DRAFT MEDIUM TERM FINANCIAL STRATEGY 2009/10 TO 2011/12

LANCASTER CITY COUNCIL
Promoting City, Coast & Countryside

For consideration by Council 04 March 2009

INTRODUCTION

Lancaster City Council operates in a dynamic environment. There is a continual need to respond to changes in service demand and new legislation, as well as expectations for new and improved services for the community.

These demands and aspirations must be balanced against the resource constraints that the organisation faces. Such constraints have become increasingly challenging and are likely to remain so.

The City Council manages its response to these challenges through a rolling process of policy review and financial planning. The Medium Term Financial Strategy (MTFS) is integral to this.

A MEDIUM TERM FINANCE STRATEGY - OUTLINE

What is the Medium Term Finance Strategy?

Competing demands and limited resources mean that difficult choices must be made. The MTFS outlines the key financial principles and targets that the Council is seeking to achieve, subject to various constraints and conditions. The Strategy also sets out the policy / financial planning and budget setting processes that the Council will undertake in seeking to achieve these targets. These processes are designed to ensure that policy objectives and spending demands are balanced against available resources, having regard to risk considerations and the community's needs. Overall, this supports the achievement of best value in providing services for local taxpayers, whilst keeping Council Tax increases at a reasonable level.

In broad terms the MTFS concentrates on services funded through Council Tax. Financial planning arrangements associated with the provision of council housing are tied in with the statutory need to have a thirty year business plan for that service.

Aims and Objectives

The aims and objectives of the MTFS are to:

- avoid volatile fluctuations in the provision of Council services and related annual levels of Council Tax
- match resources both to demand and to Council priorities
- plan for and respond to any changes in Local Government funding
- provide a basis for informed decision-making across all Council policies and activities, underpinned by risk management
- support consultation with stakeholders on a broad range of associated issues, where appropriate

- support the achievement of efficiency, effectiveness and economy in the use of the Council's resources, including any associated targets. This includes:
  - maximising efficiency savings (see below) and, where acceptable, increasing income
  - protecting front-line services as far as possible, whilst minimising administration costs, and
  - challenging traditional methods of service provision.

Typically there is the need to address a funding gap between spending aspirations and the resources available and, consequently, how to achieve savings. However, there is also the need to accommodate growth in demand for services, legislative changes and the costs of financing and implementing major projects. This can require a significant realignment of resources so that expenditure can be contained within budget and Council Tax increases can be set at an acceptable level.

The Council's corporate priorities and key objectives for the period of this Strategy are as follows:

Local Economy:	Work in partnership for economic regeneration
Clean & Green Places:	Maintain clean streets & open spaces Develop local responses to climate change
Safe & Healthy Communities:	Work in partnership to make the district even safer Contribute towards health improvement
Local Communities:	Work in partnership to meet differing community needs Improve housing standards, availability & affordability

An analysis of the Council's revenue spending will be included in the final Corporate Plan document, once details have been finalised.

<u>The Focus on Savings</u>

Efficiency savings are regarded as a priority over other forms of making savings in Council expenditure. Efficiency savings are achieved through measures that:

- maintain the same level of service provision while reducing the resources needed or deploying fewer staff;

- result in additional outputs, such as enhanced quality or quantity of service, for the same resources; or

- remodel service provision to enable better outcomes.

Such measures can lead either to "cashable" savings, where there is a direct financial saving or benefit, or "non-cashable" savings, where there may not necessarily be a reduction in costs, but there is improved performance for the resources used. More emphasis is placed on achieving cashable savings, and this is reflected in the latest Government targets, which now cover only cashable items.

Over recent years the Council has achieved significant cashable efficiency savings which have, in part, contributed to balancing the books, though a proportion of these savings has been reinvested to meet growth in service demand and legislative requirements. To maintain this for the future, the Council's strategy for achieving value for money, and its supporting arrangements, will be key tools.

In view of the key financial targets set out later, however, the Council recognises that to achieve the required level of savings, service reductions and/ or restructuring will be inevitable. Care will be taken to achieve service reductions in areas that are considered least “harmful”, given statutory and regulatory responsibilities, Council priorities and the outcome of consultation.

Timetable and Key Dates

Generally the budget process looks at a three to five-year time span but as it develops through the year, attention will become more focussed on the detailed budget for the next financial year.

Although there is some flexibility within the process certain key dates are fixed by Government, particularly those regarding funding announcements and legislative requirements. Government funding directly influences the match between service provision and Council Tax levels, and so is a critical factor in the process. In previous years the timing of announcements has created uncertainty during the initial stages of each year’s budget development and the lack of certainty regarding future years’ funding levels has made financial forecasting difficult. The Government is now in a cycle of providing 3-year provisional Settlements, however. Whilst these run consecutively, in line with Government’s 3-year Comprehensive Spending Reviews (CSRs), they will still assist the Council significantly in terms of financial planning. As usual, a budget timetable will also be drawn up to facilitate the planning process.

Who is Involved?

The MTFS process relies on:

- liaison between elected Members and officers of the Council; and
- consultation with stakeholders and key partners, (including the public, the LSP, businesses, and trade unions).

In recent years the Council has widened its consultation with members of the public who pay Council Tax and with other stakeholders. It will consider further improvements as part of the overall Consultation Strategy, given the Council’s increased commitment to support consultation, and taking account of any feedback as appropriate. Key messages regarding the MTFS will be communicated to major stakeholders, once it has been formally approved.

B FINANCIAL TARGETS AND PRINCIPLES

Key Financial Revenue Targets

The Strategy provides a framework for matching resources to spending priorities, translating this into realistic expectations for future Council Tax levels. Lancaster City Council believes that tax increases should allow for a balance between spending aspirations and best value for local taxpayers. In deciding on the level of Council Tax, the Council should also have regard to

- anticipated level of pay awards,
- the level and measure of inflation,
- Government’s *targets* for the overall rise in Council Tax,
- Government’s *targets* for efficiency savings,
- the ability to meet Statutory minimum requirements.

The Council will aim to set an upper limit of a 4.0% Council Tax increase for 2010/11 and 2011/12. Given the existing capping criteria, this limit applies to the basic City Council Tax Rate across the district, excluding parish precepts.

As a consequence, the table below sets out the key financial targets that the Council will strive to work within for the next three years.

	2009/10	2010/11	2011/12
Target Council Tax Increase	4.0%	4.0%	4.0%
Target Year on Year Net Savings Requirement	--	£1,073,000	£249,000
Target Cumulative Net Savings Requirement	--	£1,073,000	£1,322,000

Headroom for known and approved policy driven growth (e.g. food waste recycling) is already provided for in the budget projections. The net savings targets would need to be increased for any additional headroom for any further policy driven growth that may be required in future, or for any further net increases arising to the base budget, given the financial risks facing the Council. Clearly savings targets are indicative and will continue to be monitored and reviewed as referred to later in this Strategy document.

The target tax increases set out in the table for 2010/11 and 2011/12 are much lower than those forecasted during the budget exercise (i.e. 17.4% and 6.2% respectively). In order to achieve the targets, significant reductions in spending or increases in other income will therefore be required, particularly for 2010/11. This need will be addressed by the Council as part of the Monitoring and Review process set out in section D of this document.

Use of Revenue Balances

The Council recognises that general balances are needed to provide:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing, and

- a contingency to cushion the impact of significant unexpected events or emergencies.

The Council's Section 151 Officer has advised that the Council's balances should be maintained at £1M for General Fund and £350K for the Housing Revenue Account; the Council accepts this advice.

In retaining balances at these levels, as at 31 March 2009 the Council is estimated to have only £191K surplus balances available to support revenue spending, and most of this will be used in 2009/10. Thereafter, there are no contributions from balances assumed within the General Fund budget projections.

Borrowing to Support Capital Investment

The Council's capital programme is based on an underlying reduction of £1.4M in its borrowing requirement in 2009/10; this is to offset the short-term increase approved for 2008/09. No further borrowing requirement is assumed, although certain flexibilities have been built into the borrowing limits for Luneside and Municipal Building Works, if required.

The level of borrowing requirement has been determined taking account of various factors such as:

- Availability of other sources of finance
- Existing commitments and service / priority changes
- Other Council strategies (particularly regarding property)
- Revenue consequences of borrowing, including the anticipated level of Government supported borrowing.
- The potential for further liabilities arising, e.g. in connection with Icelandic investments.

Details of the Council's Prudential Indicators as required under the relevant Code are set out at Annex A (to be attached) and the Treasury Strategy for next year sets out the framework for managing the Council's associated debt.

In reviewing capital plans, the Council has taken a reasonable approach in forecasting future capital receipts and in doing so it has recognised that over the years, there may be potential to generate extra resources depending on planning and economic factors. It has also recognised, however, that forecast receipts are high (and therefore riskier), and the position will require close management. To support this, Members have also resolved that additional measures should be taken forward to provide alternative funding solutions, as further mitigation.

The Council has also continued with measures to improve the renewal and refurbishment of assets and provision remains within both Revenue and Capital budgets. This is in line with previously recognised needs, and the Council's Corporate Property Strategy. The Council will continue to review its capital investment plans during 2009/10, to combine these aspects in view of the ultimate aim of securing a portfolio of fit for purpose, energy efficient municipal buildings and accommodation.

<u>Budget Cash Limits</u>

The Council ultimately approves the budget forecasts for future years and any associated use of balances. Cabinet must work within this framework, unless any flexibility is agreed by Council.

The budget before the use of balances is known as the cash limit. The budget after the use of balances is known as either the Net Revenue Budget or the Budget Requirement.

For the next three years, the figures are as follows:

Year	Basic Cash Limit £'000	Forecast Use of Balances £'000	Forecast Net Revenue Budget £'000
2009/10	24,186	187	23,999
2010/11	25,785	--	25,785
2011/12	26,705	--	26,705

Cabinet has no flexibility to increase net spending over the amounts shown above (or to take on new spending commitments for subsequent years).

C BUDGET SETTING

This is the annual process that integrates any agreed policy changes and priorities with inflation and other financial adjustments, to arrive at a set of detailed management budgets for the year ahead within the targets set for annual Council Tax increases.

Introduction

Through the review process, elected Members determine the allocation of resources across services and Corporate Plan priorities. In conjunction with the Head of Financial Services, Service Managers are responsible for the more detailed aspects of budget preparation including bringing forward project approvals and service provision options to assist elected Members' deliberations.

The annual budget approved therefore is a resource plan that, as far as possible, matches inputs (e.g. staff, premises, equipment) to planned outputs and objectives, and gives authority to spend. Therefore budgets are critical to ensuring that resources are directed in accordance with agreed policies, strategies and priorities, and in providing a basis for monitoring and accountability.

Lancaster's Approach to Budget-Setting

The Council generally takes an incremental approach to budget-setting. Broadly speaking, this means that the current year's budget provides the starting point for next year's.

This "baseline" assessment of the cost of service provision is referred to as the base budget. In the course of the planning process, the base budget for each service area is updated to include the following:

- an allowance for the estimated level of inflation from one year to the next;
- adjustments, e.g. to reflect the transfer of functions in the Council, or changes in activity / demand levels for services where appropriate;
- any previously approved changes to policy or strategy, for example a reduction in budget to reflect withdrawal of services or an increase to fund a new initiative or the impact of new legislation.

Major Budget Assumptions and Risks

During the budget process, the main assumptions underpinning the process are identified, assessed and reported to Members, together with the main financial risks facing the Council. This is an important element of the Council's Risk Management arrangements, and major issues will influence the scope and timing of the monitoring and review processes outlined elsewhere in this Strategy. A summary of key risks and assumptions is attached at Annex B.

Publication of the Annual Budget

The Council's budget is approved in line with the agreed timetable and is published each year in three main documents:

- the budget / council tax leaflet, which is distributed to local tax payers along with the Council Tax bills each spring;
- the budget book, which is distributed to Council officers and elected members;

- the Corporate Plan, linking spending with the Council's priorities and objectives.

In addition, information is available from the Council's Website at www.lancaster.gov.uk

D MONITORING AND REVIEW

In balancing policy objectives and spending demands against available resources, the Council needs to ensure that it takes adequate account of the many changes or issues that inevitably arise during the course of a year. This will be done in a variety of ways:

- The Council has in place a performance management framework; through this a quarterly review of services' performance and financial management is conducted. Performance Review Team (PRT) meetings involve Directors, Service Managers and elected Members. Members' involvement is also reflected in the democratic arrangements for both the executive and scrutiny functions, to ensure that there is sufficient liaison and constructive challenge for the process to be robust.

- For 2009/10, given the extent of budget savings to be implemented, these will be covered specifically within PRT and other supporting monitoring arrangements.

- The Council also has processes to facilitate further review of the budget. This review process has generally commenced early in each year, and may focus on key priority or 'hotspot' activities as appropriate.

- Any potential impact generally from the Council's corporate financial monitoring arrangements will be considered, together with the impact of the previous year's outturn. This will also include a review of the national economic outlook and other key assumptions and risks underpinning the budget. Corporate financial monitoring reports will be produced quarterly, and reported to the Leader's PRT and on to Budget and Performance Panel. They will also be reported into Cabinet.

- An impact assessment of any key decisions will be undertaken, including any proposed major policy changes. In particular, this covers Human Resources (HR) and Property.

- The Council's arrangements for consultation on budget matters and its overall budget timetable will be reviewed, with any approved changes implemented in time for the 2010/11 budget process.

Major changes in policy or service delivery that are implemented over a number of years on a phased basis will have budgetary impact spread over a corresponding period. These will be reported to Council for full incorporation into this strategy as appropriate, once they have been evaluated.

The outcome of the monitoring and review arrangements will be brought together to avoid a piecemeal approach to reviewing the Strategy. This may necessitate changes to the MTFS framework and the key financial targets contained within it. Any changes will ultimately be reported twice yearly (once during autumn 2009 and once as part of the 2010/11 budget process) for referral on to Council for approval, together with the rationale behind such changes. This is on the basis that the MTFS forms part of the Council's overall Budget and Policy Framework.