SCRUTINY COMMITTEE

THURSDAY, 13TH FEBRUARY, 2020, 6.00 PM

CROSS ROOM, CIVIC CENTRE, WEST PADDOCK, LEYLAND, PR25 1DH

AGENDA

1	**Apologies for Absence**	
2	**Declarations of Interest** Members are requested to indicate at this stage in the proceedings any items on the agenda in which they intend to declare an interest. Members are reminded that if the interest is a Disclosable Pecuniary Interest (as defined in the Members' Code of Conduct) they must leave the room for the whole of that item. If the interest is not a Disclosable Pecuniary Interest, but is such that a member of the public could reasonably regard it as being so significant that it is likely that it would prejudice their judgment of the public interest (as explained in the Code of Conduct) then they may make representations, but then must leave the meeting for the remainder of the item.	
3	**Minutes of meeting Thursday, 23 January 2020 of Scrutiny Committee** To be signed as a correct record by the Chair.	(Pages 5 - 10)
4	**Minutes of the Last Scrutiny Budget and Performance Panel** Minutes of the meeting to be held on 10 February 2020, to be noted, **to follow**.	
5	**Worden Hall project Update** Report of the Assistant Director for Property and Housing attached.	(Pages 11 - 16)
6	**2020/21 Budget and Medium-Term Financial Strategy 2020/21 to 2023/24** Report of the Interim Section 151 Officer attached.	(Pages 17 - 62)
7	**Scrutiny Matters**	
7a	**Lancashire County Council Health Scrutiny Update**	

7b	**Meetings and training attended by Scrutiny Committee members**	
7c	**Forward Plan** Cabinet and Council Forward Plan attached.	(Pages 63 - 70)
7d	**Scrutiny Committee Forward Plan** Scrutiny Committee Forward Plan attached.	(Pages 71 - 72)
8	**Exclusion of Press and Public** To consider the exclusion of the press and public for the following items of business on the ground that it involves the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972. By Virtue of Paragraph 3: Information relating to the financial or business affairs of any particular person (including the authority holding that information) Condition: Information is not exempt if it is required to be registered under- The Companies Act 1985 The Friendly Societies Act 1974 The Friendly Societies Act 1992 The Industrial and Provident Societies Acts 1965 to 1978 The Building Societies Act 1986 (recorded in the public file of any building society, within the meaning of the Act) The Charities Act 1993 Information is exempt to the extent that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Information is not exempt if it relates to proposed development for which the local planning authority may grant itself planning permission pursuant to Regulation 3 of the Town & Country Planning General Regulations 1992(a).	
9	**Appendix for Worden Hall Project Update** Appendix for Worden Hall project update attached.	(Pages 73 - 90)

Gary Hall
INTERIM CHIEF EXECUTIVE

Electronic agendas sent to Members of the Scrutiny Committee Councillors David Howarth (Chair), Michael Green (Vice-Chair), Will Adams, Jacky Alty, Matt Campbell, Colin Coulton, Malcolm Donoghue, Chris Lomax, Jim Marsh, Colin Sharples, Stephen Thurlbourn, Matthew Trafford and Karen Walton

The minutes of this meeting will be available on the internet at www.southribble.gov.uk

Forthcoming Meetings
6.00 pm Tuesday, 17 March 2020 - Cross Room, Civic Centre, West Paddock, Leyland, PR25 1DH

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SOUTH RIBBLE BOROUGH COUNCIL
forward with South Ribble

MINUTES OF	**SCRUTINY COMMITTEE**
MEETING DATE	**Thursday, 23 January 2020**
MEMBERS PRESENT:	Councillors David Howarth (Chair), Michael Green (Vice-Chair), Will Adams, Jacky Alty, Matt Campbell, Colin Coulton, Malcolm Donoghue, Jim Marsh, Stephen Thurlbourn, Matthew Trafford and Karen Walton
CABINET MEMBERS:	Councillor Paul Foster (Leader of the Council and Leader of the Labour Group), Councillor Michael Titherington (Deputy Leader of the Council, Cabinet Member (Health, Wellbeing and Leisure) and Deputy Leader of the Labour Group) and Councillor Matthew Tomlinson (Cabinet Member (Finance, Property and Assets))
OFFICERS:	Peter McHugh (Assistant Director of Property and Housing), Howard Anthony (South Ribble Partnership Manager), Darren Cranshaw (Assistant Director of Scrutiny & Democratic Services) and Charlotte Lynch (Democratic and Member Services Officer)
OTHER MEMBERS:	Councillor Margaret Smith (Leader of the Opposition and Leader of the Conservative Group) and Councillor Phil Smith
PUBLIC:	0

28 Apologies for Absence

Apologies for absence were received from Councillors Chris Lomax and Colin Sharples.

29 Minutes of the Last Scrutiny Committee Meeting

RESOLVED: (Unanimously)

That the minutes of the last meeting of the Scrutiny Committee, held on Thursday, 14 November 2019, be signed as a correct record by the Chair.

30 Declarations of Interest

Councillor Michael Green declared a personal interest in Item 6 – South Ribble Partnership Update.

31 Matters Arising from Previous Meetings

The Committee received an update on progress made against matters arising from previous meetings.

Members acknowledged steady progress being made and raised no concerns with any matters arising.

RESOLVED: (Unanimously)

That the update be noted.

32 Worden Hall Project Update

The Cabinet Member for Finance, Property and Assets (Councillor Matthew Tomlinson) and the Assistant Director of Property and Housing (Peter McHugh) presented a report on the progress of the Worden Hall project to the Committee and responded to members' comments and queries.

The officer working group had met in December 2019 and was working to develop a hybrid option for Worden Hall that would enable community use and event hire. Members were also informed that the business plan had been reviewed to reflect the anticipated costings for the project and were assured that this could be delivered without the need for subsidy by the Council.

Members were informed that work on the Hall would link with the wider estate by establishing different areas which would provide a variety of activities and amenities. A café quarter would be created to bolster the existing refreshment facilities and a commercial zone would provide space for businesses and craft stalls to display their work to visitors.

It was acknowledged that substantial work would be undertaken and a target date for completion could not be confirmed as a result. An 18-month period was recognised as realistic and an indicative timeframe would be reported to Cabinet in February 2020.

In response to a query around the social value of the project, assurances were given that there was a strong emphasis on this because of feedback from the public consultation. Social value would be assessed through accessibility to the Hall and the demographic of visitors. Further information on this would be available as the project progresses further.

Members expressed some concern with the possibility of increased costs and sought reassurance around the measures that the Council would take to reduce the risk of this. The Cabinet Member and officers were confident that the Hall would become financially self-sufficient and reiterated that the budget for the project would be shared once confirmed.

Public engagement would continue through the Council's social media channels and through attendance at the Leyland My Neighbourhood Forum meetings.

As the Council had recently declared a Climate Emergency, members queried what measures would be taken to make the Hall environmentally-friendly. Constraints were acknowledged due to the Hall's status as a Listed Building, but officers would consider sustainable options where appropriate.

The Committee thanked the Cabinet Member and Assistant Director for their attendance.

RESOLVED: (Unanimously)

That

1. the Scrutiny Committee looks forward to a further progress report at the next meeting, including timescales and costs going forward.

2. the Scrutiny Committee welcomes the commitment to social value as part of the project.

3. the Scrutiny Committee feels reassured that all members and the My Neighbourhood Forum will continue to be updated and involved in the project.

33 South Ribble Partnership Update

The Leader of the Council (Councillor Paul Foster), the South Ribble Partnership Manager (Howard Anthony) and the Chair of the South Ribble Partnership (Jacqueline de Rose) presented an update on the work of the Partnership to the Committee and responded to members' comments and queries.

The Partnership had recently been relaunched following a restructure and revisions to its governance arrangements. Key objectives had been identified and there was an emphasis on improving the quantity of services available to residents and on utilising connections to bolster co-operative working. The Partnership also seeks to increase volunteering opportunities in the borough.

Substantial consultation had been undertaken to identify the needs and desires of residents and the Partnership is confident in the defined outcomes of this, including the Community Awards and the establishment of a time credits scheme.

The Partnership benefits from several grants and most organisations involved provide funding for projects. South Ribble Borough Council, Progress Housing Group and other partners also contribute to the Partnership and members were assured that finances are used wisely to ensure sustainability.

Members queried the new governance structure of the Partnership and were informed that a formal constitution is adhered to and all Partnership work and reports are publicly available to view. The Executive Board is made up of members with a variety of skills and specialisms.

In response to a query around the Partnership's action plan and its ambitions, members were assured that the Partnership hoped to see tangible benefits from their work within two years. The action plan was developed through a desire to make a difference to the borough and through feedback from community events.

Members were interested in the social progress index which the Partnership was considering employing. This would track social improvement using several indicators, such as housing quality and education levels, and is currently used by the United Nations. Discussions were ongoing with the London Borough of Barking and Dagenham, who are the pioneers, and further information would be sent to committee members.

The data dashboard is similarly used to understand the profile of the area. The dashboard was acknowledged as valuable in providing instant information as to what the Partnership could influence.

Members enquired as to how partners are incentivised and were advised that the agreed, clear objectives of the Partnership motivate their work and there is a strong emphasis on recognising the value and contribution of partners.

As the Council had recently declared a climate emergency, the Partnership's work on climate change was questioned. The need to consider environmental impact was identified by the Partnership and activities could include improving green spaces and assessing how accommodation can be environmentally-friendly.

A further update on the work of the Partnership would be received by the Committee in around 12 months, by which time it was anticipated that there would be a better understanding of existing services, more effective mapping and an increase in volunteering across the borough.

The committee thanked the Chair of the Partnership, Leader of the Council and Partnership Manager for attending and for their comprehensive report.

RESOLVED: (Unanimously)

That

1. the Scrutiny Committee welcomes the Partnership's commitment to delivering outcomes.

2. the Scrutiny Committee looks forward to receiving further information on the social progress index.

3. the Scrutiny Committee wishes the Partnership well and looks forward to receiving a progress report in 12 months' time.

4. the Scrutiny Committee encourages the use of plain English or the provision of a glossary.

34 Scrutiny Matters

34a Lancashire County Council Health Scrutiny Committee Update

The last meeting of the Lancashire County Council Health Scrutiny Committee had been postponed due to Purdah.

34b Meetings and training attended by Scrutiny Committee members

Councillor Michael Green informed members of the committee that he had attended a meeting of the North West Scrutiny Network, which he found useful for meeting Scrutiny Committee members from other authorities.

The North West Scrutiny Network meetings are open to all Scrutiny Committee members, who are encouraged to attend.

It was agreed that Councillor Stephen Thurlbourn would provide the Scrutiny Committee with a bi-annual update on the work of the Climate Emergency Task Group.

34c Forward Plan

Members requested that the Cabinet report on the Implementation of Community Involvement Recommendations also be received by the Scrutiny Committee at the meeting in March.

34d Scrutiny Committee Forward Plan

Members requested that a report on housing associations be received by the Scrutiny Committee at the meeting in March.

Members expressed their desire to assess key providers in the borough in their quality of housing, processes for dealing with complaints, availability of single-person accommodation and their efforts to reduce their carbon footprint.

Chair   Date

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REPORT TO	ON
CABINET	12 February 2020

TITLE	PORTFOLIO	REPORT OF
Worden Hall project Update	**Finance, Property and Assets**	**Director of Planning and Property**

Is this report a **KEY DECISION** (i.e. more than £100,000 or impacting on more than 2 Borough wards?)	**Yes**
Is this report on the **Statutory Cabinet Forward Plan**?	**Yes**
Is the request outside the policy and budgetary framework and therefore subject to confirmation at full Council?	**No**
Is this report confidential?	**No** **However, the appendix to the report is confidential. Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 applies - Information relating to the financial or business affairs of any particular person (including the authority holding that information).**

PURPOSE OF THE REPORT

1. This report updates Cabinet on the capital and revenue costings associated with bringing Worden Hall back into use for the purposes of community hire, the provision of an expanded café offer and the potential to host small weddings and events.

2. The report provides Cabinet with plans of what the refurbished Hall would look like which shall form the basis of an application for planning permission to take the refurbishment project forward.

PORTFOLIO RECOMMENDATIONS

3. That subject to the approval of the capital programme as part of the budget approval process that Cabinet approve the capital and revenue costs contained within Appendix 1 to bring Worden Hall back into use with the aim to generate an annual operational surplus.

4. That Cabinet approve the submission of a planning application for Worden Hall based upon the plans as outlined within Appendix 1.

REASONS FOR THE DECISION

5. Following an extensive public consultation exercise which resulted in over 500 responses to the 3 investment options for Worden Hall, a report was provided to Cabinet on 16th October 2019 which summarised the feedback received and recommended that further work was required to develop a finalised option for consideration by Cabinet in January 2020.

6. At the Cabinet meeting on 16th October it was recommended that a multi - disciplinary officer working group be established to work through the development of an enhanced Option 1 Community use to incorporate small weddings and events.

7. The officer group has met on 3 occasions and have worked with consultants Purcell and Amion (report authors for the Options Appraisal on which the public consultation was based) to develop the proposals contained within this report.

8. The feedback from the public consultation exercise clearly stated that plans for Worden Hall needed to be economically viable and that the Hall must be able to run without recourse to subsidy from the council. This has been fully taken on board and built into the business plan for the Hall.

9. At the Cabinet Meeting on 22 January 2020 Cabinet recommended that a further report be brought back to the next meeting in February 2020 providing detailed costings for the capital works to bring Worden Hall back into use.

CORPORATE OUTCOMES

10. The report relates to the following corporate priorities:

Excellence, Investment and Financial Sustainability	√
Health, Wellbeing and Safety	
Place, Homes and Environment	√

Projects relating to People in the Corporate Plan:

Our People and Communities	

BACKGROUND TO THE REPORT

11. In June 2018 the Council appointed architectural consultant Purcell and financial consultants Amion to undertake a feasibility study and options appraisal into potential future uses of Worden Hall. The consultant's report reviewed and modelled in detail, three options for bring the Hall back into use. These options consisted of a Community Use option, Small Weddings and Events option or large Weddings and Events option.

12. At the Cabinet meeting on 16th October the Cabinet recommended to rule out Option 3 and requested officers to work up a viable business plan for an enhanced Option 1 which combined Community Use as well as providing for small weddings and events.

13. A multi- disciplinary officer group have worked with the architectural and financial consultants to develop the proposals as outlined in Appendix 1.

14. The proposals form a hybrid of options 1 and 2 considered at the Cabinet Meetings on the 16 October 2019 and 22 January 2020.

15. The plans have been developed by Purcell Architects and the financial modelling has been undertaken by Amion consulting.

PROPOSALS (e.g. RATIONALE, DETAIL, FINANCIAL, PROCUREMENT)

16. A summary of the Hybrid Option proposals are set out below for information:

- The proposals provide for a community option that repairs and refurbishes the existing buildings to provide a series of flexible spaces that could be booked out to local groups for meetings and events
- The stables and Hayloft are re-purposed as a bar and green room with a hoist to provide access to the first floor along with a foyer to support the event space.
- New covered courtyard is included to create the main entrance to the complex
- Main hall with seated capacity for 100 people
- Three leased offices/workspaces
- Extended Café Space which is relocated from the stables to ground floor of the Derby Wing
- Small manager's office and new toilet to be provided
- New access formed to connect the Marsden Room to the craft units
- Zoning of area to be developed including commercial quarter, festival court and café court
- Potential for café to utilise Glass House for additional space on a seasonal basis.
- Gallery to connect first floor to Hay loft with lift access provided to the clock tower to enable first floor to be accessible in line with DDA requirements
- Marsden Room to be utilised for weddings and events with breakout space provided through the Festival Court and potentially the Commercial Zone (at agreed times).

17. A full procurement exercise shall be required in order to appoint specialist advisers and developers to bring the Hall back into use. The project team shall work closely with the procurement team to ensure that contractors and consultants are appointed in the most timely, efficient and effective manner.

18. The capital programme has been amended to reflect the cost of bringing the hall back into use.

CONSULTATION CARRIED OUT AND OUTCOME OF CONSULTATION

19. An extensive consultation exercise has been carried out which resulted in high levels of involvement from the public. Over 500 respondents replied to the consultation exercise with the majority stating that they wanted the Hall to be a Community Venue which provided a space for meetings and hosted small weddings and events. The proposals outlined within the report are fully aligned to the feedback that was received through the public consultation exercise.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

20. The Council could choose not to develop Worden Hall. This is not recommended as the feedback from the public consultation exercise strongly supported the Council investing in the Hall and bringing it back into use.

AIR QUALITY IMPLICATIONS

21. The Council is committed to becoming Carbon neutral by 2030 and to tackle climate change and air quality. The proposed works shall be commissioned in such a way as to minimise the carbon footprint of bringing the hall back into use. The use of energy generation and efficiency measures shall be built into the procurement process in order to minimise running costs and energy inefficiency.

RISK MANAGEMENT

22. The Council will ensure that that all Health and Safety risks associated with the redevelopment are managed efficiently and effectively.

23. It is important that effective liaison is undertaken with Historic England to ensure that any plans for Hall are in keeping with conservation and regulatory requirements in order to avoid any unnecessary work and spend.

24. The Council will need to give careful consideration to the project management of this project in order to ensure that the re-development is undertaken to agreed Health, Safety and quality standards.

EQUALITY AND DIVERSITY IMPACT

25. The proposed works to the Hall shall ensure that it is Disability Discrimination Act Compliant.

26. A full EIA (Equalities Impact Assessment) will be carried out as part of the project

COMMENTS OF THE STATUTORY FINANCE OFFICER

27. The capital programme includes the capital costs of the proposed works. The costs to bring Worden Hall back into use for the purposes of community hire, the provision of an expanded café offer and the potential to host small weddings and events is £2,172,500. The capital programme includes the capital costs of the works and proposed financing from the Borough Investment return.

28. The refurbishment and regeneration of Worden Hall has been identified as a key strategic project within the Leyland Town Deal and should this bid be successful funding shall be sought to help finance the refurbishment works.

29. With regards to the forecast revenue implications of this proposal, financial modelling has been undertaken to forecast the running costs and potential income from the improved facility. It is anticipated that there will initially be an operational deficit but a surplus is forecast for the second full year of operation. In addition there are currently revenue costs being incurred to maintain the building which will be a saving going forward if the building is brought back into use.

COMMENTS OF THE MONITORING OFFICER

30. The purpose of this report is two-fold. Firstly, for Cabinet to approve the Capital and Revenue implications of the proposal. Secondly for Cabinet to agree to the submission of a planning application. Clearly any planning application will be determined strictly in accordance with the requirements of planning law. Apart from planning permission, listed building consent will also be required.

31. Speaking generally this is clearly a major project. The cross functional officer group will continue to meet and work on this. We must ensure that all necessary procurement requirements are met at various stages in the project, that robust contractual documentation is drawn up and that all necessary consents are obtained.

BACKGROUND DOCUMENTS

It is recommended that Cabinet refer to the Cabinet Reports dated 19th June 2019,16th October 2019 and 22 January 2020.

APPENDICES

Appendix 1 – Copy of plans and costings for the Hybrid Option

Report Author:	Telephone:	Date:
Peter McHugh Peter McHugh Assistant Director for Property and Housing	01772 62 5228	30/1/20

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REPORT TO	ON
CABINET SCRUTINY COMMITTEE	Wednesday, 12 February 2020 Thursday, 13 February 2020

TITLE	PORTFOLIO	REPORT OF
2020/21 Budget and Medium-Term Financial Strategy 2020/21 to 2023/24	**Cabinet Member (Finance, Property and Assets)**	**Interim Section 151 Officer**

Is this report a **KEY DECISION** (i.e. more than £100,000 or impacting on more than 2 Borough wards?)	**Yes**
Is this report on the **Statutory Cabinet Forward Plan**?	**Yes**
Is the request outside the policy and budgetary framework and therefore subject to confirmation at full Council? This should only be in exceptional circumstances.	**Yes**
Is this report confidential?	**No**

PURPOSE OF THE REPORT

1. The purpose of this report is to set out the proposed 2020/21 Revenue Budget for Council and the Medium-Term Financial Strategy for the next 4 years. This is the financial plan for the Council for the next 4 years and is aligned to the Corporate Plan which sets out the Council's ambitions and priorities for the residents and businesses in the borough. Cabinet approval is sought and recommendation to Council for approval at the Council meeting on 26th February 2020.

PORTFOLIO RECOMMENDATIONS

2. Cabinet recommend to Council the revenue budget for 2020/21 as set out in Appendix A.

3. Cabinet recommend to Council the 4-year Medium Term Financial Strategy (MTFS) 2020/21 to 2023/24 as set out in Appendix A.

4. Cabinet recommend to Council a Council Tax increase of 1.99%.

5. Cabinet recommend to Council the Capital Strategy and its proposed funding as set out in Appendix C.

6. That Council be recommended to approve the Treasury Strategy, Prudential Indicators and the Annual investment Strategy as attached at Appendix D.

7. Cabinet note that consultation on the proposed budget commenced after publication of the budget report on 4th February and the results will be analysed and taken into consideration before the budget is taken to Council for approval on 26th February 2020.

REASONS FOR THE DECISION

8. It is the role of the Cabinet to provide initial consideration to the budget and associated matters and for them to make appropriate recommendations to Full Council which is the decision-making body.

EXECUTIVE SUMMARY

9. The report sets out the Council's financial plan for the next 4 years and includes:

- An overview of the 2020/21 LG Finance Settlement
- The updated revenue budget deficit position for the 2020/21 Medium Term Financial Strategy (MTFS) to 2023/24 and key assumptions
- Revenue savings targets
- Links to the Corporate Plan priorities
- The Capital Strategy and financing
- The Treasury Strategy
- Reserves forecasts

CORPORATE OUTCOMES

10. The report relates to the following corporate priorities: (tick all those applicable):

Excellence, Investment and Financial Sustainability	√
Health, Wellbeing and Safety	√
Place, Homes and Environment	√

Projects relating to People in the Corporate Plan:

Our People and Communities	√

11. BACKGROUND TO THE REPORT

The current budget and Medium-Term Financial Strategy was approved in February 2019. The forecasts have been updated in line with the revised Corporate Plan and also reflect changes in services, revised income forecasts, pension contributions, funding (business rates and New Homes Bonus), inflation rates and any approvals for new budgets during 2019/20.

12. 2020/21 LOCAL GOVERNMENT FINANCE SETTLEMENT

On 20th December 2019, the Ministry of Housing, Communities and Local Government published the consultation the 2020-21 provisional local government finance settlement. The consultation ran for four weeks from 20 December 2019 to 17 January 2020. The council

was waiting for the outcome of this consultation at the time of writing this report and an update will be provided at the meeting.
A summary of the proposals in the provisional settlement which affect South Ribble Borough Council (and its partners) are:

- a **one-year spending round for 2020-21** & plans for a more substantial Spending Review exercise in time for 2021-22 including a full reset of business rates baselines (therefore significant uncertainty on funding from 2021/22 onwards)
- **Business rates retention pilots** agreed for 2019-20 these will finish at the end of the financial year (therefore 75% Lancashire pilot will revert to 50% in 2020/21).
- a core **council tax referendum principle of up to 2%** (reduced from 3% in 2018/19) or £5 on a band D.
- retained top-slice of Revenue Support Grant to fund **New Homes Bonus in 2020-21.** (however, there is a change to the current scheme of legacy funding for 4 years – i.e. this is a one-year funding allocation only - which has significant implications for City Deal). The NHB baseline (under which no Bonus will be paid) has been retained at 0.4%. This baseline equates to c200 properties for South Ribble.
- maintaining existing **Better Care Fund funding** at 2019-20 levels, as well as rolling the Winter Pressures Grant into the Better Care Fund, with the same distribution as this year (therefore Disabled Facilities Grant capital funding will continue)

Table 1 – Settlement Funding Assessment (Provisional)

	Current Year 2019/20 £000	**Provisional 2020/21 £000**	***Notes***
Revenue Support Grant	0	0	*No RSG funding for SRBC since 2017/18*
Business Rates Baseline Funding Level	(2,309)	(2,346)	*Council's share of income less tariff*
Total Settlement Funding Assessment	**(2,309)**	**(2.346)**	

Nationwide there are 27 approved Business Rates Pools for 2020/21. South Ribble Borough Council will continue to be in the Lancashire Business Rates Pool in 2020/21. There are 11 local authorities in the pool; 10 of the 12 Lancashire Districts (Lancaster and Preston have opted out for 2020/21) plus Lancashire County Council.

The 2020/21 forecast retained business rates is **£5.0m**, compared to **£5.7m** forecast in the Original estimate for 2019/20. The main reason for the reduction is that in 2019/20 only, the Council benefited from an increased share of business rates growth through the 75% business rate pilot. The Safety Net was set at 95% (an increase from 92.5%), to reflect the additional risk locally that 75% retention introduced, and this was applied pilot wide and not to individual authorities; and, no levy was required to be paid.

Table 2 below shows the provisional New Homes Bonus (NHB) payment for 2020/21. The £660k receivable in 2020/21 includes legacy payments in relation to 2017/18 to 2019/20 of £366k and a **one-year** payment of £294k for 2020/21.There will be no legacy payments in future years in relation to the 2020/21 allocation. The Minister of State for Housing has stated that any funding beyond 2020/21 is subject to the 2020 Spending review and that the government intend to consult on the future of NHB in the Spring.

Table 2 – New Homes Bonus allocations

Payments	11/12 £000	12/13 £000	13/14 £000	14/15 £000	15/16 £000	16/17 £000	17/18 £000	18/19 £000	19/20 £000	20/21 £000	21/22 £000	22/23 £000
Year 1	165	165	165	165	165	165						
Year 2		169	169	169	169	169						
Year 3			177	177	177	177	177					
Year 4				114	114	114	114					
Year 5					471	471	471	471				
Year 6						648	648	648	648			
Year 7							254	254	254	254		
Year 8								19	19	19	19	
Year 9									93	93	93	93
Year 10										294		
20/21 SRBC Total (80%)										**660**		
LCC (20%)										165		

13. UPDATED REVENUE BUDGET FORECAST TO 2023/24

The budget forecasts have been constantly reviewed and updated over the last few weeks each time business matters have changed, and new information has come to light.

The key assumptions in the MTFS are as follows: -

- Pay inflation 3% 20/21, 2% future years
- Non- pay inflation - contracts only
- Living Wage employer from 1/4/20 (applied to Apprentices)
- Shared Services implementation from April 2020
- Turnover saving - annual provision £150k
- No other savings targets
- £492k pa from City Deal income included
- Council Tax increase 1.99% pa
- Council Tax base 0.5% growth
- Council Tax Collection 98%
- Council Tax Support Scheme removal of £3.50
- Council Tax income forecasts reflects changes to policies re Empty Homes and 2nd Homes
- The continuation of the BRR Lancashire Pooling Arrangements.
- Impact of Pension Fund Revaluation
- Contributions to Third Parties – Continuation of funding (CAB) plus additional support in Corporate Plan
- This budget model assumes the impact of the Leisure Review is cost neutral although there is a potential budgetary saving on contract renewal
- New Leisure Facility Deferred to 2023/24
- Capital Programme reflects new Corporate plan priorities and re-phasing and related revenue net financing cost changes.
- Reductions to fees and charges with respect to changes in charging policy for Garden Waste and replacement bins

The revenue summary position is set out in Table 3 below and set out in more detail in Appendix A. As previously reported, there is significant uncertainty on funding from

2021/22 onwards and therefore the funding for 2021/22 is purely indicative and based on 20/21 funding levels.

Table 3 – MTFS REVENUE SUMMARY

	Forecasts 2020-21	Forecasts 2021-22	Forecasts 2022-23	Forecasts 2023-24
	£000	**£000**	**£000**	**£000**
Net Cost of Services	**14,677**	**13,878**	**14,186**	**14,650**
Funding				
Retained Business Rates / Section 31 Grant	(5,310)	(5,043)	(5,129)	(5,216)
Council Tax	(8,596)	(8,684)	(8,891)	(9,103)
New Homes Bonus	(660)	(112)	(93)	(93)
Total Funding	**(14,566)**	**(13,839)**	**(14,113)**	**(14,412)**
Forecast Budget (Surplus) / Deficit	**111**	**39**	**73**	**238**
Transfers to /(from) Earmarked reserves	(111)	313	400	310
Funding Gap	**0**	**352**	**473**	**548**

14. MTFS PLANNING: FORECAST BUDGET DEFICITS

The revenue budget forecasts in the MTFS show a balanced budget in 2020/21 (assuming the proposed Council Tax increase and other budget proposals are accepted) and a deficit of £352,000 in 2021/22 which is forecast to increase to £548,000 in 2023/24, as shown above. This total deficit of £1.373m will need to be funded from general reserves unless additional income or budget savings can be identified; this is clearly not sustainable in the longer-term.

With regard to having a strategy to address these financial challenges, some of the initiatives already in place or being considered have the potential to generate additional income or realise cashable budget savings. These initiatives include:

- Extending Shared Services
- Joint procurement
- Digital Strategy
- Affordable housing/house building programme
- Worden Hall
- Investment property rent reviews
- Leisure Contract renewal – cost neutral
- Rationalisation of leisure provision
- Income generation e.g. events

In addition, some budget savings could be identified through a thorough base budget review and challenge exercise.

It is therefore proposed that the budget savings targets set out below are approved for 2021/22 to 2023/24 and that work is undertaken during 2020/21 to determine how these can be achieved to ensure a balanced budget position going forward. This strategy assumes that, of the total forecast deficit of £1.373m, £0.600m will be met from budget savings and the balance (£0.773m) will be funded from general reserves. This will result in a forecast balance in general reserves of £4.029m at the end of the MTFS.

	Current Revenue Estimates			
	2020-21 £000	2021-22 £000	2022-23 £000	2023-24 £000
Forecast Budget Gap	**0**	**352**	**473**	**548**
Budget savings targets – 21/22	**0**	**(100)**	**(100)**	**(100)**
Budget savings targets – 22/23	**0**	**0**	**(100)**	**(100)**
Budget savings targets – 23/24	**0**	**0**	**0**	**(100)**
Transfer from General Reserves	**0**	**(252)**	**(273)**	**(248)**
Balanced Budget & MTFS	**0**	**0**	**0**	**0**

It is important to note that if the Council's future funding allocations are reduced as a result of the Government's planned funding review then this deficit position could worsen significantly. (For example, a change to the BRR scheme such as the removal of the business rates pools would result in South Ribble losing in the region of £1-1.2m of retained income annually). **If that is the case then the savings targets will need to be more challenging going forward to achieve a sustainable, balanced budget position.**

15. LINKS TO THE CORPORATE PLAN PRIORITIES AND POLICY CHANGES

The following key projects are being undertaken and have an impact on the MTFS and budget for 2020/21 and beyond: -

- Council Tax Strategy
- Strategic Shared Services partnership with Chorley Council
- Regeneration/Town Deal funding bid
- City Deal
- Worden Hall development
- Extra Care scheme
- Provision of affordable homes
- Review of Leisure Services
- External Review of Assets – when complete this will need to be incorporated into future proposals and strategy including the Council's Property Investment Strategy and application of the Borough Investment reserve
- Investment in the delivery of Digital Strategy projects with potential for future efficiency savings
- Other Corporate Plan projects

The Corporate Plan and priorities are supported by the budget and determine where cash resources are invested. Therefore, the approved corporate plan projects and policy decisions taken (such as Council Tax support and Garden Waste charges) have financial implications which have been reflected in the budget forecasts presented. The Corporate Plan also influences the Capital Programme, and this has been updated and any revenue implications of capital projects is also included in the forecasts.

The revenue budget adjustments for Corporate Plan projects are detailed in Appendix B.

16. RESOURCES

The salaries forecasts have been updated to reflect:

- the assumptions in relation to pay increases (3% for 20/21 and 2% thereafter)
- the impact of being a Living Wage employer (only affects the Apprentice grades)
- approved establishment changes during 2019/20
- the proposed additional resource requirements to support the Corporate Plan

New posts which have been funded from savings/additional income elsewhere in the budget are as follows:

Conferences and Bookings Officer	Graduate Engineer
Facilities Team Leader	IDOX system Supervisor
Communications Officer	Licensing Officer
Environmental Health Climate Change Officer	2 Mechanics (SRBC/Chorley waste services)

In addition, the following posts that have been included in the forecasts to support the delivery of the Corporate plan:

- Cyber Security Officer
- 2 Community Development Officers
- Housing Enforcement Officer

The forecast savings from the approved expansion of the Shared Services arrangements with Chorley Council are currently shown in the efficiency target line in the revenue summary for information. They will be allocated to specific service lines within the revenue budgets for monitoring purposes.

It is important to note that the costs of being a Living Wage Employer which have been included in these revenue forecasts, do not include any implications to the Council of extending this requirement to individuals providing services to the Council through contracts, such as Waste and Leisure. Therefore, this is a potential budget pressure which may need to be considered going forward.

17. COUNCIL TAX INCREASE

The Council has the ability to increase council tax levels to fund on-going expenditure. The Provisional Local Government Finance Settlement includes a core council tax referendum principle of up to 2% increase (reduced from 3% in 2018/19) or £5 on a band D. The implications of these increases on a Band D property and in terms of the additional income generated are set out below:

Potential increase	Band D 2020/21	Annual Increase	Forecast Additional Income
No increase	£218.88	NIL	NIL
1.99% increase	£223.24	£4.36	£157,000
£5 per Band D (2.28%)	£223.88	£5.00	£180,000

The budget forecasts are based on a 1.99% increase in 2020/21 generating £157,000 of additional revenue. Cabinet is asked to recommend this increase to Council on 26th February.

18. CAPITAL STRATEGY 2020/21 – 2023/24

The Capital programme has been updated to reflect:

- the allocation of budgets to specific schemes in 2020/21
- re-phasing of expenditure
- the impact of the planned Corporate Plan projects

The detailed Capital Programme and Financing is set out in Appendix C to this report. A summary of the capital forecasts is set out in Table 4 below:

Table 4 – Capital Programme Summary

Corporate Priority or Scheme Name	Budget 2020/21 £'000	Budget 2021/22 £'000	Budget 2022/23 £'000	Budget 2023/24 £'000	TOTAL £'000
Health, Wellbeing and Safety					
Green Links	468	200	200	200	1,068
Worden Park and Hall	848	1,850	200	232	3,130
Other Parks and Open Spaces	1,095	733	40	-	1,868
Sport and Leisure	1,146	4,100	1,300	19,000	25,546
Place					
Affordable Housing	2,090	700	-	-	2,790
Housing Grants	866	757	757	757	3,137
Extra Care	-	5,000	4,000	1,000	10,000
Masterplanning/regeneration	185	2,000	2,000	-	4,185
Community Grants	100	-	-	-	100
Churchyard/other	220	80	-	-	300
Excellence, Investment & Financial Sustainability					
Civic Centre, Corporate Buildings	325	150	100	100	675
ICT & digital	290	200	200	200	890
Vehicles, Plant & equipment	2,461	950	400	100	3,911
Expenditure Total	**10,094**	**16,720**	**9,197**	**21,589**	**57,600**

19. RESERVES

During a period where financial risk profiles are increasing (e.g. uncertainty in relation to future Business Rates Retention scheme and NHB funding), it is necessary to retain adequate reserves in order to mitigate against that risk. A summary of the reserves brought forward and the future forecasts is set out in table 5 below.

Table 5 – Projected Reserves over the life of the MTFS

RESERVES FORECAST-SUMMARY	Actual 31/3/19 £000	Forecast 31/3/20 £000	Forecast 31/3/21 £000	Forecast 31/3/22 £000	Forecast 31/3/23 £000	Forecast 31/3/24 £000
General Fund Balance	**(4,680)**	**(4,802)**	**(4,802)**	**(4,550)**	**(4,277)**	**(4,029)**
Earmarked Reserves						
Apprenticeship Reserve	(267)	(267)	0	0	0	0
Borough council elections	(114)	0	(40)	(80)	(120)	(5)
Borough Investment account	(4,594)	(4,594)	(3,944)	(2,274)	(2,274)	(2,274)
Business rates retention reserve	(2,751)	(2,686)	(2,935)	(2,870)	(2,805)	(2,790)
Capital Funding Reserve	(3,073)	(3,108)	(703)	(276)	(526)	(776)
CIL admin	0	(149)	(149)	(149)	(149)	(149)
City Deal	(1,711)	(1,844)	(1,844)	(1,844)	(1,844)	(1,844)
Housing needs survey	(83)	(103)	(83)	(103)	(123)	(143)
Local Plans	(255)	(255)	(157)	(131)	(106)	(62)
My Neighbourhoods reserve	(54)	(54)	(54)	(54)	(54)	(54)
Organisational restructure costs	(27)	(27)	(27)	(27)	(27)	(27)
Performance Reward Grant	(47)	0	0	0	0	0
Repairs and Maintenance Fund	(500)	(500)	0	(250)	(500)	(750)
Section 106 Reserve	0	0	0	0	0	0
Climate Change	0	0	(250)	(250)	(250)	(250)
Credit Union	0	(150)	(150)	(150)	(150)	(150)
Transformation Reserve	(500)	(290)	0	0	0	0
Other earmarked reserves	(863)	(593)	(308)	(189)	(155)	(155)
sub total	**(14,839)**	**(14,619)**	**(10,643)**	**(8,645)**	**(9,0811)**	**(9,427)**
Total reserves	**(19,519)**	**(19,421)**	**(15,445)**	**(13,195)**	**(13,359)**	**(13,456)**

20. This summary reflects:

- Actual Reserves brought forward at 1st April 2019
- Use of General reserves to fund forecast budget deficits (£0.773m forecast reduction)
- Planned use of capital reserves to fund capital programme
- Contributions from revenue into reserves in future years (21/22 onwards) to provide funding for Capital and R&M expenditure in the capital programme in future years
- Use of Transformation Reserve to fund Digital Strategy projects
- Funding of Worden Hall refurbishment and Community Loan from Borough Investment Account

- Contributions from reserves to fund revenue expenditure (e.g. Central Lancashire Local Plan, elections, Youth Support initiative, housing survey)
- The creation of two new reserves: a Climate Change reserve to fund future projects; and a Credit Union reserve to fund initial costs in relation to this proposal.
- The release of the balance of the Apprenticeship reserve – this was originally set up to fund apprenticeship costs. The apprenticeship posts have now been included in the budgeted establishment.
- Retention of the City Deal Reserve to mitigate the impact of any changes to the current deal. The revenue forecasts include £492k annual income from City Deal which under the current 10-year deal will only be paid until 2023/24.
- The continued need for a Business Rates Equalisation reserve to manage uncertainty in the BRR system.

The Borough Investment reserve was originally set up as a fund to purchase investment property to generate revenue returns (commercial rents) to the Council. This has not been possible to achieve and therefore the purpose of the reserve in the future needs to be re-defined. In the MTFS it has been applied to two capital items: The proposed investment in Worden Hall and to cashflow a community loan (Hoole Village Hall). Although both of these initiatives should generate a small payback to the Council, it is not at a commercial rate of return. The community loan has been included in the forecasts but is subject to a due diligence process and will need Full Council approval. Unlike Worden Hall, which is a council owned asset, it is proposed that both the capital and interest on the Hoole Village Hall funding is repaid back into the Borough Investment Reserve.

21. ASSET MANAGEMENT & INVESTMENT PROPERTY STRATEGY

It is important that the Council has a robust approach to managing its assets in order to ensure that they are well maintained, returns on investment properties are maximised, managed and mitigated, and a clear process is put in place to address any under-performing or under-utilised assets.

In January, Cabinet approved a review to be undertaken of the Council's commercial investment property portfolio which will assess the performance of assets, develop the asset management plan and inform strategy for acquisitions and disposals.

It is essential that the Council adopts a pro-active approach to managing and minimising any risks which are highlighted through the review. The review should provide greater clarity and assurance in relation to the performance of the commercial asset portfolio. Following the review, there may be financial implications which will need to be considered and any budgetary implications addressed within the context of the overall MTFS.

22. TREASURY MANAGEMENT STRATEGY

The Treasury Management Policy Statement attached to this Medium Term Financial Strategy is produced annually and approved by the Council as part of the budget setting process.

The Treasury Management Policy Statement and the Capital Strategy are closely linked. The Capital Programme identifies the funding needs of the Council over a medium term period. The Treasury Management Policy Statement considers these longer-term cash flow needs and sets out how the Council will manage these cash requirements. This may involve arranging investments and loans taking decisions on whether they should be short or long-term having regard to prevailing and forecast interest rates. The Treasury Management Policy Statement will also consider the Council's cash surpluses and how these should be managed. At times it may be beneficial to defer borrowing and use these cash surpluses to avoid lending and thereby save paying interest costs. The Council has successfully pursued a policy of internal borrowing using its cash surpluses whilst simultaneously keeping a close watch over interest rates for signs that they may increase. In terms of increasing interest rates, the Council will continue to monitor markets in relation to investing surplus cash against the requirements of the capital programme expenditure.

23. Borrowing Limits
The Capital Programme assumes a level of borrowing that will need to be taken out to fund the overall programme. The Council will continue to seek alternative funding sources to mitigate borrowing. In the event of having to borrow the Council will seek to maximise spend to save / earn opportunities such that debt repayment is covered from service efficiency or new income streams. In the event the council enters into external borrowing requirements the Prudential Code requires authorities to set two limits at its Full Council meeting for external debt each year:

1) **Authorised limit** - this represents the maximum limit for external debt, including PFI liabilities, taking account of fluctuations in day to day cash requirements

2) **Operational Boundary -** this limit is based on the authority’s estimate of most likely amount of borrowing required. The Council is currently not borrowing as a result of pursuing an internal borrowing policy for the last few years to reduce financing costs.

24. Minimum Revenue Provision
The Council has a statutory requirement to set aside a prudent amount each year as a provision for the repayment of debt, known as the Minimum Revenue Provision (MRP). The amount to be set aside as MRP is governed by statutory guidance, however in practice it is left for each authority to determine what a prudent amount should be. The Council calculates MRP broadly in relation to the expected life of the assets being funded from borrowing either internally or externally; any detailed MRP Strategy to be approved by the Council will set out the full policy.

25. Financial (Treasury Management) Investments
When the Council has surplus cash this may be invested to earn a return. The Treasury Management Policy Statement sets out how the Council manages risk associated with its investments. Investments are anticipated to be in the region of £40 million at the end of 2019/20. Beyond this date it is difficult to predict what investments may be held as that will depend on what happens to the interest rates and how the Council intends to spend its reserves and other unallocated funds. The Council may decide to invest in other models to deliver its strategic outcomes.
Additional reports will be presented at the time decisions will need to be made.

26. Governance
Treasury Management activity is governed by the requirements of the CIPFA Treasury Management Code. The Council complies with all aspects of the Code; an annual Strategy Statement is approved by Full Council as part of the budget setting process, a mid-year update report is provided to Governance Committee and an outturn report produced in June. The Governance Committee is responsible for the oversight and governance of all Treasury Management activity.

27. Approach to Managing Risk
Risk is inherent with any investment or commercial activity and whilst it cannot be entirely eliminated the Council can adopt a strategic approach to its management by establishing a clear policy setting out what risk level it is prepared to tolerate. This will be the Council’s risk appetite. The Council’s risk appetite is to balance risk and return in pursuit of its

corporate objectives. In this way the Council has an understanding of the adverse aspects of risk and can take steps to mitigate it when making decisions.
It should be noted, however, that the risk referred to in the Capital Strategy is only one part of the Council's overall risk management arrangements and needs to be seen in the context of the overall risk management framework, the governance arrangements and the monitoring and reporting procedures. With regard to general risks the Council produces a Corporate Risk Register and to manage risk capacity has reserves. Other key business risk alignment processes include: the MTFS, internal audit, budget setting and monitoring framework, treasury management arrangements, performance management framework, and external audit.
The Council is exposed to a number of investment and commercial risks:

- **Financial** risk relating to the investment of cash, market volatility, currency markets. Transparent decisions will be made utilising appropriate due diligence. The council will apply the principles of Security, Liquidity and Yield with all investments. The Council has no appetite for volatile, currency or high-risk markets.
- **Economic** risk relating to whether the local / national economy is growing or contracting. The Council will have a balanced approach for this area allocating funds to employment, housing and property investment. Some projects will yield good financial returns with others less so whilst creating economic growth. There is little appetite for projects that have identified interest rate and inflationary pressures.
- **Counterparty** risk relating to investments, loans to third parties and business transactions based on robust due diligence and Treasury policy management.
- **Operational** the Council have a low appetite for risk arising from transactions, service delivery, IT security, etc
- **Strategic** risk relating to the decisions taken by the Council in pursuit of its corporate objectives identified in the Corporate Plan, i.e. the purchase of major new assets including vehicles for service delivery.
- **Reputational** the Council has no appetite for risk relating to the adverse impact of the Council's dealings
- **Environmental and social** the Council has no appetite to risks arising from the adverse impacts of its investment.
- **Governance** risk relating to the transparency and accountability of decisions and decision-makers.

28. Knowledge and Skills
Both the Capital Programme and the Treasury Management Strategy are managed by teams of professionally qualified accountants with considerable experience of local government finance. Officers maintain and develop their skills and knowledge through a programme of Continuous Professional Development and by attending various courses and conferences held by CIPFA and other sector experts on an on-going basis.
The Interim Section 151 Officer is also a professionally qualified accountant. The Section 151 Officer has the overall responsibility for ensuring the proper management of the Council's finances including the Capital Programme and Treasury Management activity.
The property elements of the programme are also led by a group of professionally qualified officers including RICS supported by external advisors to ensure valuation and rental values are appropriately assessed.

The Governance Committee is the body which oversees all aspects of the Capital Strategy. Internal and external training is available to Members of the Committee to ensure that they have the skills and understanding required to make capital and treasury decisions. When required internal skills and knowledge will be supplemented by external advisors. For example, the Council uses LINK Asset Services to provide advice on Treasury Management issues.

29. SUMMARY ISSUES FOR FUTURE FINANCIAL PLANNING

1. Some of the key issues, opportunities and financial challenges to the council's MTFS are as follows: **Finance Settlement and future funding** – uncertainty that the one-year settlement and the reduction in NHB funding creates and the implications for City Deal.

2. **Council Tax Strategy** – Forecasts assume 1.99% increase p.a. Council Tax income is currently the most significant and secure funding stream for the council and is also a factor within the allocation of national local government funding calculations. It is therefore critical that this is considered when determining a Council Tax strategy.

3. **Leisure Service Review** – A decision to progress the options available in respect of delivering a new service model, this will require an up to date, detailed and robust business model to satisfy the requirements of sound governance arrangements and the decision-making process. This is an opportunity to both invest in the leisure facilities in the borough and also secure ongoing revenue savings through new contract arrangements and a review of the facilities.

4. **Worden Hall** – Cabinet report in January 2020 which included investment proposals and a costed business case. This is an opportunity to invest in and market this council asset facility for both community and commercial use and generate an income to cover or potentially exceed running costs over the medium-term.

5. **House Building and Extra Care provision** – Affordable Housing receipts are being utilised to fund the building of affordable homes to rent at Station Road and the McKenzie Arms site in Bamber Bridge. Work is also underway to consider an Extra Care provision in the borough to meet the demand for this type of facility which could also provide an additional revenue for the council once operational.

6. **Use of General Reserves** – balancing the budget using general reserves is not sustainable and therefore budget savings need to be found to address the forecast budget deficits from 2021/22.

7. **Efficiency Targets** - Shared Services savings forecast included in MTFS assuming 1 April implementation (£155k year 1/£320k year 2) as well as an allowance for salaries budget savings from staff turnover (£150k). Previous targets for Leisure (£500k) and Investment Property income (£150k) removed from base budget. New savings targets required to balance budget in medium-term.

8. **Review of Assets** – Budget includes provision for the external review of assets held which may impact on the MTFS in future years (e.g. on investment requirements, rental income and potential capital receipts if any assets are sold). No assumptions have been made in the current MTFS.

9. **City Deal** – There is a funding shortfall in the City Deal due to higher infrastructure costs and changes in government funding (NHB). The council is working with City Deal partners to address these issues. Annual funding of £492k is received from City Deal which is due to end in 2023/24 and therefore the impact of this will need to be addressed. There is however £1.8m which has been set aside in the City Deal reserve to mitigate against this.

10. **Brexit** – Revenue grant funding has been provided and set aside to assist in the preparations for leaving the EU however the ongoing impact of this cannot be determined at this stage.

30. ROBUSTNESS OF ESTIMATES

Under Section 25 of the Local Government Act 2003, the Authority's Chief Finance Officer, the Interim s151 Officer, is required to report on the robustness of the estimates made for the purposes of the Council's annual budget. This also extends to the assumptions contained in the Council's Medium-Term Financial Strategy (MTFS) and the financing and resourcing assumptions set out in the approved Capital Programme.

Section 25(2) of the 2003 Act requires the Council to have regard to this report in approving the annual budget and setting the council tax.

In order to provide assurances that the budget estimates are robust, the Chief Finance Officer has had regard to the following factors:

- The available resources (support from central government and locally raised income)
- The deliverability and sustainability of the budget decisions to be taken in the proposed budget
- The anticipated budget pressures arising from demand-led services
- The forecast impact of inflation, anticipated pay awards and pay restructure
- Progress in delivering previous budget decisions and the anticipated outturn for 2019/20
- The financial standing of the Council and the effectiveness of the financial management arrangements in place
- The affordability and sustainability of the capital expenditure and investment plans arising from the Council's Capital Strategy
- The management of risks on an ongoing basis

In order to provide that reasonable assurance, the Chief Finance Officer has had regard to a number of factors and assumptions as part of the budget planning process which are set out in the body of the report.

CONSULTATION CARRIED OUT AND OUTCOME OF CONSULTATION

31. Consultation with partners and stakeholders has been undertaken in the formulation of the Council's priorities as set out in the approved Corporate Plan. The council's Medium-Term Financial Strategy is the financial plan to support the delivery of those Corporate Plan priorities and projects.

32. Consultation on the proposed budget for 2020/21 will commence following approval of the proposals by Cabinet. The consultation responses will be analysed and considered as part of the budget finalisation.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

33. In preparing the revised forecasts, the potential for a reduction in core funding as a result of the government's planned Fair Funding formula review and possible Business Rates Reset has been considered. However, as it is not possible to assess the implications at this stage with any certainty, the business rates retention forecasts in the MTFS for 2021/22 onwards have been prepared based on the funding regime in the 2020/21 Finance Settlement and the council continuing to benefit from being in the Lancashire business rates pool.

34. When the funding changes are announced, the financial implications and the impact on the council's MTFS forecasts will be assessed and reported. It is possible that any changes introduced may include transitional arrangements to lessen the impact of any reduction in funding and allow local authorities to adjust future spending. The Business

Rates Retention reserve has also been maintained to mitigate the impact of any significant movements in forecasts.

AIR QUALITY IMPLICATIONS

35. It is encouraging to see the commitment to tackle the air quality issues within the borough through the provision of an additional post with in the Environmental Health Department to assist in completion of the Air Quality Action Plan. Along with the commitment to set a separate budget to assist with the Council's corporate target of ensuring the borough is carbon neutral by 2020.

RISK MANAGEMENT

36. With regard to delivering the council's planned programme of work, relevant staff have undertaken specialised training in project management and the corporate system 'Inphase'. Each project has definitive project plans, timescales, responsible officers for delivery and risk assessments.

37. In developing the budget and MTFS, some resources have been targeted at specific risk. The level of reserves held is to ensure that the Council can adequately deal with unexpected major events.

EQUALITY AND DIVERSITY IMPACT

38. The continued investment in Health, Wellbeing and Safety, will have a positive impact on all residents across the borough. The resources identified for Place will deliver and improve the physical infrastructure of towns and villages for residents and businesses and funds are also earmarked for the delivery of new affordable housing and extra care facilities. Initiatives in relation to Council Tax support and reducing Garden Waste charges will financially benefit a significant number of residents in the borough. Investments in the council's business, including the programme of digital improvements will improve access to the council's services for businesses and residents of the borough. Other initiatives, such as the development of a Youth Council, changing the approach to Community Involvement, and supporting the South Ribble Dementia Action Alliance will improve links between the Council and the wider community.

COMMENTS OF THE STATUTORY FINANCE OFFICER

39. This report sets out the budget proposals for 2020/21 and the Council's Medium-Term Financial Strategy for 2020/21 to 2023/24. These plans underpin the delivery of the Corporate Plan priorities and desired outcomes. The forecast financial implications and benefits of the capital investment proposed in the Capital Strategy for 2020/21 to 2023/24 are incorporated into the revenue forecasts and reserves forecasts which are set out in this report.

40. This report sets out the detailed budget proposals, risks and assumptions for delivering a Balanced Budget and Medium-Term Financial Strategy. As required under Section 25 of the Local Government Act 2003, I confirm that in my opinion the estimate forecasts are robust and there is an adequate level of balances to support the risks associated with this council.

COMMENTS OF THE MONITORING OFFICER

41. As Members are aware we are required on an annual basis to set a budget and decide whether to change Council Tax. There are a number of other closely associated decisions that need to be made such as the agreeing of a Capital Strategy and Treasury Strategy. It is for Cabinet to provide initial consideration to such matters and then to make recommendations to full Council. It is for full Council to make the relevant decisions.

BACKGROUND DOCUMENTS

Cabinet 13 Feb 2019 - 2019/20 Budget and Medium-Term Financial Strategy 2019/20 to 2022/23

APPENDICES

Appendix A: MTFS Revenue Summary
Appendix B: Revenue Budget Adjustments for Corporate Plan projects
Appendix C: Capital Strategy 2020/21 to 2023/24
Appendix D: Treasury Strategy, Prudential Indicators and the Annual investment Strategy {to follow}

LT Member's Name: Jane Blundell
Interim Section 151 Officer

Report Author:	Telephone:	Date:
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APPENDIX A

MTFS REVENUE SUMMARY

	Forecasts 2020-21	Forecasts 2021-22	Forecasts 2022-23	Forecasts 2023-24
Directorates	**£000**	**£000**	**£000**	**£000**
Chief Executive	871	891	892	918
Neighbourhoods & Development	7,230	7,303	7,348	7,461
Planning & Property	633	(22)	(157)	(201)
Finance & Assurance	1,425	1,450	1,482	1,490
Legal, HR & Democratic Services	1,667	1,703	1,737	1,931
Customer Experience and Ops	2,394	2,535	2,612	2,655
Budgets Not in Directorates				
Debt Repayment	649	363	516	483
Efficiency Targets	(155)	(320)	(320)	(320)
Staff turnover	(150)	(150)	(150)	(150)
Interest	(170)	(165)	(85)	100
Parish Precepts	432	432	432	432
Pensions contributions	1,239	1,287	1,337	1,337
Pensions costs offset	(1,388)	(1,429)	(1,458)	(1,487)
Net Cost of Services	**14,677**	**13,878**	**14,186**	**14,650**
Funding				
Retained Business Rates	(3,715)	(3,535)	(3,595)	(3,656)
Business Rates Section 31 Grant	(1,595)	(1,508)	(1,534)	(1,560)
Council Tax	(8,596)	(8,684)	(8,891)	(9,103)
New Homes Bonus	(660)	(112)	(93)	(93)
Reserves	(111)	313	400	310
Total Funding	**(14,677)**	**(13,526)**	**(13,713)**	**(14,102)**
Forecast Budget (Surplus) / Deficit	**0**	**352**	**473**	**548**
Funded by: Budget savings targets	**0**	**(100)**	**(200)**	**(300)**
Transfer to/(from) General Reserve	**0**	**(252)**	**(273)**	**(248)**
Forecast Balanced Budget position	**0**	**0**	**0**	**0**

APPENDIX B

REVENUE BUDGET ADJUSTMENTS FOR CORPORATE PLAN PROJECTS

	FORECAST	FORECAST	FORECAST	FORECAST
	2020-21	2021-22	2022-23	2023-24
	£000s	£000s	£000s	£000s
CORPORATE PLAN PROJECTS & POLICY FINANCIAL IMPLICATIONS:				
Organisational Development Budget - taken out in revised Corporate Plan	(50)	(50)	(50)	(50)
Shared Services forecast savings	(155)	(320)	(320)	(320)
Revised Council Tax support scheme	44	44	44	44
Council Tax – removal of empty properties discount and increase in 2nd homes premium	(17)	(17)	(17)	(17)
Volunteering and active citizens	1	1	1	1
Garden Waste reduction in annual charge	134	134	134	134
Offset by Garden Waste increase in take up	(134)	(134)	(134)	(134)
Central Lancashire Local Plan development	55	50	13	-
Business and Employment support:				
Apprentice Factory Phase 2	20	20	20	20
Implement Phase 2 of the Employment and Skills Plan (Cuerden)	5	5	5	5
Prepare and implement a Central Lancashire Economic Strategy	20	-	-	-
Prepare strategy for supporting new and small businesses	50	50	50	50
Living Wage Employer	46	46	46	46
Review Community Involvement approach (additional resource)	36	37	38	39
South Ribble Partnership - time credits contribution (1-year pilot)	13	-	-	-
Develop a Youth Council to strengthen the voice of young people in the community (additional resource)	36	37	38	39
Creating better places for nature for the benefit of wildlife and people - new meadows	10	10	10	10
Develop options for improving Leisure provision	5	45	-	-
Implementation of the Council's Digital Strategy	136	204	212	212
Provide residents and businesses with the skills, expertise and resources to interact with the Council and other organisations digitally	7	7	7	7
Mind the Gap' recommendations - Holiday Hunger project	15	15	15	-
Removal of charges for replacement bins	20	20	20	20

	2020-21	2021-22	2022-23	2023-24
	£000s	**£000s**	**£000s**	**£000s**
To provide quality homes that people can afford to live in whether they choose home ownership or rental accommodation (McKenzie Arms Affordable rental scheme)	-	(60)	(60)	(60)
Support the South Ribble Dementia Action Alliance and delivery of its annual Action Plan	2	2	-	-
Strategic asset review / asset consultancy	50	-	-	-
Reduce the number of homeless through developing a health and prevention focused approach - Housing Enforcement (3 yr. project)	43	44	45	-
Activities to reduce crime and disorder - Youth support programme (2-year pilot)	120	85	-	-
A clear vision and plan to bring Worden Hall back in to use.	-	40	20	0
First class advice services – Increased Support to Citizens' advice	30	30	30	30
Net budget increase/(saving) from Corporate Projects/Priorities	**542**	**345**	**167**	**76**
Less budgets reallocated to fund new initiatives:				
Funding for Youth Support from Other reserves (accumulated Sports Development funding)	(120)	(85)	-	-
Reallocation of Personal Budget support budget to support Citizens Advice	(30)	(30)	(30)	(30)
Place Promotion budget reallocated to fund business and employment support	(100)	(100)	(100)	(100)
Net budget increase/(saving)	**292**	**130**	**37**	**(54)**

CAPITAL STRATEGY 2020/21 to 2023/24

APPENDIX C

Corporate Priority or Scheme Name	Budget 2020/21 £'000	Budget 2021/22 £'000	Budget 2022/23 £'000	Budget 2023/24 £'000	TOTAL £'000
Health, Wellbeing and Safety					
Green Links					
Shruggs Wood	68	-	-	-	68
Green Links - Penwortham Holme to Howick	250	-	-	-	250
Leyland Loop	150	-	-	-	150
Green Links - unallocated	-	200	200	200	600
Worden Park and Hall					
Arboretum landscaping	30	-	-	-	30
Craft Units windows and security grills	40	-	-	-	40
Farmyard Cottages windows	25	-	-	-	25
Farmyard Cottages heating	50	-	-	-	50
Ice House front façade	10	-	-	-	10
Overflow carpark	80	-	-	-	80
Sewerage pumping station and sceptic tanks	40	-	-	-	40
Shaw Brook weirs and banks	40	-	-	-	40
Shaw Wood footpaths	33	-	-	-	33
Walled garden pot house - replace the building frame and base walls	-	100	-	-	100
Worden Hall refurbishment	500	1,670	-	-	2,170
Worden Park fountain	-	80	-	-	80
Worden Park Paths	-	-	200	232	432
Other Parks and Open Spaces					
Hurst Grange Park drainage	25	-	-	-	25
Hurst Grange Park Paths	-	40	-	-	40
Hurst Grange Coach House Phase 2 (subject to lottery funding)	440	350	-	-	790
Open Spaces - Bent Lane	55	-	-	-	55
Playground - Worden Park	50	-	-	-	50
Playground - Seven Stars	75	-	-	-	75

Corporate Priority or Scheme Name	Budget 2020/21 £'000	Budget 2021/22 £'000	Budget 2022/23 £'000	Budget 2023/24 £'000	TOTAL £'000
Playground - Leadale Green	75	-	-	-	75
Playgrounds - Haig Avenue, Hurst Grange, Bellis Way, Bent Lane	300	200	-	-	500
Tarn Wood, Penwortham	20	-	-	-	20
A tree for every resident	40	53	40	-	133
Other Parks - Footpaths (Fossdale Moss, Priory, Valley Road)	15	30	-	-	45
Withy Grove Park - western side	-	60	-	-	60
Sport and Leisure					
Leisure Facility	-	-	-	19,000	19,000
Leisure Centres Refurbishments	1,000	1,100	-	-	2,100
Sport Pitch Hub	-	3,000	1,300	-	4,300
King George V Playing Fields, Higher Walton	25	-	-	-	25
Lostock Hall Football Facility	122	-	-	-	122
Place					
Affordable Housing at Station Road, Bamber Bridge	563	-	-	-	563
Affordable Housing at former McKenzie Arms, Bamber Bridge	1,527	700	-	-	2,227
Church Road, Bamber Bridge	-	40	-	-	40
Disabled Facilities Grants	791	682	682	682	2,837
Leyland Train Station Ticket Office	60	-	-	-	60
Masterplan delivery - Leyland	-	2,000	-	-	2,000
Masterplanning and regen - Penwortham	50	-	2,000	-	2,050
New Longton regeneration	75	-	-	-	75
Car Park resurfacing, Ryefield Avenue, Penwortham	-	40	-	-	40
Private Sector home improvement grants	75	75	75	75	300
Extra Care Scheme	-	5,000	4,000	1,000	10,000
Hoole Village Hall	200				200
St Mary's, Penwortham - Churchyard wall repairs	120	-	-	-	120

Corporate Priority or Scheme Name	Budget 2020/21 £'000	Budget 2021/22 £'000	Budget 2022/23 £'000	Budget 2023/24 £'000	TOTAL £'000
Excellence, Investment and Financial Sustainability					
Civic Centre - new entrance for the conference centre	150	-	-	-	150
Civic buildings refurbishment	75	50	-	-	125
Corporate Buildings and Asset Management Planning	100	100	100	100	400
IT Programme - Digital Strategy	250	200	200	200	850
IT - Idox upgrade	40	-	-	-	40
Vehicles and Plant replacement programme	2,439	950	400	100	3,889
Polling Booths	22	-	-	-	22
	-	-	-	-	
Expenditure Total	**10,094**	**16,720**	**9,197**	**21,589**	**57,600**
Capital Financing					
Grants - DFG	791	682	682	682	2,837
Grants - Other	530	73	-	-	603
City Deal –Public Transport Corridors/ town centres (Penwortham)	50	-	2,000	-	2,050
External Contributions (Homes England)	-	3,000	-	-	3,000
Section 106 - Affordable Housing	2,000	2,700	-	-	4,700
Section 106 - Other	1,135	516	-	-	1,651
CIL	250	57	-	-	307
Capital Receipts	75	349	75	75	574
Revenue Reserves:	-	-	-	-	
- Borough Investment Reserve	650	1,500	-	-	2,150
- Capital Reserve	2,431	676	-	-	3,107
- Repairs and Maintenance Reserve	500	-	-	-	500
- Transformation Reserve	290	-	-	-	290
- Other Reserve	30	-	-	-	30
Borrowing	1,363	6,997	6,440	20,832	35,592
Financing Total	**10,094**	**16,720**	**9,197**	**21,589**	**57,600**

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Treasury Management Policy Statement 2020/21

1. PURPOSE OF THE REPORT

To present the Prudential and Treasury Indicators and Treasury Management and Investment Strategies for 2020/21 to 2023/24, and the Minimum Revenue Policy Statement for 2020/21.

2. BACKGROUND TO THE REPORT

2.1 For each financial year the Council sets a balanced budget so that cash income raised during the year is sufficient to meet all of its cash expenditure commitments. One of the key functions of the Council's treasury management activity is to ensure that these cash flows are effectively managed, so that cash is available when it is needed. Surplus cash is invested having regard to risk, liquidity and yield.

2.2 A further key function of the treasury management activity is to ensure that the Council has sufficient funds to pay for its capital and other investment plans. These capital plans, which are set out in the Capital Programme, identify the borrowing needs of the Council over a longer time horizon than the current year. In managing its longer-term cash flow requirements for capital expenditure the Council will take out loans or alternatively use its cash flow surpluses in lieu of external borrowing. This latter practice is referred to as "internal borrowing". In managing its loans, it may at times be advantageous for the Council to repay or restructure its borrowings to optimise interest payments or achieve a balanced debt portfolio.

2.3 Having regard to these activities, the Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

"The management of the Council'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."

2.4 As treasury management decisions involve borrowing and investing substantial sums of money, the Council is exposed to potentially large financial risks, including the loss of invested funds and the revenue effect of changing interest rates. The identification, control and monitoring of risk are therefore integral elements of treasury management activity.

2.5 The Treasury Management Policy Statement for 2020/21 is based upon the Chief Finance Officer and Treasury Officers' views on interest rates supplemented by leading market forecasts. The policy statement covers:

a) The policy for managing capital borrowing and debt rescheduling
b) The annual investment strategy for treasury management investments
c) Reporting arrangements
d) Training arrangements
e) Performance indicators
f) Minimum Revenue Provision (MRP) Policy
g) Use of treasury management advisors

2.6 Council of 27 February 2019 approved the Treasury Management Strategy for 2019/20, including Prudential and Treasury Indicators, the Treasury Management and Investment Strategies, and the annual Minimum Revenue Provision (MRP) Policy Statement for 2019/20. Treasury Management activities during the year have been overseen by the Governance Committee.

2.7 One change to Investment Counterparties is proposed, ie the removal of the restriction of the use of non-UK banks to those within the EU (see paragraph 8.3). The criteria in respect of the credit ratings for the individual country and institution would remain unchanged, as would the overall limits for investments in non-UK banks. No changes to counterparty limits are proposed.

2.8 This report updates Prudential and Treasury Indicators for financial years 2019/20 to 2023/24. It presents updated Treasury Management and Investment Strategies and proposes the Minimum Revenue Policy Statement for 2020/21.

3. TREASURY MANAGEMENT STRATEGY 2020/21

3.1 The strategy for 2020/21 covers two main areas:

Capital issues
- the capital plans and the Prudential Indicators;
- the Minimum Revenue Provision (MRP) policy.

Treasury management issues
- the current treasury position;
- Treasury Indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

3.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code, and MHCLG Investment Guidance.

3.3 The Statutory Guidance on Minimum Revenue Provision remains the 3rd edition, as issued by the Ministry of Housing, Communities & Local Government on 2 February 2018.

4. TRAINING

4.1 The CIPFA Code requires the Responsible Officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training will be provided on the implications of the revised CIPFA Prudential and Treasury Management Codes, and the revised MHCLG Investment Guidance and MRP Guidance.

4.2 The training needs of treasury management officers are reviewed periodically. Both CIPFA and Link Asset Services provide workshops and seminars.

5. TREASURY MANAGEMENT CONSULTANTS

5.1 The Council uses Link Asset Services, Treasury Solutions as its external treasury management advisors. The advisors provide access to specialist skills and resources including

- Technical support on treasury matters and capital finance issues.
- Economic and interest rate analysis.
- Debt services, which includes advice on the timing of borrowing.
- Debt rescheduling advice surrounding the existing portfolio.
- Generic investment advice on interest rates, timing and investment instruments.
- Credit ratings/market information service comprising the three main credit rating agencies.

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

5.3 The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed, documented and subjected to regular review.

6. CAPITAL PRUDENTIAL INDICATORS 2019/20 – 2023/24 AND MRP STATEMENT

6.1 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

6.2 **Capital expenditure**

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Table 1 - Capital Expenditure	2019/20 Estimate £000	2019/20 Revised £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Health, Leisure & Wellbeing	3,788	1,911	3,557	6,713	1,740	19,432
Place	2,516	939	3,461	8,497	6,757	1,757
Excellence & Financial Stability	6,604	1,279	3,076	1,300	700	400
Carried forward from 2018/19 programme	486	0	0	0	0	0
Capital Expenditure Total	**13,394**	**4,129**	**10,094**	**16,510**	**9,197**	**21,589**

The table below summarises the above capital expenditure plans identified in the Capital & Investment Strategy and the Capital Programme and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a borrowing requirement.

Table 2 - Capital Financing	2019/20 Estimate £000	2019/20 Revised £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Capital expenditure from Table 1	13,394	4,129	10,094	16,510	9,197	21,589
Capital Receipts	(240)	(85)	(75)	(349)	(75)	(75)
Grants & Contributions	(2,414)	(1,838)	(4,755)	(7,028)	(2,682)	(682)
Revenue and Reserves	(7,273)	(982)	(3,901)	(2,176)	0	0
Funding C/F from 2017/18 program	(486)	0	0	0	0	0
Net financing needed for year	**2,981**	**1,224**	**1,363**	**6,957**	**6,440**	**20,832**

The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic 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 indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the lease provider and so the Council is not required to separately borrow for these schemes:

Table 3 - Capital Financing Requirement	2019/20 Estimate £000	2019/20 Revised £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Opening CFR	3,843	3,740	4,202	4,916	11,510	17,434
Net financing need for the year (Table 2)	2,981	1,224	1,363	6,957	6,440	20,832
Less MRP/VRP	(835)	(762)	(649)	(363)	(516)	(484)
Closing CFR	**5,989**	**4,202**	**4,916**	**11,510**	**17,434**	**37,782**

6.3 Minimum Revenue Provision (MRP)

The Council has a statutory requirement to set aside each year part of their revenues as a provision for the repayment of debt, called the Minimum Revenue Provision (MRP). The provision is in respect of capital expenditure incurred in previous years and which has been financed by borrowing.

The statutory requirement per the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [SI 2008/414] is for each local authority to determine an amount of MRP which it considers to be "prudent".

As "prudence" is not defined in the regulations, the MHCLG had issued accompanying statutory guidance which explains that the broad aim of a "prudent provision" is to ensure that the debt is repaid over a period that is either, reasonably commensurate with the period over which the capital expenditure provides benefit, or, in the case of borrowing supported by formula grant, reasonably commensurate with the period implicit in the determination of that grant. Each authority must determine what they consider is a prudent amount while having regard to the guidance.

The guidance also recommends that each local authority prepare an annual statement of its strategic policy on making MRP, to be approved by the full Council. A variety of options are provided to councils in the regulations, so long as there is a prudent provision.

For capital expenditure incurred before 1 April 2008 Option 1 is applied.

This provides for local authorities to continue to calculate MRP in line with the minimum existing statutory charge of 4% of outstanding debt related to supported borrowing only, less an adjustment that ensures consistency with previous capital regulatory regimes no longer in force.

From 1 April 2008 for all unsupported borrowing (including finance leases) the MRP policy will be Option 3 – Asset Life Method

This method is appropriate for calculating MRP in relation to debt incurred as unsupported borrowing (also known as prudential borrowing), and must be used for revenue expenditure capitalised by direction or regulation. Under this option there are two methods available:

- (Equal instalment method. This generates a series of equal annual amounts over the life of each asset that is financed by borrowing, with the life determined upon acquisition. This means that the charge to revenue closely matches the period of economic benefit of the asset.
- Annuity method. This method links the MRP to the flow of benefits from an asset where the benefit is expected to increase in later years.

Under this option, authorities should consider the type of assets that they finance through prudential borrowing, as the type of asset and its useful life may have a significant impact on the level of MRP charged. Where expenditure is capitalised by direction or regulation, the guidance specifies certain maximum lives to be used in the calculation.

Finance Leases and PFI
The guidance indicates that for finance leases and on-balance sheet PFI contracts, the MRP requirement could be met by making a charge equal to the element of the finance lease rental that goes to write down the balance sheet liability under proper accounting practices.

6.4 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicator:

Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Table 4 - Ratio of Financing Costs to Net Revenue Stream	2019/20 Estimate %	2019/20 Revised %	2020/21 Estimate %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %
Ratio	4.96	3.25	5.03	7.55	11.34	12.41

The estimates of financing costs include current capital commitments and the proposals in the Budget and Capital and Investment Strategy reports. The increasing ratio for the remainder of the budget period reflects the additional level of borrowing required to finance the Council's planned Capital Programme. However, the intention for schemes funded through borrowing is that they will, where possible, deliver a financial return and therefore contribute to the sustainability of the Council's debt financing costs.

6.5 **Core funds and expected investment balances**

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

Table 5 - Year-End Resources	2019/20 Estimate £000	2019/20 Revised £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Core Funds/Working Balances	(30,000)	(46,914)	(40,369)	(33,204)	(32,595)	(34,150)
Under/(over) borrowing (Table 6)	2,637	3,880	4,173	5,584	11,628	22,691
Expected investments	**(27,363)**	**(43,034)**	**(36,196)**	**(27,620)**	**(20,967)**	**(11,459)**

7. BORROWING

7.1 The capital expenditure plans set out in paragraph 6.2 above provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant Treasury / Prudential Indicators, the current and projected debt positions and the annual Investment Strategy.

7.2 **Current portfolio position**

7.3 The Council's treasury portfolio position at 31 March 2019, with forward projections, is summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 6 - Portfolio Position	2019/20 Estimate £000	2019/20 Revised £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Debt at 1 April	0	0	0	743	5,926	5,806
Other long-term liabilities (OLTL)	687	602	322	0	0	0
Total gross debt 1 April	687	602	322	743	5,926	5,806
Expected change in Debt	2,981	0	743	5,183	(120)	9,285
Expected change in OLTL	(316)	(280)	(322)	0	0	0
Expected change in gross debt	2,665	(280)	421	5,183	(120)	9,285
Gross debt 31 March	3,352	322	743	5,926	5,806	15,091
Capital Financing Requirement (Table 3)	5,989	4,202	4,916	11,510	17,434	37,782
Under / (over) borrowing	**2,637**	**3,880**	**4,173**	**5,584**	**11,628**	**22,691**

7.4 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

7.5 The Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

7.6 **Treasury Indicators: limits to borrowing activity**

The Operational Boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Table 7 - Operational Boundary	2019/20 Estimate £000	2019/20 Revised £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Debt	2,981	0	750	6,000	6,000	15,500
Other long-term liabilities	371	322	0	0	0	0
Operational Boundary	**3,352**	**322**	**750**	**6,000**	**6,000**	**15,500**

The Authorised Limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

- This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Table 8 - Authorised Limit	2019/20 Estimate £000	2019/20 Revised £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Debt	5,981	3,000	3,750	9,000	9,000	18,500
Other long-term liabilities	371	322	0	0	0	0
Authorised Limit	**6,352**	**3,322**	**3,750**	**9,000**	**9,000**	**18,500**

7.7 **Maturity structure of borrowing**

These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Table 9 - Maturity Structure of Borrowing		
Maturity structure of fixed interest rate borrowing 2020/21		
	Lower	**Upper**
Under 12 months	0%	0%
12 months to 2 years	0%	0%
2 years to 5 years	0%	0%
5 years to 10 years	0%	0%
Over 10 years	0%	100%

It is not anticipated that any borrowing will be taken at variable interest rates.

7.8 **Control of interest rate exposure**

Please see paragraphs 7.9, 8.4 and Appendices D1-3.

Appendix D3 compares the forecast of a year ago with that prepared for the mid-year review, and the current forecast.

7.9 **Borrowing strategy**

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Section 151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates,* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then borrowing will be postponed.
- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast,* perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported at the next available opportunity.

7.10 **Policy on borrowing in advance of need**

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

8. ANNUAL INVESTMENT STRATEGY

8.1 **Investment Policy**

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the CIPFA TM Code"). The Council's investment priorities will be **S**ecurity first, portfolio **L**iquidity second, and only then return (**Y**ield).

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Treasury Management Practice 1 (TMP1) deals with credit and counterparty risk management. In applying this practice, the following limits are relevant:

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. A maximum of £6m will be held in aggregate in non-specified investments, specifically term deposits with UK local authorities.

8.2 Creditworthiness policy

The 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 & 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
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

The yellow colour category is for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt.

The Link Asset Services' creditworthiness service uses a wider array of information other 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 LongTerm 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 and will be checked at the time of placing investments. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service, and has access to the websites of Fitch, Moody's and Standard & Poor's.

- 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.

Investment Counterparties 2020/21

Category	Institutions	LAS Colour Code	Maximum Period	Limit per Institution
Banks & Building Societies: Call Accounts /Term Deposits / Certificates of Deposit (CDs)				
Government related/guaranteed	DMADF (DMO) UK Local Authority	Yellow Yellow	6 months 2 years	Unlimited £6m per LA
UK part-nationalised institutions	Royal Bank of Scotland group	Blue	1 year	£6m per group
UK-incorporated Institutions	UK banks and building societies of high credit quality	Orange Red Green	1 year 6 months 3 months	£6m per group (or independent institution)
Non-UK Banks	Non-UK banks of high credit quality	Orange Red Green	1 year 6 months 3 months	£4m per group (or independent institution); £8m in total for this category
Money Market Funds				
Money Market Funds	MMFs of high credit quality - AAA rated		Instant access	£5m per fund

8.3 **Country limits**

In the 2019/20 Strategy, the Council determined that, in addition to UK counterparties, it would use non-UK banks, but only those which are in EU countries with a minimum sovereign credit rating of *AA-* from Fitch. This provision has been in place since 2015/16, when the Council first reintroduced allowance for the use of non-UK counterparties. This has been reviewed and it is recommended that, while all other criteria, ie:

- the requirement for the country concerned to have minimum sovereign rating of AA-,
- the requirement for the individual institution to have a high credit rating (see 8.2), and
- the overall limits on non-UK banks of £4m per institution/group and £8m in total in this category of investment,

shall remain unchanged, the restriction to only EU countries be removed. This is based on advice received in respect of the latest assessments of the strength of the regulatory frameworks in those countries.

The list of eligible countries at the date of this report would then be as shown below. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

In operational terms, the change is likely to have only limited impact. The only non-UK counterparty used in the last three years is the German bank Landesbank Hessen-Thüringen Girozentrale (Helaba). The Council currently has the maximum amount of £4m invested with this counterparty.

APPROVED COUNTRIES FOR INVESTMENTS – United Kingdom plus the following:

AAA

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

AA+

- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- Hong Kong
- France

AA-

- Belgium
- Qatar

8.4 **Investment strategy**

In-house funds
Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment returns expectations
Bank Rate is forecast to increase steadily but slowly over the next few years to reach 2.00% by quarter 1 2022. Bank Rate forecasts for financial year ends (March) are:

- 2019/20 0.75% Was 1.25% in 2019/20 Treasury Strategy report
- 2020/21 0.75% Was 1.50%
- 2021/22 1.00% Was 2.00%
- 2021/22 1.25%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

	Now	2019/20 report
2019/20	0.75%	0.90%
2020/21	0.75%	1.25%
2021/22	1.00%	1.50%
2022/23	1.25%	1.75%
2023/24	1.50%	2.00%
2024/25	1.75%	2.75%
Later years	2.25%	2.75%

The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture. The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.

Investment Treasury Indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

Table 10 - Maximum Principal Sums Invested > 365 Days	2019/20 Revised £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2022/23 Estimate £000
UK Government	0	0	0	0	0
UK Local Authorities	6,000	6,000	6,000	6,000	6,000
UK Banks & Building Societies	0	0	0	0	0
Non-UK Banks	0	0	0	0	0
Total	**6,000**	**6,000**	**6,000**	**6,000**	**6,000**

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

8.5 **Investment Risk Benchmarking**

This Council will use an investment benchmark to assess the investment performance of its investment portfolio of 7 day LIBID plus 15%.

8.6 **End of Year Investment Report**

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

8.7 **Accounting treatment of investments**

The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, officers will review the accounting implications of new transactions before they are undertaken.

9. BACKGROUND DOCUMENTS

CIPFA Treasury Management in the Public Services: Code of Practice & Cross-Sectoral Guidance Notes (December 2017 edition)
CIPFA Treasury Management in the Public Services: Guidance Notes for Local Authorities (July 2018 edition)
CIPFA Prudential Code for Capital Finance in Local Authorities (December 2017 edition)
CIPFA Standards of Professional Practice: Treasury Management
MHCLG Guidance on Local Government Investments
MHCLG Guidance on Minimum Revenue Provision

APPENDIX G1 – Economic Background
APPENDIX G2 – Interest Rate Forecasts
APPENDIX G3 – Comparison of Interest Rate Forecasts

ECONOMIC BACKGROUND

Advice from Link Asset Services:

UK: Brexit. The formal departure of the UK from the EU took place on 31 January 2020, but remains much uncertainty in respect of the detail of the country's future trading relationship with the bloc, with the trade deal to determine this will need to be negotiated by the currently scheduled end of the transition period in December 2020, which the Prime Minister has pledged he will not extend. This is a challenging timeframe for such major negotiations and a failure to complete them on time would leave open two possibilities; ie the need for an extension of negotiations, perhaps of as much as two years, or a no deal outcome at the end of December 2020.

UK: GDP growth has taken a hit from Brexit uncertainty during 2019; although quarter three 2019 surprised on the upside by coming in at +0.4% q/q, +1.1% y/y. However, the peak of Brexit uncertainty during the final quarter appears to have suppressed quarterly growth, probably to around zero. The economy is likely to tread water in 2020, with only limited growth around about 1% until there is more certainty after the trade deal deadline has passed.

While the Bank of England did produce its regular **Quarterly Inflation Report** (now renamed the Monetary Policy Report) on 7 November, this was always to be overtaken by events, to one extent or another, given the then-current uncertainties associated with the then-forthcoming general election. The Bank did make a change in their Brexit assumptions, to now include a deal being eventually passed. Possibly the most significant message was that of an increase in concerns among MPC members around weak global economic growth and the potential for Brexit uncertainties to become entrenched and so delay UK economic recovery. Consequently, the MPC voted 7-2 to maintain the Bank Rate at 0.75% but two members were sufficiently concerned to vote for an immediate Bank Rate cut to 0.5%. The MPC warned that if global growth does not pick up or if uncertainties associated with Brexit intensify, then a rate cut would become more likely. Conversely, if risks recede, then a more rapid recovery of growth will require gradual and limited rate rises. The speed of recovery will depend on the extent to which uncertainty dissipates over the final terms for future trade between the UK and EU and by how much global growth rates pick up. The Bank revised its inflation forecasts down – to 1.25% in 2019, 1.5% in 2020, and 2.0% in 2021; hence, the MPC views inflation as causing little concern in the near future.

The MPC meeting of 19 December repeated the previous month's vote of 7-2 to keep Bank Rate on hold. Their key view was that there was currently 'no evidence about the extent to which policy uncertainties among companies and households had declined'. The two members who voted for a cut were concerned that the labour market was faltering. On the other hand, there was a clear warning in the minutes that the MPC were concerned that "domestic unit labour costs have continued to grow at rates above those consistent with meeting the inflation target in the medium term". The voting pattern of 7-2 in favour of keeping rates on hold was again repeated at February's MPC meeting, with some increased optimism around the stabilisation of the global economy, an easing in global trade tensions and some improved domestic data, but with continuing concerns about the short- and medium-term prospects for growth.

If economic growth were to weaken considerably, the MPC has relatively little room to make a big impact with Bank Rate still only at 0.75%. It would therefore probably suggest that it would be up to the Chancellor to provide help to support growth, by way of a fiscal boost, e.g. through tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects. The Government has already made moves in this direction with significant promises in its election manifesto to increase government spending by up to £20bn p.a. (adding approximately 1% to GDP growth rates), by investing primarily in infrastructure. This is likely to be confirmed in the next Budget, in February or March 2020. The Chancellor also amended the fiscal rules in November to allow for an increase in government expenditure.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell again in both October and November to a three-year low of 1.5% and then again to 1.3% in December. It is likely to remain close to or under 2% over the next two years and so does not pose any immediate concern to the MPC. However, if there was a hard or no deal conclusion to the trade talks with the EU, then inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

With regard to the **labour market,** growth in numbers employed had been quite resilient through 2019 until the three months to September where it fell by 58,000. However, there was an encouraging pick up again in the three months to October, with growth of 24,000, indicating that the labour market was not about to head into a major downturn. The unemployment rate held steady at a 44-year low of 3.8% on the Independent Labour Organisation measure in October. Wage inflation has been steadily falling from a high point of 3.9% in July to 3.5% in October (3-month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.0%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market is easing.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of growth to a robust 2.9% y/y. **Growth** in 2019 has been falling after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2 and then 2.1% in quarter 3. The economy looks likely to have maintained a growth rate similar to quarter 3 into quarter 4 and fears of a recession have largely dissipated. The strong growth in employment numbers during 2018 has weakened during 2019, indicating that the economy had been cooling, while inflationary pressures were also weakening. However, CPI inflation rose from 1.8% to 2.1% in November, a one year high, but this was caused exclusively by a rise in gasoline prices.

The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not intended as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August, (reducing its holdings of treasuries etc.). It then cut rates by 0.25% again in September and by another 0.25% in its October meeting to 1.50 – 1.75%.. At its September meeting it also said it was going to start buying Treasuries again, although this was not to be seen as a resumption of quantitative easing but rather an exercise to relieve liquidity pressures in the repo market. Despite those protestations, this still means that the Fed is again expanding its balance sheet holdings of government debt. In the first month, it will buy $60bn, whereas it had been reducing its balance sheet by $50bn per month during 2019. As it will be buying only short-term (under 12 months) Treasury bills, it is technically correct that this is not quantitative easing (which is purchase of long-term debt). The Fed left rates unchanged in December. However, the accompanying statement was more optimistic about the future course of the economy, so this would indicate that further cuts are unlikely.

Investor confidence has been seriously unsettled by the progressive increases in tariffs President Trump has made on Chinese imports, to which China has responded with increases in tariffs on its imports from the USA. This trade war is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China.
However, in November / December, progress was made on agreeing a phase one deal between the US and China to roll back some of the tariffs; giving some hope of resolving this dispute.

EUROZONE. Growth has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1, +0.2% q/q (+1.2% y/y) in quarter 2 and then

+0.2% q/q, +1.1% in quarter 3. There appears to be little upside potential in the near future. German GDP growth has been struggling to stay in positive territory in 2019 and fell by -0.1% in quarter 2; industrial production was down 4% y/y in June with car production down 10% y/y. Germany would be particularly vulnerable to a failure of the UK/EU trade talks, which would depress exports further and also if President Trump were to impose tariffs on EU produced cars.

The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018. This meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity, designed to support world financial markets by quantitative easing purchases of debt. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but which aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels "at least through the end of 2019", but that was of little help to boosting growth in the near term. Consequently, it announced a **third** round of TLTROs; which provides banks with cheap borrowing every three months from September 2019 until March 2021. This means that, although they will have only a two-year maturity, the Bank was making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum. At its meeting on 12 September the ECB cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a resumption of quantitative easing purchases of debt for an unlimited period. At its October meeting it said these purchases would start in November at €20bn per month - a relatively small amount compared to the previous buying programme. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and, unsurprisingly, the ECB stated that governments would need to help stimulate growth by 'growth friendly' fiscal policy.

There were no policy changes in the December meeting, which was chaired for the first time by the new President of the ECB, Christine Lagarde. However, the outlook continued to be downbeat about the economy; making it likely that there will be further monetary policy stimulus to come in 2020. It was also announced that there is to be a thorough review of how the ECB conducts monetary policy, including the price stability target. This review is likely to take the whole of 2020 to complete.

On the political front, Austria, Spain and Italy have seen the formation of **coalition governments,** with some unlikely combinations of parties, which in turn raises questions around their likely endurance. The latest results of German state elections has put further pressure on the German CDU/SDP coalition government and on the current leadership of the CDU. The results of the Spanish general election in November have not helped the prospects of forming a stable coalition.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus. Medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

JAPAN - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

WORLD GROWTH. Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of

China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high-tech areas and production of rare earth minerals. It is achieving this by massive financial support (i.e. subsidies) to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from a dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation. Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates.

The trade war between the US and China is a major concern to financial markets due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns resulted in government bond yields in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited options available, in terms of monetary policy measures, when rates are already very low in most countries (apart from the US). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks and the use of negative central bank rates in some countries. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been predicting a downturn in growth; this confirms investor sentiment that the outlook for growth during the year ahead is weak.

INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services are **predicated on an assumption of an agreement being reached on Brexit between the UK and the EU.** On this basis, while GDP growth is likely to be subdued in 2019 and 2020, due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement on the detailed terms of a trade deal is likely to lead to provide a boost to the rate of growth in subsequent years. This could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- In the event of an **orderly non-agreement exit in December 2020**, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth, to deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.
- If there were a **disorderly Brexit**, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably even, but dependent on a successful outcome of negotiations with the EU on a future trade deal.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- In the event that a Brexit deal was agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash, as there has been a major increase in consumer and other debt, due to the exceptionally low levels of borrowing rates that have prevailed since 2008. This means that the neutral rate of interest in an economy (i.e. the rate that is neither expansionary nor deflationary) is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over- or under-do increases in central interest rates.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis.** In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy, which has brought to power a much more EU friendly government. This has eased the pressure on Italian bonds. Only time will tell whether this new coalition, based on an unlikely alliance of two very different parties, will endure.
- Weak capitalisation of some **European banks**, particularly Italian banks.
- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in recent state elections, but the SPD has done particularly badly and this has raised a major question mark over continuing to

support the CDU. Angela Merkel has stepped down from being the CDU party leader, but intends to remain as Chancellor until 2021.

- **Other minority EU governments.** Austria, Finland, Sweden, Spain, Portugal, Netherlands and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- In October 2019, the IMF issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was **potential for a rerun of the 2008 financial crisis**, but his time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. This now means that there are corporates who would be unable to cover basic interest costs on **some $19trn of corporate debt in major western economies,** if world growth was to dip further than just a minor cooling. This debt is mainly held by the shadow banking sector i.e. pension funds, insurers, hedge funds, asset managers etc., who, when there is $15trn of corporate and government debt now yielding negative interest rates, have been searching for higher returns in riskier assets. Much of this debt is only marginally above investment grade so any rating downgrade could force some holders into a fire sale, which would then depress prices further and so set off a spiral down. The IMF's answer is to suggest imposing higher capital charges on lending to corporates and for central banks to regulate the investment operations of the shadow banking sector. In October 2019, the deputy Governor of the Bank of England also flagged up the dangers of banks and the shadow banking sector lending to corporates, especially highly leveraged corporates, which had risen back up to near pre-2008 levels.
- **Geopolitical risks,** for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **Brexit** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Comparison of Interest Rate Forecasts – Treasury Strategy 2019/22 – 2022/23 (Feb 2019), and Treasury Strategy 2020/21 – 2023/24 (Jan 2020)

	Bank Rate %			PWLB Borrowing Rates % (including 0.20% certainty rate adjustment)											
				5 year			10 year			25 year			50 year		
	Jan 19	Nov 19	Jan 19	Jan 19	Nov 19	Jan 19	Jan 19	Nov 19	Jan 19	Jan 19	Nov 19	Jan 19	Jan 19	Nov 19	Jan 19
Mar-20	0.75	0.75	1.25	2.30	2.50	2.30	2.50	2.80	2.80	3.00	2.60	3.20	2.90	3.30	3.00
Jun-20	0.75	0.75	1.25	2.30	2.60	2.40	2.50	2.90	2.90	3.00	2.70	3.30	2.90	3.40	3.10
Sep-20	0.75	0.75	1.25	2.40	2.70	2.50	2.60	3.00	2.90	3.10	2.80	3.30	3.00	3.50	3.10
Dec-20	0.75	1.00	1.50	2.40	2.70	2.50	2.60	3.00	3.00	3.20	2.90	3.40	3.10	3.60	3.20
Mar-21	0.75	1.00	1.50	2.50	2.80	2.60	2.70	3.10	3.00	3.30	3.00	3.40	3.20	3.60	3.20
Jun-21	1.00	1.00	1.75	2.60	2.90	2.60	2.80	3.20	3.10	3.40	3.00	3.50	3.30	3.70	3.30
Sep-21	1.00	1.00	1.75	2.70	3.00	2.70	2.90	3.30	3.10	3.50	3.10	3.50	3.40	3.80	3.30
Dec-21	1.00	1.00	1.75	2.80	3.00	2.80	3.00	3.30	3.20	3.60	3.20	3.60	3.50	3.80	3.40
Mar-22	1.00	1.25	2.00	2.90	3.10	2.80	3.10	3.40	3.20	3.70	3.30	3.60	3.60	3.90	3.40
Jun-22	1.25			2.90			3.10			3.80			3.70		
Sep-22	1.25			3.00			3.20			3.80			3.70		
Dec-22	1.25			3.00			3.20			3.90			3.80		
Mar-23	1.25			3.10			3.30			3.90			3.80		

The February 2019 forecasts were included in Treasury Strategy 2019/20 to 2022/23.
Link Asset Services provided an updated forecast in January 2020.

South Ribble Borough Council – Forward Plan

For the Twelve Month Period: 3 February 2020 - 31 January 2021

This document gives 28 days' notice of 'key' and other major decisions which the Cabinet expect to take during the next four month period. It also gives notice of the decisions that are likely to be taken in private. The document is updated as required and is available to the public on the Council's website at www.southribble.gov.uk.

A 'Key' Decision is defined as any decision in relation to a Cabinet function which is likely:
(a) To result in the Council incurring expenditure which is, or the making of savings which are significant. The financial threshold above which expenditure/savings become significant is set at £100,000. The financial threshold is applicable to both revenue and capital budgets; or
(b) To be significant in terms of its effect on the communities living in an area comprising two or more Council wards.

As a matter of local choice, the Forward Plan also includes the details of any significant issues to be initially considered by the Cabinet and submitted to the Full Council for approval.

Under the Access to Information Procedure Rules set out in the Council's Constitution, a 'Key' Decision may not be taken, unless 28 days' notice have been given in this document.

The law and the Council's Constitution provide for urgent key decisions to be made, even though they have not been included in this document in accordance with General Exception and Special Urgency provisions, set out in Access to Information Procedure Rules.

The Cabinet is made up of the Leader, Deputy Leader and five other Cabinet Members with the following portfolios:

Leader of the Council	Councillor Paul Foster
Deputy Leader and Cabinet Member (Health, Wellbeing and Leisure)	Councillor Mick Titherington
Cabinet Member (Finance, Property and Assets)	Councillor Matthew Tomlinson
Cabinet Member (Environment)	Councillor Susan Jones
Cabinet Member (Planning, Regeneration and City Deal)	Councillor Bill Evans
Cabinet Member (Community Engagement, Social Justice and Wealth Building)	Councillor Aniela Bylinski Gelder

Whilst the majority of the Cabinet decisions listed in this Forward Plan will be open to the public to attend, there may be some decisions to be considered that contain confidential, commercially or personal information. The Forward Plan is a formal notice under the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 that some of the decisions listed in the Forward Plan will be held in private because the report will contain exempt information under Schedule 12A of the Local Government Act 1972, as set out below and that the public interest in withholding the information outweighs the public interest in disclosing it.:

1. Information relating to any individual.

2. Information which is likely to reveal the identity of an individual.

3. Information relating to the financial or business affairs of any particular person (including the authority holding that information).

4. Information relating to any consultations or negotiations, or contemplated consultations or negotiations, in connection with any labour relations matter arising between the authority or a Minister of the Crown and employees of, or office holders under, the authority.

5. Information in respect of which a claim to legal professional privilege could be maintained in legal proceedings.

6. Information which reveals that the authority proposes –

   (a) to give under any enactment a notice under or by virtue of which requirements are imposed on a person; or

   (b) to make an order or direction under any enactment.

7. Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime.

Copies of the Council's Constitution and agenda and minutes for all meetings of the Council may be accessed on the Council's website: www.southribble.gov.uk. If there are any queries, including objections to items being considered in private, please contact the Council on 01772 625308 or email nneisser@southribble.gov.uk.

Gary Hall
Interim Chief Executive

Last updated: 05 February 2020

Details of the Decision to be taken	Decision to be taken by	Relevant Portfolio Holder	Reason the decision is key	Earliest Date decision can be taken	Will the public be excluded?	Are there any background papers?	Documents to be considered by Decision taker
Future meetings of the Cabinet where there is an intention to hold part of the meeting in private: 12 February and 18 March 2020 and Council: 26 February and 15 April 2020							
Leader of the Council							
Quarter 3 Performance Monitoring Report	Cabinet	Leader of the Council		12 Feb 2020	No	https://southribble.moderngov.co.uk/documents/s11578/Quarter%202%20Perfomance%20Monitoring%20Report.pdf	Report of the Interim Chief Executive
Pay Policy 2020/21	Cabinet Council	Leader of the Council Leader of the Council	Significant effect in 2 or more Council wards.	12 Feb 2020 26 Feb 2020	No	None	Report of the Interim Chief Executive Interim Chief Executive
Redundancy Policy	Cabinet Council	Leader of the Council Leader of the Council	Significant effect in 2 or more Council wards.	12 Feb 2020 26 Feb 2020	No	None	Report of the Chief Executive Chief Executive

Details of the Decision to be taken	**Decision to be taken by**	**Relevant Portfolio Holder**	**Reason the decision is key**	**Earliest Date decision can be taken**	**Will the public be excluded?**	**Are there any background papers?**	**Documents to be considered by Decision taker**
Updated Shared Services Agreement	Cabinet Council	Leader of the Council Leader of the Council		18 Mar 2020 15 Apr 2020	Paragraph 3: Information relating to the financial or business affairs of any particular person (including the authority holding that information).	https://southribble.moderngov.co.uk/ieListDocuments.aspx?CId=134&MId=1472&Ver=4	Report of the Interim Chief Executive Interim Chief Executive
Standards Annual Report	Council	Leader of the Council		15 Apr 2020	No	None	Report of the Shared Services Lead - Legal & Deputy Monitoring Officer
Cabinet Member (Health, Wellbeing and Leisure)							
Cabinet Member (Community Engagement, Social Justice and Wealth Building)							

Details of the Decision to be taken	Decision to be taken by	Relevant Portfolio Holder	Reason the decision is key	Earliest Date decision can be taken	Will the public be excluded?	Are there any background papers?	Documents to be considered by Decision taker
Implementation of Community Involvement Recommendations	Cabinet	Cabinet Member (Community Engagement, Social Justice and Wealth Building)	Significant effect in 2 or more Council wards.	5 Mar 2020	No	https://southribble.moderngov.co.uk/documents/s12877/Strategic%20Review%20of%20Community%20Involvement%20including%20My%20Neighbourhoods%20Final%20Report.pdf	Report of the Assistant Director of Scrutiny and Democratic Services, Director of Neighbourhoods and Development
Cabinet Member (Environment)							
Cabinet Member (Finance, Property and Assets)							
Budget Monitoring Report - Quarter 3	Cabinet	Cabinet Member (Finance, Property and Assets)	Significant effect in 2 or more Council wards.	12 Feb 2020	No	https://southribble.moderngov.co.uk/documents/s9160/Final%20Budget%20Out%20Turn%20Report%202018-19%20for%20Cabinet%20190619.pdf	Report of the Interim Section 151 Officer

Details of the Decision to be taken	Decision to be taken by	Relevant Portfolio Holder	Reason the decision is key	Earliest Date decision can be taken	Will the public be excluded?	Are there any background papers?	Documents to be considered by Decision taker
2020/21 Budget and Medium-Term Financial Strategy 2020/21 to 2023/24 The report sets out the proposed 2020/21 Revenue Budget, the Medium-Term Financial Strategy and Capital Strategy for the next 4 years.	Cabinet	Cabinet Member (Finance, Property and Assets)	Expenditure / Savings higher than £100,000	12 Feb 2020	No		Report of the Interim Section 151 Officer
Worden Hall project Update To update cabinet on the capital costs of bringing the Hall back into use.	Cabinet	Cabinet Member (Finance, Property and Assets)	Expenditure / Savings higher than £100,000	12 Feb 2020	Paragraph 3: Information relating to the financial or business affairs of any particular person (including the authority holding that information)		Report of the Director of Planning and Property

Details of the Decision to be taken	Decision to be taken by	Relevant Portfolio Holder	Reason the decision is key	Earliest Date decision can be taken	Will the public be excluded?	Are there any background papers?	Documents to be considered by Decision taker
Council Tax Setting 2020-21 A report to enable the Council to calculate and set the Council Tax for 2019/20	Council	Cabinet Member (Community Engagement, Social Justice and Wealth Building)	Significant effect in 2 or more Council wards.	26 Feb 2020	No	None	Report of the Director of Customer and Digital
Works to Civic Conference and Business centre - Phase 2	Cabinet	Cabinet Member (Finance, Property and Assets)	Expenditure / Savings higher than £100,000	18 Mar 2020	No		Report of the Assistant Director of Projects and Development
Station Road, Bamber Bridge Site Conversion	Cabinet	Cabinet Member (Finance, Property and Assets)	Expenditure / Savings higher than £100,000	18 Mar 2020	No	Station Road, Bamber Bridge Site Conversion	Report of the Director of Planning and Property
Cabinet Member (Planning, Regeneration and City Deal)							

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Scrutiny Committee

Forward Plan

Date	Item	Lead Member	Lead Officer
7 March 2020	Worden Hall Update	Cllr Matthew Tomlinson	Peter McHugh
	Housing Associations	Cllr Bill Evans	Peter McHugh
	Scrutiny self-evaluation	Cllr David Howarth	Darren Cranshaw
	Scrutiny Committee Annual Report	Cllr David Howarth	Darren Cranshaw

Scrutiny Budget and Performance Panel

Date	Item	Cabinet Member	Lead Officer
10 February 2020	Quarter 3 Performance Monitoring Report	Cllr Paul Foster	Gary Hall
	Quarter 3 Budget Monitoring Report	Cllr Matthew Tomlinson	Jane Blundell

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 9

Document is Restricted

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