Chorley Council

APPENDIX F

Medium Term Financial Strategy 2013/14 – 2015/16

CONTENT

(1) FOREWORD AND INTRODUCTION

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 to support the Council's Corporate Plan. The strategy covers the general fund or taxpayers account and the capital investment programme.

This Medium Term Financial Strategy (MTFS) continues the route by which the budget gap could be bridged in order that the corporate priorities can continue to be delivered. For a number of successive years local authorities have faced noteable change and a period of significant budget reductions and challenges as set out in the last Comprehensive Spending Review (CSR) in 2010. The coming year 2013/14 is no exception, in fact the year will introduce new funding regimes that transform the way in which local authorities are financed.

The administration's financial aims are to invest in and support the corporate priorities :

- **INVOLVE RESIDENTS IN IMPROVING THEIR LOCAL AREA AND EQUALITY OF ACCESS FOR ALL.**
- **CLEAN, SAFE AND HEALTHY COMMUNITIES.**
- **AN AMBITIOUS COUNCIL THAT DOES MORE TO MEET THE NEEDS OF RESIDENTS AND THE LOCAL AREA.**
- **A STRONG LOCAL ECONOMY.**

Whilst also following their financial strategy to:

- Continue to restrain Council Tax increases.
- Deliver a balanced budget over the Financial Planning Period 2013/14 to 2015/16.
- Identify the savings required to balance the budget seeking to minimise the impact on front line service users.
- Establish working balances no lower than £2.0m over the financial planning period 2013/14 – 2015/16.
- Review the financial risks facing the Council during 2013/14 and the level of balances taking into account the latest information available.
- Make the Council more financially self-sufficient as Government funding is likely to continue to diminish.

<u>Capital Programme</u>

- 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.
- As part of their capital expenditure strategy the Council will consider the purchase of assets to generate a sustainable revenue stream to counteract against the risk of future reductions in grant funding and year to year fluctuations in locally sourced funding and to aid regeneration of the Borough.
- The Council will consider working with partners to assist them to meet their objectives where there is no impact on Council Tax.

- The Council will continue to identify land to assist in delivering its affordable housing targets.
- The Council will continue to invest in its own infrastructure 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.

Treasury strategy

- 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 and 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

With each year seeing even tighter fiscal regimes, the retraction of centrally controlled funding, and now also the added local risk of core funding collection, the overriding MTFS financial aims will be difficult to achieve. Nevertheless this strategy sets out ways in which it is envisaged this could be achieved.

New Era for Local Authority Financing

The previous Medium Term Financial Strategy set out the funding changes on the horizon. This strategy commences with the new changes in place, that is, Business Rates Retention and Council Tax Support Scheme. The amount of Government formula grant is being retracted and each year is seeing even tighter fiscal regimes. This, coupled with core funding collection risk transferring locally, means that the overriding aims of the MTFS are getting increasingly more difficult to achieve.

The whole platform by which local authorities are financed has changed for the foreseeable future and for the lifespan of the strategy with the actual financial impact in the first year based on estimates. Indeed the new Business Rates Retention scheme mean that part of the Councils core funding will only be fully and accurately quantified at the conclusion of the financial year. Core funding distribution arrangements now comprise of a number of high value grant income streams calculated on annual variable factors and therefore subject to fluctuations from one year to the next and within the current year. Uncertainty and increased risk exposure is now a permanent feature in terms of financial planning over the medium term. With this new era in mind this document sets out the Council's financial strategy for the next three year period from 2012/13 to 2014/15.

Business Rates Retention

The Local Government Finance Bill included a significant change to the funding of local councils. Although the details of the new arrangements are unknown the basis of the change is that Business Rates Retention would replace the current system of centrally pooling business rates. At present local authorities collect rates from the businesses in their areas, pay the funds into a central pool and then receive allocations back from this pool as part of Formula Grant.

This system is said to give councils no direct financial incentive to promote business growth, because they do not receive any of the business rate receipts from new developments. Under the new system, councils would keep a share of the growth in business rates in their area. Rate setting powers would remain with the Government and the Government would also decide what share of business rates should be kept by councils, how much should be paid into a central pool to be redirected to local government through other grants.

In summary the main elements of the changes are that there would be a stable starting point (baseline funding level 2013/14) for all councils so that no council would be worse off because it had lower business rates income than others. Those councils with a larger business rates base than their current spending would pay some of the income as a tariff. The councils with a smaller business rate base than their current spending would receive top up payments. Councils that would have a disproportionate increase in their spending power from business rates growth would pay a levy as well as a tariff, which would be used to fund a safety net for any council that had reductions in income by a set percentage below their baseline funding level. In two-tier areas, district councils would retain the greatest share of business rate growth, to ensure that the incentive to stimulate growth is placed on the right councils.

Council Tax Support Scheme

Conversion of benefits paid into Council Tax discounts serves to reduce the Council Tax base within the borough. This directly reduces the amount of Council Tax that can be raised as total Council Tax received is calculated by multiplying the Council Tax rate by the Council Tax base. Despite keeping Council Tax at the same rates as the previous year a reduction in the base will invariably reduce the amount of income that can be generated.

What Has Been Achieved

The previous MTFS set out the implications of the CSR 2010 and the implications for the Council's budget together with actions to address the budget funding gap. During this period significant progress has continued against the strategy and the table below sets out a summary of savings that have already been achieved, and also now proposed, in the first year of the three year programme, (Appendix G).

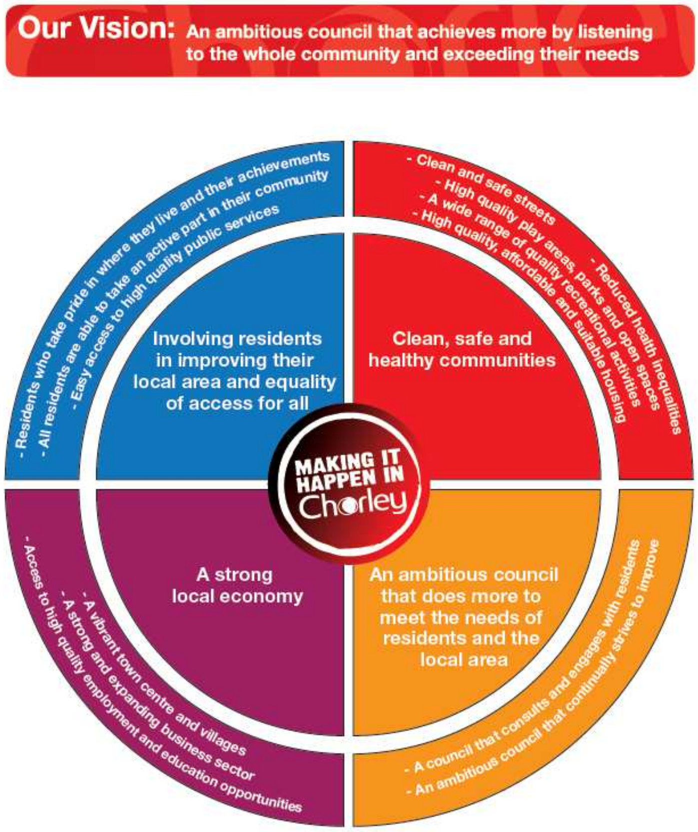
Saving	Previous 3 Year Strategy 2012/13 to 2014/15 £m	Achieved 2013/14 £m
Productivity Gains	0.500	0.392
Council Tax Yield	0.325	-
Review of Income Steams	0.300	0.150
Rationalisation of Accommodation and Investment Properties	0.100	-
Review of Contracts	0.100	0.070
Review of the Base Budget	0.100	0.133
Debt Restructuring	-	0.060
Total	**1.425**	**0.805**

This updated MTFS sets out how this work will be taken forward to balance the budget to equip the Council with the financial means to make investments in services and to address future annual fluctuations in core funding levels.

(2) POLICY CONTEXT

This section of the strategy set out the Council's policy direction. The overall aim of the financial strategy is to identify resources to meet the objectives, targets and measures contained in the Corporate Strategy. It is important for the Financial Strategy to facilitate the achievement of the Council's policy objectives.

The Council has recently updated its Corporate Strategy following consultation with residents. The key priorities and long term outcomes are set out below:



The overall aim of the medium term financial strategy is to identify resources to meet the objectives, targets and measures contained in the Corporate Strategy. Over the last financial planning period, the council has been successful in delivering the Corporate Strategy and managing its resources. This has been recognised again by the Audit Commission in their Annual Audit and Inspection Letter.

The delivery of the Corproate Strategy is supported through a series of key projects and service level business improvement plans. In each case, the resources required to deliver the projects and plans are broadly development through the business planning process, and resources identified during the budget planning process. The current resources allocation should be sufficient for the council to achieve its busienss plans and projects, which support the delivery of the Corproate Strategy's vision, priorities and long term outcomes.

(3) FINANCIAL CONTEXT AND OUTLOOK

This section sets out the financial planning assumptions that have 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 budget estimates there is some important national context to be considered, namely:

- The Comprehensive Spending Review in 2010 provided detailed information for only two years, that is, 2011/12 and 2012/13. Following on from this the final settlement figures for 2013/14 were recently published and are now included in the forecasted budget estimates. The Local Government Financing Settlement for 2014/15, however, remains provisional and therefore may still be subject to amendment. The estimates for 2015/16 contain indicative figures as the settlement is not known plus the outcome of the next CSR which is due in 2014 will also impact in this year.
- The introduction of shorter term Central Government settlement announcements and new variable arrangements for calculating fundamental grants annually exacerbates the increasingly uncertain nature of the Council's core funding streams.
- The new Business Rates Retention regime passes the risk of growth or decline and collection from Central Government to Local Government and therefore changes in the tax base will have a direct and immediate impact on the Council's core funding.
- The triennial review of the Pension Fund is due to take place in 2014 the outcome of which is unknown.
- The on-going revision of the Housing Benefits system and the introduction of Universal Credits.
- The Welfare Reform agenda is assumed to be cost neutral to the Council.

The forecasts contained within this strategy are based on assumptions assessed from information to hand at the time of budget setting. The following are the key budget assumptions that may be subject to change over the next three years in relation to:

- Revenue Budget
- Capital Programme Financing

<u>Assumptions contained in 3 year forecasts - Revenue</u>

Assumption	2013/14	2014/15	2015/16
Pay Award	1.0%	1.0%	1.0%
Council Tax Increases	0.0%	0.0%	0.0%
Grant for Freezing Council Tax	£0.225m	£0.225m	£0.000m
Pension Contribution Increase	0.5%	0.0%	0.0%
Reduction in Grant Settlement (AEF)	£0.435m	£0.824m	-
Business Rates Retention	£0.171m	£0.171m	£0.171m
New Homes Bonus in Base Budget	£1.044m	£1.044m	£1.044m
New Homes Bonus – estimated receipts in future years from 2013/14	£0.739m	£1.500m	£2.300m

Assumptions contained in 3 year forecasts - Capital Programme Financing

Assumption	2013/14 £m	2014/15 £m	2015/16 £m	Total £m	Note
Prudential Borrowing	2.215	0.597	0.765	3.577	
Prudential Borrowing – proposed Health Centre scheme	6.650			6.650	
Receipts from asset sales	0.360			0.360	
VAT Shelter Receipts	0.018			0.018	
Revenue Funding	0.020			0.020	
Developers & Other Contributions	2.019	0.069	0.069	2.157	(a)
Government Grants	0.669	0.550	0.396	1.615	(b)
Total	**11.951**	**1.216**	**1.230**	**14.397**	

(a) Additional projects to be funded with developer contributions will be added to the programme when the contributions are received.
(b) Actual Grant allocations could vary from these estimates.

(4) REVENUE BUDGET FORECAST AND EFFICIENCY STRATEGY

On the basis of the assumptions outlined above plus the Council's actions so far to achieve budgetary savings and also accounting for the current levels of service, the revenue budget forecast indicates the following with regard to budget headroom and budget gap positions over the next three year period (see detailed analysis in attached Appendix F1).

Budget Headroom/Gap 2013/14 – 2015/16

Year	Budget (Headroom)/Gap £000	Cumulative £000
2013/14	(495)	(495)
2014/15	1,441	946
2015/16	644	1,590

The table shows that over the medium term the cumulative budget gap amounts to £1.590m for which budgetary efficiency savings will need to be found in order to balance the budget. It is important to view this position with consideration to the budget assumptions above for the following reasons:-

1. The outcome of the forthcoming triennial pensions fund review is unknown and has the potential to significantly impact on the forecast.
2. The Comprehensive Spending Review 2015 cannot be predicted but further funding reductions are possible.
3. The funding arrangements for Business Rates Retention and Council Tax Support are new for 2013/14 so their volatility and therefore risk exposure cannot be fully understood at this stage.

Local Authority funding is now unpredictable in nature and is entering a period of permanent, annual fluctuations. This will very much hinder accurate financial planning year on year so it is recommended that further NHB receipts are not included in the budget forecasts but set aside to be matched with investment expenditure. This enables all subsequent NHB monies received to be available and uncommitted thus allowing for maximum flexibility in its future application.

In summary, in order for a balance budget position to be achieved within the MTFS period 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:

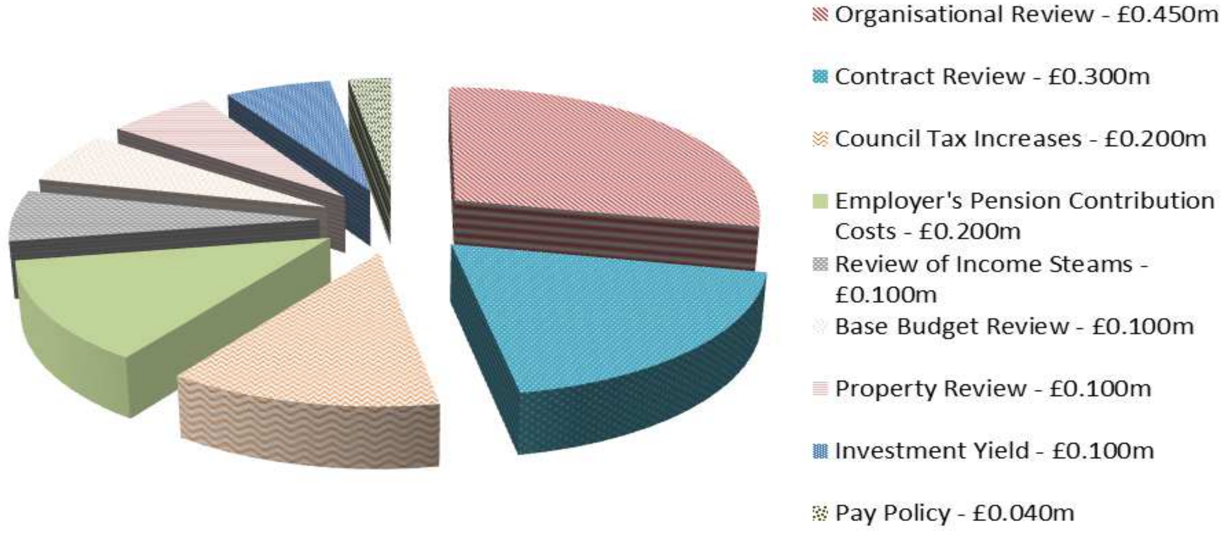
- To continue to restrain Council Tax increases.
- Deliver a balanced budget over the Financial Planning Period 2013/14 to 2015/16.
- Identify the savings required to balance the budget seeking to minimise the impact on front line service users.

In this respect the following actions will be included:-

- Increase productivity
- Review of expenditure on contracts
- Review of non employee related base budget heads
- Review of all income streams to ensure full cost recovery is being achieved and all possible revenue streams are being structured in the most appropriate way
- Seek to increase income yield from Investment Properties thus strengthening the sustainability of the budget in the longer term
- Review our property in order to reduce the cost of maintain our assets
- Minimise the effect of increased employee related costs in respect of Employer's Pension Contributions
- Review of the Pay Policy

It is thought that the above strategy could achieve the level of budgetary savings in the sum of £1.540m being sufficient to bridge the funding gap. Further detail is set our below:

Budget Savings Strategy 2013/14 to 2015/16 – Total £1.590m



Productivity Gains - £0.450m

Total employee budget is £10.1m. It is proposed that a savings of £0.450m is secured by focussing on improved productivity. The forthcoming results of the most recent rough cut costing exercise, developments in ICT and performance information, all continue to inform the development of an Efficiency Programme which follows the principles of maintaining performance with particular regard to front line services.

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

- Reducing bureaucracy in our processes wherever possible.
- Making the most of our advanced Information Technology platforms to ensure efficiency is maximised.
- Different delivery models.

The review will not necessarily be focussed on current service structures, it will continue to look at processes and service delivery as staff costs are incurred. Whilst the Efficiency Programme will focus on the areas identified above as priorities, this will be supplemented and supported by actions undertaken in improvement plans. These will help services achieve the efficiency savings targets that will be also included in the plan.

Deliverability - this is an area where significant savings have been achieved to reduce the budget gap and this target equates to 4.5% productivity gains over the next two financial years.

Review of Major Contracts - £0.300m

The Councils spends in the region of £4.9m on its contracts with partners. As this is a significant spend area for the Councils we will continue to engage with our partners to review contracts in order to look for opportunities to deliver the same or improved services in a different way to increase efficiency and reduce costs.

Deliverability – Total budget for contract spend is £4.9m, therefore, the target of £0.300m equates to 6.1% reduction in costs.

Council Tax Yield - £0.200m

The Council can consider applying a below inflationary increase to Council Tax in future years. It is very difficult to accurately forecast inflation over the period of the strategy, however, assuming that 1.7% inflation is applied to Council Tax this will increase income yielded by £200k over the period 2014/15 to 2015/16.

Deliverability - Based on Consumer Prices Index (CPI) at December 2012 is 2.7%.

Employer's Pensions Contribution - £0.200m

Government has set out to reduce the cost of employers' pension contributions via terms and conditions. As of yet it is unknown whether this objective has been successful, however, it will become apparent when the triennial revaluation has taken place in 2014. The Council is also in receipt of £1.750m from Chorley Community Housing which was paid over in respect of meeting pension liabilities that remained with the Council on the transfer of the housing stock. These monies will be used to reduce the cost of the pension contribution bill and the best way of achieving this is being explored. This includes identifying the timing of such action to maximise the benefit and saving to the budget.

Deliverability – Total anticipated spend on Employer's Pensions Contribution is £1.5m per annum, therefore, the target of £0.200m equates to 13% reduction in costs or a 2% reduction in the contribution rate.

Review of all Income Streams and Cost Recovery Models - £0.100m

All income streams whereby we determine the level of charge (excluding car parking) will be reviewed so that our charging policies are structured in a way to optimise effectiveness.

Deliverability – Total anticipated annual income in the budget is £1.5m, therefore, the target of £0.100m equates to 6.7%.

Review of the Base Budget - £0.100m

Review all non-staffing expenditure budget heads totalling in £5.2m. This will include an all-inclusive and corporate wide approach to budgets to ensure that all items are being resourced in the most cost effective way to achieve maximum standardisation of processes and economies of scale.

Deliverability – Total budget is £5.2m, therefore, the target of £0.100m equates to less than 2.0% reduction in costs.

Property Review - £0.100m

Progress has been made in rationalising the use of our assets. The next stage will now be to review in more detail the running costs of our assets to realise efficiency savings.

Deliverability – The total budget provision for running our civic buildings is £0.460m, therefore, a target of £0.100m equates to 22%

Investment Yield - £0.100m

Current investment yield is circa £0.400m, in terms of the MTFS the principle has been established that any surplus NHB be used to invest in schemes that may generate the Council a sustainable income stream as part of its strategy to reduce reliance on government support.

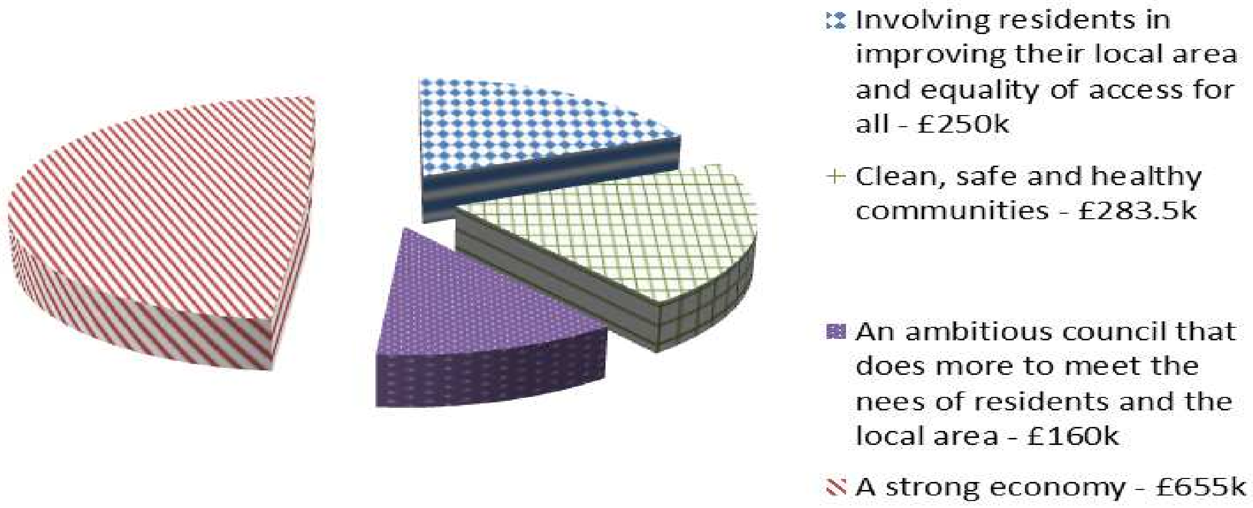
Pay Policy - £0.040m

The Executive are working with senior officers to agree in principle a phased 10% reduction in costs effective from 2013/14.

(5) SUPPORTING THE CORPORATE STRATEGY

The rate of progress in delivering the MTFS has resulted in a surplus within the Council's budget for 2013/14. This has facilitated the opportunity to accommodate a package of new investments in the borough. The revenue budget investment package supports the budget principles and priorities:

- **INVOLVE RESIDENTS IN IMPROVING THEIR LOCAL AREA AND EQUALITY OF ACCESS FOR ALL.**
- **CLEAN, SAFE AND HEALTHY COMMUNITIES.**
- **AN AMBITIOUS COUNCIL THAT DOES MORE TO MEET THE NEEDS OF RESIDENTS AND THE LOCAL AREA.**
- **A STRONG LOCAL ECONOMY.**



The revenue budget investment areas are list below but explained in more detail in the New Budget Investment report (Appendix C) which gives a synopsis of each project together with the project mandates.

INVESTMENT AREA	Amount £
Neighbourhood working: • Proactive clean up team * • Neighbourhood working • Community development and volunteering **	 **50,000** 100,000 70,000
Support to the VCFS Network – Increasing volunteering in the borough **	15,000
Chorley Community Bank **	50,000
16/17 year old drop in scheme	15,000
Tree Policy *	**30,000**
Extension and improvement of street furniture	65,000
Active Generation	31,000
Street Games	50,000
Play area improvements **	100,000
Free Swimming	7,500
Employee health scheme	20,000
Campaigns and events	40,000
Regeneration projects *	**40,000**
Car park pay and display income reduction	75,000
Inward investment delivery	350,000
Town Centre Masterplan	30,000
Support the expansion of local businesses	110,000
Implement a joint employment initiative with Runshaw College	50,000
Private Property Improvement Scheme Trial	50,000
TOTAL NEW INVESTMENT	**1,348,500**

*This is a recurring investment in services with the required budgetary provision for these items being accounted for on a continual basis in future years. These schemes, as listed below, have been identified to ensure service provision beyond 2012/13 to support the delivery of the Corporate Strategy (included in Appendix F1).

** These items are recurring for 3 years and therefore have first call on future NHB receipts (included in Appendix F1).

The programme of investments will be funded from the budget as set out below. The Executive is recommending to Council not to build any further NHB receipts into the base budget. This is because the long term reliance on this source of funding is not sustainable as the grant is only temporary in nature. NHB funding has therefore been matched with temporary expenditure so that the spending commitment it finances can be stopped at the same time as the funding ceases. This course of action will prevent the budget falling into an immediate and avoidable deficit position and also safeguard the objectives of the MTFS. In the Statutory Officer report it highlights that a change in methodology would result in a significant reduction in funding to the Council.

The headroom within the budget for 2013/14 also provides the opportunity to make further investments in services on a one off basis. This means that the expenditure for the investments above will be incurred in just 2013/14 thus only making a temporary call on the Council's budget.

The Revenue Budget in 2012/13 is expected to achieve an underspend against budget of £0.565m. As the strategic objectives with regard to General Balances have already been achieved the budget set for 2013/14 utilises this opportunity to set aside £0.450m to restructure debt and £0.115m to invest in the Corporate Strategy.

TO BE FINANCED BY:-	
New Homes Bonus 2013/14	(739,000)
Budget Surplus in 2013/14	(495,000)
Underspend in the Revenue Budget in 2012/13	(114,500)
TOTAL FUNDING	**1,348,500**
FUNDING (SURPLUS)/SHORTFALL	***Balanced***

Five further Capital Programme/Budget investments are proposed:

INVESTMENT AREA	Amount £m
Regeneration Projects	1.000
Astley Hall Development Works	0.250
Astley Hall Farm	0.030
Clayton Brook Village Hall Extension	0.135
Yarrow Valley Country Park reservoir works	0.060
TOTAL NEW INVESTMENT	**1.475**

The incorporation of the Capital project to regenerate town centre sites is there to expedite the delivery of the project once the outcome of the Town Centre Masterplan and Inward Delivery work streams are known.

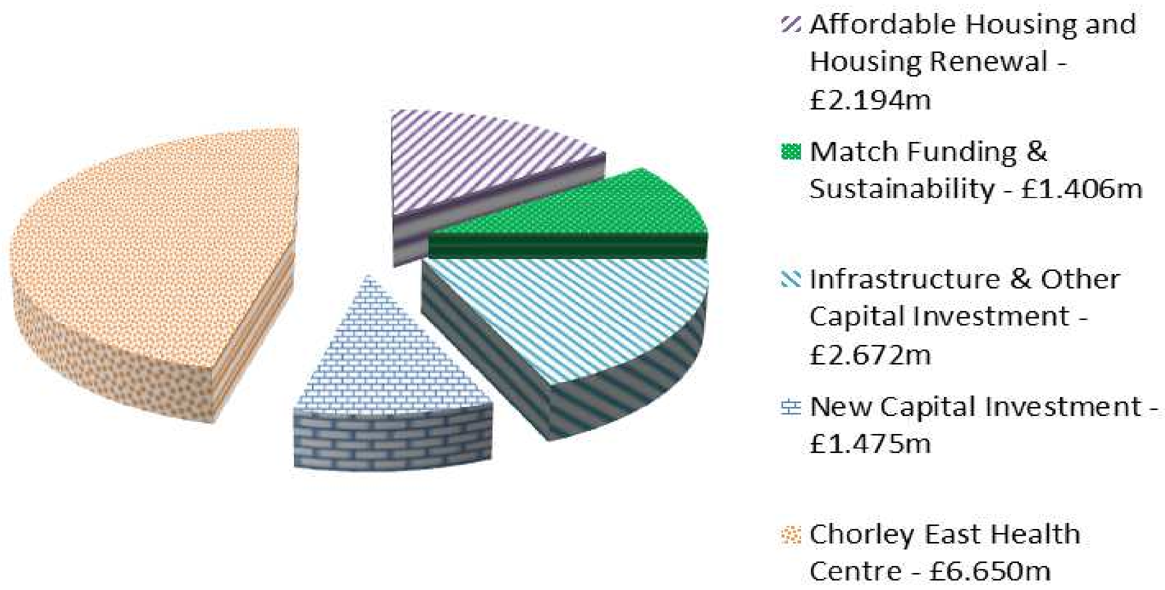
(6) CAPITAL PROGRAMME FORECAST

The Council's Capital Programme forms part of the Council's overall financial strategy to deliver some of its key objectives contained in the Corporate Strategy. Any programme, however, has to be affordable and based upon prudence. The current local government financial position and the need to make revenue savings will impact significantly on the Council's ability to finance capital spending. In this respect the Capital Programme has been constructed based upon the following strategic objectives.

- 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.
- As part of their capital expenditure strategy the Council will consider the purchase of assets to generate a sustainable revenue stream to counteract against the risk of future reductions in grant funding and year to year fluctuations in locally sourced funding and to invest in regeneration of the Borough.
- The Council will consider working with partners to assist them to meet their objectives where there is no impact on Council Tax.
- The Council will continue to identify land to assist in delivering its affordable housing targets.
- The Council will continue to invest in its own infrastructure reviewing the Asset Management Plan in 2013/14 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 above and incorporating the proposed new budget growth investments, the Council proposes to invest £14.396m as follows over the MTFS period. This includes £1.0m investment in the Regeneration projects which will make capital funds available to the Council. Funding the programme will require prudential borrowing borrow of £3.577m and capital receipts of £0.360m. The programme also contains further borrowing in respect of Chorley East Health Centre being a further £6.650m, although this is will not impact on the revenue budget as the cost will recovered from Lancashire Care NHS Foundation Trust. The programme will be funded from a variety of sources, which is consistent with the strategic objectives outlined. (see Appendices B1, B2, B3 and B4 for further details of the Capital Programme 2013/14 to 2015/16)

Priority Areas for Capital Investment



(7) WORKING BALANCES

Previous financial strategies have identified a number of changing external factors likely to have a negative shift on the Council's risk profile with the new funding regimes, the risk of collection transferring locally and diminishing Government grant exacerbating the situation. In recognition of these circumstances the proposal has been made that working balances are to be kept at a level no lower than £2.0m.

The rationale for this position is based upon the following:

(a) The Council has uncommitted working balances that would enable it to cover the loss of any deposit should this occur. This was one of the criticisms the audit commission made of some councils' who did not have sufficient reserves should the Icelandic Bank collapse resulting in a loss of significant proportion of these deposits.

(b) There is likely to be further variances in the level of Government grant received by the Council following the introduction of the business rate retention scheme. Some protection is in place in that a safety net exists over the council's loss of income if a reduction in its business rate reaches £0.200m.

(c) The Comprehensive Spending Review in 2015 may result in further reductions in local government funding. The current Government's policy is to protect education and the NHS as much as possible. Consequently the reduction in local government funding is likely to continue. This represents a significant risk in the medium term.

There have been a number of significant changes that have now been implemented with effect from April 2013. The greatest impact highlighted in the past with regard to the reduction of funding has come to fruition. The 2010 CSR witnessed significant funding reductions coupled with a growing degree of uncertainty. Indeed influencing external factors continue to be a significant issue. The new Central Government grant distribution regime introduces year on year variable calculations as a permanent feature with regard to the Council's core funding presenting further uncertainty hindering accurate financing planning for the foreseeable future. This coupled with the reduced Council Tax base as a consequence of Council Tax Support Scheme and the possibility of managing in year tax base fluctuations in respect of Business Rates makes the public finance environment ever more challenging.

As members will be aware, working balances are there to protect Councils against the 'peaks and troughs' in expenditure and income and they allow fluctuations to be managed by bringing budgets back into balance. Although the budget for 2013/14 has been established based upon not using working balances to fund recurrent expenditure sometimes the savings required to balance the budget can take time. Maintaining working balances means the Council does not have to make short term 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 light of the moveable platform that core funding now sits, the emphasis on approach within the MFTS will be on financial sustainability over the medium and longer term. The use of working balances is legitimate but should only be a short term strategy particularly in the light of the increasing fluctuating nature of local authority funding over a longer medium term.

In terms of resource availability members will be aware, and as reported in monitoring, working balances are estimated to total £2.587m at the end of March 2013. After allowing for the contribution to debt restructuring and the financing of investment, balances are expected to be £2.022m and remain within the proposed target level of no lower than £2.0m as referred to above. The working balances position is made up of estimated balances in hand and forecast forward as shown below:

Forecast Working Balances

	£m
General fund working balance forecast Dec monitoring	2.587
Use of General Balances for Debt Restructuring within MTFS	(0.450)
Contribution to Investments funding in 2013/14	(0.115)
Forecast balances 31/03/2013	**2.022**

Source: Revenue Budget Monitoring period ending December 2012.

On this basis the Council’s strategic objectives in relation to working balances will be:

- To establish working balances no lower than £2.0m over the financial planning period 2013/14 – 2015/16.
- To review the financial risks facing the Council during 2013/14 and the level of balances taking into account the latest information available.

All reserves are shown below in addition to the General Fund Reserve

Reserves	**Projected Balance 31 March 2013 £000**	**Projected Balance 31 March 2014 £000**	**Projected Balance 31 March 2015 £000**	**Projected Balance 31 March 2016 £000**
General Fund Reserve	**2,184**	**2,070**	**2,070**	**2,070**
Change Management Reserve	77	77	77	77
Performance Reward Grant	29	0	0	0
Government grants (Housing)	577	302	45	40
Handyperson Scheme	49	46	16	0
Town Centre Grants	199	119	39	0
Town Centre Reserve	274	0	0	0
Planning Appeal Costs	188	18	0	0
Personal Searches Grant	34	34	34	34
Local Development Framework	46	0	0	0
Astley Hall Works of Art	6	6	6	6
Maintenance of Grounds	52	62	72	82
Apprentices (NEET's) Reserve	9	0	0	0
Elections Reserve	0	85	58	29
Total	**3,724**	**2,819**	**2,417**	**2,338**

Provisions	**Projected Balance 31 March 2013 £000**	**Projected Balance 31 March 2014 £000**	**Projected Balance 31 March 2015 £000**	**Projected Balance 31 March 2016 £000**
Payment to Lancashire Pension Fund	1,750	1,750	1,750	1,750
Potential MMI Clawback	15	15	15	15
Total	**1,765**	**1,765**	**1,765**	**1,765**

(8) TREASURY MANAGEMENT

The Chartered Institute of Public Finance and Accounting published Code of Practice for Treasury Management (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.
- Specify to whom the responsibility for implementing and monitoring treasury management activities is delegated.

In all respects the Council complies with the above and reviews these requirements in the annual Treasury Strategy and also in the Treasury Mid-Year Review reports.

In respect of Council Strategy for Treasury Management the principles 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 and 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 February 2013, via the production of annual Treasury Management Strategy.