Appendix E

Chorley Council

Medium Term Financial Strategy 2011/12 – 2013/14

CONTENT

FOREWORD AND INTRODUCTION

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

This document sets out the Council's financial strategy for the next three year period from 2011/12 to 2013/14. The previous MTFS recognised the potential serious risk that the 2010 Comprehensive Spending Review posed in respect of the contraction of resources and government grant and set the Council on the path to achieve preparatory sustainable efficiency savings.

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

The administration continued financial aims during the period are:

- To continue to restrain the levels of Council Tax increases
- To continue to provide value for money for the Council Tax payers of Chorley
- To protect the Chorley community from the impact of the current economic situation
- To continue to spend and allocate resources to the services that matter to the tax payer in Chorley
- To look to reduce debt and the consequent financing charges so the impact on the tax payer is minimised
- To look for opportunities to share services and generate additional revenue

In a tighter fiscal regime, where the level of government support is diminishing, the overriding aims will be difficult to achieve. Nevertheless this strategy sets out ways in which it is envisaged this can be achieved.

WHAT HAS BEEN ACHIEVED

As in previous years the MTFS contains the Council's proposed efficiency programme for consideration. During the period significant progress has been made against the strategy and the table below sets out a summary of the savings achieved and proposed to date.

Saving	£m
Achieving Value for Money/Structure Reviews	0.500
Sharing Resources and Services	0.291
Annual Review of Budget Heads	0.229
Review of Income and Cost Recovery	0.089
Renegotiation of Contracts	0.166
Total	**1.295**

POLICY CONTEXT

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

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

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

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

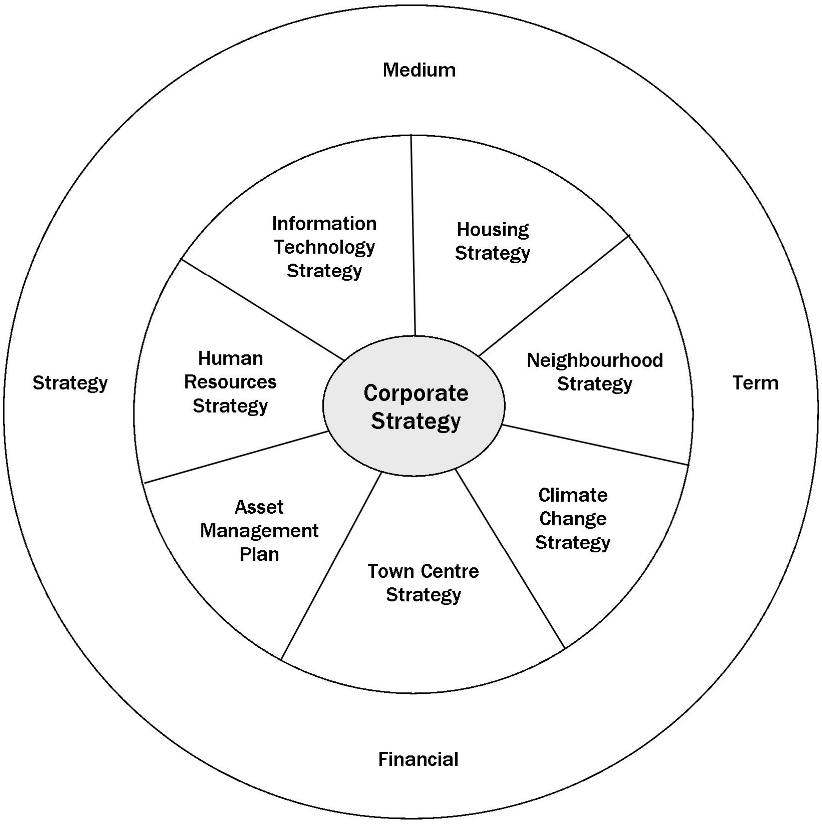
Over the last financial planning period, the Council has been successful in delivering on the Corporate Strategy and managing its resources. This has been recongised by the Audit Commission in the most recent Annual Audit and Inspection Letter.

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

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

Underpinning the Corporate Strategy 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 principal is that resources are put into the delivery of the corporate strategies. This is achievable as the current resources allocation should be sufficient for the Council to achieve its corporate plans which ultimately support the delivery of the Corporate Strategy's vision, objectives, targets and projects.

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

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 to be considered, namely:

- 2010 Comprehensive Spending Review provided detailed information for the next two years, i.e. 2011/12 and 2012/13 with a review of Local Government funding to be undertaken thereafter.
- The final allocation of the New Homes Bonus is yet to be published.
- The process by which Local Planning Authorities are able to set their own fees and charges to recover costs is still in it consultation stage.
- Lord Hutton's review into Public Sector pensions whereby some of the cost of servicing the pensions fund may be transferred from the employer to the employee.
- Consultation on the proposal to apply maximum limits to fair rents determined for secure tenancies of Registered Social Landlords.
- The revision of the Housing Benefits system and the introduction of Universal Credits.
- The restriction of Capital Directions
- The Localism Bill together with the proposal that Business Rates can be retained locally.

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	2011/12	2012/13	2013/14
Pay Award	0	0	2.0%
Council Tax Increases	0	0	0
Grant for Freezing Council Tax	£0.159m	£0.159m	£0.159m
Pension Contribution	0.5%	0.5%	0.5%
Reduction in Grant Settlement (AEF)	£1.154m	£0.911m	£0.513m
Performance Reward Grant **	£0.080m	0	0
LAGBI Grant	£0.075m	0	0
New Homes Bonus (assuming 250 properties per year)	£0.250m	£0.250m	£0.250m
Area Based Grant received via LCC for community safety	£0.058m	£0.058m	£0.058m
Supporting People Income	£0.189m	£0.154m	£0.144m

** Whilst there is no final confirmation there is an indication that £170k may be received from LCC.

Table 2: Capital Programme (Appendix B2)

Capital	2011/12 £m	2012/13 £m	2013/14 £m	Total £m	Note
Prudential Borrowing	0.527	0.644	0.530	1.701	(a)
Receipts from asset sales	0.030	0.000	0.000	0.030	(b)
VAT Shelter Receipts	0.205	0.121	0.000	0.325	
Developers & Other Contributions	4.026	0.090	0.000	4.116	(c)
Government Grants	1.113	0.260	0.250	1.623	(d)
Total	**5.901**	**1.115**	**0.780**	**7.796**	

(a) Prudential Borrowing could be reduced by increasing sales of assets
(b) No new asset sales assumed. Receipts from asset sales could be used to reduce new Prudential Borrowing or to reduce debt. The value of surplus assets reported to Council on 2nd March 2010 was £1,328,000 for the three years 2010/11 to 2012/13. In addition, garages and garage sites earmarked for development of affordable housing were valued at £910,350. Sales of these assets have not been proceeded due to low demand, but other disposals have been identified, in particular, land in the vicinity of Pall Mall.
(c) Additional projects to be funded with developer contributions will be added to the programme when the contributions are received.
(d) Actual Grant allocations could vary from these estimates.

The Capital Programme also contains a debt reduction strategy for 2011/12. The objective being to reduce Minimum Revenue Provision requiring additional resources to be set aside when available to reduce debt.

REVENUE FORECAST

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

Table 3: Budget Gap 2011/11 – 2013/14

Year	Budget Gap £000	Cumulative £000
2011/12	0	0
2012/13	1,406	1,406
2013/14	1,014	2,420
2014/15	523	2,943

The table shows that over the financial planning period post 2011/12 a further £2.420m will need to be found. In addition, we also know that the damping floor contribution in 2012/13 will cease at the end of 2013/14 bringing the total budget shortfall to £2.943m. Further budgetary savings will need to be found from the following sources:

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

In this respect the Council's Strategy will be:

- To continue to restrain Council Tax increases.
- Deliver a balanced budget over the Financial Planning Period 2011/12 – 2013/14.
- 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:

- Continue with a programme of Value For Money review on all Council activities as prioritised within the council wide activity based costing exercise in order to identify productivity gains.
- Review Pensions Arrangements in the light of Lord Hutton's review
- Undertake review of expenditure on major contracts with a view to renegotiate on more favourable terms
- Review all aspects of income to ensure that costs are being recovered appropriately
- Make better use of its asset base and further rationalise the number of administrative buildings it uses
- Contain borrowing and minimise the impact of the budget by proactively seeking to re-structure the debt profile.

In this respect the following information is relevant:

<u>Productivity Gains - £1.180m</u>

The final year of the Value for Money review programme was completed during 2010/2011 through a rough cut activity based costing exercise which was undertaken across the whole Council. The three year programme of reviews has delivered over £1 million in savings. The results of the most recent rough cut costing exercise, alongside performance information, will inform the development of a Transformation Programme following the principles of maintaining performance with particular regard to front line services.

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

- Increasing the sharing of resources;
- Reducing bureaucracy in our processes wherever possible;
- Possible revision of Terms and Conditions.

The review will not necessarily be focussed on current service structures, it will look at processes and service delivery as staff costs are incurred. For example, this may include looking at customer enquiries from the beginning of the process in the front office to the completion at the end.

Whilst the Transformation Programme will focus on the areas identified above as priorities, this will be supplemented and supported by actions undertaken in Business Improvement Plans. These will help services achieve the efficiency savings targets that will be also included in the plans.

Review of Pension Arrangements - £0.200m

In October 2010 Lord Hutton delivered his interim report into the future of public sector pensions. The key messages set out were the need for reform, highlighting increasing life expectancy and the distribution of costs between the employee, employer and taxpayers. He also said that if the Government wishes to make savings, it should raise contribution rates from public sector workers. In respect of Chorley, passing over 3% of pension contribution to employees would result in a saving of £200k per annum.

Council Tax Yield - £0.600m

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

Year	Council Tax Increase
2007/08	0.0%
2008/09	2.5%
2009/10	2.9%
2010/11	0.0%
2011/12	0.0%

It is recommended that the Council considers applying an inflationary increase to Council Tax for the next three years. It has been very difficult to accurately forecast inflation over the period of the strategy, however, assuming that 3% inflation is applied this will increase income yielded by £600k over the next three years from 2012/13.

Cost of Contracts - £0.470m

The council is budgeted to spend £4.670m in 2011/12 on major contracts. We aim to work with our partners to look for opportunities to delivering contracts in a different way. It is considered that by reviewing all terms and conditions an overall saving in the region of 10% is feasible, this would generate budget savings of £470k.

Review of Income – Cost Recovery - £0.200m

With effect from 2011/12 it has been announced that local authorities may set their own planning fees. The Government is currently undergoing consultation but it is envisage that by October 2011 guidance will be published that means that Local Planning Authorities should recover the full cost of dealing with planning applications.

In addition, to ensure full cost recovery is being achieved across the board and all income opportunities are being realised, a comprehensive roots and branch review of all income streams will be undertaken.

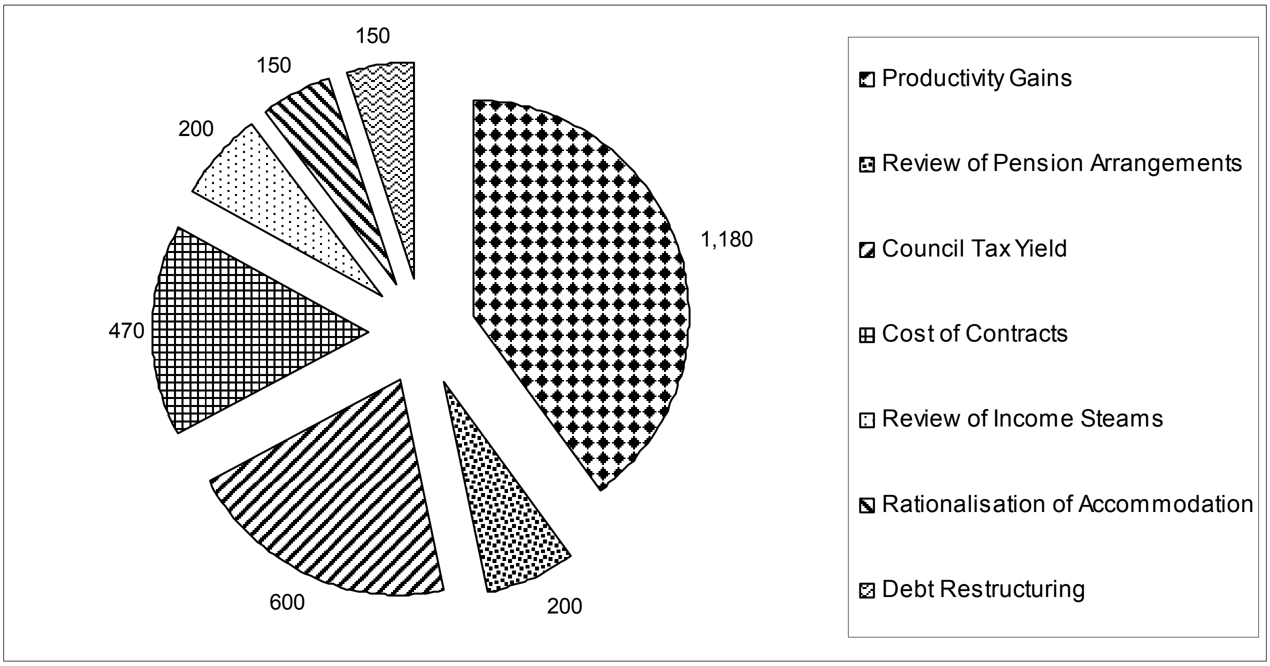
Rationalisation of Accommodation - £0.150m

In accordance with the Overview and Scrutiny review it is proposed that the Council rationalises its three town centre buildings, which are situated within close proximity to each other, into two sites. It is estimated that if Bengal Street is vacated and rented out it will realise an annual budget saving and income generation scheme totalling approximately £150k.

Debt Restructuring £0.150m

In summary, a combination of cost, asset life and originating year determines the impact financed items have on the revenue account and the budget. During the 2011/12 budget process the cost of servicing debt for all relevant items was reviewed and ranked for optimum cost reduction. By actively identifying opportunities to repay debt, and targeting the items with the greatest annual cost, budget savings have been identified. It is proposed that this process is continued by pro-actively identifying appropriate funds to be used for repaying debt within our budget management regime. Please note that the proposed Capital Programme does not include funding derived from Capital Receipts and therefore any receipts received may be available for debt restructure purposes.

Diagram 2: Potential areas for future savings – Total £2.950m



Total potential efficiencies and savings total £2.950m. The 2010 Comprehensive Spending Review, however, only published detailed settlements for two years. Therefore once the future funding arrangements for 2013/14 are known the current strategy will need to be revisited.

Capital Programme Forecasts

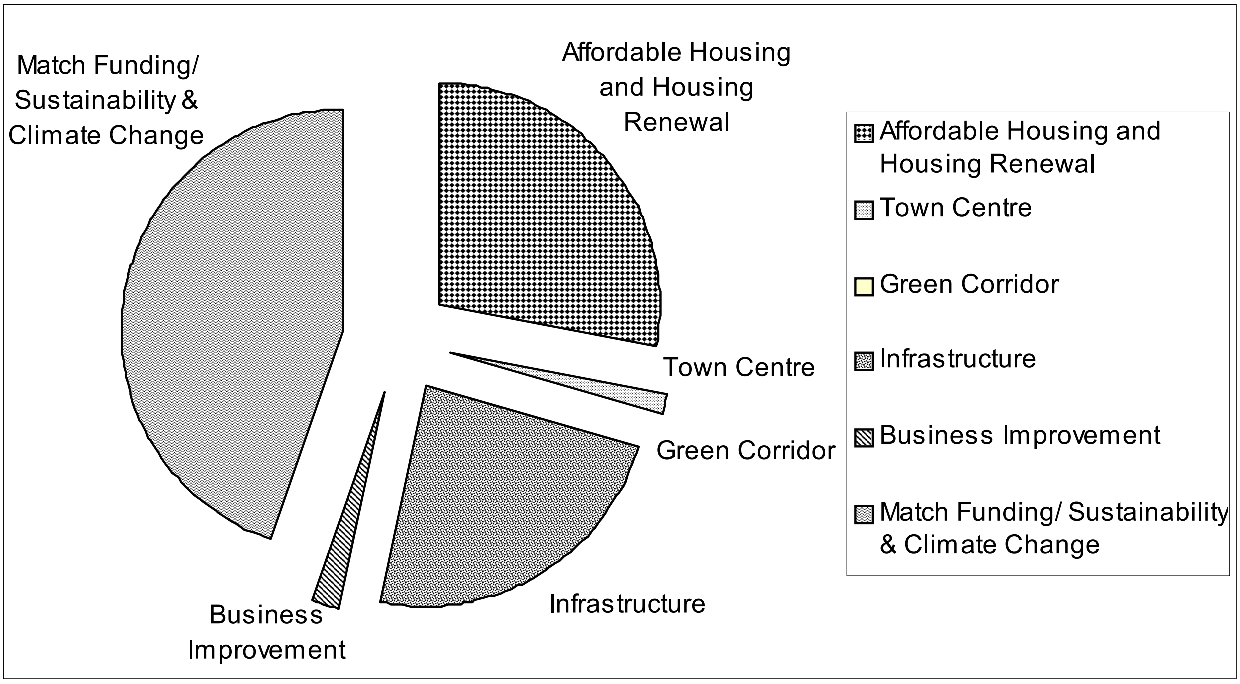
The Council's Capital Programme is part of the armoury to deliver some of its key objectives contained in the Corporate Strategy. However any programme has to be affordable and based upon prudence. In this respect the Capital Programme has been constructed based upon the following strategic objectives.

The current local government financial position and the need to make revenue savings impacts significantly on the Councils ability to finance capital spending. Accordingly the context for agreeing the capital programme for 200/12 and subsequent budgets is significantly different from other years.

- The resources available will be targeted at areas that deliver corporate objectives.
- Borrowing will be contained where possible to ensure the impact on revenue is minimised.
- The Council will continue to identify land to assist in delivering its affordable housing targets.
- The Council's assets not producing the required rate of return on investment will be disposed of as part of a strategic review of the Council's asset base.
- The Council will continue to invest in its own infrastructure reviewing the Asset Management Plan in 2011/12 to link into the LDF process to ensure levels of investment are appropriate and that Asset transfer options are maximised.
- The Council will look to maximise opportunities to attract external finance to sustain its Programme of Work although this is likely to be limited in the next financial planning period.

As a consequence of adopting the strategy outlined, the Council proposes to invest £7.796m as follows over the 3 year period. Funding the programme will require prudential borrowing borrow of just £1.701m and does not take require any capital receipts.

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 previous financial strategy identified a number changing external factors likely to have an negative shift on the risk profile impacting on the Council's ability to either attract funding or to influence expenditure has changed. As a result it was proposed that working balances were to be kept at a higher level in recognition of the risks with working balances to be no lower than £2m over the financial planning period 2009/10-2011/12.

The greatest impact highlighted with regard to the reduction of funding in the 2010 Comprehensive Spending Review has come to fruition. In addition, there is also remains some uncertainty with particular regard to areas of significant funding, that is, limiting the settlement to a two year period and also the New Home Bonus grant is still to be finalised. In addition there is also some uncertainty with regard to the outcome of:-

- The forthcoming review of Local Authority funding, and
- the court case in the Icelandic courts challenging our creditor status in respect of Landsbanki investments.

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 £2.140m at the end of March 2011. The working balances position is made up of estimated balances in hand and forecast forward as shown below.

Table 4: Forecast Working Balances

	£m
General fund working balance forecast Dec monitoring	1.663
Contribution to General Balances	0.219
2010/11 Budget Management	0.100
Marginal off-street parking income from LCC	0.158
Forecast balances 31/03/2011	**2.140**

In previous years the Council has been faced with the prospects of making savings and 2011/12 - 2013/14 budget pressures will be even greater. 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 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 particularly in the light of the short term nature of the recent settlement during a period of expected Government reductions in local authority funding over a longer medium term.

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 20011/12 – 2013/14.

- To review the financial risks facing the Council during 2011/12 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 maintain a treasury management policy statement which sets out the policies and objectives to the Council's treasury management achievements.

- Create and maintain treasury management practices which set out the manner in which the Council will seek to achieve its policies and objectives.

- Provide the Executive with an annual strategy report.

- Delegation by the Council of responsibility for implementing and monitoring treasury management activities.

In all respects the Council complies with these requirements but as a measure of good practice should re-adopt principles to ensure that Members are kept up to date with the latest arrangements. For example, is should be noted that longer term investments up to 365 days, as accommodated in the strategy, are now being made to make best use of interest rates available .

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

The prudential indicators, targets and measures will be agreed as part of the budget setting process in March 2011, via the production of annual Treasury Management Strategy.

Original Estimates Draft 4 - Analysis of Budget Variations 2010/11 - 2014/15

			2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000
Cash Base Budget Requirement		Line Ref.	**15,016**	**14,251**	**13,310**	**13,698**	**14,110**
Budget Movements:							
Inflation	Pay	1	41	(21)	52	195	192
	Pensions	2	68	65	86	113	115
Reduce Pensions increase by 0.5%		3		(36)	(36)	(36)	(36)
	Non-Pay	4	127	99	77	78	80
	Contractual	5	25	262	404	140	150
	Income	6	(43)	64	21	7	5
Increments		7	90	77	35	21	15
Revenue Effects of the Capital Programme		8					
Volume - Expenditure		9	(56)	40	(171)	(98)	129
Volume - Income		10	(174)	329	211	10	10
Transfer of Concessionary Travel (statutory)		11		(606)			
Transfer of Concessionary Travel (other)		12		(123)			
Transfers below the line		13	14				
Impact of Budget Decisions made for 2010/11		14	(220)	(50)			
Base Budget Savings Achieved		15	(747)	(1,084)	(52)	(7)	(5)
Savings Proposals		16	-	(211)	57	-	-
Growth (non-recurrent)		17		266	(266)	-	-
Contingency:		18					
- Management of the Establishment		19	110	-	-	-	-
- Review of Car Leasing scheme		20	-	(12)	(28)	(10)	(10)
Directorate & Corporate Cash Budgets		21	**14,251**	**13,310**	**13,698**	**14,110**	**14,756**
Budgets:							
Net Financing Transactions:							
- Net Interest/Premiums/Discounts		22	71	102	105	95	95
- MRP less Commutation Adjustment		23	464	336	344	366	388
Total Expenditure		23	**14,787**	**13,748**	**14,148**	**14,571**	**15,239**
Financed by:							
Council Tax - Borough		24	(6,322)	(6,387)	(6,419)	(6,451)	(6,483)
Grant for freezing Council Tax		25	-	(159)	(159)	(159)	(159)
Parish Precepts		26	595	589	589	589	589
Council Tax Parishes		27	(595)	(589)	(589)	(589)	(589)
Formula Grant		28	(8,487)	(8,487)	(8,487)	(8,487)	(8,487)
Reduction in Formula Grant		29		1,814	2,534	2,534	2,534
Floor Damping		30		(660)	(522)	(10)	(10)
Adj. to Grant for Concessionary Travel		31		592	592	592	592
New Homes Bonus		32		(250)	(250)	(250)	(250)
LAA Reward Grant		33	(150)	(80)	-	-	-
Area Based Grant		34	(29)	-	-	-	-
LABGI Grant		35	(75)	(75)	-	-	-
Collection Fund (Surplus)/Deficit		36	20	(26)	-	-	-
Transfers to/(from) Earmarked Reserves		37	36	(30)	(31)	79	(33)
Transfer to/(from) General Balances		38	220				
Total Financing		26	**(14,787)**	**(13,748)**	**(12,742)**	**(12,152)**	**(12,296)**
Net Expenditure		27	**(0)**	**(0)**	**1,405**	**2,419**	**2,943**
Analysis of Net Expenditure in Year (Budget Gap)		28	**(0)**	**-**	**1,406**	**1,014**	**523**