COUNCIL

TUESDAY, 28TH FEBRUARY 2017, 6.30 PM
COUNCIL CHAMBER, TOWN HALL, CHORLEY

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

GARY HALL
CHIEF EXECUTIVE

Electronic agendas sent to Members of the Council

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FORMAL COUNCIL TAX RESOLUTION

Draft resolution on setting of the 2017/18 Council Tax for the Borough to be passed in approving the Executive Cabinet's recommendations for the Council's Budget.

1. It be noted that on 4 January 2017 the Chief Executive as Statutory Finance Officer calculated the Council Tax Base 2017/18

(a) for the whole Council area as 35,933.64 [Item T in the formula in Section 31B of the Local Government Finance Act 1992, as amended (the "Act")] ; and

(b) for dwellings in those parts of its area to which a Parish precept relates (as in the attached Table 2).

2. Calculate that the Council Tax requirement for the Council's own purposes for 2017/18 (excluding Parish precepts) is £6,502,550

3. That the following amounts be calculated for the year 2017/18 in accordance with Sections 31 to 36 of the Act:

(a) £58,541,700 being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) of the Act taking into account all precepts issued to it by Parish Councils.

(b) £51,396,160 being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) of the Act.

(c) £7,145,540 being the amount by which the aggregate at 3(a) above exceeds the aggregate at 3(b) above, calculated by the Council in accordance with Section 31A(4) of the Act as its Council Tax requirement for the year. (Item R in the formula in Section 31B of the Act).

(d) £198.85 being the amount at 3(c) above (Item R), all divided by Item T (1(a) above), calculated by the Council, in accordance with Section 31B of the Act, as the basic amount of its Council Tax for the year (including Parish precepts).

(e) £1,340,103 being the aggregate amount of all special items (Special Expenses and Parish precepts) referred to in Section 34(1) of the Act (as in the attached Table 1).

(f) £161.56 being the amount at 3(d) above less the result given by dividing the amount at 3(e) above by Item T (1(a) above), calculated by the Council, in accordance with Section 34(2) of the Act, as the basic amount of its Council Tax for the year for dwellings in those parts of its area to which no Parish precept relates.

4. To note that the County Council, the Police Authority and the Fire Authority have issued precepts to the Council in accordance with Section 40 of the Local Government Finance Act 1992 for each category of dwellings in the Council's area as indicated in the table below.

5. That the Council, in accordance with Sections 30 and 36 of the Local Government Finance Act 1992, hereby sets the aggregate amounts shown in the tables below as the

amounts of Council Tax for 2017/18 for each part of its area and for each of the categories of dwellings.

VALUATION BANDS

CHORLEY BOROUGH COUNCIL

A	B	C	**D**	E	F	G	H
107.71	125.66	143.61	**161.56**	197.46	233.36	269.27	323.12

LANCASHIRE COUNTY COUNCIL

A	B	C	**D**	E	F	G	H
814.49	950.24	1,085.99	**1,221.74**	1,493.24	1,764.74	2,036.23	2,443.48

POLICE & CRIME COMMISSIONER FOR LANCASHIRE

A	B	C	**D**	E	F	G	H
110.30	128.68	147.07	**165.45**	202.22	238.98	275.75	330.90

LANCASHIRE COMBINED FIRE AUTHORITY

A	B	C	**D**	E	F	G	H
43.67	50.94	58.22	**65.50**	80.06	94.61	109.17	131.00

AGGREGATE OF COUNCIL TAX REQUIREMENTS

A	B	C	**D**	E	F	G	H
1,076.17	1,255.52	1,434.89	**1,614.25**	1,972.98	2,331.69	2,690.42	3,228.50

6. That the Statutory Finance Officer and his officers be authorised to take any action necessary to ensure collection and recovery of the Council Tax and Non-Domestic Rates.

7. As the Council's basic amount of Council Tax for 2017/18 has increased by 2% and is in line with the permitted increase for 2017/18, it is considered not excessive in accordance with principles approved under Section 52ZB Local Government Finance Act 1992.

Appendix A1

EXPLANATION OF COUNCIL TAX SETTING RESOLUTION	
RESOLUTION 1	
(a)	Before we can calculate the Council Tax to be charged, we first have to calculate the Council Tax base. The Council Tax base is the amount which a Band D Council Tax of £1.00 would raise. For 2017/18 we estimate that a £1.00 Council Tax at Band D would raise £35,933.64 in the Chorley area.
(b)	This shows the "base" figure for each Parish in the area. For example, a £1.00 Band D Council Tax in Adlington would raise £1,984.42.
RESOLUTION 2	
	This shows the Council's net spending for 2017/18 excluding the cost of Parish precepts.
RESOLUTION 3	
(a)	This is the grand total of money which the Council estimates it will spend on all services in 2017/18. It also includes £681,283 which Parish Councils need to run their services.
(b)	This is the grand total of money which the Council estimates it will receive from various sources in the year. This includes Central Government and business rates, car park charges, investment income, government grants in respect of benefits, etc.
(c)	This is the difference between 2(a) and 2(b) and is in effect the Council's and Parishes net spending on services.
(d)	The difference between 2(a) and 2(b) is £7,145,540 and this is the amount we need to charge Council Taxpayers. This is divided by the base (see 1(a) above) and the resulting figure of £198.85 is the average Band D Council Tax for all Borough and Parish services.
(e)	The total of all the amounts needed from Council Taxpayers by the Parish Councils in the area and for Chorley Borough Special Expenses.
(f)	This is the Band D Council Tax for Chorley Borough Council's own services, ie. excluding Parish Council spending and Special Expenses
RESOLUTION 4	
	Lancashire County Council, Lancashire Fire Authority and the Police & Crime Commissioner for Lancashire are separate bodies who have worked out their own estimates of spending and income for 2017/18 and have set taxes in a similar way to Chorley Borough Council. This resolution notes their final decision.

RESOLUTION 5

This pulls together the Council Taxes for Chorley Borough Council, Lancashire County Council, the Police & Crime Commissioner for Lancashire and Lancashire Fire Authority. For example, the aggregate amount for Band D is £1,614.25 made up as follows:

	£
Chorley Borough Council	161.56
Lancashire County Council	1,221.74
Lancashire Police Authority	165.45
Lancashire Fire Authority	65.50

The rate for each property Band is calculated by reference to the Band D charge. The following ratios apply:

Band A	$^{6}/_{9}$ ths of Band D
Band B	$^{7}{}_{9}$ ths of Band D
Band C	$^{8}{}_{9}$ ths of Band D
Band D	$^{9}{}_{9}$ ths of Band D
Band E	$^{11}/_{9}$ ths of Band D
Band F	$^{13}/_{9}$ ths of Band D
Band G	$^{15}/_{9}$ ths of Band D
Band H	$^{18}/_{9}$ ths of Band D

The aggregate charge for Band A, for example, the charge is £1,614.25 x 6 ÷ 9 = £1,076.17; for Band B it is £1,614.25 x 7 ÷ 9 = £1,255.52.

RESOLUTION 6

Formally authorise the necessary staff to take legal action to collect arrears as and when this is necessary. ***For the vast majority of taxpayers, this is not needed***

Table 1

Chorley Borough Council - Council Tax 2017/18

		Band A		Band B		Band C		Band D		Band E		Band F		Band G		Band H	
Lancashire County Council			814.49		950.24		1,085.99		1,221.74		1,493.24		1,764.74		2,036.23		2,443.48
Chorley Borough Council (Excluding Special Expenses)			107.71		125.66		143.61		161.56		197.46		233.36		269.27		323.12
Police & Crime Commissioner for Lancashire			110.30		128.68		147.07		165.45		202.22		238.98		275.75		330.90
Lancashire Fire Authority			43.67		50.94		58.22		65.50		80.06		94.61		109.17		131.00
Sub Total			**1,076.17**		**1,255.52**		**1,434.89**		**1,614.25**		**1,972.98**		**2,331.69**		**2,690.42**		**3,228.50**
Parish and town councils	Total Parish precept	Special Expenses	Parish Precept	Special Expenses	Parish Precept	Special Expenses	Parish Precept	Special Expenses	Parish Precept	Special Expenses	Parish Precept	Special Expenses	Parish Precept	Special Expenses	Parish Precept	Special Expenses	Parish Precept
Adlington	£18,500.00	3.27	5.61	3.82	6.54	4.36	7.48	4.91	8.41	6.00	10.28	7.09	12.15	8.18	14.02	9.82	16.82
Anderton	£4,900.00	1.40	6.33	1.63	7.39	1.87	8.44	2.10	9.50	2.57	11.61	3.03	13.72	3.50	15.83	4.20	19.00
Anglezarke	£0.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Astley Village	£24,357.00	18.40	14.67	21.47	17.11	24.53	19.56	27.60	22.00	33.73	26.89	39.87	31.78	46.00	36.67	55.20	44.00
Bretherton	£16,900.00	-	38.09	-	44.43	-	50.78	-	57.13	-	69.83	-	82.52	-	95.22	-	114.26
Brindle	£6,800.00	3.18	9.67	3.71	11.28	4.24	12.89	4.77	14.50	5.83	17.72	6.89	20.94	7.95	24.17	9.54	29.00
Charnock Richard	£28,000.00	2.62	27.49	3.06	32.08	3.49	36.66	3.93	41.24	4.80	50.40	5.68	59.57	6.55	68.73	7.86	82.48
Clayton le Woods	£115,035.00	25.59	14.67	29.85	17.11	34.12	19.56	38.38	22.00	46.91	26.89	55.44	31.78	63.97	36.67	76.76	44.00
Coppull	£92,625.00	5.38	24.39	6.28	28.45	7.17	32.52	8.07	36.58	9.86	44.71	11.66	52.84	13.45	60.97	16.14	73.16
Croston	£23,150.00	6.29	13.86	7.34	16.17	8.39	18.48	9.44	20.79	11.54	25.41	13.64	30.03	15.73	34.65	18.88	41.58
Cuerden	£1,150.00	7.72	18.77	9.01	21.89	10.29	25.02	11.58	28.15	14.15	34.41	16.73	40.66	19.30	46.92	23.16	56.30
Eccleston	£45,726.00	3.29	17.91	3.83	20.90	4.38	23.88	4.93	26.87	6.03	32.84	7.12	38.81	8.22	44.78	9.86	53.74
Euxton	£152,653.00	11.54	23.43	13.46	27.33	15.39	31.24	17.31	35.14	21.16	42.95	25.00	50.76	28.85	58.57	34.62	70.28
Heapey	£9,140.00	11.79	15.83	13.76	18.46	15.72	21.10	17.69	23.74	21.62	29.02	25.55	34.29	29.48	39.57	35.38	47.48
Heath Charnock	£7,750.00	14.34	6.19	16.73	7.22	19.12	8.25	21.51	9.28	26.29	11.34	31.07	13.40	35.85	15.47	43.02	18.56
Heskin	£12,169.00	1.47	22.00	1.71	25.67	1.96	29.33	2.20	33.00	2.69	40.33	3.18	47.67	3.67	55.00	4.40	66.00
Hoghton	£6,000.00	4.64	11.47	5.41	13.38	6.19	15.29	6.96	17.20	8.51	21.02	10.05	24.84	11.60	28.67	13.92	34.40
Mawdesley	£28,750.00	0.91	24.75	1.07	28.88	1.22	33.00	1.37	37.13	1.67	45.38	1.98	53.63	2.28	61.88	2.74	74.26
Rivington	£2,500.00	-	29.55	-	34.47	-	39.40	-	44.32	-	54.17	-	64.02	-	73.87	-	88.64
Ulnes Walton	£5,999.00	-	15.58	-	18.18	-	20.77	-	23.37	-	28.56	-	33.76	-	38.95	-	46.74
Wheelton	£12,262.00	-	19.47	-	22.72	-	25.96	-	29.21	-	35.70	-	42.19	-	48.68	-	58.42
Whittle le Woods	£37,647.00	14.28	10.37	16.66	12.09	19.04	13.82	21.42	15.55	26.18	19.01	30.94	22.46	35.70	25.92	42.84	31.10
Withnell	£29,270.00	5.85	15.48	6.83	18.06	7.80	20.64	8.78	23.22	10.73	28.38	12.68	33.54	14.63	38.70	17.56	46.44
All other parts of the Council's area		18.08	-	21.09	-	24.11	-	27.12	-	33.15	-	39.17	-	45.20	-	54.24	-

PARISH COUNCIL PRECEPTS

Parish Council	2016/17 Tax Base	2016/17 Precepts £	2016/17 Council Tax Band D (£)	2017/18 Tax Base	2017/18 Precepts £	2017/18 Council Tax Band D (£)	C Tax Increase
Adlington	1,881.28	18,500	8.87	1,984.42	18,500	8.41	-0.46
Anderton	476.02	4,800	9.47	484.82	4,900	9.50	0.03
Anglezarke	18.32	-	0.00	18.91	-	0.00	0.00
Astley Village	934.57	23,653	21.16	930.92	24,357	22.00	0.84
Bretherton	283.42	10,530	35.69	288.58	16,900	57.13	21.44
Brindle	452.97	6,800	14.41	450.08	6,800	14.50	0.09
Charnock Richard	669.92	28,000	41.28	670.65	28,000	41.24	-0.04
Clayton le Woods	4,494.69	71,920	13.45	4,708.06	115,035	22.00	8.55
Coppull	2,196.15	88,145	35.32	2,243.01	92,625	36.58	1.26
Croston	1,041.71	23,100	20.79	1,044.20	23,150	20.79	0.00
Cuerden	42.26	1,100	25.98	40.78	1,150	28.15	2.17
Eccleston	1,601.20	43,800	26.33	1,640.80	45,726	26.87	0.54
Euxton	4,116.64	102,032	24.37	4,295.49	152,653	35.14	10.77
Heapey	373.41	9,190	23.74	371.25	9,140	23.74	0.00
Heath Charnock	800.02	8,000	9.58	798.65	7,750	9.28	-0.30
Heskin	340.48	11,780	33.00	352.27	12,169	33.00	0.00
Hoghton	346.82	6,000	16.82	339.14	6,000	17.20	0.38
Mawdesley	751.62	28,721	37.16	752.94	28,750	37.13	-0.03
Rivington	52.20	2,500	44.66	52.60	2,500	44.32	-0.34
Ulnes Walton	247.43	5,987	23.37	247.92	5,999	23.37	0.00
Wheelton	393.74	12,020	29.43	404.94	12,262	29.21	-0.22
Whittle Woods	2,368.52	35,608	15.03	2,421.20	37,647	15.55	0.52
Withnell	1,192.48	29,270	23.30	1,196.59	29,270	23.22	-0.08
All other parts of the Council's area	10,105.85	-	-	10,195.42	-	-	
TOTAL / AVERAGE	**35,181.72**	**571,456**	**15.15**	**35,933.64**	**681,283**	**17.89**	**2.74**

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Chorley Council

APPENDIX D

Report of	Meeting	Date
Chief Finance Officer	Special Council	28 February 2017

TREASURY STRATEGIES AND PRUDENTIAL INDICATORS (2017/18 TO 2019/20)

PURPOSE OF REPORT

1. To present for approval the Treasury Management Strategy, Investment Strategy, Minimum Revenue Provision (MRP) Policy Statement, and Prudential and Treasury Indicators for the years 2017/18 to 2019/20. Submission of these reports is a requirement of the Codes of Treasury Practice with which the Council must comply.

RECOMMENDATION(S)

2. That Council approve
   - The Prudential Indicators for 2017/18 to 2019/20
   - The Treasury Management Strategy for 2017/18 and Treasury Indicators
   - The Annual Investment Strategy 2017/18
   - The Annual Statement of MRP Policy 2017/18

EXECUTIVE SUMMARY OF REPORT

3. The report presents Prudential Indicators relating to capital expenditure and financing, and the level of external borrowing.

4. The proposed MRP Policy for 2017/18 is unchanged from that for 2016/17. It permits an “MRP Holiday” in respect of capital projects that take more than one financial year before completion. During 2015/16, Governance Committee approved an accounting policy of capitalising borrowing costs in specific circumstances, as explained in the report.

5. No changes are proposed to the Investment Strategy for 2017/18. It is proposed that the same investment limits should continue in 2017/18 as in 2016/17. The following limits would remain in force if approved:
   - The maximum that can be invested with the part-nationalised UK banks remains at £4m per group (RBS group only), and with other institutions (UK banks or buildings societies) £3m. Investments totals can be any combination of call account deposits, term deposits, or certificates of deposit.
   - Up to £3m can be deposited in CNAV Money Market Funds, which afford instant access; and £2m in VNAV Enhanced Money Market Funds, which also offer high liquidity.
   - Funds can be deposited for up to one year in UK banks and building societies, taking account of creditworthiness of the institution. Investments are likely to be for shorter periods.
   - Investments are restricted to United Kingdom-registered financial institutions.
   - Deposits with the Debt Management office are permitted up to the DMO limit of six months. There is no limit on the amount.
   - Investments with UK local authorities can be up to £3m per authority for one year, or £2m per authority for a maximum of 2 years. A maximum of £4m could be invested with local authorities

for more than one year. Investments of over 1 year would be regarded as 'non-specified', but the security of such deposits is high. However, it remains unlikely that cash balances would be high enough in the foreseeable future for this option to be used.

Confidential report Please bold as appropriate	Yes	**No**
Key Decision? Please bold as appropriate	Yes	**No**
Reason Please bold as appropriate	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 unprogrammed capital scheme of £100,000 or more	4, Significant impact in environmental, social or physical terms in two or more wards

REASONS FOR RECOMMENDATION(S)

(If the recommendations are accepted)

6. With security of investments being the paramount objective, no further changes in the current narrow range of UK-registered counterparty institutions is proposed.

7. Approval of the Prudential Indicators, Treasury Management Strategy, Treasury Indicators, Annual Investment Strategy, and Annual MRP Policy Statement is necessary to comply with statutory requirements.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

8. None

CORPORATE PRIORITIES

9. This report relates to the following Strategic Objectives:

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

BACKGROUND

10. The Local Government Act 2003, gave local authorities greater discretion over capital expenditure by allowing prudential borrowing. It also sought to strengthen governance by making compliance with the Chartered Institute of Public Finance and Accountancy's Prudential Code and CIPFA's Treasury Management Guidance, statutory requirements. The former requires the production of Indicators showing that expenditure is affordable; the latter requires the approval of an annual Treasury Management Strategy incorporating Treasury Indicators and limits.

11. Consequential to the Prudential Borrowing powers is a requirement that authorities should make prudential provision for the repayment of borrowing (MRP). This is to be the subject of an annual policy statement to be made to the full Council prior to the start of each year.

12. Finally local authorities have, through the Local Government Act 2003, also been given greater discretion in investing surplus cash. They are required however, by guidance issued by the Department for Communities and Local Government (DCLG), to prepare an annual Investment Strategy to identify how that discretion should be applied.

13. This report therefore brings together these related requirements. The Governance Committee's role is to scrutinise these policies and practices, while the Council is required to approve them.

TREASURY MANAGEMENT POLICY STATEMENT & TREASURY MANAGEMENT PRACTICES (TMPs)

14. The Treasury Management Policy Statement was updated and approved by Council on 1 March 2016. This report has been prepared in accordance with the approved Policy

15. The Council's Treasury Management Practices (TMPs) were also updated and approved by Council on 1 March 2016. No changes to the TMPs are required at present.

PRUDENTIAL INDICATORS 2017/18 to 2019/20

16. Local authorities have discretion to incur capital expenditure in excess of the capital resources provided by government, or those resources resulting from the sale of assets or the receipt of contributions from other parties. To do this however increases a Council's indebtedness and ultimately leads to a charge to the General Fund revenue budget.

17. To manage that process, Councils must set certain Indicators. These are designed to indicate that the expenditure is prudent and affordable. The following are the relevant indicators for Chorley.

Prudential Indicator 1 - Capital Expenditure

18. The following statement (Table 1) summarises the latest estimates of capital expenditure from 2016/17 to 2019/20, and the methods of financing the programme.

19. The programme includes major new schemes, in particular Market Walk Extension, and Digital Office Park, which require use of Prudential Borrowing to finance much of the expenditure. However, the schemes are essentially self-financing, the financing costs (MRP and interest) being matched or exceeded by the income generated when the assets become operational.

Prudential Indicator 1 - Capital Expenditure

Table 1 - Capital Expenditure	2016/17 Revised £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Capital expenditure incurred directly by the Council	14,563	24,648	8,965	800
Less Capital resources				
Capital receipts	(2,678)	(1,215)	0	0
Grants & contributions	(5,386)	(11,284)	(2,312)	(370)
Revenue and reserves	(921)	(2,390)	(332)	(330)
Unfinanced amount (affects the CFR: see Prudential Indicator 2 below)	**5,578**	**9,759**	**6,321**	**100**
Of which:				
General capital expenditure	972	625	260	100
Primrose Retirement Village	711	331	4,836	
Market Walk Extension *	3,000	6,353		
Digital Office Park*	395	2,450	1,225	
Recycling Receptacles (Green Waste) *	500			

* Self-financing Prudential Borrowing

Prudential borrowing (unfinanced amount) in respect of Primrose Retirement Village will be reduced by application of commuted sums when received. In Table 2 below the cumulative Capital Financing Requirement for the asset is shown as being reduced in 2018/19 by voluntary set aside.

Prudential Indicator 2 – Capital Financing Requirement (CFR)

20. The CFR is a measure of the Council’s indebtedness resulting from its capital programme. It increases when, as above, the Council incurs unfinanced capital expenditure or leases liabilities. Its importance lies in the fact that it results in a charge to the revenue account, to make provision to finance the expenditure (the Minimum Revenue Provision - MRP).

21. It should be noted that this indebtedness does not necessarily result in the Council having an immediate need to take out additional external borrowings. This is because the Council has various reserves, and the cash which supports those reserves can be used temporarily instead of borrowing from the Public Works Loan Board (PWLB) or elsewhere.

22. The CFR is important therefore because it creates a charge to the Council’s General Fund, which therefore has an impact on Council Tax. The following table shows how the CFR is changing over the next few years.

Prudential Indicator 2 - Capital Financing Requirement (CFR)

Table 2 - CFR	31/3/16 Actual £'000	31/3/17 Revised £'000	31/3/18 Estimate £'000	31/3/19 Estimate £'000	31/3/20 Estimate £'000
Estimated CFR at year-end	34,497	39,544	48,760	53,378	52,579
Reasons for the annual change in the CFR					
Unfinanced capital expenditure (see Table 1)		5,578	9,759	6,321	100
Annual revenue charge (MRP)		(531)	(543)	(620)	(899)
Voluntary Set Aside (Commuted Sum)				(1,083)	
Of which:					
General capital expenditure		12,414	12,650	12,521	12,241
Primrose Retirement Village		711	1,042	4,795	4,723
Market Walk Shopping Centre *		22,916	22,762	22,601	22,433
Market Walk Extension *		3,108	9,461	9,391	9,208
Digital Office Park*		395	2,845	4,070	3,974

* Self-financing Prudential Borrowing

23. As indicated above, several of the major projects, which have been or will be financed with Prudential Borrowing, are essentially self-financing. They are intended to generate income for the Council in excess of the financing costs arising from financing by borrowing, as well as fulfilling service development objectives.

24. There will be an “MRP Holiday” in respect of new major assets which will take more than one financial year to construct, in particular Market Walk Extension, Primrose Retirement Village, and Digital Office Park. This means that MRP would be charged from the year after the asset becomes operational, in order to match financing costs with the use of the asset.

25. The Council also adopted the accounting policy of capitalising borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset, where the costs are incurred in more than one financial year before an asset becomes operational and where budgeted Prudential Borrowing required to finance the asset is £4m or more. This means that the relevant interest costs would be added to the capital cost of the assets rather than charging interest to the revenue budget before the assets are in use. It helps to match the revenue cost of the assets to the years they are in operational use.

Prudential Indicator 3 – Ratio of financing costs to the net revenue stream

25. This indicator shows the proportion of the receipts from government grants and local taxation (Council Tax and Business rates) that is required to meet the costs associated with capital financing (interest and principal - MRP, net of interest received).

26. The ratio shows an increase from 2017/18 onwards. The revenue stream is expected to reduce each year, mainly as a result of reductions in government funding, in particular Revenue Support Grant and New Homes Bonus. Financing costs increase as a result of additional prudential borrowing. The income to the Council generated by self-financing assets such as Market Walk and its Extension, or Primrose Retirement Village cannot be reflected in this calculation, thereby making the revenue cost of the capital programme appear greater than it really is.

Table 3 - Ratio of financing costs	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
Ratio	7.01	8.11	11.36	15.30

Prudential Indicator 4 – Incremental impact of capital investment decisions on the band D Council Tax

27. This table shows the cumulative effect on council tax levels of the changes between the capital programme reported in this strategy and that submitted a year ago. It has to be stressed that the complexity, and notional nature, of the calculations mean that the figures should only be treated as being indicative. In particular, the figures do not take account of the fact that several of the capital projects included in the capital programme for 2016/17 to 2019/20 are not only self-financing, but are intended to generate an income to help finance the Council's services, as well as achieving service development objectives. Rather than increasing council tax, as implied by the prudential indicator, the assets should help to protect service delivery. The reduction in 2017/18 reflects rephasing of schemes and amendments to the sources of financing.

Table 4 - Impact of capital investment decisions	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £
Increase/(decrease) in Band D charge	23.11	(1.84)	4.26	5.20

TREASURY MANAGEMENT STRATEGY 2017/18 to 2019/20

Background

27. The treasury management service fulfils an important role in the overall financial management of the Council's affairs. It deals with "*the management of the 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"* (CIPFA).

Prudential Indicators 5 and 6

28. The Council has a statutory obligation to have regard to the CIPFA Code of Practice, and is required to adopt both the Code and the Treasury Management Policy Statement therein. Both of these were adopted by Council on 2 March 2010 (Financial Procedure Rule 4 refers). The TM Policy Statement was updated and approved by Council on 1 March 2016.

Reporting

29. This strategy statement has been prepared in accordance with the current Code. As a minimum, a mid-year monitoring report, and a final report on actual activity after the year-end, will be submitted to the Council. Additional reports will be made to the Governance Committee during the year as required.

Borrowing and Investment Projections

30. The Council's borrowings and investment are inter-related. The following table details the estimated changes in borrowings and cash balances available for investment, consistent with the capital and revenue budgets. The table is prepared on the assumption that most Prudential Borrowing incurred for capital financing (Table 1) will be external (PWLB or other sources) rather than internal cash balances.

Prudential Indicators 5 and 6

Table 5 - Borrowing and Investments	2016/17 Revised £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Borrowing at period start	12,800	27,115	39,868	43,698
Borrowing repaid in year	(1,263)	(2,006)	(2,491)	(2,427)
Borrowing in year	15,578	14,759	6,321	100
Borrowing at period end	**27,115**	**39,868**	**43,698**	**41,371**
Surplus cash for investment at year end	(3,000)	(2,500)	(2,000)	(1,500)
Net borrowing/(investments)	**24,115**	**37,368**	**41,698**	**39,871**

External borrowing is assumed to be taken in the year that capital expenditure financed by Prudential Borrowing is incurred. In practice, the timing of borrowing will be influenced by the availability of internal cash balances, and current and forecast interest rates. If at any point there was a strong likelihood of borrowing interest rates increasing to a greater extent than estimated at present, then the profile of borrowing would be reconsidered. Longer-term savings could be achieved by borrowing at an early date if rates were expected to rise subsequently.

Surplus cash available for investment generally declines by year-end, but can peak at much higher levels during the year for short periods. See Treasury Indicator 1 (Table 8) for the estimated maximum cash balance per financial year.

Prudential Indicator 7

31. The Prudential Code requires authorities to make comparison between net borrowing and the CFR. At its greatest net borrowing should not exceed the current year's CFR plus the estimated increases in CFR for the following two years. The figures reported above meet this requirement

Prudential Indicator 8 The Operational Boundary for External Debt

32. The Council is required to set two limits on its borrowings. The first is the Operational Boundary. This should reflect the most likely, but not worst case scenario consistent with the Council's budget proposals. This table assumes that additional external borrowing will be taken from 2016/17 onwards to finance new capital expenditure, to replace the use of internal cash balances, and to replace loans repaid in the period.

Table 6 - Operational Boundary	31/3/17 Revised £'000	31/3/18 Estimate £'000	31/3/19 Estimate £'000	31/3/20 Estimate £'000
Borrowings	27,115	39,868	43,698	43,698
Other long-term liabilities	15	15	15	15
Operational boundary	**27,130**	**39,883**	**43,713**	**43,713**

Prudential Indicator 9 The Authorised Limit

33. This is the second limit. It should allow headroom above the Operational Boundary to accommodate the fluctuations that can occur in cash flows. The following is proposed:

Table 7 - Authorised Limit	31/3/17 Revised £'000	31/3/18 Estimate £'000	31/3/19 Estimate £'000	31/3/20 Estimate £'000
Borrowings	30,115	42,868	46,698	46,698
Other long-term liabilities	15	15	15	15
Authorised Limit	**30,130**	**42,883**	**46,713**	**46,713**

Economic outlook and expected movement in interest rates

34. The report of the Council's consultants, Capital Asset Services, is attached at Appendix D (1).

35. Capita indicate that investment returns are likely to remain relatively low during 2017/18, but should start to improve from 2019/20 onwards. Bank Rate is not expected to increase in until the June quarter of 2019.

36. Appendix D (1) also presents estimated PWLB borrowing rates through to 2019/20. The rates are lower than estimated a year ago, 50-year loans being around 0.70% lower as at March quarter of 2019 than in the equivalent table last year.

Borrowing strategy

37. Prudential Indicators presented in this report reflect are prepared on the assumption that Prudential Borrowing to finance new capital expenditure between 2016/17 and 2019/20 will require external borrowing rather than use of internal cash balances. Additional loans will be taken to replace internal borrowing in respect of existing capital assets, in order to generate cash balances required for operational purposes. In addition, loans repayable from 2016/17 onwards will be replaced. The timing of any additional borrowing and estimated changes in interest rates would be discussed with the Council's treasury advisors, Capital Asset Services.

Treasury Management Limits on Activity

38. The Authority is required to set the following Treasury Indicators. The purpose of these is to minimise the risk resulting from movements in interest rates.

Treasury Indicator 1 – Upper limit on Variable rate exposure

39. The Council is exposed to interest rate movements on its invested cash. The amount varies significantly over the course of the year, and in recent years peaks have been for only very short periods. The peak during 2016/17 to date has been under £12m, compared to the approved Treasury Indicator for the year of £25m. So far this year the Council's own cash balances have been the source of prudential borrowing for capital financing, rather than external borrowing, and borrowing has been repaid and not replaced. This approach contributes to savings in the Net Financing Transactions budget, and means that cash balances tend to be lower than they might otherwise have been.

Table 8 - Variable rate upper limit	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Upper limit on variable rate exposure	14	13	12	11

Treasury Indicator 2 – Upper limit on fixed rate exposure

40. The Council is exposed to fixed rate interest on any long term liabilities and PWLB borrowings. It is proposed that up to 100% of the debt be at fixed rates.

Table 9 - Fixed rate upper limit	2016/17 Revised	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Upper limit on fixed rate exposure	100%	100%	100%	100%

Treasury Indicator 3 - Maturity structure of borrowing

41. The Council is required to determine upper and lower limits for the maturity structure of its debt. This Treasury Indicator is calculated as at 31 March 2018, and the upper limit assumes that there would be further PWLB borrowing during 2016/17 and 2017/18 to replace the use of internal cash balances and to finance new capital schemes. The indicator is based on the assumption that new loans are for a range of repayment periods. Taking loans for periods of 10 years and above when interest rates are relatively low and likely to increase in future years helps to protect against refinancing risk, because rates could increase considerably by the time shorter-term loans need to be repaid.

Table 10 - Maturity structure of borrowing	As at 31/3/18 Lower Limit	Upper Limit
Under 12 months	6%	7%
12 months to 2 years	5%	5%
2 to 5 years	15%	16%
5 to 10 years	28%	28%
10 years and above	44%	46%

Treasury Indicator 4 – Total principal sums invested for greater than 364 days

42. It is not planned to make any investments for periods over 364 days, which is the Council’s usual practice. Such investments are classified as being ‘non-specified’. However, in principle a maximum of £4m could be invested with UK local authorities, subject to a maximum of £2m per authority. This option was introduced into the investment strategy during 2015/16 to reflect the high degree of security of local authority investments. Capita advices that local authorities are suitable for investments up to five years, but the Council has adopted a maximum duration of up to two years. It is unlikely that cash balances would be such that this option would be used. In addition, the rate of interest offered by other local authorities is often not very competitive, so high security would be achieved at the expense of a low rate of return.

Use of Treasury Advisors

43. The Council recognises that responsibility for treasury decisions cannot be delegated to its treasury advisor but remains its responsibility at all times.

Performance Indicators

44. Investments – the generally accepted indicator is 7-day LIBID (The London Interbank Bid rate). This is the rate that could be obtained by the “passive” deposit of money onto the money market. Active investment, in normal times, should outperform this. Average 7-day LIBID plus 15% has been set as a performance indicator for Shared Financial Services. This means, for example, that if average 7-day LIBID were 0.35%, the target would be to achieve 0.40%. Actual investment returns have exceeded this target during 2016/17 to date, but it is likely that the margin above the target will reduce. Cash balances are often available to invest for only short periods, which tends to mean that low interest rate call accounts and MMFs are used rather than higher-rate term deposits.

INVESTMENT STRATEGY 2017/18

Introduction

45. Under the Power in Section (15) (1) of the Local Government Act 2003 the DCLG has issued Guidance on Local Government Investments. This was updated with effect from 1 April 2010. Each Authority is recommended to produce an annual strategy that sets out its policies to manage investments, giving priority to security and liquidity. This strategy follows the guidance.

46. The major element in the guidance is that authorities should distinguish between lower risk (specified investments), and other investments (non-specified). These terms are explained in more detail below.

47. The specific issues to be addressed in the Investment Strategy are as follows:

- How “high” credit quality is to be determined
- How credit ratings are to be monitored
- To what extent risk assessment is based upon credit ratings and what other sources of information on credit risk are used
- The procedures for determining which non specified investments might prudently be used
- Which categories of non-specified investments the Council may use
- The upper limits for the amounts which may be held in each category of non- specified investment and the overall total.
- The procedures to determine the maximum periods for which funds may be committed.
- What process is adopted for reviewing and addressing the needs of members and treasury management staff for training in investment management.
- The Council’s policies on investing money borrowed in advance of spending needs. The statement should identify measures to minimise such investments including limits on (a) amounts borrowed and (b) periods between borrowing and expenditure

Chorley Council’s Strategy 2017/18

Objectives

49. The Council’s investment priorities are:
    - The security of capital and
    - The liquidity of its investments.

50. The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

51. The borrowing of monies purely to invest or on-lend and to make a return is unlawful, and this Council will not engage in such activity. The Council will restrict borrowing in excess of its immediate need, to the additional amount envisaged to be required in the following eighteen months.

Use of Specified and Non-Specified Investments

52. Specified investments are those made:
    - with high “quality” institutions, the UK Government or a local authority,
    - for periods of less than one year and
    - denominated in sterling.

53. Other investments are ‘non-specified’. These could include investments in gilts, bond issues by other sovereign bodies and those issued by multilateral development banks, commercial paper,

and any deposits for a period exceeding one year. Deposits with other UK local authorities for more than one year but less than two would be 'non-specified'

54. The Council's practice has been only to make specified investments, though the option of placing deposits with UK local authorities for one to two years (which would be non-specified) was adopted during 2015/16. This option is unlikely to be used.

55. The Council normally uses only the simplest instruments such as money market deposits or deposits in call accounts and Money Market Funds. The investment strategy permits use of certificates of deposit (CDs) as an alternative to term investment. These offer the potential for greater liquidity than term deposits, though the rate of return is usually lower than for term deposits.

<u>Counterparty Selection Criteria</u>

56. In determining which institutions are "High Quality" the Council uses the creditworthiness service provided by its treasury advisor Capital Asset Services. This combines the credit ratings from all three rating agencies (Fitch, Moody, Standard and Poor) in a sophisticated modelling process. It does not however rely solely on these ratings, but also uses

- Credit watches and credit outlooks from the agencies
- Credit Default Spreads (CDS) to give early warning of likely changes in ratings
- Sovereign ratings to select counterparties from only the most credit worthy countries

57. These factors are combined in a scoring system, and results in counterparties being colour coded:

- Yellow – suggested maximum duration 5 years **
- Purple – suggested maximum duration 2 years
- Blue (used for part-nationalised UK Banks) – 1 year
- Orange – 1 year
- Red – 6 months
- Green – 3 months
- No colour – not to be used

** The UK Government and Local Authorities are included in this category. However, the strategy restricts investments to shorter period than the maximum duration suggested by Capita.

The Council only lends to UK-incorporated financial institutions. This strategy does not therefore specify a minimum sovereign rating.

The Council may use AAA rated Money Market Funds.

The Council may lend to the UK Government (which includes the Debt Management Office)

The Council may lend to other Local Authorities.

The duration of deposits takes account of the Capita colour coding as explained above.

There are dozens of banks and building societies registered in the UK, but only a small minority are of "High Quality" and therefore suitable for placing investments.

Monitoring of Credit ratings

56. Capital Asset Services supply rating warnings and changes by e-mail immediately following their issuance by the rating agencies. The colour-coded counterparty lists are reissued weekly, updated by such changes. The information is also available at any time via Capita's Passport web site. Members of the Shared Financial Services' Financial Accountancy team are also registered with the three credit rating agencies so that ratings can be checked online independently of Capita.

Time and money Limits

57. No changes to the present limits are proposed. The limits applying to each category of institution are specified in the Investment Counterparties 2017/18 table on the following page.

Member and Staff Training

58. We will be scheduling appropriate awareness training for councillors in 2017/18. Treasury management staff in the Shared Financial Services' Financial Accountancy team will attend workshops and seminars provided by the Council's treasury advisor or CIPFA where appropriate.

Financial Institutions and Investment Criteria (2017/18 Treasury Strategy)

Investment Counterparties 2017/18

Category	Institutions	CAS Colour Code	Maximum Period	Limit per Institution
Banks & Building Societies: Call Accounts /Term Deposits / Certificates of Deposit (CDs)				
Government related/guaranteed entities	DMADF (DMO) UK Local Authority	Yellow Yellow	6 months 1 year 2 years	Unlimited £3m per LA £2m per LA; £4m in total
UK part-nationalised institutions	Royal Bank of Scotland group	Blue	1 year	£4m per group
UK-incorporated Institutions	UK banks and building societies of high credit quality	Orange Red Green	1 year 6 months 3 months	£3m per group (or institution if independent)
Money Market Funds				
Money Market Funds (CNAV)	MMFs of high credit quality - AAA rated		Instant access	£3m per fund
Enhanced Money Market Funds (VNAV)	EMMFs of high credit quality - AAA rated		T+2 or T+3	£2m per fund; £4m in total

ANNUAL STATEMENT OF MRP POLICY 2017/18

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 require a local authority to determine each year an amount of Minimum Revenue Provision (MRP) which it considers to be prudent. This should be by reference to the calculated Capital Financing Requirement (CFR). Linked to this regulation, the Department for Communities and Local Government (DCLG) produced statutory guidance (updated in February 2012), which sets out what may constitute prudent provision.

In accordance with the DCLG guidance, this statement sets out the Council's MRP policy for the forthcoming financial year, 2017/18.

The aim of the policy is to ensure that MRP is charged over a period that is reasonably commensurate with the period over which the capital expenditure which gave rise to the debt provides benefits.

MRP shall commence in the financial year following that in which the capital expenditure is incurred, or in the year following that in which the relevant asset becomes operational.

In respect of the proportion of the Capital Financing Requirement which relates to debt incurred prior to 2008/9, MRP shall be charged on this at the rate of 4% in accordance with option 1 of the guidance, otherwise known as the Regulatory Method.

The MRP liability on debt incurred from 2008/09 onwards shall be based on the estimated useful life of the asset, (option 3 of the guidance, known as the Asset Life Method). The MRP shall be calculated using the following methods, as appropriate for specific capital expenditure:

- Equal instalments: where the principal repayments made are the same in each year
- Annuity: where the principal repayments increase over the life of the asset

Estimated life periods shall be determined under delegated powers, with reference to the guidance, in the year that MRP commences and shall not be revised. As some types of capital expenditure are not capable of being related to an individual asset, the MRP shall be assessed on a basis which most reasonably reflects the anticipated period of benefit arising from the expenditure.

IMPLICATIONS OF REPORT

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

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

COMMENTS OF THE STATUTORY FINANCE OFFICER

These are contained in the report

COMMENTS OF THE MONITORING OFFICER

The recommendations are appropriate as explained in the body of the report.

Background Papers			
Document	**Date**	**File**	**Place of Inspection**
CIPFA Treasury Management in the Public Services: Code of Practice & Guidance Notes			Town Hall
CIPFA Prudential Code for Capital Finance in Local Authorities			Town Hall
CIPFA Standards of Professional Practice: Treasury Management			Town Hall
DCLG Guidance on Local Government Investments			Town Hall
DCLG Guidance on Minimum Revenue Provision			Town Hall

Report Author	Ext	Date	Doc ID
Michael L Jackson	5490	8 February 2017	Treasury Strategy 2017-18–2019-20.doc

APPENDIX D1

Advice of the Council's treasury management consultants Capita Asset Services

Investment Counterparties

We remain in a very difficult investment environment. Whilst counterparty risk appears to have eased, market sentiment has still been subject to bouts of, sometimes, extreme volatility and economic forecasts abound with uncertainty. However, we also have a very accommodating monetary policy - reflected in a 0.25% Bank Rate. As a consequence, authorities are not getting much of a return from deposits. Against this backdrop it is, nevertheless, easy to forget recent history, ignore market warnings and search for that extra return to ease revenue budget pressures. In this respect, we are seeing an increase in investment "opportunities" being offered to clients or being discussed in the wider press. What then, should you consider when these are offered?

Do not look at the return, look at the product.

We suggest that you "look under the bonnet" when considering pooled investment vehicles, although this applies to any investment opportunity. It is not enough that other councils are investing in a scheme or an investment opportunity: you are tasked through market rules to understand the "product" and appreciate the risks before investing. A quotation from the Financial Conduct Authority puts the environment in context.

The main risks in the industry for the coming year are firms designing products that: -
- aren't in the long-term interest of consumers
- don't respond to their needs
- encompass a lack of transparency on what's being sold
- lead to a poor understanding by consumers of risk
- shift toward more complex structured products that lack oversight.

Alternative investment instruments

The particular asset classes we have spoken on at our seminars include the following:
- Enhanced Money Market Funds
- Corporate Bonds - direct, passive and active external management
- Property Funds
- Equity Funds

There are varying degrees of risks associated with such asset classes and these need comprehensive appreciation. It is not just credit risk that needs to be understood, but liquidity and interest rate / market risk as well, although these can often be intertwined. Any option in which an investor hopes to generate an elevated rate of return will almost always introduce a greater level of risk. By carefully considering and understanding the nature of these risks, an informed decision can be taken.

Property funds

A number of our clients are actively considering, or have already commenced investing in property funds. Where not already undertaken, this may require an addition to your list of non-specified investments in your Annual Investment Strategy (AIS). You may wish to specify an appropriate monetary limit based upon an assessment of your reserves and balances going forward.

Each authority will also need to evaluate whether investing in a particular property fund will qualify as being capital expenditure or not. If deemed capital expenditure an application (spending) of capital resources would be required. Authorities should seek guidance on the status of any fund they may consider using. Appropriate due diligence should also be undertaken before investment of this type is undertaken.

Building societies

Only five building societies, at the time of writing, have the necessary ratings to render them suitable for consideration by clients who follow our suggested credit assessment methodology. This is a limited number, as the great majority of building societies do not have credit ratings, while a few do have ratings but they are not high enough ratings to qualify to get into one of our suggested colour bands. If clients wish to use building societies as part of their own strategy, then they need to consider what metrics they will use to determine suitability and how these will be monitored.

Challenger banks

The vast majority of local authorities do not include challenger banks in their counterparty lists. At present, they do not have credit ratings and so would fall outside of most investment strategy criteria. However, we expect that some of these entities may get ratings in coming years, so we will continue to keep this area under review.

Money Market Funds (MMFs)

Over the next few years, the EU will be working on developing proposals which may require these funds to move from Constant net asset value (CNAV) to Low Volatility net asset value (LVNAV). These reforms are still to be agreed and are unlikely to be ready for implementation in 2017/18. Whenever these changes occur, we will advise clients on the implications and how best these can be approached.

Money Market Fund Reform update January 2017

Following on from our Newsflash on the 16th November in respect of the announcement that an agreement on the EU Money Market Funds' Regulation has finally been struck by the European Parliament, Council and Commission, we have set out below the details of the proposed Regulation. While a legal review is still to occur, the detail of the Regulation has been set, which paves the way for final approval of the new rules during the first quarter of 2017.

The Regulation provides investors with an option for investing their short-term cash in two types of Money Market Funds ("MMFs"):

- Short-term MMFs - Funds that maintain the existing conservative investment restrictions currently provided under the European Securities and Market Authorities (ESMA) Short-Term Money Market Fund definition, including a maximum Weighted Average Maturity (WAM) of 60 days (inclusive of Floating Rate Note interest rate reset days) and maximum Weighted Average Life (WAL) of 120 days (inclusive of Floating Rate Note maturity dates);
- Standard MMFs – Funds that reflect the existing ESMA Money Market Fund definition – maximum WAM of 6 months and maximum WAL of one year.

In addition, three structural options:

- Public Debt Constant Net Asset Value ("CNAV") MMFs - must invest 99.5% of their assets into government debt instruments, reverse repos collateralised with government debt, cash, and are permitted to maintain a constant dealing NAV. This Fund is already in existence and there is no change proposed to the current structure;
- Low Volatility NAV ("LVNAV") MMFs - permitted to maintain a constant dealing NAV provided that certain criteria are met, including that the market NAV of the Fund does not deviate from the dealing NAV by more than 20 basis points (bps). This is a much more stringent approach, as currently on a CNAV Fund they have a 50bps buffer;
- Variable NAV ("VNAV") MMFs – Funds which price their assets using market pricing and therefore offer a fluctuating dealing NAV. No change to the current approach.

Credit analysis/rating and stress testing:

The Regulation requires that MMF managers perform a rigorous internal credit quality assessment of money market instruments, as well as implementing a prudent stress testing regime. Moreover, such credit analysis is to be undertaken by individuals separate from the team responsible for the day-to-day management of the MMF portfolio.

There was a proposal to abolish MMFs from obtaining an external fund rating. This has not been approved and MMFs may continue to carry external fund ratings which must be disclosed in the prospectus and marketing materials

Liquidity fees and redemption gates:

Similar to existing rules and practices in Europe, liquidity gates and redemption fees are put in place to protect public debt CNAVs and LVNAVs in times of stress. Under the new rules, the application of a fee/gate would be optional if weekly liquidity falls below 30% and net redemptions from the fund exceed 10% in one day. However, if weekly liquidity falls below 10%, some form of action (either a gate or a fee) would be mandatory.

Portfolio diversification and transparency:

The new rules strengthen requirements for portfolio diversification and transparency for all MMFs, providing for weekly disclosure of portfolio information and formalised reporting to regulators.

Implementation period:

Following the final adoption of the Regulation, there will be an 18-month period of implementation for existing MMFs; as a result, the approved changes are not anticipated to have an immediate impact on MMFs. We expect the Regulation to become effective in the second half of 2018.

As previously suggested, this would mean that no changes to Investment Strategy documents will be needed for this financial year, and next year 2017/18 as well.

We will continue to monitor progress on the evolution of MMF reform and report back to clients on this. In the meantime, if you wish to discuss this, or a related matter in more detail, then please do not hesitate to get in contact with the Credit and Investment Team.

Commentary on Investment Issues (mid-January 2017)

There is a high degree of volatility in the global markets. The initial downside pressures resulting from the UK Brexit decision reverted back higher in more recent times over the potential inflation threat building in the UK economy. Interest rate expectations have been similarly affected, first pushing lower in anticipation of a near-term rate cut, to more recently, where there is no expectation of any change in either direction for some while to come. This volatility could remain in situ for some time to come, certainly until there is greater clarity surrounding the consequences for the economy of the vote, and the deal that can be negotiated around a withdrawal.

While the economic outlook for the UK and US improved through much of 2014, 2015 saw something of a slowing in activity, especially through the latter stages of the year. This weakening has also flowed through much of this year. While the domestic situation remains reasonably positive, especially in the US, underlying, and in some cases growing, international concerns are expected to see the respective central banks hold back from previously projected levels of policy tightening. In the US, after the recent FOMC policy minutes, the markets (futures contracts), are now pricing in a two-thirds chance of rate increase this December. The elephant in the room remains Trump. Markets are trying to fathom what his presidency will actually mean in terms of fiscal stimulus, and what impact this could have on monetary policy going forwards.

Closer to home markets have increasingly priced in no change in Bank Rate for the foreseeable future. However, less than a month ago, it was pricing in a near certainty of a rate cut before year end. Such volatility in expectations will persist.

For the Eurozone the future remains tepid at best, in spite of ECB policy action and a bounce in growth in the first quarter of the year. Growth pulled back in Q2, as expected and stayed relatively weak in Q3. Progress within the currency bloc will continue to be hampered by a number of fundamental issues, not least stubbornly high unemployment, in all bar one or two countries.

The actions/words, or inactions, of central bankers are likely to continue to be the key themes dominating market sentiment in the coming months. However, in light of the change in UK political/economic outlook there will be an increased level of political influence on the markets for some time, as the process of extracting the UK from the EU commences, and, in all probability, drags on. The Trump election success in the US adds to the weight that politics will have on market sentiment.

Central banks have undertaken enormous support programmes in recent years, in an effort to stabilise the world economy. However, can they be unwound without causing material market turbulence in the future – such as that seen in emerging markets in early 2014? While the US has already commenced minimising the levels of increased support, the full unwinding of policy support for major economies will take many years to accomplish. Equally, how easily can the UK reverse forty years of EU membership without any detrimental effect to itself or its former partners, and will this prove a test case / template that other EU members might watch with a view to similar action, with the risk of a break-up of the EU.

Counterparty quality remains the key factor when making investment decisions. Policy rates are not expected to tighten for some considerable time. As such, some of the longer dated deals on offer continue to present some potential advantage.

As with any investment, please check that these are both suitable for your own individual strategy, and allowable within the confines of your investment strategy.

Markets in Financial Instruments Directive (MiFID II)

The Markets in Financial Instruments Directive (MiFID) is the EU legislation that regulates firms who provide services to clients linked to ‘financial instruments’ (shares, bonds, units in collective investment schemes and derivatives), and the venues where those instruments are traded. The new MiFID II environment is set to commence on 3rd January 2018, having been delayed by a year due to slower than anticipated progress in a number of key areas.

There is a key change affecting Local Authorities. Under the new regime, Local Authorities will be deemed “Retail” clients by default. They will have the option to “opt-up” to “Professional” client status, or remain as “Retail”. Treasury Solutions currently categorise their clients as “Per Se Professional” but this is being replaced by the “opt-up” procedure.

In order to opt-up, clients will need to meet qualitative and quantitative test criteria.

Qualitative Test Criteria

- “Firms must undertake an adequate assessment of the expertise, experience and knowledge of the client to give reasonable assurance in light of the nature of the transactions or services envisaged, that the client is capable of making his own investment decisions and understanding the risks involved (COBS 3.5.3R(1))”

The qualitative test criteria are provided as guidance and it will be down to each investment counterparty to set its particular criteria. Rather than a simple pro-forma that could be used to meet each individual request, there are likely to be differences in each approach from each individual financial institution and fund manager. The differences could simply depend on the nature of the potential investment a client may make with the entity, or there could be other factors that also play a role. Unfortunately, what is likely to be consistent is that each approach will require a lot of form filling!

Quantitative Test Criteria

- A re-calibrated quantitative test (based on COBS 3.5.3R(2)) – the criteria in paragraph (a) and the criteria in either paragraph (b) or (c) must be satisfied:
- the size of the client's financial instrument portfolio, defined as including cash deposits and financial instruments, exceeds £15,000,000
- (b) the client has carried out transactions, in significant size, on the relevant market at an average frequency of 10 per quarter over the previous four quarters
- (c) the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the transactions or services envisaged

While some elements of this part of the opt-up criteria will be relatively simple to meet, even here there are some elements that could be open to interpretation. For example, with the £15m portfolio – at what stage would this be calculated? Would this be a balance sheet date, which could prove an issue for some clients who normally wind down balances at year end? Other options could be quarter end positions over a period of time, which would show average balances that could allow some clients to better meet the stated requirement than a balance sheet position would.

Another consideration would be how to satisfy sections (b) / (c) when you might be considering a new asset class for investing. For example, if you were considering a Short Dated Bond Fund as a new type of investment, you would struggle to meet the requirements of (b), and may even have issues dealing with (c) as well, even if you have been working in a professional position for at least one year. It could be that undertaking a formal selection process would allow you to meet criteria, or by some other means. However, once again, without clear guidance as to how investment counterparties are going to produce their own assessment processes, it is difficult to say at this stage.

It is important to note that the option to opt-up is not a one off exercise. It will need to be undertaken with each and every counterparty / fund manager that a client may wish to transact. In some circumstances it may even be the case that a client may not wish to take up the option to opt up, preferring instead to maintain its "Retail" status. However, as highlighted in the consultation process, the decision to maintain "Retail" status may limit the investment options available, compared to "Professional" status. The decision may rest on what options are available under each status, and which is, therefore, most appropriate for each individual client. As such, there may be instances where a client is deemed "Professional" by some counterparties, but "Retail by others.

Capita Asset Services - Treasury Solutions are discussing these matters with investment counterparties including financial institutions and fund managers. These discussions have been on-going since MiFID II was first proposed and will continue through to its implementation and beyond.

We will help you where possible, and keep you updated as pertinent information materialises. In addition, our discussions with you will focus on the implications for retaining "Retail" status, in terms of the product set and any additional "protection" (this is not monetary, but the way that a client is treated) that may be provided.

We expect that as a retail customer or as a professional customer you will be able to access and place deposits as you do today but there remains a deal of uncertainty as to how the new regime will be implemented for investments and the implications it may have for you. However, we would stress that financial institutions and fund managers will not be looking to narrow their potential Local Authority customer base by making opt-up criteria (where appropriate) too complex or time consuming to complete.

Economic Background

UK. GDP growth rates in 2013, 2014 and 2015 of 2.2%, 2.9% and 1.8% were some of the strongest rates among the G7 countries. Growth is expected to have strengthened in 2016 with the first three quarters coming in respectively at +0.4%, +0.7% and +0.6%. The latest Bank of England forecast for growth in 2016 as a whole is +2.2%. The figure for quarter 3 was a pleasant surprise which confounded the downbeat forecast by the Bank of England in August of only +0.1%, (subsequently revised up in September, but only to +0.2%). During most of 2015 and the first half of 2016, the economy had faced headwinds for exporters from the appreciation of sterling against the Euro, and weak growth in the EU, China and emerging markets, and from the dampening effect of the Government's continuing austerity programme.

The **referendum vote for Brexit** in June 2016 delivered an immediate shock fall in confidence indicators and business surveys at the beginning of August, which were interpreted by the Bank of England in its August Inflation Report as pointing to an impending sharp slowdown in the economy. However, the following monthly surveys in September showed an equally sharp recovery in confidence and business surveys so that it is generally expected that the economy will post reasonably strong growth numbers through the second half of 2016 and also in 2017, albeit at a slower pace than in the first half of 2016.

The **Monetary Policy Committee, (MPC), meeting of 4th August** was therefore dominated by countering this expected sharp slowdown and resulted in a package of measures that included a cut in Bank Rate from 0.50% to 0.25%, a renewal of quantitative easing, with £70bn made available for purchases of gilts and corporate bonds, and a £100bn tranche of cheap borrowing being made available for banks to use to lend to businesses and individuals.

The **MPC meeting of 3 November** left Bank Rate unchanged at 0.25% and other monetary policy measures also remained unchanged. This was in line with market expectations, but a major change from the previous quarterly Inflation Report MPC meeting of 4 August, which had given a strong steer, in its forward guidance, that it was likely to cut Bank Rate again, probably by the end of the year if economic data turned out as forecast by the Bank. The MPC meeting of 15 December also left Bank Rate and other measures unchanged.

The latest MPC decision included a forward view that **Bank Rate** could go either up or down depending on how economic data evolves in the coming months. Our central view remains that Bank Rate will remain unchanged at 0.25% until the first increase to 0.50% in quarter 2 2019 (unchanged from our previous forecast). However, we would not, as yet, discount the risk of a cut in Bank Rate if economic growth were to take a significant dip downwards, though we think this is unlikely. We would also point out that forecasting as far ahead as mid 2019 is highly fraught as there are many potential economic headwinds which could blow the UK economy one way or the other as well as political developments in the UK, (especially over the terms of Brexit), EU, US and beyond, which could have a major impact on our forecasts.

The pace of Bank Rate increases in our forecasts has been slightly increased beyond the three year time horizon to reflect higher inflation expectations.

The August quarterly Inflation Report was based on a pessimistic forecast of near to zero GDP growth in quarter 3 i.e. a sharp slowdown in growth from +0.7% in quarter 2, in reaction to the shock of the result of the referendum in June. However, **consumers** have very much stayed in a 'business as usual' mode and there has been no sharp downturn in spending; it is consumer expenditure that underpins the services sector which comprises about 75% of UK GDP. After a fairly flat three months leading up to October, retail sales in quarter 4 grew reasonably strongly, increasing by 1.2% and added 0.1% to GDP growth. In addition, the GfK consumer confidence index recovered quite strongly to -3 in October after an initial sharp plunge in July to -12 in reaction to the referendum result. However, by December it had fallen back to -7 indicating a return to pessimism about future prospects among consumers, probably based mainly around concerns about rising inflation eroding purchasing power.

Bank of England GDP forecasts in the November quarterly Inflation Report were as follows, (August forecasts in brackets) - 2016 +2.2%, (+2.0%); 2017 1.4%, (+0.8%); 2018 +1.5%, (+1.8%). There has, therefore, been a sharp increase in the forecast for 2017, a marginal increase in 2016 and a small decline in growth, now being delayed until 2018, as a result of the impact of Brexit.

Capital Economics' GDP forecasts are as follows: 2016 +2.0%; 2017 +1.5%; 2018 +2.5%. They feel that pessimism is still being overdone by the Bank and Brexit will not have as big an effect as initially feared by some commentators.

The Chancellor has said he will do 'whatever is needed' i.e. to **promote growth**; there are two main options he can follow – fiscal policy e.g. cut taxes, increase investment allowances for businesses, and/or increase government expenditure on infrastructure, housing etc. This will mean that the PSBR deficit elimination timetable will need to slip further into the future as promoting growth, (and ultimately boosting tax revenues in the longer term), will be a more urgent priority. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting to boost economic growth and suggested that the Government would need to help growth e.g. by increasing investment expenditure and by using fiscal policy tools. The newly appointed Chancellor, Phillip Hammond, announced, in the aftermath of the referendum result and the formation of a new Conservative cabinet, that the target of achieving a budget surplus in 2020 would be eased in the Autumn Statement on 23 November. This was duly confirmed in the Statement which also included some increases in infrastructure spending.

The other key factor in forecasts for Bank Rate is **inflation** where the MPC aims for a target for CPI of 2.0%. The November Inflation Report included an increase in the peak forecast for inflation from 2.3% to 2.7% during 2017; (Capital Economics are forecasting a peak of just under 3% in 2018). This increase was largely due to the effect of the sharp fall in the value of sterling since the referendum, although during November, sterling has recovered some of this fall to end up 15% down against the dollar, and 8% down against the euro (as at the MPC meeting date – 15.12.16).This depreciation will feed through into a sharp increase in the cost of imports and materials used in production in the UK. However, the MPC is expected to look through the acceleration in inflation caused by external, (outside of the UK), influences, although it has given a clear warning that if wage inflation were to rise significantly as a result of these cost pressures on consumers, then they would take action to raise Bank Rate.

What is clear is that **consumer disposable income** will come under pressure, as the latest employers' survey is forecasting median pay rises for the year ahead of only 1.1% at a time when inflation will be rising significantly higher than this. The CPI figure has been on an upward trend in 2016 and reached 1.6% in December. However, prices paid by factories for inputs are rising very strongly although producer output prices are still lagging well behind.

Gilt yields, and consequently PWLB rates, have risen sharply since hitting a low point in mid-August. There has also been huge volatility during 2016 as a whole. The year started with 10 year gilt yields at 1.88%, fell to a low point of 0.53% on 12 August, and hit a new peak on the way up again of 1.55% on 15 November. The rebound since August reflects the initial combination of the yield-depressing effect of the MPC's new round of quantitative easing on 4 August, together with expectations of a sharp downturn in expectations for growth and inflation as per the pessimistic Bank of England Inflation Report forecast, followed by a sharp rise in growth expectations since August when subsequent business surveys, and GDP growth in quarter 3 at +0.5% q/q, confounded the pessimism. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling.

Employment had been growing steadily during 2016 but encountered a first fall in over a year, of 6,000, over the three months to October. The latest employment data in December, (for November), was distinctly weak with an increase in unemployment benefits claimants of 2,400 in November and of 13,300 in October. **House prices** have been rising during 2016 at a modest pace but the pace of increase has slowed since the referendum; a downturn in prices could dampen consumer confidence and expenditure.

USA. The American economy had a patchy 2015 with sharp swings in the quarterly **growth rate** leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 at +0.8%, (on an annualised basis), and quarter 2 at 1.4% left average growth for the first half at a weak 1.1%. However, quarter 3 at 3.5% signalled a rebound to strong growth. The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene, and then the Brexit vote, have caused a delay in the timing of the second increase of 0.25% which came, as expected, in December 2016 to a range of 0.50% to 0.75%. Overall, despite some data setbacks, the US is still, probably, the best positioned of the major world economies to make solid progress towards a combination of strong growth, full employment and rising inflation: this is going to require the central bank to take action to raise rates so as to make progress towards normalisation of monetary policy, albeit at lower central rates than prevailed before the 2008 crisis. The Fed. therefore also indicated that it expected three further increases of 0.25% in 2017 to deal with rising inflationary pressures.

The result of the **presidential election** in November is expected to lead to a strengthening of US growth if Trump's election promise of a major increase in expenditure on infrastructure is implemented. This policy is also likely to strengthen inflation pressures as the economy is already working at near full capacity. In addition, the unemployment rate is at a low point verging on what is normally classified as being full employment. However, the US does have a substantial amount of hidden unemployment in terms of an unusually large, (for a developed economy), percentage of the working population not actively seeking employment.

Trump's election has had a profound effect on the **bond market and bond yields** rose sharply in the week after his election. Time will tell if this is a reasonable assessment of his election promises to cut taxes at the same time as boosting expenditure. This could lead to a sharp rise in total debt issuance from the current level of around 72% of GDP towards 100% during his term in office. However, although the Republicans now have a monopoly of power for the first time since the 1920s, in having a President and a majority in both Congress and the Senate, there is by no means any certainty that the politicians and advisers he has been appointing to his team, and both houses, will implement the more extreme policies that Trump outlined during his election campaign. Indeed, Trump may even rein back on some of those policies himself.

In the first week since the US election, there was a major shift in **investor sentiment** away from bonds to equities, especially in the US. However, gilt yields in the UK and bond yields in the EU have also been dragged higher. Some commentators are saying that this rise has been an overreaction to the US election result which could be reversed. Other commentators take the view that this could well be the start of the long expected eventual unwinding of bond prices propelled upwards to unrealistically high levels, (and conversely bond yields pushed down), by the artificial and temporary power of quantitative easing.

EZ. In the Eurozone, **the ECB** commenced, in March 2015, its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month. This was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March 2016 meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise significantly from low levels towards the target of 2%. Consequently, at its December meeting it extended its asset purchases programme by continuing purchases at the current monthly pace of €80 billion until the end of March 2017, but then continuing at a pace of €60 billion until the end of December 2017, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. It also stated that if, in the meantime, the outlook were to become less favourable or if financial conditions became inconsistent with further progress towards a sustained adjustment of the path of inflation, the Governing Council intended to increase the programme in terms of size and/or duration.

EZ GDP growth in the first three quarters of 2016 has been 0.5%, +0.3% and +0.3%, (+1.7% y/y). Forward indications are that economic growth in the EU is likely to continue at moderate levels. This has added to comments from many forecasters that those central banks in countries around the world which are currently struggling to combat low growth, are running out of ammunition to stimulate growth and to boost inflation. Central banks have also been stressing that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand and economic growth in their economies.

There are also significant specific political and other risks within the EZ: -

- **Greece** continues to cause major stress in the EU due to its tardiness and reluctance in implementing key reforms required by the EU to make the country more efficient and to make significant progress towards the country being able to pay its way – and before the EU is prepared to agree to release further bail out funds.
- **Spain** has had two inconclusive general elections in 2015 and 2016, both of which failed to produce a workable government with a majority of the 350 seats. At the eleventh hour on 31 October, before it would have become compulsory to call a third general election, the party with the biggest bloc of seats (137), was given a majority confidence vote to form a government. This is potentially a highly unstable situation, particularly given the need to deal with an EU demand for implementation of a package of austerity cuts which will be highly unpopular.
- The under capitalisation of **Italian banks** poses a major risk. Some **German banks** are also undercapitalised, especially Deutsche Bank, which is under threat of major financial penalties from regulatory authorities that will further weaken its capitalisation. What is clear is that national governments are forbidden by EU rules from providing state aid to bail out those banks that are at risk, while, at the same time, those banks are unable realistically to borrow additional capital in financial markets due to their vulnerable financial state. However, they are also ‘too big, and too important to their national economies, to be allowed to fail’.
- **4 December Italian constitutional referendum** on reforming the Senate and reducing its powers; this was also a confidence vote on Prime Minister Renzi who has resigned on losing the referendum. However, there has been remarkably little fall out from this result which probably indicates that the financial markets had already fully priced it in. A rejection of these proposals is likely to inhibit significant progress in the near future to fundamental political and economic reform which is urgently needed to deal with Italy’s core problems, especially low growth and a very high debt to GDP ratio of 135%. These reforms were also intended to give Italy more stable government as no western European country has had such a multiplicity of governments since the Second World War as Italy, due to the equal split of power between the two chambers of the Parliament which are both voted in by the Italian electorate but by using different voting systems. It is currently unclear what the political, and other, repercussions are from this result.
- **Dutch general election 15.3.17**; a far right party is currently polling neck and neck with the incumbent ruling party. In addition, anti-big business and anti-EU activists have already collected two thirds of the 300,000 signatures required to force a referendum to be taken on approving the EU – Canada free trade pact. This could delay the pact until a referendum in 2018 which would require unanimous approval by all EU governments before it can be finalised. In April 2016, Dutch voters rejected by 61.1% an EU – Ukraine cooperation pact under the same referendum law. Dutch activists are concerned by the lack of democracy in the institutions of the EU.
- **French presidential election;** first round 13 April; second round 7 May 2017.
- **French National Assembly election June 2017.**
- **German Federal election August – 22 October 2017.** This could be affected by significant shifts in voter intentions as a result of terrorist attacks, dealing with a huge influx of immigrants and a rise in anti EU sentiment.
- The core EU, (note, not just the Eurozone currency area), principle of **free movement of people** within the EU is a growing issue leading to major stress and tension between EU states, especially with the Visegrad bloc of former communist states.

Given the number and type of challenges the EU faces in the next eighteen months, there is an identifiable risk for the EU project to be called into fundamental question. The risk of an electoral revolt against the EU establishment has gained traction after the shock results of the UK referendum and the US Presidential election. But it remains to be seen whether any shift in sentiment will gain sufficient traction to produce any further shocks within the EU.

Asia. Economic growth in **China** has been slowing down and this, in turn, has been denting economic growth in emerging market countries dependent on exporting raw materials to China. Medium term risks have been increasing in China e.g. a dangerous build up in the level of credit compared to the size of GDP, plus there is a need to address a major over supply of housing and surplus industrial capacity, which both need to be eliminated. This needs to be combined with a rebalancing of the economy from investment expenditure to consumer spending. However, the central bank has a track record of supporting growth through various monetary policy measures, though these further stimulate the growth of credit risks and so increase the existing major imbalances within the economy.

Economic growth in **Japan** is still patchy, at best, and skirting with deflation, despite successive rounds of huge monetary stimulus and massive fiscal action to promote consumer spending. The government is also making little progress on fundamental reforms of the economy.

Emerging countries. There have been major concerns around the vulnerability of some emerging countries exposed to the downturn in demand for commodities from China or to competition from the increase in supply of American shale oil and gas reaching world markets. The ending of sanctions on Iran has also brought a further significant increase in oil supplies into the world markets. While these concerns have subsided during 2016, if interest rates in the USA do rise substantially over the next few years, (and this could also be accompanied by a rise in the value of the dollar in exchange markets), this could cause significant problems for those emerging countries with large amounts of debt denominated in dollars. The Bank of International Settlements has recently released a report that $340bn of emerging market corporate debt will fall due for repayment in the final two months of 2016 and in 2017 – a 40% increase on the figure for the last three years.

Financial markets could also be vulnerable to risks from those emerging countries with major sovereign wealth funds, that are highly exposed to the falls in commodity prices from the levels prevailing before 2015, especially oil, and which, therefore, may have to liquidate substantial amounts of investments in order to cover national budget deficits over the next few years if the price of oil does not return to pre-2015 levels.

Brexit timetable and process

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50
- March 2019: two-year negotiation period on the terms of exit. This period can be extended with the agreement of all members i.e. not that likely.
- UK continues as an EU member during this two-year period with access to the single market and tariff free trade between the EU and UK.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK may also exit without any such agreements.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On exit from the EU: the UK parliament would repeal the 1972 European Communities Act.
- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies.
- It is possible that some sort of agreement could be reached for a transitional time period for actually implementing Brexit after March 2019 so as to help exporters to adjust in both the EU and in the UK.

CAPITA ASSET SERVICES' FORWARD VIEW

Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. An eventual world economic recovery may also see investors switching from the safe haven of bonds to equities.

We have pointed out consistently that the Fed. Rate is likely to go up more quickly and more strongly than Bank Rate in the UK. While there is normally a high degree of correlation between treasury and gilt yields, we would expect to see a growing decoupling between the two i.e. we would expect US yields to go up faster than UK yields. We will need to monitor this area closely and the resulting effect on PWLB rates.

The overall balance of risks to economic recovery in the UK remains to the downside, particularly with the current uncertainty over the final terms, and impact, of Brexit.

We would, as always, remind clients of the view that we have expressed in our previous interest rate revision newsflashes of just how unpredictable PWLB rates and bond yields are at present. We are experiencing exceptional levels of volatility which are highly correlated to geo-political and sovereign debt crisis developments. Our revised forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Geopolitical risks in Europe, the Middle East and Asia, which could lead to increasing safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.
- A resurgence of the Eurozone sovereign debt crisis.
- Weak capitalisation of some European banks.
- Monetary policy action failing to stimulate sustainable growth and combat the threat of deflation in western economies, especially the Eurozone and Japan.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include:

- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

Our target borrowing rates and the current PWLB (certainty) borrowing rates are set out below.

PWLB debt	Current borrowing rate as at 8.2.17	Target borrowing rate now (Q1 2017)	Target borrowing rate previous (Q1 2017)
5 year	1.38%	1.60%	1.60%
10 year	2.11%	2.30%	2.30%
25 year	2.78%	2.90%	2.90%
50 year	2.54%	2.70%	2.70%

Borrowing advice

Although yields have risen from their low points, yields are still at historic lows and borrowing should be considered if appropriate to your strategy. We still see value in the 40yr to 50yr range at present but that view would be negated if Bank Rate does not climb to at least 2.5% over the coming years. Accordingly, clients will need to review and assess their risk appetite in terms of any underlying borrowing requirement they may have, and also project forward their position in respect of cash backed resources.

Any new borrowing should also take into account the continuing cost of carry, the difference between investment earnings and borrowing rates, especially as our forecasts indicate that Bank Rate may not rise from 0.25% until June 2019 and then will only rise slowly.

Proposed new PWLB Local Infrastructure Rate

At the Autumn Statement 2016, the government announced that it would consult on lending local authorities up to £1 billion at a new Local Infrastructure Rate of gilts + 60 basis points to support infrastructure projects that are high value for money. Loans at the new rate would be available for a period of three years, with a maximum term of 50 years.

The government would like further input from stakeholders before proceeding with this policy and so clients may wish to respond to this consultation exercise. Clients may also wish to consider what the potential impact could be on their capital programmes and the financing of the same.

Our suggested budgeted investment earnings rates for investments up to about three months duration in each financial year for the next seven years are as follows:

Average earnings in each year	Now	Previously
2016/17	0.25%	0.25%
2017/18	0.25%	0.10%
2018/19	0.25%	0.25%
2019/20	0.50%	0.50%
2020/21	0.75%	0.75%
2021/22	1.00%	1.00%
2022/23	1.50%	1.25%
2023/24	1.75%	1.50%
Later years	2.75%	2.50%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts. The general expectation for an eventual trend of gently rising gilt yields and PWLB rates is expected to remain unchanged. Negative, (or positive), developments could significantly impact safe-haven flows of investor money into UK, US and German bonds and produce shorter term movements away from our central forecasts.

Our interest rate forecast for Bank Rate is in steps of 25 bps whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps.

Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

Comparison of Interest Rate Forecasts – Treasury Strategy 2017/18 (Mar 16), and Treasury Strategy 2017/18 (rates forecast as at Feb 17)

	Bank Rate %		PWLB Borrowing Rates % (including 0.20% certainty rate adjustment)							
			5 year		10 year		25 year		50 year	
	Feb 17	Mar 16	Feb 17	Mar 16	Feb 17	Mar 16	Feb 17	Mar 16	Feb 17	Mar 16
Mar-17	0.25	0.75	1.60	2.20	2.30	2.70	2.90	3.50	2.70	3.30
Jun-17	0.25	0.75	1.60	2.30	2.30	2.80	2.90	3.50	2.70	3.30
Sep-17	0.25	1.00	1.60	2.40	2.30	2.90	2.90	3.60	2.70	3.40
Dec-17	0.25	1.00	1.60	2.60	2.30	3.00	3.00	3.60	2.80	3.40
Mar-18	0.25	1.25	1.70	2.70	2.30	3.10	3.00	3.70	2.80	3.50
Jun-18	0.25	1.25	1.70	2.80	2.40	3.30	3.00	3.70	2.80	3.60
Sep-18	0.25	1.50	1.70	2.90	2.40	3.40	3.10	3.70	2.90	3.60
Dec-18	0.25	1.50	1.80	3.00	2.40	3.50	3.10	3.80	2.90	3.70
Mar-19	0.25	1.75	1.80	3.10	2.50	3.60	3.20	3.80	3.00	3.70
Jun-19	0.50		1.90		2.50		3.20		3.00	
Sep-19	0.50		1.90		2.60		3.30		3.10	
Dec-19	0.75		2.00		2.60		3.30		3.10	
Mar-20	0.75		2.00		2.70		3.40		3.20	

Capital Economics have estimated that borrowing rates will increase from the June quarter of 2017 onwards, and that the first increase in Bank Rate will be in the December quarter of 2018.

Chorley Council

APPENDIX E

Report of	Meeting	Date
Chief Finance Officer	Council	28 February 2017

REPORT OF THE CHIEF FINANCE OFFICER

PURPOSE OF REPORT

1. To provide advice to the Council as required under s25 of the Local Government Act 2003.

RECOMMENDATION(S)

2. The Council are recommended to note the Chief Finance Officer's comments and advice under Section 25 of the Local Government Act 2003 as set out in this report and have regard to it when considering the budget proposals for 2017/18.

EXECUTIVE SUMMARY OF REPORT

3. This report is required by statute and the chief finance officer should report to members the robustness of the budget estimated including how they have been constructed and the assumptions that underpin them. In addition the chief finance officer must report to members the adequacy of the proposed financial reserves.

4. This report outlines the key assumptions and risks contained in the budget and identifies that over time working balances will be increased to mitigate some of those risks.

5. The Council will continue to experience significant reductions in funding. The Final Local Government Finance Settlement 2017/18 to 2020/21 published on 21 February 2017 confirms large scale reductions in the Council's resources, this includes a large reduction in New Homes Bonus grant. In addition, funding from Lancashire County Council is expected to fall by approximately £1m from 2018/19 onwards.

6. In terms of the 2017/18 budget once again all key budgets have been re worked to align with expected outturn for 2016/17 and therefore reflect the ongoing cost of delivering the current levels of service. The budget contains expenditure savings targets and increased budgeted income. All expenditure savings included in the 2017/18 budget have either been achieved or have proposals in place to successfully be achieved by the end of 2017/18.

7. There continues to be income targets contained within the budget; these are based upon contractual agreements or have been realigned to reflect the latest performance information. In addition there is budgeted income for the charging of replacement bins and introduction of a subscription based garden waste collection service. These have been constructed using prudent assumptions in terms of demand for both schemes. Market Walk will be the Council's biggest income generator in terms of fees and charges and to mitigate some of the risks to income money is being set aside into an equalisation account to be used should rental targets not be achieved.

8. The forecast therefore is that the budget will be balanced in 2017/18 and as in 2016/17 further funds are being set aside to boost the Council's working balances in line with the Medium Term Financial Strategy (MTFS) recommendations. In addition, funds have been set aside to create earmarked reserves in 2017/18 that will help enable the Council to implement the Transformation Strategy and resultantly the budget strategy included in the MTFS.

9. Key risks remain around in particular the forecasting of business rate receipts. The effects of the national revaluation of business rates to be implemented in April 2017 are forecast to be budget neutral to the Council. However further transitional amendments may cause further changes to the Council's estimated level of retained income. In addition Central Government consultation on the implementation of 100% business rates relief has an estimated full implementation start date of April 2019. The proposals within the consultation create significant uncertainties to the forecasting of retained business rates. As such only growth that is achieved will be built into the base budget and there is zero percent growth assumed in the short to medium term period. The Council does however continue to benefit from being a member of the Lancashire Business Rate Retention Pool in 2017/18.

10. Having reviewed the underlying assumptions and commented on the position in relation to key risks and working balances I am satisfied that the budget assumptions are reasonable, the key financial risks have been considered and the budget is deliverable.

Confidential report Please bold as appropriate	Yes	**No**

CORPORATE PRIORITIES

11. This report relates to the following Strategic Objectives and to the Council's ability to deliver its corporate plan whilst ensuring a balanced budget is achieved. The MTFS sets out how Council resources will be used to deliver those priorities.

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

BACKGROUND

12. Under the requirements of Section 25 of the Local Government Act 2003 the Chief Finance Officer is required to advise members when setting the budget as to the robustness of the estimates and the adequacy of working balances.

THE ROBUSTNESS OF ESTIMATES

13. In terms of the budget proposals, once again in 2017/18 a thorough reassessment of the budgets has been undertaken by budget holders, service managers and directors and their accountants based upon the latest information available. In terms of the key assumptions contained particularly in the 2017/18 budget these are shown in the main budget report and the medium term financial strategy but are summarised for convenience below

KEY ASSUMPTIONS

14. The table below shows the key assumptions made in forecasting forward the Council's financial position.

Key Assumptions	2017/18	2018/19	2019/20
Increase in Council tax	2%	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
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)	(£2.398m)
Net Financing of Market Walk	£0.716m	£0.840m	£0.858m
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
Supporting People Income from LCC	(£0.069m)	0	0
Pension Fund Deficit Recovery	£0.791m	£0.841m	£0.966m
Pay Award	1%	1%	1%
Investment Projects Built into Base Budget	£0.468m	£0.468m	£0.468m

15. In terms of the key assumptions I would make the following comments to confirm their validity:-

COUNCIL TAX INCREASES

16. Taking into consideration the large reductions in funding the Council will experience in 2017/18 to 2019/20 the administration is proposing to increase council tax by 2% in 2017/18. As well as this the MTFS models the impact of a 2% council tax increase in 2018/19 and 2019/20. As the council tax charge is decided annually it will be for the Council to determine if any actual increases are implemented. A prudent approach for council tax income in 2018/19 and 2019/20 is therefore being taken in forward forecasting council tax yield. If housing growth continues at the current rate it is likely that council tax yield will be greater.

REDUCTION IN GRANT SETTLEMENT

17. 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 on 16 November 2016 the Council received confirmation from DCLG on its four year RSG settlement, including an additional business rates tariff in 2019/20. The risk to the Council now is that we have the certainty of the Revenue Support Grant reductions but the uncertainty of the new business rate system. To mitigate this risk the forward forecasts of business rate income are prudent and I have set out changes in the levels of working balances the Council should hold to manage some of this risk.

NEW HOMES BONUS

18. The allocation of NHB has been reduced from 6 to 4 years with a 5^{th} 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. In order to be prudent I have modelled a reduction in NHB based upon a lower growth in housing stock than is assumed the finance settlement. It is clear that the NHB system will be part of the local government resource base and in this respect it allows the funding to be used as funding in the base budget as per last year's budget strategy. It therefore allows for the use of the resource to fund core services to a greater extent than previously if this is required.

NET FINANCE OF MARKET WALK

19. The assumption built into the 2017/18 forecast is that the internal cash position will remain positive for the initial few months of the year and that we will be able to temporarily continue to internally finance some of the debt required rather than borrow. The rationale for this approach is that the interest earned on deposits is significantly less than borrowing costs and in treasury management terms is financially advantageous to the Council. However I need to be able to respond to what happens in the financial markets and as borrowing rates fluctuate be able to react. If rates are forecast to change it will be appropriate to take on some additional borrowing. For this reason I have left some headroom for in year borrowing.

BUSINESS RATE RETENTION (BRR)

20. The budget report explains the volatile nature of this particular core income stream and why accurate forecasting of future receipts is problematic. The income levels contained within the retained business rates budget are based upon a set of assumptions that may impact on the total amount collected in future years, in particular the outcomes within the appeals process. The forecast of loss of income due to successful appeals is made more complicated in 2017/18 by the national revaluation to be implemented in April 2017. On average businesses in Chorley experienced a reduction in business rate liabilities. In addition, more businesses are eligible for Small Business Rates Relief following changes to thresholds in the 2016 Budget. It is difficult to predict what effect this will have on the level of successful appeals. Past experience has guided the calculation, but the loss of income will be monitored to identify the effect of the changed circumstances.

21. At present any growth in business rates is being offset by losses on appeals and for this reason I am building no estimated growth into any future years forecast which I believe is a prudent approach. With regard to the additional income resulting from being a member of the new Lancashire BRR Pooling Agreement, budgeted income from 2017/18 is estimated based on the current level of receipts.

22. 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 backdated to 2010 and therefore have a significant negative impact on the Council's revenue budget. A headline figure is a potential £1.3m impact on the Council's general fund and an approximate £200k further reduction in ongoing retained business rates. At present, as per advice from Local Government Association legal advisors, I have assumed this request for relief will not be granted. However I am confident the Council has sufficient working balances to deal with the risk posed from these applications.

PENSION FUND CONTRIBUTIONS

23. Contributions to the pension fund are budgeted for and are calculated on actual contribution rates determined by the pension fund actuary. These have been reviewed in 2017/18 and the figures included in budget for 2017/18 to 2019/20 reflect the actual payments that will made over that period for both contributions to the future pension fund and past deficit recovery.

PAY AWARD

24. The estimates for 2017/18 are based upon the most recent announcement of actual pay award, so in that respect are robust. Future years are based upon the fact that pay restraint is likely to continue and that a forecast pay award of 1% will be agreed.

SUPPORTING PEOPLE INCOME

25. The County Council has announced that it will continue to provide Supporting Income until September 2017 at which point it will cease. This budget includes these reductions in income. No reductions in sheltered accommodation services at Chorley Council are proposed at present. I am satisfied this reduction in funding can be met from within the Council's existing resources.

CHANGES TO WASTE COLLECTION SERVICE

26. One of the significant risks facing the Council is the announcement by the County Council that from 2018/19 it intends to stop paying recycling credits to the Council. This amounts to £0.930m for this Council and represents a major significant risk to all collection authorities in Lancashire. In-line with other Lancashire Councils, Chorley Council's response to these reductions is to make changes to household waste collection service. Two of these changes relate to charging for replacement bins and introducing a subscription based garden waste collection service. It is forecast that the Council will receive a net income from these changes however the income levels included in the budget are based upon a prudent forecast demand for these services. In addition the Council will change the frequency of paper and cardboard waste collection, the contractual savings included in the budget are based on draft agreements between the Council and the waste collection contractor.

MEDIUM TERM FINANCIAL STRATEGY

27. The MTFS sets out the Council's plans to bridge the funding gap as summarised below:

Total Summary Budget Resource Options to 2019/20

	2018/19 £m	**2019/20 £m**
Forecast Budget Deficit	**1.270**	**1.665**
Renegotiate Contracts	(0.070)	(0.315)
Transformation – Productivity Gains	(0.300)	(0.400)
Transformation – Shared Service	(0.600)	(0.650)
Transformation - Income Generation	(0.300)	(0.300)
Adjusted Medium Term Budget Deficit	**0.000**	**0.000**

28. The strategy shows that broadly speaking the administration will attempt to bridge the gap by generating efficiency savings and additional income of £1.655m. Based upon the analysis of risk I have undertaken this is not unrealistic but it will require the Council to focus in particular upon ensuring a wide range of services are included in the scope of the shared services transformation strategy.

29. Investing in income generating schemes is forecast to generate the Council £300k of additional income. It is recognised that this will require significant early expenditure and this is why the Council is setting aside £600k in an earmarked reserve specifically for investment in income generating projects.

LEVELS OF WORKING BALANCES

30. The budget for 2016/17 has been established on the basis of not utilising any working balances to fund expenditure. The previous MTFS indicated that working balances should be no less than £4.0m by 2018/19. This level was based upon risk contained in the budget particularly around future levels of government funding, the volatility in the funding system in relation to business rate retention and risk of loss of deposits should a future banking crisis occur.

31. In relation to the Treasury Strategy, individual deposit levels were increased to £3m to enable better rates to be accessed, but investments of up to £4m can be placed with part-nationalised UK financial institutions. One of the lessons for Councils who were affected by the Icelandic banking crisis was that they should at least have the minimum level of working balances to cover any potential loss of deposits should a banking crisis occur. For this reason I think it appropriate to increase the level of working balances.

32. The forward forecasts from 2016/17 on the level of working balances are as follows:

General Balances	**£m**
Opening Balance 2016/17	2.685
Budgeted contribution to General Balances	0.500
Forecast revenue budget underspend	0.098
Forecast General Fund Closing Balance 2016/17	**3.283**
Budgeted contribution to General Fund 17/18	0.500
Budgeted contribution to General Fund 18/19	0.259
Forecast General Fund Closing Balance 2018/19	**4.042**

IMPLICATIONS OF REPORT

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

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

COMMENTS OF THE STATUTORY FINANCE OFFICER

34. These are contained within the report.

COMMENTS OF THE MONITORING OFFICER

35. The report is designed to ensure that the relevant legislation is complied with in terms of Statutory Officer advice.

GARY HALL
CHIEF EXECUTIVE

There are no background papers to this report.

Report Author	Ext	Date	Doc ID
Gary Hall	5151	22/02/17	

Chorley Council

Report of	Meeting	Date
The Conservative Group	Council	28th February 2017

ALTERNATIVE BUDGET 2017/18

PURPOSE OF REPORT

1. To propose an alternative budget for consideration by the Council, as proposed by the Conservative Group.

RECOMMENDATION(S)

2. That the Council adopt the alternative budget options as set out in this report.

EXECUTIVE SUMMARY OF REPORT

3. This report sets out alternative budget proposals to those being put forward by the administration.

4. Firstly the report presents 15 investment proposals totalling £672,000.

5. The report then details proposals to deliver significant efficiency savings and income generation proposals which over the next three years we believe could lead to savings of £3.278 million.

Confidential report Please bold as appropriate	Yes	**No**

CORPORATE PRIORITIES

6. This report relates to the following Strategic Objectives:

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

BACKGROUND

7. Chorley council's core spending power increased from £14.400 million in 2015/16 to £15.077 million in 2016/17 mainly due to an increase in the allocation of New Homes Bonus. We now recognise that this trend will change as spending power will decrease over the coming period from 2017/18 onwards, in particular due to reductions in Revenue Support Grant and New Homes Bonus. The impact of budget shortfalls on our partners such as Lancashire County Council adds to this uncertainty. It is therefore important that the budget provides scope for difficult decisions to be made in the future.

8. The administration acknowledges that, based on their analysis, there will, in the future, be a funding gap where projected expenditure in 2019/20 will be £3.100 million greater than income, including the use of uncommitted New Homes Bonus funding. This paper puts forward an alternative budget, for consideration by Members of the Council, which continues to deliver high quality services and invests in priority areas whilst generating significant savings. This approach will significantly increase general balances whilst mitigating the impact of the administration's projected budget gap.

ALTERNATIVE BUDGET

9. The alternative budget is set out below. The proposals describe 15 areas for investment totalling £672,000, which together aim to:
   - Provide quality community services and facilities;
   - Provide opportunities for all Chorley residents;
   - Develop the Chorley borough's economy; and
   - Continually improve the efficiency of the council.

10. Most of the new investment areas were presented at Policy Council in November 2016 as part of our alternative Corporate Strategy. Our proposals focus on providing more support to the Borough's rural businesses and communities, ensuring investment and opportunities are provided throughout the Borough.

11. A further £3.278 million in savings and income generation is also included within the alternative proposals, which will be achieved through services being more productive and efficient, as well as generating income through selling back office services to other organisations.

12. Our proposals also include removal of the capital costs, associated borrowing costs and estimated income for the Market Walk extension.

13. The position with regard to the county council's budget position and its potential impact on our residents continue to be of great concern. It would appear to be the case that, whilst major budget reductions are a necessity, the detail of these cuts are still to be agreed. Consequently our proposal is to recognise that there may be a requirement to use some funds to minimise the impact that LCC budget cuts will have on the people of Chorley.

14. As such we propose to investigate the proposals and impact on Chorley further through a new project which is summarised below. Once we are clearer on the impact and the options to address or minimise the impact we will be in a clearer position to allocate money from the Council's general balances based on clear analysis, options and recommendations.

PROPOSALS FOR NEW INVESTMENT

15. Our proposals for revenue investment are therefore as follows:

Proposed projects	Summary	Proposed budgets
Promote and support community food growing	Schemes across the UK have demonstrated the health and wellbeing value of community food growing, not only through healthier eating and reducing food waste but also in cases of mental health and dementia, vulnerable young people and social isolation. This project would work with parish councils, RSLs, Groundwork and local communities to develop community food growing schemes to promote health and wellbeing. Food growing schemes could also be supported through time credits and a communications campaign. Benefits could potentially include: Promotion of healthier lifestyles (people are more active and aware of healthy food); Promotion of inter-generational activities; community cohesion.	£15,000
Working together to improve local communities	The aim of this project is to engage with partner agencies, such as Police, Fire Rescue, Parish Council's, LCC, Health and housing providers as well as local community groups to develop plans for areas of the borough. The project will look at identifying what actions partners and local community groups need to undertake to improve the quality of life, health and wellbeing for people in the neighbourhood areas. This will involve developing short term and long term plans for local area, through identifying gaps, looking at what work can be undertaken to fill the gaps, and exploring how we can better co-ordinate and/or collate their individual plans in order to collectively deliver better results for residents in their local areas. Local community groups will be encouraged and supported to work with agencies to decide what happens in their local area and develop pride and ownership in the delivery of any actions developing a more sustainable approach to neighbourhood working.	£40,000
Support Parish Councils/Neighbourhood Areas	Recognising and maximising the role that Parish Councils and local community groups in non-parished areas do and could further play in improving the local area. This may include providing support to build capacity as well as providing clearer links from the Council's website to Parish Councils and local community groups. This has a close link with the project to work together to improve local communities.	£50,000
Embed time credits into community groups	This project would embed the existing time credits programme into community groups to ensure its ongoing sustainability. It may also include developing a self-sustaining currency system and developing an online system which would require minimal central administration.	£50,000
Promote and encourage community management of facilities	This project is based on previous projects to transfer community centres into community management, but it aims to expand and develop the principles to other assets such as play areas and open spaces. It aims to develop greater feeling of ownership and pride in the local community, and offer a more cost-effective	£20,000

	method for managing assets.	
Estate adoption	To improve the process of the adoption of estates following the completion of new housing developments. While this matter has been the subject of an Overview and scrutiny task group in 2012, the slow adoption of estates remains an issue. This project would seek to successfully complete any remaining O&S recommendations and identify and implement any further actions which could help to speed up and improve this process.	£15,000
Develop a rural enterprise team	Develop a service which provides tailored support and advice to businesses and individuals in rural communities. In addition, this would include establishing a rural team, similar to the 'town team' engaging rural businesses and parish councils. The third elements involves supporting businesses and individuals to access funding through the Rural Development Programme for England (RDPE) and establishing a grants package to support business to access the RDPE funding (match funding).	£50,000
Work with partners to deliver affordable and quality public transport across the borough	Work with Lancashire County Council and providers to ensure that all communities across the borough are served with a public transport service that is useful and affordable. In particular the aim would be to support people in outlying areas who may be isolated or lack access to transport to access services or visit people/places in the borough. This may be delivered through working with Central Lancashire dial a ride and expanding/developing their existing service provision to Chorley through mini bus and car share schemes.	£100,000
Assess the impact of Lancashire County Council budget proposals and develop and action plan for Chorley	Lancashire County Council has outlined proposals for how they intend to meet their projected budget gap of £241 million by 2017/18. These proposals set out cuts to a range of county services with the potential for significant negative impact on residents of Chorley. This project will dedicate resource to undertaking a detailed assessment of the impact of Lancashire County Council proposals on local communities in Chorley. Based on this assessment, a plan will be developed outlining actions to mitigate the impact as part of a coordinated approach to strategic planning and budget setting.	£50,000
Create more high paid jobs in Chorley	Whilst Chorley has good employment and education levels, many Chorley residents have to travel outside of the borough to find jobs which are better paid than those available in Chorley. This project will aim to specifically focus on attracting business to Chorley which can offer better paid jobs for local residents and opportunities for young people to progress into a professional career, for example in high tech or health sectors. This could be delivered through: • Working with UCLAN, local colleges, training providers and employers to help local people develop their skills, qualifications and readiness to progress into higher skilled and higher paid jobs.	£20,000

	• Developing a local Centre of Excellence to train and educate a workforce capable of undertaking high skilled and high paid jobs. • Appointing an Inward Investment Manager to identify new opportunities and funding streams. • Developing an inward investment campaign targeted at high tech/health sector or generally better paid employment sector – to attract and encourage them to relocate to Chorley. • Working with existing businesses (who offer well paid work) to promote jobs opportunities to local people first.	
Revitalise rural service centres and deliver a 'shop local' campaign across the borough	Support will be provided to independent shops and businesses across the borough to encourage local people to use their local shops and businesses. Consideration will be given to the location of independent retailers and larger chain / corporate businesses, such that they complement each other, rather than introducing impossible market conditions, whilst respecting healthy market competition. In rural areas this will be aided by the rural enterprise team to encourage people to use their local shops and businesses ensuring they thrive, creating jobs and a strong borough wide economy.	£75,000
Build Chorley's USP as a market town with strong and varied independent retail offer	Chorley's heritage is that of a market town focussed on independent retailers. This project will build on this Unique Selling Proposition by promoting Chorley as a market town with varied independent shops, as an alternative to large high street retailers and generic town centre shopping experiences. The aim is to utilise private investment to strengthen the town centre offer, investing in local traders and future businesses.	£25,000
Establish a consultancy business for front and back office support and improvement	Using existing resources and improved productivity, market the services of back office functions to other organisations to recoup some of the cost of the back office.	£10,000
Implement a staff suggestion scheme	A scheme would be developed to encourage staff to make suggestions about how the council can be improved, to improve service delivery or to work more efficiently. Incorporated within this would be a staff introduction incentive scheme.	£2,000
PCSO Provision	The council currently contributes £297,000 to fund PCSO posts within the borough. Recently published information from the Police demonstrates that Chorley provides significantly greater funding than other boroughs, and indicates that we may be subsidising other areas. We propose reducing the contribution made to £150k towards part-funding PCSO posts in the borough, which is commensurate with other boroughs. The investment includes provision for a specific allocation of at least 3 PCSO's in rural areas.	£150,000
TOTAL		**£672,000**

SAVINGS PROPOSALS

16. The table below sets out the £3.278 million in savings which we believe can be delivered over the next three years.

17. It is proposed that the change management reserve is increased to £200k which will offset savings achieved in 2017/18. By increasing the reserve, which has been fully utilised during 2016/17, it allows scope for staffing changes made as part of the transformation strategy as well as implementation of new shared services.

Proposed project	**Summary**	**Estimated Savings**
Savings achieved	Savings already achieved through the Senior Management review, renegotiation of the insurance contract and income from the current Market Walk shopping centre.	£227,000 by 2019/20
Base budget review	Savings already identified through a base budget review.	£100,000
Staffing changes	Savings already identified.	£163,000 by 2019/20
Increase productivity across all Council services	This project will seek to improve staff productivity across all services areas, to both enable the Council to deal with the inevitable increases in demand for services which will take place over the next few years and also to generate savings options of up to £1m. Some services are effectively using management data which includes work volumes and processing times to improve staff productivity, and it is intended that this approach would be rolled out across all Council services as far as possible. In some areas it appears that if all staff were working at average productivity levels or above that the same demand could be met with 30% less staff, or that the existing staff could take on more or higher volumes of work. To apply this across the board, could achieve over double the £1m target but would impact on the ability to deliver services.	£1 million in savings by 19/20
Establish a consultancy business for front and back office support and improvement	Using existing resources and improved productivity, market the services of back office functions to other organisations to recoup some of the cost of the back office.	£50,000 pa from 2018/19 onwards
Undertake a comprehensive review of all council services/shared services	A programme of value for money reviews to identify areas for savings, improvements and change across the organisation that can be implemented to improve performance. Working more closely with other authorities, particularly neighbouring authorities, should give the opportunity to improve services and to make cost savings. Work will be undertaken to identify services that could be shared, and to then explore and develop opportunities with other councils.	Estimate savings achievable in the region of £500,000 by 2019/20
Council Tax freeze in 2017/18 followed by a 1% increase	A council tax freeze in 2017/18 followed by an increase of 1% per year from 2018/19	£130,000 by 2019/20
Changing the collection of paper,	By reducing the frequency of collections from every two weeks to every four weeks there will be an associated	£400,000

cardboard, cans and glass from every two weeks to every four weeks	reduction in costs from the waste collection contract.	
Changing the frequency of garden waste collections during winter	By reducing the number of garden waste collections during the winter months from every two weeks to every four weeks the council would make savings with no effect on the service provided to residents during the growing season.	£137,250
Charging for replacement bins	There is currently a charge for new bins to new build or properties that don't have one but no charge for replacement bins. The proposal is to introduce a charge for replacement bins which would generate income and reduce the council's capital budget.	£70,000 by 2019/20
Savings in communications	Savings from the communications budget, by focussing on ensuring that the council's approach to communications and events is more measured, particularly with regard to events that should be self-financing rather than subsidised.	£150,000
Review of major contracts	By conducting a review of contracts that are coming to the end of their agreement terms during the three year MTFS period it is hoped that significant cost savings can be achieved. This would be done by reviewing how services are delivered and exploring innovative new ways to achieve excellent service delivery whilst generating cost savings. Options could include shared procurement, bringing services in-house and use of existing council assets such as premises and vehicles.	£350,000 by 2019/20
Total		**£3.278 m**

18. If these proposals were implemented, the council would be able to invest in priority areas while also managing the organisation's finances effectively. We would not only balance the budget, but ensure that we had available balances to face the challenges ahead.

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

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

COMMENTS OF THE STATUTORY FINANCE OFFICER

20. The alternative budget proposals are delivered within the same resource limits as the administration's budget. Details are set out in the appendix A which show that the expenditure plans result in a reduced deficit at the end of the period when compared with the administration's proposals. This is achieved through services being more productive and efficient, as well as generating income through selling back offices services to other organisations, increasing council tax by 1% in 2018/19 and 2019/20 and making changes to the waste collection service.

21. In terms of my statutory officer report, as there are no changes to the assumptions made on constructing the budget my comments contained in that report apply equally to the alternative budget. On that basis I am content that the proposals set out are deliverable within the resource constraints discussed.

COMMENTS OF THE MONITORING OFFICER

22. None.

COUNCILLOR PAUL LEADBETTER
LEADER OF THE CONSERVATIVE GROUP

COUNCILLOR GREG MORGAN
DEPUTY LEADER OF THE CONSERVATIVE GROUP

Analysis of Opposition Budget Variations 2017/18 - 2019/20

		2017/18 ESTIMATE £'000	2018/19 ESTIMATE £'000	2019/20 ESTIMATE £'000
CASH BASE BUDGET REQUIREMENT		**14,059**	**13,655**	**14,924**
Cash Movements:				
Other Virements (Transfer below the line)				
Inflation	Pay	133	99	96
	Pensions	276	13	13
	Pensions Rate Adj.	(165)	50	126
	Non-Pay	33	6	50
	Contractual	190	161	78
	Income	22	16	(104)
Increments		47	22	10
Volume Expenditure		40	39	(45)
Volume Income		(4)	137	25
Loss of Income - LCC waste/recycling agreement		18	933	0
Retirement Village		30	45	243
Digital Office Park		65	(7)	(76)
Chorley Employment Inclusion Programme		295	(295)	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
DIRECTORATE CASH BUDGETS		**13,655**	**14,924**	**15,339**
Contingency:				
- Management of the Establishment		(150)	(150)	(150)
Directorate & Corporate Budgets		**13,505**	**14,774**	**15,189**
Net Financing Transactions:				
- Net Interest/Premiums/Discounts		3	(4)	(22)
- Minimum Revenue Provision (MRP - capital financing)		543	549	549
- MRP £23m & Borrowing £13m for Market Walk		366	345	327
- Additional interest on £11m Borrowing not initially taken		350	495	531
- Temporary Savings on Borowing		0	0	0
sub total		**1,263**	**1,386**	**1,386**
TOTAL EXPENDITURE		**14,768**	**16,160**	**16,575**
Financed By:				
Council Tax - Borough		(6,375)	(6,439)	(6,503)
Parish Precepts		643	643	643
Council Tax Parishes		(643)	(643)	(643)
Revenue Support Grant		(734)	(299)	156
Retained Business Rates		(2,930)	(2,930)	(2,930)
Business Rates Pooling		(717)	(717)	(717)
Government Section 31 Grants		(678)	(678)	(678)
Business Rates Retention Reserve		(539)	(53)	(23)
Collection Fund (Surplus)/Deficit - Business Rates		485	0	0
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		(80)	0	0
Transfers to/(from) Earmarked Reserves		73	(18)	17
Transition Fund - Transfer to Reserve		200	0	0
Transfer to/(from) General Balances		500	259	0
TOTAL FINANCING		**(14,806)**	**(13,857)**	**(13,475)**
Net Expenditure		**(38)**	**2,303**	**3,100**
Analysis of Net Expenditure (Budget Gap)				
Budget Changes in Year		**(38)**	**2,341**	**797**

Alternative Budget Summary 2017-18 to 2019-20

	2017/18	2018/19	2019/20
BUDGET DEFICIT	**(38,000)**	**2,302,950**	**3,099,680**

Investment Packages

Promote and support community food growing	15,000		
Working together to improve local communities	40,000		
Support Parish Councils/Neighbourhood areas	50,000		
Embed time credits into community groups	50,000		
Promote and encourage community management of facilities	20,000		
Estate adoption	15,000		
Develop a rural enterprise team	50,000		
Work with partners to deliver affordable and quality public transport across the borough	100,000		
Assess the impact of Lancashire County Council budget proposals and develop action plan for Chorley	50,000		
Create more high paid jobs in Chorley	20,000		
Revitalise rural service centres and deliver a 'shop local' campaign across the borough	75,000		
Build Chorley's USP as a market town with strong and varied independent retail offer	25,000		
Establish a consultancy business for front and back office support and improvement	10,000		
Implement a staff suggestion scheme	2,000		
PCSO provision	150,000		
Total Investment Packages	**672,000**	**0**	**0**

REVISED BUDGET DEFICIT	**634,000**	**2,302,950**	**3,099,680**

Savings Identified

Savings Achieved	(175,590)	(227,390)	(227,390)
Base Budget Review	(100,000)	(100,000)	(100,000)
Staffing Changes	(140,000)	(163,000)	(163,000)

Policy Decisions

Productivity Savings	0	(500,000)	(1,000,000)
Consultancy Business	0	(50,000)	(50,000)
Comprehensive review of council services/shared services	0	(500,000)	(500,000)
CTAX 1% Increase 18/19 & 19/20	0	(64,400)	(130,100)
Changing the collection of paper, cardboard, cans and glass from every two weeks to every four weeks	(400,000)	(400,000)	(400,000)
Changing frequency of garden waste collections during winter	(137,250)	(137,250)	(137,250)
Charging for replacement bins	(60,000)	(70,000)	(70,000)
Savings in Communications	(150,000)	(150,000)	(150,000)
Renegotiate Major Contracts	0	(50,900)	(350,000)
Offset by increase in change management reserve	200,000	0	0
Total Savings	**(962,840)**	**(2,412,940)**	**(3,277,740)**

FINAL BUDGET (SURPLUS)/DEFICIT	**(328,840)**	**(109,990)**	**(178,060)**