Medium Term Financial Strategy 2008/09-2010/11

CONTENT

FOREWARD AND INTRODUCTION

Much has changed since the last Financial Strategy was written, the Council has a new administration and a refreshed Corporate Strategy. In addition external factors continue to shape and influence the Council's financial position. The completion of the comprehensive spending review by the Government in 2007, the introduction of the free concessionary travel scheme from April 2008 and the introduction of developing local solution to climate change as a priority for the Council, together with meeting the targets of the Lancashire Waste Strategy will all in varying degree affect how the Council manages its resources.

This document sets out the Council's financial strategy for the three years 2008/09 – 2010/11. This is an important period with the introduction of the Comprehensive Area Assessment for Council and the rise in importance of Local Area Agreements and the impact they may have on funding streams to the Council.

The aim of the strategy is to set out in financial terms the impact of the Council's existing policy commitments and the likely resources available to meet them. The strategy covers the general fund or Council Tax payers account and the Capital Investment Programme.

The forecasts in this strategy will be kept under continuous review with a formal update each year alongside the setting of the budget. However, it should be borne in mind that these are forecasts, not firm budgets, and they are only as accurate as the assumptions underlying them.

The administrations overarching aims which provide the framework for the Financial Strategy are:

- the desire to restrain the levels of Council Tax rises to below retail price inflation, which is currently running at just over 4%

- to continue to provide value for money for the Council Tax payers of Chorley

- to continue to invest in the services that matter to the people of Chorley

In a tight fiscal regime where the level of Government support is likely to diminish these overarching aims will be difficult to achieve, but set out in the Strategy are the ways in which we hope this can be achieved.

POLICY CONTEXT

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

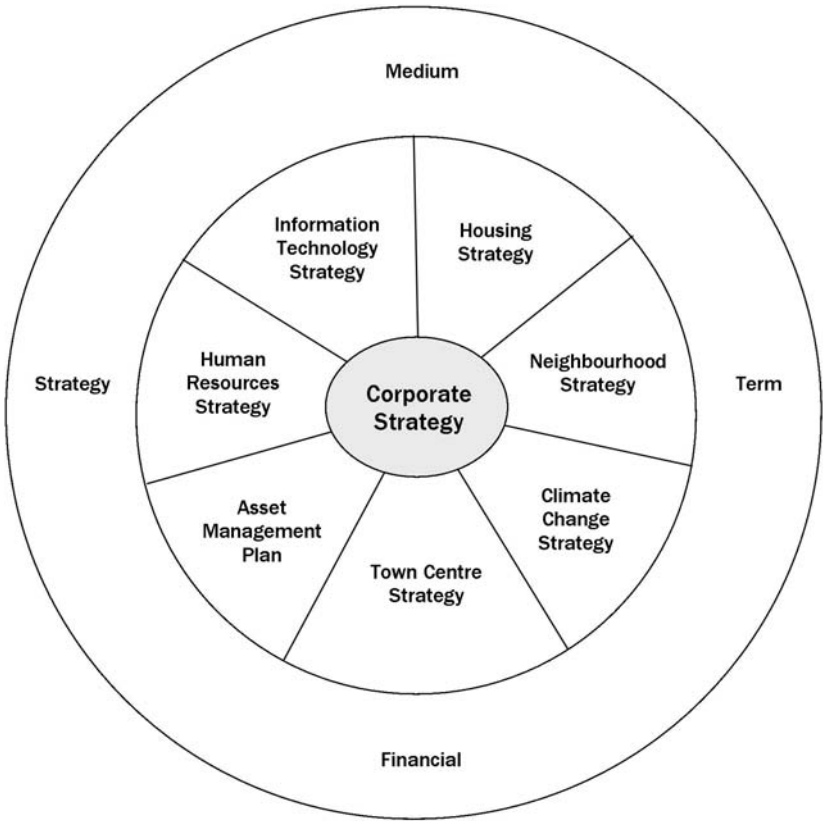
The Council has recently updated its Corporate Strategy, aligning it with the refreshed community strategy. The key priorities and objectives contained in that strategy are set out below:

Priority	Prosperity	People		Place		Performance
Strategic Objective	1. Put Chorley at the heart of regional economic development in the Central Lancashire sub-region	2. Improving equality of opportunity and life chances.	3. Involving people in their communities	4. Develop local solutions to climate change.	5. Develop the Character and feel of Chorley as a good place to live.	6. Ensure Chorley Borough is a performing organisation.
Long Term Outcome	1.1 A vibrant local economy. 1.2 Thriving Chorley Town Centre 1.3 Arrange earning in line with country average.	2.1 Number of SOA's in worst 205 will reduce. 2.2 Improve the changes for young people and children. 2.3 Improved quality of life for the borough's older people. 2.4 Healthier communities and reduced health inequalities. 2.5 Improved quality of life in rural communities.	3.1 Improved access to public services. 3.2 People will be involved in decision making and in improving the well being of their communities.	4.1 The Council's environmental footprint will be reduced. 4.2 An improved local environment.	5.1 More people will be satisfied with Chorley as a place to live. 5.2 There will be a balanced housing market. 5.3 Safer communities.	6.1 Community aspirations are delivered through the efficient use of resources and effective performance management. 6.2 An excellent community leader. 6.3 A provider and procurer of high qualify priority services. 6.4 An excellent Council that is continued striving to improve.

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

Underpinning the Corporate Strategy are a series of other Council plans designed to facilitate the delivery of the Corporate Strategy. These are summarised pictorially below:

<u>Diagram 1: Strategic Links</u>



The Individual Strategies supporting the Corporate Strategy set out how the Council will achieve it's objectives.

In each case the resources required are broadly outlined and are summarised below:

<u>Table 2: Investment Needs</u>

	Revenue £'000	**Capital £'000**
Housing Strategy	-	4.256
Town Centre Strategy	0.195	1.400
Information Technology Strategy	-	0.621
Asset Management Plan	0.170	2.877
Neighbourhood Strategy	0.300	0.991
Climate Change/Sustainability Strategy		1.180
	0.615	11.325

The table shows that in order to meet is objectives the Council will need to spend £11.325m of capital and an additional £0.615m of revenue over the three year period.

The table also demonstrates that there are a number of key areas where the Council wants to focus its resources in the next 3 years, namely delivering on:

- Affordable housing targets
- Developing the town centre
- Continuing to improve recycling
- Developing the Council's assets most used by its customers, leisure facilities and Astley Hall etc

FINANCIAL CONTEXT

This section sets out the Financial Planning Assumption that has been made in constructing the year on year forecasts and outlines the key strategies for delivering a balanced and affordable budget.

All forecasts are built upon a number of assumptions, which are based upon best information available at the time. In terms of constructing those estimates there is some important national context which to be considered, namely:

- The Comprehensive Spending Review 2007
- The Introduction of Free Concessionary Travel
- Financing for affordable housing

The results of the Comprehensive Spending Review are such that local authorities are likely to receive less cash in the form of grant than they have previously. That said district council functions have not been top priority for central government with the majority of any additional cash historically flowing to education and social services. The new Concessionary Travel Scheme will be funded by additional cash in the form of a direct grant to the Council. At this stage the method of distribution is unknown. For affordable housing the government has again indicated that additional money will become available to Councils but as yet the details are unknown.

On the basis of information to hand I have made the following key assumptions in relation to the Capital and Revenue budgets for the next 3 financial year:

Table 3: Assumption contained in 3 year forecasts

Revenue	2008/09	2009/10	2010/11
Pay award	+2.5%	+2.5%	+2.5%
Pension contribution	+1.0%	+0.5%	+0.5%
Concessionary Travel Scheme	+50%	-	-
Grant Settlement	+3.0%	+2.5%	+2.5%
Housing and Planning Grant	+75k	-	-

Capital	2008/09	2009/10	2010/11	Total
Prudential Borrowing	0	0.081	0.512	0.593
Preserved RTB Receipts	0.750	0.500	0.500	1.7500
Asset sales	0.200	0.200	0.200	0.600
Total	0.950	0.781	1.212	2.943

REVENUE FORECAST

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

Table 4: Budget Gap 2009/10 – 2010/11

Year	Budget Gap £'000
2008/09	0
2009/10	429
2010/11	271
Total	**700**

The table shows that over the financial planning period a further £700k will need to be found from the following sources:

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

£750k represents 4.6% of the Council's current net spending.

In this respect the Council's Strategy will be:

- The aim to restrain Council Tax rises below the retail Price Index for the 3 year period 2008/09 – 2010/11.
- Deliver a balanced budget annually with no use of working balances to support the budget.
- Identify the savings required to balance the budget seeking to minimise the impact on service users.

In this respect it will look to:

- Make better use of its asset base.
- Maximise opportunities for better procurement.
- Undertake a 3 year Programme of Value For Money recovery on all Council activities.
- Undertake a year on year baseline review of expenditure.
- Maximise the opportunities to attract specific grants.

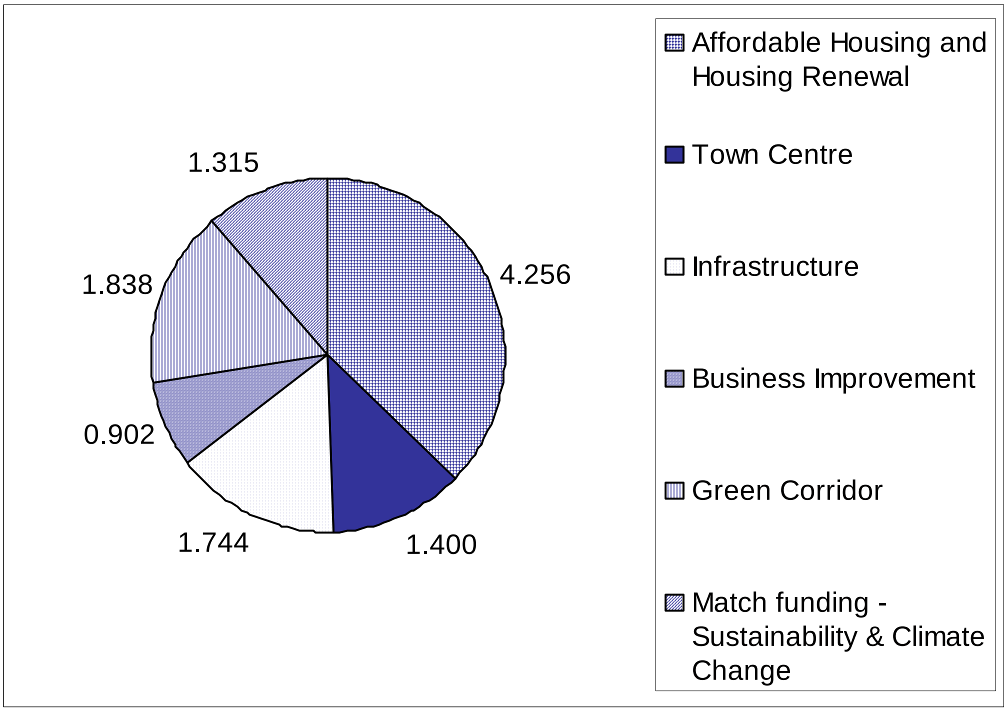
Capital Programme Forecasts

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

- The bulk of the resources available will be targeted at areas that deliver corporate objectives.
- Borrowing will be contained to ensure the impact on revenue is minimised.
- The Council will develop a land bank to assist in delivering its affordable housing targets.
- The Council's assets not producing the required rate of return on investment will be disposed of as part of a strategic review of the Council's asset base.
- The Council will continue to invest in its own infrastructure reviewing the Asset Management Plan annually to ensure the levels of investment are appropriate.
- The Council will look to maximise opportunities to attract external finance to sustain its Programme of Work.

As a consequence of adopting the strategy outlined the Council will invest as follows over the 3 year period.

Diagram 5 Priority Areas for Investment



The programme to be funded in the following way as outlined in the following Appendix A

Appendix A

Capital Programme - 2008/09 to 2010/11

Scheme	2008/09 Current Estimate £	Slippage from 2007/08 £	2008/09 Other Changes £	2008/09 Revised Estimate £	2009/10 Current Estimate £	2009/10 Other Changes £	2009/10 Revised Estimate £	2010/11 Current Estimate £	2010/11 Other Changes £	2010/11 Revised Estimate £	Total 2008/09 to 2010/11 £
Financing the Capital Programme											
Prudential Borrowing	364,460	215,910	(580,370)	0	761,270	(679,450)	81,820	0	513,530	513,530	595,350
Unrestricted Capital Receipts	508,930	12,400	(24,540)	496,790	0	403,210	403,210	0	200,000	200,000	1,100,000
Housing Investment Programme Restricted Capital Receipts	190,670	0	129,330	320,000	0	141,890	141,890	0		0	461,890
Preserved RTB Capital Receipts from CCH	0	0	750,000	750,000	0	500,000	500,000	0	500,000	500,000	1,750,000
CBC Resources	1,064,060	228,310	274,420	1,566,790	761,270	365,650	1,126,920	0	1,213,530	1,213,530	3,907,240
Ext. Contributions - Developers	172,530	0	3,105,400	3,277,930	30,000	1,056,200	1,086,200	0	55,000	55,000	4,419,130
Ext. Contributions - Lottery Bodies	254,300	895,440	(33,420)	1,116,320	0	0	0	0		0	1,116,320
Ext. Contributions - Other	139,000	0	0	139,000	0	0	0	0		0	139,000
Government Grants - Disabled Facilities Grants	180,000	0	0	180,000	0	180,000	180,000	0	180,000	180,000	540,000
Government Grants - DEFRA	0	0	45,000	45,000	0	45,000	45,000	0	45,000	45,000	135,000
Government Grants - Housing Capital Grant	0	0	500,000	500,000	0	500,000	500,000	0	500,000	500,000	1,500,000
External Funding	745,830	895,440	3,616,980	5,258,250	30,000	1,781,200	1,811,200	0	780,000	780,000	7,849,450
Total capital resources	1,809,890	1,123,750	3,891,400	6,825,040	791,270	2,146,850	2,938,120	0	1,993,530	1,993,530	11,756,690
TOTAL CAPITAL FINANCING	**1,809,890**	**1,123,750**	**3,891,400**	**6,825,040**	**791,270**	**2,146,850**	**2,938,120**	**0**	**1,993,530**	**1,993,530**	**11,756,690**

Total additions to three-year programme

2008/09	3,891,400
2009/10	2,146,850
2010/11 onwards	1,993,530
	8,031,780

The programme will be funded from a variety of sources, which is predicated on the strategic objective outlined.

WORKING BALANCES

The current financial strategy that takes us up until the end of 2007/08 allowed for working balances to be in a range £750k-£1.25m. This was based upon the financial risk profile which to a great extent has remained unchanged over that financial planning period.

However, from 2008/09 a number of the external factors influencing the Council's ability to either attract funding or to influence expenditure has changed. This is the main due to the following reasons:

- The CSR07 means that there is a risk of less rate support grant over the planning period 2008/09-2010/11.
- The full impact of the changes to the concessionary travel budget will not be known for at least 15 months in the new scheme.
- The impact of the development of Market Walk on car parking fees and charges will be unknown.
- The Government is capping capitalisation applications and as such the cost of change may need to be resourced from revenue.

The greatest potential impact is likely to come from the concessionary travel issue, but all of the issues have the propensity to affect the Council's ability to both balance its budget and continue to deliver effective services.

In this respect, I am minded to propose that working balances are kept at a higher level in the next 12-18 months of recognition to the risks. I therefore propose that working balances are kept in the range £1.25m-£1.50m for this period after which a further review needs to take place based upon the latest evidence.

As members will be aware, working balances are there to protect the Council's against the 'peaks and troughs' in expenditure and allows them to be able to manage any changes to the base level of expenditure, that is required to bring the budget back into balance. Sometimes this can take time. Maintaining working balances means the Council does not have to make reactive changes that can significantly impact on service performance.

In terms of resource availability, members will be aware that the Council's overall working balances position is made up of estimated balances in hand and those to be transferred from the Housing Revenue Account, following stock transfer. Whilst the exact date of the availability of these resources is still subject to discussion with the CLG, they will become available over the planning period and as such will be available and this will mean that the working balances position is as follows:

Source	**£'000**
Estimated working balances based upon latest Revenue Monitoring Position 2007/08	637
Estimated transfer of working balance	879
Total	1,516

In previous years the Council has been faced with the prospects of making savings and 2008/09 will be exactly the same. The savings are necessary firstly to contain of Council Tax and secondly, to redirect resources into corporate priorities.

Some inherent risks remain in the budget by the underlying assumptions I have made have been agreed by the executive and I believe they are reasonable. I have outlined my views and advice in relation to the level and adequacy of working balances and summarise the key risks and mitigation that are and should be put in place. On the basis the Council's strategic objectives in relation to working balances will be:

- To maintain working balances in the range £1.25m-£1.50m for the first 18 months of the 3 year period.

- To review the financial risks facing the Council during 2009/10 taking into account the latest information available.

TREASURY MANAGEMENT

The Chartered Institute of Public Finance and Accounting publish a Code of Practice for Treasury Management, the Local Government Act 2003 also requires Council's to have regard to the prudential code. The primary requirements are to:

- Create and maintenance of a treasury management policy statement which sets out the policies and objectives to the Council's treasury management achievements.
- Create and maintenance of treasury management practices which set out the manner in which the Council will seek to achieve its policies and objectives.
- Provide the Executive with an annual strategy report.
- Delegation by the Council of responsibility for implementing and monitoring treasury management activities.

In all respect the Council complies with the requirement but as a measure of good practice should re adopt principles regularly.

In respect of Council Strategy for Treasury Management the principle will be as follows; the Council will:

- Have regard to the prudential code and set prudential indicators to ensure the Council's capital investment plans are affordable, prudent and sustainable.
- Make decision regarding borrowing and investment based upon the latest information and look to optimise returns on investment will minimise borrowing costs.
- Ensure the costs of borrowing are reflected in revenue forecasts.
- Comply with guidance relating to investments ensuring that:

  - capital is kept secure
  - liquidity is maintained at an appropriate level
- Not engage purely in borrowing to invest or lend on and make a return as this is unlawful.
- Agree a set of investment instrument 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 2008, via the production of Annual Investment Strategy.