

Agenda



HYNDBURN

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Council

Thursday, 27 February 2020 at 7.00 pm,
Council Chamber, Town Hall, Accrington

Membership

Councillor June Harrison (Mayor) in the Chair,
Councillors Judith Addison, Josh Allen, Mohammad Ayub, Noordad Aziz, Jean Battle MBE,
Sara Britcliffe MP, Stephen Button, Andrew Clegg, Loraine Cox, Paul Cox, Munsif Dad BEM JP,
Tony Dobson, Stewart Eaves, Diane Fielding, Melissa Fisher, Glen Harrison, Marlene Haworth,
Stephanie Haworth, Eamonn Higgins, Terry Hurn, Abdul Khan, Chris Knight, Patrick McGinley,
Michael Miller, Jenny Molineux, Tim O'Kane, Dave Parkins, Bernadette Parkinson,
Miles Parkinson OBE, Joyce Plummer, Kath Pratt, Jeff Scales, Paddy Short and Kate Walsh

AGENDA

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

NOTE: All Councillors have been granted a dispensation to speak and vote in relation to the following matters, which are relevant to the business due to be conducted during the meeting:

- Setting Council Tax or a precept under the Local Government Finance Act 1992, as amended from time to time or any superseding legislation.
- Setting a local scheme for the payment of business rates, including eligibility for rebates and reductions for the purposes of the Local Government Finance Act 2012, as amended from time to time and any superseding legislation.



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Published on Wednesday, 19 February 2020

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3. Announcements

4. Confirmation of Minutes *(Pages 5 - 14)*

To confirm as a correct record the minutes of the last Council meeting held on 16th January 2020.

5. National Non Domestic Rates Reliefs for 2020/21 *(Pages 15 - 34)*

The attached report presents a proposed amendment to the National Non Domestic Rates Retail Discount Scheme approved in February 2019 and a proposed National Non Domestic Rates Pub Discount Scheme for 2020/21.

6. Prudential Indicators and Treasury Management and Investment Strategy 2020/21 - 2022/23 *(Pages 35 - 102)*

To consider the attached report and recommendations which were considered by the Cabinet on 12th February 2020 and which are referred to Council for approval.

7. Medium Term Financial Strategy 2020/21 to 2022/23 *(Pages 103 - 158)*

To consider the attached report which was approved by the Cabinet on 12th February 2020.

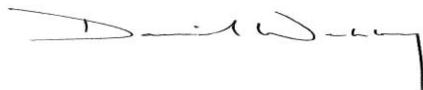
8. General Revenue Budget, Council Tax Levels and Capital Programme 2020/21 *(Pages 159 - 216)*

To determine the General Revenue Budget, Council Tax Levels and Capital Programme for 2020/21. To enable the Council to make the required decisions, the following documents are submitted:-

- a) **General Fund Revenue Budget 2020/21**
The proposals put forward by the Cabinet on 12th February 2020 are set out in the attached report. The final proposals of the Controlling Group will be submitted at the meeting.
- b) **General Fund Capital Programme 2020/21**
The proposals put forward by the Cabinet on 12th February 2020 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 18th February 2020 to consider the budget proposals for 2020/21. The Committee's comments will be reported at the meeting.

NOTE: In accordance with the Local Authorities (Standing Orders) (England) (Amendment) Regulations 2014, a recorded vote will be required in respect of this

decision.

A handwritten signature in black ink, appearing to read 'D. W. ...', with a vertical line extending downwards from the end of the signature.

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

Wednesday, 19 February 2020

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COUNCIL

Thursday, 16th January, 2020

Present: Councillor June Harrison (Mayor), Councillors Judith Addison, Josh Allen, Mohammad Ayub, Noordad Aziz, Jean Battle MBE, Stephen Button, Andrew Clegg, Loraine Cox, Paul Cox, Munsif Dad BEM JP, Tony Dobson, Stewart Eaves, Diane Fielding, Melissa Fisher, Glen Harrison, Marlene Haworth, Eamonn Higgins, Abdul Khan, Chris Knight, Patrick McGinley, Michael Miller, Tim O'Kane, Dave Parkins, Bernadette Parkinson, Miles Parkinson OBE, Joyce Plummer, Kath Pratt, Jeff Scales, Paddy Short and Kate Walsh

Apologies: Councillors Sara Britcliffe MP, Stephanie Haworth, Terry Hurn and Jenny Molineux

223 Apologies for absence

Apologies for absence were submitted on behalf of Councillors Sara Britcliffe, Stephanie Haworth, Terry Hurn and Jenny Molineux.

224 Declarations of Interest and Dispensations

There were no declarations of interest or dispensations notified.

225 Announcements

1) Bereavements

The Mayor announced the recent passing of two of the Boroughs civic dignitaries, representing both sides of the Chamber - Aldermen Cathleen Thom and Sonia Bramley-Haworth.

Cath Thom had passed away on 1st December last year, aged 91. She was born and bred in Clayton and always remained devoted to her town. Her working life began at aged just 14 at Moorfield Colliery as a trainee cook and from there she worked at various places in the kitchens. She was a member of the Labour party from the age of seventeen, working hard for the party. Cath was a borough councillor for 16 years for the Clayton-le-Moors Ward (from 1982-1998) and also became county councillor. She was Mayor of Hyndburn in 1992/93 and following her retirement from public office was granted the award of Honorary Alderman in 2002.

She was the devoted wife of the late Alan, and much loved mother of Loraine and son in law Phillip, grandmother of Catherine, Ema and Christopher and great-grandmother of Mikey and Sophie and the sister of Anne.

Sonia Bramley-Haworth had passed away on New Year's Day, after a long illness, aged 76. Her funeral had taken place this morning. Sonia enjoyed meeting people and had a way of putting people at their ease. She chaired the Ladies circle in the 1980's and became a non-executive director of various NHS Trusts during the 1990s and 2000s. She represented the Overton Ward for the Conservative Party for 12 years (from 1984 to 1996) and was Mayor

in 1993/94 (the year after Cath Thom). She received the award of Honorary Alderman in 2005.

She leaves her devoted husband Nigel Bramley-Haworth.

David Welsby, Chief Executive, also announced the recent death of Bernard Sullivan who passed away at Oldgates Nursing Home on 3rd January 2020, aged 83 years. Mr Sullivan had been founder member of the West Accrington Residents Association. He had also worked closely with representatives of the Council on the regeneration of Church.

The Leader of the Council Miles Parkinson OBE and Councillors Tim O’Kane, Jean Battle and Tony Dobson added their personal anecdotes and messages of condolence in respect of the deceased.

One minute of silence was observed as a mark of respect.

2) Election of MP

The Mayor offered her congratulations to Councillor Sara Britcliffe, who had been elected as MP to represent the people of Hyndburn, at the General Election on 12th December 2019. She wished her all the very in best in this most important public role and expressed her desire that Councillor Britcliffe would, like her predecessor Graham Jones, work tirelessly to ensure that the views and needs of the Borough were made known in the halls of Westminster.

3) Councillor Jean Battle MBE

The Mayor related further good news for the Borough in the Queen’s New Year Honours List 2020, with Councillor Jean Battle, receiving the Member of the Order of the British Empire award (MBE). Councillor Battle was one of the longest-serving existing councillors, with over 20 years service, first joining the Council in 1990. The Honours List, published on Saturday 28th December 2019, recognised the outstanding achievements of people across the United Kingdom. Councillor Battle’s award was for charitable and political services.

A round of applause was held.

4) Mayor’s Ball

The Mayor reminded councillors that a large part of her role related to raising money for local charities. She thanked her Mayoral Charity Committee, a small group of volunteers who were working really hard to help raise as much money as possible for her four chosen Mayor’s Charities –

- Play4Uz2;
- Derian House Children’s Hospice;
- North West Air Ambulance; and
- Macmillan Cancer Support.

The Mayor was now looking forward to the biggest fundraising event of the year, the Mayor’s Ball, set to take place upstairs in the Town Hall Ballroom on Friday 28th February, starting at 6.30pm.

This would be a black tie event, hosted by BBC Radio Lancashire presenter, Stephen Lowe, with musical entertainment provided by Gavin Young. Tickets cost £35 per person,

including a champagne reception, three course dinner and first class entertainment. The event would raise money for the Mayor's charities as well as for the Clayton Amateur Boxing Club, which carried out exemplary work in the community.

5) Waste Services

The Leader of the Council, Councillor Miles Parkinson OBE, reported that the Portfolio Holder for Environmental Services, Councillor Paul Cox, had mentioned some good news at yesterday's Cabinet meeting. It had been reported that at the Lancashire Waste Partnership meeting in November 2019, figures had been provided on each of the Lancashire authorities' performance compared to the previous year. The following information about Hyndburn was highlighted:-

- Hyndburn had the biggest reduction of all authorities in levels of residual waste at 6.63%;
- Card and paper recycling was up by 10%;
- Plastic, glass and cans recycling was up by 15%.

Overall, Hyndburn was the 'Number 1' collection authority, which was thanks to the residents themselves and to the Council's decision to replace the bags and boxes waste scheme with wheelie bins.

6) Climate Change

The Leader of the Council, Miles Parkinson OBE, reminded members that the Council had previously signed up to declaration of a Climate Emergency and would be considering the issue in more detail via a cross party working group. The case for action had been given extra weight today by Sir David Attenborough, who had announced that this was critical time for the planet in the trailer for his new documentary 'A Life on Our Planet'.

226 Confirmation of Minutes

The minutes of the Council meeting held on 14th November 2019 were submitted for approval as a correct record.

Resolved - **That the Minutes of the Council meeting held on 14th November 2019 be approved as a correct record.**

227 Question Time

The Mayor reported that no questions had been submitted under this Agenda Item.

228 Council Tax Support Scheme 2020/2021

The Leader of the Council, Miles Parkinson OBE, presented a report on the Council Tax Support Scheme 2020/21. The scheme remained largely the same as that approved by the Council for 2017/18 with the exception of a number of minor changes to assessment criteria to keep the scheme in line with national changes to Housing Benefit and Universal Credit.

In 2020/21, Council Tax Support (CTS) would be in its eighth year, having been devolved to Local Authorities nationally in 2013 following the abolition of Council Tax Benefit. In 2013 Local Authorities had been given a broad remit to design their own local CTS schemes for working age claimants, with pension age claimants still subject to a national scheme allowing up to 100% CTS.

Prior to 2013 Council Tax Benefit had been funded in full by the Government: when Council Tax Support was introduced, the Government reduced Hyndburn's grant by 10% of the previous year's expenditure for all claimants and rolled future funding into the Revenue Support Grant.

To maintain an affordable and fiscally neutral scheme during a period of reduced funding for local authorities, the maximum level of subsidy available to working age claimants in Hyndburn had reduced from 80% to 73% in 2016/17 and to 70% from 2017/18. The Council's scheme had been reviewed annually to ensure that it remained sustainable and the maximum subsidy available in 2019/20 was 70%.

Council Tax Support could not be considered in isolation: any changes to the scheme must be viewed in the context of national changes to benefits, (Universal Credit in particular), overall Council Tax increases (which increase CTS expenditure) and the Local Government Spending Review which had now been postponed to 2020 with expectations of reform from 2021/22.

Government had confirmed that local authorities would receive funding for 2020/21 based on 2019/20 levels and that the Council would receive its 2019/20 Revenue Support Grant in 2020/21. The grant income was available for 12 months longer than had been anticipated previously, and the Council's short term financial plans have been amended to reflect this. The impact for Council Tax Support meant that the Council was in a better financial position to be able to continue, at least for 2020/21, with a maximum subsidy level of 70%.

The report noted that when considering CTS in the context of national benefits, Universal Credit (UC) was having the greatest impact. The report summarised the main reasons for this impact and set out some of the background figures. An explanation was also provided of the various consultations which had taken place in relation to the new CTS Scheme.

Resolved

- (1) That the Council approves the new Council Tax Support Scheme for 2020/21 and beyond.**
- (2) That the Council continues to provide a maximum subsidy level available to working age claimants of Council Tax Support at 70%.**
- (3) That the Council approves the proposed changes to assessment criteria as outlined in this report to keep the scheme in line with national changes being made to Housing Benefit and Universal Credit.**
- (4) That it be noted that the Council Tax Support Scheme may be subject to change in the future due to budgetary and operational requirements and it be agreed that the Council delegates authority to the Deputy Chief Executive to make amendments to the scheme to comply with national guidelines and to ensure the scheme remains fiscally neutral.**
- (5) That the Hardship Fund introduced in 2013/14 continues to operate to provide assistance to those claimants who struggle to meet the cost of their share of Council Tax.**
- (6) That the Deputy Chief Executive is given delegated power to take all reasonable steps to undertake the calculation,**

collection, administration and recovery of Council Tax and National Non Domestic Rates in accordance with the Local Government Finance Act 1988, the Local Government Finance Act 1992 and the Local Government Finance Act 2012 (all as amended from time to time) and further government regulations that may be issued.

229 Prudential Indicators Monitoring and Treasury Management Strategy Update

The Portfolio Holder for Resources, Councillor Joyce Plummer, provided a report which updated the Council on activities in relation to Prudential Indicators Monitoring and the Treasury Management Strategy since the start of this financial year. The report had also been provided to Cabinet on 15 January 2020.

The *Prudential Code for Capital Finance in Local Authorities* required the Council to set Prudential Indicators annually for the forthcoming three years to demonstrate that the Council's capital investment plans were affordable, prudent and sustainable. The Council had adopted its current prudential indicators at its meeting in February 2019.

The Prudential Code required the Council, having agreed at least a minimum number of mandatory prudential indicators (including limits and statements), to monitor them - in a locally determined format and frequency. This half-year report to Council complemented a more regular review by the Deputy Chief Executive.

The indicators were purely for internal use and were not designed to be used as comparators between authorities. If it should be necessary to revise any of the indicators during the year, the Deputy Chief Executive would report and advise the Council further.

'*Treasury Management*' related to the borrowing and cash activities of the authority, and the effective management of any associated risks. On 21st February 2019 in the same report referred to above, the Council also set out and then approved its current Treasury Management Strategy. This was in accordance with the CIPFA (Chartered Institute of Public Finance & Accountancy) code of practice on treasury management in public services, the Council having previously adopted, via Cabinet, the then revised code of practice. Associated treasury management Prudential Indicators were included in the February 2019 report.

Prudential Indicators Monitoring

Tables included in the report showed the monitoring information for each of the prudential indicators, limits and statements, which related to:-

- External debt overall limits;
- Affordability (eg. implications for Council Tax);
- Prudence and sustainability (eg. implications for external borrowing);
- Capital expenditure; and
- Other particular indicators for Treasury Management.

Treasury Management Update

The report included information on the current treasury position and a table showed debt and other long term liabilities against the Capital Financing Requirement (CFR). A further table was provided which included information about the expected movement in interest rates for the period 2019 – 2021 and the reasons for and implications of those anticipated

changes. The Council's Projected Gross Debt at 31st March 2020 was estimated to be £9.69M. The latest estimate for Capital Expenditure for 2019/20 was £5.49M, which was higher than the original forecast of £2.47M.

Resolved - **That Council note the update report on Prudential Indicators Monitoring and the Treasury Management Strategy.**

230 Statutory Review of Polling Districts and Polling Places

The Leader of the Council, Miles Parkinson OBE, presented a report to inform Members of the outcome of the latest statutory review of polling places and polling districts in Hyndburn and to make recommendations.

The Electoral Registration and Administration Act 2013 required the Council to review Hyndburn's polling districts and polling stations periodically. The review had to cover the polling stations and polling districts used for Parliamentary, County Council and Borough Council elections and, following consultation with the Leader's Policy Development Board, a decision had been taken to start the review in August 2019, so that any changes arising from the review could be implemented prior to the local elections in 2020.

When carrying out the review the Council was required by legislation to:

- ensure that all electors had reasonable facilities for voting; and
- ensure that as far as reasonable and practicable, polling places were accessible to all electors, including those with disabilities.

The report highlighted specific issues which the Council was required to consider when reviewing both Polling Districts and Polling Stations.

Where possible, the review had sought to avoid the use of mobile units as polling stations, as usually it was not possible to provide a wheelchair ramp within the space available at the relevant location. However, in a small number of polling districts there was no other suitable venue available within the polling district (or within a reasonable distance within an adjacent polling district) and the Council had no option but to use a mobile unit. Experience from the three elections held in 2019 was that those deployments did not generate complaints or concerns in respect of a lack of full disabled access.

The report also included details of the consultation which had been carried out in relation to the review.

Councillor Patrick McGinley enquired about the possibility of providing additional polling stations in his area. It was suggested that he submit his comments via his political party spokesman who had been nominated to provide feedback during the review.

Councillor Judith Addison related her experience of the provision of polling stations from her time as a Council employee and commented that was not always possible to find a perfect site. Both private and public venues were used, although in the case of schools this sometimes raised safeguarding considerations. In the case of disabled persons, as well as the access measures in place at polling stations, other options were available to voters, such as postal or proxy votes.

Councillor Tim O'Kane endorsed the comments made by Councillor Addison about the difficulties in finding suitable accommodation. One reason was the decline and closure of numerous church premises. He suggested that the legislation should be changed

regarding polling places normally being in the polling district. For example, the closure of a church in the Altham ward had led to relocation of the polling place to Enfield Cricket Club for a time, but it was believed that localised flooding had deterred some voters from attending. The polling place had subsequently been relocated to a mobile unit on the car park at GM Fitted Furniture, but this was not considered to be ideal.

- Resolved**
- (1) That no changes be made to the Council's current polling district boundaries.**
 - (2) That the polling places identified in Appendix 1 of the report be agreed.**

231 Minutes of Cabinet

The minutes of the meeting of Cabinet held on 13th November 2019 were submitted.

232 Minutes of Committees

The Minutes of the following meetings were submitted:

<u>COMMITTEE</u>	<u>DATE</u>
Licensing Sub Committee	15 th October 2019
Planning (Trees) Sub Committee	17 th October 2019
Communities and Wellbeing Overview and Scrutiny Committee	30 th October 2019
Judicial Committee (Private Hire and Hackney Carriage Licensing)	30 th October 2019
Resources Overview and Scrutiny Committee	31 st October 2019
Audit Committee	18 th November 2019

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

233 Motions submitted on Notice

Notice Submitted on Motion – Food Poverty

The following **motion** was moved by Councillor Noordad Aziz and seconded by Councillor Tim O’Kane under Council Procedure Rule A9:-

“The United Nations Covenant on Economic, Social and Cultural Rights, to which the UK is a signatory, states that ‘the right to adequate food is indivisibly linked to the inherent dignity of the human person and is indispensable for the fulfilment of other human rights enshrined in the International Bill of Human Rights’. It further affirms that ‘states have a core obligation to take the necessary action to mitigate and alleviate hunger’.

In 2009 there were 20 Trussell Trust food banks in the UK. Now there are 428, operating out of 2,000 distribution centres, plus over 800 independent food banks. From April 2018–

March 2019 the Trussell Trust gave out a record 1.6 million emergency food parcels to people in crisis.

3m children are at risk of hunger during the school holidays. Nearly one in five children under 15 lives in a home where their parents cannot afford to put food on the table, according to a report by the House of Commons Environmental Audit Committee.

Around 10% of the NHS budget goes on treating type 2 diabetes and up to 1 million people live in food deserts in the UK.

The Conservative Government has utterly failed to respond to the growth of food poverty since 2010 especially in deprived boroughs like Hyndburn and areas like East Lancashire.

This Council resolves to write to the new Government and to ask them to tackle the issue of food poverty and give local councils resources to address this endemic issue.”

After a debate, which included a substantial consensus about the economic causes of food poverty and the negative impact on families of having to make use of food banks, the **motion** was put to the vote and declared carried.

Resolved - **That this Council resolves to write to the new Government and to ask them to tackle the issue of food poverty and give local councils resources to address this endemic issue.**

Notice Submitted on Motion – Austerity hasn't worked in Education

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

“Following a motion that was passed in this chamber on 20th September 2018, to highlight the impact of school cuts on schools in Hyndburn, no response was ever received from the Conservative Government and school budgets for schools in Hyndburn have continued to be cut. Therefore, the Council resolves to write to the Department of Health to highlight the funding cuts that have been caused by the Conservative Government(s) since 2010 on school budgets. 83% of schools will still lose out next year because of Government cuts. Austerity hits the most vulnerable in society and is a barrier to social and economic mobility and has caused schools to shut early, have larger class sizes and reduces the life chances of pupils from poor and deprived backgrounds.

We, as a Council, resolve to request the new Government that Hyndburn schools have their budgets increased, allowing schools in the Borough to have the correct equipment and resources to inspire and educate our next generation, equipping them with the skills to transform East Lancashire.”

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

Resolved - **That this Council resolves to request the new Government that Hyndburn schools have their budgets increased, allowing schools in the Borough to have the correct equipment and resources to inspire and educate our next generation, equipping them with the skills to transform East Lancashire.**

Notice Submitted on Motion – LCC Approach to Speeding and Road Safety

The following **motion** was moved by Councillor Noordad Aziz and seconded by Councillor Tim O’Kane under Council Procedure Rule A9:-

“That this Council resolves to write to Lancashire County Council (LCC) to highlight the Hyndburn Borough Councillors’ concerns around its approach to areas of speeding and road safety.

The councillors feel that the LCC approach to addressing road safety issues is based on a reactive response, rather than a proactive response, with fatalities and injuries used as an indicator in deciding what remedial action is appropriate.

This is not the correct way to address speeding and road safety issues in our opinion, especially in built up areas where the safety of all residents is paramount.

We would ask that a review of how to address speeding and road safety be undertaken and that LCC adopts a proactive approach to keeping the residents of Hyndburn safe.”

Members also wished to place on record their condolences to the family and friends of Elizabeth (Betty) Saynor who was killed on 13th January 2020, following a collision with a car while crossing Blackburn Road on her way to St Wulstan’s Church, Great Harwood. Her tragic death highlighted the potential dangers which existed on roads within the Borough.

After a debate, in which several hot spots for speeding were mentioned, the **motion** was put to the vote and declared carried.

Resolved - **That this Council requests that a review of how to address speeding and road safety be undertaken and that Lancashire County Council adopts a proactive approach to keeping the residents of Hyndburn safe.**

The Mayor reminded Members that the next meeting of the Council was due to be held on 27th February 2020 and would consider the Council’s Budget for 2020/21.

Signed:.....

Date:

Chair of the meeting
at which the minutes were confirmed

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Agenda Item 5.

REPORT TO:	Full Council		
DATE:	27 February 2020		
PORTFOLIO:	Cllr Joyce Plummer: Resources		
REPORT AUTHOR:	Joe McIntyre, Deputy Chief Executive, Resources		
TITLE OF REPORT:	National Non Domestic Rates Reliefs for 2020/21		
EXEMPT REPORT:	No		
KEY DECISION:	No	If yes, date of publication:	

1. **Purpose of Report**

- 1.1 This report presents a proposed amendment to the National Non Domestic Rates Retail Discount Scheme approved in February 2019.
- 1.2 This report also presents a proposed National Non Domestic Rates Pub Discount Scheme for 2020/21.

2. **Recommendations**

- 2.1 It is recommended that Council approves both the amendment to the National Non Domestic Retail Discount Scheme as attached at Appendix 1 and the National Non Domestic Rates Pub Discount Scheme 2020/21 as attached at Appendix 2.

3. **Reasons for Recommendations and Background**

3.1 **Retail Discount Scheme**

The National Non Domestic Rates Retail Discount Scheme for 2019 and 2020 is a temporary scheme announced by the Government in its October 2018 Budget. This is a Government funded, two-year scheme available nationally and delivered under Council's Discretionary Rates Relief powers under Section 47 of the Local Government Finance Act 1988. The Retail Discount Scheme is available to eligible ratepayers from 1 April 2019 to 31 March 2021.

- 3.2 In 2019/20, the Retail Discount Scheme was implemented to support the local retail economy by providing businesses with a rateable value of less than £51,000 with a discount of one third after other reliefs have been applied. The discount was fully funded by Government grants made under Section 31 of the Local Government Act 2003 and the Council took a proactive approach by automatically applying the relief to qualifying accounts and having an opt-out policy rather than application led process.

- 3.3 In January 2020, Government announced an increase in the value of the Retail Discount from one third of an eligible bill to 50% of an eligible bill. As the Retail Discount is intended to be a temporary scheme, the Government has not made changes to relevant legislation and instead asks that billing authorities use their discretionary powers under section 47 of the Local Government Finance Act 1988 as amended by section 69 of the Localism Act 2011 to deliver the discount. As a discretionary scheme, it requires Council approval.
- 3.4 Subsidy for the relief will be made to the Council and its preceptors through a Section 31 Grant and as such the scheme is cost neutral to the Council.
- 3.5 As outlined in Government guidance issued by MHCLG, eligible businesses will be occupied properties being used wholly or mainly as shops, restaurants, cafes and drinking establishments. Section 2 of the Retail Discount Scheme attached at Appendix 1 outlines in detail which types of businesses will and will not be eligible for the discount.
- 3.6 For 2020/21, the scheme has been extended to include cinemas and music venues and these amendments have been made to the Council's Policy.
- 3.7 Initial estimates indicate that around 175 businesses may benefit from this discount worth over £550k in total.
- 3.8 **Pub Relief Scheme**
In addition to its announcement to increase the Retail Discount, Government announced in January 2020 a one-year Pub Discount of up to £1000 for the financial year 2020/21.
- 3.9 As is the case with the Retail Discount outlined above, Government has not made changes to relevant legislation and again asks that billing authorities use their discretionary powers under section 47 of the Local Government Finance Act as amended by section 69 of Localism Act 2011 to deliver the discount. As a discretionary scheme, it requires Council approval.
- 3.10 The Pub Discount will be fully funded by Government grants made under Section 31 of the Local Government Act 2003 and the Council intends to take a proactive approach by automatically applying the discounts to qualifying accounts and having an opt-out policy rather than application led process.
- 3.11 Initial estimations indicate that around 40 businesses may benefit from this discount worth over £35k in total.

4. Alternative Options Considered and Reasons for Rejection

- 4.1 The Retail Discount Scheme as outlined by MHCLG and the attached scheme at Appendix 1 can be provided to local retailers at no additional cost to the Council as discounts provided under the scheme are subsidised by Government. Councils can choose not to implement the discount, however the scheme does support the Council's efforts to regenerate the high street and given the benefit to local retailers it is

recommended that this discount is implemented. Having written and published guidance allows for a consistent and fair application of the discount scheme.

4.2 Similarly, the Pub Discount Scheme as outlined by MHCLG and the attached scheme at Appendix 2 can be provided to local pubs at no additional cost to the Council as discounts provided under the scheme are subsidised by Government. Again, councils can choose not to implement the policy, however the scheme does support the Council's regeneration efforts and given the benefit to local businesses it is recommended that this discount is implemented. Having written and published guidance allows for a consistent and fair application of the discount scheme.

4.3 The Council may expand on the Retail Discount Scheme and Pub Discount Scheme to include more business types, however any expansion would be at additional cost to the authority and all business types are already covered within the Council's broader discretionary powers via application and consideration on a case by case basis. An expansion of either scheme is therefore considered not to be required.

5. **Consultations**

5.1 No formal consultation has taken place with the public on this scheme. Both schemes are temporary, are of limited scope and are based on Government guidelines.

6. **Implications**

<p>Financial implications (including any future financial commitments for the Council)</p>	<p>The collection of local taxes remains a priority for the Council and having relevant and up to date policies provides the necessary framework for officers. While there is no direct financial obligation for the Council as a result of either discount scheme, having a published scheme provides guidance and transparency for local ratepayers.</p> <p>Initial estimates indicate that the two schemes could award over £585k to local businesses.</p>
<p>Legal and human rights implications</p>	<p>The Council's statutory powers to implement both schemes are set out in section 3 above.</p> <p>The administration of business rates is done within legislative frameworks and guidance. Any and all legal and human rights implications have been considered and balanced against the rights of the individual and the obligations placed on the authority for the collection and administration of local taxes. The</p>

	<p>protection of vulnerable groups and individuals has been considered extensively as have the rights of our residents and customers. Legal implications and human rights have been considered at each stage and the policy intentions within this report are considered proportionate and justifiable when balanced against the rights of the individual.</p>
<p>Assessment of risk</p>	<p>Having written guidance reinforces the Council’s mandate to administer taxes on behalf of the Council and its preceptors and provides necessary transparency for rate payers – both of which lessens the risk of accusations of maladministration.</p>
<p>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></p>	<p>The Council is subject to the public sector equality duty introduced by the Equality Act 2010. When making a decision in respect of the recommendations in this report Council must have regard to the need to:</p> <ul style="list-style-type: none"> • eliminate unlawful discrimination, harassment and victimisation; and • advance equality of opportunity between those who share a relevant protected characteristic and those who don’t; and • foster good relations between those who share a relevant protected characteristic and those who don’t. <p>For these purposes the relevant protected characteristics are: age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation. To assist the Council in this regard a Customer First Analysis has been carried out and is presented with this report at Appendix 3. Council is advised to consider the Customer First Analysis and associated obligations in respect of the public sector equality duty when making a decision in respect of the recommendations contained in this</p>

report.

7. **Local Government (Access to Information) Act 1985:**
List of Background Papers
[National Non Domestic Rates Retail Discount Scheme report – Council 21st February 2019](#)
8. **Freedom of Information**
- 8.1 The report does not contain exempt information under the Local Government Act 1972, Schedule 12A and all information can be disclosed under the Freedom of Information Act 2000.



HYNDBURN
The place to be
an excellent council

Non Domestic Rates Retail Discount Scheme

February 2019, amended February 2020

1. Introduction

- 1.1 The Government announced in the Budget in October 2018 that it will provide a Business Rates Retail Discount Scheme for occupied retail premises with a rateable value of less than £51,000 in each of the years 2019/20 and 2020/21.
- 1.2 Hyndburn Borough Council published a discretionary scheme for the years 2019/20 and 2020/21 in February 2019. This document replaces that scheme as the criteria and value of the Retail Relief for 2020/21 has been extended by Government. The criteria and value of the Retail Relief for 2019/20 remains unchanged.
- 1.3 The value of the discount for 2019/20 was one third of the remaining non-domestic rates bill after other relevant reliefs had been applied. In a Written Ministerial Statement on 27th January 2020, Government announced an increase in the relief to 50% of the business rates bill for eligible premises for the financial year 2020/21.
- 1.4 For each year, the Retail Discount is applied after mandatory reliefs and other discretionary reliefs funded by grants made under section 31 of the Local Government Act 2003 have been applied. Other locally applied discounts under section 47 of the Local Government Finance Act 1988 must be applied after the Retail Discount.
- 1.5 The Retail Discount will be provided to eligible ratepayers in their 2019/20 and 2020/21 bills at the beginning of that year.
- 1.6 Retail Discount awards are made under section 47 of the Local Government Finance Act 1988 as amended.

2. Eligibility

- 2.1 Hereditaments that will benefit from the Retail Discount scheme in 2019/20 and 2020/21 will be occupied, being used as shops, restaurants, cafes or drinking establishments.
- 2.2 Amendments made to eligibility criteria for 2020/21 provided by Government extends eligibility to cinemas and live music venues in addition to those hereditaments eligible under the criteria for 2019/20.
- 2.3 We consider shops, restaurants, cafes, drinking establishments, cinemas and live music venues to mean:
 - 2.3.1 Hereditaments that are being used for the sale of goods to visiting members of the public such as:
 - a) Shops (such as: florists, bakers, butchers, grocers, greengrocers, jewellers, stationers, off licences, chemists, newsagents, hardware stores, supermarkets etc.);
 - b) Charity shops;
 - c) Opticians;
 - d) Post Offices;
 - e) Furnishing Shops/display rooms (such as carpet shops, double-glazing, garage doors);
 - f) Car/caravan show rooms;
 - g) Second hand car showrooms or lots;
 - h) Markets;
 - i) Petrol stations;
 - j) Garden centres;
 - k) Art Galleries (where art is for sale/hire)
 - 2.3.2 Hereditaments that are being used for the provision of the following services to visiting members of the public:
 - a) Hair and beauty services (such as hairdressers, nail bars, beauty salons, tanning shops etc.);
 - b) Shoe repair/key cutting;
 - c) Travel Agents;
 - d) Ticket offices i.e. for theatres;
 - e) Dry cleaners;
 - f) Launderettes;
 - g) PC/TV/Domestic appliance repair;
 - h) Funeral directors;
 - i) Photo processing;
 - j) Tool hire;
 - k) Car hire.

2.3.3 Hereditaments that are being used for the sale of food and/or drink to visiting members of the public:

- a) Restaurants;
- b) Takeaways;
- c) Sandwich shops;
- d) Coffee shops;
- e) Pubs;
- f) Bars.

2.3.4 Hereditaments which are being used as cinemas;

2.3.5 Hereditaments which are being used as live music venues;

- a) Live music venues are hereditaments wholly or mainly used for the performance of live music for the purpose of entertaining an audience. Hereditaments cannot be considered a live music venue for the purpose of business rates relief where a venue is wholly or mainly used as a nightclub or a theatre, for the purposes of the Town and Country Planning (Use Classes) Order 1987 (as amended).
- b) Hereditaments can be a live music venue even if used for other activities, but only if those other activities (i) are merely ancillary or incidental to the performance of live music (e.g. the sale/supply of alcohol to audience members) or (ii) do not affect the fact that the primary activity for the premises is the performance of live music (e.g. because those other activities are insufficiently regular or frequent, such as a polling station or a fortnightly community event).
- c) There may be circumstances in which it is difficult to tell whether an activity is a performance of live music or, instead, the playing of recorded music. Although we would expect this would be clear in most circumstances, guidance found in Chapter 16 of the statutory guidance issued in April 2018 under section 182 of the Licensing Act 2003 may be used to help make a determination as to the eligibility for this relief.

2.4 The above lists are not exhaustive and we will consider representations from individual businesses that believe they have similar characteristics to those listed above but who have not been included to date.

2.5 Eligibility for Retail Discount Scheme is a test on use rather than occupation. Therefore, hereditaments which are unoccupied or which are occupied but not wholly or mainly used for the qualifying purposes will not qualify for this discount.

2.6 Hereditaments occupied for mixed use will be considered with qualification being determined by the main use of the property.

- 2.7 Hyndburn Borough Council will not consider a Retail Discount Relief award for hereditaments being used for the provision of the following services:
- a) Financial services (e.g. banks, building societies, cash points, bureaux de change, payday lenders, betting shops, pawn brokers);
 - b) Medical services (e.g. vets, dentists, doctors, osteopaths, chiropractors);
 - c) Professional Services (e.g. solicitors, accountants, insurance agents/financial advisors, tutors);
 - d) Post Office sorting offices;
 - e) Other services (e.g. estate agents, letting agents, employment agencies).
 - f) Other assembly or leisure uses beyond those listed in 2.2.3 to 2.2.5 above (e.g. theatres, museums, nightclubs and gyms)
- 2.8 In addition, the Retail Discount Scheme will not be available for premises that are not reasonably accessible to the public.
- 2.9 The relief will be applied on a daily basis. A new hereditament created as a result of a split or merger during the financial year, or where there is a change of use, will be considered afresh for relief on that day.

3. Amount and Duration of Relief

- 3.1 The total amount of government-funded discount available for each hereditament for 2019/20 under this scheme is one third of the bill. This discount is applied after mandatory reliefs and other discretionary reliefs funded by grants provided under section 31 of the Local Government Act 2003.
- 3.2 The total amount of government-funded discount available for each property for 2020/21 under this scheme is 50% of the bill. This discount is applied after mandatory reliefs and, with the exception of the 2020/21 pubs discount, other discretionary reliefs funded by grants provided under Section 31 of the Local Government Act 2003.
- 3.3 Any further reliefs awarded under the Council's discretionary powers under section 47 of the Local Government Finance Act 1988 and the Localism Act 2011 and not funded by the government will be applied after the Retail Discount.
- 3.4 The Retail Discount will be applied as a reduction to the overall business rates liability for 2019/20 and/or 2020/21; no cash alternative is available.
- 3.5 There is no discount available under this scheme for hereditaments with a rateable value of £51,000 or more in the relevant financial year to which the discount is to be applied.

- 3.6 Any further reductions will be made at the discretion of Hyndburn Borough Council outside this scheme and in line with our National Non Domestic Rates Discretionary Rates Relief Scheme.
- 3.7 For 2019/20, the eligibility for the discount and the discount itself will be assessed and calculated on a daily basis in accordance with 2.3.1-2.3.3 and 2.7 above. Calculation of the discount will be by dividing the remaining daily charge by 3.
- 3.8 For 2020/21, the eligibility for the discount and the discount itself will be assessed and calculated on a daily basis in accordance with 2.3.1-2.3.5 and 2.7 above. Calculation of the discount will be by dividing the remaining daily charge by 2.
- 3.9 Ratepayers who occupy more than one hereditaments may be entitled to the Retail Discount for each of their eligible hereditaments, subject to State Aid de Minimis limits.

4. State Aid

- 4.1 State Aid law is the means by which the European Union regulates state funded support to businesses. Providing discretionary relief to ratepayers is likely to amount to State Aid. However Retail Relief will be State Aid compliant where it is provided in accordance with the De Minimis Regulations (1407/2013)¹
- 4.2 The De Minimis Regulations allow an undertaking to receive up to €200,000 of De Minimis aid in a three year period (consisting of the current financial year and the two previous financial years). Small businesses are unlikely to be impacted by these rules, however larger or national chains face the potential that the cumulative impact of receiving a Retail Discount for each of their stores may exceed the de Minimis threshold. In these circumstances these businesses will need to decline the offer of rate relief. Appropriate explanations and forms will accompany the bills sent to premises to allow businesses to decline the relief if they assess they might transgress the State Aid rules.
- 4.3 Whilst the UK left the EU on 31 January 2020, the Withdrawal Agreement negotiated by the Government and the EU provides that during an implementation period State aid rules will continue to apply as now and will be subject to control by the EU Commission as at present. State aid rules will therefore apply to this relief during the implementation period , including the De Minimis rules.

5. Scheme Review

- 5.1 The discount scheme will be reviewed annually or in line with any changes made by Government in order to ensure that eligibility remains within Government guidance and relevant legislation.

¹ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:352:0001:0008:EN:PDF>

6. Data Protection

- 6.1 Details of our data privacy policy can be found at www.hyndburnbc.gov.uk/privacy-notice

7. Equality and Diversity

- 7.1 The Council remains committed to its obligations under the Public Sector Equality Duty and a 'Customer First Analysis' has been provided with this scheme.

8. Appeals and complaints

- 8.1 As a discretionary power, appeals against decisions made under this Discount Scheme are by way of judicial review and all complaints made directly to the authority will be handled in line with the Council's complaints policy available at www.hyndburnbc.gov.uk/complaints



Non Domestic Rates Pubs Discount Scheme

February 2020

1. Introduction

- 1.1 In a Written Ministerial Statement on 27th January 2020, the Financial Secretary to the Treasury announced that eligible pubs with a rateable value of less than £100,000 may receive a discount on their business rates bill of up to £1,000 for 2020/21.
- 1.2 For 2020/21, the Pubs Discount is applied after mandatory reliefs and other discretionary reliefs funded by grants under section 31 of the Local Government Act 2003 have been applied including the Retail Discount for 2020/21 if applicable. Other locally applied discounts under section 47 of the Local Government Finance Act 1988 must be applied after the Pub Discount.
- 1.3 The Pub Discount will be provided to eligible ratepayers in their 2020/21 bills at the beginning of that year.
- 1.4 Pub Discount awards are made under section 47 of the Local Government Finance Act 1988 as amended.

2. Eligibility

- 2.1 There is no definitive description of a traditional pub or public house in law which could be readily used to determine eligibility and this policy adopts an approach that is consistent with the Government's policy intention as set out in its statement.
- 2.2 Eligible pubs should:
 - be open to the general public; and
 - allow free entry other than when occasional entertainment is provided; and
 - allow drinking without requiring food to be consumed; and
 - permit drinks to be purchased at a bar.
- 2.3 For these purposes, the following types of undertaking should be excluded:

- restaurants
- cafes
- nightclubs
- hotels
- snack bars
- guesthouses
- boarding houses
- sporting venues
- music venues
- festival sites
- theatres
- museums
- exhibition halls
- cinemas
- concert halls
- casinos

- 2.4 Where eligibility is unclear we will consider broader factors in our considerations – i.e., in meeting the stated intent of the policy that an undertaking demonstrates the characteristics that would lead it to be classified as a pub, for example being owned and operated by a brewery. Additionally, we may consider other methods of classification, such as the planning system and the use classes order to help us decide whether a property is a pub or not. However, permission for a particular use class will not necessarily mean that the property meets the definition of a pub.
- 2.5 Eligibility for the Pubs Discount Scheme is a test on use rather than occupation. Therefore, hereditaments which are unoccupied or which are occupied but not wholly or mainly used for the qualifying purposes will not qualify for this discount.
- 2.6 Hereditaments occupied for mixed use will be considered with qualification being determined by the main use of the property.
- 2.7 The relief will be applied on a daily basis. A new hereditament created as a result of a split or merger during the financial year, or where there is a change of use, will be considered afresh for relief on that day.

3. Amount and Duration of Relief

- 3.1 The total amount of government-funded discount available for each pub for 2020/21 under this scheme is £1,000, or the remaining bill after other reliefs and discounts have been applied if the remaining bill is less than £1,000. This discount is applied after mandatory reliefs and other discretionary reliefs funded by grants provided under section 31 of the Local Government Act 2003.
- 3.2 The Pubs Discount will be applied as a reduction to the overall business rates liability for 2020/21; no cash alternative is available.
- 3.3 There is no discount available under this scheme for pubs with a rateable value of £100,000 or more.
- 3.4 Any further reliefs awarded under the Council's discretionary powers under section 47 of the Local Government Finance Act 1988 and the Localism Act

2011 and not funded by the government will be applied after the Pubs Discount.

- 3.5 Any further reductions will be made at the discretion of Hyndburn Borough Council outside this scheme and in line with our National Non Domestic Rates Discretionary Rates Relief Scheme.
- 3.6 For 2020/21, the eligibility for the discount and the discount itself will be assessed and calculated on a daily basis in accordance with section 2 above.
- 3.7 Ratepayers who occupy more than one hereditament may be entitled to the Pubs Discount for each of their eligible hereditaments, subject to State Aid de minimis limits.

4. State Aid

- 4.1 State Aid law is the means by which the European Union regulates state funded support to businesses. Providing discretionary relief to ratepayers is likely to amount to State Aid. However the Pubs Discount Scheme will be State Aid compliant where it is provided in accordance with the De Minimis Regulations (1407/2013)²
- 4.2 The De Minimis Regulations allow an undertaking to receive up to €200,000 of De Minimis aid in a three year period (consisting of the current financial year and the two previous financial years). Small businesses are unlikely to be impacted by these rules, however larger or national chains face the potential that the cumulative impact of receiving a Pubs Discount for each of their pubs may exceed the de minimis threshold. In these circumstances these businesses will need to decline the offer of rate relief. Appropriate explanations and forms will accompany the bills sent to premises to allow businesses to decline the relief if they assess they might transgress the State Aid rules.
- 4.3 Whilst the UK left the EU on 31 January 2020, the Withdrawal Agreement negotiated by the Government and the EU provides that during an implementation period State aid rules will continue to apply as now and will be subject to control by the EU Commission as at present. State aid rules will therefore apply to this relief during the implementation period, including the De Minimis rules.

5. Data Protection

- 5.1 Details of our data privacy policy can be found at www.hyndburnbc.gov.uk/privacy-notice

6. Equality and Diversity

- 6.1 The Council remains committed to its obligations under the Public Sector Equality Duty and a 'Customer First Analysis' has been provided with this scheme.

² <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:352:0001:0008:EN:PDF>

7. Appeals and complaints

- 7.1 As a discretionary power, appeals against decisions made under this Discount Scheme are by way of judicial review and all complaints made directly to the authority will be handled in line with the Council's complaints policy available at www.hyndburnbc.gov.uk/complaints



Non Domestic Rates Retail Discount and Pub Discount Schemes Customer First Analysis

1. Purpose

- What are you trying to achieve with the policy / service / function?

This analysis covers the National Non Domestic Rates Discount Schemes announced by the Government in January 2020 for the financial year 2020/21; specifically the National Non Domestic Rates Retail Discount Scheme and the National Non Domestic Rates Pub Discount Scheme. The schemes provide guidance to local businesses which may be eligible to a discount on their business rates. The schemes are delivered locally by billing authorities.

- Who defines and manages it?

The discount schemes are based on eligibility guidance provided by the Ministry of Housing, Communities and Local Government in January 2020. Hyndburn's scheme is managed by the Benefits, Revenues and Customer Contact department under its remit to administer and collect business rates on behalf of the Council and preceptors.

- Who do you intend to benefit from it and how?

It is intended that eligible local businesses will benefit from the discount schemes and that in turn will generate benefit for the local high street, local residents and visitors to the area.

- What could prevent people from getting the most out of the policy / service / function?

The schemes are clear on eligibility and the Council will be applying both discounts proactively in order to prevent any business not applying through lack of awareness.

- How will you get your customers involved in the analysis and how will you tell people about it?

The schemes have both followed Government guidelines and as such customer involvement is not considered necessary at this stage. Customers will be informed via normal communication methods and the schemes will be available online as well as in hard copy.

2. Evidence

- How will you know if the policy delivers its intended outcome / benefits?]

Eligible businesses will benefit from a lower business rates bill which may support high street regeneration efforts.

- How satisfied are your customers and how do you know?

In relation to these schemes, it is not possible to say. The Council conducted a consultation in 2017 on National Non Domestic Rates Revaluation Relief which was designed along similar eligibility criteria to the Retail Discount Scheme. Overall, there was support for small and medium sized businesses which are broadly the intended recipients of both discount schemes.

- What existing data do you have on the people that use the service and the wider population?

We hold relevant data on our Business Rates customers which allows us to identify eligible businesses and make awards.

- What other information would it be useful to have? How could you get this?

None at this stage.

- Are you breaking down data by equality groups where relevant (such as by gender, age, disability, ethnicity, sexual orientation, marital status, religion and belief, pregnancy and maternity)?

Not relevant to this scheme.

- Are you using partners, stakeholders, and councillors to get information and feedback?

Not relevant to this scheme.

3. Impact

- Are some people benefiting more – or less - than others? If so, why might this be?

Each scheme outlines eligibility criteria and as such the discounts are limited to certain businesses only. It is the intention of the scheme, published in guidance by Government that specific undertakings should be included and that larger pubs, retail units and all industrial premises be excluded.

4. Actions

- If the evidence suggests that the policy / service / function benefits a particular group – or disadvantages another - is there a justifiable reason for this and if so, what is it?

It is considered that smaller high street retailers and pubs are in greater need of these discounts than larger retailers and industrial businesses.

- Is it discriminatory in any way?

No – the only defining criteria is the size of the hereditament and the type of business, none of which are based on any protected characteristics of the businesses or the customers.

- Is there a possible impact in relationships or perceptions between different parts of the community?

The discount is available to a broad range of businesses throughout Hyndburn.

- What measures can you put in place to reduce disadvantages?

n/a

- Do you need to consult further?

Not at this stage.

- Have you identified any potential improvements to customer service?

The discounts will be administered proactively with an opt-out declaration for those who may not be eligible or who wish to refuse the discounts. It is intended that this will provide immediate financial support to eligible businesses, eliminate any application delays and provide the discounts to ratepayers who may be ignorant of the schemes and would therefore miss out by not applying.

- Who should you tell about the outcomes of this analysis?

This analysis forms part of the submission of the discount scheme to Council.

- Have you built the actions into your Business Plan with a clear timescale?

n/a

- When will this assessment need to be repeated?

With any major changes to the scheme in the future.

Name: Rachael Walker Signed: _____

Appendix 3

Service Area: __Benefits, Revenues and Customer Contact _
Dated: __February 2020

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Agenda Item 6.

REPORT TO:		CABINET	
DATE:		12 FEBRUARY 2020	
PORTFOLIO:		Cllr Joyce Plummer - Resources	
REPORT AUTHOR:		David Donlan – Head of Accountancy Services Amanda Martin – Principal Accountant	
TITLE OF REPORT:		PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT & INVESTMENT STRATEGY 2020/21 – 2022/23 MINIMUM REVENUE PROVISION POLICY STATEMENT 2020/21. TREASURY MANAGEMENT POLICY STATEMENT 2020/21. TREASURY MANAGEMENT PRACTICES 2020/21 CAPITAL STRATEGY 2020/21	
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 2020/21.

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 2020/21 – Appendix 1
- (v) approve the Treasury Management Policy Statement 2020/21 – Appendix 2
- (vi) approve the Treasury Management Practices Statement 2020/21 – Appendix 3
- (vii) approve the Capital Strategy 2020/21 – Appendix 4

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 (2017) 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

	2018/19 Actual £000	2019/20 Revised Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000
General Fund	5,663	5,493	3,405	975	970

The programme in 2020/21 and beyond is reducing due to the reduction in external funding and capital receipts which are available.

- 5.3 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.
- 5.4 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.
- 5.5 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.
- 5.6 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.
- 5.7 A key risk for these indicators is that the level of government support and other funding sources may change.
- 5.8 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.

	2018/19 Actual £000	2019/20 Revised Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000
Capital Financing Requirement					
CFR – General Fund	9,447	8,971	8,853	8,530	8,082
External Debt					
Borrowing	9,595	9,595	9,595	9,595	9,595
Other Long Term Liabilities	201	95	332	350	229
Total Debt 31 st March	9,796	9,690	9,927	9,945	9,824

Borrowing outstanding as at year-end 2018/19 and 2019/20 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 2019/20, the Council's Budget has provided for MRP to be calculated on the regulatory basis (option 1). This will continue for 2020/21 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

	2018/19 Actual £000	2019/20 Revised Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000
General Fund	4%	4%	4%	4%	4%

8 TREASURY MANAGEMENT STRATEGY 2020/21 – 2022/23

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

	2018/19 Actual £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000
External Debt Debt at 1 st April Other long-term liabilities	9,595 201	9,595 95	9,595 332	9,595 350	9,595 229
Actual Gross Debt at 31 st March	9,796	9,690	9,927	9,945	9,824
The Capital Financing Requirement	9,447	8,971	8,853	8,530	8,082
Under / (Over) Borrowing	(349)	(719)	(1,074)	(1,415)	(1,742)

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. However in 2018/19 and future years 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 2020	Qtr 2 2020	Qtr 3 2020	Qtr 4 2020	Qtr 1 2021	Qtr 2 2021	Qtr 3 2021	Qtr 4 2021	Qtr 1 2022	Qtr 2 2022	Qtr 3 2022
Base Rate	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%
5 yr PWLB	2.40%	2.40%	2.50%	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
10 yr PWLB	2.70%	2.70%	2.7%	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%
25 yr PWLB	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%
50 yr PLWB	3.20%	3.30%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%	3.80%	3.90%	3.90%

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

8.5 **Borrowing and Debt Strategy 2020/21 – 2022/23**

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 Borrowing interest rates have been volatile so far in 2019/20 and have increased modestly since the summer with the exception of Public Works Loan Board (PWLB) who increased their rates by 1%. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when the authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

8.5.3 The borrowing strategy for 2020/21 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.

8.5.4 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.

	2019/20 Revised Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 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

	2018/19 Actual £000	2019/20 Probable outturn £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000
Actual external Debt	9,796	9,690	9,927	9,945	9,824
Cash balances	23,017	19,752	5,351	50	50
Net Debt	(13,221)	(10,062)	4,576	9,895	9,774

10.1 The Council currently has a difference between gross debt and net debt (after deducting cash balances) of £10.062m.

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 2020/21 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 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.
- 11.2 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

	2019/20 Upper	2020/21 Upper	2021/22 Upper
Limits on fixed interest rates	100%	100%	100%
Limits on variable interest rates	100%	100%	100%
Maximum principal sums invested for over 365 days	£3m	£3m	£3m

- 11.3 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 MHCLG revised guidance on Local Government Investments; and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance notes revised in 2017. 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 Council's 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 MHCLG 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 \(CIPFA 2017\)](#)
- CIPFA Code of Practice on Treasury Management in Public Services (revised 2017)
- The Council's [Policy Statement on Treasury Management](#) (Full Council February 2019)
- The Council's [Policy on Treasury Management Practices](#) (Full Council February 2019)
- 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 2020/21

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 2020/21

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 2020/21**

Treasury Management Practices

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		Paragraph
TMP 1	Treasury risk management	1.1 – 1.8.1
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TMP 3	Decision–making and analysis	3.1 – 3.1.3.3
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 Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds 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
- U.S.A.

Treasury Management Practices

AA

- Abu Dhabi (UAE)
- France
- Hong Kong
- 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	6months (max is set by the DMO)
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 15% on any amount over the Net limit.
- 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 2020/21 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 2020/21 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 2020/21 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 2020/21 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 365 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.

In addition the Deputy Chief Executive will draw up a capital strategy report which will give a longer term view.

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.

Treasury Management Practices

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

Treasury Management Practices

- 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

- 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
- CIPFA's Treasury Management Codes of Practice and Guidance Notes 2017.
- CIPFA Prudential Code for Capital Finance in Local Authorities revised 2017.
- CIPFA Prudential Code for Capital Finance in Local Authorities – guidance notes for practitioners 2013.
- MHCLG Revised Guidance on Investments Feb 2017.
- MHCLG guidance on minimum revenue provision – Feb 2017.
- LAAP Bulletins
- IFRS - Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of recommended Practice

Treasury Management Practices

- PWLB circulars on Lending Policy
- The UK Money Markets Guide (was formerly known as the Non Investment Products Code (NIPS) - (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.
- Financial Conduct Authority's Code of Market Conduct
- The Council's Standing Orders relating to Contracts
- The Council's Financial Regulations
- The Council's Scheme of Delegated Functions

Treasury Management Practices

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 .

This insurance is currently up for tender and a new insurer may be in place from 1st April. The level of cover will not change.

Officials Indemnity Insurance

The Council also has an 'Officials Indemnity' insurance policy with Protector 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.

This insurance is currently up for tender and a new insurer may be in place from 1st April. The level of cover will not change.

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	Blue Orange Red Green No Colour	£2m	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	Blue Orange Red Green No Colour	£3m	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	Blue Orange Red Green No Colour	£2m	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 CNAV	Minimum AAA	£2m	Up to 1 year
Money Market Funds LVNAV	Minimum AAA	£2m	Up to 1 year
Money Market Funds VNAV	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 may 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 2020)

4.2.1 Implementation of MIFID II Requirements

Since 3 January 2018, UK public sector bodies have been defaulted to “retail” status under the requirements of MiFID II. However, for each counterparty it is looking to transact with, (e.g. financial institution, fund management operator, broker), there remains the option to opt up to “professional” status, subject to meeting certain requirements specified by MIFID II and that it has the appropriate level of knowledge and experience and decision making processes in place in order to use regulated investment products.

MIFID II does not cover term deposits so local authorities should not be required to opt up to professional status. However, some non-UK banks do not have the necessary regulatory permissions to deal with retail clients, so opting up to professional status would be required.

For investing in negotiable investment instruments, (e.g. certificates of deposit, gilts, corporate bonds), money market funds and other types of investment funds, which are covered by MIFID II, a schedule is maintained of all counterparties that the treasury management team are authorised to place investments with. This specifies for each investment instrument and for each counterparty, whether the authority has been opted up to professional status. (N.B. some money markets funds will deal with both retail and professional clients.)

A file is maintained for all permissions applied for and received for opt ups to professional status specifying name of the institution, instrument, date applied for and date received.

4.3 Approved Techniques

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

Treasury Management Practices

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 authorities	●	●
Local temporary	●	●
Local Bonds	●	
Overdraft		●
Internal (capital receipts & revenue balances)	●	●
Leasing (not operating leases)	●	●
Deferred Purchase	●	●

Other Methods of Financing

Government and EC Capital Grants

Lottery monies

Operating leases

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

4.5 Investment Limits

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

4.6 Borrowing Limits

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

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.
- approval of capital 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.

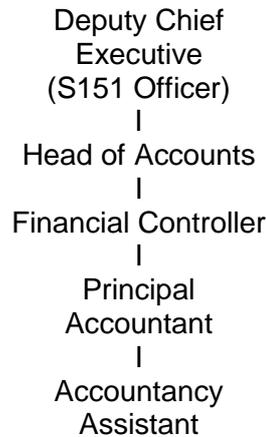
5.2 Principles and Practices Concerning Segregation of Duties

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 UK Money Markets Code (formerly known as the Non Investment Products Code) 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
 - c. Capital Strategy to cover the following:
 - I. Give a longer term view of the capital programme and treasury management implications thereof beyond the three year time horizon for detailed planning.
 - II. An overview of treasury and non-treasury investments to highlight the risks and returns involved in each and the balance (proportionality), between both types of investments.
 - III. The authorities risk appetite and specific policies and arrangements for non-treasury investments.
 - IV. Schedule of non-treasury investments
- 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

Treasury Management Practices

4. The Treasury Management Strategy Statement will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable), and highlight sensitivities to different scenarios.

6.3 The Annual Investment Strategy Statement

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

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

6.4 The Annual Minimum Revenue Provision Statement

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

6.5 Policy on Prudential and Treasury Indicators

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

6.6 Mid year review

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

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

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 2012, 2015 and 2017

Organisations pursuing relevant business (especially those in the financial services industry regulated by the FCA) are required to do the following:

- identify and assess the risks of money laundering and terrorist financing
- have policies, controls and procedures to mitigate and manage effectively the risks of money laundering and terrorist financing identified through the risk assessments
- appoint a nominated officer
- implement internal reporting procedures
- train relevant staff in the subject
- obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken
- report their suspicions

Treasury Management Practices

9.4 Local authorities

Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and subsequent Terrorism Acts 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 2002, 2015 and 2017. However, as responsible public bodies, they should employ policies and procedures which reflect the essence of the UK's anti-terrorist financing, and anti-money laundering, regimes. Accordingly this Council will do the following: -

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

9.5 Procedures for Establishing Identity / Authenticity Of Lenders

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

The Council does not accept loans from individuals.

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

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

9.6 Methodologies for Identifying Deposit Takers

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

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

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 :- 0345 835 1215
Contract commenced 13/6/1975 and is reviewed annually.
- d) Cost of service is variable depending on schedule of tariffs and volumes
- e) 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 £8,100 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
- Year Capital Plan
- Capital Strategy
- Medium Term Financial Plan

Minutes of Council / Cabinet / committee meetings

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Hyndburn Borough Council

Capital Strategy 2020/21

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1 Overview

The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to produce a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with service objectives and take account of stewardship, value for money, prudence, sustainability and affordability.

The Capital Strategy is a key document for the Council and forms part of the authority's integrated revenue, capital and balance sheet planning. It provides a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services. It also provides an overview of how associated risk is managed and the implications for future financial sustainability. It includes an overview of the governance processes for approval and monitoring of capital expenditure.

2 Scope

This Capital Strategy includes all capital expenditure and capital investment decisions, not only as an individual local authority but also those entered into under group arrangements. It sets out the long term context in which decisions are made with reference to the life of the projects/assets.

The Capital Strategy :

- States the council's processes for:
 - project initiation
 - deciding on the prioritisation of capital projects
 - monitoring and evaluating schemes
- Takes account of significant revenue implications
- Provides a framework for the management and monitoring of the capital programme
- Identifies funding and provides a basis to inform bidding for additional capital resources (eg from the National Lottery, government initiatives)
- Apprises the corporate review of existing properties

The Capital Strategy considers all aspects of the Council's capital expenditure and extends to areas where the Council is able to influence others through the use of its capital resources. It forms part of the Council's integrated revenue, capital and balance sheet planning.

3 Capital Expenditure

Capital expenditure is incurred on the acquisition or creation of assets, or expenditure that enhances or adds to the life or value of an existing fixed asset that is needed to provide services. Fixed assets are tangible or intangible assets that yield benefits to the Council generally for a period of more than one year, e.g. land, buildings, roads, vehicles. This is in contrast to revenue expenditure which is spending on the day to day running costs of services such as employee costs and supplies and services.

The capital programme is the authority's plan of capital works for future years, including details on the funding of the schemes. Included are the projects such as the purchase of land and buildings, the construction of new buildings, design fees and the acquisition of vehicles and major items of equipment. Also included could be service and commercial investments.

4 Capital vs. Treasury Management Investments

Treasury Management investment activity covers those investments which arise from the organisation's cash flows and debt management activity, and ultimately represent balances which need to be invested until the cash is required for use in the course of business.

For Treasury Management investments the security and liquidity of funds are placed ahead of the investment return. The management of associated risk is set out in the Treasury Management Policy and the Annual Investment Strategy.

The CIPFA Treasury Management Code recognises that organisations may make investments for policy reasons outside of normal treasury management activity. These may include service and commercial investments.

5 Service and Commercial Investments

These are investments for policy reasons outside of normal treasury management activity. This may include:

Service investments

These are investments held clearly and explicitly in the course of the provision, and for the purposes, of operational services, including regeneration.

Commercial investments

These are investments taken for mainly financial reasons. These may include:

- investments arising as part of business structures, such as shares and loans in subsidiaries or other outsourcing structures such as IT providers or building services providers;
- investments explicitly taken with the aim of making a financial surplus for the Council.

Commercial investments also include fixed assets which are held primarily for financial benefit, such as investment properties.

Due to the nature of the assets or for valid service reasons, such investments do not always give priority to security and liquidity over yield. In these cases, such a decision will be explicit, with the additional risks set out and the impact on financial sustainability identified and reported.

The Deputy Chief Executive will ensure that the Council has the appropriate legal powers to undertake such investments.

6 Council Objectives

The Council has agreed a number of corporate aims, priorities and objectives which guide its work. These are set out in the Corporate Plan and Medium Term Financial Strategy (MTFS). Capital investment projects must be in line with these overall objectives as well as individual service aims and objectives. The following processes are designed to ensure this happens.

7 The Capital Budget Setting Process

7.1 Identifying the need for Capital Expenditure

The need for a capital scheme is identified by a Service Manager and a bid is submitted to the Autumn Capital Programme Working Group.

Capital projects are subject to robust justification process, bringing together a clear business case with sufficient detailed costings to ensure transparent decisions can be taken.

Proposals are reviewed in terms of validation arrangements and estimated figures.

To ensure project delivery is achievable project management arrangements are undertaken with ownership and responsibility of projects sitting in the initiating department.

The capital bids are discussed and prioritised at Capital Programme Working Group. This report is then considered by Corporate Management Team. The recommendations are given to members for their discussion and input. The final report is then submitted to Cabinet and then Full Council.

7.2 Criteria used to decide which schemes are recommended.

Capital projects will be assessed for:

- Strategic fit – corporate objectives are being met by the expenditure
- Identified need – eg vital repairs and maintenance of existing assets
- Achievability – this may include alternatives to direct expenditure by the Council such as partnerships with others, rent or buy options, alternative delivery vehicles
- The scheme is deliverable by the Council within its resources, skills and legal constraints
- Acceptable risk levels
- Reduces future capital or revenue spend
- Practicality and deliverability
- Revenue generation
- The scheme has a good gearing ratio
- Maintains or enhances service provision
- Provides value for money for the taxpayer
- Provides long term benefits
- Has a positive environmental and social impact.

Additionally, consideration should be given to:

Prudence:

- Recognition of the capacity in the organisation to deliver such a programme;
- The approach to treasury management and the management of risk as set out in the Treasury Management Strategy.

Affordability:

- Revenue impact of the proposals on the Medium Term Financial Plan;
- The borrowing position of the Council, projections of external debt and the use of internal borrowing to support capital expenditure;
- The authorised limit and operational boundary for the following year;
- Whether schemes are profiled to the appropriate financial year.

Sustainability:

- Provision for the repayment of debt over the life of the underlying debt as set out in the Minimum Revenue Provision policy;
- An overview of asset management planning including maintenance requirements and planned disposals.

All bids are produced in line with the appropriate timetable with consideration for the financial information contained within the bid.

Portfolio Holders must be briefed and understand the service need and the budget consequences, both revenue and capital, of completing the scheme.

Possible sources of funding can then be considered for each of the proposed capital schemes. Each project will be considered in terms of revenue funding to cover the operational running costs of the asset and any borrowing repayment costs, and also how the asset will be funded in terms of capital expenditure.

The proportionality of the proposals as a whole will then be considered in respect of overall resources and longer term sustainability and risk. The Deputy Chief Executive will take an overall view on the prudence, affordability and sustainability of the overall borrowing level if all bids are accepted.

Once the Deputy Chief Executive has taken a view of the prudence of the overall borrowing level, the Corporate Management Team will then consider the bids from a corporate priority perspective.

7.3 Member Approval Process

In autumn, the Deputy Chief Executive will present the agreed list of key capital projects to the Corporate Management Team. At this stage funding details are sometimes unavailable, as Government funding allocations are announced later in the year. The presentations inform Members of the key projects to be completed over the next year.

Where appropriate schemes will be reported to Members based on the schemes being subject to external funding approval.

These overall capital programme totals are then reported to Cabinet Members as part of the annual budget process, who then make recommendations on the overall capital programme.

The Cabinet receives the Capital Programme in February each year and makes their recommendations to full Council.

Members approve the overall borrowing levels at the budget meeting in February each year as part of the Treasury Management Report. The taking of loans then becomes an operational decision for the Deputy Chief Executive who will decide on the basis of the level of reserves and money market position whether financing should be met internally from the Capital Reserve/Capital Receipts or whether to enter into external borrowing.

Once the Council has approved the capital programme, then expenditure can be committed against these approved schemes subject to the normal contract procedure rules and the terms and conditions of funding. Before expenditure commences an "Approval to Spend" form is completed by officers and authorised. This confirms the

profile of expenditure and confirmation that any external grant allocation has been obtained.

Whether capital projects are funded from grant, contributions, capital allocations or borrowing, the revenue costs must be able to be met from existing revenue budgets or identified (and underwritten) savings or income streams.

8 Monitoring of the Capital Programme Expenditure

Once detailed capital programmes have been approved by members, the financial spend is monitored at Capital Programme Working Group on an alternate monthly basis.

The Council will assign a Project Manager to each project to oversee planning, delivery, management and governance of capital projects.

9 Multi-Year Schemes

Payments for capital schemes often occur over several years, depending on the size and complexity of the project. Therefore, estimated payment patterns are calculated for each project so that the expected capital expenditure per year is known. This is called a cash flow projection or budget profiling.

The approval of a rolling multi-year capital programme assists the Council in a number of ways. It assists service managers, allowing them to develop longer term capital plans for service delivery.

It allows greater flexibility in planning workloads and more certainty for preparation work for future schemes. It will also allow greater integration of the revenue budget and capital programme. It also matches the time requirement for scheme planning and implementation since capital schemes have a considerable initial development phase.

10 Funding Strategy and Capital Policies

This section sets out the policies of the Council in relation to funding capital expenditure and investment.

Proposals for capital projects must identify the funding requirements for the timescale of the project including any revenue implications. Funding must be appropriate for the project and will come from:

- Reserves
- Capital receipts – from the sale of assets or finance lease receipts
- Government grants – such as disabled facilities grant funding
- Third party grants and contributions
- Revenue contributions
- Other developer contributions

- External (prudential) borrowing

Any restrictions on borrowing or funding of ongoing capital finance will be assessed. Project appraisal will consider additional or alternative funding sources, match funding opportunities, bidding timeframes and the likely success of being awarded a grant. Other funding sources may include national lottery, government grant, heritage lottery fund etc.

10.1 External Funding

Services must seek to maximise external funding wherever possible to support capital schemes. This can be in the form of grants and contributions from outside bodies including central government. However, services must underwrite any cost overruns on externally funded schemes. If services bid for external funding for schemes and say at tender or during construction or procurement, costs exceed the available funding, then services must fund any shortfall from their existing resources (either revenue or capital).

In respect of match funding bids then the relevant service must fully identify the necessary match funding resources from within existing service budgets. If this is not possible then the appropriate service must raise this for consideration with the members of the Corporate Management Team and the relevant Portfolio Holder prior to submitting any bid for funding.

10.2 Capital Receipts

A capital receipt is an amount of money exceeding £10,000 which is received from the sale of an asset. They cannot be spent on revenue items.

The Deputy Chief Executive will review all of the Council's property annually. The general policy is that any capital receipts are then pooled and used to finance future capital expenditure and investment according to priorities, although they may be used to repay outstanding debt on assets financed from loans, as permitted by the regulations.

10.3 Revenue Funding

Services may use their revenue budgets to fund capital expenditure. The revenue reserve may also be used to finance capital expenditure as an alternative to external borrowing.

The Head of the Service and the Deputy Chief Executive will need to take an overview and decide the most appropriate way of funding their service areas.

10.4 Prudential/Unsupported Borrowing

Local Authorities can set their own borrowing levels based on their capital need and their ability to pay for the borrowing. The levels will be set by using the indicators and factors set out in the Prudential Code and set out in the Treasury Management Statement. The borrowing costs are not supported by the Government so services need to ensure they can fund the repayment costs. This borrowing may also be referred to as Prudential Borrowing.

Capital projects that cannot be funded from any other source can be funded from Prudential Borrowing. Services must be able to afford the borrowing repayment and interest charges on the loan from existing revenue budgets or the Council must see this as their key priority for the budget process and to be factored into the medium term financial strategy accordingly.

The Deputy Chief Executive will make an assessment of the overall prudence, affordability and sustainability of the total borrowing requested. The impact of this borrowing will be reported in the Treasury Management Strategy alongside the Prudential Indicators required by CIPFA's Prudential Code for Capital Finance.

The view of the Deputy Chief Executive will be fed into the corporate bidding process so that, should the borrowing levels be unaffordable or not prudent, then the schemes will be prioritised against the available funding from borrowing.

The Deputy Chief Executive will also determine whether the borrowing should be from internal resources such as the Revenue/Capital Reserve or whether to enter into external borrowing.

10.5 Leasing

The Deputy Chief Executive may enter into finance leasing agreements to fund capital expenditure on behalf of services. However, a full option appraisal and comparison of other funding sources must be made and the Deputy Chief Executive must be confident that leasing provides the best value for money method of funding the scheme.

Under the Prudential Code finance leasing agreements are counted against the overall borrowing levels when looking at the prudence of the authority's borrowing.

11 Procurement and Value for Money

Procurement is the purchase of goods and services, with a strategy being developed to assist with the definition of quality standards and securing provision of the best possible services for local people for a given price.

It is essential that all procurement activities comply with EU procurement directives and adhere to the relevant requirements stipulated in directives. Procurement must also

comply with the Councils policies and regulations such as Contract Procedural Rules and Financial Regulations.

The main aim is to hold 'value for money' as a key goal in all procurement activity to optimise the combination of cost and quality.

12 Partnerships and Relationships with other Organisations

Wherever possible and subject to the usual risk assessments services should look to expand the number of capital schemes which are completed on a partnership basis and continually look for areas where joint projects can be implemented.

13 Management Framework

The governance structure of the Council has the Corporate Management Team that takes a corporate and group view on the capital programme and investment.

14 Performance Management

Clear measurable outcomes should be developed for each capital scheme. After the scheme has been completed, services should check if outcomes have been achieved.

Post scheme evaluation reviews should look at the effectiveness of the whole project in terms of service delivery outcomes, design and construction, financing etc. and identify good practice and lessons to be learnt in delivering future projects.

15 Risk Management

Risk is the threat that an event or action will adversely affect the Council's ability to achieve its objectives and to execute its strategies successfully.

Risk management is the process of identifying risks, evaluating their potential consequences and determining the most effective methods of managing them and/or responding to them. It is both a means of minimising the costs and disruption to the organisation caused by undesired events and of ensuring that staff understand and appreciate the element of risk in all their activities.

The aim is to reduce the frequency of adverse risk events occurring (where possible), minimise the severity of their consequences if they do occur, or to consider whether risk can be transferred to other parties.

To manage risk effectively, the risks associated with each capital project need to be systematically identified, analysed, influenced and monitored.

It is important to identify the appetite for risk by each scheme and for the capital programme as a whole, especially when investing in capital assets held primarily for financial returns. Under the CIPFA Prudential Code these are defined as investments

and so the key principle of control of risk and optimising returns consistent with the level of risk applies.

The Deputy Chief Executive will report on the affordability and risk associated with the Capital Programme.

An assessment of risk should therefore be built into every capital project.

15.1 Credit Risk

This is the risk that the organisation with which we have invested capital monies becomes insolvent and cannot pay us our investment returns or complete the agreed contract.

15.2 Liquidity Risk

This is the risk that the timing of any cash inflows from a project will be delayed, for example if other organisations do not make their contributions when agreed. This is also the risk that the cash inflows will be less than expected, for example due to the effects of inflation, interest rates or exchange rates. Our exposure to this risk will be monitored via the revenue and capital budget monitoring processes.

15.3 Interest Rate Risk

This is the risk that interest rates will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Interest rates will be reviewed as part of the on-going monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

15.4 Inflation Risk

This is the risk that rates of inflation will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Rates of inflation will be reviewed as part of the on-going monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

15.5 Legal and Regulatory Risk

This is the risk that changes in laws or regulation make a capital project more expensive or time consuming to complete, make it no longer cost effective or make it illegal or not advisable to complete. Before entering into capital expenditure or making capital investments, the Council will understand the powers under which the investment is made.

15.6 Fraud, Error and Corruption

This is the risk that financial losses will occur due to errors or fraudulent or corrupt activities. Officers involved in any of the processes around capital expenditure or funding are required to follow the Council's policies and procedures. This is supported by the Employee Code of Conduct and detailed policies such as Anti-Fraud and Corruption, Anti Money Laundering, Whistle Blowing and Declaration of Interests.

16 Other Considerations

Capital Schemes must comply with legislation, such as the Disability Discrimination Act, and also Council policies, Contract Procedure Rules and Financial Regulations. Reference should also be made to other strategies and plans of the Council.

Important Linking Documents for reference are:

- Corporate Plan;
- Corporate Asset Management Strategy;
- Individual Service Plans;
- Procurement Strategy;
- Financial Regulations;
- Contract Procedure Rules;
- Treasury Management Strategy;
- Minimum Revenue Provision Policy.
- Medium Term Financial Strategy

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REPORT TO : CABINET
DATE : 12th February 2020
REPORT OF : Councillor Joyce Plummer
Portfolio Holder Resources
PREPARED BY : Joe McIntyre
Deputy Chief Executive

MEDIUM TERM FINANCIAL STRATEGY

2020/21 TO 2022/23

February 2020 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 2020/21 Revenue and Capital Budgets.

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 2020/21 and determining the level of Council Tax for the new financial year. 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.

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

[Cabinet 13th November 2019](#)

Agenda Items Medium Term Financial Strategy

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 2020

Summary

1. The Medium Term Financial Forecast indicates that the Council needs to produce £116,000 of savings in 2020/21 to balance its budget, if it increases Council Tax by £5 for a Band D property, with little variance in 2020/21 expected within the different scenarios considered. However, the Council faces significantly larger savings challenges in 2021/22 of over £1m (9% of Budget) before returning to a neutral savings requirement for 2022/23.
2. Beyond 2020/21 the amount of uncertainty in the forecast position is high, because the Government is very likely to remove some or all of the £1.5m of Revenue Support Grant to the Council and reduce the amount it allows Hyndburn to retain from the Business Rates collected locally.
3. The extent of the reductions in funding is largely dependent on global and UK economic performance and due to the wide degree of potential outcomes that currently exist, it is not possible to make rigorous predictions. A range of possible occurrences has been considered from those in which the Council does well financially (Optimistic Scenario Appendix 3) and those in which the Council would experience deep reductions in its revenue and escalating costs in its expenditure placing the Council under severe financial strain (Pessimistic Scenario Appendix 2) have been considered.
4. In these circumstances it is prudent for the Council to look to increase its reserves and revenue streams such as Council Tax and Business Rates whenever it can and to avoid committing to any new revenue expenditure and continue its work to reduce internal costs.

INTRODUCTION

5. This document sets out, for the next three years,

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- 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 November 2019.

OBJECTIVES

6. 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,
- to provide an early signpost for the potential levels and timings required for savings

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

ELEMENTS OF THE MEDIUM TERM FINANCIAL STRATEGY

7. 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

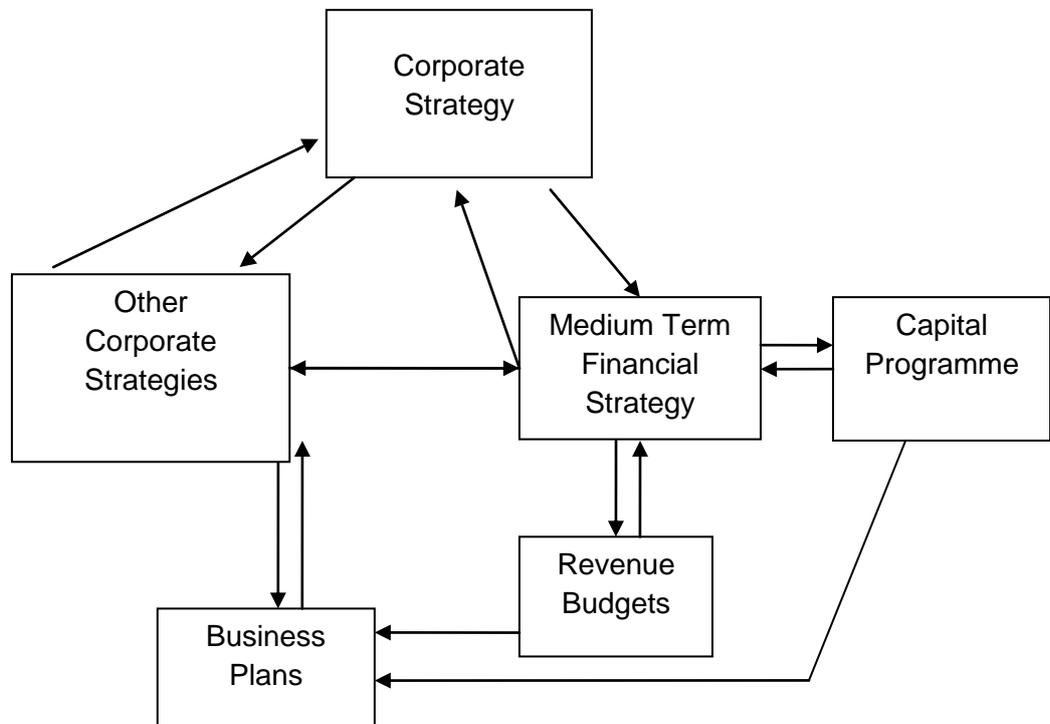
financial plan.

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.

8. Strategy Hierarchy:-



Service planning to support overall strategy

9. 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.
10. 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.

11. 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

12. 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

13. The MTFS covers the period from 2020/21 to 2022/23. 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 but

also contra indications of growing political and economic turbulence which could threaten another global financial crisis.

14. The financial recovery in both the US and the UK remains fragile and there remains a concern of a long period of stagnation before any meaningful real economic recovery is achieved and the potential for recession returning to the major Western economies is again growing. The uncertainty surrounding the UK economy has been further heightened by the Referendum vote to leave the EU and the subsequent political and economic consequences of abiding by the decision.
15. The new Government elected in December 2019 has moved quickly to announce the local government finance settlement for 2020/21. This announcement has removed the uncertainty that existed around funding for the financial year that commences in April 2020. The announcement was in line with indications given in Autumn 2019 by the previous Government that they would suspend their Fair Funding Review of local authority funding and roll forward grant levels awarded in 2019/20 into 2020/21. This has aided the Council's overall financial position for 2020/21 as £1.5m of Revenue Support Grant we expected to lose in 2020/21 will now be made available to the Council.
16. Beyond 2020/21 we still face a high degree of uncertainty over the level of our funding, as we await the outcome of the Government's Budget and Spending Review and their proposals around reshaping local government funding via their Fair Funding Review and the impact on RSG and Business Rates.
17. The Government's proposals in relation to funding for Hyndburn will be determined by its view of the overall global political and economic outlook and how this impacts the UK economy and public finances.
18. Global politics and the World Economy continue to look difficult to predict. Now 10 years on from the Worldwide Recession triggered by the Banking crisis in 2007 and 2008, economic recovery remains patchy

across the globe and there are many signs that we could again be entering a period of economic stagnation or recession.

19. Additionally, the world continues to face major political turmoil and uncertainties. Tensions in the Middle East continue with the ever present threat they could escalate into a major military conflict, with armed conflict in Syria, Iraq, Ukraine and Yemen all continuing. The USA and Iran seemingly drawing even further apart, escalating the risk of serious conflict between these two nations and their respective allies.
20. In the Far East, China and the USA appear to be locked into a trade dispute which will continue to impact on the world economy in unpredictable ways. While at the same time China is indicating a more aggressive expansionist policy towards the Pacific and its near neighbours and the potential for armed conflict here is also growing. Additionally the situation remains unresolved between North and South Korea and could deteriorate into military action quickly with the potential to escalate to include other countries. The recent outbreak of the Corona Virus could also impact across the Globe, either by forcing Chinese economic growth downwards as much of the country enters a period of quarantine or as the virus spreads into other countries, limiting economic activity due to the illness or simply the fear of people inter-mingling with each other and thereby not attending work.
21. In Europe, as well as the global situation impacting on its economies, the European Union is facing its own internal pressures around the sustainability of its own economies and finances with Germany and many other countries on the brink of a recession and the UK's departure from the European Union and uncertainty around the impact this will have on trading and political relationships. Greece in particular, but also Spain and Italy all have potential national economies that could fail if put under further economic pressure and Spain has the added complication of dealing with the separatist push from Catalonia, which could escalate into a problem with much wider European implications if the conflict escalates.

22. In Latin America, Argentina, Venezuela and Chile are all facing significant political and economic challenges and many other countries in the region are struggling with major challenges around maintaining a functioning government and economy. The whole region therefore has the potential to tip into economic decline which will impact the rest of the Globe including the UK.
23. In setting a national budget for the UK, the Government has to attempt to determine an economic outlook in the face of this uncertainty and risk as well as deal with its own pressures around Brexit, the economy, Health, Social Care and many other pressing matters.
24. Despite the various statements made during the recent 2019 General Election campaign it remains unclear at this time whether the new Government will continue to maintain tight fiscal control of public spending or loosen the purse strings to end the austerity it has imposed over the last 10 years.
25. It is also not certain that even if the Government did loosen the purse strings in relation to public finances whether local government and in particular districts councils such as Hyndburn would benefit. It is possible that any boost in spending in other parts of the economy or public services could be funded by further squeezing spend on local government or that any boost to local government, for instance to social care within local government is achieved by a redistribution within local government—away from district councils and directing money towards County and Unitary Councils. So, while there could be more spend in certain areas, Hyndburn may still actually see a reduction.
26. In line with previous Government announcements we expected that 2019/20 would be the last year that Hyndburn received Revenue Support Grant. The Government however announced a delay in its abolition in Autumn 2019 for at least 12 months. Therefore, the Medium Term Financial Strategy now shows no further funding of this type after 2020/21 rather than 2019/20 as previously shown. It is therefore anticipated the Council will lose the final part of the original £7.1m

funding from Government it was receiving in 2010/11 with the expected removal of the £1.5m in funding after 2020/21 compared to after 2019/20, which was our previous assumed date for this funding ending.

27. What will happen to our other funding however remains unclear. Some of the uncertainty will start to disappear when the Chancellor sets out his first Budget statement on the 11th March 2020. We will then obtain a degree of insight into whether spending constraints will be eased and in which areas of public spending or geographical locations.
28. Real clarity will however only emerge once the detail of the Fair Funding Review is known. Previous 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 no direct grants left for them to remove. Fair Funding has however redefined the potential range of outcomes in terms of our future funding levels. This new 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.
29. The timing of the implementation of the review could also be critical to the Council's finances over the next few years. Currently the system allows Council's the benefit of economic growth between periods of reset¹. If the new system of funding is introduced ahead of any substantial growth in business rates the Council could benefit greatly from this uplift in subsequent years. However, if the growth takes place before the new funding methodology is adopted, the Council is likely to lose out on most of this growth going forward.

¹ The reset is a tool used by Government to determine the baseline of business rates revenue for a given period. Once determined any growth in business rates over the forthcoming period substantially goes to the local council. The reset which occurs every number of years, effectively wipes out some or all of the previous growth figures and sets a new baseline.

30. Until the Government provides local councils with this information on how much it will receive and how the funds will be distributed, Hyndburn and all other local authorities are forced to rely on estimates of future revenue streams which may be wide of the mark. Currently there is a wide divergence amongst commenters on the potential outcomes. These range from the very optimistic, heralding a new wave of public expenditure directed at the North, to the more austere, pointing to the limits of public finances currently, the threat to the economy from exiting the European Union and the political and economic turbulence across the Globe.
31. Additionally, whatever course the Government might wish to pursue may be blown off course significantly if any one of the listed risks crystallises or other new shockwaves cause significant disturbance to the Global Economy or Britain's overall financial position.
32. The Medium Term Financial Strategy assumes that the Council is able to deliver its 2019/20 Budget as planned. The Cabinet has requested that the Corporate Management Team continue to look to improve the position during 2019/20 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 2019/20. The General Fund Balance stands at £2.1m at the end of March 2019. 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 growth is downward,
 - the need to incur upfront costs to secure long term savings,

- the potential economic instability stemming from Brexit

the level of Reserves at £2.1m can be viewed as just above the minimum level of provision in the much more volatile financial climate which we now face.

33. The format of the Medium Term Financial Strategy considers the current estimated resources available for 2020/21 and builds upon anticipated changes to income and costs over the following 3 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 2020, immediately ahead of the Council commencing the process of setting its Budget for 2021/22.
34. Despite the difficulties over the last 8 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 £2.1m and we have generated significant savings in each of the last 13 financial years and expect to manage our finances during 2019/20 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 2020/21 to 2022/23

35. 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

36. 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.

37. These changes since their implementing have significantly reduced the core funding of the Council. 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.

38. These changes effectively signalled 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.
39. The Government has said it will introduce a new system of local government finance and this will further add to the complexity of forecasting our overall financial position. As yet there are no indications of how the new system will work or how the amount of funding the Council receives will change. The proposals were due to be announced in Autumn 2019 and implemented for the start of 2020/21 financial year. However, in September 2019 the Government announced it was abandoning its planned Three Year Spending Review and as a consequence the proposed reforms to Local Government Finance were shelved for at least 12 months and the Government announced that existing funding would continue for the 2020/21 financial year.

Government Grant

40. The Council has been one of the hardest hit by Government from reductions in financial support since 2010/11. The cuts in the early part of the decade were substantially accelerated in 2016/17 with a number of further adjustments the Government introduced to the funding model to distribute financial support to local councils. The impact of these changes in recent years is described below, before a summary of the overall impact since 2010/11 is given.
41. The Local Government Settlement for 2016/17 further 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 16% level of reduction was rolled into the 2017/18 and 2018/19 settlement as a baseline, ahead of further reductions being made.

42. On the Revenue side of our Budget alone the total reduction in funding between 2015/16 and 2019/20 was £2.5m with a further £1.5m now expected to be removed at the commencement of the 2021/22 financial year. This is shown in Table 1 below.

Overall Change	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Variance	Percentage Change
HBC Revenue								
Revenue Support Grant	£ 2,312,430	£ 3,159,264	£ 2,446,543	£ 1,998,484	£ 1,498,991	£ 1,524,991	-£ 787,439	
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	£ 274,531	£ 250,000	-£ 355,143	
Homelessness Prevention	£ 35,339	£ 35,423	£ 35,483	£ 35,540	£ 35,750	£ 35,009	-£ 330	
HBC Government Support Revenue Total	£ 4,303,244	£ 3,581,645	£ 2,833,886	£ 2,346,225	£ 1,809,272	£ 1,810,000	-£ 2,493,244	57.94%
							£ -	
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	£ 220,495	£ 95,000	-£ 356,787	
New Homes Bonus Additional Grant	£ 10,564						-£ 10,564	
HBC Government Support Capital Total	£ 845,771	£ 639,204	£ 546,634	£ 321,587	£ 220,495	£ 95,000	-£ 750,771	88.77%
							£ -	
HBC Total Government Support Change	£ 5,149,015	£ 4,220,849	£ 3,380,520	£ 2,667,812	£ 2,029,767	£ 1,905,000	-£ 3,244,015	63.00%

43. The overall loss in Government funding over the period is however greater as our previous practice did not 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 Programme.²

² 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.

44. Funding of the money we used to finance Capital Spend is down £750,000 or 89%. 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 £3.25m of resources from the Government between 2015/16 and 2020/21, which is almost 63% of the funds the Government had previously made available.
45. The latest local government financial settlement figures indicate Revenue Support Grant to the Council will be increased by inflation for 2020/21 to £1,560,000, before it is expected to be completely removed in 2021/22. Table 2 below shows the Council will have lost £3.16m of Government Grant between 2016/17 and 2021/22.

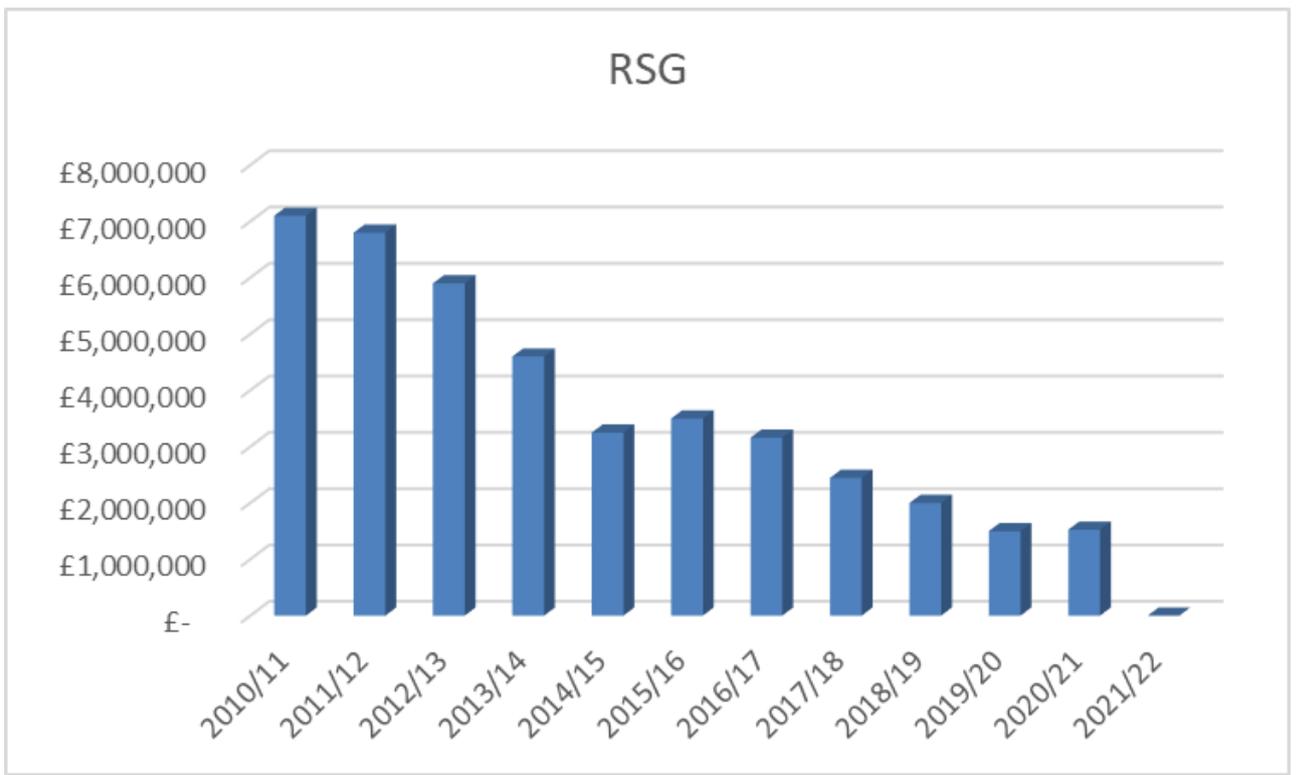
Table 2 Change in Revenue Support Grant 2016/17 to 2021/22

Table 2 Change in Government Funding 2016/17 to 2020/21					
Year	Revenue Support Grant	Change	Percentage Change	Cumulative Change	Culumatic Percentage Change
2016/17	£ 3,159,264.00				
2017/18	£ 2,446,543.00	£ 712,721.00	23%	£ 712,721.00	22.56%
2018/19	£ 1,998,484.00	£ 448,059.00	18%	£ 1,160,780.00	36.74%
2019/20	£ 1,498,991.00	£ 499,493.00	25%	£ 1,660,273.00	52.55%
2020/21	£ 1,524,991.00	-£ 26,000.00	-2%	£ 1,634,273.00	51.73%
2021/22	£ -	£ 1,524,991.00	100%	£ 3,159,264.00	100.00%

46. These reductions from Government has been significant since 2016/17 at £713,000 in 2017/18 and £448,000 in 2018/19, with a drop of £500,000 in 2019/20, a respite in 2020/21, before a final drop in 2021/22. The final expected loss in 2021/22 is almost equal to the full value of all the 4 years prior reductions.

47. 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 2021/22.

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



48. For the purposes of the MTFs the ending of Government Funding at the end of 2020/21 remains the most significant financial change over the next 3 years, but the potential losses from changes under the Fair Funding Review also have the potential to impact at least as dramatically.

Business Rates

49. In addition to the substantial alterations to local government funding created by the withdrawal of Revenue Support Grant, the Government introduced major 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”.

50. The new system from April 2013 attempts to allow Councils to retain the business rates raised locally. However, the implementation of the new system was significantly altered from 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.
51. As a consequence, Hyndburn which raises around £20m in Business Rates each year is only allowed to retain about £4.2m (21%) from this source of funding.³
52. The Government has 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

³ This figure is on a like for like basis with previous years and ignores the impact of the adjustment to Business Rates for Revenue Support Grant as a consequence of Pooling.

various difficulties in devising and introducing such a scheme emerged. Hyndburn participated in a Pilot Scheme in 2019/20 to increase the amount distributed locally from 50% to 75%. However, the Government announced in late 2019 that the Pilot's would not be renewed for 2020/21 and Pools would revert back to a 50% share of growth and progress on moving forward on local government retaining more of the money raised locally would be delayed at least 12 months.

53. The forecast level of business rates in the future will depend on two major factors. How much the Government determines a Council should receive as a baseline from business rates and how much additional income is achieved and retained.
54. After the June 2017 General Election, Theresa May's Government concentrated more of its announcements around a Fair Funding Review of Local Government Finance that it intended to have implemented for the 2020/21 financial year. The new Government of Boris Johnson however announced in Autumn 2019 that this review would be delayed by at least 12 months. These changes are expected to redistribute funds away from District Councils.
55. 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 further or abandoned altogether as it is to be implemented by the revised date of 2021/22.
56. This therefore creates significant uncertainty for the Council around its Medium Term Financial Strategy in its second year of 2021/22. From statements already made by the Government the Council already faced the strong prospect that it would lose all of its remaining Revenue Support Grant in 2020/21, which has now been delayed until 2021/22 at the earliest and it now faces the additional risk that another of its sources

of income could be threatened if the Fair Funding Review redistributes existing resources in a different manner to that done currently.

57. There is no clear basis on which to currently estimate the level of change the Council will face from the Fair Funding Review. There were mixed signals from the Government during 2018 and 2019 over the purpose, extent and degree of radicalism of the potential changes under the Fair Funding Review. The only consistent message was that no additional funds would be made available to local government and the Review would be a redistribution of existing resources between councils and not an injection of new funding. In the latter part of 2018 and the early half of 2019, the Government was clearly under further mounting pressure to address the underfunding of adult and children's social care amongst County Councils. Given the scale of the gaps forecast by County Councils in this area, this would require a major reduction in funding to District Councils to make a partial dent in the situation faced by County Councils, with the magnitude of any such change highlighted as potentially pushing many District Councils into severe financial difficulties. Since Boris Johnson became Prime Minister and the December 2019 General Election, the ability to predict what will occur has further been complicated, with widespread election promises around additional public spending and a change in emphasis away from austerity towards investment and growth.
58. For forecasting purposes, we have therefore assumed that the Fair Funding Review will reduce the Baseline amount (£3.6m) of Business Rates Hyndburn can retain automatically by 4% in its Standard Model, which is £150,000 a year. The Pessimistic Model assumes the reduction is doubled to 8% and costs the Council £300,000 in lost Business Rates income, while the Optimistic Model assumes the reduction is only 2% and the Council therefore only loses £75,000 of Business Rates Revenue. The model also assumes that the other key aspects around sharing growth above Baseline remain in their current format. However, at this

stage, there is no way of assessing what the actual change will be and it is likely we will only see the actual figures late in the year before setting the 2021/22 Budget. The assumptions used are therefore more illustrative than scientific at this stage and while we will need to plan on the basis of the Standard Model until we receive real information, we will also need to develop financial flexibility to be able to respond to the potential major swings in funding that could occur either way.

59. Offsetting the potential reduction in business rates from the changes caused by the redistribution in funding between councils as a result of the Fair Funding Review, the Council should benefit from growth in the local tax base which is likely in most scenarios to compensate for any loss through the new redistribution of funds.
60. 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 up to 100% of the growth locally, though at this stage very few councils have been granted the opportunity to retain 100% of business rate growth.⁴ If this practice of allowing councils to benefit from business rate growth continues after the Fair Funding Review, the Council could benefit substantially from increased business rate income in 2020/21 and particularly in 2021/22 and beyond due to the expansion of investment in the local area.
61. 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. A local Council that was experiencing local business premises closing or moving away from their local area would suffer declines in revenues. As well as closures, local councils are also facing the financial consequences of

⁴ 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.

large-scale business rating appeals, where 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 but also the need to compensate businesses for previous “over charged” years reducing further the sums that can be deployed to finance local public services.

62. The current estimate for 2020/21 of Business Rates income for the Council is £4,283,000. This is up from £4,083,000 in 2019/20 with approximately 40% of the increase attributable to inflation and the remaining 60% due to business expansion.
63. 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 only a small amount of practical benefit from the additional investment that is currently taking place.
64. 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 growth of around £650,000 in Business Rates income to the Council in 2021/22 offset by the expected reduction of 4% from the Fair Funding Review giving a net position of £500,000 of growth for that year, plus an extra £85,000 for 2% inflation. This is followed in the next year by a further £250,000 of growth in 2022/23 along with a general inflation increase of 2% for a total increase of almost £350,000. The speed 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.

65. While for financial forecasting purposes it is assumed that Business Rate income to the Council will increase over the period between 2020/21 and 2022/23, 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.
66. 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.
67. As indicated earlier in the report the Standard Model assumption is net growth of £585,000 in 2021/22 and £350,000 in 2022/23. In the Pessimistic Model we have assumed a greater reduction as a consequence of the Fair Funding Review of 8% reducing the Baseline position by £300,000 and that growth is limited to £500,000 producing a net gain of only £200,000 above the £85,000 coming from the inflation uplift on all properties and that no real growth occurs in 2022/23 with an uplift only for inflation once again of 2%. The Optimistic Scenario assumes strong growth in the tax base in 2021/22 with the 2% inflation increase supplemented by £825,000 of real growth and the negative impact of the Fair Funding Review being limited to just £75,000, with a further £125,000 of growth in 2022/23, plus the annual inflation increase.

Council Tax

68. With the significant decline of Government Grant from 2010/11, Council Tax became the largest single contribution to the Council's Revenue by

the middle of the decade. The Council is rightly proud of its record as a Council that thinks very carefully over increasing the burden on local people's spending power through tax increases and has over the last 20 years kept its average Council Tax increases below the rate of inflation. Hyndburn is only one of 7 councils to have this distinction and the only one north of Watford to do so. This is a remarkable achievement given that in Hyndburn's case it will have not been able to replace the lost income from below inflation rises from significant growth in housing numbers and Hyndburn will have effectively had to deliver more efficiencies instead, to maintain its Balanced Budget position.

69. Now faced with the loss of all of its funding from Government after 2020/21, the Council needs to look to increases in Council Tax to partly fill the gap. The Medium Term Forecast therefore assumes the Council will take advantage of the Government's major shift in policy on Council Tax increases. Previously the Government attempted to ensure Council Tax was not raised at all and provided additional funds to Councils who set 0% increases. Now the Government has signalled it expects Councils to raise Council Tax roughly in line with inflation each year and those Council who do not raise their Council Tax are effectively penalised as the Government in their calculations assume the rise has occurred whether or not it actually does happen. Not increasing Council Tax in line with the Government guidance therefore leaves the Council not only with less resources but further away from the target figure the Government expects them to spend.
70. The MTFs therefore assumes an overall growth of around £107,000 in 2020/21 compared to the previous year mainly coming from a £5 increase (2%) in the Band D charge. In each of the following years Council Tax Revenue is forecast to grow by 4.5% from a combination of an increase in the standard charge of £5.00, which is approximately 2% and expansion of the numbers of properties subject to the tax from housing developments.

71. It is not expected that Council Tax income will decline over the coming period, but the Pessimistic Scenario reflects no increase in the overall value of taxation raised from this source in any of the three years of the MTFs, with no net growth in housing numbers and the annual charge for a Band D property remaining at £245.52 which was set in 2019/20. Compared to the Standard Model, the Council loses over £100,000 of income in 2020/21 and is over £580,000 worse off by 2022/23 under these assumptions. The cumulative impact over the 3 years is in excess of £1m lost to the Council to support local services.
72. The Optimistic Scenario shows a more buoyant second and third year in terms of Council Tax income with £80,000 of extra income stemming from developments etc. in 2021/22 and a further increase from Council Tax of £136,000 in 2022/23. This would reflect above average growth in the local housing market and potentially the early dividends from the proposed development at Huncoat starting to impact on the Council's finances.
73. The Collection Fund Surplus is anticipated to be around £137,000 per year and the same figure is used for the Pessimistic Scenario. The Optimistic Scenario envisages a slightly stronger surplus in 2021/22 and 2022/23 at £170,000 per year.

Expected Loss of Income

74. The Government is continuing with its proposed reforms to the national Welfare Benefits System and plans to consolidate most benefit payments into a single system called Universal Credit. As part of this process Housing Benefit which is administered by local authorities will end, at least for those of working age and as such the Government is substantially reducing the amount it pays local councils to undertake this work 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 again and therefore the MFTS adjusts the loss of this income over the next two years to £120,000 per year, with a final year figure of £150,000. The Pessimistic Scenario recognises the potential for both the administration and benefit elements to decline to the Council by £30,000 per year in 2021/22 and 2022/23. While the Optimistic Scenario shows the reduction in funding declining to £60,000 in 2021/22 with no further reduction in 2022/23.

Changes in Costs

Salaries Costs

75. 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. Since 2010 wage increases have been limited to 1% or below, but the 2018/19 wage settlement for local government employees encompassed a 2 year deal at 2% for most employees with additional increases above 2% for those staff on the lowest wage bands. Upward pressure beyond the 2% level over the next few years is not expected as the economy still remains in recovery mode and the Government continues to exert significant pressure to contain public sector wage settlements at or below the 2% mark. With inflation remaining around 2% annually and continuing fears over job security and redundancies and an excess of supply of labour despite record numbers in employment it is unlikely industrial action will force higher increases than those we have seen over the last few years. The MTFS therefore

uses a 2% increase in Salary and Pension costs for each of the three years and it is assumed that this level of rise will cost around £270,000 per year with an additional £40,000 of costs falling in 2021/22.

76. 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. This assumes that increases after 2020/21 are 4%. Given that resource levels are likely to remain under pressure over the period, wage increases add to the overall pressures to make savings and may lead to the need to make more redundancies than the Council would have done if wages had remained at the predicted level.

77. 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 2020/21 and it is assumed the impact can be accommodated within existing budget projections at this time.

Pension Costs

78. A triennial review of the Pension Fund is underway and this will result in new employer contribution rates being determined for 2020/21 onwards.

79. 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, stopping expensive redundancies and retirements and always ensuring a strong business case exists around any exit, 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.

80. Due to the positive actions outlined above and a long run of good investment returns, it is expected that Hyndburn, for the first time in a considerable period, will have pension assets that exceed its pension liabilities and this will allow the Council to reduce its payments to the Pension Fund by £528,000 in 2020/21 and an estimated £500,000 in 2021/22 while continuing our existing commitment to overpay when possible thereby reducing further pension pressures in future years. The reduction in pension costs in 2020/21 has helped limit the need for savings in the next financial year and will help to partially offset the expected loss of £1.5m of Revenue Support Grant in 2021/22.
81. The savings resulting from the actions taken in earlier years in this area provide a significant boost to the Council's overall financial position and the dividend from these decisions are a strategic shift in our cost base similar to that achieved by taking hard decisions around repaying debts and not borrowing to finance expenditure.

Supplies and Service Costs

82. General inflation over the past 3 years has been as low as 1.2%, it then increased to over 3% before starting a steady decline downwards to 1.4% (ONS December 2019), with concern currently that it might fall still further and may require the Bank of England to cut the Base Rate to stimulate the economy. Beyond the immediate last 3 years we have had negative inflation and the accurate forecast of future rates remains difficult to predict. There are a variety of upward pressures across the globe driving inflation in one direction, while other pressures continue to contain and push it downward. The fragility of the economic recovery in

the major Western Economies, the Brexit Vote and the sharp drop in sterling and the growing power of the dollar all indicate a continuing period of instability.

83. While inflation appears not to have settled on any particular direction over the last 10 years, 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.
84. 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 over the next 3 years, with around £50,000 of general additional costs in 2020/21 and £50,000 budget adjustment in 2021/22 for Government changes to Land Search fees. The Pessimistic Scenario assumes inflation running at 4% in 2021/22 and 2022/23. The Optimistic Scenario assumes the Government's changes in relation to Land Search charges are not introduced in 2021/22 or that if they are introduced, they can be implemented in a manner that is cost neutral to the Council.

Capital Costs

85. The Council has over the last 12 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.

86. 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.
87. 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.
88. 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 2022/23 if expected capital receipts arrive over this period.
89. 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 time limited and 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.

90. This will enable us to escape the need to borrow over the period of the MTFS and we will therefore not increase our debt burden over the next 3 years.
91. 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.
92. Current predictions indicate the Council has sufficient funds to finance its capital expenditure plans over the next 3 years. This is however reliant on the achievement of significant capital receipts over the period and continuing to only fund the Council's highest priority projects. If the sale income from anticipated disposals is delayed or sales in the pipeline do not mature, decisions around curtailing capital expenditure or using some stop gap funding including short term borrowing may be necessary. Recent indications from the Government that New Homes Bonus might be reduced or abolished may add to our difficulties in this area as it would remove a source of funding, we have previously used to assist in financing our capital expenditure.
93. The Pessimistic Scenario deals with the impact of having to fund Capital Expenditure from Revenue by £250,000 in 2022/23. This could occur if the Council is unable to limit its capital expenditure commitments to less than £1m in 2021/22 and 2022/3 or there is a drop in sales receipts or other funding we use for Capital Expenditure. This scenario increases the saving pressures within the Pessimistic Scenario substantially.

Growth

94. 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. An amount of £105,000 in 2020/21 and 2021/22 is shown under this heading in the appendices to allow a step change in budgets connected with the Market Hall to be reduced to reflect concessions granted to market traders on rent levels in response to pressures they face from the national decline in town centre retail activity since 2010.

Reserves

95. 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 2019 of just over £2.1m. This level of Reserve would normally be viewed as healthy given an overall spend of around £11m in 2019/20, coupled with a prediction this level of spend will remain steady 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.

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

- ❖ the proposal by the Government to conduct a Fair Funding Review and implement its findings in 2021/22, which might further substantially reduce the monies the Council currently expects to have at its disposal
- ❖ the continuing economic uncertainty which may lead to the Government having to reduce public sector expenditure further or requiring the Local Government sector to shoulder more of the burden
- ❖ the impact of Brexit and any potential downturn in the economy that would impact on commercial, housing and land development and therefore suppress fees the Council earns from providing services to the business community such as planning fees, land search fees etc.
- ❖ 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 period of uncertainty
- ❖ 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 economy continues to struggle
- ❖ 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

97. 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.
98. 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.
99. 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

100. 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 saving plans as they occur, as a response to the overall financial plans of the Council.

Scenarios

101. 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. Due to delay and the

potential unknown impact at this time of the Fair Funding Review, the range and accuracy of these forecasts is more limited than in previous years. It is hoped that once the Fair Funding Review discloses the new financial settlement these forecasts can return to their previous degree of rigor.

102. The MTFS has therefore been developed around key assumptions of what is most likely to occur and then two scenarios produced showing what might occur should these assumptions be confounded by other events, all moving in one particular direction or the other. Appendix 1 to this report sets out the scenario which it is believed most likely to occur and is labelled the Standard Model. Appendix 2 shows what might occur if many of the negative things that could happen did actually occur and this is labelled Pessimistic Model. Appendix 3 shows the opposite situation in which the Council benefits from a series of good outcomes with resources growing and downward pressure on spending occurs. This is the Optimistic Model.

103. This approach produces a spectrum of the possible ranges in which the Council's finances will have to operate over the next 3 years. It does not cover every eventuality and there are possible outcomes outside of the ranges shown, though these are deemed to have only a small chance of occurrence.

104. It is possible the Council could emerge with a stronger financial position as a result of a combination of these volatile factors going in its favour. A strong financial position for the Council could emerge for instance if

- The Government decides to boost the economy by an injection of cash into the country and expanding expenditure on public services particularly in the North with Hyndburn receiving extra revenue as a result.
- The exit from Brexit going much better than most commenters have predicted and the country thriving outside of the European Union.

- Political tensions in the Middle East and Far East reduce.
- The global economy avoids recession and begins a steady period of growth

105. The Optimistic Model shows a scenario in which the Council's revenues grow throughout the period and spending pressures can largely be easily dealt with over the next 3 years.

106. The Standard Model which shows the most likely position in terms of our finances, it predicts the Council will need to deal with significant budgetary pressures in 2021/22. This will require the Council to save over 9% of its Budget, before hopefully reaching what could be a sustainable break even position going forward beyond 2022/23.

107. The potential for the Council to face severe financial pressure over the 3 years is shown in the Pessimistic Model. This model assumes a backdrop of fragmented global economic growth and potential recession, heightened political turbulence across the world accentuating a decline in economic growth and a UK Government limiting public sector spending and switching money away from District Councils, particularly in the North of England. The level of savings required to be generated each year by Hyndburn in these circumstances are significantly higher in each year than the other models and are likely to be very challenging for the Council to deliver.

108. The Pessimistic Scenario presented at Appendix 2 looks at the baseline assumptions for the MTFS and adjusts them for the following reasons.

109. In terms of income the Pessimistic Scenario indicates that revenue could be lower in all three years compared to the Standard Scenario due to the loss of RSG and declines in the level of Council Tax and Business Rates.

110. The Pessimistic Scenario when compared to the Standard Model shows income down from £11.2m to £11.1m in 2020/21 and down from £10.5m in 2021/22 to £9.8m and down from £11.0m to £9.9m in 2022/23. This is due to the Council not increasing council tax in any of the three years and there being no growth in numbers of properties besides the small

numbers in 2020/21. The assumption is also for lower business rates as the Fair Funding Review has a more dramatic impact on the Council's finances and there is less growth over the three years from local businesses.

111. The Council received £1.5m in RSG funding in 2019/20 and this was expected to be the last year in which we received such funding as the Government had telegraphed over a number of years, it intended to abolish this source of funding for local government at the end of 2019/20. However, in September 2019, the Government announced that the Spending Review due to take place in Autumn 2019 would be postponed and replaced by a one year spending exercise and that the Fair Funding Review of local government finance would also be delayed for at least 12 months. As a consequence, funding for 2020/21 would be based on 2019/20 levels, indicating that Hyndburn would continue to receive RSG in 2020/21 of £1.5m. The Pessimistic Scenario assumes that while the Council will still receive RSG in 2020/21 the Government will press forward with its previously stated intention and remove it as a source of funding for the Council in 2021/22.

112. There are no indications as yet of the likely revisions to local council funding from the Government's Fair Funding Review and these are not likely to emerge until late Summer or Autumn 2020 at the earliest. However, the Government previously made it clear that extra money is not on offer and that the Funding Review will be about addressing the division of existing resources in a different manner between Councils. There is therefore a general expectation that the Government's Fair Funding Review will look to substantially transfer funds towards Adult and Children's Social Care and that will see major reductions in funding for other parts of local government which do not provide these services. As the figures needed by Social Care Councils to balance their current Budget demands are so great and District expenditure relatively small compared to these demands there is a possibility that non Social Care Councils will face major reductions in their funding.

113. To provide some figures in order to allow the magnitude of the possible changes that could impact on the Council, it has been assumed the Government reduces the amount the Council can retain from Business Rates by an 8% reduction in 2021/22. This decrease of approximately £300,000 is offset by assumed growth in business rates from the local economy of £500,000, giving a net change of £285,000, once the annual inflationary increase is included.
114. The Pessimistic Scenario also assumes that the Council is unable to grow its Council Tax Revenue over this period. This would involve not increasing the amounts paid by households each year and no growth in the overall number of properties.
115. Overall this would see the Council with £105,000 less resources in 2020/21 than expected and a further reduction in revenues of £645,000 compared to the Standard Model in 2021/22, with 2022/23 revenue figures down a further £1.1m. This level of reduction would put the Council under severe financial pressure.
116. The impact of funding from the Department of Work & Pensions in relation to Housing Benefit Grant is shown to be £30,000 more expensive in year 2, as the programme to implement Universal Credit accelerates and the Council loses higher amounts of both administration grant and repayment of benefits.
117. In our Standard Model we have assumed a 2% pay award over each year of the three years of the forecast. The Pessimistic Scenario allows for a 4% wage settlement in the second and third years within the forecast, recognising that upward pressure may build for an enhanced pay settlement after a large number of years of enforced pay restraint. This potentially adds £270,000 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 12 months and this now being used by both trade unions and employees as a new yardstick for all public sector pay.

118. 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.
119. 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 to £260,000 in 2021/22 and 2022/23. Additional costs of £50,000 are also added here in 2021/22 to allow for a budget adjustment to Land Search Fees, as the Government proposes to end the current arrangements in this area, which will lead to a net cost rise in the provision of this service.
120. The final factor considered in the Pessimistic Scenario is the need to finance part of the Capital Programme in 2022/23 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 and therefore needs to set aside some of its Revenue in 2022/23 to fund its capital spend in that year. Current estimates are that sufficient resources are available to fund capital expenditure through 2021/22. A figure of £250,000 has been added to the Pessimistic Scenario in 2022/23.
121. The combined impact of all these potential changes are illustrated at Appendix 2 and show that the savings target for 2020/21 would rise to £220,000 up £104,000, while the following year it would be £2.0m (18%), up £969,000 on the Standard Scenario and that in 2022/23, the savings target would be £1.1m up £1.1m from the break-even position in the Standard Scenario.
122. 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 series of much tougher decisions

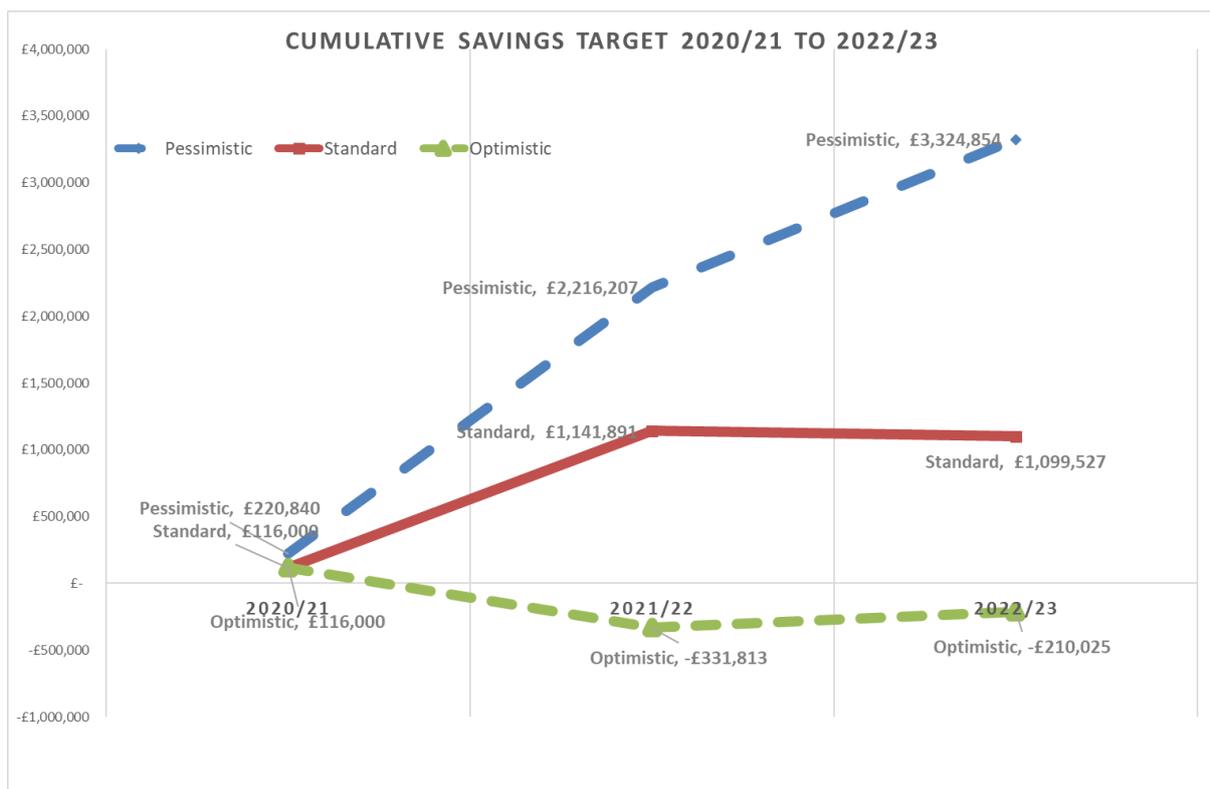
around its spending plans and priorities if these assumptions materialised.

123. 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, particularly as it is unlikely to know its Business Rate figure for 2021/22, at the time it is making its key budget decisions and therefore will not be able to develop meaningful savings proposals of the magnitude required to balance the Budget in 2021/22 with any degree of accuracy.
124. The Optimistic Scenario is presented at Appendix 3. The major assumptions here are that the Government continues to provide some form of RSG in 2021/22 and 2022/23, though at reducing levels and that the reductions in business rates due to the Fair Funding Review is only 2% and not the 4% modelled in the Standard Scenario and additional growth in the local economy takes place. This adds £250,000 of business rate revenue in 2021/22 compared to the Standard Model in 2021/22 and a further £380,000 in 2022/23.
125. The Optimistic Model also assumes the Council will be able to boost its Council Tax income from growth above the level already predicted in the Standard Model via further increases 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 £80,000 by 2021/22 compared to the Standard Model and by £136,000 in 2022/23 and for the Collection Fund Surplus to rise by £33,000 in each of these two years.

126. These changes in Business Rates and Council Tax allows the Council to fully replenish the loss of £500,000 in Government Grant in 2021/22 and 2022/23 from these sources and its Revenue Resources increase compared to the Standard Scenario by £1.3m in 2021/22 and £1.0m in 2022/23.
127. Wage inflation and inflation in general supplies and services to the Council are expected to mirror the performance in the Standard Model over the 3 years with inflation only pushing up costs by 2% per year. The Optimistic Model however does assume that the changes to Land Search Service and Fees is either delayed until after 2022/23 or that the Council finds a way to adapt to the changes in a cost neutral manner, by either reducing costs or finding other sources of income in this area. This would remove £50,000 of financial pressure in 2021/22.
128. The Optimistic Scenario considerably eases the overall financial position of the Council such that it is able to generate a small surplus over the 3 years of the forecast.
129. As with the Pessimistic Scenario, the Optimistic Scenario painted here would be at the extreme end of the potential range of upside events that could occur to the Council's financial position and is therefore viewed as unlikely to occur in its entirety.
130. In these circumstances, given the existing uncertainties it is not possible to predict which scenario is more or less likely to occur. It is clear however, that the downside risk is far more damaging to the Council's wellbeing. Therefore, a course of action which values financial prudence at this time, seeking to continue to maintain Reserves at high levels, boosting income streams whenever possible particularly from growth in council tax, business rates and fees and charges and avoiding committing to any additional on-going revenue spending will provide the Council with the best chances of overcoming the challenges currently presented. Otherwise the Council will face significant challenges in maintaining its ability to present and operate a balanced budget and deliver its key services.

131. Clarity and certainty may come within a 12 month period if a new local government settlement for three years is announced, the economic consequences of Brexit are resolved and the worldwide economic and political turbulence returns to calmer times. This then should provide an environment in which effective robust financial planning can take place. If, however the Government is unable to map out a long term funding position for local government finance, Brexit remains unresolved and political and economic turmoil continues or escalates, financial forecasting will remain more difficult.

132. There is significant divergence in the financial predictions for the 3 years between the Pessimistic and Optimistic Models. The diagram below shows the potential range from the most pessimistic to the most optimistic put forward in this document.



133. The divergence between the Pessimistic and Optimistic Models in terms of annual savings that need to be identified is £104,000 in 2020/21, £2.433m in 2021/22 before reducing to £986,000 in 2022/23. The cumulative difference is almost £3.54m over the three years. The wide range in the cumulative impact between the difference scenarios underlines the degree of uncertainty in making accurate forecasts around the impact of local government funding, the growth in local revenues, the future rate of inflation and pay settlements and pressures on Revenue and Capital spending. Given the level of uncertainty it will be necessary for the Council to hold strong reserves over this period and hold off making any major commitments on expenditure until after the Fair Funding Review announces its decision on the future amounts the Council can expect to receive from 2021/22 onwards.
134. The Pessimistic and Optimistic 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.
135. The figures in Appendix 1 therefore remain our current best estimate of the likely financial position over the next 3 years, with the risk of other overall positions diminishing as you move away from the prediction shown in the Standard Model.
136. This indicates a balanced budget can be achieved in 2020/21, with a relatively small savings target for the year of £116,000. The savings requirement for the following year is just over £1.0m, mainly stemming from the loss of RSG, with a break-even position expected the following year. 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.

Robustness of Forecast

137. The robustness of the forecasts beyond 2020/21 is severely diminished due to the uncertainties around the funding decisions made by the new Government in relation to local government. The Council could lose or gain significant funds from these changes and there is little current evidence on which to make appropriate forecasts and therefore the MTFS has made assumptions at hopefully either end of the spectrum of possibilities.
138. The uncertainty stemming from these decisions will necessitate the Council taking a defensive position in managing its finances and having to lock more funds into Reserves to cope with any negative dramatic swings from the Government's financial review.
139. It is expected that the uncertainty around these forecasts will disappear in late 2020 when the new Government announces the details of the Fair Funding Review and at that point it should be possible to update the robustness of the forecast to good or very good depending on the level of detail released and other factors remaining consistent with the current analysis.

Overall Net Position

140. The Council faces continuing pressure on its finances over the next 3 years. The potential reductions in the level of government grant are significant and the Council will need to take tough decisions over service provision to maintain a balanced budget in these circumstances.
141. The likely reductions in business rates retained locally should be offset by growth from Frontier Park and elsewhere across Hyndburn, but if that growth fails to materialise the Council will face further financial pressure.

142. 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 level of business rates generated and retained locally.
143. The Council therefore needs to continue to manage its revenue costs aggressively over the next 3 years. 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 over the period this will substantially ease the cumulative financial pressures on the Council over the 3 years of the MTFS and into the future.
144. The Council also needs to protect its Reserves and the flexibility it has in its current financial position until it is clear that it fully understands the outcome of any changes to local government financing that the new Government proposes and brings forward the detail of what they intend to implement.

Appendix 1

Three Year Standard Model Medium Term Financial Strategy 2020/21 to 2022/23

	2020/21	2021/22	2022/23
Revenue Support Grant	£ 1,560,000		
Business Rates Funding	£ 4,283,000	£ 4,868,660	£ 5,216,033
Council Tax Collection	£ 5,247,000	£ 5,486,449	£ 5,731,440
Collection Fund Surplus	£ 137,000	£ 137,000	£ 137,000
	£ -		
Total Resources	£ 11,227,000	£ 10,492,109	£ 11,084,473
Prior Year Spend	£ 10,995,000	£ 11,227,000	£ 10,492,109
Adjustments to Prior Year			
HB Admin & Subsidy	£ 120,000	£ 120,000	£ 150,000
Salaries & Pension Costs	£ 310,000	£ 270,000	£ 270,000
General Supplies & Services	£ 176,000	£ 180,000	£ 130,000
Revenue Contributions to Capital Spend	£ -		
Reversal of Corporate Savings Target	£ 165,000	£ 116,000	
Pension Deficit Cost Reduction	-£ 528,000	-£ 500,000	
Growth Items	£ 105,000	£ 105,000	
Estimated New Operating Costs	£ 11,343,000	£ 11,518,000	£ 11,042,109
Costs Exceed Resources by	£ 116,000	£ 1,025,891	-£ 42,364
Percentage Savings to Balance Budget	1.06%	9.14%	-0.40%

**Three Year Pessimistic Model
Medium Term Financial Strategy
2020/21 to 2022/23**

	2020/21	2021/22	2022/23
Revenue Support Grant	£ 1,560,000		
Business Rates Funding	£ 4,283,000	£ 4,568,660	£ 4,660,033
Council Tax Collection	£ 5,143,160	£ 5,143,153	£ 5,143,153
Collection Fund Surplus	£ 137,000	£ 137,000	£ 137,000
	£ -		
Total Resources	£ 11,123,160	£ 9,848,813	£ 9,940,186
Prior Year Spend	£ 10,995,000	£ 11,123,160	£ 9,848,813
Adjustments to Prior Year			
HB Admin & Subsidy	£ 120,000	£ 150,000	£ 150,000
Salaries & Pension Costs	£ 310,000	£ 540,000	£ 540,000
General Supplies & Services	£ 176,000	£ 310,000	£ 260,000
Revenue Contributions to Capital Spend	£ -		£ 250,000
Reversal of Corporate Savings Target	£ 165,000	£ 116,000	
Pension Deficit Cost Reduction	-£ 528,000	-£ 500,000	£ -
Growth Items	£ 105,000	£ 105,000	
Estimated New Operating Costs	£ 11,343,000	£ 11,844,160	£ 11,048,813
Costs Exceed Resources by	£ 219,840	£ 1,995,347	£ 1,108,627
Percentage Savings to Balance Budget	2.00%	17.94%	11.26%

**Three Year Optimistic Model
Medium Term Financial Strategy
2020/21 to 2022/23**

	2020/21	2021/22	2022/23
Revenue Support Grant	£ 1,560,000	£ 1,000,000	£ 500,000
Business Rates Funding	£ 4,283,000	£ 5,118,660	£ 5,596,033
Council Tax Collection	£ 5,247,000	£ 5,567,153	£ 5,867,992
Collection Fund Surplus	£ 137,000	£ 170,000	£ 170,000
	£ -		
Total Resources	£ 11,227,000	£ 11,855,813	£ 12,134,025
Prior Year Spend	£ 10,995,000	£ 11,227,000	£ 11,855,813
Adjustments to Prior Year			
HB Admin & Subsidy	£ 120,000	£ 60,000	£ -
Salaries & Pension Costs	£ 310,000	£ 270,000	£ 270,000
General Supplies & Services	£ 176,000	£ 130,000	£ 130,000
Revenue Contributions to Capital Spend	£ -		
Reversal of Corporate Savings Target	£ 165,000	£ 116,000	
Pension Deficit Cost Reduction	-£ 528,000	-£ 500,000	£ -
Growth Items	£ 105,000	£ 105,000	
Estimated New Operating Costs	£ 11,343,000	£ 11,408,000	£ 12,255,813
Costs Exceed Resources by	£ 116,000	-£ 447,813	£ 121,788
Percentage Savings to Balance Budget	1.06%	-3.99%	1.03%

Report to		Cabinet
Report by		Councillor Joyce Plummer Portfolio Holder Resources
Date		12th February 2020
Report Prepared by		Joe McIntyre Deputy Chief Executive

GENERAL FUND REVENUE BUDGET

2020/21

Purpose of the Report

1. This report sets out proposals for the 2020/21 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 Council an increase Council Tax for 2020/21 of £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 fourth increase in Council Tax by Hyndburn Council in 11 years.

- b) The Budget for 2020/21 will therefore be £11,227,000 as detailed in Appendices 1 and 2.

- c) That Cabinet recommend approval of the savings approach outlined for 2020/21 as set out in Appendix 3 to ensure the Council has a balanced budget.

- d) That Cabinet note the significant improvement made in relation to budget monitoring and cost reduction within the

Authority over the past 16 years and confirms its commitment to continuing this approach in the year ahead.

- e) That Cabinet recommends during the financial year 2020/21, 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 2020/21, 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 2020/21 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 funds from Government that are not ring-fenced funding 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 2020/21. This will require a net expenditure of £11,227,000.
5. Under these proposals, Council Tax for Hyndburn residents will rise for Hyndburn Council provided services by £5.00 (2.04%) 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 fourth rise in council tax for Hyndburn services since 2009/10 and the average annual increase over this period has been below 1%. This is significantly below the rate of inflation over this period. If the Council had increased Council Tax simply by inflation (CPI) over the last 11 years rather than the actual increases made, Council Tax for Hyndburn's services would have been almost 13% more expensive at £282.83 for each average Band D property within Hyndburn which is £32.31 more than proposed for 2020/21 at £250.52.

7. The increase in Council Tax by Hyndburn Council is a result of cost pressures from wages, other expenditure inflation and the loss of income which have risen at a faster rate than the increases generated from Government Grant or Business Rates. The level of increase in overall expenditure would have been greater except for the reduction in pension costs this year. The Triennial Review of the Council's employer contribution by the independent actuary to the Pension Fund has allowed the Council to reduce its level of contribution by

£528,000 this year, with a further £500,000 reduction expected in 2021/22.

8. Lancashire County Council, the Police & Crime Commissioner and the Combined Fire & Rescue Authority have not yet formally taken their decisions on Council Tax Levels for 2020/21. It is expected that the County Council will raise its Council Tax for each household by a general increase of 1.99% and a 1.99% increase to assist with meeting the cost of Adult Social Care which equates to a 3.99% increase overall. It is expected that the Police Commissioner will increase a Band D Property by £10 and that the Fire & Rescue Authority will recommend a 1.99% increase.

9. Altham Parish Council has set a separate precept for its activities for the twelfth time in 2020/21. 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 will precept the Collection Fund for £12,685. Details of the proposed position on other Bandings for properties in Altham are shown in Appendix 6.

10. In setting the Budget for 2020/21 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. 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 16 years to manage costs effectively and promote appropriate service investment. This Budget will therefore deliver,

- *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 just over £3.1m in total for the year on Capital Schemes, with £966,000 going to support those with medical and physical difficulties to live independent lives in their own homes, it will continue its work to improve Accrington Town Centre building upon the £2m already spent in this area with a commitment to another £1¼ m of investment into this key area and provide money to improve facilities at our Sport Halls and Council buildings to ensure services can continue to be provided from these locations for many years to come.*

- *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 11 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 emissions 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 2019, in which Balances are over £2.1m and the Revenue Budget for 2019/20 is predicting a saving of over £218,000 which will contribute to improving the strength of our underlying financial position.

14. Within the Budget for 2020/21 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, safety nets and pooling, 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 significant pay inflation during 2020/21 is viewed as low. An assumption of a 2% pay award has been included in the roll forward figure. As yet there is no formal agreement between the Employers' side and Trade Unions over a pay settlement for 2020/21. However, with a limited increase in funding from Government this year and continuing strong pressures on expenditure there appears little room for wage increases substantially above the current level of inflation. Any increase in wages agreed at a national level beyond the 2% built into the roll forward position will increase in-year financial pressures making it more difficult for the Council to avoid overspending and will increase the need for more savings to be generated in future years, with the pressure to reduce staff numbers growing in such circumstances.

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 2018/19 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 13 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 2020/21.

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 the overall budget, but additional savings have been successfully generated each year and there is an expectation that a budget surplus will be generated in 2019/20 of approximately £218,000. This money has been earmarked to assist the Council to

reduce its cost base over the next few years and strengthen its reserves and improve delivery of its Corporate Strategy.

20. Although it is worth noting the major improvements in financial management and cost control over the last 13 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.

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 from Government by almost £5.6m since 2010/11 and our forecast in the MTFS is that we will need to save over £1.1m

more in the period 2020/21 to 2022/23 to maintain a balanced budgeted position.

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 12th February 2020 and will be placed before the Council on the 27st February 2020.

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 2020/21, it needs to recognise the savings agenda it will potentially face in 2021/22 and beyond. The main pressures stem from the Government's ending of direct funding to the Council in the form of Revenue Support Grant and the likely significant reduction in the amount the Council can retain from locally raised business rates under the Fair Funding Review. The other major pressures the Council faces are

- The falling level of grant to support the payment of housing benefits.

- 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 2022/23 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 2019/20 and known financial pressures for 2020/21. 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 new 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 2% after uprating salary costs for 2020/21 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 below the Bank of England target of 2% at 1.4% in December 2019, having fallen back from a peak of 3% during 2017. There has been speculation that inflation could rise if the UK exits the European Union without securing a trade deal and this may occur if key goods cannot be imported into the country, at least for a temporary period. Most of the risk of this occurring has dissipated in the current year with the election of the new Government in December 2019. Any likely high inflation period triggered by trade difficulties with the EU have now been deferred until the final quarter of our financial year between 1st January 2021 and 31st March 2021, which will significantly limit its impact on the current financial year, but may cause much larger problems in the 2021/22 financial year. However, in general there appears to be continuing over capacity on the supply side of the world economy, weakening any opportunity for suppliers to effectively pass on price increases they incur and this seems to apply a brake on inflationary pressures in the UK and across the world. We have therefore assumed for budgeting purposes that cost centres will be able to absorb whatever inflationary pressure they face within their Budgets with the 2% increase provided.

29. These calculations indicate a Continuation Budget of just over £11.343m 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 2020/21.

Growth Pressures

30. There are no growth items proposed for the 2020/21 Budget as budgetary pressures remain tight and the Council at this time is not in a position to fund them. The Budget in 2020/21 however does allow for an adjustment downwards to the projections for income generated from the Market Hall. Difficult trading on High Streets across the country since the Recession in 2008 has severely dented rent levels and income generation from the Market Hall in Accrington and this year's budget has therefore been adjusted to reflect a more meaningful level of income that can be expected to be achieved, lowering the expected amount by £105,000 in 2020/21, with an expectation that another £105,000 reduction will be required next year as well.

Available Resources

Core Government Revenue Support Grant (RSG)

31. Revenue Support Grant for 2020/21 has been set at £1,560,000. This is at the same level as 2019/20 of £1,534,000 plus an inflation increase of £26,000. This grant is still expected to disappear in 2021/22 in line with previous government announcements.

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 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 reduced by a further £3.99m to £4.2m and the amounts can be further adjusted if the Council enters a Pooling arrangement with other Councils. The Council also now has the risk around non-collection and the impact of late payments.

33. Additionally, in 2019/20 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 and it is possible the Government will further amend rules in this area in its Budget announcements in March 2020.

34. 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 2020/21 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 2020/21 the estimated revenue from Business Rates is expected to be £4.2m.

Council Tax

35. It is expected that Council Tax will raise the equivalent of £5.2m of revenue for the Council in 2020/21. After seven years of no council tax increase in Hyndburn, dating back to 2009/10, this year will be the

fourth year of a council tax increase of £5.00 for a Band D property. Over the last 11 years the Council has increased Council Tax at well below the rate of inflation. This year's increase is the equivalent of less than 10 pence per week for a Band D property and as 60% 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 (2.04%). This is a lower percentage increase than last year's 2.07% increase and in line with the current rate of increase indicated by the Government for Council Tax increases in District Councils.

36. The increase in council tax of £5.00 is needed to assist the Council balance its Budget in 2020/21 and meet the cost of spending pressures not able to be funded from other revenue sources this year. In particular the Council has committed to supporting Accrington Town Centre by adjusting the income budget for the Market Hall.

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 for house numbers to the Ministry of Housing, Communities and Local Government (MHCLG). For Hyndburn the expectation is that the number of new homes built will remain small and we will only receive £95,000 for 2020/21. This is down £125,000 compared to the previous year.

38. 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 expected to continue to fall in subsequent years and is expected to be abolished by the Government in the next year or so. This will lessen the extent to which we can fund Capital Projects from this source of money in the future.

Resource Summary

39. The Council's estimated Resources for 2020/21 are £11,227,000 with almost half of the funding raised directly from our residents in the form of Council Tax (£5.3m) and the vast majority of the remaining revenue coming from the locally retained element of business rates

(£4.2m) collected across Hyndburn. Less than 14% of our income comes in direct support from Central Government.

Budget Proposals 2020/21

General Financial Pressures

40. 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 2020/21 and continue its financial strategy to ensure its financial stability over the medium term.

41. The proposals for 2020/21 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 2020/21 to buttress their budgets ahead of any further proposed savings for 2020/21 onwards.

42. With expected Revenue of £11,227,000 for 2020/21 and estimated roll forward cost of operating the organisation of £11,343,000 for the year ahead, the Council has a saving gap for the year of £116,000. As the savings target for the year equates to 1% of the predicted spend for

2020/21 year, a Corporate In-year Saving Target of this amount has been set, rather than requiring individual service areas to deliver this level of savings. Appendix 3 which usually lists the full extent of all the savings proposed to balance the Budget each year, therefore this year only contains a one line entry for the Corporate Savings Target of £116,000.

Budget Saving Proposals

43. With an in-built target to produce a 1% savings on our estimated spend during the year and significant savings pressures likely to be necessary in 2021/22, the Council needs to remain focused on maintaining good financial discipline, look to continue to reduce its cost base and boost income throughout the coming financial year.

Reserves

44. The Council has recognised the need to refresh and maintain its financial reserves after they became dangerously low as a result of the financial difficulties, we experienced over a decade ago.

45. 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 2020/21 to continue with this policy. Reserves are currently over £2.1m and an underspend is predicted for 2019/20. 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.

46. 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 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

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.

- The continuing trading difficulties experienced by Hyndburn Leisure and financial pressures on other partner organisations
- Supplier failure during an elongated period of financial constraint
- Environmental warranties on our land and guarantees provided to Hyndburn Homes over land transferred to them
- Legal challenges over the operation of our fees and charges
- The threat that Central Government will pass fines from Europe directly to Councils if the UK fails to meet its targets on climate change and environmental improvements.
- Continuing reductions in our income from fees and charges as the economy remains sluggish
- Potential large fines under the General Data Protection Regulations introduced in 2020/21.

47. 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.

48. 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

49. The 2020/21 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.

50. 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.

51. Pay Inflation could become a major factor over the next twelve months if a wage settlement is agreed that is significantly above the 2% assumed in the Roll Forward Budget. As yet there is no agreement between Employers and the Trade Unions on the pay increase for 2020/21 and beyond. The 2% figure used so far is therefore the best current estimate given the financial constraints and pressures local government continues to operate under. However, the Trade Unions may press for a significantly higher pay settlement and if they achieve this, it would impact on our ability to maintain our costs within the resources that we have and additional savings would have to be generated during the year to ensure the Council did not overspend its budget. A wage settlement significantly above 2% would increase the pressure on the Council to reduce staff numbers going forward.

52. There were predictions of a rise in inflation immediately following the Brexit Vote in 2016 coupled with an expected drop in consumer activity and possibly a further recession. This has not materialised in the 3 years since the Referendum, but similar predictions exist if the UK leaves the European Union without securing a favourable trade

deal. The immediate prospect of a disorderly exit from the European Union (EU) seems to have dissipated with Boris Johnson's deal being approved by Parliament and the EU in January 2020. This however only really provides for a transition period until the end of December 2020 and the real detail of the future trading arrangement between the UK and the EU remains to be settled in that period. If a suitable deal cannot be reached between the two parties, the fears around the inflationary impact may return again at the end of 2020, as the prospect of a "No Deal Brexit" returns. Assuming a suitable deal can be made between the UK and the EU, the expectation would be that inflation will remain low over the coming financial year. Inflation increased to just over 3% during 2017 but has fallen subsequently to 1.4% at the end of 2019. Therefore, it does not appear currently likely that inflation will 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. Inflation in this area is therefore expected to create only a low to moderate degree of risk within the financial forecast.

53. 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 2020/21 financial year.
54. The next 12 months therefore sees a Budget period with the only major risk around Business Rates diverging significantly from the estimates made. The Council however has sufficient financial reserves to draw upon if necessary, to deal with any such fluctuations.
55. 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

56. This year we are asking the public and businesses to attend the Council's Overview and Scrutiny Meeting on the Budget which takes place at 3:00pm on 18th February 2020 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 and businesses will be invited to put questions to the Leaders of each group and make any general comments. This direct involvement with the public and businesses 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.

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

58. The overall estimated Council Tax per household for 2020/21 is shown at Appendix 5.

Conclusion

59. The overall Revenue Budget 2020/21 is set out at Appendix 2. The Budget for 2020/21 will be £11,227,000 and will be supported by a Council Tax levy of £250.52 for a Band D property—translating into a revenue source of £5,247,000 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

60. As outlined in the Report, the public and businesses are invited to participate in the Council’s Overview & Scrutiny Meeting on the 18th February at 3:00pm 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 27th February 2020.

REASONS FOR RECOMMENDATIONS

61. 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

62. 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

63. As outlined in the report

LINKS TO CORPORATE PRIORITIES

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

EQUALITY

65.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

66.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

67. 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

68. This Report should be read in conjunction with the other finance reports presented to the Cabinet meeting on the 12th February 2020. The relevant reports are listed below and can be found by accessing the Council's website or following the hyperlink below.

[Access to Cabinet Agenda and Reports--follow links to appropriate dates and reports](#)

Financial Position December 2019 Report for the Year Ending 31st March 2020

Medium Term Financial Strategy 2020/21 to 2022/23

Prudential Indicators Monitoring & Treasury

Management Strategy 2020/21 to 2022/23

General Revenue Budget 2020/21

Capital Budget Report 2020/21

Initial Outline Budget		
2020/21		£000
Revenue Support Grant		1,560
Business Rates		4,283
Council Tax		5,247
Collection Fund Surplus		137
Use of Reserves		0
Total Resources Available 2019/20		11,227
Roll Forward Budget		11,238
Growth Items		105
Unadjusted Predicted Spend		11,343
Savings Required		116
Savings Identified		116
Predicted Spend 2020/21		11,227
Unfunded Spend at this time		0

Revenue Budget 2020/21	
Service Expenditure	£000
Environmental Services	5,198
Culture & Leisure Services	895
Planning & Transportation	788
Regeneration Services	1,132
Policy & Corporate Governance	3,208
Non Service Related Budgets	6
Contribution to Reserves	0
Net Total Expenditure	11,227
Band D Property 2019/20	£ 245.52
Band D Property 2020/21	£ 250.52
Increase on Previous Year	£ 5.00
% Increase on Previous Year	2.0%
Band A Property 2019/20	£ 163.68
Band A Property 2020/21	£ 167.02
Increase on Previous Year	3.34
% Increase on Previous Year	2.0%

Savings Requirement & Proposals 2020/21

Estimated Resources 2020/21		£11,227,000
Predicted Spend 2020/21		£11,343,000
Savings Required to Balance 2020/21 Budget		£116,000
Propose Savings 2020/21		
Corporate In-year Savings Target		£116,000

Hyndburn Borough
Council Tax Increase 2020/21
by Property Band

Valuation Band and Statutory ratios of Band D Council Tax		Council Tax	Council Tax	Annual Increase
		2019/20	2020/21	
Band A	6/9	£ 163.68	£ 167.02	£ 3.34
Band B	7/9	£ 190.96	£ 194.85	£ 3.89
Band C	8/9	£ 218.24	£ 222.69	£ 4.45
Band D	9/9	£ 245.52	£ 250.52	£ 5.00
Band E	11/9	£ 300.08	£ 306.20	£ 6.12
Band F	13/9	£ 354.64	£ 361.87	£ 7.23
Band G	15/9	£ 409.20	£ 417.54	£ 8.34
Band H	18/9	£ 491.04	£ 501.04	£ 10.00

Overall Change in Council Tax 2020/21

Council Tax Schedule	2020/21								Change Between 2019/20 and 2020/21							
	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
2020/21	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Hyndburn Borough Council	167.02	194.85	222.69	250.52	306.20	361.87	417.54	501.04	3.34	3.89	4.45	5.00	6.12	7.23	8.34	10.00
Lancashire County Council	933.54	1,089.13	1,244.72	1,400.31	1,711.49	2,022.67	2,333.85	2,800.62	35.81	41.78	47.75	53.72	65.66	77.60	89.53	107.44
Lancashire Police & Crime Commissioner	140.97	164.47	187.96	211.45	258.44	305.43	352.42	422.90	6.67	7.79	8.89	10.00	12.22	14.45	16.67	20.00
Lancashire Fire & Rescue Authority	47.24	55.12	62.99	70.86	86.61	102.36	118.10	141.72	0.92	1.08	1.23	1.38	1.69	2.00	2.30	2.76
Total Council Tax Payable (outside Altham Parish Council)	1,288.77	1,503.57	1,718.36	1,933.14	2,362.74	2,792.33	3,221.91	3,866.28	46.74	54.54	62.32	70.10	85.69	101.28	116.84	140.20
Altham Parish Council	26.85	31.32	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	0.00
Altham Parish Council & Hyndburn Borough Council	193.87	226.17	258.49	290.79	355.42	420.04	484.66	581.58	3.34	3.89	4.45	5.00	6.12	7.23	8.34	10.00
Total for Altham	1,315.62	1,534.89	1,754.16	1,973.41	2,411.96	2,850.50	3,289.03	3,946.82	46.74	54.54	62.32	70.10	85.69	101.28	116.84	140.20

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, the Police & Crime Commissioner and the Fire & Rescue Authority have not made formal decisions as yet. The above model assumes a 3.99% increase for LCC, a £10 increase by the Police & Crime Commissioner and a 1.99% increase by the Fire & Rescue Authority.

Altham Parish Precept 2020/21
by Property Valuation Band

Valuation Band and Statutory ratios of		Council Tax	Council Tax	Annual Increase
		2019/20	2020/21	
Band A	6/9	26.85	£ 26.85	£0.00
Band B	7/9	31.33	£ 31.33	£0.00
Band C	8/9	35.80	£ 35.80	£0.00
Band D	9/9	40.27	£ 40.27	£0.00
Band E	11/9	49.22	£ 49.22	£0.00
Band F	13/9	58.17	£ 58.17	£0.00
Band G	15/9	67.12	£ 67.12	£0.00
Band H	18/9	80.54	£ 80.54	£0.00

**Report to
Report by**

**Cabinet
Councillor Joyce Plummer
Portfolio Holder Resources**

Date

12th February 2020

**Report Prepared
by**

**Joe McIntyre
Deputy Chief Executive**

GENERAL FUND
CAPITAL PROGRAMME
2020/21

Purpose of the Report

To invite the Cabinet to consider the Council's capital investment priorities for 2020/21 and to recommend to the Council a capital programme for approval at its meeting on the 27th February 2020, 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 2020/21 of £3,107,775 as set out in Appendix 1.
2. That the programme is funded by new anticipated direct external grants of £976,000 and £2,131,775 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 2020 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 2020/21. In the past 20 years, the Council has funded significant programmes of Capital Expenditure which sometimes exceeded £15m per annum. In these more austere times it is not possible to fund investment into the local community at these levels. However the Council is able to put forward a substantial capital investment programme of over £3.1m, 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 with a continuing forward trajectory of escalating costs. 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 interest costs in 2020/21 are expected to be 5% or less of general revenue expenditure.
4. 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 9 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 in the present financial climate.
5. 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 0.75% are not expected to increase until the first quarter of 2021 at the earliest and could possibly decrease initially. The increase when it occurs in 2021 is only expected to be 25 base points, raising the Base Rate at the Bank of England to 1.00% with no further increases expected for the remainder of 2021. A further increase of 25 base points in 2022 is also then considered likely.

6. 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 another 20 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, 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.
7. The current Capital Projections for 2020/21 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.

8. 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.

9. The Capital Programme Working Group (CPWG) received bids considerably in excess of the available resources for the 2020/21 year and all of these applications have gone through a process of rationalisation to come up with a proposed programme for 2020/21.

10. The proposed programme is outlined in Appendix 1 and a summary of the major projects are given below.
 - a) The Council will commit almost £966,000 to Disabled Facility Grants in 2020/21, to help those that suffer from medical conditions that threaten their ability to live independent lives in their own homes. The money will provide stairlifts, toilet and bathroom adaptations, access ramps and other equipment, as well as grants for major structural alterations where needed.

 - b) The Council will continue to assist in the regeneration of Accrington Town Centre, building on the major £2m investment it has already undertaken in recent years outside the Town Hall and Market Hall and along Blackburn Road, with a £ ¾m investment to transform the Peel Street area adjacent to the Market Hall, creating new much needed parking spaces and opening up the grand façade of the building. A further £500,000 will be committed to refurbish the internal area within the Market Hall itself to modernise the shopping, retail and leisure

experience and provide further assistance to regenerating the main shopping and retail core areas of Accrington. Additionally, a scheme to improve the Market Hall Service Yard in 2019/20 has already been approved and this will be extended in 2020/21 with an additional £10,000 to resurface the area.

- c) The poor state of health and the extent of illnesses and early deaths continues to be a major issue across Hyndburn and the Council will therefore continue to support Leisure in Hyndburn to promote physical activity and wellbeing by providing £173,000 of funding to improve Hyndburn Sport Centre and £50,000 to improve the lighting to its customers' car park, along with a set aside of £10,000 to help fund a replacement for Hyndburn Sport Centre 3G artificial pitch when it comes time to renew it.
- d) We will also continue our investment into the Council's infrastructure with £150,000 to upgrade our 20 year old financial system, accompanied by a £50,000 investment to modernise and automate a variety of corporate property databases into one holistic system, a further £35,000 investment across the Council to upgrade desktop computers to ensure they are compliant with the latest security and operating requirements and £11,000 to uplift the ICT that supports our highly acclaimed Refuse and Recycling Service.
- e) There will also be nearly £29,000 made available to tackle a number of major park walls which are indicating they may collapse due to age and other pressures and £55,000 will be set aside to ensure we have funds available to replace vehicles as they come to the end of their economic life.

Improving the Management of Capital Investments

11. The Council needs to continue to develop its financial control over its major capital investment programme. It is critical that during 2020/21 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.

12. The outline of schemes for the 2020/21 Capital Programme can be seen at 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 12 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.

13. 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.

14. 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.
15. 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

16. Overall the Council will be investing £3.1m in Capital investment in 2020/21. There is a significant amount of the total resource available this year dedicated to supporting people with disabilities to continue to live in their own homes, along with continued investment in Accrington Town Centre and the Council's key buildings and infrastructure that it needs to deliver services to the public.

17. 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.

18. 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 as well as Businesses are invited to the Council's Overview & Scrutiny Committee on the 18th February 2020 at 3:00pm 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 2020/21 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 relate to the dangers of escalating costs linked to building work, as many of the buildings are old and potential problems can emerge once the scheduled work has commenced. The Council attempts to mitigate this risk by undertaking survey work ahead of schemes commencing and adopting a rolling programme of work to allow flexibility in the scheduling of projects if cost overruns start to occur.

LINKS TO CORPORATE PRIORITIES

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

EQUALITY

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

LEGAL IMPLICATIONS

Not applicable

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

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

APPENDIX 1**Capital Programme****2020/21**

Scheme	Bid Proposals		Net Cost
	Gross Cost	External Funding	
Disabled Facility Grants	£966,000	£966,000	£0
Accrington Market Hall Pavilions	£750,000		£750,000
Accrington Market Hall Refurbishment	£500,000		£500,000
Cemetery Welfare & Depot Facilities	£184,000		£184,000
Hyndburn Leisure Centre M & E	£173,000		£173,000
New Financial System	£150,000		£150,000
Broadway	£85,000	£10,000	£75,000
Hyndburn Sport Centre Car Park Lighting	£50,000		£50,000
Computer Aided FM System	£50,000		£50,000
Willows Lane Depot Improvements	£40,000		£40,000
Technology Refresh	£35,000		£35,000
Park Walls Reconstruction	£28,750		£28,750
Waste Services Ipad Upgrade	£11,025		£11,025
Wilson Playing Fields Storage & Welfare Facilities	£10,000		£10,000
Annual Vehicle Replacement Programme	£55,000		£55,000
Hyndburn Sport Centre 3G Pitch Sinking Fund	£10,000		£10,000
Market Hall Service Yard Phase II	£10,000		£10,000
Total	£3,107,775	£976,000	£2,131,775