Appendix A

Medium Term Financial Strategy 2016-2020

March 2016

Contents

1 **Introduction**

2 **Aims and Objectives**

3 **Spending and Investment Priorities**

- **3.1** Corporate Priorities
- **3.2** Capital Investment Priorities

4 **Revenue Budget Forecasts**

- **4.1** General Fund Services: Net Spending
- **4.2** General Fund Services: Funding Prospects
- **4.3** Housing Revenue Account: Revenue Prospects and Rent Policy

5 **Provisions, Reserves and Balances**

- **5.1** Statutory Advice and Policy Context
- **5.2** General Fund Position
- **5.3** Housing Revenue Account Position

6 **Capital Investment and Financing**

7 **Financial Targets and Constraints**

- **7.1** Council Tax
- **7.2** Revenue Budget Limits
- **7.3** External Grants and Contributions
- **7.4** Capital Receipts
- **7.5** Revenue Financing for Capital Investment
- **7.6** Underlying Borrowing Need for Capital Investment

8 **The Budget Process**

- **8.1** Timetable and Overview
- **8.2** Budget Preparation
- **8.3** Balancing the Revenue Budget: Savings and Growth
- **8.4** Balancing the Capital Programme: the Prudential Code
- **8.5** Options Appraisal
- **8.6** Decision-making and Timing

9 **Monitoring and Review**

10 **Governance**

11 **Public Access to Information**

Annexes:

1: **General Fund Revenue Budget Summary**
2: **Housing Revenue Account Budget Summary**
3: **Provisions and Reserves Policy**
4: **Provisions and Reserves Statement (including Balances)**
5: **General Fund Capital Programme**
6: **Council Housing Capital Programme**
7: **Budget Transfer Limits (Virements and Carry Forwards)**
8: **Pay and Price Inflation Assumptions**
9: **Future Savings Options for Consideration**

1 INTRODUCTION

1.1 The Medium Term Financial Strategy (MTFS) sets out how Lancaster City Council will manage its finances to deliver against its corporate priorities, whilst protecting its financial standing and responding to the many challenges it faces. Essentially, it does this through a rolling process of policy review and financial planning.

1.2 The Council has two main types of finance, these being *revenue* and *capital*. Both are covered by this Strategy:

- The running costs of providing day to day services and associated support are known as *revenue* expenditure. This is funded through government grants, retained business rates, council tax and income from fees and charges for services, which are all forms of *revenue* income.

- Spending on things like buying or improving property, where it will have lasting value, is known as *capital* expenditure or *capital* investment. This is funded in a number of ways:

  - by selling other property, the proceeds of which are known as capital receipts;
  - by receiving capital grants and contributions from external parties;
  - by increasing borrowing need, which spreads the cost over a number of years; or by
  - using revenue income, as this can be used to help pay for capital items too.

1.3 The Council does not have to spend all its money at once. It can save funds up for various purposes and this helps its cash flow. Generally such funds are held as provisions, reserves and other balances.

1.4 The City Council is required to keep its finances for council housing completely separately to those for other services though:

– The **Housing Revenue Account (HRA)** covers council housing services, which in the main are funded from charges for services, in particular housing rents.

– The **General Fund** covers all other services provided by the Council, from arts support through to waste collection. Generally these are funded from a combination of fees and charges, Government grants, retained business rates and council tax.

1.5 Both accounts are covered by this Strategy, although inevitably there is a strong focus on General Fund services and council tax levels. This is because of their impact across the whole of the district and its communities.

2 AIMS AND OBJECTIVES

2.1 The aims and objectives of the Strategy are to:

- protect the Council's financial standing and avoid volatile or unnecessary fluctuations in the provision of council services, by:

    - providing a clear and regularly updated view of the council's future financial prospects;
    - setting out the Council's key financial targets and budget constraints within which Members and Officers must operate;
    - promoting and progressing the delivery of a financially sustainable and balanced budget for the medium term.

- deliver a balanced, robust budget (for both revenue and capital) each year, which:

    - matches and realigns resources to Council priorities and statutory needs;
    - is based on informed decision-making across all Council policies and activities, underpinned by risk management;
    - takes account of budget consultation with stakeholders.

- help achieve value for money in the use of the Council's resources. This includes:

    - maximising efficiency savings and, where appropriate, increasing income;
    - protectingg statutory service obligations and minimising reductions in other front-line services, where possible, and
    - working with services to challenge traditional methods of service provision.

- be transparent about how the Council will manage and plan its finances, together with the implications for service delivery.

3 SPENDING AND INVESTMENT PRIORITIES

3.1 CORPORATE PRIORITIES

3.1.1 The MTFS must both support and inform the Council's vision for the district and the strategic direction as set out in the Corporate Plan. This is so that available resources are matched against agreed priorities and any other supporting needs. Such needs cover many of the day to day services provided by the Council, including statutory responsibilities, and the Council's priorities currently remain as:

- Clean, Green and Safe Places
- Health and Wellbeing
- Community Leadership
- Sustainable Economic Growth

3.1.2 As funding becomes scarcer, tensions and pressures can build - over what the Council must do and what it would like to do, if it could afford to.

In short:

- The Corporate Plan sets out the Council's vision for the district and summarises the Council's medium term key priorities, what it aims to deliver and achieve, and its ethos for doing so.

- The MTFS also summarises the same key priorities, aims and objectives, but expresses them in financial terms. It also highlights any imbalance – this being the need to make savings and manage expectations.

3.1.3 The Council knows that this imbalance and the need to make savings will continue to grow significantly over the medium term. It is addressing that imbalance between what the Council is currently doing, and what it can afford to do. To assist with this, there is a need to present clearly within this Strategy the Council's current financial position and planning assumptions, as a baseline for moving forward.

3.2 CAPITAL INVESTMENT PRIORITIES

3.2.1 For capital investment, the following supporting priorities help direct investment over the next four years, subject to annual review:

- Pursuing the Council's draft Economic Regeneration Vision *(Cabinet February 2014);* the full strategy for which is still in development. This covers improvements to the Public Realm.

- Delivering schemes that support the Council's focus on energy efficiency and income generation, to be informed by the Energy Renewal Strategy.

- Progressing the priorities within the Lancaster District Housing Strategy and the associated Housing Action Plan. For Council housing, currently this still includes the aim of increasing the provision of one-bedroom accommodation within the district, but subject to financial viability.

- Refurbishment/replacement/rationalisation of existing corporate property or facilities required to deliver services, or to meet other legislative requirements. This represents the greatest investment need for both General Fund and Council Housing services. For example, it includes meeting the 'Lancaster' Standard in the provision of council housing, in line with the 30-Year Business Plan.

- Other new or expansion of existing facilities and other new innovations, where they link clearly with the Corporate Plan and they are either :

– fully budgeted or self-financing (in revenue and capital terms); or
– invest to save proposals that require some up front capital investment but would generate cashable ongoing revenue savings. Acceptable payback periods will be determined based on circumstances, having regard to the Prudential Code (see later) and the advice of the s151 Officer.

4 REVENUE BUDGET FORECASTS

4.1 GENERAL FUND SERVICES: NET SPENDING

4.1.1 For many years, local authorities were statute bound to approve a Revenue Budget Requirement for General Fund Services, this being the amount of net spending to be financed from general Government funding and council tax (or looking at it another way, gross spending less income from fees, charges and various other/specific grants).

4.1.2 Recent changes mean that there is no longer a legal requirement or a legal definition for the term, however. Instead, the legal framework now focuses on the lower measure of 'Council Tax Requirement' – or how much income needs to be raised from council tax for that year, in order to balance the budget.

4.1.3 Nonetheless, for now the measure of Net Revenue Budget/Spending has been retained, based on it being the amount to be financed from:

- Revenue Support Grant
- Council Tax (including any related Collection Fund surplus/deficits)
- Retained Business Rate Income (at the Government set 'Baseline' level, or the lower 'Safety Net' level, depending on rating income prospects).

4.1.4 In line with this definition, the Council's current forecasts for net revenue spending and resulting council tax rates for the next three years are summarised below for General Fund. These are also outlined at ***Annex 1***.

	Revenue Budget Projections (allowing for savings & growth)			Council Tax Projections		
	Net Budget	Annual Change	Latest Net Contributions to or (from) Balances)	Average Band D Tax Rate	Annual Increase Year on Year	
	£000	%	*£000*		Band D	All Bands
2015/16	17,052	-8.0	(497)	£203.97	£3.98	1.99%
2016/17	16,258	-4.7	56	£208.97	£5.00	2.45%
2017/18	15,180	-6.6	165	£213.97	£5.00	2.39%
2018/19	17,221	+13.5	-	£273.40	£59.43	27.78%
2019/20	17,427	+1.2	-	£288.34	£14.94	5.46%

4.1.5 Over the last few years the Council has implemented many measures to make substantial recurring savings, thereby reducing its net revenue spending. To demonstrate this, since setting its 2010/11 budget, which was prior to Government's

2010 Spending Review, by 2015/16 the Council had reduced its annual spending by around £4.8M or 21% in cash terms.

4.1.6 As a result of some difficult decisions being taken, the Council is now in the position that it has balanced its budget for the next two years, based on current forecasts.

4.1.7 Despite the Council's achievements in making savings, the earlier table clearly demonstrates that spending levels are still unsustainable in council tax terms, as tax increases of over 27% would be needed from 2018/19 onwards. The underlying reason for this is that Government funding is projected to reduce further, and this is explained further in the section below.

4.2 GENERAL FUND SERVICES: FUNDING PROSPECTS

4.2.1 Each year the Council receives funding from Government to help with the provision of services. Funding levels for the forthcoming year/s are announced through the "Local Government Finance Settlement", ahead of councils setting their budgets. Provisional funding information is announced typically in December time, for a period of consultation. The Settlement is then finalised in late January or early February.

4.2.2 There are essentially two main elements to the Settlement Funding Assessment (SFA), these being:

- Revenue Support Grant, which is a fixed amount, and

- Baseline funding from business rates. This is the basic amount of rating income that Government allows an authority to retain. If business rate income in the district grows, authorities can retain more income than the baseline. If income falls, authorities will retain less income than the baseline, although there is a safety net in place, meaning that authorities cannot experience more than a 7.5% reduction in any year.

4.2.3 After allowing for income from other sources, in next year just under half (49%) of the Council's net budget for General Fund services is funded through the Settlement Funding Assessment, with the balance being funded by council tax. That is why Government funding prospects can have a dramatic effect on the Council's future financial strategy and service provision. The proportion has been reducing significant year on year since 2010/11; back then it funded around two thirds (66%) of the net budget.

4.2.4 In the last Settlement, for the first time Government announced a four-year Settlement, to assist with financial planning. This confirmed funding levels for 2016/17 and provided provisional figures for the following 3 years up to 2019/20, for those authorities who wish to take up the Government's offer of a multi-year Settlement. The deadline for accepting this offer is 14 October 2016, although currently the exact details of this offer (and the implications of not accepting it) are not yet clear. It is expected to involve the production of an efficiency plan of some sort; the Government Minister has indicated a light touch approach and there is some speculation as to whether Councils' existing financial strategies will be sufficient or not. Further information is awaited.

4.2.5 Looking further ahead, by 2020 Government is aiming for local authorities to be wholly funded through local taxation, meaning that by around then Revenue Support Grant will no longer be provided. This is reinforced through the recent Settlement, as RSG is shown to reduce to £200K by 2019/20.

4.2.6 To counter that loss, local authorities will be able to retain 100% of business rates but as well as losing RSG they are expected to lose other related grants, whilst gaining new responsibilities – the overriding aim being that the new arrangements should be 'fiscally neutral'.

4.2.7 Developing such a scheme will be a highly complex, as it will need to take account of the differing spending needs and tax raising capacities of local authorities, to help address fairness and equality. Government is to engage and consult with local authorities on this from spring/summer 2016. Furthermore, in the interim there are other challenges ahead, such as the 2017 Business Rates Revaluation – whilst this will aim to be neutral in terms of the impact on local authorities, how (and whether) that will be actually achieved is far from clear. More locally, very recently it has been announced that the lives of both Heysham power stations will be extended and that is good news, although considerable risks remain around ongoing exposure to rating appeals and how the power stations will be affected by the 2017 Revaluation.

4.2.8 In the meantime, the operation and forecast of the existing Business Rates Retention Scheme remains complex enough. The following table summarises current expectations for business rates collection and distribution for 2015/16 and 2016/17 financial years.

	2015/16 £M	**2016/17 £M**
Net Income Collectable	64.958	62.399
Provision for Appeals	(5.267)	(2.215)
Net Business Rates Collectable	**59.691**	**60.184**
Less: Central Government Share – 50%	(29.846)	(30.092)
Less: County & Fire Shares – 10%	(5.969)	(6.018)
Amount Retained by City Council	23.876	24.074
Less Central Government Tariff	(19.763)	(19.928)
Baseline Funding Level	**4.113**	**4.146**
Add back: Grant in respect of Small Business Rate Relief	1.439	1.104
Less Settlement Baseline Funding	(5.207)	(5.250)
Potential Growth in Income	**0.345**	**0.000**
Less Levy Payment of 50%	(0.173)	**-**
Add Renewable Energy Income	-	**0.930**
Forecast Potential Retained Income	**0.172**	**0.930**

Fund Deficit as at 31/03/15	**5.016**
Estimated In-Year Movement	9.317
Estimated Deficit as at 31/03/16	**14.333**
City Council Estimated Deficit Share – 40%	**5.733**
City Council's budgetary impact from the deficit is limited by the safety net and it would therefore be £391K (assuming the estimated deficit is realised), which is covered by the Business Rates Retention Reserve.	

4.2.9 Although latest estimates indicate that retained net growth of £172K and £930K could be achievable in 2015/16 and 2016/17 respectively, the Council still has huge exposure to potential losses and this could easily offset the apparent growth. To help counter these downside risks, future years' budgets do not allow for any potential growth in retained business rate income. Instead, 2016/17 is based on the annual baseline and thereafter, the lower safety net threshold has been budgeted. In line with accounting requirements, any potential growth in income cannot be realised until it is certain and secure. The Council's unusually high exposure has been the determining factor in the decision not to take part in a Lancashire Business Rates Pooling arrangement.

4.2.10 In terms of other Government grant funding, alongside the main Settlement Government confirmed that the New Homes Bonus (NHB) is to continue, albeit that less funding will be available in future and the Scheme is due to be reformed from 2017/18 onwards. Consultation involves various options, with a strong message that the Government is considering linking the award of NHB to a council's progress in submitting a Local Plan, with penalties for those authorities that fail to meet requirements. Given the likely reforms, at present budget projections from 2017/18 onwards simply provide for assumed allocations as provided by Government.

4.2.11 Taking account of all the above points, the Council's budgeted funding assumptions are summarised below:

	2015/16 £'000	**2016/17 £'000**	**2017/18 £'000**	**2018/19 £'000**	**2019/20 £'000**
Revenue Support Grant	3,861	2,652	1,605	941	200
Baseline Funding (Business Rates)	5,207	5,250	5,353	5,511	5,688
Settlement Funding Assessment	9,068	7,902	6,958	6,452	5,888
Year on Year Reduction	**£1.742M 16.1%**	**£1.166M 12.9%**	**£0.944M 11.9%**	**£0.506M 7.3%**	**£0.564M 8.7%**
Reduction over Review Period					**£3.180M or 35%**
Settlement Funding Assessment (from above)	9,068	7,902	6,958	6,452	5,888
Less: Business Rate Adjustment (to Safety Net)	-	-	(401)	(413)	(427)
Add: Efficiency Support Grant	84	-	-	-	-
Add: New Homes Bonus	1,297	1,916	1,938	1,218	1,168
Total General Funding (excluding Council Tax)	**10,449**	**9,818**	**8,495**	**7,257**	**6,629**
Year on Year Reduction	**£1.322M 11.6%**	**£0.631M 6.0%**	**£1.323M 13.5%**	**£1.238M 14.6%**	**£0.628M 8.7%**
Reduction over Review Period					**£3.820M or 37%**

4.2.12 Allowing for New Homes Bonus, it can be seen that the Council's general funding is expected to reduce by £3.8M or 37% in cash terms over the Government's Spending Review period. This presents a considerable ongoing challenge for the City Council, as for many other local authorities. It also emphasises the need for taking a medium to longer term view in planning and budget setting.

4.2.13 In terms of sensitivity, a 1% change in total funding for 2016/17 amounts to a little under £100K, which is about a 1.2% change in council tax.

4.2.14 Finally, Government has retained the concept of 'spending power', but it has changed the calculation and now calls it 'core spending power'. Essentially this gives an annual comparison of the combined total of general Government funding and assumed income from council tax. Given that the measure includes council tax income, which is forecast to increase, the headline year on year reductions are lower than those shown earlier for Settlement funding and New Homes Bonus. The City Council's figures as produced by Government are as follows:

Core Spending Power	**2015/16 £M**	**2016/17 £M**	**2017/18 £M**	**2018/19 £M**	**2019/20 £M**
Settlement Funding Assessment	9.2	7.9	7.0	6.5	5.9
Assumed Council Tax Income (Allowing for estimated tax base growth and £5 per year tax rate increases)	7.9	8.2	8.5	8.9	9.3
Assumed New Home Bonus Grant	1.3	1.9	1.9	1.2	1.2
Total: Core Spending Power	**18.3**	**18.0**	**17.4**	**16.6**	**16.3**
Reduction over the Review Period:					**£2.0M** **10.7%**

4.3 HOUSING REVENUE ACCOUNT: REVENUE PROSPECTS AND RENT POLICY

4.3.1 The HRA operates on a 'self-financing' basis. This means that its income, predominantly from housing rents, must cover all its day to day spend on services including the costs of maintaining and improving the housing stock. Most of the complexities of the former housing subsidy system have now been removed.

4.3.2 This gives a clearer basis on which to plan and manage the service's finances, to inform its future direction. HRA planning is currently centred on a 30-year business planning approach, reflecting that the maintenance of its 'long-lived' property assets is essential for providing the service.

4.3.3 The 2016/17 budget is the fourth one to be completed after the implementation of self-financing. Whilst there are some aspects of the accounting and regulatory framework that are yet to be resolved fully, and there is still the potential for adverse impact from welfare reforms, the HRA was well placed to invest and enhance its service provision. The extent to which it can do this is directly influenced by the rent setting policy adopted, but the Council's discretion in this area has now fundamentally reduced as a result of Government policy changes.

4.3.4 In recent months, Government has introduced a number of significant proposals and legislative changes that undermine the Council's former rent policy. Although clarity is still needed on some aspects, the main working principles for the future are that:

- For most properties, rent will have to reduce 1% year on year for the next four years, except where properties become vacant and their rents have not yet reached convergence with other social housing providers (i.e. they are below what is referred to as 'formula rent'). In these circumstances, then the rents to be charged for new tenancies can increase up to the formula rent level, less the 1% year on year reduction.

- More recently, Government has announced that a year-long exemption from the requirement for a 1% rent reduction in the social rented sector may be applied to all supported accommodation and that during this period providers will be able to set new rents at up to 10% above the updated 2015/16 formula rent. Government has indicated that the year-long exemption would give it time to study the findings from its review into the costs of providing supported housing, which is due to finish this spring.

4.3.5 Rent setting is an executive function and as such it is a matter for Cabinet to decide, albeit it must work within the law. Drawing on all the above points, the following rent policy has been adopted:

Average rent (excluding sheltered and supported properties) be set at £78.42 for 2016/17, representing a reduction of 1%.	**Average rent for sheltered and supported properties be set at £73.28 for 2016/17, representing an increase of 2.8% (to take them to 'formula rent').**
For 2017/18 to 2019/20 onwards average rents will reduce by 1% per year.	
Following any property becoming vacant, it will be re-let at 'formula rent' less the relevant cumulative year on year reduction applicable (i.e. generally -1% for 2016/7 rising to -4% in 2019/20).	

4.3.6 The HRA revenue budget and future years' forecasts are attached at ***Annex 2***.

4.3.7 The restrictions on rent setting brought about by the change in Government policy are estimated to cost around £90M over the life of the 30-year business plan. This raises questions over the viability of any new-build plans and it requires a major efficiency-drive from the service. Furthermore, other Government social housing proposals could add significantly to this challenge, to secure the HRA's long-term viability. These issues will be explored and appraised over the coming year.

4.3.8 The impact of these decisions is recognised in the Council's capital investment priorities for housing, outlined earlier, and in HRA reserves, as covered in the following section.

5 PROVISIONS, RESERVES AND BALANCES

5.1 STATUTORY ADVICE AND POLICY CONTEXT

5.1.1 In accordance with statutory requirements, the Council's Section 151 Officer (or Chief Financial Officer) has advised that Balances should fall no lower than £1.5M for General Fund and £350K for the Housing Revenue Account, but this advice covers the longer term, not just the shorter term. The Council accepts this advice and this is taken account of in future financial strategy.

5.1.2 The Council has a formal policy setting out its position in terms of provisions, reserves and balances and this is attached at ***Annexes 3 and 4***. The policy is a key element for managing risk, helping to protect the Council's financial standing as well as supporting its medium term financial planning. The key issues for General Fund and HRA are outlined below.

5.2 GENERAL FUND POSITION

5.2.1 After transferring in this year's forecast net underspending, Balances would amount to £4.128M by 31 March 2016. Should the outturn prove in line with this forecast and recognising the risks attached, it would mean that the Council has around £2.6M of surplus Balances available for use over and above the newly recommended minimum level of £1.5M. Taking account of the Section 151 Officer's advice, planned use of those surplus funds is as follows:

(i) During the course of the next two years, a total contribution of £221K to Balances is budgeted. This would result in surplus Balances reaching £2.8M (above the £1.5M minimum) by 31 March 2018 if net spending is as projected.

(ii) If the Council is able to contribute further to Balances (for example, by achieving greater service expenditure savings and/or increasing its budgeted income) then it will do so.

(iii) The £2.8M of forecast surplus Balances has been left available to help address the more fundamental budget challenges that are expected from 2018/19 onwards. This also gives scope to manage any changes in expected spending, ahead of then.

(iv) Balances help with those challenges, as in due course they may be used to finance up-front costs attached to savings initiatives, or they may be used to cover budget shortfalls, in the lead up to implementing agreed major service reductions, as examples. Whilst they help, in themselves Balances by no means resolve those challenges fully.

5.2.2 To put the level of Balances into perspective, from the figures shown later in section 7.1 of this strategy it can be seen that in very simple terms the Council needs to make £5M of savings after next year, this being the combined total of 2018/19 and 2019/20 savings requirements. This combined savings need is £2.2M more than the estimated £2.8M of surplus Balances remaining.

5.2.3 General Fund has a number of other earmarked reserves available to support investment priorities, manage key risks and help address the medium term budget deficit. The most significant ones are:

- **Invest to Save**
  This reserve is earmarked to help fund schemes that can generate savings in the medium term. Salt Ayre redevelopment takes priority at present in order to help reduce financing costs, but this is subject to review depending on the progress being made in balancing the budget over the medium to longer term.

- **Renewals**
  The reserve provides funding to help ensure that the Council's infrastructure, facilities and equipment are fit for purpose going forward.

- **Restructuring / Budget Support**
  This covers the up-front/non-recurring costs of service restructuring, and/or pay and grading reviews, and ancillary costs associated with delivering the Council's approved plans and actions.

– **Business Rates Retention (BRR)**
  This reserve provides some cover should the Council's budgeted income from retained business rates fall to the safety net level in future years, as a result of successful appeals.

5.2.4 As at 31 March 2016 the combined total of General Fund reserves and Balances is forecast to be £10M, representing 62% of next year's revenue budget, but this does not reflect fully the Council's gross exposure to financial risk.

5.2.5 On balance the Council's reserves position is reasonable and fits with the aims of this Strategy but nonetheless, the Council still has a huge budget gap to resolve over the medium to longer term.

5.3 HOUSING REVENUE ACCOUNT POSITION

5.3.1 As at 31 March 2016 HRA Balances are forecast to be £1.344M, which is £994K above the recommended minimum level of £350K, but by 2019/20 HRA Balances are forecast to reduce back down to their current recommended minimum level of £350K. The Council's Section 151 Officer will review her advice on minimum levels at 2015/16 outturn, once there is a clearer and more certain picture of the legal framework being implemented by Government, regarding council housing rent policy and its impact on the Business Plan.

5.3.2 All other surplus resources are held in the Business Support Reserve. As at 31 March 2016, £8.396M is expected to be available in this reserve and the first spending priority is now supporting existing commitments over the lifetime of the 30-year Business Plan, with plans for increasing the stock of one-bedroom accommodation currently on hold, pending assessment of scheme viability.

6 CAPITAL INVESTMENT AND FINANCING

6.1 The Council's current asset base is summarised below, based on its audited Balance Sheet. As at the end of last financial year the Council held land and other property of £238M, against which it had £66M borrowing and leasing obligations outstanding. The majority of assets held are integral to providing services and supporting delivery of the Council's objectives.

Summary Consolidated Balance Sheet	**31 March 2014 £'000**	**31 March 2015 £'000**
Intangible Assets	114	87
Tangible Fixed Assets:		
Property, Plant and Equipment	197,841	204,273
Heritage Assets	7,926	7,856
Investment Property	19,063	25,321
Assets Held for Sale	1,957	57
Total Capital Asset Base	**226,901**	**237,594**

6.2 A key task of the Council's Property Strategy is to keep the authority's General Fund 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. In turn these matters are reflected in either the Council's capital investment priorities, or its capital receipts forecasts. The review of the Council Housing 30-year Business Plan fulfils a similar function for that service's asset base.

6.3 Based on recent condition surveys, £8M of capital investment is needed over the next few years to improve the condition of the corporate property portfolio for General Fund services. The assumption is that this will be financed mainly through increasing the Council's borrowing need, but on the following condition:

The Council will continue to review its corporate property holdings over the medium term, in collaboration with Lancashire County Council. The primary aim of this review is to reduce corporate property investment needs through the rationalisation of property holdings, with any resulting capital receipts being applied accordingly, rather than being used to support other new investment.

6.4 Accordingly, the Council's programmed capital investment and its current assumed financing for the medium term is summarised overleaf and further details are attached at ***Annexes 5 and 6***.

	General Fund £'000	Council Housing £'000	Total £'000
Total Gross Capital Programme	**44,634**	**23,320**	**67,954**
Financed by:			
Grants and Contributions	18,110	0	18,110
Capital Receipts (from other land & property sales)	1,381	800	2,181
Direct Revenue Financing	488	0	488
Use of Reserves (including HRA Major Repairs Reserve)	2,673	22,520	25,193
Net Increase in Underlying Borrowing Need	21,982	0	21,982
Total Financing	**44,634**	**23,320**	**67,954**

6.5 It is evident that the Council Housing programme is reliant on using reserves, and this avoids any increase in HRA borrowing needs. For General Fund investment, the financing is more varied. In particular, the majority of the increase in underlying borrowing need is helping to finance vehicle replacements, redevelopment of leisure facilities and corporate property works, mentioned above.

7 FINANCIAL TARGETS AND CONSTRAINTS

7.1 COUNCIL TAX

7.1.1 Lancaster City Council believes that council tax should give good value for local taxpayers. In setting its tax rates, the Council has regard to:

- anticipated levels of pay and price inflation
- Government funding levels
- local referendum thresholds
- the ability to meet its statutory obligations
- its wider vision for the district.

7.1.2 The Council aims to keep its Band D council tax increases to £5 for 2016/17 and future years, subject to future thresholds for holding local referendums, which are set by Government. These targets apply to the basic Band D City Council tax rate across the district excluding parish precepts.

7.1.3 For 2016/17, the approved increase equates to 2.45%, reducing slightly in future years. Other Bands will experience difference £ increases, relative to their Band D equivalence. They are shown in the table overleaf:

Council Tax Band	Band D Equivalent Proportion	2016/17 City Council Tax Rate £	Year on Year Increase £
A	6/9ths	139.31	3.33
B	7/9ths	162.53	3.89
C	8/9ths	185.75	4.44
D	9/9ths	208.97	5.00
E	11/9ths	255.41	6.11
F	13/9ths	301.85	7.22
G	15/9ths	348.28	8.33
H	18/9ths	417.94	10.00

7.1.4 The Council has kept with the difficult decision of increasing the tax rate and targets for future years, as a way of helping to mitigate the impact of Government funding reductions. To some extent, increasing council tax will help protect key services.

7.1.5 As a consequence, the following table sets out the key financial targets that the Council will strive to work within for the next three years, after allowing for forecast use of Balances.

Target	2016/17	2017/18	2018/19	2019/20
Target Budget Requirement	£16.258M	£15.180M	£14.995M	£14.756M
Target Council Tax Requirement	£8.296M	£8.623M	£8.956M	£9.295M
Target Council Tax Increase (Band D)	£5.00 2.45%	£5.00 2.39%	£5.00 2.34%	£5.00 2.28%
Target Council Tax Rate (Band D Equivalent % Increase	£208.97	£213.97	£218.97	£223.97
Year on Year Net Savings Requirement (assumes recurring savings achieved)	**-**	**-**	**£2.226M**	**£2.671M**
Cumulative Net Savings Requirement	**-**	**-**	**£2.226M**	**£4.897M**

7.1.6 The net savings targets would need to be increased for:

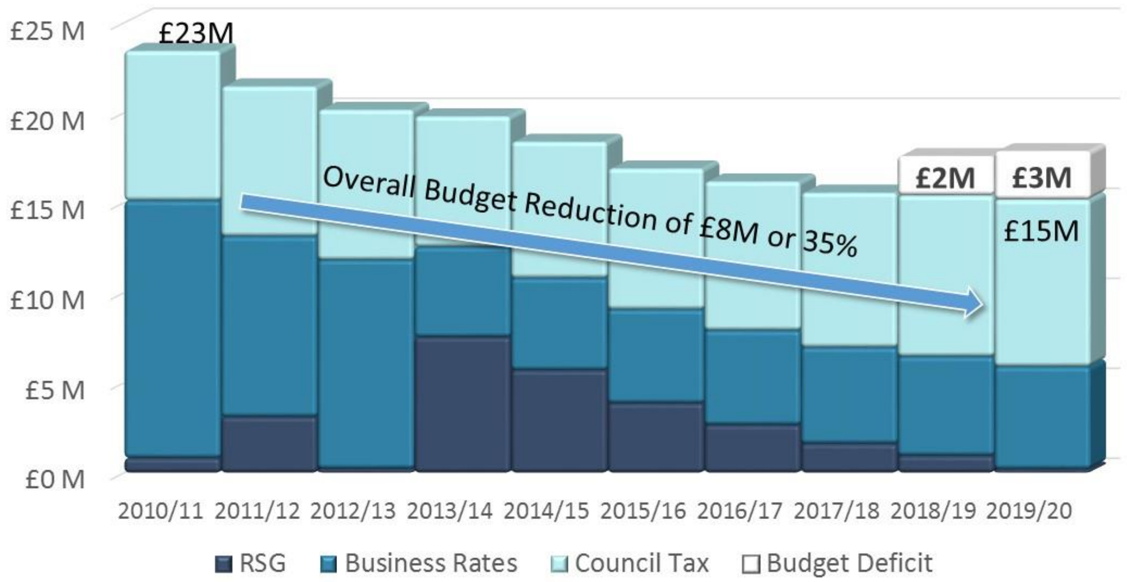
- any additional growth that may be required in future, or
- any further net increases in the base budget, or
- if council tax targets reduce below £5 at Band D.

As a guide for the future, typically a 1% change in council tax now amounts to approximately £83K.

7.1.7 Clearly the savings targets are indicative and will continue to be monitored and reviewed as referred to later in this Strategy. That said, the four-year Settlement offer from Government presents a sound basis for financial planning for the period. There is nothing to indicate that the Council's annual funding prospects will improve significantly over the term of this strategy, unless the potential growth in business rate income is realised.

7.1.8 Thereafter, beyond 2020 the Council's financial prospects will hinge upon the operation of the full Business Rates Retention Scheme, the details of which are yet to be developed.

7.1.9 Building on the figures quoted in section 4.1.5 earlier, between 2010/11 and 2019/20 the Council's net annual spending is expected to have to reduce by £8M or 35% in cash terms. This is as compared with 2010/11, when Council spending reached its peak.



7.1.10 It is therefore considered safe to re-state the following:

Between 2010/11 and 2019/20 net revenue spending is expected to have to reduce by £8M or 35% in cash terms. Although every effort will continue to be made to deliver savings through efficiencies and innovation, it is expected that future budgets will not be balanced without increasing the charges for some services, as well as reducing the overall range and quality of services provided. That is why prioritisation of services is even more important, as is the need to share these expectations with communities.

7.1.11 On a more positive note, however, the Council does have the time to plan for the medium to longer term future and achieve a financially sustainable budget. Currently it has a strong financial standing that gives the flexibility to deliver such plans - as long as the Council uses its time and other resources wisely. To summarise, that is the whole point of this strategy.

7.2 REVENUE BUDGET LIMITS

7.2.1 Council ultimately approves the budget forecasts for future years and any associated use of Balances. Cabinet Members and Officers must then work within this framework, unless any flexibility is agreed by Council.

7.2.2 For the next four years, current figures for General Fund are as follows:

Year	Net Spending Limit (before transfer to Balances) £'000	Forecast Contribution to Balances £'000	Forecast Net Revenue Budget £'000
2016/17	16,202	56	16,258
2017/18	15,015	165	15,180
2018/19	17,221	0	17,221
2019/20	17,427	0	17,427

7.2.3 Cabinet has no general flexibility to increase net spending over the amounts shown above, or to increase the use of Balances, or to take on new (unfunded) spending commitments for subsequent years.

7.2.4 For the Housing Revenue Account, Cabinet has no general flexibility to use Balances, or to take on unfunded spending commitments.

7.2.5 Outside of the above constraints, the only exception is if immediate spending is needed in relation to either an emergency threatening life or limb, or major structural damage threatening the fabric of a building *(Financial Regulations s4.3.1.4)*.

7.2.6 Any flexibility within these overall financial constraints is set out within the Council's Financial Regulations and the supporting budget transfer limits (virements and carry forwards) included at ***Annex 7***.

7.3 EXTERNAL GRANTS AND CONTRIBUTIONS

7.3.1 The Council anticipates that generally, external sources of finance will continue to be scarcer than in the past. Nonetheless, it will continue to pursue funding opportunities where:

- they fit clearly with the Council's Corporate Plan and capital investment priorities;

- the funding makes provision for any extra capacity needed to support the workload involved; and

- pursuing such opportunities requires no extra financial support over and above that already provided for within approved budgets, or included in future budget proposals supported by Cabinet, or alternatively, the funding opportunity may reasonably result in the Council avoiding future costs or liabilities.

7.3.2 Should potential funding opportunities arise, they will be considered as part of the annual budget and planning process wherever possible. If timescales do not permit this, then the relevant approvals must be gained to pursue the opportunity, as set out in Financial Regulations.

7.3.3 The use of any general, non-specific grants will also be considered as part of the budget process, should timescales permit, to allow appraisal in light of overall spending needs and priorities.

7.4 CAPITAL RECEIPTS

7.4.1 From the current year to 2019/20 inclusive, usable capital receipts totalling £2.181M are anticipated, of which £1.381M relates to General Fund property disposals with the remainder relating to Council Housing. The controls regarding their use are set out below:

- Council housing capital receipts may be used either to support capital investment in council housing stock and supporting assets, or to reduce HRA capital financing costs. The use of any additional receipts arising will be considered in context of the 30-year Business Plan.

- For General Fund, all of the budgeted capital receipts will be used to support the capital programme. Subject to property rationalisation requirements, any additional capital receipts generated will be used to reduce the Fund's underlying borrowing need, unless any contractual obligations require otherwise.

7.4.2 The Government is due to issue statutory directions that would allow the flexible use of new capital receipts, gained from April 2016 to March 2019, to pay for the revenue set up costs of projects that are designed to make revenue savings. In order to qualify, any council would be required to prepare an annual efficiency strategy, covering such projects, with the strategy being approved by full Council. This flexibility will be considered in future updates to this MTFS.

7.5 REVENUE FINANCING FOR CAPITAL INVESTMENT

7.5.1 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. Within the HRA, substantial annual contributions will be made to the Major Repairs Reserve, to finance the bulk of in-year capital investment needs.

7.5.2 No other general provision for direct revenue financing will be built into budgets, although specific proposals may be considered in appropriate circumstances, e.g. invest to save schemes.

7.6 CAPITAL INVESTMENT: UNDERLYING BORROWING NEED (ALSO KNOWN AS CAPITAL FINANCING REQUIREMENT OR CFR)

7.6.1 Taking into account current investment needs and availability of other capital resources, in gross terms the Council's basic underlying borrowing need is assumed to increase by £21.982M over the next five years, prior to any further savings being identified from the property review. This increase relates solely to General Fund.

7.6.2 The practice will continue by which the Chief Officer (Resources) will assess, under delegated authority and in consultation with other Chief Officers, the most appropriate means of financing for the planned acquisition of new vehicles and equipment. This may give rise to changes in the underlying borrowing need projections.

7.6.3 Further changes to the CFR may be considered in year for invest to save schemes, but only in context of the Prudential Code requirements and where robust, achievable revenue savings can be identified or income generated, which reasonably exceed the ongoing (whole life) costs associated with a new capital proposal and meet any other payback requirements. This scenario would require further specific Cabinet / Council approval as required.

7.6.4 No other prudential borrowing is to be considered until fuller plans have been adopted for tackling future years' budget deficits over the longer term.

7.6.5 Whether or not any of the 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.

8 THE BUDGET PROCESS

8.1 TIMETABLE AND OVERVIEW

8.1.1 Budget setting is an annual process, it being the key part of the Council's corporate planning arrangements.

8.1.2 Throughout the review process, elected Members determine the allocation of resources across services and Corporate Plan priorities and the level of council tax to be charged. In conjunction with the Chief Officer (Resources), other Chief Officers are responsible for the more detailed aspects of budget preparation in their areas, including developing service options to assist elected Members' deliberations.

8.1.3 The approved annual budget is therefore 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. It provides a basis for monitoring and accountability.

8.1.4 During 2016 Cabinet will produce a detailed budget timetable for 2017/18 that allows sufficient flexibility to respond to any new information emerging. Nonetheless, there are certain key dates that must be adhered to in budget setting. These are determined by Government, either through funding announcements or legislation.

8.1.5 Ultimately, the Council must set a budget (or council tax requirement) and the council tax before 11 March each year. The Council's financial year runs from 01 April to 31 March. The Council now has a four-year financial planning horizon.

8.2 BUDGET PREPARATION

8.2.1 The Council has taken an incremental approach to budget setting for 2016/17 and the future years' forecasts underpinning this Strategy. Broadly speaking, this means that the current year's budget provides the starting point for next year's. It is based on the assumption that unless any specific decisions are taken to determine otherwise, services and activities will continue at broadly the same level from one year to the next. This does not preclude efficiency or innovation being sought in service delivery, however. Indeed efficiencies are the first priority for achieving budget savings and this is reflected later.

8.2.2 The initial "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:

- an allowance for the estimated level of pay and price inflation from one year to the next. Current budget assumptions are set out at ***Annex 8***;
- adjustments to reflect the transfer of functions in the Council, changes in activity/demand levels for services where appropriate (including demographic pressures), or general efficiencies and cost reductions, as examples. The Council expects the number of households in the district to grow, and in turn this will add cost pressures into the base budget, simply to maintain service levels;
- any previously approved changes to policy or strategy, for example a reduction in budget to reflect withdrawal of a service, or an increase to fund a new initiative or the impact of new legislation.

8.2.3 Consideration maybe given to other budgeting approaches such as zero-based budgeting, if specific circumstances warrant it, but it is likely that any change in the overall corporate approach would be considered for 2018/19 at the earliest.

8.2.4 Estimates of expected Government funding and business rates retention, as well as any remaining ring-fenced specific grants and associated costs, will be revised during the planning and budget setting process.

8.2.5 Similarly the main assumptions underpinning the budget will be identified, assessed and reported, together with the main financial risks facing the Council. This is an important element of the Council's risk management arrangements.

8.3 BALANCING THE REVENUE BUDGET: SAVINGS AND GROWTH

8.3.1 As the earlier forecasts show, there is still a need to address a considerable funding gap between spending aspirations and the resources available. Consequently, major budget savings must be achieved over the medium to longer term. There is also the need to accommodate any required growth in services and any legislative changes.

8.3.2 After taking account of the planned use of Balances and increasing income from council tax, the Council will balance its budget through the following means. Various options that have already been identified for consideration are set out at ***Annex 9***.

a. Efficiency Savings and Minor Service Reductions:
These are regarded as a priority over other forms of making savings in Council expenditure. The Council will focus on 'cashable' efficiency savings and trimming of services, rather than those that seek to enhance service standards for the same cost. The bulk of these savings will arise from the Council's ongoing organisational change programme. The Council will continue with this approach, to achieve better value for money for the community as a whole. In progressing reviews, it will consider collaborative working with partners as appropriate, and explore innovative ways of working and new, more modern technologies.

b. Invest to Save Initiatives:
Priority will be given to implementing the Salt Ayre redevelopment partnership and Energy Efficiency schemes. Salt Ayre takes priority in terms of the future use of the Invest to Save Reserve. Invest to save proposals linked to the Digital Workplace initiative are also to be developed during the course of 2016/17. Other initiatives may be considered in light of any remaining resources and the Council's priorities; these may cross over with other efficiency proposals.

c. Income Generation
As part of either its overall charging policy or various specific service reviews, the Council will identify potential options for increasing income generation, thereby reducing the subsidy for some services. It will also explore service and corporate policy development regarding trading and commercialism, where appropriate and subject to resources.

d. Major Service Reductions
Notwithstanding the drive for efficiency, savings will be needed from reducing the level or range of services provided to meet future financial targets. In order to ensure a sound strategy for balancing the ongoing budget by 2020, the Council will develop options for:

- reducing service standards in statutory areas, where considered appropriate;
- rationalising access to services and facilities (including property holdings); and
- reducing or withdrawing discretionary services and activities, informed by the council's current priorities and any proposed future changes as well as any provision made by other organisations and partners.

e. Redirection of Resources ("Growth")
Any growth in a particular area will only be considered if it meets either of the following conditions:

- it is needed to meet statutory service standards; or

- it is essential to meet a key objective within Corporate Plan proposals, for which there are no alternative providers or sources of funding available ***and*** sufficient progress has been made in delivering plans for addressing the medium to longer term budget deficit, so as to consider any growth proposal affordable and sustainable in the medium to long term. This applies particularly to any recurring or high cost one-off growth proposals.

Any potential ideas or growth proposals for 2017/18 onwards will be considered at the same time by Cabinet, prior to presenting its budget proposals to Council, to ensure that their respective merits can be compared and prioritised.

It is highlighted that the term 'growth' is something of a misnomer, certainly at a corporate level. In times where funding levels are reducing, a service level or activity may grow but only at the expense of another, through the redirection of resources.

8.4 BALANCING THE CAPITAL PROGRAMME: THE PRUDENTIAL CODE

8.4.1 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.

8.4.2 The ultimate aim is to help ensure value for money from capital investment. Also, it reinforces openness and accountability in the decision-making surrounding capital spending.

8.4.3 Details of the Council's Prudential Indicators (as required under the Code) are included in the Treasury Management Strategy, which also sets out the framework for managing associated debt.

8.4.4 In terms of the affordability and value for money of key capital investment:

- regarding vehicle and equipment acquisitions, these matters will be addressed through existing appraisal arrangements, Officer delegations and reporting arrangements;

- regarding improvements to the corporate property portfolio, affordability and value for money will be addressed through the existing reporting and decision-making arrangements; backed up by the ongoing property review.

- regarding the principle of increasing one-bedroom council housing provision, in principle sufficient reserves are in place to provide financing but value for money, prudence and sustainability will be considered explicitly, in light of Government's emerging policy on social housing and its impact on the council housing 30-year business plan. The viability of progressing new build plans has yet to be reviewed.

- Regarding the Salt Ayre Redevelopment Partnership and Energy Efficiency Works, matters will be addressed through detailed design, feeding into monitoring and reporting arrangements.

8.5 OPTIONS APPRAISAL

8.5.1 Establishing plans to tackle the medium term budget deficit requires various scenarios and alternatives to be tested. Key aspects of the Council's corporate planning arrangements, particularly HR and ICT as well as property, inform and support the exercise.

8.5.2 The appraisal of future budget options will incorporate any appropriate and proportionate impact assessment as necessary and it will consider the relevant workforce, property and any other resource implications, as well as the timescales for implementation. It is recognised that major change programmes cannot all be agreed and delivered at the same time and this is reflected within the Council's budget plans.

8.5.3 Options for any additional significant capital investment (over that already identified) and its financing will also be appraised as part of future budget processes, in line with priorities as set out earlier and to meet the requirements of the Prudential Code. 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.

8.6 DECISION-MAKING AND TIMING

8.6.1 As the Council still needs to make significant savings in future, and, in any event, it makes sense to implement any true value for money measures as soon as possible, the practice of taking decisions on ***efficiency proposals, minor income generation initiatives and minor service reductions*** throughout the year will continue.

8.6.2 For new ***invest to save*** initiatives (other than those already approved), the timing of decisions will depend on the nature of the proposal concerned, and its potential risks and impact on the budget. As a rule of thumb, any minor initiatives may be determined in year, but any major proposals would be considered as part of the annual budget process, to ensure comparison and prioritisation.

8.6.3 Whilst various savings decisions will be taken throughout the year, therefore, where operationally it makes sense to do so, it is recognised that more difficult budgetary decisions still lie ahead and typically these take longer to develop and implement. With this in mind, it is intended that a further programme of ***major service reduction and/or organisational change proposals*** will be developed by Cabinet during 2016/17, for prioritisation and implementation as appropriate, predominantly from 2018/19 onwards. The extent of this programme will be influenced by the Council's financial outlook at that time.

These practices mean that the Council should still expect to see underspendings arising during the course of the year, in revising the current year's budget and at outturn. Analysis of any underspendings will continue, to identify any trends and inform future budget setting.

More fundamentally, however, the aim is to build on the existing savings programme during 2016/17, for implementation over the medium term, particularly from 2018/19 onwards.

8.6.4 Regarding ***growth or redirection of resources***, unless there is an unavoidable Council or corporate need, all growth options will be considered as part of the budget process (at Budget Council).

8.6.5 Ultimately, revenue budgets, capital programmes and detailed council tax rates will all be approved by Council at the Budget meeting to be held in late February / early March. Cabinet will set housing rents in advance of this, to ensure that rent notices are issued in a timely manner.

9 MONITORING AND REVIEW

9.1 The Council needs to ensure that its financial planning takes adequate account of the many changes or other issues that inevitably arise during the course of a year, including risk considerations. This will be done in a variety of ways:

- Any impact from the Council's corporate financial monitoring arrangements will be considered, together with the impact of the previous year's outturn. Corporate financial monitoring will be undertaken and reported quarterly. Where appropriate, this will include a review of the national economic outlook and other key assumptions and risks underpinning the budget.

- A financial assessment is undertaken when any key decisions are to be taken, or when any major policy changes are proposed, and these will be collated for factoring into future projections.

9.2 The outcome of the monitoring and review arrangements will be brought together to avoid a piecemeal approach to reviewing the Strategy. The aim is to report any changes twice yearly (once during autumn 2016 and once to complete the 2017/18 budget process) for referral on to Council, although the exact reporting arrangements will be dependent upon circumstances. In particular, reporting timescales may change to ensure that the Council is in a position to respond to Government's offer of a four-year Settlement by the deadline of 14 October. The reporting may necessitate changes being proposed to the MTFS framework and the key financial targets contained within it.

10 GOVERNANCE

10.1 Members

The current Portfolio Holder for Finance is Councillor Anne Whitehead.

Cabinet is responsible for formulating and recommending budget proposals and MTFS updates to Council. Cabinet must then operate within the bounds of the approved MTFS.

Full Council is responsible for approving the MTFS and any updates; this is on the basis that it forms part of the council's overall Budget and Policy Framework.

Overview and Scrutiny Committee may commission or undertake work 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.

Budget and Performance Panel is responsible for reviewing and scrutinising the Council's finances and performance.

10.2 **Officers**

The Chief Officer (Resources), as Section 151 Officer, is responsible for the development, application and interpretation of the MTFS and the Prudential Code, the annual budgeting process to ensure financial balance, and the supporting financial monitoring arrangements. She is also responsible for ensuring the MTFS reflects any joint planning with partners and other stakeholders; all Management Team actively contributes to this process.

As appropriate to their roles, Officers are responsible for working within the MTFS. Other detailed Officer responsibilities and key controls are set out in the Council's Financial Regulations, which reflect statutory requirements as appropriate.

11 PUBLIC ACCESS TO INFORMATION

11.1 As a publicly funded organisation, the Council is committed to being open and transparent on how it spends tax-payers' money. Such openness helps to gain a wider understanding of the many financial pressures and challenges that the organisation faces. The Council demonstrates this openness through various means:

The Annual Budget
Information is published each year in the budget book, which is publicised in various forms to Council Members and Officers.

Spending in Year
During the year, the Council provides information on various payments made to suppliers for goods and services and other matters, in line with the Government's Transparency Code.

Outturn and other annual reports
After the year end, the Council reports on its actual financial performance and publishes its audited Statement of Accounts.

11.2 As well as informing the public and other stakeholders, the Council uses the results and feedback from this information to inform its financial planning and strategy going forward.

11.3 All information is available through the Council's website (www.lancaster.gov.uk) or alternatively, queries can be sent to finance@lancaster.gov.uk.