

REPORT TO	ON
CABINET	Wednesday, 12 February 2020
SCRUTINY COMMITTEE	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	√
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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	<i>No RSG funding for SRBC since 2017/18</i>
Business Rates Baseline Funding Level	(2,309)	(2,346)	<i>Council's share of income less tariff</i>
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

	<u>Forecasts</u> <u>2020-21</u>	<u>Forecasts</u> <u>2021-22</u>	<u>Forecasts</u> <u>2022-23</u>	<u>Forecasts</u> <u>2023-24</u>
	£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	2021-22	2022-23	2023-24
	£000	£000	£000	£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
<u>Health, Wellbeing and Safety</u>					
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
<u>Place</u>					
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
<u>Excellence, Investment & Financial Sustainability</u>					
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 within 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:
Jane Blundell	01772 625245	27/01/20

APPENDIX A

MTFS REVENUE SUMMARY

	<u>Forecasts</u> <u>2020-21</u>	<u>Forecasts</u> <u>2021-22</u>	<u>Forecasts</u> <u>2022-23</u>	<u>Forecasts</u> <u>2023-24</u>
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
<i>Funded by:</i>				
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 2 nd homes premium	(17)	(17)	(17)	(17)
Volunteering and active citizens	1	1	1	1
Garden Waste reduction in annual charge	134	134	134	134
<i>Offset by</i> 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
<i>Less budgets reallocated to fund new initiatives:</i>				
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
<u>Health, Wellbeing and Safety</u>					
<u>Green Links</u>					
Shruggs Wood	68	-	-	-	68
Green Links - Penwortham Holme to Howick	250	-	-	-	250
Leyland Loop	150	-	-	-	150
Green Links - unallocated	-	200	200	200	600
<u>Worden Park and Hall</u>					
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 septic 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
<u>Other Parks and Open Spaces</u>					
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
<u>Sport and Leisure</u>					
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
<u>Place</u>					
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
<u>Excellence, Investment and Financial Sustainability</u>					
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
<u>Capital Financing</u>					
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

