Chorley Council

APPENDIX F

Medium Term Financial Strategy 2016/17 to 2018/19

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 whilst also recognising 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 Strategy. For a number of successive years local authorities have faced fundamental changes to funding and a period of significant budget reductions and challenges. The Government's Spending Review 2015 was announced in 2015/16 closely followed by the Local Government Finance Settlement covering four years from 2016/17 to 2019/20. The settlement published significant reductions to the Revenue Support Grant (RSG) during the MTFS period to the point that it is completely withdrawn for 2019/20. In 2019/20 the direction of the grant reverses and the Council becomes required to make a grant payment <u>to</u> Central Government in the form of a 'Tariff Adjustment.' It is not known how the 'Tariff Adjustment' will be applied thereafter and therefore the scale of risk cannot be accurately quantified at this stage. The publication also launched the consultation process titled 'Sharpening the Incentive of NHB' in respect of proposals to reduce the value of funds to be awarded via the NHB core grant distribution scheme.

In summary, the structure of core grant income continues to be transformed and by the end of the MTFS period is comprised of only locally generated sources, that is, Council Tax and Business Rates Retention (BRR) reduced by the offsetting 'Tariff Adjustment' payment. There will also be the potential qualification for NHB dependent on the delivery of new homes in the borough. BRR income being particularly vulnerable to annual and significant fluctuations which increases the Council's exposure to financial risk with the regime's parameters being externally driven and outwith the influence of the Council. Therefore the Council's MTFS must demonstrate resilience and flexibility in order to respond to core income structural changes and variables such as tax base decline resulting from the appeals process and the possible negative impact from re-valuation rounds and downward national economic performance.

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

- Deliver a balanced budget by 2018/19.
- Maintain Council Tax charges in 2016/17 at the current level and consider rises in Council Tax in 2017/18 onwards.
- Prioritise the expansion of business rates income by attracting new businesses to the borough and developing new employment sites.
- Identify future uncommitted resources and commit the balances to support the transition period to further funding regime changes expected by 2020/21.

- 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 £4.0m over the financial planning period 2016/17 to 2018/19.
- Review the financial risks facing the Council during 2016/17 and the appropriate level of balances taking into account the latest information available.
- Make the Council more financially self-sufficient with specific emphasis on continuing to grow the Council's business rates base and creating investments that generate income.
- During 2015/16, the Council has agreed an approach to future governance models for public services, and a Transformation Strategy. The implementation of the Transformation Strategy will support the organisation in fundamentally changing service delivery models to make them more sustainable in the coming years.

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 managed 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 streams. This will mitigate the impact of future reductions in central government grant funding as well as year to year fluctuations in locally sourced funding and in addition, will aid regeneration of the Borough.
- 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

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 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 borrow purely to invest or lend on to 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 in the retraction of centrally controlled funding and 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 2018/19.
3. How the Council has balanced the 2016/17 budget and how the Council can meet the future financial challenges.
4. Where the Council will invest in its services to deliver its priorities.
5. Delivering the Capital Programme.
6. Treasury Management and Strategy.
7. Planning the level 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 Grant Thornton in their Annual Audit Letter.

The delivery of the Corporate Strategy is supported through a series of key projects and the organisational plan. 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 business plans and projects, which support the delivery of the Corporate 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 2018/19 the unadjusted budget deficit will be in the region of £3.080m.

Budget (Headroom)/Gap 2016/17 to 2018/19

Year	Budget (Headroom)/Gap £m	Cumulative Budget (Headroom)/Gap £m
2016/17	0	0
2017/18	1.304	1.304
2018/19	1.776	3.080

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

Assumption	2016/17	2017/18	2018/19
Council Tax Increases	0.0%	0.0%	0.0%
Increase in Council Tax Base	2.0%	1.0%	1.0%
Reduction in Grant Settlement (RSG)	£0.735m	£0.663m	£0.435m
Profiled reduction in Grant Settlement	(34.48%)	(31.08%)	(20.40%)
Total New Homes Bonus Receipts	£4.455m	£4.011m	£2.633m
Value of New Homes Bonus Incorporated in the Revenue Base Budget	£1.044m	£1.044m	£1.044m
Market Walk Net Financing	£0.629m	£0.881m	£0.863m
Pension Fund - Future Service Contribution	11.1%	11.1%	11.1%
Pension Fund Deficit Recovery profile	£0.956m	£1.081m	£1.206m

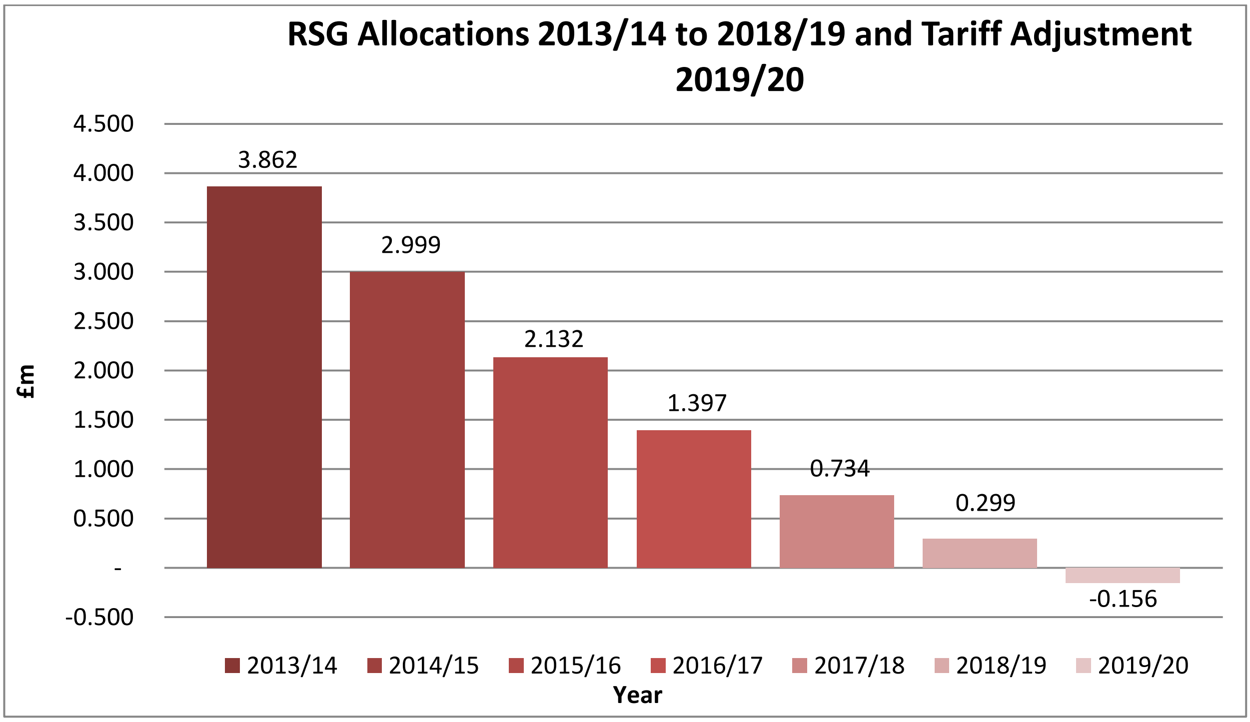
Assumption	2016/17	2017/18	2018/19
Supporting People Income from LCC	£0.138m	£0.130m	£0.122m
Additional Business Rates through membership of Lancashire Pooling Arrangement	£0.725m	£0.725m	£0.725m
Lancashire Waste Partnership Income	£0.933m	£0.933m	0
Pay Award	1.0%	1.0%	1.0%

All forecasts are built upon a number of assumptions, which are based upon the best information available at this time. The table above evidences the extent and scale to which the budget assumptions can influence the budget position over the period to 2018/19. Of note is the estimate in respect of the Pensions Fund Deficit Recovery profile which will be re-valued as part of the Triennial Review by the Pension Fund Actuary due with effect from 2017/18.

Also in terms of constructing budget estimates there is important national context to be considered, namely:

Revenue Support Grant (RSG)

The publication of the Final Local Government Finance Settlement provided more detail resulting from the new Central Government's Spending Review 2015 which spans the next four years. It has resulted in large scale reductions in Central Government grant to District Councils placing unprecedented levels of continual pressure on the budget.



The total grant reduction from 2013/14 to 2016/17 has been £4.018m. The grant reductions announced in the final settlement are £735k (2016/17), £663k (2017/18) and £435k (2018/19) totalling £1.833m. This leaves £300k RSG remaining in 2018/19 with the final settlement reporting that the grant will be reduced to zero in 2019/20 and replaced with a grant payment **to** Central Government whereby the Council will transfer £156k to DCLG.

The RSG allocation has been set for a further 3 years to 2019/20 on an indicative basis. If the Council wishes to it can accept these allocations the decision to do this must be submitted by 14th October 2016.

Business Rates Retention

In addition to the removal of Central Government grant funding, the Local Government Finance Settlement announced changes to the Business Rates Retention system. The latest reforms announced a move towards Councils retaining 100% of local business rates by 2020/21. It is not yet known when the detailed changes to the rates system will be announced. Although a move to 100% BRR will allow Chorley Council to retain more of the benefits of expanding the local economy, it will also result in Councils being responsible for 100% of refunds to businesses that creates large uncertainties when forecasting future BRR.

Accurate forecasting of BRR will be further exacerbated as a national re-valuation of all Rateable Values is due to happen in 2017/18 and the Baseline Funding Level (the financial foundation on which benefit is calculated) will be reviewed and re-set as part of the Local Government Finance Settlement by 2020/21. Therefore, the budget contains some assumptions on the income level to be achieved in 2016/17 onwards that may still be subject to change.

These changes coupled with reductions in Central Government core funding make it essential that Chorley Borough Council expands the income generated from business rates. The New Investment Package outlined in this report (Appendix C) includes a commitment to bring new businesses to Chorley, facilitate the expansion of existing businesses and develop new employment sites. It is important that these strategies deliver growth to the business rates base to meet the future forecast budget deficit.

New Homes Bonus

The Local Government Finance Settlement announced £800m of cuts to the national pot of New Homes Bonus (NHB) by 2019/20. Initial indications are that the 2016/17 allocation will remain the same, however, illustrative reductions in the level of NHB in 2017/18 and 2018/19 have been announced and are larger for District Councils as funding will be transferred to top-tier local authorities to fund social care services. Consultation is taking place until March 2016 with regard to ‘Sharpening the Incentive’ of NHB which includes proposals to reduce the number of years NHB is awarded (currently 6 years) and restrict the qualifying criteria.

Illustrative NHB allocations are outlined in the final finance settlement up to 2019/20. This review of NHB influences its status in the total core funding regime from a year on year settlement to inclusion in a four year funding plan. Therefore more reliance can be applied to its overall role in the total funding pot and its longevity as a funding stream. Resultantly it is assumed that any uncommitted NHB identified in the MTFS can be allocated to manage the transition to the new funding regime by 2020/21. It is possible that NHB will cease in 2020/21 and will be combined as one funding arrangement along with retained business rates to be set out in the details of the new funding system.

The table below gives a forecast of potential New Homes Bonus allocations and outlines what will be committed against the allocations in 2016/17 to 2018/19.

	16/17	17/18	18/19
Existing NHB 2011/12 to 2015/16 including forecast reductions	(3.379)	(2.335)	(0.652)
NHB 2016/17 Allocation including forecast reductions	(1.076)	(1.076)	(0.937)
Forecast Allocations 17/18 – 18/19 (cumulative)		(0.600)	(1.044)
Forecast 16/17 New Homes Bonus Allocation Available	**(4.455)**	**(4.011)**	**(2.633)**
NHB in Base Budget	1.044	1.044	1.044
Capital Financing	0.400	0.400	0.400
2016/17 New Homes Bonus Allocation Available for Investment Packages and Other Purposes	**(3.011)**	**(2.567)**	**(1.189)**
Proposed 2016/17 New Investment Packages	1,408		
Fund to Support Transitional Period of Upper Tier Service Reduction	500	500	
Increase in Reserves to Bring Working Balances to £4.0m	500	500	259
Investment Fund	603		
Forecast (Uncommitted)/(Surplus) New Homes Bonus	**0**	**(1.567)**	**(0.930)**

The total committed expenditure against NHB is outlined in 'New Investments and Supporting Corporate Priorities' and 'Working Balances' section of this report.

Pension Fund

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 a fixed term. Performance against the target 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 approximately £1.0m so its impact is noteworthy and therefore must be planned for and accommodated within the overall service provision budget. In addition next triennial review will take place in 2017 meaning the figures included in the MTFS may change in 2017/18 & 2018/19 depending upon the performance of the pension fund.

Lancashire County Council

Lancashire County Council MTFS identifies a budget shortfall of £262m by 2020/21. Resultantly it is expected that existing income received from LCC will be retracted in future years. Chorley Council is currently in a 'Cost Share' arrangement with Lancashire County Council whereby the County pay over to District Councils 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. This represents a £900k fall in income and is reflected in the 2018/19 deficit in Appendix F1. In addition there is uncertainty surrounding £300k income the Council receives to support services such as resident support at Cotswold House and public realm works.

Key Budget Assumptions – Capital Financing

Taking all the budget pressures set out above into account it can be concluded that 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.

In particular, due to the risks in forecasting business rates outlined above, additional retained business rates are only built into the budget after they have been secured rather than in advance when it is based on estimated outcomes. Future potential growth in the business rates base is identified later on in this report.

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	2016/17 £m	2017/18 £m	2018/19 £m	Total £m	Note
Prudential Borrowing	0.551	0.325	0	0.876	(a)
Prudential Borrowing – to be repaid by income generated	10.165	8.033	3.518	21.716	(b)
Revenue Funding	1.376	0.050	0	1.426	(c)
Developers & Other Contributions	6.079	0.390	0	6.469	(d)
New Homes Bonus	0.715	0.400	0.400	1.515	(e)
Capital Receipts	0.734	0	0	0.734	
Grants	1.921	2.445	0.370	4.736	(f)
Total	**21.541**	**11.643**	**4.288**	**37.471**	

(a) *These figures include the borrowing to fund the contribution to Chorley Youth Zone*
(b) *This is cost neutral on the revenue budget.*
(c) *Revenue funding in 2016/17 includes £1.0m reserve identified in 2015/16 to fund works to Market St, this will now be used to fund Chorley Town Centre Public Realm works.*
(d) *Additional projects to be funded with developer contributions will be added to the programme when the contributions are received.*
(e) *Funding of £315k for works to Astley Hall & Park are carried forward from 2015/16 into 2016/17*
(f) *Actual Grant allocations could vary from these estimates. These figures include HCA and DFG grants.*

What Has Been Achieved

The current MTFS set out ways in which the budget pressures and deficit could be addressed over the longer term by achieving cost reductions and increasing income. The successful implementation of the strategy has secured a balanced budget position in advance of the next financial year.

The table below summarises the budget efficiency savings that have been achieved:

Saving/Increased Income	Achieved 2014/15 £m	Achieved 2015/16 £m	Achieved 2016/17 £m
Productivity Gains	0.331	0.017	0.085
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	0.128
Review of Management Structure (Target Saving) – Part Year Productivity Gains	-	-	0.229
Investment Yield	0.442	-	-
Lancashire Business Rates Retention Pooling	-	-	0.725
Total Saving/Increased Income	**0.938**	**0.708**	**1.167**

Budget efficiency savings and increased income of £1.167m have been delivered to balance the budget in 2016/17 adding to the £0.938m and £0.708m delivered in 2014/15 and 2015/16 respectively. The 2016/17 savings are attributable to the following key projects:-

- Base Budget Review (£0.128m) – Continual robust challenge and update of the base budget to ensure it fully reflects changing levels of requirement

- Productivity Gains and Efficiency Savings

    - Review of the Single Front Office and Shared Assurance Services. (£0.085m)
    - A review of the Management Structure (£0.229m) – A review of the management structure was undertaken and reported to Council in January to create a structure that enables implementation of the future governance models and public service reform. If approved, posts will be vacated at different points during the MTFS period and therefore savings are profiled as follows: £0.229m (2016/17); £0.274m (2017/18) and £0.364m (2018/19).

- The 2015/16 MTFS identified a possible 10% saving on staffing costs to help bridge the future budget gap. Savings identified will achieve a 3.5% saving on total directorate budgets and 4.4% on total staffing budgets. Further commitments to creating budget efficiencies are described later on in this report.

- Lancashire Business Rates Pooling Agreement (£0.725m) – Chorley is a member of the Lancashire Business Rates Pooling Agreement which gained ministerial approval in November 2015. In essence this means that all member authorities are treated as one in respect of levy payments normally paid by Councils to Central Government. The Levy is calculated by applying a 50% levy rate to additional BRR income achieved through growth in the tax base. The levy payments to Government are, in turn, recirculated and used to fund the Safety Net payment scheme which provides financial assistance to authorities who have seen a negative shift in business rate income to a level that exceeds a predetermined amount. Therefore the financial benefit from being in a pool is the retention of the aforementioned levy that would have been forfeited. The levy payment that would have been paid by Chorley Council in 2016/17 is £0.725m, this will now be retained and contribute towards balancing the budget deficit.

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 2018/19.

THE STRATEGY

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

- **To deliver a balanced budget over the Financial Planning Period to 2018/19**
- **To identify the savings required to balance the budget seeking to minimise the impact on front line service users**
- **To prioritise investments that grow the Council's business rates tax base**

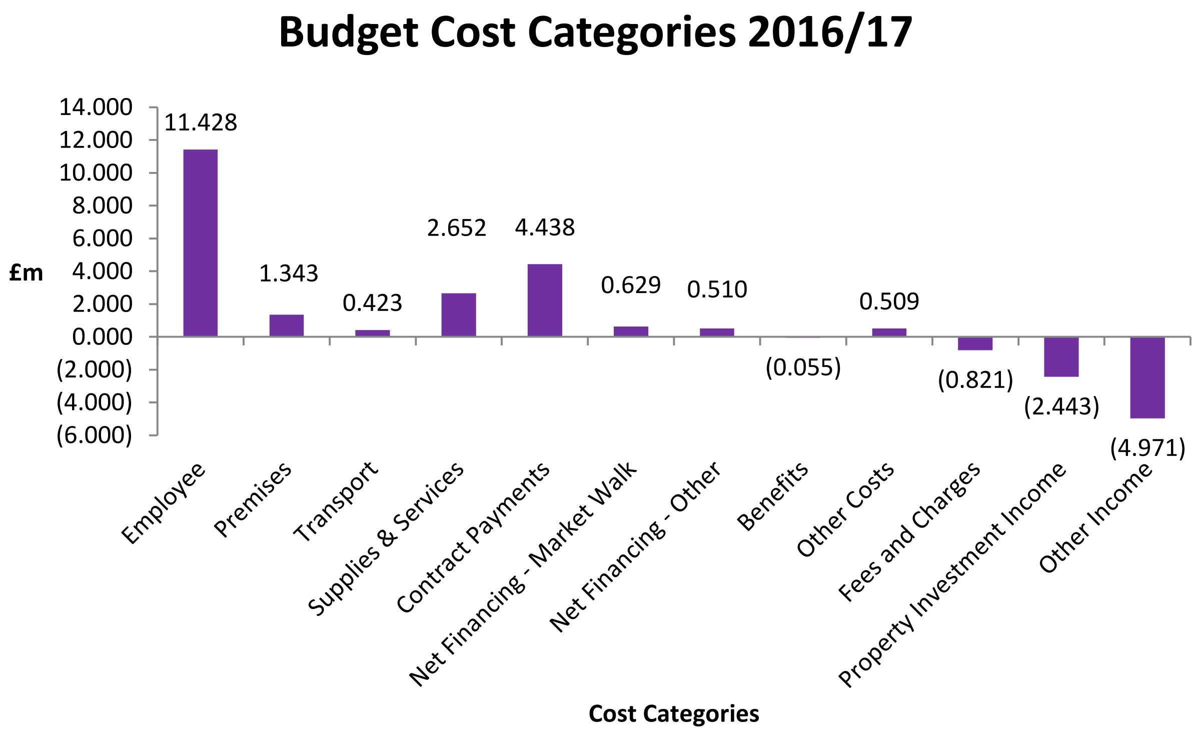
In this respect the following will be the strategy's focus:-

- The use of uncommitted New Homes Bonus to fund the Council's transition to the new core funding regime including the potential 100% BRR arrangements.
- Management of the Business Rates tax base to maximise the income opportunities of this potential new BRR regime.
- Re-engineering of services to fundamentally review service provision to reduce net expenditure and improve efficiency

FINANCIAL CONTEXT

The strategy below seeks to close the budget gap by 2018/19. In order to protect front line services the priority of this MTFS is to seek to apply an appropriate balance between maximising income opportunities and reducing costs. To this end £3.185m will be sought from various options by 2018/19.

To put the strategy into a financial context the total budgeted net expenditure of £13.641m (Appendix F1) is spent in the following areas:-



N.B. Employee Costs include the Pensions Fund deficit budget in the sum of £0.956m (which is subject to re-valuation by the Actuary as part of the Triennial Review w.e.f. 2017/18) and the Other Income category includes income streams such as Car Parking, Planning fees, Waste Recycling and Housing Benefit Administration grant.

OPPORTUNITIES TO INCREASE INCOME

Growing the Borough's Business Rates Tax Base - £1.250m

The future reliance on Chorley's business rates to continue funding its services cannot be understated.

As a result of the Lancashire Pooling arrangement the Council now receives 90% of new rates income generated from growing the tax base and bringing new businesses into the Borough. Significant additional income can therefore be generated by increasing the number of business and commercial properties in the borough.

Forecasting future increases in the business rates base is complicated by difficulties in identifying fixed rateable values. The obstructions that prevent the Council from adding new developments to the business rates base include:

- The rateable value of new commercial properties are provided by the Valuation Office Agency (VOA), however, the Council often experiences delays in receiving these rateable values.

- New developments often result in incumbent businesses lodging appeals to the VOA against their current rateable values. The VOA has a backlog of appeals and so the budget implications of new developments and the resultant appeals may not be understood until future financial years.

As a result of these difficulties there is no assumed growth in business rates base in 2017/18 and 2018/19. Despite the difficulties of quantifying rateable values, an analysis of future business developments has been undertaken and has identified potential business rates growth that is outlined in the table below:

Financial Year	Forecast Growth Achieved £m	Forecast Rates Retained £m
2016/17	0.263	0.237
2017/18	1.049	0.944
2018/19	0.557	0.501
2019/20	0.465	0.419
TOTAL	**2.334**	**2.101**

The forecast rates are calculated from rateable values generated by comparing proposed future developments to similar developments in both Chorley or outside of the Borough. The figure of £2.1m represents the maximum receivable income that the Council could expect to receive from the development of new employment sites up to 2019/20. It must be noted that there are uncertainties in the timing and value of this income.

- Delays in the construction or occupation of large employment sites such as the Digital Health Park or Botany Bay could have a significant impact on both the magnitude and the timing of business rate receipts.

- In addition, subsequent appeals from new and incumbent businesses can also impact considerably on the figures above as well as delays in receiving rateable values.

- Chorley Council's membership of the Lancashire BRR Pool agreement may be superseded by changes to Central Government legislation.The Pooling Agreement remains valid unless one of its members wishes to dissolve the agreement or the government revises the pooling prospectus to a less beneficial scheme. As such the 90% retention of rates is potentially at risk during the MTFS period if the changes to the retention system are brought in before 2020/21.

Given the uncertainty inherent in these estimations a prudent figure of **£1.250m** is assumed in the strategy as a contribution towards the budget deficit. This represents **60%** of the potential income identified in the table above.

Council Tax Increases - £0.254m

An option that is also available to the Council is to increase Council Tax. 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 corporate priorities and generate further revenues for the Council.

Importantly, the reductions in Central Government funding announced in the Local Government Finance Settlement were made with the assumption that not only would Councils expand the Council Tax Base by building more homes but in addition, Councils would reduce the impact of grant reductions by increasing Council Tax in line with inflation estimated at 1.75% per annum.

The table below gives an indication of the assumed Council Tax base in the Local Government Finance Settlement and the base assumed in the MTFS:

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
CBC Council Tax Base – Assumed in Local Government Finance Settlement	6.121	6.365	6.651	6.956
CBC Council Tax Base – MTFS	6.121	6.242	6.304	6.367
Variance	**0**	**0.123**	**0.347**	**0.589**

The table highlights that by 2018/19 the level of Council Tax available to the Council will be £6.367m whereas the assumed level in the Finance Settlement is £6.956m. The assumptions regarding the Council's ability to raise funds via its council tax base will result in the Central Government grant being reduced to zero in 2019/20 and replaced by a 'Tariff Adjustment'. This will require a transfer of money to DCLG from the authority. The value of this negative allocation is dependent upon the DCLG's assumptions on Chorley Council's Council Tax Base. The further the disparity between the actual tax base and the assumed tax base, the more difficult it will be for the Council meet this negative allocation in the future.

Increase in Council Tax %	2017/18 £m	2018/19 Cumulative £m
0.5	0.031	0.062
1.0	0.062	0.126
1.5	0.093	0.189
2.0	0.124	0.254

The table above indicates that increases in council tax do have a significant, cumulative and permanent effect on the budget deficit even over a short term period. Approximately £254,000 can be raised by 2018/19 if council tax is increased by 2% in 2017/18 and 2018/19.

COST REDUCTION

In addition to income generation, cost reduction can also be achieved by making budgetary efficiencies.

Fundamental Review of Costs - Reduction of Expenditure - £0.750m

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 2015/16 MTFS identified a possible 10% saving on staffing costs to help bridge the future budget gap. A review of the management structure is being undertaken in 2015/16 and the proposals achieve a 4.4% saving on staffing costs. The Council will continue to pursue a strategy of creating budget efficiencies and an estimated saving of £0.750m is included in the MTFS to meet the budget deficit in 2018/19. This figure represents 5% of the Council's total staffing and contract budgets.

IN SUMMARY

The table below summarises the options available for consideration to bridge the forecasted budget deficit over the MTFS period.

Total Budget Resourcing Programme to 2018/19

STRATEGY	**17/18 £m**	**18/19 £m**
INCREASING INCOME		
Use of New Homes Bonus	1.567	0.931
Growing the Borough's Business Rates		1.250
Growing the Borough's Council Tax Base	0.124	0.254
Sub total - Income	**1.691**	**2.435**
REDUCING COSTS		
Fundamental Review and Re-engineering of Services to Reduce Total Costs		0.750
Sub-total Expenditure	**0**	**0.750**
Total Resources Available to Balance the Budget	**1.691**	**3.185**
Forecast Deficit (Appendix F1)	**1.304**	**3.080**
Headroom After Implementation of Strategy	**0.387**	**0.105**

Savings of £3.185m achieved by the beginning of 2018/19 would provide headroom of £0.105m against the £3.080m forecast deficit.

NEW INVESTMENT AND SUPPORTING THE CORPORATE PRIORITIES

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 Council's 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**

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 Revenue Investment Areas	Funding Request (£)
INVOLVING RESIDENTS IN IMPROVING THEIR LOCAL AREA AND EQUALITY OF ACCESS FOR ALL – Total £190,000	
Support for Chorley's VCFS organisations	15,000
Provide support to food provision schemes	15,000
Community development & volunteering (SPICE)* (£20k 16/17, £40k 17/18 & 18/19)	100,000
Public noticeboards	10,000
Delivery of neighbourhood preferred projects	50,000
CLEAN, SAFE AND HEALTHY COMMUNITIES – Total £497,500	
Police Community Support Officers	297,000
Free swimming	7,500
Replacement of CBC's Control Orders with Public Space Protection Orders	20,000
Empty homes - Enforcement action and communications * (£26k 16/17, £36k 17/18 and 18/19)	98,000
Provide a mediation service for Anti-Social Behaviour case resolution	10,000
North West in Bloom	50,000
16/17 Young person's drop-in centre	15,000

New Revenue Investment Areas	Funding Request (£)
A STRONG LOCAL ECONOMY – Total £591,500	
Chorley Business Investment for Growth (BIG) grant	60,000
Business start-up grants and loans	30,000
Borough wide retail grants improvement programme	80,000
Choose Chorley grants	75,000
Inward investment (Euxton Lane – Digital Health)	25,000
Extend the external funding officer post	24,000
Deliver the skills framework	30,000
Chorley works	39,000
Vulnerable families employment project	3,500
Furthering key employment sites	125,000
Develop Chorley's town and rural tourism economy	35,000
Chorley flower show	40,000
Chorley grand prix (British Cycling)	25,000
AN AMBITIOUS COUNCIL THAT DOES MORE TO MEET THE NEEDS OF RESIDENTS AND THE LOCAL AREA – Total £129,000	
Integrate partner services through the Chorley public service reform partnership	15,000
Employee health scheme	20,000
Events programme delivery	80,000
Additional events at Astley	14,000
Total New Revenue Investment	**1,408,000**

In addition to the 2016/17 New Investment Package the budget proposals also include other proposed budget items that are to be funded from New Homes Bonus in 2016/17. These are:

- The creation of a £1.0m transition fund to support the implementation period of LCC's service reductions to address their own budget deficit position. £0.500m is to be set aside from the 2016/17 and the 2017/18 New Homes Bonus allocation respectively.
- £0.500m is set aside in 2016/17 and 2017/18 and £0.259m in 2018/19 to increase general balances to £4.0m to enable Chorley Council to manage the risk associated with the future funding allocations and changes announced over the next four years.

- The creation of a £603k investment fund to finance invest-to-earn projects that create a revenue contribution to supplement local taxation income streams.

The proposed package also includes new 2016/17 to 2018/19 capital programme investments as below:

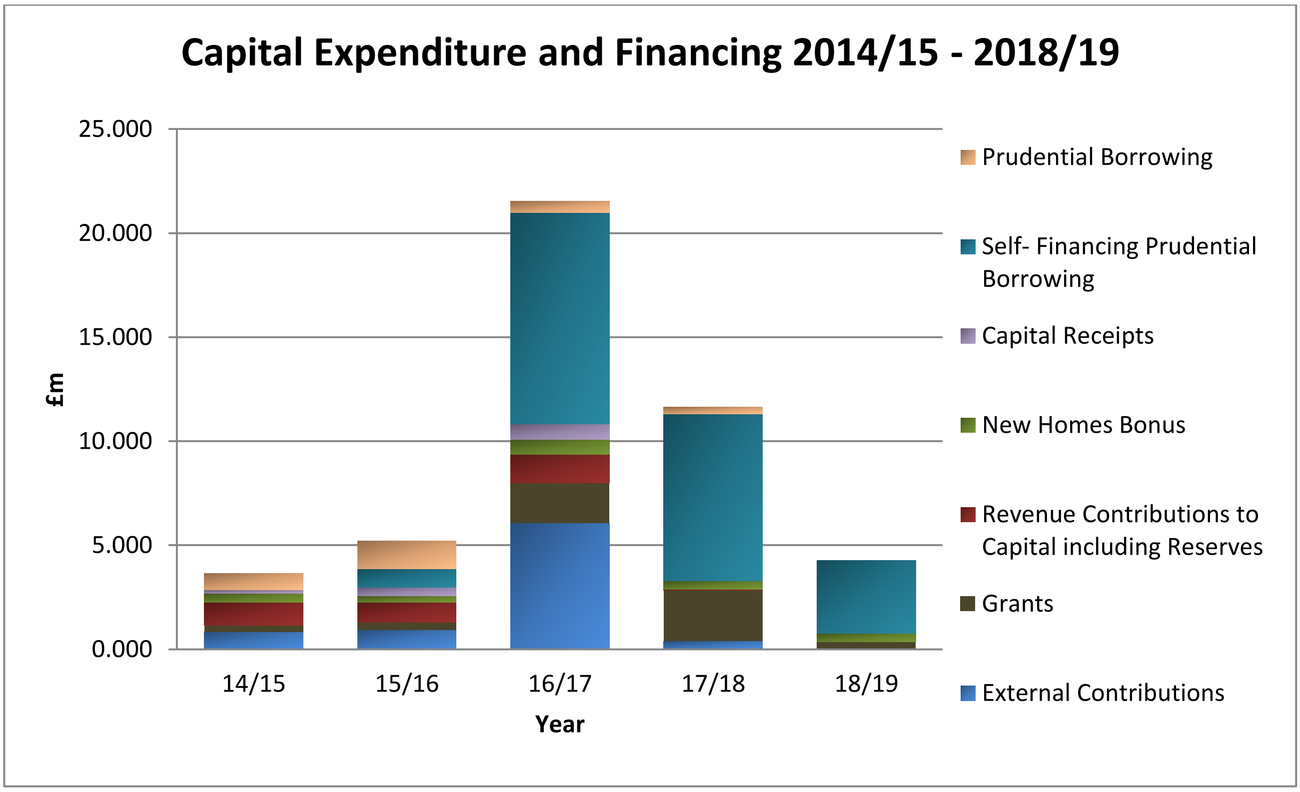
New Capital Investment Areas	Funding Request £
CLEAN, SAFE AND HEALTHY COMMUNITIES	**1,759,400**
Westway sports scheme	785,000
Play open space strategy	974,400
Total New Capital Investment	**1,759,400**

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 Priorities. 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 priorities.
- Borrowing will be managed 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 £37.471m over the MTFS period. The programme will be funded from a variety of sources, which is consistent with the Council's corporate priorities. These are summarised below:-



This capital programme includes large investments that generate income that will meet the borrowing that is used to fund them, these include:

- £7.036m in respect of facilitating the Chorley East Health Centre
- £9.100m to build an Extra Care Facility
- £12.078m to construct Market Walk Extension

Contributions received from housing developers will be assigned to projects throughout the MTFS period. These will fund some large projects including £3.690m of the Market Walk Extension and £1.4m towards the Play and Open Space projects.

Appendices B1, B2 and B3 provide further details of the capital programme 2016/17 to 2018/19.

WORKING BALANCES

The Council is required to maintain adequate financial reserves to meet the needs of the authority. This report has identified a number of external factors that will have a negative shift on the Council's financial risk profile. Working balances must be maintained to respond to these risks as well as providing the necessary resources to fund any required restructuring of Council services.

The 2015/16 MTFS identified a need for working balances to reach £3.0m by 2017/18, the current forecast for 2015/16 is £2.741m. It is proposed that New Homes Bonus allocations are used to increase the working balance to £4.0m by the end of this MTFS period in 2018/19.

The rationale for this position is that the Council should have working balances that would enable it to cover the loss of any deposit it holds should this occur. This was one of the criticisms made of some Councils who did not have sufficient reserves should an banking crisis result in the loss of a significant proportion of such deposits. Currently the Treasury Strategy places a £3.0m upper limit on investments with banks (other than the part-nationalised RBS Group), building societies, money market funds, and local authorities.

In addition, 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. The increased reliance on business rates to fund the Council’s expenditure creates uncertainty over the MTFS period. Variances against the forecast business rates base can be created by numerous occurrences including appeals, delays in receiving valuations and a slowdown in the economy. Increasing working balances enable the Council to better manage these unforeseen variances.

Working balances will also be increased to fund the unavoidable expenditure of any restructure the Council undertakes relating to its fundamental review of costs.

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.

The working balances position is made up of estimated balances in hand and forward forecasts as shown below:

Forecasted General Fund Balances	**£m**
General Fund Balance as at 01/04/15	2.288
Budgeted contribution 2015/16	0.350
Forecast additional contribution 2015/16	0.102
Sub Total – Estimated Balance as at 31/03/16	**2.741**
Use of New Homes Bonus to Increase Working Balances 2016/17	0.500
Use of New Homes Bonus to Increase Working Balances 2017/18	0.500
Use of New Homes Bonus to Increase Working Balances 2018/19	0.259
Forecast balance 31/03/2018	**4.000**

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

- **To establish working balances no lower than £4.0m at the end of the financial planning period to 2018/19.**
- **To review the financial risks facing the Council during 2016/17 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, look to optimise returns on investment, and to 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 to 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 2016, via the production of the annual Treasury Management Strategy.