

Report of	Meeting	Date
Director of Finance	Executive Cabinet	23 rd February 2006

STATUTORY REPORT ON THE BUDGET AND MEDIUM TERM FINANCIAL STRATEGY FOR 2006/07 – 2008/09

PURPOSE OF REPORT

- To provide the advice required under S.25 of the Local Government Act 2003 and to secure approval of the Medium Term Financial Strategy for 2006/07 – 2008/09, which incorporates the Annual Treasury Management Strategy and Prudential Indicators, which require approval by the Council.

CORPORATE PRIORITIES

- This report is specifically concerned with a range of technical matters. However, the budget impacts on the Council's ability to deliver its corporate priorities as show below:

Priority	Budget Impact
Put Chorley at the heart of regional economic development in the central Lancashire sub-region	The 2006/07 budget and the financial strategy highlights this as a new priority area for the Council following its previous decision to disinvest from Economic Development activity. Clearly given the sub regional agenda it will be necessary to work closely with neighbouring Councils to deliver this agenda.
Reduce pockets of inequality	Again another new priority from the community strategy. The local area agreement delivery plans will be the driver for action on this objective, but Chorley has its own part to play.
Get people involved in their communities	The cornerstone of achieving this objective is the development of the pilot Area Forums and the wish to increase public participation in all aspects of engagement about local services.
Improved access to public services	The Council has set out its store in this particular area by developing the customer focussed access and design strategy. Making the aims and objective of the strategy happen is now the focus.
Develop the character and feel of Chorley as a good place to live	Delivering the services that people want and addressing the issues that matter to Chorley residents will ultimately enable residents to judge whether Chorley is a good place to live. The Council's priority is to contribute to that through improving the environment and localities.
Ensure Chorley Borough Council is a performing organisation	The Council has a duty to deliver community aspirations, only through performing effectively will it achieve this. The focus will now be on improving the Council's approach to the management of its business to enable effective and efficient delivery of services for residents that offer value for those receiving the services.

RISK ISSUES

3. The issue raised and recommendations made in this report involve risk considerations in the following categories:

Strategy		Information	
Reputation		Regulatory/Legal	
Financial	√	Operational	
People		Other	

4. This report is almost entirely concerned with means of addressing the various financial risks facing the Council, and in particular ensuring that the scale of potential savings programmes are known early enough for properly planned approaches to be adopted.

BACKGROUND

5. Under the requirements of S. 25 of the Local Government Act 2003 the Council's Chief Finance Officer is required to advise members when setting the Council's budget as to the robustness of the estimates and the adequacy of reserves. Good practice is for such advice to be set within the context of the Council's Medium Term Financial Strategy, which should cover both revenue and capital spending issues as well as Treasury Management issues. Treasury Management issues also now includes specific requirements arising from the Prudential Code for Capital Finance in Local Authorities. This report aims to fulfil all these various functions.

THE ROBUSTNESS OF THE ESTIMATES

6. I have reported to members on the robustness of the estimates during the budget process. In essence robustness is concerned with the degree of risk of over or underspending associated with the budget. While overspending might generally be understood to be a "bad thing" as it depletes the Council's reserves, underspending might equally be regarded as a "bad thing" as it might imply that the intended level of service is not being delivered. Thus any analysis of the robustness of the estimates within the budget must consider the risks of both over and underspending.
7. As outlined in the Financial Strategy, which is appended to this report, the Council historically has a propensity to underspend at a corporate level. In recent years this has been contained to an acceptable level, and appears not to have been detrimental to the Council achieving its objectives, as the direction of travel appears positive. However I believe 2005/06 to be a watershed in that for the first time for many years, remedial action has been required to ensure the budget is balanced. This is a consequence of budgets having to be realigned for things outside the Council's control and the continuing need to deliver improvements in service delivery.
8. For 2006/07 a base budget review has been undertaken as over £200k of cash has been taken from continuation budgets. Whilst it has been right and proper to do this as it has enabled resources to be directed into front line and priority services, it reduces the Council's ability to absorb any cost pressures that happen in the year and for which no budget exists. Consequently it is a matter of fact that good and tight budget management will be required to ensure cash targets are met. The paragraphs which follow outline the key risk areas within the budget and how they have been dealt with.
9. The Council's largest expense is its staff and any risk around the level of pay awards might pose a significant risk in terms of the Council's budget. The national pay agreement is ending in 2006 and negotiations are to begin on agreeing the pay award from April 2007 onwards, thus to some extent the future years costs are uncertain but I believe the assumptions made represent a prudent approach. Pension contribution rates going forward are also known for three years, although the likelihood is that these costs will need to continue to increase beyond the three-year forecast period. The major unknown

will be the effect of the job evaluation, even though assumptions have been made regarding the impact this may or may not prove to be adequate.

10. A significant proportion of the Council's budget is made up of payments to contractors under arrangements such as the Waste Management and Leisure contracts. These budgets have been set at a level consistent with known prices and current, or forecast activity. While there is a risk that, for example recycling performance might suddenly increase the contractual bonus payable and the budgets have been adjusted to reflect this risk.
11. While benefit payments remain a potentially volatile part of the budget, the work that has been done to construct the budget indicates that the estimates made last year of the effects of the new subsidy rules have not been borne out by reality, accordingly budgets have been again adjusted to reflect the risk. The overall size of this budget means a risk still remains, as the government can and do amend the rules annually and the budget is dependent upon income from the recovery of benefit overpayments, this is a key risk.
12. Budget monitoring information indicates that a number of income streams, particularly land charges and Golf fee income have been under pressure due to market conditions. These factors have been taken into account in setting these budgets and the risk has been removed for the Golf income stream through the outsourcing of the service.
13. The budget for interest and financing costs is based around current cash flow profiles reflecting the Council's current (long-term) debt free status, adjusted for anticipated capital expenditure. This due to the nature of the activity is a potentially volatile budget. With rates forecast to ease throughout 2006/07 and cash flow tight, it is likely that this area remains a risk in terms of being able to deliver the budget.
14. In terms of the savings included within the budget a proportion have either already been achieved or reflect a realistic assumption as to timing. Where savings have not already been achieved the processes to deliver them have already started and given previous performance by the organisation in delivering such savings there can be confidence that there is a relatively low risk of non-achievement.
15. The work of the Concessionary Travel Working Group (CTWG) has continued to fine-tune the estimates around the type and additional costs of service to be provided from 1st April 2006. The current assumption is that costs will increase by £279,000 in 2006/07, but the main impact is likely to come in 2007/08, rather than 2006/07 as information on usage and take up become more apparent.
16. The conclusion, which can be drawn from this analysis, is that the budget is soundly based and that the key risks within the budget are known and can be managed. Overall the financial risk profile of the Council has changed as there are some significant areas where the impact will only be known towards the later end of 2006. Accordingly the level of reserves available to smooth the impact of any cost increase is more critical than ever.

THE ADEQUACY OF RESERVES

17. As indicated in previous reports the appropriate level of reserves is essentially a matter of judgement, rather than the result of a mathematical formula. At this time last year the Council agreed to a target range for reserves of £0.75m to £1.25m with the budget setting balances at the bottom end of this range. Given the Council's in year spending performance and the availability of earmarked reserves to allow the Council to deal with issues as they arise this level of reserves has posed no problem, but with the risks increasing and the planning cycle I have proposed a way of ensuring working balances are at least £1million by the end of this financial year. At this level I believe them to be adequate to manage the known risks currently contained in the budget.

18. The overall conclusion would be that the level of reserves forecast within the Financial Strategy will be adequate to allow the Council to manage the major risks facing it, as currently known.

FINANCIAL STRATEGY

19. The Financial Strategy, which is appended to this report, sets out the likely spending pressures and savings requirements over the three-year planning period. This period will see the introduction by the Government of Three Year Settlements for Local Government. This should allow the Council greater certainty over future budgets, but it will also require more emphasis to be placed upon longer term budgeting. The work already done in Chorley to produce detailed three-year budgets will stand the Council in good stead in relation to these changes.
20. As indicated above the Financial Strategy includes specific proposals to deal with key risks facing the Council and protect the General Fund from these risks. The strategy also continues to emphasise the definition of priorities and non-priorities and the redirection of resources into priorities. The Strategy does highlight the need to continue to make savings in both the coming years in order to achieve Council Tax rates that will be acceptable. However, the size of these figures is somewhat smaller than in previous years and as indicated within the Strategy a programme of work is already in hand which should go a long way toward achieving these targets.
21. More problematic is the potential impact of Housing Stock Transfer, although, again work is already in hand to manage the impact on the General Fund of a transfer. Again beginning work on addressing these issues early will enable the Council to maximise achievement of these targets.
22. In terms of the Capital Programme the Strategy aims to continue the strategy of reducing the level of long term borrowing to minimise the impact of capital spending on the revenue account should circumstances allow it. A key element of this is the achievement of capital receipts, as set out within the Strategy.
23. The Strategy also includes the Prudential Indicators, which the Council is required to approve under the Prudential Code for Capital Finance in Local Authorities. These help the Council understand the prudence and affordability of its capital spending plans. Given the overall strategy for financing the programme set out in the Financial Strategy the conclusion would be that the Programme is both immediately affordable and prudent in the longer term.

COMMENTS OF THE HEAD OF HUMAN RESOURCES

24. There are no Human Resources implications arising from this report.

CONCLUSION

25. The Financial Strategy appended to this report sets out means of continuing the financial stability enjoyed by the Council.

RECOMMENDATION(S)

26. The Council are recommended to

- a) Note the advice of the Chief Finance Officer under S 25 of the Local Government Act 2003 set out in this report and have regard to it when considering the budget for 2006/07, which appears elsewhere on the agenda.
- b) Approve the Medium Term Financial Strategy for 2006/07 – 2008/09, including the Treasury Management Strategy and Prudential Indicators included at Appendix 3.

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There are no background papers to this report.

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Gary Hall	5480	13 February 2006	Stat Report on Budget & Med Term Fin Strat