MEDIUM TERM FINANCIAL STRATEGY 2010/11 TO 2012/13

LANCASTER CITY COUNCIL
Promoting City, Coast & Countryside

Key Extracts for Consideration by Cabinet

16 February 2010

1 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 [current policy] 4.0% 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%	4.0%	4.0%
Target Year on Year Net Savings Requirement	-	£751,000	£472,000
Target Cumulative Net Savings Requirement	-	£751,000	£1,223,000

2 CAPITAL INVESTMENT STRATEGY - FUNDING

2.1 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.

2.2 UNDERLYING BORROWING REQUIREMENT TO SUPPORT CAPITAL INVESTMENT

There is no ***supported*** underlying borrowing requirement assumed for the five-year period.

Assumptions underpinning the Council's ***unsupported*** underlying borrowing requirement 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 £1.2M 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 liabilities arising for the Luneside East scheme. Cabinet approval would be required before this facility could be called on;

- Providing cover for any losses associated with Icelandic investments, should there be any increases to the capitalisation directive 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.

2.3 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 (and the vehicle system bid).

- 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.

2.4 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:

    - 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 automatically 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.

3 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.

4 KEY STRATEGIC AND FINANCIAL RISKS

The following sections set out key recognised strategic risks, and those financial risks which could significantly impact the council's ability to achieve its 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, use of earmarked reserve)*

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, and 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.