

Medium Term Financial Strategy 2009/10-2011/12



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FOREWORD AND INTRODUCTION

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

This document sets out the Council's financial strategy for the three years 2009/10 – 2011/12. This is an important period with the introduction of the Comprehensive Area Assessment for Council and the rise in importance of Local Area Agreements and the impact they may have on funding streams to the Council.

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

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

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

- the desire to continue to restrain the levels of Council Tax rises to below inflation.
- to continue to provide value for money for the Council Tax payers of Chorley.
- to continue to invest in the services that matter to the people of Chorley with additional cash or additional work programmes using current resources.

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

It should also be noted that it is important to continue to seek to provide excellent services in terms of the statutory, regulatory and discretionary services that the Council offers.

POLICY CONTEXT

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

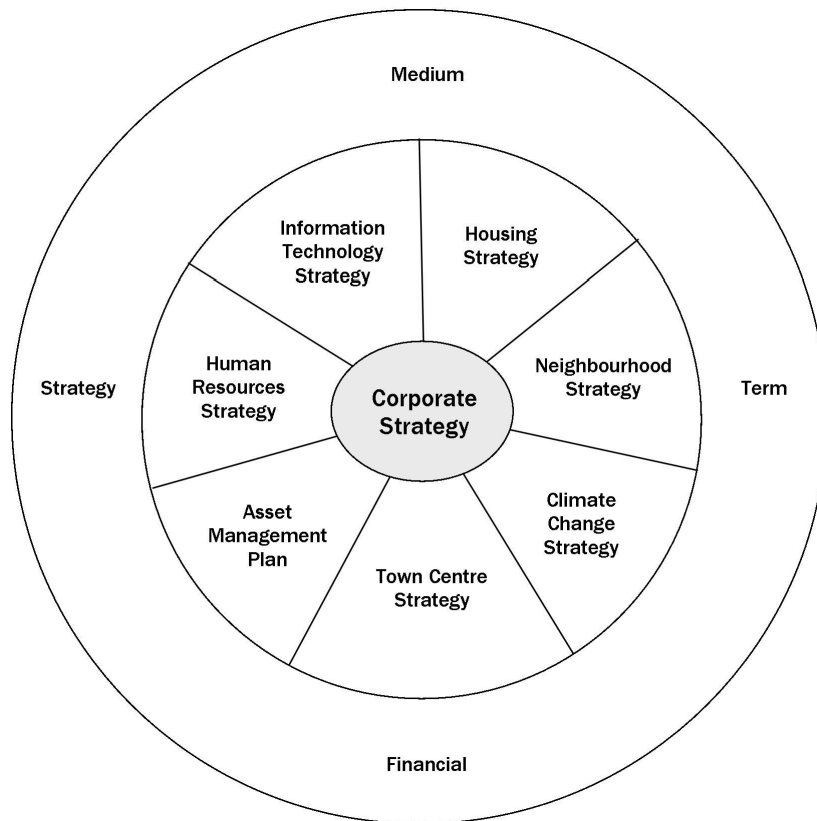
The Council has recently updated its Corporate Strategy, aligning it with the refreshed community strategy. The key priorities and objectives contained in that strategy are set out below:

Priority	Prosperity	People		Place		Performance
Strategic objective	1. Strengthen Chorley's economic position in the central Lancashire sub-region	2. Improving equality of opportunity and life chances	3. Involving people in their communities	4. Develop local solutions to climate change	5. Develop the character and feel of Chorley as a great place to live	6. Ensure Chorley Council is a consistently top performing organisation
Long Term Outcome	1.1 A vibrant local economy 1.2 A thriving Chorley town centre and other service centres 1.3 Preserve jobs in the borough 1.4 Create and maintain higher added value jobs	2.1 The number of SOAs in the worst 20% nationally will reduce 2.2 improved life chances for young people and children 2.3 improved quality of life for the borough's older people 2.4 Healthier communities and reduced health inequalities 2.5 improved quality of life in rural communities	3.1 People will be involved in decision making and in improving the well being of their communities 3.2 increase the level of volunteering in the borough	4.1 The council's environmental footprint will be reduced 4.2 An improved local environment 4.3 Seek to protect the local natural environment and improve biodiversity	5.1 More people will be satisfied with Chorley as a place to live 5.2 There will be a range of housing tenures that address community requirements 5.3 There will be more affordable housing 5.4 Safer communities 5.5 improvement and extension of the green corridor of Chorley	6.1 Community aspirations are delivered through the efficient use of resources and effective performance management 6.2 An excellent community leader 6.3 a provider and procurer of high quality priority services 6.4 An excellent Council that is continually striving to improve 6.5 improved access to public services

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

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

Diagram 1: Strategic Links



The Individual Strategies supporting the Corporate Strategy set out how the Council will achieve its objectives.

In each case the resources required are broadly developed through the Council's business planning process and resources identified during the budget round. Whilst in general the additional resources are being put into the delivery of the corporate strategies, this is achievable as the current resources allocation should be sufficient for the Council to achieve its corporate plans which ultimately support the delivery of the Corporate Plan aims, objectives, targets and measures.

FINANCIAL CONTEXT

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

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

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

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

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

Table 3: Assumption contained in 3 year forecasts

Assumption	2009/10 %/£	2010/11 %/£	2011/12 %/£
Pay award	+2.0%	+2.0%	+2.0%
Pension contribution	+1.0%	+1.0%	+1.0%
Grant Settlement	+1.7%	+1.5%	+1.0%
Housing Planning Grant	+£27k		

Capital	2009/10	2010/11	2011/12	Total
	£'m	£'m	£'m	£'m
Prudential Borrowing	0.322	0.630	0.575	1.530
Preserved RTB Receipts	0.100	0.100	0.100	0.300
Asset sales	0.510	0.411	-	0.921
VAT Shelter Receipts	0.594	0.594	-	1.188
Government Grants	0.543	0.557	0.500	1.600
Total	2.069	2.292	1.175	5.539

REVENUE FORECAST

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

Table 4: Budget Gap 2009/10 – 2010/11

Year	Budget Gap £'000
2009/10	264
2010/11	620
2011/12	381

The table shows that over the financial planning period post 2009/10 a further £1m will need to be found from the following sources:

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

From 2012/13 onward some of the current grants available will cease to be available, they may be replaced by others but until this becomes clear it has to be assumed that a further £250k will be needed from 2012/13 onwards.

In this respect the Council's Strategy will be:

- To continue to restrain Council Tax rises below inflation.
- Deliver a balanced budget over the Financial Planning Period 2009/10 – 2011/12.
- Identify the savings required to balance the budget seeking to minimise the impact on service users.

In this respect it will look to:

- Make better use of its asset base and rationalise the number of administrative buildings it uses.
- Maximise opportunities for better procurement.
- Complete the 3 year Programme of Value For Money recovery on all Council activities.
- Undertake a year on year baseline review of expenditure.
- Maximise the opportunities to attract specific grants.
- Further develop the Shared Services agenda
- Lobby the Government to redress some of the grant distribution issues.

In this respect the following information is relevant.

Asset Management Planning

The Council is currently undertaking a strategic asset review and contained within it is an aspiration to rationalise the Council's use of administrative buildings from 3 to 2. Should it be achieved this could generate savings in the region of £150k per annum through savings in running cost and sale or rent of one site.

Maximise opportunities for Procurement

We continue to ensure excellent procurement practice across the council and this has now been extended to include South Ribble as part of the Shared Financial Service. This extended service will enable bigger buying power and we are already identifying service areas such as Transport where savings can be achieved at Chorley. Additionally the Team Lancashire procurement Hub is now established and we should see procurement savings resulting from the contracts they put in place for the benefit of all Lancashire councils.

We are also working hard to deliver procurement savings through more innovative ICT service delivery and acquisition.

Over the 2 years I would look to achieve savings of £100k through Procurement savings from targeting in particular expenditure that has previously not recently been subject to a procurement process or where that procurement process has not been refreshed for some time.

Complete the 3 year programme of VFM Reviews

The VFM review programme continues and the first 2 reviews have resulted in restructures that will deliver in excess of £220k in annual salary savings. The most recent review of the business directorate will see an 11% reduction on the total salary budget in 2009/10. The remaining reviews will cover all support services and the People directorate. With an established successful format for undertaking the reviews now in place I am confident that this will deliver further savings through both identifying further shared services opportunities and achieving efficiencies. Applying an 8% percentage reduction on the salary budgets and taking account of the review timetables a target savings of up to £300k is not unreasonable over the next two financial years.

Further develop the Shared Services Agenda

The Council's 2009/10 budget individual savings from the growth of the financial shared service of £50k. It also includes a further target of £119k from the sharing of services on:

- Planning Policy and Enforcement
- Extending the financial shared service looking at revenues and benefits
- Crime and Disorder Reduction Partnership

This strategy is likely to be one that will need to be pursued vigorously in coming years as the Council along with other Councils in Lancashire looks to improve both the customer experience by breaking down the barriers and reducing costs. It should be remembered that sharing services can include buildings and infrastructure and assets as well as staffing.

I believe that the continuing development of shared services will play a major part in achieving our savings target. The Financial Shared Services with South Ribble has achieved a 5% reduction for Chorley on salary costs and if we replicate this across the areas we could tackle in the coming 2 years I am confident this will realise a further saving over the 2 years of around £150k in services such as Revenues and Benefits. A co-ordinated and strategic approach needs to be developed for this agenda.

Lobby for additional Government funding

Whilst the whole issue of the distribution of Government grant is one that has the propensity to determine the financial stability of the Council there are two particular aspects of funding that are significant in terms of the overall budget position.

Concessionary travel where the cost of the scheme have risen by £600k between 2007/8 and 2008/9 and the current system for reimbursing Housing benefit costs. Under this scheme the amount of subsidies the Council gets on the rent it pays through housing benefit is capped for private landlords who provide the tenant with care support or supervision but it is not for registered social landlords who provide the same package. In 2007/8 the loss to the Chorley tax payer totalled almost £200k. Therefore the Council is almost £400k short when compared against the budget on an annual basis. The Council needs to lobby hard to get the current distribution systems changed.

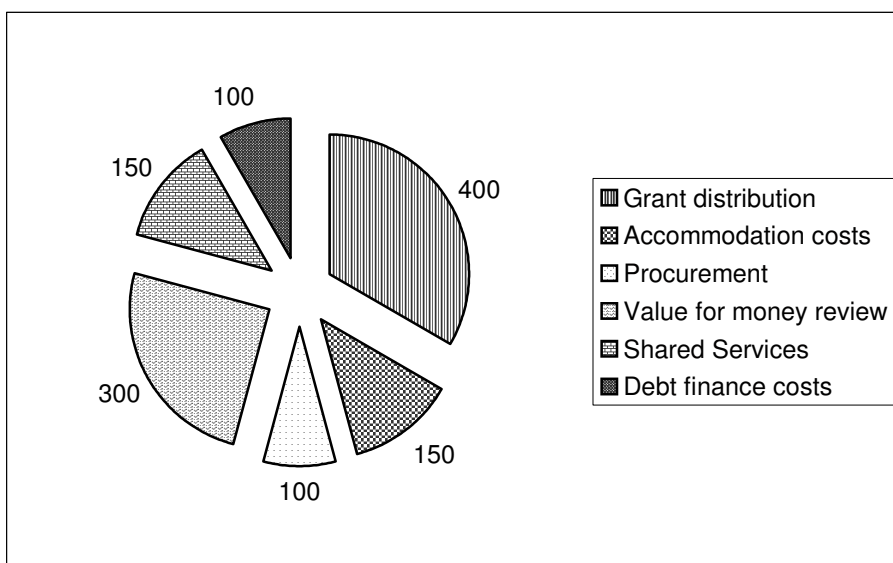
Debt Financing Charges

The Capital Programme 2009/2012 requires the use of capital receipts from the sale of assets of £0.9m and the use of VAT Shelter Receipts of £1.8m. In total however there is potentially a sum of £1.9m to be generated from asset sales and a further £3.1m from the VAT Shelter. If all sums are achieved there is therefore a sum of £2.3m uncommitted. The exact timing of the sales and receipts is clearly difficult to predict. However in terms of the financial strategy sums received during the period over and above those required to finance the programme should be set aside to reduce the Council's debt. A sum of £2m would reduce the ongoing revenue costs of approximately £100k annually.

In this respect the Council's efficiency and improvement targets and the areas of focus are summarised below:

With regards to future years the Council needs to ensure it does everything it can to deliver on these programmes of work to reduce its cost base. Should they all be achievable the potential savings total £1.2m.

Table 5 Potential areas for future savings.



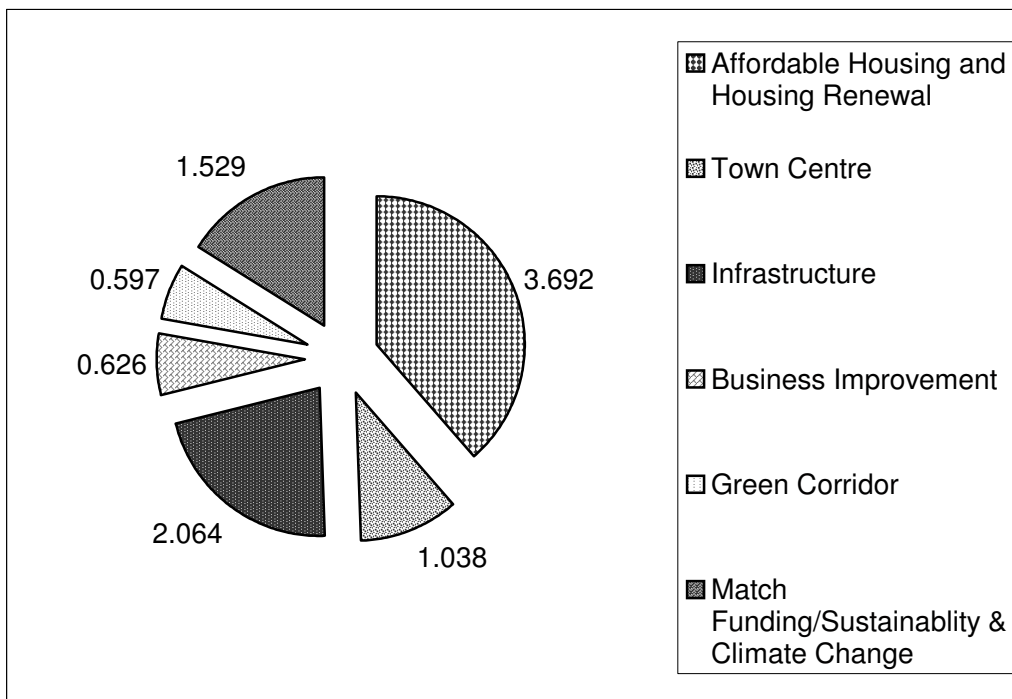
Capital Programme Forecasts

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

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

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

Diagram 5 Priority Areas for Investment



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

WORKING BALANCES

The current financial strategy that takes us up until the end of 2010/11 allowed for working balances to be in a range £1.25-1.50m. This was based upon the then risk profile.

However, from 2009/10 a number of the external factors influencing the Council's ability to either attract funding or to influence expenditure has changed. This is in the main due to the following reasons:

- The CSR07 means that there is a risk of less rate support grant over the planning period 2008/09-2010/11 and from that period onwards, the public finances may impact adversely on further grant support.
- The Concessionary travel costs are becoming clearer and will result in costs being greater than budget for the new scheme.
- The Government is capping capitalisation applications and as such the cost of change may need to be resourced internally.

The greatest potential impact is likely to come from the concessionary travel issue, but all of the issues have the propensity to affect the Council's ability to both balance its budget and continue to deliver effective services. The Government has signalled its intention to pass responsibility for Concessionary travel to County Councils in two tier areas in 2011. As such the expenditure is likely to be non recurrent and it is legitimate to fund the shortfall in the short term from working balances.

In this respect, I previously proposed that working balances were kept at a higher level in recognition of the risks. As the position is now clearer and the position should be resolved by 2011 it is possible to have a lower level of working balances as the greatest single risk to the Councils financial position should be resolved.

As members will be aware, working balances are there to protect the Council's against the 'peaks and troughs' in expenditure and allows them to be able to manage any changes to the base level of expenditure, that is required to bring the budget back into balance. Sometimes this can take time. Maintaining working balances means the Council does not have to make reactive changes that can significantly impact on service performance. The Council continues to manage its budget effectively with no significant overspends on recurrent budgets in the last few years.

In terms of resource availability, members will be aware and as reported in monitoring working balances are estimated to total £1.550m at the end of March 2009. The working balances position is made up of estimated balances in hand and forecast forward as shown below.

Working Balances	£'000
Forecast General Fund Balance at 31 March 2009	1,550,150
Current Budget Gap 2009/10	264,010
Concessionary Travel overspend 2009/10	234,317
Forecast General Fund Balance at 31 March 2010	1,051,823

In previous years the Council has been faced with the prospects of making savings and 2009/10-2011/12 will be exactly the same. The savings are necessary firstly to contain Council Tax and secondly, to redirect resources into corporate priorities.

Some inherent risks remain in the budget and the underlying assumptions I have made have been agreed by the executive and I believe they are reasonable. I have outlined my views and advice in relation to the level and adequacy of working balances and summarise the key risks and mitigation through the actions outlined in this Medium Term Financial Strategy in terms of the next phase of efficiency savings that are and should be put in place. In addition I have outlined that the use of working balances is legitimate but should only be a short term strategy whilst the longer term effects of the economic downturn and the costs of concessionary travel crystallise. On the basis the Council's strategic objectives in relation to working balances will be:

- To maintain working balances in the range at no lower than £1m over the financial planning period 2009/10-2011/12.
- To review the financial risks facing the Council during 2009/10 taking into account the latest information available.

TREASURY MANAGEMENT

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

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

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

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

- Have regard to the prudential code and set prudential indicators to ensure the Council's capital investment plans are affordable, prudent and sustainable.
- Make decision regarding borrowing and investment based upon the latest information and look to optimise returns on investment will minimise borrowing costs.
- Ensure the costs of borrowing are reflected in revenue forecasts.
- Comply with guidance relating to investments ensuring that:
 - capital is kept secure
 - liquidity is maintained at an appropriate level
- Not engage purely in borrowing to invest or lend on and make a return as this is unlawful.
- Agree a set of investment instrument which the Council can use based upon monitoring risk

The prudential indicators, targets and measures will be agreed as part of the budget setting process in February 2009, via the production of Annual Treasury Management.

Analysis of Budget Variations 2008/09 - 2011/12

	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000
Base Budget Requirement	16,523	16,482	18,960	19,665
Less	-	-	-	-
Recharges	-	-	-	-
Capital Charges	(1,998)	(1,664)	(4,198)	(4,198)
Cash Base Budget Requirement	14,525	14,818	14,762	15,467
Movements:				
Inflation	430	156	316	332
Pay				
Pensions	87	162	163	160
Non-Pay	37	163	62	65
Contractual	52	70	105	87
Income	(102)	24	7	6
Increments	107	108	73	42
Revenue Effects of the Capital Programme	120			
Volume - Income	(252)	70	(8)	(27)
Volume - Expenditure	482	112	(13)	17
Investment	74			
Rebasing of Base Budget	(315)	153		
Base Budget Savings Agreed	10	(254)		
Savings - Other	(21)			
Senior Management Review	(174)			
Savings Proposals	(152)			
Review of Fees & Charges	(223)			
Growth Proposals	265			
Effects of stock transfer - Reduction in cost - Other	41			
Effects of stock transfer - Service Level Agreements	2			
Savings Proposals/Member Decisions		(748)		
Contingency:				
- Genuine	(10)	-	-	-
- Management of the Establishment	8	(70)	-	-
- Job Evaluation	(174)		-	-
Directorate & Corporate Cash Budgets	14,818	14,762	15,467	16,148
Base Recharges			-	-
In year transfer of recharges to cash budgets	-	-	-	-
Capital:	1,998	1,998	4,198	4,198
Base Capital Charges				
In year transfer of capital	(334)	2,200	-	-
Total Recharges	1,664	4,198	4,198	4,198
Total Directorate & Corporate Budgets	16,482	18,960	19,665	20,346
Reversal of Capital Charges	(1,664)	(4,198)	(4,198)	(4,198)
Net Financing Transactions:				
- Net Interest/Premiums/Discounts	(575)	113	60	61
- MRP less Commutation Adjustment	151	358	352	360
Net Operating Expenditure	14,394	15,233	15,878	16,569
Total Expenditure	14,394	15,233	15,878	16,569
Financed By				
Council Tax - Borough	(6,173)	(6,306)	(6,524)	(6,749)
Parish Precepts	575	575	575	575
Council Tax Parishes	(575)	(575)	(575)	(575)
Aggregate External Finance	(8,221)	(8,358)	(8,487)	(8,572)
LAA Reward Grant	-	(150)	(150)	(150)
Area Based Grant		(23)	(23)	(23)
LABGI Grant		(150)	(75)	(75)
Collection Fund Surplus		16	-	-
Total Financing	(14,394)	(14,970)	(15,258)	(15,568)
Net Expenditure	(0)	264	620	1,001
Analysis of Net Expenditure (Budget Gap)				
Net Expenditure Brought Forward	-	-	264	-
Net Expenditure in Year	-	264	357	381
Net Expenditure Carried Forward	-	264	620	381

WITH 2.9% INCREASE IN COUNCIL TAX IN YEAR 1, THEN 3.0% IN YEARS 2 & 3