

Report of	Meeting	Date
Chief Finance Officer (Introduced by the Executive Member for Resources)	Executive Cabinet	18 January 2018

2018/19 DRAFT BUDGET AND SUMMARY BUDGET POSITION OVER THE MEDIUM TERM

PURPOSE OF REPORT

1. To set out the budget position for 2018/19 including the forecast for the following 2 years to 2020/21 and also present the relevant proposals in respect of:
 - The use of forecast resources identified in 2018/19
 - Budget consultation

RECOMMENDATION(S)

2. That Members agree the contents of this report in order to start the budget consultation process and note the following proposed budget items, in particular:
 - Council tax to be increased by 2.99% in 2018/19, this is the equivalent of a £5 increase per year for an average band D property or about 10p per week. In addition, the Council will bring into its budget forecasts a 2.99% increase in 2019/20 & 2% increase in 2020/21
 - The resourcing of corporate priorities for 2018/19
 - The forecast balanced budget for 2018/19
 - The forecast budget position in 2019/20 and 2020/21.

A detailed breakdown of the 3 year budget is provided in Appendix 1

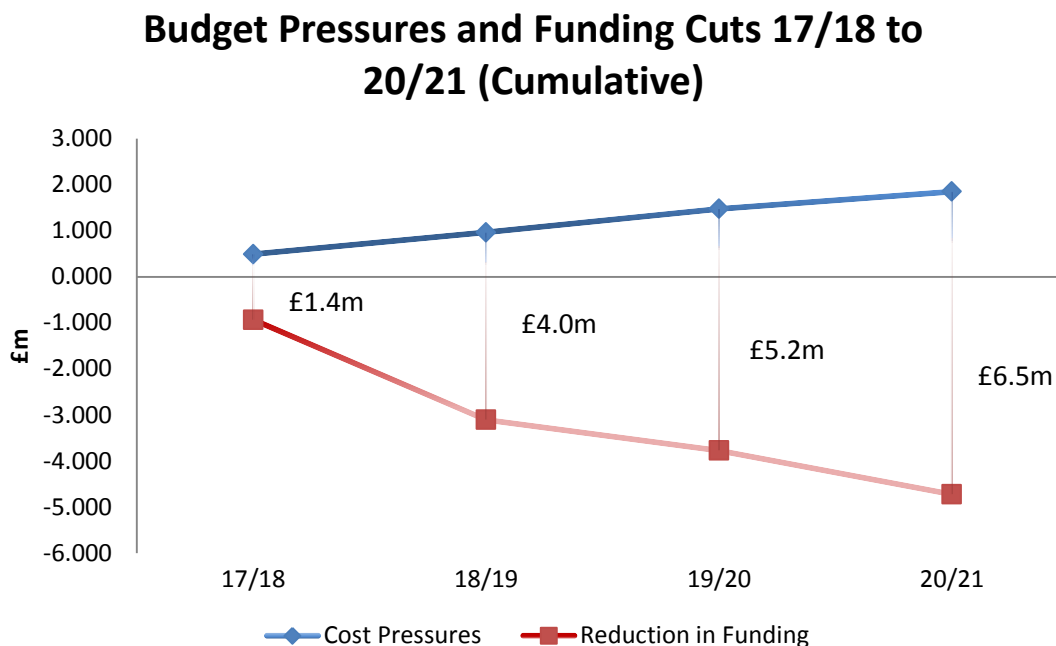
EXECUTIVE SUMMARY OF REPORT

3. The budget forecasts over the next 3 years have been updated to take account of the following:
 - Council tax to be increased by 2.99% in 2018/19, this is the equivalent of a £5 increase per year for an average band D property or about 10p per week. In addition, the Council will bring into its budget forecasts a 2.99% increase in 2019/20 & 2% increase in 2020/21
 - Additional investment of £673k that will deliver corporate strategy priorities
 - Progress against the current Medium Term Financial Strategy (MTFS) budget efficiency objectives including staffing reviews, contract savings and base budget reviews.
 - Policy decisions taken to reduce the budget deficit and the movement to specific reserves to help the Council manage change and invest in future income generation
 - Strategies to reduce the budget deficit in the medium term
4. The Council will continue to experience cost pressures in 2018/19 to 2020/21. These pressures have been inflated for the following reasons:
 - It is expected that a 2% pay increase will be agreed for 2018/19 and 2019/20.

The increase is much higher for staff on lower grades. No announcement has been made by the government regarding the funding of this increase and therefore it is not assumed in this report that additional resources will be provided as part of the final 2018/19 local government finance settlement.

- The council is experiencing large inflationary increases in the cost of its major contracts. These contracts, including waste & recycling and leisure management are increased in line with RPIX that in October 2017 stood at 4.2%.
- As part of a triennial pension review conducted last year, in order to meet the future costs of the scheme, employer pension contributions increased from 11.1% to 14.4% in 2017/18 and will remain at this level in 2018/19..

5. The Local Government Finance Settlement 2016 included core grant allocations for the forthcoming four years, from 2016/17 to 2019/20. In addition, the consultation regarding New Homes Bonus resulted in allocations falling from six years to four years as well as allocations not been received for the first c150 homes built.
6. There remains significant uncertainty regarding the Council's business rates base. The implementation of 100% business rates retention remains uncertain and there is continued exposure of risk to the business rates base due to appeals despite attempts to simplify the process. As a result of this, no increases in the business rates base are assumed over the 2018/19 to 2020/21 budget period.
7. The chart below emphasises the scale of the challenge the Council faces in bridging the budget gap over the next 3 years.



8. Despite the challenge the budget gap represents, the council will continue to invest in its corporate priorities. The council will build £673k of investments into the budget from 2018/19 onwards with a further £223k of one-off investment in 2018/19.
9. The 2016/17 MTFs targeted a total general fund balance of £4m by 2018/19. The council has been successful in increasing balances to £4m in 2017/18 and therefore there is no requirement to budget for contributions to the general fund in 2018/19 onwards.
10. Budget efficiency savings totalling £345k have been achieved and identified for 2018/19 including a review of income generation. A review of reserves and financing will also release

£550k of resources in 2018/19 to meet the budget deficit.

11. Chorley Council continues to realise the benefit of being part of the Lancashire wide Business Rate Pooling Agreement. The council has received confirmation from DCLG that this will continue in 2018/19. The forecast over the medium term assumes the council will continue to benefit from the pooling arrangement. However the level of retained business rates is uncertain in 2020/21 as the new business rates regime is scheduled to be implemented.

12. The current Medium Term Financial Strategy (MTFS) sets out options that aim to effectively address the budget deficit position over the longer term to secure financial resilience and sustainability. This 3 year timeframe is considered the maximum period whereby reasonable forecasts can be made. Options that will achieve savings through the Council's Transformation Strategy include:
 - Reviewing and re-tendering the Council's major contracts
 - Achieving savings related to the Council's Transformation Strategy including:
 - Redefining the way services are delivered by working closely with the Council's partners, using technology to improve working cultures and encouraging citizens to utilise online council services
 - Exploring the increased delivery of shared services with neighbouring Councils.
 - Exploiting the Council's access to low interest finance and the greater flexibilities offered by the Localism Act 2011 by investing in income generating projects that also benefit local business and residents.

13. Consultation on the proposed budget for 2018/19 will commence following approval of the proposals by Executive Cabinet. The consultation will focus on obtaining feedback on key proposals within the budget. The consultation will invite responses from residents, partners, parish groups and other stakeholders through a variety of methods including a short survey (available both in hard copy and online). Results will be analysed and published in February for consideration as part of budget finalisation.

Confidential report Please bold as appropriate	Yes	No
--	-----	-----------

Key Decision? Please bold as appropriate	Yes	No
--	------------	----

Reason Please bold as appropriate	1, a change in service provision that impacts upon the service revenue budget by £100,000 or more	2, a contract worth £100,000 or more
	3, a new or unprogrammed capital scheme of £100,000 or more	4, Significant impact in environmental, social or physical terms in two or more wards

REASONS FOR RECOMMENDATION(S)

(If the recommendations are accepted)

14. To progress the Council's 2018/19 budget setting process to achieve an approved and balanced budget.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

15. Setting the budget is a statutory responsibility

CORPORATE PRIORITIES

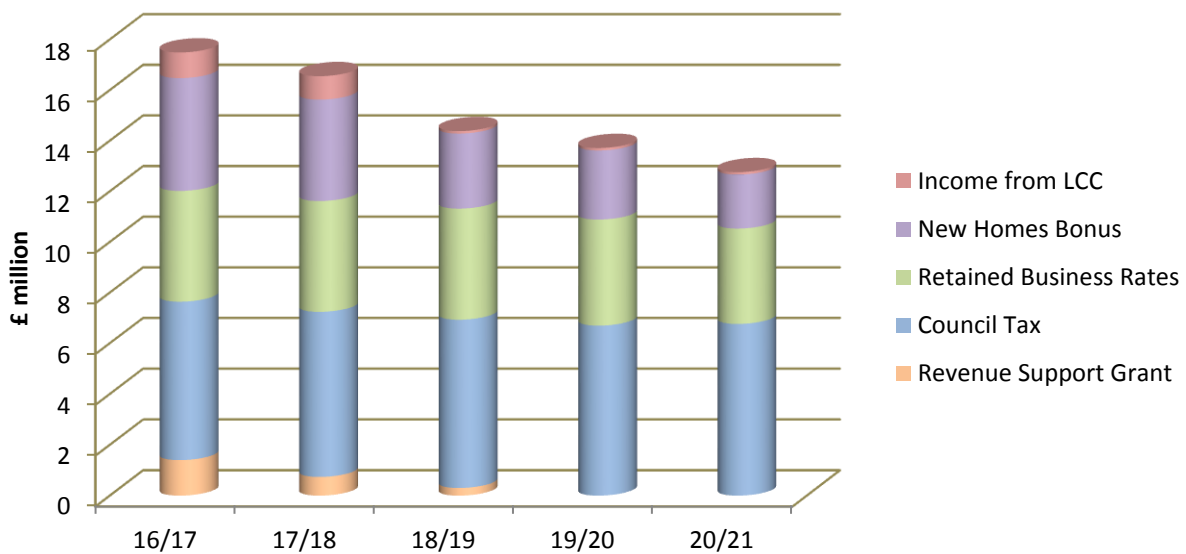
16. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all	✓	A strong local economy	✓
Clean, safe and healthy communities	✓	An ambitious council that does more to meet the needs of residents and the local area	✓

THE BUDGET – REDUCTIONS IN FUNDING SOURCES

17. Chorley Council has experienced, and will continue to experience in the coming 3 years, large reductions in its major funding sources. The reductions in the largest funding sources are outlined in the chart below.

Major Sources of Council Funding



Revenue Support Grant

18. On 16 November 2016 the Council received confirmation from DCLG regarding its four year RSG settlement. 2018/19 will be the final year that the council receives a RSG allocation of £299k after which the council will receive a further reduction of £455k in 2019/20 through a £299k reduction in RSG and an assumed £156k increase in the business rates tariff.

New Homes Bonus

19. The 2016 consultation regarding New Homes Bonus resulted in allocations falling from six years to four years as well as allocations not been received for the first c150 homes built (the deadweight adjustment). The reductions in new homes bonus will continue due to:

- higher than average annual allocations dropping out of the four year funding cycle, such as the £1m 2016/17 allocation dropping out in 2020/21.

- an assumed slowing down of housing expansion in the borough in the coming years.

20. The provisional finance settlement announced on 19 December 2017 confirmed that there would be no further changes to the methodology through which new homes bonus is allocated in 2018/19. This provides the council with certainty regarding the 2018/19 allocation however DCLG retains the flexibility to adjust the allocation methodology from 2019/20 onwards.

Lancashire County Council

21. Income from Lancashire County Council will drop significantly in 2018/19 as the £930k income through the Lancashire Waste Partnerships cost share arrangement comes to an end. The introduction of the subscription based garden waste collection scheme in 2017/18 was put in place to mitigate this reduction in income. The remaining funding from LCC in 2018/19 to 2020/21 will be £96k per annum towards the maintenance of highway green space that is managed within current council resources.

Council Tax Base

22. Chorley Borough has experienced a huge expansion in housing over the past few years. The growth in has resulted in an expansion of the council tax base. Growth in the base, excluding increases in the rate of council tax, are summarised below:

	2015/16	2016/17	2017/18	2018/19	2019/20 Forecast
New Band D equivalent dwellings brought in base	1,259	677	751	680	c.560
Growth (year-on-year)	3.8%	2.0%	2.1%	1.89%	1.50%
Additional council tax income to CBC each year	£223k	£120k	£133k	£123k	£99k

23. Chorley Borough has experienced fast expansion of housing over the past few years, over twice as much as Lancashire on average. Although the expansion results in additional income for the council it is clear from the table above that the additional income is insufficient to meet the inflationary pressures placed on the Councils budget. In addition the expansion of the council tax base has resulted in a faster reduction in the council's grant funding resulting in 2018/19 being the final year it will receive a RSG allocation.

24. The council expects a slowdown in house building over the coming three years as larger housing development sites are already nearing completion and new sites in which to develop housing become increasingly scarce. However it should be noted that between April 2017 and March 2022 there were 2,700 dwellings that have not yet been built (including those under construction) which have planning permission. A prudent 1.5% expansion of the base is forecast in 2019/20 and 2020/21.

Business Rates

25. The level of business rates income retained by the council remains the largest uncertainty in terms of funding levels over the medium term period. Chorley Council is a tariff authority meaning it pays over an amount to central government rather than receiving a top-up payment. Of the £24.8m Non-Domestic Rating income collected in 2017/18, Chorley Council's local share is 40% (£9.9m). However, this is reduced by payment of the £6.2m tariff to central government leaving £3.6m for Chorley Council. Within this income figure is an

element of growth of rates income above the **baseline funding level**. For non-pool authorities, a 50% levy of the growth is payable to central government. In 2017/18 the full levy would have reduced this council's retained rates income to £2.9m, being about 11.8% of total NDR Income. Through membership of the Lancashire Business Rates Pool, 90% of the levy is retained by the council, and 10% paid to the pool rather than central government. This increases retained rates income to £3.6m, which is about 14.7% of total NDR Income in 2017/18.

26. In February 2017 the government issued its response to the 100% business rates retention consultation. It was still the intention of government to implement the scheme in 2019/20, however the Local Government Finance Bill has been dropped from the legislative programme, leaving plans for business rates retention in limbo. It is not clear that moving to 100% business rates retention would necessarily benefit a tariff authority in a business rates pool. Though this council retains only £3.6m out of £24.8m under current arrangements, 100% retention would not mean that our retained rates income would increase to £24.8m because a redistribution mechanism to replace the tariff would be required to fund upper tier services. The 100% scheme may result in wider pooling arrangements across a larger geographical area bringing with it more risk to the level of business rates retained by the pool. In addition it could result in a less favourable split between lower and upper tiers meaning more retained business rates income is paid to LCC.
27. Unfortunately there is no further clarity on how the reforms to the business rates regime will affect Chorley Council in 18/19 to 20/21. Announcements that have been made regarding business rates are as follows:
 - From April 2018, CPI will be used to uprate the multiplier for business rates, rather than RPI, bringing forward the change already announced from April 2020;
 - The business rates revaluation cycle will switch from five years to three years following the next revaluation. This should mean that, following the planned 2022 revaluation, the next revaluation will be in 2025;
 - The Secretary of State stated that local business rates retention would move from 50% to 75% in 2020/21. This is understood to mean all authorities would be at 75%, rather than the 75% being an average. However, during this time there will also be a fair funding review that will inform how funds will be redistributed (as they currently are using top-up and tariffs). As such it is not possible at this time to model how the 75% retention will affect Chorley Council.
28. As CPI is lower than RPI the expansion of the business rates base will slow, the government has made a commitment to compensate councils fully for this change in 2018/19 and 2019/20 by paying S31 Grant to replace the income foregone. It is not clear whether this will extend to 2020/21 and therefore whether the level of retained business rates will reduce in 2020/21 onwards.
29. 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 back dated 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 a further c£200k reduction in ongoing retained business rates. The LGA is representing affected councils nationwide and retain the view that NHS trusts and foundation trusts are not charities and therefore not eligible for mandatory non domestic rate reliefs.
30. For the reasons highlighted above the Council will assume no inflation 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. Until further information becomes available, the council will continue

to assume it is part of the Lancashire Business Rates Pool throughout the 3 year MTF period.

31. The 2018/19 budget for retained rates income will be set when the NNDR1 2018/19 return is submitted to the DCLG by the deadline of 31 January 2018. This return identifies the council's share of estimated rates income for the year, and enables the budgets for the levy payable and S31 Grants receivable to be calculated.

Other Budget Assumptions

32. As part of a **triennial pension review** the Lancashire County Pension Fund (LCPF) announced an increase in employer pension contributions for 2017/18 to 2019/20 to meet the future costs of the scheme. The contributions have increased from 11.1% to 14.4% resulting in an increase in the council's contribution of approximately £250k per annum. It is assumed that contributions remain at 14.4% in 2020/21.
33. The council's contribution to the deficit is assumed to be made over 19 years however CFOs in Lancashire have raised queries to the LCPF as to whether this should be extended over a longer period as has been experienced in other funds throughout the country. If this is agreed there is the potential for contributions to the pension fund to be lower than currently budgeted in 2020/21.
34. The Council's gross budget deficit is summarised in table 1 and is based upon the reductions in funding described above and the following key budget assumptions. It should be noted that some of the assumptions are still potentially subject to change that may impact positively or negatively on the budget.

Key Assumptions	2018/19	2019/20	2020/21
Increase in Council Tax	0%	0%	0%
Growth in Council Tax Base	1.89%	1.5%	1.5%
Growth in Retained Business Rates	0%	0%	0%
Reduction in Revenue Support Grant or equivalent increase in business rates tariff	£0.435m	£0.455m	£0.400m
Total Forecast New Homes Bonus	£2.989m	£2.753m	£2.156m
Use of New Homes bonus to Fund the Capital Programme	(£0.400m)	(£0.400m)	(£0.400m)
Total Forecast New Homes Bonus Built Into the Base Budget	(£2.589m)	(£2.353m)	(£1.756m)
Future Service Pension Rate	14.4%	14.4%	14.4%
Additional Business Rates - Lancashire Pooling Arrangement or equivalent business rates retention regime	(£0.716m)	(£0.716m)	(£0.716m)
Income from LCC	(£0.096m)	(£0.096m)	(£0.096m)
Pension Fund Deficit Recovery	£0.841m	£0.966m	£1.016m
Pay Award	2%	2%	2%

35. A detailed breakdown of the 3 year budget including the gross budget deficit is provided in **Appendix 1**. Included in this appendix are the revenue budget implications regarding the Council's large capital projects, as with other assumptions it should be noted that the profile of expenditure and income is potentially subject to change. Risks surrounding these budget

assumptions will be managed through the use of general reserves as outlined at the end of this report.

Table 1: Cumulative Gross Budget Deficit as at January 2018

	2018/19 £m	2019/20 £m	2020/21 £m
Gross Budget Deficit	0.870	2.502	3.277

36. All deficits and savings identified in the table 1 and in the remainder of this report are cumulative. For example the deficit of £2.502m in 2019/20 identified above is the result of a £0.870m deficit in 2018/19 and further budget pressures of £1.632m identified for 2019/20.

BRIDGING THE BUDGET GAP

37. A key influencing factor on the forthcoming budget is the effective management of the budget in the preceding financial year. The Council recognised that reductions in funding and ongoing expenditure budget pressures have resulted in a budget gap of £0.870m in 2018/19. To bridge this immediate budget gap the Executive Cabinet has achieved and identified proposals for immediate budget savings in preparation for 2018/19. This is in addition to a total of £3.229m savings already achieved in prior years, summarised below.

Saving/Increased Income	Achieved 2014/15 £m	Achieved 2015/16 £m	Achieved 2016/17 £m	Achieved 2017/18 £m	2018/19 £m	Total
Productivity Savings	0.367	0.017	0.314	0.207	0.220	1.125
Review of Contracts	0.035	0.200		0.059		0.294
Review of Base Budget	0.094	0.045	0.128	0.100	0.075	0.442
Review of Income Streams		0.446		0.050	0.050	0.546
Lancashire Business Rates Retention Pooling			0.725			0.725
Review of Financing	0.442					0.442
Saving/Increased Income	0.938	0.708	1.167	0.416	0.345	3.574

Savings Achieved and Savings to be Achieved for 2018/19

38. Budget efficiency savings and increased income totalling £0.345m have been identified to help reduce the budget deficit in 2018/19. This is in addition to a review of reserves and financing that has identified one-off reductions in the budget deficit for 2018/19 of £400k and £150k respectively.
- Base Budget Review (£75k) – The management accounts team in conjunction with service managers have identified £75k of budgets that are underutilised or no longer required moving forward. The larger savings come from underutilised IT equipment and software budgets as well additional external funding for the maintenance of play areas.

- Review of Fees and Charges (£50k) – a report will be submitted with this Executive Cabinet agenda that recommends increasing some of the Council's fees and charges to bring them in line with the cost of providing the services. This is forecast to generate an additional £50k income in 2018/19 and therefore reduce the subsidy the council tax payer is making towards these services and instead fund other key services.
- Productivity gains (£220k) – a report to Executive Cabinet in December 2017 outlined the proposed changes to be made to the Business, Development and Growth directorate. The changes will allow the directorate to be resourced to deliver its corporate strategy priorities including the delivery of income generation projects, the success of these projects being essential in balancing the budget in the latter stages of the MTFS. In addition, the new structure will deliver £200k efficiency savings and successfully meet the target set as part of the transformation strategy. Over and above this £200k saving, a review of overtime payments across the council will result in a reduction in overtime budgets of £20k.

39. Review of Reserves and Other One Off Savings

- Review and use of unutilised reserves (£400k) – a review of all reserves was undertaken in 2017/18 in order to free up resources to meet the budget deficit in 2018/19. The review has successfully identified £400k of unutilised reserves. This includes £300k of new homes bonus that was set aside to match fund a European funded employment support project. Unfortunately the European funding was not approved and as a result an alternative employment support service will now be delivered using existing council resources.
- Review of net financing (£150k) – a review of the Council's capital programme has resulted in identifying a reduced need for borrowing in 2018/19. This is the result of the council's continued access to low interest rate borrowing and a more detailed understanding of the profiling of capital expenditure in the coming 18 months. It is expected this will save £150k in 2018/19 with further potential one-off savings of £100k in 19/20 and 20/21 however this will be reviewed each year.

INCREASE IN COUNCIL TAX

40. It is proposed that council tax will be increased by 2.99% in 2018/19, this is the equivalent of a £5 increase per year for an average band D property or about 10p per week. In addition, the Council will bring into its budget forecasts a 2.99% increase in 2019/20 & 2% increase in 2020/21. 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.
41. Importantly, the reductions in Central Government funding announced in the provisional 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%. The funding mechanisms from central government will effectively penalise councils for freezing council tax, through a reverse tariff payment in 2019/20.
42. The provisional finance settlement 2017 recognised the increasing inflationary budget pressures councils are experiencing and as a result announced an uplift in the cap on council tax increases. This now means district councils can increase council tax by up to 3% in 2018/19 and 2019/20 without triggering a referendum. As outlined in this report, whilst the council continues to deliver efficiency savings, it also continues to experience reductions in funding and inflationary budget pressures. To continue to fund investments that deliver

corporate strategy priorities the council is proposing to increase council tax by 2.99% in 2018/19 and to model increases of 2.99% in 2019/20 and 2% in 2020/21.

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

District Council	2016/17	2017/18	Increase 2017/18
Chorley	177.41	180.96	2.00%

Pendle	245.16	250.16	2.04%
Preston	290.73	296.51	1.99%
South Ribble	208.38	208.38	0.00%
West Lancashire	186.76	191.76	2.68%
Wyre	183.31	188.31	2.73%

44. Increases in council tax do have a significant, cumulative and permanent effect on the budget deficit even over a short term period. Cumulative additional income the Council could generate from increases in council tax is shown in Table 2.

Summary of Proposals

45. Table 2 illustrates that through savings achieved to date, additional income identified, a review of net financing, the use of unutilised reserves and increases in council tax the Council is able to set a balanced budget in 2018/19 with some resources available to invest. The next section of this report describes what investments are included in the figures above and what is proposed for the use of the forecast resources available in 2018/19.

Table 2: Updated Cumulative Budget Deficit as at January 2018

	2018/19 £m	2019/20 £m	2020/21 £m
Gross Budget Deficit	0.870	2.502	3.277
Review of Fees and Charges	(0.050)	(0.060)	(0.060)
Base Budget Review	(0.075)	(0.100)	(0.125)
Review and Use of Unutilised Resources	(0.400)	0	0
Review of Net Financing	(0.150)	(0.100)	(0.100)
Productivity Savings Achieved for 2018/19	(0.220)	(0.220)	(0.220)
2.99% Increase Council Tax 2018/19, 2.99% in 2019/20 & 2% in 2020/21	(0.198)	(0.408)	(0.559)
Adjusted Budget Deficit/(Available Resources)	(0.224)	1.614	2.213

SUPPORTING CORPORATE STRATEGY PRIORITIES

46. The budget figures summarised in table 2 includes budgets that will deliver the corporate strategy priorities through a programme of activities designed to meet the fundamental needs of local residents, like health housing and jobs, while continuing to get Chorley in the best social and economic position for the future. A list of the projects supporting each priority is shown below:

Involving residents in improving their local area and equality of access for all	
Improve the look and feel of local neighbourhoods across the borough	Ongoing Investment Budget
Develop Astley Hall and park as a visitor destination	Capital Programme
Support people from across the borough to be digitally included	Ongoing Investment Budget
Clean safe and healthy communities	
Deliver the Primrose Gardens Retirement Village	Capital Programme
Deliver the Youth Zone	Capital Programme
Develop a strategy for housing in Chorley and implement a programme of work	Ongoing Investment Budget & Reserves
A strong local economy	
Bring forward key sites for development	Reserves
Deliver the Market Walk Extension	Capital Programme
Deliver a borough wide programme to help people overcome barriers to employment	Ongoing Investment Budget & Reserves
An ambitious council that does more to meet the needs of residents and the local area	
Transform the way the council delivers services	Base Budget
Deliver a borough wide programme of improvements to street services	Base Budget
Integrate public services through the Chorley Public Service Reform Partnership	Base Budget

47. In order to continue the delivery of the corporate priorities **£673k of investment funding** is included in the base budget figures identified in Table 1 from 2018/19 onwards.

Table 3: Recurrent Investments Included in the Base Budget from 2018/19 Onwards

RECURRENT ITEMS	COMMENT	18/19 Ongoing Budget
Crime Reduction and Social Disorder Prevention Fund	The council will commit £110k per annum towards community safety measures to ensure that we continue to deliver against our corporate priority of clean, safe and healthy communities, in light of reduced government funding for the Police and reported increases in crime.	£110,000
Chorley Council Events Programme	The council's programme of award winning events continues to demonstrate significant benefits for the borough, attracting new visitors and raising the profile of Chorley. The budget will enable the continuation of the programme with a focus on those events that deliver the greatest economic impact.	£125,000
Neighbourhood Preferred Projects	Neighbourhood working reflects the councils' commitment to improving local places and spaces, enabling local people to agree the priorities for their area and deliver projects to make improvements. This budget will continue the delivery of neighbourhood working across the eight neighbourhood areas.	£50,000
Digital Inclusion Officer	This ongoing budget will ensure that all residents are able to access high quality public services and take an active part in their community. This budget will support and enable the delivery of the Council's digital strategy including digital inclusion activity.	£20,000
Chorley Works	Access to high quality employment and education opportunities is a priority for the Council. Chorley Works has been successful in delivering a number of employment-related interventions for local residents and going forward will form part of a wider wellbeing support offer for residents, providing help with skills for work and employment opportunities.	£39,000
Employee Health Scheme	Maintaining positive levels of staff wellbeing is important to ensuring a productive and efficient workforce, therefore this budget will continue the current healthcare cash plan scheme or a further year.	£20,000
Enhanced Enforcement Team	The new enforcement team brings together a range of functions including building control, licensing, empty properties, planning enforcement, four neighbourhood officers and 2.4 FTE customer service advisors. The new team will strengthen and improve the council's enforcement services, refocus the work of four neighbourhood officers and demonstrate the council's commitment to taking a more proactive approach to enforcement.	£44,500
Enhanced Homelessness Service	This budget will support the council's response to the requirements of the new Homelessness Reduction Bill by putting in place the necessary resources to fulfil new obligations for homelessness prevention.	£50,000
Refresh of the Local Plan	The council will be refreshing the local plan over the coming 3 years. This provision is put in place to support the refresh process with the majority of the costs, including staffing, assumed to be shared with South Ribble Borough and Preston City Councils. £100k represents Chorley Council's share of the annual ongoing costs.	£100,000
Ongoing fund to maintain services previously delivered by LCC	Chorley Council will continue its commitment to subsidise the running of key bus routes in the borough to mitigate the impact of county wide cuts and ensure that residents can access to the town centre and rural areas.	£115,000
TOTAL RECURRENT INVESTMENTS		£673,500

UTILISING RESOURCES AVAILABLE IN 2018/19

48. As well as the £563k of investment funding built into the base budget, the Council has identified one-off provisions to fund projects that will further deliver the Council's corporate strategy priorities in the next financial year. A **£224k investment project fund** will be created for 2018/19 to meet the funding requirements of projects outlined in table 4.

Table 4: Additional One-Off Investments from Available Resources in 2018/19

ONE-OFF INVESTMENTS	COMMENT	One Off Funding for 18/19
Community development and volunteering (SPICE)	This budget will provide a contribution to SPICE for time credits infrastructure which includes access to the national earn and spend programme as well as an IT platform, expertise and evaluation.	£40,000
Support for the third sector	The funding will support the development of the third sector in Chorley to include facilitating communication with the wider network and representing the sector on key groups and bodies.	£15,000
Support to Food Provision Schemes	This budget will provide a contribution to the food bank in Chorley to provide food parcels, nutritious meals and other related assistance to those in most need as part of early intervention.	£15,000
16/17 Young Person's Drop In Centre	The budget will extend the current drop in service for young people at risk of homelessness, providing mediation and support with the aim of keeping young people at home as part of early intervention and prevention.	£15,000
In Bloom	A contribution to the In Bloom initiative to provide enhanced Streetscene provision across Chorley, supporting the work of the Chorley In Bloom group and increasing the attractiveness of the wider borough so that people take pride in their area.	£20,000
Supporting Communities to Access Grant Funding	The budget will pay for access to online grant funding search facilities, Grant Finder and Chorley4Community, to enable local third sector groups and organisations to secure funding as part supporting of a sustainable sector.	£4,500
Disabled and Dementia Online Venue Access Guides	This funding is for online venue access guides currently provided by Disabled Go, supporting and promoting the councils commitment to ensuring accessibility for all residents.	£5,000
Accommodation Finding Service	The accommodation finding service provides additional support for the housing options team in meeting our statutory duties. This budget will extend the current provision for a further year.	£30,000
Mediation Service for Anti-Social Behaviour	The budget will maintain access to third part mediation support for neighbourhood level concerns as part of early intervention and prevention for a further year.	£14,000
Employability Support Programme	Funding for a project to support individuals with multiple barriers to work over and above the current Chorley Works provision, to be delivered through the Early Intervention and Support directorate.	£65,000
TOTAL ONE-OFF EXPENDITURE IN 18/19		£223,500

THE BUDGET – HOW THE FINANCIAL CHALLENGE WILL BE MET

	2018/19 £m	2019/20 £m	2020/21 £m
Adjusted Budget Deficit/(Available Resources)	(0.224)	1.614	2.213
One-off 2018/19 Investment	0.224	0.000	0.000
Adjusted Budget Deficit/(Available Resources)	(0.000)	1.614	2.213

49. Despite the budget savings identified in this report, as outlined above there remain large forecast budget deficits of £1.614m in 2019/20 and £2.213m in 2020/21. To achieve a sufficient reduction in net expenditure the Council's strategy will be:

- 1. To realise savings through the procurement of its contracts**
- 2. 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**
- 3. To make the Council more financially self-sufficient with specific emphasis on creating investment that generates income. This includes identifying future uncommitted resources and commits the balances to support income generating schemes.**

TRANSFORMATION STRATEGY

Realising Savings through the Procurement of Contracts

50. During the MTFs period the Council will undertake large procurement exercises on its 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 delivery. 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 in-house. Some initial modelling has already been commissioned and the projected savings from this work is included in Table 5.

Shared Services

51. In November 2017 Chorley and South Ribble Councils agreed a joint ambition to develop a close working relationship, with an ultimate aim to develop full shared services serving two independent and sovereign councils. Initial proposals were developed to create the capacity for change with the creation of a series of shared posts in policy, governance and transformations services. Initial proposals are currently being developed further with the ambition that new structures will be in place in 2018/19. Work will also be undertaken to explore the other service areas that can be delivered efficiently through a shared arrangement with the ambition to reducing the net cost of these services for both councils.

Productivity Gains

52. 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 further below.
53. 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 innovative service aims to integrate functions that promote the wider determinants of health and community resilience. By so doing, it is anticipated it will generate opportunities for savings over the long term. The service launched in April, with over 100 staff based at the Council offices on Union Street.
54. The Digital Strategy was approved by Executive Cabinet in June 2017. The strategy incorporates 32 separate projects that seek to increase digital take up and inclusion, promote smarter working and develop positive work cultures.
 - The Digital 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.
 - Efficiencies are also expected through the further increase in digital take up of council services, enabling customers to access council services online when and wherever they like, while also reducing the demand on more expensive channels such as face to face and over the phone
55. The Streetscene Modernisation Strategy was approved by Executive Cabinet in January 2017. The Streetscene service aims to introduce a number of change themes designed to challenge current working practices and modernise and introduce improvements to deliver high quality services in a co-ordinated way. A more detailed outline of the major improvements the strategy can deliver will be presented in spring 2018. It is expected this will require investment in new assets that facilitate the delivery of more efficient services.

Income Generation

56. The Council has already been successful in income generation through the purchase of Market Walk shopping centre as well as the expected net income stream from the development of the Digital Office Park. The Council realises that further work must be undertaken to recognise fully the potential revenue streams the Council is able to create.

Market Walk Extension

57. The income generation targets outlined in table 5 include £150k net income in 19/20 and £300k in 2020/21 for the extension of Market Walk shopping centre. As reported to Full Council in November 2017 the expansion of the site has been paused and is to be reviewed in January 2018. The Council has a fully serviced site that is ready to be developed further. The figures in table 5 assume the site will be developed and the units filled before the opening of the site midway through 2019/20.
58. Through external professional advice the Council will undertake an analysis of the financing of income generating investments that will generate new income streams and support the council's priorities. The council's strategy is to make resourceful investments that will generate significant net income in the latter stages of the MTFS period. To successfully implement this, income generating projects will utilise reserves set aside in 2017/18 over the MTFS period.

Delivering Council Owned Housing

59. Like many council's throughout the country, the council is exploring the strategy of delivering and managing its own housing stock with the view to increasing and improving the quality of housing within Chorley Borough whilst generating a sustainable net income stream for the council. Outline proposals have been developed with the three main options being:
- Purchase new build units directly from developers
 - Purchase existing housing stock in the open market
 - Develop houses on our employment sites as an enabler to bringing those sites forward
60. The options are based on the council purchasing or building two bedroom terrace houses as there is strong demand for these houses in the Chorley Borough area. The options the Council can pursue are flexible. Rent levels are modelled as a mix of lower affordable rates, intermediate and higher full market rates. The Council has also modelled the possibility of delivering these homes through a housing company rather than through the council's general fund.
61. The proposals would require the council to borrow between £7m and £10m to fund the purchase or development of the units or to loan these borrowed funds to the wholly owned housing company. The revenue cost of borrowing these amounts would be wholly repaid through the rental income generated. Furthermore the options appraisal identifies a potential net income stream to the council of approximately £100k per annum based on the purchase of up to 100 units.
62. These proposals are being developed further with help from external consultants to ensure that the governance, legal and financial implications are fully demonstrated. However the initial options appraisal has identified that there are up to 200 affordable units due to be delivered in many of the borough's planned developments offering the council an opportunity to purchase the units at 40% of the market value. Therefore, there is the potential for the council to quickly acquire 100 units on developed sites ready for the rental market. Given this opportunity it assumed that £100k net income can be achieved by 2019/20 and 2020/21.

Developing Council Owned Employment Land

63. The agreed acquisition of HCA employment land as part of a £2.9m land swap resulted in Chorley Council acquiring 33.7 acres of land, the majority identified as development for employment purposes. As part of the restructure of the Business, Development and Employment directorate the Council will accelerate the use of this employment land to generate growth in local business as well as a net income to Chorley Council. It assumed that £100k net income can be achieved by 2020/21.

Other Income Generation

64. The council encourages an innovative approach to service delivery and so it will also explore other methods of generating income. The council is modelling a potential approach to entering the energy industry through setting up an energy supply company and supplying energy to citizens across Lancashire. The proposal requires huge investments with subsequent large rewards and potential large risks. To deliver the energy supply company the council will require a collaborative approach with investments from other councils. Further modelling is being undertaken as to how this collaborative approach would work and what the returns to Chorley Council could potentially be.

Table 5: Estimated Medium Term Financial Strategy Cumulative Budget Deficit and Cumulative Savings

	2019/20 £m	2020/21 £m
Forecast Budget Deficit	1.614	2.213
Renegotiate Contracts	(0.574)	(0.673)
Transformation – Productivity Gains	(0.400)	(0.550)
Transformation – Shared Service	(0.390)	(0.490)
Income Generation – Delivering Market Walk Extension	(0.150)	(0.300)
Income Generation – Delivering Council Owned Housing Stock	(0.100)	(0.100)
Income Generation – Developing Council Owned Employment Land	-	(0.100)
Forecast Adjusted Medium Term Budget Deficit	(0.000)	(0.000)

GENERAL BALANCES

65. Through setting this budget and utilising underspends in 2017/18 the Council has achieved, a year earlier than budgeted, its MTFS target of having £4m set aside in general balances.
66. The Council recognises that use of the general reserve may be required during the MTFS period. If, as expected, the 100% Business Rate Retention scheme is introduced nationally, managing the risks inherent in this volatile funding stream will require a careful stewardship of reserves as a buffer. In addition, the profiling of income generating projects may result in net income not being realised until later in the MTFS period. A part of our budget strategy is to ensure that the council maintains robust reserves to cater for these uncertainties.
67. As outlined in this report there is a £1.3m risk to general balances associated with two applications for mandatory charitable relief received from Lancashire Teaching Hospitals NHS Foundation Trust.

CAPITAL PROGRAMME 2018/19 to 2020/21

68. This report has dealt with the Council's revenue budget. Implicit in the investment programme set out above, however, are financial implications for the Capital Programme. The latest three year Capital Programme can be found in the Revenue and Capital Budget Monitoring Report 2017/18 Report 2 approved at November Executive Cabinet 2017. Any further changes to the capital programme will be brought into the 2018/19 final budget report in February Special Council.

Proposed changes to the prudential framework of capital finance

69. In addition to the consultation on the provisional finance settlement, there is also a consultation on possible changes to the prudential framework of capital finance. Part of this consultation requires councils to declare in a capital strategy report what the level of risk is to the Council in investing in income generating assets and provide indicators that monitor these risks.
70. However there are two other more controversial elements to the consultation that could be important to the medium term financial strategy:
1. Borrowing in advance of need – the consultation suggests that councils would be prohibited from investing in assets purely for generating revenue surpluses. This would potentially prohibit investment outside of the Council’s boundaries. Currently this shouldn’t affect Chorley Council’s medium term financial strategy as it has invested in assets, and plans to invest in assets, for reasons other than purely generating surpluses, such as generating more local jobs and improving the quality of local housing. However this restriction, if it is introduced, may restrict new investment opportunities for Chorley Council in the future.
 2. Minimum Revenue Provision – the consultation suggests a restriction in the calculation of the spreading of the costs of investments to a maximum of 40 years. Chorley Council currently spreads the capital cost of some of its long term investments, including Market Walk Shopping Centre, over 50 years which the Council deemed prudent as did its external auditors. Revising this to 40 years will result in an increase in the revenue cost of financing some the Council’s assets. However it’s not clear whether this restriction will be introduced and how the government could enforce it. What is clear is that if it is enforced, it will result in the investment in income generating assets through borrowing less economically viable.

BUDGET CONSULTATION

71. Consultation on the proposed budget for 2018/19 will commence following approval of the proposals by Executive Cabinet. The consultation will focus on obtaining feedback on key proposals within the budget. The consultation will invite responses from residents, partners, parish groups and other stakeholders through a variety of methods including a short survey (available both in hard copy and online). Results will be analysed and published in February for consideration as part of budget finalisation.

IMPLICATIONS OF REPORT

72. This report has implications in the following areas and the relevant Directors’ comments are included:

Finance	✓	Customer Services	
Human Resources	✓	Equality and Diversity	✓
Legal	✓	Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	✓

COMMENTS OF THE STATUTORY FINANCE OFFICER

73. The financial implications of the above report are all contained in the text above but to clarify all proposals are funded and can be accommodated within the 2018/19 budget. It should be noted that the report does contain a number of assumptions on some future budget elements and also what the final out-turn position will be for 2017/18. Should any of these change due to unforeseen circumstances arising before 31st March 2018, this will be reviewed and reported.

COMMENTS OF THE MONITORING OFFICER

There are no legal implications in adopting the budget proposals for consultation

GARY HALL
CHIEF FINANCE OFFICER

There are no background papers to this report.

Report Author	Ext	Date	Doc ID
James Thomson	5025	03/01/18	