

<b>Report of</b>	<b>Meeting</b>	<b>Date</b>
Chief Finance Officer	Special Council	27 February 2018

## **REPORT OF THE CHIEF FINANCE OFFICER – ALTERNATIVE BUDGET**

### **PURPOSE OF REPORT**

1. To provide advice to the Council of the robustness of the alternative budget including how the budget has been constructed and the assumptions that underpin it

### **RECOMMENDATION(S)**

2. The Council are recommended to note the Chief Finance Officer's comments

### **EXECUTIVE SUMMARY OF REPORT**

3. This report provides advice to the Council of the robustness of the alternative budget including how the budget has been constructed and the assumptions that underpin it. In addition the Chief Finance Officer has reported to members the adequacy of the proposed financial reserves.
4. The key assumptions relating to expected level of government funding the council will receive from 2018/19 to 2020/21 are the same as the assumptions outlined in the administration's budget and are therefore robust. The alternative budget proposes a 2.99% increase in council tax in 2018/19, a forecast increase of 2.99% in 2019/20 and a forecast increase of 2% in 2020/21. These are the maximum levels the council can set without triggering the need for a local referendum and are identical to the administration's proposals.
5. The majority of expenditure savings included in the 2018/19 budget have been achieved with the exception of £250k additional staffing savings profiled in 2018/19. These savings are challenging but are reasonable as outlined further in this report.
6. There continues to be income targets contained within the budget; these are based upon contractual agreements or have been realigned to reflect the latest performance information. A fees and charges report was approved by Executive Cabinet on 18 January 2018 that included increases in some of the

charges the council makes for its services. A prudent estimate of the increased likely income has been brought into the alternative budget for 2018/19.

7. The forecast is that the alternative budget will be balanced in 2018/19 and that the Council's general fund balances will be £4m. In addition, funds have been set aside as earmarked reserves in 2018/19 that would help enable the savings and investments outlined in the alternative budget report to be delivered.
8. Having reviewed the underlying assumptions and commented on the position in relation to key risks and working balances I am satisfied that the budget assumptions are reasonable, the key financial risks have been considered and the alternative budget is deliverable.
9. Further analysis of the risks to revenue and capital budgets are analysed at the end of appendix J to the main budget report. These risks apply equally to the alternative budget.

<b>Confidential report</b> Please bold as appropriate	Yes	No
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## **BACKGROUND**

10. The Chief Finance Officer will advise members when setting the alternative budget as to the robustness of the estimates and the adequacy of working balances.

## KEY ASSUMPTIONS

11. The table below shows the key assumptions made in forecasting forward the alternative budget; these are identical to the assumptions made in administration's budget. The comments to the validity of these assumptions are made paragraphs 16 to 27 in appendix J to the administration's budget report and therefore are not required to be repeated again in this report.

Key Assumptions	2018/19	2019/20	2020/21
Increase in Council Tax	2.99%	2.99%	2.99%
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	£0.299m	-
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)	(£0.560m)	(£0.316m)
Income from LCC	(£0.096m)	(£0.096m)	(£0.096m)
Pension Fund Deficit Recovery	£0.841m	£0.966m	£1.016m
Pay Award	2%	2%	2%

## LEVELS OF WORKING BALANCES

12. The alternative budget assumes working balances will be maintained at £4.0m in 2018/19. This level was based upon risk contained in the budget particularly around:
- the volatility in the funding system in relation to business rate retention
  - possible re-profiling of savings and income generation proposals into future years
  - risk of loss of deposits should a future banking crisis occur
13. In relation to the Treasury Strategy, individual deposit levels were increased to £3m to enable better rates to be accessed, but investments of up to £4m can be placed with part-nationalised UK financial institutions. One of the lessons for Councils who were affected by the Icelandic banking crisis was that they should

at least have the minimum level of working balances to cover any potential loss of deposits should a banking crisis occur. For this reason I think it appropriate to keep working balances of £4m.

## BRIDGING THE BUDGET GAP

### Savings

14. The savings proposed in the alternative budget and in appendix B to the report can be summarised as follows:

	18/19 £	19/20 £	20/21 £
<u>Efficiency Savings</u>			
Savings achieved for 2018/19			
- Business, Development & Growth restructure	(220,000)	(220,000)	(220,000)
- Review of Overtime			
Additional Cumulative Staffing Efficiencies	(250,000)	(800,000)	(1,000,000)
5% Year on Year Saving on all Supplies & Services	(75,000)	(181,000)	(279,000)
Savings on Major Contracts		(604,000)	(824,000)
Review Delivery of Community Centre Services		(50,000)	(100,000)
<b>Total Efficiency Savings</b>	<b>(545,000)</b>	<b>(1,855,000)</b>	<b>(2,423,000)</b>

### *Staffing Savings*

15. The level of proposed savings from staff budgets is broadly in line with administration's budget totalling approximately £1.2m by 2020/21. This represents a saving of approximately 10% and is therefore deemed reasonable.
16. The alternative budget includes a £250k staffing saving in 2018/19; this brings forward staffing savings meaning new structures would be in place part way through 2018/19. It is proposed this is made through savings from senior positions and through the reduction in staffing requirements as a result of the proposed reductions in planned works to the town centre. It is feasible that some of the proposed £800k of savings outlined in 2019/20 could be brought forward to deliver some savings in 2018/19; this includes some of the current vacant positions in the senior management structure.

### *Supplies and Services*

17. The council's total supplies and services budget that could be changed to deliver savings is approximately £2.2m. The alternative budget proposes 5% savings year on year in 2019/20 and 2020/21. These targets are significantly higher than those included in the administration's budget. Year on year the

council has achieved approximately £100k of savings through the review of its underutilised budgets (base budget review). However as these budgets have removed it has become more difficult to achieve these savings.

18. Achieving cumulative savings of £280k in 2020/21 could be assisted through an audit of the council's procurement processes and through a total review of all contracts and existing suppliers. It could also be brought about through changes in council policy, such as when scoring tenders placing higher weightings on price rather than quality.

#### *Major Contracts*

19. The savings are in line with those proposed in the administration's budget, these savings were based on external advice and current trends in the procurement of similar contracts in other boroughs.

#### *Review of Community Centre Services*

20. The net cost to the council of running its community centres is over £200k and therefore the savings represents a 50% reduction in this budget. This is reasonable providing the council is able, as proposed in the alternative budget, to transfer the management to local communities with little or no subsidy.

#### Additional income

21. The additional income proposed in the alternative budget and in appendix B to the report can be summarised as follows:

	<b>18/19 £</b>	<b>19/20 £</b>	<b>20/21 £</b>
<u>Income Generation</u>			
3% increases year on year fees and charges	(60,000)	(123,000)	(189,000)
2.99% increase in Council Tax 18/19	(198,000)	(408,000)	(559,000)
Inward Investment, Tourism & Diversify Market Offer		(100,000)	(150,000)
Restore Car Parking to 2016/17 provision		(180,000)	-
Delivering Council Owned Housing Stock		(100,000)	(100,000)
Leisure Offer at Chorley Town Centre		-	(150,000)
<b>Total Efficiency Savings</b>	<b>(258,000)</b>	<b>(911,000)</b>	<b>(1,148,000)</b>

### *Fees and Charges*

22. The increased income through inflating charges by 3% includes only those charges the council has control over e.g. this does not include income budgets such as planning fees. The additional income identified is therefore reasonable.

### *Inward Investment, Tourism & Diversify Market Offer*

23. The alternative budget proposes investment of £100k in the development of Chorley markets and £1m investment in the town centre's streetscene. Current income from markets is approximately £400k and therefore the income targets represent a 25% increase in market income. The income target also include improving the offer from Astley Hall including charging for entry fees and creating a more commercial venue. Taken together it is possible, although challenging nonetheless, for these changes to generate an additional £150k income by 2020/21.
24. The alternative budget proposes a new leisure offer in the town centre. The assumed net income of £150k in 2020/21 has been estimated using similar build costs, rental income and borrowing costs as those used for the current Market Walk extension proposal, albeit on a smaller scale. As such I believe this income target to be realistic.

### Use of Reserves

25. The alternative budget includes the use of approximately £600k of unutilised reserves. This includes the £400k reserves utilised in the administration's budget but also includes approximately £200k of reserves currently identified for business and retail grants. The alternative budget proposes to utilise some of these reserves to fund its own business development and retail grant programme.

### **CONCLUSION**

26. The cumulative targets for staffing efficiency savings are similar for both the administration and the alternative budget, approximately £.21m by 2020/21. The alternative budget includes higher savings for non-staffing budgets, £379k in 2020/21 compared to the administration's target of £125k. This adds some additional risk in the alternative proposals to balance the budget.
27. Excluding council tax, income generation in both proposed budgets is similar, £589k in the alternative budget and £560k in the administration's budget by 2020/21. Both the proposals include commercial developments that represent a risk over the medium term including the risk that commercial negotiations do not deliver the level of forecast net income and the risk that developments are delayed and net income is not realised when forecast. The latter risk is

mitigated by the council through holding sufficiently large general fund balances.

28. Having reviewed the underlying assumptions and commented on the position in relation to key risks and working balances I am satisfied that the budget assumptions are reasonable, the key financial risks have been considered and the alternative budget is deliverable.

### **IMPLICATIONS OF REPORT**

29. 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**

30. These are contained within the report.

### **COMMENTS OF THE MONITORING OFFICER**

31. The report is designed to ensure that, if the alternative budget is approved, the relevant legislation is complied with in terms of Statutory Officer advice.

GARY HALL  
CHIEF EXECUTIVE

There are no background papers to this report.

<b>Report Author</b>	<b>Ext</b>	<b>Date</b>	<b>Doc ID</b>
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