

Medium Term Financial Strategy 2010/11 – 2012/13



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FOREWORD AND INTRODUCTION

This financial strategy builds on the previous strategy presented to the Council in February 2009. Since that date much has changed and local authorities now face a period of significant uncertainty and challenges as the resource base for the public sector is likely to contract over the next financial planning period 2010/11 – 2012/13.

This document therefore sets out the Councils financial strategy for the three year period. During the period the Government will present the next iteration of the Comprehensive Spending review and whilst the forecasts do not seek to anticipate the impact this may have on Chorley Council, as this is impossible to do, it recognises that there is a serious risk of a contraction of resources and government grant during that period.

The aim of the strategy is to set out in financial terms the impact of the Councils existing policy commitments and the likely resources available to meet them. The strategy covers the general fund or tax payers account and the capital investment programme.

The administrators continuing financial aims during the period are:

- To continue to restrain the levels of Council Tax rises below inflation
- To continue to provide value for money for the Council Tax payers of Chorley
- To continue to spend and allocate resources to the services that matter to the tax payer in Chorley
- To only undertake borrowing that is necessary so the impact on the tax payer is minimised

In a tighter fiscal regime where the level of government support is likely to diminish the overriding aims will be difficult to achieve, but set out in strategy are the ways in which this could be achieved.

WHAT HAS BEEN ACHIEVED

The previous strategy approved at last years Council set the agenda for Council's efficiency programme. During the period significant progress has been made against the strategy set out in the table below is a summary of the savings achieved to date.

MTFS Savings Achieved	£
Maximise opportunities for better procurement	(16,170)
3 year Programme of Value for Money recovery	(413,710)
Further develop the Shared Services agenda	(135,710)
Lobby the Government on grant distribution issues	(444,670)
Total	<u>(1,010,260)</u>

POLICY CONTEXT

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

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

Priority	Prosperity	People		Place		Performance
Strategic objective	1. Strengthen Chorley’s economic position in the central Lancashire sub-region	2. Improving equality of opportunity and life chances	3. Supporting people to get involved in improving their communities	4. Improve environmental sustainability and combat climate change	5. Develop the character and feel of Chorley as a great place to live	6. Ensure Chorley Council is a consistently top performing organisation
Long Term Outcome	1.1 A vibrant local economy 1.2 A thriving Chorley town centre and other service centres 1.3 Preserve jobs in the borough 1.4 Create and maintain higher added value jobs	2.1 The number of SOAs in the worst 20% nationally will reduce 2.2 Improved life chances for young people and children 2.3 Improved quality of life for the borough’s older people 2.4 Healthier communities and reduced health inequalities 2.5 Reduced inequalities in rural areas	3.1 People will be engaged in shaping and delivering neighbourhood plans 3.2 Increase the level of volunteering in the borough 3.3 Empowered local communities managing community assets	4.1 The council’s environmental footprint will be reduced 4.2 An improved local environment 4.3 Seek to protect the local natural environment and improve biodiversity	5.1 More people will be satisfied with Chorley as a place to live 5.2 There will be a range of housing provision and services that address community requirements 5.3 There will be more affordable housing 5.4 Safer communities 5.5 Seek funding to improve and extend the green corridor of Chorley	6.1 Community aspirations are delivered through the efficient use of resources and effective performance management 6.2 An excellent community leader 6.3 A provider and procurer of high quality co-ordinated, public services 6.4 An excellent Council that is continually striving to improve

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

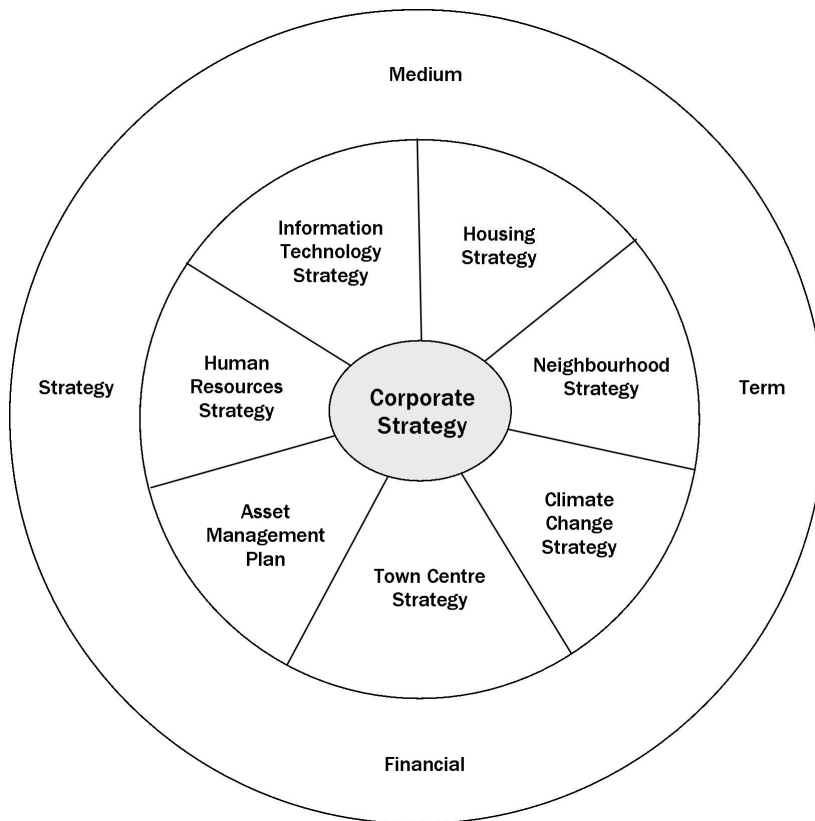
Over the last financial planning period, the Council has been successful in delivering on the Corporate Plan and managing its resources, the Audit Commission recognising Chorley efforts.

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

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

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

Diagram 1: Strategic Links



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

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

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

* See quarter 3 2009/10 monitoring report.

FINANCIAL CONTEXT

This section sets out the Financial Planning Assumption that has been made in constructing the year on year forecasts and outlines the key strategies for delivering a balanced and affordable budget.

All forecasts are built upon a number of assumptions, which are based upon best information available at the time. In terms of constructing those estimates there is some important national context which to be considered, namely:

- Comprehensive Spending Review due to be undertaken
- The change to the Free Concessionary Travel which will be delivered by upper tier authorities post 2011
- Financing for affordable housing and the significant reduction in government funding for this

The results of the Comprehensive Spending Review are such that local authorities are likely to receive less cash in the form of grant than they have previously. That said district council functions have not been top priority for central government with the majority of any additional cash historically flowing to education and social services. Indications are that these will continue to be a priority for Government. The Concessionary Travel Scheme has been partially funded with additional cash in the form of a direct grant to the Council. For affordable housing the government has for 2009/10 drastically cut the grants made available to local authorities to fund housing schemes.

On the basis of information to hand I have made the following key assumptions in relation to the Capital and Revenue budgets for the next 3 financial year:

Table 1: Assumption contained in 3 year forecasts

Assumption	2010/11 %/£'000	2011/12 %/£'000	2012/13 %/£'000
Pay Award	0.5%	1.5%	1.5%
Council Tax Increases	0%	0%	0%
Pension Contribution	1%	2%	2%
Grant Settlement	£129	0	0
Housing Planning Grant	£127	0	0
Performance Reward Grant	£150	£150	0
LAGBI Grant	£75	£75	0

Table 2: Capital Programme (Appendix B2)

Capital	2010/11	2011/12	2012/13	Total
	£'m	£'m	£'m	£'m
Prudential Borrowing	0.613	0.506	0.615	1.734
Preserved RTB Receipts	0.090	0.009	-	0.099
Receipts from asset sales	0.427	-	0.100	0.527
VAT Shelter Receipts	1.087	0.091	0.266	1.444
Developers & Other Contributions	5.125	0.849	-	5.974
Government Grants	1.299	0.480	0.480	2.259
Total	8.641	1.935	1.461	12.037

REVENUE FORECAST

On the basis of the assumption outlined above and the revenue budget predicted upon current levels of service, the forecast indicates that the following budget gap will exist over the three year period. A detailed analysis is shown at Appendix E1.

Table 3: Budget Gap 2010/11 – 2012/13

Year	Budget Gap £'000
2010/11	0
2011/12	653
2012/13	932

The table shows that over the financial planning period post 2010/11 a further £1.585m will need to be found from the following sources:

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

In each of the financial years some of the current grants available will cease to be available, they may be replaced by others but until this becomes clear it has to be assumed that these will not be replaced. However clearly the Government will want to ensure that some of its key policy objectives are achieved and it is likely that new funding arrangements will be put in place. However the scale of this and the likelihood of Chorley attracting that funding is not possible to estimate.

In this respect the Council's Strategy will be:

- To continue to restrain Council Tax rises below inflation.
- Deliver a balanced budget over the Financial Planning Period 2010/11– 2012/13.
- Identify the savings required to balance the budget seeking to minimise the impact on front line service users.

In this respect it will look to:

- Make better use of its asset base and further rationalise the number of administrative buildings it uses.
- Maximise opportunities for better procurement.
- Complete the 3 year Programme of Value For Money recovery on all Council activities by 2010/11.
- Undertake a year on year baseline review of expenditure.
- Maximise the opportunities to attract specific grants.
- Further develop the Shared Services agenda.
- Continue to lobby the Government to redress some of the grant distribution issues.
- Renegotiate some of its longer term contracts on more favourable terms.

In this respect the following information is relevant.

Asset Management Planning

The Council is currently undertaking a strategic asset review and contained within it is likely to be an aspiration to rationalise the Council's use of administrative buildings. Should it be achieved this could generate savings in the region of £150k per annum through savings in running costs and sale or rent of redundant sites. The project has been delayed during 2009/10 as there are clear links to the local development framework and the Town Centre, as the Council occupies three key strategic sites in the Town Centre. Therefore the project will be developed to align with the site allocations plan currently being developed. This will be key to informing the Council's Asset Strategy.

Maximise opportunities for Procurement

We continue to ensure excellent procurement practice across the council and this has now been extended to include South Ribble as part of the Shared Financial Service. This extended service will enable bigger buying power and we are already identifying service areas such as Transport where savings can be achieved at Chorley. Additionally the Team Lancashire procurement Hub is now established and we should see procurement savings resulting from the contracts they put in place for the benefit of all Lancashire councils.

We are also working hard to deliver procurement savings through more innovative ICT service delivery and acquisition.

Over the 2 years 2010/11 and 2012/13 I would look to achieve savings of £100k through Procurement savings from targeting in particular expenditure that has previously not recently been subject to a procurement process or where that procurement process has not been refreshed for some time. A particular emphasis will be given to the purchase and maintenance of computer software solutions.

Complete the 3 year programme of VFM Reviews

The VFM review programme continues and the first 2 reviews have resulted in restructures that will deliver in excess of £194k in annual salary savings. The most recent review of the support services will see a 2% reduction on the total salary budget in 2010/11. The remaining reviews will cover all predominantly leisure, housing and customer services.

With an established successful format for undertaking the reviews now in place I am confident that this will deliver further savings through both identifying further shared services opportunities and achieving efficiencies. Applying an 8% percentage reduction on the salary budgets and taking account of the review timetables a target savings of up to £157k is not unreasonable over the next two financial years.

Further develop the Shared Services Agenda

The Council's 2009/10 budget includes savings from the growth of the Shared Financial Service of £50k. This was achieved through the integration of posts the emergency planning function into the Shared Assurance Services and the sharing of a Crime and Disorder Manager post. It also includes a further target of £119k from the sharing of services on:

- Planning Policy and Enforcement (under discussion)
- Extending the financial shared service looking at revenues and benefits (under discussion)
- Crime and Disorder Reduction Partnership (completed)

This strategy is likely to be one that will need to be pursued vigorously in coming years as the Council along with other Councils in Lancashire looks to improve both the customer experience by breaking down barriers and reducing costs. It should be remembered that sharing services can include buildings and infrastructure and assets as well as staffing.

I believe that the continuing development of shared services will play a major part in achieving our savings target. The Financial Shared Services with South Ribble has achieved a 5% reduction for Chorley on salary costs and if we replicate this across the areas we could tackle in the coming 2 years I am confident this will realise a further saving over the 2 years of around £150k in services such as Revenues and Benefits. A co-ordinated and strategic approach needs to be developed for this agenda and discussions are ongoing with potential parties including South Ribble Council, West Lancs Council and Lancashire County Council.

Lobby for additional Government funding

Whilst the whole issue of the distribution of Government grant is one that has the propensity to determine the financial stability of the Council there are two particular aspects of funding that are significant in terms of the overall budget position.

Concessionary travel where the cost of the scheme have resulted in a realignment of Government Grant and the current system for reimbursing Housing benefit costs. Under this scheme the amount of subsidies the Council gets on the rent it pays through housing benefit is capped for private landlords who provide the tenant with care support or supervision but it is not for registered social landlords who provide the same package. In 2008/9 the loss to the Chorley tax payer totalled almost £191k. Some progress has been made with the DWP on this issue and they now recognise the impact it is having on some authorities. We are continuing to work with them to see if a solution can be found.

As the current arrangements for the funding of free swimming end in 2010/11, the Council will if appropriate and following an evaluation of the scheme seek to lobby the Government to continue to provide the resources necessary to extend the scheme.

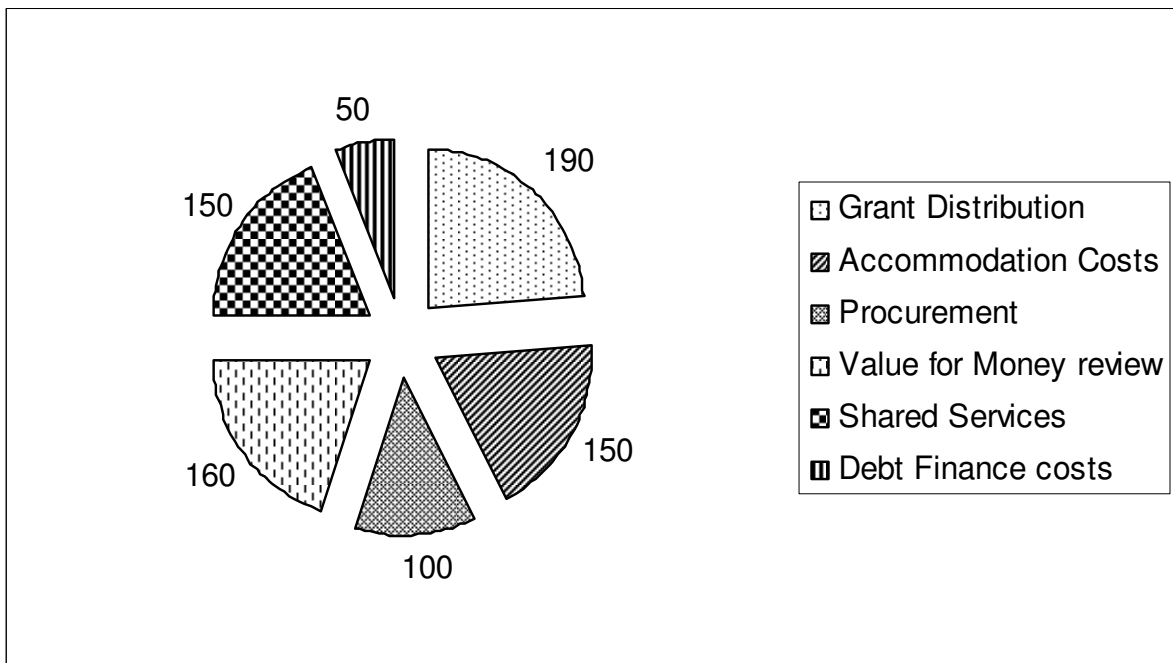
Debt Financing Charges

The Capital Programme 2010/11 to 2012/13 requires the use of capital receipts from the sale of assets of £0.527m and the use of VAT Shelter Receipts of £1.444m. In total however there is potentially an additional sum of £0.801m to be generated from asset sales and a further £0.873m from the VAT Shelter. If all sums are achieved there is therefore a sum of £1.674 uncommitted. The exact timing of the sales and receipts is clearly difficult to predict. However in terms of the financial strategy, sums received during the period over and above those required to finance the programme could be set aside to reduce the Council's debt. A sum of £0.350m would reduce the ongoing revenue costs by approximately £0.050m annually.

In this respect the Council's efficiency and improvement targets and the areas of focus are summarised below:

With regards to future years the Council needs to ensure it does everything it can to deliver on these programmes of work to reduce its cost base. Should they all be achievable the potential savings total £1.2m.

Diagram 2: Potential areas for future savings



Total potential efficiencies and savings total £800k. Therefore once the future funding arrangements become clearer the current strategy will need to be revisited to align savings and efficiencies targets with potential saving streams.

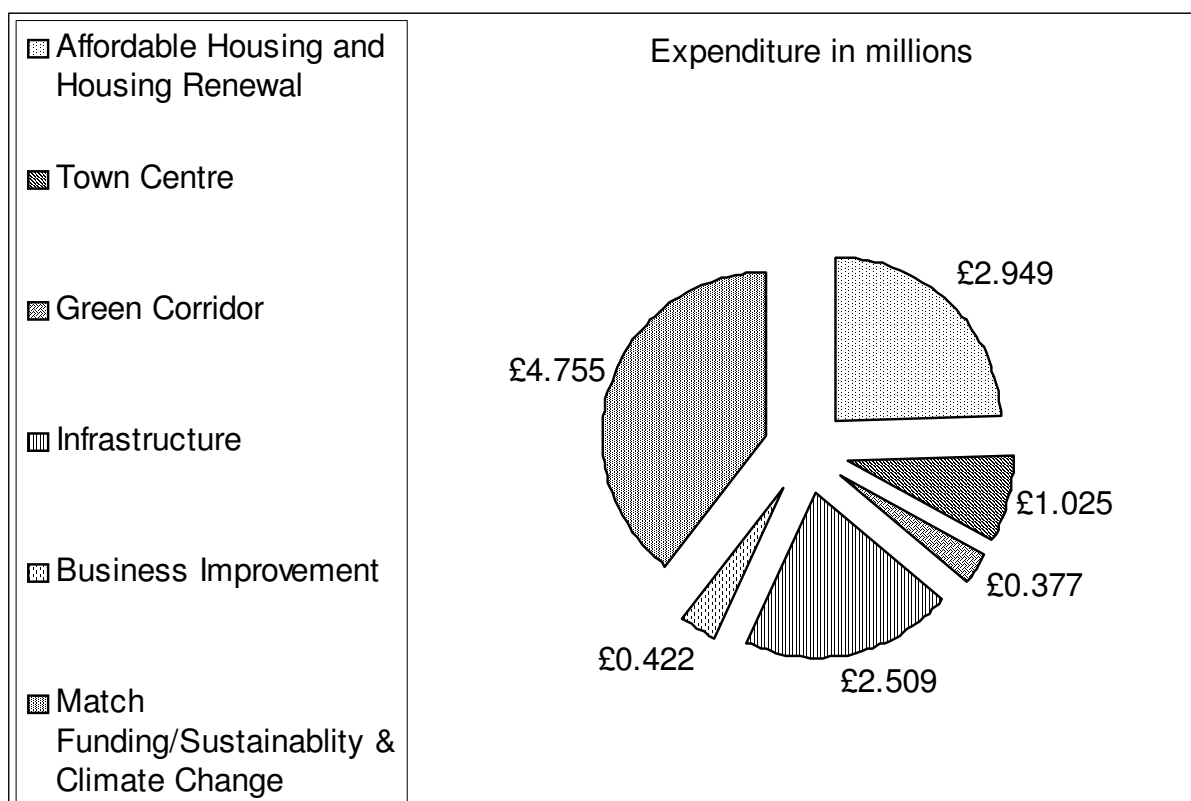
Capital Programme Forecasts

The Council's Capital Programme is fundamental to delivering some of its key objectives contained in the Corporate Strategy. However any programme has to be affordable and based upon prudence. In this respect the Capital Programme has been constructed based upon the following strategic objectives.

- The bulk of the resources available will be targeted at areas that deliver corporate objectives.
- Borrowing will be contained to ensure the impact on revenue is minimised.
- The Council will continue to identify land to assist in delivering its affordable housing targets.
- The Council's assets not producing the required rate of return on investment will be disposed of as part of a strategic review of the Council's asset base.
- The Council will continue to invest in its own infrastructure reviewing the Asset Management Plan annually to ensure the levels of investment are appropriate.
- The Council will look to maximise opportunities to attract external finance to sustain its Programme of Work.

As a consequence of adopting the strategy outlined the Council will invest £12.037m as follows over the 3 year period but will only be required to borrow £1.734m.

Diagram 3: Priority Areas for Investment



The programme will be funded from a variety of sources, which is predicated on the strategic objectives outlined.

WORKING BALANCES

The current financial strategy that takes us up until the end of 2011/12 allowed for working balances to be in a minimum of £1m. This was based upon the then risk profile.

However, from 2010/11 a number of the external factors influencing the Council's ability to either attract funding or to influence expenditure has changed. This is in the main due to the following reasons:

- The CSR11 means that there is a risk of less rate support grant over the planning period 2011/12-2012/13 the public finances may impact adversely on further grant support.
- The Concessionary travel scheme is set to be moved to upper tier authorities in 2011 and there is a risk that when the funding is moved to upper tier it may be more than current cost, this is becoming clearer and will result in costs being greater some inherent issue in the potential transfer of grant.
- The Government is continuing capping capitalisation applications and as such the cost of change may need to be resourced internally.

The greatest potential impact is likely to come from CSR 11 but all of the issues have the propensity to affect the Council's ability to both balance its budget and continue to deliver effective services.

In this respect, I now propose that working balances are kept at a higher level in recognition of the risks.

As members will be aware, working balances are there to protect the Council's against the 'peaks and troughs' in expenditure and allows them to be able to manage any changes to the base level of expenditure, that is required to bring the budget back into balance. Sometimes this can take time. Maintaining working balances means the Council does not have to make reactive changes that can significantly impact on service performance. The Council continues to manage its budget effectively with no significant overspends on recurrent budgets in the last few years.

In terms of resource availability, members will be aware and as reported in monitoring working balances are estimated to total £1,556k at the end of March 2010. The working balances position is made up of estimated balances in hand and forecast forward as shown below.

Table 4: Forecast Working Balances

	£'000
General fund working balance forecast Feb monitoring	1,262
VAT recovery 09/10 and 10/11	545
Recovery of Parkwise sums in dispute	59
Set aside for impairment of Icelandic bank deposit	(310)
Forecast balances 31/03/2010	1,556

In previous years the Council has been faced with the prospects of making savings and 2010/11-2012/13 will be exactly the same. The savings are necessary firstly to contain Council Tax and secondly, to redirect resources into corporate priorities if necessary.

Some inherent risks remain in the budget and the underlying assumptions I have made have been outlined for members. I have outlined my views and advice in relation to the level and adequacy of working balances and summarise the key risks and mitigation through the actions outlined in this Medium Term Financial Strategy in terms of the next phase of efficiency savings that are and should be put in place. In addition I have outlined that the use of working balances is legitimate but should only be a short term strategy whilst the longer term effects of the economic downturn and the impact of CSR 11 crystallise. On the basis the Council's strategic objectives in relation to working balances will be:

- To establish working balances no lower than £2m over the financial planning period 2009/10-2011/12.
- To review the financial risks facing the Council during 2010/11 taking into account the latest information available.

TREASURY MANAGEMENT

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

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

In all respect the Council complies with the requirement but as a measure of good practice should re adopt principles regularly.

In respect of Council Strategy for Treasury Management the principle will be as follows; the Council will:

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

The prudential indicators, targets and measures will be agreed as part of the budget setting process in March 2010, via the production of Annual Treasury Management.

	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000	Notes
Cash Base Budget Requirement	14,817	15,016	14,507	15,244	
Movements:					
Inflation					
Pay	156	41	170	164	
Pensions	162	68	195	204	
Non-Pay	163	127	76	81	
Contractual	70	25	82	250	(a)
Income	24	(43)	1	(28)	
Increments	108	90	57	27	
Revenue Effects of the Capital Programme	-	-	-	-	
Volume - Income	70	(174)	195	26	(b)
Volume - Expenditure	112	(6)	(26)	9	
Investment	-	-	-	-	
Rebasing of Base Budget	163	-	-	-	
Savings Achieved	(254)	(747)	(13)	-	
Senior Management Review	-	-	-	-	
Savings - Other	-	-	-	-	
Review of Fees & Charges	-	-	-	-	
Savings Proposals	(748)	-	-	-	
Directorate changes from Dec Draft	244	-	-	-	
Contingency:					
- Management of the Establishment	(70)	110	-	-	
Directorate & Corporate Cash Budgets	15,016	14,507	15,244	15,976	
Net Financing Transactions:					
- Net Interest/Premiums/Discounts	103	71	36	20	
- MRP less Commutation Adjustment	358	464	446	469	
Total Expenditure	15,477	15,042	15,727	16,466	
Financed by:					
Council Tax - Borough	(6,305)	(6,322)	(6,354)	(6,385)	
Parish Precepts	594	595	595	595	
Council Tax Parishes	(594)	(595)	(595)	(595)	
Aggregate External Finance	(8,358)	(8,487)	(8,487)	(8,487)	
LAA Reward Grant	(150)	(150)	(150)	-	
Area Based Grant	(23)	(29)	(29)	(29)	
LABGI Grant	(150)	(75)	(75)	-	
Collection Fund Surplus	16	20	20	20	
Use of General Balances	(273)	-	-	-	
Use of General Balances (Concessionary Travel)	(234)	-	-	-	
Total Financing	(15,477)	(15,043)	(15,074)	(14,881)	
Net Expenditure	(0)	(0)	653	1,585	
Analysis of Net Expenditure (Budget Gap)					
Net Expenditure in Year	(0)	(0)	653	932	

Notes

(a) includes £207k increase in Veolia waste contract in 2012/13.

(b) assumes cessation of Housing & Planning Delivery Grant of £127k in 2011/12.