

Medium Term Financial Strategy 2017/18 to 2019/20



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FOREWORD AND INTRODUCTION

The aim of this 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 and to support the Council's Corporate Strategy. This 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 MTFS therefore gives the Council an overview of future budget gaps so strategic decisions can be made over levels of future spending, Council Tax levels, investment, policies for fees and charges and asset purchase or disposal.

The Council has experienced significant reductions in funding since 2010/11. The Draft Local Government Finance Settlement published on 15 December 2016 announced further large scale reductions in the Council's resources. Funding received through the finance settlement will fall from £5.7m in 2016/17 to £4.2m in 2019/20. In addition to this the New Homes Bonus grant will be cut by approximately £1.6m from 2018/19 onwards. The Council will also experience reductions of over £1m in LCC support from 2018/19 onwards.

Despite these financial challenges the administration's financial aims are to make decisions early on in the budget planning period. In doing this the Council is able to adequately plan and budget for the delivery of the Corporate Strategy priorities identified later on in this strategy.

The update of the Council's MTFS is crucial for maintaining effective budgetary planning allowing for the continued investment in the Council's strategic priorities whilst delivering high quality services to its residents. This strategy continues to deliver efficiency savings and outlines the Council's ambition to build on its success in investing in income generating schemes and delivering shared services.

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

- **Deliver a balanced budget by 2019/20**
- **Mitigate the reduction in Central Government grant and introduction of a reverse tariff, by increasing Council Tax by 2% in 2017/18 and including a 2% increase in Council Tax in 2018/19 and 2019/20 as part of the medium term budget strategy**
- **Protect the impact on front line services that the reduction in LCC funding will have by introducing a subscription based garden waste collection service and charging for replacement bins**
- **Deliver budget efficiency savings and increased income in 2017/18 onwards to improve financial resilience, balance the budget and minimise the impact that cuts in funding have on front line services**

- **Identify future uncommitted resources and commit the balances to support the Council's Transformation Strategy and the transition period to further funding regime changes expected in 2019/20**
- **Continue to deliver investment in Corporate Strategy priorities**
- **Enhance the financial resilience of the Council's budget by increasing the level of working balances from £3.0m to £4.0m by the end of 2018/19**
- **Make the Council more financially self-sufficient with specific emphasis on investing in income generating projects**
- **Deliver the Transformation Strategy and 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 the capital programme and the effective management of its cash balances. These principles are outlined in this report and in the Council's Treasury Strategy (appendix D).

With each financial year bringing with it even tighter fiscal conditions in the retraction of centrally controlled funding and added local risk of 100% business rates retention, the overriding aims of the MTFS will be increasingly difficult to address. Nevertheless this strategy sets out ways in which it is envisaged this could be achieved.

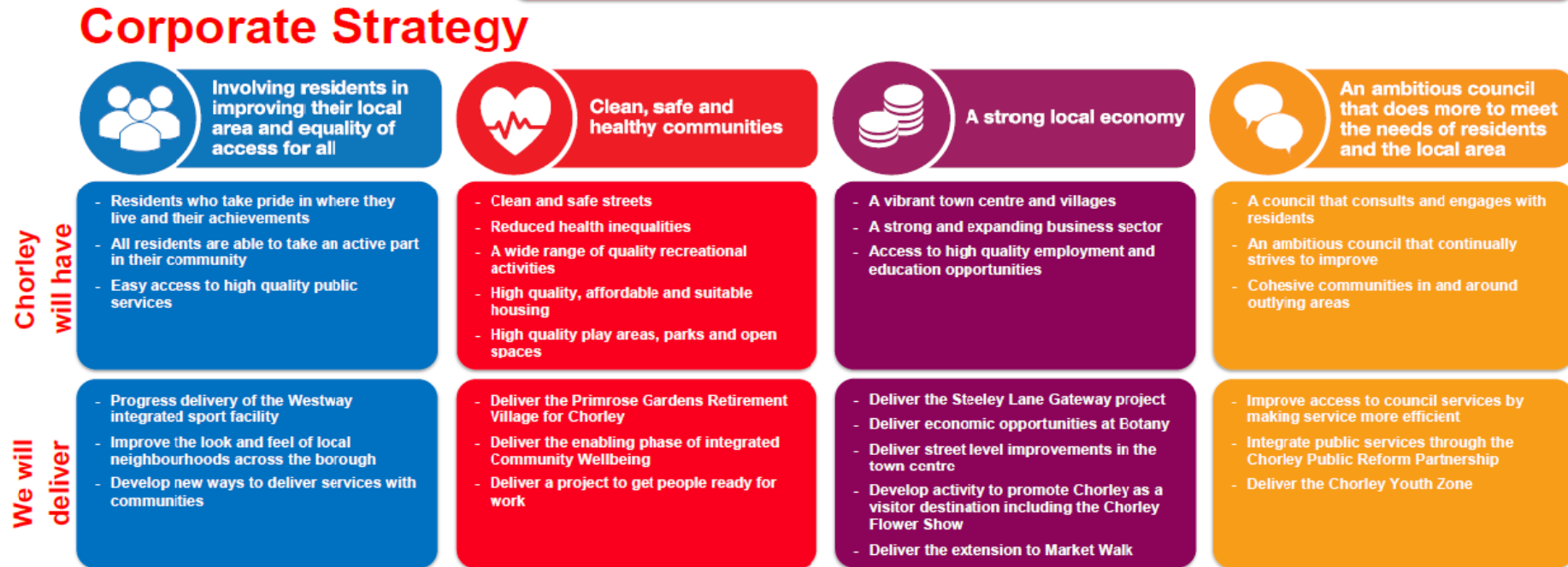
The following sections of the MTFS will include:

1. What the Council's corporate priorities are
2. The financial outlook and key challenges over the planning period to 2019/20
3. Where the Council will continue to invest in its services to deliver its Corporate Strategy priorities
4. How the Council has balanced the budget and created available resources in 2017/18. How the Council will use the resources to create earmarked reserves to enable the implementation of the Transformation Strategy
5. Strategies the Council will explore to deliver a balanced budget in the medium term
6. The delivery of the capital programme
7. Planning for the level of working balances
8. Treasury management and strategy

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 financially 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 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 developed through the business planning process, and resources identified during the budget planning process. The allocation of resources outlined in this strategy 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

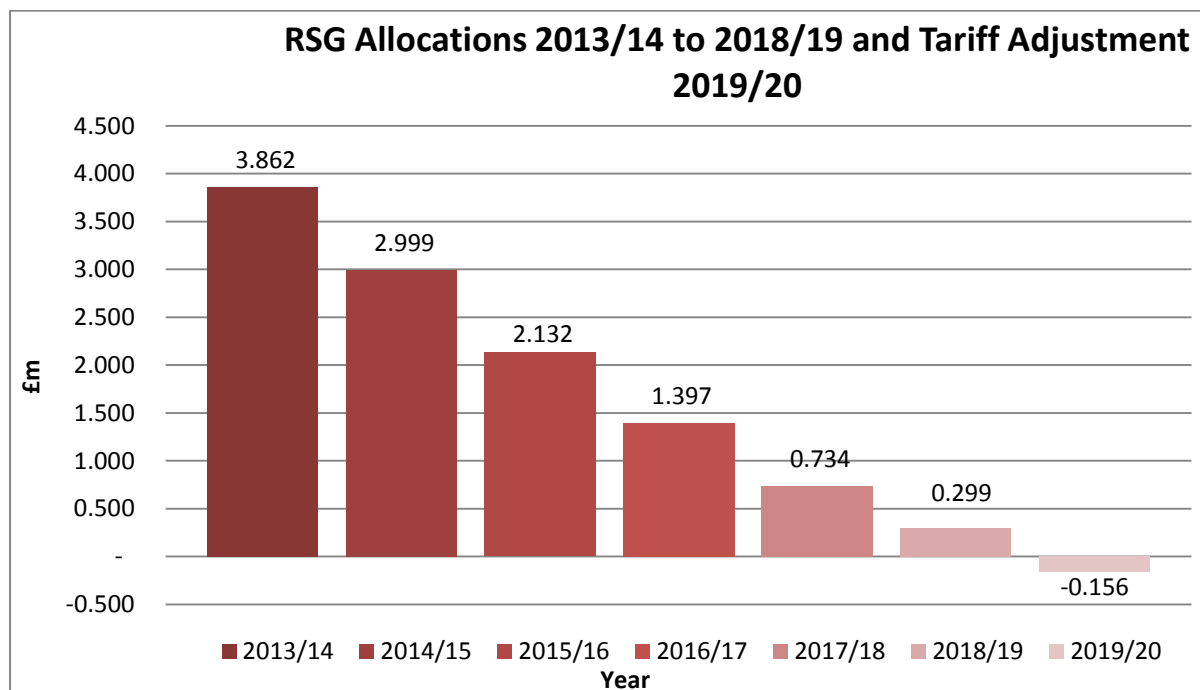
This section sets out the financial challenges facing the Council in delivering its corporate priorities within a balanced and affordable budget.

The provisional local government finance settlement was announced on the 15 December 2016. As per previous finance settlements, Chorley Council has and will continue to experience large reductions in its major funding sources. The challenge to meet these reductions has never been as severe as they will be in the coming three years. The effects on the largest funding sources are outlined below. These figures are based upon the allocations outlined in the provisional finance settlement as the confirmation of the final settlement has not yet been received.

Revenue Support Grant (RSG)

The Local Government Finance Settlement 2015 offered all Councils a four year Revenue Support Grant (RSG) settlement from 2016/17 to 2019/20. In accordance with Government requirements an Efficiency Plan was agreed at Full Council in September 2016. This document is published on the Council's [website](#) and outlines its approach to meeting the budgetary challenges it faces in the coming years. On 16 November 2016 the Council received confirmation from DCLG of its four year RSG settlement. As such these allocations are included in Council's forecast budget position outlined in the MTFS.

The graph below illustrates the removal of RSG over the coming years and the introduction of a tariff in 2019/20. This reduction in funding is based upon a government comparison of the Council's total level of assumed resources and total assumed level of spending needs. The government funding statement includes the assumption that the Council will increase Council tax by at least 2% every year from 2016/17 onwards.



New Homes Bonus

In the draft settlement announced in December 2016, the government has made further reductions to the Council's allocation of New Homes Bonus (NHB). The grant will fall from 6 years to 4 years with a transitional 5th year in 2017/18. In addition from 2017/18 onwards the Council will not receive NHB for approximately the first 150 homes it builds. The table below outlines the forecast NHB allocations using figures prior to the changes in funding and the forecast allocations announced in December 2016.

Table 1: Cumulative Reductions in Forecast New Homes Bonus 2016/17 to 2019/20

	16/17 £m	17/18 £m	18/19 £m	19/20 £m
Forecast NHB Allocation – prior to changes	(4.455)	(4.753)	(4.610)	(4.471)
Forecast NHB Allocation – Draft Local Government Finance Settlement 2017	(4.455)	(4.006)	(2.982)	(2.797)
Reduction in Funding	0.000	0.747	1.628	1.674

When fully implemented the cuts to NHB allocation are in the region of £1.6m a year representing a **10% reduction in total funding available to Chorley Council**.

Despite these large reductions in NHB allocations the grant still represents a significant source of income for Chorley Council. In order to meet budget pressures and funding reductions the Council recognises **that all uncommitted new homes bonus will be built into the revenue base budget**. Budget strategies outlined later in this report will be used to meet the remaining budget gap and create available resources to provide the Council with opportunities to invest in its corporate priorities and create earmarked reserves.

Lancashire County Council

Chorley Council is currently in a 'Cost Share' arrangement with Lancashire County Council whereby the County pay the district councils 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 B of the budget report also on this agenda.

In addition LCC will withdraw Supporting People funding from September 2017. This represents a total loss in funding of £138k, £69k in 2017/18 and a further £69k in 2018/19 onwards, for sheltered housing at Cotswold House in Chorley. The scheme will continue with Chorley Council making up the deficit in funding from mid-2017/18 onwards.

Table 2: Summary of Year-on-Year Reductions in Major Funding Sources

Funding Source	17/18 £m	18/19 £m	19/20 £m	Total £m
Reduction in RSG	0.663	0.435	0.455	1.553
Reduction in NHB	0.747	0.881	0.046	1.674
Reduction in LCC Income	0.070	1.003	0.000	1.073
Total Year-on-Year Loss of Funding	1.480	2.319	0.501	4.300

The Council faces enormous reductions in its funding. The large reductions summarised above emphasise the size of the task the Council faces to bridge the gap, in particular the Council faces a £2.3m reduction in funding in 2018/19 alone.

The budget is based upon the reductions in funding described above and the following key budget assumptions outlined in table 3. These assumptions (for example, the 0% increase in Council Tax) set out the existing position, before the policy decisions outlined in this strategy are implemented.

Table 3: Gross Budget Deficit (Existing Position) - Key Budget Assumptions

Key Assumptions	2017/18	2018/19	2019/20
Increase in Council tax	0%	0%	0%
Growth in Council Tax Base	2.1%	1.0%	1.0%
Growth in Retained Business Rates	0%	0%	0%
Reduction in Revenue Support Grant	£0.663m	£0.435m	£0.455m
Total Forecast New Homes Bonus	(£4.007m)	(£2.982m)	(£2.798m)
Total Forecast Uncommitted New Homes Bonus Built Into the Base Budget	(£3.106m)	(£2.323m)	(£2.398m)
Net Financing of Market Walk	£0.716m	£0.840m	£0.858m
Future Service Pension Rate	14.4%	14.4%	14.4%
Additional Business Rates - Lancashire Pooling Arrangement	(£0.726m)	(£0.726m)	(£0.726m)
Lancashire Waste Partnership Income	(£0.933m)	0	0
Supporting People Income from LCC	(£0.069m)	0	0
Pension Fund Deficit Recovery	£0.791m	£0.841m	£0.966m
Pay Award	1%	1%	1%
Investment Projects Built into Base Budget	£0.468m	£0.468m	£0.468m

Other Budget Assumptions

As part of a **triennial pension review** the Lancashire County Pension Fund announced an increase in employer pension contributions to meet the future costs of the scheme. The contributions have increased from 11.1% to 14.4% resulting in an increase in Council's contribution of approximately £275k per annum.

Business Rates Retention

Chorley continues to benefit from being a member of the Lancashire Business Rates Pooling agreement which gained ministerial approval in November 2015. In essence all member authorities are treated as one in respect of levy payments normally paid to Central Government. The result is that all members of the pool retain the levy payment normally passed over to the Government to fund Safety Net payments. This lead to in a £725k increase in the budgeted retained business rates at Chorley Council. Membership and approval of the pool is made on an annual basis and the pool has been confirmed for 2017/18.

The **revaluation of business rates** in 2016 has resulted in an increase in rateable values on average across the country. However Chorley, like most councils in Northern England, experienced on average a reduction in rateable values. As a result the government has reduced Chorley Council's tariff to create a budget neutral effect of the revaluations. The impact of the changes to tariffs and the new multipliers have been budget neutral for the Council however there remain large risks with regard to **retained business rates**:

- a) The DCLG consultation regarding the tariff adjustments suggests there will be further adjustments in 2018/19 that may impact positively or negatively on the Council's retained business rates
- b) The Government has launched its further consultation on the design of the reformed 100% retained business rates system. The consultation proposes a full implementation of the system to begin in 2019/20 with a revised baseline and tariff/top-ups being set every 5 years. The overriding principle of the new system is that the changes will be fiscally neutral. Councils will be expected to continue the delivery of current services or take on additional responsibilities if the reforms were to result in an increase in retained business rates. Transitional arrangements are not finalised, as a result the funding in the period leading up to full implementation, as well the income the Council will retain in 2019/20, is unknown and creates significant uncertainty in the three year budget planning process.
- c) A large risk associated with business rates income relates to two applications for mandatory charitable relief received from Lancashire Teaching Hospitals NHS Foundation Trust. If successful the application would be backdated to 2010 and therefore have a significant impact on the Council's revenue budget. A headline figure is a potential £1.3m impact on the Council's general fund and an approximate £200k further reduction in ongoing retained business rates.

For the reasons highlighted above the Council will also assume no growth in its retained business rates budget. Although the Council will continue to focus resources on expanding local businesses, there are still large uncertainties that may erode progress on retained business rates income.

The four year settlement and the announcement of the changes to the NHB grant offer the Council some certainty of funding over the coming three years. As a result the Council is able to build into the base budget **£468k of recurrent investment projects** per year. These are described further in Table 6.

SUMMARY

The reductions in funding outlined in Table 2 and the budget assumptions made in Table 3 result in an ongoing cumulative budget deficit in 2017/18 to 2019/20 as described below and detailed further in Appendix B.

Table 4: Gross Budget Deficit (Existing Position)

	2017/18 £m	2018/19 £m	2019/20 £m
Cumulative Gross Budget Deficit	0.629	2.801	3.333

The next section of the strategy outlines how this budget will support the Council's Corporate Strategy priorities. It will then describe what measures the Council has and will introduce to bridge the cumulative budget deficits and create headroom in 2017/18 for further investment in Corporate Strategy priorities.

INVESTMENT AND SUPPORTING THE CORPORATE STRATEGY

The budget figures summarised in Tables 3 & 4 include recurrent annual resources that will deliver the Corporate Strategy priorities through a programme of activities designed to achieve sustainable local growth and reform in the way that the Council delivers services. A list of the projects supporting each priority is shown below along with the resources that will fund them:

Table 5: Projects to Deliver Corporate Strategy Priorities

Corporate Strategy Project	Source of funding
Involving residents in improving their local area and equality of access for all	
Progress delivery of the Westway integrated sport facility	Capital Programme
Improve the look and feel of local neighbourhoods across the borough	Base Budget
Develop new ways to deliver services with communities	16/17 Investment Project Funded 16/17 to 18/19
Clean safe and healthy communities	
Deliver the Primrose Gardens Retirement Living	Capital Programme
Deliver the enabling phase of integrated community wellbeing	Base Budget
Deliver a project to get people ready for work	Remaining LCC Transition Fund & External Funding
A strong local economy	
Deliver the Steeley Lane Gateway project	Capital Programme
Deliver economic opportunities at Botany	Base Budget
Deliver street level improvements to the town centre	Capital Programme
Develop activity to promote Chorley as a visitor destination including the Chorley Flower Show	Now included in the Base Budget
Deliver the extension to Market Walk	Capital Programme
An ambitious council that does more to meet the needs of residents and the local area	
Improve access to council services by making services more efficient	Base Budget
Integrate public services through the Chorley Public Service Reform Partnership	Continued Investment & Transformation Challenge Award
Deliver the Chorley Youth Zone	Capital Programme

In order to further the delivery of the corporate priorities **£468k of investment funding** is included in the base budget from 2017/18 onwards. This includes £20k towards the Council's employee health scheme. The other investment budgets are outlined below, all these budgets are included in the budget deficit identified in Table 4:

Table 6: Recurrent Investment Packages in the Base Budget from 2017/18 onwards

Investment	Description
Police Community Support Officers - £110k	The Council will make a contribution of £110k towards part-funding PCSO posts in the borough, although further discussions and agreements need to be reached with the police and crime commissioner. The Executive Cabinet will be expecting the police to allocate fully funded posts to the borough according to their risk and threat analysis. The £110k contribution will fund PCSOs over and above the risk and threat level.
Retail Improvement Grants - £70k	The retail improvement grants scheme has been successful in regenerating the Council's shopping areas, creating jobs and reducing the number of empty units. A budget of £70k will be built into the base budget to continue these achievements. Due to the high demand from businesses for the grants a review is being undertaken to revise the application criteria. This will maximise the benefit successful applicants receive from the grants whilst ensuring the budget is sufficient to meet demand throughout the year.
Chorley Council Events Programme - £159k	The Council's events programme continues to go from strength-to-strength attracting record numbers of visitors and increased interest from corporate sponsorship. This budget will continue to enable the Council to deliver and improve the events programme while working to reduce the overall net cost.
Neighbourhood Preferred Projects - £50k	Neighbourhood working is a key priority for Chorley Council. Neighbourhood meetings allow neighbourhood groups to identify and agree the preferred projects that are important to the residents of each of the eight neighbourhood areas. The Council will continue to fund the delivery of projects that best meet the needs of its neighbourhoods. Where possible this funding will be used in partnership with external funding from other stakeholders to ensure the best outcomes for the Council's residents are delivered.
Digital Inclusion Officer - £20k	This ongoing budget will deliver support to residents to improve their confidence online.
Chorley Works - £39k	Chorley Works has been successful in delivering a number of employment-related interventions for local residents. These include Confidence Building and Life Skills courses, employability workshops and 1:1 support and organising work trials and work experience placements with local businesses and organisations. In the future, Chorley Works will be working in collaboration with the Chorley Futures ESF project and therefore, is likely to make more of a significant impact on the lives of Chorley residents.

In addition to these investments the figures in the Council's base budget deficit illustrated in Table 4 includes the following one off allocations:

- For 2017/18 a one-off allocation of £100k for continued support during the implementation period of LCC's service reductions.
- Subject to European funding approval the Council will match fund £300k towards the £760k Chorley Futures Project that will identify barriers to training and employment, and plan an individually tailored programme of interventions to move beneficiaries closer to the labour market.

The £468k ongoing investment in corporate strategy priorities will be supplemented by an additional **£184k of investment projects for 2017/18**. These investments are made possible through the Council's achievement in bridging the 2017/18 budget deficit and creating sufficient headroom for additional investments. How this has been achieved is outlined in the next section of the strategy.

HOW THE FINANCIAL CHALLENGE WILL BE MET

WHAT HAS BEEN ACHIEVED TO BALANCE THE 2017/18 BUDGET?

The current MTFS set out ways in which the budget pressures and deficit have been addressed in the short term and how they will be addressed over a longer period. The successful implementation of the strategy has secured a balanced budget position in advance of the next financial year.

A key influencing factor on the forthcoming budget is the effective management of the budget in the preceding financial year. The Council recognised that due to proposed decreases in NHB allocation and the reduction in RSG the Council faced a budget deficit in 2017/18. To bridge this immediate budget gap the Executive Cabinet has achieved and identified proposals for immediate budget savings in preparation for 2017/18.

Table 7: Savings and Increased Income Achieved Year-On-Year from 2014/15 to 2017/18

Saving/Increased Income	Achieved 2014/15 £m	Achieved 2015/16 £m	Achieved 2016/17 £m	Achieved 2017/18 £m	Total
Productivity Gains	0.331	0.017	0.085	0.140	0.573
Pay Policy	0.036	-	-		0.036
Review of Contracts	0.035	0.200	-	0.059	0.294
Review of Income Steams - Inc. Market Walk	-	0.446	-	0.050	0.496
Review of the Base Budget	0.094	0.045	0.128	0.100	0.367
Review of Management Structure 16/17	-	-	0.229	0.067	0.296
Investment Yield	0.442	-	-		0.442
Lancashire Business Rates Retention Pooling	-	-	0.725		0.725
Total Saving/Increased Income	0.938	0.708	1.167	0.416	3.299

SAVINGS ACHIEVED AND SAVINGS TO BE ACHIEVED FOR 2017/18

Budget efficiency savings and increased income (excluding changes to the waste collection service) of £0.416m will be delivered to help reduce the budget deficit in 2017/18. These savings are added to the £1.167m (16/17), £0.708m (15/16) and £0.938m (14/15) delivered in the past three years. The 2017/18 savings are attributable to the following key projects:-

- Review of Contracts (£59k) - The re-procurement of the Council's insurance contract has achieved an annual saving of £59k per annum. Cost efficiencies were achieved by appointing a common insurance broker and undertaking joint procurement exercise with South Ribble Borough Council.
- Review of Income Streams (£50k) - The continued success of the Chorley's Market Walk Shopping Centre has led to full occupancy of its units in 2017/18. As a result an additional £50k has been built into the Council's income budget in 2017/18 onwards.
- Base Budget Review (£0.100m) – The management accounts team in conjunction with service managers have identified £100k of budgets that are underutilised or no longer required moving forward.
- A review of the Management Structure (£0.067m) – A review of the management structure was undertaken and reported to Council in January 2016 to create a structure that enables implementation of the future governance models and public service reform. Savings are profiled as follows: £0.229m (2016/17); £0.295m (2017/18) and £0.347m (2018/19)
- Productivity gains (£140k) - there are changes that need to be made to some staffing structures to ensure that the Council's organisation remains fit for purpose and able to deliver the Council's priorities. Therefore, prior to the start of the 2017/18 financial year, work is being undertaken that will result in changes to structures that are forecast to result in cumulative savings of £140k (17/18) and £163k (18/19). Many of these posts are vacant and should therefore not lead to a reduction in service provision

USE OF THE LCC TRANSITION FUND

In 2016/17 it was agreed to create a £1.0m transition fund to support the implementation period of LCC's service reductions to address its own budget deficit position. To meet the challenges faced in 2017/18 the Council has reviewed the committed expenditure against this provision. To date the fund has been used to:

- enable the continued 6/6a & 109a/24a bus services until March 2017
- enable continued library provision in Adlington, Coppull and Eccleston until March 2018
- fund the Council's £300k match funding towards the £760k European funded Chorley Futures Project. This will provide employment support to a target cohort who should previously have been potentially able to access support through the County Council.

It is proposed that a further £100k is left in the reserve in 2017/18 for potential future commitments that address LCC reductions in service provision.

After taking into account these commitments **the remaining balance on the fund is £285k**. This budget proposal will set aside this balance to cover the remaining 2017/18 budget deficit and create some headroom for additional investment and increases in earmarked reserves, outlined later on this strategy.

RESHAPING THE WASTE COLLECTION SERVICE

From April 2018 the Council will no longer receive waste cost share funding from LCC, currently £930k per year. Changes to the waste collection service were agreed at Full Council in January 2017. The changes are:

1. A charge for all new and replacement wheeled bins is introduced in April 2017
2. A subscription based garden waste collection service is introduced in May 2017
3. Co-mingled paper and card collections are introduced in May 2017 with collection every four weeks resulting in a potential saving in the current waste and recycling contract

Table 8: Forecast Cumulative Savings and Income from changes to Waste Collection Service

	2017/18 £m	2018/19 £m	2019/20 £m
Charge for Replacement Bins	(0.060)	(0.070)	(0.070)
Introducing a Subscription Based Garden Waste Collection Service	(0.215)	(0.400)	(0.400)
Changes to Frequency of Collection	(0.310)	(0.310)	(0.310)
Adjusted Budget Deficit/(Available Resources)	(0.585)	(0.780)	(0.780)

The additional net income and savings that are forecast to be generated from these schemes are £585k in 2017/18 and £780k from 2018/19 onwards. The savings are lower in the 2017/18 due to costs of implementation. The net income from introducing subscription based garden waste collection includes the annual cost of running the scheme and the annual cost of financing the purchase of bins. Although these changes go some way to address the reduction in support from LCC it is clear the Council must find additional means to address this loss of income.

INCREASE IN COUNCIL TAX

The Executive is proposing a 2% increase in council tax in 2017/18 and including a 2% increase in council tax in 2018/19 and 2019/20 as part of the medium term budget strategy. 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.

Importantly, the reductions in Central Government funding announced in the Draft Local Government Finance Settlement 2016 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 by at least 2% year-

on-year. The funding mechanisms from central government will effectively penalise councils for not increasing council tax by at least 2%. Increasing council tax has a significant and cumulative effect on increasing Council's resources. This will be required when central government remove RSG in 19/20 and replace it with an additional business rates tariff.

In addition, through freezing or reducing council tax over the past 7 years, Chorley Council has one of the lowest precepts (excluding Parish precepts) in Lancashire as per the figures below.

District Council	2015/16	2016/17	Increase 2016/17
Chorley	177.41	177.41	0.00%
Pendle	240.38	245.16	1.99%
Preston	285.06	290.73	1.99%
South Ribble	208.38	208.38	0.00%
West Lancashire	183.55	186.76	1.75%
Wyre	180.16	183.31	1.75%

SUMMARY OF SAVINGS AND ADDITIONAL INCOME

Table 9 illustrates that through savings achieved to date and identified for 2017/18, the use of the unutilised LCC transition reserve, reshaping the waste collection service and increasing council tax the Council is able to generate £1.4m of additional resources for 2017/18. This has allowed the Council to set a balanced budget in 2017/18 with additional available resources. Table 8 illustrates that through savings achieved to date and identified for 2017/18, the use of the unutilised LCC transition reserve, reshaping the waste collection service and increasing council tax the Council is able to generate £1.4m of additional resources for 2017/18. This has allowed the Council to set a balanced budget in 2017/18 with additional available resources. **The budget deficits in 2018/19 and 2019/20 are forecasts**, in particular they are modelled on a medium term strategy option to increase council tax by 2% in 2018/19 & 2019/20.

Table 9: Adjusted Budget Deficit/(Available Resources)

	17/18 £m	18/19 £m	19/20 £m
Gross Cumulative Budget Deficit	0.629	2.801	3.333
Savings Achieved	(0.276)	(0.327)	(0.327)
Productivity Savings to be Achieved in 2017/18	(0.140)	(0.163)	(0.163)
Use of LCC Transition Fund	(0.285)		
Increase Council Tax by 2%	(0.127)	(0.260)	(0.398)
Reshaping the Waste Collection Service	(0.585)	(0.780)	(0.780)
Adjusted Budget Deficit/(Available Resources)	(0.784)	1.270	1.665

The next section of this strategy outlines why it has been necessary to generate £784k of available resources the budget for 2017/18 including the need to continue to invest in the Corporate Strategy priorities and to create reserves to ensure the continued financial resilience of the Council.

UTILISING RESOURCES AVAILABLE IN 2017/18

ADDITIONAL INVESTMENT IN CORPORATE STRATEGY PRIORITIES

As well as the £468k of investment funding built into the base budget identified in Table 6, the Council has identified a one-off provision to fund projects that will further deliver the Council's corporate strategy priorities in the next financial year. A **£184k investment project fund** will be created for 2017/18 to fund the following priorities:

Table 10: Additional One-Off Investment in Corporate Strategy Priorities 2017/18

Investment Package	2017/18 £	Description
VCFS Network	15,000	Commission a service to provide infrastructure support to the sector
Support to Food Provision Schemes	15,000	Support schemes that are providing assistance to those who are most vulnerable and in need of food parcels, nutritious meals and related assistance
Public Service Reform	15,000	Deliver work to transform the way public services are delivered locally and to explore public service integration
16/17 Young Person's Drop In Centre	15,000	Provide a service for 16/17 year olds at risk of becoming homeless with the aim of preventing homelessness and keeping young people at home through support and mediation services
Free Swimming	7,000	Offer free swimming for under 16s during summer school holiday
North West in Bloom	20,000	This project will build on previous successes in the North West in Bloom competition, working with the 'Chorley in Bloom' charity group, schools, local communities, friends groups and others to prepare Chorley for 2016 competition
Business Support and Inward Investment Grants	82,000	This fund will encourage the growth of businesses in Chorley Borough and is in addition to the £70k built into the base budget for retail improvements
Deliver the Skills Framework	15,000	This project will carry out the action plan to respond to the supply and demand issues, opportunities and challenges identified in the recently commissioned Chorley Skills framework.
TOTAL	184,000	

INCREASE IN EARMARKED RESERVES FOR 2017/18

This report has outlined that there are large forecast budget deficits that will need to be addressed during the medium term planning period. In order to meet these deficits the Council must be resourced correctly to allow it to reform and restructure in the best way possible to continue to deliver services in a more innovative and efficient manner. Significant upfront costs are likely to be incurred in order for the Council to successfully implement the necessary strategies. As such it is proposed that reserves are created to meet these future costs.

The strategy proposes that the **change management reserve is increased to £200k** in 2017/18. This reserve has been fully utilised in 2016/17 for costs relating to restructures undertaken during that period. Further staffing changes will take place as part of the transformation and shared services strategies and so this reserve will need to be resourced correctly for the Council to fund these changes.

As part of the 2016/17 budget setting process the Council set aside £600k in a reserve to fund investment in income generating schemes that would create net income for the Council in order to bridge its budget deficit. To date £220k has been committed against this budget for the preliminary costs of bringing the Digital Office Park to the planning stage and for procurement support. In order to deliver future reductions in net expenditure it is important for the Council to continue to set aside resources to enable investments that will generate future income streams.

In particular the agreed acquisition of HCA employment land as part of a £2.9m land swap will mean Chorley Council acquire 33.7 acres of land, the majority identified as development for employment purposes. As a result of these large investments **it is proposed that the Council set aside £300k of reserves in 2017/18 to realise the income generating potential from these employment sites.** This will result in the reserve being brought back to over £600k in 2017/18.

Finally, it is expected that the Council will incur one off expenditure in 2017/18 relating to the maintenance of its assets. This will include works to Council offices that will prepare for changes implemented through the Transformation Strategy. These works will be in addition to the Council's annual maintenance budget and so **it is proposed that in 2017/18 £100k is set-aside for these works.**

Table 11: Cumulative Budget Deficit after Proposed Transfers to Reserves

	2017/18 £m
Adjusted Budget Deficit/(Available Resources)	(0.784)
Creation of an Investment Project Fund	0.184
Increase in Change Management Reserve	0.200
Increase in Income Generating Investment Fund	0.300
Increase in Maintenance Reserve	0.100
Adjusted Budget Deficit/(Available Resources)	0.000

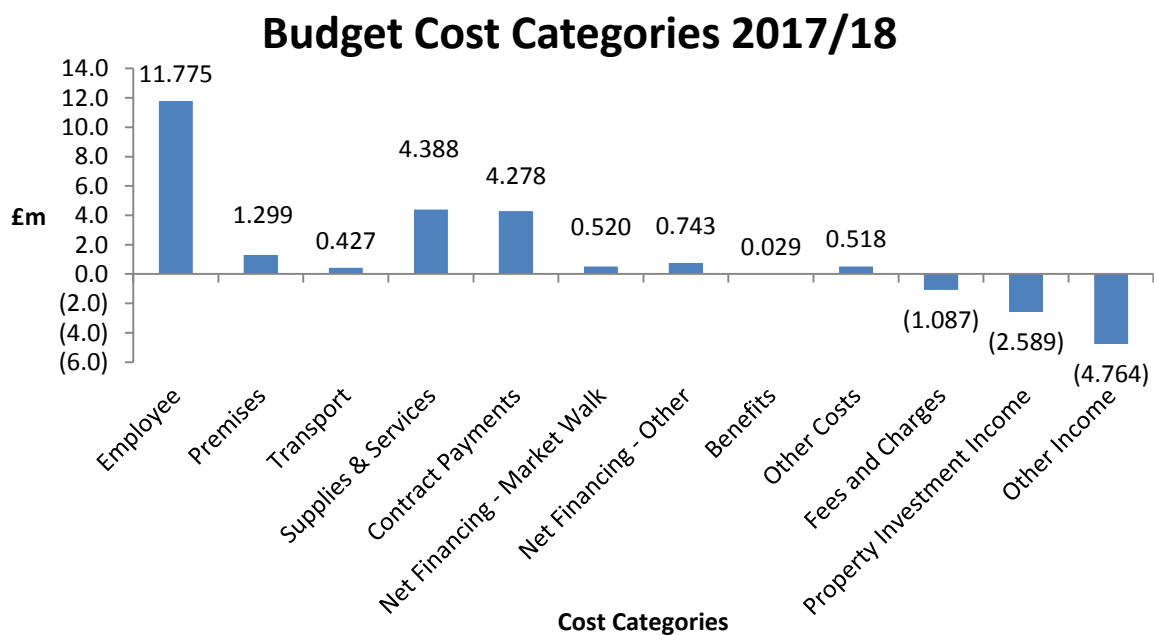
BUDGET STRATEGY

Despite the balanced budget in 2017/18 there are large forecast budget gaps in 2018/19 and 2019/20. To achieve a reduction in net expenditure the Council's Strategy will be:

- To deliver a balanced budget over the Financial Planning period to 2019/20
- To realise savings through the procurement of major contracts
- To identify the efficiencies through shared services and alternative delivery models that will enable the Council to balance the budget whilst seeking to minimise the impact on front line service users
- To make the Council more financially self-sufficient with specific emphasis on creating investments that will generate net income to the Council. This includes identifying future uncommitted resources and commit the balances to support income generating schemes.
- To establish working balances no lower than £4.0m over the financial planning period 2016/17 to 2018/19.

FINANCIAL CONTEXT

The strategy outlined further below seeks to close the budget gap by 2019/20. In order to protect front line services the priority of the MTFs is to seek to apply an appropriate balance between maximising income opportunities and reducing costs. To put the strategy in a financial context the total budgeted expenditure of £15.536m in 2017/18 (appendix B) is spent in the following areas:-



REALISING SAVINGS THROUGH THE PROCUREMENT OF MAJOR CONTRACTS

During the MTFs period the Council will undertake large procurement exercises on major contracts that are coming to the end of the contract agreement periods. The ambition for the Council is that through these procurement exercises it will transform its delivery of key services whilst generating cost savings and continuing to provide excellent service quality.

The Council encourages an innovative approach to service delivery and therefore various options will be considered including the utilisation of existing Council premises and vehicles, expanded shared procurement with other Councils and the consideration of bringing some services completely in-house. A target savings of **£70k and £315k** has been included in the 2018/19 & 2019/20 budget forecast however it is expected that further efficiencies can be identified earlier on in the medium term once the procurement exercises are underway.

TRANSFORMATION STRATEGY – SHARED SERVICES

Shared services continue to be a significant method by which councils generate savings and capacity for service delivery. Nationally, there are many examples of shared services, ranging from individual posts and services to full shared management teams. South Ribble and Chorley Councils are the most obvious partners for developing further shared services, given the strong track-record of joint working and similarities between the two.

A paper will be presented to the Executive Cabinet in 2017 that sets out a joint ambition to create a close working relationship, with the ultimate aim to develop full shared services serving two independent and sovereign councils. This work will mean some upfront investment, although costs will be able to be contained within existing resources.

Cost savings achieved by other district councils would suggest that a 10% saving would be achievable over the long term by sharing officer structures and key contracts. A target cumulative saving of **£600k in 2018/19 and £650k by 2019/20** is included within this strategy.

TRANSFORMATION STRATEGY – PRODUCTIVITY GAINS

The transformation strategy covers many aspects of change both within the Council and in partnership with other organisations. At this stage the main strands of the strategy that could generate savings are outlined below:

- The Transformation Strategy will facilitate a greater integration of public services. In partnership with Lancashire Care NHS Foundation Trust (LCFT) the Council is implementing an Integrated Community Wellbeing Service. The proposal is to integrate public services that relates to promoting health and wellbeing of individuals or communities and are aimed particularly around prevention and early intervention. The service will consist of functions drawn from both LCFT and Chorley Council and will include around 45 FTE from Chorley Council. The partnership is currently in the enabling phase but when implemented is anticipated to generate opportunities for savings over the long-term.
- The Transformation Strategy will develop and implement the 'WorkSmart' programme. This will facilitate a shared culture of smarter working, maximising the use of technology and digital information. Cost savings are expected through process/productivity improvements and consolidation of office space.

- The Transformation Strategy will develop a Council approach to community-action and co-production. Communities and residents will be empowered to take an active role in their community, realising the value of key local assets. Residents will be engaged, communities more resilient with increased customer.

At this early stage savings linked to each strand of the transformation strategy cannot be estimated, it is assumed in the MTFs that **cumulative savings of £300k (2018/19) and £400k (2019/20) are achievable.**

TRANSFORMATION STRATEGY – INCOME GENERATION

Councils across the country are exploring a number of different strategies in dealing with ongoing budget pressures and ensuring the future sustainability of Council services. Chorley Council encourages a creative approach when meeting budget gaps through generating revenue streams. In 2013 the Council purchased the Market Walk shopping centre and as a landlord generates approximately £1m surplus per annum. The Council is investing £12m capital expenditure to further extend the retail and leisure offer with the expectation to generate a further £400k annual surplus. In addition, the Council is seeking to diversify its investment portfolio by building a £9m Retirement Living Complex and £8m Digital Office Park both of which have successful external funding bids and approved planning permission.

Despite these positive steps the Council is taking, further work must be undertaken to recognise fully the potential revenue streams the Council is able to generate.

The Council commissioned an independent review of the investments it can make to generate net income. The findings of this document can be found via the link at the end of this report. The report provides a framework for the Council to assess different income generating options. These will vary in terms of the ease of implementation and the scale of returns and social impact. With the £600k investment fund that has been set aside the Council is able to develop its income generating strategy and begin to realise returns within the MTFs period. It is assumed the Council can realise **£300k by 2018/19.**

Table 12 below summarises the options available for consideration to bridge the forecasted budget deficit over the MTFs period.

Table 12: Summary of the Council’s Strategies for Generating Efficiency Savings and Increasing Net Income

STRATEGY	2017/18 £m	2018/19 £m	2019/20 £m
Forecast Budget Deficit	-	1.270	1.665
Renegotiate Contracts	-	(0.070)	(0.315)
Transformation – Productivity Gains	-	(0.300)	(0.400)
Transformation – Shared Service	-	(0.600)	(0.650)
Transformation – Income Generation Strategy	-	(0.300)	(0.300)
Adjusted Medium Term Budget Deficit	-	0.000	0.000

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 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.
- 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 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.

Details of the capital programme including new capital investment are outlined in the Budget Report and Appendices C1 to C3 also on this Council agenda. The Council proposes to invest £34.413 into the capital programme to support the Council's Corporate Strategy and the priorities within it.

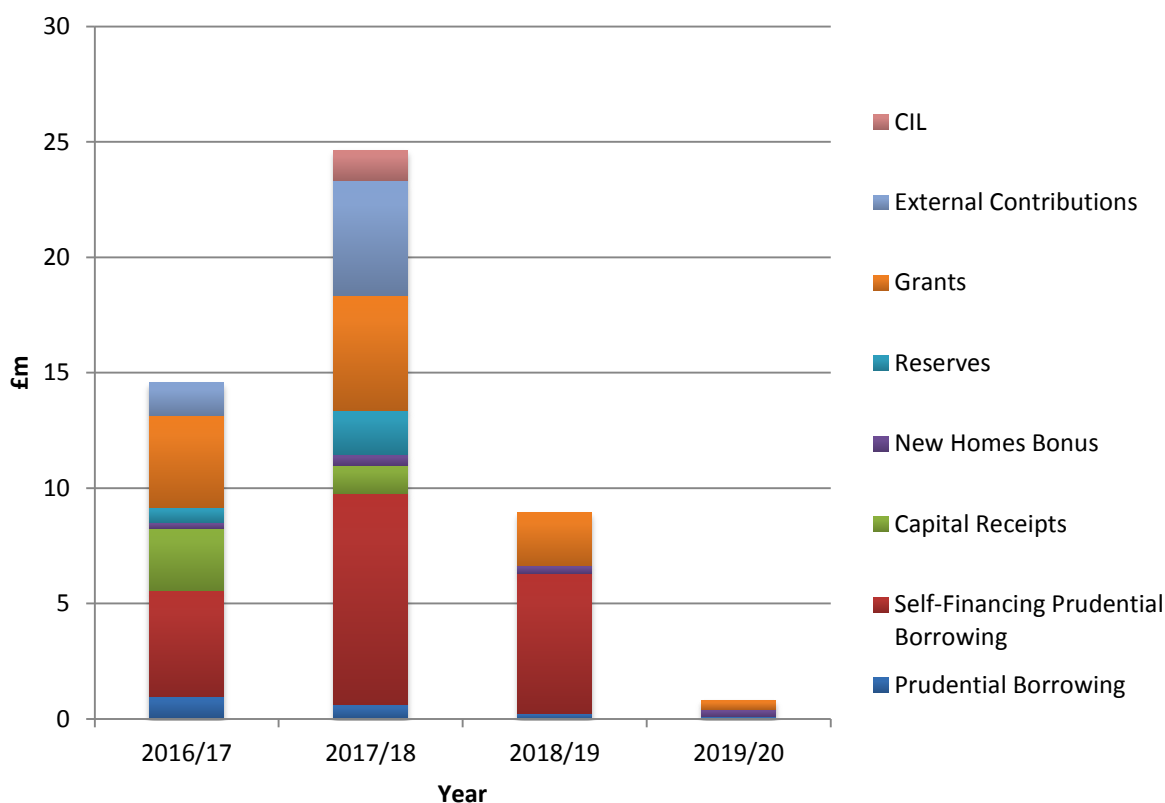
The capital programme includes large investments that will generate income to meet the borrowing that is used to fund them including a £8.120m Digital Office Park and £12.030m Market Walk Extension.

The budget report also outlines three additions to the capital programme to enable the Council to deliver the Corporate and Transformation Strategy, these include:

- Investment of £750k in the Council's **ICT infrastructure** to allow the Council to effectively implement the Customer & Digital Strategy as part of the wider Transformation Strategy.
- Investment of £300k over 3 years in the **assets owned by the Council** to further the delivery of shared services and alternative models of service delivery including sharing accommodation with partner organisations such as LCFT.
- An additional £160k to complete the full scope of works relating to the **Steeley Lane Gateway Improvement Project**.

The financing of the capital programme for the period 2016/17 to 2019/20 is set out in Appendix C2 and summarised in the proceeding chart.

Capital Expenditure & Financing 2016/17 to 2019/20



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 impact 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 2016/17 MTFS identified a need for working balances to reach £4.0m by 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 a 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 MFTS 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 any unavoidable expenditure relating to restructures the Council undertakes relating to its fundamental review of costs. This may be required if costs exceed funding set aside in earmarked reserves identified earlier on this strategy.

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 per the Revenue and Capital Monitoring Report sent to Executive Cabinet on 16 February 2017, as shown below:

Table 13: Forecast General Fund 2016/17 to 2018/19

General Balances	£m
Opening Balance 2016/17	2.685
Budgeted contribution to General Balances	0.500
Forecast revenue budget underspend	0.098
Forecast General Fund Closing Balance 2016/17	3.283
Budgeted contribution to General Fund 17/18	0.500
Budgeted contribution to General Fund 18/19	0.259
Forecast General Fund Closing Balance 2018/19	4.042

TREASURY MANAGEMENT

The Chartered Institute of Public Finance and Accounting published Code of Practice for Treasury Management (Local Government Act 2003) also requires Councils 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 2017, via the production of the annual Treasury Management Strategy

Background Papers			
Document	Date	File	Place of Inspection
Income Generation – Independent Review	17/02/2017	https://democracy.chorley.gov.uk/documents/s73004/Chorley%20Council%20-%20Income%20Generation%20-%20Independent%20Review.pdf	
Efficiency Plan	20/09/2016	https://democracy.chorley.gov.uk/documents/s68052/Efficiency%20Plan%20Full%20Council%20Report.pdf	