

EXECUTIVE CABINET

THURSDAY, 19TH JANUARY 2017, 6.00 PM
COUNCIL CHAMBER, TOWN HALL, CHORLEY

I am now able to enclose, for consideration at the above meeting of the Executive Cabinet, the following reports that were unavailable when the agenda was published.

Agenda No	Item	
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12	DRAFT BUDGET AND SUMMARY POSITION OVER THE MEDIUM TERM 2016/17	(Pages 139 - 158)
	Report of the Chief Finance Officer (enclosed)	

GARY HALL
CHIEF EXECUTIVE

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Report of	Meeting	Date
Chief Finance Officer (Introduced by the Executive Member for Resources)	Executive Cabinet	19 January 2017

2017/18 DRAFT BUDGET AND SUMMARY BUDGET POSITION OVER THE MEDIUM TERM

PURPOSE OF REPORT

To set out the budget position for 2017/18 including the forecast for the following 2 years to 2019/20 and also present the relevant proposals in respect of:

- The use of forecast resources identified in 2017/18
- Budget Consultation.

RECOMMENDATION(S)

That Members agree the contents of this report in order to start the budget consultation process and note the following proposed budget items, in particular:

- Council tax to be increased by 2% in 2017/18, 2018/19 & 2019/20
- The resourcing of corporate priorities for 2017/18
- The changes to the waste and recycling service including a charge for garden waste
- The forecast balanced budget for 2017/18
- The movement to earmarked reserves including:
 - £120k set aside to fund one-off projects to further deliver the Council's corporate strategy priorities
 - £200k to increase the change management reserve to allow the Council to manage the changes outlined in the Transformation Strategy.
 - £100k set aside for the maintenance of Council assets
 - £317k to fund future investment that will realise the income generating potential of employment sites acquired by the Council.
- The forecast budget position in 2018/19 and 2019/20.

A detailed breakdown of the 3 year budget is provided in Appendix 1

EXECUTIVE SUMMARY OF REPORT

3. The budget forecasts over the next 3 years have been updated to take account of the following:
 - Council tax to be increased by 2% in 2017/18, 2018/19 and 2019/20.
 - The Draft Local Government Finance Settlement 2017/18 to 2020/21 published on 15 December 2016.

- Progress against the current Medium Term Financial Strategy (MTFS) budget efficiency objectives including staffing reviews, contract savings and base budget reviews.
 - Policy decisions taken to reduce the budget deficit and the movement to specific reserves to help the Council manage change and invest in future income generation
 - Strategies to reduce the budget deficit in the medium term
4. The Council has experienced significant reductions in funding since 2010/11. The funding received through the finance settlement has fallen from £8.5m in 2010/11 to £5.7m in 2016/17 with a forecast settlement of £4.221m in 2019/20. This excludes the New Homes Bonus grant that has recently been reduced by approximately £1.6m per year from 18/19 onwards. In addition the Council will experience reductions of over £1m in LCC support from 2018/19 onwards. Despite this unprecedented decline in funding the Council has maintained effective budgetary planning so as to continue delivering investment in Council priorities and maintain low council tax levels.
 5. The Local Government Finance Settlement 2016 included core grant allocations for the forthcoming four years, from 2016/17 to 2019/20. To aide its medium term budget planning the Council opted to accept the government's offer of four year RSG allocations. In accordance with Government requirements an Efficiency Plan was agreed at Full Council in September 2016. This document is published on the Council's [website](#) and outlines its approach to meeting the budgetary challenges it faces in the coming years. This MTFS further develops the themes outlined in the efficiency plan.
 6. Following on from government consultation the Council's allocation of New Homes Bonus (NHB) will fall from 6 years to 4 years with a transitional 5th year in 2017/18. In addition from 2017/18 onwards the Council will not receive NHB for the first c150 homes it builds. This has resulted in a £1.6m fall in NHB forecast to be received in 2018/19 onwards.
 7. The Council continues to experience reductions in its core spending power whether through reductions in Revenue Support Grant (RSG) or New Homes Bonus (NHB). As outlined in the 2016/17 MTFS the Council will build all uncommitted NHB into the base budget to support the objective of meeting the budget deficit.
 8. The revaluation of business rates in 2016 has resulted in a 6% increase in rateable values on average across the country. However Chorley Council's valuations reduced by 7%. As a result, the government has reduced Chorley Council's tariff to create a budget neutral effect of the revaluations. The full effects of this tariff reduction are not yet quantifiable as the DCLG has not issued the relevant documentation. At this moment it is assumed that the implications of any adjustment to the tariff will be budget neutral.
 9. The Council will build £339k of budget investments into the base budget from 2017/18 onwards including £110k for the provision of PCSOs, £70k for retail improvement grants and £159k to continue support the Council's successful events programme.
 10. Budget efficiency savings totalling £416k have been achieved and identified for 2017/18. In addition Chorley Council continues to realise the benefit of being part in the Lancashire wide Business Rate Pooling Agreement which has been extended to cover 2017/18.

11. The Council proposes that the remaining £325k balance of the LCC transition fund is used to resource the 2017/18 budget and create some headroom for additional investment and increases in earmarked reserves.
12. In readiness for the significant loss of income from Lancashire County Council following the conclusion of the waste cost-share agreement, alongside the reductions in funding set out above, the Council is proposing changes to the waste and recycling collection services. These proposals will be set out in more detail as part of a separate report on this agenda.
13. The reductions in Central Government funding announced in the Draft Local Government Finance Settlement 2016 were made with the assumption that Councils would reduce the impact of grant reductions by increasing council tax by at least 2%. The Council is proposing a 2% increase in council tax in 2017/18, 2018/19 and 2019/20.
14. The current Medium Term Financial Strategy (MTFS) sets out options that attempt to effectively address the budget deficit position over the longer term to secure financial resilience and sustainability. This 3 year timeframe is considered the maximum period whereby reasonable forecasts can be made. Options that will be considered over the next three year MTFS period are as follows:-
 - Reviewing and re-tendering the Council’s major contracts
 - Achieving savings related to the Council’s Transformation Strategy including:
 - Redefining the way services are delivered by working closely with the Council’s partners and changing working cultures to create efficiencies
 - Exploring the increased delivery of shared services with neighbouring Councils.
 - Exploiting the Council’s access to low interest finance and the greater flexibilities offered by the Localism Act 2011 by investing in income generating projects
15. Consultation on the proposed budget for 2017/18 will commence following approval of the proposals by Executive Cabinet. The consultation will focus on obtaining feedback on key proposals within the budget. The consultation will invite responses from residents, partners, parish groups and other stakeholders through a variety of methods including a short survey (available both in hard copy and online). Results will be analysed and published in February for consideration as part of budget finalisation.

Confidential report	Yes	No
Key Decision?	Yes	No
Reason	(1) A change in service provision that impacts upon the service revenue budget by £100,000 or more.	(2) A contract worth £100,000 or more.

	(3) A new or un-programmed capital scheme of £100,000 or more.	(4) Significant impact in environmental, social or physical terms in two or more wards.
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REASONS FOR RECOMMENDATION(S)

(If the recommendations are accepted)

- 16. To progress the Council’s 2017/18 budget setting process to achieve an approved and balanced budget.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

- 17. Setting the budget is a statutory responsibility.

CORPORATE PRIORITIES

- 18. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all	X	A strong local economy	X
Clean, safe and healthy communities	X	An ambitious council that does more to meet the needs of residents and the local area	X

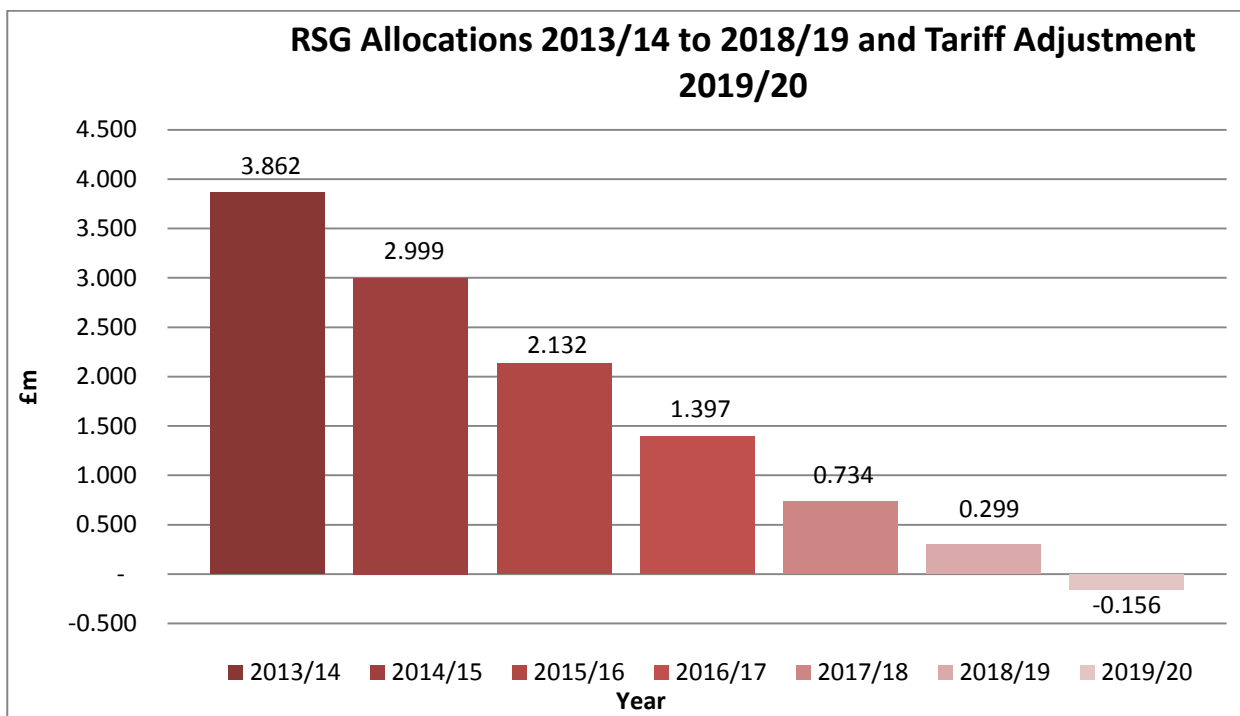
THE BUDGET – REDUCTIONS IN FUNDING SOURCES

19. Chorley Council has experienced large reductions in its major funding sources. Three of the largest funding sources are outlined below.

Revenue Support Grant (RSG)

20. The Local Government Finance Settlement 2016/17 offered all Councils a four year Revenue Support Grant (RSG) settlement from 2016/17 to 2019/20. In accordance with Government requirements an Efficiency Plan was agreed at Full Council in September 2016. This document is published on the Council's [website](#) and outlines its approach to meeting the budgetary challenges it faces in the coming years. On 16 November 2016 the Council received confirmation from DCLG on its four year RSG settlement. As such the figures reported below have been included in the Council's forecast budget position.

21. The graph below illustrates the removal of RSG over the coming years and the introduction of a tariff in 19/20. This reduction in funding is based upon a government comparison of the Council's total level of assumed resources and total assumed level of spending needs.



New Homes Bonus

22. The allocation of NHB was subject to consultation with the announcement regarding its future not made until the draft finance settlement on 15 December 2016. The allocation has been reduced from 6 to 4 years with a 5th transitional year in 2017/18. In addition the allocation in 2017/18 onwards will be reduced using a 'deadweight adjustment'. This assumes that the Council should at least expand the housing base by 0.4% per annum; any growth below this level would not receive funding. For Chorley this is approximately 150 band D equivalents per year. It is possible this deadweight adjustment will be adjusted further in future years.

23. The table below outlines the forecast NHB allocations using figures prior to the changes in funding and the forecast allocations announced in December 2016.

	16/17 £m	17/18 £m	18/19 £m	19/20 £m
Forecast NHB Allocation – prior to changes	(4.455)	(4.753)	(4.610)	(4.471)
Forecast NHB Allocation – Draft Local Government Finance Settlement 2017	(4.455)	(4.006)	(2.982)	(2.797)
Reduction in Funding	0.000	0.747	1.628	1.674

The cuts to NHB allocation are in the region of £1.6m a year representing a **13% reduction in total funding available to Chorley Council.**

24. Despite the large reductions in NHB allocations the grant still represents a significant source of income for Chorley Council. As approved in the 2016 MTFS any uncommitted new homes bonus will now be built into the revenue base budget. Budget strategies outlined later in this report will be used to meet the medium term budget gap. The forecast NHB allocations and allocations that will be assumed against it are outlined below:

	17/18 £m	18/19 £m	19/20 £m
Forecast New Homes Bonus Allocation Available	(4.006)	(2.982)	(2.797)
Capital Financing	0.400	0.400	0.400
Increase in Reserves to Bring Working Balances to £4.0m	0.500	0.259	
Forecast (Uncommitted) New Homes Bonus to be built into the base budget	(3.106)	(2.323)	(2.397)

Lancashire County Council

25. Lancashire County Council's MTFS identifies a budget shortfall of £262m by 2020/21. It is expected that existing income received by the Council from LCC will be removed in future years. Chorley Council is currently in a 'Cost Share' arrangement with Lancashire County Council whereby the County pay over to District Councils sums via the Lancashire Waste Partnership. This represents compensatory payments for loss of income from when the previous recycling credits system was revised. The arrangement will expire in March 2018 and therefore if no replacement agreement is available, this income stream will be withdrawn as at that date. This represents a £930k fall in income and is reflected in the 2018/19 deficit in Table 1.
26. In addition LCC will withdraw Supporting People funding from September 2017. This grant of circa £130k per year is used to help fund sheltered housing at Cotswold House in Chorley. The scheme will continue with Chorley Council making up the deficit in funding from mid-2017/18 onwards.

Summary of Year-on-Year Reductions in Funding Sources

Funding Source	17/18 £m	18/19 £m	19/20 £m	Total £m
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Reduction in RSG	0.663	0.435	0.455	1.553
Reduction in NHB	0.449	1.025	0.184	1.658
Reduction in LCC Income	0.070	1.003	0.000	1.073
Total Year-on-Year Loss of Funding	1.182	2.463	0.639	4.284

27. The Council faces enormous reductions in its funding sources over the MTFS period. The large reductions summarised above emphasise the size of the task the Council faces to bridge the gap, in particular the Council faces a £2.4m reduction in funding in 2018/19.
28. The Council's gross budget deficit is summarised in table 1 and is based upon the reductions in funding described above and the following key budget assumptions. It should be noted that some of the assumptions are still potentially subject to change that may impact positively or negatively on the budget.

Key Assumptions	2017/18	2018/19	2019/20
Increase in Council tax	0%	0%	0%
Growth in Council tax Base	2.1%	1.0%	1.0%
Growth in Retained Business Rates	0%	0%	0%
Reduction in Revenue Support Grant	£0.663m	£0.435m	£0.455m
Profiled Reduction in Grant Settlement	-31.08%	-20.40%	-41.77%
Total Forecast New Homes Bonus	(£4.007m)	(£2.982m)	(£2.798m)
Total Forecast Uncommitted New Homes Bonus Built Into the Base Budget	(£3.106m)	(£2.323m)	(£2.397m)
Net Financing of Market Walk	£0.881m	£0.863m	£0.863m
Future Service Pension Rate	14.4%	14.4%	14.4%
Additional Business Rates - Lancashire Pooling Arrangement	(£0.726m)	(£0.726m)	(£0.726m)
Lancashire Waste Partnership Income	(£0.933m)	0	0
Pension Fund deficit recovery	£0.791m	£0.841m	£0.966m
Supporting People Income from LCC	(£0.069m)	0	0
Pay Award	1%	1%	1%

Other Budget Assumptions

29. As part of a **triennial pension review** the Lancashire County Pension Fund announced an increase in employer pension contributions to meet the future costs of the scheme. The contributions have increased from 11.1% to 14.4% resulting in an increase in Council's contribution of approximately £250k per annum.

- 30. The **revaluation of business rates** in 2016 has resulted in a 6% increase in rateable values on average across the country however Chorley Council's valuations reduced by 7%. As a result the government has reduced Chorley Council's tariff to create a budget neutral effect of the revaluations. The full effects of this tariff reduction are not yet quantifiable as the DCLG has not issued the relevant documentation. At this moment it is assumed that the implications of any adjustment to the tariff will be budget neutral.
- 31. If the Council were to benefit from a tariff reduction, any potential surplus in 2017/18 will be moved to a reserve for the following reasons:
 - a. The DCLG consultation regarding the tariff adjustments suggests there will be other adjustments in 2018/19 to ensure the effects are budget neutral
 - b. As part of the reductions in the RSG the Council will experience a 'tariff adjustment' in 2019/20 that will presumably increase the tariff by £156k
 - c. A large risk associated with business rates income relates to two applications for mandatory charitable relief received from Lancashire Teaching Hospitals NHS Foundation Trust. If successful the application would be back dated to 2010 and therefore have a significant impact on the Council's revenue budget. A headline figure is a potential £1.3m impact on the Council's general fund and a further c£200k reduction in ongoing retained business rates.
- 32. For the reasons highlighted above the Council will also assume no inflation in its retained business rates budget. Although the Council will continue to focus resources on expanding local businesses, there are still large uncertainties that may erode progress on retained business rates income.
- 33. A detailed breakdown of the 3 year budget including the gross budget deficit is provided in **Appendix 1**. Included in this appendix are the revenue budget implications regarding the Council's large capital projects, as with other assumptions it should be noted that the profile of expenditure and income is potentially subject to change. Risks surrounding these budget assumptions will be managed through the use of general reserves as outlined at the end of this report.

Table 1: Cumulative Gross Budget Deficit as at January 2017

	2017/18 £m	2018/19 £m	2019/20 £m
Gross Budget Deficit	0.656	2.472	3.187

- 34. All deficits and savings identified in the table 1 and in the remainder of this report are cumulative. For example the deficit of £2.472m in 2018/19 identified above is the result of a £0.656m deficit in 2017/18 and further budget pressures of £1.816m identified for 2018/19.

BRIDGING THE BUDGET GAP – WHAT HAS BEEN ACHIEVED & IDENTIFIED

- 35. The Council recognises that due to decreases in NHB allocation and the reduction in RSG the Council faces a budget deficit in 2017/18. To bridge this immediate budget gap the Executive Cabinet has achieved and identified proposals for immediate budget savings.

Savings Achieved and Savings to be Achieved for 2017/18

36. Budget efficiency savings and increased income of £0.416m have been achieved and identified and will be delivered to help reduce the budget deficit in 2017/18. This excludes changes to the waste collection service. The 2017/18 savings are attributable to the following key areas:-

Savings achieved

- Review of Contracts (£59k) - The re-procurement of the Council's insurance contract has achieved an annual saving of £59k per annum. Cost efficiencies were achieved by appointing a common insurance broker and undertaking joint procurement exercise with South Ribble Borough Council.
- Review of Income Streams (£50k) - The continued success of the Chorley's Market Walk Shopping Centre has led to full occupancy of its units in 2017/18. As a result an additional £50k has been built into the Council's income budget in 2017/18 onwards.
- Base Budget Review (£100k) – The management accounts team in conjunction with service managers have identified £100k of budgets that are underutilised or no longer required moving forward.
- A review of the Management Structure (£67k) – A review of the management structure was undertaken and reported to Council in January 2016 to create a structure that enables implementation of the future governance models and public service reform. Savings are profiled as follows: £229k (2016/17); £295k (2017/18) and £347k (2018/19).

Savings to be achieved in 2017/18

- Productivity gains (£140k) - there are changes that need to be made to some staffing structures to ensure that the Council's organisation remains fit for purpose and able to deliver the Council's priorities. Therefore, prior to the start of the 2017/18 financial year, there are a number of reviews planned that will result in changes to structures that are forecast to result in cumulative savings of approximately £140k. This will be updated between January Executive Cabinet and February Full Council to identify the relevant posts. Many of these posts are vacant and will therefore not lead to a reduction in service provision

USE OF THE LCC TRANSITION FUND

37. In 2016/17 it was agreed to create a £1.0m transition fund to support the implementation period of LCC's service reductions to address its own budget deficit position. To date the fund has been used to:
- enable the continued 6/6a & 109a/24a bus services until March 2017
 - enable the continued library provision Adlington, Coppull and Eccleston until March 2018
38. In addition to these commitments, November 2016 Executive Cabinet approved that £307k of the £1m LCC transition reserve will fund Chorley Council's match funding of the Chorley Employment Inclusion Project (CEIP). The project, if approved, will provide intensive one to one mentoring and guidance via specialist key case workers targeting specific beneficiary groups to identify barriers to training and employment, and plan an individually tailored programme of interventions to move beneficiaries closer to the labour

market. It will be 60% funded through European funds. As an employment support project it will target a cohort who should previously have been potentially able to access support though the County Council. As this is no longer available this project will fill that gap.

- 39. It is proposed that £60k is left in the reserve in 2017/18 for potential future commitments that address LCC reductions in service provision.
- 40. After taking into account these commitments **the remaining balance on the fund is £325k**, it is proposed that this is used to cover the remaining 2017/18 budget deficit and create some headroom for additional investment and increases in earmarked reserves. The Council will re-use this remaining reserve because the key elements of transition support needed, for example to maintain library provision, will continue to the end of 2017/18 with the funding already allocated.

RESHAPING THE WASTE COLLECTION SERVICE

- 41. From April 2018 the Council will no longer receive waste cost share funding from LCC, currently £930k per year. Fundamental changes to the waste collection service will need to be undertaken and the Council proposes three key approaches to mitigate this substantial loss of income:
 - 1. A charge for all new and replacement wheeled bins is introduced in April 2017
 - 2. A subscription based garden waste collection service is introduced in May 2017
 - 3. Co-mingled paper and card collections are introduced in July 2017 with collection every four weeks resulting in a potential saving in the current waste and recycling contract

These proposals will be set out in more detail as part of a separate report on this agenda. The additional income and savings that are forecast to be generated from these schemes are £525k in 2017/18 and £720k from 2018/19 onwards.

INCREASE IN COUNCIL TAX

- 42. The Council is proposing a 2% increase in council tax in 2017/18, 2018/19 & 2019/20. An increase, together with further savings options, would not only help to address the budget deficit but also be used to invest in projects that support delivery of the Council’s corporate priorities.
- 43. Importantly, the reductions in Central Government funding announced in the Draft Local Government Finance Settlement 2016 were made with the assumption that not only would Councils expand the council tax base by building more homes but in addition, Councils would reduce the impact of grant reductions by increasing council tax by at least 2%. The funding mechanisms from central government will effectively penalise councils for freezing council tax, through a reverse tariff payment in 2019/20.
- 44. In addition, through freezing or reducing council tax over the past 7 years, Chorley Council has one of the lowest precepts (excluding Parish precepts) in Lancashire as per the table below.

District Council	2015/16	2016/17	Increase
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			2016/17
Chorley	177.41	177.41	0.00%
Pendle	240.38	245.16	1.99%
Preston	285.06	290.73	1.99%
South Ribble	208.38	208.38	0.00%
West Lancashire	183.55	186.76	1.75%
Wyre	180.16	183.31	1.75%

45. Increases in council tax do have a significant, cumulative and permanent effect on the budget deficit even over a short term period. Cumulative additional income the Council could generate from increases in council tax is shown in Table 2.

Summary of Proposals

46. Table 2 illustrates that through savings achieved to date and identified for 2017/18, the use of the unutilised LCC transition reserve and increases in council tax the Council is able to set a balanced budget in 2017/18 with some headroom. The next section of this report describes what investments are included in the figures above and what is proposed for the use of the forecast resources available in 2017/18.

Table 2: Updated Cumulative Budget Deficit as at January 2017

	2017/18 £m	2018/19 £m	2019/20 £m
Gross Budget Deficit	0.656	2.472	3.187
Savings Achieved	(0.276)	(0.327)	(0.327)
Productivity Savings to be Achieved for 2017/18	(0.140)	(0.163)	(0.163)
Use of Remaining LCC Transition Reserve	(0.325)		
Reshaping the Waste Collection Service	(0.525)	(0.720)	(0.720)
2% Increase Council Tax 2017/18, 2018/19 & 2019/20	(0.128)	(0.260)	(0.398)
Adjusted Budget Deficit/(Available Resources)	(0.738)	1.001	1.579

SUPPORTING COPORATE STRATEGY PRIORITIES

47. The budget figures summarised in Table 2 includes budgets that will deliver the corporate strategy priorities through a programme of activities designed to achieve sustainable local growth and reform in the way that the Council delivers services. A list of the projects supporting each priority is shown below:

Involving residents in improving their local area and equality of access for all	
Progress delivery of the Westway integrated sport facility	Capital Programme
Improve the look and feel of local neighbourhoods across the	Base Budget

borough	
Develop new ways to deliver services with communities	16/17 Investment Project Funded 16/17 to 18/19
Clean safe and healthy communities	
Deliver the Primrose Gardens Retirement Village	Capital Programme
Deliver the enabling phase of integrated community wellbeing	Base Budget
Deliver a project to get people ready for work	Remaining LCC Transition Fund
A strong local economy	
Deliver the Steeley Lane Gateway project	Capital Programme
Deliver economic opportunities at Botany	Base Budget
Deliver street level improvements to the town centre	Capital Programme
Develop activity to promote Chorley as a visitor destination including the Chorley Flower Show	Continued investments 17/18 onwards
Deliver the extension to Market Walk	Capital Programme
An ambitious council that does more to meet the needs of residents and the local area	
Improve access to council services by making services more efficient	Base Budget
Integrate public services through the Chorley Public Service Reform Partnership	Base Budget
Deliver the Chorley Youth Zone	Capital Programme

48. In order to continue the delivery of the corporate priorities **£339k of investment funding** is now included in the base budget figures identified in Table 1 from 2017/18 onwards.

Police Community Support Officers - £110k

49. The Council will make a contribution of £110k towards part-funding PCSO posts in the borough, although further discussions and agreements need to be reached with the police and crime commissioner. The Executive Cabinet will be expecting the police to allocate fully funded posts to the borough according to their risk and threat analysis.

Retail Improvement Grants - £70k

50. The retail improvement grants scheme has been successful in regenerating the Council's shopping areas, creating jobs and reducing the number of void units. Budget of £70k will be built into the base budget to continue these achievements.

Chorley Council Events Programme - £159k

51. The Council's events programme continues to go from strength-to-strength attracting record numbers of visitors and increased interest from corporate sponsorship. This budget will continue to enable the Council to deliver and improve the events programme.
52. In addition to these investments the figures in Council's base budget illustrated in Table 1 include the following one off allocations:
- For 2017/18 a one-off allocation of £60k for continued support during the implementation period of LCC's service reductions.
 - Subject to European funding approval the Council will match fund £307k towards the Chorley Employment Inclusion Project that will identify barriers to training and

employment, and plan an individually tailored programme of interventions to move beneficiaries closer to the labour market.

UTILISING RESOURCES AVAILABLE IN 2017/18

Increase in Earmarked Reserves for 2017/18

53. As well as the £339k of investment funding built into the base budget, the Council has identified a one-off provision to fund projects that will further deliver the Council's corporate strategy priorities in the next financial year. A **£120k investment project fund** will be created for 2017/18 to meet the funding requirements of projects to be identified before the final budget is set in February 2017.
54. The following section of this report will make it clear that there are very large budget deficits that will need to be addressed in 2018/19 & 2019/20. Significant upfront costs are likely to be incurred in order for the Council to successfully implement the necessary net expenditure reduction strategies. As such it is proposed that reserves are created to meet these future costs.
55. It is proposed that the **change management reserve is increased to £200k**. This reserve has been fully utilised in 2016/17 for costs relating to restructures undertaken during that period including the senior management review. Further staffing changes will take place as part of the transformation and shared services strategies and so this reserve will need to be resourced for the Council to fund these changes.
56. As part of the 2016/17 budget setting process the Council set aside £600k in a reserve to fund investment in income generating schemes that would create net income for the Council in order to bridge its budget deficit. To date £250k has been committed against this budget for the preliminary costs of bringing the Digital Office Park to the planning stage and for procurement support. In order to deliver future reductions in net expenditure it is important for the Council to continue to set aside resources to enable investments that will generate future income streams.
57. In particular the agreed acquisition of HCA employment land as part of a £2.8m land swap will mean Chorley Council acquire 20.73 acres of land including Cowling Farm and Eaves Green. As a result of these large investments **it is proposed that the Council set aside £317k of reserves in 2017/18 to realise the income generating potential from these employment sites**. This will result in the reserve being brought back to over £600k in 2017/18.
58. Finally, it is expected that the Council will incur one off expenditure in 2017/18 relating to the maintenance of its assets. This could include works to the Councils offices that will prepare for changes implemented through the transformation strategy. It could also include continued works to land affected by flooding and maintenance of the Councils reservoirs. These works will be in addition to the Council's annual maintenance budget and so **it is proposed that in 2017/18 £100k is set-aside for these works**.

Table 3: Cumulative Budget Deficit after Proposed Transfers to Reserves

	2017/18 £m	2018/19 £m	2019/20 £m
Adjusted Budget Deficit/(Available Resources)	(0.738)	1.001	1.579
Creation of an Investment Project Fund	0.120		
Increase in Change Management Reserve	0.200		
Increase in Income Generating Investment Fund	0.317		
Increase in Maintenance Reserve	0.100		
Adjusted Budget Deficit	0.000	1.001	1.579

THE BUDGET – HOW THE FINANCIAL CHALLENGE WILL BE MET

	2018/19 £000s	2019/20 £000s
Cumulative Budget Deficit	1.001	1.579

59. Despite the budget savings identified in this report there remain large forecast budget deficits in 2018/19 and 2019/20. To achieve a sufficient reduction in net expenditure the Council’s Strategy will be to:

- 1. To realise savings through the procurement of its contracts**
- 2. To identify the efficiencies through shared services and alternative delivery models that will enable the Council to balance the budget whilst seeking to minimise the impact on front line service users**
- 3. To make the Council more financially self-sufficient with specific emphasis on creating investment that generates income. This includes identifying future uncommitted resources and commits the balances to support income generating schemes.**

REALISING SAVINGS THROUGH PROCUREMENT OF CONTRACTS

60. During the end of the MTFs period the Council will undertake large procurement exercises on its contracts that are coming to the end of the contract agreement periods. The ambition for the Council is that through these procurement exercises it will transform its delivery of key services whilst generating cost savings and continuing to provide excellent service delivery. The Council encourages an innovative approach to service delivery and therefore various options will be considered including the utilisation of existing Council premises and vehicles, expanded shared procurement with other Councils and the consideration of bringing some services in-house.

TRANSFORMATION STRATEGY

Shared Services

61. Shared services continue to be a significant method by which councils generate savings and generate capacity in service delivery. Nationally, there are many examples of shared services, ranging from individual posts and services to full shared management teams. South Ribble Council would appear to be the most obvious potential partner for developing a shared service relationship. The cost savings achieved by other district councils would suggest that a 10% saving would be achievable by sharing officer structures and key contracts.

Productivity Gains

62. The transformation strategy covers many aspects of change both within the Council and in partnership with other organisations. At this stage the main strands of the strategy that could generate savings are outlined below:
- The Transformation Strategy will facilitate a greater integration of public services. In partnership with Lancashire Care NHS Foundation Trust (LCFT) the Council is implementing an Integrated Community Wellbeing Service. The proposal is to integrate public services that relates to promoting health and wellbeing of individuals or communities and are aimed particularly around prevention and early intervention. The service will consist of functions drawn from both LCFT and Chorley Council and will include around 45 FTE from Chorley Council. The partnership is currently in the enabling phase but when implemented is anticipated to generate opportunities for savings over the long-term.
 - The Transformation Strategy will develop and implement the 'WorkSmart' programme. This will facilitate a shared culture of smarter working, maximising the use of technology and digital information. Cost savings are expected through process/productivity improvements and consolidation of office space.
 - The Transformation Strategy will develop a Council approach to community-action and co-production. Communities and residents will be empowered to take an active role in their community, realising the value of key local assets. Residents will be engaged, communities more resilient with increased customer satisfaction and improved long term outcomes.

INCOME GENERATION

63. The Council has already been successful in income generation through the purchase of Market Walk shopping centre as well as the expected income streams from the extension of Market Walk and the development of the Digital Office Park. The Council realises that further work must be undertaken to recognise fully the potential revenue streams the Council is able to create.
64. Through external professional advice the Council will undertake an analysis of the financing of income generating investments that will generate new income streams. The Council's strategy is to make resourceful investments that will generate significant net income in the latter stages of the MTFS period. To do this, as proposed in this report, reserves must be set-aside to fund the initial costs of these projects.

Table 4: Estimated Medium Term Financial Strategy Cumulative Budget Deficit and Cumulative Savings

	2018/19 £m	2019/20 £m
Forecast Budget Deficit	1.001	1.579
Renegotiate Contracts	(0.051)	(0.350)
Transformation – Productivity Gains	(0.300)	(0.400)
Transformation – Shared Service	(0.650)	(0.750)
Transformation - Income Generation		(0.079)
Forecast Adjusted Medium Term Budget Deficit	0.000	0.000

GENERAL BALANCES

65. Through setting this budget and utilising underspends in 2016/17 the Council is on track to meet its MTFS target of £4m general balances by 2018/19.
66. The Council recognises that use of the general reserve may be required during the MTFS period. The transition to the new 2020/21 100% business rates retention regime may require the use of the balances to meet transitional budget deficits. In addition, the profiling of income generating projects may result in net income not being realised until later in the MTFS period.
67. As outlined in this report there is a £1.3m risk to general balances associated with two applications for mandatory charitable relief received from Lancashire Teaching Hospitals NHS Foundation Trust.

CAPITAL PROGRAMME 2017/18 to 2019/20

68. This report has dealt, in the main, with the Council's revenue budget. Implicit in the investment programme set out above, however, are financial implications for the Capital Programme. The latest three year Capital Programme can be found in the Revenue and Capital Budget Monitoring Report 2016/17 Report 2 approved at November Executive Cabinet 2016. Any further changes to the capital programme will be brought into the 2017/18 final budget report in February Special Council.

BUDGET CONSULTATION

69. Consultation on the proposed budget for 2017/18 will commence following approval of the proposals by Executive Cabinet. The consultation will focus on obtaining feedback on key proposals within the budget. The consultation will invite responses from residents, partners, parish groups and other stakeholders through a variety of methods including a short survey (available both in hard copy and online). Results will be analysed and published in February for consideration as part of budget finalisation.

IMPLICATIONS OF REPORT

70. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	X	Customer Services	X
Human Resources	X	Equality and Diversity	
Legal	X	Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	X

COMMENTS OF THE STATUTORY FINANCE OFFICER

71. The financial implications of the above report are all contained in the text above but to clarify all proposals are funded and can be accommodated within the 2017/18 Budget. It should be noted that the report does contain a number of assumptions on some future budget elements and also what the final out-turn position will be for 2016/17. Should any of these change due to unforeseen circumstances arising before 31st March 2017, this will be reviewed and reported.

COMMENTS OF THE MONITORING OFFICER

72. There are no legal implications in adopting the Budget proposals for consultation.

GARY HALL
CHIEF FINANCE OFFICER

There are no background papers to this report.

Report Author	Ext	Date	Doc ID
James Thomson	5025	11/01/17	

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Analysis of Budget Variations 2017/18 - 2019/20

	2017/18 ESTIMATE £'000	2018/19 ESTIMATE £'000	2019/20 ESTIMATE £'000
CASH BASE BUDGET REQUIREMENT	14,059	14,222	15,057
Cash Movements:			
Other Virements (Transfer below the line)			
Inflation			
Pay	116	99	96
Pensions	273	12	13
Pensions Rate Adj.	(165)	50	126
Non-Pay	12	61	51
Contractual	210	161	78
Income	202	16	(104)
Increments	43	21	9
Volume Expenditure	49	32	(7)
Volume Income	(24)	137	25
Loss of Income - LCC waste/recycling agreement	18	933	0
Market Walk Extension	0	(463)	72
Retirement Village	50	92	117
Digital Park	65	(7)	(76)
Chorley Employment Inclusion Programme	300	(300)	0
Chorley Youth Zone - Additional Contribution	0	50	0
Transformation Strategy Savings 2016/17	24	0	0
New Revenue Investment 2016/17	(1,408)	0	0
LCC Transition Fund	60	(60)	0
New Revenue Investment 2017/18	339	0	0
DIRECTORATE CASH BUDGETS	14,222	15,057	15,456
Contingency:			
- Management of the Establishment	(150)	(150)	(150)
Directorate & Corporate Budgets	14,072	14,907	15,306
Net Financing Transactions:			
- Net Interest/Premiums/Discounts	127	127	127
- Minimum Revenue Provision (MRP - capital financing)	384	395	395
- MRP £23m & Borrowing £13m for Market Walk	520	506	506
- Additional interest on £11m Borrowing not initially taken	361	358	358
sub total	1,393	1,386	1,386
TOTAL EXPENDITURE	15,465	16,292	16,692
Financed By:			
Council Tax - Borough	(6,375)	(6,439)	(6,503)
Parish Precepts	533	533	533
Council Tax Parishes	(533)	(533)	(533)
Revenue Support Grant	(734)	(299)	156
Retained Business Rates	(2,977)	(2,977)	(2,977)
Business Rates Pooling	(726)	(726)	(726)
Government Section 31 Grants	(583)	(583)	(583)
Business Rates Retention Reserve	(92)	(92)	(92)
Use of NHB for Capital Investment (Future Years)	(400)	(400)	(400)
Use of NHB for contribution to General Balances	(500)	(259)	0
Use of uncommitted NHB	(3,107)	(2,323)	(2,398)
Council Tax Discount Family Annexes Grant	(5)	0	0
Collection Fund (Surplus)/Deficit - Council Tax 17/18 onwards	(80)	0	0
Transfers to/(from) Earmarked Reserves	130	18	17
Proposed Transition Fund - Transfer to Reserve	140	0	0
Transfer to/(from) General Balances	500	259	0
TOTAL FINANCING	(14,808)	(13,821)	(13,505)
Budget Deficit/(Surplus)	656	2,472	3,187
Savings Achieved	(276)	(327)	(327)
Staffing Changes	(140)	(163)	(163)
Use of Uncommitted LCC Transition Fund	(326)	-	-
Reshaping the Waste Collection Service	(525)	(720)	(720)
2% Increase in Council Tax	(128)	(260)	(398)
Adjusted Budget Deficit/(Surplus)	(738)	1,001	1,579
Creation of an Investment Project Fund	120	-	-
Increase in Change Management Reserve	200	-	-
Increase in Income Generating Investment Fund	318	-	-
Increase in Maintenance Reserve	100	-	-
Adjusted Budget Deficit/(Surplus)	(0)	1,001	1,579
Future Savings/Income Generation			
Renegotiate Major Contracts	-	(51)	(350)
Transformation – Productivity Gains	-	(300)	(400)
Transformation – Shared Service	-	(650)	(750)
Transformation - Income Generation	-	-	(79)
Forecast Adjusted Medium Term Budget	(0)	0	(0)

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