APPENDIX 1

Funding the Future

-A Strategy for Building Financial Resilience

Background and Context

1.1 The Council has developed highly ambitious plans for enhancing the economy, wellbeing and presence of Lancaster City and District; setting out its priorities and vision for the district to thrive as a vibrant regional centre in the north west of England in its recently published Council Plan.

1.2 The Council is committed to making the most of the district's many attributes as a great place to live, work and visit.

1.3 The Council Plan sets out our four Ambitions for 2018-22:

- *A Thriving and Prosperous Economy*
- *Clean and Safe Neighbourhoods*
- *Healthy and Happy Communities*
- *A Smart and Forward-Thinking Council*

1.4 The Council has also identified four principles which describe the approach it aims to take in delivering on its ambitions; these are:

- *Community Leadership*
- *Shaping the Place*
- *A Business-Like Approach*
- *Valuing Distinctiveness*

1.5 Currently and for the foreseeable future, central government funding is and will be reducing, whilst costs and demand (including additional channels for demand such as social media) continues to increase, all of which impact on local services and local communities. Looking at these issues in terms of what it means for Lancaster City Council, the projected budget deficits for the next few years are:-

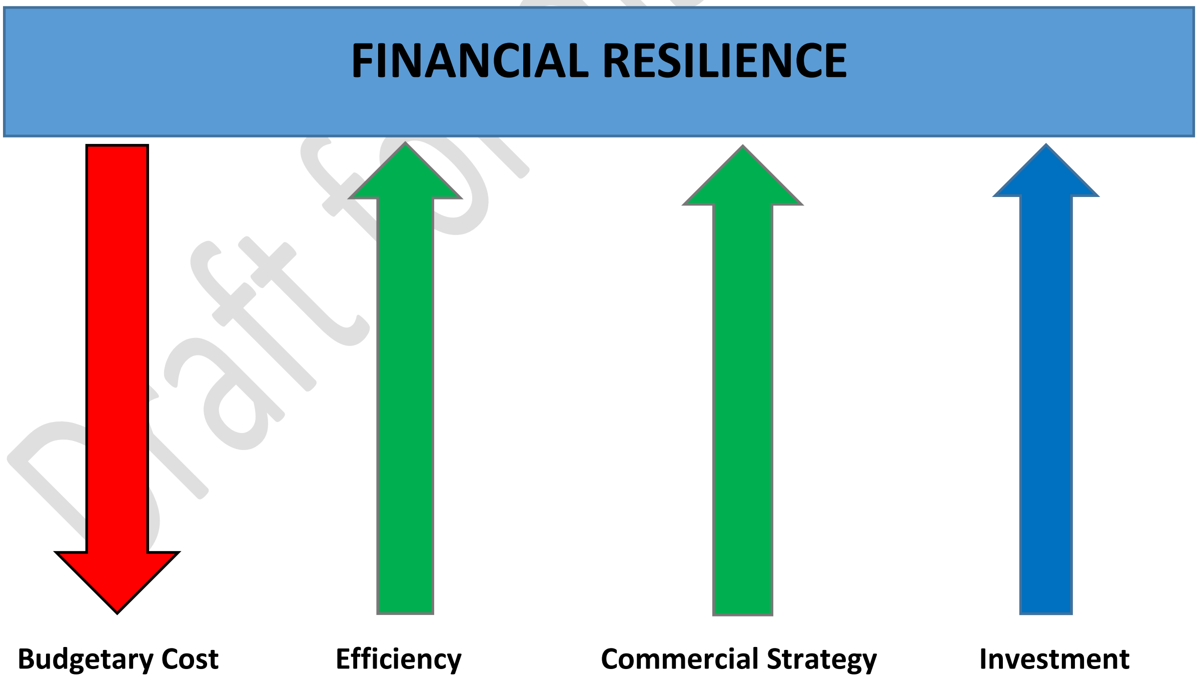
19/20	**20/21**	**21/22**	**22/23**
(£0.6)	**(£2.0)**	**(£2.4)**	**(£2.6)**

1.6 In the event that the Council managed to restrict the degree of impact by taking other measures there remains the certainty that this would result in significant service reductions if other solutions are not found.

1.7 If the Council cut services that might reduce the deficit but *it won't solve the problem* as it would still have a demanding workload but with fewer people to resource it and that, inevitably, will give rise greater problems in terms of stakeholder dissatisfaction and frustration compounded by lower morale and uncertainty within the workforce. Finding ways through this and finding answers that drive longer-term solutions are paramount and being enterprising is now more vital than ever.

1.8 The Council is tackling these issues and taking steps to significantly improve its financial resilience by means of a strategy which has four key elements or *pillars*, which, taken together, will deliver a really significant difference to viability, these being:-

- ***Developing proposals for revisiting and effectively zero basing the budget using an outcomes based approach.***
- ***Pursuing efficiency with rigour right across the Council.***
- ***Developing and implementing a Commercial Strategy***
- ***Investing for a return or to save on cost whilst adding to wealth building in the area.***



1.9 It must be emphasised that it will be only a combination of these actions that will build financial resilience. Each element complements the others and actually taking these steps will help instil new, innovative and creative culture that can provide the basis for a positive step change often referred to in text books as a 'paradigm shift' in relation to the Council's thinking, its strategies and how it operates.

1.10 It would be naive to suggest that this shift in thinking will not be without its problems; there will be tensions and some failure but with the right backing, the right approaches and an unwavering determination, there is every probability that this strategy will deliver a much improved level of financial resilience thereby enabling the Council to continue to deliver high quality services to its citizens.

1.11 What is certain is that maintaining the status quo is not, as explained above, in any sense a risk-free position, and moving forward on a number of fronts to tackle these challenges is both crucial and urgent. Notwithstanding the scale of the challenge, it presents a positive, exciting and aspirational alternative to managing decline.

The Four Pillars

2.1 Paragraph 1.4 above refers to the four pillars of a financial resilience strategy. Rather than selective or phased approach or seeking only to tackle specific areas of cost, this is a universal approach where unnecessary costs are driven out, efficiency is driven up and significant new income streams and surpluses are created through the combination of commercial and investment approaches.

2.2 As referred to above, these elements are not alternatives; each must be delivered upon and it would not be acceptable or appropriate for new income streams to subsidise or "prop up" inefficient service delivery or to cushion the cost of poor decision making.

2.3 Taking each of the elements in turn, the following section looks at typical actions and initiatives that would be taken in relation to each of them:-

A Zero Based Budgetary Strategy

3.1 Over time budgets become extremely complex and cluttered as growth requests, political decisions, government policy or internal changes in approach give rise to increases in budgets. Given the relative lack of analytical capability within the current financial system, there is a danger that the level of spending and the evidence base that supports it has become disconnected. In addition, it is rare for budgets to be voluntarily cut or for new budgetary expenditure to be funded by reduction on other lines.

3.2 In building the budget for 2019-20 2019-20, given the timetable, a top down challenge has been undertaken seeking to confirm or justify expenditure and challenge the continuing need for expenditure on some areas. This can have a positive effect on budgets but it tends to elicit opportunistic rather than rationally-based savings or the “offering up” of items which then shield other more fruitful areas from challenge.

3.3 Once the budgeting process for 2019-20 is substantially complete, an immediate start will be made on taking a “zero based” approach to major budgets. Given this approach can be intensive it is proposed that the exercise would initially focus on larger budgets and would not be repeated annually but at longer intervals.

3.4 Zero Based Budgeting is a technique which complements and links to existing planning, budgeting and review processes. It identifies alternative and efficient methods of using limited resources. It is a flexible management approach which requires a rationale for allocating resources by focusing on a systematic review and justification of the funding and performance levels of current service provision.

3.5 Pure zero based budgeting of repeating the process every year is not really feasible for the Council. What is becoming more prevalent, however, is focusing on creating a budget that ensures money is spent appropriately and is well thought through rather than simply adding say 2% to last year’s figures.

3.6 A number of local authorities have adopted elements of zero-based budgeting, to balance benefits and effort for the best results. The focus has shifted from reviewing budgets in an overly detailed manner, to a more conceptual discussion about service delivery. Clarity will need to be established as to what services needed to be delivered what level of service was wanted and where changes could be made, to best match the budget to the needs. The approach applied would not be wholly zero-based in its true form, but would apply some of the concepts in a way that delivered much of the benefits of the approach.

Pursuing efficiency with rigour right across the Council

4.1 Any organisation finds that its systems and procedures become, over time, less than efficient. This may be due to too much paper, excessive bureaucracy, changing needs or the underutilisation of technology. The cumulative effect of such is known as “systems waste” and can cost organisations a considerable sum.

4.2 This is best addressed by a rigorous programme of “Lean Reviews” which, through well proven approaches, re-engineers activities so that costs are reduced and productivity improved. A recent pilot lean review on voids management has been the main contributor to a reduction from 68 days to fewer than 30 days to turn round a void property.

4.3 It is planned that a number of key processes will be subject to review in 2019-20 including Invoices processing, procurement to pay and HR processes. The intention is that all key service processes will be subject to review over a three year period.

Developing and implementing a Commercial Strategy

5.1 During these challenging times, interest in commercial activity – both improving internally delivered services and establishing new delivery models – continues to grow. The diversification of funding through income and trade would allow the Council to have greater control, balancing increased risk with the potential for substantial rewards. With financial austerity set to continue, it is vital that the Council continue to innovate and evolve if they it is to remain financially resilient and still deliver quality services at reduced cost.

5.2 In addressing these challenges at one level it is about being more commercially astute in relation to income generation; at a more structured level, the sector has adopted a number of approaches collectively known as "Alternative Service Delivery Models", the main ones being:-

- ***Contracts and partnerships with other public bodies, for example, shared service arrangements.***
- ***Contracts and joint ventures with the private sector e.g. joint ventures, outsourcing, public-private partnerships.***
- ***New public sector and non-public entities e.g. joint commissioning boards and companies limited by shares or guarantees.***

5.3 Each of these approaches will be explored further below and all take into account the cross cutting theme of a generally much more focussed approach to the commerciality of non-statutory services and the further opportunities that may arise. 5.4 In addition, all service delivery can potentially be managed better by taking a more business-like approach and looking at innovative and enabling structures to deliver these services more cost effectively.

5.5 The term income generation is often used in discussing this topic. This can be a little misleading. If we are to address budget shortfalls in future and avoid cutting services we need to begin to trade for a surplus or profit.

Contracts and partnerships with other public bodies, for example, shared service arrangements

5.6 Clear financial benefits can be made from sharing services. Savings are achieved through consolidating organisation structures, integrating information technology, reducing accommodation, and improving procurement.

5.7 Early savings are made by reducing staff – removing duplication and management posts. These initial benefits are typically delivered rapidly with strong top-down leadership. As shared services mature and evolve they are able to benefit from wider business transformation – such as better use of IT and assets, improved processes and cultural change programmes.

5.8 The set up and integration costs for merging services are modest, with, on average, less than a two year payback period for all the shared service arrangements. It appears that the shared service arrangements have succeeded in providing the same or better levels of performance at less cost.

5.9 Good performance against an organisation's key performance indicators are complemented by good staff indicators – such as high staff morale, low staff sickness and low turnover rates – and rapid implementation of shared service arrangements helps build momentum for change.

5.10 Expanding established shared services to provide services for other public sector partners in a locality is a useful way to generate income and ensure efficiencies through greater economies of scale. A positive example already exists in the joint operation of Revenues and Benefits with Preston City Council. It is also possible to buy into other local authorities' services simply as a client without being one of the provider partners.

5.11 It is possible to set up entities that supply services back to the Council in a more efficient and economical way, whilst trading would apply to commercial non statutory / discretionary services e.g. trade waste services to business or customers buying from a catering outlet. While the Council already operates a number of these activities as quasi-businesses, it would be the legal vehicle through which these services are delivered that would change. Profits generated would flow back to the Council to offset budgetary pressure elsewhere.

5.12 Whilst the local Government Act 2003 restricts local authorities from making a profit, the Localism Act 2011 allowed local authorities to undertake activities to make a profit but only if delivered within a company. The rationale therefore for creating Local Authority trading co(s) as an integral part of the Commercial Strategy is as follows:-

- The challenge of continuing budgetary pressures can be mitigated and ultimately eliminated, by developing profit sources.
- To develop profit sources there is a need to trade commercially.
- To trade commercially and make a profit requires the creation one or more trading companies.

5.13 If a LATCo is set up and at least 80% turnover relates to in house contracts then the company can operate as a “Teckal” company named after the relevant law case. Under this exemption, no procurement exercise is required and a clear commissioner/provider split exists, meaning that the council can incentivise the LATC to realise efficiencies and develop service offerings. In other situation for non-statutory services, where work is sought and bid for, a straightforward limited company arrangement would be the most suitable.

5.14 Whist this document is a strategy setting out the Council’s aims and ambitions, it would be useful to illustrate the range and scale of commercial activity that might be undertaken, particularly using newly established legal frameworks as described above to enable delivery. The following illustrates what may be possible and is not exhaustive.

Waste Services	CCTV	Property Development
Leisure Services	Venue Hire	Shared Services
Environmental Health	Catering Services	Location Hire
Arboriculture Services	Planning Consultancy	Commercial Letting
Housing Development		

Investing for a Return or to Reduce Costs

6.1 A number of authorities have, as part of their commercial approach, begun to develop commercial asset portfolios which, through judicious investment, can deliver significant investment returns year on year. For example, in 2010, Sevenoaks District Council recognised that in order to retain the range and quality of their services they would need more than the traditional approach of finding efficiencies and savings. It took the decision to explore different income streams which resulted in them becoming financially self-sufficient in 2016.

6.2 A number of councils have a property investment strategy that allows them to buy and build assets. These range from office blocks to petrol stations and hotels adding significant capital and rental value. These strategies, when new opportunities arise, pose the question; will it offer a return that will enable us to deliver and maintain the range and quality of services our residents need at an acceptable level of risk.

6.3 The key premise is a simple one: the returns from a sound investment can well exceed the cost of borrowing, and generate long term income streams that bring a degree of certainty especially when assets are pre-let on long-term leases. Returns can often be between 6 and 10%. Success is predicated on the right choice of investment, an accurate appraisal and a sound business case. Clearly, and this is an opportunity for Lancaster, where the Council is already the owner of the land then a reasonable rate of return is more easily obtained.

6.4 In building an investment portfolio, risk can be balanced by spreading expenditure over different types of activity: for example, commercial space, leisure, food and beverage and possibly retail in the right circumstances.

6.6 An investment strategy should also take account of the need to acquire assets where income streams are more immediate. For example if significant deficits are predicted in the near future then a case could be made for acquiring an immediate income stream through purchasing a built asset with an existing lease income.

6.7 It is envisaged that an investment strategy would look to make initial investments that would generate in the region of £500k to £1m, with investment building over time to income levels of approximately £2.5m. Any such activity would be supported by high quality property and legal advice.

6.8 One challenge that has been recognised by pioneering Councils in this area is that existing decision-making processes were not agile enough for the market that they were competing in; putting every purchasing decision through the traditional council process put them at a significant disadvantage. As an alternative, frameworks were created that would allow delegated decision-making in accordance with criteria on spend, expected return and geographic parameters set and agreed to by the council.

6.9 It is clear that an investment strategy could not work efficiently without the design and implementation of a scheme of delegation that was appropriate to this activity. This narrative is an overview of the sorts of activity that might take place. A more detailed narrative will be set out in a sub-strategy on investment that will be presented to Council shortly.

6.10 On a more practical level, there will also be many opportunities to invest to be more efficient with resulting revenue improvements and or cost reductions. These opportunities arise particularly in the IT and digital arena but will also be found in vehicle utilisation, asset utilisation and other general efficiencies.