MEDIUM TERM FINANCIAL STRATEGY 2010/11 TO 2012/13

LANCASTER CITY COUNCIL
Promoting City, Coast & Countryside

For Consideration by Council 03 March 2010

1 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.

2 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 reasonable levels.

Previously the Council's strategic financial planning was set out in two separate documents for revenue and capital. To streamline the framework, strengthen further co-ordination and understanding and to avoid some duplication, the MTFS now brings together both revenue and capital financial planning. 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. In future it is planned that the MTFS should cover council housing revenue finance, in line with future housing strategy, although it is likely that this change may take some time to complete fully. In particular, the outcome of consultation regarding the future funding arrangements for council housing is currently awaited, although any changes may not be implemented until 2012/13 or so. In any event, the Council needs to ensure that future housing provision is considered in context of its strategic objectives, as it is likely to have a bearing on General Fund as well as the Housing Revenue Account.

3 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 acceptable levels.

4 LINKS WITH COUNCIL PRIORITIES

The MTFS must take account of and reflect the strategic direction as set out in the Council's Corporate Plan, and one of the aims and objectives of the Strategy itself is to match resources both to demand and to Council priorities.

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

(1) Economic Regeneration supporting our local economy:
- Energy coast and environmental technology (advance manufacturing)
- Heritage and cultural tourism for the district (city, coast and countryside) – to include creative industries and 'high end' employment too.

(2) Climate Change – implementing the City Council's Climate Change Strategy. A focus on energy savings – so that we are not hit by rising fuel prices, we improve our environment and create cashable savings.

(3) Statutory services – clean and green – achieving at least minimum statutory standards in, for example, housing, environmental health, street cleansing and refuse collection.

(4) Partnership working and Community Leadership – shaping the district and working with others to deliver the Sustainable Community Strategy and provide services currently contributing to the quality of life in the district that are not the District Council's main function or priority.

The wording of these will be updated in Council approving the Corporate Plan and this section will be updated accordingly. The following table provides a provisional breakdown of the General Fund revenue budget and all capital budgets (including council housing) broadly analysed over the above priorities and key objectives; this too will be updated accordingly once the Corporate Plan has been finalised. Further work is also being undertaken to demonstrate the links to corporate priorities at service level.

PRIORITY / KEY OBJECTIVE	ANNUAL REVENUE BUDGET £000	5 YEAR CAPITAL PROGRAMME £000
Economic Regeneration	5,610	17,255
Climate Change	876	7,101
Statutory Services –clean and green (housing etc)	17,419	23,086
Partnership working & Community Leadership	835	170
TOTAL BUDGET	**24,740**	**47,612**

5 SAVINGS AND EFFICIENCY PROGRAMME

If the Council is to meet the financial targets set out in this Strategy then it must be clear and focused in how it will achieve these targets. It is recognised that these cannot all be agreed and delivered at the same time and that any Savings and Efficiency Programme (SEP) must be delivered in a phased approach over the period of this Strategy. The SEP therefore provides the framework within which the Council will work to identify a range of savings and efficiency options to meet these targets.

The strategy to generate savings and efficiencies pulls together a number of actions currently being pursued by the Council and previously agreed by Cabinet. These are:-

- Understanding what we spend our money on
- Performance management
- Improved partnership working and collaboration
  - Shared Services
  - Lancaster District Local Strategic Partnership (LDLSP)
- Commissioning and procurement
- Improving how we do things (Business Process Re-engineering)
  - Better use of technology/ICT
  - Access to Services / Self Help
  - Capacity and skills
  - Council Assets
- Charging for services, and other initiatives.

6 PARTNERSHIP WORKING

In terms of day to day service provision, the Council has already acknowledged that it cannot provide for all the needs of its communities itself. It must work with partners to remove duplication and make better use of economies of scale and the limited scarce resources and skills that are available. This will be pursued through the savings and efficiency programme.

With regards to capital activities, it is also acknowledged that direct financial support from the Government for capital investment and the Council's asset sales programme will not finance all the Council's capital investment aspirations. The Council has, therefore, formed partnerships, some of which bring specialist knowledge and skills and some of which also provide sources of funding for schemes.

The City Council has demonstrated its strong commitment to partnership working through its Corporate Plan and the Council believes that effective partnership working has a key role to play in the achievement of its objectives. With this in mind, the Council has undertaken an evaluation of eight key partnerships and is continuing to develop the framework for partnership performance monitoring and evaluation.

7 REVENUE PLANNING

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.

The Focus on Savings

Underpinning the Savings and Efficiency Programme is the principle that 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. Emphasis is placed on achieving cashable savings and this is reflected in the latest Government targets, which now cover only cashable items.

Notwithstanding the drive for efficiency, it is also expected that savings will be needed through reducing the level or range of services provided, if future financial targets are to be met.

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,
- the level of Government funding,
- 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 3.75% Council Tax increase for 2011/12 and 2012/13. 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.

	2010/11	**2011/12**	**2012/13**
Target Council Tax Increase	3.75%	3.75%	3.75%
Target Year on Year Net Savings Requirement (if recurring items)	-	£385,000	£496,000
Target Cumulative Net Savings Requirement	-	£385,000	£881,000

Headroom for known and approved policy driven growth 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 2011/12 and 2012/13 are lower than those forecasted during the budget exercise (i.e. 8.4% and 9.1% respectively). In order to achieve the targets, future reductions in spending or increases in other income will therefore be required, particularly for 2011/12. This need will be addressed by the Council as part of the Savings and Efficiency Programme, as referred to in section 5 of this document, and the Monitoring and Review process set out in section 9.

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.

As at 31 March 2011 the Council's General Fund balances are estimated to be £120K over the minimum £1M level. Thereafter, there are no contributions from balances assumed within the General Fund budget projections.

Budget Cash Limits

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 (excluding savings and growth proposals):

Year	Basic Cash Limit £'000	Forecast Use of Balances £'000	Forecast Net Revenue Budget £'000
2010/11	24,740	--	24,740
2011/12	24,938	--	24,938
2012/13	25,292	--	25,292

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

8 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 proposals and service provision options to assist elected Members' deliberations.

The approved annual budget 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

9 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.

- The Council also has processes to facilitate further review of the budget. This review will be taken forward as part of the Savings and Efficiency Programme highlighted in section 5 of this Strategy.

- 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 through workforce planning, 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 2011/12 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 incorporated into this strategy as appropriate, once they have been evaluated and approved.

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 2010 and once as part of the 2011/12 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.

10 CAPITAL INVESTMENT STRATEGY

This section of the Strategy sets out the Council's approach to capital investment over the next five years, taking account of its corporate priorities and objectives for the medium term and also affordability, given that resources are limited and the Council is faced with managing competing demands.

The Prudential Code for Capital Finance in Local Authorities was introduced to support councils in planning for capital investment at a local level. The key objectives of the Code are to ensure, within a clear framework, that:

- the capital investment plans of local authorities are affordable, prudent and sustainable;
- treasury management decisions are taken in accordance with sound professional practice; and
- local strategic planning, asset management planning and proper options appraisal are supported.

By setting out the framework through which capital resources will be allocated and managed, the ultimate aim is to help ensure value for money from capital investment, and to show how such investment will contribute to the achievement of the authority's objectives. Also, it reinforces openness and accountability in the decision-making and management surrounding capital spending.

Details of the Council's Prudential Indicators as required under the relevant Code are set out at ***Annex A*** (i.e. Appendix H of the Council agenda) and the Treasury Strategy for next year sets out the framework for managing the Council's associated debt.

It is imperative that the investment of capital resources contributes clearly to the achievement of the authority's objectives and supporting activities, and that such investment represents real value for money for people in the district. Therefore the Council's corporate priorities are used as the initial basis for prioritising capital investment.

11 CURRENT CAPITAL POSITION

The Council's Balance Sheet is summarised below. The balance sheet pulls together all the Council's assets (*including 'fixed' assets such as property holdings and 'current' assets such as cash holdings and monies owed by debtors)* and its liabilities *(including outstanding borrowing – both short and long term, as well as provisions and reserves, which may or may not be cash backed).*

In financial terms, therefore, the balance sheet shows the 'value' of the authority at that date, but based on accounting conventions and certain valuation principles; these are not necessarily the same as 'market' values. Furthermore, clearly much of the Council's worth is tied up in property holdings, the majority of which are integral to providing services and supporting delivery of the Council's objectives. This means that such assets cannot readily be sold.

A key task within the Council's Corporate Property Strategy is to keep the authority's property portfolio under regular review to ensure that its capital base remains fit for purpose and that any major associated risks or opportunities are identified and managed as appropriate.

Summary Consolidated Balance Sheet	**31 March 2008 £'000**	**31 March 2009 £'000**
Intangible Assets	678	474
Tangible Fixed Assets:		
Council Dwellings	153,065	160,152
Other Land and Buildings	49,363	47,994
Vehicles, Plant and Equipment	5,022	4,675
Infrastructure	32,503	33,808
Community Assets	7,182	8,055
Non Operational Assets	29,761	36,514
Other Long Term Assets	1,047	29
Current Assets	30,149	28,242
Current Liabilities	(15,250)	(20.070)
Other Liabilities (including capital related borrowing)	(139,134)	(134,984)
Total Assets less Liabilities	**154,386**	**164,889**
Capital Adjustment Account	176,161	170,294
Revaluation Reserve	3,923	21,527
Financial Instruments Reserve	(975)	(2,027)
Pensions Reserve	(41,517)	(40,910)
Other (Usable) Reserves & Balances	16,794	16,005
Total Equity	**154,386**	**164,889**

The Council's proposed gross Capital Programme and financing (combining General Fund and Council Housing) is also summarised overleaf, provisionally analysed over the Council's corporate priorities and other supporting investment. This will be updated once the Corporate Plan has been finalised:

	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	Total £'000
Priority Areas:						
Regeneration	10,036	7,219	--	--	--	**17,255**
Climate Change	1,732	1,571	1,446	1,426	926	**7,101**
Partnership Working	106	16	16	16	16	**170**
Statutory Services	4,415	2,645	2,773	2,773	2,773	**15,379**
Other Supporting Investment:						
Municipal Land & Buildings	3,075	2,188	801	--	--	**6,064**
ICT	507	80	70	335	70	**1,062**
Other	191	150	90	60	90	**581**
Total Gross Programme	**20,062**	**13,869**	**5,196**	**4,610**	**3,875**	**47,612**

12 FUNDING FORECASTS AND ASSUMPTIONS

To support affordable, sustainable and prudent capital investment, the Council's approach to planning and forecasting its future capital resources is outlined below. Whilst the Strategy covers all capital investment irrespective of how it is financed, many sources of external funding (mainly through grants and contributions) are tied in with delivering specific schemes; decisions on whether these should be progressed will be based on the options appraisal and prioritisation processes outlined later. With this in mind, at this stage this section focuses on the availability of the Council's resources through borrowing, revenue financing or capital receipts.

12.1 UNDERLYING BORROWING NEED TO SUPPORT CAPITAL INVESTMENT

There is no ***supported*** underlying need to borrow (or Capital Financing Requirement: CFR) forecast for the five-year period.

Assumptions underpinning the Council's ***unsupported*** underlying borrowing need are outlined below:

i. Taking into account the latest revenue budget and council tax projections set out later in this Strategy, and the Council's likely investment needs arising from the condition of its asset base and from progressing its corporate and service priorities, the General Fund capital programme provides for a £591K reduction in the underlying requirement for unsupported borrowing from 2010/11 onwards.

ii. As in previous years, the practice will continue by which the Head of Finance will, under delegated authority, assess the most appropriate means of financing for the purchase of new vehicles and equipment. Unsupported borrowing will be selected if this offers a more cost effective solution than leasing, with the Capital Programme being updated as necessary.

iii. Further prudential unsupported borrowing may be considered, but only in context of either:

- Providing funding to meet any additional costs arising in connection with Luneside East scheme. Cabinet approval would be required before this facility could be called on;

- Providing cover for any losses associated with Icelandic investments, in accordance with any changes to capitalisation directives granted by Government;

- Providing interim funding for any emergency building works, prior to other sources of funding (e.g. capital receipts) becoming available;

- Robust, achievable revenue savings being identified or income being generated to at least offset the ongoing (whole life) costs associated with individual schemes, and / or borrowing being required to support the cashflow position of major schemes spanning financial years. This would require further specific Cabinet / Council approval as required.

- No underlying borrowing requirement is assumed for council housing investment but this will need to be reviewed in light of the outcome of the housing funding review.

- Whether or not any of these underlying borrowing needs will give rise to actual additional long-term borrowing or, alternatively, be financed by utilising the Council's cash balances, is a decision that will be made within the framework of the Council's Treasury Management Strategy.

12.2 REVENUE FINANCING OF CAPITAL SCHEMES

Assumptions regarding direct revenue financing (DRF) are as follows:

- Substantial general budgetary provision for direct revenue financing will be made within the Housing Revenue Account (HRA) for council housing purposes, in line with existing budget forecasts. No such general provision will be built into the General Fund revenue budget, though revenue financing related to specific schemes may be considered in appropriate circumstances, e.g. invest to save schemes.

- Revenue financing from reserves will be based on existing earmarked reserve levels (or projections), as long as capital investment proposals match with the approved use of those reserves.

12.3 CAPITAL RECEIPTS FORECASTS

Over the next five years, from 01 April 2010, general capital receipts totalling £10.1M are anticipated, of which approximately £9.6M relates to General Fund property disposals with the remainder relating to Council housing. The assumptions regarding their use are set out below:

- Any council housing capital receipts will be used to support capital investment in council housing stock and supporting assets, and related environmental improvements.

- For General Fund, all of the £9.6M capital receipts will be used over the period to support capital investment generally. Capital receipts will not normally be ring-fenced into reinvestment into particular areas, as this can undermine the prioritisation of investment needs, but there are exceptions to this:

  - o Capital receipts arising from the West End Masterplan implementation will be ring-fenced to the further development of projects identified in the Masterplan itself, subject to appropriate Cabinet approval.

- The application of any additional General Fund capital receipts arising (i.e. apparently exceeding the target referred to above and not covered by the specific ring-fencing arrangements outlined) will be considered in context of the likelihood of meeting the overall target. They will not be used to support new spending or commitments. For Council Housing, any additional capital receipts may be used to support the 30-year business plan.

13 SUMMARY OF FORECAST CAPITAL RESOURCES

In line with the above assumptions, the forecast of capital resources is summarised as follows. Furthermore, the delegated authority granted to the Head of Financial Services still applies for arranging the most cost-effective means of financing equipment acquisitions, subject to various constraints and reporting requirements. This may result in some switching between funding sources *(Cabinet Feb. 2005 refers).*

	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	Total £'000
General Fund:						
Capital Receipts	1,708	6,591	827	280	184	9,590
Revenue Financing (incl. reserves)	373	115	95	45	--	628
Underlying (-) Reduction / Increase in Unsupported Borrowing need	3,446	-4,234	93	104	--	-591
External Grants & Contributions	10,650	7,811	592	592	102	19,747
Funding Forecast	**16,177**	**10,283**	**1,607**	**1,021**	**286**	**29,374**
Council Housing:						
Supported / Unsupported Borrowing	--	--	--	--	--	--
External Grants	15	15	15	15	15	75
Capital Receipts	58	113	116	118	121	526
Direct Revenue Financing (General)	1,191	1,064	1,005	956	953	5,169
Reserves	314	30	33	--	--	377
Major Repairs Allowance	2,307	2,364	2,420	2,500	2,500	12,091
Funding Forecast	**3,885**	**3,586**	**3,589**	**3,589**	**3,589**	**18,238**

14 CAPITAL INVESTMENT PRIORITIES

In line with the Council's core values, priorities and associated targets, capital investment for the period to 2015 will be focused into delivering the Council's medium term priorities and objectives as set out earlier. In determining priorities where funding is limited, then preference will be given to those schemes that contribute to delivering the agreed high priorities for capital investment, as set out below:

- Delivering the Council's Economic Vision as set out in the Economic Regeneration Strategy
- Delivering improvements for Cleaner Streets and the Public Realm
- Completion of the phased implementation of the Recycling and Waste Management Strategy
- Delivering schemes that support the Council's Climate Change agenda
- Developing further the district's Cycling Infrastructure
- Delivering the City Council's obligations in the Sustainable Community Strategy, Community Safety Partnership, and the county wide Lancashire Local Area Agreement.
- Progressing the priorities within the Council's agreed Housing Strategy and in particular, in meeting the 'Lancaster' Standard in the provision of Council Housing, in line with the 30-Year Business Plan.
- Refurbishment/ replacement of existing property or facilities required to deliver existing service levels, or to achieve key performance targets as set out in the Corporate Plan or Corporate Property Strategy, or to meet other legislative requirements.
- New (or the expansion of existing) facilities, where they link clearly with the draft Corporate Plan and they are either :

- at least self financing (both in revenue and capital terms) or

- invest to save proposals that require some up front capital investment but would generate cashable (and where possible, non-cashable) ongoing revenue savings. As a general guide, payback should be achievable in the medium term, up to 5 years, but longer payback periods may be considered should circumstances warrant it.

15 PRIORITISATION OF SCHEMES

The authority's annual review of its budget, planning and policy framework underpins the development of a five year rolling programme. The prioritisation process ensures that the programme is informed by the outcome of all relevant reviews and improvement/development plans. Additionally, corporate property requirements are identified through the asset management arrangements in place. An outline of the prioritisation process is provided below.

i. Each year services draw up their capital investment plans and outline project appraisals, in accordance with anticipated service needs and objectives (linked to service business and asset management plans) as well as this Strategy document. Services are required to liaise closely with the Corporate Property Officer, Financial and other Support Services as appropriate. Services' investment plans include a review of the schemes within the existing five year Capital Programme, as well as any potential new needs in line with any emerging priorities or changing circumstances.

ii. In conjunction with relevant directors, Services prioritise their service requirements for consultation with relevant Cabinet Members and discussion at informal briefings such as Star Chamber sessions.

iii. The authority requires all proposed capital projects to undergo a rigorous project appraisal, using a standard framework to ensure that all projects are appraised consistently and are deliverable.

iv. Through consultation, Members, Committees and key partners may advise on the projects which they wish to put forward for inclusion.

v. A corporate prioritisation exercise (programme appraisal) is undertaken initially by officers, to compile a corporate list of projects for Cabinet's initial formal consideration. This takes account of the outcome of any project appraisals and corporate property matters, as well as Members' and other Stakeholders' views regarding proposed priorities for the period. The outcome is then reported to Cabinet for formal consideration.

16 FUNDING LEVELS AND ALLOCATION OF RESOURCES

In Cabinet making its initial recommendations to Council regarding the Capital Programme, the principles of prudence, affordability and sustainability are considered fully against prioritised capital investment needs and aspirations. Given that resources are scarce, this process enables the authority to consider and appraise alternative financing levels or strategies and their impact on the Council's revenue budget and medium term financial planning, or the 30-year Business Plan for Council housing.

This is an iterative process (between Cabinet and Council), in line with the requirements of the Prudential Code. Ultimately the General Fund Capital Programme and its financing will be approved by Council at the Budget Meeting to be held in late February / early March, together with the Revenue Budget and resulting Council Tax. Generally the Council Housing Programme will be approved at the meeting earlier in February.

17 FRAMEWORK FOR THE MANAGEMENT AND MONITORING OF CAPITAL INVESTMENT

i. Full Council is responsible for approving the MTFS, as part of the Council's overall medium term financial planning arrangements. Cabinet is responsible for formulating proposals, linked with the annual budget and policy framework process. Individual Cabinet Members (as portfolio holders) are responsible for identifying priorities for capital investment and asset management planning that fit within the City Council's overall corporate objectives and its Corporate Plan priorities, and this Strategy.

ii. The Cabinet (through the Performance Review Teams in part) and the Budget and Performance Panel play a key role in the planning and monitoring of the capital programme. This is to ensure that:

- an affordable balance is achieved between the authority meeting local and service needs and responding to any other corporate priorities

- the Capital Programme evolves to reflect changes in circumstances and corporate and service priorities

- officers are held accountable as appropriate for delivering capital schemes on time and within budget.

iii. As an additional safeguard and / or to test the robustness of the processes involved, the Overview and Scrutiny Committee may commission or undertake work or on related issues as part of its Work Programme or take other measures (such as the call-in of decisions) as set out the Constitution.

iv. Detailed Officer responsibilities and the key controls are set out in the Council's Financial Regulations and Procedures, with additional supporting guidance provided on all aspects of contract management and control.

18 MONITORING AND EVALUATION OF PROGRESS

i. All projects are reviewable. Documentation (e.g. the full project appraisal and monitoring reports) will be maintained for each capital project by the responsible service (through the named responsible officer) and will be sufficiently clear to enable a competent third party to review the project with minimum additional explanation. A central register of projects will also be maintained by Financial Services. Each project appraisal will include a delivery plan as necessary, covering the following:

- The project's objectives and target outputs / outcomes
- Key milestones of the project development
- Management and monitoring arrangements
- Financial details, both capital and revenue including financial details
- Post completion review and evaluation arrangements

ii. Services are required to provide comprehensive monitoring information to Financial Services on a monthly basis. Financial Services will also co-ordinate and produce summary monitoring information for Cabinet, Budget and Performance Panel and Officer Working Groups as necessary.

iii. Financial Services will report on a quarterly basis through Corporate Financial Monitoring regarding the overall capital investment and funding position. The fourth quarter (provisional outturn) report will incorporate an annual review of the capital programme performance, covering key performance indicators such as no. of projects delivered on time / on budget, both to monitor and drive continuous improvement.

iv. Services are responsible for developing, agreeing and implementing further scheme or service specific monitoring into their own performance management and reporting arrangements to relevant directors, individual Cabinet Members or other key Stakeholders, either formally or informally. This includes reporting to their quarterly PRT meetings on their capital projects.

v. Services are responsible for reporting the outcome of post completion reviews and evaluations as necessary. An update on this will be incorporated in summary into the annual review (as mentioned above).

vi. In addition to the ongoing monitoring and evaluation, the performance of Lancaster City Council's Capital Programme may be measured through the Local Area Agreement, if appropriate.

vii. Nothing in the above monitoring framework overrides the responsibilities or requirements placed on individuals or services as set out in the Financial Regulations. As examples (and not exhaustive):

- Commencement of schemes is still subject to the approval of the Section 151 Officer to confirm availability of funding.

- Separate reporting requirements are in place should schemes significantly overspend, when comparing with contract sums and/or budget provision.

Further details regarding property responsibilities can be found in the Council's draft Corporate Property Strategy.

ANNEX B

2010/11 Budget and Planning
Key Strategic and Financial Risks

In considering the way forward for the Council, it is essential that key strategic and financial risks are addressed. This is to ensure that the chosen priorities and non-priorities represent, as best as they can, the best way forward to meet the needs and wants of district, as well as key legal obligations.

The following sections set out key recognised strategic risks, and those financial risks which could significantly impact the council's ability to achieve its key objectives, plans and strategies.

A. Strategic risks:

Priority Setting

Cabinet's consideration and effective management of key strategic risks is fundamental to ensuring that the chosen priorities and non-priorities represent the best way forward to meet the needs and wants of the district, as well as fulfilling the council's key legal obligations. *(Mitigation: robust consideration of risks by Cabinet; clear training, guidance and advice provided by officers, consultation)*

Financial Planning

Robust financial projections through the MTFS are necessary to support service delivery objectives and to meet Council Tax targets, resulting in inefficient use of resources, overspending, staffing and service cuts, and reputational damage. The main threats to the MTFS (and associated mitigation actions) are covered in section B, setting out the key financial risks.

Corporate Capacity

If the council is to deliver its priorities and fulfil its ambitions, it must seek to develop the skills and capacity of both its officers and elected members, ensuring that adequate resources are in place. *(Mitigation: continuation and development of the member training programme; workforce planning implementation of management and service restructuring; development and implementation of a robust workforce planning strategy).*

Service Delivery

Poor quality service delivery by both the council and its partners could damage the council's reputation and morale. It could also impact relationships with central government and the results of external assessments of the council's performance, e.g. CAA and Use of Resources. *(Mitigation: comprehensive and robust public consultation on priorities; ensuring performance management framework remains effective)*

Partnership Working

Ineffective partnering arrangements could result in failure to deliver planned outcomes, as well as abortive time and financial input. *(Mitigation: continuation of programme of partnership evaluation; introduction of a code of practice for working in partnership; robust pre-evaluation of any new/proposed partnering arrangements)*

Fair Pay

Failure to effectively implement the Fair Pay project could result in employee dissatisfaction, service disruption, increased costs, loss of key staff and compensation claims. Note that Fair Pay also features as a significant financial risk. *(Mitigation: continued management by Fair Pay Project Board; active liaison with trade unions and communication with staff)*

Equality Standard

Failure to achieve the Equality Standard could result in lost opportunities for the Council, particularly around community engagement and leadership. It could also adversely affect the council's standing through the CAA regime and its Use of Resources score. *(Mitigation: provision of awareness training for elected members; assistance from NWEO in planning for the new Equality Standards Framework)*

Civil Contingencies and Business Continuity

The council must remain able to respond efficiently and effectively to threats, both to the local community and to the council's own operations. Such threats might include fuel shortages, flu pandemic or a major incident, e.g. gas explosion, terrorist incident or flooding. *(Mitigation: scheduled testing of emergency plans and business continuity plans)*

B. Financial risks:

Luneside East

Keys risks relate to the outcome of the lands tribunal and associated legal costs, and potential clawback of funding should the project not progress to deliver its economic outputs. Should the project progress, however, there is the opportunity to receive a developer contribution on site transfer. *(Mitigation: defence at tribunal, seeking funding to advance project, limited use of earmarked reserve, other financing arrangements in place)*

Other Regeneration (including support etc)

Other regeneration projects have been affected by economic factors. Those still in various stages of development may have financial risks attached to their contractual position to date. As a wider issue, there are affordability risks attached to the Council's regeneration strategy. There are also risks attached to project and programme support, including those associated with abortive works and plans. *(Mitigation: covered through specific project & programme management arrangements regarding feasibility, seeking funding, establishing core staffing support, etc)*

Municipal Buildings

Essential works are being progressed to protect the Council's interests, but this may lead to additional financing costs. Price increases are being experienced on the municipal building works programme and there will be a need to increase the budgets over the coming years to reflect these. At present, the broad assumption is that most works will fall as capital but this has not been fully tested as yet. There is therefore the risk that budgets are inappropriate. *(Mitigation: capital investment strategy provisions, incorporating appraisal of revenue v capital, earmarked reserves)*

Funding of Capital Programme

Should the latest capital receipts schedule not be achievable, this would prevent some capital investment from happening, but ensuring that funding is in place for essential works would add more pressure on revenue and cause affordability and financial sustainability risks. *(Mitigation: capital investment strategy provisions, ongoing review and monitoring, options appraisal through budget process)*.

Decision-making

There is the risk that the Council fails to reach agreement in order to deliver a balanced, robust and deliverable budget for future years. *(Mitigation: through budget process, learning from previous years, not being over-ambitious in terms of balancing service provision against Council Tax levels, and delivering change)*

Icelandic Investments (and investment losses generally)

The prospects for successful recovery action and affordability risks are influenced by creditor status for two of the investments made. Priority status has been accepted by one Winding Up Board and rejected by the other. Legal advice remains however that investment 'deposits' such as that made by the City Council should be treated as priority and as such the latter decision is being challenged. Risks remain throughout the banking sector generally. *(Mitigation: adverse decisions challenged through Icelandic courts, ongoing work through LGA, capitalisation directive, updated investment strategy & future review)*

Government Support (future years)

The level of support for assumed for future years could be better or worse than projected. Current projections assume a year on year reduction of 3% after 2010/11. *(Mitigation: scenario planning, future budget processes and monitoring / review.)*

Other Economic Factors and Prospects generally

As well as affecting future levels of government support, economic factors will affect the Council's finances through other funding streams, inflation, interest rates and pay settlements, as well as demand for services. *(Mitigation through monitoring and future budget processes)*

Council Tax Capping

In recent times the Government has demonstrated a firm commitment to capping, and whilst the forthcoming General Election makes future arrangements less certain, pressure to keep tax increases low is expected to remain. *(Mitigation: setting of targets for future years, review any national capping actions etc. for 2010/11))*

Concessionary Travel

Costs for current scheme are uncertain, as reimbursement rates to bus operators are not yet agreed with bus operators, usage of scheme can fluctuate. Responsibilities for the scheme from 2011/12 onwards are not yet clear; any transfer away from the Council could create new financial pressures (or could improve position, but this did not feature in modelling undertaken). County-wide pooling is also under review. *(Mitigation: countywide approach with consultancy support regarding reimbursement rates, countywide liaison and review regarding poling, future arrangements, earmarked reserves)*

Fairpay & Equal pay

The financial implications of the proposed pay and grading structure have been recognised as unsustainable in the medium and longer term. Furthermore, the impact of elements such as market supplements and the outcome of stage 2 appeals is not yet determined. *(Mitigation: supporting HR policies, use of earmarked reserves and provision, commitment to review and amend the grading structure within 2 years of implementation)*

Change Management & Investing to Save (e.g. Restructuring Reserves)

There are a number of major restructures currently just implemented or being progressed that will incur one-off termination costs. As these restructures affect senior officer posts these costs will be significant. Whilst there are sufficient funds identified to facilitate current outline plans, further development is needed. There is the general risk that the Council could have insufficient funds available to enable other future change or to invest to save. There are also financial risks attached to the process of change, and maintaining sufficient capacity to ensure sound financial management and planning etc. *(Mitigation: though budget process, reserves, and change management arrangements)*

Pensions Costs

The current triennial review period comes to an end on 31 March 2011; thereafter at present it has been assumed that pension rates will increase by 2%. However, the impact of demographics and the current recession on pension fund investments is unknown at this stage. Also, it is expected that further national proposals regarding the Pension Scheme will come through at some point. *(Mitigation: liaison with Pensions authority, ongoing monitoring and review)*

HRA review (for General Fund)

The Government has recently consulted on plans to abolish the housing subsidy mechanism and replace it with a form of redistributed housing debt. Whilst the Housing Revenue Account would still remain, it is unclear how these proposals will impact on the General Fund, in particular in relation to Treasury Management and other cost allocations. The outcome of the consultation process is expected soon. *(Mitigation: monitoring, review and appraisal of future developments)*

VAT

The VAT recovery claim (estimated in the region of £400K) is still to be settled by HMRC. In addition, the Council's VAT exempt income is currently being reviewed and initial indications show that the level of exempt supplies is close to the 5% de minimis limit. Should the limit be breached then the council could face repaying £130K of VAT. No assumptions have been made within the current budget projections and the review is on-going. *(Mitigation: monitoring and review)*

Changes in Accounting Requirements

Adoption of International Financial Reporting Standards (IFRS) could give rise to changes in accounting treatment of certain transactions, such as leases, and creates additional workload requirements on some services, which may add pressure to the revenue budget. The extent of risk is dependent on the dispensations applicable to local authorities, influenced by professional bodies and Government etc. *(Mitigation: project management arrangements and monitoring and review, linked to budget process)*

Other Risk Areas

As well as the above points, there are many other issues that may present financial risks or opportunities to the Council, that have been reported to Members and are under further consideration. Where significant these will be highlighted in future monitoring reports.