DECISION ITEM

REPORT OF	MEETING	DATE	ITEM NO
MANAGEMENT TEAM	**COUNCIL**	**2 MARCH 2023**	**8**

MEDIUM TERM FINANCIAL STRATEGY UPDATE, INCLUDING GENERAL FUND, CAPITAL PROGRAMME AND TREASURY MANAGEMENT FOR 2022/23 TO 2026/27

PUBLIC ITEM

This item is for consideration in the public part of the meeting.

SUMMARY

1.1 Attached is the Council's Medium Term Financial Strategy (MTFS) for the five years 2022/23 to 2026/27. The MTFS is designed to provide a strategic link between available financial resources and the Council's corporate policy priorities, and to ensure that the Council sets a budget which is robust and sustainable in order that it can deliver its strategic objectives.

1.2 The report details the estimated financial resources available to the Council and identifies how they will be utilised to support the achievement of the Council's priorities. The report also identifies the key financial risks facing the Council over the life of the forecast. The Council's Revenue Budget, Expenditure Forecast, Capital Programme, Treasury Management Strategy and Useable Reserves and Balances Policy are also set out in the report.

1.3 The forecast includes the impact of the 2023/24 Local Government Finance Settlement, details of which were announced on 19th December 2022.

1.4 The government have confirmed that the planned Review of Relative Needs and Resources (the 'Fair Funding Review') and the planned reset to business rates growth will not be implemented in the next two years. The settlement is once again a holding position, designed for short-term stability and based upon proposed detailed allocations for 2023/24 and a fairly full set of policy principles for 2024/25.

1.5 As a consequence, estimations of central government funding beyond 2023/24 are extremely difficult to make until the outcome of the funding reviews are known. The Financial Forecast will be updated for 2024/25 onwards as and when there is greater clarity regarding the central government funding regime.

1.6 The assumptions set out in the financial forecast are the latest best estimates and will be updated as and when further information is made available.

1.7 A link to the final draft budget book for 2023/24 is provided below. The budget book provides the detailed resource allocations for services provided by the Council for the coming year.

https://www.fylde.gov.uk/council/finance/revenue-budget-2023-24-final-draft/

A first draft of the detailed 2023/24 revenue budget allocations has been presented to each of the programme committees for information and comment during the January cycle of meetings, as have the proposed fees and charges schedule shown at Appendix J to this report.

1.8 This report was considered by the Finance and Democracy Committee at the meeting of 20th February 2023.

1.9 The Council's MTFS and a summary of the budget proposals therein have been made available for consultation via the Council's website and have also been provided directly to a range of stakeholders during February 2023. The consultation responses are shown at Appendix K to this report.

RECOMMENDATIONS

1. That the Council note the recommendations of the Finance and Democracy Committee meeting of 20th February 2023 and approves as follows:
   (a) The revised estimates for 2022/23 and the revenue budget for 2023/24 as set out in Appendix E, which includes recommended transfers to the Capital Investment Reserve in 2022/23 and 2023/24 equivalent to the balance of the revenue surplus for those years, currently estimated at £0.400m in 2022/23 and £0.186m in 2023/24;
   (b) The budget proposals and changes to Reserves and Balances as set out in Appendices F & H, to include approval that the Council will act as the accountable body for any of the new capital schemes (as indicated) in Appendix F;
   (c) The Capital Strategy 2023-27, including Prudential Indicators and Limits, set out in Appendix G; which incorporates the Treasury Management Policy, the Capital Programme, the Treasury Management Strategy, the Investment Strategy and the Minimum Revenue Provision Statement;
   (d) The updated Useable Reserves & Balances Policy as detailed in Appendix H;
   (e) An average Band D Council Tax of £218.89 for 2023/24 (excluding Town and Parish precepts), which is a 0.14% decrease from the 2022/23 average Band D charge;
   (f) The Special Expenses policy as set out in Appendix I; which includes that:
      - for the purposes of charging special expenses, both the special expense costs and the tax bases relating to the areas of Lytham and St Annes will each be aggregated and the Council Tax charge per property at each band level will be the same across the whole area; and
      - the annual special expense charge per property will be set for 2023/24 with a 0.0% increase on the 2022/23 level, that being £80.92 per band D property; and
      - the annual borough wide charge per property will be set for 2023/24 with a 0.0% increase on the 2022/23 level, that being £172.47 per band D property; and
      - the budget resource to be allocated to delivering concurrent services and chargeable as special expenses for 2023/24 will be set at a sum equivalent to the annual special expense charge per property (band D equivalent) multiplied by the tax base for the special expense area; and
   (g) The schedule of fees and charges for 2023/24 as detailed in Appendix J.

2. That the Council note the responses to the Budget Consultation at Appendix K

   NB: Whilst individual council tax charges to residents from Fylde Council will be frozen for 2023/24 at the same level as for 2022/23, changes to the council tax base year-on-year means that the *average* Band D council tax charge decreases by 0.14% for 2023/24, as set out above.

CORPORATE PRIORITIES	
Economy – To create a vibrant and healthy economy	√
Environment – To deliver services customers expect	√
Efficiency – By spending money in the most efficient way	√
Tourism – To create a great place to live and visit	√

SUMMARY OF PREVIOUS DECISIONS
This report forms part of the Budget and Council Tax setting process considered annually by Members.

REPORT

1. In March 2022 the Council agreed a five-year Financial Strategy from 2021/22 to 2025/26.

2. The attached Medium Term Financial Strategy (MTFS) identifies the key financial risks for the Council moving forward. These are detailed in Section 10 (Revenue) and Section 13 (Capital) of the report. The Council acknowledges the need to continuously reduce costs and to seek efficiencies in order to meet the challenge of reduced public sector funding, whilst providing high quality services to residents and delivering the ambitions set out in the Corporate Plan. The Council has delivered a balanced budget in 2022/23 and is forecast to do so again in 2023/24 and has delivered significant savings from its budget rightsizing programme across all years of the forecast. This leaves the Council well placed to address further pressures on funding and income.

3. On 19 December 2022, the Secretary of State for the Department for Levelling Up, Housing and Communities (DLUHC), Rt. Hon. Michael Gove MP, released a written statement to Parliament on the local government finance settlement 2023/24. The papers can be viewed by clicking here. Further details of this are contained within the attached MTFS.

4. The Council's MTFS and a summary of the budget proposals therein have been made available for consultation via the Council's website and have also been provided directly to a range of stakeholders during February 2023. The consultation responses are shown at Appendix K to this report.

IMPLICATIONS	
Finance	Detailed financial implications are contained in the body of the attached Medium Term Financial Strategy. Specific advice from the Council's Chief Financial Officer is contained within the overall conclusions to the report in Section 17.
Legal	None arising directly from the report.
Community Safety	None arising directly from the report.
Human Rights and Equalities	None arising directly from the report.
Sustainability and Environmental Impact	None arising directly from the report.
Health & Safety and Risk Management	None arising directly from the report.

LEAD AUTHOR	CONTACT DETAILS	DATE
Paul O'Donoghue Chief Financial Officer	paul.odonoghue@fylde.gov.uk	February 2023

BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
Medium Term Financial Strategy (MTFS) Update, Including General Fund, Capital Programme and Treasury Management for 2021/22 – 2025/26	Budget Council meeting 3rd March 2022	www.fylde.gov.uk
MTFS – Outturn Position For 2021/22 (Including General Fund, Capital Programme & Treasury Management)	Finance and Democracy Committee meeting 23rd June 2022	www.fylde.gov.uk
Financial Forecast Update (including Revenue, Capital & Treasury Management) 2022/23 to 2026/27	Finance and Democracy Committee meeting 21st November 2022 and Council meeting 5th December 2022	www.fylde.gov.uk
Revenue Budget Monitoring Reports & Capital Programme Monitoring Reports 2022/23	Programme Committees – during 2022/23	www.fylde.gov.uk
Financial Forecast Update 2022/23 to 2026/27 (Position as at January 2023)	Finance and Democracy Committee meeting 30th January 2023 and Council meeting 6th February 2023	www.fylde.gov.uk
Medium Term Financial Strategy (MTFS) Update, Including General Fund, Capital Programme and Treasury Management for 2022/23 – 2026/27	Finance and Democracy Committee meeting 20th February 2023	www.fylde.gov.uk

Attached documents

1. Medium Term Financial Strategy 2022/23 to 2026/27

MEDIUM TERM FINANCIAL STRATEGY:
2022/23 – 2026/27

Fylde
Council

Section 1: FOREWORD

1.1 A significant amount of work has been carried out in recent years to ensure that the Council's finances, as detailed in the Medium Term Financial Strategy (MTFS), remain robust. This current version of the MTFS shows a projected surplus for 2022/23 and 2023/24 followed by a period of uncertainty as the national framework for the financing of local government will be subject to review.

1.2 The financial year 2022/23 to date has been shaped by a number of the key themes: the continuing recovery of the global economy from the impact of the covid pandemic; military conflict in Ukraine; and political and financial turbulence domestically during the latter part of 2022, though this has settled somewhat in recent months following the latest changes in central government administration. The first two of these factors combined to create a sharp rise in energy costs (particularly for gas) and in general levels of price inflation, peaking with an annual increase in the Consumer Price Index of 10.7% for November 2022, reducing to an annual increase of 10.5% for December 2022. This has is turn has led to a significant amount of industrial unrest, and disruption to services, as a consequence of industrial action across a range of sectors, including elements of the public sector, as wage settlement demands have increased and been resisted.

1.3 This MTFS includes the impact of the 2023/24 Local Government Finance Settlement, details of which were announced on 19th December 2022. This followed a policy statement on the future of Local Government Finance published on 12 December, covering 2023/24 and 2024/25, which are the remaining years of the 2021 Spending Review period. The policy statement can be viewed here:
https://www.gov.uk/government/publications/local-government-finance-policy-statement-2023-24-to-2024-25.

This in turn was hard on the heels of the Autumn Statement on 17 November, which set the overall level of available resources across all government departments.

1.4 The continuation of a Lancashire-wide Business Rates Pool was confirmed for 2023/24. The latest in-year monitoring and future modelling indicates that continued participation in a Lancashire Business Rate Pool for 2023/24 will be of financial benefit to Fylde Council, as it has been since participation in the pool commenced.

1.5 The settlement confirms that the review of the New Homes Bonus scheme is ongoing and indicates that the outcome will be announced during 2023. The allocation for 2023/24 is for one year only in the sum of £516k rather than an annual allocation for multiple years as has been the case historically. Given that New Homes Bonus is a major source of funding for the Council this represents a significant risk to the overall level of future central government funding.

1.6 In order to maintain the current financial position, the Council needs to continue with the approach to delivering savings and efficiencies and maximising income which have helped deliver balanced budgets and contribute to reserves over recent years. Through continued focus on the importance of financial stability the Council has delivered a savings programme in recent years and has continued to reduce overheads wherever possible. Ongoing modernisation work and business improvement will continue to make Council services more efficient, save money and maintain frontline services to customers. This work has yielded ongoing savings to help improve the Council's overall financial position over that period.

1.7 Although it is clear that further uncertainty and challenges lie ahead in the later years of the financial forecast**, the finances of the Council remain robust and the reserves and balances are at healthy levels as compared to earlier periods.** Furthermore, Fylde Council has a past record of taking actions in order to meet and overcome financial challenges as they arise. The Council will continue to seek opportunities to maintain a robust financial position in the face of a changing financial environment. This approach will ensure that the Council continues to achieve and sustain a balanced budget position on an ongoing basis and is able to deliver the priorities set out in the Corporate Plan. External pressures outside the Council's control are being experienced by many local authorities and the full impact of the pandemic is still being understood and assessed. Instructions remain in place that budget-holders should remain prudent and not commit to any unnecessary expenditure. This approach saves money and may result in an under-spend again for this financial year.

1.8 The assumptions that are contained within this MTFS are the latest best estimates and will be updated as and when further information becomes available.

Section 2: CONTENTS

Section 3: THE PURPOSE OF THE MEDIUM-TERM FINANCIAL STRATEGY

3.1 The purpose of the Medium-Term Financial Strategy (MTFS) is to:

- (i) Provide the framework for the development of a budget which is robust and sustainable;
- (ii) Assist the Council in the delivery of the aspirations within its strategic plans, and to align resources accordingly;
- (iii) Ensure the Council delivers essential services by the efficient and effective use of its financial resources; and,
- (iv) Demonstrate commitment to transparency in its financial affairs by setting out what the Council is trying to achieve in an understandable format.

3.2 The MTFS is one of the Council's key enabling strategies. It sets out how the Council intends to manage its finances to help achieve the agreed objectives and priorities. The MTFS looks at the current year and ahead over the next four years to identify the resources likely to be required by the Council to finance service priorities and to meet spending pressures. It aims to:

- Ensure the sustainability of the Council's budget;
- Facilitate pro-active strategic management of the budget to ensure service investments and dis-investments flow from the Council's corporate and service planning frameworks;
- Be responsive to a changing and uncertain financial climate in which existing funding streams cease and new opportunities arise; and,
- Demonstrate clearly to stakeholders, both internal and external, what the Council's plans are for the use of its resources.

The need for a longer-term view of the Council's financial position has always been important but as central government funding continues to be the subject of significant uncertainty in the coming years this is increasingly so.

3.3 The Council has adopted a pro-active approach to financial management and a commitment to sound corporate governance, safeguarding public monies and ensuring accountability. Over recent years the Council has been recognised by its external auditors as making good progress with ongoing achievements and successes in priority service areas. It is recognised that whilst there continue to be challenges ahead, arrangements have been put in place to ensure that the priorities as set out in the Council's Corporate Plan are supported by a robust financial framework. The council's Audit and Standards Committee considered a report during 2022 on compliance with the new CIPFA Financial Management code which concluded that the council is fundamentally compliant in all significant respects with the code requirements. More details are provided in section 6.14 of this report.

3.4 In formulating this strategy the Council has ensured that, within the resources available, it has taken account of:

- National priorities for public service investment and delivery;
- Government efficiency targets and the priority given to the reduction of the national deficit;
- Corporate priorities that reflect local circumstances and are in tune with the priorities of partner organisations, including Health, Police, local businesses, voluntary and community organisations; and,
- Feedback from all public consultation that has taken place.

Section 4: VISION FOR THE BOROUGH

4.1 The Council produces a Corporate Plan which outlines the key priorities, targets and outcomes for the Authority and the wider community. The Corporate Plan is developed through consultation and feedback with stakeholders based on the key strategic responsibilities of the Council.

4.2 The Corporate Plan takes into consideration emerging legislation, policy and changes in resources and responsibilities informed by the Local Government Association, the Department for Levelling Up Communities and Housing, the Department for Work and Pensions and the various professional associations which provide support on policy, finance, governance, waste, planning, parks, public health and environmental health. The intention is to forecast the resources required to address the strategic issues the Council will need to deliver against over the next four years.

4.3 The current Corporate Plan covering the period 2020 to 2024 has been developed and has been presented to each of the programme committees of the Council. A review of the 2016/20 Corporate Plan during 2019/20 considered each action within the plan and any that were deemed to not have been completed were incorporated into the new 2020/24 Corporate Plan.

There are 4 key themes set out in the new Corporate Plan, these being:

- Economy;
- Environment;
- Efficiency; and
- Tourism

4.4 The 2020/24 Corporate Plan was approved at the October 2020 meeting of the Council, along with a review and closure of the 2016/20 plan.

The current Corporate Plan is accessible on the Council website at: Corporate Plan 2020-24.

Section 5: STRATEGIC PLANNING

5.1 The Council has in place a corporate planning and performance management framework that includes periodic reviews and progress updates on progress against priorities set out in the Corporate Plan. The plan is reviewed in consultation with staff and councillors, partners in other public services, the community and voluntary sector, the local business community and local residents and updates are provided to programme committees. The Council's Performance Portal tracks activities aligned to each of the key themes within the Corporate Plan.

5.2 The Council regularly reviews progress against longer term plans and Members receive regular updates of the financial forecast. It is recognised that despite robust action during recent financial years to produce a stable and sustainable financial position, the continuing uncertainties surrounding the future resources available to the public sector means that the Council needs to strive to continue to achieve a sustainable and robust budget.

5.3 The Medium Term Financial Strategy (MTFS) is one of the enabling strategies of the Council, aimed at improving transparency and accountability in the way that services and functions are delivered. The MTFS takes account of the resources the Council requires to deliver its priorities. Where resources are limited the overall objectives of the Council will be the same, but the pace of achievement may require adjustment.

External funding

5.4 The borough has been successful in the past in attracting funding from a number of investment streams from external funds including Heritage Lottery Fund Grants, The Local Strategic Partnership (LSP), the Environment Agency, section 106 planning monies, the Future High Street Fund and the UK Shared Prosperity Fund. The Council will continue to explore external funding opportunities wherever possible to lever in resources to support Council investment to deliver further improvements in the borough.

Section 6: DEVELOPING THE MEDIUM TERM FINANCIAL STRATEGY (MTFS)

6.1 The MTFS sets out the Council's revenue budget allocations, the programme for capital investment, efficiency targets and forecasts for the period covered by the strategy. The key influences on this strategy include:

- The on-going economic recovery from the Covid-19 pandemic;
- The impact of inflationary pressures on both pay and prices;
- The continuing uncertainty surrounding future central government funding for local government;
- The consequent spending constraints resulting from potentially reduced resources in the medium term;
- Ensuring a robust and sustainable budget through the prudent use of reserves and balances and ensuring externally funded projects are facilitated;
- Developing new ways of delivering services using modernisation techniques to achieve higher levels of customer satisfaction, efficiency, value for money, strategic partnerships, service commissioning, and enterprise; and
- The need to continuously review and maintain existing assets to a quality standard.

6.2 The MTFS looks at the current year and ahead over the next four years to identify the resources likely to be required by the Council to meet service priorities and to address spending pressures. It aims to:

- Ensure the sustainability of the Council's Budget;
- Facilitate pro-active strategic management of the budget to ensure service investments and dis-investments flow from the Council's corporate and service planning frameworks;
- Be responsive to a changing and uncertain financial climate in which existing funding streams cease and new opportunities arise; and,
- Demonstrate clearly to stakeholders, both internal and external, what the Council's plans are for the use of its resources.

6.3 The MTFS and financial forecast are supported by the following monitoring procedures:

- General Fund Revenue Budget Monitoring;
- Capital Programme Monitoring;
- Treasury Management Monitoring and Mid-Year Strategy Review, together with specialist external advice; and,
- Annual Outturn reports on the Capital Programme, the General Fund and Treasury Management.

6.4 Any additional future spending reductions will require a further review of priorities and service delivery arrangements. Members will be engaged in this process as part of the service planning framework and through the Council's programme committees.

6.5 Central to the budget setting process is the work of the **Budget Working Group**. The purpose of the group is:

> ***'To co-ordinate and oversee the budget setting process and to provide a strategic steer to programme committees on key elements of the budget setting process such as the level of growth or savings required in light of the overall financial position of the Council, capital bid expectations, fees and charges levels etc.'***

In addition, all budget growth proposals, draft revenue budgets and all proposed fees and charges for 2023/24 have been considered by each of the Council's programme committees with respect to those services that fall within the remit of each committee and the programme committees have provided comments and recommendations as appropriate. The Budget Working Group has met a number of times during the year to fulfil its role in the budget-setting process for 2023/24 and has carefully considered all budget proposals and the comments that each of the programme committees has made during their consideration of these matters in respect of services within their remit.

6.6 In December 2022 the Council received details of the 2023/24 Local Government Financial Settlement along with details of the New Homes Bonus allocation for 2023/24. Further details of the impact of the financial settlement are provided within section 8 of this strategy document. For a number of years local authorities have been hoping that a revised framework of financing for local government would provide multi-year settlements, thus assisting with medium-term financial planning. This was initially to follow from a fundamental review of the funding mechanisms for local government entitled the ‘Fair Funding Review’. The review has, however, been delayed due to several factors of national importance, including the impacts of Brexit and the Covid pandemic on the demands facing central government. The policy statement on the future of Local Government Finance published on 12th December confirmed that the planned Review of Relative Needs and Resources (the ‘Fair Funding Review’) and the planned reset to business rates growth will not be implemented in the next two years. The settlement is once again a holding position, designed for short-term stability and certainty for planning purposes and to promote financial sustainability within available resources - this time based on proposed detailed allocations for 2023/24 and a fairly full set of policy principles for 2024/25.

6.7 The impact of the Covid-19 restriction measures on the financial position of the Council during 2020/21 and 2021/22 have been detailed in earlier updates to the Financial Forecast, as presented to Members during that period. The financial year 2022/23 has seen both the global and local economies enter a period of recovery from the pandemic. Although during those years the government provided additional funding to councils to dampen the financial impact, some of those effects are continuing. Of particular concern is the level of retained business rates for future years as a consequence of the number of local businesses that were severely impacted by the pandemic. Given these future uncertainties, in order to maintain the current robust financial position the Council needs to continue with the approach to delivering savings and efficiencies and maximising income which have delivered balanced budgets and contributed to reserves over recent years.

6.8 Given the financial risks as detailed in section 10 of this report, it is vital that the financial resources of the Council are managed carefully. Consequently, the Budget Working Group are proposing only a limited number of revenue growth proposals to ensure that the Council continues to achieve a robust budget over the life of the forecast. A number of additional Capital Schemes are proposed for 2023/24. The Council’s element of the funding for each scheme will be met from the Capital Investment Reserve, thus avoiding the requirement for any external borrowing in respect of these new schemes. In formulating the budget proposals, Members have been cognisant of the national economic context and the financial risks and uncertainties facing the Council. The budget proposals for 2023/24 are detailed in Appendix F of this report.

6.9 The Council’s service planning and performance management framework is designed to ensure the continuous drive for improvement and ensure that Value for Money continues to be achieved.

Balancing the MTFS

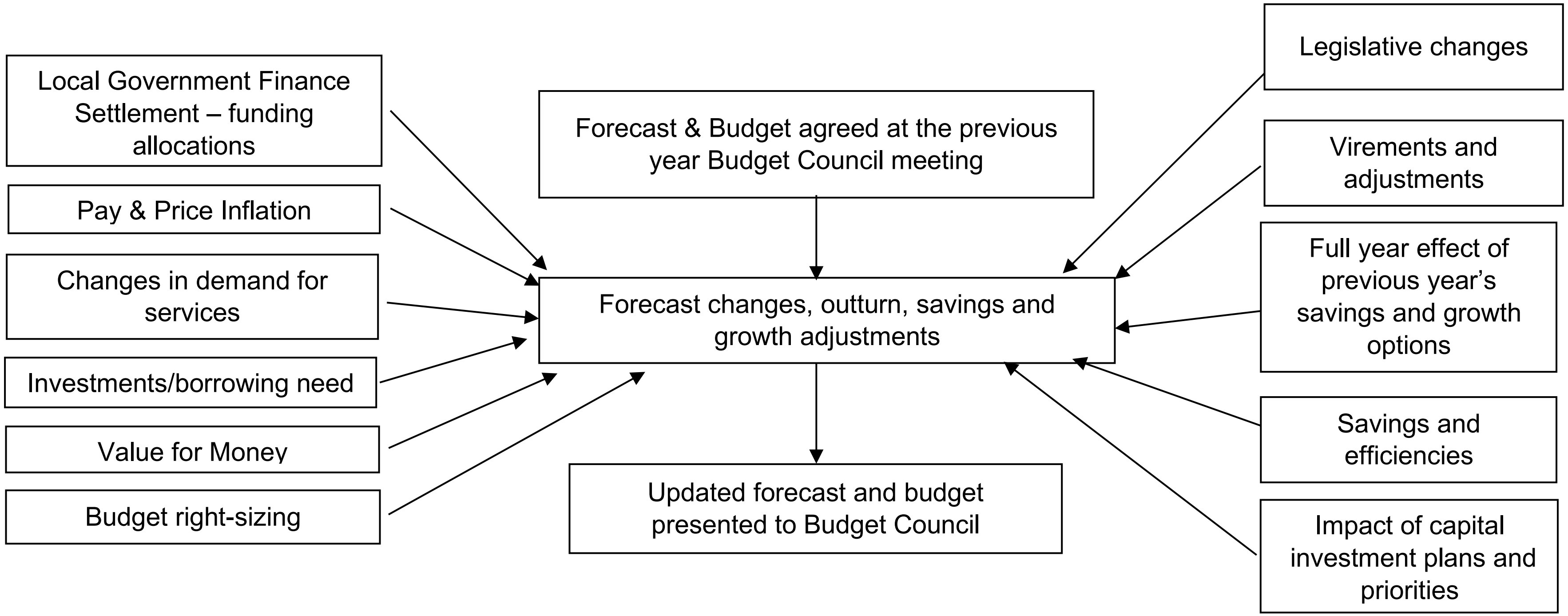
6.10 The Council is primarily a service provider and employee costs are one of its largest areas of expenditure. The Financial Forecast includes provision for an estimated pay award for 2023/24 of 4% and a forecast of future pay awards of 2.75% per annum.

6.11 Each year officers review the financial outturn position for the previous year, with particular reference to budget underspend across services, to identify areas where budget adjustments might be appropriate. This exercise has also been carried out several times during 2022/23 following in-year budget monitoring reviews, resulting in a series of mostly favourable budget adjustments, the latest of which have been reflected in this revised forecast.

Developing the Budget Forecast

6.12 Fylde Council has a structured approach to financial management and corporate governance, safeguarding public monies and ensuring accountability. The starting point for developing the forecast for the forthcoming year is the forecast agreed by Full Council at the last Budget setting meeting. The forecast is reviewed in the light of the previous year's outturn information. Changes and risks based on the latest available information such as the statutory annual Council Tax Base calculations and the most recent Local Government Finance Settlement are incorporated. Original assumptions are reviewed; new spending pressures are assessed and evaluated with any in-year budget decisions being taken into account. The need for spending and savings is assessed in the light of available resources. The process is summarised in the following diagram:

The Council's Budget Process and the Key Factors taken into consideration



Throughout the process, all risks are analysed, assessed and reported as necessary and appropriate.

CIPFA Financial Management Code

6.13 The Local Government financial framework in the UK is governed by primary legislation, regulation and professional standards, as supported by statutory provision. The financial management of a local authority, has not however, until now, been supported by a professional code. The CIPFA Financial Management Code (FM Code) has been introduced because the exceptional financial circumstances faced by local authorities have revealed concerns about fundamental weaknesses in financial management, particularly in relation to some local authorities which may be unable to maintain services in the future.

6.14 Whilst there is much good practice across the sector, the failures of a small number of authorities has threatened stakeholders' confidence in local government as a whole. The FM Code is therefore designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability; for the first time, the FM Code sets the standard of financial management for local authorities. Although the FM Code does not have legislative backing, it applies to all local authorities, including police, fire, combined and other authorities.

6.15 The purpose of the FM Code itself is to establish the principles in a format that matches the financial management cycle and supports governance in local authorities. A series of FM standards set out the professional standards needed if a local authority is to meet the minimal standards of financial management acceptable to meet fiduciary duties to taxpayers, customers and lenders. Since these are minimum standards, CIPFA's judgement is that compliance with them is obligatory if a local authority is to meet its statutory responsibility for sound financial administration

6.16 The underlying principles that inform the FM Code have been designed to focus on an approach which will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable. The principles are as follows:

- **Organisational leadership** - demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture
- **Accountability** - based on medium-term financial planning, which drives the annual budget process supported by effective risk management, quality supporting data and whole life costs
- **Financial management is undertaken with transparency** at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making
- **Adherence to professional Standards** is promoted by the leadership team and is evidenced
- **Sources of assurance are recognised** as an effective tool mainstreamed into financial management and includes political scrutiny and the results of external audit, internal audit and inspection
- **The long-term sustainability** of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources

6.17 The Audit and Standards Committee considered a report during 2022 on Fylde Council's compliance with the FM code which concluded that the council is fundamentally compliant in all significant respects with the code requirements.

Section 7: BACKGROUND TO THE FORECAST

7.1 In order to 'scene set', the current financial position of the Council is summarised for Members as follows:

(i) Original Budget 2022/23

At the Council meeting on the 3rd March 2022 the budget for 2022/23 and the medium-term financial forecast were agreed. The resolution included a 1.99% increase in the average Council Tax amounts and a total net budget requirement of £11.429m for 2022/23. The General Fund balance at that time was forecast at the end of 2025/26 to be £1.651m. In agreeing the Original Budget for 2022/23 a number of key high level financial risks and assumptions were highlighted.

(ii) General Fund Revenue Outturn Position 2021/22

The revenue outturn position for 2021/22 was reported to Members in June 2022. The impact of the outturn position, including slippage items in the total sum of £0.485m, has been reflected in this updated forecast.

The favourable outturn position for revenue allowed for contributions to be made into the Capital Investment Reserve totalling £1.715m. Appendix E includes the latest estimate in this regard.

(iii) Budget Right-sizing Exercise

Throughout each year officers undertake a series of budget right-sizing exercises to identify any in-year budget variances and any future budget adjustments that might be appropriate. The exercise includes an analysis of underspends which have occurred over the last 3 financial years in order to identify structural variances and trends in income and expenditure levels. This has become part of the annual budget process. As a result, a number of budget adjustments are included within Appendix C of this report under the heading 'Budget Rightsizing'. The efficiencies and savings captured by the right-sizing exercise are a combination of one-year-only and recurring savings. It is anticipated that in future years the level of efficiencies and savings that are achievable through the right-sizing exercise will be more limited.

(iv) Capital Outturn Position 2021/22

The latest approved expenditure budget in the capital programme for 2021/22 was £8.729m. After adjusting for slippage of £3.565m, the overall outturn position for 2021/22 was an in-year favourable variance of £0.021m against the latest updated estimate. The capital programme has been updated to reflect scheme re-phasing approved as part of the outturn report.

(v) General Fund Revenue Budget Monitoring 2022/23

Revenue budget monitoring reports for the period to 30th November 2022 have been presented to each of the Programme Committees during the January 2023 cycle of meetings. These reports identified a number of budget areas for further consideration. As a result, a number of changes have already been included in this latest forecast update report. These include revised fee income estimates and the latest estimate of employee costs.

Section 8: THE GENERAL FUND REVENUE FORECAST & NEW FORECAST CHANGES, INCLUDING THE LOCAL GOVERNMENT FINANCE SETTLEMENT 2023/24

8.1 Appendix A sets out the original base budget that was agreed at Budget Council in March 2022. In rolling forward the forecast the general assumptions that are included in the base budget are set out in Appendix B, with details of the changes since the last approved budget was set being detailed in Appendix C. Explanations in support of these budget changes are set out in Appendix D. A summary of the impact of these changes, including the proposals of the Budget Working Group, and the updated summary forecast position for the Council, is set out in Appendix E.

In preparing the updated forecast summarised in Appendix E of this report, the following have been taken into account:

8.2 **The 2023/24 Local Government Finance Settlement**

On 19th December 2022, the Secretary of State for the Department for Levelling Up, Housing and Communities (DLUHC), Rt. Hon. Michael Gove MP, released a written statement to Parliament on the local government finance settlement 2023-24. The papers can be viewed by clicking here.

This followed a policy statement on the future of Local Government Finance published on 12th December, covering 2023/24 and 2024/25, which are the remaining years of the 2021 Spending Review period. The policy statement can be viewed here:
https://www.gov.uk/government/publications/local-government-finance-policy-statement-2023-24-to-2024-25

This in turn was hard on the heels of the Autumn Statement on 17 November, which set the overall level of available resources across all government departments.

POLICY STATEMENT – SUMMARY

The settlement is once again a holding position, designed for short-term stability and certainty for planning purposes and to promote financial sustainability within available resources - this time based on proposed detailed allocations for 2023/24 and a fairly full set of policy principles for 2024/25. The broad approach is based on a uniform roll-over of the core elements of the settlement; additional resources for priority services (in particular social care); balancing service pressures with taxpayer concerns through council tax referendum principles; and a fallback, by way of a minimum funding guarantee, for outlying councils. Finance reform is deferred, once again, at least until 2025/26 and possibly even later.

OVERALL APROACH

As far as the overall policy approach is concerned ministers came down on the side of short-term stability and certainty, aiding councils in financial planning for the next two years. The policy statement gave councils a week's extra notice of the broad proposals for 2023/24. But it gives a good indication of Ministers' intentions in terms of the principles they will follow when they come to lay the annual settlement for 2024/25 before Parliament in Autumn 2023. Although there are no indicative allocations for councils for 2024/25, the outlining of principles is helpful, and represents more information than has been provided in recent years.

Detailed numbers are only available however for 2023/24 and there remain significant uncertainties for 2024/25, particularly for district councils. These include the future of the New Homes Bonus (NHB) scheme, which is now simply a one-year retrospective payment. To set the way forward, decisions need to be taken on the 2021 NHB consultation exercise, which was a very open exercise with limited indication of the favoured policy proposals and no strong view on the efficacy of the NHB incentive effect; decisions on all this are promised before next year's financial settlement. There is also uncertainty around the future position of areas with 100% business rates retention; and on the approach to social care reform. All of these will inhibit detailed budget planning beyond the short-term.

FURTHER DELAYS TO FINANCE REFORM

The policy statement confirmed that the planned Review of Relative Needs and Resources (the 'Fair Funding Review') and the planned reset to business rates growth will not be implemented in the next two years.

The recent history of proposed reform goes back some years. In 2012, before the introduction of business rates retention, the Government promised a reset of accumulated business rates growth in 2020. In 2016, they promised a review of the needs assessment formula which would be used in re-allocating the accumulated growth between councils. In 2018, they published major consultation documents on all this, for implementation in 2020/21. Since then, implementation has been successively delayed. At the earliest, implementation will not now be until 2025/26 or realistically, depending on the timing of the General Election and the appetite of the new government for reform, until perhaps 2026/27.

The key points arising from the **Finance Settlement** for Fylde Council in respect of **2023/24** are:

a) Confirmation of acceptance of the bid by Lancashire authorities to continue to operate Business Rate Pooling arrangements for 2023/24

The continuation of a Lancashire-wide Business Rates Pool was confirmed for 2023/24, subject to no single member of the pool exercising their right to withdraw from the pool within 28 days of the Finance Settlement announcement (as per the terms of the pooling arrangement) which would cause the pool to end. It is not expected that any member of the Lancashire Business Rates pool will exercise this option for 2023/24. The latest in-year monitoring and future modelling suggest that continued participation in a Lancashire Business Rate Pool for 2023/24 will be of financial benefit to Fylde Council, as it has been since participation in the pool commenced.

b) Confirmation of a single year New Homes Bonus allocation in 2023/24 and an ongoing review of the scheme

The settlement confirms that the review of the New Homes Bonus scheme is ongoing and indicates that the outcome will be announced during 2023. The allocation for 2023/24 is for one year only in the sum of £516k rather than an annual allocation for a four-year period as has been the case for earlier years.

Given that New Homes Bonus is a major source of funding for the Council this represents a significant risk to the overall level of future central government funding.

The forecast of New Homes Bonus income for 2023/24 has been updated in line with the allocation announced in the settlement. In respect of all other years, due to the uncertainty surrounding future funding levels, the estimated amounts for 2024/25 onwards are in line with the allocation for 2023/24 and are subject to change depending on the outcome of the consultation exercise.

c) Changes to Other Government Grants for 2023/24

Other grant changes were also announced in respect of 2023/24 as part of the settlement which for Fylde Council were as follows:

- Lower Tier Services Grant – this grant has been abolished;
- Services Grant - an allocation for Fylde of £75k in 2023/24 (reduced from £133k in 2022/23); and
- The introduction of a new "one-off" Funding Guarantee Grant for "2023/24 only" – with an allocation for Fylde of £871k in 2023/24. The Funding Guarantee grant aims to ensure all local authorities receive a minimum 3% "Core Spending Power" increase from 2022/23, excluding any funding from increases to 2022/23 council tax levels. Core Spending Power is a measure used by the government of the resources available to local authorities to fund service delivery. It sets out the money that has been made available through the Local Government Finance Settlement. The calculations made by the government to assess Core Spending Power assume that business rate income is receivable at the baseline level, whereas actual business rate income is subject to variation from the baseline level.

These updated grant allocations for 2023/24 have been reflected in the summary at Appendix E to this report.

d) Confirmation of the 2023/24 General Council Tax Referendum Principles

The council tax referendum limit for 2023/24 will be 2.99% for local authorities, with an additional 2% social care precept allowed for social care authorities (not Fylde). The 2.99% figure is an increase of 1% on that allowable for 2022/23 to allow councils additional flexibility to increase spending power in light of the continuing high levels of pay and price inflation currently being experienced. Appendix E of this report assumes an increase in council tax of 1.99% per annum from 2024/25 onwards following a freeze in council tax bills in 2023/24 as proposed in this report.

8.3 **Estimates of Government Funding Beyond 2023/24**

Estimating the level of funding for local authorities beyond 2023/24 is problematic in light of short-term settlements, national pressures on public finances as a whole and continuing delays to the reform of local government funding mechanisms. That said, the focus by DLUCH on Spending Power as a key measure for local authority funding and the introduction of the Funding Guarantee Grant, albeit as a "one-off", do give some comfort that government are mindful of providing some stability, at least in the short term.

Accordingly, the estimates of government funding contained in the financial forecast at Appendix E of this report have been calculated on a continuation basis and to assume an overall protection of the council's "Core Spending Power" for 2024/25 onwards. This is considered to be the best estimate available given the various uncertainties as outlined in the report.

8.4 Other Forecast Changes

The Financial Forecast has also been updated to reflect the following changes:

a) Employee Costs

Pay award: The employee pay award for the current year has recently been agreed at a £1,925 flat rate increase on each spinal column point on the pay scale, which equates to approximately 6.5% on the pay bill, including oncosts. This is significantly in excess of the budget provision for 2.75% for the current year. The forecast has been updated to reflect the agreed settlement. In light of the current year settlement and the continuing high level of inflation (10.5% as at December 2022, down slightly from 10.7% In November), the budget provision for pay award for 2023/24 has been updated to an estimated 4%, with 2.75% estimated pay awards included each subsequent year throughout the life of the forecast.

b) New Homes Bonus Distribution to Town and Parish Councils

The Finance and Democracy Committee meeting in November 2022 approved the provisional continuation of the scheme for the distribution of a portion of the New Homes Bonus Grant income to town and parish Councils, dependent upon confirmation of the level of New Homes Bonus grant to be received by Fylde Council for 2023/24. Following the confirmation of the amount of New Homes Bonus grant as part of the 2023/24 financial settlement, allocations of a proportion of this grant to town and parish councils have been calculated in the total sum of £25,805 in line with the recommendation from the committee. The financial consequence of this decision is contained within the summary Financial Forecast at **Appendix E** to this report.

c) Other budget adjustments

A number of further budget adjustments have been made to this updated financial forecast in light of the most recent budget monitoring reported to programme committees and a further budget-rightsizing review undertaken since the forecast was last updated. These are included within the variance analysis at **Appendix C** to this report and an explanation of each is provided at Appendix D.

Section 9: SAVINGS & GROWTH PROPOSALS

9.1 In order to prepare for the funding uncertainties of future years only a limited number of growth proposals have been identified and the Council continues to look for further efficiencies. In identifying the growth items now proposed (detailed in Appendix F) and exploring opportunities for future savings, the following criteria has been considered:

- The impact on the Council's corporate priorities;
- The impact on front line service provision to residents:
- The sustainability of proposed savings;
- Value for Money and efficiency implications; and,
- The potential for further cost reductions both in back-office and service delivery costs, in particular, to be achieved via a mix of more shared services and partnering arrangements.

9.2 Although there are no proposed budget reductions as part of this MTFS, the impact of any such future proposed budget reductions would be assessed by way of an equality impact assessment. Any reduction in Council expenditure that leads to a reduction in services will inevitably have an impact on the wider community served. However, in carrying out a high level equality impact assessment on savings options it is necessary to look at two specific issues:

- The effect on persons who share a protected characteristic in relation to the wider community; and,
- If and how one group is disproportionately disadvantaged by the cuts in relation to other groups.

9.3 The Council is consulting with a wide range of stakeholders, including the general public, local business groups, Town and Parish Councils, business rate payers, partners, and other local authorities on the proposed budget for 2023/24.

9.4 In putting together the budget proposals due consideration is given to the consultation and feedback which is collated on an ongoing basis through the various service providers as well as bespoke research aimed at specific initiatives. This includes customer satisfaction surveys, suggested service delivery improvements obtained through feedback and an analysis of the complaint and service failure data collated by the Council each month.

Section 10: KEY AREAS OF FINANCIAL RISK (REVENUE)

10.1 In considering this forecast Members should note that there are a number of significant risks. In the context of the Council's financial forecast a risk can be defined as a change with an unknown or uncertain impact on the financial position of the Council that can be favourable or adverse. In assessing each risk the following has been taken into account:

High Level Financial Impact Risk

- Potentially a significant sum, with the potential for impact over a number of years
- Relatively little mitigation available to spread or defer the impact
- The possibility of a significant financial impact on the Council if the risk materialises
- Probable need for change to the forecast if it materialises

Medium Level Financial Impact Risk

- Potentially a large sum, with the potential for impact over a number of years
- Some mitigation may be possible to spread or defer the impact
- The possibility of a sizeable financial impact on the Council if the risk materialises
- Possible need for change to the forecast if it materialises

Low Level Financial Impact Risk

- Potentially a less significant sum
- Some mitigation may be possible to spread or defer the impact
- Impact should be capable of being absorbed without major forecast changes

10.2 **High Level Financial Impact Risks**

(i) Future Central Government Funding

The central government funding figures currently shown within the General Fund Forecast at Appendix E comprise the funding allocations as contained within the Local Government Financial Settlement for 2023/24.

Estimating the level of funding for local authorities beyond 2023/24 is problematic in light of short-term settlements, national pressures on public finances as a whole and continuing delays to the reform of local government funding mechanisms. That said, the focus by DLUCH on Spending Power as a key measure for local authority funding and the introduction of the Funding Guarantee Grant, albeit as a "one-off", do give some comfort that government are mindful of providing some stability, at least in the short term.

Accordingly, the estimates of government funding contained in the financial forecast at Appendix E of this report have been calculated on a continuation basis and to assume an overall protection of the council's "Core Spending Power" for 2024/25 onwards. This is considered to be the best estimate available given the various uncertainties as outlined in the report.

The Financial Forecast will be updated for future years as and when there is greater clarity regarding the central government funding regime. Until there is more certainty over future funding arrangements for local government, this will remain high level financial risk to the council's financial position.

(ii) New Homes Bonus

The settlement confirms that the review of the New Homes Bonus scheme is ongoing and indicates that the outcome will be announced during 2023. The allocation for 2023/24 is for one year only in the sum of £516k rather than an annual allocation for a four-year period as has been the case for earlier years.

The forecast of New Homes Bonus income for 2023/24 has been updated in line with the allocation announced in the settlement. In respect of all other years, due to the uncertainty surrounding future funding levels, the estimated amounts for 2024/25 onwards are in line with the allocation for 2023/24 and are subject to change depending on the outcome of the consultation exercise.

Given that New Homes Bonus is a major source of funding for the Council this represents a significant risk to the overall level of future central government funding.

10.3 **Medium Level Financial Impact Risks**

i) Price Inflation

Levels of inflation have been increasing during the year. The continuing recovery of the global economy from the impact of the covid pandemic and military conflict in Ukraine have combined to create a sharp rise in energy costs (particularly for gas) and in general levels of price inflation, peaking with an annual increase in the Consumer Price Index (C.P.I.) of 10.7% for November 2022, this reducing to an annual increase of 10.5% for December 2022. Provision made within the budget is limited to areas where the council has no choice but to pay increased prices, e.g. due to contractual terms.

Price increases represent a significant cost pressure to the council and increase the risk that existing budget provision is insufficient to cover the cost of service delivery. This is particularly pertinent with respect to the financial risks associated with the delivery of the capital programme with building costs and materials continuing to rise.

ii) Retained Business Rates – Pooling and Appeals

One of the impacts of the continued membership of a Business Rate pool as detailed in Section 8.2 of this report is the loss of the protection of a 'Safety Net' payment in the event of a significant reduction in Business Rate income below the government's defined "baseline" level. Such reductions can occur when a business rate payer successfully appeals against the Valuation Office assessment of the rateable value of their business premises. Appeal settlements can currently be back dated as far as April 2017 and can result in potentially significant refunds of business rates previously paid. As part of the decision to join a Business Rate pool it was determined that this risk would be mitigated by the setting-aside (within the Funding Volatility Reserve) of the initial gains from membership of the pool in terms of business rate income retained over and above the baseline level. This has effectively created a 'local safety net' to provide replacement funding in the event that actual income received fails to meet the baseline or budgeted level. In addition the council sets aside a provision for losses as a result of appeals which provides an element of further protection.

Due to the importance of retained Business Rates income to Fylde Council and the uncertainty surrounding future pooling arrangements, combined with the unpredictable nature of business rate appeals which can have a significant adverse financial impact, this remains a financial risk.

iii) Borrowing Cost Assumptions

In light of the current relatively healthy level of reserves and balances held by the Council, the forecast currently assumes that external borrowing will not be required during the life of the Financial Forecast, that the Council remains debt free, and that internal cash balances will be utilised to fund any capital expenditure which is not directly funded from earmarked reserves or specific grants. This means that the base forecast contains no provision for any external borrowing costs.

There is a risk therefore that if circumstances change over the forecast period and it is necessary to take out external borrowing to fund capital resources, there is no budget cover for the borrowing costs. Whilst it is not currently envisaged that such circumstances will occur during the life of the forecast, the position will be monitored carefully on an ongoing basis.

(iv) Employee Costs - Pay Award

In light of the current year settlement and the continuing high level of inflation (10.5% as at December 2022, down slightly from 10.7% In November), the budget provision for the pay award for 2023/24 has been updated to an estimated 4% increase, with annual 2.75% estimated annual pay awards included for each subsequent year throughout the life of the forecast. However, it is possible that pay awards may be agreed in excess of 2.75%, which will incur additional costs beyond those currently budgeted for. Each additional 1% increase in pay equates to an estimated £100k additional cost on the pay bill of the council per annum.

(v) Reduction in Housing Benefit Administration Grant

The Council receives an annual grant to support the cost of the administration of Housing Benefit and Council Tax. The grant that the Council receives for these purposes has reduced in recent years, particularly in respect of the Housing Benefit element, as the government moves away from a system of Housing Benefit payments and towards a national Universal Credit Scheme. This financial forecast reflects the latest estimates of grant levels for 2023/24 and for subsequent years. As updated grant notifications are received in respect of future years it may be necessary to update the forecast accordingly.

(vi) Universal Credit

The Government has commenced the consolidation of a number of welfare benefit allowances into a revised Universal Credit Scheme. One of these is Housing Benefit which is currently administered by the Council through the shared service with Blackpool Council. The intention is that the new

Universal Credit Scheme will be provided on-line and will be administered by Department of Work and Pensions. The roll-out of the new arrangements are gradual and began in Fylde in respect of a small number of the less-complex cases in November 2014. The timing and financial implications of future developments of the scheme remain uncertain and will continue to be monitored.

(vii) Grounds Maintenance – External Contracts

Throughout the future life of the forecast a number of grounds maintenance contracts with external parties will come to an end or will be due for renewal/re-tender. At the same time other opportunities will arise for additional contract work and these will be actively pursued as appropriate. Income from contracts supports the work of the Parks and Leisure Service teams by way of a contribution to management costs and corporate overheads. Officers will endeavour to seek extensions to contracts as they become due for renewal/expiry and will continue to seek suitable alternative new work. Should this not be possible there may be an adverse impact on the forecast.

10.4 **Low Level Financial Impact Risks**

i) The Living Wage

In March 2015 the Council agreed a policy to adopt the Living Wage Foundation pay rates for all employees, excluding apprentices, with effect from 2015/16, such that the Council became a 'Living Wage Employer' from that point forward. Additionally, in the autumn of 2015, the government announced the introduction of a statutory National Living Wage to apply from April 2016 for all employees over the age of 25.

The revenue estimates include annual amounts for the estimated impact of the annual increases in the hourly rates for the Foundation Living Wage and the National Living Wage. In the event that actual future year increases are higher than the estimated levels such that the increases cannot be contained within the approved budgets future adjustments to the Financial Forecast may be necessary.

Section 11: CAPITAL STRATEGY AND ASSET MANAGEMENT PLAN

11.1 The Council owns a number of operational properties and assets and has developed a Capital Strategy and an Asset Management Plan to formalise the management process in respect of physical assets. Operational properties include office accommodation, depots, yards and venues such as the Town Hall and other offices, the crematorium, open space facilities, and various car parks. The Council has a five-year rolling programme of maintenance for its assets which is factored into the Medium-Term Financial Strategy.

11.2 A small investment property portfolio is managed to generate income to support the revenue budget and maximise any opportunities for regeneration. This position is reviewed regularly in order that income can be maximised and timely decisions made on the disposal of under-performing or surplus assets.

11.3 The Asset Management Plan includes a stock condition survey to establish the rolling programme of repair and maintenance, which takes account of the need for efficiency and environmental impact.

11.4 Asset holdings are reviewed as part of the annual planning cycle. This could lead to the disposal of some assets to maintain the remaining estate to the desired standard.

11.5 A review and revaluation of all heritage assets including furniture and art-work was carried out during 2022. The next review and revaluation will take place in 2027, as required by the Council’s adopted accounting policy, to ensure that valuations remain current.

Section 12: THE CAPITAL PROGRAMME

12.1 Capital Expenditure is defined as expenditure on the acquisition of a fixed asset and/or expenditure which adds value to (not merely maintains) the value of an existing fixed asset. Examples of fixed assets are; land, building, plant and vehicles. Capital expenditure also includes the making of an advance, grant or other financial assistance towards expenditure which would, if incurred by the Council, be classed as capital expenditure.

12.2 The Capital Programme is updated continually for agreed changes and reported in periodic monitoring reports to each Programme Committee.

12.3 With effect from the financial year 2019/20 the revised CIPFA Prudential Code 2017 required the Council to produce a Capital Strategy. This new reporting format brings together capital, treasury and investment strategies within a single framework. The latest updated Capital Programme is therefore contained within the Capital Strategy shown at Appendix G which has been updated to reflect the latest position. A prudent approach is taken in preparing the programme to ensure that financing resources are only recognised when there is relative certainty that they will be received. Cost efficiencies achieved in respect of vehicle fleet modernisation, waste collection service development and lease rationalisation have been incorporated.

12.4 Capital schemes are directly linked with the Council's priorities and delivered through a series of key programmes through detailed Service Delivery Plans. Major items of enhancement or renewal are identified through the Council's Asset Management Plan.

12.5 Financing the Capital Programme

The Council finances the Capital Programme from a variety of sources. These include:

- (i) Specific Capital Grant Allocations;
- (ii) Disabled Facilities Grant / Better Care Fund (from central government);
- (iii) Capital Receipts;
- (iv) External Funding (such as Future High Street / Heritage Lottery / Environment Agency Funding);
- (v) Prudential Borrowing / Leasing;
- (vi) Revenue Funding; and
- (vii) Earmarked reserves such as the Capital Investment Reserve and Funding Volatility Reserve.

12.6 In updating the Capital Programme a number of schemes have been re-phased into later years to reflect delays to the scheme delivery timescales arising from the recovery of the economy and supply-chain from the impact of the Covid-19 pandemic.

12.7 Given the significant financial resources directed towards delivery of the Capital Programme, and the consequential revenue implications of some of the financing options, it is necessary for the Council to carefully consider the most appropriate mechanism for ensuring that the programme is delivered in the most cost-effective manner. The below table shows the summarised Capital Programme by Committee over the forecast period showing a balanced position. The detailed schemes are shown in Appendix G within the Capital Strategy.

SUMMARY CAPITAL PROGRAMME

	Estimate 2022/23 £000	Estimate 2023/24 £000	Estimate 2024/25 £000	Estimate 2025/26 £000	Estimate 2026/27 £000
Committee:					
Finance & Democracy Committee	71	0	0	0	0
Tourism & Leisure Committee	1,403	913	40	40	40
Operational Management Committee	1,913	10,699	2,691	1,281	389
Environment, Health & Housing Committee	1,999	1,421	1,317	1,317	1,317
Planning Committee	3,443	8,792	0	0	0
Total Capital Payments	**8,829**	**21,825**	**4,048**	**2,638**	**1,746**
Financing:					
Availability of Resources	**8,829**	**21,825**	**4,048**	**2,638**	**1,746**
Total surplus (-) / shortfall in year	0	0	0	0	0
Cumulative surplus (-) / shortfall	0	0	0	0	0

Section 13: KEY AREAS OF FINANCIAL RISK (CAPITAL)

13.1 Members should be aware that the following financial risk areas remain relevant on the Capital Programme:

13.2 **High Level Financial Impact Risks**

i) <u>Town Centre Regeneration Kirkham</u>

Following the Government's Future High Street funding initiative (FHSF), the Planning Committee resolved, in the autumn of 2019, to choose Kirkham Town Centre as its choice to pursue any bids for funding under the scheme. The first opportunity, being part of the broader FHSF, named the High Street Heritage Action Zone initiative (HS HAZ) was launched. This was a competitive process and seeks to enhance the historic environment of high streets that have conservation area status. Following the expansion of the funding for the scheme, due to unprecedented bids from a national perspective, the Kirkham bid proved to be successful, following a recommendation to Government from Historic England (HE). HE is the body responsible for administering the scheme. The grant award is £1.8m and will be match funded from a number of sources including Fylde Council, Kirkham Town Council and Section 106 payments for public realm improvements attributed to residential planning permissions. The scheme will run over 4 years, commencing in April 2020, and includes a wide range of projects. Delays have resulted from the pandemic and officers have been working with Historic England to agree a reprofiling of the spend to minimise any loss of grant. Historic England have confirmed that £224k has been removed from the scheme funding and the programme has been adjusted for this reduction in grant and the related expenditure.

In line with many other authorities, due to COVID 19, the implementation of the scheme has been delayed and a revised project plan, which sets out the projects to be delivered and the associated funding, has been agreed with Historic England.

A further bid for £9.1m was also submitted under the main body of the Future High Street Fund during 2020 and proposed to deliver a number of schemes across the whole of the town centre including the re-purposing of buildings, traffic management measures, building reuse and enhancement and public realm projects. This was once again a competitive process. The bid was well founded, and the economic case was very strong. In April 2021 an award of £6.29m for the Kirkham scheme was announced from the Ministry of Housing, Communities and Local Government (MHCLG) which was approved at Council on the 5th July 2021. A report was approved by Planning Committee and Council in December 2021 to authorise various property acquisitions as part of the project. During 2021/22 the Council has purchased 2 properties within Kirkham Town Centre for restoration alongside the Kirkham Heritage Action Zone scheme.

The Kirkham Futures Regeneration Programme, which encompasses the funding streams identified above is a complex multi-stranded programme with strict delivery timeframes. As such the Programme has been added to the Council's Strategic Risk Register in order that the identified risks can be managed. **Due to the complexities of the scheme, its high value, the strict delivery timescales which could result in the loss of grant funding, and the potential for additional costs beyond those in the approved budget, the scheme is classified as a high-level risk.**

ii) St Annes Sea Wall

St Annes Seawall is 660m long and was constructed in 1935. It reduces the risk of coastal erosion and flooding to over 400 properties. The seawall surrounds The Island, which is one of three strategic headlands which are critical to maintaining healthy beaches, dunes and reducing the risk of coastal erosion along Fylde Council's frontage. St Annes Seawall is at the end of its design life and is in poor condition; it is cracking and crumbling and is subject to ongoing repairs and maintenance. Voids have previously been identified resulting in settlement of the promenade. The crest level is low and overtopping during storms results in damage to the promenade and flooding of the car park, swimming pool and fitness centre plant room, and flooding up to the thresholds of the cinema, casino, amusement, and restaurant complex.

In 2020 the council were awarded £300k Pipeline acceleration funding to develop the St Annes Seawall Outline Business Case. Following this a bid was submitted and was approved by the Environment Agency in October 2021. Technical surveys including topographical, geotechnical, detailed design, ecological and bird surveys and an environmental impact assessment have all taken place and a marine licence application was submitted in December 2022, and a planning application submitted in January 2023. The scheme value is £12.1m funded by an Environment Agency grant of £9.7m and the council's contribution of £2.4m towards the total project cost which was approved at Council on the 5th July 2021. It is proposed to start the construction in 2 phases. Phase 1 is anticipated to commence in Autumn 2023 and complete in Autumn 2024. Phase 2 is anticipated commence in Autumn 2024 and complete in Summer 2025 to minimise business disruption.

Due to the complexities of the scheme with multiple businesses and other stakeholders affected in the locality during delivery, and its high value, the scheme is classified as a high-level risk.

13.3 **Medium Level Financial Impact Risks – Capital Programme**

i) Price Inflation

As explained in section 10.3 of this report, UK CPI currently stood at 10.5% year on year to December 2022. This is exerting significant upward pressure on prices for utilities and on supplies and services across all sectors of the economy, which in turn increases the base costs for both revenue and capital budget items. The situation is particularly acute in the construction sector where supply chain issues and price increases are combining to put increased risks on the delivery of capital programme schemes. This is likely to be a continuing issue for the council during 2023/24 and this has resulted in current scheme delays and reviews on scheme costings.

Price increases represent a significant cost pressure to the council and increase the risk that existing budget provision is insufficient to cover the cost of scheme delivery, or that the scope of scheme deliverables is reduced.

ii) Fairhaven Lake and Gardens Heritage Lottery Scheme

In December 2018, the council was notified that it had been successful in securing the second-round capital grant from the Heritage Lottery Fund in the sum of £1.4m for the restoration of Fairhaven Lake & Gardens, with further match funding provided by Fylde Council and other external financial contributions. All capital works apart from the lake package were completed in September 2021, with the defect period and all snags due to be completed by the end of 2023. The refurbished buildings are all now in use, with the new interpretation and activity scheme in place. The final evaluation report for the project is available on request.

The final package of works to be completed is the lake infrastructure and dredge. Design work is ongoing, all work is expected to be completed by Spring 2024. Until the scheme is fully delivered there remains the possibility of additional contract costs beyond those in the approved budget.

iii) Vehicle Replacement Programme

The estimated vehicle purchase profile to replace existing fleet at the end of its useful economic life from 2022/23 to 2026/27 within the Capital Programme totals £4.0m.

It is important to note that there is currently significant upward pressure on purchase prices for replacement vehicles and technological/legislative changes are likely to increase prices further. As a result it is necessary to reality check the costs associated with new vehicles on an annual basis and make any necessary adjustments to the capital programme to ensure that ongoing fleet replacement is accurately budgeted for in future years.

Due to the significant value of the vehicle replacement programme and the potential for changes in vehicle costs, specifications and emissions regulations this scheme has been highlighted as a potential future financial risk.

13.4 Low Level Financial Impact Risks

i) St Annes Regeneration Schemes

The funding was specifically aimed at delivering the Wood Street (Phase 3) Scheme. Works commenced but, despite being suspended due to the covid situation, have now been completed on phase 3a (north side). There are some works that have not yet been invoiced, which are currently undergoing a snagging process prior to final sign off. Any residual amounts unspent will be directed towards the implementation of an enhanced Pier Link project in accordance with the decision made by Planning Committee on 22 June 2020. The Pier Link project now forms part of a wider suite of works proposed as part of the St Annes Town Centre Masterplan. Now that the outcome of the Levelling Up Fund bid is known, officers are consulting with stakeholders in order to present a new public realm project (via a Project Initiation document) for consideration by Members, which may re-focus capital monies previously allocated to the Pier Link into a different scheme from the Masterplan.

ii) Lytham Regeneration Schemes

Work has commenced on the redesign and re-planning of the public realm of Lytham Centre. The Corporate Plan currently programmes the commencement of the Clifton Street Works (£750k) during 2022/23. Additional funding has been applied for as part of the UK Shared Prosperity Fund (UKSPF) submission, the outcome of which is expected in October/November. The UK SPF funding award will be phased and so delivery of the project will need to be reviewed accordingly. The Lytham Beach Lighting Scheme (£50k) is programmed for delivery during the current financial year.

iii) Project Slippage

It is important that the Council monitors capital scheme slippage to ensure that no loss of external grant is imposed due to conditions associated within specified timescales.

iv) Other Capital Receipts

The approved programme for 2022/23 assumes “Right to Buy” receipts of £25k per annum and “General Asset Sales” of £75k per annum based on actual receipts received to date. From 2023/24 onwards the forecast assumes “Right to Buy” receipts of £25k per annum and “General Asset Sales” of £45k per annum. Future receipts are dependent on prevailing market conditions and values cannot be predicted with certainty. This will be monitored and reviewed during the year and adjusted accordingly in future quarterly monitoring reports, along with the impact this may have on the financing of the programme.

v) Better Care Fund (Formerly Disabled Facilities Grants)

The level of government funding has increased significantly under the ‘Better Care Fund’ arrangements and the budget for 2022/23 (including slippage) totals £1.503m which provides for the delivery of disabled adaptations. It is anticipated that for 2022/23 all identified need for disabled adaptations can be met from the existing resource.

vi) M55 Link Road (Inc. S106 monies for design work)

The accelerated delivery of the £27m M55 Heyhouses Link Road is subject to a funding package made up from a number of sources. This funding is now in place and work has started on site with the earthworks being the first phase. The road will then be constructed by Lancashire County Council's in-house team and is due for completion in early 2024. It is expected that LCC will require the funding to be transferred to them during the latter stages of the project and so is likely to be spent during 2022/23. It is therefore expected that a report requesting the draw- down of the funds will be presented to Council on 27th March 2023 for consideration.

Section 14: RESERVES AND BALANCES PROVISION

14.1 The Council carries a number of reserves, balances and other provisions which are held for three main purposes:

- To maintain a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing. This forms part of what is commonly referred to as ‘general fund balances’;
- A contingency to cushion the impact of unexpected events or emergencies; and
- A means of building up funds to meet known or predicted liabilities or costs - commonly referred to as ‘earmarked reserves’.

14.2 The Council’s General Fund Reserve balance as at 31st March 2022 was £5.056m. The first call on this in 2022/23 was approved slippage items totalling £0.485m.

14.3 Within the existing statutory and regulatory framework, it is the responsibility of the Chief Financial Officer to advise local authorities about the level of reserves that they should hold and to ensure clear protocols for their establishment and use. Accordingly, an updated Useable Reserves and Balances Policy is appended at Appendix H and approval of this updated policy is sought as part of this report. In line with the policy the current level of useable reserves and balances has been reviewed.

14.4 The Financial Forecast summary at Appendix E includes the proposed transfers to the Capital Investment Reserve in 2022/23 and 2023/24 equivalent to the amount of the revenue surplus for those years (after allowing for all approved transfers to other reserves). The latest estimated surpluses are £0.400m in 2022/23 and £0.186m in 2023/24.

14.5 To maintain a future stable financial environment for the Council and in light of the current economic climate and risks, a minimum level of General Fund reserves of £0.750m remains the recommendation of the Chief Financial Officer.

Section 15: THE COLLECTION FUND

15.1 As a Council Tax and Non-Domestic Rates (NDR) Billing Authority, Fylde Council is required by legislation to collect council tax and business rates within the borough on behalf of central government, Town and Parish Councils and major preceptors (being Lancashire County Council, and the Fire and Police Authorities), and to account for that income through a 'Collection Fund'. Under the Collection Fund accounting arrangements any surplus or deficit on the fund each year, which occur as a result of actual income being higher or lower than that budgeted for, is split between the Government and the other precepting bodies in proportion to their shares.

15.2 In respect of **Council Tax**, there was a deficit on the fund as at 31st March 2022 of £125k. This will be shared between Fylde Council, the County Council, the Police Authority and the Fire & Rescue Authority in 2022/23 to 2023/24. Fylde Council's share of the deficit is £16k, the impact of which has been reflected in the Council Tax income forecast within Appendix E.

15.3 In respect of **Non-Domestic Rates** there was a deficit on the fund as at 31st March 2022 of £11.309m. A large proportion of this arises from the decision from Government due to the impact of Covid-19 to continue to increase business rate reliefs during 2021/22 to support businesses during the pandemic. This has the impact of reducing business rates collectable by the council, thus creating a shortfall in income. The deficit will be shared between Central Government, Fylde Council, the County Council, and the Fire & Rescue Authority in 2022/23 to 2023/24. Fylde Council's share of the deficit is £4.524m, the negative impact of which will be funded in 2022/23 from the specific government grant allocated for this purpose (i.e. to offset collection fund deficits caused by the additional reliefs awarded to businesses) which has been set aside into the Collection Fund Deficit Reserve in 2020/21 and 2021/22. The remaining balance on the Collection Fund Deficit Reserve is likely to be required to offset collection fund deficits in 2022/23 and later years as business rate reliefs are extended and compensatory government grants are awarded. It will again be necessary to set aside this specific grant during 2022/23 in order to offset the Fylde Council share of the deficit, which will impact the Council in 2023/24. The net impact of these movements is reflected within the business rate income forecasts within Appendix E.

Section 16: TREASURY MANAGEMENT AND THE CAPITAL STRATEGY

16.1 Treasury Management is defined as the management of cash flow, banking monies, money market and capital market transactions and the control of the risks associated with these activities. Prudential Indicators provide the framework within which these transactions should be monitored.

16.2 From 2019/20 there was a significant change to the format and content of the reporting of treasury management and capital investment activities. The revised CIPFA Prudential Code 2018 required the Council to produce a ‘Capital Strategy’ in place of the former Treasury Management Strategy. The format of the Capital Strategy incorporates the current Capital Programme (along with any the new proposed capital expenditure for the period 2022/23 to 2026/27).

These elements are now brought together thus linking investment decisions in terms of financial assets (e.g. loans and deposits) together with those relating to physical assets (e.g. land and buildings purchased to achieve an investment yield), with a particular emphasis on how all capital and investments are financed. Furthermore, the Capital Strategy sets out how the investment of capital resources contributes to the delivery of the Council’s key objectives and priorities and describes the long-term context in which capital expenditure and investment decisions are made. The new reporting format aims to ensure that due consideration is given to both the risk and reward of all investment decisions and the impact of such decisions on the delivery of the Corporate Plan.

16.3 The objective of the Prudential Code for Capital Finance in Local Authorities (the Code) is to provide a framework to ensure that the Council’s Capital and Revenue Budget Plans are affordable, prudent and sustainable.

16.4 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management requires the Council to review and approve a Treasury Management Strategy. The Strategy covers the operation of the treasury function, its expected activities for the forthcoming year and also includes a number of mandatory Prudential Indicators covering the forthcoming three years. This is contained within the Capital Strategy at Appendix G.

16.5 There are a number of potential areas of significant risk associated with Treasury Management activities.

The main risks to the Medium-Term Financial Strategy as a result of Treasury Management activity are:

(i) Unexpected movement in cash flow;
(ii) Difference between actual interest rates and rates used in the forecast; and
(iii) The security of monies invested with counterparties.

These are referenced in more detail within the **Capital Strategy at Appendix G**.

Section 17: SUMMARY AND CONCLUSIONS

The General Fund Revenue Forecast

17.1 The 2023/24 Local Government Financial Settlement has not fundamentally changed the general financial standing of Fylde Council. The additional grants detailed in section 8 of this report, in particular the Funding Guarantee Grant, are to be welcomed as they improve the financial position of the Council, albeit in the short term. There remains (as reported in the Financial Forecast update reported to the Finance and Democracy Committee in January 2023 and to Council in February 2023) a projected surplus for 2022/23 and 2023/24 followed by a period of uncertainty as the national framework for the financing of local government will be subject to review.

17.2 The confirmation of the continuation of a Business Rates Pool amongst Lancashire authorities is welcomed. Developments with regard to future proposals (the implementation of a 'Fair Funding Review' encompassing a possible re-assessment of relative need within local government generally) will be followed closely and any implications reported within future Financial Forecast updates when known.

17.3 The impact of the Covid-19 restriction measures on the financial position of the Council during 2020/21 and 2021/22 have been detailed in earlier updates to the Financial Forecast, as presented to members during that period. The financial year 2022/23 has seen both the global and local economies enter a period of recovery from the pandemic. Although during those years the government provided additional funding to councils to dampen the financial impact, some of those effects are continuing. Of particular concern is the high level of inflation and the level of retained business rates for future years as a consequence of the number of local businesses that were severely impacted by the pandemic. These uncertainties, together with the potential for future reductions in central government funding, require that in order to maintain the current robust financial position and be able to deliver on the Corporate Plan priorities the Council needs to continue with the approach to delivering savings and efficiencies and maximising income which have helped deliver balanced budgets over recent years. Ongoing modernisation work and business improvement will continue to make Council services more efficient, save money and maintain frontline services to customers. This work has yielded ongoing savings to help improve the Council's overall financial position over that period.

17.4 Although it is clear that further uncertainty lies ahead, the finances of the Council remain robust and the reserves and balances are at healthy levels as compared to earlier periods. Furthermore, Fylde Council has a past record of taking actions in order to meet and overcome financial challenges as they arise. The Council will continue to seek opportunities to maintain a robust financial position in the face of a changing financial environment. This approach will ensure that the Council continues to achieve and sustain a balanced budget position on an ongoing basis and is able to deliver the priorities set out in the Corporate Plan.

17.5 The assumptions set out in this forecast are the latest best estimates and will be updated as and when further information becomes available.

The Capital Programme

17.6 The current Capital Programme as updated is showing a balanced position.

17.7 There are a number of priority areas beginning to emerge across the Council's property asset portfolio that may require further investment in the medium term.

17.8 Any additional expenditure which is not fully-funded by either external finance, revenue contributions, or from existing earmarked reserves would require the generation of capital receipts or external borrowing. The latter would place additional pressure on the Revenue Budget from the consequent financing costs.

17.9 Due to the ongoing risks faced by the Council, the Capital Programme will continue to be closely monitored and reviewed on a regular basis throughout each year.

Overall Conclusions

17.10 2020/21 and 2021/22 have been extraordinary years, dominated by the Covid-19 pandemic. In response the Council has played a significant role in delivering a range of support to the community during the year including the provision of a substantial package of grants to businesses, support for clinically extremely vulnerable residents, support for council tax-payers (including the processing of payments to those required to self-isolate), the inspection of premises to ensure compliance with covid restriction measure, support to the Community Hub (including the provision and delivery of food parcels to residents forced to self-isolate or 'shield'), supporting the programme of track and trace and support in the delivery of the vaccination programme. The majority of this work has been delivered by existing Council employees who have necessarily been diverted from the "day job" to prioritise the response to the pandemic, and as a result there has been consequential impacts on some of the planned work which would otherwise have been carried out. The year 2022/23 has seen a gradual recovery from the pandemic, both economically and socially, and a return to a relatively settled environment, though many risks to the Councils financial position remain, as detailed in sections 10 and 13 of this report.

17.11 **The forecast financial position of the Council has improved since the budget was set in March 2022, and the finances of the Council remain robust.** Whilst challenges remain as detailed in this report, and will no doubt continue to be present given the uncertainty over central government funding for future years, prudent financial management has provided a relatively stable financial environment which allows the necessary time to determine how this Council can best respond to the challenges it faces and deliver its strategic priorities.

17.12 The Council has set out its response to the financial challenges within its Efficiency Plan, published in 2016. The actions that are contained within the Efficiency Plan will remain at the forefront of future service planning. The key elements of the Efficiency Plan are:

1. To redouble the challenges to existing expenditure budgets through the regular budget right-sizing exercises which have produced significant levels of savings in recent years in order to seek to further reduce total expenditure;

2. To seek to maximise existing income streams and explore new sources of income generation and to review existing services for opportunities to generate new forms of income or increased levels of income;

3. To ensure that the Councils staffing structure is appropriate to the needs of the services that are delivered and to take advantage of opportunities to review establishment structures; and

4. To transfer a significant sum from General Fund balances to the Funding Volatility Reserve to set-aside resources that can be used to support the revenue budget in future years, as and when that becomes necessary.

17.13 At a strategic level, activity and resources are focussed on the delivery of the key objectives of the Council as set out within the Councils approved Corporate Plan. Given the level of reserves that has been generated in recent years the budget deficits in the final years of the forecast appear to be at manageable levels. However, in an uncertain financial environment the position can change in unexpected ways. It is important that the Council continues to operate in a sound and prudent manner in order to maintain a stable financial position and to explore further means by which the financial position can be further strengthened, whilst continuing to provide high quality services to residents and to deliver the priorities set out in the Corporate Plan. The medium term focus will include supporting the local area in recovery from the impacts of the pandemic, and a Recovery Plan has been developed alongside ongoing work to review progress against Corporate Plan priorities.

17.14 Under section 151 of the Local Government Act 2003, the Council's Chief Financial Officer is required to comment on the robustness of the Council's financial position.

Having considered the major items of expenditure and income and their sensitivity to change, together with the savings and growth proposals and their impact on the Council's future forecasts and level of reserves, it is the Chief Financial Officer's opinion:

- **that the estimates have been prepared and reviewed utilising the most up to date and accurate information available;**

- **that the recommendations contained in this report provide the Council with a robust financial position at least for a number of years on the basis of the assumptions set out in this report, and is of the view that:**

  - **the Council has the processes and procedures in place to continue to develop further savings and income generation proposals as necessary to ensure that the minimum revenue balances are maintained over the medium term in light of the financial uncertainty regarding the future impact of the reforms to Local Government Finance in future years; and,**

  - **the Council has the processes and procedures in place to monitor the strategy and its risks in order to take effective remedial action should the need arise.**

In forming this view on the Council's financial position, the Chief Financial Officer would remind Members of the risks outlined in sections 10 and 13 of the report and, in particular, the current uncertainties surrounding the assumptions upon which the forecast is based. These will be closely monitored, and advice provided to Members accordingly over the coming months by way of updates to the MTFS.

Appendix A

General Fund Budget Forecast 2021/22 to 2025/26 - Approved at Budget Council March 2022

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	Adverse / Favourable
Forecast approved at Council on 4th March 2021	10,934	11,000	11,697	11,909	11,909	
Forecast Changes - per Appendix C of March 2022 MTFS report to Budget Council	219	308	172	218	525	**Adverse**
Revenue Budget Growth Items - Appendix F of March 2022 MTFS report		121	82	85	88	**Adverse**
Forecast Budget Requirement	**11,153**	**11,429**	**11,951**	**12,212**	**12,522**	
Financed by:						
Council Tax Funding:						
Council Tax - Precept	6,656	6,881	7,096	7,317	7,544	
Sub Total - Council Tax Income	*6,656*	*6,881*	*7,096*	*7,317*	*7,544*	
Business Rates Funding:						
Retained Rates (including pooling benefit & pilot impact 2019/20)	4,501	3,580	2,800	2,800	2,800	
Sub Total - Business Rates Income	*4,501*	*3,580*	*2,800*	*2,800*	*2,800*	
Other Funding:						
Lower Tier Services Grant	379	89				
2022/23 Services Grant		133				
New Homes Bonus (NHB)	1,161	1,236	1,136	1,136	1,136	
Less - NHB distribution to Town & Parish Councils	- 58	- 62				
	1,482	1,396	1,136	1,136	1,136	
Forecast Financing	**12,639**	**11,857**	**11,032**	**11,253**	**11,480**	
Forecast surplus(-)/deficit for year	**- 1,486**	**- 428**	**919**	**959**	**1,042**	
Reserves						
Forecast surplus/deficit (-) for year from above:	1,486	428	- 919	- 959	- 1,042	
Less: Proposed Transfer to Capital Investment Reserve	- 1,486	- 428				
Balance of surplus/deficit(-) remaining:			- 919	- 959	- 1,042	
Balance of General Fund Reserves b/f	4,571	4,571	4,571	3,652	2,693	
Less transfer to/from(-) General Fund Reserves in year			- 919	- 959	- 1,042	
Forecast Reserves at Year End	**4,571**	**4,571**	**3,652**	**2,693**	**1,651**	
Band D Council Tax (Excl Parish Precepts)	**£214.91**	**£219.19**	**£223.56**	**£228.01**	**£232.55**	
Band D Average Council Tax Increase	**£4.20**	**£4.28**	**£4.37**	**£4.45**	**£4.54**	
Band D Average Council Tax Increase	**1.99%**	**1.99%**	**1.99%**	**1.99%**	**1.99%**	

Appendix B

General Base Budget Assumptions

The forecast has been prepared on the basis of the following assumptions:

- General Prices Inflation – a freeze or cash-limiting of all general revenue expenditure budgets with the exception of payroll budgets and where contractual commitments require increases;
- Slippage – approved underspend items from 2021/22 agreed by the Finance and Democracy Committee in June 2022 have been slipped into 2022/23;
- Pay award - the impact of the agreed 2022/23 pay award of £1,925pa for each pay point has been reflected in the updated forecast, with future pay awards estimated to be 4% for 2023/24 and 2.75% per annum each year thereafter;
- Employers Pension Contributions – the Council's contributions to the Lancashire pension fund scheme are set in accordance with the indicative outcome of the 2022 Triennial Pension Review which is currently being carried out by the scheme actuaries, Mercer. The draft figures provided by the pension fund indicate contributions at 19.2% per annum, reduced by scheme surplus payments of 4% per annum for the period from 2023/24 to 2025/26; with future years estimates provided on a continuation basis. The forecast has been updated accordingly;
- Employer's National Insurance contributions – the forecast reflects the statutory contribution rates currently in place, including a reduced contribution rate as a result of the Council being part of the pension scheme;
- Council tax increases – a freezing of council tax bills for 2023/24 which equates to a 0.14% decrease in the average council tax per property, followed by increases of 1.99% per annum from 2024/25 onwards;
- New Homes Bonus Grant – the forecast for 2023/24 onwards is based on the confirmed allocation for 2023/24 as set out in the report;
- Fees and Charges – The forecast takes account of the revised fee levels as approved by Budget Council in March 2022 and any changes approved since then. For future years budget-holders have reviewed fee levels as appropriate and any proposed changes to fees & charges will be considered at the Budget Council in March 2023 following consideration by the appropriate programme committee;
- Vacancy Savings – the forecast assumes vacancy savings of £300k per annum from 2022/23 onwards; and
- Localisation of Council Tax Benefit Scheme – the forecast assumes a fully funded scheme with no additional cost to the Council from 2022/23 onwards.

Appendix C

General forecast changes since Budget Council March 2022

		2022/23	2023/24	2024/25	2025/26	2026/27	
		£000	£000	£000	£000	£000	ADVERSE / FAVOURABLE / NEUTRAL
1	**CHANGES AS A RESULT OF MEMBER APPROVALS (fully funded items excluded):**						
	Lowther Trust - Renewal of Service Level Agreements inc New Subsidy Request - (Council 25/04/22)	12	12	12	0	0	ADVERSE
	North Beach Toilets - (OM 15/06/22)	0	1	1	14	14	ADVERSE
	Replacement Waste Containers Fee Increase - (OM 06/09/22)	-5	-12	-12	-12	-12	FAVOURABLE
	Recurring revenue costs for Splash/paddling pool - (Council 06/02/23)	0	14	14	14	14	ADVERSE
2	**BUDGET RIGHTSIZING EXERCISE:**						
	Revenue impact of budget right-sizing across all budget areas of the Council	-190	-170	-165	-86	-5	FAVOURABLE
3	**STAFFING COSTS:**						
	Net impact of 2022/23 pay award and changes to employers NI contributions	248	209	207	204	202	ADVERSE
	Estimated 2.75% pay award for 2026/27	0	0	0	0	275	ADVERSE
	Estimated savings arising from 2022 triennial pension fund review	0	-364	-420	-437	-192	FAVOURABLE
	Updated estimate of pay award for 2023/24 only - from 2.75% to 4%	0	125	125	125	125	ADVERSE
	2022/23 Pay Award Blackpool Revenues and Benefits - Shared Service Contract	43	43	43	43	43	ADVERSE
4	**UPDATED ESTIMATES OF INCOME BUDGETS:**						
	Windsports Centre - income from new lease	0	-11	-21	-21	-21	FAVOURABLE
	Green waste subscription service - updated income estimates based on current subscription level	20	20	20	20	20	ADVERSE
	Public Conveniences - additional income due to price increase and staycations	-25	-25	-25	-25	-25	FAVOURABLE
	Trade Waste - additional income from increased useage of the service	-25	-25	-25	-25	-25	FAVOURABLE
	Housing Standards - additional income from enforcement notices	-10	-10	-10	-10	-10	FAVOURABLE
	Updated estimates of investment interest receipts	-479	-344	-239	-159	-129	FAVOURABLE
	Building control Fee Income - updated income estimates based upon most recent income levels	-7	-7	-7	-7	-7	FAVOURABLE
	Planning Applications - estimated reduction in fee income	175	125	125	125	125	ADVERSE
	Homelessness - additional housing benefit contribution towards B&B accommodation costs	-25	0	0	0	0	FAVOURABLE
	Trade Waste - additional income from increased useage of the service	-32	0	0	0	0	FAVOURABLE
	Cemetery & Crematorium income - including impact of revised fees & charges	20	-108	-108	-108	-108	FAVOURABLE
	Estimated income from charging for SPLASH	0	-65	-65	-65	-65	FAVOURABLE
	Income from charging for Kirkham Public Conveniences following upgrade	0	-1	-1	-1	-1	FAVOURABLE
	Bulky Household Waste Collections income - including impact of revised fees & charges	0	-2	-2	-2	-2	FAVOURABLE
	MOT income - including impact of revised fees & charges	0	-1	-1	-1	-1	FAVOURABLE
	Pre-planning advice fee income - including impact of revised fees & charges	0	-5	-5	-5	-5	FAVOURABLE
	Licensing fee income - including impact of revised fees & charges	-2	-2	-2	-2	-2	FAVOURABLE
	Filming rights fee income - including impact of revised fees & charges	-4	-1	-1	-1	-1	FAVOURABLE
	Civic ceremonies fee income - including impact of revised fees & charges	0	-1	-1	-1	-1	FAVOURABLE
5	**OTHER FORECAST CHANGES**						
	Additional Running Costs for Public Offices - reflecting latest estimated date of disposal	30	0	0	0	0	ADVERSE
	Removal of Planning Appeals Budget	-50	-45	-45	-45	-45	FAVOURABLE
	External Audit Fees - 150% cost increase as advised by PSAA - procurement for audit services	38	89	87	89	87	ADVERSE
	Kirkham Property Acquisitions - 52-64 Poulton Street Kirkham (Former TSB) - estimated annual costs	10	10	0	0	0	ADVERSE
	Kirkham Property Acquisitions - 48 Preston Street (Hillside) - estimated annual running costs	10	10	0	0	0	ADVERSE
	Fleet - updated estimate of fuel costs	48	48	48	48	48	ADVERSE
	Utilities - updated estimate of costs to reflect price increases	154	264	283	302	323	ADVERSE
	Replacement Waste Containers - additional cost of purchase	25	25	25	25	25	ADVERSE
	Homelessness - additional B&B accommodation costs	79	0	0	0	0	ADVERSE
	Re-phasing of St Annes Square Maintenance - (Charlie/Regen matched funding)	-25	25	0	0	0	NEUTRAL
	Re-phasing of Fairhaven equipment acquisition - purchased in advance to avoid price increases	10	-10	0	0	0	NEUTRAL
	IT - Development budget rephase	-15	15	0	0	0	NEUTRAL
	Cemetery & Crematorium - Additional resource to comply with statutory requirements	0	17	17	17	17	ADVERSE
	TOTAL	**28**	**-157**	**-148**	**13**	**661**	

Appendix D

Explanations of Forecast Changes set out in Appendix C

The following notes relate to specific adjustments made to the Forecast since Budget Council in March 2022 as set out in Appendix C:

(1) Changes as a Result of Member Approvals
The forecast that was approved at the Council meeting in March 2022 has been updated to reflect the financial impact of Member decisions made since then.

(2) Impact of budget right-sizing exercise across all budget areas of the Council
Each year officers carry out a budget right-sizing exercise focussing on a review of underspends across all budget areas. This exercise has yielded a significant level of favourable adjustments which have been reflected in the revised forecast.

(3) Staffing Costs
The agreed pay award for 2022/23, together with updated estimates for future years and the estimated impact of the pension fund triennial review have been reflected the updated forecast.

(4) Updated Estimates of Income Budgets have been reflected in the forecast, including:

- Revised Estimates of investment and interest receipts;
- Planning Application fee income;
- Cemetery & Crematorium fee income;
- Trade Waste fee income; and
- Public Conveniences fee income.

(5) Other Forecast Changes:

A number of other changes have been made to the forecast as itemised in appendix C, including additional external audit fees, increased utilities costs, the re-phasing of revenue expenditure and updated fleet costs.

Latest General Fund Budget Forecast 2022/23 to 2026/27 - as at February 2023

Appendix E

	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	Adverse / Favourable
Forecast approved at Council on 3rd March 2022	11,429	11,951	12,212	12,522	12,522	
Forecast Changes since March 2022 - per Appendix C	28	- 157	- 148	13	661	**Adverse**
Revenue Budget Growth Items - per Appendix F		38	39	40	42	**Adverse**
Forecast Budget Requirement: TOTAL	**11,457**	**11,832**	**12,103**	**12,575**	**13,225**	
Financed by:						
Council Tax Funding:						
Council Tax - Precept	6,881	7,002	7,231	7,466	7,707	
Sub Total - Council Tax Income	*6,881*	*7,002*	*7,231*	*7,466*	*7,707*	
Business Rates Funding:						
Retained Business Rates	3,580	3,580	3,401	3,231	3,069	
Sub Total - Business Rates Income	*3,580*	*3,580*	*3,401*	*3,231*	*3,069*	
Other Funding:						
Lower Tier Services Grant	89					
Services Grant	133	75	75	75	75	
New Homes Bonus (NHB)	1,236	516	516	516	516	
Less - NHB distribution to Town & Parish Councils	- 62	- 26	- 26	- 26	- 26	
Funding Guarantee Grant - one-off 2023/24 only		871				
Assumed "other" government funding to maintain "Core Spending Power"			821	756	677	
Sub Total - Other Income	*1,396*	*1,436*	*1,386*	*1,321*	*1,242*	
Forecast Financing: TOTAL	**11,857**	**12,018**	**12,018**	**12,018**	**12,018**	
Forecast surplus (-) / deficit for year	**- 400**	**- 186**	**85**	**557**	**1,207**	
Reserves						
Forecast surplus/deficit (-) for year from above:	400	186	- 85	- 557	- 1,207	
Less: Proposed Transfer to Capital Investment Reserve	- 400	- 186				
Balance of surplus/deficit(-) remaining:			- 85	- 557	- 1,207	
Balance of General Fund Reserves b/f	5,056	4,571	4,571	4,486	3,929	
Less in year transfer to fund slippage from 2021/22	- 485					
Less estimated transfer from (-) General Fund Reserves in year			- 85	- 557	- 1,207	
Forecast Reserves at Year End	**4,571**	**4,571**	**4,486**	**3,929**	**2,722**	
Band D Council Tax (Excl Parish Precepts)	**£219.19**	**£218.89**	**£223.25**	**£227.69**	**£232.22**	
Indicative Band D Average Council Tax Increase	**£4.28**	**-£0.30**	**£4.36**	**£4.44**	**£4.53**	
Band D Average Council Tax Increase	**1.99%**	**-0.14%**	**1.99%**	**1.99%**	**1.99%**	

Appendix F

BUDGET PROPOSALS - REVENUE ITEMS

	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	Description
Coast & Conservation Ranger Post Continuation	0	32	34	35	37	The Tourism and Leisure Committee meeting of 12th January 2023 agreed to support a revenue bid for 'Coast & Conservation Ranger Post Continuation'.
Coast & Conservation Ranger Post Continuation	0	-2	-3	-3	-3	Estimated additional income generated by the above Coast & Conservation Ranger Post.
St Annes Beach Hub Facility	0	3	3	3	3	The Tourism and Leisure Committee meeting of 12th January 2023 agreed to support a capital bid for 'St Annes Beach Hub Facility ' with recurring revenue costs of £3k pa from 2023/24. The Committee ranked this bid as priority 2 on the list of bids submitted for consideration.
Cemetery Lodge Refurbishment	0	5	5	5	5	The Operational Management Committee meeting on 17th January 2023 agreed support for a capital bid for 'Cemetery Lodge Refurbishment' with recurring revenue costs of £5k pa from 2023/24. The Committee ranked this bid as priority 2 on the list of bids submitted for consideration.
TOTAL OF REVENUE GROWTH PROPOSALS	**0**	**38**	**39**	**40**	**42**	

BUDGET PROPOSALS - CAPITAL ITEMS **(It is recommended that each of the schemes detailed below is funded from the Capital Investment Reserve)**

	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	Description
Improvements to Children's Play Areas	0	120	0	0	0	The Tourism and Leisure Committee meeting of 12th January 2023 agreed to support a capital bid for 'Improvements to Children's Play Areas' in the sum of £120k in 2023/24. The Committee ranked this bid as priority 1 on the list of bids submitted for consideration.
St Annes Beach Hub Facility	0	71	0	0	0	The Tourism and Leisure Committee meeting of 12th January 2023 agreed to support a capital bid for 'St Annes Beach Hub Facility' in the sum of £71k in 2023/24. The Committee ranked this bid as priority 2 on the list of bids submitted for consideration.
Lytham Hall - Drainage & Green Car Parking	0	75	0	0	0	The Tourism and Leisure Committee meeting of 12th January 2023 agreed to support a capital bid for 'Lytham Hall - Drainage & Green Car Parking' in the sum of £75k in 2023/24. The Committee ranked this bid as priority 3 on the list of bids submitted for consideration.
Kirkham Toilet Block Internal Refurbishment	0	43	0	0	0	The Operational Management Committee meeting on 17th January 2023 agreed support for a capital bid for 'Kirkham Toilet Block Internal Refurbishment' in the sum of £43k in 2023/24. The Committee ranked this bid as priority 1 on the list of bids submitted for consideration.
Cemetery Lodge Refurbishment	0	55	0	0	0	The Operational Management Committee meeting on 17th January 2023 agreed support for a capital bid for 'Cemetery Lodge Refurbishment' in the sum of £55k in 2023/24. The Committee ranked this bid as priority 2 on the list of bids submitted for consideration.
Tree Planting Programme	0	25	0	0	0	The Environment, Health and Housing Committee meeting on 24th January 2023 agreed support for a capital bid for 'Tree Planting Programme' in the sum of £25k in 2023/24.
TOTAL OF CAPITAL SCHEME PROPOSALS	**0**	**389**	**0**	**0**	**0**	

Appendix G

Capital Strategy 2023/24 to 2026/27

1. Background

The Local Government Act 2003 requires the Council to have regard to the CIPFA Treasury Management Code of Practice, and specifically the Prudential Code, when determining how much it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital expenditure plans of local authorities are affordable, prudent and sustainable. The Prudential Indicators required by the Prudential Code are designed to support and record local decision making in a manner that is publicly accountable.

The CIPFA Prudential Code 2021 requires the Council to produce a Capital Strategy. The format of the Capital Strategy incorporates the current Capital Programme (along with any new proposed capital expenditure for the period 2023/24 to 2026/27), and what was previously termed the Annual Treasury Management Strategy Report. These elements are now brought together thus linking investment decisions in terms of financial assets (e.g. loans and deposits) together with those relating to physical assets (e.g. land and buildings purchased to achieve an investment yield), with a particular emphasis on how all capital and investments are financed.

Furthermore, the Capital Strategy sets out how the investment of capital resources contributes to the delivery of the Council's key objectives and priorities and describes the long-term context in which capital expenditure and investment decisions are made. The new reporting format aims to ensure that due consideration is given to both the risk and reward of all investment decisions and the impact of such decisions on the delivery of the Corporate Plan.

2. Format of the Revised Reporting Requirements

The revised reporting arrangements under the CIPFA Prudential Code 2021 requires the Council to prepare and present for approval a number of documents relating to treasury management and capital expenditure. These are:

<u>The Treasury Management Policy</u>

This statement sets out the overarching principles to which the Council will adhere in its Treasury Management activities and details those policies and practices which will remain in place as cornerstones for effective treasury management. The statement also details responsibility for functions and approved delegations to Council bodies and officers relating to treasury management activities

<u>The Capital Strategy</u>

The Capital Strategy is intended to provide a short overview of the authority's approach to, and activities relating to, treasury management and capital expenditure. There is a particular emphasis on the method of financing of capital expenditure along with a number of prudential indicators to measure how the concepts of prudence, affordability and sustainability have been considered as part of the development of the Capital Programme.

The **Capital Strategy** is comprised of a number of component parts addressing particular aspects of the overall strategic approach. These are as follows:

Part A. The Capital Programme

This section details the key aspects of the Council's Capital Programme including any proposed additional Capital Expenditure during the life of the Strategy.

Part B. The Treasury Management Strategy

This section details the Council's approach to borrowing and investment in financial assets, focussing primarily on the risk management aspect of investment decisions. It incorporates an Investment Strategy, a Borrowing Strategy, the key Treasury Management Indicators and an Interest Rate Forecast.

Part C. The Investment Strategy

This section details the Council's approach to borrowing and investment in physical assets (primarily focussing on commercial/investment property transactions) and considers the key aspect of proportionality in terms of the scale of investment activity relative to the profile of the particular authority. It addresses key concepts such as the security and liquidity of investments, as well as considering the capacity and skills of investment decision-makers.

Part D. The Minimum Revenue Provision Statement

The Council must put aside resources where the Council finances capital expenditure by debt (internal or external borrowing), to repay that debt in later years. This cost is charged to the revenue account annually, and forms part of the Council Tax cost to taxpayers and is known as Minimum Revenue Provision (MRP). The annual MRP statement for 2023/24 is included in this part of the report. The statement aims to show how the Council is behaving in a prudent manner with regard to capital expenditure.

Treasury Management Policy

Fylde Borough Council defines its treasury management activities as:

1. The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

2. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

3. The Council acknowledges that effective treasury management will provide support towards the achievement of its corporate and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Policy on Borrowing
The Council currently holds no external debt. The last Public Works Loans Board (PWLB) loan of £1m, relating to historic borrowing to finance an element of previous years' capital expenditure, was repaid during 2019/20. It is not anticipated that any new borrowing will be necessary during 2023/24, nor is any planned further into the future. With short-term interest rates currently lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources to fund capital expenditure ('internal borrowing'), or to borrow on a short-term basis instead.

If circumstances change, the Council may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing as defined within the Capital Strategy.

Policy on Investments
The Council holds significant invested funds, representing income received in advance of expenditure, monies held on behalf of the Collection Fund (Lancashire County Council, the Police and Crime Commissioner for Lancashire and Lancashire Combined Fire Authority) plus balances and reserves held for its own purposes. The CIPFA Code requires the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

The Council's Investment Strategy forms part of the Capital Strategy and includes further information on investment activities and the controls and limits that have been set in place to manage the associated risks.

The Council will create and maintain, as the cornerstones for effective treasury management:

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities;

- Suitable treasury management practices, setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

Council Members will receive reports on its treasury management policies, practices and activities, including as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after the close of the financial year.

The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices and the execution and administration of treasury management decisions to the Chief Financial Officer (who is also the Section 151 Officer), who will act in accordance with the Council's policy statement and treasury management practices and CIPFA's Standard of Professional Practice on Treasury Management.

The Council has nominated the Audit and Standards Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

The Capital Strategy

This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activities contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.

Decisions made this year on capital and treasury management may have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, as summarised within this report.

1. Capital Expenditure and Financing

Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are charged to revenue in year.

In 2023/24, the Council is planning capital expenditure of £21.825m. A summary of planned capital expenditure for the period 2022/23 to 2025/26 is shown in table 1 below.

Table 1: Prudential Indicator: Estimates of Capital Expenditure

	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Total Capital Expenditure	8.829	21.825	4.048	2.638

Governance: New capital projects arise from a variety of sources and in a number of ways, including the changing needs for effective service delivery and the identification of projects to improve and enhance the borough.

The Council has a duty to manage its assets and capital resources in order to best deliver its objectives as set out in the Corporate Plan, which is accessible at the link below.

Corporate Plan 2020-24

The prioritisation of capital investment according to a well-defined and rational approach is especially important in helping to prioritise resources when the demand for such resources exceeds the total of the resources available.

A key element of the prioritisation process is the consideration of capital bids by the Council's Programme Committees. Bids are prepared by Heads of Service and their teams and include ongoing financial implications where relevant including any financing costs (which can be nil if the project is fully financed). The Budget Working Group review initial bids before they are presented to the relevant programme committee. Once capital bids have been prioritised by each programme committee, the Budget Working Group will review the outcome of the deliberations and will make recommendations to the Finance and Democracy Committee via an updated Medium Term Financial Strategy (MTFS) report on a proposed budget package which will include capital budget proposals. Full details of the Council's capital programme for 2022/23 to 2026/27 are shown within Part A of this Capital Strategy document.

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing or leasing). The planned financing of the programmed expenditure for the period 2022/23 to 2025/26 is shown in table 2 below.

Table 2: Capital financing

	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
External sources	4.520	16.449	3.187	1.317
Own resources	3.902	4.190	0.070	0.070
Borrowing (see note below)	0.407	1.186	0.791	1.251
TOTAL	**8.829**	**21.825**	**4.048**	**2.638**

In the above table, borrowing refers to that element of the capital financing which is not currently planned to be met by external grants, capital receipts, the council's own reserves, other external finance or direct revenue financing. The Council currently meets all its prudential borrowing needs through Internal Borrowing which is when the Authority uses its own cash resources to finance capital expenditure rather than new external borrowing. This is a prudent approach when investment returns are low.

The Authority is required to provide for an element of the accumulated capital expenditure each year through a charge to revenue known as the Minimum Revenue Provision (MRP). Planned MRP repayments are shown in table 3 below.

Table 3: Minimum Revenue Provision

	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Minimum Revenue Provision	0.745	0.727	0.713	0.709

The Council's Minimum Revenue Provision statement is shown at Part D of this strategy document.

The Council's underlying need to borrow is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts. The CFR is expected to decrease by £0.124m by the end of 2022/23. Based on the above figures for expenditure and financing, the Council's estimated CFR is shown in table 4 below.

Table 4: Prudential Indicator Estimates of Capital Financing Requirement

	31.3.2023 Estimate £m	31.3.2024 Estimate £m	31.3.2025 Estimate £m	31.3.2026 Estimate £m
Total Estimated CFR	4.148	4.392	4.470	5.012

Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council expects to receive a total of £0.310m of capital receipts in the financial years 2022/23 to 2025/26 as shown in table 5 below.

Table 5: Capital Receipts

	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Estimated Capital Receipts	0.100	0.070	0.070	0.070

2. Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required to avoid excessive credit balances on the bank account and to generate investment income. A temporary shortage of cash could be met by short-term borrowing if necessary, to avoid overdraft charges on the bank account. The Authority is typically cash-rich in the short-term as revenue income is often received before it is required to meet commitments. The revenue cash surpluses are also used to finance capital expenditure to reduce the need for external borrowing.

Borrowing strategy: The Council's main objective when borrowing is to achieve a low but certain cost of finance while retaining flexibility should plans change in future. The Council repaid its final £1.0m of borrowing in December 2019 and has since been debt free.

The Authority does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Board, should the need to borrow arise.

Projected levels of the Council's total outstanding debt are shown in table 6 below, compared with the capital financing requirement.

Table 6: Prudential Indicator Gross Debt and the Capital Financing Requirement

	31.3.2023 Estimate £m	31.3.2024 Estimate £m	31.3.2025 Estimate £m	31.3.2026 Estimate £m
Estimated Long Term Borrowing	0	0	0	0
Capital Financing Requirement	4.148	4.392	4.470	5.012

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Council expects to comply with this in the medium term.

Affordable borrowing limit: The Council is legally obliged to set an affordable borrowing limit (also termed the 'Authorised Limit' for external debt) each year. In line with statutory guidance, a lower 'Operational Boundary' is also required to be set as a warning level should debt approach the limit. This is detailed in table 7 below.

Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt

	2022/23 limit £m	2023/24 limit £m	2024/25 limit £m	2025/26 limit £m
Authorised limit – total external debt	6.0	8.0	8.0	8.0
Operational boundary – total external debt	0	2.0	2.0	2.0

Further details on borrowing are in the Treasury Management Strategy at Part B of this Capital Strategy document.

Treasury investment strategy: Treasury investments arise from the investment of surplus funds including the use of the Council's reserves and balances and from positive cash flows. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Council's policy on treasury investments is to prioritise security and liquidity over yield, that is, to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss.

It is the Council's policy to limit investments to those of up to one year in order to maintain liquidity, reduce counterparty risk and to enable the Council to take advantage of any opportunities for increases in yield.

Further details on treasury investments are included within the Treasury Management Strategy at Part B of this Capital Strategy document.

Risk management: The effective management and control of risk are prime objectives of the Authority's treasury management activities. The Treasury Management Strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Chief Financial Officer, who must act in line with the Treasury Management Strategy approved by Council. Reports on treasury management activity are presented to Council and to The Audit and Standards Committee which is responsible for scrutinising treasury management activities.

3. Commercial Activities

With central government financial support for local public services subject to continuous review, the Council has developed a Commercial Strategy as a framework to explore ways in which the authority can become more financially self-reliant by adopting a more commercial outlook. Among the areas covered by the Commercial Strategy is the potential investment in property assets as a means to generate additional revenue income. The strategy was first adopted in 2018 and updated in 2022 (Finance and Democracy Committee 28th March 2022) and is accessible at the link below:

Fylde Council Commercial Strategy

Since adoption of the Commercial Strategy there have been no acquisitions of property assets solely to generate future income streams, although the parameters and expectations of such a consideration in the future are set out within the strategy.

Governance: Decisions relating to capital expenditure for all purposes, including for the acquisition of property assets, are made in accordance with the Financial Regulations of the Council, this requiring the approval of either the Finance and Democracy Committee (following consideration by the appropriate programme committee) or of the full Council.

4. Liabilities

The Council is required to meet its share of any future deficit of the Lancashire Local Government Pension Fund. Full details of the defined benefit pension scheme can be found in the Council's statutory financial accounts.

The Council has also set aside £1.260m (as at 31st March 2022) in a Business Rates Appeal Provision to cover risks arising from the costs of Business Rates appeals as a consequence of the transfer of such risks under the localisation of business rates arrangements introduced in 2013.

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

The Council also faces a number of contingent liabilities for which it has not set aside a specific sum. A contingent liability arises where an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably.

Governance: Decisions on incurring new discretional liabilities are made in accordance with the Financial Regulations of the Council, this requiring the approval of either the Finance and Democracy Committee (following consideration by the appropriate programme committee) or by a meeting of the full Council.

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream of the council i.e. the amount funded from Council Tax, business rates and general government grants including New Homes Bonus.

Table 8: Prudential Indicator: Proportion of financing costs to net revenue stream

	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
Financing costs (£m)	0.235	0.352	0.443	0.519
Proportion of net revenue stream	2.0%	2.9%	3.7%	4.3%

Further details on the revenue implications of capital expenditure are in table 3 of the Capital Strategy.

Sustainability: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years may extend for up to 50 years into the future. The Chief Financial Officer is satisfied that the proposed capital programme is prudent, affordable and sustainable.

5. Knowledge and Skills

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Chief Financial Officer is a qualified accountant with 40 years of Local Government finance experience. The Council supports accountancy staff to study towards relevant professional accountancy qualifications and the staff within the treasury team attend treasury seminars and workshops provided by CIPFA and other external service providers.

Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their particular field. The Council currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

Training is provided to councillors as part of the member training and development programme and more detailed treasury management training is offered to councillors who serve on the Audit and Standards Committee by the Council's treasury management advisors.

Part A. The Capital Programme

This section details the key aspects of the Councils Capital Programme including any proposed additional Capital Expenditure during the life of the Capital Strategy.

The Council has a current underlying need to borrow for capital schemes for the years 2022/23 to 2026/27 as set out in the Capital Programme of £3.994m (Total of estimated Prudential Borrowing for all years as shown in table 2). Budget Proposals have been put forward to be approved for inclusion in the programme with a cost to the Council of £0.389m as shown at Appendix F of the Medium-Term Financial Strategy. These have also been highlighted within table 1 below. **Each of the proposed new schemes will be fully financed from the Capital Investment Reserve and consequently no borrowing is required for these schemes.**

Table 1 shows the updated 5-year Capital Programme 2022/23 to 2026/27 by scheme, including the schemes proposed as part of the 2023/24 budget.

Table 2 shows the Financing of the updated 5-year Capital Programme 2022/23 to 2026/27.

Table 3 shows a summary of the updated 5-year Capital Programme 2022/23 to 2026/27 by Committee, including how the programme is to be financed.

Capital Programme: Table 1

UPDATED 5 YEAR CAPITAL PROGRAMME 2022/23 TO 2026/27 - BY SCHEME

	Estimate 2022/23 £000	Estimate 2023/24 £000	Estimate 2024/25 £000	Estimate 2025/26 £000	Estimate 2026/27 £000
FINANCE & DEMOCRACY COMMITTEE					
Purchase of Land Adjacent to Squires Gate Station	6				
Public Offices Capital Works	65				
Sub total	71	0	0	0	0
TOURISM & LEISURE COMMITTEE					
Fairhaven Lake & Promenade Gardens Restoration	250				
Repairs and Improvements to the Pathways at Fairhaven Lake	70				
Promenade Footways		195	40	40	40
Staining Playing Fields Development Scheme	30	13			
Coastal Signage Improvements	61				
Fylde Sand Dunes Improvement Scheme		11			
Blackpool Road North Playing Fields drainage	26				
Park View Drainage Improvement Scheme	64				
Fairhaven Boathouse - Remodelling and Refurbishment Scheme	217				
Play Area Improvements	43				
Friends of Newton Community Park Improvement Scheme	37				
Fairhaven Kiosk / Ice Cream Bar Project	7	338			
Boating Pool Safety Improvements	26	25			
North Beach Windsports Centre	281				
Petanque Court - Budget Council March 2022	13				
Play Area - Blackpool Road North Playing Field - Budget Council March 2022	125				
Improvements to Children's Play Areas - Budget Council March 2022	100				
Lytham St Annes Art Collection Display Options		65			
St Annes Paddling Pool Water Quality Improvements	53				
Improvements to Children's Play Areas ***- BUDGET PROPOSAL***		120			
St Annes Beach Hub Facility ***- BUDGET PROPOSAL***		71			
Lytham Hall - Drainage & Green Car Parking ***- BUDGET PROPOSAL***		75			
Sub total	1,403	913	40	40	40
OPERATIONAL MANAGEMENT COMMITTEE					
Replacement Vehicles	628	971	791	1,251	359
Car Park Improvements		90	30	30	30
Public Transport Improvements	150				
Fairhaven and Church Scar Coast Protection Scheme	10				
St Annes Sea Wall	701	9,379	1,870		
Charging Infrastructure for Electric Taxis	27				
Cemetery and Crematorium - Infrastructure Phase 3b	4				
Outdoor Digital Signage		20			
Staining Drainage Improvement Scheme	65				
North Beach Car Park Public Conveniences	150				
Stanner Bank Public Conveniences Refurbishment	78				
Carbon Neutral Vehicles		61			
Cleaning Mechanical Sweeper Vehicle	60				
Changing Places	40	80			
Kirkham Toilet Block Internal Refurbishment ***- BUDGET PROPOSAL***		43			
Cemetery Lodge Refurbishment ***- BUDGET PROPOSAL***		55			
Sub total	1,913	10,699	2,691	1,281	389

Capital Programme: Table 1 (Continued)

UPDATED 5 YEAR CAPITAL PROGRAMME 2022/23 TO 2026/27 - BY SCHEME

	Estimate 2022/23 £000	Estimate 2023/24 £000	Estimate 2024/25 £000	Estimate 2025/26 £000	Estimate 2026/27 £000
ENVIRONMENT, HEALTH & HOUSING COMMITTEE					
Disabled Facilities Programme	1,503	1,317	1,317	1,317	1,317
Affordable Warmth Scheme - Housing	60				
Housing Needs Grant	55				
Rapid Deployment CCTV Replacement Projects	1				
Hydration points	60				
Fylde Affordable Housing Delivery Programme	41				
Affordable Housing Scheme, Lytham Road, Warton	260				
Replacement of Town Centre CCTV Systems - Budget Council March 2022		79			
Tree Planting Scheme ***- BUDGET PROPOSAL £25k in 23/24***	19	25			
Sub total	1,999	1,421	1,317	1,317	1,317
PLANNING COMMITTEE					
St Annes Regeneration Schemes		123			
St Annes Road West – Square to Pier link and Gateway		110			
Lytham Regeneration Schemes	55	745			
Kirkham Public Realm Improvements	2				
M55 Link Road (Inc. S106 monies for design work)	2,121				
St Annes Pier - Coastal Revival Fund	5				
Future High Street Fund: Kirkham	500	5,996			
Elswick Village Green	60				
Kirkham Heritage Action Zone	550	1,818			
25 Victoria Road St Annes Y-Pad Scheme	150				
Sub total	3,443	8,792	0	0	0
Total Expenditure	**8,829**	**21,825**	**4,048**	**2,638**	**1,746**

Capital Programme: Table 2

UPDATED 5 YEAR CAPITAL PROGRAMME 2022/23 TO 2026/27 - FINANCING

	Estimate 2022/23 £000	Estimate 2023/24 £000	Estimate 2024/25 £000	Estimate 2025/26 £000	Estimate 2026/27 £000
FINANCING:					
Capital Receipts - General Asset Sales	75	45	45	45	45
Capital Receipts - Right to Buy Receipts	25	25	25	25	25
Better Care Fund / Disabled Facilities Grant	1,260	1,237	1,237	1,237	1,237
Disabled Facilities Grant Repayments - 'Housing Needs Grants'	55				
Section 106 Monies - St Annes	0	73			
Section 106 Monies - Lytham	55	75			
Section 106 Monies - M55 Link-Road	121				
Section 106 Monies - Public Transport Improvements	150				
Section 106 Monies - Elswick Village Green	35				
Section 106 Monies - Kirkham Heritage Action Zone	0	431			
Section 106 Monies - Fylde Affordable Housing Delivery Programme	41				
Section 106 Monies - Affordable Housing Scheme, Lytham Road, Warton	260				
Section 106 Monies - 25 Victoria Road St Annes Y-Pad Scheme	150				
Section 106 Monies - Newton Community Park Improvement Scheme	37				
Capital Investment Reserve	1,795	1,093			
Capital Investment Reserve ***- BUDGET PROPOSALS***		389			
M55 Link-Road Reserve	2,000				
Funding Volatility Reserve - Fairhaven Kiosk / Ice Cream Bar Project	7	338			
Funding Volatility Reserve - St Annes Sea Wall		2,300			
Other External Finance (see analysis below)	2,356	14,633	1,950	80	80
Prudential Borrowing	407	1,186	791	1,251	359
Total Financing	**8,829**	**21,825**	**4,048**	**2,638**	**1,746**
Total surplus (-) / shortfall in year	0	0	0	0	0
Cumulative surplus (-) / shortfall	0	0	0	0	0

See note below for external funding available to finance the above schemes:

Other External Finance: Analysis					
LSP Performance Reward Grant Reserve	1				
Environment Agency - Fairhaven and Church Scar	10				
Environment Agency - St Anne's Sea Wall	701	7,079	1,870		
Coastal Revival Fund - St Annes Pier	5				
Central Governement Grant - Future High Street Fund: Kirkham	500	5,151			
Staining Parish Council	10				
New Fylde Housing - DFG Contribution	243	80	80	80	80
Lancashire Environmental Fund - Fylde Sand Dunes Imp't Scheme	0	11			
Heritage Lottery Fund - Fairhaven Restoration Project (Remainder of £1.476m)	366				
Lytham Schools Foundation - Fairhaven Restoration Project	5				
Central Government - Charging Infrastructure for Electric Taxis	27				
Kirkham Town Council (Kirkham Heritage Action Zone)	95				
External Grants - Historic England (Kirkham Heritage Action Zone)	305	628			
External Grants - Historic England - Additional Grant (Kirkham HAZ))	0	39			
Private Sector / Other (Kirkham Heritage Action Zone)	0	720			
Changing Places - Department for LevellingUp, Housing and Communities	28	80			
Lancashire County Council - Affordable Warmth Scheme	60				
Lancashire County Council - Kirkham Futures	0	845			
	2,356	14,633	1,950	80	80

Capital Programme: Table 3

UPDATED 5 YEAR CAPITAL PROGRAMME 2022/23 TO 2026/27 - SUMMARY

	Estimate 2022/23 £000	Estimate 2023/24 £000	Estimate 2024/25 £000	Estimate 2025/26 £000	Estimate 2026/27 £000
Committee:					
Finance & Democracy Committee	71	0	0	0	0
Tourism & Leisure Committee	1,403	913	40	40	40
Operational Management Committee	1,913	10,699	2,691	1,281	389
Environment, Health & Housing Committee	1,999	1,421	1,317	1,317	1,317
Planning Committee	3,443	8,792	0	0	0
Total Expenditure	**8,829**	**21,825**	**4,048**	**2,638**	**1,746**
Financing:					
Capital Receipts - General Asset Sales	75	45	45	45	45
Capital Receipts - Right to Buy Receipts	25	25	25	25	25
Better Care Fund / Disabled Facilities Grant	1,260	1,237	1,237	1,237	1,237
Disabled Facilities Grant Repayments - 'Housing Needs Grants'	55				
Section 106 Monies - St Annes	0	73			
Section 106 Monies - Lytham	55	75			
Section 106 Monies - M55 Link-Road	121				
Section 106 Monies - Public Transport Improvements	150				
Section 106 Monies - Elswick Village Green	35				
Section 106 Monies - Kirkham Heritage Action Zone	0	431			
Section 106 Monies - Fylde Affordable Housing Delivery Programme	41				
Section 106 Monies - Affordable Housing Scheme, Lytham Road, Warton	260				
Section 106 Monies - 25 Victoria Road St Annes Y-Pad Scheme	150				
Section 106 Monies - Newton Community Park Improvement Scheme	37				
Capital Investment Reserve	1,795	1,093			
Capital Investment Reserve - ***BUDGET PROPOSALS***		389			
M55 Link-Road Reserve	2,000				
Funding Volatility Reserve - Fairhaven Kiosk / Ice Cream Bar Project	7	338			
Funding Volatility Reserve - St Annes Sea Wall	0	2,300			
Other External Finance (see analysis below)	2,356	14,633	1,950	80	80
Prudential Borrowing	407	1,186	791	1,251	359
Total Financing	**8,829**	**21,825**	**4,048**	**2,638**	**1,746**
Total surplus (-) / shortfall in year	0	0	0	0	0
Cumulative surplus (-) / shortfall	0	0	0	0	0

See note below for external funding available to finance the above schemes:

<u>Other External Finance: Analysis</u>					
LSP Performance Reward Grant Reserve	1				
Environment Agency - Fairhaven and Church Scar	10				
Environment Agency - St Anne's Sea Wall	701	7,079	1,870		
Coastal Revival Fund - St Annes Pier	5				
Central Governement Grant - Future High Street Fund: Kirkham	500	5,151			
Staining Parish Council	10				
New Fylde Housing - DFG Contribution	243	80	80	80	80
Lancashire Environmental Fund - Fylde Sand Dunes Imp't Scheme	0	11			
Heritage Lottery Fund - Fairhaven Restoration Project (Remainder of £1.476m)	366				
Lytham Schools Foundation - Fairhaven Restoration Project	5				
Central Government - Charging Infrastructure for Electric Taxis	27				
Kirkham Town Council (Kirkham Heritage Action Zone)	95				
External Grants - Historic England (Kirkham Heritage Action Zone)	305	628			
External Grants - Historic England - Additional Grant (Kirkham HAZ))	0	39			
Private Sector / Other (Kirkham Heritage Action Zone)	0	720			
Changing Places - Department for LevellingUp, Housing and Communities	28	80			
Lancashire County Council - Affordable Warmth Scheme	60				
Lancashire County Council - Kirkham Futures	0	845			
	2,356	14,633	1,950	80	80

Part B. The Treasury Management Strategy

1. Introduction

Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. As an active investor, the Council, in common with all investors, is exposed to a number of financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

Investments held for service purposes or for commercial profit are considered in the Investment Strategy (see Part C of this Capital Strategy).

2. Economic background

The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Authority's treasury management strategy for 2023/24.

The Bank of England increased Bank Rate to 4.0% in February 2023, the largest rate hike since 1989 and the ninth successive rise since December 2021 when the Bank Rate was 0.25%.

The November quarterly Monetary Policy Report forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than previously forecast, due in part to the government's support package for household energy costs, inflation is expected to remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

Interest rate forecast: the Bank Rate is forecast to increase again and peak at 4.25% in June 2023. Longer term investment yields and borrowing rates are forecast to remain broadly steady over the medium term although there may be continued volatility across shorter time periods.

Table 1: Arlingclose Interest Rate Forecast

Quarter Ending	Bank Rate %	Investment Rates		Borrowing Rates		
		3 month %	5 year %	5 year %	20 year %	50 year %
Mar 2023	4.25	4.40	3.60	4.40	4.65	4.40
Jun 2023	4.25	4.40	3.80	4.60	4.65	4.40
Sep 2023	4.25	4.40	3.80	4.60	4.65	4.40
Dec 2023	4.25	4.35	3.80	4.60	4.65	4.40
Mar 2024	4.25	4.30	3.70	4.50	4.65	4.40
Jun 2024	4.00	4.25	3.60	4.40	4.65	4.40
Sep 2024	3.75	4.00	3.50	4.30	4.65	4.40
Dec 2024	3.50	3.75	3.40	4.20	4.65	4.40
Mar 2025	3.25	3.50	3.30	4.10	4.65	4.40
Jun 2025	3.25	3.40	3.30	4.10	4.65	4.40
Sep 2025	3.25	3.40	3.30	4.10	4.65	4.40
Dec 2025	3.25	3.40	3.30	4.10	4.65	4.40

3. Treasury Balances Forecast

On 31st December 2022 the Authority had no external debt and £37.5m of investments. This is summarised in Table 2 below. The revised forecast of treasury balances is shown in Table 3.

Table 2: Existing Investment & Debt Portfolio Position at 31.12.22

	31.12.22 Actual Portfolio £m
External Borrowing:	
Public Works Loan Board	0.0
Total External Borrowing	**0.0**
Treasury investments:	
Short Term	
Banks	0.0
Local Authorities	17.0
Debt Management Office	8.5
Money Market Funds	12.0
Total Treasury Investments	**37.5**
Net Lending / (Borrowing)	**37.5**

Table 3: Treasury Balances Forecast

	31.03.23 Estimate £m	31.03.24 Forecast £m	31.03.25 Forecast £m	31.03.26 Forecast £m	Notes
Capital Financing Requirement (CFR)	4.1	4.4	4.5	5.0	1
Less: Long Term Borrowing already taken	-	-	-	-	2
Cumulative Borrowing Requirement	**4.1**	**4.4**	**4.5**	**5.0**	3
Usable Reserves and Provisions as at 31st March	15.4	10.1	9.9	9.3	4
Working Capital	12.4	7.0	7.0	7.0	5
Less: Internal Borrowing	(4.1)	(4.4)	(4.5)	(5.0)	6
Forecast cash available for Investment	**23.7**	**12.7**	**12.4**	**11.3**	7

Notes to Table 3

1. The CFR is the amount the Authority needs to borrow for a capital purpose. The CFR increases when Prudential Borrowing is used to finance the capital programme. The Authority's capital expenditure plans are the key driver of treasury management activity and are summarised within the Capital Programme.
2. This is the amount of debt that the Authority has already borrowed. The Council repaid the last £1m of Public Works Loan Board debt in December 2019 and has since been debt free.
3. This is the cumulative amount of new borrowing that is required to finance the Capital Programme. The timing of any new borrowing will be determined by the profile of capital expenditure and the availability of Internal Borrowing (Note 6), the expectation being that no additional external borrowing will be required in the short term.
4. This is the estimated amount of usable reserves, balances and provisions which are available funds. These estimates are assessed taking into account the budgeted drawdown of reserves, balances and provisions as estimated in the Financial Forecast Update 2022/23 to 2026/27 and the Capital Programme.
5. Working Capital is a temporary surplus in day to day cash. The current balance represents an estimate of cash held at 31st March 2023.
6. Internal Borrowing occurs when the Authority uses its own cash resources to finance capital expenditure rather than new external borrowing. This is a prudent approach when investment returns are low. The amounts shown are the cumulative amount of borrowing required at the end of each year.

7. This is the forecast amount of cash available for investment after allowing for the funding of Internal Borrowing.

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The Authority became debt free in 2019 and its capital plans do not currently imply any need to borrow over the forecast period. The cash available for investing is forecast to reduce over time as reserves are drawn down, working capital reduces and internal borrowing is used to fund the Capital Programme.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 3 shows that the Authority expects to comply with this recommendation during 2023/24.

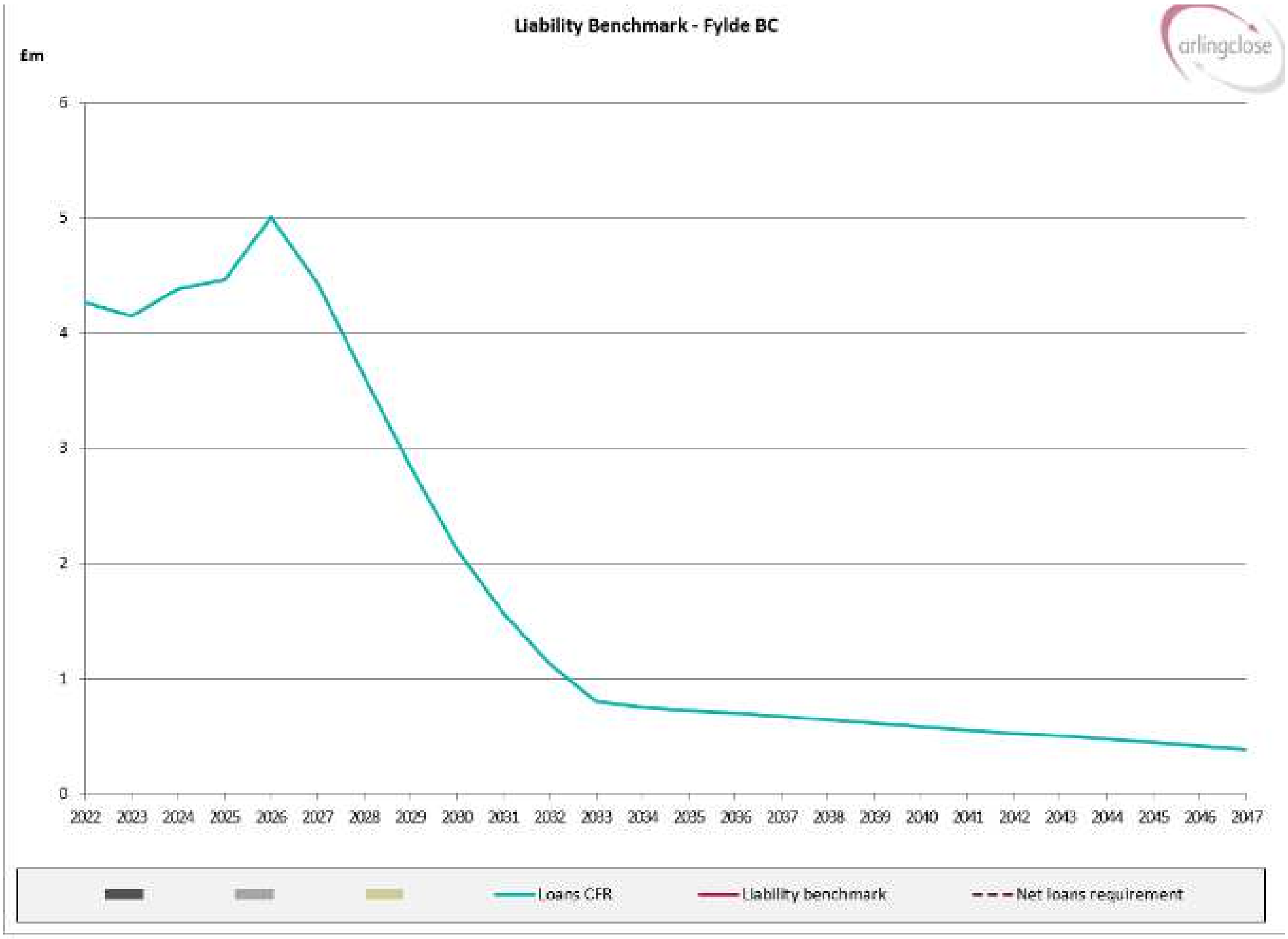
The CIPFA Prudential and Treasury Management Codes have introduced a new Prudential Indicator known as the **Liability Benchmark**. The liability benchmark is a measure of how well the existing loans portfolio matches the Authority's planned borrowing needs. It tells the Authority how much it needs to borrow, when, and the maturity of investments needed to match the planned borrowing needs. It is made up of four balances:

- Existing borrowing, which for Fylde is nil
- CFR – projected into the future
- Net loans requirement – a forecast of the Authority's net loan debt (net of investments for treasury management purposes)
- Liability benchmark – a forecast of the Council's gross loan debt

Table 4: Prudential Indicator Liability/Asset Benchmark

	31.03.22 Actual £m	31.03.23 Estimate £m	31.03.24 Estimate £m	31.03.25 Estimate £m	31.03.26 Estimate £m
CFR	4.3	4.1	4.4	4.5	5.0
Less: Usable Reserves & Provisions / Balance Sheet Resources	(32.3)	(25.5)	(20.6)	(20.5)	(20.0)
Net loans requirement / (Balance of Resources)	**(28.0)**	**(21.4)**	**(16.2)**	**(16.0)**	**(15.0)**
Plus: Liquidity allowance requirement	10.0	10.0	10.0	10.0	10.0
Asset Benchmark	**(18.0)**	**(11.4)**	**(6.2)**	**(6.0)**	**(5.0)**

Using the forecasts in Table 4 above, the long-term liability/asset benchmark includes capital expenditure that is required to be funded by borrowing, the minimum revenue provision on capital expenditure, and includes expenditure and reserves (all increasing by inflation of 2.5% in the longer term from 2027). This is shown in the Arlingclose chart below over a 50 year period.



The benchmark suggests that there is sufficient cash resources to fund the existing capital programme by internal borrowing. There is no requirement for external borrowing in the forecast if the Council's spending proceeds as planned.

4. Borrowing Strategy

The Authority currently holds no external debt. The balance sheet forecast in table 3 shows that the Authority does not expect to need to borrow in 2023/24. The Authority may however decide to take external borrowing to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £8.0 million. There are currently no plans in place to take external borrowing during 2023/24.

Objectives: The Authority's chief objective when borrowing money is to strike an appropriate risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans in the event that the Council's long-term plans change is a secondary objective.

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. By doing so, the Council is able to reduce borrowing costs and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly, and this strategy will be reviewed if the outlook for borrowing rates indicates a significant risk of a rise in borrowing rates, with the outcome being that external loans may be taken whilst borrowing rates are relatively cheap.

The Authority has previously raised all of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities in order to lower interest costs. PWLB loans are no longer available to local authorities to fund the purchase of investment assets primarily for yield.

It may be necessary for the Council to borrow in the short-term to cover unexpected cash flow movements, although current cash flow projections suggest this will not be necessary.

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- Any other UK public sector body
- Any institution approved for investments (see below)
- Any other bank or building society authorised to operate in the UK
- Any other UK public sector body
- UK public and private sector pension funds (except Lancashire County Pension Fund as it is the Council's own pension fund)
- Capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as debt liabilities:

- Leasing
- Hire purchase
- Private Finance Initiatives
- Sale and leaseback

All decisions on borrowing will be reported as part of the Council's annual reporting cycle on Treasury Management and Prudential Indicators.

5. Investment Strategy

The Council holds significant invested funds, representing income received in advance of expenditure, monies held on behalf of the Collection Fund (Lancashire County Council, the Police and Crime Commissioner for Lancashire and Lancashire Combined Fire Authority) plus balances and reserves held. At 31st December 2022 the Authority had treasury investments of £37.5m but these are expected to diminish in the forthcoming years as funds is required to fund the Capital Programme.

Objectives: The CIPFA Code requires the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. The Authority aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

Strategy: The Council will continue to adopt a prudent approach to investment management to ensure that cash balances are readily available to fund capital projects and meet revenue needs.

ESG Policy: Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Authority's ESG policy does not include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Authority will prioritise banks that are signatories to the UN Principles for Responsible Investment.

Approved counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 4 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 4: Approved investment counterparties and limits

Investment Type / Minimum Credit Rating (Note 1)	Banks Unsecured (Note 2)	Banks Secured (Note 3)	Government (Note 4)
UK Government (Gilts & Debt Management Office)	n/a	n/a	£ Unlimited for up to 50 years
National Governments Rated A-	n/a	n/a	£2m each for up to 5 years
UK Treasury Bills	n/a	n/a	£ Unlimited for up to 1 year
UK Local Authorities	n/a	n/a	£5m each for up to 2 years Lancashire County Council call account - £8m
Institutions Rated A- (or above)	£1.5m each for up to 6 months	£2m each for up to 1 year	N/A
UK Unrated Building Societies (Note 2)	£1m each (maximum of £2m in total) for up to 3 months		
Money Market Funds (Note 5)	£3m per Fund		
Pooled Funds (Note 5)	£2m per Fund (£5m in total)		
Real Estate Investment Trusts (6)	£2m in Total		
Registered Housing Providers (Note 7)	£2m in total for up to 5 years		
Any other organization (Note 8)	£100k each for up to 5 years		

This table should be read in conjunction with the notes below.

Notes to Table 4

1. **Credit rating:** Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

2. **Banks and building societies unsecured:** Includes accounts, deposits, certificates of deposit and unsecured bonds with banks and building societies. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

3. **Banks secured:** Includes covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured

has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits.

4. Government: Includes loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts as a contingency in the event of a financial crisis.

5. Pooled Funds: These Funds are shares in diversified investment vehicles which invest in any of the investment types above (Notes 2 to 4), plus equity shares and property. These funds provide wide diversification, together with the services of a professional Fund Manager. The Money Market Funds offer same-day liquidity and very low volatility and are used as an alternative to instant access bank accounts. The Cash Plus and Bond Funds may be used for investments for a longer period and the value of these investments may change in line with market prices but offer enhanced returns over the longer term. These funds have no defined maturity date but are available for withdrawal after a short notice period.

6. Real Estate Investment Trusts (REITS): REITS are pooled investments in property (real estate) funds. As with many property funds, REITs offer enhanced returns over the longer term as compared to other types of investment but are more volatile especially as the share price reflects price fluctuations as well as changes in the value of the underlying properties. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

7. Registered providers: These are longer term Loans or bonds that are secured or guaranteed on the assets of Registered Providers of Social Housing. These bodies are highly regulated by the Homes and Communities Agency and are likely to receive government support if needed.

8. Other organisation: This is subject to an external credit assessment and specific advice from the Council's treasury management adviser.

9. Foreign Countries: Investments with institutions domiciled in foreign countries rated AA+ or higher will be limited to £2m per foreign country. This limit does not apply to Pooled Funds as these funds spread their investments over many countries in order to reduce risk.

10. Operational bank accounts: The Council's own bank account which is used for all of the Council's operational activities will have a minimum credit rating of BBB- and assets greater than £25 billion. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity. The balances in the Council's own bank account will ideally be kept below £2m. Due to cash flow fluctuations this limit may be exceeded on occasion and if the limit is exceeded for more than three working days the Chief Financial Officer will review the position.

11. Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where a credit rating agency announces that a counterparty of the Council is on review for a possible credit rating downgrade (so that it may fall below the approved rating criteria), then only investments that can be withdrawn on the next working day will be made until the outcome of the review is announced. This policy will not apply to credit rating 'negative outlooks' which indicate a long-term trend rather than an imminent change of credit rating.

12. Other information on the security of investments: Credit ratings are not the only predictors of investment default. Other information is also used to assess the credit quality of counterparties. This information includes credit default swap prices, financial statements, potential government support and reports in the financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

To minimise counterparty risk, the Chief Financial Officer (Section 151 Officer) may implement additional internal treasury instructions from time-to-time, over and above the approved investment strategy cash limits and time limits, as and when the economic or market conditions require that more prudent approach is adopted.

All investments are authorised by the Chief Financial Officer (Section 151 Officer) or the Deputy S151 Officer.

Liquidity management: The Council uses a detailed daily cash flow forecast to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast. The council spreads it liquid cash over a number of providers (e.g. Bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators:

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the average credit rating of its investment portfolio. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Target
Portfolio average credit rating	A-

Liquidity – the Authority will manage its cash flow so as to not go overdrawn.

Yield – the benchmark for returns on investments is the Sterling Overnight Index Average (SONIA). Actual investment returns are monitored against budget.

Maturity structure of borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Table 5: Maturity Structure of Debt

	Lower Limit	Upper Limit
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years and above	0%	100%

No lower limit is set in order to allow flexibility when managing the debt portfolio in the current economic conditions. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

The Council does not hold any debt or plan to borrow, however, if funding is required for cash flow purposes this is all likely to have a maturity date of less than one year.

Long-term Treasury Management Investments: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury investments will be:

Table 6: Price Risk Indicator

	2023/24	2024/25	2025/26
Limit on principal invested beyond year end	£4.0m	£3.0m	£2.0m

Table 7: Interest Rate Risk Indicator

Interest rate exposures: The following indicator shows the sensitivity of the Authority's existing investments and borrowing to a change in interest rates:

Interest rate risk indicator Values subject to interest rate exposure:	**£m**	**Impact of a 1% rate rise (Increase in interest receivable)**			**Impact of a 1% rate fall Reduction in interest receivable**		
		2023/24 £m	**2024/25 £m**	**2025/26 £m**	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**
Investments	18.0	(0.118)	(0.180)	(0.180)	0.118	0.180	0.180
Borrowing	0.0	No external borrowing					

Related Matters

The CIPFA Code requires the Council to include the following in its Treasury Management Strategy.

- **Policy on use of financial derivatives** – the Council will only use financial derivatives (such as swaps, forwards, futures and options) where it can be clearly demonstrated to reduce the level of financial risks that the Council is exposed to. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy. In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.
- **Markets in Financial Instruments Directive** – the Council has opted up to professional client status with its providers of financial services, including advisors, banks and brokers allowing it to access a greater range of services but without the additional regulatory protections afforded by individuals and small companies. Given the size and the range of the Councils treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

Financial Implications

The latest budget for investment income in 2023/24 is £375.4k, based on an average investment portfolio of £22m through the year at an estimated *average* interest rate of 1.7%. If actual levels of investments and borrowing, or actual interest rates, differ from those as forecast, performance against budget will be correspondingly different.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer (who is also the Section 151 officer) believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults and reduced liquidity
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain

Part C. The Investment Strategy

Introduction

The Authority invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.

Treasury Management Investments

The Authority typically receives its income (e.g. from taxes and grants) before it pays for its expenditure (e.g. through payroll and invoices). It also holds reserves for various purposes including future expenditure. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy

Contribution: The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

Further details: Full details of the Authority's policies and its plan for 2023/24 for treasury management investments are covered in the Treasury Management Strategy at Part B.

Commercial Investments: Property

Department for Levelling Up, Housing and Communities (DLUHC) defines property to be an investment if it is held primarily or partially to generate a profit.

The Council holds a number of assets which generate rental returns that contribute to the general revenue resource available to be spent on local public services. These have all been held for a number of years and have been acquired over time for various reasons, including the improvement of the general economic development position of the borough, and are largely tourism and leisure related, reflecting one of the key economic forces within the area. The Council has not acquired commercial property of a speculative nature nor acquired commercial property solely for the economic return to be derived from that property. The main revenue generating investments held by the Council include the Pleasure Island site in St Annes, Carr Bridge Caravan Park in Westby-with-Plumpton, and a number of café concessions in the borough.

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the authority's most recent Statement of Accounts as at 31st March 2022 as shown below:

	2020/21	2021/22
	£'000	£'000
Rental Income from Investment Property	(185)	(422)
Direct operating expenses arising from investment	325	133
	140	(289)
Changes in Fair Value of Investment Properties	(395)	1,324
Net (Gain) / Loss	**(555)**	**1,025**

Rental income for 2020/21 included in the table above was adversely affected by the covid-19 pandemic. There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal. The Authority has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The Council is not dependent upon profit generating activities to achieve a balanced revenue budget, this representing less than 1% of Gross Service Expenditure for 2021/22.

The following table summarises the movement in the fair value of investment properties over the most recent year for the Council's accounts.

	2020/21	2021/22
	£'000	£'000
Value at start of year	3,501	3,688
Additions	-	1,040
Net gains /(losses) from fair value adjustments	695	(1,314)
Reclassification of Assets	(508)	719
Value at end of year	**3,688**	**4,133**

Investment Properties – Classification

The categories of investment properties held by the Council are used are summarised in the table below:

	Value as at 01/04/2021	Value as at 01/04/2022	Gain / (Loss)
Property type	£'000	£'000	£'000
Ground Leases	447	606	159
Retail/Leisure Land & Buildings	2,620	2,873	253
Other Land & Buildings	621	654	33
Total	**3,688**	**4,133**	**445**

Security: In accordance with government guidance, the Authority considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs. A fair value assessment of the Authority's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment.

Risk assessment: The Authority assesses the risk of loss before entering into and whilst holding property investments by completing due diligence checks and relevant officer skill sets.

Liquidity: Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay any capital borrowed, the Authority minimises this risk by ensuring that commercial investments remain proportionate to the size of the authority.

Governance: Any decisions on commercial investments are made in line with the criteria and limits approved by Full Council or it's committees in line with Financial Regulations, the Constitution and the Commercial Strategy which was first adopted in 2018 and updated in 2022 (Finance and Democracy Committee 28th March 2022) and is accessible at the link below:

Fylde Council Commercial Strategy

Investment Indicators

The Council has set the following quantitative indicators to allow elected members and the public to assess the Councils total risk exposure as a result of its investment decisions.

Total Risk exposure: The first indicator in the table below shows the Council's total exposure to potential investment losses. The valuation of property assets takes place at the end of the financial year and future year valuations are not forecast in advance. Therefore the future year valuation of property is the same as that for 31st March 2022.

Table 1: Total Investment Exposure

Investment Exposure	**31.03.2022 Actual £m**	**31.03.2023 Forecast £m**	**31.03.2024 Forecast £m**
Treasury management investments	28.0	23.7	10.0
Commercial investments: Property Asset Values	4.1	4.1	4.1

How investments are funded: Government Guidance is that the following indicator shows how investments are funded. The Council has not, and does not intend to, undertake any borrowing to fund its treasury management or commercial property investments as shown in the table below.

Table 2: Investments Funded by Borrowing

Investments funded by borrowing	**31.03.2022 Actual £m**	**31.03.2023 Forecast £m**	**31.03.2024 Forecast £m**
Treasury management investments	Nil	Nil	Nil
Commercial investments: Property	Nil	Nil	Nil

Rate of return received: This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the fair value of those property assets at the start of the financial year.

Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 3: Investment Rate of Return (net of all assets)

Investments net rate of return	2021/22 Actual %	2022/23 Forecast %	2023/24 Forecast %
Treasury management investments	0.12%	1.5%	3.5%
Commercial investments: Property	7.8%	7.0%	7.0%

Specified and Non-Specified Investments

DLUCH Guidance defines two types of investments – specified and non-specified investments.

Specified investments are:

- denominated in pound sterling,
- due to be repaid within 12 months of the arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of "high credit quality"

The Council defines "high credit quality" organisations and securities as:

- those having a credit rating of A- or higher that are domiciled in the UK for deposits up to one year,
- those domiciled in a foreign country with a sovereign rating of AA+ or higher for deposits of up to one year,
- those having a credit rating of A- or higher for periods of up to 6 months,

For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

Non-Specified Investments

Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies and will not make any investments with low credit quality bodies, nor any that are defined as capital expenditure by legislation, such as company shares.

Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality.

<u>Capacity, Skills and Culture</u>

Elected members and statutory officers:

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Chief Financial Officer is a qualified accountant with 40 years of Local Government finance experience, and is supported by the Deputy Chief Financial Officer who is also a qualified accountant, with 26 years of Local Government finance experience. The Council supports accountancy staff in the wider team to study towards relevant professional accountancy qualifications and the staff within the treasury team attend treasury seminars and workshops provided by CIPFA and other external service providers. Training is provided to Councillors as part of the Member training and development programme and more detailed treasury management training is offered to Councillors who serve on the Audit and Standards Committee by treasury management advisors Arlingclose Limited.

Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

Part D. The Minimum Revenue Provision Statement

The Authority is required to provide for an element of the accumulated capital expenditure each year through a charge to revenue known as the Minimum Revenue Provision (MRP).

The Department for Levelling Up, Housing and Communities (DLUHC) regulations require the Authority to approve an MRP policy in advance of each year. This policy sets out how much the Authority will set aside from revenue each year in order to fund capital expenditure. Council is recommended to approve the following MRP statement:

I. For capital expenditure incurred **before** 1 April 2008 – the MRP is based on 4% of the adjusted CFR. This option provides for a 4% reduction in the borrowing need (CFR) each year.

II. For capital expenditure incurred **after** 1 April - the MRP policy for all unsupported capital expenditure (i.e. Prudential Borrowing) will be the estimated life of the assets in accordance with the Regulations.

Appendix H

Fylde Borough Council

Useable Reserves and Balances Policy

Policy on Useable Reserves and Balances

1 The Useable Reserves and Balances Policy

1.1 Setting the level of useable reserves and balances is just one of several related decisions in the formulation of the Council's Medium Term Financial Strategy.

1.2 In establishing and approving the Medium Term Financial Strategy, "the Council will ensure that it maintains a prudent level of reserves in line with best practice and relevant guidelines".

1.3 Any surplus balances will be considered in the light of the budget forecast and the risks associated with that forecast. Any changes to this Policy will require approval by Members.

2 Integrated Financial Planning

2.1 Under section 114 of the Local Government Finance Act 1988 the Chief Financial Officer is required to report to all Councillors if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year.

2.2 There are no statutory minimum levels of general reserves but in line with best practice and CIPFA advice it is suggested that 5% of the total net budget requirement is set as the minimum for the reserve balances. For Fylde this equates to approximately £575k based on a net budget requirement for 2022/23 of approximately £11.5m.

However, during 2008/09, due to the downturn in the economy, the Council had to take urgent in year action to make further service cuts in order to maintain minimum balances at that time. In order to remain financially robust over the medium term, Budget Council in February 2009, based on the advice of the Chief Financial Officer, agreed to increase the minimum level of balances to £750k. This recommendation remains in place in order for the Council to maintain a future stable financial environment for the Council in light of the current economic climate and risks.

In making a recommendation as to the level of balances which should be maintained, the Chief Financial Officer will pay particular attention to:-

- The overall financial standing of the authority (level of borrowing, debt outstanding, council tax collection rates, etc.)
- The authority's track record in budget and financial management including the robustness of the Council's Medium Term Financial Strategy
- The authority's capacity to manage in-year budget pressures
- The strength of the financial information and reporting arrangements
- The authority's virement and end of year procedures in relation to revised budget and cash limit under/over-spends at authority and departmental level
- The adequacy of the authority's insurance arrangements to cover major unforeseen risks.

2.3 The level of earmarked reserves will be reviewed in the preparation of each update to the Medium Term Financial Strategy and annually as part of the closure of accounts process. The creation of any new Earmarked Reserves will be subject to Member approval.

2.4 The Council's General Fund Reserve balance as at 31st March 2022 was £5.056m.

3 Reporting Framework

3.1 Any recommended changes to the level of useable reserves held will be reported within the Medium Term Financial Strategy or in the consideration of the Annual Accounts and will take account of the strategic, operational and financial risks facing the authority at that time.

3.2 In making any recommendation the Chief Financial Officer will provide Members, (in line with the requirements of the Local Government Act 2003) with an opinion on the robustness of the budget estimates and on the adequacy of the Council's useable reserves.

4 Earmarked General Fund Reserves

4.1 Earmarked general fund reserves are a means of voluntarily and prudently building up funds to meet known future or predicted liabilities. When establishing reserves the Council must adhere to the International Financial Reporting Standards (IFRS) and in particular the need to distinguish between reserves (set aside for future liabilities) and provisions (mandatory set asides for actual liabilities existing).

In approving any new earmarked reserves the Council needs to identify the purpose of the reserve, the protocol for its use and the procedures for its management and control. The earmarked reserves as at 31st March 2022 and expected at 31st March 2023 are set out in a note at the end of this Appendix. The note identifies any earmarked reserves that can be released to revenue if required.

5 Presentation of the Reserves & Balances

5.1 These have been presented in a way which is intended to be an easy to follow and useful summary format. These Reserves & Balances are also fully detailed in the Annual Statement of Accounts but are presented in a more technical format to ensure that the Council comply with the new International Financial Reporting Standards (IFRS).

6 Earmarked Reserves – Proposals for 2023/24

6.1 Having reviewed the current useable reserves and balances it is now proposed that in order to minimise the need for additional borrowing in the future, transfers be made to the Capital Investment Reserve in 2022/23 and 2023/24 equivalent to the balance of the revenue surplus for those years, after allowing for all approved transfers to other reserves, currently estimated at £0.400m in 2022/23 and £0.186m in 2023/24 to provide sufficient resource for further capital projects.

6.2 The capital schemes that remain to be funded from the Capital Investment Reserve and the forecast balance at the end of each year throughout the forecast are set out in the table below.

Capital Investment Reserve - Analysis of forecast balances, contributions and expenditure

	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Opening balance at start of year	**6,095**	**4,700**	**2,461**	**2,461**	**2,461**
Schemes approved at Budget Council 3rd March 2014					
Lytham Park Cemetery Infrastructure	- 26				
Schemes approved at Budget Council 5th March 2018					
Kirkham Town Centre - Public Realm scheme	- 2				
Wood Steet St Annes - Public Realm scheme		- 50			
Staining Playing Fields Development Scheme	- 30	- 13			
Schemes approved at Budget Council 5th March 2019					
Coastal Signage Improvements	- 24				
Lytham Regeneration Scheme		- 670			
St Annes Road West – Square to Pier link and Gateway Improvements		- 110			
Purchase of Land Adjacent to Squires Gate Station	- 5				
Schemes approved at Budget Council 4th March 2020					
Outdoor Digital Signage		- 20			
Cemetery and Crematorium - Infrastructure Phase 3b	- 9				
Hydration points	- 60				
Elswick Village Green	- 25				
Kirkham Heritage Action Zone	- 150				
Beach Safety Sign Improvements	- 37				
Schemes approved at Budget Council 4th March 2021					
Park View Drainage Improvement Scheme	- 39				
Fairhaven Boathouse - Remodelling and Refurbishment Scheme	- 217				
Play Area Improvements	- 43				
Staining Drainage Improvement Scheme	- 55				
Tree Planting Scheme	- 19				
Purchase of Land Adjacent to Squires Gate Station	- 1				
Blackpool Road North Playing Fields Drainage	- 26				
North Beach Windsports Centre - F&D January 2022	- 200				
St Annes Paddling Pool (boating lake) - health and safety improvements - F&D January 2022	- 26	- 25			
Schemes proposed for Approval by Council 3rd March 2022					
Replacement of Town Centre CCTV Systems		- 79			
North Beach Car Park Public Conveniences	- 150				
Stanner Bank Public Conveniences Refurbishment	- 58				
Carbon Neutral Vehicles		- 61			
Cleaning Mechanical Sweeper Vehicle	- 60				
Petanque Court	- 13				
Play Area - Blackpool Road North Playing Field	- 125				
Improvements to Children's Play Areas	- 100				
Changes since Budget Council March 2022					
Changing Places - Council April 2022	- 12				
North Beach Windsports Centre - F&D June 2022	- 50				
Park View Drainage Improvement Scheme - F&D June 2022	- 25				
Lytham St Annes Art Collection Display Options - F&D June 2022		- 65			
Stanner Bank Public Conveniences Refurbishment - F&D June 2022	- 20				
Kirkham Futures - Special Council July 2022 - FBC underwriting of FHSF Funding		**- 943**			
Public Offices Capital Works - Special F&D August 2022	- 65				
Pathway Improvement at Fairhaven Lake - F&D November 2022	- 70				
St Annes Paddling Pool: Water Quality Improvements - F&D Jan 2023	- 53				
Updated forecast transfers for 2022/23 & 2023/24	**400**	**186**			
Budget Council March 2023 Proposals					
Children’s Play Areas - Budget Proposal - T&L - 1		- 120			
St Annes Beach Hub Facility - Budget Proposal - T&L - 2		- 71			
Lytham Hall Drainage and Green Car Parking - Budget Proposal - T&L - 3		- 75			
Kirkham Toilet Block Internal Refurbishment - OM - 1		- 43			
Cemetery Lodge Refurbishment - OM - 2		- 55			
Tree Planting Programme - EH&H		- 25			
Forecast balance at end of year	**4,700**	**2,461**	**2,461**	**2,461**	**2,461**

6.3 Additionally, a number of schemes have been approved during 2022/23 that are to be funded from the Funding Volatility Reserve. These schemes and the forecast balance at the end of each year throughout the forecast are set out in the table below.

Funding Volatility Reserve - Analysis of Contributions & forecast balances

	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Opening balance at start of year	**4,718**	**4,556**	**1,845**	**1,845**	**1,845**
Approved Commitments					
- Additional resource to support Town Centes/Blackpool Enterprize Zone	- 97	- 73			
ADDITIONAL COMMITMENTS 2021-22					
- Stanner Bank Kiosk	- 7	- 338			
- St Anne's foreshore sand extraction development studies and regulatory applications	- 46				
- St Annes Sea Wall - FBC contribution		- 2,300			
- Town Centre and Island Masterplans	- 12				
Forecast balance at end of year	**4,556**	**1,845**	**1,845**	**1,845**	**1,845**

Useable Reserves and Balances Position

Earmarked Reserves:

Reserve	Purpose	How and When Used	Balance 31/03/22 £000	Budgeted Transfers in for 2022/23 £000	Budgeted Use/ Transfers out 2022/23 £000	Estimated Balance 31/03/23 £000	Comments
ICT Investment Reserve	Voluntary set aside for the funding of new IT initiatives and development of IT systems - this fund was established from savings in revenue ICT expenditure .	To be used to fully fund ICT developments and investment in moving this important support function forward.	**40**			**40**	Part-used in 2017/18 to provide suitable equipment for new Council chamber. The balance is to be retained for future IT development requirements.
Performance Reward Grant Reserve	Created in 2009/10, this is a voluntary set aside of performance reward grant (PRG). Although Fylde Borough Council is the Accountable Body for the Fylde PRG, The Fylde Local Strategic Partnership (LSP) are the appointed decision making body in relation to the allocation of the PRG.	Used to set aside Performance Reward Grant funding in order to support LSP approved projects.	**1**			**1**	The LSP approved some legacy funding for projects prior to it's wind-up in March 2013. The remaining balance of funds is earmarked for the replacement of CCTV equipment.
MMI Insurance Reserve	Created in 2011/12, this is a set aside to cover the likely liability in respect of the MMI scheme of arrangement.	Used to meet the cost of future scheme run off.	**80**			**80**	Not available for release as to be fully utilised to fund the scheme run-off.
Capital Investment Reserve	Created in 2012/13, this is a voluntary revenue set aside established to fund capital expenditure and thus minimise the future need to borrow.	As required to meet the cost of capital expenditure.	**6,095**	**400**	**-1,795**	**4,700**	Whilst the balance at 31/03/23 is projected to be £4.700m, after taking account of the previously approved schemes scheduled to be delivered in later years that are to be funded from this reserve (£1.093m), along with the capital bids that form part of the 2023/24 budget proposals (£0.389m) and the underwiting of funding for the Kirkham FHSH scheme (£0.943m) the **un-committed** balance at 31/03/23 is reduced to £2.275m prior to any further transfers into the reserve in later years.
Community Right to Bid/Challenge Reserve	Created in 2012/13, this is a set aside of grant awarded to fund costs involved in potential future community right to bid.	Used to meet any potential costs arising from the community right to bid/challenge initiatives.	**46**			**46**	Not available for release as the monies are ear-marked for meeting community right to potential bid/challenge costs.
Funding Volatility Reserve	Created in 2013/14 from additional Business Rates received under the Business Rate Retention Scheme, this is a voluntary set-aside established to provide a degree of protection to the Council's finances against future volatility in central government funding allocations and to fund investment in activity to stimulate Economic Development in the Borough.	To be used to cushion the impact of future funding reductions and to fund investment in activity to stimulate Economic Development in the Borough.	**4,718**		**-162**	**4,556**	For release to support the revenue budget as and when necessary to cushion the impact of future funding reductions and to fund investment in activity to stimulate Economic Development in the Borough. A number of schemes have been approved during 2021/22 that are to be funded from this reserve. Additionally it is assumed that a further £20k will be used to support the development of a Greater Lancashire Plan whilst the budget Council meeting of March 2020 approved that a further priority call upon the reserve would be in respect of the regeneration of St Annes town centre. After taking account of previously committed funding from the reserve for both revenue and capital expenditure (£2.711m) the **un-committed** balance at 31/03/23 is £1.845m.

Earmarked Reserves - Continued

Collection Fund Deficit Reserve	Created in 2013/14, this is a voluntary set-aside of funds to meet the Council's share of the collection fund deficit. The Reserve has been topped-up in 2020/21 and 2021/22 as a result of the Business Reliefs awarded in response to the Covid-19 pandemic.	To be used to meet the estimated deficit on the collection fund.	**4,741**		**-3,408**	**1,333**	Not available for release as the reserve is ear-marked for offsetting the estimated collection fund deficits in 2022/23 and future years.
M55 Link Road Reserve	Established at Council in July 2016 to fund a contribution towards the accelerated delivery of the link road.	To be used in line with ongoing negotiations with delivery partners for the road.	**2,000**		**-2,000**	**0**	Not available for release as the reserve is ear-marked for a contribution to the link road scheme.
EU Exit Funding Reserve	Created in 2018/19, this is a voluntary set-aside of government grant received to be used to enhance capacity and capability in making preparations for exiting the European Union.	To be used in line with the purpose of this government funding.	**53**			**53**	To be used in line with the purpose of this government funding.
Covid-19 Unringfenced Grant Reserve	Created in 2021/22, this is a voluntary set aside of unspent Covid-19 Unringfenced grant. This sum was subsequently transferred out of the reserve to be available to spend in 2022/23 as part of the MTFS Outturn Report considered by Finance and Democracy Committee in June 2022.	To be used in line with the purpose of this government funding.	**256**		**-256**	**0**	To be used in line with the purpose of this government funding.
Contain Outbreak Management fund (COMF) Reserve	Created in 2021/22, this is a voluntary set aside of unspent Contain Outbreak Management Fund grant. This sum was subsequently transferred out of the reserve to be available to spend in 2022/23 as part of the MTFS Outturn Report considered by Finance and Democracy Committee in June 2022.	To be used in line with the purpose of this government funding.	**189**		**-189**	**0**	To be used in line with the purpose of this government funding.
Total Earmarked Reserves			**18,219**	**400**	**-7,810**	**10,809**	

2. General Fund Reserve

General Fund	An unallocated general working balance reserve fund to help cushion the impact of uneven costs of running council's day to day services or the impact of unexpected events or emergencies.	In line with the annual budget and medium term forecast as approved by Council, taking in to account strategic, operational and financial risks facing the council over the medium term.	**5,056**		**-485**	**4,571**	This is the position in line with the Council's current financial forecast.
Total General Fund Reserves			**5,056**	**0**	**-485**	**4,571**	
		Total	**23,275**	**400**	**-8,295**	**15,380**	

Appendix I

SPECIAL EXPENSES POLICY

At its meeting of 3rd March 2008, the Council implemented a differential taxation policy by introducing special expense charges as set out in the following recommendations:

i) *That the resolutions of the former Policy and Resources Committee of 15 January 2001, relating to special expenses (minute 13), be rescinded in relation to categories (a) and (b) as set out in the minute, so that items falling within those categories (parks, gardens, open spaces and games sites) or within this resolution but outside those categories (Christmas lights/trees) will become the council's special expenses under section 35(2)(d) of the Local Government Finance Act 1992 and that the items of Special Expenses as listed in paragraph 9.4 be approved.*

ii) *That the principle of differential taxation be agreed and the impact is set out in Table A of Appendix E.*

For clarification the special expense charge relates to costs incurred in respect of the provision of recreational resources on parks, playing fields, open spaces and gardens located within Lytham and St Annes, together with the costs of Christmas lights and/or trees in those same locations.

For 2022/23 a 1.99% increase was applied to each of the individual elements of the Council Tax charge i.e. the borough-wide charge and the special expense charge, in order that both elements were increased to an equivalent extent.

For 2023/24 an average Band D Council Tax of £218.89 is proposed (that being a decrease of £0.30 or 0.14% as compared to the 2022/23 charge). This equates to a proposed zero change for 2023/24 in respect of each of the individual elements of the Council Tax charge.

Therefore, the special expenses policy for 2023/24 shall be:

- the annual special expense charge per property will be set for 2023/24 with a 0.0% increase on the 2022/23 level, that being £80.92 per band D property;

- the annual borough wide charge per property will be set for 2023/24 with a 0.0% increase on the 2022/23 level, that being £172.47 per band D property; and

- the budget resource to be allocated to delivering concurrent services and chargeable as special expenses for 2023/24 will be set at a sum equivalent to the annual special expense charge per property (band D equivalent) multiplied by the tax base for the special expense area.

For the purposes of charging special expenses, both the special expense costs and the tax bases relating to the areas of Lytham and St Annes will each be aggregated and the Council Tax charge per property at each band level will be the same across the whole area.

Appendix K

Responses to the Budget Consultation Exercise

There was a single response to the Budget Consultation exercise received by the closing date of 18th February as shown below.

NORTH & WESTERN LANCASHIRE CHAMBER OF COMMERCE

We welcome the opportunity to comment and give feedback on the latest budget proposal. The Chamber of Commerce appreciates the difficult task faced by the Council in trying to reduce spending, whilst at the same time dealing with rising costs and falling levels of income.

We note with interest the growth proposals listed in Appendix B of the budget. Although we don't wish to detract from the planned expenditure, we feel that the Council should give more consideration to creating a budget for business support.

As yet, we don't know what funds may be available through the Shared Prosperity Fund. However, we urge the Council to allocate some of its revenue to specific business support measures to help SMEs. The Chamber of Commerce would be happy to engage on this.

The Council anticipates collecting over £16 million in business rates over the next five years and we would like to know how you intend to support Fylde businesses over this period, beyond the objective to "Channel business rates funding opportunities to economic development" as stated in the 2020/24 Corporate Plan.

RESPONSE TO NORTH & WESTERN LANCASHIRE CHAMBER OF COMMERCE

Fylde Council's approved investment plan for the UK Shared Prosperity Fund contains an allocation of £590,410 towards the 'Supporting Local Business' investment theme. This represents 22% of our total allocation across the programme which runs until end of March 2025.

The allocation will deliver specified outputs and outcomes to achieve the following interventions:

- Supporting decarbonisation and improving the natural environment;
- Business support measures to drive employment growth;
- Supporting relevant feasibility studies.

We have been working closely with experienced providers such as Boost Lancashire, East Lancashire Chamber of Commerce/Advanced Manufacturing Research Centre and the North West Aerospace Alliance to develop bespoke projects for Fylde which will deliver the priorities contained within the Investment Plan.

In addition to the specific support delivered via UK Shared Prosperity Funding, we have also strengthened our Economic Development service over the last 2 years, both in terms of dedicated officer resource and in the adoption of new tools & technology. We have now created a dedicated website for business support and investment Business support in Fylde - Invest in Fylde, and we engage regularly with our Business Groups across the borough via the Town Centre's Working Group.

On a final point, during Covid Fylde Council was awarded over £33m and distributed grants to over 1600 businesses and over £4m of discretionary awards to over 800 local organisations. These figures go some way to emphasise the impact on the local economy during this time.