DECISION ITEM

REPORT OF	MEETING	DATE	ITEM NO
MANAGEMENT TEAM	FINANCE AND DEMOCRACY COMMITTEE	16th FEBRUARY 2021	4

MEDIUM TERM FINANCIAL STRATEGY UPDATE, INCLUDING GENERAL FUND, CAPITAL PROGRAMME AND TREASURY MANAGEMENT FOR 2020/21 TO 2024/25

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 2020/21 to 2024/25. 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 2021/22 Local Government Finance Settlement, provisional details of which were announced on 17th December 2020.

1.4 The government has announced that it is to delay the implementation of the Fair Funding Review from the revised scheduled implementation date of April 2021. Similarly, the planned reform of the Business Rates system from April 2021 will also now be delayed. Consequently, the finance settlement for 2021/22 is a single-year only settlement.

1.5 The continuation of the option for a Lancashire-wide Business Rates Pool was confirmed for 2021/22 as part of the Settlement announcement, with all existing pool members in Lancashire opting to remain in the pool for 2021/22.

1.6 As part of the settlement it was confirmed that the government will consult on reforms to the New Homes Bonus scheme, with a view to implementing reform in 2022/23. 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. For 2021/22 the settlement confirmed a single year New Homes Bonus grant allocation for 2021/22, along with the legacy payments from earlier years. The updated provisional New Homes Bonus grant for 2021/22 is shown within the summary at Appendix E to this report.

1.7 As a result of the delayed Fair Funding Review, estimations of central government funding beyond 2021/22 are extremely difficult to make until the outcome of the funding reviews are

known. The Financial Forecast will be updated for 2022/23 onwards as and when there is greater clarity regarding the central government funding regime.

1.8 Additional grants were also announced for 2021/22 as part of the Settlement which for Fylde Council were in the sums of £378,808 (Lower Tier Services Grant - a one off un-ringfenced grant to maintain the current assumed level of Core Spending Power); £392,070 (a further un-ringfenced Covid support grant to manage immediate and long term aspects of the pandemic); £130,482 (an un-ringfenced grant to meet the anticipated additional costs of providing Local Council Tax support in 2021/22); and, in addition to these specific grants, it was announced that there would also be an extension of the Sales, Fees and Charges Compensation Scheme to include the first quarter of 2021/22. It is proposed that a proportion of the government grant support that has been provided to Fylde Council for covid protection and recovery measures is distributed to all areas of the borough, in accordance with their size as measured by the relevant tax-base for each area, to allow each to deliver such activity within their locality. The proposed allocations are shown at Appendix Fi to this report.

1.9 The settlement also included a guarantee from central government to compensate local authorities for 75% of irrecoverable business rates and council tax lost income for 2020/21.

1.10 Furthermore, in late November 2020 the Council was notified of a further grant allocation in the sum of £888,580 from the Contain Outbreak Management Fund which provides funding to local authorities in England to help reduce the spread of coronavirus and support local public health. There are a range of types of activity that may be undertaken using this funding including test, trace and contain activity in order to reduce the spread of coronavirus in the area, support for the local economy and public health. Some of this funding has already been directed towards activities such as supporting delivery of the 'track and trace' scheme and options as to the use of the remaining funds are being considered.

1.11 The full impact of the income losses and additional costs that the Council will have suffered as a consequence of the covid pandemic, together with the extent to which the various grant and compensation schemes have gone in off-setting those losses and additional costs, will not be fully known until the conclusion of the 2020/21 financial year or until the current situation has passed.

1.12 A Covid Recovery Plan is currently being developed which will detail the actions to be taken to assist and support the local economy through the recovery phase of the pandemic and to regain the former strength and resilience that may have been weakened over the course of the last 12 months.

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

1.14 A first draft of the detailed 2021/22 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.

1.15 The MTFS may be updated as a result of the decisions made by this Committee and will be considered at the Budget Council meeting of 4th March 2021.

1.16 Feedback from the Budget Consultation process will also be considered as part of the budget setting meeting.

RECOMMENDATIONS

The Committee is recommended to:

1. Request Council to approve and adopt:
   (a) The revised estimates for 2020/21 and the revenue budget for 2021/22 as set out in Appendix E, which includes recommended transfers to the Capital Investment Reserve in 2020/21 and 2021/22 equivalent to the balance of the revenue surplus for those years, currently estimated at £1.813m in 2020/21 and £1.706m in 2021/22;
   (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 proposed distribution to town and parish areas of a proportion of the government covid grant support that has been provided to Fylde Council for 2021/22 (as shown at Appendix Fi to this report), with authority being delegated to the Director of Resources, in consultation with the Fylde Council elected members for the non-parished areas of the borough, with regard to how those funds may be used in those areas;
   (d) The Capital Strategy 2021-24, 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;
   (e) The updated Useable Reserves & Balances Policy as detailed in Appendix H;
   (f) An average Band D Council Tax of £214.91 for 2021/22 (excluding Town and Parish precepts), which is a 1.99% increase from the 2020/21 average Band D charge;
   (g) 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 2021/22 at the 2020/21 level plus 2.08%, that being £79.21 per band D property; and
      - the annual borough wide charge per property will be set for 2021/22 at the 2020/21 level plus 2.08%, that being £168.83 per band D property; and
      - the budget resource to be allocated to delivering concurrent services and chargeable as special expenses for 2021/22 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
   (h) The schedule of fees and charges for 2021/22 as detailed in Appendix J.

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 2020 the Council agreed a five year financial strategy from 2019/20 to 2023/24. Since then the local, national and international landscape has been dominated by the impacts of the ongoing Covid-19 pandemic which has had a profound effect on the world. Whilst the short and medium term impacts are beginning to be understood, the longer term financial, social, economic and health effects will only become apparent in the fullness of time. The Council's robust financial position leaves it well placed to contribute to the recovery process for the local economy. To this end, a Covid Recovery Plan is currently being developed which will detail the actions to be taken to assist the local economy through the recovery phase of the pandemic and to regain the former strength and resilience that may have been weakened over course of the last 12 months.

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 2020/21 and is forecast to do so again in 2021/22 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 17th December 2020 the Government published the Provisional Local Government Finance Settlement for 2021/22. Full details are contained within the attached MTFS.

4. The Council's MTFS and a summary of the budget proposals therein will be made available for consultation via the Council's website and will be provided directly to a range of stakeholders during February 2021.

5. Feedback from this consultation process will be considered as part of the budget setting meeting, as will any views that are expressed by the Finance and Democracy Committee.

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 19.
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	01253 658566	February 2021

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 2019/20 – 2023/24	Budget Council meeting 4th March 2020	www.fylde.gov.uk
MTFS – Outturn Position For 2019/20 (Including General Fund, Capital Programme & Treasury Management)	Finance and Democracy Committee meeting 28th July 2020	www.fylde.gov.uk
Revenue Budget Monitoring Report & Capital Programme Monitoring Report 2020/21 – to 30th September 2020	Finance and Democracy Committee meeting 23rd November 2020	www.fylde.gov.uk
Financial Forecast Update (including Revenue, Capital & Treasury Management) 2020/21 to 2024/2025	Finance and Democracy Committee meeting 23rd November 2020 and Council meeting 7th December 2020	www.fylde.gov.uk
Financial Forecast Update 2020/21 to 2024/25 (Position as at 31st January 2021)	Finance and Democracy Committee meeting 25th January 2021 and Council meeting 15th February 2021	www.fylde.gov.uk

Attached documents

1. Medium Term Financial Strategy 2020/21 to 2024/25

MEDIUM TERM FINANCIAL STRATEGY:
2020/21 – 2024/25

Fylde
Council

Section 1: FOREWORD

1.1 Much work has been done 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 2020/21 and 2021/22 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 2020/21 to date has been dominated by the impacts of the ongoing 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 latterly 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.

1.3 This MTFS includes the impact of the 2021/22 Local Government Finance Settlement, details of which were announced on 17th December 2020. The government has announced that it is to delay the implementation of the Fair Funding Review from the revised scheduled implementation date of April 2021. Similarly, the planned reform of the Business Rates system from April 2021 will also now be delayed. Consequently, the finance settlement for 2021/22 is a single-year only settlement.

1.4 The continuation of a Lancashire-wide Business Rates Pool was confirmed for 2021/22. The latest in-year monitoring and future modelling indicates that continued participation in a Lancashire Business Rate Pool for 2021/22 will be of financial benefit to Fylde Council.

1.5 The provisional settlement confirms that a review of the New Homes Bonus scheme will be undertaken during the next financial year and that the 2021/22 grant allocation is for one year only, as it was for 2020/21, and not a multi-year allocation as was the case for earlier years of the scheme. 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 senior management costs and other overheads. 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. In 2020 the Council's external auditors Deloitte LLP audited the Council and again gave an "unqualified opinion", which demonstrates satisfaction with the Council's financial and governance arrangements.

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 Ministry for Housing Communities and Local Government, 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 A new 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 new 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 an annual review of 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.

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.

Links to other Enabling Strategies

5.3 The Medium Term Financial Strategy is one of the enabling strategies of the Council, aimed at improving transparency and accountability in the way that services and functions are delivered. Each enabling strategy is reviewed annually as part of the planning cycle and, taken together, drive innovation and efficiency to achieve continuous improvement. The other enabling strategies are:

- ICT Strategy;
- Procurement Strategy;
- Communication Strategy;
- Commercial Strategy;
- Asset Management Plan & Capital Strategy, and
- Transformation Strategy

5.4 The MTFS takes account of the resources the Council requires to deliver the strategies. Where resources are limited the overall objectives of the Council will be the same, but the pace of achievement may require adjustment.

External funding

5.5 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 North West Development Agency. The Council will continue to explore external funding opportunities wherever possible to support Council investment to deliver further improvements in the borough.

Section 6: DEVELOPING THE MEDIUM TERM FINANCIAL STRATEGY

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 impacts of the ongoing Covid-19 pandemic;
- The continuing uncertainty surrounding future central government funding for local government;
- The consequent spending constraints resulting from 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 2021/22 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 2021/22 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. The final decision with regard to the 2021/22 budget will be taken at the Budget Council meeting of 4th March 2021.

6.6 In December 2020 the Council received details of the provisional 2021/22 Local Government Financial Settlement along with details of the New Homes Bonus allocation for 2021/22. Further details of the impact of the financial settlement are provided within section 8 of this strategy document. It was previously anticipated that initially 2020/21, and then 2021/22, would be the first year of a further multi-year indicative financial settlement for local government. However, the government has confirmed that it is to delay the implementation of the Fair Funding Review from the revised scheduled implementation date of April 2021. Similarly, the planned reform of the Business Rates system from April 2021 will also now be delayed

6.7 The impact of the Covid-19 restriction measures on the financial position of the Council for 2020/21, and possibly beyond 2020/21, were detailed within the Financial Forecast Update presented to this committee in November and to the Council in December 2020 and are considerable in scale. The government have provided additional funding to councils to dampen the financial impact, more details of which are included in section 8 of this report. These impacts, together with the potential for future reductions in central government funding and uncertainties around the level of retained business rates from 2021/22 onwards, require that 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 delivered balanced budgets and contributed to reserves over recent years.

6.8 The pandemic has led to significant volatility in both income and expenditure levels across a range of service areas, and a number of budget variations resulting from the impact of the covid restriction measures are included within this report. Details of the most significant variations, including the additional government covid funding provided, are included within Appendix Cii. However it is anticipated that as a consequence of this volatility, along with the reduced amount of budget-monitoring work that has been possible during 2020/21 due to the prioritisation of covid support work, that there may be additional year end outturn variances against revised budgets for 2020/21 than is usually the case.

6.9 Given the uncertainty regarding future levels of central government funding and the impact of the covid restriction measures 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 2021/22. The Councils 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 2021/22 are detailed in Appendix F of this report.

6.10 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

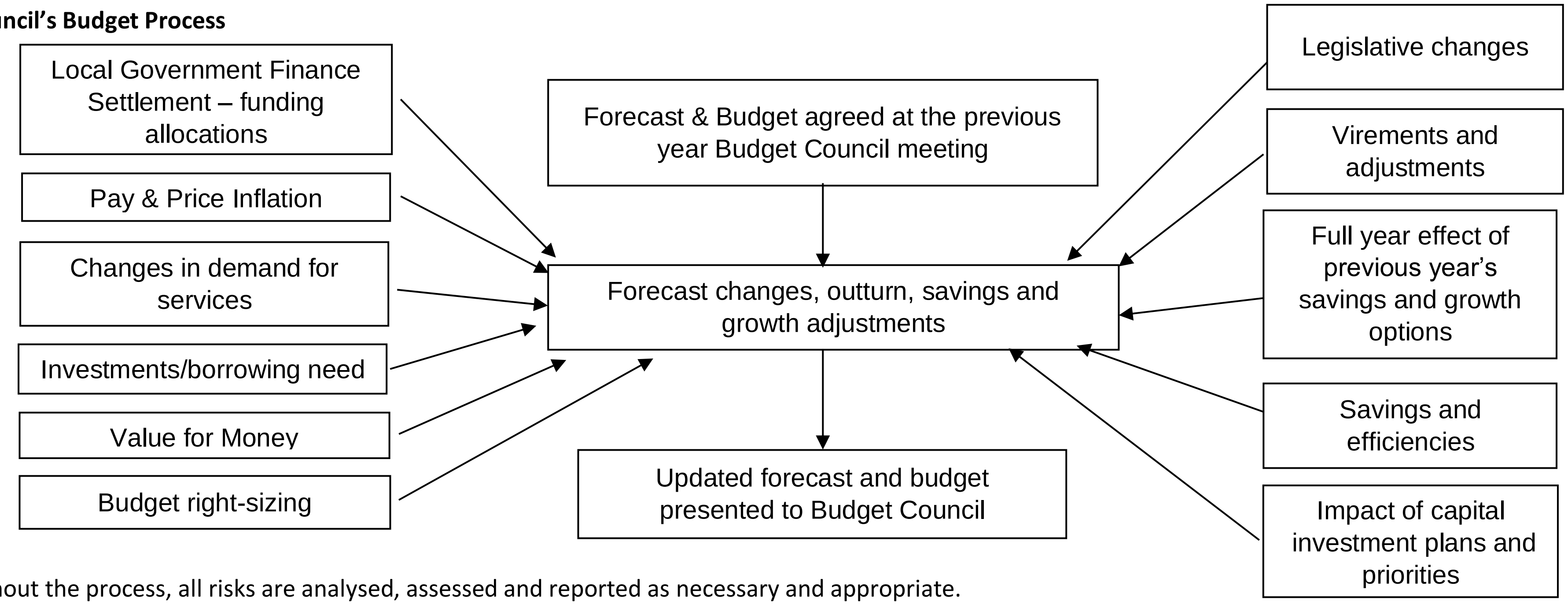
6.11 The Council is primarily a service provider and employee costs are one of its largest areas of expenditure. The Financial Forecast includes provision for a pay award for 2020/21 of 2.75% in accordance with the agreed national pay award and a forecast of future annual pay awards of 2.75% per annum.

6.12 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 2020/21 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

6.13 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



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

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 2020/21

At the Council meeting on the 4th March 2020 the budget for 2020/21 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 £10.450m for 2020/21. The General Fund balance at that time was forecast at the end of 2023/24 to be £2.549m. In agreeing the Original Budget for 2020/21 a number of key high level financial risks and assumptions were highlighted.

(ii) General Fund Revenue Outturn Position 2019/20

The revenue outturn position for 2019/20 was reported to Members in July 2020. The impact of the outturn position, including slippage items in the total sum of £0.345m, has been reflected in this updated forecast. The favourable outturn position for revenue allowed for a further contribution to be made into the Capital investment Reserve for that year in the sum of £0.924m. Appendix E includes the latest position 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 made. The exercise includes an analysis of variances which have occurred over the last 3 financial years in order to identify structural 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 Ci 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 may be more limited.

(iv) Capital Outturn Position 2019/20

The latest approved expenditure budget in the capital programme for 2019/20 was £14.299m. After adjusting for slippage of £2.131m, the overall outturn position for 2019/20 was an in-year favourable variance of £0.002m against the latest updated estimate.

(v) General Fund Revenue Budget Monitoring 2020/21

Revenue budget monitoring reports for the period to 30th September 2020 have been presented to each of the Programme Committees during the November cycle of meetings respectively. 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. These include revised fee income estimates and updated employee cost assumptions. Due to the additional resource demands arising from the response to the Covid-19 pandemic, in particular the processing of grants to support businesses that have either been required to close for certain periods during the year, or that have been severely impacted by the restrictions, a reduced level of budget monitoring has been carried out during 2020/21. This may contribute to there being more significant year-end outturn variances against revised budgets for 2020/21 than is ordinarily the case.

Section 8: THE GENERAL FUND REVENUE FORECAST & NEW FORECAST CHANGES, INCLUDING THE LOCAL GOVERNMENT FINANCE SETTLEMENT 2021/22

8.1 Appendix A sets out the original base budget that was agreed at Budget Council in March 2020. 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 Appendices Ci and Cii. 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 has been taken into account:

8.2 The provisional Local Government Finance Settlement 2021/22 was announced on 17th December 2020. The main document is entitled 'Provisional local government finance settlement: England, 2021 to 2022'. Full details of the settlement can be found at the following link:

Provisional-local-government-finance-settlement-england-2021-to-2022

The key points arising from the Finance Settlement for Fylde Council are:

a) Delays to the Fair Funding Review and the Reform of the Business Rates System

Earlier this year, the government announced that it would delay the implementation of the Fair Funding Review from the revised scheduled implementation date of April 2021. Similarly, the planned reform of the Business Rates system from April 2021 will also now be delayed. Consequently, the finance settlement for 2021/22 is a single-year only settlement.

b) Business Rates: Membership of a Business Rates Pool for 2021/22 and Future Year Income Estimates

The continuation of the option for a Lancashire-wide Business Rates Pool was confirmed for 2021/22 as part of the Settlement announcement, with all existing pool members in Lancashire opting to remain in the pool for 2021/22.

The latest in-year monitoring and future years modelling suggests that continued participation in a Lancashire Business Rate Pool for 2021/22 will be of financial benefit to Fylde Council.

Although the planned reform of the Business Rates system from April 2021 has been delayed due to the ongoing pandemic, it is expected that this is a matter that the government will return to in due course. Any future scheme may differ markedly from the existing arrangements in two key areas:

- The current arrangements use historic baseline funding levels as a starting point for calculating the level of business rates to be retained locally. As part of some future funding review as previously envisaged this baseline may be adjusted via a scheme "reset" with the potential for Fylde Council to receive less of its retained business rate income, and

- The government may introduce a less favourable split for district councils between lower and upper tier authorities than is currently the case in the current arrangements in order to provide additional resources to authorities with responsibility for social care services, which it is generally acknowledged places a significant burden on upper-tier and unitary councils.

As a result of the impact of covid restrictions on many businesses during the current year, it may be necessary to increase the provision for Business Rate Bad debts and appeal losses in 2020/21 and/or 2021/22 as many businesses will undoubtedly appeal the rateable values at which business properties have been assessed, particularly in instances where such assessments are based upon the revenues of the business during the year. The Valuation Office is already reporting significant increases in appeals as a result of “Material Changes in Circumstances” as a result of the pandemic.

The settlement also included a guarantee from central government to compensate local authorities for 75% of irrecoverable business rates and council tax lost income for 2020/21. Collection rates for 2020/21 are lower for the year to date than at this point in previous years and are being carefully monitored. It is possible that collection rates may improve through the remainder of the year. Similarly, it is not clear at this stage how much of the council tax and business rate debt will prove to be uncollectable and will ultimately be written off at a cost to the council and the other major preceptors. The estimated impact of this, together with the compensation scheme, continues to be assessed.

During the early stages of the pandemic in Spring 2020, the Chancellor announced a series of extended business rate reliefs including to the retail, hospitality and leisure sectors and to small businesses. These reliefs meant that in many cases businesses will pay no business rates at all during 2020/21 to help support them through the pandemic. As a result, the business rate collection fund (administered by Fylde to collect business rates and then allocate the monies to central government and the major preceptors) is forecast to make a significant deficit during the current year when compared against the level of income expected before the year began. To compensate for this shortfall, the government have paid all relevant councils, including Fylde, grant funding during 2020/21. Because of timing differences between the flow of funds into and out of the collection fund it will be necessary to transfer this grant into the Collection Fund Deficit Reserve because this set aside will be required in 2021/22 for release to offset the collection fund deficit.

Estimates of business rate income continue to be difficult to predict and are subject to increased volatility as a result of the pandemic and associated knock on effects on timings of funds flowing to and from the collection fund. The estimates provided at Appendix E to this report will be kept under continuous review and any revisions will be reflected in future updates to the Financial Forecast.

c) New Homes Bonus – Revised Income forecasts

The settlement confirms that a review of the New Homes Bonus scheme will be undertaken during the next financial year and that the 2021/22 grant allocation is for one year only (as it was for 2020/21) and not an annual allocation for a four year period as was the case for earlier years. The forecast has been updated in line with the allocation announced in the settlement. In respect of all other years, due to the uncertainty surrounding the future of the New Homes Bonus scheme, the estimated amounts for 2022/23 onwards are unchanged from the forecast as approved by Council in March

2020. It is possible that if New Homes Bonus Grant allocations were to cease then an alternative central government funding mechanism to Local Authorities might be implemented, possibly following the principles applied for the Lower Tier Services Grant that has been introduced for 2021/22.

However, it should be noted that at present the only confirmed future allocations of New Homes Bonus Grant that the Council is due to receive are £1.161m in 2021/22 and a legacy payment of £0.447m in 2022/23. 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.

d) Confirmation of the 2021/22 General Council Tax Referendum Principles

As part of the 2021/22 Finance Settlement the government announced the general council tax referendum principles (the upper limit on the year-on-year increase that can be applied without the requirement for prior approval through a local referendum) as the higher of a 1.99% increase or an increase of £5.00 as was the case for 2020/21. An average increase of £5.00 for a Band D property in Fylde for 2021/22 would equate to a percentage increase of around 2.5%.

Referendum principles will not be extended to town and parish councils for 2021/22 but could be applied to these councils in future years.

e) Further Government Grants for 2021/22

The following additional grants were also announced for 2021/22 as part of the settlement:

- a new Lower Tier Services Grant in the sum of £378,808 a one-off un-ringfenced grant to maintain the current assumed level of Core Spending Power. The term ‘Core Spending Power’ is a measure used by the government of the total financial resources available to local authorities to fund service delivery. The purpose of this grant is to ensure that a local authority does not suffer a reduction in resources (Core Spending Power) for 2021/22, as compared to 2020/21, on the assumption that Council Tax is increased to the maximum level for 2021/22 without the requirement for a local referendum (for 2021/22 that being an increase for Fylde of a maximum of £5.00 for a Band D property, equivalent to 2.5%);
- a further un-ringfenced Covid support grant in the sum of £392,070 in 2021/22 to manage the immediate and long term aspects of the pandemic. It is proposed that a proportion of this grant (£33k) is distributed to town and parish councils and the unparished areas of the borough, in accordance with their size as measured by the relevant tax-base for each area, to allow each to deliver covid protection and recovery measures within their locality. The proposed allocations are shown at Appendix Fi to this report. In respect of the non-parished areas of Lytham and Ansdell it is proposed that authority be delegated to the Director of Resources, in consultation with the Fylde Council elected members for the non-parished areas of the borough, with regard to how those funds may be used in those areas; and
- an un-ringfenced grant in the sum of £130,482 to meet the anticipated additional costs of providing Local Council Tax support schemes in 2021/22. Options around this funding are currently being assessed and will be brought before members in due course

8.3 Other Significant Forecast Changes

Alongside the updated estimates to the financial forecast that have been made as a result of the financial settlement there are a number of other changes which are briefly described below.

a) The impact of the covid restriction measures

The financial impact of the covid restriction measures on a number of service areas, and consequently on the Council's financial position for 2020/21, has been significant, although a range of national funding measures have also been introduced that assist in off-setting some of those negative financial effects. Fylde Council was allocated general covid support grant funding for 2020/21 totalling £1.151m which was followed by a range of further grant allocations for specific purposes, including a number of 'new burdens' grants in respect of the administration of the numerous grant support for businesses payment schemes. This grant and the main financial losses that it will help to offset are shown in Appendix Cii.

In July 2020 the government announced a further funding package for councils in respect of reduced sales, fees and charges income. Under this scheme the government will reimburse councils a proportion of income that has been lost as a consequence of the pandemic, such as car parking income and planning fee income. Where losses are more than 5% of the budgeted income from sales, fees and charges, the government will cover them for 75p in every pound lost for the remainder i.e. the council will stand the first 5% of the loss and will be reimbursed for 75% of the remaining 95% of the shortfall. Initial assessments of the losses for the first eight months of 2020/21 have been submitted as shown in Appendix Cii, with an anticipated receipt of grant for losses during that period in the sum of £0.914m. A further assessment of losses will be submitted in due course in respect of the remainder of 2020/21. It was announced as part of the 2021/22 Local Government Finance Settlement that there would be an extension of the Sales, Fees and Charges Compensation Scheme to include the first quarter of 2021/22. The estimated financial impact of this continues to be assessed.

Furthermore, in late November 2020 the Council was notified of a further grant allocation in the sum of £888,580 from the Contain Outbreak Management Fund which provides funding to local authorities in England to help reduce the spread of coronavirus and support local public health. There are a range of types of activity that may be undertaken using this funding including test, trace and contain activity in order to reduce the spread of coronavirus in your area, support for the local economy and public health. Some of this funding has already been directed towards activities such as supporting delivery of the track and trace scheme, lateral flow testing, and enforcement costs, and options as to the use of the remaining funds are being considered.

The financial impact of the restriction measures for the current year, in terms of reduced levels of income and the cost of providing financial assistance to specific local businesses, continues to be carefully monitored. The pandemic has led to significant volatility in both income and expenditure levels across a number of service areas, and a number of budget variations resulting from the impact of the covid restriction measures are included within this report, with details of the most significant variations being included within Appendix Cii.

b) Further Contribution to the M55 Link Road

The construction of a new purpose-built link road from Lytham St Anne's to the M55 (junction 4) has been a transport priority for Fylde Council and Lancashire County Council since the 1990's and has been included in a number of corporate plans and strategic transport plans. It is a key infrastructure project in the adopted Fylde Local Plan and is seen as essential to the delivery of planned sustainable growth for the borough. In July 2016, the Council committed to providing funding in the initial sum of £1m to assist in the delivery of the link road. Since then the design and delivery plans and funding packages have moved on considerably and the overall cost of the scheme has been refined.

At the Council meeting of 18th March 2020 the Council approved the transfer into the M55 Link Road Reserve of current and future Business Rate growth receipts arising from the Blackpool Airport Enterprise Zone to a maximum sum of an additional £1m and that, in the event that less than £1m of Business Rate growth has accumulated by the time that the funds are required by Lancashire County Council to deliver the road, that any shortfall would be met from the Funding Volatility Reserve.

In order to expedite delivery of the road, by confirming the availability of the total £2m contribution from Fylde Council to the scheme, In December 2020 the Council approved that the shortfall in the sum of £0.692m be transferred from the Funding Volatility Reserve into the M55 Link Road Reserve, ahead of the accumulation of further Business Rate growth receipts arising from the Blackpool Airport Enterprise Zone. It was also approved that an equivalent sum arising from business rates growth at the Enterprise Zone in future years be transferred into the Funding Volatility Reserve as and when such are growth is realised.

c) New Homes Bonus - distribution to Town and Parish Councils

Following the confirmation of the amount of New Homes Bonus grant to be received for 2021/22, allocations of a proportion of this grant to town and parish councils have been calculated in the total sum of £58,049 in accordance with the decision of the Finance and Democracy Committee on this matter at the meeting of 23rd November 2020. The financial consequence of this decision is contained within the summary Financial Forecast at Appendix E to this report.

d) Employee Costs

Most of the employee costs of the Council are driven by the national pay agreement for Local Government and the agreed 2020/21 pay award of 2.75% is reflected in the updated Financial Forecast. As part of the Spending Review it was announced that public sector pay would not be increased in 2021/22. However, as the pay award for Local Government will need to be approved by the national pay awarding bodies prior to being decided for 2021/22, a pay freeze has not been reflected in the revised Financial Forecast at this stage, pending the outcome of those negotiations which will take place during 2021. For budgeting purposes the forecast assumes an ongoing 2.75% p.a. increase in pay in line with that awarded for the current year.

e) Other budget adjustments

A further review of budgets and actual income and expenditure levels has been carried out based upon in-year budget monitoring and a number of other budget adjustments for both the current and for future years have resulted from this analysis.

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 2021/22.

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) Covid – Further Additional Costs and Reduced Income

The financial impact of the covid restriction measures on a number of service areas, and consequently on the Council's financial position for 2020/21, has been significant, although a range of national funding measures have also been introduced that assist in off-setting some of those negative financial effects.

It is likely that there will be further financial implications for the Council in 2021/22, notwithstanding any additional grant allocations that the government may determine for that year. These may include such key areas as reduced business rate and council tax receipts, loss of amenity income from such service areas as games sites, further rent reductions for council tenants and concession holders and the requirement for additional support to partner organisations. The position will be kept under close review but given the scale of the potential financial impact on the council and the ongoing uncertainty around the pandemic this must be considered a key risk for 2021/22.

(ii) 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 Financial Settlement for 2021/22. Earlier this year, the government announced that it would delay the implementation of the Fair Funding Review from the revised scheduled implementation date of April 2021. Similarly the planned reform of the Business Rates system from April 2021 will also now be delayed. Consequently, the finance settlement for 2021/22 is a single-year only settlement.

Estimations of central government funding beyond 2021/22 are therefore extremely difficult to make until the outcome of the funding reviews are known. As detailed in Section 8 above there is a clear risk that the actual levels of central government funding beyond the current year (i.e. for 2022/2023 onwards) may differ from the amounts for those years that are reflected within this update.

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 a high level financial risk.

(iii) New Homes Bonus

As part of the settlement it was confirmed that the government will consult on reforms to the New Homes Bonus scheme, with a view to implementing reform in 2022/23. For 2021/22 the settlement confirmed a single year New Homes Bonus grant allocation for 2021/22, along with the legacy payments from earlier years. The updated provisional New Homes Bonus grant for 2021/22 is shown within the summary at Appendix E to this report.

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.

(iv) Retained Business Rates

Although the planned reform of the Business Rates system from April 2021 will also now be delayed it is anticipated that the government will return to the matter of the general reform of local government financing in due course. Any amendments to the levels of forecast Business Rate income to be retained will be reflected in future updates to the Financial Forecast.

As retained business rates is a major source of funding for the Council the uncertainty in respect of future reform of the business rates regime represents a significant risk to the overall level of future central government funding.

10.3 **Medium Level Financial Impact Risks**

i) Retained Business Rates - Pooling

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.

As part of the decision to join a Business Rate pool it was also 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 level.

Due to the importance of retained Business Rates income to Fylde Council and the uncertainty surrounding future pooling arrangements this remains a financial risk.

ii) 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.

(ii) Pay Award

Although as part of the Spending Review it was announced that public sector pay would not be increased in 2021/22, as the majority of the total employee costs of the council are driven by the national pay agreement for Local Government, the pay award will need to be approved by the national pay awarding bodies prior to being decided for 2021/22. Consequently, a pay freeze has not been reflected in the revised Financial Forecast at this stage, pending the outcome of those negotiations which will take place during 2021.

The updated forecast assumes staff pay awards of 2.75% per annum for 2021/22 and each year thereafter. 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.

(iv) 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 2021/22 and for subsequent years. As updated grant notifications are received in respect of future years it may be necessary to update the forecast accordingly.

(v) 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.

(vi) 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.

ii) Community Infrastructure Levy (CIL)

The Community Infrastructure Levy (CIL) which came into operation nationally in April 2011 was intended to assume the role of the traditional Section 106 Agreement. A review of the operation of the CIL Regulations considered that the CIL process was too complex and uncertain and was acting as a barrier to the delivery of housing. Accordingly, on 1 September 2019, the Regulations that govern the introduction of CIL and its operation alongside Section 106 agreements were revised. Under the new arrangements, Section 106 Agreements will continue to have a role to play in securing essential infrastructure.

Fylde Council has commenced work on the introduction of a CIL, but this was placed on hold pending the adoption of the local plan and the publication of the updated Regulations. Now the revised Regulations have been published, work on a CIL for Fylde can recommence. However, this will have to await the partial revision of the local plan as a CIL will need to have regard to any revisions to, and a revised viability assessment of, the local plan. Until a CIL is adopted, Fylde will continue to utilise Sn 106 agreements in order to secure essential infrastructure. Until the review of the Fylde Local Plan is completed, the financial implications are unknown.

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 by the Asset Management Group 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 key factor in recent years has been the Council's Accommodation Project. The internal refurbishment of the town hall and the re-modelling of the town hall car park and surrounding areas was successfully completed in early 2019 to conclude this project which spanned a number of years and now provides a modern fit-for-purpose office accommodation along with a new Council chamber.

11.6 A review and revaluation of all heritage assets including furniture and art-work was carried out during 2017. The next review and revaluation will take place in 2022, as required by the Council's adopted accounting policy, in order 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 2018 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 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 impact of the ongoing 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 2020/21 £000	Estimate 2021/22 £000	Estimate 2022/23 £000	Estimate 2023/24 £000	Estimate 2024/25 £000
Committee:					
Finance & Democracy Committee	57	0	0	0	0
Tourism & Leisure Committee	2,067	1,665	40	40	40
Operational Management Committee	2,217	980	366	1,001	821
Environment, Health & Housing Committee	1,787	1,407	1,130	1,130	1,130
Planning Committee	794	4,542	1,032	612	0
Total Capital Payments	**6,922**	**8,594**	**2,568**	**2,783**	**1,991**
Financing:					
Availability of Resources	**6,922**	**8,594**	**2,568**	**2,783**	**1,991**
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 **Medium Level Financial Impact Risks**

(i) Coast Protection Scheme

The Fairhaven and Church Scar Coast Protection Scheme budget is £22.1m, being funded by Flood Defence Grant-in-Aid (which is an Environment Agency eligible cost reimbursable grant) of up to £21.4m; alongside a contribution from Fylde Council of £670k.

Work started on site in December 2017 and was completed in July 2020, a completion some 5 months ahead of the original schedule, and with an underspend currently estimated at around £0.375m. There is a 12 months defects liability on the contract and the Council will have to keep a project manager on the project to administer any defects during this period. A final grant claim will be submitted to the Environment Agency and the retentions will be released in August 2021. Any unspent grant will be returned to the Environment Agency.

In addition to the core sea defence works the re-modelled car park entrance at Stanner Bank has still to be delivered, funded from the Car Parks Capital Budget. Whilst the scheme is nearing completion on site, there remains the possibility of additional contract costs beyond those in the approved budget until such time that the scheme is finally completed.

Due to the significant value of scheme it is classified as a medium level financial risk

(ii) Fairhaven Lake and Gardens Heritage Lottery Scheme

The Council meeting of 16th July 2018 approved the underwriting of external grant funding bids in respect of the Fairhaven Lake and Gardens Heritage Lottery Scheme in the maximum sum of £343k in the event that not all of the funding bids would be successful, this to be met from the Capital Investment Reserve. The underwriting by the Council allowed the Heritage Lottery Fund bid to progress, that bid subsequently being successful. In addition, the Council has approved funding for the scheme in the sum of £400k to be met from the Funding Volatility Reserve.

Delays in the procurement process has caused the commencement of the works to be delayed as the initial bids for the works that were received exceeded the available funding to a significant degree and a full re-tendering exercise was required to be undertaken. Contracts for the building and landscape works have now been let within budget and are scheduled to be completed by May 2021. The lake works project will be undertaken in financial year 2021/22.

Until the scheme is fully delivered there remains the possibility of additional contract costs beyond those in the approved budget. As such the scheme is considered a medium level financial risk.

13.3 Low Level Financial Impact Risks

i) Town Centre Regeneration Kirkham

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 preference 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) which 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 commuted Section 106 payments associated with public realm contributions attributed to residential planning permissions. The scheme will run over 4 years and includes a wide range of projects.

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, is in the process of being agreed with HE. Some revenue spending will commence this year with the larger capital programmes from April 2021. A Project Board is in the process of being brought together, this being essential given the large portfolio of schemes and the number of external partners engaged in the projects.

A bid for £9.1m has also been submitted under the main body of the FHSF and proposes to deliver a number of schemes across the whole of the town centre including the repurposing of buildings, traffic management measures, building reuse and enhancement and public realm projects. This is once again a competitive process. the outcome will not be known until later in the year. The bid is well founded and the economic case very strong. On 26 December 2020 a provisional funding award of £6.28m for the Kirkham scheme was announced. Government have requested that additional information be submitted in order to demonstrate that the scheme will continue to represent value for money despite the lower award. A final decision on the revised scheme is expected by March 2021. The government's measures for assessing economic benefits and value of money (known as the Cost Benefit Ratio) have been exceeded. It is known that the fund may well be oversubscribed and so it is not known how allocations will be made i.e. whether the most imaginative and value for money projects may prove to be more successful, requests made for authorities to prioritise schemes thereby reducing their 'ask', or some scheme not being successful at all. The outcome of this assessment is awaited.

It is now known that a second round of the Future High Street Fund will be launched in 2021.

Until final agreement to the funding is received, there remains a level of risk, but given the stage that the scheme has reached in the evaluation process, the level of risk is currently regarded to be low.

ii) St Annes Regeneration Schemes

Following the completion of the upgrading scheme for St. Andrews Road South, Planning Committee agreed that the next phase for regeneration activity should be Wood Street – Phase 3. Unfortunately, difficulties arose in negotiating the design proposals for the easterly side due to one owner being reluctant to participate in the scheme, primarily because the property was up for sale. It is understood that the new owner would wish to participate should the opportunity arise in the future. The scheme commenced in February 2020 but was placed on hold due to the Covid-19 pandemic. Work resumed in June and is now complete (apart from the placing of the 5 trees) with the car park reopening. The trees will be planted shortly. The scheme has been completed to budget, absorbing extra costs due to delays whilst the work was suspended.

The next section of works has been agreed along St. Annes Road West between The Pier and The Square (known as the Square-Pier Link). A scheme designed to the available budget was presented and approved by Planning Committee, but the Regeneration Manager was asked to look at extending the scheme, potentially widening pavements to provide an enhanced pedestrian ambience and increased paving space capacity to absorb high levels of footfall that is encountered at peak times. As matters stand, the potential for achieving these enhancements to the scheme is being discussed with Lancashire County Council as any further amendments would have to be agreed, since there would be changes to the highway configuration. It is hoped that a revised scheme, in principle, can be produced relatively quickly with a detailed plan prepared and costed for presentation to the appropriate committees of the Council. There has also been some discussion regarding how construction works could be carried out in a manner that causes least disruption upon visitors to the town, particularly as visitor levels may be higher than normal and at unusual times of the year due to changes in travel patterns resulting from the pandemic. Whilst work could commence later this year, it is more likely that work will take place early in 2022. In this case the work could be coordinated with any other schemes that are identified as part of the St Annes Town Centre Strategy which is currently being commissioned. This would mean that the scheme would be commenced during 2021/22 and completed during 2022/23.

Due to the value and complexity of the schemes this has been highlighted as a potential future risk.

iii) <u>Lytham Regeneration Schemes</u>

In respect of the large capital scheme for Lytham town centre, a number of suggestions have been made by the Lytham Business Group and other parties, some of which require careful consideration along with agencies such as Lancashire County Council. Options are being considered involving local members and a draft plan is being drawn together. This will have a phased programme of works to be considered in due course by the Planning Committee. It is envisaged that the first phase will be commenced in 2021/22. Plans have been prepared and will be presented to the Town Centre Working Group at the earliest opportunity. This will enable detailed schemes to be prepared. The proposed lighting replacement scheme for West/East Beach is at an advanced stage of planning and has been supported by the Working Group. It is hoped that, subject to approval by Planning Committee, the scheme could be completed by the end of 2020/21, although this will be dependent upon the availability of Lancashire County Council to install the lighting, and so may slip into the early part of 2021/22. The lighting scheme is estimated to cost around £75k although contributions are being sought from Lancashire County Council.

Due to the significant value and complexity of the schemes this has been highlighted as a potential future risk.

(iv) <u>Vehicle Replacement</u>

The estimated vehicle replacement profile, to replace existing operational fleet at the end of its useful economic life from 2020/21 to 2024/25 within the Capital Programme totals £3.0m.

It is important to note that purchase prices will fluctuate with new models and technological/legislative changes and it is therefore 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 specifications and emissions regulations this scheme has been highlighted as a potential future risk.

13.4 **Low Level Financial Impact Risks**

(i) Project Slippage

Any areas of slippage in the Capital Programme must be addressed in future years to ensure that there is no loss of external grant arising due to conditions associated with specific grant awards within specified timescales.

(ii) Other Capital Receipts

The approved programme for 2020/21 onwards assumes ‘Right to Buy’ receipts of £25k per annum and ‘General Asset Sales’ from 2022/23 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 monitoring reports, along with the impact this may have on the financing of the programme.

(iii) Better Care Fund (Formerly Disabled Facilities Grants)

As the local housing authority, the Council has a statutory duty to provide disabled adaptations within the Borough. In order to fund these works the Council receives grant support which previously was provided by the Department for Communities and Local Government (DCLG). From 2015/16 the Government established the ‘Better Care Fund’, and under these new arrangements the funding for Disabled Facilities Grants transferred to the Department of Health, with funding being distributed to all Councils via the upper-tier authority for that area. As such, in Lancashire the fund is administered by Lancashire County Council. Each upper-tier authority then allocates the funding to their respective housing authorities (i.e. district councils within their area) to enable them to continue to meet this statutory responsibility.

The level of government funding has increased significantly under the ‘Better Care Fund’ arrangements and the updated budget for 2020/21 of £1.276m provides for the delivery of more disabled adaptations than has been possible in earlier years.

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 at 31st March 2020 was £4.272m.

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 2020/21 and 2021/22 equivalent to the amount of the revenue surplus for those years (after allowing for all approved transfers to other reserves). The latest estimated surpluses for 2020/21 and 2021/22 are £1.813m and £1.706m respectively.

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 £0.75m 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 For Council Tax only, there was a surplus on the fund as at 31st March 2020 of £861k. This will be shared between Fylde Council, the County Council, the Police Authority and the Fire & Rescue Authority in 2020/21 & 2021/22. Fylde Council's share of the surplus is £109k, the beneficial impact of which has been reflected in the financial forecast.

15.3 For Non-Domestic Rates only, there was a surplus on the fund as at 31st March 2020 of £3.869m. A large proportion of this arises from the release in 2019/20 of a provision for business rate appeals on behalf of NHS Trusts for mandatory charitable rate relief which has been defended successfully at a national level. The surplus will be shared between Central Government, Fylde Council, the County Council and the Fire & Rescue Authority in 2020/21 & 2021/22. Fylde Council's share of the surplus is £2.120m, the beneficial impact of which has been reflected in the financial forecast.

15.4 During the early stages of the pandemic in Spring 2020, the Chancellor announced a series of extended business rate reliefs including to the retail, hospitality and leisure sectors and to small businesses. These reliefs meant that in many cases businesses will pay no business rates at all during 2020/21 to help support them through the pandemic. As a result, the NDR collection fund is forecast to make a significant deficit during the current year when compared against the level of income expected before the year began. To compensate for this shortfall, the government have paid all relevant councils, including Fylde, grant funding during 2020/21. Because of timing differences between the flow of funds into and out of the collection fund it will be necessary to transfer this grant into the Collection Fund Deficit Reserve because this set aside will be required in 2021/22 for release to offset the collection fund deficit.

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 2020/21 to 2023/24).

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 Prudential Indicators. This is contained within the **Capital Strategy at Appendix G.**

16.5 The Prudential Code requires the Council to approve, revise and monitor a number of mandatory Prudential Indicators covering the forthcoming three years. These are also included within the Capital Strategy at Appendix G.

16.6 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 2021/22 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 are to be welcomed as they improve the financial position of the Council and its ability to deal with the impacts of the pandemic. There remains (as reported in the Financial Forecast update reported to the finance and Democracy Committee in January 2021 and to Council in February 2021) a projected surplus for 2020/21 and 2021/22 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 various Covid-19 lockdowns and tiering arrangements on the financial position of the Council for 2020/21, and possibly beyond 2020/21, were detailed within the Financial Forecast Update presented to the Council in December 2020. These impacts, together with the potential for future reductions in central government funding and uncertainties around the level of retained business rates from 2021/22 onwards, require that in order to maintain the current 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 has been an extraordinary year, 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 latterly 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.

17.11 **The forecast financial position of the Council has improved since the budget was set in March 2020, 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 is being 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 2019/20 to 2023/24 - Approved at Budget Council March 2020

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Adverse / Favourable
Forecast approved at Council on 5th March 2019	10,241	10,166	10,433	10,658	10,658	
Forecast Changes - per Appendix C of March 2020 MTFS Report	231	238	170	159	683	**Adverse**
Revenue Budget Growth Items - per Appendix F of March 2020 MTFS Report		46	49	52	53	**Adverse**
Forecast Budget Requirement	**10,472**	**10,450**	**10,652**	**10,869**	**11,394**	
Financed by:						
Council Tax Funding:						
Council Tax - Precept	6,212	6,456	6,660	6,869	7,084	
Council Tax - Share of Previous Years Surplus/(Deficit)	- 8	109				
Sub Total - Council Tax Income	*6,204*	*6,565*	*6,660*	*6,869*	*7,084*	
Business Rates Funding:						
Retained Rates (including pooling benefit & pilot impact 2019/20)	3,757	3,427	2,200	2,244	2,289	
Sub Total - Business Rates Income	*3,757*	*3,427*	*2,200*	*2,244*	*2,289*	
New Homes Bonus	1,412	1,822	1,431	1,380	1,380	
Less - NHB distribution to Town & Parish Councils	- 69	- 76				
Sub Total - Other Income	1,343	1,746	1,431	1,380	1,380	
Forecast Financing	**11,304**	**11,738**	**10,291**	**10,493**	**10,753**	
Forecast surplus(-)/deficit for year	**- 832**	**- 1,288**	**361**	**376**	**641**	
Reserves						
Forecast surplus/deficit (-) for year from above:	832	1,288	- 361	- 376	- 641	
Less: Proposed Transfer to Capital Investment Reserve	- 832	- 1,288				
Balance of surplus/deficit(-) remaining:			- 361	- 376	- 641	
Balance of General Fund Reserves b/f	3,927	3,927	3,927	3,566	3,190	
Less transfer to/from(-) General Fund Reserves in year			- 361	- 376	- 641	
Forecast Reserves at Year End	**3,927**	**3,927**	**3,566**	**3,190**	**2,549**	
Band D Council Tax (Excl Parish Precepts)	**£206.60**	**£210.71**	**£214.91**	**£219.19**	**£223.56**	
Band D Average Council Tax Increase	**£4.99**	**£4.11**	**£4.20**	**£4.28**	**£4.37**	
Band D Average Council Tax Increase	**2.48%**	**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;
- Slippage - underspend items from 2019/20 agreed by the Finance and Democracy Committee in July 2020 have been slipped into 2020/21;
- Pay award - assumed to be 2.75% per annum for 2020/21 and each year thereafter;
- Employers Pension Contributions – the Council’s contribution to the Lancashire pension fund scheme is set in accordance with the outcome of the 2019 Triennial Pension Review;
- 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 – assumed at 1.99% increase per annum from 2021/22 onwards;
- Fees and Charges – The forecast takes account of the revised fee levels as approved by Budget Council in March 2020. 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 2021 following consideration by the appropriate programme committee;
- Vacancy Savings – the forecast assumes vacancy savings of £400k for 2020/21 and £300k per annum from 2021/22 onwards;
- Localisation of Council Tax Benefit Scheme – the forecast assumes a fully funded scheme with no cost to the Council from 2020/21 onwards.

Appendix Ci

General forecast changes since Budget Council March 2020

		2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	ADVERSE / FAVOURABLE / NEUTRAL
1	**CHANGES AS A RESULT OF MEMBER APPROVALS:**						
	F&D Committee - 28/07/20 - Slippage from 2019/20	345	0	0	0	0	**ADVERSE**
	St.Annes Town Centre commisioning of vision/strategy funded by Funding Volatility Reserve - F&D Committee - 28/09/20	150	0	0	0	0	**ADVERSE**
	Additional resource to support Town Centes/Blackpool Enterprize Zone funded by the Funding Volatility Reserve - F&D Committee - 23/11/20	30	121	97	73	0	**ADVERSE**
	St.Annes Foreshore sand extraction development studies & regulatory applications funded by the Funding Volatility Reserve - F&D Committee - 23/11/20	70	162	0	0	0	**ADVERSE**
2	**BUDGET RIGHTSIZING EXERCISE:**						
	Revenue impact of budget right-sizing across all budget areas of the Council	-81	-159	-129	-30	-93	**FAVOURABLE**
3	**UPDATED ESTIMATES OF INCOME BUDGETS:**						
	Disabled Facilities Grant - additional fee income	-20	0	0	0	0	**FAVOURABLE**
4	**STAFFING COSTS:**						
	Update estimated pay award from 2020/21 to 2.75% per annum	75	150	225	300	300	**ADVERSE**
	Estimated 2.75% pay award for 2024/25	0	0	0	0	275	**ADVERSE**
	Employee costs: in-year additional savings	-100	0	0	0	0	**FAVOURABLE**
5	**OTHER FORECAST CHANGES**						
	Additional Costs for Public Offices - delay in disposal	29	30	0	0	0	**ADVERSE**
	Additional Income - Public Offices Car Park - delay in disposal	-4	0	0	0	0	**FAVOURABLE**
	Revised Estimate of investment interest receipts	43	49	33	31	31	**ADVERSE**
	Housing Benefits - Additional Subsidy income	-50	0	0	0	0	**FAVOURABLE**
	Housing Benefits - Additional Discretionary Housing Payments Grant income	-100	0	0	0	0	**FAVOURABLE**
	Neighbourhood Plan re-phasing of referendum costs to 2021.22	-26	26	0	0	0	**NEUTRAL**
	Re-phasing of planned IT expenditure	-175	175	0	0	0	**NEUTRAL**
	TOTAL	**186**	**554**	**226**	**374**	**513**	

Appendix Cii

Covid Related Forecast changes since Budget Council March 2020

		2020/21	2021/22	2022/23	2023/24	2024/25	
		£000	£000	£000	£000	£000	ADVERSE / FAVOURABLE / NEUTRAL
1	**CHANGES AS A RESULT OF MEMBER APPROVALS:**						
	F&D Committee - 22/06/20 - COVID 19 Local Authority Grants to Town Centres	15	0	0	0	0	ADVERSE
	F&D Committee - 22/06/20 - Fylde Coast YMCA	100	0	0	0	0	ADVERSE
	T&L Committee - 23/09/20 - Rent Subsidies due to Covid-19	127	0	0	0	0	ADVERSE
	COVID-19 Council Tax Hardship Fund - F&D Committee - 23/11/20	50	0	0	0	0	ADVERSE
2	**UPDATED ESTIMATES OF INCOME BUDGETS:**						
	Green waste subscription service - Additional subscription income	-28	0	0	0	0	FAVOURABLE
	Council Tax Court Costs Recovered - loss of income due to court closure	200	0	0	0	0	ADVERSE
	Disabled Facilities Grant Fees - income reduction due to reduced level of grant awards	62	0	0	0	0	ADVERSE
	Ashton Pavilion Café - rent reduction/subsidies due to closure	22	0	0	0	0	ADVERSE
	Pleasure Island/Salters Wharf - rent reduction/subsidies due to closure	69	0	0	0	0	ADVERSE
	Carr Bridge Wood Caravan site - rent reduction/subsidies due to closure	28	0	0	0	0	ADVERSE
	Kirkham Offices/Rent of Rooms - rent reduction/subsidies due to closure	11	0	0	0	0	ADVERSE
	Miscellaneous Properties -rent reduction/subsidies due to closure	88	0	0	0	0	ADVERSE
	Land Charges - reduction in fee income	24	0	0	0	0	ADVERSE
	Games Site Fees - reduction in fee income due to closure	70	0	0	0	0	ADVERSE
	Lytham Wartime Festival - loss of income due to cancellation of event	18	0	0	0	0	ADVERSE
	Kite Festival- loss of income due to cancellation of event	20	0	0	0	0	ADVERSE
	Cemetery & Crematorium - reduction in Income	80	0	0	0	0	ADVERSE
	Taxi Licensing - reduction in income from issue/renewal of licences	10	0	0	0	0	ADVERSE
	Public Conveniences - reduction in income due to closure	2	0	0	0	0	ADVERSE
	Trade Waste - reduction in income due to closure of premises	61	0	0	0	0	ADVERSE
	Household Refuse Special Collection - income reduction due to reduced demand	40	0	0	0	0	ADVERSE
	Building Control Fees - income reduction due to reduced demand	81	0	0	0	0	ADVERSE
	Planning Application Fees - income reduction due to reduced demand	345	0	0	0	0	ADVERSE
	Car Parking Fees - reduction in usage due to covid restriction measures	245	0	0	0	0	ADVERSE
	Car Parking Enforcement - reduction in fee income	15	0	0	0	0	ADVERSE
	Waste Services Recycling Project - loss of income from suspension of project	10	0	0	0	0	ADVERSE
	Fleet Services MOT Test Fees - income reduction due to reduced demand	12	0	0	0	0	ADVERSE
	Housing Benefit Overpayment Recovery - reduction in recovery actvity in early 2020/21	250	0	0	0	0	ADVERSE
	Government Compensatory Grant for Sales, Fees and Charges Income (Estimated)	-914	0	0	0	0	FAVOURABLE
	Covid-19 Grant Income - Additional New Burdens - Grant Administration Funding	-58	0	0	0	0	FAVOURABLE
	Covid-19 Grant Income - Support & Recovery Grant	0	-392	0	0	0	FAVOURABLE
3	**UPDATED ESTIMATES OF EXPENDITURE BUDGETS:**						
	Covid-19 Support & Recovery Grant - Additional Expenditure net of parish allocations	0	359	0	0	0	ADVERSE
	Mayoralty - Reduced Expenditure due to cancellation of events	-15	0	0	0	0	FAVOURABLE
	Festival Support/Club Days - Reduced Expenditure due to cancellation of events	-10	0	0	0	0	FAVOURABLE
	1940`s Lytham Wartime Festival - Reduced Expenditure due to cancellation of event	-35	0	0	0	0	FAVOURABLE
	Kite Festival - Reduced Expenditure due to cancellation of events	-30	0	0	0	0	FAVOURABLE
	Bulky Waste Collection costs - Reduced Expenditure due to reduced demand	-35	0	0	0	0	FAVOURABLE
	LCC-Landfill Levy/Tipping Charges - Reduced usage of facility	-60	0	0	0	0	FAVOURABLE
	Recycling Project - Reduced Expenditure due to suspension of project	-10	0	0	0	0	FAVOURABLE
	Parks Services - Purchase of additional Personal Protective Equipment (PPE)	7	0	0	0	0	ADVERSE
	Waste Services - Purchase of additional PPE	13	0	0	0	0	ADVERSE
	Cemetery & Crematorium - Additional IT costs for live streaming of services	2	2	2	2	2	ADVERSE
	Cemetery & Crematorium - implementation of covid safety measures	52	0	0	0	0	ADVERSE
	Waste Services - Additional agency staff costs to cover absences	50	0	0	0	0	ADVERSE
	Increase in provision for bad debts - sundry debtors/Housing Benefit overpayments	200	0	0	0	0	ADVERSE
	Other covid-related expenditure incl. PPE, hygeine supplies & building cleaning costs	80	0	0	0	0	ADVERSE
	Housing - Additional Expenditure on bed & breakfast services to avoid homeleessness	80	0	0	0	0	ADVERSE
	General Government Grant to support Covid related costs	-1,151	0	0	0	0	FAVOURABLE
	Specific Government Grant to meet costs of the Business Support Grant Schemes	-130	0	0	0	0	FAVOURABLE
	TOTAL	**63**	**-31**	**2**	**2**	**2**	

Appendix D

Explanations of Forecast Changes set out in Appendices Ci & Cii

The following notes relate to specific adjustments made to the Forecast set out in Appendices Ci & Cii

Appendix Ci - General forecast changes since Budget Council March 2020

(1) Changes as a Result of Member Approvals

The forecast that was approved at the Council meeting in March 2020 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) Updated income forecasts

The forecast has been updated to reflect the additional allocation of Disabled Facility Grant for 2020/21 which will result in additional fee income for the year.

(4) Employee costs

The agreed 2.75% per annum pay award for 2020/21 has been assumed in each future year of the forecast. The final year of the forecast, 2024/25 is now also included in the Medium Term Financial Strategy. Additionally further in-year savings in employee costs for 2020/21 in the sum of £100k have been assumed in line with the budget-monitoring carried out during the year.

(5) Other Forecast Changes:

Public Offices - additional costs

As a result of delays in the sale and lease of the public offices site it is appropriate to now assume the requirement for a full year budget for the site in 2020/21 and to assume part-year costs for 2021/22, offset in part by additional car park income arising from the continued operation of the car park beyond the date previously assumed.

Revised estimate of investment interest receipts

In response to the global outbreak of coronavirus the UK Government reduced the base rate 0.1% from 0.25%. Consequently, investment yields have remained low during 2020/21, with some financial institutions offering only negative interest rates to investors. This has had the effect of reducing the level of investment interest income for the year, and a reduced level of investment income is also assumed for future years.

Housing Benefits - additional subsidy and additional discretionary housing payments grant income

An updated assessment as to the estimated full year net cost of the provision of Housing benefits, together with an increase in the level of government grant for discretionary housing payments, have led to these favourable variances and the budgets will be amended accordingly.

Neighbourhood Plan re-phasing of referendum costs to 2021/22

This budget relates to the legal challenge to the St Annes Neighbourhood Plan. It is now unlikely that a Neighbourhood Planning referendum will be required in 2020/21 and consequently this funding has been rephased into 2021/22.

Rephasing of Planned IT Expenditure to 2021/22

This budget relates to a range of IT developments that have been delayed due to the prioritisation of covid support work. This element of the budget has been rephased into 2021/22.

Appendix Cii - Covid Related Forecast changes since Budget Council March 2020

Details of government covid related grant funding and budget variations are provided within Appendix Cii, classified as either:

- Changes as a Result of Member Approvals;
- Updated Estimates of Income Budgets;
- Updated Estimates of Expenditure Budgets.

Appendix E

Latest General Fund Budget Forecast 2020/21 to 2024/25

	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	Adverse / Favourable
Forecast approved at Council on 4th March 2020	10,450	10,652	10,869	11,394	11,394	
Forecast Changes - per Appendix C i - General	186	554	226	374	513	**Adverse**
Forecast Changes - per Appendix C ii - Covid Related	63	- 31	2	2	2	**Adverse**
Revenue Budget Growth Items - per Appendix F		42				**Adverse**
Use of Reserves - Funding Volatility Reserve (as per Appendix C)	- 250	- 283	- 97	- 73		**Favourable**
Forecast Budget Requirement	**10,449**	**10,934**	**11,000**	**11,697**	**11,909**	
Financed by:						
Council Tax Funding:						
Council Tax - Precept	6,456	6,657	6,866	7,081	7,302	
Council Tax - Share of Previous Years Surplus/(Deficit)	109					
Sub Total - Council Tax Income	*6,565*	*6,657*	*6,866*	*7,081*	*7,302*	
Business Rates Funding:						
Retained Business Rates	3,951	4,501	2,600	2,600	2,600	
Sub Total - Business Rates Income	*3,951*	*4,501*	*2,600*	*2,600*	*2,600*	
Lower Tier Services Grant		379				
New Homes Bonus (NHB)	1,822	1,161	1,136	1,136	1,136	
Less - NHB distribution to Town & Parish Councils	- 76	- 58				
Sub Total - Other Income	1,746	1,482	1,136	1,136	1,136	
Forecast Financing	**12,262**	**12,640**	**10,602**	**10,817**	**11,038**	
Forecast surplus(-)/deficit for year	**- 1,813**	**- 1,706**	**398**	**880**	**871**	
Reserves						
Forecast surplus/deficit (-) for year from above:	1,813	1,706	- 398	- 880	- 871	
Less: Proposed Transfer to Capital Investment Reserve	- 1,813	- 1,706				
Balance of surplus/deficit(-) remaining:			- 398	- 880	- 871	
Balance of General Fund Reserves b/f	4,272	4,272	4,272	3,874	2,994	
Less estimated transfer to/from(-) General Fund Reserves in year			- 398	- 880	- 871	
Forecast Reserves at Year End	**4,272**	**4,272**	**3,874**	**2,994**	**2,123**	
Band D Council Tax (Excl Parish Precepts)	**£210.71**	**£214.91**	**£219.19**	**£223.56**	**£228.01**	
Band D Average Council Tax Increase	**£4.11**	**£4.20**	**£4.28**	**£4.37**	**£4.45**	
Band D Average Council Tax Increase	**1.99%**	**1.99%**	**1.99%**	**1.99%**	**1.99%**	

Appendix F

BUDGET PROPOSALS - REVENUE ITEMS

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	Description
Kirkham Town Council CCTV Scheme Extension	6	0	0	0	0	The Environment, Health and Housing Committee meeting on 5th January 2021 agreed support for a revenue bid by Kirkham Town Council for an extension of the CCTV scheme in the town, subject to the town council being able to demonstrate a pressing need for each camera and providing a copy of an associated data impact assessment.
Newton-with-Clifton Parish Council CCTV Scheme Extension	3	0	0	0	0	The Environment, Health and Housing Committee meeting on 5th January 2021 agreed support for a revenue bid by Newton with Clifton Parish Council for an extension of the CCTV scheme in the parish, subject to the town council being able to demonstrate a pressing need for each camera and providing a copy of an associated data impact assessment.
Distribution of Government Covid Support Funding to All Areas of the Borough	33	0	0	0	0	The distribution of an element of the Covid support funding received by Fylde Council to all areas of the borough, as recommended by the Budget Working Group, in order for all parts of the borough to help in both managing the Covid19 outbreak and/or support recovery activity including the delivery of commemorative projects or events within their locality.
TOTAL OF REVENUE GROWTH PROPOSALS	**42**	**0**	**0**	**0**	**0**	

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

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	Description
Additional Parks Access Control Measures	16	0	0	0	0	The Tourism and Leisure Committee meeting of 7th January 2021 agreed to support a capital bid in the sum of £16,000 in 2021/22 for additional access control measures at a number of parks that are considered to be vulnerable from unauthorised access. The Committee ranked this bid as priority 1 on the list of bids submitted for consideration.
Ashton Gardens Lighting Improvement Scheme	25	0	0	0	0	The Tourism and Leisure Committee meeting of 7th January 2021 agreed to support a capital bid in the sum of £25,000 in 2021/22 for the improvement of lighting in Ashton Gardens. The Committee ranked this bid as priority 2 on the list of bids submitted for consideration.
Park View Drainage Improvement Scheme	40	0	0	0	0	The Tourism and Leisure Committee meeting of 7th January 2021 agreed to support a capital bid in the sum of £40,000 in 2021/22 for improvements to the existing drainage system at Park View playing fields. The Committee ranked this bid as priority 3 on the list of bids submitted for consideration.

Appendix F (cont'd)

BUDGET PROPOSALS - CAPITAL ITEMS - Cont'd

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	Description
Fairhaven Boathouse - Remodelling and Refurbishment Scheme	224	0	0	0	0	The Tourism and Leisure Committee meeting of 7th January 2021 agreed to support a capital bid in the sum of £224,000 in 2021/22 for improvements to the Operational Boathouse at Fairhaven Lake. The Committee ranked this bid as priority 4 on the list of bids submitted for consideration.
Play Area Improvements	100	0	0	0	0	The Tourism and Leisure Committee meeting of 7th January 2021 agreed to support a capital bid in the sum of £100,000 in 2021/22 for a scheme of improvements to children’s play areas at a number of parks. The Committee ranked this bid as priority 5 on the list of bids submitted for consideration.
Friends of Newton Community Park Improvementnt Scheme - Fylde Council Contribution	50	0	0	0	0	The Tourism and Leisure Committee meeting of 7th January 2021 agreed to support a capital bid in the sum of £50,000 in 2021/22 by the Friends of Newton Community Park group for a contribution from Fylde Council to the parks improvement scheme at School Lane, Newton.The Committee ranked this bid as priority 6 on the list of bids submitted for consideration.
Staining Drainage Improvement Scheme	55	0	0	0	0	The Operational Management Committee meeting of 12th January 2021 agreed to support a capital bid in the sum of £55,000 in 2021/22 for a scheme of improvements to the existing surface water drainage system in Staining. The full scheme cost is £65,000, with a contribution of £10,000 from Staning Parish Council for the remainder of the scheme cost.
Tree Planting Scheme	25	0	0	0	0	The Planning Committee meeting of 20th January 2021 agreed to support a capital bid in the sum of £25,000 in 2021/22 for a scheme of further tree planting to be carried out during the 2021/22 planting season throughout the borough.
TOTAL OF CAPITAL SCHEME PROPOSALS	**535**	**0**	**0**	**0**	**0**	

Distribution of Covid Support Grant Funding **Appendix Fi**

	Number of Band D Equivalent Properties	Covid Support Grant Allocation £
UnParished Areas:		
Lytham and Ansdell	7,684	5,000
Parished Areas:		
- St.Annes	10,336	8,000
- Kirkham	2,399	3,000
- Freckleton	1,994	2,000
- Bryning-with-Warton	1,512	2,000
- Medlar-with-Wesham	1,420	2,000
- Newton-with-Clifton	1,080	2,000
- Ribby-with Wrea	998	1,000
- Staining	897	1,000
- Westby-with-Plumptons	807	1,000
- Singleton	449	1,000
- Elswick	428	1,000
- Weeton-with-Preese	287	1,000
- Little Eccleston-with-Larbreck	253	1,000
- Treales, Roseacre & Wharles	231	1,000
- Greenhalgh-with-Thistleton	200	1,000
All Areas:	**30,975**	**33,000**

Allocation Calculation Taxbase 2021.22	**Allocation £**
Up to 1,000	1,000
1,000 to 2,000	2,000
2,000 - 5,000	3,000
5,000 - 8,000	5,000
over 8,000	8,000

Appendix Fii

Key Investment/Expenditure Decisions since Budget Council - March 2020

	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Total £000
COVID 19 Local Authority Grants to Town Centres	15				
Support to Fylde Coast YMCA	100				
Review of Rent Subsidies on Leases/Concessions Due to the Impact of COVID -19	127				
St.Annes Town Centre commisioning of vision/strategy funded by Funding Volatility Reserve	150				
Additional resource to support Town Centes/Blackpool Enterprize Zone	30	121	97	73	
St Anne's foreshore sand extraction development studies and regulatory applications	70	162			
COVID-19 Council Tax Hardship Fund	50				
Lytham Hall Driveway Grant	52				
Beach Safety Sign Improvements	37				
Snowdon Road Depot Welfare Improvements	71				
Blackpool Road North Playing Fields drainage	20				
Additional contribution to M55 link road reserve	692				
	1,414	**283**	**97**	**73**	**1,867**

Appendix G

Capital Strategy 2021/22 to 2024/25

1. Background

1.1 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.

1.2 The revised CIPFA Prudential Code 2018 requires the Council to produce a Capital Strategy. The format of the Capital Strategy incorporates the current Capital Programme (along with any the new proposed capital expenditure for the period 2021/22 to 2024/25), 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 2018 requires the Council to prepare and present for approval a number of documents relating to treasury management and capital expenditure. These are:

The Treasury Management Policy

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

The Capital Strategy

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 report is comprised of a number of component parts addressing particular aspects of the overall Capital Strategy. These are:

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 2021/22 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 2021/22, nor is any planned further into the future. 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 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 activity 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 2021/22, the Council is planning capital expenditure of £8.594m. A summary of planned capital expenditure for the period 2020/21 to 2023/24 is shown in table 1 below.

Table 1: Prudential Indicator: Estimates of Capital Expenditure

	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Total Capital Expenditure	6.922	8.594	2.568	2.783

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 Directors 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 2020/21 to 2024/25 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 2020/20 to 2023/24 is shown in table 2 below.

Table 2: Capital financing

	2020/21 Estimate £m	**2021/22 Estimate £m**	**2022/23 Estimate £m**	**2023/24 Estimate £m**
External sources	4.102	3.641	2.192	1.742
Own resources	2.341	4.506	0.070	0.070
Borrowing (see note below)	0.479	0.447	0.306	0.971
TOTAL	**6.922**	**8.594**	**2.568**	**2.783**

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, other external finance and 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

	2020/21 Estimate £m	**2021/22 Estimate £m**	**2022/23 Estimate £m**	**2023/24 Estimate £m**
Minimum Revenue Provision	0.744	0.784	0.818	0.771

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 £0.336m by the end of 2021/22. 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

	31.3.2021 Estimate £m	31.3.2022 Estimate £m	31.3.2023 Estimate £m	31.3.2024 Estimate £m
Total Estimated CFR	5.088	4.752	4.239	4.439

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 £0.350m of capital receipts in the financial years 2020/21 to 2023/24 as shown in table 5 below.

Table 5: Capital Receipts

	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Estimated Capital Receipts	0.025	0.185	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.

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

	31.3.2021 Estimate £m	31.3.2022 Estimate £m	31.3.2023 Estimate £m	31.3.2024 Estimate £m
Estimated Long Term Borrowing	0	0	0	0
Capital Financing Requirement	5.1	4.8	4.2	4.4

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

	2020/21 limit £m	2021/22 limit £m	2022/23 limit £m	2023/24 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 reducing in recent years, 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 entrepreneurial 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 adopted in late 2018 (Finance and Democracy Committee 24th September 2018) 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 £1.455m (as at 31st March 2020) 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 or 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 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

	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget
Financing costs (£m)	0.678	0.734	0.768	0.721
Proportion of net revenue stream	5.6%	5.9%	7.2%	6.7%

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 37 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 2020/21 to 2024/25 as set out in the Capital Programme of £2.994m (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 £0.535m 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 2020/21 to 2024/25 by scheme, including the schemes proposed as part of the 2021/22 budget.

Table 2 shows the Financing of the updated 5 year Capital Programme 2020/21 to 2024/25.

Table 3 shows a summary of the updated 5 year Capital Programme 2020/21 to 2024/25 by Committee, including how the programme is to be financed.

Capital Programme: Table 1

UPDATED 5 YEAR CAPITAL PROGRAMME 2020/21 TO 2024/25 - BY SCHEME

	Estimate 2020/21 £000	Estimate 2021/22 £000	Estimate 2022/23 £000	Estimate 2023/24 £000	Estimate 2024/25 £000
FINANCE & DEMOCRACY COMMITTEE					
Purchase of Land Adjacent to Squires Gate Station	5				
Lytham Hall Driveway	52				
Sub total	57	0	0	0	0
TOURISM & LEISURE COMMITTEE					
Fairhaven Lake & Promenade Gardens Restoration	1,199	1,025			
Fairhaven Adventure Golf	491				
Promenade Footways	0	115	40	40	40
Staining Playing Fields Development Scheme	94				
Coastal Signage Improvements	97				
Open Space access control measures	15				
Coastal Explorers	0	20			
Fylde Sand Dunes Improvement Scheme	46				
Improvements to Children's Play Areas	50				
Blackpool Road North Playing Fields drainage	75	50			
Additional Parks Access Control Measures - ***Budget Proposal***		16			
Ashton Gardens Lighting Improvement Scheme - ***Budget Proposal***		25			
Park View Drainage Improvement Scheme - ***Budget Proposal***		40			
Fairhaven Boathouse - Remodelling and Refurbishment Scheme - ***Budget Proposal***		224			
Play Area Improvements - ***Budget Proposal***		100			
Friends of Newton Community Park Improvementnt Scheme - Fylde Council Contribution - ***Budget Proposal***		50			
Sub total	2,067	1,665	40	40	40
OPERATIONAL MANAGEMENT COMMITTEE					
Replacement Vehicles	485	447	306	971	791
Car Park Improvements	20	70	30	30	30
Public Transport Improvements	108	48	30		
Fairhaven and Church Scar Coast Protection Scheme	461				
Fairhaven and Church Scar Coast Public Realm / Stanner Bank car park - barrier	330				
St Anne's Sea Wall	300				
Accommodation/ facilities at Snowdon Rd Depot - Welfare Improvements	64	350			
North Beach Car Park: Development of Toilet Facilities	185				
Charging Infrastructure for Electric Taxis	150				
Pleasant Street Car Park Toilet Refurbishment	82				
Outdoor Digital Signage	32				
Staining Drainage Improvement Scheme - ***Budget Proposal***		65			
Sub total	2,217	980	366	1,001	821

Capital Programme: Table 1 (Continued)

UPDATED 5 YEAR CAPITAL PROGRAMME 2020/21 TO 2024/25 - BY SCHEME

	Estimate 2020/21 £000	Estimate 2021/22 £000	Estimate 2022/23 £000	Estimate 2023/24 £000	Estimate 2024/25 £000
ENVIRONMENT, HEALTH & HOUSING COMMITTEE					
Disabled Facilities Programme	1,276	1,130	1,130	1,130	1,130
Housing Needs Grant	27				
Progress Housing Buy Backs	58				
Rapid Deployment CCTV Replacement Projects	0	27			
Cemetery and Crematorium - Infrastructure Works Phase 3a	102				
Cemetery and Crematorium - Infrastructure Phase 3b	194				
Hydration points	0	60			
Fylde Affordable Housing Delivery Programme	0	60			
Affordable Housing Scheme, Lytham Road, Warton	130	130			
Sub total	1,787	1,407	1,130	1,130	1,130
PLANNING COMMITTEE					
St Annes Regeneration Schemes	97	100			
St Annes Road West – Square to Pier link and Gateway	0	110			
Lytham Regeneration Schemes	0	800			
Kirkham Public Realm Improvements	5				
M55 Link Road (Inc. S106 monies for design work)	208	2,000			
Ansdell / Fairhaven - Public Realm scheme	10				
St Annes Pier - Coastal Revival Fund	0	5			
Kirkham and Wesham Station	15				
Future High Street Fund: Kirkham	100				
Wesham Community Centre	59	60			
Elswick Village Green	0	115			
Kirkham Heritage Action Zone	300	1,327	1,032	612	
Tree Planting Scheme - ***Budget Proposal***		25			
Sub total	794	4,542	1,032	612	0
Total Expenditure	**6,922**	**8,594**	**2,568**	**2,783**	**1,991**

Capital Programme: Table 2

UPDATED 5 YEAR CAPITAL PROGRAMME 2020/21 TO 2024/25 - FINANCING

	Estimate 2020/21 £000	Estimate 2021/22 £000	Estimate 2022/23 £000	Estimate 2023/24 £000	Estimate 2024/25 £000
FINANCING:					
Capital Receipts - General Asset Sales	0	160	45	45	45
Capital Receipts - Right to Buy Receipts	25	25	25	25	25
Better Care Fund / Disabled Facilities Grant	1,236	1,090	1,090	1,090	1,090
Disabled Facilities Grant Repayments - 'Housing Needs Grants'	27				
Section 106 Monies - St Annes	97	50			
Section 106 Monies - Lytham	0	130			
Section 106 Monies - M55 Link-Road	208				
Section 106 Monies - Public Transport Improvements	108	48	30		
Section 106 Monies - Kirkham and Wesham Station	15				
Section 106 Monies - Fylde Sand Dunes Improvement Scheme	19				
Section 106 Monies - Wesham Community Centre	45				
Section 106 Monies - Elswick Village Green	0	35			
Section 106 Monies - Kirkham Heritage Action Zone	0	69	223	168	
Section 106 Monies - Fylde Affordable Housing Delivery Programme	0	60			
Section 106 Monies - Affordable Housing Scheme, Lytham Road, Warton	130	130			
Section 106 Monies - Progress Housing Buy Backs	58				
Capital Investment Reserve	1,916	1,535			
Capital Investment Reserve - Underwriting max £343k - Fairhaven	0	251			
Capital Investment Reserve - ***Budget Council Proposals March 2021***		535			
M55 Link-Road Reserve	0	1,308			
Funding Volatility Reserve - Additional Contribution to M55 Link Road	0	692			
Funding Volatility Reserve - Fairhaven Restoration Project	400				
Other External Finance (see analysis below)	2,159	2,029	849	484	40
Direct Revenue Finance					
Prudential Borrowing	479	447	306	971	791
Total Financing	**6,922**	**8,594**	**2,568**	**2,783**	**1,991**
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	0	27			
Environment Agency - Fairhaven and Church Scar	494				
Environment Agency - St Anne's Sea Wall Development Grant	300				
Coastal Revival Fund - St Annes Pier	0	5			
Central Governement Grant - Future High Street Fund: Kirkham	100				
Staining Parish Council	13	10			
John Lees Charitable Trust	30				
New Fylde Housing - DFG Contribution	40	40	40	40	40
Lancashire Environmental Fund - Fylde Sand Dunes Imp't Scheme	27				
Heritage Lottery Fund - Fairhaven Restoration Project	451	774			
Sport England - Fairhaven Restoration Project - confirmed	100				
United Utilities - Fairhaven Restoration Project	60				
Lytham Schools Foundation - Fairhaven Restoration Project	15				
Café Tenant Contribution	15				
RSPB - Fairhaven Restoration Project	8				
Lancashire Environmental Fund - Fairhaven Restoration Project	30				
Central Government - Charging Infrastructure for Electric Taxis	150				
Wesham Town Council	14	10			
Elswick Parish Council (Elswick Village Green)	0	10			
Kirkham Town Council (Kirkham Heritage Action Zone)	17	133			
External Grants - Lancs Env Fund (Elswick Village Green)	0	30			
External Grants - Pocket Parks (Elswick Village Green)	0	15			
External Grants - Historic England	283	618	618	272	
External Grants - Parks Improvements	12				
Private Sector / Other	0	357	191	172	
	2,159	2,029	849	484	40

Capital Programme: Table 3

UPDATED 5 YEAR CAPITAL PROGRAMME 2020/21 TO 2024/25 - SUMMARY

	Estimate 2020/21 £000	Estimate 2021/22 £000	Estimate 2022/23 £000	Estimate 2023/24 £000	Estimate 2024/25 £000
Committee:					
Finance & Democracy Committee	57	0	0	0	0
Tourism & Leisure Committee	2,067	1,665	40	40	40
Operational Management Committee	2,217	980	366	1,001	821
Environment, Health & Housing Committee	1,787	1,407	1,130	1,130	1,130
Planning Committee	794	4,542	1,032	612	0
Total Expenditure	**6,922**	**8,594**	**2,568**	**2,783**	**1,991**
Financing:					
Capital Receipts - General Asset Sales	0	160	45	45	45
Capital Receipts - Right to Buy Receipts	25	25	25	25	25
Better Care Fund / Disabled Facilities Grant	1,236	1,090	1,090	1,090	1,090
Disabled Facilities Grant Repayments - 'Housing Needs Grants'	27				
Section 106 Monies - St Annes	97	50			
Section 106 Monies - Lytham	0	130			
Section 106 Monies - M55 Link-Road	208				
Section 106 Monies - Public Transport Improvements	108	48	30		
Section 106 Monies - Kirkham and Wesham Station	15				
Section 106 Monies - Fylde Sand Dunes Improvement Scheme	19				
Section 106 Monies - Wesham Community Centre	45				
Section 106 Monies - Elswick Village Green	0	35			
Section 106 Monies - Kirkham Heritage Action Zone	0	69	223	168	
Section 106 Monies - Fylde Affordable Housing Delivery Programme	0	60			
Section 106 Monies - Affordable Housing Scheme, Lytham Road, Warton	130	130			
Section 106 Monies - Progress Housing Buy Backs	58				
Capital Investment Reserve	1,916	1,535			
Capital Investment Reserve - Underwriting max £343k - Fairhaven	0	251			
Capital Investment Reserve ***- Budget Council Proposals March 2021***		535			
M55 Link-Road Reserve	0	1,308			
Funding Volatility Reserve - Additional Contribution to M55 Link Road	0	692			
Funding Volatility Reserve - Fairhaven Restoration Project	400				
Other External Finance (see analysis below)	2,159	2,029	849	484	40
Direct Revenue Finance					
Prudential Borrowing	479	447	306	971	791
Total Financing	**6,922**	**8,594**	**2,568**	**2,783**	**1,991**
Total surplus (-) / shortfall in year	0	0	0	0	0
Cumulative surplus (-) / shortfall	0	0	0	0	0

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 2017 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 covid crisis has caused a major downturn in both the domestic and global economy, the long-term effects of which are yet to be fully understood. For the UK this was exacerbated during much of 2020/21 by the uncertainty surrounding Brexit, with the transition period with the remaining European Union nations ending on 31st December 2020.

The global economic uncertainty also reflects the political changes in the United States where the new administration is developing its trade policy stance.

In response to the coronavirus pandemic, in March 2020 the Bank of England cut the base interest rate to an historic low of just 0.1% to try to lend support to the economy. Investment yields remain low and some financial institutions are offering only negative interest rates to investors.

The latest UK CPI inflation figures, for December 2020, show an annual rate of 0.8% - an increase from some earlier months but still well below the ceiling target rate of 2% and the latest estimate for 2021 of 1.6%.

Interest rate forecast: the forecast for the Bank Rate is 0.10% for the foreseeable future (see Table 1). Investment yields remain low due to the UK and global economic outlooks and are expected to remain low in the medium term.

Table 1: Arlingclose Interest Rate Forecast

Quarter Ending	Bank Rate %	Investment Rates		Borrowing Rates		
		3 month %	1 year %	5 year %	20 year %	50 year %
Mar 2021	0.10	0.10	0.00	0.80	1.50	1.40
Jun 2021	0.10	0.10	0.00	0.80	1.50	1.40
Sep 2021	0.10	0.15	0.05	0.85	1.55	1.45
Dec 2021	0.10	0.15	0.10	0.90	1.55	1.45
Mar 2022	0.10	0.20	0.15	0.95	1.55	1.45
Jun 2022	0.10	0.20	0.20	1.00	1.60	1.50
Sep 2022	0.10	0.20	0.20	1.00	1.60	1.50
Dec 2022	0.10	0.20	0.20	1.00	1.65	1.55
Mar 2023	0.10	0.20	0.25	1.05	1.65	1.55
Jun 2023	0.10	0.20	0.25	1.05	1.65	1.55
Sep 2023	0.10	0.20	0.25	1.05	1.65	1.55
Dec 2023	0.10	0.20	0.25	1.05	1.70	1.60

3. Treasury Balances Forecast

On 31st December 2020 the Authority had no external debt and £29m 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 31.12.20

	31.12.20 Actual Portfolio £m
External Borrowing:	
Public Works Loan Board	0
Total External Borrowing	**0**
Treasury investments:	
Short Term	
Banks - unsecured	0
Local Authorities	21
Money Market Funds	8
Total Treasury Investments	**29**
Net Lending / (Borrowing)	**29**

Table 3: Treasury Balances Forecast

	31.03.21 Estimate £m	31.03.22 Forecast £m	31.03.23 Forecast £m	31.03.24 Forecast £m	Notes
Capital Financing Requirement (CFR)	5.1	4.8	4.2	4.4	1
Less: Long Term Borrowing already taken	-	-	-	-	2
Cumulative Borrowing Requirement	**5.1**	**4.8**	**4.2**	**4.4**	3
Usable Reserves and Provisions at 31st March	20.1	14.4	13.8	12.7	4
Working Capital	5.0	5.0	5.0	5.0	5
Less: Internal Borrowing	(5.1)	(4.8)	(4.2)	(4.4)	6
Forecast cash available for Investment	**20.0**	**14.6**	**14.6**	**13.3**	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 amount of usable reserves, balances and provisions which are available funds. The forecast changes to the amount of usable reserves and provisions are determined by the drawdown of reserves, balances and provisions as estimated in the Financial Forecast Update 2020/21 to 2024/25 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 2021.

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 usable reserves and working capital are the underlying resources 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 2 shows that the Authority expects to comply with this recommendation during 2021/22.

4. Borrowing Strategy

The Authority currently holds no external debt. The balance sheet forecast in table 2 shows that the Authority does not expect to need to borrow in 2021/22. 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.

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 Council'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.

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:

- Public Works Loan Board (PWLB) and any successor body
- UK Local Authorities
- 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
- Sale and leaseback

The Authority has previously raised all of its long-term borrowing from the PWLB. The Council will also consider other sources of finance should it become necessary in the future, such as local authority loans and bank loans, which may be available at more favourable rates.

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.

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.

Strategy: It is the Council's current policy to limit investments to those of up to one year in order to maintain liquidity, reduce counterparty risk

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 5 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
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 5)	£1m each (maximum of £2m in total) for up to 3 months		
Money Market Funds (Note 6)	£3m per Fund		
Pooled Funds (Note 6)	£2m per Fund (£5m in total)		
Real Estate Investment Trusts (7)	£2m in Total		
Registered Housing Providers (Note 8)	£2m in total for up to 5 years		
Any other organization (Note 9)	£100k each for up to 5 years		

This table must 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 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. **Building Societies**: The Building Societies regulatory framework and insolvency regime means that in the unlikely event of a Building Society liquidation, the Authority's deposits would be paid out in preference to retail depositors. Most Building Societies do not have a credit rating, therefore, a credit analysis will be undertaken by Treasury Advisor's Arlingclose which will determine a preferred list of Building Societies with whom to invest.

6. 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.

7. 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.

8. Registered providers: These are longer term Loans or bonds that are secured or guaranteed on the assets of Registered Providers of Social Housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England). As a provider of public services, they retain the likelihood of receiving government support if needed.

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

10. 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.

11. 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.

12. 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.

13. 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 2011, 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.

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.

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.

Principal sums invested for periods longer than a year: This limit is set to ensure adequate liquidity of investments and is the maximum amount of funds the Council will invest longer term. This is shown in table 6 below.

Table 6: Limit for investments over 365 days

	2020/21	2021/22	2022/23
Limit for investments over 365 days	£5.0m	£5.0m	£5.0m

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 budget for investment income in 2021/22 is £65.5k, based on an average investment portfolio of £26m at an interest rate of 0.25%. If actual levels of investments and borrowing, or actual interest rates, differ from those as forecast, performance against budget will be correspondingly different.

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 2021/22 for treasury management investments are covered in the Treasury Management Strategy at Part B.

Commercial Investments: Property

MHCLG defines property to be an investment if it is held primarily or partially to generate a profit.

Contribution: The Council holds a number of investments in commercial assets which generate a return which contributes to the general revenue resource available to be spent on local public services. The main revenue generating investments held by the Council are the Pleasure Island site in St Annes and Carr Bridge Caravan Park in Westby-with-Plumpton.

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 2020 as shown below:

	2018/19	2019/20
	£'000	£'000
Rental Income from Investment Property	(407)	(371)
Direct operating expenses arising from investment	219	83
	(188)	(288)
Changes in Fair Value of Investment Properties	(39)	(307)
Net (Gain) / Loss	**(227)**	**(595)**

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

	2018/19	2019/20
	£'000	£'000
Balance at start of year	3,155	3,194
Net gains /(losses) from fair value adjustments	39	307
Reclassification of Assets	-	-
Balance at end of year	**3,194**	**3,501**

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 capital borrowed, the Authority minimises this risk by maintaining commercial investments remain proportionate to the size of the authority.

Governance: Decisions on commercial investments are made in line with the criteria and limits approved by Full Council in line with Financial Regulations, the Constitution and the Commercial Strategy which was approved by the Finance and Democracy Committee on the 24th September 2018 and is accessible at the link below:

Fylde Council Commercial Strategy

Specified and Non-Specified Investments

The Ministry of Housing, Communities and Local Government 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 BBB+ 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.

Non-Treasury Investments

Although not classed as treasury management activities and therefore not covered by the CIPFA Code or the DCLG Guidance, the Council may also purchase property for investment purposes and may also make loans and investments for service purposes. Such loans and investments will be subject to the Council’s normal approval process for revenue and capital expenditure and need not comply with this treasury management strategy.

Borrowing in Advance of Need

Any decision to borrow in advance of need will be within approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. Borrowing in advance will be made within the constraints that:

- it will be limited to no more than 100% of the expected increase in capital borrowing need (CFR) over the three year period to 2023/24.

All decisions on borrowing will be reported to the appropriate Committee as part of the Councils annual reporting cycle on Treasury Management and Prudential Indicators.

Capacity, Skills and Culture

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 36 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. 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.

Commercial deals:
With central government financial support for local public services declining in recent years, 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 entrepreneurial 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 adopted by Finance and Democracy Committee on 24th September 2018.

Since adoption of the 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.

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 Ministry for Housing, Communities and Local Government (MHCLG) 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 £500k based on a net budget requirement for 2020/21 of around £10m.

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 balances at 31st March 2020 was £4.272m.

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 voluntary 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 2020 and expected as at 31st March 2021 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 2021/22

6.1 Having reviewed the current useable reserves and balances it is now proposed:

i. that in order to minimise the need for additional borrowing in the future, a transfer be made to the Capital Investment Reserve in 2020/21 and 2021/22 equivalent to the balance of the revenue surplus for those years, after allowing for all approved transfers to other reserves, currently estimated at £1.813m in 2020/21 and £1.706m in 2021/22 to provide sufficient resource for any capital projects that may arise; and

ii. that the government grant funding received in 2020/21 to compensate for lost business rate income as a result of the Covid-19 related business rate reliefs awarded in the sum of £4.766m be transferred into the Collection Fund Deficit Reserve. The lost income to the collection fund for 2020/21 will create a deficit in the fund for 2021/22 and this transfer into the reserve will be required in 2021/22 to offset that deficit.

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

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Opening balance at start of year	**4,385**	**5,167**	**5,064**	**4,449**	**4,449**
Transferred in at financial outturn 2012/13					
sub -total					
Schemes approved at Budget Council 3rd March 2014					
Lytham Park Cemetery Infrastructure	- 192	- 102			
Coastal Protection Schemes	- 400				
Schemes approved at Budget Council 3rd March 2015					
Fleet replacement schedule - updated estimate of replacement costs	- 182				
Schemes and transfers approved by Council 4th December 2017					
Coast Protection Scheme - Public Realm Enhancements	- 113	- 247			
Fairhaven Gardens Restoration Scheme - Public Realm Enhancements		- 120			
Additional transfer in at financial outturn 2017/18					
Schemes approved at Budget Council 5th March 2018					
Ansdell / Fairhaven - Public Realm scheme		- 10			
Kirkham Town Centre - Public Realm scheme		- 5			
Wood Steet St Annes - Public Realm scheme			- 50		
Staining Playing Fields Development Scheme		- 50			
Schemes proposed for Approval by Council 5th March 2019					
Accommodation/ facilities at Snowdon Rd Depot			- 200		
Ashton Gardens Play Area	- 17	- 3			
Ashton Gardens Nursery Improvements	- 30				
Coastal Signage Improvements		- 60			
Open Space access control measures		- 15			
Coastal Explorers			- 20		
Tree Planting	- 25				
Lytham Regeneration Scheme			- 670		
North Beach Car Park: Development of Toilet Facilities		- 185			
Stanner Bank car park - barrier scheme		- 50			
St Annes Road West – Square to Pier link and Gateway Improvements			- 110		
Fairhaven Adventure Golf	- 15	- 490			
Fairhaven Heritage Lottery Fund Restoration Scheme			- 251		
Purchase of Land Adjacent to Squires Gate Station		- 5			
Kirkham Historic Town Bid - Potential £150k					
Schemes proposed for Approval by Council 4th March 2020					
Updated transfer for 2019/20	1,756				
Improvements to Children's Play Areas		- 38			
Blackpool Road North Playing Fields drainage		- 55	- 50		
Snowdon Road Depot: – Welfare Improvements			- 143		
Pleasant Street Car Park Toilet Refurbishment		- 82			
Outdoor Digital Signage		- 32			
Cemetery and Crematorium - Infrastructure Phase 3b		- 194			
Hydration points			- 60		
Wesham Community Centre			- 50		
Elswick Village Green			- 25		
Kirkham Heritage Action Zone			- 150		
Lytham Hall Driveway - 20/21 Approval		- 52			
Beach Safety Sign Improvements		- 37			
Snowdon Road Depot Improvements		- 64	- 7		
Blackpool Road North Playing Fields drainage		- 20			
Updated forecast transfers for 2020/21 & 2021/22		1,813	1,706		
Budget Proposals 2021/22					
Friends of Newton Community Park - £50k contribution			- 50		
Additional parks access control measures			- 16		
Play Area Improvements			- 100		
Park View Drainage			- 40		
Ashton Gardens Lighting			- 25		
Tree planting			- 25		
Staining Drainage Scheme			- 55		
Fairhaven Boathouse remodelling and refurbishment			- 224		
Forecast balance at end of year	**5,167**	**5,064**	**4,449**	**4,449**	**4,449**

6.3 Additionally, a number of schemes have been approved during 2020/21 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

	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Opening balance at start of year	**5,241**	**3,899**	**3,616**	**3,519**	**3,446**
Approved Commitments					
Fairhaven Regeneration Scheme	- 400				
St Anne's foreshore sand extraction development studies and regulatory applications	- 70	- 162			
Additional Contribution to M55 Link Road	- 692				
St.Annes Town Centre commisioning of vision/strategy funded by Funding Volatility Reserve	- 150				
Additional resource to support Town Centes/Blackpool Enterprize Zone	- 30	- 121	- 97	- 73	
Forecast balance at end of year	**3,899**	**3,616**	**3,519**	**3,446**	**3,446**

Useable Reserves and Balances Position

1. Earmarked Reserves

Reserve	Purpose	How and When Used	Balance 31/03/20 £000	Budgeted Transfers in for 2020/21 £000	Budgeted Use/ Transfers out 2020/21 £000	Estimated Balance 31/03/21 £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.	**27**			**27**	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.	**5,167**	**1,813**	**-1,916**	**5,064**	Whilst the balance at 31/03/21 is projected to be £5.064m, after taking account of the previously approved schemes scheduled to be delivered in later years that are to be funded from this reserve, along with the capital bids that form part of the 2021/22 buudget proposals the **un-committed** balance at 31/03/21 is reduced to £2.743m prior to any later 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.	**5,241**		**-1,342**	**3,899**	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 2020/21 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. The un-committed balance at 31/03/21 is £3.446m.

Useable Reserves and Balances Position

1. Earmarked Reserves (Cont'd)

Reserve	Purpose	How and When Used	Balance 31/03/20 £000	Budgeted Transfers in for 2020/21 £000	Budgeted Use/ Transfers out 2020/21 £000	Estimated Balance 31/03/21 £000	Comments
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, which has arisen for 2020/21 as a result of the Business Rate Reliefs awarded in response to the Covid-19 pandemic.	Used to meet the current estimated deficit on the collection fund for the year which has arisn as a result of the reduced collection of business rates in 2020/21 because a significant number of businesses are in receipt of increased reliefs.	**0**	**4,766**	**0**	**4,766**	The budgeted transfer into the reserve is of s31 government grant receiveable by the Council in 2020/21 to compensate for lost business rate income as a result of extended Covid-19 related business rate reliefs awarded. The lost income to the collection fund will create a defict in the fund and this set aside in the reserve will be required in 2021/22 for release to offset the deficit. The reserve is therefore not available for general release.
M55 Link Road Reserve	Established at Council in July 2016 to fund a contribution of up to £1m towards the accelerated delivery of the link road.	To be used in line with ongoing negotiations with delivery partners for the road.	**1,308**	**692**		**2,000**	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 Eurpoean 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.
Total Earmarked Reserves			**11,962**	**7,271**	**-3,258**	**15,975**	

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.	**4,272**			**4,272**	This is the position in line with the Council's current financial forecast.
Total General Fund Reserves			**4,272**	**0**	**0**	**4,272**	
		Total	**16,234**	**7,271**	**-3,258**	**20,247**	

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 2020/21 a 2.21% 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 2021/22 an average Band D Council Tax of £214.91 is proposed (that being an increase of £4.20 or 1.99% as compared to the 2020/21 charge). This equates to a proposed 2.08% increase in respect of each of the individual elements of the Council Tax charge.

Therefore, the special expenses policy for 2021/22 shall be:

• the annual special expense charge per property will be set for 2021/22 at the 2020/21 level plus 2.08%, that being £79.21 per band D property;

• the annual borough wide charge per property will be set for 2021/22 at the 2020/21 level plus 2.08%, that being £168.83 per band D property; and

• the budget resource to be allocated to delivering concurrent services and chargeable as special expenses for 2021/22 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.