

AGENDA FOR

OVERVIEW AND SCRUTINY COMMITTEE

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To: All Members of Overview and Scrutiny Committee

Councillors: R Caserta (Chair), T Cummings, J Harris, N Jones, K Leach, B Mortenson, M Powell, L Smith, S Smith, Susan Southworth, R Walker and C Walsh

Dear Member/Colleague

Overview and Scrutiny Committee

You are invited to attend a meeting of the Overview and Scrutiny Committee which will be held as follows:-

Date:	Tuesday, 11 February 2020
Place:	Meeting Rooms A & B - Town Hall
Time:	7.00 pm
Briefing Facilities:	If Opposition Members and Co-opted Members require briefing on any particular item on the Agenda, the appropriate Director/Senior Officer originating the related report should be contacted.
Notes:	

AGENDA

1 APOLOGIES

2 DECLARATIONS OF INTEREST

Members of the Overview and Scrutiny Committee are asked to consider whether they have an interest in any matters on the agenda and, if so, to formally declare that interest.

3 PUBLIC QUESTION TIME

A period of 30 minutes has been set aside for members of the public to ask questions on matters considered at the last meeting and set out in the minutes or on the agenda for tonight's meeting.

4 MONTH 9 CORPORATE MONITORING REPORT *(Pages 1 - 24)*

A REPORT FROM THE CABINET MEMBER FOR FINANCE AND HOUSING, COUNCILLOR O'BRIEN IS ATTACHED.

5 TREASURY MANAGEMENT REPORT *(Pages 25 - 58)*

A REPORT FROM THE CABINET MEMBER FOR FINANCE AND HOUSING, COUNCILLOR O'BRIEN IS ATTACHED.

6 REVENUE BUDGET REPORT 2020/21 *(Pages 59 - 96)*

A REPORT FROM THE CABINET MEMBER FOR FINANCE AND HOUSING, COUNCILLOR O'BRIEN IS ATTACHED.

7 HOUSING REVENUE ACCOUNT *(Pages 97 - 120)*

A REPORT FROM THE CABINET MEMBER FOR FINANCE AND HOUSING, COUNCILLOR O'BRIEN IS ATTACHED.

8 DEDICATED SCHOOLS GRANT *(Pages 121 - 132)*

A REPORT FROM THE CABINET MEMBER FOR FINANCE AND HOUSING, COUNCILLOR O'BRIEN IS ATTACHED.

9 CAPITAL STRATEGY AND PROGRAMME *(Pages 133 - 146)*

A REPORT FROM THE CABINET MEMBER FOR FINANCE AND HOUSING, COUNCILLOR O'BRIEN IS ATTACHED.

10 URGENT BUSINESS

Any other business which by reason of special circumstances the Chair agrees may be considered as a matter of urgency.



REPORT FOR DECISION

Agenda	
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Item	
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MEETING:	OVERVIEW AND SCRUTINY COMMITTEE
DATE:	11 FEBRUARY 2020 OVERVIEW AND SCRUTINY 26 FEBRUARY 2020 CABINET 26 FEBRUARY 2020 FULL COUNCIL
SUBJECT:	FINANCIAL MONITORING AS AT THE END OF DECEMBER 2019
REPORT FROM:	CABINET MEMBER FOR FINANCE AND HOUSING
CONTACT OFFICER:	MIKE WOODHEAD, JOINT CHIEF FINANCIAL OFFICER
TYPE OF DECISION:	COUNCIL
FREEDOM OF INFORMATION/STATUS:	This paper is within the public domain
SUMMARY:	This report outlines the forecast financial position of the council at the end of 2019/20 based on the information known at the end of the third quarter. The report sets out the position for both revenue and capital and

	<p>provides an analysis of the variances, both under and overspending.</p>
<p>OPTIONS & RECOMMENDED OPTION</p>	<p>Cabinet is asked to:</p> <ul style="list-style-type: none"> • Note the forecast underspend of £0.657m on the council’s revenue budget, the forecast increase in the cumulative Dedicated Schools Grant deficit to £18m and potential risks of up to £8.3m in the CCG budget; • Note the in-year surplus on the council tax and business rates collection fund of £8.9m and that this, together with the cumulative surplus from previous years of £8.2m, will be considered as part of the council’s budget setting process for 2020/21; • Approve the drawdown of earmarked reserves of £2.8m which are in addition to the use of reserves that were planned as part of the 2019/20 budget; • Note the forecast improvement in the council’s general reserves; • Note the under achievement of some savings targets and that these will be considered as part of the 2020/21 budget setting process. • Approve the carry forward of the underspend on the capital programme of £20.384m into the 2020/21 and future years capital programme and the changes to the cost and funding of the schemes as set out in the report; • Note the planned development of a reserves strategy, an update and refresh of the capital strategy and the development of capital gateway processes during 2020/21 and that these will be brought to Cabinet for approval.
<p>IMPLICATIONS:</p> <p>Corporate Aims/Policy Framework:</p>	<p>The proposals accord with the Policy Framework</p>
<p>Statement by Section 151 Officer:</p>	<p>Financial and risk implications are detailed in the report.</p>
<p>Equality/Diversity implications:</p>	<p>No</p>

Considered by Monitoring Officer:	Yes
Are there any legal implications?	No
Staffing/ICT/Property:	No
Wards Affected:	All
Scrutiny Interest:	Overview and Scrutiny Committee

TRACKING/PROCESS

DIRECTOR:
MIKE WOODHEAD

Joint Executive Team	Cabinet Member/Chair	Ward Members	Partners
	Yes		
Scrutiny Committee	Cabinet	Committee	Council
11 February 2020	26 February 2020		26 February 2020

FINANCIAL MONITORING AS AT THE END OF DECEMBER 2019

1 PURPOSE OF THE REPORT

- 1.1 This report outlines the forecast financial position of the council at the end of 2019/20 based on the information known at the end of the third quarter. The report sets out the position for both revenue and capital and provides an analysis of the variances, both under and overspending.

2 SUMMARY

- 2.1 The council is projecting a small underspend of £0.657m by the end of the current financial year. Within the forecast there are a number of risks, particularly where savings targets have not been achieved, as well as budgets that are supported by the one-off use of reserves. The overall position is however being offset by one-off underspends and additional income. This position is not sustainable in the long term and is currently being considered as part of the development of the 2020/21 budget strategy.
- 2.2 The collection fund is showing an in year surplus of £8.9m. The funding, together with the surplus carried forward of £8.2m, is one-off and will be considered as part of the budget setting process. Some of the surplus will be distributed to the Greater Manchester Combined Authority (£1.426m) as their share in the fund.
- 2.3 The overall position in general reserves is forecast to improve based on the latest forecast. Other pressures and opportunities on reserves exist, including the deficit on the Dedicated Schools Grant reserve, and are being monitored and managed as part of the overall financial position.
- 2.4 The CCG is reporting a balanced plan position however there is a high level of risk to this delivery with £8.3m of the gap still unidentified. Work is underway to manage the risk including potential implementation of differential contribution rates across 2019/20 and 2020/21 in the section 75 Pooled Budget between the Council and the CCG. The CCG Governing Body is accountable for the CCG budget however given the importance of the CCG and the council working together to secure best value for resources, a summary of the financial position is included for information purposes.
- 2.5 The capital programme is progressing with some schemes slipping into future years. New capital gateway processes, which will be introduced in the new financial year, will provide greater oversight of the programme and will consider capacity requirements to reduce the amount of schemes being carried forward in future years. The carry forward of schemes will be considered as part of the development of the capital programme for 2020/21.

3 FINANCIAL OVERVIEW - REVENUE

- 3.1 The forecast out turn position is set out in Table 1 below and shows a forecast underspend of £0.657m, representing 0.47% of the council's net revenue budget. This is an improvement on the previously reported position of a projected overspend of £0.467m at the end of August 2019.

Table 1

2019/20 Forecast Revenue Out Turn Position – as at 31 December 2019			
Directorate	Approved Budget	Forecast Out Turn	Forecast (Under)/Over Spend
	£m	£m	£m
Communities and Wellbeing	70.300	72.0050	1.750
Children, Young People and Culture	41.567	43.447	1.880
Operations	12.916	12.785	(0.131)
Resources and Regulation	7.661	8.530	0.870
Business, Growth and Infrastructure	(0.759)	0.326	1.085
Art Gallery and Museum	0.565	0.641	0.076
Housing General Fund	0.033	0.183	0.150
Non-Service Specific	6.579	0.243	(6.336)
TOTAL	138.862	138.205	(0.657)

3.2 Trends that have emerged throughout the year have been reflected in the forecast out turn however there may be changes in the final position should trends change or new issues emerge. Overall the council is forecasting an underspend however within this there are a number of services that are overspending, many of these relating to the non-delivery of savings targets that formed part of the 2019/20 budget. Details on individual services are set out in the next section of the report and a full analysis of savings targets and progress against these is set out at Appendix 1.

Communities and Wellbeing Directorate – Forecast Overspend £1.750m

Table 2

2019/20 Forecast Revenue Out Turn Position – as at 31 December 2019			
Communities and Wellbeing Directorate	Approved Budget	Forecast Out Turn	Forecast (Under)/Over Spend
	£m	£m	£m
Housing Related Services	0.907	0.801	(0.097)
Care in the Community	31.136	32.723	1.587
Commissioning – Other Services	16.536	16.416	(0.120)
Finance, Customer Services and Asset Management	1.234	1.107	(0.127)
Adult Social Care Operations	7.086	6.360	(0.726)
Public Health	10.026	10.026	0.000
Workforce Modernisation and Adult Education	0.258	0.277	0.019
Civic Venues	0.254	0.570	0.316
Environment	0.527	0.939	0.403
Communities	1.024	0.971	(0.053)
Parks and Countryside	0.230	0.189	(0.041)
Sport and Leisure	1.083	1.673	0.590
TOTAL	70.300	72.050	1.750

3.3 The Communities and Wellbeing Directorate is forecasting an overspend of £1.750m of which £2.410m relates to planned savings that have not been delivered.

- 3.4 Non achievement of savings is the main factor for the overspends in sport and leisure (£0.590m), environmental services (£0.403m), civic venues (£0.316m) and low cost care package reviews in the care in the community budget (£1.1m). Some of these are historic savings and have been carried forward from previous financial years. It should however be noted that the Directorate is on track to deliver £1.140m of its 2019/20 savings target in the current financial year. Other savings within the Better Care Fund pooled budget of £1.875m have also been achieved.
- 3.5 The Directorate is experiencing an increase in demand from clients transitioning for children’s services (£0.255m), an increase in cost due to complex needs of clients and also one-off severance costs related to the service restructuring (£0.329m). These overspends are offset by underspends as a result of vacancies within the Operations Service (-£0.726m).
- 3.6 In addition to this, the Directorate is applying the use of earmarked reserves (£3.256m) of which £0.756m was agreed as part of the 2019/20 budget to phase the impact of savings. Without the use of the reserves, the overspend for the Directorate would be £5m although some of the reserves have been used to support one-off spend that will not be needed in future years.

Children and Young People – Forecast Overspend £1.880m

Table 3

2019/20 Forecast Revenue Out Turn Position – as at 31 December 2019			
Children and Young People Directorate	Approved Budget	Forecast Out Turn	Forecast (Under)/Over Spend
	£m	£m	£m
Learning – Non Schools	6.264	6.108	(0.156)
Early Help and School Readiness	0.980	0.842	(0.139)
Social Care and Safeguarding	23.253	24.271	1.019
Other Management Costs	0.746	2.581	1.835
Strategy/Commissioning	1.880	1.051	(0.829)
Departmental Wide	6.881	6.881	0.000
Libraries	1.563	1.713	0.150
TOTAL	41.567	43.447	1.880

- 3.7 The Children, Young People and Culture Directorate is forecasting an overspend of £1.880m of which £1.835m relates to the planned savings that will not be delivered. Elsewhere within the Directorate there are cost pressures as follows:
- **Safeguarding and Young People’s Service** The forecast overspend of £0.273m is due to increased use of agency staff to cover vacant posts (0.145m), increased building costs at Higher Lane (£0.128m) and higher than anticipated external legal fees (£0.097m) offset by underspends in the initial response team and the Victoria Family Centre due to difficulties in recruitment (-£0.090m).
 - **Children Looked After** The forecast overspend of £0.910m is due to increased placements and complexity of cases in residential care (£0.452m) and independent foster agency placements (£0.417m). Higher than anticipated adoption placement fees (£0.067m) due to the need to make placements outside

of the regional adoption agency have been incurred and an increase in the number of children being placed in supported lodgings is creating further pressure on the service (£0.042m). These overspends are offset by an underspend resulting from vacancies (-£0.068m);

- **Libraries** The forecast overspend of £0.150m is largely due to increased running costs.

3.8 These overspends are offset by underspends as a result of staff vacancies in the educational psychology service and the schools transport service (-£0.156m) and additional grant funding received during the year from GM Innovations to support the implementation of the Early Help Stockport Families Model (£0.139m) and the Social Care Support Grant to reduce pressures on budgets for looked after children (-£0.829m).

Operations Directorate – Forecast Underspend £0.131m

Table 4

2019/20 Forecast Revenue Out Turn Position – as at 31 December 2019			
Operations Directorate	Approved Budget	Forecast Out Turn	Forecast (Under)/Over Spend
	£m	£m	£m
Grounds Maintenance	1.690	1.660	(0.030)
Engineers	5.112	5.074	(0.037)
Winter Maintenance	0.271	0.347	0.076
Transport and Workshop	0.448	0.302	(0.146)
Waste Management/Street Cleansing	5.396	5.401	0.006
TOTAL	12.916	12.785	(0.131)

3.9 The Operations Directorate is forecasting an underspend of £0.131m, the main reasons for which are savings on lease contracts that have come to an end in the transport service offset by additional training costs in the winter maintenance service.

Resources and Regulation Directorate – Overspend £0.870m

Table 5

2019/20 Forecast Revenue Out Turn Position – as at 31 December 2019			
Resources and Regulation Directorate	Approved Budget	Forecast Out Turn	Forecast (Under)/Over Spend
	£m	£m	£m
Operational Services	(0.597)	(0.552)	0.045
Central Support Services	8.139	9.025	0.886
Trading Services	0.118	0.057	(0.062)
TOTAL	7.661	8.530	0.870

3.10 The Resources and Regulation Directorate is forecasting an overspend of £0.870m. The forecast out turn includes a contribution from reserves (£0.452m) to support some one-off cost for posts within the Customer Support and Collections team, cost of elections and to support some ICT developments. There are also a number of one off costs relating to exit payments that will support the delivery of savings in future years. The main variances for the directorate are:

- Finance** The forecast overspend of £0.482m is largely due to delayed achievement of savings in relation to insurance and a finance restructure (£0.300m), payment of one-off exit costs (£0.133m) and overspends on staffing (£0.085m) offset by some underspends across the service. Within the forecast position, reserves of £0.3m have been used to offset the non-delivery of a saving in the revenue and benefits service without which the forecast overspend would be £0.782m;
- Human Resources/Corporate People** The forecast overspend of £0.130m is due to the payment of one-off exit costs (£0.416m) and higher than budget costs on apprenticeships (£0.135m) offset by savings achieved from the recent restructure (-£0.200m);
- Legal and Democratic** The forecast overspend of £0.200m is due to additional costs from the recent elections (£0.274m) some which will be offset by a compensatory grant to be received in the next financial year, additional staffing costs (£0.044m) offset by savings in Members Allowances (-£0.088m) and additional income for Registrar of Births, Deaths and Marriages (-£0.030m);
- Trading Services** The forecast underspend of £0.062m due to additional income for the cleaning service (£0.187m) offset by overspends in the Catering Services (£0.121m) due to increase in food prices and salaries in salaries and reduced levels of income.

Business, Growth and Infrastructure – Forecast Overspend £1.085m

Table 6

2019/20 Forecast Revenue Out Turn Position – as at 31 December 2019			
Business, Growth and Infrastructure Directorate	Approved Budget	Forecast Out Turn	Forecast (Under)/Over Spend
	£m	£m	£m
Business Growth Management Team	0.726	1.175	0.449
Regeneration	0.108	0.143	0.035
Planning and Development Control	0.596	0.549	(0.047)
Property Management and Admin Buildings	(2.405)	(1.963)	0.442
Strategic Housing	0.495	0.377	(0.118)
Architects	(0.279)	0.046	0.325
TOTAL	(0.759)	0.326	1.085

3.11 The Business, Growth and Infrastructure Directorate is forecasting an overspend of £1.085m of which £0.050m is due to the non-delivery of savings. The forecast out turn includes a contribution from reserves (£0.493m) to support some management costs within the service and some growth projects without which forecast overspend would be £1.578m. The main variances for the directorate are:

- **Business Growth Management** The forecast overspend of £0.449m is due to additional costs of the Accommodation Review (£0.389m), unbudgeted consultancy costs (£0.102m), cost of consultancy for the Facilities Management review (£0.116m) and minor overspends (£0.030m) offset by underutilised carbon reduction commitment budget (-£0.188m);
- **Regeneration** The forecast overspend of £0.035m is due to unachieved savings targets (£0.050m) offset by salary savings (-£0.015m);
- **Property Management and Admin Buildings** The forecast overspend of £0.442m is due to an overspend in Admin Buildings for urgent compliance work in respect of roofing, electrics required for the Town Hall and higher than anticipated running costs (£0.354m), additional building costs on the markets (£0.070m);
- **Strategic Housing** The forecast underspend of £0.118m is due to increases in income and salary savings in Urban Renewal (-£0.111m) as well as additional income from home improvements (-£0.007m).

Art Gallery and Museum – Forecast Overspend £0.076m

Table 7

2019/20 Forecast Revenue Out Turn Position – as at 31 December 2019			
Art Gallery and Museum	Approved Budget	Forecast Out Turn	Forecast (Under)/Over Spend
	£m	£m	£m
Art Gallery and Museum	0.565	0.641	0.076
TOTAL	0.565	0.641	0.076

3.12 The Art Gallery and Museum is forecast to overspend by £0.076m due to under recovery of income offset by some savings due to staff vacancies.

Housing General Fund – Forecast Overspend £0.150m

Table 8

2019/20 Forecast Revenue Out Turn Position – as at 31 December 2019			
Housing General Fund	Approved Budget	Forecast Out Turn	Forecast (Under)/Over Spend
	£m	£m	£m
Housing General Fund	0.033	0.183	0.150
TOTAL	0.033	0.183	0.150

3.13 The Housing General Fund is forecast to overspend by £0.150m based on current caseloads and claims.

Non Service Specific – Forecast Underspend £6.336m**Table 9**

2019/20 Forecast Revenue Out Turn Position – as at 31 December 2019			
Non Service Specific	Approved Budget	Forecast Out Turn	Forecast (Under)/Over Spend
	£m	£m	£m
Passenger Transport Levy	13.264	12.801	(0.464)
Environment Agency	0.100	0.100	0.000
Manchester Airport	(5.635)	(6.135)	(0.500)
Provisions/Reserves	0.502	(1.948)	(2.450)
Capital Charges	(6.103)	(6.103)	0.000
Cost of Borrowing	3.978	3.507	(0.471)
FRS17 Costs	(12.542)	(12.542)	0.000
Non Service Specific Grants	(3.768)	(3.768)	0.000
Disaster Expenses	0.011	0.023	0.012
Accumulated Absences	(0.530)	(0.530)	0.000
Townside Fields	0.000	(0.060)	(0.060)
Corporate Management	2.584	2.584	0.000
Chief Executive's Office	0.456	0.422	(0.034)
Reprofiled Savings	0.000	0.000	0.000
GMWDA Levy	14.211	11.862	(2.349)
Car Lease Salary Sacrifice	0.000	(0.020)	(0.020)
Poverty Strategy	0.050	0.050	0.000
TOTAL	6.579	0.243	(6.336)

3.14 The Non Specific Service budget is forecasting an underspend of £6.336m due to:

- Passenger Transport Levy – agreement was reached with the Greater Manchester Combined Authority to reduce passenger levies across Greater Manchester Authorities;
- Manchester airport – higher than budgeted dividends from the council's shareholding in Manchester airport (£0.500m);
- Lower than budget contribution to non-service specific reserves (-£2.450m);
- Reduced costs of borrowing due to loans not being taken out in line with expectations (-£0.471m) largely due to slippage in the capital programme;
- GMWDA levy – agreement was reached with the Greater Manchester Combined Authority to reduce waste levies across Greater Manchester Authorities.

3.15 Some of the underspends are considered to be recurring and will be adjusted as part of the 2020/21 budget setting process.

4 Delivery of the Savings Plan

4.1 Planned savings of £8.008m are included in the 2019/20 revenue budget. The majority of Directorates are forecasting that they will not be able to meet their 2019/20 savings target with the overall shortfall expected to be £4.181m. These shortfalls are reflected in the monitoring position set out in the report and whilst they do not impact any further on the monitoring position, it is important that there remains a focus on savings targets and whether these remain

achievable. This is particularly important when considering the impact in future years and ensuring the council has a sustainable and robust financial strategy going forward. It is anticipated that a further £0.586m can be delivered in 2020/21 and this leaves a remaining pressure in that year of £3.595m that will need to be addressed and this will be considered as part of the 2020/21 budget setting process.

- 4.2 To assist in this assessment, the council has obtained external advice in validating the current savings targets, as well as those that have been carried forward from previous years, and in assessing their deliverability in the current and future years. Adding back any savings that cannot be delivered will increase the budget gap in future years but will ensure that whatever plans come forward have a solid foundation and can be delivered. A full analysis is set out at Appendix 1.
- 4.3 The forecast position includes budgeted exit costs of c£1.6m that have been incurred in the current financial year and will reduce costs in future years that will contribute to the savings targets. Where staff have left the council during the year, a part year saving has been achieved and a full year saving will be achieved from 2020/21 onwards.

5 Reserves

- 5.1 At the end of 2018/19 the council's useable reserves were £32.551m and Council agreed that £5m would be drawn down and applied to support the budget. Taking into account the use of reserves as set out in the report, the reserves at the end of 2019/20 are forecast to be £25.051m. Of the reserves, £18m are held for specific purposes and cannot be used to support the budget generally. The remaining reserves are held to manage known financial risks, to cash-flow timing differences between when spend is incurred and savings delivered or for specific investment in projects.
- 5.2 The position on reserves is monitored on an ongoing basis and, in response to the level of general reserves being at historically low levels, the council has made a commitment to increase general reserves as much as possible to improve the overall financial resilience of the council. This will be a key consideration of the budget strategy for 2020/21. As it stands, general reserves will not be reducing below the forecast position and should increase by the end of the financial year – in doing so improving the council's overall financial resilience.
- 5.3 A review of the council's reserves strategy and approach will be developed as part of the 2019/20 closure process and will be presented to Cabinet for consideration early in the 2019/20 financial year.

6 OTHER BUDGETS

Schools

- 6.1 The council's expenditure on schools is funded primarily by the Dedicated Schools Grant (DSG). The DSG is ringfenced and can only be spent on schools related activity as set out in the Schools Finance (England) Regulations 2017. The Schools Budget includes funding for a range of educational and support services provided on an authority wide basis as well as individual Schools

Budget. The Schools Forum oversee the allocation of funding to schools and the application of the funding formula.

6.2 The DSG has 4 main blocks:

Block	2019/20 Budget
	£m
Schools	122.104
High Needs	30.542
Early Years	13.532
Central Support Services	0.772
TOTAL	166.950

6.3 At the end of 2018/19 there was a deficit on the Dedicated Schools Grant (DSG) of £14.7m and this is forecast to increase to £18m by the end of the current financial year. This is a significant risk to the council and one which needs to be kept under careful review as any deficit on the DSG reserve is currently offset by the council's general and earmarked reserves. The DfE has just issued the outcome of its recent consultation reserves and the current arrangement are coming to an end with DSG deficits required to be offset against future DSG income or against school balances from 2020/21. The new legislation is currently being reviewed and further updates will be available shortly.

6.4 The Department for Educating (DfE) requires all councils to complete a recovery plan should their overspend on the DSG exceed 2%. The council has an agreed recovery plan that was agreed by the Schools Forum and the DfE and this will now be formally incorporated in the council's monitoring reports from now on. The impact of the new legislation will be assessed in relation to the recovery plan and this will be reported to Cabinet in the next monitoring report, following consultation with the Schools Forum.

6.5 The main overspend relates to planned investment in in-borough capacity and sufficiency to address both the DSG deficit recovery and to ensure the requirements of the Ofsted area inspection on SEND are delivered as well as increased demand in the following areas:

- Inclusion Partnerships (£0.2m)
- Inclusion SEMH Hubs (£0.1m)
- SEND EHCP top up funding to all mainstream schools and academies to comply with statutory finance and SEND requirements (£1.6m)
- Increased numbers of Education and Health Care Plans (£0.8m)
- Increased capacity at Bury's special school provision (£0.5m)
- Increased targeted support to children through multi disciplinary teams

6.6 In accordance to the agreed recovery and profiled into the 5 year plan, the current investment is expected to reduce the number of high-cost SEND placements out of borough by stemming the flow and having more in borough placements. The 5 year timeline is required in order to ensure the sufficiency and capacity of places can be developed and delivered.

6.7 Further actions to reduce DSG costs will be implemented from 2020/21 to ensure the DSG is sustainable and that the deficit reduces over time to a balanced position. Increased funding for high needs and for schools in 2020/21

was announced as part of the Local Government finance settlement which will help reduce the deficit position.

Collection Fund

6.8 The tables below show the forecast outturn position for the collection fund and the share of balances of the forecast position.

Table 11

Forecast Position on the Collection Fund			
	Council Tax	Business Rates	Total
	£m	£m	£m
Balance Brought Forward	(4.051)	(4.229)	(8.280)
(Surplus)/Deficit for the year	(4.861)	(4.093)	(8.954)
Balance Carried Forward	(8.912)	(8.322)	(17.234)
<i>Distributed:</i>			
Bury Council	7.569	8.239	15.808
GMCA – Police and Crime Commissioner	0.968	0.000	0.968
GMCA – Fire and Rescue Service	0.375	0.083	0.458
Total	8.912	8.322	17.234

6.9 The increasing prominence of council tax and business rates in helping fund council services means that the collection fund is monitored on an ongoing basis. A forecast in year surplus of £8.954m means that the projected year end collection fund position (council tax and business rates) is a projected surplus of £17.234m of which the council’s share is £15.808m and the Greater Manchester Combined Authority’s share is £1.426m (for police and fire and rescue services). The total surplus includes a cumulative balance that has been brought forward from previous years of £8.2m. How the surplus can be utilised will be subject to decisions made as part of the 2020/21 budget setting process.

6.10 The Greater Manchester Combined Authority area continues to pilot 100% business rates retention. The pilot was first implemented on 1 April 2017. The purpose of the pilot is to develop and trial approaches to manage risk and reward in a local government finance system that includes full devolution of business rates revenues. Whilst the pilot is in place, a no detriment policy is in operation under which the government guarantees that the level of business rates income/grant that a council receives can be no less than it would have been if it was not in the pilot area. The council has so far gained from being a member of pilot scheme.

HOUSING REVENUE ACCOUNT

6.11 The Housing Revenue Account (HRA) is forecasting a surplus of £0.144m and further information is set out in the table 12 below.

Table 12

2019/20 Forecast Revenue Out Turn Position – as at 31 December 2019			
Housing Revenue Account	Approved Budget	Forecast Out Turn	Forecast (Under)/Over Spend
	£m	£m	£m
Income			
Dwelling Rents	(29.372)	(29.158)	0.214
Non-Dwelling Rents	(0.195)	(0.193)	0.002
Other Charges	(1.003)	(1.020)	(0.017)
Total Income	(30.570)	(30.371)	0.199
)			
Expenditure			
Repairs and Maintenance	6.898	0.031	(0.002)
General Management	7.339	7.344	0.005
Special Services	1.325	1.335	0.010
Rents, Rates and Other Charges	0.050	0.058	0.008
Increase in Bad Debts Provision	0.477	0.471	(0.006)
Capital Charge	4.849	4.626	(0.223)
Depreciation	7.944	8.419	0.475
Debt Management Expenses	0.041	0.041	0.000
Contribution to/(from) reserves	(0.505)	(0.505)	0.000
Total Expenditure	28.418	25.865	0.267
Net Cost of Services	(15.531)	(15.065)	0.466
Interest receivable	(0.027)	(0.066)	(0.039)
Principal Repayments	0.177	0.177	0.000
Revenue Contributions to Capital	1.992	1.421	(0.571)
Sub Total	2.140	1.532	(0.610)
Operating (Surplus)/Deficit	(13.389)	(13.533)	(0.144)

6.12 The main reasons for the forecast surplus are:

- **Revenue contributions to capital** – Slippage on the capital programme has resulted in lower than anticipated contributions to capital from revenue. Subject to Council approval it is anticipated that resources will be required in 2020/21 to complete the 2019/20 programme, therefore the underspend will only be held the Business Plan Headroom Reserve on a temporary basis rather than being available for other purposes.
- **Dwelling Rents** Income on rents is £0.214m lower than anticipated and is due to a number of factors that have changed since the budget was set including: the number of properties moving to target rent during the year; changes in average rent values and the timing of new developments.

6.13 As well as looking at the in-year financial position, it is useful to consider some of the other aspects of performance regarding the Housing revenue Account:

- **Voids** The rent loss due to voids for April to December was on average 1.05% which is better than the 1.1% void target level set in the original budget. If this performance continues, there will be an increase in rental income of £0.014m over the original budget. Six Town Housing continue to review the voids processes and the various factors affecting demand;

- **Arrears** The rent arrears at the end of December totalled £1.874m, an increase of 13.1% since the end of March. Of the total arrears £0.802m relates to former tenants and £1.072m relates to current tenants. An estimated £0.623m of current tenant arrears are in cases where either the under occupancy charge applies or the tenants are in receipt of Universal Credit rather than Housing Benefit;
- **Bad Debts** The Council is required to make a provision for potential bad debts. The contribution for the year is calculated with reference to the type of arrear, the amount outstanding on each individual case and the balance remaining in the provision following write off of debts. The forecast increase in the bad debt provision is in line with assumptions made when the budget was set;
- **Right to Buy Sales** The forecast for 2019/20 was set at 60, this being an increase of 15 on the level of sales assumed for Bury in the Government's self-financing valuation. There have been 38 sales in the period April to December. This is 2 less than at this point last year. However the number of applications currently proceeding is higher than at this point last year (92 compared to 87). On this information the forecast has been kept at 60 with the projections of rental income being calculated on this basis.

CLINICAL COMMISSIONING GROUP

6.14 The CCG is reporting a balanced plan position and this is set out in table 12 below. This position assumes full delivery of the CCG QIPP. There is a high level of risk to this delivery with £8.3m of the gap still unidentified.

Table 13

2019/20 Forecast Revenue Out Turn Position – as at 31 December 2019			
Clinical Commissioning Group	Approved Budget	Forecast Out Turn	Forecast (Under)/Over Spend
	£m	£m	£m
Acute Services	163.824	166.753	2.930
Community Health Services	31.692	30.790	(0.902)
Continuing Care Services	14.385	14.561	0.176
Mental Health Services	30.923	30.124	(0.799)
Other Programme Services	8.188	8.337	0.149
Primary Care Services	38.909	39.275	0.366
Primary care Commissioning	27.218	27.218	0.000
Running Costs	4.303	4.303	0.000
Reserves	(6.278)	(8.197)	(1.920)
TOTAL	313.164	313.164	0.000

6.15 The main variances in the budget are as follows:

- **Acute Services** are forecast to overspend by £2.930m and is largely due to increased activity at Accident and Emergency Departments and an increase in Emergency admissions (£1.138m). In addition to this an increase in elective and day cases at Oaklands private hospital to reduce waiting lists is adding further pressure (£1.791m). A system wide review of urgent care is underway and it is anticipated that the outcome of this review will deliver savings in 2020/21 and future years;

- **Community Services** are forecast to underspend by £0.902m and reflects the release of £1m from the Better Care Fund that is managed through the S75 pooled budget arrangements;
- **Continuing Healthcare Care Service** is forecast to overspend by £0.176m and is due to the impact of increased non-elective activity at Pennine Acute Health Trust;
- **Mental Health Service** is forecast to underspend by £0.799m and reflects a reduction in the number of very high cost patients compared to 18/19. Within the mental health budget the CCG has set aside investment for mental health services in line with the Mental Health Investment Standard (MHIS). Spend continues to be monitored in line with NHSE requirements, the CCG currently forecast to achieve the standard in 19/20;
- **Primary Care and Primary Care Delegated Services** are forecast to overspend by £0.700m due to increased drug unit cost based on prescribing data to October. This is offset by underspends in primary medical service spend. The forecast outturn relies on increased delivery of prescribing QIPP in the second half of the year and further underspends in primary care medical services;
- **Other Programme Services** The budgets within other programme services include transformation funding, safeguarding, estates and NHS 111 and are forecast to overspend by £0.149m. This is due to unbudgeted non-recurrent expenditure;
- **Corporate Services and Reserves** are forecasting an underspend of £1.920m reflecting the forecast level of savings attributable to unidentified QIPP schemes.

QIPP Delivery

6.16 The CCG's ability to achieve its financial plan for 2019/20 is reliant on the identification and delivery of schemes to meet the full QIPP target by the end of the year. Options to support the delivery of the target non-recurrently are being explored via the pooled budget arrangements with the Local Authority. An assessment of the deliverability of the schemes has been carried out and they are assessed as follows:

Table 14

Assessment of Deliverability of 2019/20 QIPP Schemes	
	£m
Schemes delivered	0.783
Low Risk Schemes	2.451
Medium Risk Schemes	0.517
High Risk Schemes	0.462
Schemes not yet identified	8.277
TOTAL	12.500

6.17 Work is underway to identify non-recurrent options that could be used to bridge the potential gap that could emerge by the end of the year if the current savings plans are not delivered. This includes potential implementation of differential contribution rates across 2019/20 and 2020/21 in the section 75 Pooled Budget between the Council and the CCG.

7 CAPITAL PROGRAMME

7.1 The Council's capital programme is set at £61.589m including schemes rolled forward from the 2018/19 financial year. New schemes totalling £5.300m are recommended to be added to the programme in year, all of which are fully

funded from external sources. The new schemes are set out below and, subject to approval, will increase the 2019/20 capital programme to £66.889m.

Table 14

Revised 2019/20 Capital Programme	
	£m
Original Capital Programme	52.599
Schemes Brought Forward from 2018/19	8.990
Fully Funded Schemes added in year	5.300
Revised 2019/20 Capital Programme	66.889

7.2 Full details on the Capital programme are set out in Appendix 2 and a summary of the key elements are as follows:

- **Carry Forward**

7.3 Expenditure on the capital programme is £18.723m which is lower than anticipated. A review of schemes has been undertaken and has identified a number of schemes, with a value of £20.384m, that are recommended to be carried forward into 2020/21. The schemes recommended for carry forward are:

- Children Services Projects where the schemes are funded mainly by grants from Department of Education (£9.388m)
- Disabled Facilities Grant (£0.855)
- Older People (£0.588m)
- Highways maintenance and flood repair/defence projects that are grant funded (£0.517m) (grant funded)
- Street Lighting (£5m)
- Bury market refurbishment (£0.900m)
- Corporate ICT schemes (£3.042m)

- **Projected Expenditure in Quarter 4**

7.4 As it stands, £25.377m is forecast to be spent in the last quarter of the year. Based on current spend to date, £18.723m, this is likely to be challenging and therefore further slippage and carry forward into the next financial year is likely.

Financing

7.5 As well as approving the revised spending in the capital programme, the council must also ensure it has sufficient funds available to meet its capital payments in each financial year. The table below shows how the planned and forecast capital expenditure is to be financed.

Table 15

Financing of the 2019/20 Capital Programme	
	£m
Revised Capital Programme	66.889
Funded By:	
External Funding and Contributions	(37.130)
Use of Capital Receipts	(6.487)
Prudential Borrowing (2019/20 approved schemes)	(19.331)
Prudential Borrowing (2018/19 approved schemes)	(3.941)
TOTAL	(66.889)

- 7.6 The Capital Programme will continue to be monitored closely for the remainder of the year. New Capital Gateway processes are currently being developed for the 2020/21 financial year that will review new schemes against corporate priorities and the council's capital strategy and embed effective monitoring and reporting arrangements. It is envisaged that the new gateway process will ensure that:
- schemes are prioritised and presented to members for consideration at appropriate times during the year
 - schemes are a strategic fit with corporate priorities
 - adequate resources are identified at the start of the process to ensure sufficient capacity is available to deliver the projects within anticipated timescales
 - effective monitoring is carried out so that any slippage or delays can be considered and reported
 - effective project management practices are embedded for all projects
- 7.8 A review and update of the council's capital strategy is also planned and will be concluded during 2020/21 for consideration and approval by Cabinet and Full Council. This is particularly important in light of the work on the Bury2030 strategy and will ensure that the capital strategy is aligned to the future outcomes and objectives of the council.

Variances

- 7.9 There are several larger projects that are still awaiting decisions on how they are to be progressed and this will affect the profiling of the budget. The full budget is contained within the 2019/20 capital programme but should be profiled over more than one financial year. This has increased the overall level of slippage. These are:
- Place Shaping / Growth Programme (3.485m)
 - GM Full Fibre Project (0.469m)
 - Economic Development – Neighbourhood Working (0.470m)
- 7.10 Several projects under the heading of 'Property-Other Development Schemes' are showing a projected overspend of 0.580m. The amount is not considered material in relation to the size of the programme and it is expected to reduce as schemes progress and funding details are finalised in year.

8 FUTURE YEARS

- 8.1 Effective financial planning is key to the sustainability and operation of all local authorities. The development of the council's medium term financial strategy shows that there is a significant financial challenge in future years.
- 8.2 Planning for future years will take account of the in-year monitoring position and also latest trends to ensure that realistic budgets are set and that there is full transparency on what needs to be delivered. The budgets are currently presented on the current structure. Plans are in place to ensure that the budgets can be presented and managed on the new Directorate structure from April 2020.

- 8.3 In future years it is anticipated that an outcomes based budgeting approach can be developed which would provide information on an outcomes footprint that may be useful to decision making going forward.

Minimum Revenue Position Accounting Policy

- 8.4 As part of the budget proposals to Full Council in February there will be a proposal to change the accounting policy for the Minimum Revenue Provision. Historically the council has taken a prudent approach and there is now an opportunity to benefit from this both in the current and future years. If approved, the accounting policy change will release a one-off saving of £2m in 2019/20 and an ongoing saving of £1m. This will improve further the 2019/20 position with the surplus recommended to be added to general reserves as part of the strategy to build in financial resilience. Discussions have been held with the external auditors who are comfortable with the proposed approach.

Bus Reform

- 8.5 The Greater Manchester Combined Authority has proposed a bus franchising scheme for the whole of Greater Manchester and is currently consulting on the proposals. Greater Manchester authorities may be required, subject to the outcome of the consultation, to make a one-off contribution to the scheme which for Bury is likely to be c£1.424m. A contribution to an earmarked reserve will be made as part of the accounts closure process which can be drawn down in 2020/21 if needed.

Analysis of Savings Targets 2019/20					
Description	2019/20 Target	2019/20 Saving Achieved	Saving Un-Deliverable in 2019/20	Further savings Achievable in 2020/21	Budget Pressure in Future Years
	£m	£m	£m	£m	£m
Communities and Wellbeing					
Public Health	0.890	0.890	0.000	0.000	0.000
Social Care review of lower cost packages/Medication visits through home care	1.400	0.250	1.150	0.000	1.150
Sub Total	2.290	1.140	1.150	0.000	1.150
Children, Young People and Culture					
Reduced Pension Liabilities	0.150	0.000	0.150	0.000	0.150
Business Support Functions	0.068	0.068	0.000	0.000	0.000
Traded Services Finance/HR	0.120	0.120	0.000	0.000	0.000
Early Years/Early Help Service Reviews/Transformation	2.221	0.753	1.468	0.376	1.092
Asset Management inc Libraries	0.090	0.000	0.090	0.090	0.000
Procurement Contract Reviews	0.150	0.030	0.120	0.120	0.000
Sub Total	2.799	0.971	1.828	0.586	1.242
Operations					
Highways Maintenance Activity Chargeable to Capital	0.600	0.600	0.000	0.000	0.000
Car Parking	0.200	0.200	0.000	0.000	0.000
Sub Total	0.800	0.800	0.000	0.000	0.000

Analysis of Savings Targets 2019/20					
Description	2019/20 Target	2019/20 Saving Achieved	Saving Undeliverable	Further Savings Achievable in 2020/21	Budget Pressure In Future Years
	£m	£m	£m	£m	£m
Resources and Regulation					
Pay Services – Income Generation	0.050	0.020	0.030	0.000	0.030
Debt Collection	0.200	0.200	0.000	0.000	0.000
Insurances	0.100	0.000	0.100	0.000	0.100
In house legal work for insurance claims	0.200	0.062	0.138	0.000	0.138
Finance Restructure	0.200	0.100	0.100	0.000	0.100
Financial Assessments/Income Collection	0.300	0.000	0.300	0.000	0.300
Telephony Contract Savings	0.100	0.040	0.060	0.000	0.060
Reconfiguration of Security Service	0.150	0.013	0.137	0.000	0.137
Data Management/Storage Costs	0.200	0.200	0.000	0.000	0.000
Review of Discretionary Budgets	0.281	0.281	0.000	0.000	0.000
Sub Total	1.781	0.916	0.865	0.000	0.865
Business, Growth and Infrastructure					
Facilities Management Review	0.050	0.000	0.050	0.000	0.050
Office Accommodation Review	0.288	0.000	0.288	0.000	0.288
Sub Total	0.338	0.000	0.338	0.000	0.338
TOTAL	8.008	3.827	4.181	0.586	3.595

	2019/20 Capital Programme					
	2019/20 Adjusted Budget	Slippage to be Carried forward	Revised Budget After Reprofiling	Spend to Month 9	Forecast Out Turn	Forecast (Under)/Over Spend
	£m	£m	£m	£m	£m	£m
Corporate ICT Projects	6.626	3.041	3.585	1.561	3.585	0.000
Improving Information Management	0.057	0.000	0.057	0.000	0.057	0.000
Older People	0.929	0.588	0.341	0.064	0.341	0.000
DFE – Devolved Formula Capital	1.706	0.327	1.379	0.788	1.378	0.000
NDS Modernisation	15.261	8.995	6.266	4.268	6.265	0.000
Access Initiative	-0.329	0.000	-0.329	0.000	0.000	0.000
Targeted Capital Funds	-0.080	0.000	-0.080	-0.119	0.000	0.080
Early Education Fund	2.996	0.000	2.996	2.996	2.996	0.000
Special Provision Grant	0.519	0.000	0.519	0.052	0.519	0.000
Radcliffe Library Refurbishment	0.000	0.000	0.000	0.108	0.000	0.000
Empty Property Strategy	0.376	0.000	0.376	0.103	0.376	0.000
Housing Development	1.168	0.000	1.168	-0.099	1.422	0.254
Disabled Facilities Grant	2.104	0.855	1.249	0.669	1.248	(0.001)
Radcliffe Regeneration Action Plan	0.478	0.000	0.478	0.192	0.478	0.000
Planning – Other Schemes	0.080	0.065	0.015	5.932	0.016	0.000
Refurbishment of Bury Market	1.000	0.900	0.100	0.048	0.000	0.000
Place Shaping/Growth Programme	3.485	0.000	3.485	0.000	3.485	0.000
Other Development Schemes	0.135	0.027	0.108	0.604	0.689	0.580
Property Investment	0.551	0.000	0.551	0.551	0.551	0.000
Property Management	0.000	0.000	0.000	0.000	0.085	0.085
GM Full Fibre Project	0.469	0.000	0.469	0.000	0.000	0.000
Neighbourhood Working	0.470	0.000	0.470	0.000	0.000	(0.470)
Flood Repair and Defence	2.624	0.000	2.624	0.535	2.624	0.000

	2019/20 Capital Programme					
	2019/20 Adjusted Budget	Slippage to be Carried forward	Revised Budget After Reprofiling	Spend to Month 9	Forecast Out Turn	Forecast (Under)/Over Spend
	£m	£m	£m	£m	£m	£m
Parks	0.177	0.000	0.177	0.042	0.177	0.000
Environmental Works	0.174	0.067	0.107	0.021	0.107	0.000
3G Pitches	0.000	0.000	0.000	0.000	0.000	0.000
Street Lighting	5.601	5.000	0.601	0.312	0.601	0.000
Traffic Management Schemes	0.173	0.000	0.173	0.039	0.173	0.000
Public Rights of Way	0.085	0.000	0.085	0.027	0.085	0.000
Highways Planned Maintenance	9.887	0.000	9.887	5.095	9.877	(0.010)
Cycling and Walking Strategy	0.033	0.000	0.033	0.054	0.049	0.016
Bridges	0.067	0.000	0.067	0.101	0.101	0.033
Traffic Calming and Improvement	0.797	0.517	0.280	0.047	0.280	0.000
Waste Management	0.027	0.000	0.027	0.013	0.027	0.000
Civic Halls	0.000	0.000	0.000	0.042	0.000	0.000
Housing Programme (HRA)	11.755	0.000	11.755	3.483	9.386	(2.370)
Major Works						
TOTAL	66.889	20.384	46.505	18.723	44.196	(2.308)

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Agenda Item	
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DECISION OF:	OVERVIEW & SCRUTINY COMMITTEE CABINET COUNCIL
DATE:	11th FEBRUARY 2020 26th FEBRUARY 2020 26th FEBRUARY 2020
SUBJECT:	TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS 2020/21
REPORT FROM:	CABINET MEMBER FOR FINANCE & HOUSING
CONTACT OFFICER:	MIKE WOODHEAD, JOINT CHIEF FINANCE OFFICER
TYPE OF DECISION:	COUNCIL
FREEDOM OF INFORMATION/STATUS:	The report is for publication
SUMMARY:	<p>The report sets out the suggested Strategy for 2020/2021 in respect of the following aspects of the Treasury Management function. It is based upon the Treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor. The Strategy covers:</p> <ul style="list-style-type: none"> • Capital plans and prudential indicators; • the minimum revenue provision policy; • the current treasury position; • treasury limits in force which will limit the treasury risk and activities of the Council; • prospects for interest rates; • the borrowing strategy; • policy on borrowing in advance of need • debt rescheduling; • the investment strategy; • creditworthiness policy; and • policy on use of external service providers

	<p>The primary objective of the Council’s treasury management function will continue to be the minimisation of financing costs whilst ensuring the stability of the Authority’s long term financial position by borrowing at the lowest rates of interest and by investing surplus cash to earn maximum interest, all at an acceptable level of risk.</p> <p>The overall strategy for 2021/21 will be to finance capital expenditure through grants, reserves and borrowing.</p> <p>All prospects for rescheduling debt will be considered, in order to generate savings by switching from high costing long term debt to lower costing shorter term debt.</p> <p>The council has taken the opportunity to review its Minimum Revenue Provison policy and recommendations to change the policy are set out in the report.</p>
<p>OPTIONS & RECOMMENDED OPTION</p>	<p>It is recommended that Overview and Scrutiny Committee notes the report;</p> <p>It is recommended that Cabinet approves, for onward submission to Council, the:</p> <ul style="list-style-type: none"> • Prudential Indicators forecast for 3 years; • Treasury Management Strategy for 2020/21; • Schemes of Delegation and Responsibility attached at Appendices 2 and 6 • Amended MRP Policy Statement to enable the Council to provide for MRP on previously supported General Fund borrowing at 2.39% on an annuity basis over a 50 year period commencing 1 April 2019. <p>It is recommended that Council approves the report.</p> <p>Reasons for the Decision:</p> <p>It is a requirement of the CIPFA Code that the Council receives an annual treasury management strategy report.</p>
<p>IMPLICATIONS:</p>	
<p>Corporate Aims/Policy Framework:</p>	<p>Do the proposals accord with the Policy Framework? Yes</p>
<p>Statement by the S151 Officer:</p>	

Financial Implications and Risk Considerations:	Treasury Management is an integral part of the Council's financial framework and it is essential that the correct strategy is adopted in order to ensure that best value is obtained from the Council's resources and that assets are safeguarded.
Statement by Executive Director of Resources & Regulation:	There are no additional resource implications.
Health & Safety implications:	There are no direct Health & Safety implications
Equality/Diversity implications:	No
Considered by Monitoring Officer:	Yes The Treasury Management function is an important part of the overall financial management of the Council's affairs and enables compliance with statutory requirements.
Wards Affected:	All
Scrutiny Interest:	Overview & Scrutiny Committee

TRACKING/PROCESS

JOINT CHIEF FINANCE OFFICER: MIKE WOODHEAD

Chief Executive/ Senior Leadership Team	Cabinet Member/Chair	Ward Members	Partners
	Leader / Finance		
Scrutiny Committee	Cabinet	Committee	Council
11 th February 2020	26 th February 2020		26 th February 2020

1.0 BACKGROUND

- 1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.3 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.
- 1.4 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.
- 1.5 CIPFA defines treasury management as:
"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 1.6 Revised reporting was required for the 2019/20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes included the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy for 2020/21 is being reported separately.

1.7 Reporting requirements

1.7.1 Capital Strategy

- 1.7.1.1 The CIPFA 2017 Prudential and Treasury Management Code require all local authorities to prepare a capital strategy report, which will provide the following:-
 - A high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services,
 - An overview of how the associated risk is managed,
 - The implications for future financial sustainability

- 1.7.1.2 The aim of this capital strategy is to ensure that all elected members on the full council understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.
- 1.7.1.3 This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy will show:
- The corporate governance arrangements for these types of activities;
 - Any service objectives relating to the investments;
 - The expected income, costs and resulting contribution;
 - The debt related to the activity and the associated interest costs;
 - The payback period (MRP policy);
 - For non-loan type investments, the cost against the current market value;
 - The risks associated with each activity
- 1.7.1.4 Where a physical asset is being bought, details of market research, advisers used (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.
- 1.7.1.5 Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.
- 1.7.1.6 If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the Capital Strategy.
- 1.7.1.7 To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report.

1.7.2 Treasury Management reporting

- 1.7.2.1 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report) – the first, and most important report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

A mid year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision.

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.7.2.2 The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Overview and Scrutiny Committee.

1.8 In Year Monitoring Arrangements

1.8.1 Budget monitoring reports are produced on a monthly basis, together with quarterly reporting to Cabinet and the Overview and Scrutiny Committee.

1.8.2 In 2019/20 the average rate of return on investments is 0.67% as at 31st December 2019.

1.9 Treasury Management Strategy for 2020/21

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

Capital issues

- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues

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

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

1.10 Training

1.10.1 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training has been undertaken by members in 2017/18 and further training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

1.11 Treasury Management consultants

1.11.1 The Council uses Link Asset Services, Treasury solutions as its external treasury management advisors.

1.11.2 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisors.

1.11.3 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

1.11.4 The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The commercial type investments require specialist advisers, and the Council uses Bilfinger GVA in relation to this activity.

2.0 THE CAPITAL PRUDENTIAL INDICATORS 2020/21 – 2022/23

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

2.2 Capital expenditure

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

Capital Expenditure	2018/19 Actual £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Non-HRA	24,340	34,810	41,271	29,803	30,158
HRA	11,008	9,386	9,830	10,000	10,000
Commercial activities / non-financial investments *	551	0	0	0	0
Total	35,348	44,196	51,101	39,803	40,158

*Commercial activities / non-financial investments relate to areas such as capital expenditure on investment properties, loans to third parties etc.

2.2.2 Other long-term liabilities – The above financing need excludes other long-term liabilities, such a PFI and leasing arrangements that already include borrowing instruments.

2.2.3 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of Capital Expenditure	2018/19 Actual £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Capital receipts	1,749	1,662	609	0	0
Capital grants	15,949	15,939	14,978	2,339	2,339
Capital reserves	9,091	13,131	9,830	10,000	10,000
Revenue	2,042	0	0	0	0
Total	28,831	30,732	25,417	12,339	12,339
Net financing need	6,517	13,464	25,684	27,464	27,819

2.3 The Council’s borrowing need (the Capital Financing Requirement)

2.3.1 The second prudential indicator is the Council’s Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council’s underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

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

2.3.3 The CFR includes any other long term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council’s borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes.

Capital Financing Requirement	2018/19 Actual £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
CFR – non HRA	131,244	141,082	166,206	189,345	212,376
CFR – HRA	118,784	118,784	118,784	118,784	118,784
CFR - Commercial activities / non-financial investments	8,313	8,864	8,864	8,864	8,864
Total CFR	258,341	268,729	293,855	316,994	340,025
Movement in CFR	12,621	10,388	25,125	23,139	23,031

2.3.4 A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority’s overall financial position. The capital expenditure figures shown in 2.2 and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Authority’s remaining activity.

2.3.5 Core funds and expected investment balances - The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

2.4 Minimum revenue provision (MRP) policy statement

2.4.1 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

2.4.2 MHCLG regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council’s MRP Statement for the year 2019/20 stated:-

- MRP for supported borrowing will be calculated using 2% over 50 years in equal annual instalments as a variation on the 'Regulatory Method' of calculating MRP.
- The Asset Life method of calculating repayment provision will be used for unsupported borrowing.
- The Joint Chief Finance Officer may from time to time and when it is beneficial to the efficient financial administration of the Council, vary the amounts charged as MRP in the year by making additional and voluntary payments of MRP. In these circumstances, the amount paid would not prejudice the existing strategy or be counter to the regulatory intent of that strategy.

2.4.3 The Council has recently commissioned a MRP review from its advisers, Link Consultancy. As a result of this review it is proposed to change from the current straight line basis of calculating MRP over the life of the asset to an annuity method. CIPFA's 'The Practitioner's Guide to Capital Finance in Local Government' (2008) states; "The annuity method provides a fairer charge than equal instalments as it takes account of the time value of money, whereby paying £100 in 10 years' time is less of a burden than paying £100 now. The schedule of charges produced by the annuity method thus results in a consistent charge over an asset's life, taking into the real value of the amounts when they fall due."

2.4.4 Changing to an annuity basis of calculation would realise annual savings of approximately £1.1m. In later years there will be an increase in MRP however due to net present value, the relative will be less.. Full details are contained in the revised MRP strategy (Appendix 7)

2.4.4 The Council is recommended to approve the following MRP Statement for the year 2019/20 and 2020/21:-

- MRP for supported borrowing will be calculated using 2.39% over 50 years under the Annuity method of calculating MRP.
- The Asset Life method of calculating repayment provision will be used for unsupported borrowing.
- The Joint Chief Finance Officer may from time to time and when it is beneficial to the efficient financial administration of the Council, vary the amounts charged as MRP in the year by making additional and voluntary payments of MRP. In these circumstances, the amount paid would not prejudice the existing strategy or be counter to the regulatory intent of that strategy.

2.4.5 MRP Overpayments – A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31st March 2020 the total VRP overpayments were £2.789m. Further work is underway and will be considered in 2020/21.

2.4.6 A technical adjustment to the MRP calculation has also been highlighted in the Link Consultancy review. In effect, the Authority has overcharged MRP for the four years following the change in MRP policy, and if the Council were to amend prior year calculations, it would have an MRP excess of £812k which it could use to reduce future year's MRP charges. The revised calculations would also be applied in future years leading to a £203k reduction in MRP each year. Approval is requested to amend these calculations both retrospectively and moving forwards. A one-off benefit to the council of £812k will be achieved and, if approved, this will be reflected in the council's monitoring position.

3.0 BORROWING

3.1 The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.2 Current portfolio position

3.2.1 To assist Members in agreeing a strategy for 2020/21 the Council's current treasury portfolio position (at nominal value) is detailed below:

	31st March 2019			Forecast 31st March 2020		
	Principal		Avg. Rate	Principal		Avg. Rate
	£000	£000		£000	£000	
Fixed rate funding						
PWLB Bury	139,253			134,073		
PWLB Airport	11,828			11,828		
Market Bury	44,000	195,081		56,300	202,201	
Variable rate funding						
PWLB Bury	0			0		
Market Bury	0	0		0	0	
Temporary Loans / Bonds	7,503	7,503		13,003	13,003	
Total Debt		202,584	3.95%	215,203	3.95%	
Total Cash Investments		14,760	0.66%	9,950	0.67%	
Total Investment Properties		8,313	5.63%	8,864	2.73%	

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

£000	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
External Debt					
Debt at 1 April	194,510	202,584	212,903	228,689	233,044
Expected change in Debt	8,074	10,319	15,786	4,355	4,000
Actual gross debt at 31 March	202,584	212,903	228,689	233,044	237,044
The Capital Financing Requirement	250,028	259,866	284,991	308,130	331,161
Under / (over) borrowing	-47,444	-46,963	-56,301	-75,085	-94,117

3.2.2 The forecast accumulated capital financing requirement at the end of 2019/20 is £259.9m. The forecast borrowing at the end of 2019/20 is £212.9m meaning that the Authority is under borrowed by £47m.

3.2.3 The cash investment portfolio after the Capital Programme has been spent during 2019/20 is estimated to be around £9.95m. In preference to taking out long term borrowing, the Authority is taking temporary loans and running down

investments to finance capital expenditure because investment returns are low at the present time. The estimated rate of interest on investments for 2019/20 is 0.67% against the 3 month LIBID investment benchmark of 0.7%.

- 3.2.4 The Council is also investing in properties that deliver a sustainable rental yield; under its "Property Investment Strategy"
- 3.2.5 Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2020/21 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.
- 3.2.6 The Joint Chief Finance Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.3 Treasury Indicators: limits to borrowing activity

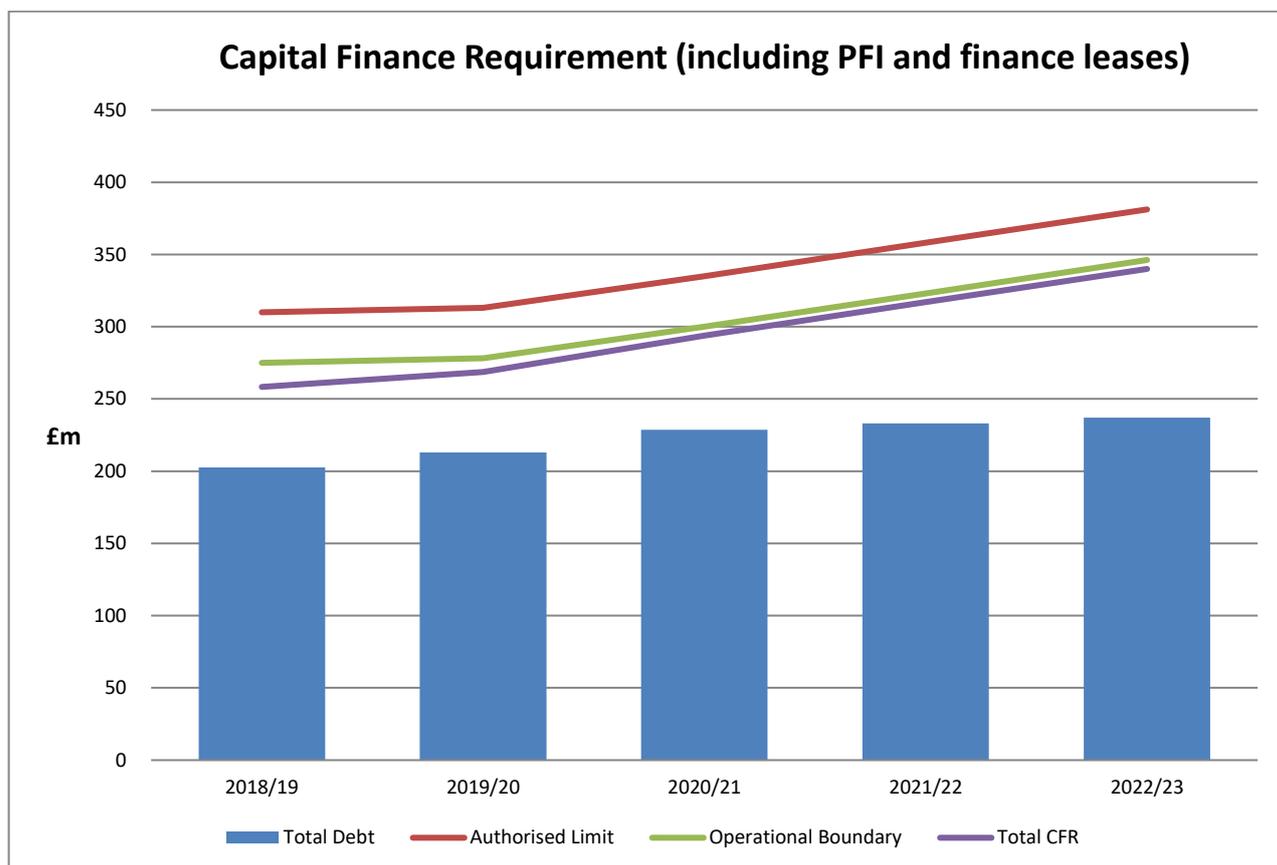
- 3.3.1 **The operational boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Borrowing	263,200	285,000	308,100	331,200
Other long term liabilities	5,000	5,000	5,000	5,000
Commercial activities / non - financial investments	10,000	10,000	10,000	10,000
Total	278,200	300,000	323,100	346,200

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

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

Authorised limit	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Borrowing	298,200	320,000	343,100	366,200
Other long term liabilities	5,000	5,000	5,000	5,000
Commercial activities / non - financial investments	10,000	10,000	10,000	10,000
Total	313,200	335,000	358,100	381,200



3.4 Prospects for interest rates

3.4.1 The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view.

Link Asset Services Interest Rate View														
	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

3.4.2 The above forecasts have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the prime minister has pledged.

3.4.3 The Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% in 2019 due to the ongoing uncertainty over Brexit and the outcome of the general election. Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. There is still some residual risk that the MPC could cut Bank Rate at its 19 December meeting as the UK economy is still likely to only grow weakly in 2020 due to continuing uncertainty over whether

there could effectively be a no deal Brexit in December 2020 if agreement on a trade deal is not reached with the EU. Until that major uncertainty is removed, or the period for agreeing a deal is extended, it is unlikely that the MPC would raise Bank Rate.

- 3.4.4 While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last thirty years.
- 3.4.5 The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.
- 3.4.6 In addition, PWLB rates are subject to ad hoc decisions by H.M. Treasury to change the margin over gilt yields charged in PWLB rates: such changes could be up or down. It is not clear that if gilt yields were to rise back up again by over 100bps within the next year or so, whether H M Treasury would remove the extra 100 bps margin implemented on 9.10.19.
- 3.4.7 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

3.5 Investment and borrowing rates

- 3.5.1 Investment returns are likely to remain low during 2020/21 but to be on a gently rising trend over the next few years. However, if major progress is made with an agreed Brexit, then there is upside potential for earnings
- 3.5.2 Borrowing interest rates were on a major falling trend during the first half of 2019-20 but then jumped up by 100 bps on 9.10.19. The policy of avoiding new borrowing by running down spare cash balances will continue as the unexpected increase of 100 bps in PWLB rates makes further longer term borrowing more expensive until such time as the extra 100 bps margin is removed.
- 3.5.3 While this authority will not be able to avoid borrowing to finance new capital expenditure, to replace maturing debt and the rundown of reserves, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new short or medium-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

3.6 Borrowing strategy

- 3.6.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered. The strategy is not considered to be sustainable due to the level of reserves and borrowing to fund some capital requirements during the year is anticipated.
- 3.6.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Joint Chief Finance Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:
- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.*
 - *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*
- 3.6.3 Any decisions will be reported to the appropriate decision making body at the next available opportunity.

3.7 Policy on borrowing in advance of need

- 3.7.1 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.
- 3.7.2 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.8 Debt rescheduling

- 3.8.1 Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.
- 3.8.2 If rescheduling was done, it will be reported to the Council, at the earliest meeting following its action.

3.9 New financial institutions as source of borrowing

3.9.1 Following the decision by the PWLB on 9 October 2019 to increase their margin over gilt yields by 100 bps to 180 basis points on loans lent to local authorities, consideration will also need to be given to sourcing funding at cheaper rates from the following:

- Local authorities (primarily shorter dated maturities)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates)
- Municipal Bonds Agency (no issuance at present but there is potential)

3.9.2 The degree which any of these options proves cheaper than PWLB Certainty Rate is still evolving at the time of writing but our advisors will keep us informed.

3.10 Approved Sources of Long and Short term Borrowing

On Balance Sheet	Fixed	Variable
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Local authority bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance leases	●	●

4.0 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy – management of risk

4.1.1 The MHCLG and CIPFA have extended the meaning of “investments” to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

The Council’s investment policy has regard to the following:-

- MHCLG’s Guidance on Local Government Investments (“the Guidance”)

- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 (“the Code”).
- CIPFA Treasury Management Guidance Notes 2018.

The Council’s investment priorities will be security first, portfolio liquidity second and then yield (return).

4.1.2 The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:-

- Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.
- **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with it’s advisors to maintain a monitor on market pricing such as “**credit default swaps**” and overlay that information on top of the credit ratings..
- **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 2 under the categories of “specified” and “non-specified” investments.
 - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
 - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.
- This authority will set a limit for the amount of its investments which are invested for **longer than 365 days** (see paragraph 4.4.5)
- Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** (see Appendix 3)
- This authority has engaged **external consultants** (see paragraph 1.11), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
- All investments will be denominated in **sterling**.
- As a result of the change in accounting standards for 2018/19 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1.4.18.)

4.1.3 However, this authority will also pursue **value for** money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investments performance (see paragraph 4.4). Regular monitoring of investment performance will be carried out during the year.

4.1.6 The above criteria are unchanged from 2019/20.

4.2 Creditworthiness policy

4.2.1 This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

4.2.2 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years
- Dark Pink 5 years for Ultra Short Dated Bond Funds with a credit score of 1.25
- Light Pink 5 years for Ultra Short Dated Bond Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

4.2.3 The Link Asset Services' creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

4.2.4 Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

4.2.4 All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council’s minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council’s lending list.

4.2.5 Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on any external support for banks to help support its decision making process.

	Colour (and long term rating where applicable)	Time Limit
Banks *	yellow	5yrs
Banks	purple	2 yrs
Banks	orange	1 yr
Banks – part nationalised	blue	1 yr
Banks	red	6 mths
Banks	green	100 days
Banks	No colour	Do not use
DMADF	UK sovereign rating	6 months
Local authorities	n/a	5yrs
Housing associations	Colour bands	As per colour band
	Fund rating	Time Limit
Money Market Funds CNAV	AAA	liquid
Money Market Funds LVNAV	AAA	liquid
Money Market Funds VNAV	AAA	liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	Dark pink / AAA	liquid
Ultra-Short Dated Bond Funds with a credit score of 1.50	Light pink / AAA	liquid

4.2.6 The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as “ring-fencing”. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

- 4.2.7 Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other members of its group.
- 4.2.8 While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

4.3 Country limits

- 4.3.1 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 3, although the Council’s current approach is to use UK High Street Banks and other public bodies. The list of counterparties will be added to, or deducted from, by officers should ratings change in accordance with this policy.

4.4 Investment Strategy

- 4.4.1 **In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

- 4.4.2 **Investment returns expectations.** On the assumption that the UK and EU agree a Brexit deal including the terms of trade by the end of 2020 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.00% by quarter 1 2023. Bank Rate forecasts for financial year ends (March) are:

- Q1 2021 0.75%
- Q1 2022 1.00%
- Q1 2023 1.00%

- 4.4.3 The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:
- | | |
|---------|-------|
| 2019/20 | 0.75% |
| 2020/21 | 0.75% |

2021/22	1.00%
2022/23	1.25%
2023/24	1.50%
2024/25	1.75%
Later years	2.25%

- 4.4.3 The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture,
- 4.4.4 The balance of risks to increases in Bank Rate and shorter term PWLB rates, are broadly similar to the downside.
- 4.4.5 In the event that a Brexit deal is agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.
- 4.4.5 **Investment treasury indicator and limit** - total principal funds invested for greater than 365 days. These limits are set with regard to the Council’s liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

Maximum principal sums invested > 364 & 365 days			
£m	2019/20	2020/21	2021/22
Principal sums invested > 364 & 365 days	£10m	£10m	£10m

(This takes account of the proposed change in the CIPFA Treasury Code from a 364 day limit to 365 days.)

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

4.5 End of year investment report

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

5.0 EQUALITY & DIVERSITY

- 5.1 An initial assessment has been undertaken and it is concluded that there will be no negative impact from this report.

Councillor Eamonn O’Brien
Cabinet Member for Finance and Housing

For further information on the contents of this report, please contact:

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APPENDIX 1: Interest Rate Forecasts 2020 – 2023

PWLB rates and forecast shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012

Link Asset Services Interest Rate View													
	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00
Bank Rate													
Link Asset Services	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%
Capital Economics	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	-	-	-	-	-
5yr PWLB Rate													
Link Asset Services	2.40%	2.40%	2.50%	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.20%	3.20%
Capital Economics	2.40%	2.50%	2.50%	2.60%	2.60%	2.80%	2.80%	2.90%	-	-	-	-	-
10yr PWLB Rate													
Link Asset Services	2.70%	2.70%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.50%
Capital Economics	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	-	-	-	-	-
25yr PWLB Rate													
Link Asset Services	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%
Capital Economics	3.10%	3.10%	3.20%	3.20%	3.20%	3.30%	3.30%	3.40%	-	-	-	-	-
50yr PWLB Rate													
Link Asset Services	3.20%	3.30%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%
Capital Economics	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.40%	3.50%	-	-	-	-	-

APPENDIX 2: Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

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

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. A maximum of 100% will be held in aggregate in non-specified investment

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria / colour band	Max % of total investments / £ limit per institution	Max. maturity period
DMADF – UK Government	yellow	100%	6 months (max. is set by the DMO*)
UK Government gilts	yellow		5 years
UK Government Treasury bills	yellow		364 days (max. is set by the DMO*)
Bonds issued by multilateral development banks	yellow		5 years
Money Market Funds CNAV	AAA	100%	Liquid
Money Market Funds LNAV	AAA		Liquid
Money Market Funds VNAV	AAA		Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	100%	Liquid
Local authorities	yellow	100%	5 years
Term deposits with housing associations	Blue Orange Red Green No Colour		12 months 12 months 6 months 100 days Not for use
Term deposits with banks and building societies	Blue Orange Red Green No Colour		12 months 12 months 6 months 100 days Not for use
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour		12 months 12 months 6 months 100 days Not for use
Gilt funds	UK sovereign rating		

APPENDIX 3: Approved countries for investments

This list is based on those countries which have sovereign ratings of AA- or higher and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Capita Asset Services credit worthiness service.

AAA

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

AA+

- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Hong Kong
- U.K.

AA-

- Belgium
- Qatar

(note the Council only invests in the highest rated UK institutions)

APPENDIX 4: DELEGATION AND RESPONSIBILITY

The following personnel are involved on a regular basis in Treasury Management: -

Joint Chief Finance Officer	Overall supervision of Treasury Management function and cashflow. Regular reviews of Treasury Management Strategy and monitor performance.
Head of Management Accountancy	Manage and undertake day to day Treasury Management Activities in accordance with Treasury Strategy and Policy Statement.
Senior Accountant	Deputise for Head of Management Accountancy in her duties as required.
Senior Accountant	Deputise for Senior Accountant in her duties as required.
Senior Accountancy Assistant	Deputise for Senior Accountant in her duties as required.

APPENDIX 5: Treasury management scheme of delegation

(i) Full council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

(ii) Boards/committees/Council/responsible body

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Body/person(s) with responsibility for scrutiny

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

APPENDIX 6: The treasury management role of the section 151 officer

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

The above list of specific responsibilities of the S151 officer in the 2017 Treasury Management Code has not changed. However, implicit in the changes in both codes, is a major extension of the functions of this role, especially in respect of non-financial investments, (which CIPFA has defined as being part of treasury management).

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following (*TM Code p54*): -
 - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
 - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*
 - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*

- *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*
- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

APPENDIX 7

BURY COUNCIL

Minimum Revenue Provision Policy

2019/20 and 2020/21

1.0 BACKGROUND

- 1.1 Local authorities have a statutory requirement to set aside each year a “prudent” amount of their revenues as a provision for the repayment of debt, called the Minimum Revenue Provision (MRP). The provision relates to capital expenditure incurred in previous years and financed by borrowing. Statutory Guidance covering Minimum Revenue Provision (published February 2012 by the Department for Communities and Local Government) sets out various options and boundaries for calculating prudent provision.
- 1.2 Whilst “prudent provision” is not specifically defined, the guidance suggests that debt ought to be repaid over a period that is either commensurate with that over which the capital expenditure to which it relates provides benefits, or in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of the grant.
- 1.3 The guidance requires authorities to publish an annual MRP policy statement outlining how prudent provision is to be made. To be valid, the policy statement must be approved by a full Council Meeting.
- 1.4 The guidance sets out various options for calculating prudent MRP but does not rule out alternative approaches that are not specifically mentioned. One of the options presented in the guidance is the ‘Regulatory Method’ which equates to setting aside 4% of the opening balance outstanding relating to supported borrowing, less an adjustment (Adjustment A) that ensures consistency with previous capital regulatory regimes no longer in force. This option is available for all capital expenditure incurred prior to 1 April 2008.

2.0 CURRENT APPROACH

- 2.1 General Fund debt which was previously supported through the local government finance regime (previously supported borrowing) is worth around £118m (as at 31 March 2019). This ‘debt’ figure is notional and forms part of the Council’s Capital Financing Requirement (CFR).
- 2.2 The council’s MRP current policy for 2019/20 is as follows:-
 - MRP for supported borrowing will be calculated using 2% over 50 years in equal annual instalments as a variation on the ‘Regulatory Method’ of calculating MRP.
 - The Asset Life method of calculating repayment provision will be used for unsupported borrowing.
 - The Joint Chief Financial Officer may from time to time and when it is beneficial to the efficient financial administration of the Council, vary the amounts charged as MRP in the year by making additional and voluntary payments of MRP. In these circumstances, the amount paid would not prejudice the existing strategy or be counter to the regulatory intent of that strategy.

- 2.3 This policy was put into place in 2015/16, and replaced the previous policy for supported borrowing which was the Regulatory Method (4% of opening CFR less Adjustment A).
- 2.4 This current straight line method means that the debt is fully extinguished within 50 years.

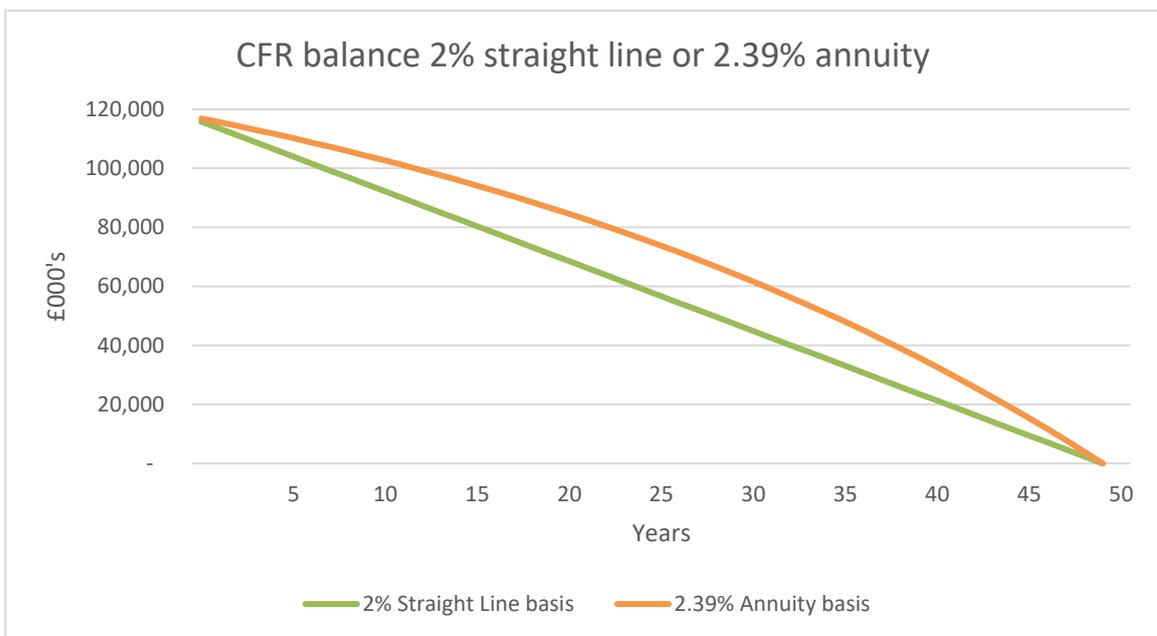
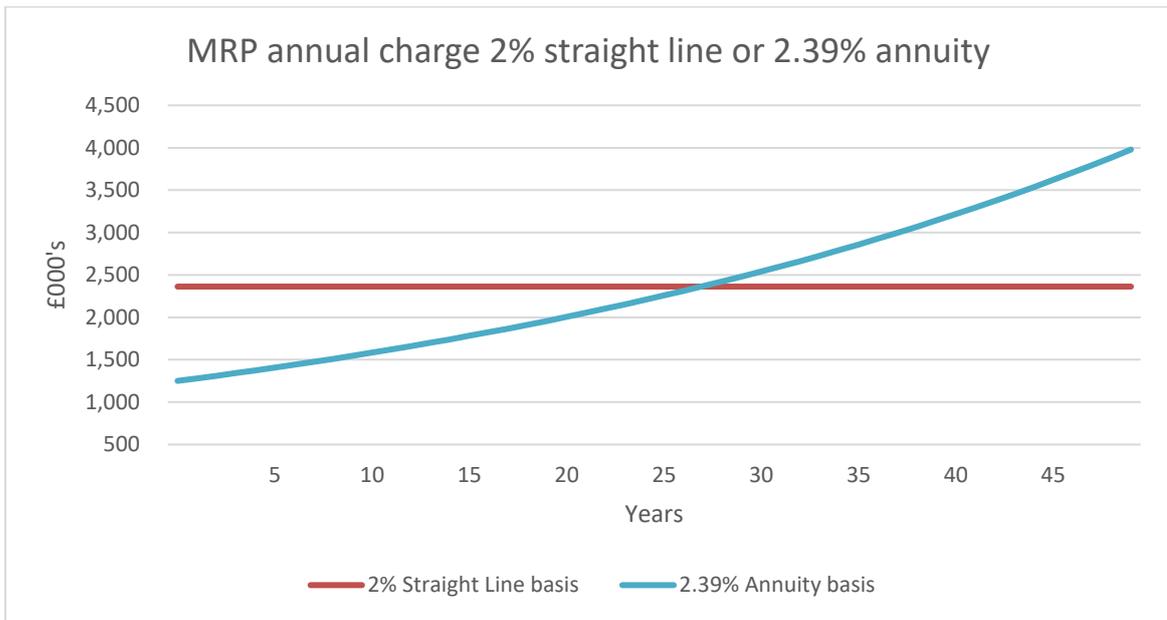
3.0 PROPOSED APPROACH

- 3.1 The MRP guidance suggests the charge can be applied either on a straight line basis over the life of the asset, which is the current policy, or by using the annuity method.
- 3.2 CIPFA’s “The Practitioners Guide to Capital Finance in Local Government (2008) states:-
“The annuity method provides a fairer charge than equal instalments as it takes account of the time value of money, whereby paying £100 in 10 years’ time is less of a burden than paying £100 now. The schedule of charges produced by the annuity method thus results in a consistent charge over an asset’s life, taking into the real value of the amounts when they fall due.”
- 3.3 The alternative option would be to switch from 2% straight line to an annuity basis. This would be considered as prudent as the repayment period would remain the same at 50 years
- 3.4 There are a number of options for both the annuity rate and the number of years to write down the charge. To demonstrate this approach a 50 year PWLB annuity rate as at 1 April 2019 of 2.39% has been used. This would realise savings of £1.1m in each of the next 3 years as summarised in the table below:-

Financial Year	Current MRP @ 2% Straight line £000's	Proposed MRP @ 2.39% annuity £000's	Annual Saving / (Cost) £000's
2019/20	2,363	1,251	(1,112)
2020/21	2,363	1,281	(1,082)
2021/22	2,363	1,311	(1,051)
Years 4-10	16,539	10,099	(6,440)
Years 11-28	42,529	35,112	(7,417)
Years 29-50	51,980	69,082	17,103
TOTAL	118,136	118,136	0

- 3.5 Savings and Costs for the whole of the 50 year period from 2019/20 to 2068/69 are shown at Annex 1.
- 3.6 The Council will need to recognise and be comfortable with the fact that using the annuity method would increase MRP in later years and therefore may impact upon its ability to afford further capital expenditure financed by borrowing in the future.

3.7 The graphs below illustrate the MRP annual charges under the current and alternative options and also the CFR balance under each option.



4 Proposed Amendment to the Council’s MRP Policy Statement

To enable Bury Council to adopt the ‘equal instalments’ approach to providing for MRP on previously supported General Fund borrowing, it is necessary to revise the Council’s MRP policy statement to:-

- MRP for supported borrowing will be calculated using 2.39% over 50 years under the Annuity method of calculating MRP.
- The Asset Life method of calculating repayment provision will be used for unsupported borrowing.
- The Joint Chief Finance Officer may from time to time and when it is beneficial to the efficient financial administration of the Council, vary the amounts charged as MRP in the year by making additional and voluntary payments of

MRP. In these circumstances, the amount paid would not prejudice the existing strategy or be counter to the regulatory intent of that strategy.

5 Conclusion

Moving from an equal instalments approach to an annuity method continues the debt being fully repaid after 50 years. In present value terms, the annuity method is also more cost effective than the straight line method being just under £9m lower in present value terms. In nominal terms, the revenue cost of the equal instalments method is higher than the regulatory method between 2047/48 and 2068/69 but it does provide significant medium term revenue budget savings which will provide valuable support for the forthcoming medium term financial plan.

6 Recommendation

It is recommended that full Council is asked to amend the 2019/20 MRP Policy Statement to enable the Council to provide for MRP on previously supported General Fund borrowing at 2.39% on an annuity basis over a 50 year period commencing 1 April 2019.

Councillor Eamonn O'Brien
Cabinet Member for Finance and Housing

Mike Woodhead
Joint Chief Finance Officer

Proposed Change to Minimum Revenue Provision
Annual Savings and Costs

Annex 1

Year	2% Straight Line basis			2.39% Annuity basis			Saving / (Cost) in MRP £000's	NPV of saving / cost £000's
	Opening CFR	MRP	Closing CFR	Opening CFR	MRP	Closing CFR		
	£000's	£000's	£000's	£000's	£000's	£000's		
2019/2020	118,136	2,363	115,773	118,136	1,251	116,885	(1,112)	(1,112)
2020/2021	115,773	2,363	113,410	116,885	1,281	115,604	(1,082)	(1,045)
2021/2022	113,410	2,363	111,047	115,604	1,311	114,293	(1,051)	(982)
2022/2023	111,047	2,363	108,685	114,293	1,343	112,950	(1,020)	(920)
2023/2024	108,685	2,363	106,322	112,950	1,375	111,576	(988)	(861)
2024/2025	106,322	2,363	103,959	111,576	1,408	110,168	(955)	(804)
2025/2026	103,959	2,363	101,597	110,168	1,441	108,727	(922)	(750)
2026/2027	101,597	2,363	99,234	108,727	1,476	107,252	(887)	(697)
2027/2028	99,234	2,363	96,871	107,252	1,511	105,741	(852)	(647)
2028/2029	96,871	2,363	94,508	105,741	1,547	104,194	(816)	(599)
2029/2030	94,508	2,363	92,146	104,194	1,584	102,610	(779)	(552)
2030/2031	92,146	2,363	89,783	102,610	1,622	100,988	(741)	(507)
2031/2032	89,783	2,363	87,420	100,988	1,661	99,327	(702)	(465)
2032/2033	87,420	2,363	85,058	99,327	1,700	97,627	(662)	(424)
2033/2034	85,058	2,363	82,695	97,627	1,741	95,886	(622)	(384)
2034/2035	82,695	2,363	80,332	95,886	1,782	94,104	(580)	(346)
2035/2036	80,332	2,363	77,970	94,104	1,825	92,279	(538)	(310)
2036/2037	77,970	2,363	75,607	92,279	1,869	90,410	(494)	(275)
2037/2038	75,607	2,363	73,244	90,410	1,913	88,497	(449)	(242)
2038/2039	73,244	2,363	70,881	88,497	1,959	86,538	(404)	(210)
2039/2040	70,881	2,363	68,519	86,538	2,006	84,532	(357)	(179)
2040/2041	68,519	2,363	66,156	84,532	2,054	82,478	(309)	(150)
2041/2042	66,156	2,363	63,793	82,478	2,103	80,375	(260)	(122)
2042/2043	63,793	2,363	61,431	80,375	2,153	78,222	(210)	(95)
2043/2044	61,431	2,363	59,068	78,222	2,205	76,017	(158)	(69)
2044/2045	59,068	2,363	56,705	76,017	2,257	73,760	(105)	(45)
2045/2046	56,705	2,363	54,342	73,760	2,311	71,448	(51)	(21)
2046/2047	54,342	2,363	51,980	71,448	2,367	69,082	4	2

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2047/2048	51,980	2,363	49,617	69,082	2,423	66,659	60	23
2048/2049	49,617	2,363	47,254	66,659	2,481	64,178	118	44
2049/2050	47,254	2,363	44,892	64,178	2,540	61,637	178	63
2050/2051	44,892	2,363	42,529	61,637	2,601	59,036	238	82
2051/2052	42,529	2,363	40,166	59,036	2,663	56,373	300	100
2052/2053	40,166	2,363	37,803	56,373	2,727	53,646	364	117
2053/2054	37,803	2,363	35,441	53,646	2,792	50,854	429	133
2054/2055	35,441	2,363	33,078	50,854	2,859	47,995	496	149
2055/2056	33,078	2,363	30,715	47,995	2,927	45,068	564	164
2056/2057	30,715	2,363	28,353	45,068	2,997	42,071	634	178
2057/2058	28,353	2,363	25,990	42,071	3,069	39,003	706	191
2058/2059	25,990	2,363	23,627	39,003	3,142	35,861	779	204
2059/2060	23,627	2,363	21,264	35,861	3,217	32,643	854	216
2060/2061	21,264	2,363	18,902	32,643	3,294	29,349	931	227
2061/2062	18,902	2,363	16,539	29,349	3,373	25,977	1,010	238
2062/2063	16,539	2,363	14,176	25,977	3,453	22,523	1,091	248
2063/2064	14,176	2,363	11,814	22,523	3,536	18,988	1,173	258
2064/2065	11,814	2,363	9,451	18,988	3,620	15,367	1,258	267
2065/2066	9,451	2,363	7,088	15,367	3,707	11,660	1,344	276
2066/2067	7,088	2,363	4,725	11,660	3,795	7,865	1,433	284
2067/2068	4,725	2,363	2,363	7,865	3,886	3,979	1,523	292
2068/2069	2,363	2,363	(0)	3,979	3,979	(0)	1,616	300
TOTAL			118,136		118,136		0	(8,757)

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REPORT FOR DECISION



Agenda	
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Item	
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MEETING:	OVERVIEW AND SCRUTINY COMMITTEE
DATE:	11 FEBRUARY 2020 OVERVIEW AND SCRUTINY 26 FEBRUARY 2020 CABINET 26 FEBRUARY 2020 FULL COUNCIL
SUBJECT:	REVENUE BUDGET 2020/21 AND MEDIUM TERM FINANCIAL STRATEGY 2020/21 – 2024/25
REPORT FROM:	CABINET MEMBER FOR FINANCE AND HOUSING
CONTACT OFFICER:	MIKE WOODHEAD, JOINT CHIEF FINANCIAL OFFICER
TYPE OF DECISION:	COUNCIL
FREEDOM OF INFORMATION/STATUS:	This paper is within the public domain
SUMMARY:	This report sets out the key elements of the 2020/21 budget proposals and the framework for the longer term

	<p>Medium Term Financial Strategy (MTFS) 2020 – 2025. It makes available the latest financial information that will underpin the 2020/21 budget and the MTFS. The report also sets out the process that will lead to the agreement of the budget and the setting of the 2020/21 council tax on 26 February 2020.</p>
<p>OPTIONS & RECOMMENDED OPTION</p>	<p>Overview and Scrutiny Committee is asked to note and comment on the report.</p> <p>Cabinet is recommended to:</p> <ul style="list-style-type: none"> • Note the medium term financial strategy and the assumptions regarding resources and spending requirements; • Note the 2019/20 budget monitoring position including the collection fund surplus; • Note the council tax base of 55,222 on which the council tax funding has been calculated as set by the Joint Chief Finance Officer under delegated powers; • Approve the permanent spending allocations of £12.674m in 2020/21; • Note the budget gap of £5.162m in 2020/21 and the forecast gap of £22.561m in future financial years; • Approve the budget reduction options totalling £5.152m as set out in the report; • Approve the allocation of the one-off collection fund surplus as follows: <ul style="list-style-type: none"> ○ £10m General Reserves ○ £5.8m Transformation Reserve • Note the forecast increase in general reserves to improve financial resilience; • Note the significant financial uncertainty around funding beyond 2020/21 and the potential impact of the business rate retention review and the fair funding review.
<p>IMPLICATIONS:</p>	

Corporate Aims/Policy Framework:	The proposals accord with the Policy Framework
Statement by Section 151 Officer:	Financial and risk implications are detailed in the report.
Equality/Diversity implications:	No
Considered by Monitoring Officer:	Yes The budget is to be prepared in accordance with statutory provisions and detailed guidance. It is timetabled to ensure that statutory requirements are met.
Are there any legal implications?	The Council has a legal obligation to pass its budget and Council Tax resolutions by March 2020. Members are asked to consider the legal issues in the joint advice set out in Appendix 5.
Staffing/ICT/Property:	No
Wards Affected:	All
Scrutiny Interest:	Overview and Scrutiny Committee

TRACKING/PROCESS

DIRECTOR: MIKE WOODHEAD

Joint Executive Team	Cabinet Member/Chair	Ward Members	Partners
	Yes		
Scrutiny Committee	Cabinet	Committee	Council
11 February 2020	26 February 2020		26 February 2020

REVENUE BUDGET 2020/21 AND MEDIUM TERM FINANCIAL STRATEGY 2020/21 – 2024/25

1 Introduction

- 1.1 This report sets out the key elements of the 2020/21 budget proposals and the framework for the longer term Medium Term Financial Strategy (MTFS) 2020 – 2025. It makes available the latest financial information that will underpin the 2020/21 budget and the MTFS. The report also sets out the process that will lead to the agreement of the budget and the setting of the 2020/21 council tax on 26 February 2020.
- 1.2 The information presented in this report is structured over the following areas:
- The financial context within which the budget and the MTFS will be agreed
 - The summary revenue budget position 2019/20
 - Developing the Medium Term Financial Strategy
 - The options proposed to deliver a balanced budget in 2020/21
 - The robustness of the budget and the adequacy of reserves
 - The residual financial risks and uncertainties
 - The financial framework
- 1.3 In setting the budget, consideration of the Housing Revenue Account and the Schools budget have been taken into considerations. Separate reports for these are set out elsewhere on the agenda.

2 CONTEXT

- 2.1 The Council is currently working with a one year only Local Government Finance. Beyond 2020/21 there is no clarity on the system and levels of funding and there is no solution to the long term approach for funding adult social care. Additionally, the outcomes of the business rates retention review and the fairer funding review are still unknown but could have significant implications on future funding levels. Such significant uncertainty must be considered in deciding the tax increase position as part of the budget setting process. Within this context, the council needs to achieve a balance of ambition, prudence and resilience in setting its medium term financial strategy.
- 2.2 The 2020/21 Local Government Finance Settlement was announced on 20 December 2019. The settlement confirmed all announcements made in the 2020/21 Spending Round including:
- Increasing the Settlement Funding Assessment (SFA) in line with inflation from £14.6bn to £14.8bn;
 - Confirming the proposals for Council Tax referendum limits for 2020/21;
 - The continuation of the existing £2.5bn of existing Social Care grants into 2020/21 including the Improved Better Care Funding, Winter Pressures Grant and Social Care Support Grant;

- An additional £1bn nationally for adults and children's social care
 - £900m top slice for New Homes Bonus in 2020/21 and maintaining the growth threshold at 0.4%;
 - Increases in the Schools budget by £2.6bn in 2020/21, £4.8bn by 2021/22 and £7.1bn by 2022/23. The minimum per pupil amount has increased from £3,500 per primary school pupils in 2019/20 to £3,750 in 2020/21, and from £4,800 per secondary school pupil in 2019/20 to £5,000 in 2020/21;
 - An increase in high needs funding for schools by more than £700m in 2020/21 to support children and young people with special educational needs.
- 2.3 The settlement is largely a 'roll over' settlement with some inflationary increases and specific increases for social care. The settlement has been highlighted by the government as providing a 6.3% increase to local authorities. The largest proportion of the Spending Power increase is however from locally raised council tax.
- 2.4 The council must ensure it has a robust base and also holding sufficient reserves to mitigate against planned or unplanned expenditure and other risks. Reserves can only be spent once and therefore a strategy that does not rely on the one-off use of reserves to support it is a key feature of the strategy. It is within this context that the budget for 2020/21, as the first year of a new 5 year rolling MTFs, will start to align the resources of the council to the objectives and ambitions of the council and the Bury 2030 strategy.
- 2.5 The table below sets out the base revenue forecasts through to 2024/25. By 2024/25 the council is estimated to have £175.855m revenue resource. These figures assume a 2% council tax increase in each year and also a 2% social care levy for 2020/21 only. It is however recognised that the setting of the council tax is one for full council after taking advice from officers and information available at that time.
- 2.6 The assumptions underpinning the figures in Table 1 below are:
- 2% annual increase in council tax for each financial year
 - 2% increase in the adults social care levy 2020/21 only
 - The introduction of the fair funding review and the business rates retention from April 2021 will have a neutral impact on the resources available to the council outside of receiving an annual inflationary (1.7%) uplift
 - The Better Care Fund, the main element of the Improved Better Care Fund and other longstanding government grants continue to be received at their current levels over the medium term
 - The additional one-off grants announced by the Chancellor as part of the 2019 Spending Review are continuing for the duration of the MTFs.

Revenue Resource Forecasts 2020-25					
	2020/21	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m
Council Tax	89.020	90.747	92.507	94.302	96.132
Business Rates*	50.153	62.846	63.914	65.001	66.105
Better Care Grant and core i-BCF	6.988	6.988	6.988	6.988	6.988
Public Health Grant	11.642	0.000	0.000	0.000	0.000
Social Care Grants	2.212	2.212	2.212	2.212	2.212
New Homes Bonus	0.458	0.235	0.035	0.000	0.000
New Social Care Funding	3.375	3.375	3.375	3.375	3.375
Other Government Grants	1.043	1.043	1.043	1.043	1.043
TOTAL	164.891	167.446	170.074	172.921	175.855

*Business Rates assumes Public Health Grant rolled in from 2021/22

- 2.7 In calculating the council tax base and the business rates, the 2019/20 position on the collection fund has been taken into account. The collection fund is forecasting an in-year surplus of £8.9m and has a surplus amount carried forward of £8.2m. Continuing with the current methodology is likely to result in another significant surplus in the next financial year and therefore to avoid any unnecessary budget reductions the resource forecasting has been updated to reflect current levels of activity. A degree of prudence has however been factored in. Housing growth in previous years has been factored in however assumptions around future housing growth has not. It is likely that there will be growth and therefore there will be a benefit in future years of this, subject to any changes resulting from the fair funding and business rates reviews. The calculation of the Council Tax base 2020/21 is set out in Appendix 1. Consideration of the use of the one-off funds is set out later in the report.
- 2.8 The provisional Local Government Finance Settlement set out the maximum level of council tax that can be raised in 2020/21. SR2019 committed the Government to allowing a 2% increase in the core council tax and an extension to the ability to raise a further 2% adult social care levy.
- 2.9 In developing the budget strategy the following principles and key outcomes have been considered:
- Ensure the outcomes objectives of the Bury 2030 are supported;
 - Ensure the council's finances are robust and prudent particularly given the current economic uncertainties and the potential changes to the funding system in future years;
 - Build in capacity into the corporate core of the organisation to ensure plans are deliverable and fully supported.

Council Tax

2.10 Incorporated in the resource forecasts is an assumption that the council tax increases available to the council as part of the Local Government Finance Settlement are taken. Not only does this approach ensure the council's financial sustainability over the medium term, it is also assumed in the Governments estimates of the funding available to local authorities.

2.11 Adult Social Care Levy

In addition to taking the maximum increase in council tax income, the council has a further option of extending the adult social care levy for a further year. A further 2% social care levy provides an additional £1.710m to the base budget on an on-going basis. This has been assumed in the resource forecast. This approach is considered prudent in light of the continuing uncertainty around future funding of adult social care and the continued high and increasing levels of demand that are being experienced.

2.12 The Government is assuming that councils will raise the 2% adult social care levy as well as the 2% increase in the main element of council tax as part of their overall funding package for local government services.

2.13 The investment in adult social care that the levy will provide will:

- Improve services by addressing some significant cost pressures facing the service, including older people, transitions from children's services and supporting market sustainability;
- Sustain effective support for vulnerable people in the context of increasing demand due to demographic change and increasing levels and complexity of need, and;
- Provide financial resilience given the uncertainty about the future funding and policy framework for adult social care with a number of delays to the green paper.

3 FORECAST OUTTURN POSITION 2019/20

3.1 It is important that the current year's position is taken into consideration and that any trends and information available are reflected on. Monitoring at the end of the third quarter, December 2019, shows that the council is forecasting a small underspend of £0.657m which is equivalent to 0.47% of the council's net budget. Whilst overall this is a positive position there are a number of services that are overspending and offset by underspends in non-service specific budgets. In addition to this, the 2019/20 budget had an inbuilt reliance on one-off funding from reserves. The application of these reserves totalled £5m and was to support Directorates in delivering their savings targets over a longer period of time. Despite this, £4m of savings remain undelivered during the year and is deemed a continuing risk and pressure for future years that will need to be

addressed. The table below provides a summary of the forecast position based on information available at the end of December 2019.

2019/20 Forecast Revenue Out Turn Position – as at 31 December 2019			
Directorate	Approved Budget	Forecast Out Turn	Forecast (Under)/Over Spend
	£m	£m	£m
Communities and Wellbeing	70.300	72.050	1.750
Children, Young People and Culture	41.567	43.447	1.880
Operations	12.916	12.785	(0.131)
Resources and Regulation	7.661	8.530	0.870
Business, Growth and Infrastructure	(0.759)	0.326	1.085
Art Gallery and Museum	0.565	0.641	0.076
Housing General Fund	0.033	0.183	0.150
Non-Service Specific	6.579	0.243	(6.336)
TOTAL	138.862	138.205	(0.657)

- 3.2 The budget remains under regular review by the Chief Executive and the Joint Executive Team and it is expected that the position will improve even further by the end of the financial year. Ongoing scrutiny of spending and the delivery of savings plans is carried out and more targeted support with rigorous tracking of savings delivery will be introduced for next year.

4 DEVELOPING THE MEDIUM TERM FINANCIAL STRATEGY AND THE 2020/21 BUDGET

Permanent Spending Need

- 4.1 The spending needs of the council have been developed alongside the resource forecasting. In developing spending need, consideration has been given to ensuring the budget:
- delivers investment in projects and programmes that will support the ambitions and objectives set out in the Bury 2030 plan;
 - delivers the long term financial sustainability of services and the council as a whole;
 - continues to drive forward the implementation of the council's change agenda to ensure core services, infrastructure and resources can be used flexibly and effectively to meet future challenges and deliver for residents, businesses and communities.
- 4.2 The additional permanent allocations proposed total £47.001m over the 5 year period and are set out in Appendix 2 to the report. It is important to

note that the allocations for 2021/22 onwards are only indicative and will be updated and refreshed at regular intervals. The key areas are:

Pay Inflation (£2.466m in 2020/21)

- 4.3 Pay inflation of 2.5% in 2020/21 and 2% in future years has been assumed in the MTFS. The pay bill is driven by the national pay agreement and is therefore outside of the control of the council. Changes above and that assumed in the MTFS will need to be managed as a risk in year.
- 4.4 The tri-ennial review of the council's employer pension contribution levels has concluded and confirmed that Bury's contribution rates to the Greater Manchester Local Government Pension Fund will remain unchanged. There is therefore no impact on the council's budget.

Contractual Inflation (£5.043m in 2020/21)

- 4.5 The council has a range of contracts to which there is a contractual commitment to increase by an inflationary amount each year. This has been built into the budget and includes the increases on the living wage that needs to be reflected in payments to care providers.

Demand (£2.481m in 2020/21)

- 4.6 The council is experiencing increases in demand for some services as a result of demographic change. The main areas are:
- Adult social care including the number of people accessing services as well as an increase in the complexity of need;
 - Placements for the support for children who are looked after, at risk and children with disabilities;
 - Costs of children transitioning to adults services.

Fall Out of Time Limited Funding (£1.585m)

- 4.7 Some adult social care services have been funded from time limited resources over the past few years. As there remains a strong alignment with the council's key objectives and outcomes it is proposed that the funding is put on a sustainable basis going forward.

Unachieved Savings (£2.830m)

- 4.8 The recent monitoring is showing that a significant number of savings agreed in previous financial years are not considered to be deliverable. It is not considered prudent or sustainable for services to carry forward savings targets that realistically cannot be achieved and it is proposed that these be added back into the budget. To ensure that savings proposals going forward are realistic and can be delivered, an assessment of savings proposals has been carried out using external advisers. This work will now be followed up with detailed implementation plans and savings trackers. A full summary of unachievable savings is set out at Appendix 2.

Budget Realignment (-£4.730)

- 4.9 As well as the need to reflect increases in expenditure, there are some budgets that regularly deliver an underspend. These underspends are routinely used as part of a wider risk management approach and offset any emerging overspends, particularly from the non-delivery of savings targets. This approach does not promote sound financial management and control and therefore in addressing those savings targets that are not considered deliverable and focussing on those that are, the underspending budgets have also been adjusted downwards to reflect a more realistic position. There will however need to be a much more focussed approach to the delivery and reporting of savings throughout the year.

Borrowing to Support the Capital Programme (£1.5m over 2020/21 and 2021/22)

- 4.10 The council's capital strategy and draft capital programme has been developed. Delivering the capital programme will require investment that can only be supported through borrowing. A total of £1.5m has been built into the MTFS to support the borrowing costs needed to deliver the priority projects identified. This approach is considered prudent and ensures that the council has a sustainable basis on which its capital programme is built.

Corporate Capacity Requirements (£1.5m over 2020/21 and 2021/22)

- 4.11 Over recent years the council has reduced its support and core functions to a minimum. In protecting front line services, a disproportionate amount of budget has been removed from these services and is impacting on service delivery and statutory functions including finance and legal services. Strengthening some of these services is considered necessary in order for the council to deliver these services effectively and also to build in capacity to support the delivery of savings programmes, projects and strategic programmes. A total of £1.5m over two years has been built into the MTFS.

Reserves (£0.567m)

- 4.12 A planned contribution to reserves to build resilience and sustainability has been built in to the budget. This is in recognition of the low base of the council's general reserve and the commitment to build and strengthen reserves.

Summary Spending Position

- 4.13 Bringing all of these elements together indicates that the council has a spending need of £170.053m in 2020/21 increasing to £204.380m in 2024/25. A breakdown of this is shown in the table below.

Spending Need Forecasts 2020-21 – 2024/25					
	2020/21	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m
Adjusted Budget*	157.379	170.053	179.279	187.511	195.830
Decisions Made in Year	0.432	0.000	0.000	0.000	0.000
Pay Inflation	2.466	1.929	1.865	1.870	1.904
Contractual Inflation	5.043	5.299	5.157	5.399	5.596
Demand	2.481	1.109	1.250	1.050	1.050
Fall-Out of Time Limited Funding	1.585	0.000	0.000	0.000	0.000
Unachieved Savings	2.830	(0.111)	(0.040)	0.000	0.000
Budget Re-alignment	(4.730)	0.000	0.000	0.000	0.000
Borrowing to Support Capital Programme	1.000	0.500	0.000	0.000	0.000
Corporate Capacity Requirements	1.000	0.500	0.000	0.000	0.000
Planned Contribution to Reserves	0.567	0.000	0.000	0.000	0.000
Sub Total	12.674	9.226	8.232	8.319	8.550
TOTAL FORECAST SPENDING REQUIREMENT	170.053	179.279	187.511	195.830	204.380

*Adjusted for reversal of use of reserves and grants

5 PROPOSALS FOR BALANCING THE BUDGET

5.1 Comparing the forecast resources to the forecast spending needs shows that there is a funding gap that needs to be addressed. The gap in 2020/21 is £5.162m and a further £22.561m is required for the 4 year period 2021/22 – 2024/25. The position will change over time as the MTFS is updated to reflect changes in demand, legislation and funding frameworks and will be reported to Cabinet at regular intervals. A summary of the financial gap is set out below.

Forecast Financial Gap 2020/21 - 2024-25					
	2020/21	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m
Forecast Spending Requirement	170.053	179.279	187.511	195.830	204.380
Savings from prior years	0.000	(5.162)	(5.629)	(5.964)	(5.964)
	170.053	174.117	181.882	189.866	198.416
Forecast Resources	164.891	167.446	170.074	172.921	175.855
FUNDING SHORTFALL/(SURPLUS)	5.162	6.671	11.808	16.945	22.561
Efficiency Proposals	(2.940)	(0.417)	(0.265)	0.000	0.000
Service Reduction Proposals	(1.222)	(0.050)	(0.070)	0.000	0.000
MRP Accounting Policy Change	(1.000)	0.000	0.000	0.000	0.000
Sub Total	(5.162)	(0.467)	(0.335)	0.000	0.000
CUMULATIVE FUNDING SHORTFALL/(SURPLUS)	0.000	6.204	11.473	16.945	22.561
IN YEAR SHORTFALL/(SURPLUS)		6.204	5.269	5.472	5.616

- 5.2 Recognising the financial gap, a number of savings options totalling £5.162m have been developed. All of the options have been subject to intense scrutiny, supported by external advisers, to ensure that they are deliverable and therefore the confidence levels are high. The majority of the options are deemed to be efficiencies and have no impact on service delivery although they will still be subject to consultation where necessary. It is proposed that these be accepted in full by Cabinet. The remaining 3 options totalling £1.222m in 2020/21 and increasing to £1.342m by 2022/23 are service options and a full summary and impact assessment is attached at Appendix 3 and Appendix 4. Cabinet are recommended to approve these options.
- 5.3 A revised approach to the Council's Minimum Revenue Provision (MRP) policy is proposed and is subject to the approval of Cabinet. The proposed approach has been signed off by the external auditors who are content that the changes are within the regulations. The recommendation is set out in the Treasury Management report and, if approved, will generate an ongoing benefit of £1m per annum. The change in accounting policy will also release an in-year underspend in 2019/20 of c£2m which will improve the council's forecast over and above that currently reported. This is not currently reflected in the 2019/20 monitoring position and will therefore improve the forecast position if approved.
- 5.4 The surplus on the collection fund provides one-off funds of £15.8m for the council in 2020/21. In recognition of overarching priorities; complexity of budget savings delivery and risk management it is proposed that:
- £10m be added to general reserves to improve resilience, on the basis that reserves have been depleted over the years and are at a historically low level as described below;
 - £5.8m be added to a new transformation fund to bring in short term capacity for programme and project delivery of this budget; managing in-year spend; delivery of the capital programme and to close critical capacity gaps which will contribute to the delivery of savings in future years. This fund will also be used for business case-based investment to respond to outstanding actions from the LGA Corporate Peer Review from 2018/19, which highlighted some critical capacity gaps.

6 RESERVES

- 6.1 The proposals for the 2020/21 budget removes a reliance on one-off monies from reserves and also provide for a planned contribution to reserves of £0.567m annually. This will see reserves increase from their current position and improve overall resilience and sustainability. Any underspend at the financial year end will also be added to general/earmarked reserves. The assessment of the service options to ensure plans are robust and that the savings can be delivered provides an additional level of assurance and should minimise the potential for services calling on reserves to meet any unmet savings targets.

6.2 The Council’s reserves position has been depleted over years and reserves are at a historically low level. Previously Cabinet has made a commitment to increase reserves in order to build in resilience and long term sustainability and the proposed budget proposals support this commitment. To further support this, a new reserves strategy will be developed as part of the closure of accounts programme and will be presented to Cabinet early in the new financial year.

7 ROBUSTNESS OF THE BUDGET AND THE ADEQUACY OF RESERVES

7.1 Section 25 of the Local Government Act 2003 requires that, in giving consideration to budget proposals, members must have regard to the advice of the council’s chief finance officer on the robustness of the estimates and the adequacy of the council’s reserves.

7.2 The basis on which the budget has been prepared, as in previous years, relies on the forecast of activity and the impact of changes in policy previously agreed by the council. These forecasts are kept under review as part of the budget monitoring process and actions identified to address financial risks arising from the changes in the forecast as they occur.

7.3 The table below demonstrates the scale of a small variance in the assumptions made, showing the potential of both a positive and negative movement of 1% across the main areas within the MTFS.

Financial Risk in the MTFS	
	Potential Full Year Impact
	£m
Pay (1%)	0.986
Price inflation (1%)	1.500

7.4 In addition to this, there are a number of key risks:

- potential for changes in funding resulting from the fair funding review and business rate retention review are unknown at this stage but could be significant. Business rates income for the council (including public health grant) is £61.795m in 2020/21 and a 1% change in this is equivalent to £0.630m.
- the future of grants, particularly those in relation to social care, is unknown. Social Care grants, including the Better Care Fund, equate to £9.2m in 2020/21. A 1% change in these is £0.920m.
- pay awards have not yet been finalised. The pay bill is driven by the national pay agreement and changes above and that assumed in the MTFS will need to be managed as a risk in year;
- the economic uncertainty and the potential impact of Brexit is unknown and needs to be monitored;

- the lack of a long term national strategy to fund the increasing costs of social care is a significant risk. The ability for councils to continue to try and manage demand within their existing budgets is not sustainable and is placing increasing risk on councils.

7.5 The council holds reserves for a number of reasons:

- To enable the council to manage variations in the demand for services which cause in year budget pressures;
- To fund specific projects or identified demands in the budget;
- To enable the council to deal with unexpected events such as flooding or destruction of a major asset.

7.6 Setting an appropriate level of reserves is a matter of judgement taking into account:

- The level of risk evident within the budget as set out above;
- A judgement on the effectiveness of budgetary control within the organisation; and
- The degree to which funds have already been set aside for specific purposes which will reduced the need for general reserves.

7.7 Based on the budget proposals set out in the report, and taking account of the current forecast out turn position, the council will increase its general reserve from £7.7m to £18.3m. This includes the use of the one-off collection fund surplus monies and the planned contribution to reserves. This increase in reserves provides a much greater level of financial resilience.

7.8 The revenue budget has been heavily supported by one-off reserves in the past and this has resulted in a significant reduction in reserves over recent years. It has been previously recognised that this is not a sustainable position and the budget proposals for 2020/21 remove this reliance.

7.9 Budgetary control processes are in place to manage in year expenditure. Effectiveness of budgetary control is a combination of systems and processes as well as the risk environment within which the council is operating. It therefore remains an essential requirement that the council continues to ensure that processes are effective in maintaining a grip on in ear expenditure and also that there is a clear focus on delivering a balanced and sustainable budget.

8 FINANCIAL FRAMEWORK

8.1 The Council has adopted four 'Golden Rules' as part of its long term approach to financial management and overall financial framework and these have been met in the current financial year. These 'Golden Rules'

were incorporated in the council's financial policies in February 2007 and updated in 2019 following the LGA peer review are as follows:

- The level of General Fund balances retained by the council to meet unexpected changes in the budget or to fund events that cannot be foreseen will be based on an assessment of the risks faced by the council but they will not be allowed to fall below the higher of £3m or 2.5% of the new budget (excluding schools).
- Use of one-off options to support the on-going revenue budget must be in the short term only and supported by a robust strategy to address underlying pressures in the council's cost base.
- Prudential borrowing can be undertaken to support capital spending relating to regeneration/growth initiatives and commercialisation/transformation of council services. All proposals to be subject to robust business cases assessing prudence, sustainability and affordability.
- Pressures and savings will be assessed on a 3 year, rather than a one year basis through a revised medium term financial strategy.

Capital Strategy

- 8.2 The Capital Strategy is prepared in accordance with the latest Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential and Treasury Management Codes of Practice. The strategy provides a framework within which the Council's capital investment plans will be delivered. These plans are driven by the Council's objectives and are linked to the development of the Bury 2030 strategy.
- 8.3 The proposed capital strategy and programme 2020/21 – 2024/25 also takes the essential elements of previous year's strategies and programmes and moves them forward to the forthcoming year. Capital spending is a key determinant of future revenue commitments and the capital programme and revenue budget are interlinked and have been developed as integrated strategies.

Treasury Management Strategy

- 8.4 The treasury management strategy is prepared in accordance with the CIPFA Prudential and Treasury Management Codes of Practice. The strategy sets out the council's approach to managing investments, cash flows, money market and capital market transactions. The strategy provides a framework for the effective control of risks associated with these activities.
- 8.5 The Treasury Management strategy for 2020/21 reflects the council's capital expenditure plans as set out in the capital strategy. The strategy also sets out the position in relation to the prudential indicators arising from the council's capital expenditure plans. As well as borrowing and investment strategies, the Treasury Management strategy also covers the current treasury position, economic outlook and interest rates forecasts, risk and creditworthiness. Finally the strategy also includes the council's

policy on borrowing in advance of need and the Minimum Revenue Provision (MRP) policy statement. A change to the MRP policy statement is proposed as part of the Treasury Management strategy report which generates an ongoing benefit of £1m per year in the council's revenue budget. The budget proposal outlined earlier in the report assume the benefit however recognise that this is subject to political decision.

Housing Revenue Account

- 8.6 A separate Housing Revenue Account report has been prepared for presentation to Cabinet and is set out as a separate report on the agenda. This report sets out the recommended dwelling and non-dwelling rents and service charge increase to be applied from April 2020. The report is a key element of the council's overall medium term financial strategy.

Dedicated Schools Grant

- 8.7 A separate report on the Dedicated Schools Grant (DSG) is set out elsewhere on the agenda. This report sets the schools budget for 2020/21 and also the hourly rates for the early years education. The report also sets out the position the DSG deficit relating to high needs and information on the recovery plan.

Local Taxation and Benefits Discretionary Policies

- 8.8 Annually the council reviews and updates policies covering discretionary council tax discounts, discretionary business rates relief, local welfare provision and discretionary housing payments. These policies provide support to local businesses and some of the poorest and most vulnerable residents within the borough. These policies operate within a legislative framework determined by various Local Government Acts of Parliament. The financial impact of these policies is fully reflected in the budget proposals presented within this report.

Counter Fraud and Corruption

- 8.9 The council has a series of refreshed policies and procedures to support the provision of an appropriate counter fraud service to minimise fraud and to investigate potential fraud and corruption. The Accounts and Audit Regulations 2015 state that the Council must have measures in place 'to enable the prevention and detection of inaccuracies and fraud'. In this context fraud also refers to cases of bribery and corruption. The budget proposals contained in this report rely on effective processes for mitigating the risk of financial loss from fraud, bribery and corruption.

CIPFA Financial Management Code

- 8.10 CIPFA's Financial Management Code was published in October 2019. The objectives of the code are 'to support good practice in financial management and to assist Local Authorities in demonstrating their financial sustainability'. The code is based upon a series of principles which will be supported by specific standards of practice which CIPFA

consider necessary for a strong foundation. The foundation being the ability to:

- Financially manage the short, medium and long-term finances of a Local Authority
- Manage financial resilience to meet foreseen demands on services
- Financially manage unexpected shocks in their financial circumstances

8.11 Local Authorities are expected to comply with the requirements of the code by 1 April 2020 as a shadow year and full compliance from 1 April 2021. The Code will therefore provide Local Authorities with a platform for good financial management throughout 2020/21. Work is underway within the finance service to ensure compliance with the Code and an update will be provided to the Audit Committee. It is fully expected that the Council will be fully compliant with the code by 2021/22.

9 OTHER RISKS/OPPORTUNITIES

Bus Reform

9.1 The Greater Manchester Combined Authority has proposed a bus franchising scheme for the whole of Greater Manchester. Proposals are currently out for consultation and the outcome of this will be published in due course. It is likely that the scheme will generate a one-off cost pressure for which the Council will be required to make a contribution. Details are not known at this stage and therefore the costs have not been reflected in the budget proposals. The council is however is paying a reduced levy in the current financial year. It is proposed that this underspend be allocated to an ear marked reserve to manage the risk of a payment being required in 2020/21.

9.2 There are a number of traded services across the council that are failing to meet their income targets largely due to reduced demand, some of which relate to the academisation of schools. A review of traded services and options for financial sustainability will be brought forward during the year. No increase to income budgets have been assumed and any proposed increases in fees and charges will help to reduce the income shortfall. Any under recovery of income in the current financial year will be managed as a risk.

10 CONSULTATION

10.1 The council has previously consulted on its budget savings proposals some of which are being carried forward into the 2020/21 financial year due to a phased implementation approach. The engagement with key stakeholders on the Bury 2030 strategy and priorities for the council, provided an opportunity for future resourcing and the allocation of spending to be considered. The findings of this engagement has been factored into the budget setting process. Where required individual consultation on proposals will be carried out prior to implementation and this is set out in the individual budget proposals set out at Appendix 4.

- 10.2 As proposals are developed for implementation, detailed consultation with relevant stakeholders will be undertaken. For efficiency options this includes consultations with staff and trade unions.

Calculation of Council Tax Base 2020/21

Calculation of Council Tax Base 2020/21 (Based on all properties)										
Bands	A Reduced	A	B	C	D	E	F	G	H	TOTAL
Total Number of Dwellings on the valuation list		30,342	18,559	17,290	9,180	5,478	1,842	1,274	175	84,140
Total Number of Exempt and Disabled Relief dwellings on the Valuation List	51	21	14	-23	-11	-33	9	-7	-21	
Less: estimated discounts, exemptions and disabled relief	3	4,826	2,018	1,492	674	293	103	69	0	9,748
Total Equivalent number of dwellings after discounts, exemptions and disabled relief	48	24,536	16,555	15,775	8,496	5,152	1,749	1,197	154	74,552
Factor stipulated in regulations	5/9	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
Band D equivalent	27	17,024	12,876	14,022	8,496	6,297	2,526	1,996	307	63,571
Net effect of Local Council Tax Support Scheme (LCTSS) and other adjustments	7	3,972	1,250	709	251	111	32	14	0	6,346
Additional Net Dwellings in 2020/21 based on known regeneration with the Borough and reductions in levels of discounts and exemptions	0	0	0	0	0	0	0	0	0	0
Total after LCTSS and Other Adjustments	20	13,052	11,626	13,313	8,245	6,16	2,493	1,982	307	57,225
Multiplied by estimated collection rate	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%
BAND D EQUIVALENTS	19	12,595	11,219	12,847	7,965	5,969	2,406	1,913	297	55,222

Proposed Permanent Spending Allocations to Budget 2020/12 (Indicative 2021/22 - 2024/25)

		Allocation	Future indicative Allocation			
Directorate	Description	2020/21	2021/22	2022/23	2023/24	2024/25
		£m	£m	£m	£m	£m
Decisions Already Made						
Resources and Regulation	Customer Services and Debt Collection	0.239	0.000	0.000	0.000	0.000
Business, Growth and Infrastructure	Management Team Capacity	0.193	0.000	0.000	0.000	0.000
TOTAL		0.432	0.000	0.000	0.000	0.000
Contractual Inflation						
Corporate	Utilities	0.157	0.077	0.080	0.083	0.086
Corporate	Rent/Rates	0.154	0.039	0.040	0.042	0.043
Corporate	ICT Contracts	0.128	0.024	0.025	0.026	0.027
Children and Young People	Residential Care (including living wage)	0.548	0.731	0.602	0.635	0.668
Children and Young People	External Fostering Placements	0.129	0.172	0.142	0.149	0.157
Children and Young People	Fostering, Adoption and Leaving Care Allowances	0.286	0.387	0.318	0.336	0.354
Children and Young People	Support Packages and Direct Payments	0.085	0.115	0.095	0.100	0.105
Children and Young People	Premature Retirement Costs	0.026	0.029	0.024	0.024	0.026
Communities and Wellbeing	Community Care and Other Contracts	1.141	1.176	1.219	1.277	1.319
Communities and Wellbeing	Persona Contract	0.258	0.277	0.287	0.300	0.310
Communities and Wellbeing	Residential care (Including living wage)	1.939	2.007	2.079	2.179	2.251
Housing Revenue Account	Housing	0.000	0.070	0.050	0.050	0.050
Non Service Specific	GM transport Authority	0.192	0.194	0.196	0.198	0.200
TOTAL		5.043	5.299	5.157	5.399	5.596

Proposed Permanent Spending Allocations to Budget 2020/12 (Indicative 2021/22 - 2024/25)

		Allocation	Future indicative Allocation			
Directorate	Description	2020/21	2021/22	2022/23	2023/24	2024/25
		£m	£m	£m	£m	£m
<i>Demand</i>						
Resources and Regulation	Bank Charges	0.047	0.000	0.000	0.000	0.000
Resources and Regulation	Debt Collection Costs	0.000	0.050	0.050	0.050	0.050
Children and Young People	Foster Placements	0.168	0.039	0.000	0.000	0.000
Children and Young People	Special Guardianship Orders	0.030	0.020	0.000	0.000	0.000
Children and Young People	Adoption Placements	0.070	0.000	0.000	0.000	0.000
Communities and Wellbeing	Care in the Community	0.177	0.000	0.000	0.000	0.000
Communities and Wellbeing	Community Stores	0.440	0.000	0.000	0.000	0.000
Communities and Wellbeing	Adults Demographics	1.000	1.000	1.000	1.000	1.000
Communities and Wellbeing	Transition from Children's Services	0.549	0.000	0.200	0.000	0.000
TOTAL		2.481	1.109	1.250	1.050	1.050
<i>Fall Out of Time Limited Funding</i>						
Communities and Wellbeing	Contribution from NHS	1.585	0.000	0.000	0.000	0.000
TOTAL		1.585	0.000	0.000	0.000	0.000
<i>Budget Re-Alignment</i>						
Communities and Wellbeing	Staffing	(0.250)	0.000	0.000	0.000	0.000
Communities and Wellbeing	Supporting People	(0.505)	0.000	0.000	0.000	0.000
Communities and Wellbeing	Various	(0.170)	0.000	0.000	0.000	0.000
Children and Young People	Various	(0.100)	0.000	0.000	0.000	0.000
Resources and Regulation	Various	(0.076)	0.000	0.000	0.000	0.000
Operations	Various	(0.075)	0.000	0.000	0.000	0.000
Non-Service Specific	Various	(3.554)	0.000	0.000	0.000	0.000
TOTAL		(4.730)	0.000	0.000	0.000	0.000

Proposed Permanent Spending Allocations to Budget 2020/12 (Indicative 2021/22 - 2024/25)

		Allocation	Future indicative Allocation			
Directorate	Description	2020/21	2021/22	2022/23	2023/24	2024/25
		£m	£m	£m	£m	£m
<i>Unachieved Savings</i>						
Communities and Wellbeing	Environment	0.370	0.000	0.000	0.000	0.000
Communities and Wellbeing	Sports and Leisure	0.380	0.000	0.000	0.000	0.000
Communities and Wellbeing	Civic Venues	0.202	0.000	0.000	0.000	0.000
Communities and Wellbeing	Packages of Care	0.236	(0.111)	(0.040)	0.000	0.000
Children and Young People	Reduced Pension Liabilities	0.120	0.000	0.000	0.000	0.000
Children and Young People	CYP Service Restructure	0.339	0.000	0.000	0.000	0.000
Children and Young People	Transformation of Children's Social Care	0.390	0.000	0.000	0.000	0.000
Resources and Regulation	Insurance Premiums	0.200	0.000	0.000	0.000	0.000
Resources and Regulation	Pay Services	0.030	0.000	0.000	0.000	0.000
Resources and Regulation	Security Services review	0.137	0.000	0.000	0.000	0.000
Resources and Regulation	Finance Structure	0.100	0.000	0.000	0.000	0.000
Resources and Regulation	Telephony Contract	0.060	0.000	0.000	0.000	0.000
Resources and Regulation	Increase use of in house legal team	0.038	0.000	0.000	0.000	0.000
Business, Growth and Infrastructure	Facilities Management Review	0.025	0.000	0.000	0.000	0.000
Business, Growth and Infrastructure	Office Accommodation	0.203	0.000	0.000	0.000	0.000
TOTAL		2.830	(0.111)	(0.040)	0.000	0.000
GRAND TOTAL		7.641	6.297	6.367	6.449	6.646

Directorate	Proposal Description	Proposed Budget Reduction			EIA Required	Consultation Required
		2020/21	2021/22	2022/23		
		£m	£m	£m		
<i>New Efficiencies to Endorse</i>						
Communities and Wellbeing	Persona Contract Efficiencies within the Persona contract.	(0.611)	(0.611)	(0.611)	Yes	Yes
Communities and Wellbeing	Supporting People Review Recommissioning of services.	(0.177)	(0.177)	(0.177)	Yes	Yes
Communities and Wellbeing	Debt Recovery Introduction of more effective and efficient debt recovery processes.	(0.100)	(0.100)	(0.100)	No	No
Children and Young People	School Improvement Service Review of existing service provision and delivery models to reflect needs of schools.	(0.330)	(0.330)	(0.330)	No	Yes
Children and Young People	Early Help Model Co-ordinated and streamlined management of buildings and increase I usage of the facilities..	(0.102)	(0.136)	(0.136)	Yes	Yes
Children and Young People	Procurement Review of Contracts Review of supplier contracts across the service.	(0.100)	(0.100)	(0.100)	No	No
Operations	Procurement Review of Contracts Review of supplier contracts across the service.	(0.085)	(0.168)	(0.168)	No	No
Operations	Corporate Landlord Property rationalisation and maximise occupancy in core buildings.	(0.585)	(0.585)	(0.585)	No	Yes
Operations	Architects Service Review Review of the service including the opportunity to make greater use of capital.	(0.200)	(0.200)	(0.200)	No	Yes
All Services	Supplier Review of Contracts Review of supplier contracts across the council	(0.300)	(0.600)	(0.865)	No	No

Directorate	Proposal Description	Proposed Budget Reduction			EIA Required	Consultation Required
		2020/21	2021/22	2022/23		
		£m	£m	£m		
All Services	Reduction in Discretionary Payments – Reduction in some discretionary payments through new, and more efficient, ways of working.	(0.350)	(0.350)	(0.350)	No	Yes
Sub Total		(2.940)	(3.357)	(3.622)		
Service Options - Decision Required						
Communities and Wellbeing	Provider Fees Review	(1.107)	(1.107)	(1.107)	Yes	Yes
Operations	Re-Wilding Grass Verges	(0.065)	(0.065)	(0.065)	Yes	No
Operations	Review of Highway Fees	(0.050)	(0.100)	(0.170)	Yes	No
Sub Total		(1.222)	(1.272)	(1.342)		
TOTAL		(4.162)	(4.629)	(4.964)		

Appendix 4

SECTION A

SERVICE REDUCTION OPTION	
DIRECTORATE	COMMUNITIES AND WELLBEING
DESCRIPTION	PROVIDER FEES REVIEW

DETAIL
<p>The Council undertakes an annual fee engagement process with contracted providers, in line with good practice and statutory legislation, which states that when setting and reviewing fee costs, Councils should have due regard to the actual costs of providing care and other local factors, along with a responsibility for managing the local care market.</p> <p>Last year the Council provided a National Living Wage uplift and an additional 1% uplift following pension changes. Bury Council also introduced a £15 Dementia premium for the first time. Bury was an outlier in not providing a dementia premium and the fee award was designed to stabilise the market and recognise the need to ensure the market both within Bury and across Greater Manchester remained stable.</p> <p>It is proposed to award an uplift in line with the national living wage to our independent sector providers and maintaining the current level of Dementia Premium, and a fee setting process is underway with providers, including a number of engagement workshops. This would ensure that Bury remains in keeping with other Greater Manchester authorities in its fee offer.</p> <p>The fee uplifts being proposed are for those in-borough adult social care providers including Care at Home, Complex Care at Home, Residential and Nursing Homes, Providers funded via Personal Budget and Learning Disability and Mental Health Supported Living. It is for those providers who are currently paid in line with Bury rates. There will be no uplift for those providers paid over and above Bury rates.</p>

	2020/21	2021/22	2022/23
	£m	£m	£m
PROPOSED BUDGET REDUCTION	1.107	1.107	1.107
PROPOSED STAFFING REDUCTIONS (FTE)			

Appendix 4

SECTION B

What impact does the proposal have on the following:

Property
None
Service Delivery
None
Future expected Outcomes
Benefits of this model: <ul style="list-style-type: none"> • Costing remains within proposed Council budget. • Ensures Providers can pay for National Living Wage increase • Offer is aimed at providing benefits directly to staff as well as Providers e.g. staff benefits scheme.
Organisation
None
Workforce
None
Communities and Service Users
None
Clinical Commissioning Group
None
Other Partner Organisations
None

SECTION C

Key Risks and Mitigations

Risk	Mitigation
If the Providers evidence that any offer will result in them becoming unviable this must be taken into consideration as it will likely negatively impact the customers of Bury.	Provider feedback is sought throughout the fee engagement process. The Council must ensure that any fee uplift, and wider holistic offer, supports the Providers to remain sustainable.

SECTION D

Consultation Required?	Yes
Staff	No
Trade Union	No
Public	No
Service User	No
Other	Yes

Equality Impact Assessment

Is there the potential for the proposed budget reduction to have a disproportionate adverse impact on any of the following?

Disabled People	No
Particular Ethnic Groups	NO
Men or Women (including impacts to pregnancy/ maternity)	No
People who are married or in a civil partnership	No
People of particular sexual orientation	No
People who are proposing to undergo, undergoing or have undergone a process or part of a process of gender reassignment	No
People on low incomes	No
People in particular age groups	Yes
Groups with particular faiths and beliefs	No

Equality Impact Assessment Required?	Yes
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Appendix 4

SECTION A

SERVICE REDUCTION OPTION	
DIRECTORATE	OPERATIONS
DESCRIPTION	RE-WILDING GRASS VERGES

DETAIL
<p>The approach will involve a reduction in the grass cutting and adopt an approach of re-wilding grass verges as part of the council's commitment to being carbon neutral.</p> <p>Sites will be reviewed and assessed on an individual basis.</p>

	2020/21	2021/22	2022/23
	£m	£m	£m
PROPOSED BUDGET REDUCTION	0.065	0.065	0.065
PROPOSED STAFFING REDUCTIONS (FTE)			

SECTION B

What impact does the proposal have on the following:

Property
None
Service Delivery
None
Future expected Outcomes
None
Organisation
None
Workforce
None
Communities and Service Users
None
Clinical Commissioning Group
None
Other Partner Organisations
None

SECTION C

Key Risks and Mitigations

Risk	Mitigation

Appendix 4

SECTION D

Consultation Required?	
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Staff	
Trade Union	
Public	
Service User	
Other	

Equality Impact Assessment

Is there the potential for the proposed budget reduction to have a disproportionate adverse impact on any of the following?

Disabled People	
Particular Ethnic Groups	
Men or Women (including impacts to pregnancy/ maternity)	
People who are married or in a civil partnership	
People of particular sexual orientation	
People who are proposing to undergo, undergoing or have undergone a process or part of a process of gender reassignment	
People on low incomes	
People in particular age groups	
Groups with particular faiths and beliefs	

Equality Impact Assessment Required?	
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Appendix 4

SECTION A

SERVICE REDUCTION OPTION	
DIRECTORATE	OPERATIONS
DESCRIPTION	REVIEW OF HIGHWAY FEES

DETAIL
<p>Statutorily, Highway Authorities are able to charge for highways related activities, i.e. utilities works impacting on highways. Currently, the fees and charges attract an annual increase of around 1% but have not been fundamentally reviewed for a number of years. Consequently Bury's fees are amongst the lowest in the GM authorities.</p> <p>A review of charges is proposed that will bring Bury's fees and charges in line with other GM authorities.</p>

	2020/21	2021/22	2022/23
	£m	£m	£m
PROPOSED BUDGET REDUCTION	0.050	0.100	0.170
PROPOSED STAFFING REDUCTIONS (FTE)			

Appendix 4

SECTION B

What impact does the proposal have on the following:

Property
None
Service Delivery
None
Future expected Outcomes
None
Organisation
None
Workforce
None
Communities and Service Users
None
Clinical Commissioning Group
None
Other Partner Organisations
None

Appendix 4

SECTION C

Key Risks and Mitigations

Risk	Mitigation
None	

SECTION D

Consultation Required?	No
Staff	No
Trade Union	No
Public	No
Service User	No
Other	NO

Equality Impact Assessment

Is there the potential for the proposed budget reduction to have a disproportionate adverse impact on any of the following?

Disabled People	No
Particular Ethnic Groups	No
Men or Women (including impacts to pregnancy/ maternity)	No
People who are married or in a civil partnership	No
People of particular sexual orientation	No
People who are proposing to undergo, undergoing or have undergone a process or part of a process of gender reassignment	No
People on low incomes	No
People in particular age groups	NO
Groups with particular faiths and beliefs	

Equality Impact Assessment Required?	Yes
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APPENDIX 5

ADVICE FROM THE ASSISTANT DIRECTOR OF LEGAL & DEMOCRATIC SERVICES AND JOINT CHIEF FINANCIAL OFFICER

1. INTRODUCTION

This note sets out in some detail Members' individual responsibilities to set a legal budget and how Members should approach the task. It also reminds Members about the rules concerning interests. The paper concludes with specific legal advice over aspects of the budget which potentially give rise to difficulties.

2. WHEN THE BUDGET MUST BE SET

Under Section 32 of the Local Government Finance Act 1992, budget calculations have to be made before 11th March (but they are not invalid merely because they are made on or after 11th March). The Localism Act 2011 includes amendments to the 1992 Act and requires the Council to calculate a Council Tax Requirement for the year, due to the referendum provisions if the Council Tax is increased above a prescribed level. However, delay in setting the Council Tax will have very serious financial consequences. It will render the Council vulnerable to legal proceedings requiring it to set the tax. In any event, it is important that the tax is set well in advance of 1st April as no sum is payable for Council Tax until 14 days after the date of posting bills. Serious financial losses will accrue very soon from a late setting of Council Tax as income is delayed and interest is foregone. An important feature of Council Tax is that the statutory budget calculation must be followed exactly. If not, the Council Tax resolution will be invalid and void.

3. NOTICE

There is a requirement to publish notice of the amount set for Council Tax in at least one local newspaper within 21 days.

4. COUNCIL TAX REFERENDUM

Under the provisions of the Local Audit & Accountability Act, The Secretary of State has the power to require any billing or precepting Authority which sets an excessive Council Tax increase to hold a public referendum. Any authority planning an excessive council tax increase will be required to prepare a 'shadow budget' based on the maximum non-excessive council tax increase allowed and they will also be required to inform the Secretary of State by notice.

The legislation requires the authority proposing any excessive increase ('the relevant authority') to prepare supporting factual material setting out the proposed council tax increase and budget, the comparative non-excessive Council Tax rise and shadow budget, and the estimated cost of holding the referendum. If a proposed rise in council tax were rejected, the relevant authority would immediately adopt the shadow budget and transfers from the Collection Fund would be reduced accordingly. It would also be required to inform the Secretary of State by notice. The billing authority would be able to issue new bills immediately, offer refunds at the end of the year or allow credits against liability in the following year. However, consistent with existing legislation, billing authorities will be required to refund (and re-bill) any local resident who requests this.

5. MEMBERS' FIDUCIARY DUTIES

The obligation to set a balanced budget at the start of every year is shared equally by each individual Member. In discharging that obligation, Members owe a fiduciary duty to the Council Taxpayer. The budget must not include expenditure on items which would fall outside the Council's powers. Expenditure on lawful items must be prudent, and any forecasts or assumptions such as rates of interest or inflation must themselves be rational. Power to spend money must be exercised bona fide for the purpose for which it is conferred and any ulterior motives risk a finding of illegality. In determining the Council's overall budget requirement, Members are bound to have regard to the level of Council Tax. The interests of the Council Taxpayer must be balanced against those of the various service recipients. Within this overall framework, there is of course considerable scope for discretion. Members will bear in mind that in making the budget, some commitments are being entered which will have an impact on future years. Some such commitments are susceptible to change in future years, such as staff numbers which are capable of upward or downward adjustment at any time. Other commitments however impose upon the Council future obligations which are binding and cannot be adjusted, such as loan charges to pay for capital schemes.

Only relevant and lawful factors may be taken into account and irrelevant factors must be ignored. A Member who votes in accordance with the decision of his or her political group, but who does so after taking into account the relevant factors and professional advice, will be acting within the law. Party loyalty and party policy are capable of being relevant considerations for the individual Member provided the member does not simply follow the party line without considering the relevant factors and professional advice and without properly exercising any real discretion.

Under the Code of Conduct, members are required, when reaching decisions, to have regard to relevant advice from the Section 151 Officer and the Monitoring Officer. If the Council should fail to set a budget at all or fail to set a lawful budget, contrary to the advice of these two officers there may be a breach of the Code by individual members if it can be demonstrated that they have not had proper regard to advice.

6. ARREARS OF COUNCIL TAX AND VOTING

In accordance with section 106 of the Local Government Finance Act 1992, where a payment of Council Tax that a member is liable to make has been outstanding for two months or more at the time of a meeting, the Member must disclose the fact of their arrears (though they are not required to declare the amount) and cannot vote on any of the following matters if they are the subject of consideration at a meeting:

- (a) Any decision relating to the administration or enforcement of Council Tax.
- (b) Any budget calculation required by the Local Government Finance Act 1992 underlying the setting of the Council Tax.
- (c) Any recommendation, resolution or other decision which might affect the making of the Annual Budget calculation.

Members should note the following points:

(i) These rules are extremely wide in scope. Virtually any Council decision which has financial implications is one which might affect the making of the budget underlying the Council Tax for next year and thus is caught.

(ii) The rules do not apply just to full Council meetings but extend to committees and sub-committees of the Council.

(iii) Members who make a declaration are not entitled to vote on the matter in question but are not prevented by the section from taking part in the discussion. However, where questions of enforcement are under consideration, Members with any arrears of Council Tax are likely to have a prejudicial interest under the Code of Conduct.

In these circumstances Members are disentitled from taking part in discussions as well as from voting, and must declare an interest whether or not their arrears have been outstanding for two months and must leave the room.

(iv) Members will have a defence under section 106 if they did not know that the section applied to them (i.e., that they were in arrears to the relevant extent) at the time of the meeting. Thus unwitting Members who for example can prove that they did not know and had no reason to suppose at the time of the meeting that their bank has failed to honour a standing order will be protected should any prosecution arise.

(v) It is not enough to state that a benefit application has been submitted which has not yet been determined, as Members remain liable to pay pending determination.

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REPORT FOR DECISION

Agenda Item	
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MEETING:	OVERVIEW AND SCRUTINY COMMITTEE CABINET COUNCIL
DATE:	11 FEBRUARY 2020 26 FEBRUARY 2020 26 FEBRUARY 2020
SUBJECT:	DRAFT HOUSING REVENUE ACCOUNT 2020/21
REPORT FROM:	CABINET MEMBER FOR FINANCE AND HOUSING
CONTACT OFFICER:	MIKE WOODHEAD, JOINT CHIEF FINANCIAL OFFICER
TYPE OF DECISION:	COUNCIL
FREEDOM OF INFORMATION/STATUS:	This paper is within the public domain
SUMMARY:	The report details the proposed Housing Revenue Account for 2020/21 and proposals for Dwelling and Garage rents, Sheltered Support, Management, Amenities and Heating charges, Furnished Tenancy charges and Fernhill Caravan site tenancy charges.
OPTIONS & RECOMMENDED OPTION	<p>The report is prepared on the basis of the Government's <i>Policy Statement on Rents for Social Housing 2018</i> and the Rent Standard issued by the Regulator of Social Housing which allows for a maximum weekly increase in rents of 2.7% for 2020/21. Members are reminded that any increase below this level would result in a reduction in rental income which will impact on future years and could jeopardise the financial viability of the HRA and the sustainability of the business plan.</p> <p>Cabinet is recommended to note the report and request that the Council should consider all matters relating to the Housing Revenue Account 2020/21, the increase in Council House and garage rents and changes to other charges.</p>

	<p>Council is recommended to:</p> <p>(a) approve the Housing Revenue Account estimates set out in Appendix 1.</p> <p>(b) increase the Rents for all HRA social rent formula and affordable rent dwellings by 2.7% from the first rent week in April.</p> <p>(c) increase Garage rents by 2.7% from the first rent week in April.</p> <p>(d) increase Sheltered Management and Amenity Charges by 2.7% from the first rent week in April.</p> <p>(e) approve that Sheltered support charges remain unchanged from the first rent week in April.</p> <p>(f) increase Sheltered heating charges by between 3% to 10% on an individual scheme basis as set out in section 3.4; increased charges to apply from the first rent week in April.</p> <p>(g) approve that Furnished Tenancy charges remain unchanged from the first rent week in April.</p> <p>(h) increase pitch fees at the Fernhill Caravan Site by 2.7% from the first rent week in April.</p>
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IMPLICATIONS:	
Corporate Aims/Policy Framework:	The proposals accord with the Policy Framework
Statement by Section 151 Officer:	Financial and risk implications are detailed in the report. The report fully details the Housing Revenue Account for 2020/21.
Equality/Diversity implications:	No
Considered by Monitoring Officer:	Yes
Are there any legal implications?	The relevant consultation and legal process for the review of rents, charges and pitch fees must be followed in conjunction with Legal Services before any changes take place
Staffing/ICT/Property:	There are no direct staffing, ICT or property implications arising from this report although the HRA budget impacts on these areas.
Wards Affected:	All
Scrutiny Interest:	Overview and Scrutiny Committee

TRACKING/PROCESS**DIRECTOR: MIKE WOODHEAD**

Joint Executive Team	Cabinet Member/Chair	Ward Members	Partners
	Yes		
Scrutiny Committee	Cabinet	Committee	Council
11 February 2020	26 February 2020		26 February 2020

1.0 INTRODUCTION

- 1.1 The Housing Revenue Account (HRA) is primarily a 'landlord account', recording revenue expenditure and income relating to the authority's own housing stock.
- 1.2 The HRA is a ring-fenced account i.e. the authority does not have any general discretion to transfer sums out of the HRA, or to support the HRA with contributions from the General Fund, (there are certain circumstances where transfers are permitted or prescribed but these are exceptions).
- 1.3 From April 2012 the government introduced a self-financing funding system whereby the HRA now retains its rental income locally and uses this to provide for management, maintenance and major works to the housing stock.
- 1.4 In April 2005 Six Town Housing was established as an Arms Length Management Organisation (ALMO) to manage and maintain the authority's housing stock and related assets. A Management Agreement was signed between Six Town Housing and Bury Council which details the responsibilities that are delegated to the ALMO; this is currently being reviewed in light of the review of Housing Services carried out by Savills and is expected to be finalised by the end of the current financial year.
- 1.5 Bury Council agrees the level of Management Fee payable from the Housing Revenue Account to Six Town Housing for the provision of the delegated responsibilities; the fee being paid for 2019/20 is £13,058,600.
- 1.6 For 2020/21 the HRA is expected to have an average stock of 7,777 social rent formula dwellings. Given the current level of activity the HRA estimates have been prepared on the basis of 60 sales. If the level of sales is above or below this figure then this will result in less or more rental income to the HRA than has been assumed.
- 1.7 For 2020/21 the HRA is expected to have an average stock of 77 affordable rent dwellings plus 8 shared ownership dwellings.
- 1.8 Approval has been given for the HRA to acquire 13 empty properties; at the time of writing 10 have been acquired; the intention is that the remaining 3 will be acquired and refurbished by the end of 2020/21. These properties are let at affordable rents i.e. 80% of the assessed Market Rent on an individual property basis. The properties are being funded through a combination of Homes and Communities Agency (HCA) grant (now Homes England), S106 monies and HRA reserves.
- 1.9 The 8 houses built on the Mayfair Avenue ex-garage sites were all sold on a shared ownership basis during June and July of this year; the shares purchased

range from 35% to 75%. The scheme is being funded through Homes England (previously HCA) grant, HRA reserves/borrowing and sale proceeds.

- 1.10 10 affordable rent apartments are currently under development on the old Radcliffe Times Building site. These are due to be completed before the end of March this year and will be acquired by the Council. The scheme is being funded through Homes England grant, S106 monies and HRA borrowing.
- 1.11 This report is written on the basis of the Council's existing housing stock.
- 1.12 As a result of the HRA being a ringfenced account, any surplus or deficit on the HRA is carried forward into the next financial year and is called the working balance. Section 5 of this report contains an assessment of the minimum level of balances to be held.
- 1.13 The implementation of the Government's Welfare Reforms will have an increasing impact on the Housing Revenue Account and on the approximately 50% of tenants who are entitled to support with their rent and charges.
- 1.14 The introduction of the Universal Credit, which sees benefits paid directly to the majority of claimants as opposed to a simple transfer from the Council into rent accounts, is expected to have a huge impact on collection rates for rents and other charges. Currently around 48% (56% at this time last year) of HRA rental income comes directly from Housing Benefit meaning that once the current welfare reforms have been fully implemented up to £14.4m of HRA income will have to be collected from tenants, presenting a large risk to income streams (based on the total assumed rental income for 2020/21).
- 1.15 There are currently over 1,500 tenants claiming Universal Credit.

2.0 RENT LEVELS 2020/21

- 2.1 In December 2000 the government issued a policy statement entitled 'The Way Forward for Housing' which proposed that rent setting in social housing should be brought onto a common system based upon relative property values and local earnings levels. The aim is that rents on similar properties in the same area should be the same no matter who is the landlord.
- 2.2 In order to achieve the objectives set out in the policy statement there is now a common formula for both Local Authority (LA) rents and those of Registered Social Landlords (RSL). Restructuring and convergence of LA and RSL rents was originally intended to be completed over 10 years i.e. April 2002 to March 2012. The target date for completion was revised by the government on more than one occasion however the government's rent policy for 2015/16 onwards assumed that convergence had been completed in 2014/15.
- 2.3 Under the current system a Target Rent is calculated for each dwelling. The target rent increases each year in line with the government's guideline.
- 2.4 In July 2015 the Chancellor of the Exchequer announced that social rents would reduce by 1% each year for the next four years. This requirement was contained within the Welfare Reform and Work Act.
- 2.5 At the Council meeting in February of last year the following proposal was agreed:

- rents were decreased by 1% for all HRA dwellings.

2.6 The introduction of the self-financing system did mean that the Council had more freedom regarding the level of rents that it set (although the national rent policy continued and the calculation of the debt taken on by Bury assumed the achievement of rent convergence by 2015/16). The requirement within the Welfare Reform and Work Act to reduce rents by 1% for each of the four years from 2016/17 removed this freedom and withdrew resources on an ongoing basis from the Housing Revenue Account. The total resources lost from the HRA over the four year period is estimated to be as follows:

Estimated rental income lost over 4 year period 2016/17 – 2019/20	
	£m
Impact of 1% reduction on base rents	2.998
Impact of not applying CPI plus 1% increases	6.425
Total potential resources lost from HRA	9.411

2.7 The Government’s *Policy Statement on Rents for Social Housing 2018*, along with the recently issued Rent Standard April 2020 from the Regulator of Social Housing, confirm a return to the previous rent policy i.e. weekly increases of up to Consumer Price index (CPI) plus 1% will apply from 2020/21 for a period of at least 5 years.

2.8 The CPI figure to be used is the September figure for the year prior to the increase. September 2019 CPI was 1.7% and therefore it is proposed that rents for all Social Rent Formula and Affordable Rent dwellings are increased by 2.7% from the first rent week in April 2020.

2.9 The policy of reletting dwellings at Target rents, which came into effect in April 2016, has resulted in 281 properties being let at target rents in the first 9 months of the current financial year; the average weekly increase in rental income for these properties is £5.91 which equates to approximately £0.083m in a full year.

2.10 Bury’s rents are currently collected on a 50 week basis with 2 non-collection weeks in December.

2.11 The following table shows the difference between the current and proposed rents on the basis of an increase of 2.7% applied to the rents of all current HRA Social Rent Formula dwellings.

HRA Social Rent Formula dwellings						
TYPE	NUMBER OF BEDROOMS	VALUATION AT JAN’ 1999 VALUES	RENT 2019/20	PROPOSED RENT 2020/21	INCREASE OVER ACTUAL 2019/20 RENT	
		£	£	£	£	%
Bed-sit	0	23,235	61.21	62.86	1.65	2.7
Bungalow	1	30,711	68.35	70.20	1.85	2.7
Flat	1	28,320	67.47	69.29	1.82	2.7
House	1	29,467	68.55	70.40	1.85	2.7

Bungalow	2	39,487	79.40	81.54	2.14	2.7
Flat	2	29,617	73.80	75.79	1.99	2.7
House	2	34,577	75.72	77.77	2.05	2.7
Maisonette	2	32,132	76.00	78.05	2.05	2.7
Flat	3	29,916	79.11	81.25	2.14	2.7
House	3	37,493	82.96	85.20	2.24	2.7
Maisonette	3	33,853	82.17	84.38	2.21	2.7
House	4/6	38,425	89.77	92.20	2.43	2.7
		32,421	74.11	76.11	2.00	2.7

The rents shown in the table are all on a 50 week basis.

- 2.12 Affordable rents for properties acquired and developed are determined on an individual property basis at 80% of the assessed Market Rent.
- 2.13 There are currently 252 HRA owned garages (of which 143 are currently let). Garages are charged for at the rate of £7.17 per week (50 weeks). The last increase was in April 2019. It is proposed that the charge is increased by 2.7% from April, in line with September CPI plus 1%; this results in a weekly increase of £0.19 giving a rate of £7.36 per week (over 50 weeks).
- 2.14 For shared ownership properties the purchasers pay a monthly rent based on the market value of the share of the property that has been retained by the Council. This rent is increased in line with the terms of the shared ownership leases and will be calculated with reference to the Retail Price Index (RPI) for February 2020.

3.0 SHELTERED AND OTHER TENANCY CHARGES

3.1 Sheltered Management and Support Charges

- 3.1.1 The management and provision of Sheltered support services are provided by Adult Care Services for which they receive payment from the Housing Revenue Account.
- 3.1.2 With effect from April 2008 all Sheltered tenants have been charged the same weekly charge. Charging in this way is a much fairer system as all tenants receive the same level of service.
- 3.1.3 Following a review of the costs of the services provided by Adult Care Services, to ensure that the costs of management and support were charged for appropriately, a Sheltered Management charge was introduced in 2012/13. This charge covers additional housing management costs that should not be funded through Supporting People funding.
- 3.1.4 Sheltered Management charges are set to ensure that the costs of the services provided are recovered from those receiving them. It is proposed that the weekly

charges per unit (on a 50 week basis) are increased for 2020/21 as shown below.

	Current Charge £	Proposed Charge 2020/21 £
Sheltered schemes (other than Extra Care)	11.51	11.82
Extra Care schemes (Falcon House/Griffin House)	22.10	22.70

3.1.5 The proposed increase is 2.7% being September CPI plus 1%; this increase is in line with the current Regulator of Social Housing Rent Standard guidance and our established policy.

3.1.6 These charges will be eligible for Housing Benefit purposes and it is expected that benefits will be payable to accepted claimants.

3.1.7 Following the review of the charging structure and the introduction of the Sheltered Management charge the standard weekly Support Charge per unit was reduced to £8.33 (on a 50 week basis) for 2012/13 and has remained at this level since then. Charges for support costs are not eligible for Housing Benefit but instead a subsidy is paid for eligible tenants from a locally administered Supporting People 'pot' that also funds other supported accommodation in the Borough.

3.1.8 It is proposed that this charge remains unchanged for 2020/21. This charge applies at all Sheltered schemes other than the Extra Care schemes at Falcon House and Griffin House.

3.1.9 The Extra Care Sheltered Scheme, covering the Falcon House and Griffin House schemes, has different support charges which reflect different levels of support offered dependant on the assessed needs of the individual tenants; this support is provided by the Department of Communities and Wellbeing and they will be reviewing the charges for 2020/21.

3.2 Sheltered Amenity Charges

3.2.1 The Sheltered Amenity Charges were increased by 3.4% for 2019/20. It is proposed that the current charges are increased by 2.7% from the first rent week in April 2020; this being September CPI plus 1% in line with current guidance and our established policy. The additional income generated will offset increased costs of providing the service, for example pay awards.

The current and proposed charges per unit per week (over 50 weeks) will be as shown in the table below:-

	Current Charge £	Proposed Charge 2020/21 £
Clarkshill	17.86	18.34
Elms Close	2.09	2.15
Falcon House	10.43	10.71
Griffin House	10.12	10.39

Harwood House	20.26	20.81
Moorfield	23.18	23.81
Mosses House	18.39	18.89
Stanhope Court	9.34	9.59
Taylor House	20.69	21.25
Top O'th Fields 1	19.95	20.49
Waverley Place	21.93	22.52
Wellington House	29.66	30.46

3.2.2 Amenity charges are eligible for Housing Benefit purposes and it is expected that benefits will be payable to accepted claimants.

3.3 Net impact of changes in Sheltered Charges and rent reductions

3.3.1 Appendix 4 details the total Sheltered Management, Support and Amenity Charges for each scheme; this shows weekly increases ranging between £0.31 and £1.11.

3.4 Sheltered Heating Charges

3.4.1 Heating charges are only levied at Sheltered schemes where there is a communal heating system with no separate metering of individual consumption; the aim of the charges is to recover the actual energy costs incurred at each scheme.

3.4.2 At the Council meeting in February of last year charges were reduced by between 5% and 15% on an individual scheme basis for 2019/20. The charges are based on expected contract prices and estimated levels of consumption. On this basis it is proposed that the charges are increased on an individual scheme basis for 2020/21; this will be the first increase in the charges since 2013/14.

3.4.3 The current and proposed charges per unit per week, (exclusive of VAT), are:-

	Present Charge	Proposed Charge	Proposed Increase
	£	£	%
Taylor House	11.00	11.88	8
Clarks Hill	7.58	8.34	10
Harwood House	9.44	9.72	3

3.4.4 Heating Charges are not eligible for Housing Benefit however many Sheltered Tenants will be eligible for Winter Fuel Payments; for winter 2019/20 the rates for these are £200 per household for those born on or before 5 April 1954, rising to £300 per household for those born on or before 22 September 1939 (payments may be different depending on the household circumstances).

3.5 Furnished Tenancies Charges

3.5.1 A Furnished Tenancy Scheme was introduced during 2005/06. The scheme provides furniture packages for which an additional weekly charge is payable.

- 3.5.2 There are currently a maximum of 235 furnished tenancies available under the scheme; 209 properties are currently let as Furnished Tenancies.
- 3.5.3 Six Town Housing, who manage the furnished tenancies, intend to review the packages offered and tenancies available under the scheme to determine whether a wider range of options may have a positive impact on tenancy sustainment; any proposed changes to the current scheme will be subject to appropriate consultation and approval; this review will be carried out once the new Management Agreement with Six Town Housing has been finalised.
- 3.5.5 Furnished Tenancy charges are eligible for Housing Benefit purposes and therefore benefits should be payable to accepted claimants. The introduction of Universal Credit and direct payments means that there is an increased risk of non-payment of these charges.
- 3.5.6 Increases in charges to cover inflation in the costs of the scheme e.g. costs of replacement furniture and fittings are normally implemented from the first rent week in April of each year.
- 3.5.7 Pending the outcome of the review of the scheme and given that the current charges are expected to be sufficient to cover costs it is proposed that the charges remain unchanged for 2020/21.
- 3.5.8 The current and proposed charges per unit per week are:-

1 bed property	£14.55
2 bed property	£17.13
3 bed property	£19.72

3.6 Fernhill Caravan Site Pitch Fees

- 3.6.1 Management of the Fernhill Caravan Site passed over to Six Town Housing in 2014/15 for which they receive a separately determined Management Fee. Whilst income from residents and payment of the Management Fee are accounted for in the General Fund not the Housing Revenue Account it is felt appropriate to consider increases in the charges under these agreements alongside those of HRA rents and charges.
- 3.6.2 Residents at the site are charged a weekly pitch fee and a weekly charge for water; these charges are payable on a 52 week basis i.e. there aren't any non-collection weeks.
- 3.6.3 At the Council meeting in February of last year charges were increased by 3.4% (September 2018 CPI plus 1%). It is proposed that the weekly charges for 2020/21 are increased by 2.7% in line with our established policy of September CPI plus 1%, therefore the current and proposed charges per plot per week are:

	Current Charge £	Proposed Charge 2020/21 £
Single Plot – pitch fee	59.78	61.39
Double Plot – pitch fee	81.46	83.66
Single Plot – water charge	6.74	6.92
Double Plot – water charge	9.36	9.61

4.0 HOUSING REVENUE ACCOUNT PERFORMANCE

4.1 Voids

- 4.1.1 The rent lost on empty properties is projected to be 1.05% over the course of 2019/20; this will mean an increase in rent income of approximately £14,400 as the original budget allowed for a void level of 1.1%.
- 4.1.2 The level of void loss for 2020/21 has been assumed at 1%, which means that recent performance will need to be maintained throughout the coming year; if the target is not achieved then there would be a reduction in rental income to the HRA. The assessed level of minimum HRA balances for 2020/21 allows for this possibility as discussed in section 5.
- 4.1.3 If the target was to be bettered then this would result in an increase in rental income to the HRA which could either be carried forward into 2021/22 or targeted during the coming financial year for service developments.
- 4.1.4 Appendix 3 details the loss or increase in rental income at different void levels if the 1% is not achieved in 2020/21.

4.2 Rent Arrears

- 4.2.1 The opening arrears and current levels for 2019/20 are shown in the following table. The figures reflect the fact that there have been no Former Tenant Arrears written off during 2019/20 as yet. Around £100,000 of arrears have been submitted for write off and are currently awaiting approval; it is anticipated that a further £50,000 could be written off before the end of 2019/20. All write offs are done in accordance with the Corporate Debt Write Off Policy as approved by the then Executive.

	Opening Arrears 2019/20 £	Current Position £	Increase/ (Reduction) in arrears £
Current Arrears	970,900	1,071,900	101,000
Former Tenant Arrears	685,200	802,000	116,800

	1,656,100	1,873,900	217,800

- 4.2.2 Authorities are required to make suitable provision, in accordance with proper accounting practices, to cover the write-off of rent and service charge arrears.
- 4.2.3 The Bad Debt Provision for rent arrears, which is held on the Authority's Balance Sheet, stood at £1,415,800 at the beginning of this financial year. The requirement for the year is calculated with reference to the type of arrear and the amount outstanding on each individual case.
- 4.2.4 The original budget for 2019/20 allowed for additional contributions to the provision totalling £477,500; £186,400 for uncollectable debts and £291,500 for the impact of benefit reforms. Looking at the arrears position, it is now estimated

that the additional provision required in 2019/20 may only be £317,000. However rent arrears are volatile and with increasing numbers of Universal Credit cases it can be difficult to determine what the position at the end of the financial year will be. All things being equal though this suggests that the Provision will stand at £1,582,800 at the end of 2019/20 against arrears of £1,873,900.

4.2.5 The 2020/21 estimates allow for additional contributions to the provision, totalling £484,300:

- For uncollectable debts £181,600
This figure represents 0.6% of the rent roll.
- For the impact of benefit reforms £302,700
This figure represents 1.0% of the rent roll and has been included as an additional contribution to the Bad Debt Provision to reflect the potential impact that welfare benefit changes have on the level of rent arrears.

4.2.6 If the arrears position is not as severely impacted upon as has been estimated then a lower contribution may be required which would release additional resources in the HRA; conversely if the arrears position should deteriorate more significantly then additional contributions to the Bad Debt Provision could be required and these would need to be found from the HRA balances. The position is kept under regular review and reported to members in the quarterly Finance and Performance Monitoring Report.

4.3 Rechargeable Repairs

4.3.1 The amount due from tenants for rechargeable repairs currently stands at around £312,700 of which £244,400 is debt over 1 year old. Of the debt over 1 year old around £200,500 appears to be static debt i.e. there have been no payments received at all. No accounts have been written off so far in the current year however £51,500 of accounts have been identified as potential write offs.

4.3.2 The Bad Debt Provision for rechargeable repairs, which is held on the Authority's Balance Sheet, currently stands at £241,000.

Taking into account the expected write offs, at the end of 2020/21 the provision will stand at £189,400; this amount will be reduced by the amount of any further write-offs done before the end of 2020/21. In order to ensure that the Bad Debt Provision provides adequate cover for the expected level of debt any income from rechargeable repairs over and above the budgeted figure will be used to increase the bad debt provision at the end of the financial year. It is estimated that this should provide an additional contribution to the provision of around £12,000 for 2019/20 and around £8,000 in 2020/21 bringing the forecast bad debt provision at 31 March 2021 to some £209,200 (covering 62% of the expected outstanding debt); the balance on the Bad Debt Provision will continue to be monitored to ensure that it provides adequate cover.

4.3.3 Accounts raised are subject to established recovery procedures with reminders/final notices being routinely issued and accounts passed to collection agencies (for debts under £750) where payment is not received or instalment arrangements agreed. Billing and recovery arrangements will be continually reviewed to ensure effective recovery.

5.0 2020/21 HOUSING REVENUE ACCOUNT (HRA), HRA CAPITAL RESOURCES AND THE HRA WORKING BALANCE

5.1 2020/21 Housing Revenue Account

5.1.1 The Housing Revenue Account Estimates are set out in Appendix 1.

5.1.2 One of the most significant impacts on the HRA for the coming year and in future years continues to be from the implementation of welfare reforms. This along with other key factors, such as void levels and the level of rent arrears, are factored into the determination of the HRA working balance.

5.1.4 Other areas worthy of note that have not been covered in other sections of this report are:

- The Housing Revenue Account pays a Management Fee to Six Town Housing to provide the services delegated under the ALMO Management Agreement. The level of this Management Fee for 2020/21 is currently being reviewed in light of the review of Housing Services. The HRA Estimates for 2020/21 assume the Management Fee to be £13,319,800 this being a 2% increase on the current year's figure; any changes to this figure will impact on the level of HRA balances.
- Springs Tenant Management Cooperative (TMO) are working with the Council around becoming a self-financing, tenant management organisation. The details of how this will work have yet to be finalised, however, there could be potential costs associated with setting up a new management agreement and related service level agreements. No provision has currently been made within the HRA for any additional costs that may arise.

5.1.5 The detailed Housing Revenue Account shown in Appendix 1 assumes that the proposals within this report for increases/decreases to rents and other charges are approved.

5.2 HRA Capital Resources

5.2.1 The introduction of a self-financing HRA system means that major works to the housing stock are now funded from rental income. The identification and timing of future major works are key factors in the development of the 30 Year HRA Business Plan.

5.2.2 Investment needs to be undertaken on a sustainable basis and in line with the Council's overarching Housing Strategy.

5.2.3 Cabinet at its meeting on 31st January 2018 approved the Asset Management Strategy for the Public Housing stock 2018-21 and endorsed a 3 year Investment Plan of £9.830m per annum.

5.2.4 This level of investment is affordable and sustainable therefore it has been assumed that the resources made available from the HRA for capital expenditure should be £9.830m for 2020/21.

5.2.5 These resources will provide for specific capital schemes (those for 2020/21 are listed in Appendix 4), Disabled Facilities Adaptations and general capital

expenditure such as essential renewals arising when properties become vacant and structural works.

5.2.6 Approval of the Capital Programme forms part of the consideration of the overall Council budget so should there be any change to the assumed level of resources this will impact on the amount contributed to or from the HRA Business Plan Headroom Reserve and the proposed programme.

5.3 The HRA Working Balance

5.3.1 The HRA needs to have a certain level of balances in order to finance occurrences that cannot be predicted and to mitigate against material inaccuracies in the assumptions underlying the budget.

5.3.2 The ending of the Housing Subsidy system removed the unpredictability associated with awaiting an annual determination but the introduction of a self-financing HRA has brought new risks particularly in relation to interest rate changes and any factors that impact on the level of rental income assumed.

5.3.3 There is no statutory definition of the minimum level however as part of a longer-term approach to HRA finances the Council established a Golden Rule regarding the minimum level of HRA balances. Using his judgement and experience, the Executive Director of Resources and Regulation previously recommended that the HRA balances should not be allowed to fall below £100 per property. However the actual minimum level of balances to be retained still needs to be reviewed each year based on a risk assessment of the major issues that could affect the financial position of the HRA.

5.3.4 Applying the above rule would require the minimum HRA working balance to be:

Financial Year	Average no of Properties (including additions)	Balance at year end £
2019/20	7,910	791,000
2020/21	7,862	786,200
2021/22	7,809	780,900

5.3.5 Appendix 5 details a risk assessment of the major issues that could affect the financial position of the HRA, including the sensitivity of the voids and arrears targets. This shows that on a risk assessed basis, the minimum level of HRA balances shown above may not be adequate given the need to provide for the increased risks associated with the self-financing system and the implementation of welfare reforms. Therefore the Joint Chief Financial Officer (the Council's s151 Officer) is now recommending that for 2020/21 the HRA balances should not be allowed to fall below **£1,050,000**.

**Councillor Eamonn O'Brien,
Cabinet Member for Finance and Housing**

Contact Details:-

Mike Woodhead, Joint Chief Financial Officer (Tel: 0161 253 7864)
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HOUSING REVENUE ACCOUNT

	2019/20		2020/21
	Original Estimate	Revised Estimate	Original Estimate
	£	£	£
INCOME			
Dwelling rents	29,372,400	29,158,300	29,962,800
Non-dwelling rents	194,600	193,100	194,400
Heating charges	35,300	34,500	38,400
Other charges for services and facilities	921,800	922,500	935,400
Contributions towards expenditure	45,700	62,200	62,200
Total Income	30,569,800	30,370,600	31,193,200
EXPENDITURE			
Repairs and Maintenance	6,898,300	6,895,700	7,038,800
General Management	7,339,000	7,343,800	7,452,400
Special Services	1,325,100	1,335,200	1,366,000
Rents, rates, taxes and other charges	50,000	58,000	60,300
Increase in provision for bad debts - uncollectable debts	186,000	176,700	181,600
Increase in provision for bad debts - impact of Benefit Reforms	291,500	294,400	302,700
Cost of Capital Charge	4,848,700	4,626,200	4,631,600
Depreciation of fixed assets - council dwellings	7,900,000	8,376,000	8,543,500
Depreciation of fixed assets - other assets	43,600	43,400	43,400
Debt Management Expenses	40,600	40,600	40,600
Contribution to/(from) Business Plan Headroom Reserve	(505,300)	(360,900)	(1,924,900)
Total Expenditure	28,417,500	28,829,100	27,736,000
Net cost of services	(2,152,300)	(1,541,500)	(3,457,200)
Amortised premia / discounts	0	0	0
Interest receivable - on balances	(27,200)	(66,000)	(67,400)
Interest receivable - on loans (mortgages)	(300)	0	0
Net operating expenditure	(2,179,800)	(1,607,500)	(3,524,600)
Appropriations			
Appropriation relevant to depreciation and MRA			
Housing set aside (Principal repayments on new developments)	177,000	177,000	192,600
Revenue contributions to capital	1,992,800	1,420,500	3,322,000
(Surplus) / Deficit	(10,000)	(10,000)	(10,000)
Working balance brought forward	(1,030,000)	(1,030,000)	(1,040,000)
Working balance carried forward	(1,040,000)	(1,040,000)	(1,050,000)

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Sheltered Support and Amenity Charges
Current charges 2019/20 and proposed charges 2020/21

APPENDIX 2

Scheme	Management Charge 2019/20 £	Support Charge 2019/20 £	Amenity Charge 2019/20 £	Total Charges 2019/20 £	Proposed Management Charge 2020/21 £	Proposed Support Charge 2020/21 £	Proposed Amenity Charge 2020/21 £	Total Proposed Charges 2020/21 £	Increase over current charges £
					2.7%	0%	2.7%		
Beech Close	11.51	8.33		19.84	11.82	8.33		20.15	0.31
Chelsea Avenue	11.51	8.33		19.84	11.82	8.33		20.15	0.31
Clarkshill	11.51	8.33	17.86	37.70	11.82	8.33	18.34	38.49	0.79
Elms Close	11.51	8.33	2.09	21.93	11.82	8.33	2.15	22.30	0.37
Falcon House	22.10		10.43	32.53	22.70	0.00	10.71	33.41	0.88
Griffin Close	11.51	8.33		19.84	11.82	8.33		20.15	0.31
Griffin House	22.10		10.12	32.22	22.70	0.00	10.39	33.09	0.87
Hampson Fold	11.51	8.33		19.84	11.82	8.33		20.15	0.31
Harwood House	11.51	8.33	20.26	40.10	11.82	8.33	20.81	40.96	0.86
Limegrove	11.51	8.33		19.84	11.82	8.33		20.15	0.31
Maple Grove	11.51	8.33		19.84	11.82	8.33		20.15	0.31
Moorfield	11.51	8.33	23.18	43.02	11.82	8.33	23.81	43.96	0.94
Mosses House	11.51	8.33	18.39	38.23	11.82	8.33	18.89	39.04	0.81
Stanhope Court	11.51	8.33	9.34	29.18	11.82	8.33	9.59	29.74	0.56
Taylor House	11.51	8.33	20.69	40.53	11.82	8.33	21.25	41.40	0.87
Top O'th Fields 1	11.51	8.33	19.95	39.79	11.82	8.33	20.49	40.64	0.85
T O'th F 2 (Welcomb Walk)	11.51	8.33		19.84	11.82	8.33		20.15	0.31
Waverley Place	11.51	8.33	21.93	41.77	11.82	8.33	22.52	42.67	0.90
Wellington House	11.51	8.33	29.66	49.50	11.82	8.33	30.46	50.61	1.11

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HRA VOID LEVEL OPTIONS - 2020/21

NB Springs TMO has a fixed voids allowance - currently 2%

VOIDS	RENT LOSS	DIFFERENCE FROM ASSUMED VOIDS LEVEL (1%)
%	£	£
0.40	121,920	-182,880
0.50	152,400	-152,400
0.60	182,880	-121,920
0.70	213,360	-91,440
0.80	243,840	-60,960
0.90	274,320	-30,480
1.00	304,800	0
1.10	335,280	30,480
1.20	365,760	60,960
1.30	396,240	91,440
1.40	426,720	121,920
1.50	457,200	152,400
1.60	487,680	182,880
1.70	518,160	213,360
1.80	548,640	243,840

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Proposed Specific Capital Projects 2020/21

Internal Schemes - Kitchens, bathrooms, heating

Victoria Estate Phase 1
Bolton Road Radcliffe & Red Bank Phase 2
Bolton Road Turks Phase 1
Huntley Fold
Top O Th'Fields
Springs (Boiler replacement scheme)
Fire Safety Work

External Schemes

Freetown Roofing
Victoria Estate Doors, windows, pointing etc.
Parrenthorn Road External Wall Insulation

COMMUNAL AREAS (Door Entry, Floor Coverings, Decoration, Emergency lighting)

Stephens Close
Coronation Gardens
Harrogate Court

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HOUSING REVENUE ACCOUNT - RISK ASSESSMENT

Risk Event	Impact	Risk Level	Likelihood	Max. Impact £000	Min. Provision £000
Increased stock loss - level exceeds the provision made in the estimates	The loss of a property costs the HRA approx. £3,800 in lost rental income in a full year. A loss of 45 properties throughout the year would cost around £86k.	H 100%	Budget 2020/21 assumes 60 sales. Current sales levels are a bit below this level but the level of applications can be influenced by outside factors such as the general economy or promotion of Right to Buy.	86	86
Higher level of void (empty) properties - increase loss of rental income	A 0.7% increase in void loss costs the HRA £213k in a full year.	H 100%	Budget 2020/21 assumes 1% void rental loss. Whilst recent performance is meeting this target it may prove difficult to maintain.	213	213
Numbers of properties moving to target rents not as high as anticipated	A property moving to target rent will increase the weekly rental income by an average of £6.07.	H 100%	The numbers of properties moving to target rent will depend on how many properties become void during the year and whether their rents are already at target level (which will increase by the same).	25	25
Increase in arrears levels	Rental income is accounted for in the HRA on a rents receivable basis rather than actual rent received. However an increase in arrears could impact on the level of contribution required to the Bad Debt Provision.	H 100%	Budget 2020/2021 allows for contributions of £484k to the Bad Debt Provision. This is based on 1.6% of the rental income due and allows for the potential impact of benefit changes. However the level of arrears can be volatile and the timing and impact of benefit changes is still estimated.	303	303
Interest rates - Cost of Capital	Under self financing the risks associated with changes in interest rates impact directly on the HRA. A 0.5% increase across the assumed HRA borrowing (excluding the loans taken for self financing) would cost £206k.	L 60%	The loans taken on for self financing are long term fixed rate so the interest charges are known. However there could be an impact on the HRA if it picks up a larger share of existing higher interest rate debt or when pre self financing loans are replaced. Borrowing for new developments could be at a higher rate than when the	206	124

HOUSING REVENUE ACCOUNT - RISK ASSESSMENT

Risk Event	Impact	Risk Level	Likelihood	Max. Impact £000	Min. Provision £000
Capital Investment requirements - newly arising need.	Under self financing the resources for capital investment in the housing stock come directly from the HRA.	L 60%	The 3 year capital investment programme for 2018-2021 was determined on the basis of the resources required to maintain the stock at a Decent Homes Plus level however it is felt prudent to allow for the possibility of any unforeseen or urgent investment requirements or changes.	246	148
Increase in Management Fee paid to Six Town Housing	Six Town Housing can request additional pay and non pay costs as an addition to the Management Fee however this is subject to negotiation with the Council (it is not an automatic payment).	L 60%	The STH Management Fee has not yet been agreed for 20/21 and new Management Agreement is not yet in place. Therefore it is felt prudent to allow for a 1% increase over and above that provided for in the 20/21 budget.	133	80
Other HRA expenditure	There are costs and charges within the HRA that are outside of the Management Fee paid to Six Town Housing; these include payments to the Department of Communities and Wellbeing and other departments of the Council for services provided to HRA customers. If these costs were to be 2% higher than assumed then this would amount to around	M 80%	The majority of these charges are agreed in advance and as such should not vary throughout the year. However it is felt prudent to allow for the possibility that unforeseen circumstances within services outside of the HRA could have an impact on the charges made.	42	34
Springs Tenant Management Co-operative - potential progress towards self financing TMO.	As these proposals progress there may be costs that fall on the HRA associated with this.	H 100%	The 2020/21 budget does not contain any provision for these costs as the timing and extent of such costs has not yet been fully established.	40	40
				1294	1053

<p>Equality/Diversity implications:</p>	<p>These proposals are in line with equality and diversity policies.</p>
<p>Considered by Monitoring Officer:</p>	<p>The Council has a continuing responsibility for financial regularity in schools and the Section 151 Officer has set out the necessary arrangements for local financial and management controls in accordance with legislative provisions and guidance.</p>
<p>Wards Affected:</p>	<p>None</p>

Introduction

- 1.1 The Dedicated Schools Grant (DSG) is the ring-fenced grant from Government that provides each local authority with an allocation of funding for schools and services for pupils.
- 1.2 The DSG contains 4 blocks determined by a separate national funding formula which calculates the total funding due to Local Authorities. In considering how the DSG is allocated it is necessary to consider each block separately. This reports sets out recommendations in relation to the Schools budget for approval by Cabinet. The details set out in the report has been discussed, and agreed, by the Schools Forum.

2 Dedicated Schools Grant

- 2.1 In September 2019, the Chancellor of the Exchequer presented the 2019 Spending Round (SR2019) to Parliament and this included notification that, nationally, schools funding would increase by £2.6bn in 2020/21, £4.8bn in 2021/22 and £7.1bn in 2022/23. The Government also advised that the high needs funding for schools would increase by £700m nationally.
- 2.2 For schools this means that the minimum per pupil amount has increased from £3,500 per primary school pupils in 2019/20 to £3,750 in 2020/21, and from £4,800 per secondary school pupil in 2019/20 to £5,000 in 2020/21. For Bury, an additional £10.755m was allocated over and above the 2019/20 allocation.
- 2.3 The allocations for Bury are set out in the following table.

Dedicated Schools Grant	2019/20 £m's	2020/21 £m's	(Increase) /Decrease in funding £m's
Schools Block	122.104	129.940	(7.836)
Central Schools Services Block	0.772	0.774	(0.002)
Early Years Block	13.532	13.782	(0.250)
High Needs Block	30.542	33.209	(2.667)
Total DSG	166.950	177.705	(10.755)

- 2.4 The 4 blocks that make up the DSG are:

- **The Schools Block**

This provides funding for individual mainstream schools and academies as well as growth funding for any planned growth in schools. It is the responsibility of the Council to propose and decide any changes to the formula which is used to allocate Schools Block DSG to all primary and

secondary schools. The Schools Forum is consulted on any proposed changes and informs the governing bodies of all consultations.

- ***The High Needs Block***

This provides funding for the education of pupils subject to Education, Health and care plans from age 0-25 in a range of provision including special schools, mainstream schools, alternative provision, independent specialist provision and council centrally retained expenditure for high needs support and inclusion. It is the responsibility of the local authority to propose and decide the allocation of High Needs Funding. The Schools Forum is consulted on any proposed changes and informs the governing bodies of all consultations.

- ***The Early Years Block***

This provides funding for two year olds, early years funding in schools and in the Private, Voluntary and Independent (PVI) sector as well as centrally retained expenditure for under 5s. Local Authorities must pass through a minimum of 95% of funding for the universal 15 hour entitlement for 3 and 4 year olds and the additional 15 hours entitlement for 3 and 4 year old children of eligible working parents directly to settings. This means that up to 5% can be retained by the council to contribute to early years functions delivered by education services, for contingency to allow in-year funding to be provided to providers for increased early years pupil participation and for Early Years SEND inclusion funds.

It is the responsibility of the local authority to propose and decide on the allocation of early years funding. The Schools Forum and all early years providers are consulted annually and given an opportunity to give their view on the proposals.

- ***The Central Schools Service Block***

This provides funding for the local authority to carry out central functions on behalf of pupils in both maintained schools and academies. The local authority proposed the spending allocations funded from the Central Services block but the final decision is made by the Schools Forum.

Central schools services including the admissions service, schools forum, school improvement and other statutory and regulatory duties.

- 2.5 There is limited flexibility for councils to transfer funding between the 4 blocks. For 2020/21 the Education and Skills Funding Agency (ESFA) has limited the movement between blocks to 0.5% of the total schools block allocation but only with the agreement of the schools forum. Any proposed increase on this is subject to the approval by the Secretary of State.

- 2.6 In 2019/20, Secretary of State approval was given to increase the allocation in Bury to 0.7% in recognition of the increase in costs on the High Needs Block. This was a one year only request and is not being requested for 2020/21.

3 DSG Allocation

Schools Block Funding Formula

- 3.1 The Schools Block allocation for 2020/21 is £129.940m. This is an increase of £7.836m from the 2019/20 allocation.
- 3.2 In September 2017, the National Funding Formula (NFF) for Schools and Central Schools Services was introduced. Following consultation with all schools and academies, Bury applied the NFF with effect from 1 April 2018 with the Secondary Schools opting to move to this immediately and Primary Schools taking a 3 year phased approach. From 2020/21, the national funding formula will be applied to all schools in Bury as previously agreed.
- 3.3 The Schools Forum has considered the allocation of the Schools Block and have made their recommendations. These have been applied to the formula used to determine individual school allocations and ensure full compliance with statutory requirements. A full summary is set out at Appendix 1 and these are recommended for approval by Cabinet.
- 3.4 It is worth noting that the Schools Forum is recommending that the Primary sector Lump Sum is phased over a two year period due to the number of primary schools adversely affected through other NFF factor changes. The phased reduction is £125,000 to £120,000 in 2020/21 followed by a transition to the NFF value of £115,023 from 2021/22. The Schools Block funding increase provided for 2020/21 ensures this transition is able to be applied.
- 3.5 In addition to the schools block funding, additional external funding is available directly for schools and academies. It should be noted that these are estimated figures, based on 2019/20 actuals and are subject to January/October 2020 pupil census and other data updates. A summary is set out in the following table.

Estimated external Funding available to schools and academies in 2020/21	
	£m
Pupil Premium Grant	9.108
Universal Infant Free School Meals Grant	2.369
Primary PE and Sport	1.147
Year 7 Catch Up Grant	0.195
Teacher's Pay Grant	1.473
Teacher's Pension Grant	4.909
Devolved Formula Capital	0.742
TOTAL	19.943

- 3.6 The Teachers Pay Grant is provided to schools and academies to cover increased costs of nationally determined teachers' pay awards above 1% but does not cover costs associated to teachers employed directly in local authority support services.
- 3.7 The DfE also introduced the Teachers' Pension Grant with effect from September 2019 for schools and academies to fund the significant increase to their employer's pension contributions applicable. Unlike the Teachers Pay Grant the Department for Education (DfE) have included teachers employed directly by the local authority in central support services in the distribution of the Teachers Pension Grant.
- 3.8 The Teachers pay grant for 2020/21 will not increase in line with the proposed teachers pay award given the increased funding already made available to schools through the 4% increase to formula funding factors.
- 3.9 Both the Teachers Pay and Pensions grant are likely to be rolled into the schools formula funding mechanism with effect from 2021/22. This will be subject to DfE consultation during 2020.

Early Years Block National Funding Formula

- 3.10 Early Years funding to providers is based on hourly rates for eligible 2, 3 and 4 year olds accessing their entitlement to free early education. The hourly funding rate applied to 3 and 4 year olds must also meet a minimum level of an average across all providers of at least £4.16 per hour.
- 3.11 The hourly rate determined must include a universal base rate and a mandatory supplement for deprivation applied to all providers. Any supplements must not be more than 10% of the total hourly rate funding to providers.
- 3.12 Up to 5% of the 3 and 4 year old funding may be retained by the council to contribute to central early years functions, contingency for in-year increases to early years pupil participation in settings and for Early Years SEND Inclusion Fund.
- 3.13 The 2 year old funding rate allocated is higher in order to contribute to funding the greater staffing ratios required and associated costs of supporting 2 year old children. The 2 year old aspect does not include any mandatory supplements and is not subject to the 95% pass-through requirement.
- 3.14 The Early Years block for 2020/21 continues to include the Maintained Nursery School (MNS) funding protection which is allocated as an additional lump sum outside of the universal hourly rates used.
- 3.15 Bury's hourly rate for early years provision is higher than the minimum set out by the Government. It is however proposed that the additional allocation in the settlement, equivalent to £0.08 be added to the 2019/20 rate. In accordance with the statutory requirements Council is required to

approve the hourly rates applicable with effect from 1 April 2020, recommended by Schools' Forum. These are set out in the table below.

Early Years Allocation of Funding Per Hour	
Factor	2020/21 Allocation Per Hour (£)
Universal rate allocated to all providers	4.08
Deprivation Supplement (average)	0.16
Central Provided Services (3%)	0.14
Total for 3 and 4 year olds	4.38

Note: The deprivation allocation above is an average and may vary to individual settings as their actual amount is determined according to the latest deprivation indices for all children on roll according to their home postcode.

Early Years Allocation of Funding Per Hour	
Factor	2020/21 Allocation Per Hour (£)
Universal rate allocated to all providers	5.28
Deprivation Supplement	n/a
Central Provided Services (5%)	n/a
Total for 2 year olds	5.28

- 3.14 The hourly rates proposed ensure the full increased funding provided through the Early Years Block of 8 pence per hour for 2020/21 is allocated directly to all Early Years providers through their funding allocations based on actual numbers on roll and hours of pupil participation in their settings.

High Needs DSG Budget Allocation

- 3.15 The 2020/21 allocation for High Needs DSG is £33.209m. This represents a £2.667m increase in the 2019/20 allocation.
- 3.16 High Needs funding is based on SEND pupil numbers at October 2019 in mainstream, special and resources provision maintained schools and academies, and SEND pupil numbers at January 2020 in independent provision.
- 3.17 Of the total allocation of £33.209m, the ESFA will allocate around £3.7m direct to Academies and Further Education (FE) establishments for high needs places. The funding remaining for the council to manage is therefore £29.509m to fund all in-borough and out-borough provision and specialist support for SEND and inclusion priorities.
- 3.18 The Quarter 3 monitoring reported to Cabinet shows a projected cumulative deficit of £18m on the High Needs DSG reserve which is £3.369m higher than at the end of 2018/19. The in-year overspend is due to increased spend on addressing the strategic priorities to develop and enhance in-borough specialist provision. This increase in the deficit was anticipated and forms part of the DfE and Schools Forum approved 5 year deficit recovery plan. Further information on the recovery plan is set out later in the report.

Central Schools Services DSG

3.19 The allocation of the Central School Services DSG (CSSB) block is £0.774 in 2020/21. This represents a small increase on the 2019/20 budget (£0.002m). The use of the CSSB is one for the Schools Forum to decide based on proposals from the council in respect to funding ongoing responsibilities and central functions undertaken on behalf of schools and academies. .

4 DSG HIGH NEEDS RECOVERY PLAN

4.1 Costs of high needs have exceeded the available budget for a number of years and the forecast position on the DSG reserve is a cumulative deficit of £18m by the end of 2019/20. This is £3.369m higher than at the end of 2018/19. The deficit has accrued for a number of reasons including an increasing number of pupils receiving Education, Health and Care Plans (EHCPs), increasing complex needs, increasing costs of provision, increased numbers of pupils in out of borough placements.

4.2 The funding in 2020/21 has increased by £2.677m and it is anticipated that this, in addition to the work agreed in the recovery plan, will help to reduce the cumulative deficit. The table below sets out the detail of the recovery plan, as agreed with the DfE and the Schools Forum.

DSG High Needs Recovery Plan 2018/19 – 2023/24						
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	£m	£m
DSG Balance Brought Forward	11.130	14.630	19.080	20.780	20.380	18.880
Out-Borough Pressures and Investment in SEND provision and priorities in-borough	3.500	3.500	3.000	2.000	2.000	2.000
Schools & Academies EHCP Top-Ups	0.450	2.300	3.000	2.500	2.500	2.500
SEN Support & Inclusion - Reduced out of borough placements	0.000	-0.500	-1.400	-1.400	-2.000	-2.000
SEN Support & Inclusion - Annual Service Efficiencies / Savings	0.000	0.000	-0.200	-0.500	-0.500	-0.500
DSG Schools Block Transfer	0.000	-0.900	0.000	0.000	0.000	0.000
Additional High Needs Funding	-0.450	-0.450	0.00	0.000	0.000	0.000
High Needs National Funding Formula increase	0.000	0.000	-2.700	-4.000	-5.000	-5.000
Deficit Balance C/fwd estimate	14.630	18.580	20.780	19.380	17.380	15.880

4.3 Outcomes of a national major review into High Needs provision and funding, to be commissioned by the DfE (launch date currently unknown), will be factored in to the future strategic priorities and recovery plan profile in due course.

- 4.4 Based on the information available it is forecast that the DSG reserve will remain in deficit for a number of years – currently projecting a cumulative deficit of £15.8m by the end of 2023/24. Work is underway to bring this down further and updates will be provided as part of the quarterly monitoring process.
- 4.5 The recovery plan has been accepted by the Department for Education (DfE) as an initial plan subject to further monitoring and evidence linked to actual delivery of the SEND priorities related to it.
- 4.6 DfE accept that the cumulative deficit may take a longer period to recover and are looking at how further support to LAs may be provided in future years, including targeted DSG to areas struggling to recover the deficit. The additional funding announced as part of SR2019 may be an indication that additional funding to address this issue may be available in future years. This is however not confirmed and cannot be relied on.
- 4.7 The DfE has just announced the outcome of its consultation on DSG balances and is removing the link between the council's general reserves and DSG deficit balances. The detail on the outcomes of the consultation is currently being considered and more updates will be available at the meeting. Whilst this removes the risk from councils, the expectation that the deficits are managed as part of the DSG budget needs to be considered and still needs to be addressed.

Appendix 1

Funding Unit Values recommended to Cabinet by the Schools Forum			
Factor	Sub-level	2019/20	2020/21
		£	£
Basic Entitlement Age Weighted Pupil Unit (AWPU)	Primary	2,858	2,873
	Key Stage 3	3,860	4,040
	Key Stage 4	4,380	4,586

Deprivation – Amount Per Pupil			
Factor	Sub Level	2019/20 Per Pupil	2020/21 Per Pupil
		£	£
Free School Meals - Ever 6	Primary	395	563
	Secondary	785	819
Free School Meals	Primary	315	452
	Secondary	440	452
Income Deprivation Affecting Children Indices (IDACI) - Primary (Amount Per Pupil)	IDACI F	200	211
	IDACI E	260	251
	IDACI D	373	377
	IDACI C	460	407
	IDACI B	547	437
	IDACI A	718	603
Income Deprivation Affecting Children Indices (IDACI) - Secondary (Amount Per Pupil)	IDACI F	290	302
	IDACI E	390	407
	IDACI D	515	538
	IDACI C	560	583
	IDACI B	600	628
	IDACI A	810	845

Funding Unit Values recommended to Cabinet by the Schools Forum				
Factor		Sub-level	2019/20 Per Pupil	2020/21 Per Pupil
Additional Education Needs Factors – Amount Per Pupil			£	£
Low cost, high incidence SEND	Low Prior Attainment		726	1,071
			1,550	1,619
English as an Additional Language (EAL)	Primary		365	541
	Secondary		1,385	1,448
Mobility	Primary		500	880
	Secondary		0	1,257

School-Led Factors		Amount per School	
		2019/20	2020/21
		£	£
Lump Sum	Primary	125,000	120,000
	Secondary	110,000	115,023

Agenda	
Item	

MEETING:	OVERVIEW AND SCRUTINY COMMITTEE
DATE:	11 FEBRUARY 2020 OVERVIEW AND SCRUTINY 26 FEBRUARY 2020 CABINET 26 FEBRUARY 2020 FULL COUNCIL
SUBJECT:	CAPITAL STRATEGY AND CAPITAL PROGRAMME 2020/21 – 2022/23
REPORT FROM:	CABINET MEMBER FOR FINANCE AND HOUSING
CONTACT OFFICER:	MIKE WOODHEAD, JOINT CHIEF FINANCIAL OFFICER
TYPE OF DECISION:	COUNCIL
FREEDOM OF INFORMATION/STATUS:	This paper is within the public domain
SUMMARY:	This report sets out the capital strategy, the proposed capital programme 2020/21 and the indicative capital programme 2021/22 – 2022/23. The report sets out the capital investment priorities and information on the funding of the programme.
	Cabinet is asked to: <ul style="list-style-type: none"> • Approve the capital strategy 2020/21 – 2022/23

OPTIONS & RECOMMENDED OPTION	<ul style="list-style-type: none"> • Approve the capital programme of £51.101m for 2020/21 and the associated funding arrangements • Note the addition of £1.5m to the revenue budget from 2020/21 to support borrowing for the programme. • Note the indicative capital programme for 2021/23 – 2022/23 and that this will be subject to decision making in future years.
IMPLICATIONS: Corporate Aims/Policy Framework:	The proposals accord with the Policy Framework
Statement by Section 151 Officer:	Financial and risk implications are detailed in the report.
Equality/Diversity implications:	No
Considered by Monitoring Officer:	<p>Yes</p> <p>The Council has a duty under section 3(1) of the Local Government Act 2003 to determine and keep under review how much money it can afford to borrow. Section 3(5) of the Local Government Act 2003 provides that the Secretary of State may by regulations make provision about the performance of that duty. Regulations made by the Secretary of State require the Council to have regard to the Prudential Code for Capital Finance in Local Authorities published by CIPFA regarding the affordability of the Capital Programme.</p>
Are there any legal implications?	The legal implications for each individual scheme within the capital programme will be considered when approval is sought for that particular scheme. Each scheme within the capital programme will be approved in accordance with the Council's Constitution.
Staffing/ICT/Property:	No
Wards Affected:	All

Scrutiny Interest:	Overview and Scrutiny Committee
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TRACKING/PROCESS

DIRECTOR: MIKE WOODHEAD

Joint Executive Team	Cabinet Member/Chair	Ward Members	Partners
	Yes		
Scrutiny Committee	Cabinet	Committee	Council
11 February 2020	26 February 2020		26 February 2020

CAPITAL STRATEGY 2020/21 – 2022/23

1 INTRODUCTION

- 1.1 In line with good practice, the Capital Strategy forms part of the council's strategic and financial planning framework and provides a framework within which the council's capital investment plans will be delivered. The capital strategy 2020/21 – 2022/3 has been prepared to cover a 3 year period initially though it is expected that this will be extended to a 5 year time frame in line with the council's medium term financial strategy. The current approach recognises the uncertainty, especially in relation to funding in future years.
- 1.2 The format of the Capital Strategy reflects the Prudential and Treasury Management Codes issued by CIPFA in 2017 which require councils to prepare a capital strategy and include specific information within it. The strategy therefore includes:
- A high-level, long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
 - An overview of how the associated risk is managed;
 - The implications for future sustainability
 - The proposed capital programme 2020/21 – 2022/23
 - Financing the capital programme
- 1.3 The Capital Strategy is prepared to ensure members are fully aware of the overall long term capital investment objectives, capital strategy requirements, governance arrangements and risk appetite. The strategy cannot be viewed in isolation and links directly to the medium term financial strategy, the treasury management strategy and the asset management plan.
- 1.4 Our commitment to an integrated approach impacts on how our capital programme is developed and priorities with an organisation-wide approach to determining our capital investment priorities, rather than being determined by individual services. This aims to ensure our scarce resources are used in the most effective way and supports our corporate priorities:
- Putting people first – using inclusive growth to improve life chances
 - Raising aspirations – investing in culture and community capacity
 - Building on strengths – Local delivery models driving public sector reform
 - Committing to carbon neutral – combatting climate change through new ways of working
 - Strengths based delivery – protecting the vulnerable and safeguarding our future through reshaping services and support
 - Being bold for Bury – Local planning for a safe, prosperous and happy place to be, throughout the borough
- 1.5 A refresh of the strategy will be carried out during 2020/21 to reflect any changes in priorities and outcomes identified as part of the Bury 2030 strategy. These will be reflected in the strategy and resulting capital programme from 2021/22 onwards. The current strategy reflects the current priorities and outcomes.

2 CAPITAL RESOURCES

- 2.1 When assessing the level of planned capital investment to undertake we make a judgement about the level of capital resources that are likely to be available over the period of the programme. Our main capital resources are service specific grants, third party contributions, capital receipts, lease finance and borrowing.
- 2.2 Historically the Capital Programme has not required any additional borrowing by the Council. This is no longer considered a sustainable position and borrowing is likely to be a key source of funding for new schemes in the future. In developing the capital programme, any revenue costs needed to support potential borrowing have been identified and reflected in the council's MTFS.

Central Government Allocations and External Grants and Contributions

- 2.3 Some capital projects are financed through the allocations received directly from the Government Departments or external grants and contributions which are mostly specific to projects and cannot be used for other purposes. Examples of these would include the allocations for schools, highway maintenance or Disabled Facilities grants from Central Government.
- 2.4 Grants from external organisations are a valuable source of capital finance for the Council and have enabled the Council to realise a substantial number of Capital developments in the past that would otherwise have been unable to progress.
- 2.5 The Council will continue to explore cost effective opportunities for grants from external bodies. However support through grants cannot be accurately predicted and therefore the Council recognises that it cannot depend on this source. The Council will also ensure that exit strategies are prepared in the case of on-going projects funded through external support, in the event of the support being withdrawn.

Capital Receipts

- 2.6 The Council generates capital resources through the sale of surplus land and buildings. The short to medium term asset sales are forecast to be minimal and as a result, the ability of the Council to fund investment from within its own funding remains limited.
- 2.7 The Council will continue to pool both Housing and General Capital Receipts to reflect its commitment to a priority-led approach to the allocation of resources and continue to maintain a policy of not ring-fencing the use of capital receipts to fund new investment in specific schemes or service areas. However it does recognise that exceptionally there will be instances in which it will be necessary to earmark receipts to particular schemes and if earmarking is necessary then a report will be taken to the Cabinet for consideration of the specific circumstances.
- 2.9 From April 2016 the government introduced the flexibility for capital receipts to be used to fund revenue expenditure which meets certain criteria. To meet the qualifying criteria the revenue expenditure needs to

related to activity which is designed to generate ongoing revenue savings or to transform a service which results in revenue savings on improvements in the quality of service provision. Local authorities are only able to use capital receipts from the sale of property, plant and equipment received in the years in which this flexibility is offered. They may not use the existing stock of capital receipts to finance the revenue costs of service reform. There are no proposals to use capital receipts to fund transformation at this stage though it is important that the option to do so is acknowledged.

Borrowing

- 2.8 From 1 April 2004 authorities have had the discretion to borrow in line with the CIPFA Prudential Code which is known as 'Unsupported Borrowing' and outside the Government's control who will no longer support Authorities with a provision in the Revenue Budget to meet the capital financing costs that arise from this level of borrowing.
- 2.9 The Council can make use of the opportunity for the Prudential Borrowing where it is most cost effective and as long as its capital investment plans are affordable, sustainable and prudent. It hence makes a choice on whether revenue resources are used to fund direct service delivery or reserved to finance costs of borrowing for capital investment.
- 2.10 The Council will consider the use of unsupported borrowing in two particular circumstances:
- **Discretionary unsupported Schemes** – where individual services can meet the full borrowing, and other revenue, costs from within existing resources and where the related expenditure meets with Council ambitions/priorities and would not be able to proceed through and other funding source. Any such schemes must be specifically approved by the Cabinet or Council and be supported by a detailed Business Case.
 - **Invest to Save schemes** – where pump priming assistance is required but overall, costs are met from additional revenue/capital income or savings generated by the scheme. Pump priming can be funded from unsupported borrowing or from slippage/internal resources. Again, the specific approval of the executive will be needed before any such schemes proceed.

Revenue Contributions and Reserves

- 2.11 The Council can also use revenue resources to fund capital projects, although revenue budgets have come under increased pressure over recent years thus limiting in a significant measure the revenue contribution resource. The propose capital programme requires borrowing and the cost of borrowing to support the 2020/21 has been factored into the 2020/21 budget. Any requirements beyond this will need to be factored into the MTFs. The Council may also finance some capital schemes from reserves such as S106 set asides.

Lease financing

- 2.12 The Council has traditionally used funding by way of leases to mainly acquire or use vehicles and grounds maintenance equipment where the

revenue budget did not allow for a full capital repayment and there was a robust business case for the option of leasing to be considered. The future funding of vehicles will be considered on a case by case basis with the most cost effective method used.

- 2.13 By 2022 the Council will need to replace all of its vehicles and equipment held currently on operational leases and a strategy to cover replacement over the next seven years is being drawn up in the services involved. This is a key component of the proposed capital programme for 2020/21 with the replacement of waste vehicles an identified priority.

3 CAPITAL SPEND PROPOSALS

- 3.1 The council's capital programme 2020/21 – 2022/23 is set out at Appendix 1. The proposed programme takes account of the latest monitoring position on the 2019/20 capital programme including any identified slippage and schemes proposed to be carried forward into future years. In addition to this a number of new schemes are proposed for inclusion in the programme.

- 3.2 The proposed capital programme is focused around some main themes that align to the Council's objectives and outcomes including:

- Regeneration of key areas within the borough
- Sport and Leisure
- Operational Fleet
- Housing
- Highways
- Children and Young People, including schools
- ICT and Digital
- Estate Management

- 3.3 The key areas of investment proposed for 2020/21 are:

- **Replacement of the vehicle fleet.** This includes replacement of the waste management fleet as well as other vehicles used across a range of services. The programme is phased over a 3 year period during which the most suitable method of procurement will be considered. Vehicles are currently leased and are funded from revenue budgets which may be available to support any borrowing in future years should the most cost effective method be to purchase rather than lease. These revenue budget have not been considered at this stage.
- **Regeneration** A significant amount of regeneration works has been assumed covering all major sites across the council. This work includes funding brought forward from the 2019/20 financial year.
- **Highways** Continued investment in highways services. This is in line with commitment made when the 2019/20 capital programme was set.
- **Cycle Ways** The council has the opportunity to spend up to £10m of grant funded income from the Greater Manchester Combined Authority to support greater use of cycle ways and to promote greater use. Full utilisation of the funding in 2020/21 has been assumed.

- **Education** Anticipated grant income for schools related expenditure has been assumed. Final grant allocations have yet to be announced and indicative figures have been used. These will be adjusted once the final allocations have been made available.
- **Sports and Leisure** Investment in external sites, including parks, as well as leisure centre is assumed within the capital programme to promote healthier lifestyles and wellbeing.
- **Housing** Use of the housing revenue account to promote housing growth has been assumed, all of which will be funded from within the HRA.

3.4 Total expenditure in 2020/21 is planned at £51.101m however the position is likely to evolve as:

- There may be further government funding allocations announce prior to the start of the 2020/21 financial year;
- It is likely that new initiatives will be announced later in the financial year;
- There may be the opportunity to bid for additional funding;
- The council may identify other funding sources, including capital receipts, to finance additional capital expenditure.

3.5 Therefore the capital programme position will be kept under review and any new information about funding allocations will be presented to members in future reports.

3.6 In recent years the programme was based on fully funded schemes and a reduced call on Council's own resources through prioritisation methods that are under continuous development. This is no longer considered sustainability in light of the pressures on the council's finances and reduced reserves. Within the proposals is a requirement to fund £15m of investment through borrowing. In recognition of this, a total of £1.5m capital financing costs has been built into the revenue budget from 2020/21 onwards.

4 Funding the Capital Programme

4.1 The draft programme is proposed to be financed as follows:

Financing the Capital Programme 2020/21 – 2022/23				
	2020/21	2021/22	2022/23	TOTAL
	£m	£m	£m	£m
Gross Cost	51.101	39.803	40.158	131.062
Financed By:				
Grants / External Funding	14.978	2.339	2.339	19.656
HRA Headroom reserve	9.830	10.000	10.000	29.830
Capital Receipts Reserve	0.609			0.609
Borrowing -Prudential	25.684	27.464	27.819	80.967
TOTAL	51.101	39.803	40.158	131.062

- 4.2 From the table above it is evident that there is reliance on a significant amount of borrowing in future years. The affordability of such borrowing will be subject to consideration at the point at which the budget for that financial year is set. The council will however work to ensure that the level of borrowing required is reduced as much as possible and that we maximise the use of capital receipts, grant and other external income and also use any existing revenue budgets that may not be needed should there be a shift away from leasing to borrowing, i.e. in the case of vehicle replacement.

5 PRIORITISING, MANAGING, MONITORING, REPORTING AND EVALUATING THE CAPITAL PROGRAMME

Prioritising Capital Resources

- 5.1 The Council has continued to embrace the concept of Asset Management and the need to ensure that investment within the Borough maintains and develops assets 'fit for purpose'. It will work to ensure that future investment delivers the ambitions and priorities in the Bury Plan. It has been long demonstrated that the demands for capital investment tend to exceed available resources. To alleviate this, a robust mechanism is in place to assess schemes against key criteria and assist in decision prioritisation for use of capital resources. New capital gateway processes are currently being developed and will be implemented during 2020/21.
- 5.2 The scrutiny of capital schemes proposed will take place through the combined work of members and officers, Joint Executive Team and with final decisions for budget setting being taken by the full Council in February each year.
- 5.3 The Council has in place a comprehensive capital bidding mechanism through which information on the strategic fit, partnership working, revenue consequences, funding profile, statutory drivers and critical success factors are collected for all schemes. The capital bidding mechanism ensures that new capital projects are appraised on a consistent basis and are aligned with the priorities set out in the Bury Plan.
- 5.4 Preparation of the Capital Programme is undertaken in two stages. Firstly, scheme bids are placed into the following categories:
- 100% funded schemes
 - Discretionary schemes (Invest to Save)
- 5.5 In line with the priority-led approach previously approved by Executive it is assumed that Members will wish to support the inclusion of schemes that fall into the first category, although this assumption is tested regularly and Members are free to exercise discretion over the inclusion of any scheme (or scheme funding).
- 5.6 The second stage involves assessing the extent of any resources that are available to fund new, discretionary schemes and then using a simple quantifiable scoring model that assesses the extent to which schemes reflect national and local priorities, generate revenue savings/costs and lever in additional external resources.
- 5.7 The Council's priorities form the framework for the prioritisation of capital investment for the Capital Programme. By using this prioritisation process on an annual basis to decide the Capital programme for the following year,

it allows the review of the whole 3 year rolling capital programme. This review of schemes allows the addition, withdrawal or deferral of capital investment resulting ensuring available capital resources are focused on corporate priorities.

- 5.8 Reviewing the Capital Programme is an on-going process and in the past several years available resources have been reducing constantly due to new identified funding requirements and a slowdown in available suitable for disposal surplus assets.
- 5.9 The Asset Management process provides a comprehensive and rigorous assessment of the Council's assets, their potential use and performance which assists in enhancing and strengthening the process of prioritising investments within the Council.
- 5.10 The Council is currently projecting investment gaps in the next two years and beyond. The combined processes of prioritisation, different procurement and delivery options, remain central to delivering this Capital Strategy.

6 Monitoring and Reporting on the Capital Programme

- 6.1 The Capital Programme is monitored regularly throughout the year by the corporate Capital Programme Management Group, and a summary financial monitoring report is submitted quarterly to the Joint Executive Team, the Cabinet and Full Council. This report presents detail of spend, potential re-profiling of the programme and any significant changes in funding assumptions, especially the level of asset disposals which are always critical for the delivery of the Capital Programme.

7 PERFORMANCE MEASUREMENT AND EVALUATION

- 7.1 The Council has for many years adopted a long-term approach to capital investment, with capital schemes and priorities often being implemented over a number of years.
- 7.2 The Council will continue to develop a monitoring and evaluation process, which will focus on the results/impact of any investment made. An outcomes focussed monitoring approach will be included in future monitoring reports.
- 7.3 All capital schemes will be managed using the Bury project management methodology and programme management will be undertaken through the Capital Programme Management Group. These processes will be updated as part of the new Gateway processes that are currently being developed and implemented from 2020/21.
- 7.4 In line with the project Management Methodology, post-completion reviews on Capital Programme projects are undertaken to assess whether the intended objectives were achieved and whether potential improvements can be identified for the future.
- 7.5 The Capital Programme Monitoring Group meets regularly to monitor the Programme and monitoring reports are considered by the Joint Executive

Team, Cabinet and Scrutiny Panels on a quarterly basis. Should intervention action be required this will be undertaken immediately and may include a moratorium on other scheme starts, facilitation of further capital receipts or the use of additional borrowing (subject to revenue resources being available).

- 7.6 Risk based parameters are incorporated into the monitoring process so that schemes of highest risk (in terms of spending against budget and/or spending profile) receive highest attention.

8 RISK MANAGEMENT

- 8.1 There are three main risks recognised as inherent in the Capital Strategy recommended above:
- **Capital receipts are not realised to the level anticipated above.** This is a major risk and is one that has impacted on past programmes. To maintain this low risk it is strongly recommended that schemes reliant on capital receipts do not begin until there is a high degree of certainty that the relevant receipt will materialise.
 - **Future rise in Interest Rates.** Planning for Prudential Borrowing can be affected by rises in interest rates making the borrowing option less attractive as a funding option and putting at risk longer term large capital schemes.
 - **Schemes need re-profiling from one year to the next.** This is considered a normal feature of capital schemes and can occur for a large number of reasons. The risk can be mitigated by slipping corresponding resources between years and is not felt to be high. It is expected that the new Capital Gateway processes will improve the profiling of expenditure and also the delivery of schemes in line with expectations.
 - **Scheme costs increase.** Whilst not unusual, increased costs that can occur due to a number of factors cannot be mitigated without an impact on other schemes within the Programme or an impact on future years' resources. The risk can be reduced by the use of sound costing techniques, effective project management and monitoring schemes using a risk assessment approach.

2020/21 – 2022/23 Capital Programme						
Capital Programme						
	Slippage brought forward	New schemes 2020/21	Total Cost	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m	£m
Regeneration and Economic Growth						
Radcliffe	0.000	5.250	5.250	0.200	0.950	4.100
Prestwich	0.000	6.200	6.200	0.550	0.850	4.800
Ramsbottom	0.000	1.450	1.450	0.200	1.170	0.080
Bury	0.000	8.125	8.125	1.980	2.945	3.200
Bradley Fold	0.000	5.200	5.200	0.200	1.400	3.600
Refurbishment of Bury Market	0.900	0.000	0.900	0.900	0.000	0.000
Sub Total	0.900	26.225	27.125	4.030	7.315	15.780
Sports and Leisure	0.000	6.339	6.339	2.611	2.306	1.422
Operational Fleet	0.000	10.000	10.000	7.000	2.000	1.000
ICT and Digital	3.041	3.174	6.215	5.015	1.200	0.000
Highways						
Cycle and Walking Routes	0.000	10.000	10.000	3.000	4.000	3.000
Highways	0.000	11.662	11.662	5.296	2.682	3.684
Street Lighting	5.000	0.000	5.000	2.000	2.000	1.000
Traffic Calming and Improvement	0.517	0.000	0.517	0.517	0.000	0.000
Sub Total	5.517	21.662	27.179	10.813	8.682	7.684
Children and Young People	9.322	9.450	18.772	8.450	6.800	3.522
Estate Management	0.000	4.000	4.000	1.750	1.500	0.750
Communities and Wellbeing						

2020/21 – 2022/23 Capital Programme						
Capital Programme						
	Slippage brought forward	New schemes 2020/21	Total Cost	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m	£m
Older People	0.588	0.000	0.588	0.588	0.000	0.000
Disabled Facilities Grant	0.855	0.000	0.855	0.855	0.000	0.000
Other	0.159	0.000	0.159	0.159	0.000	0.000
Sub Total	1.602	0.000	1.602	1.602	0.000	0.000
Housing Public Sector	0.000	29.830	29.830	9.830	10.000	10.000
TOTAL	20.382	110.680	131.062	51.101	39.803	40.158

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