

CABINET

Medium Term Strategy: Finances and Resources 10 November 2009

Report of the Corporate Directors (Finance & Performance, and Regeneration) and the Head of Financial Services

PURPOSE OF REPORT

To update Members on proposed changes to the Council's strategic planning framework, to promote greater understanding of the linkages and co-ordination needed between the different elements, in order to deliver improvements in the Council's management of resources.

In line with these aims, the report also seeks:

- approval of an updated Corporate Property Strategy
- approval of Cabinet's future aims for Council Tax, for referral on to Council
- approval of draft capital investment criteria and initial financing assumptions.

Key Decision

X

Non-Key Decision

Referral

Date Included in Forward Plan

November 2009

This report is public.

OFFICER RECOMMENDATIONS:

1. That Cabinet considers whether to retain the existing Council Tax target increase of 4% for future years, for referral on to Council.
2. That the draft capital funding principles and priorities as set out in Appendix C be approved, and that they form the initial basis on which Cabinet develops its Capital Programme proposals for the five year period from 2010/11 onwards.
3. That it be noted that the Head of Financial Services is to submit a capitalisation bid in connection with Icelandic investments, pending confirmation of the Council's creditor status.

4. That Cabinet supports the outline proposals to improve the Council's strategic planning framework for the future.
5. That Cabinet approves the Medium Term Corporate Property Strategy as set out at Appendix D.

1 Background

- 1.1 The Council's existing policy framework for the management and planning of its finances includes both the Capital Investment Strategy (CIS) and the Medium Term Financial Strategy (MTFS), with the latter dealing predominantly with revenue budget planning, in particular for General Fund.
- 1.2 Other key strategies cover the various different elements of the Council's resources but it is acknowledged that some of these are less developed than the financial framework currently in place. That said, the effectiveness of the Council's financial management and planning is influenced heavily by the management of other resources – and vice versa.
- 1.3 These key links are reflected in the latest Use of Resources assessment criteria set by the Audit Commission. The assessment is designed to consider "how well organisations manage and use their resources to deliver value for money and better and sustainable outcomes for local people". For 2008/09 financial year the Council scored '2' overall, i.e. performing adequately, and notwithstanding that the assessment criteria have changed and are now more wide-ranging, this result is worse than that for the previous year. The individual scores are set out below.

Key Line of Enquiry (KLOE)	Score
1: Managing Finances	2
2: Governing the Business	2
3: Managing Resources	1

- 1.4 The score of '1' for Managing Resources relates solely to workforce planning, and this is a particular area in which the Council is aiming to improve, once the Fairpay process has been implemented. In future though, this Key Line of Enquiry (KLOE) will assess different areas of resource management and currently it is expected that for 2009/10 district councils will have their use of natural resources assessed, i.e. energy, water, air etc. The third strand to this KLOE covers strategic asset management and at present it seems reasonable to assume that this will be assessed in 2010/11.
- 1.5 The detailed report on the Use of Resources' assessment was considered at the last meeting of Audit Committee. A number of recommendations are being taken forward and Officers are having further discussions with External Auditors regarding the scores. Irrespective of this, on the basis that the Council has scope to improve its management of resources to deliver better services and outcomes for its district, a number of actions are proposed regarding the different facets of financial and resource management, and these are set out later in this report.
- 1.6 Notwithstanding the proposals for the shape of future strategy documents though, there is a need now for Cabinet to review its aims for the 2010/11 budget and these are set out overleaf.

2 Current Financial Issues for Consideration

2.1 Council Tax

2.1.1 The Council's existing Medium Term Financial Strategy (MTFS) sets out projections for future years' net revenue spending as compared with the Council's targets for Council Tax. It therefore provides a financial basis on which Members can consider and review what changes need to be made to the level and scope of services provided, if the Council's aims with regard to restricting Council Tax increases in future years are to be met.

2.1.2 A report elsewhere on the agenda provides an outline update on the budget position for current and future years. The position is influenced by factors that are within the Council's control – as well as factors that are not.

2.1.3 In addition, **Appendix A** sets out some of the major financial issues and risks facing the Council, which need to be considered in deciding future strategy. **Appendix B** provides a table showing what additional savings would be needed for various scenarios, if the current assumptions regarding Council Tax and Government support levels were changed. It can be seen from this that potentially, there is real scope for the Council's starting position to be far worse than assumed back in March. Prospects are very bleak for public finances generally and real terms cuts can reasonably be expected – but there is much uncertainty as to the extent and also the timing, not least because of the next General Election. It should be noted that the scenarios on the Appendix make no assumptions regarding any specific initiatives that different political parties may put forward.

2.1.4 Cabinet is requested to consider the information in this report and in the separate budget report and indicate whether, for the time being:

- target increases for future years' Council Tax should remain at no more than 4% for future years.

2.2 Recommendations would then be referred on to Council and form the initial basis for the budget and planning exercise. **There will still be the opportunity to update the projections and make changes to Council Tax targets later in the exercise, however. This is a key point, as there is still much uncertainty regarding the financial outlook.**

2.3 In considering any proposals, Cabinet is asked to note that at present any supporting budget information only covers the period up to 2011/12 but the detailed budget preparation will move them forward another year, i.e. covering 2012/13 also.

2.4 Finally and as mentioned at the start of this report, the MTFS review forms the initial financial basis for progressing the 2010/11 budget and policy framework, and at previous meetings Cabinet has considered the way forward regarding priority setting and the associated consultation exercise. Whilst clearly there is much pressure on authorities generally to save money and restrict Council Tax increases, Members will have aims and aspirations regarding service delivery and potential improvements or reductions etc. It is important that the MTFS is considered in this context; the two processes (i.e. financial planning and priority setting) should inform each other and this is reflected in the timetable approved at the Cabinet meeting back in July.

2.5 Capital Investment Funding Assumptions and Priorities

- 2.6 The current Capital Investment Strategy (CIS) was approved back in March and as in every year, it is necessary to review the funding principles and investment priorities underlying it to ensure they still meet the Council's requirements.
- 2.7 The budget report elsewhere on the agenda also includes an outline update on the overall capital funding position. In summary, because of the delays in progressing the sale of land at South Lancaster and expected increased costs associated with municipal building works and other schemes, there is expected to be a gap in funding. Non-essential works have already been put on hold and provisionally some slippage has already been moved into 2010/11.
- 2.8 In view of the above, the flexibility to allow an interim increase in underlying borrowing need (known as the Capital Financing Requirement: CFR) may well be needed. This is already provided for within the existing CIS and Prudential Indicators, through it would have implications for the revenue budget. For exemplification, a £1M increase in CFR could cost around £80K per year but the biggest risk is that the land sales at South Lancaster cannot be completed, and compensating sales cannot be achieved either – resulting in permanent increases in the Council's financing costs. This could add around £600K per year to the revenue budget and this is clearly unaffordable. The Town Green inquiry was scheduled to begin in late October and if possible an update will be provided at the meeting.
- 2.9 Taking account of the Council's current financial standing, the latest projections and progress in achieving approved savings, the extent of change underway and the other key financial risks facing the Council, the financial position is still precarious at present and Council is advised to act accordingly - it is hoped that during the budget, some greater clarity will be gained. In the interim, much progress can still be achieved resolving or taking forward existing issues and approved budget savings.
- 2.10 With these points in mind, Cabinet is requested to determine the basis for developing the Capital Programme for the next five year period (i.e. 2010/11 to 2014/15). Proposals are set out at **Appendix C**; in the main these are based on the existing strategy and it is recommended that this forms the starting point for Cabinet's consideration. The priorities can be updated later in any event to reflect financial needs, or to respond to issues arising through consideration of the Place Survey or the public consultation on the Budget. For now though, there are a number of points to highlight:
- i. One key element that has been missing from the approved Programme so far relates to Access to Services developments. This has stalled of late, partly because of the funding difficulties facing the Council but also because of the extent of change underway – clearly aspects such as accommodation need to fit with the shape of Council services and any key partnering arrangements. Members may also remember that the wider accommodations changes were put on hold during last year's budget, because of the financial position. As the shape of and future direction for council services is clarified, as well as the financial outlook, work can recommence on developing the Access to Services Programme.
 - ii. Reports elsewhere on this agenda set out investment proposals for toilets and climate change actions; at previous meetings Cabinet has also considered other

potential investment for allotments. Whilst Climate Change is covered explicitly in the existing investment priorities, the other items are not. Any proposed widening of the draft investment priorities would need to be considered in context of affordability and the ability of the Council to meet stakeholder expectations.

- iii. Cabinet will see that the Appendix includes provision for financing any losses on Icelandic investments, should they be capitalised in due course. At present, it is still the case that in one form or another, sufficient resources should be available to cover these without relying on capitalisation, but this is dependent upon the revenue position generally, progress on Luneside compensation claims and, not least, retaining preferential creditor status for two of the three investment claims. With regard to this latter point, it is anticipated that this will be covered in court proceedings expected to begin in January 2010. The deadline for submitting capitalisation bids is in December 2009 though, and therefore the Head of Financial Services is planning to submit a bid to cover all eventualities. Further consideration of any financing issues will be considered in future budget reports.
- iv. The Council is also expecting some general capital and revenue grant in the form of Performance Reward Grant from the Lancashire Area Agreement but this has not been quantified as yet. In due course a report will be submitted to Cabinet, seeking approval for the framework for allocation via the Lancaster District Local Strategic Partnership (LDLSP).
- v. No general increase in borrowing need is provided for over the period at present. This is to avoid further pressure on the revenue budget. This will be a key aspect to review as the budget develops in view of emerging investment needs and priorities and the principles of the Prudential Code for capital investment borrowing – these being affordability, prudence, and sustainability.

3 Future Financial Management and Planning

- 3.1 As is clear from the above, at present the Council's strategic financial planning is set out in two separate documents for revenue and capital, although they do highlight the main linkages, in particular the revenue consequences of capital investment. To streamline the framework, strengthen further co-ordination and understanding and to avoid some duplication, in future it is proposed to have one Medium Term Financial Strategy, covering both revenue and capital. This change is planned for 2010/11 and would be presented to Budget Council in March of next year.
- 3.2 In future it is also planned that the MTFs should cover council housing finance, in line with future housing strategy, although it is likely that this change may take some years to complete fully. Members may be aware that consultation is underway regarding the future funding arrangements for council housing to support a move away from the current subsidy system, although this 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 and that the full implications are appraised as this is likely to have bearing on General Fund as well as the Housing Revenue Account. Specific proposals such as the senior management structure are also expected to affect both Funds. One area that has come under some criticism in the past is that of future housing rent increases. Assuming that the Council continues to be a housing provider and future finance systems allow it, aims and aspirations for rent levels could be modelled and

considered in much the same way as for Council Tax and this would be catered for in medium term financial planning.

- 3.3 In support of its financial planning, the Council also needs to improve on its arrangements for delivering and demonstrating value for money. Some limited work is being done to review this framework but in truth, there is very little capacity to take the delivery of this work forward. The recent Place Survey indicated that the public's view on whether the Council gives value for money was very mixed, with only 2 in 5 residents satisfied with the way Lancaster City Council runs things and 3 in 10 residents believing that the Council provides value for money – this is below the average for all Lancashire authorities and underlines the need to take action to demonstrate (and communicate) what is provided with taxpayers' money. It is proposed that capacity for this be addressed through future service restructures and the centralising of the marketing function of the Council. There are three strands to the capacity conundrum. Firstly, the Council has some good practice in place and this is marketed to a degree through initiatives such as Every Penny Counts, but evidencing these achievements and pulling the information together takes time. Secondly, there will be some areas in which the Council really needs to improve on value for money. Thirdly, and as demonstrated in recent Government returns, the Council is struggling to identify sufficient efficiency savings to meet its National Indicator targets. Improving the position will require cultural and process change, improved skills and strong leadership and support; again, this takes time and requires capacity.

4 **Strategic Asset Management**

- 4.1 The Council's property strategy arrangements are currently covered by the Corporate Property Strategy, which was initially approved in October 2005 and amended in October 2006. It was intended that the Strategy would cover a three year period and it is therefore now due for review. The revised Strategy, which will follow as **Appendix D**, is referred to as the Medium Term Corporate Property Strategy (CPS) to bring it in line with the Medium Term Financial Strategy. This is in support of the Council having a more joined-up approach to the management of its resources, as mentioned earlier.
- 4.2 Whilst the existing strategy has been adequate to help move forward the management of the property portfolio, the revised proposal has been updated to reflect both current thinking in asset management and the current position of the council's property stock. During the period since 2006, various publications have been produced which advise on aspects of asset management. These include:
- The Quirk Review of Community Ownership and Management of Public Assets (2007)
 - The Energy Performance of Buildings Directive (2007)
 - The Royal Institution of Chartered Surveyors' best practice guidelines, produced together with Communities and Local Government (June 2009)
 - An Audit Commission report entitled "Room for Improvement" (June 2009)
- 4.3 These publications have informed the proposed CPS, as has the Key Lines of Enquiry (KLOE) in respect of the Use of Resource' assessment. Crucially through, the CPS must support the achievement of the Council's Corporate Plan, as well as other regulatory and statutory requirements. This is reflected in the following 6 main objectives on which the proposed Strategy is based:

- Fit for purpose and compliance with statutory regulations/codes:
This reflects the concerns that exist with regard to the current poor condition of the Council's portfolio.
- Value for money:
This is to ensure that the assets deliver value for money, minimise costs in use whilst maximising returns on investment.
- Improved corporate management:
To reflect optimisation of office space, cross service and partnership working as promoted by the access to services review.
- Sustainability:
To ensure that all assets are managed efficiently, reflecting in particular the Council's work under the climate change strategy, elsewhere on the agenda.
- To serve the council's key aims and objectives:
Assets should contribute to the work of the Council, particularly in areas of regeneration or the need to produce capital receipts to fund capital investment.
- Enabling
Assets can also be used to achieve strategic development and regeneration opportunities within the district.

4.4 The CPS as included on the attached Appendix includes a number of actions with identified outcomes that relate to each objective. In future, these are intended to be reviewed annually to reflect changes in the Council's priorities and the requirements of the property portfolio. With these points in mind, Cabinet is now requested to approve the Strategy as set out.

5 **People Management and Workforce Planning**

5.1 A number of plans are currently being developed to shape services, so that there is an efficient and effective service delivery structure augmented by support services that are fit for purpose. In times of change, planning and management of the Council's workforce become even more important if the Council is to achieve its objectives, and therefore it is felt essential that this agenda moves forward. Linked to this, the Council's approach to equality and diversity is not well developed. The Council is the only authority in Lancashire yet to adopt and act upon the new Equality Framework for Local Government.

5.2 As part of the development of the proposals for shaping services, key consideration will be given to their viability and in particular how we attract, recruit, retain and develop a talented workforce. The key to this is a robust, yet flexible structure for workforce planning. The aim is to ensure that workforce planning is embedded in the Council's approach to corporate development. The characteristics of the approach to be adopted by the City Council are that it will enable us to:

- Explore the future and assess the City Council's options and define its objectives

- Fully understand the Human Resources needs, ensuring that we have a workforce that is fit for purpose and flexible enough to meet these objectives now and in the future.

5.3 In essence the City Council's approach to workforce planning is an integral part of its wider organisational development activities, which is informed by the wider workforce planning issues affecting the region. The approach should use practical steps to ensure we have the right people, in the right jobs, with the right skills, at the right time, in order to deliver the City Council's vision. Proposals in line with these aims will be presented for Members' consideration in due course. As a wider issue, proposals for taking forward equality and diversity will also need to be considered.

6 Management and Use of Natural Resources

6.1 An item elsewhere on the agenda sets out proposed updates to the Council's strategy for tackling Climate Change. This, together with supporting documents such as the Sustainable Procurement policy, provide a framework for managing the Council's natural resources.

6.2 In this regard, it should be noted that under the Use of Resources assessment, focus is very much on the Council's own impact on the environment from the resources it consumes in the delivery of its services. It is not about the Council acting to reduce the consumption of resources by others, such as businesses or the wider community - the area assessment under the Comprehensive Area Assessment (CAA) is expected to cover such environmental issues in the wider area. That said, clearly the Council has a leadership and enabling role in tackling climate change and other environmental factors, and that is also reflected in the proposed Strategy (as well as other measures such as air quality).

7 Using the Proposed Framework to Deliver Better Outcomes

7.1 Whilst updating the strategic framework may be relatively straight forward, actually using it to deliver improvements, rather than it just being a paper exercise, is a much more involved and harder task. Its success is dependent on strong management and monitoring, and coordination of activity. In particular, the Council is facing enormous change in the coming years and maintaining (or establishing) capacity to manage that change is key, if the changes are to be successful.

7.2 Nonetheless, it seems clear that better use of resources can be gained by appreciating the linkages between key strategies – likewise with key partners. An important role for Management Team is to manage and develop these linkages, to achieve better value for money in Council services.

7.3 With these points in mind, a number of actions are outlined below:

- Impact assessments (people, property, sustainability, as well as £s) are to be undertaken for key budget proposals. For some, the assessment will need to be very light touch, so focus will be very much on major issues.
- The draft framework will be kept under review as this budget process develops, to respond to any changes in emerging priorities as a result of consultation, the Place Survey, financial pressures or legislation etc. Similarly, the Council's

strategic risks are also being updated and this will be fed into the budget process. In determining the strategic direction of the Council, it is clearly essential that there is a common understanding of the strategic risks being faced.

8 **Details of Consultation**

The consultation on Cabinet's proposed priorities and budget 2010/11 onwards is currently being developed, a key part of which will be Cabinet's targets for Council Tax. In turn, the outcome of the consultation will feed into future budget and MTFS considerations.

9 **Options and Options Analysis (including risk assessment)**

9.1 **Council Tax Targets:**

The options regarding targets are basically to:

- Retain the existing Council Tax target of no more than 4% for future years
Previous approved forecasts indicate that this would require net savings of around £1,053K and £1,302K to be identified for 2010/11 and 2011/12 respectively, although these will change as the budget develops.
- Recommend an alternative Council Tax target increase for future years.
The level of any net savings requirement (and the associated risks) would depend on the tax level proposed.

The main risks attached to either option follow on from the information in this report and the ability of the Council to take decisions on matching service levels with the money available to fund them. In addition, the reputation and public perception of the Council may be affected. The key risks can be summarised as follows:

- Actual savings targets prove to be substantially different from shown above, due to changes in financial projections.
- Required savings targets can't be met, without having an unacceptable impact on service delivery – either from the Council's own viewpoint or from public perception.
- Government / the public perceive the increase to be too high, resulting in capping action being taken against the Council and/or a negative impact on public relations and the Council's reputation
- Council tax targets are too low, resulting in them being unsustainable in the longer term, without having adverse effects on future service delivery and/or the Council's financial standing and reputation.

The report highlights that there is significant scope for budget projections to change, as a result of both internal and external factors. To counter this, there will be further opportunities to review target increases during the forthcoming budget as more definite information becomes available on forecast spending.

With regard to capping, Government has demonstrated a firm commitment to using its capping powers – although this could be affected in future by the General Election. Should Cabinet wish to support spending levels that result in a Council Tax increase much higher than the current MTFS target, then there are strong indications

that the current Government is likely to challenge this course of action. This may well result in the Council's budget being capped – in such a situation it would be forced to cut spending / services in an unplanned way and it would incur rebilling costs. Alternatively, if Cabinet wish to support a much lower increase, then future sustainability will become a major issue. On balance it is felt that financial prospects will get worse, rather than better.

In terms of options, the impact on Council Tax payers is key. Members should consider the balance between providing services that the local community needs and wants, against how much it is prepared to pay. There will be reputational, operational and financial risks, opportunities and trade-offs attached to whichever option Cabinet chooses.

9.2 **Capital Investment**

With regard to future years' investment principles and funding assumptions, options are basically:

- to approve retention of existing capital investment criteria, as set out in Appendix C, or
- to determine alternative proposals.

In considering any alternative proposals, Cabinet would need to have regard to their proposed corporate priorities and the principles of the Prudential Code, namely prudence, affordability and sustainability. Risks would depend very much on the nature of any alternatives put forward.

9.3 **Strategic Planning Framework**

In this regard, options are basically:

- to support the framework proposals for the future, as outlined in the report, in particular in sections 3 to 5, and 7, or
- to reject the proposed changes, and/or put forward alternatives or request further work to be done on specific aspects.

The rationale behind the proposals is outlined in the background of this report. Members could choose simply not to change, but it is felt that this would not help corporate development of the Council, and could undermine attempts to improve the Council's Use of Resources. Other risks and implications would depend very much on the issues that Cabinet raise or any amendments put forward.

9.4 **Corporate Property Strategy**

With regard to the Corporate Property Strategy, options are basically:

- to approve the Strategy as set out in Appendix D, or
- to put forward amendments to the proposal and/or request further work to be done on specific aspects.

Again, risks and implications would depend very much on the issues that Cabinet raise or any amendments put forward. Ultimately though, the Council needs to have

a Strategy fit for purpose, which gives direction to help ensure that property management supports delivery of the Council's objectives and helps achieve value for money.

10 **Officer Preferred Option and Comments**

There is no specific officer preferred option with regard to Council Tax levels. That said, both the Chief Executive and the s151 Officer would advise against planning for a Council Tax increase much lower than 4% at this time, at least for 2010/11, if Members aim to continue to provide a wide range of services to the public and wish to avoid more potential for major service cuts in future years. Conversely, they would advise against aiming for an increase of around 5% or above at this time as it would be subject to capping under existing criteria.

Whatever Council Tax targets are in place, Members need to have supporting plans in place to achieve a balanced budget.

With regard to the other matters contained within this report, the Officer preferred option is to approve the various proposals as set out. It is felt that these present good starting points for developing capital proposals, and for improving the Council's strategic resource management planning for the future.

11 **Conclusion**

The economic outlook has deteriorated significantly since February and there is still considerable uncertainty in the Council's financial prospects, which is likely to result in further pressures. There is now a strong need to respond positively to this challenge, in ensuring greater focus on key service areas and in delivering the necessary savings, including service reductions, to achieve Council Tax targets. This is a scenario facing many councils up and down the country.

RELATIONSHIP TO POLICY FRAMEWORK

The Medium Term Financial Strategy and Capital Investment Strategies are part of the current policy framework, but this would need updating in future should the proposals to amend the strategic framework go forward.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability etc)

There is no direct, quantifiable impact arising at this stage, although the MTFS sets out the level of funding expected for the delivery of council services. As such, it will have a direct bearing on the level and impact of services provided in future. Other proposals contained within this report seek to strengthen impact assessments of key budget proposals.

FINANCIAL IMPLICATIONS

As referred to in the report – there are no direct quantifiable financial implications at this stage.

DEPUTY SECTION 151 OFFICER'S COMMENTS

The s151 officer has produced this report.

LEGAL IMPLICATIONS

Legal Services have been consulted has have no comments on the report.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS

Medium Term Financial Strategy

Capital Investment Strategy

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