APPENDIX F

Medium Term Financial Strategy
2012/13 – 2014/15

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(1) FOREWORD AND INTRODUCTION

The aim of this strategy is to set out in financial terms the impact of the Councils existing policy commitments and the likely resources available to meet them to support the Council's Corporate Plan. The strategy covers the general fund or taxpayers account and the capital investment programme.

This Medium Term Financial Strategy (MTFS) builds on the previous strategy presented to the Council in February 2011. For a number of successive years local authorities have faced noteable change and a period of significant budget reductions and challenges as set out in the last Comprehensive Spending Review (CSR) in 2010.

The administration's continued financial aims are:

- To continue to be a high performing Council.
- To freeze Council Tax for 2012/13.
- To continue to provide value for money for the Council Tax payers of Chorley.
- To continue to provide assistance to those wishing to start up business in Chorley to create investment and engagement.
- To develop NEETS in our Borough into work or education.
- Develop programmes to support the current health reforms.
- Safeguarding front line services, particularly to continue to support the voluntary sector and PCSOs and focusing on the removal of bureaucracy and managerial posts.
- Looking for opportunities to share services and generate additional revenue.
- Preparing for the future and uncertainty over public finances.
- To look to reduce debt and the consequent financing charges.

It should be noted, however, that the fact still remains that during a tighter fiscal regime the overriding aims will be difficult to achieve. Nevertheless this strategy sets out ways in which it is envisaged this could be achieved.

New Era for Local Authority Financing

Following on immediately from this challenging period the whole platform by which local authorities are financed via Central Government is currently changing for the foreseeable future. In addition to core funding moving away from a four year settlement period to shorter term announcements uncertainty is exacerbated by the way in which the total funding pot for Local Authorities is distributed between authorities. Core funding distribution assessments will now comprise of a number of high value grant income streams calculated on annual variable factors and therefore subject to fluctuations from one year to the next, for example New Homes Bonus (NHB) and the retention of business rates. Although the detail is still unknown about how these grants will transpose in cash terms, it would appear that uncertainty is now a permanent feature in terms of financial planning over the medium term. With this new era in mind this document sets out the Council's financial strategy for the next three year period from 2012/13 to 2014/15.

Business Rates Retention and Tax Increment Financing

The Local Government Finance Bill includes a significant change to the funding of local councils. Although the details of the new arrangements are unknown the basis of the change is that Business Rates Retention would replace the current system of centrally pooling business rates. At present local authorities collect rates from the businesses in their areas, pay the funds into a central pool and then receive allocations back from this pool as part of Formula Grant. This system is said to give councils no direct financial incentive to promote business growth, because they do not receive any of the business rate receipts from new developments.

Under the new system, councils would keep a share of the growth in business rates in their area. Rate setting powers would remain with the Government and the Government would also decide what share of business rates should be kept by councils, how much should be paid into a central pool to be redirected to local government through other grants.

In summary the main elements of the changes are that there would be a stable starting point (baseline funding level 2013/14) for all councils so that no council would be worse off because it had lower business rates income than others. Those councils with a larger business rates base than their current spending would pay some of the income as a tariff. The councils with a smaller business rate base than their current spending would receive top up payments. Councils that would have a disproportionate increase in their spending power from business rates growth would pay a levy as well as a tariff, which would be used to fund a safety net for any council that had reductions in income by a set percentage below their baseline funding level. In two-tier areas, district councils would retain the greatest share of business rate growth, to ensure that the incentive to stimulate growth is placed on the right councils. The introduction of Tax Increment Financing would allow councils to finance schemes designed to increase business growth by borrowing, the cost of which would be funded from future business rate growth.

What Has Been Achieved

The previous MTFS set out the implications of the then recent CSR review and the implications for the Council's budget together with actions to address the budget funding gap. During this period significant progress has been made against the strategy and the table below sets out a summary of savings that have already been achieved, and also now proposed, in the first year of the three year programme (see detailed list Page 4, Appendix G).

Saving	3 YEAR STRATEGY £m	Achieved to Date £m
Renegotiation of Contracts	0.470	0.466
Productivity Gains - Achieving Value for Money/Structure Reviews	1.180	0.296
Review of Income and Cost Recovery	0.200	0.078
Annual Review of Budget Heads	-	0.069
Review of Pension Arrangements	0.200	-
Council Tax Yield	0.600	-
Rationalisation of Accommodation	0.150	-
Debt Restructuring	0.150	0.050
Changes to NNDR by Revaluation Office	-	0.016
Total	**2.950**	**0.975**

This updated MTFS sets out how this work will be taken forward to balance the budget and provide headroom within the budget to equip the Council with the financial means to make investments in services and to address future annual fluctuations in core funding levels.

(2) POLICY CONTEXT

This section of the strategy set out broadly the Council's policy direction. This is important for the Financial Strategy to facilitate the achievement of the Council policy objectives.

The Council has recently updated its Corporate Strategy, aligning it with the refreshed Sustainable Community Strategy. The key priorities and objectives contained in that strategy are set out below:

Theme	You and Your Family			You and Your Community			You and Chorley		
Strategic Objective	Strong Family Support	Education and Jobs	Being Healthy	Pride in Quality Homes and Clean Neighbourhoods	Safe Respectful Communities	Quality Community Services and Spaces	Vibrant Local Economy	Thriving Town Centre, Local Attractions and Villages	A Council that is a Consistently Top Performing Organisation and Delivers Excellent Value for Money
Long Term Outcome	1.1 Ensure early intervention and prevention of health and wellbeing problems 1.2 Use a whole family approach to address problems and provide support 1.3 Support the ageing population to be healthy and independent	2.1 Improve skills across the family 2.2 Improve links from good quality education to employment 2.3 Promotion and uptake of local job prospects	3.1 Reduced health inequalities 3.2 Families enabled to make healthy lifestyle choices	4.1 Provision of quality affordable housing 4.2 Clean streets 4.3 Communities that residents actively take care of and improve	5.1 Safe communities 5.2 Cohesive communities where people get on well together	6.1 Clean, safe and well used open spaces 6.2 Empowered local people managing community assets	7.1 Promote knowledge based inward investment 7.2 Support a strong, indigenous business base 7.3 Ensure families and communities reach their full economic potential	8.1 A contemporary market town with good quality shops 8.2 Places to visit, play, enjoy as a tourist destination 8.3 Thriving local villages	9.1 Community aspirations are delivered through the efficient use of resources and effective performance management. 9.2 An excellent community leader 9.3 A provider and procurer of high quality, co-ordinated, public services 9.4 An excellent Council that is continually striving to improve 9.5 Reduce the Council's energy consumption

The overall aim of the financial strategy is to identify resources to meet the objectives, targets and measures contained in the Corporate Strategy and this is important in terms of the financial strategy.

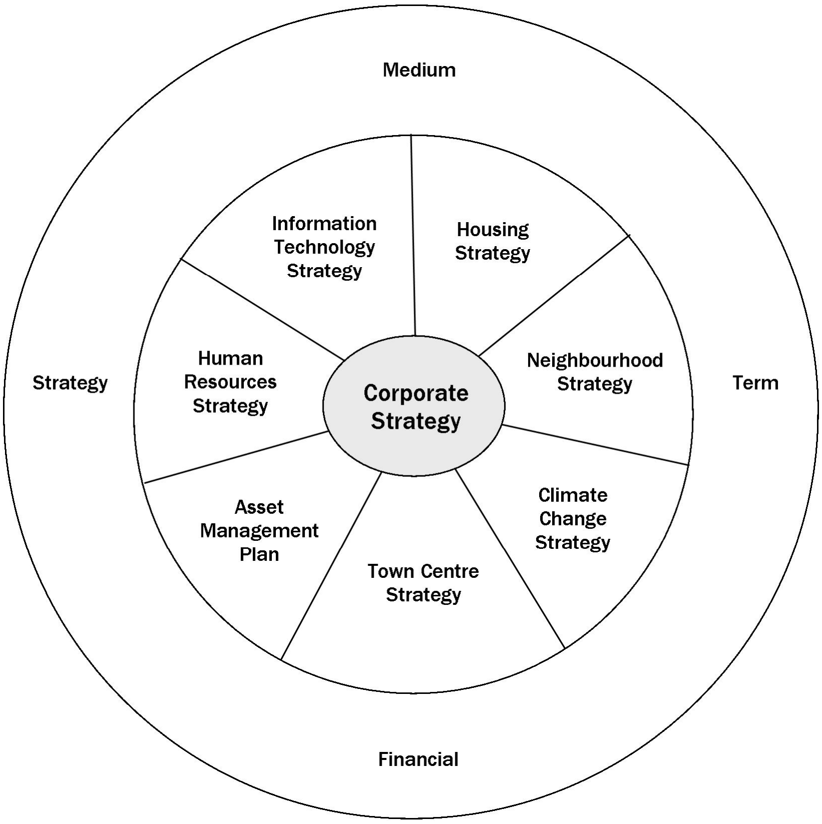
Over the last financial planning period, the Council has been successful in delivering on the Corporate Strategy and managing its resources. This has been recongised by the Audit Commission in the most recent Annual Audit and Inspection Letter.

In this respect the key strategy over the next financial planning period will be:

To continue to maximise the use of its resources, continuing to deliver its current policy objectives and only realigning resources where it is necessary to ensure achievement of the objectives, outcomes and targets in the Corporate Strategy

Underpinning the Corporate Strategy there are a series of other Council plans designed to facilitate the delivery of the Corporate Strategy. These are summarised pictorially below:

Strategic Links



The Individual Strategies supporting the Corporate Strategy set out how the Council will achieve its objectives.

In each case the resources required are broadly developed through the Council's business planning process and resources identified during the budget round. The general principal is that resources are put into the delivery of the corporate strategies. This is achievable as the current resources allocation should be sufficient for the Council to achieve its corporate plans which ultimately support the delivery of the Corporate Strategy's vision, objectives, targets and projects.

At present the Council is on target to deliver on most of the targets in the Corporate Strategy and as such there are no current plans to realign the resource base and the resources being used to deliver each of the Councils key strategic objectives.

(3) FINANCIAL CONTEXT AND OUTLOOK

This section sets out the financial planning assumptions that have been made in constructing the year on year forecasts and outlines the key strategies for delivering a balanced and affordable budget. All forecasts are built upon a number of assumptions, which are based upon best information available at the time. In terms of constructing budget estimates there is some important national context to be considered, namely:

- 2010 Comprehensive Spending Review provided detailed information for two years only. These being last year (2011/12) and the forthcoming financial year (2012/13) with a review of Local Government funding to be undertaken thereafter. The estimates for 2013/14 contain some indicative figures but past this point funding levels are still unknown.
- The introduction of shorter term Central Government settlement announcements and new variable arrangements for calculating fundamental grants annually exacerbates the increasingly uncertain nature of the Council's core funding streams.
- The Localism Bill together with the proposal that Business Rates can be retained locally approaches nearer but detailed financial implications remain unknown.
- The process by which Local Planning Authorities are able to set their own fees and charges to recover costs has been delayed from that originally envisaged and still awaiting finalisation.
- The on going revision of the Housing Benefits system and the introduction of Universal Credits.
- The Chancellor of the Exchequer announced in his Autumn Statement that growth forecast for the UK economy would be cut by 0.9% this year and 0.7% next year. This may indicate that we can expect a similar cut in Central Government's funding to Councils, a 1% reduction equating to an approximate reduction in grant of £60,000.
- The Welfare Reform agenda is assumed to be cost neutral to the Council.

The forecasts contained within this strategy are based on assumptions assessed from information to hand at the time of budget setting. The following are the key assumptions, that may be subject to change over the next three years, in relation to:

- Revenue Budget
- Capital Programme Financing

Assumptions contained in 3 year forecasts - Revenue

Assumption	2012/13	2013/14	2014/15
Pay Award	0	1.0%	1.0%
Council Tax Increases	0	0	0
Grant for Freezing Council Tax	£0.318m	£0.159m	£0.159m
Pension Contribution Increase	0.5%	0.5%	0.5%
Reduction in Grant Settlement (AEF)	£0.857m	£0.513m	£0.000m
2012/13 New Homes Bonus	£1.044m	£1.044m	£1.044m

Assumptions contained in 3 year forecasts - Capital Programme Financing

Assumption	2012/13 £m	2013/14 £m	2014/15 £m	Total £m	Note
Prudential Borrowing	1.429	0.554	0.567	2.550	(a)
Prudential Borrowing – proposed Health Centre scheme	6.650			6.650	
Receipts from asset sales	0.018			0.018	(b)
VAT Shelter Receipts	0.266			0.266	
Revenue Funding	0.008			0.008	
Developers & Other Contributions	1.415			1.415	(c)
Government Grants	1.080	0.269	0.269	1.618	(d)
Total	**10.866**	**0.823**	**0.836**	**12.525**	

(a) Prudential Borrowing could be reduced by increasing sales of assets
(b) It is assumed that receipts from asset sales will be applied to repay debt, in accordance with the Council's debt reduction strategy.
(c) Additional projects to be funded with developer contributions will be added to the programme when the contributions are received.
(d) Actual Grant allocations could vary from these estimates.

The Capital Programme also continues to contain a debt reduction strategy. The objective being to reduce Minimum Revenue Provision requiring additional resources to be set aside when available to reduce debt.

(4) REVENUE BUDGET FORECAST AND TRANSFORMATION STRATEGY

On the basis of the assumptions outlined above plus the Council's actions so far to achieve budgetary savings and also accounting for the current levels of service, the revenue budget forecast indicates the following with regard to budget headroom and budget gap positions over the next three year period (see detailed analysis in attached Appendix F1).

Budget Headroom/Gap 2012/13 – 2014/15

Year	Budget (Headroom)/Gap £000	Cumulative £000
2012/13	(58)	(58)
2013/14	878	820
2014/15	367	1,187

The table shows that over the medium term the cumulative budget gap amounts to £1.187m for which budgetary efficiency savings will need to be found in order to balance the budget. It is important to note that this position does not include any additional New Homes Bonus (NHB) that may be received after 2012/13. This is due to its unpredictable nature and also the fact that, as previously stated, local authority funding is entering a period of permanent fluctuations. This will very much hinder accurate financial planning year on year so it is recommended that any further NHB receipts are not included in the budget forecasts at this stage. This enables all subsequent monies received to be available and uncommitted thus allowing for maximum flexibility in its future application.

In summary, in order for a balance budget position to be achieved within the MTFS period further budgetary savings will need to be found from the following sources:

- Further reductions in expenditure
- Additional income generation
- Increases in Council Tax

In this respect the Council's Strategy will be:

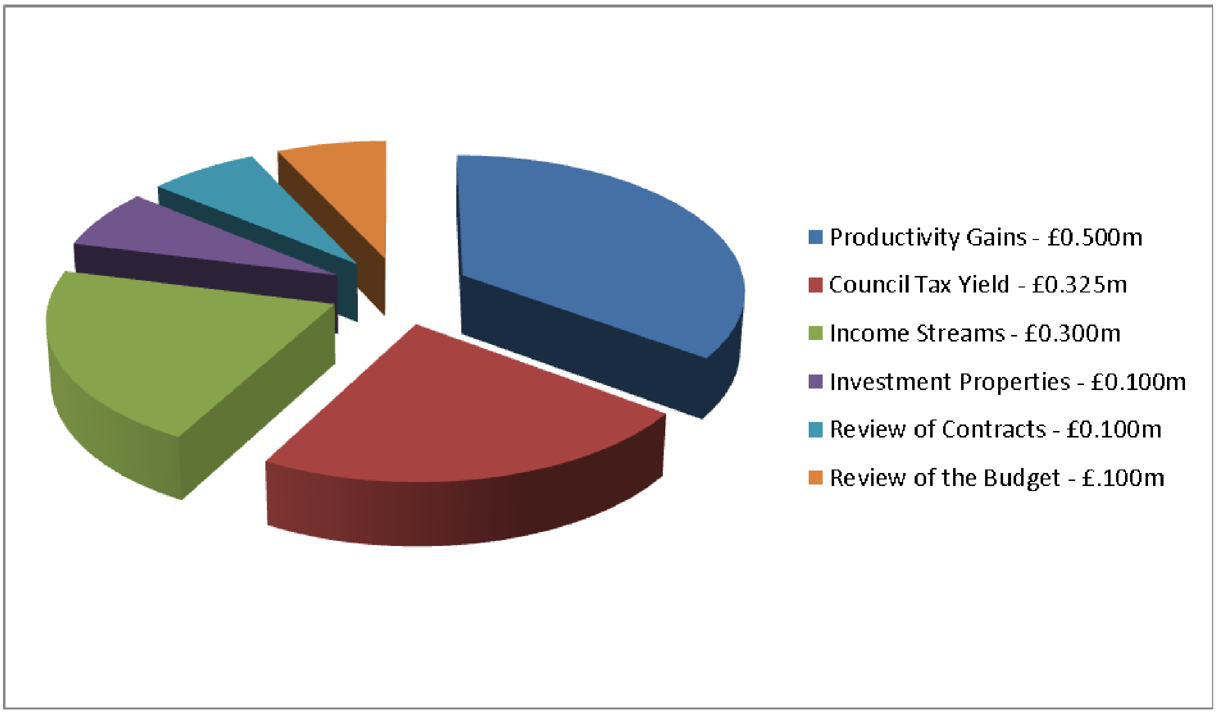
- To continue to restrain Council Tax increases.
- Deliver a balanced budget over the Financial Planning Period 2012/13 to 2014/15.
- Identify the savings required to balance the budget seeking to minimise the impact on front line service users.

In this respect the following actions will be included:-

- Increase productivity
- Review of expenditure on contracts
- Review of non employee related base budget heads
- Review of all income streams to ensure full cost recovery is being achieved and all possible revenue streams are being structured in the most appropriate way
- Seek to increase income yield from Investment Properties as part of the rationalisation of administration buildings

It is thought that the above strategy could achieve the level of budgetary savings in the sum of £1.425m being sufficient to bridge the funding gap of £1.187m and provide some headroom of £0.238m for further funding reductions and fluctuations in future years. Further detail is set our below:

Budget Savings Strategy 2012/13 to 2014/15 – Total £1.425m



Productivity Gains - £0.500m

Total employee budget is £10.968m. It is proposed that a savings of £0.500m is secured over the next two year period by focussing on improved productivity. Previously this is an area where significant savings have been achieved to reduce the budget gap. The results of the most recent rough cut costing exercise, developments in ICT and performance information, continues to inform the development of a Transformation Programme following the principles of maintaining performance with particular regard to front line services.

The main focus of the Transformation Programme over the next three years will be looking to increase productivity by look at:

- Increasing the sharing of resources.
- Reducing bureaucracy in our processes wherever possible.
- Making the most of our advanced Information Technology platforms to ensure efficiency is maximised.
- Different delivery models.

The review will not necessarily be focussed on current service structures, it will continue to look at processes and service delivery as staff costs are incurred. Whilst the Transformation Programme will focus on the areas identified above as priorities, this will be supplemented and supported by actions undertaken in Business Improvement Plans. These will help services achieve the efficiency savings targets that will be also included in the plans.

Council Tax Yield - £0.325m

The Council can consider applying a below inflationary increase to Council Tax for future as the detail behind the forthcoming funding arrangements is secured. It has been very difficult to accurately forecast inflation over the period of the strategy, however, assuming that 2.5% inflation is applied this will increase income yielded by £325k over the next two years from 2013/14.

The % increases applied to Council Tax charges since 2007/08 is as follows:-

Year	Council Tax Increase
2007/08	0.0%
2008/09	2.5%
2009/10	2.9%
2010/11	0.0%
2011/12	0.0%
2012/13	(1.0%)

Review of all Income Streams and Cost Recovery Models - £0.300m

The awaited amendments to the way in which Local Authorities should recover planning application costs will be fully utilised to ensure the most appropriate charging policy is implemented together with on going work to structure all our charging policies in ways to consistently achieve optimum effectiveness.

Rationalisation of Accommodation and Investment Properties - £0.100m

The key corporate project to rationalisation of accommodation project is well underway with the imminent transfer of staff from Bengal Street to Union Street. This will also present opportunities to generate income via the rental of Bengal Street when alternative depot arrangements are finalised. In addition the former White Heart Public House has also attracted recent interest from potential lessees.

Review of Major Contracts - £0.100m

The Councils spends in the region of £4.5m on its contracts with partners. As this is a significant spend area for the Councils we will continue to engage with our partners to review contracts in order to look for further opportunities to deliver the same or improved services in a different way that also reduces cost. Success to date has been significant as set out in the Council's Budget Report. For example the following areas will be due to specific detailed review in the forthcoming MTFS period: Vehicle and Mower Leases; Public Conveniences; Health and Safety; Stationery and IT Consumables; Utilities - Gas and Legal Reference Material.

Review of the Base Budget - £0.100m

Review all non staffing expenditure budget heads totalling in excess of £5.3m. This will include an all inclusive and corporate wide approach to budgets to ensure that all items are being resourced in the most cost effective way to achieve maximum standardisation of processes and economies of scale.

(5) SUPPORTING THE CORPORATE STRATEGY

The rate of progress in delivering the MTFS has resulted in a surplus within the Council's budget for 2012/13. This has facilitated the opportunity to accommodate a package of new budget growth investments. The package of schemes has been accounted for within the budget position contained within this MTFS presented for approval. The investment items permanently build into the budget provides capacity to mainstream enhanced services to the Chorley Community. The budget growth package supports the budget principles and contributes towards:

- a vibrant local economy,
- being healthy,
- safe respectful communities, and
- clean neighbourhoods.

This is a recurring investment in services with the required budgetary provision for these items being accounted for on a continual basis in future years. These schemes, as listed below, have been identified to ensure service provision beyond 2012/13 to support the delivery of the Corporate Strategy.

Mainstreaming/Recurring New Growth Schemes	£m
Tackling Dog Fouling	0.075
Increase Number of Police Community Support Officers	0.055
Business Start Up – provision of support & advice	0.055
Debt Advice – debt advice to 600 residents	0.050
Community Safety and Independent Domestic Violence Advocacy IDVA	0.023
Sanctuary Scheme – support domestic violence victims in partnership with South Ribble BC	0.020
Total	**0.278**

The Budget Growth Package report also contains additional investments to those above. The headroom within the budget for 2012/13 also provides the opportunity to make further investments in services on a one off basis. This means that the expenditure for the growth items below will be incurred in 2012/13 only making only a temporary call on the Council's budget.

(see further details in the Budget Growth Package report on the agenda – Appendix C).

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Two Year Investment	**£m**
Assisting NEETs – Council Apprenticeships	0.130
Sub Total – Two Year Investment	**0.130**
One off New Growth Schemes	**£m**
Grant scheme to local service centres	0.038
Sport Bus	0.017
Clean Up Chorley Campaign	0.100
Bus Shelter Improvement	0.075
Active Generation	0.031
Street Games	0.050
Street furniture replacement	0.075
Public Realm adoption	0.020
Improving pedestrian routes from car parks	0.010
Employee Health Scheme	0.020
Land Acquisition	0.010
Sub Total – One off Budget Growth Investments	**0.445**

TOTAL REVENUE BUDGET INVESTMENT	**0.853**

To also add to the investments listed above the Council is also proposing to deliver two new Capital schemes in its Capital Programme. The intension is to:

(a) assist the Primary care Trust achieve its develop plan to provide Health Centre facilities on the Friday Street site. This proposal will hopefully act as an incentive to the PCT to progress this project. The scheme is innovative in nature with the Council relying on the move to localism to enable the scheme to proceed, and
(b) acquire land at Gillibrand Street being a key strategic site in the Town Centre. The purchase will then provide an opportunity for the site to be redeveloped in the medium term and also provide an additional income stream to the Council in the short term. This is in addition with the Town Centre redevelopment including the ASDA site.

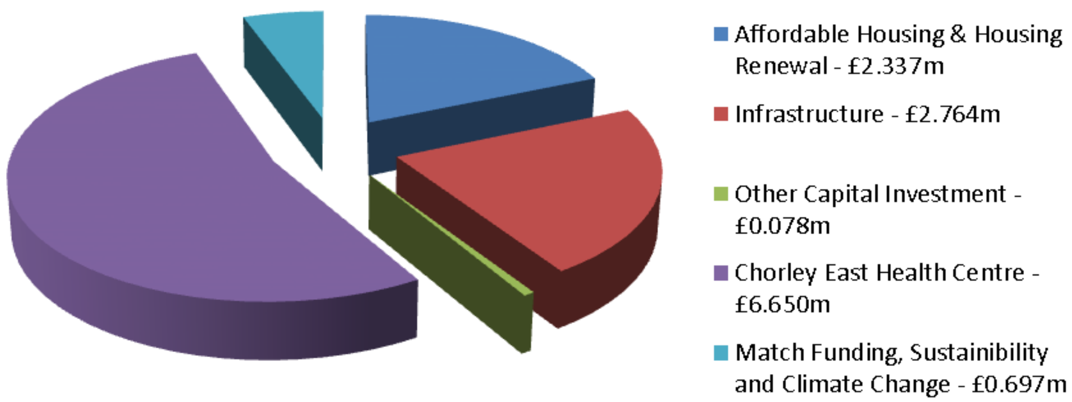
(6) CAPITAL PROGRAMME FORECAST

The Council's Capital Programme forms part of the Council's overall financial strategy to deliver some of its key objectives contained in the Corporate Strategy. Any programme, however, has to be affordable and based upon prudence. The current local government financial position and the need to make revenue savings will impact significantly on the Council's ability to finance capital spending. In this respect the Capital Programme has been constructed based upon the following strategic objectives.

- The resources available will be targeted at areas that deliver corporate objectives.
- Borrowing will be contained where possible to ensure the impact on revenue is minimised.
- The Council will continue to identify land to assist in delivering its affordable housing targets.
- The Council's assets not producing the required rate of return on investment will be disposed of as part of a strategic review of the Council's asset base.
- The Council will continue to invest in its own infrastructure reviewing the Asset Management Plan in 2012/13 to ensure levels of investment are appropriate and that asset transfer options are maximised.
- The Council will look to maximise opportunities to attract external finance to sustain its Programme of Work although this is likely to be limited in the next financial planning period.

As a consequence of adopting the strategy outlined above and incorporating the proposed new budget growth investments, the Council proposes to invest £12.525m as follows over the MTFS period. Funding the programme will require prudential borrowing borrow of £9.200m and capital receipts of £0.018m. The programme will be funded from a variety of sources, which is predicated on the strategic objectives outlined. (see Appendices B1, B2, B3 and B4 for further details of the Capital Programme 2012/13 to 2014/15)

Priority Areas for Capital Investment



(7) WORKING BALANCES

Previous financial strategies identified a number of changing external factors likely to have a negative shift on the risk profile impacting on the Council's ability to either attract funding or to influence expenditure has changed. As a result it was proposed that working balances were to be kept at a higher level in recognition of the risks with working balances to be no lower than £2m.

The greatest impact highlighted in the past with regard to the reduction of funding has come to fruition. The 2010 CSR witnessed significant funding reductions coupled with a degree of uncertainty in the form of a two, instead of four, year settlement period. Indeed influencing external factors continue to be a significant issue. The new Central Government grant distribution regime introduces year on year variable calculations as a permanent feature with regard to the Council's core funding presenting further uncertainty hindering accurate financing planning for the foreseeable future.

As members will be aware, working balances are there to protect Councils against the 'peaks and troughs' in expenditure and income and they allow fluctuations to be managed by bringing budgets back into balance. Sometimes this can take time. Maintaining working balances means the Council does not have to make short term reactive changes that can significantly impact on service performance. The Council continues to manage its budget effectively with no significant overspends on recurrent budgets in the last few years.

In terms of resource availability members will be aware, and as reported in monitoring, working balances are estimated to total £2.011m at the end of March 2012 after allowing for the contribution to the debt restructuring MTFS project and remaining within the proposed target level referred to above. The working balances position is made up of estimated balances in hand and forecast forward as shown below:

Forecast Working Balances

	£m
General fund working balance forecast Dec monitoring	2.076
Contribution to General Balances	0.185
Use of General Balances for Debt Restructuring within MTFS	(0.250)
Forecast balances 31/03/2012	**2.011**

Source: Revenue Budget Monitoring period ending December 2011.

In previous years the Council has been faced with the prospects of making significant budget savings and the budget will remain under pressure during 2012/13 to 2014/15 within an increasingly uncertain source funding environment. Savings are necessary firstly to contain Council Tax and secondly, to redirect resources into corporate priorities if necessary.

Some inherent risks remain in the budget and the underlying assumptions made have been outlined for members. I have outlined my views and advice in relation to the level and adequacy of working balances and summarise the key risks and mitigation through the actions outlined in this Medium Term Financial Strategy. In addition, I have outlined that the use of working balances is legitimate but should only be a short term strategy particularly in the light of the increasing fluctuating nature of local authority funding over a longer medium term.

On this basis the Council's strategic objectives in relation to working balances will be:

- To establish working balances no lower than £2m over the financial planning period 2012/13 – 2014/15.
- To review the financial risks facing the Council during 2012/13 taking into account the latest information available.

(8) TREASURY MANAGEMENT

The Chartered Institute of Public Finance and Accounting published Code of Practice for Treasury Management (Local Government Act 2003) also requires Council's to have regard to the prudential code. The primary requirements are to:

- Create and maintain a treasury management policy statement which sets out the policies and objectives to the Council's treasury management achievements.
- Create and maintain treasury management practices which set out the manner in which the Council will seek to achieve its policies and objectives.
- Provide the Executive with an annual strategy report.
- Specify to whom the responsibility for implementing and monitoring treasury management activities is delegated.

In all respects the Council complies with the above and reviews these requirements in the annual Treasury Strategy and also in the Treasury Mid Year Review reports.

In respect of Council Strategy for Treasury Management the principles will be as follows:-

The Council will:

- Have regard to the prudential code and set prudential indicators to ensure the Council's capital investment plans are affordable, prudent and sustainable.
- Make decisions regarding borrowing and investment based upon the latest information and look to optimise returns on investment and will minimise borrowing costs.
- Ensure the costs of borrowing are reflected in revenue forecasts.
- Comply with guidance relating to investments ensuring that capital is kept secure and liquidity is maintained at an appropriate level
- Not engage purely in borrowing to invest or lend on and make a return as this is unlawful.
- Agree a set of investment instruments which the Council can use based upon monitoring risk

The prudential indicators, targets and measures will be agreed as part of the budget setting process in February 2012, via the production of annual Treasury Management Strategy.