APPENDIX

POLICY AND FINANCIAL PLANNING

MEDIUM TERM FINANCIAL STRATEGY 2006/07 TO 2008/09

As approved by Council 01 March 2006

LANCASTER CITY COUNCIL

Promoting City, Coast & Countryside

INTRODUCTION

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

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

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

A MEDIUM TERM FINANCE STRATEGY - OUTLINE

<u>What is the Medium Term Finance Strategy?</u>

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

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

<u>Aims and Objectives</u>

The aims and objectives of the MTFS are to:

- provide a basis for informed decision-making across all Council policies and activities using risk management techniques
- avoid volatile fluctuations in the provision of Council services and related annual levels of Council Tax
- consult with stakeholders on a broad range of issues where appropriate
- match resources both to demand and to Council priorities

- achieve efficiency, effectiveness and economy in the use of the Council's resources, as required under Best Value and the Gershon Review of Public Sector Efficiency

- protect front-line services as far as possible, whilst minimising administration costs

- achieve maximum efficiency savings (see below) and, where acceptable, increase income

- challenge traditional methods of service provision.

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

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.

Over the past ten years the Council has achieved significant cashable efficiency savings which have, in part, contributed to balancing the books, though a proportion of these savings has been reinvested to meet growth in service demand and legislative requirements. To maintain this for the future, the Council's procurement strategy will be a key tool.

In view of the key financial targets set out later, however, the Council recognises that to achieve the required level of savings, some service reductions and/ or restructuring will be inevitable. Care will be taken to target unavoidable service reductions to areas where they are considered least "harmful".

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 the past the late 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. Nevertheless, a detailed budget timetable will 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, (including the LSP, businesses, and trade unions).

The Council has recently widened its consultation with members of the public who pay Council Tax and other stakeholders. In future it will consider further improvements as part of the overall Consultation Strategy.

B FINANCIAL TARGETS AND PRINCIPLES

Key Financial Revenue Targets

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

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

Provided that the impact of these factors does not exceed 5%, then the Council will aim to set an upper limit of a 4.9% increase for both 2007/08 and 2008/09. Given the forthcoming review of special expenses and the capping criteria, the 4.9% applies to the average 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.

	2006/07	**2007/08**	**2008/09**
Target Council Tax Increase	4.5%	4.9%	4.9%
Target Year on Year Net Savings Requirement	--	£625,000	£231,000
Target Cumulative Net Savings Requirement	--	£625,000	£856,000

Headroom for known policy driven growth (e.g. the 2007/08 phase of waste management and recycling) is already provided for in the budget projections. The net savings targets would also need to be increased for any additional headroom for future policy driven growth that may be required in future. 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 2007/08 and 2008/09 are significantly lower than the forecast increases presented to Council in the 2006/07 budget reports (13.8% and 7.3% respectively). In order to achieve the target increases significant reductions in spending or increases in other income will therefore be required. This need will also be addressed by the Council as part of the Monitoring and Review process set out in section D of this document.

Use of Revenue Balances

The Council recognises that general balances are needed to provide:

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

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

The Council's Section 151 Officer has advised that the Council's balances should be maintained at £1M for General Fund and £350K for the Housing Revenue Account; the Council accepts this advice. With regard to General Fund, she has advised also that some degree (± 5%) of tolerance would be acceptable in managing balances.

In retaining balances at these levels, it means that some funds are available to support revenue spending. The Council has adopted the following basis for using any available amounts and where appropriate this has been reflected in the budget projections:

(a) As a one-off contribution to support 'invest to save' or similar initiatives, including income generation opportunities.

(b) General phased use over the following three years (broadly in the ratio 3:2:1 for General Fund) to help smooth out Council Tax (or Housing Rent) increases and to give time to plan and implement any required changes in service levels and spending.

Borrowing to Support Capital Investment

The Council's capital spending plans are based on borrowing £1M in total over the next five years, with a further £0.5M leeway provided to cover any funding difficulties. This is deemed affordable in context of this Strategy, particularly the need to support growth and the Council's commitment to achieving savings through efficiency and/or service reductions.

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

- Availability of other sources of finance
- Existing commitments and service / priority changes
- Revenue consequences of borrowing, including the anticipated level of Government supported borrowing.

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

In reviewing capital plans, the Council has taken a reasonable approach in forecasting future capital receipts and in doing so it has recognised that over the years, there may be potential to generate extra resources depending on planning and economic factors.

The Council also recognises, however, that some improvements in the Council's financial planning for renewal and refurbishment of assets is required and although delayed, work will be undertaken to achieve this, on the basis that renewals for equipment such as IT should not be reliant on using receipts from the disposal of major assets. Furthermore, consultation will be undertaken on reviewing overall accommodation needs following the Access to Services Review and it is expected that substantial investment will be required, although this will be financed as much as possible by disposal of other buildings. These two areas represent further pressures on capital investment (and therefore on the revenue consequences).

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:

Year	Basic Cash Limit £'000	Forecast Use of Balances £'000	Forecast Net Revenue Budget £'000
2006/07	21,887	410	21,477
2007/08	23,201	273	22,928
2008/09	24,150	137	24,013

Notwithstanding the key financial targets, assumptions and pressures outlined in this Strategy, the Council recognises that issues may occur in a year whereby it would be advantageous for the Cabinet to have some flexibility against the limits set out above. In view of this, Council has agreed the following:

For 2006/07, Cabinet has no flexibility to increase net spending over the cash limit shown above.

For 2007/08 and 2008/09, Cabinet has discretion to increase the cash limits shown above by up to £50,000 year on year to support spending in line with the Corporate Plan. All decisions relating to the exercise of this discretion shall be key decisions. The same flexibility will apply to the Housing Revenue Account.

C BUDGET SETTING

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

Introduction

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

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

Publication of the Annual Budget

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

- the budget 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 for the purpose of managing and monitoring Service budgets.

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

D MONITORING AND REVIEW

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

- The Council has recently established a new performance management framework; through this an ongoing review of services' performance and spending will be conducted. This will involve Management Team, Service Managers and elected Members. Members' involvement will be 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 review process will commence in April of each year, and may focus on key priority or 'hotspot' activities as appropriate.

- Any potential impact from the Council's corporate financial monitoring arrangements will be considered. This includes the impact of the previous year's outturn, together with a review of the national economic outlook and other key assumptions and risks underpinning the budget.

- An impact assessment of any key decisions will be undertaken, including any proposed major policy changes.

- 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 2007/08 budget process.

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

The outcome of the monitoring and review arrangements will be brought together to avoid a piecemeal approach to reviewing the Strategy. This may necessitate changes to the MTFS framework and the key financial targets contained within it. Any changes will ultimately be reported twice yearly (once during summer 2006 and once following the 2007/08 budget process) for referral on to Council for approval, together with the rationale behind such changes. This is on the basis that the MTFS is part of the Council's overall Budget and Policy Framework.