rate increase for the Council does not require a 5% increase in the local economy. All councils benefit from the current distributive method for Business Rates in which they effectively retain at least 50% of any new income and 100% when they are part of a Business Rates Pool. So there is a significant gearing ratio to the Council's finances from the expansion of the overall business rates paid.

of developments will be crucial in achieving this level of increase and this will need to be carefully monitored over the next 3 years to ensure the income is arriving as forecast.

51. While for financial forecasting purposes it is assumed that Business Rate income to the Council will increase over the period between 2018/19 and 2020/21, 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.
52. 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.
53. 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 £208,000 of extra revenue in 2020/21 is viewed as potentially possible in the right economic circumstances.

Council Tax

54. The Council expects to raise £4.9m in Council Tax in 2018/19. This is up £176,000 on the previous year. The increased revenue comes

from growth in the council tax base via a combination of new builds, declining numbers of empty properties and an expected rise of £5.00 per Band D property from 1st April 2018. The increase in Council Tax follows Lancashire County Council's decision to stop supporting Hyndburn Borough Council's waste recycling programme and withdrawing over £821,000 of annual finance to meet the cost of the operation. Council Tax rises of £5.00 per Band D property in each of the financial years, 2017/18, 2018/19 and 2019/20 will raise an extra £305,000 to help offset the withdrawal of funding from Lancashire County Council and Hyndburn Council will find the remaining £516,000 from restructuring the service and making savings elsewhere across its operations.

55. The Collection Fund Surplus is anticipated to be slightly higher this year compared to 2017/18 at £400,000, up from £387,000 the previous year and to remain at these levels over the period of the MTFS.
56. The assumption in the MTFS is that the charge to individual households for Council Tax by Hyndburn Council increases by the £5.00 per Band D property previously announced in both 2018/19 and 2019/20 and that a further £5.00 charge will be levied in 2020/21 to meet the effects of inflation and other financial pressures.
57. The local increases in Council Tax reflect the change in the Government's position on local financing of local services. The Government have now signalled that they expect local people to foot the bill for services through the rise of local taxes and the Government builds into their own financial modelling of local

government resourcing a standard amount for such increases and they have withdrawn the previous funding provided as Council Tax Freeze Grant to help Council avoid raising council tax to local residents and are withdrawing funding from Government to Local Councils on the basis that they have already raised additional amounts from increased taxation.

58. It is not expected that Council Tax income will decline over the coming period, but the Pessimistic Scenario reflects no expansion in the overall numbers of households having to pay the tax and therefore there is £150,000 less income in 2019/20 and £416,000 less income in 2020/21 as a result of the stagnation in the number of household and due to no further increase in the amount of the annual charge. The Optimistic Scenario shows a more buoyant third year in terms of Council Tax income with a £105,000 of extra income stemming from developments etc. and a further increase in Council Tax.

Expected Loss of Income

59. As part of its proposed reforms to the national Benefits System the previous 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, as least for those of working age and as such the Government is substantially reducing the amount it pays local councils to undertake this work and the subsidy paid to reimburse council's for benefit paid out is also declining . The Government announced an original timetable in which it envisaged that all

working age Housing Benefit Claims will cease by the start of the financial year 2018/19. This deadline has now been moved back to 2020/21 and therefore the MFTS adjusts the loss of this income over the next three years rather than showing it as already disappearing, as in previous MTFS. 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. The Pessimistic Scenario recognised the potential for both the administration and benefit elements to increase by £80,000 per year.

60. Currently the Council's Waste Service activity receives around £821,000 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 knock-on loss of income from the money earned from recycling other materials. Previous MTFS's had shown the potential for recycling income to continue. However after further discussions with Lancashire County Council over their intentions in this area this income line has also now been removed from our Budget assumption and this increases the loss of income shown here from £650,000 to £821,000 compared to earlier MTFS.

61. It is also necessary for the Council to adjust its Budget for next year by the amount of one-off savings it targeted to achieve in 2017/18. The figure saved in this manner for 2017/18 was £165,000.

Changes in Costs

Salaries Costs

62. 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 remain low compared to historic norms, however since 2010 wage increases have been limited to 1% or below, but it is now expected that wage settlements going forward will be at least 2% and could be higher.
63. No formal agreement has been reached by the Trade Unions and Employers' side at the time of writing but the Employers side have offered 2% and it is likely that this will be the best estimate for 2018/19 and beyond, simply due to the financial pressures on local government that make higher pay awards unaffordable.
64. 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.

65. 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 and it is assumed the small impact can be accommodated within existing budget projections at this time.

Pension Costs

66. 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 was completed in 2016/17 and implemented at the start of 2017/18.

67. 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 has ensured the Council has not incurred additional costs from the most recent Triennial Revaluations. This is particularly welcome as other Councils are facing increases and the additional burden of these extra costs would have added to our already high savings target for the years ahead if we had faced such an increase.

Pension Auto-Enrolment

68. The auto-enrolment of staff into a pensions scheme entered 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 2018/19 to meet the expense of new Pension Contributions from those auto-enrolled during the 2018/19 financial year.

Supplies and Service Costs

69. General inflation over the past 12 months has continued to fluctuate peaking most recently above 3%, before declining once more. In the recent past it has been almost at zero, but there has been a push upwards as the economies across the world continue their fragile recovery and in the aftermath of the Brexit Vote and a sharp drop in the value of sterling on world markets.
70. While inflation appears to be up slightly compared to the period before the Referendum, there still appears to be significant capacity in the market place to resist price increases and therefore the probability of large rises in inflation remains weak.
71. Predicting the level of general inflation in the economy remains therefore a major challenge and one fraught with uncertainty. The MTFS therefore assumes inflationary pressures of around £130,000 per year in 2019/20 and 2020/21, while recognising the potential for this figure to double in the Pessimistic Scenario.

Capital Costs

72. 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, surpluses, external funding and existing Capital resources.
73. 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 and help finance other capital investment projects.
74. External Funds continue 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.
75. 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 after 2020/21 if expected capital receipts arrive over this period. The Pessimistic Scenario deals with the impact of having to fund Capital Expenditure

from Revenue in 2020/21 by £500,000. This increases the saving pressures that year within the Pessimistic Scenario substantially.

76. The Strategy 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. when these are available and don't need to be used to underpin the Revenue Budget as well as any in-year savings that are generated and capital receipts.
77. This will enable us to escape the need to borrow over the period of the MTF5 and we will therefore not increase our debt burden over the next 3 years.
78. 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.
79. If this strategy of restricting capital expenditure to what is affordable is not maintained or anticipated capital receipts do not arrive, the Council will face significant additional budgetary pressure over the coming years as illustrated in the Pessimistic Scenario.

Growth

80. 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.

Reserves

81. Over the last 13 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 2017 of just over £2.8m. This level of Reserve would normally be viewed as healthy given an overall spend of around £11.2m in 2017/18, 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.

82. 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 proposal by the Government to conduct a Fair Funding Review and implement its findings in 2020/21, which might further substantially reduce the monies the Council currently expects to have at its disposal
- ❖ 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 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 income from fees and charges as the Recession continues

- ❖ the need to meet the cost of land acquisitions under the Community Right to Purchase legislation.
- ❖ Fines stemming from breaches around data protection under the new General Data Protection Regulations.

Other Assumptions

83. 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.

84. 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.

85. 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

86. 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

87. 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 required over the next 3 years to be broadly established.

88. The Pessimistic Scenario presented at Appendix 2 looks at the baseline assumptions for the MTFS and adjusts them for the following reasons. In terms of income the Pessimistic Scenario indicates that revenue could be down on Council Tax, Business Rates and the Collection Fund surplus in 2019/20 and 2020/21. The overall impact is a drop from £11,133,000 to £10,689,000 between the two scenarios in 2019/20 and a drop from £10,229,000 to £9,206,000 in 2020/21. There is almost 4% less revenue in the second year and 10% in the third year under this scenario.

89. The impact of funding from the Department of Work and Pensions in relation to Housing Benefit Grant is shown to be £80,000 more expensive in years 2 and 3 as the programme to implement Universal

Credit accelerates and the Council loses higher amounts of both administration grant and repayment of benefits.

90. In our standard MTFS we have assumed a 2% pay award over each year of three years of the forecast. The Pessimistic Scenario allows for a 3% wage settlement in the second and third 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 £125,000 per year to our costs over these years. The potential for these types of pay awards has increased with the Government announcing larger pay rises for key public sector workers over the last 6 to 9 months and this now being used by both trade unions and employees as a new yardstick for all public sector pay.

91. The threat however still remains that in an area which is seeing its income substantially decline and with no indications from the Government that it is willing to fund local government for public sector pay rises, wage settlements close to or exceeding the rate of inflation are likely to lead to redundancies.

92. 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 £260,000 in each of the next 2 years beyond 2018/19. 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.

93. The final factor considered in the Pessimistic Scenario is the need to finance part of the Capital Programme in 2020/21 from Revenue. This

assumes that the Council is unable to generate sufficient sales of its land and property over the next 3 years or that it spends significantly above the current forecast.

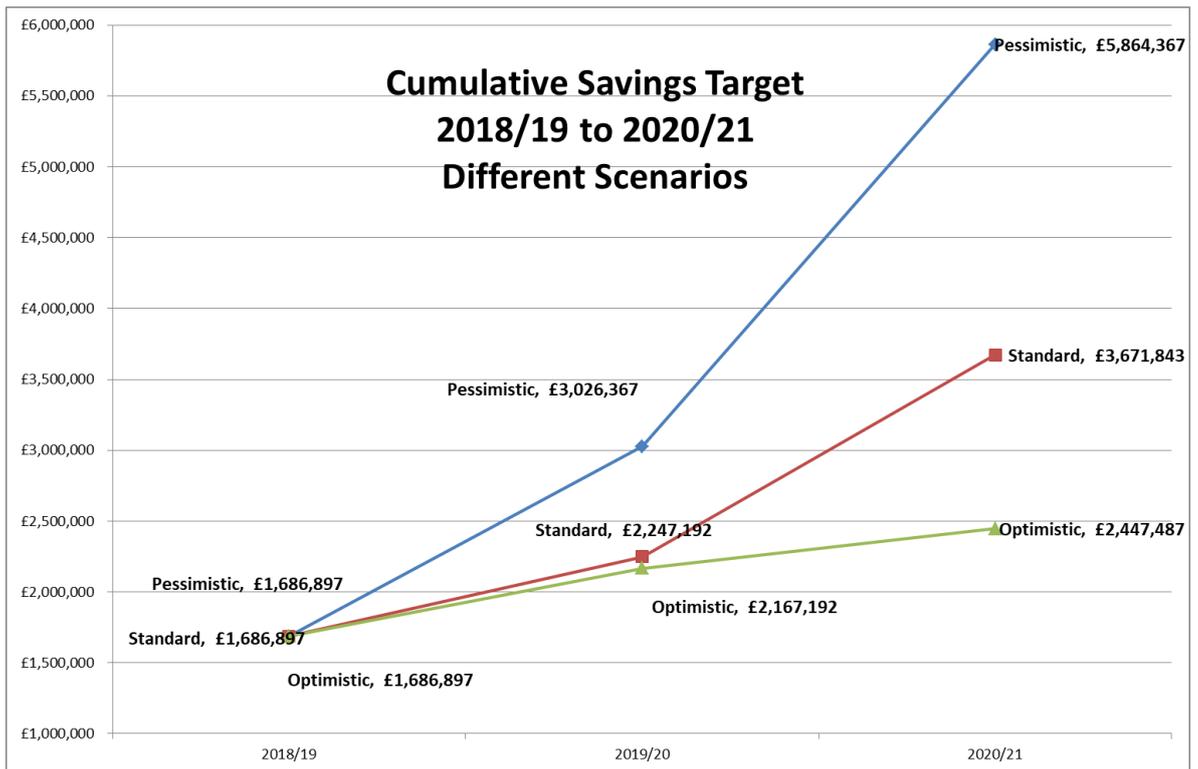
94. The combined impact of all these potential changes are illustrated at Appendix 2 and show that the savings target for 2019/20 would rise to £1.3m from £560,000 and increase the savings target to 11.9% from 5.0%. The savings target for 2020/21 of the MTFS increases from £1.4m to £2.8m, jumping from 12.8% to 26.5%.
95. 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.
96. 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.
97. The Optimistic Scenario is presented at Appendix 3. The major assumption here is that the Government does not fully withdraw its financial support to the Council in its entirety as has been previously indicated but continues to provide Hyndburn Council with some form of funding of around 50% of the level in 2019/20 which would be £750,000. This could either be in the form of continuing Revenue Support Grant or

some other new money to replace it, either through a recalculation of the Tariff amount on Business Rates or some new mechanism.

98. The Optimistic Scenario also assumes that an expanding local economy contributes to a growth in Council Tax and Business Rate Funding available to the Council in 2020/21 with £208,000 of extra Business Rates and £105,000 of additional Council Tax receipts.
99. There are some indications 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 £208,000 annual growth figure in 2020/21 could be viewed as towards the top end of what could be achieved.
100. 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 £105,000 by 2020/21 compared to the Standard Model.
101. These changes see the Council's able to replenish the loss of £750,000 in Government Grant by additional Council Tax and Business

Rates levy so that actual overall revenue would be £160,000 higher in the Optimistic Model between 2019/20 and 2020/21 and over a £1m higher in 2020/21 compared to the Standard Model.

102. The Optimistic Scenario also assumes that the Department of Work & Pensions will not reduce the Grant for the administration of Housing Benefit and the subsidy level on benefit payments at the level predicted in the Standard Model, but that it will slow down the reductions by £80,000 in 2019/20 and 2020/21.
103. Wage Inflation is also assumed to be slightly lower compared to the Standard Model by £20,000 based on the assumption that future pay deals will not favour lowly graded staff with inflation busting wage settlements, but that all staff will receive an equal pay rise. This reduces the predicted wage bill by £20,000 in 2019/20 and 2020/21 compared to the Standard Model. General non-pay inflation is not altered between the two scenarios.
104. The Optimistic Scenario considerably eases the overall savings required in each of the last 2 years with the level of savings required below 5% in 2019/20 and as low as 2.5% in the following year. 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.



105. The Overall best prediction of the savings required for the next three years are those presented at Appendix 1 of the report. This requires £1.6m of savings to be generated in 2018/19 to balance the Council’s budget with further savings of £560,000 in 2019/20 and £1.4m in 2020/21. 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.

106. 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

107. The robustness of the forecasts within the MTF5 has again weakened due to the ending of the Government's commitment around future funding up to 2019/20 and their proposal to undertake a fundamental review of local government finance, ahead of setting out the financial position for 2020/21. The uncertainty stemming from these decisions will necessitate the Council taking a defensive position in managing its finances and having to lock more funds up to cope with any negative dramatic swings from the Government's financial review.

Overall Net Position

108. The Council faces continuing pressure on its finances over the next 3 years. The reductions in the level of government grant for 2018/19 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 the Council faces two other major challenges, the ending of the Cost Share Agreement in 2018/19 and the potential need to fund Capital Expenditure from Revenue resources in 2020/21. These two items add over a £1.3m 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.

109. 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.

110. The Council therefore needs to continue to manage its revenue costs aggressively over the next 3 years. It needs to address the loss of funding from Lancashire County Council in 2018/19 for recycling by reducing its expenditure in this area considerably and if possible by boosting its income from other activities and it needs to maintain its Capital Programme within tight limits to ensure it avoids having to fund this expenditure from Revenue in the future.

111. The single largest area of influence the Council can directly exert action over to improve its future financial position is around its Capital Programme. If the Capital Programme can continue to be self-financing beyond 2020/21 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 2018/19 to 2020/21

	2018/19	2019/20	2020/21
Revenue Support Grant	£ 1,998,000	£ 1,499,000	£ -
Business Rates Funding	£ 3,744,000	£ 4,049,136	£ 4,379,141
Council Tax Collection	£ 4,932,103	£ 5,185,672	£ 5,450,016
Collection Fund Surplus	£ 400,000	£ 400,000	£ 400,000
Use of Reserves	£ 100,000	£ -	£ -
Total Resources	£ 11,174,103	£ 11,133,808	£ 10,229,157
Prior Year Spend	£ 11,197,000	£ 11,174,103	£ 11,133,808
Adjustments to Prior Year			
Corporate Savings Target Adjustment	£ 165,000		
HB Admin & Subsidy	£ 120,000	£ 120,000	£ 120,000
Waste Services Lost of Cost Share	£ 821,000		
Salaries & Pension Costs	£ 255,000	£ 270,000	£ 270,000
Pension Auto Enrollment	£ 83,000		
General Supplies & Services	£ 220,000	£ 130,000	£ 130,000
Revenue Contributions to Capital Spend	£ -	£ -	£ -
Growth Items			
Estimated New Operating Costs	£ 12,861,000	£ 11,694,103	£ 11,653,808
Costs ExceeddResources by	£ 1,686,897	£ 560,295	£ 1,424,651
Percentage Savings to Balance Budget	15.07%	5.01%	12.80%

**Three Year Pessimistic Model
Medium Term Financial Strategy
2018/19 to 2020/21**

	2018/19	2019/20	2020/21
Revenue Support Grant	£ 1,998,000	£ 1,499,000	£ -
Business Rates Funding	£ 3,744,000	£ 3,856,000	£ 3,972,000
Council Tax Collection	£ 4,932,103	£ 5,034,633	£ 5,034,633
Collection Fund Surplus	£ 400,000	£ 300,000	£ 200,000
Use of Reserves	£ 100,000	£ -	£ -
Total Resources	£ 11,174,103	£ 10,689,633	£ 9,206,633
Prior Year Spend	£ 11,197,000	£ 11,174,103	£ 10,689,633
Adjustments to Prior Year			
Corporate Savings Target Adjustment	£ 165,000		
HB Admin & Subsidy	£ 120,000	£ 200,000	£ 200,000
Waste Services Lost of Cost Share	£ 821,000		
Salaries & Pension Costs	£ 255,000	£ 395,000	£ 395,000
Pension Auto Enrollment	£ 83,000		
General Supplies & Services	£ 220,000	£ 260,000	£ 260,000
Revenue Contributions to Capital Spend	£ -	£ -	£ 500,000
Growth Items			
Estimated New Operating Costs	£ 12,861,000	£ 12,029,103	£ 12,044,633
Costs Exceed Resources by	£ 1,686,897	£ 1,339,470	£ 2,838,000
Percentage Savings to Balance Budget	15.07%	11.99%	26.55%

**Three Year Optimistic Model
Medium Term Financial Strategy
2018/19 to 2020/21**

	2018/19	2019/20	2020/21
Revenue Support Grant	£ 1,998,000	£ 1,499,000	£ 750,000
Business Rates Funding	£ 3,744,000	£ 4,049,136	£ 4,587,671
Council Tax Collection	£ 4,932,103	£ 5,185,672	£ 5,555,842
Collection Fund Surplus	£ 400,000	£ 400,000	£ 400,000
Use of Reserves	£ 100,000	£ -	£ -
Total Resources	£ 11,174,103	£ 11,133,808	£ 11,293,513
Prior Year Spend	£ 11,197,000	£ 11,174,103	£ 11,133,808
Adjustments to Prior Year			
Corporate Savings Target Adjustment	£ 165,000		
HB Admin & Subsidy	£ 120,000	£ 60,000	£ 60,000
Waste Services Lost of Cost Share	£ 821,000		
Salaries & Pension Costs	£ 255,000	£ 250,000	£ 250,000
Pension Auto Enrollment	£ 83,000		
General Supplies & Services	£ 220,000	£ 130,000	£ 130,000
Revenue Contributions to Capital Spend	£ -	£ -	£ -
Growth Items			
Estimated New Operating Costs	£ 12,861,000	£ 11,614,103	£ 11,573,808
Costs Exceed Resources by	£ 1,686,897	£ 480,295	£ 280,295
Percentage Savings to Balance Budget	15.07%	4.30%	2.52%

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Agenda Item 6.

REPORT TO:		CABINET; COUNCIL	
DATE:		14 FEBRUARY 2018; 22 FEBRUARY 2018	
PORTFOLIO:		Cllr Gareth Molineux - Resources	
REPORT AUTHOR:		Stephen Brindle – Head of Accountancy Services Amanda Martin – Principal Accountant	
TITLE OF REPORT:		PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT & INVESTMENT STRATEGY 2018/19 – 2020/21 MINIMUM REVENUE PROVISION POLICY STATEMENT 2018/19. TREASURY MANAGEMENT POLICY STATEMENT 2018/19. TREASURY MANAGEMENT PRACTICES 2018/19	
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 2018/19.

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 2018/19 – Appendix 1
- (v) approve the Treasury Management Policy Statement 2018/19 – Appendix 2
- (vi) approve the Treasury Management Practices Statement 2018/19 – 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

	2016/17 Actual £000	2017/18 Revised Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
General Fund	3,569	9,676	4,162	1,039	859

The programme in 2018/19 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:

- o Whether the revenue resource is available to support in full the implications of both resource and running costs.
- o 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.

	2016/17 Actual £000	2017/18 Revised Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Capital Financing Requirement					
CFR – General Fund	10,184	10,033	9,477	9,069	8,990
External Debt					
Borrowing	9,595	9,595	9,595	9,595	9,595
Other Long Term Liabilities	151	402	231	193	469
Total Debt 31 st March	9,746	9,997	9,826	9,788	10,064

Borrowing outstanding as at year-end 2016/17 and 2017/18 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 2017/18, the Council's Budget has provided for MRP to be calculated on the regulatory basis (option 1). This will continue for 2018/19 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

	2016/17 Actual £000	2017/18 Revised Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
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 2017/18 of capital investment decisions on the Band D Council Tax

	Proposed Budget 2018/19	Forward Projection 2019/20	Forward Projection 2020/21
Council Tax – Band D	£0.54	£0.07	£0.18

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

8 TREASURY MANAGEMENT STRATEGY 2018/19 – 2020/21

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

	2016/17 Actual £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
External Debt					
Debt at 1 st April	9,595	9,595	9,595	9,595	9,595
Other long-term liabilities	151	402	231	193	469
Actual Gross Debt at 31st March	9,746	9,997	9,826	9,788	10,064
The Capital Financing Requirement	10,184	10,033	9,477	9,069	8,990
Under / (Over) Borrowing	438	36	(349)	(719)	(1,074)

- 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 2017/18. However in 2018/19 and future years 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 Link Asset Services 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 Link’s view of the movement in interest rates.

	Qtr 1 2018	Qtr 2 2018	Qtr 3 2018	Qtr 4 2018	Qtr 1 2019	Qtr 2 2019	Qtr 3 2019	Qtr 4 2019	Qtr 1 2020	Qtr 2 2020	Qtr 3 2020
Base Rate	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%
5 yr PWLB	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%
10 yr PWLB	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%
25 yr PWLB	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%
50 yr PLWB	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%

8.4.2 Link has also provided comprehensive economic forecasts which are available for inspection if required.

8.5 **Borrowing and Debt Strategy 2018/19 – 2020/21**

- 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 2018/19 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.

	2017/18 Revised Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 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

	2016/17 Actual £000	2017/18 Probable outturn £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Actual external Debt	9,746	9,997	9,826	9,788	10,064
Cash balances	24,907	19,696	50	50	50
Net Debt	(15,161)	(9,699)	9,776	9,738	10,014

- 10.1 The Council currently has a difference between gross debt and net debt (after deducting cash balances) of £9.699m.

- 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 2018/19 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

	2017/18 Upper	2018/19 Upper	2019/20 Upper
Limits on fixed interest rates	100%	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	43%	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	57%	0%

The maturity in the under 12 month period relates to 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 Link 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 Link Asset Services, as its external treasury management advisor.

The Council recognises that responsibility for treasury management remains 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 2017)
- The Council’s [Policy on Treasury Management Practices](#) (Full Council February 2017)
- 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 2018/19

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 2018/19

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.

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**Hyndburn Borough Council
Treasury Management Practices 2018/19**

Treasury Management Practices

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		Paragraph
TMP 1	Treasury risk management	1.1 – 1.8.1
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TMP 4	Approved instruments, methods and techniques	4.1 – 4.6
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Treasury Management Practices

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 Creditworthiness Policy

This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands :

- Yellow 5 years (UK Government debt, or its equivalent, money market funds)
- Dark pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- 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

Treasury Management Practices

The Link Asset Services' creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on any external support for banks to help support its decision making process.

Country and sector limits

The Council has determined that due to the uncertainty of Brexit it will use any UK bank regardless that the sovereign credit rating may be reduced from its current AA rating position. It will only use approved counterparties from other countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown below.

This list is based on those countries which have sovereign ratings of AA- or higher (at the date of this report) and also have banks operating in sterling markets which have credit ratings of green or above in the Link Asset Services credit worthiness service.

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- Hong Kong
- U.S.A.

Treasury Management Practices

AA

- Abu Dhabi (UAE)
- France
- UK

AA-

- Belgium
- Qatar

This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

Treasury Management Practices

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

Treasury Management Practices

1. 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.
2. 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.

Treasury Management Practices

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 2018/19 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 2018/19 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 2018/19 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 2018/19 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.

Treasury Management Practices

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.

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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
- S.I. 2004 no.3055 The Local Authorities (Capital Finance and Accounting) (Amendment) (England) (No.2) Regulations 2004
- S.I. 2006 no.521 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2006

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- 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
- 2012 no.1324 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No.3) Regulation 2012
- S.I. No 2269 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No.4) Regulations 2012
- S.I. 2013 no 476 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2013
- S.I. 2015 no.234 Accounts and Audit Regulations 2015

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 Local Authority Capital Accounting – a reference manual for practitioners 2014 edition
- 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

Treasury Management Practices

- The Council's Standing Orders relating to Contracts
- The Council's Financial Regulations
- The Council's Scheme of Delegated Functions

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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.

Treasury Management Practices

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 authorisation 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.

Treasury Management Practices

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 13 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.

Treasury Management Practices

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

Treasury Management Practices

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

Treasury Management Practices

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. Link 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 (Link 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.

Treasury Management Practices

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.

Treasury Management Practices

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.

Treasury Management Practices

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 2018)

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.

Treasury Management Practices

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.

Treasury Management Practices

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.

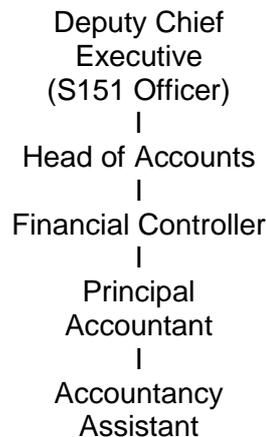
5.2 Principles and Practices Concerning Segregation of Duties

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

Treasury Management Practices

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.

Treasury Management Practices

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.

Treasury Management Practices

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.

Treasury Management Practices

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.

Treasury Management Practices

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.

Treasury Management Practices

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.

Treasury Management Practices

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.

Treasury Management Practices

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.

Treasury Management Practices

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 FCA) 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

Treasury Management Practices

- 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.

Treasury Management Practices

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.

Treasury Management Practices

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
Level 3
1 Snowdon Street
London
EC2A 2DQ
Tel: 020 7894 8698
Regulatory Status: FCA registered counterparty 187916

Treasury Management Practices

- 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 Link Asset Services Limited. Their address is 6th Floor, 65 Gresham Street, London, EC2V 7NQ Tel: 0207 954 9618
- 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.

Treasury Management Practices

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		Council
Report by		Councillor Gareth Molineux Portfolio Holder Resources
Date		22nd February 2018
Report Prepared by		Joe McIntyre Deputy Chief Executive

GENERAL FUND REVENUE BUDGET

2018/19

Purpose of the Report

1. This report sets out proposals for the 2018/19 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 to increase Council Tax for 2018/19 by £5.00 per year for a Band D property. This is equivalent to less than 10 pence per week and as most households in Hyndburn are Band A rather than Band D properties, the vast majority of households will only see a rise of 7p per week. This is only the second increase in Council Tax by Hyndburn Council for 9 years.

- b) The Budget for 2018/19 will therefore be £11,174,000 as detailed in Appendices 1 and 2.

- c) That Cabinet recommend approval of the list of savings and budget changes for 2018/19 as set out in Appendix 3.

- d) That Cabinet note the significant improvement made in relation to budget monitoring and cost reduction within the Authority over the past 14 years and confirms its commitment to continuing this approach in the year ahead.

- e) That Cabinet recommends during the financial year 2018/19, 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.

- f) That Cabinet recommends during the financial year 2018/19, the Deputy Chief Executive be delegated responsibility to amend the Budget (following consultation with the Leader of the Council) should the estimate of Business Rates not be sufficiently accurate, by drawing on reserves if needed or paying over additional contributions to reserves.

- g) That to aid future financial management planning any surpluses generated during 2018/19 are set aside to help the Council reduce its cost base over the next three years, support its long term capital programme or strengthen its overall reserve position.

h) That Cabinet recommends that the New Homes Bonus and any additional unring-fenced 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 2018/19. This will require a net expenditure of £11,174,000.

5. Under these proposals, Council Tax for Hyndburn residents will rise for Hyndburn Council provided services by £5.00 per year for a Band D property. The amounts due for each band are shown at Appendix 4. The increase is equivalent to 10p per week for a Band D property, but for most residents the increase will be less than 7p per week as the majority of households in Hyndburn are Band A properties that pay two-thirds the value of a Band D property in Council Tax.

6. This is the only the second rise in council tax for Hyndburn services since 2009/10 and represents an average annual 0.5 % increase over the full period since 2009/10. If the Council had increased Council Tax simply by inflation over the last 10 years rather than not increasing it at all, Council Tax for Hyndburn's services would have been over £53.00 higher for each average Band D property within Hyndburn.

7. The increase in Council Tax is a direct result of Lancashire County Council ending its financial support for recycling across Lancashire and removing £821,000 of income paid to Hyndburn to assist in separating household waste into separate streams for disposal either to landfill or to be used for some other purpose. While Hyndburn has commenced taking whatever steps it could to make savings and generate income to replace the amounts lost as a consequence of Lancashire County Council's decision, it is not envisaged that it will be possible to find the full £821,000 lost and therefore £305,000 of additional revenue is required from Council Tax over the coming period and this requires a £5.00 increase on Council Tax for the years 2017/18 to 2019/20.

8. Lancashire County Council, and the Police & Crime Commissioner have taken their decisions on Council Tax Levels for next year. The County Council will raise its Council Tax for each household by 5.99% while the Police Commissioner will raise it by £12.00 per Band D property. The Combined Fire & Rescue Authority has yet to make a formal decision and so for illustrative purposes we have assumed it will increase its Council Tax by 2.99%, the maximum under the Government's rules.

9. Altham Parish Council has set a separate precept for its activities for the tenth time in 2018/19. This year the Parish Council does not intend to increase its precept. The Band D charge for Altham Parish Council will therefore remain at £40.27 for the year and a precept on the Collection Fund of £12,282. Details of the impact of the potential increase on other Bandings for properties in Altham are shown in Appendix 6.

10. In setting the Budget for 2018/19 the Council faces continued volatility around some of the most significant items within its Budget. 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 result in the need to reduce spending during the year, if revenue analysis during the year starts to indicate the amounts of funds received will fall short of the target.

11. The Cabinet intends to continue the good financial stewardship of the Council's affairs by continuing the successful policies introduced over the last 14 years to manage costs 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 40% of the savings the Council has to achieve to balance its budget next year, despite being less than 30% 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 almost £5.0m in*

total for the year with £1.2m invested in Accrington Town Centre, a further £1.7m invested in Housing Regeneration, over £828,000 committed to improving homes for those with a disability, a £400,000 investment in our Waste Services to modernise and improve the cost of operation of our recycling and over £800,000 of other building, operational and infrastructure projects.

- *Despite costs of over £85,000 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 10 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.*

12. 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.

13. 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 2017, in which Balances are over £2.8m and the Revenue Budget for 2017/18 is predicting a saving of over £284,000 which will contribute to improving the strength of our underlying financial position.

14. Within the Budget for 2018/19 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.

15. 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.

16. The threat of pay inflation during 2018/19 is viewed as low. 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% puts further pressure on Budgets and significantly increases the threat of increased job losses. In these circumstances we do not envisage a settlement significantly above 2% as realistic and have constructed the Budget around a 2% increase.

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

Background

Introduction

18. Over the last 12 months, the Council has continued to work hard to stabilise and improve its underlying financial position. The Financial Year 2016/17 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 11 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 2018/19.

19. 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 2017/18 of approximately £280,000. This money has

been earmarked to assist the Council to reduce its cost base over the next few years.

20. Although it is worth noting the major improvements in financial management and cost control over the last 11 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.

21. 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. In addition the ending of the Cost Share Agreement with Lancashire County Council sees the loss of £821,000 of income from 2018/19 which the Council needs to address.

22. 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 almost £5.1m since 2010/11 and our forecast is that we will need to save over £3.6m more in the period 2018/19 to 2020/21.

Medium Term Financial Strategy

23. 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 14th February 2018 and will be placed before the Council on the 22nd February 2018.

24. 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 2018/19, it needs to recognise the savings agenda it will potentially face in 2019/20 and 2020/21. The main pressures stem from the Government's reduction in funding to the Council and the ending of the Lancashire Cost Share Agreement on Recycling. The other major pressures the Council faces are

- The reduction of grant to support the payment of housing benefits.
- Auto-enrolment of employees into the pension scheme
- Inflationary pressures on wages and the purchase of goods and services.

In addition the Council could face further financial pressure over the period of the MTFS if inflation on salaries and goods and services increases beyond the current forecast and it would face a potential major additional cost in 2020/21 if it uses up all its available capital resources and has to finance any future Capital spend from its Revenue Budget.

Continuation Budget

25. 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 2017/18 and known financial pressures for 2018/19. Our Corporate Priorities are detailed within our Corporate Strategy with the overall objective of improving the local economy and the mix of housing within Hyndburn. This objective remains challenging in a period of reduced funding, uncertain global

economic indicators, Brexit negotiations and a Minority Government at Westminster.

26. 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 on 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.

27. 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 £255,000 after uprating salary costs for 2018/19 and allowing for increments and the knock-on impacts on national insurance contributions and employer pension contributions.

28. Inflation for non-pay items continues and is currently above the Bank of England target of 2% though the large upswing in inflation following the Brexit Vote has not materialised with the Consumer Price Indicator at 3.0% in December 2017 and no firm indications that it is about to spiral upward. Overall capacity on the supply side of the world economy appears to remain abundant, weakening any opportunity for suppliers to effectively pass on price increases they incur due to the price of sterling falling against other major currencies. We have therefore assumed for budgeting purposes that cost centres will be able to absorb whatever inflationary pressure they face within a 2% uplift of their Budgets.

29. These calculations indicate a Continuation Budget of just over £11.17m 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 2018/19.

Growth Pressures

30. There are no growth items proposed for the 2018/19 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

Core Government Revenue Support Grant (RSG)

31. Revenue Support Grant for 2018/19 has indicatively been set at £1,998,000. 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 £447,000 down compared to the previous year. This is 18% down compared to the amounts we received in the previous year,

Business Rates

32. 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 £3.8m The Council also now has the risk around non-collection and the impact of late payments.

33. Additionally in 2018/19 there was a major revaluation of property business rates nationally. At a local level this has altered downwards the overall amount of Business Rates to be collected in Hyndburn and the figure will be further reduced by the higher rate for exemption from Business Rates for small businesses. The overall change as currently estimated is from £19.7m in 2016/17 to £18.3m in 2018/19 a drop of £1.4m. This figure is still subject to finalisation. As part of this process the Government has introduced a taper system on the changes at an individual business level and adjusted the tariff the Council faces downwards. These changes add an additional degree of complexity to forecasting correctly the level of Business Rates the Council will receive to manage its Budget in 2018/19 and therefore there is a recommendation to allow the Deputy Chief Executive to draw upon reserves if this figure included in the Budget is too high

compared to the actual level of revenue received and for the Deputy Chief Executive to contribute any additional sums received over and above the Budgeted figure to reserves and assign any surplus on the Collection Fund to reserves or to support the Capital Programme going forward with these one-off sums. For 2018/19 the estimated revenue from Business Rates is expected to be £3.7m.

Council Tax

34. It is expected that the Council Tax will raise the equivalent of £4.9m of revenue for the Council in 2018/19. After seven years of no council tax increase in Hyndburn, dating back to 2009/10, this year will be the second year of a council tax increase of £5.00 for a Band D property. This is the equivalent of less than 10 pence per week for a Band D property and as 2/3^{rds} of the properties in Hyndburn are Band A properties, most households will only pay around 7 pence per week more, an annual increase of £3.34. (2.12%), a lower percentage increase than last year's 2.17% increase and below the current rate of inflation once again.

35. The increase in Hyndburn's Council Tax is below the amount assumed by the Government of 2.99% and by which it adjusts its

future support of local government finances, indicating the Council is continuing to outperform other Councils and the Government's predictions on providing value for money to its local residents.

36. The increase in council tax of £5.00 is needed to help the Council replace funding cut by Lancashire County Council for the collection of recyclables. The increase raised £100,000 of additional revenue in the first year (2017/18) and this will increase to £305,000 of additional revenue by 2019/20. This will partly contribute to the loss of £821,000 annually from Lancashire County Council's decisions in this area.

New Homes Bonus

37. 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 £321,000 for 2018/19. This is down

£226,000 compared to the previous year. 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. The figure is however expected to fall in subsequent years and this will lessen the extent to which we can fund Capital Projects from this source of money into the future unless there is a major upswing in the number of properties being constructed in Hyndburn over the next few years.

Resource Summary

38. The Council's estimated Resources for 2018/19 are £11,174,000 and this compares to an expected roll forward cost of operating the organisation of £12,861,000. This indicates a saving gap for the year of £1,687,000. Individual savings from Service Departments and Corporately of £1,687,000 have been identified equal to the savings target and these are shown at Appendix 3.

Budget Proposals 2018/19

General Financial Pressures

39. 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 2018/19 and continue its financial strategy to ensure its financial stability over the medium term.

40. 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 13 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 13 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.

41. The proposals for 2018/19 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 2018/19 to buttress their budgets ahead of any further proposed savings for 2018/19 onwards. Last year we set a one year corporate savings target of £165,000 which we are on target to deliver in 2017/18. However as it was a one-off savings plan this figure has been incorporated into the savings target for 2018/19 to produce a permanent solution to this saving gap.

Recycling Pressures

42. Lancashire County Council have over recent years had an agreement with all collection authorities in Lancashire, including Hyndburn to provide financial support to assist with the cost of recycling. For Hyndburn the financial support was around £653,000 annually. Lancashire County Council has given notice that it will not renew the current agreement when it ends on the 31st March 2018. A variety of discussions with Lancashire County Council have failed to persuade them to alter their position. Lancashire County Council have also given notice to all collection authorities that from 31st March 2018 they will also take ownerships and consequently the income, of all

recyclable waste. For Hyndburn, the sale of our recycling generated a budgeted income of £168,000 annually. Given the reduction in Government Grant to Hyndburn Council over recent years and the projected reductions to come for the next 3 years at least, the Council cannot absorb the loss of this income from recycling within its current budget without a major impact on other services.

43. Hyndburn therefore needs to adapt its financial and operational strategy around the collection of recycling materials in order to minimise the financial fall-out from the loss of income stemming from Lancashire County Council's decisions. The strategy proposed is to switch from a collection based on recyclable bags and boxes to the provision of 2 additional wheeled bins, one for Paper and Cardboard Recyclables and the other for glass, plastics and metals. These new bins will provide significantly more capacity to hold recyclable waste and end the current situation with the existing service in which recyclable materials presented for collection in bags and boxes are often emptied, either accidentally or deliberately and litter the streets. Paper and Cardboard will be collected on alternative fortnights to Glass, Plastics and Metal and all other Household waste will be collected as now every two weeks. This together with other savings across Waste Services will allow the Council to reduce its collection

costs by around £350,000 per year, provide households with large robust recyclable wheeled bins which will allow a greater amount of recyclables to be stored and reduce the environmental impact of the current scheme.

44. As part of the strategy to address the removal of the Cost Share Agreement, the Council introduced in August 2017, the ability for residents to choose how they manage their garden waste. Households can now put their garden waste in the grey wheeled bin, which for many households will mean they no longer require a separate green wheeled bin. Alternatively, households can drop their green waste off at the Household Waste Recycling Centre, Whinney Hill Road, Altham. For householders who would still prefer their garden waste to be collected separately by the Council, a small administrative collection charge was introduced for each green wheeled bin. This service uses the existing green wheeled bins and provides collections on a fortnightly basis, from March to November. It is expected that the net budget impact of these changes will be approximately £150,000 a year.

45. These measures will reduce the loss of income from the ending of the Cost Share Agreement by Lancashire County Council from £821,000 to £305,000. After careful consideration of the overall financial position of the Council and the further grant reductions from Government for Hyndburn that were announced in 2017/18 totalling over £1.7m in the following 3 years and having regard to the fact that Council Tax has not been increased over the past 7 years, the final part of the strategy to offset the withdrawal of income in support of recycling by Lancashire County Council is via increasing Council Tax to fund the gap. A £5.00 increase in Council Tax was therefore introduced as part of a 3 year strategy to replace the lost income from Lancashire County Council from 2017/18. This increase is less than 10p per week for a Band D property and as the vast majority of houses in Hyndburn are Band A properties, the actual rise for most households in Hyndburn will be less than 7p per week. The Council will also continue to work over the next 3 years to persuade Lancashire County Council to resume its funding of recycling and to look at how improvements in operation and efficiency might occur which would lessen the need for council tax increases to fund this service.

Budget Saving Proposals

46. The general financial pressures and the specific ones stemming from Lancashire County Council's decision on no longer supporting District Councils with recycling 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 including Leisure Services will save £867,000 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 £48,000 through an exercise to re-organise the way the department operates, generating additional income and other cost saving measures

- Policy and Corporate Governance will provide over £640,000 worth of savings through a mixture of staff efficiencies, limiting 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 and increased income projections for the year totalling almost £131,000.

47. The pattern of savings to achieve the overall average saving of 13% shows that protecting fundamental services and reducing our back office costs remains our highest priority with corporate costs reduced on average by almost 16% compared to their roll-forward position, while front line services were reduced by around 11%.

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

Reserves

49. 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.

50. 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 2018/19 to continue with this policy. Reserves are currently over £2.8m and an underspend is predicted for 2017/18. 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.

51. 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 to £3.0m 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 need 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.¹
- 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
- 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

¹ The Government has 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.

- 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 income from fees and charges as the Recession continues
- Financial pressures around ensuring our pension fund is properly financed
- Potential large fines under the General Data Protection Regulations that are to be introduced in 2018/19.

52. 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.

53. 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

54. The 2018/19 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.

55. 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.

56. Pay Inflation should not be a major factor over the next 12 months. We have used a 2% 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.

57. There were predictions of a rise in inflation immediately following the Brexit Vote coupled with a drop in consumer activity and possibly a further recession. This has not materialised. Inflation has risen to just over 3% during 2017 but has fallen subsequently and therefore it does not appear currently likely to accelerate at an alarming and unaffordable rate as 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 expected to create only a low to moderate degree of risk within the financial forecast.

58. Given the Brexit vote and the need to provide some stability and strength into the economy we do not expect to see any significant change in the Bank Base Rate over the 2018/19 financial year.

59. 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.

60. 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 displays how much is spent each month within the Council, but requires 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 be protected from any immediate threat, while we take action to adjust our cost base to cope with any external financial pressures.

Consultation

61. This year we are asking the public to attend the Council's Overview and Scrutiny Meeting on the Budget which takes place at 2:30pm on 19th February 2017 at Scaitcliffe House. 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 this 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.

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

63. The overall estimated Council Tax per household for 2018/19 is shown at Appendix 5.

Conclusion

64. The overall Revenue Budget 2018/19 is set out at Appendix 2. The Budget for 2018/19 will be £11,174,000 and will be supported by a Council Tax levy of £240.52 for a Band D property—translating into a revenue source of £4,932,000 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

65. As outlined in the Report, the public have been invited to participate in the Council's Overview & Scrutiny Meeting on the 19th February at 2:30pm in Scaitcliffe House 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 22nd February 2018.

REASONS FOR RECOMMENDATIONS

66. 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

67. 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

68. As outlined in the report

LINKS TO CORPORATE PRIORITIES

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

EQUALITY

70. 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

71. 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

72. 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

73. See the relevant supporting papers from the Cabinet February 2017 and the report to Cabinet in October 2017 which provided an update on the Medium Term Financial Strategy which are available from the Hyndburn Borough Website (links provided below) and other items on today's agenda.

[Council Budget Papers 2017/18](#)

[Medium Term Financial Strategy October 2017](#)

Initial Outline Budget 2018/19		
		£000
Revenue Support Grant		1,998
Business Rates		3,744
Council Tax		4,932
Collection Fund Surplus		400
Use of Reserves		100
Total Resources Available 2017/18		11,174
Roll Forward Budget		12,861
Growth Items		0
Unadjusted Predicted Spend		12,861
Savings Required		1,687
Savings Identified		1,687
Predicted Spend 2017/18		11,174
Unfunded Spend at this time		0

Revenue Budget 2018/19	
Service Expenditure	£000
Environmental Services	4,801
Culture & Leisure Services	903
Planning & Transportation	801
Regeneration Services	1,815
Policy & Corporate Governance	3,423
Non Service Related Budgets	-569
Contribution to Reserves	0
Net Total Expenditure	11,174
Band D Property 2017/18	£ 235.52
Band D Property 2018/19	£ 240.52
Increase on Previous Year	£ 5.00
% Increase on Previous Year	2.12%
Band A Property 2017/18	£ 157.02
Band A Property 2018/19	£ 160.36
Increase on Previous Year	3.34
% Increase on Previous Year	2.12%

**Savings Proposals
2018/19**

Food Safety	£
General Subscriptions and Publications	859
Computer Rental Maintenance	7,000
Staff Savings	27,718
Pest Control	
Car Allowance Saving	230
Hired Vehicles Savings	399
Fuel Savings	2,548
Standpipe License Saving	559
Waste Services	
Recycling Restructuring	495,418
Clinical Waste Disposal	1,000
Advertising Savings	569
Enforcement Overtime Reduction	2,405
Recycling Leaflet Savings	2,554
Recycling Income Increase	28,000
Other Income	3,000
Street Cleansing Miscellaneous Savings	189
CVMU Miscellaneous Savings	5,000
Parks	
Grass Cutting Restored	-7,000
Salary NI & Superann Savings	27,000
Overtime Savings	5,000
Diesel Savings	1,000
Reduced Hired of Vehicles	2,000
Materials Reduced costs	2,000

Agency Staff Reduction in Numbers Used	5,000
Crematorium Additional Income	27,500
Planning & Engineering Services	
Staffing Savings	28,600
Additional Income from DCLG expected	5,000
Urban forest budget reduction	2,000
Lighting Budget for Bus Shelters Savings	3,000
Extra Income from Street Naming	8,000
Allotments additional income	2,000
Regeneration Services and Corporate Property	
Market Hall Deletion of Vacant Post	11,698
DFG Increased Income	37,286
Housing Advice Increased Income	13,329
Development Income and Savings on Professional Fees	17,597
Property Services Increased Fees	15,000
Corporate Repairs and Maintenance Savings on Operations	5,865
Christmas Decorations and Amenity Reduction n Spend	3,978
Sadler Street Industrial Estate ending of leases	9,878
Eagle Street Senior Citizens Rates Reduction	5,848
Haworth Art Gallery	
Reduced spending on Bedding Plants	500
Reduced spending on Repairs and Maintenance of equipment	2,500
Reduction in Advertising spend	2,000
Additional Income from Weddings	5,304
Policy & Corporate Governance	
Legal & Democratic Services	
Member Services	
Hire of premises Savings	200
Local Democracy week removal of funding	359
Postage Reductions	50
Salary Saving	17,800
Members Expenses	
Miscellaneous Savings	700
Mayoralty	
Miscellaneous Savings	1,013
Overtime Budget removed	1,305
Human Resources	

Training Budget Reduced	4,426
Miscellaneous expenses	1,099
Legal	
Staffing Deletion of Vacant Post	27,110
Increased Income Target	2,500
Licensing	
Miscellaneous Savings	525
Registration of Electors	
Miscellaneous Savings	683
Local Land Charges	
Miscellaneous Savings	143
Policy and Performance Review	
Staffing Savings	9,794
Secretariat	
Staffing Savings	2,695
Marketing and Communications	12,000
ICT	
Reduced Software License Costs	1,508
Stationery Cost Savings	500
Benefits and Customer Services	
Savings on Salaries	126,892
Reduction on Summons Costs	5,500
Swipe Cards	2,000
Miscellaneous Costs	7,743
Accountancy	
Car Expense Savings	800
Miscellaneous Other Savings	1,978
Audit	
Car Expense Savings	99
Miscellaneous Other Savings	402
Other	
Insurances Contract Savings	8,500
Pension Payments Reduction	25,000
Cabinet Action Fund Reduced Funding	4,318

Single Funding Pot Reduced Costs	8,637
Cannon Street Service cost savings	7,000
Leisure Services savings	227,311
Environmental Warranties Set Aside Ended	250,000
Corporate Savings Target	107,377
Total Savings Identified	1,687,298

Hyndburn Borough
Council Tax Increase 2018/19
by Property Band

Appendix 4						
Valuation Band and Statutory ratios of Band D Council Tax		Council Tax	Council Tax	Annual Increase		
		2017/18	2018/19			
Band A	6/9	£ 157.02	£ 160.35	£		3.33
Band B	7/9	£ 183.19	£ 187.08	£		3.89
Band C	8/9	£ 209.36	£ 213.80	£		4.44
Band D	9/9	£ 235.52	£ 240.52	£		5.00
Band E	11/9	£ 287.86	£ 293.97	£		6.11
Band F	13/9	£ 340.20	£ 347.42	£		7.22
Band G	18/9	£ 392.54	£ 400.87	£		8.33
Band H	18/9	£ 471.04	£ 481.04	£		10.00

Overall Change in Council Tax 2018/19

Council Tax Schedule	2018/19								Change Between 2017/18 and 2018/19							
	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Hyndburn Borough Council	160.35	187.08	213.80	240.52	293.97	347.42	400.87	481.04	3.33	3.89	4.44	5.00	6.11	7.22	8.33	10.00
Lancashire County Council	863.28	1,007.16	1,151.04	1,294.92	1,582.68	1,870.44	2,158.20	2,589.84	48.79	56.92	65.05	73.18	89.44	105.70	121.97	146.36
Lancashire Police & Crime Commissioner	118.30	138.02	157.73	177.45	216.88	256.32	295.75	354.90	8.00	9.34	10.66	12.00	14.66	17.34	20.00	24.00
Lancashire Fire & Rescue Authority	44.98	52.47	59.97	67.46	82.46	97.44	112.44	134.92	1.31	1.53	1.75	1.96	2.40	2.83	3.27	3.92
Total Council Tax Payable (outside Altham Parish Council)	1,186.91	1,384.73	1,582.54	1,780.35	2,175.99	2,571.62	2,967.26	3,560.70	61.43	71.68	81.90	92.14	112.61	133.09	153.57	184.28
Altham Parish Council	26.85	31.33	35.80	40.27	49.22	58.17	67.12	80.54	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-
Altham Parish Council & Hyndburn Borough Council	187.20	218.41	249.60	280.79	343.19	405.59	467.99	561.58	3.33	3.89	4.44	5.00	6.11	7.22	8.33	10.00
Total for Altham	1,213.76	1,416.06	1,618.34	1,820.62	2,225.21	2,629.79	3,034.38	3,641.24	61.43	71.68	81.90	92.14	112.61	133.09	153.57	184.28

This assumes a £5.00 increase in Council Tax for a Band D property by Hyndburn Borough Council as indicated in this report. Altham Parish Council has decided not to increase its Council Tax. Lancashire County Council and the Police & Crime Commission have made their formal decisions and they are used in the above calculation, LCC are increasing Council Tax by 5.99% and the Police Commissioner by £12.00 for a Band D property. The Fire & Rescue Authority have not made formal decisions as yet. The above model assumes a 2.99% increase .

Altham Parish Precept 2018/19
by Property Valuation Band

Altham Parich Council						
Appendix 6						
Valuation Band and Statutory ratios of		Council Tax		Council Tax		Annual Increase
		2017/18		2018/19		
Band A	6/9	26.85		£ 26.85		£ -
Band B	7/9	31.33		£ 31.33		£ -
Band C	8/9	35.80		£ 35.80		£ -
Band D	9/9	40.27		£ 40.27		£ -
Band E	11/9	49.22		£ 49.22		£ -
Band F	13/9	58.17		£ 58.17		£ -
Band G	18/9	67.12		£ 67.12		£ -
Band H	18/9	80.54		£ 80.54		£ -

* There are currently no Band H properties in Altham parish

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**Report to
Report by**

**Council
Councillor Gareth
Molineux
Portfolio Holder Resources**

**Date
Report Prepared
by**

**22nd February 2018
Joe McIntyre
Deputy Chief Executive**

GENERAL FUND
CAPITAL PROGRAMME
2018/19

Purpose of the Report

To invite the Cabinet to consider the Council's capital investment priorities for 2018/19 and to recommend to the Council a capital programme for approval at its meeting on the 22nd February 2018, 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 2018/19 of £4,939,283 as set out in Appendix 1.
2. That the programme is funded by new anticipated direct external grants of £1,853,559 along with scheme funding from other sources of £947,693 and £2,138,031 of new investment from the Council's

resources. 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 2018 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 2018/19. 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 almost £5.0m, 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 increase 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 will use unspent monies to fund its programme. It will also apply a rigorous approach to selecting projects 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 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 for over 10 years of attempting to reduce 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 2018/19 are expected to be 5% or less of general revenue expenditure. This transformation has saved the Council around £2.275m per year over the last 10 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 late 2018 or 2019 at the earliest. The increase when it comes in either the final quarter of 2018 or at some point in 2019 is only expected to be 25 base points, raising the Base Rate at the Bank of England 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 fixed term loans or “lender option, borrower option” (LOBO) loans. Interest rate increases are not expected to change sufficiently for our LOBO 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 2018/19 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 2018/19 year and all of these applications have gone through a process of rationalisation to come up with a proposed programme for 2018/19.
9. The proposed programme is outlined in Appendix 1 and a summary of the major projects are given below.
 - a) The Council will invest over £1.2.m into Accrington Town Centre as part of our commitment to improve this area via investments in uplifting and restoring some of the historic buildings along Blackburn Road along with further investment into the Town Hall to create a new Wedding venue for more intimate ceremonies and continuing this year with our major public realm investment project to regenerate the area around the Market Hall and Town Hall.
 - b) We will also be continuing our major investment into the housing stock of Hyndburn with a further £1.1m invested into Woodnook, following on from the £1.9m invested in 2017/18 and setting aside £550,000 for previously approved housing regeneration scheme. In addition we will be providing a minimum of £828,000 of grants to those that struggle with a disability to help them continue to live in their own homes.
 - c) In light of Lancashire County Council's decision to end the Cost Sharing Agreement with Hyndburn Council and the other District Councils across Lancashire, the Council will be investing a further

£400,000, on top of the £850,000 we set aside last year, as part of our strategy to improve the collection of recyclables and reduce the operational costs of collection at the same time. We will also be setting aside £55,000 this year and in future years to ensure a fund exists to allow us to replace refuse vehicles when needed.

- d) The Council will also be investing in our local sport facilities by supporting Leisure In Hyndburn with £250,000 of funds to help maintain the key sport centres in Accrington and Great Harwood. In the aftermath of the Grenfall Tower Disaster, the Council has set aside £200,000 to improve Fire Safety at its buildings and increased its expenditure on Planned Asset Improvements from previous years.
- e) Other expenditure commitments include a major refresh of ICT equipment, a new photocopying machine, funding for the development of a Safe House and money to improve the decorations of Accrington and other locations at Christmas time.

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 2018/19 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 2018/19 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 11 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 almost £5.0m in Capital investment in 2018/19. There is over £1.2m of investment into Accrington Town Centre with a further £1.7m in housing and community regeneration investment into the area surrounding the town centre. As a minimum over £828,000 has been made available for Disabled Facility Grants to help people continue to live in their own homes. The Council has also added £400,000 to the £850,000 it set

aside last year to introduce a new waste recycling collection service and made available almost £750,000 for investment into buildings and infrastructure.

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 apprised 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. Councillors and the Public are invited to the Council's Overview & Scrutiny Committee on the 22nd February 2018 at 2:30pm in Scaitcliffe House, Accrington to review the proposals and give their views. These views are then reported to the Council ahead of them making their decision on the Capital Budget.

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 2018/19 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. 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 redevelopment of the Town Hall presents some risk of cost escalation as we are dealing the fabric of a 19th Century Building that is Grade II listed, as does the work

we are undertaking elsewhere on fire prevention measures, as once work commences other issues may arise that were not identified in the initial survey work.

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.

Capital Programme**2018/19**

Scheme	Gross Cost	External Funding	Previous Approvals	Net Cost 2018/19
Acc Town Hall Refurbishment PH4	414,000			414,000
Accrington Town Hall - External Improvements	100,000			100,000
Town Hall & Service Yard Improvements	50,000			50,000
Accrington Town Centre Public Realm & Infrastructure Work	275,000	275,000		0
Accrington Townscape Heritage Initiative (THI)	269,494		269,494	0
Accrington Market Hall - External Improvements	100,000		100,000	0
Lower Woodnook Housing Renewal Scheme	1,150,000	750,000		400,000
Pendle Street	350,000		350,000	0
Transitional Housing Programme	197,878		197,878	0
Disabled Facility Grants	828,559	828,559		0
Wheeled Bins - Recycling	400,000			400,000
Annual Vehicle Plant Replacement Programme	55,000			55,000
Hyndburn Leisure Centre - Mechanical & Electrical Plant Replacement Programme	150,000			150,000
Hyndburn Leisure Centre Re-roofing	90,000			90,000
Hyndburn Leisure 3G Pitch Sinking Fund	10,000			10,000
Planned Asset Improvement Programme	137,500			137,500
Fire Assessment Building Alterations Various Buildings	100,000			100,000
Fire Assessment Building Alterations Acc Crematorium	50,000			50,000
Fire Assessment Building Alterations Elmfield Hall	50,000			50,000
Technology Refresh - Annual Replacement Programme	100,000			100,000
Safe House	30,321		30,321	0
Christmas Decorations Replacement	25,000			25,000
Photocopier (1st floor Scaitcliffe House)	6,531			6,531
Total	4,939,283	1,853,559	947,693	2,138,031