Chorley Council

APPENDIX F

Medium Term Financial Strategy 2015/16 – 2017/18

CONTENTS

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 plus it also recognises working balances and the Treasury Strategy.

This Medium Term Financial Strategy (MTFS) continues to plan a route by which the budget gap could be bridged in order to deliver the corporate priorities. For a number of successive years local authorities have faced fundamental change and a period of significant budget reductions and challenges. This has been triggered by the austerity measures implemented by Central Government to reduce overall public sector spending. Funding cuts have been delivered as part of the government's Comprehensive Spending Review (CSR) of 2010 covering the period since 2011/12 and there is no doubt that this trend is set to continue. In addition to the overall core funding framework dramatically reducing, it has also been transformed and now encompasses two regimes, introduced this CSR period, that are vulnerable to annual and significant fluctuations that are externally driven and outwith the influence of the Council.

Despite these financial challenges the administration's financial aims are to invest in and support the corporate priorities which are:

- **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.**

Concurrent to delivering investment, a financial strategy will also be implemented seeking to:

- Continue to restrain Council Tax increases.

- Deliver a balanced budget by 2017/18.

- Identify budget efficiencies to improve financial resilience and also balance the budget by seeking to bring income into the council and reduce costs whilst minimising the impact on front line service users.

- Establish working balances no lower than £3.0m over the financial planning period 2015/16 to 2017/18 to match the overall budget deficit estimated for that period.

- Review the financial risks facing the Council during 2015/16 and the appropriate 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.

- By 2017/18 the Authority will undertake a fundamental review of service priorities to take account of a diminishing resource base exploring other service delivery models such as combined authorities and coproduction.

In conjunction with the operational budget the MTFS will encompass all aspects of the Council's financial health including Capital projects and the effective management of its cash balances.

Capital Programme

- 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 and/or development 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 seek to maximise opportunities to attract external finance to sustain its programme of work although in the current economic climate this becomes a more challenging task.

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 financial year bringing with it even tighter fiscal conditions, that is both the retraction of centrally controlled funding and the added local risk of core funding collection, the overriding MTFS financial aims will be increasingly difficult to address. Nevertheless this strategy sets out ways in which it is envisaged this could be achieved.

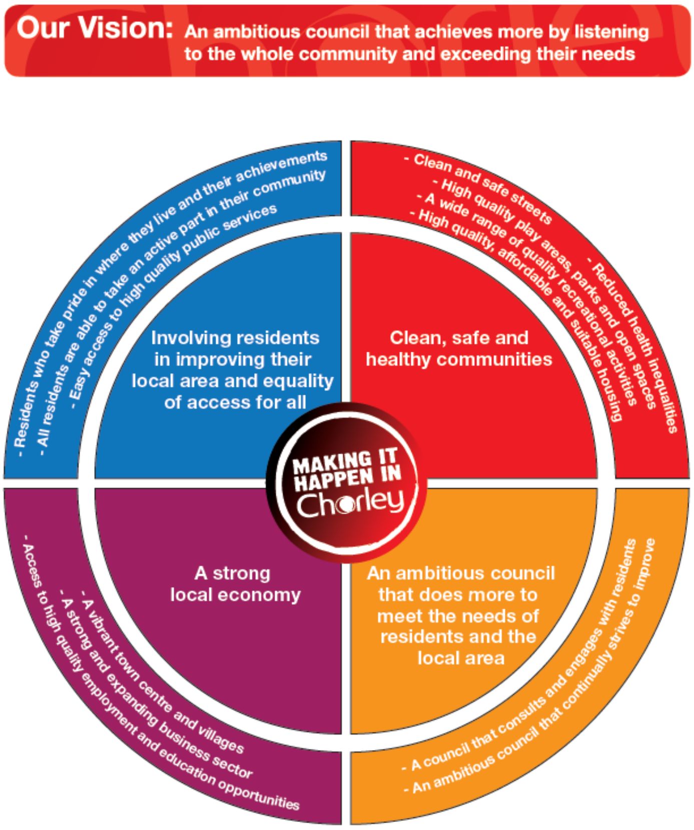
The following sections of the MTFS will include:

1. what the Council's Corporate Priorities are;
2. the financial outlook and key challenges over the planning period to 2017/18;
3. how the Council can meet the financial challenge;
4. where the Council will investment in its services to deliver its priorities;
5. delivering the Capital Programme investment over the longer term;
6. Treasury Management and Strategy;
7. maintenance of working balances.

CORPORATE PRIORITIES

This section of the strategy sets out the Council's policy direction. The overall purpose of the financial strategy is to identify resources that are sustainable and financial resilient in order to deliver 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 key priorities and long term outcomes of the Council's Corporate Strategy 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.

FINANCIAL OUTLOOK AND KEY BUDGET CHALLENGES

This section sets out the financial challenges facing the Council in delivering its corporate priorities within a balanced and affordable budget.

The budget forecast in Appendix F1 attached identifies that by 2017/18 the forecasted a budget deficit will be in the region of £2.595m.

Budget (Headroom)/Gap 2015/16 to 2017/18

Year	Budget (Headroom)/Gap £000	Cumulative £000
2015/16	(95)	(95)
2016/17	1,797	1,702
2017/18	893	2,595

It is important to note that this forecasted position has been estimated taking into account the key assumptions below:

Assumption	2015/16	2016/17	2017/18
Council Tax Increases	0.0%	0.0%	0.0%
Grant for Freezing Council Tax in 2014/15 (year 2 of grant)	£0.066m	-	-
Grant for Freezing Council Tax in 2015/16 (grant available for only 1 year)	£0.065m	-	-
Reduction in Grant Settlement (RSG)	£0.883m	£0.350m	£0.350m
Profiled reduction in Grant Settlement	(15.5%)	(7.3%)	(7.9%)
New Homes Bonus Receipts 2011/12 and 2012/13 in Base Budget	£1.044m	£1.044m	£1.044m
New Homes Bonus – estimated receipts in future years from 2013/14	£1.586m	£2.336m	£2.986m
Market Walk Net Financing – assumption £5.0m external borrowing as at 01/04/05	£0.760m	£0.690m	£0.660m
Pension Fund - Future Service Contribution	11.1%	11.1%	11.1%
Pension Fund – Deficit Recovery	£0.832m	£0.956m	£1.076m
Supporting People Income from LCC	£0.147m	£0.138m	£0.130m
Pay Award	2.2%	1.0%	1.0%

All forecasts are built upon a number of assumptions, which are based upon best information available at the time. The table above evidences the extent and scale to which the budget assumptions can influence the budget position over the period to 2017/18. Also in terms of constructing budget estimates there is some important national context to be considered, namely:

- The Comprehensive Spending Review in 2010 has implemented the Central Government's austerity measures for the period to 2015/16 by significantly reducing local authority core funding. Since 2011/12 cuts for the Council's grant have totalled £4.191m. Revenue Support Grant in 2015/16 is £2.132m and therefore if the current scale of reduction continues it is not an unrealistic view that RSG may be eroded to zero in the future.

- The introduction of shorter term Central Government settlement announcements and new variable arrangements for calculating annually fundamental grants exacerbates the increasingly uncertain nature of the Council's core funding streams.

- The Business Rates Retention regime passes the risk of possible decline and also 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 revised localised system was implemented in April 2013 and poses much greater uncertainty as the fundamental determinates are fixed by a number of external factors and decisions made by Central Government and the Valuation Office Agency (VOA).

- A triennial review of the Pension Fund determines the contribution the Council needs to accommodate in its budget each year to clear the fund's deficit over the next 19 years. Performance against the targets is outside of the Council's control and is subject to external factors such as the valuations derived at by the Pension Fund's actuary. The annual budget set aside to cover this payment is approaching £1.0m so its impact is noteworthy and therefore must be planned for and accommodated within the overall service provision budget.

- Chorley Council is currently in a 'Cost Share' arrangement with Lancashire County Council whereby the county pay over to district councils a cost sharing payment via the Lancashire Waste Partnership. This represents compensatory payments for loss of income from when the previous recycling credits system was revised. The arrangement is due to expire in March 2018 and therefore if no replacement agreement is available, this income stream will be withdrawn as at that date. The impact will therefore fall in 2018/19, and although this timeframe is outside of this MTFS, it should be borne in mind that the authority's income may well reduce by a further £0.933m after 2017/18 in addition to cuts in core funding.

Suffice it to say Local Authority funding is unpredictable in nature and is subject to annual fluctuation on a permanent basis. This very much hinders accurate year on year financial planning and therefore some of the assumptions above are based on local decisions made to mitigate the risk of large scale movements in funding income, such as:

- New Homes Bonus – NHB receipts after 2012/13 are not included in the budget forecasts but set aside to be matched with investment expenditure. This approach allows for all future NHB monies to be available and uncommitted. This allows the Council to change its approach very quickly and achieve maximum flexibility in its future application. As only a proportion NHB receipts are built into the base budget their use can be considered and revised. Receipts are expected to reach circa. £2.6m by 2017/18 which is sufficient to match the current estimated budget gap of £2.595m forecasted by 2017/18. Therefore the Council may consider an approach whereby the budget is balanced, in whole or part, by using NHB monies.

- Additional Business Rates Retained - As the system is still in its infancy in core funding terms and also subject to negative cash flow shift it is recommended that additional Business Rates income is only built into the budget after it has been secured rather than in advance when it is based on estimated outcomes.

Key budget assumptions are also included in the Capital Programme with regard to its financing, these are set out below:

Assumptions contained in 3 year forecasts - Capital Programme Financing

Assumption	2015/16 £m	2016/17 £m	2017/18 £m	Total £m	Note
Prudential Borrowing	1.100			1.100	
Prudential Borrowing – To be repaid by NHB set aside	1.220	0.051	0.054	1.325	
Prudential Borrowing – proposed Health Centre scheme	1.759	3.518	1.759	7.036	(a)
Revenue Funding	1.881	0.083	0.083	2.047	
Developers & Other Contributions	1.374			1.374	(b)
New Homes Bonus	0.736	0.339	0.336	1.411	
Capital Receipts	0.649			0.649	
Government Grants	0.495			0.495	(c)
Total	**9.214**	**3.991**	**2.232**	**15.437**	

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

What Has Been Achieved

Despite the budget challenges the forecasted budget gap of £2.595m and the risk of substantial change impacting on the estimates, the Council has made progress in addressing the position. Action has taken to balance the budget and provide headroom for investment in advance of the financial year. The Council is proposing a budget that contains headroom for a second consecutive year. Budget efficiency savings of £0.708m have been delivered to close the budget gap for 2015/16 adding to the £0.938m achieved last year.

Saving	Achieved 2014/15 £m	Achieved 2015/16 £m
Productivity Gains	0.331	0.017
Pay Policy	0.036	-
Review of Contracts	0.035	0.200
Review of Income Steams - Inc. Market Walk	-	0.446
Review of the Base Budget	0.094	0.045
Investment Yield	0.442	-
Total	**0.938**	**0.708**

The purchase of Market Walk has brought an additional £0.492m into the budget so far on a recurring basis. This amount includes a contribution into an equalisation account to mitigate against the financial risk of temporary void units. On an annual basis the financing of the project is proactively managed in order to achieve the most cost efficient option, to this end budget savings of £0.400m have been rolled forward in the budget for 2015/16. This acquisition continues to be a major feature of the Town Centre and supports the Council's corporate priorities whilst also presenting further opportunities to increase the financial benefits already realised. The project not only serves to strengthen the financial resilience of the Council it also brings additional income into the borough.

Transformation Strategy Savings of £0.017m is attributable to restructuring approved in Health, Environment and Neighbourhoods last year and represent the full year effect of the changes made.

The Base Budget Review continues to realise budget efficiencies by conducting an in year challenge process for non-employee costs that are outside of restructuring and productivity reviews.

A review into the Property Management function has been completed and the service has been brought back in-house plus savings have been made within the Graffiti removal contract and also the Insurance Portfolio renewal.

HOW THE FINANCIAL CHALLENGE WILL BE MET

At a summary level there are options available for the Council to consider with regard to balancing the budget by 2017/18. Uncommitted NHB receipts are expected to reach £2.586m in 2017/18 which matches the current forecasted budget gap. The council may consider looking at budgetary savings options that could be found from the following sources:-

- Additional income generation
- Further reductions in expenditure
- Increases in Council Tax
- Possible use of NHB receipts

THE STRATEGY

To achieve a reduction in net expenditure the Council's Strategy will be:

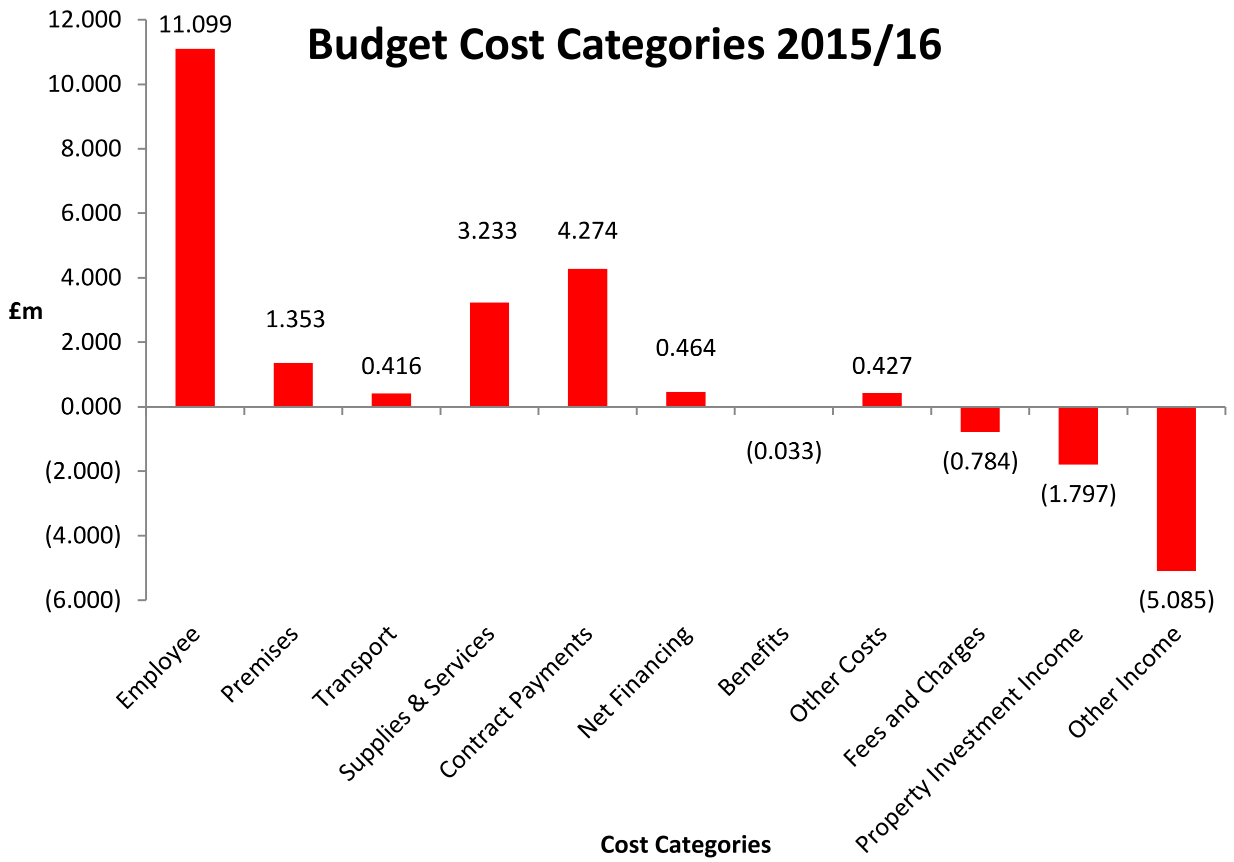
- **To continue to restrain Council Tax increases.**
- **Deliver a balanced budget over the Financial Planning Period 2017/18.**
- **Identify the savings required to balance the budget seeking to minimise the impact on front line service users.**

In this respect the following will be the strategy's focus:-

- Maximising the financial benefit of Market Walk
- Maximising Income Generation Opportunities
- Income generation – fees and charges
- Reducing expenditure costs and increasing productivity
- Review of non-employee related base budget heads
- Look for opportunities to reduce debt
- Consider the potential use of New Homes Bonus receipts to smooth the impact of the budget deficit to 2017/18
- Undertake a fundamental review and consider policy changes and implications of priority led budgeting

FINANCIAL CONTEXT

To put the strategy into a financial context the total budgeted net expenditure of £13.611m (Appendix F1) is spent in the following areas:-



N.B. Employee Costs include the Pensions Fund deficit budget in the sum of £0.832m and the Other Income category includes income streams such as Car Parking, Planning fees, Waste Recycling and Housing Benefit Administration grant.

The strategy below seeks to close the budget gap by 2017/18. In order to protect front line services the priority of this MTFS is to seek to apply a spread between maximise income opportunities and reducing costs. To this end £2.600m will be sought from various options as follows:

INCREASING INCOME AND USE OF NHB

Use of NHB - £2.586m

The overall budget deficit is currently forecasted to be £2.595m by 2017/18. As demonstrated in the budget proposed for approval, a large proportion of total New Homes Bonus receipts are not committed upfront and therefore not incorporated into the base budget. Uncommitted NHB receipts are expected to reach circa £2.6m by 2017/18 and therefore it is a feasible option to consider utilising this income to either: (a) smooth the impact of the impact of the budget gap or, (b) cover the budget deficit in whole, or part if desired.

Review of New and Existing Income Streams - £0.540m

The purchase of Market Walk has delivered significant financial benefits to the Council and assisted in closing the budget gap in 2014/15 with the next phase focussing on development opportunities. Consideration will be given to policy changes to implement charges for services currently delivered free at the point of delivery. The Council will also consider looking at incremental inflationary increases, for example 2%, in fees and charges.

Project to Extend Market Walk - £0.250m

It is the Council's aim to achieve substantial long term growth through new income generation opportunities. This aims to reduce the authority's reliance on external income determined outwith the Council. The model for Market Walk is proven to realise substantial net income gains and therefore a project is currently underway that looks to expanding this financially beneficial model. Apart from the financial benefits feasible, ensuring Chorley has a vibrant and thriving town centre is set out as a priority in both the Council's Corporate and Economic Development Strategies under the corporate priority of a strong local economy. Considering the feasibility of extending Market Walk is not only a commercial consideration (that is, increasing the value of capital investment and revenue potential) but is also aimed at improving and reinvigorating the town centre through new retail and leisure opportunities.

Additional net income realised with the acquisition of Market Walk in the Town Centre has resulted in a sizeable contribution to the Council's budget which is a significant boost to total income received. This serves to offset some of the erosion in Central Government Revenue Support Grant and also reduces the Council's reliance on external funding. The Market Walk project continues proactively manage the cost of financing the scheme to its lowest possible option whilst also exploring the potential to expand in a similar vein to the original purchase as it is an effective option in replacing continually reducing core funding Revenue Support Grant.

Growing The Borough's Tax Bases – Residential and Business - £0.260m

The Council now directly receives a proportion of the rates income generated from the Business Rates collected within the borough in additional to the proportion that is retained from Council Tax collected. Additional income can be generated by increasing the number of business, commercial and residential properties in the tax bases within the borough by encouraging investment within the borough. This option would also provide financial benefits to other local public service organisations (such as the County Council, Police and the Fire Services) as they receive a higher combined proportion of the funds raised.

Council Tax Increases - £0.250m

The table below shows the impact of increasing Council Tax between 0.5% and 2%. Currently the Council Tax referendum principle is set at 2%, however, a reduction in this capping level in the next Comprehensive Spending Review cannot be ruled out. An increase, together with further savings options, would not only help to address the budget deficit but also be used to invest in projects that support delivery of the Council's new priorities and generate further revenues for the Council.

% Each Year	2016/17 £	2017/18 £
0.5	31,000	62,000
1	61,000	124,000
1.5	92,000	186,000
2	122,000	250,000

The table shows that below inflationary increases do have a significant, cumulative and permanent effect, something that the Council Tax Freezing Grant option lacks. The grant awarded for freezing is only received on a short term temporary basis after which time it is rolled into the total core grant allocation which in turn subject to significant reductions. Even over a short term period approximately £249k can be raised.

Importantly the proportion of the overall total funding secured via Council Tax is increasing as Central Government funding decreases and therefore its profile becomes more significant and decisions made on the level of Council Tax set have a corresponding greater impact on the budget's financial resilience. Fiscal control and stability are also strengthened as decisions are made locally and cannot be eroded by budgetary cuts distributed by Central Government.

COST REDUCTION

In addition to income generation, cost reduction can also be achieved by making budgetary efficiencies with priority assigned to the Council's core areas of spend as shown in the pie chart above. This will include a fundamental review of the overall costs incurred by the Council whilst undertaking statutory obligations and its core service provisions.

Fundamental Review of Costs - Reduction of Expenditure - £1.150m

A further budget savings will be required circa. £1.150m to close the total budget gap by 2017/18. A key action of correcting a forecasted budget deficit is to carry out a fundamental review of all activities undertaken by the Council in order to seek ways in which the cost of providing services can be reduced. Within this process, priority is given to mitigating risk within the assessment and decision making criteria in order to highlight and focus on any possible impact on front line services.

The Council will look at changes to policy and service provision. By fully assessing the priorities of the Council, budgets can be allocated according to a priority led budget process taking into account the parameters set by the financial constraints of diminishing resources.

Costs may also be reshaped by exploring the possibility of reducing resources involved in providing services, for example service delivery models incorporating the principles of joint working. The need for increased cost efficiency within the public sector has seen a number of alternative solutions coming to the fore for example, co-production, commissioning and combining, in part, with other authorities.

The total gross expenditure for the Council is £21.226m and therefore £1.150m equates to 5.4% and in employee cost terms equals to 10%.

Debt Restructuring - £0.150m

The Council is committed to a strategy that restricts the level of borrowing required to fund its capital investment and maintenance within the borough. In doing so, any borrowing incurred is proactively managed so that the financial impact on the budget is minimised. To achieve this debt is restructured in order to achieve budgetary savings within the revenue budget which funds the Council's ongoing service delivery activities. The revenue budget contains costs associated with servicing debt. Debt will have been incurred appropriately in previous years to fund Capital Projects but as time moves on changing circumstances can present new opportunities to achieve lower cost options by proactively restructuring debt repayment plans.

In Summary

The table below summarises all the options available for consideration to bridge the forecasted budget deficit over the next three years totalling £5.186m

Total Budget Resourcing Programme to 2017/18

Strategy	£m
INCREASING INCOME	
Use of NHB	2.586
Review of New and Existing Income Streams	0.540
Growing the Borough's Tax Bases – Residential and Business	0.260
Project to Extend Market Walk	0.250
Council Tax Increases	0.250
Sub total - income	**3.886**
REDUCING COSTS	
Fundamental Review and Re-engineering of Services to Reduce Total Costs	1.150
Debt Restructuring Cost Savings	0.150
Sub total – expenditure	**1.300**
Total Resources Available to Balance the Budget	**5.186**

NEW INVESTMENT AND SUPPORTING THE CORPOATE STRATEGY

The rate of progress in delivering the MTFS has presented the opportunity to fund another 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.**

It is propped that the additional budget surplus of £0.095m is used to provide a recurring provision in the budget. This will be used to fund the annual operating costs of the proposed Youth Zone (included in the New Investments Package as a Capital project) and a dedicated Dog Fouling Team that will focus on cleansing, in the main, but also on preventative measures. There are also two other proposed new development items both of which will be self-financing and therefore cost neutral:-

Recurring base budget new investment	£000
Chorley Youth Zone – annual operating costs	50
Dedicated Dog Fouling Team	45
Sports Development in Schools	0
Additional Resources at Astley Hall and Park	0
Total	**90**

The 2015/16 New Development Package listed below adds to the continuing projects set out in lasts year’s budget proposal some of are financed for more than one year. As per Appendix F1 the total NHB monies available outwith the base budget are £2.335m, this available pot is being invested as follows:-

Use of NHB 2015/16	£m
Revenue New Investment 2013/14 - 3rd year delivery	0.235
Revenue New Investment 2014/15 - 2nd year delivery	0.145
Revenue New Investment 2015/16	0.807
Capital New Investment 2015/16	0.458
Increase in General Balances	0.293
Set Aside for Unitary Status Local Poll	0.100
Sub Total New Investment Delivery 2015/16 Budget Provision	**2.038**
PCSOs	0.297
TOTAL NHB AVAILABLE 2015/16	**2.335**

The Investments above are listed below with the new proposed projects also set out in detail with project mandates in Appendix C and C1 to the budget report.

New Investment Areas (Revenue)	2015/16 £
Digital access and inclusion	50,000
Development and delivery of community action plans	200,000
Chorley Flower Show	50,000
North West in Bloom	45,000
Town and Country Festival	10,000
Delivery of neighbourhood priorities	50,000
Support the food bank	15,000
Supporting communities to access grant funding	20,000
16/17 Young persons' drop in centre	19,000
Provide an accommodation finding service for 'non-priority' households who are homeless or threatened with homelessness	24,000
Free swimming	8,000
Progress key employment sites	50,000
Increase visitor numbers to Chorley	35,000
Support the expansion of local businesses	40,000
Investigate further opportunities to expand Chorley Markets	30,000
Chorley Council Employment Support Fund with Runshaw College	20,000
Additional events at Astley Hall/Park	14,000
Deliver the Chorley Public Service Reform Board work	15,000
Campaigns and events	65,000
Employee health scheme	20,000
Provide a mediation service for Anti-Social Behaviour (ASB) case resolution	7,000
Disabled and dementia online venue access guides	20,000
Sub - Total Revenue Investment	**807,000**
Approved Investment Areas (Revenue)	**2015/16 £**
Neighbourhood working - Building capacity in local communities	70,000
Support to VCFS network	15,000
Chorley Credit Union	50,000
Play Area Improvements	100,000
British Cycling	45,000
Town Centre and Steeley Lane pilot action plans	100,000
Total Capital Revenue	**1,187,000**

The proposed package also includes new 2015/16 Capital Programme investments as below:

New Proposed Investment Areas (Capital)	2015/16 £
Buckshaw Community Centre	600,000
Delivery of CCTV provision	250,000
Bengal Depot Site	120,000
Yarrow Valley Car Park	225,000
Deliver improvements to Market Street	1,000,000
Youth Zone	1,000,000
Land assembly	250,000
Recreational pitch strategy	170,000
Sub – Total Capital Investment	**3,615,000**
Approved Investment Areas (Capital)	**2015/16 £**
Astley Park Hall and Park Developments	218,000
Total Capital Investment	**3,833,000**

CAPITAL PROGRAMME

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. The capital programme has to be affordable and based upon prudence. The current local government financial position and the need to make revenue savings will impact on the Council's ability to finance further capital spending unless additional funding is secured from external sources. 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 future impact on revenue is minimised.
- As part of their capital expenditure strategy the Council will consider the purchase and/or development 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 2015/16 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 £15.437m over the MTFS period. This total amount includes £7.036m in respect of facilitating the Chorley East Health Centre and £1.100m in respect of the Croston Flood Prevention Scheme.

The programme will be funded from a variety of sources, which is consistent with the strategic objectives outlined. See Appendices B1, B2 and B3 for further details of the Capital Programme 2014/15 to 2016/17. It should be noted that the programme also contains £7.036m borrowing for the Chorley East Health Centre. Progress is being made in relation to the health centre development. There is still further work, however, to be undertaken to finalise the structure of the agreement pending the outcome of funding bids currently being considered by NHS England. The cost of the scheme will be cost neutral in terms of the revenue budget. The only long term prudential borrowing is to fund the Croston Flood Prevention Scheme.

WORKING BALANCES

Previous financial strategies have recognised a number of changing external factors likely to have a negative shift on the Council's financial risk profile with direct core funding collection transferring locally, and diminishing Government grant, also exacerbating the challenging fiscal issues faced. In recognition of these circumstances the proposal is made that working balances are to reach £3.0m over the 3 year lifespan of the MTFS.

This is an increase from previous years' strategies and has been set to match the total forecasted budget deficit currently predicted for 2017/18. A budgeted contribution into General Balances is contained within the new investment package for 2015/16. The total investment package and use of NHB for 2015/16 recognises the potential increased risk and contains a prudent planned uplift of the general fund balance.

The rationale for this position is also 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 made of some councils who did not have sufficient reserves should an event (like the Icelandic Banking sector collapse) result in the loss of a significant proportion of these deposits. Currently the Treasury Strategy places a £3.0m upper limit on investments that can be placed with institutions on the selective Counterparty list.

(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.

(d) The next Comprehensive Spending Review is likely to result in further reductions in local government funding. This approach acknowledges the uncertainty surrounding the impact of austerity measures and funding beyond the General Election in 2015. Nevertheless reductions in local government funding are very likely to continue and this represents a significant risk over the medium term. The forecasted budget gap is forecasted to rise to circa. £2.6m in 2017/18.

As established Central Government's grant distribution regime results in annual variable calculations that hinders 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 2015/16 has been established based upon not using working balances to fund recurrent expenditure sometimes the budgetary savings required to can take time. Maintaining working balances means the Council does not have to make short term reactive changes that can put service performance at risk. 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 on which core funding now sits, the emphasis on approach within the MFTS will be on financial sustainability and flexibility over the medium and longer term. The use of working balances is legitimate but should only be a short term strategy.

In terms of resource availability it will be reported to members that working balances are estimated to total £2.3m at the end of March 2015. The working balances position for 2015/16 is made up of estimated balances in hand and forward forecasts as shown below:

Forecasted General Fund Balances	**£m**
General Fund Balance as at 01/04/14	2.189
Forecasted year end contribution 2014/15	0.147
Sub Total – Estimated Balance as at 31/03/15	2.336
Proposed Budgeted General Fund Uplift 2015/16	0.350
Forecast balance 31/03/2014	**2.686**

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

- **To establish working balances no lower than £3.0m at the end of the financial planning period to 2017/18.**
- **To review the financial risks facing the Council during 2015/16 and the level of balances taking into account the latest information available.**

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 2015, via the production of annual Treasury Management Strategy.