

## Medium Term Financial Strategy (MTFS) – 2019/20 to 2023/24

### 1. Purpose of the Medium Term Financial Strategy

- 1.1 The Medium Term Financial Strategy sets out how Lancaster City Council will manage finances over the next four years in support of the council's priorities which are set out in the Council Plan, *Ambitions*.
- 1.2 This Strategy provides an overview of the Council's financial outlook. It is effectively a collection of interrelated strategies and action plans which will support the delivery of ambitious plans for Lancaster, Morecambe, Heysham and Carnforth and coastal and rural villages in a financially sustainable way.
- 1.3 The Council has faced significant financial challenges over the last seven years as government grant, its main source of funding, has been significantly reduced. With little prospect of any real terms increase in government funding over the next four years, the Council will need to take positive action to deliver its ambitions without reducing service provision whilst seeking to build financial and organisational resilience and capacity.
- 1.4 This will be achieved by effectively managing the Council's finances, seeking new sources of income, reviewing our spending priorities and pursuing efficiencies in the way we work.

### 2 Council Priorities

- 2.1 The Council Plan, *Ambitions* sets out four priorities as shown in the diagram below. It follows that key spending and investment decisions will have regard to these priorities as well as to the protection of effective customer focussed day to day Council services.



### 3 Objectives of the Medium Term Financial Strategy

- 3.1 The key aim of this document is to set out the financial plans and processes which underpin the Council's Corporate Plan whilst ensuring that finances are managed effectively and in accordance with relevant statutory, legislative and good practice requirements.
- 3.2 A number of objectives are set out below together with the key strategic documents which have been developed to address those objectives.

MTFS Objective	How will we achieve this?
<ul style="list-style-type: none"> <li>To set out the Council's financial position and forecasts for income, expenditure and funding for the next four years.</li> </ul>	The <b>Four Year Revenue Budget and Capital Programme</b> will set out expenditure and funding forecasts for the next four years, identifying budget gaps.
<ul style="list-style-type: none"> <li>To seek innovative solutions to overcome the impact of funding reductions and enable balanced revenue budgets over the next four years which protect service provision and direct resources towards the Council's priorities.</li> </ul>	<p>The <b>Funding the Future</b> financial resilience strategy sets out four pillars for positively addressing budget gaps. These include:</p> <ul style="list-style-type: none"> <li>A zero based budget challenge to ensure that the revenue budget focusses on priority outcomes</li> <li>Pursuing efficiency with rigour</li> <li>A <b>Property Investment Strategy</b> focussed on delivering a net positive yield from property investments in the Lancaster district.</li> <li>A commercial strategy to consider alternative service delivery vehicles</li> </ul>
<ul style="list-style-type: none"> <li>To provide an ongoing assurance that the Council remains financially sustainable and resilient.</li> </ul>	The <b>Reserves Strategy</b> will ensure that the Council identify the levels of balances that are required to manage risks associated with funding uncertainties as well as earmarked projects. Levels will be regularly monitored against known risks to ensure that the Council remains financially resilient.
<ul style="list-style-type: none"> <li>To direct capital investment towards ambitious projects that deliver measurable impact in respect of the Council Plan.</li> </ul>	The <b>Capital Strategy</b> will set out the Council's capital investment priorities alongside a long term financing plan. It will also establish effective arrangements for managing capital expenditure from the inception of projects through to scheme delivery and post project assessment.
<ul style="list-style-type: none"> <li>To ensure that the Council gets the most from its asset inventory having regard to effective utilisation and ongoing maintenance and investment needs.</li> </ul>	The <b>Asset Management Plan</b> will set out a long term strategic plan to ensure that the Council effectively utilises and maintains its property holdings. It will seek to establish the best use for all asset holdings having regard to financial return and community benefits.
<ul style="list-style-type: none"> <li>To ensure that the authority effectively manages cashflows so that surplus monies are invested wisely and borrowing for capital investment is prudent and affordable.</li> </ul>	The <b>Treasury Management Strategy</b> sets out the procedures for maximising return from investing surplus monies having regard to risk and the Council's cashflow requirements. It will also cover the funding of the Capital Programme ensuring long term cashflows are prudential and affordable.
<ul style="list-style-type: none"> <li>To ensure that the Council provides value for money and, where possible, its spending benefits the local economy.</li> </ul>	The <b>Procurement Strategy</b> will seek to optimise Council expenditure both in terms of value for money and, whenever possible, to provide positive wider social, economic and environmental impacts for the Lancaster district.
<ul style="list-style-type: none"> <li>To oversee effective financial governance by regular review and scrutiny of financial performance and an ongoing review of the effectiveness of this Medium Term Financial Strategy.</li> </ul>	The <b>MTFS Action Plan</b> is derived from a gap analysis assessment between the aspirations set out in this MTFS and existing processes to focus on the actions and decisions required by the Council to maximise financial management in support of Council's priorities.

3.3 The above objectives are considered in more detail in the main body of this strategy. Specifically:

- **Section Four - Understanding the Budget Gap**  
Section four sets out the extent of the Budget Gap in the medium term. Starting with a balanced 2019/20 revenue budget, it considers the funding outlook over the next few years incorporating the Government's Fair Funding Review which will set funding totals for Lancaster in the medium term as well as scenarios for council tax and business rates. Taken together with forecasts for expenditure and income, the budget gap and the extent of the medium term financial challenge is summarised in this section.
- **Section Five - Bridging the Budget Gap**  
Having established the extent of the financial challenge, section five considers plans for bridging the gap in a way which seeks to protect services by delivering savings and efficiencies via the Funding the Future strategy, directorate restructures and proactive asset management.
- **Section Six - Financial Resilience and Reserves Strategy**  
Section six looks at the Council's financial resilience and more specifically the level of usable reserves available to the Council. The Council's Reserves Strategy seeks to determine the optimum level of usable reserves in order to balance the need to protect against financial risks with providing for the future investment in support of the MTFS so that ongoing savings can be achieved.
- **Section Seven – Capital Investment Priorities**  
Section seven covers the Council's Capital Programme and a new Capital Strategy which introduces enhanced governance processes including a new capital bids process and a Capital Strategy Group made up of the Finance Portfolio Holder and the Chairs of Overview and Scrutiny and Budget and Performance. The Strategy anticipates future expenditure that may arise from detailed actions plans covering economic growth and tackling climate change. Combined with the new Property Investment Strategy and proactive asset management plan, the Capital Strategy Group will oversee a robust approach to project assessment and monitoring in order to ensure that capital investment plans reflect key corporate priorities and generate revenue savings in a way which is prudent, affordable and sustainable.
- **Section Eight – The MTFS Action Plan**  
The MTFS and associated strategies set out objectives and principles which govern financial management at the Council over the medium term. Section eight sets out an action plan to ensure that management translate strategy into specific and measurable actions, focussed on making an early start (ie. in 2019/20) towards delivering the savings required to meet the 2020/21 budget gap.
- **Section Nine – Monitoring and Review**  
Having set the Medium Term Financial Strategy and action plan, section nine sets out how this will be monitored throughout the next year. Monitoring will focus, in year, on the revenue budget and capital programme but also on Funding the Future initiatives both in terms of process (ie. how we do it) and outcome (ie. what is it achieving). Whilst monitoring the Council's financial performance is important, this should sit alongside performance monitoring in respect of corporate priority outcomes, service delivery and the impact of Council's plans in terms of social value.

## The Four Year Revenue Budget

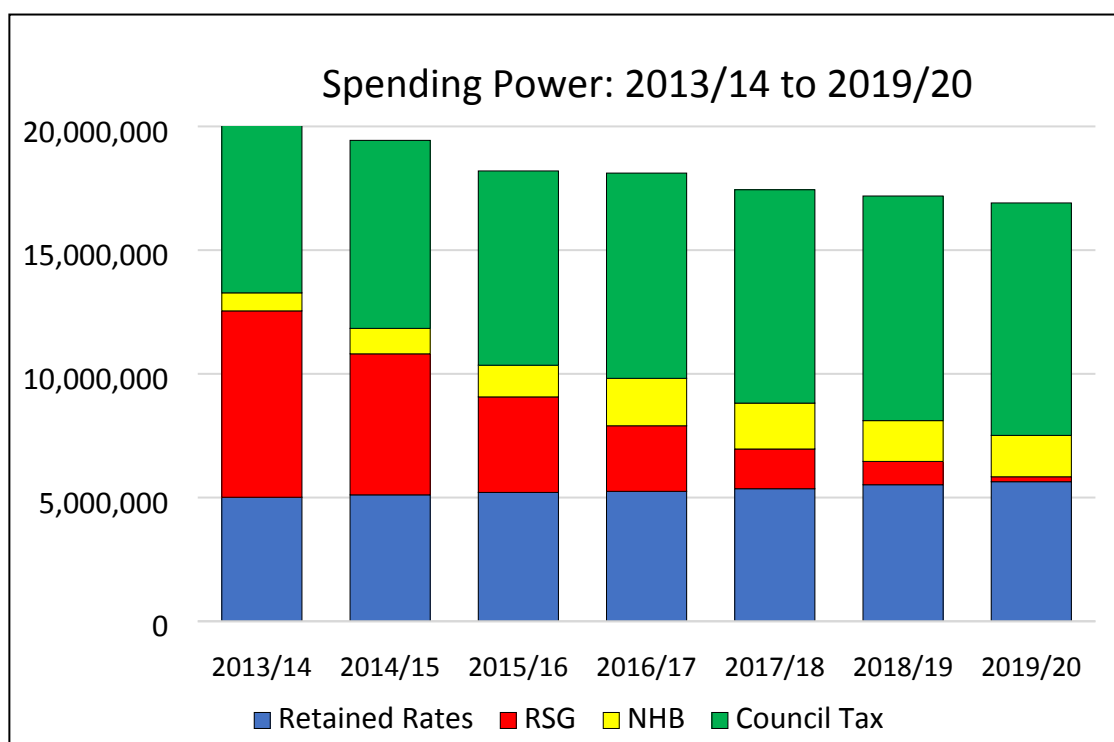
**MTFS Objective:** To set out the Council's financial position and forecasts for income, expenditure and funding for the next four years.

### Revenue Budget 2019/20

- 4.1 A balanced revenue budget for 2019/20 was proposed by Cabinet to Full Council on 30 January 2019 and this is shown in appendices A and B. The balanced budget acts as the baseline for future funding estimates and net revenue expenditures for the next four years which when taken together provide a gap analysis for the medium term.

### Funding Outlook

- 4.2 Like all local authorities, Lancaster City Council has experienced significant reductions in Government funding since 2010/11. The graph below shows local authority funding after 2013/14 when localised business rates was introduced. Over this period, the Council's Settlement Funding Assessment, made up of Revenue Support Grant and retained rates, has reduced by £6.704m (53.44%) with the Revenue Support Grant element reducing from £7.533m in 2013/14 to just £200k in 2019/20.



- 4.3 Looking forward, Revenue Support Grant will disappear entirely after 2019/20, and Lancaster City Council will be entirely funded from council tax, New Homes Bonus and retained business rates. The next section provides an outlook in respect of each of these funding sources.

### Council Tax

- 4.4 Council tax has become, by far, the most important funding source for Lancaster City Council over the past decade. In 2010/11, Council Tax accounted for 34% of the Council's funding but by 2019/20 it will account for 56%.
- 4.5 Council on 30 January 2019 voted to increase the City Council's element of council tax by 2.99%, the maximum allowable without reference to a referendum and, for the purposes of financial planning, to increase council tax by 2.99% in each subsequent year to 2023/24.
- 4.6 Council tax forecasts are shown below together with alternative scenario analyses.

<b>Council Tax</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
Taxbase	41,200	41,400	41,814	42,232	42,654	43,081
Taxbase Growth		0.49%	1.00%	1.00%	1.00%	1.00%
Band D	220.36	226.95	233.73	240.72	247.92	255.33
Band D increase		2.99%	2.99%	2.99%	2.99%	2.99%
<b>Council Tax Requirement</b>	<b>9,078,832</b>	<b>9,395,730</b>	<b>9,773,186</b>	<b>10,166,121</b>	<b>10,574,894</b>	<b>10,999,873</b>
<i>Above Assumptions: 1% taxbase growth from 2020/21 onwards. 2.99% increase in band D throughout the medium term</i>						
<i>Scenario A: No increase in Council Tax over period of MTFS</i>		-272,826	-559,053	-859,846	-1,175,557	-1,506,543
<i>Scenario B: Slow down in property growth to 18/19 growth levels (0.49%)</i>			-49,792	-103,324	-160,806	-222,459
<i>Scenario C: Increase in property growth to 1.5%</i>			48,383	100,905	157,832	219,445
<i>Scenario D: 1% drop in council tax collection rate</i>		-93,957	-97,732	-101,661	-105,749	-109,999

- 4.7 Scenario A shows the significant revenue budget impact that freezing council tax would have over the MTFS period, demonstrating the increased importance of council tax to achieving a balanced budget. Scenarios B and C show the impact of slower or faster taxbase growth over the period and scenario D covers the reduction in income from lower collection rates. Scenarios B and D are covered as potential risks when considering adequacy of the General Fund reserve as part of the reserves strategy.

### **New Homes Bonus**

- 4.8 New Homes Bonus was introduced in 2011 to provide an incentive for local authorities to encourage housing growth in their area. In 2019/20, the Council will receive £1,671 for every new band D equivalent property above a baseline growth of 0.4% as well as £350 for each affordable home. Each year the total NHB is the aggregate of the reward in each of the last four years.
- 4.9 New Homes Bonus forecasts are shown below together with alternative scenarios.

<b>New Homes Bonus</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
Annual Reward	361,030	274,251	250,000	250,000	250,000	250,000
Previous Years Rewards	1,288,487	1,397,410	1,035,682	885,281	774,251	750,000
<b>New Homes Bonus</b>	<b>1,649,517</b>	<b>1,671,662</b>	<b>1,285,682</b>	<b>1,135,281</b>	<b>1,024,251</b>	<b>1,000,000</b>
<i>Above Assumptions: NHB remains in place as currently and similar levels of housing growth as currently are experienced over the MTFS period</i>						
<i>Scenario E: NHB phased out over four years</i>			-250,000	-500,000	-750,000	-1,000,000
<i>Scenario F: NHB scrapped and returned as SFA</i>			-1,242,384	-1,091,983	-980,953	-956,702

- 4.10 A significant reduction (-£386k) in New Homes Bonus is anticipated in 2020/21, this is because the annual reward for 2016/17 which was £636k will fall out of the bonus and be replaced by an estimated 2020/21 annual reward of £250k. Of greater concern are reports that New Homes Bonus is to be phased out or scrapped altogether (covered in scenarios E and F). Additionally, there is a risk that districts 80% share of the bonus might be reduced in order to increase the share to County Councils.

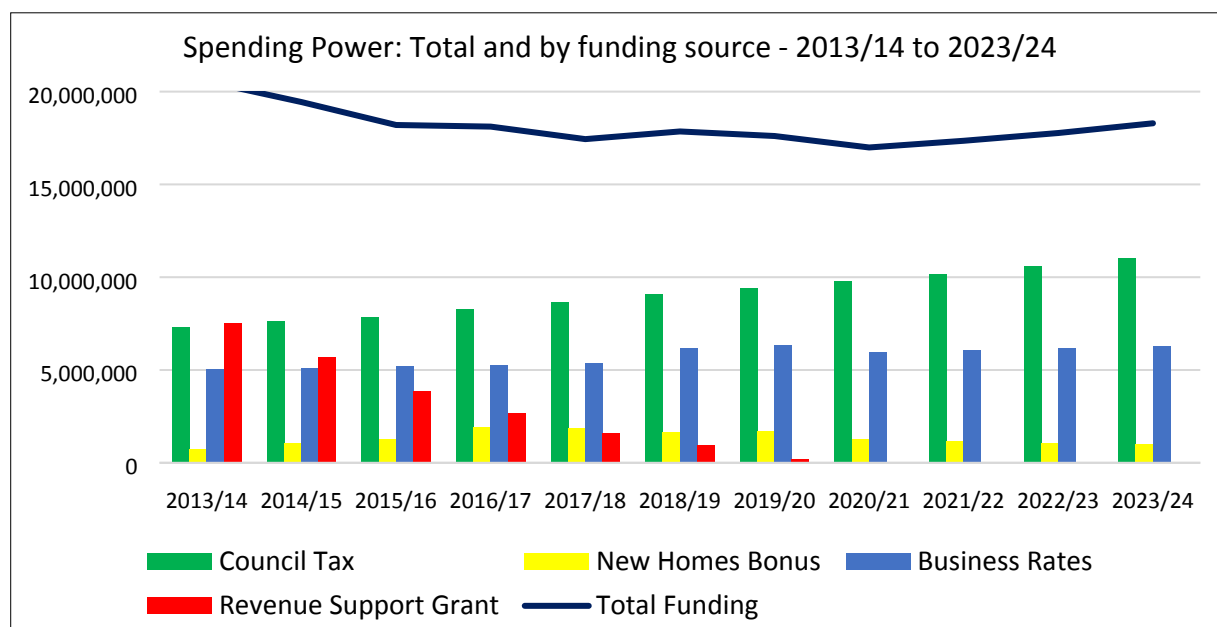
### **Business Rates**

- 4.11 From 2020/21 onwards, the Council's entire Government funding will be received in the form of localised business rates. The fair funding review will reassess needs for all local authorities and this will change the amount of business rates which the Council is permitted to retain. In addition to this, the Council will continue to retain a share of any growth in business rates that occurs in the district. At the same time the business rates baseline will be reset which will return any accumulated growth in Lancaster to the government and this is reflected in the business rates estimates in the table below.

- 4.12 Lancaster City Council has always carried the risk of having in its rates base Heysham Nuclear Power Station. The risk arises from the possibility of a shut down at the power station which would immediately cancel their business rates liability reducing the Council's business rates income significantly. The council has for a number of years reflected this risk in its revenue budget and as it has not materialised a business rates reserve with a balance of £6.3m has accumulated.
- 4.13 The forecasts for business rates below continue to provide for the power station risk which is why the alternative scenarios provide significantly higher funding outcomes.

Business Rates	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
- Baseline	5,518,328	5,644,789	5,177,685	5,281,238	5,386,863	5,494,601
- Growth	962,009	982,670	243,286	318,443	396,867	478,668
- Green Disregard	927,700	906,729	924,864	943,361	962,228	981,473
- Compensation for uplifts lower than RPI	151,764	212,537	216,787	221,123	225,546	230,056
- Risk factor (Power Station closedown)		-1,406,029	-631,613	-714,536	-800,882	-890,763
- Business Rates Surplus	2,971,600					
- Transfer to Bus. Rates Res.	-4,347,700					
<b>Business Rates Income</b>	<b>6,183,700</b>	<b>6,340,695</b>	<b>5,931,009</b>	<b>6,049,629</b>	<b>6,170,622</b>	<b>6,294,035</b>
<i>Above Assumptions: 10% reduction in SFA from Fair Funding Review shown as reduction in baseline in 2020/21, 0.5% growth in net rates, budgeted at worst case due to power station risk.</i>						
Scenario G: The power station does not closedown			631,613	714,536	800,882	890,763
Scenario H: No reduction in baseline following Fair Funding Review			385,113	463,106	544,423	629,175
Scenario I: 1% net rates growth every year			68,570	140,932	217,243	297,667

- 4.14 Whilst Lancaster City Council is likely to retain the risk associated with Heysham Power Station going forward, it has accumulated sufficient reserves to cover the risk over the medium term. The reserves strategy considers how this accumulation of reserves may be redeployed towards council priorities.
- 4.15 Scenario I highlights the possible benefits of economic growth to Lancaster. It is important that, when looking forward consideration is given to the potential additional retained rates that will accrue from successful promotion of economic growth, which is a key council priority.
- 4.16 Taken together, the funding outlook for the medium term 2013/14 to 2023/24 is shown below.



## **Net Expenditure Outlook**

- 4.17 The Council's strategy is to identify cost pressures and growth items as early as possible and incorporate these into the Medium Term Financial Strategy. These can arise for a variety of reasons and can be annual or 'one-off' in nature.
- 4.18 All growth items considered as part of the 2019/20 revenue budget have been incorporated into the four year revenue budget. Other main areas of cost pressure are considered below.

### **Salaries**

- 4.19 Employee costs account for the largest proportion of Council expenditure. Forecasts for 2020/21 onwards take account of an estimated 2% pay increase each year as well as incremental progression. The 2019/20 revenue budget incorporates savings related to increasing the vacancy allowance of £111k (shown separately in the table below) as well as preliminary savings of £130k from directorate reorganisations. More work will be undertaken during 2019/20 to model the future impact of reorganisation plans, both in terms of savings and potential redundancy and pension strain costs, and this is included in the MTFS Action Plan.

	<b>2018/19 (£000)</b>	<b>2019/20 (£000)</b>	<b>2020/21 (£000)</b>	<b>2021/22 (£000)</b>	<b>2022/23 (£000)</b>	<b>2023/24 (£000)</b>
Employee costs including pensions	19,650	20,745	21,642	22,146	22,538	22,988
Vacancy allowance	(407)	(518)	(528)	(539)	(549)	(560)

### **Pension liabilities**

- 4.20 The Council's pension liability is subject to a triennial review, next due in 2020/21. A number of factors can impact on the pension liability such as fund performance and demographic factors such as people living longer and these factors will impact on annual employer pension contributions. In the above table, an increase of approximately £0.5m has been factored into employees costs for 2020/21 onwards and this will be reviewed when the triennial review is completed.

### **Inflation**

- 4.21 Inflation for supplies and services is modelled within the medium term forecasts. In order to make savings in 2019/20, inflation was removed from a number of budget lines and this contributed savings of £203k. No further inflation savings have been factored in beyond 2019/20 but this remains a viable option.

### **Procurement Strategy**

- 4.22 The development of an updated procurement strategy has been included in the MTFS Action Plan. The strategy will be updated to take account of the Council's ambitions with respect to community wealth building and to ensure that social, environmental and economical impact on the area is positively maximised.

### **Waste Management / Recycling round**

- 4.23 A cost pressure for a new refuse and recycling round (£203k) was deferred in 2019/20 as the existing rounds were deemed to be sufficient to absorb all new properties. However, at some point a tipping point will be reached where a new round is required to meet additional housing numbers. The budget for 2020/21 assumes that the additional round will be needed and this will be reviewed during 2019/20. There is potential that route optimisation work might enable the Council to defer the extra round for a longer period.

## Premises

- 4.24 The Council has a significant property portfolio and premises related expenditure in 2019/20 is set to be £9.5m with additional net expenditure over the medium term as set out below. The MTFS action plan includes a specific focus on the Asset Management plan to include a review of all property holdings to ensure that they meet the aims of the council, particularly in respect of optimisation and financial efficiencies. This review should be capable of reducing the Council's net expenditure on property.

	2018/19 (£000)	2019/20 (£000)	2020/21 (£000)	2021/22 (£000)	2022/23 (£000)	2023/24 (£000)
Repairs & Maintenance*	3,616	3,632	3,475	3,443	3,553	3,645
Rates	1,155	1,185	1,244	1,291	1,323	1,359
Utilities	1,370	1,492	1,519	1,564	1,611	1,651
Grounds Maintenance	1,556	1,610	1,642	1,660	1,694	1,728
Other Premises Costs	1,673	1,628	1,592	1,596	1,640	1,684
<b>Total Premises Costs</b>	<b>9,370</b>	<b>9,546</b>	<b>9,471</b>	<b>9,553</b>	<b>9,821</b>	<b>10,066</b>

\* Repairs and Maintenance expenditure includes some items which are recharged to the HRA

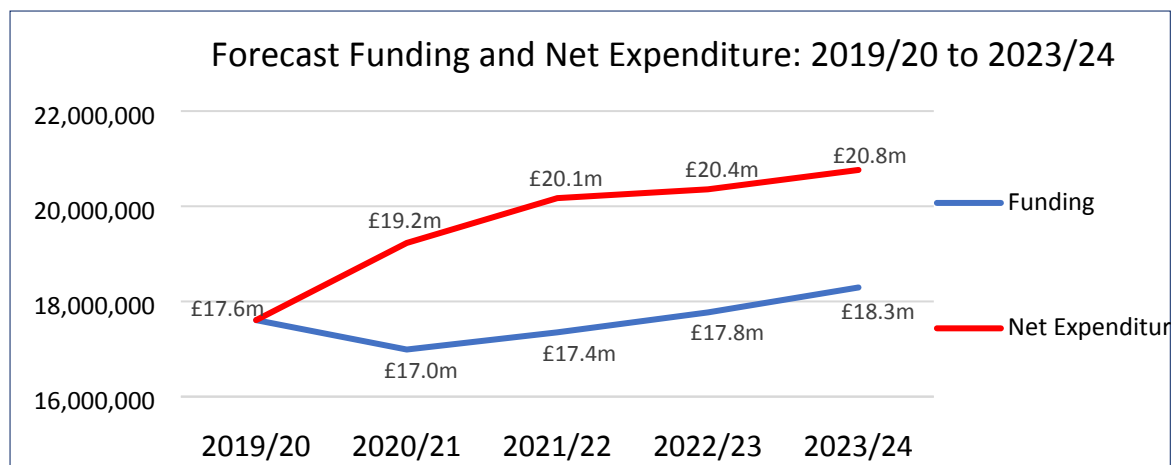
## Incomes

- 4.25 Income from fees and charges in 2019/20 is budgeted at £17.4m and the additional income over the medium term period is shown in the table below. A full review of fees and charges is included in the MTFS Action Plan.

	2018/19 (£000)	2019/20 (£000)	2020/21 (£000)	2021/22 (£000)	2022/23 (£000)	2023/24 (£000)
Salt Ayre	2,425	2,511	2,640	2,719	2,785	2,841
Car Parks	2,767	2,828	2,917	2,975	3,033	3,092
Trade Refuse Collections	1,417	1,426	1,461	1,490	1,518	1,547
Planning Application Fees	900	1,000	1,000	1,000	1,000	1,000
Green Waste Collection	960	903	903	921	939	957
Rental Income	1,037	1,049	1,058	1,065	1,067	1,069
H.B. Overpayment Recoveries	1,182	1,162	1,162	1,162	1,162	1,162
Business Rates from Green Energy	928	928	907	969	990	990
Other Incomes	5,149	5,611	5,804	5,851	5,948	6,044
<b>Total Direct Incomes</b>	<b>16,765</b>	<b>17,418</b>	<b>17,852</b>	<b>18,152</b>	<b>18,442</b>	<b>18,702</b>

## Budget Gap

- 4.26 Taking account of the funding outlook (paras 4.4 to 4.16) and the net expenditure outlook (paras 4.17 to 4.25) the budget gap analysis is shown in the graph and table below.



- 4.27 A thorough review of the funding and net expenditure outlook will be undertaken during the first part of 2019/20 as part of the budget 'decluttering' exercise covered in 5.2 below. This exercise will take account of latest estimates as well as the improvement initiatives arising from the Funding the Future strategy covered in the next section in order to establish where future savings might arise.

## 5. Meeting the Budget Gap: Funding the Future

**MTFS Objective:** To seek innovative solutions to overcome the impact of funding reductions and enable balanced revenue budgets over the next four years which protect service provision and direct resources towards the Council's priorities.

- 5.1 Cabinet adopted its Financial Resilience strategy, *Funding the Future* at a meeting on 4 December 2018. This strategy acknowledged the budget gaps outlined in the previous section and sets out an objective to bridge those gaps via a combination of four related improvement initiatives as an alternative to managing decline. These are:
- 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
- 5.2 The Funding the Future strategy stresses the urgency to address financial resilience during 2019/20 so that savings are identified prior to the annual budget process for 2020/21. With this in mind, the MTFS Action Plan provides more specificity with respect to early actions to be taken in 2019/20 which will include:
- The establishment of a budget book tool to understand the cost of all services including support services by 'decluttering' the budget of notional charges including recharges and a benchmarking exercise to compare net service expenditure with similar authorities
  - Commencement of end to end efficiency reviews for HR and payroll, purchase to payment, debt management and development management
  - Conclusion of work on a Local Authority Trading Company for Salt Ayre Leisure Centre and completion of a scoping document which considers appropriate alternative service delivery mechanisms across other Council services
  - Approval of property investment strategy and consideration of first property investment proposals by the Member/Officer Capital Strategy Group
- 5.3 The initiatives highlighted above will require, in some instances, upfront investment which will be funded from the Budget Support Reserve based upon a medium term payback from ongoing savings.

### Staff Reorganisations

- 5.4 The senior management reorganisation will have been completed in 2018/19 and the three new Directors will be putting forward reorganisation plans for the three new Directorates. Proactive workforce planning aims to ensure that the costs of reorganisations are minimised through vacancy control and the offer of flexible working. Savings of £130k have been identified from staff reorganisation in the 2019/20 budget and whilst no additional savings have been identified from 2020/21, it is expected that the three reorganisations will identify significantly more reductions in staff expenditure over the next four years.
- 5.5 Each of the Directors will report to Cabinet with a costed reorganisation proposal during 2019/20. It is expected that there will be some up front costs associated with redundancy and pension strain which will be funded from the restructuring reserve based upon a medium term payback from ongoing savings.

## **Premises Reorganisation**

**MTFS Objective:** To ensure that the Council gets the most from its asset inventory having regard to effective utilisation and ongoing maintenance and investment needs.

- 5.6 The Asset Management Plan sets out clear objectives to review the Council's asset portfolio with a view to ensuring that operational assets are optimised and any surplus assets are utilised for maximum return, both financially and in terms of the Council's priorities. A corporate property reserve is available for initiatives that maximise the use of property assets based upon a medium term payback from ongoing savings. Additionally, the capital programme bidding process favours property bids where an effective contribution is made to reduced costs or increased income.
- 5.7 One key corporate property review will cover the Council's offices to see whether a rationalisation of office space might be capable of freeing up property assets where alternative use might bring in income and/or reduce premises expenditure.
- 5.8 The MTFS Action Plan includes the overall review of property holdings in terms of return and utilisation as well as the specific review of the Council's own offices.

## **6. Financial Resilience and the Reserves Strategy**

**MTFS Objective:** To provide an ongoing assurance that the Council remains financially sustainable and resilient.

- 6.1 The level of reserves is often used as a key measure of local authority financial resilience as reserves can be used in case of a financial shock, to fund a budget gap during a transitional period or to provide 'one-off' upfront investment which allows for future savings.
- 6.2 The Section 151 Officer is required to provide a statement on the adequacy of reserve levels having regard to the risks faced by the authority, financial assumptions in constructing budgets and the adequacy of the authority's financial management. Lancaster City Council has built up its usable reserves over the last few years and is reasonably financially resilient; an assessment of potential scenarios which may give rise to unanticipated expenditure has demonstrated that the Council has sufficient General Fund balances to withstand significant financial shocks in the short term.
- 6.3 The Council's largest earmarked reserve is its Business Rates Reserve. The purpose of this reserve is to protect the Council against funding fluctuations associated with risks which the Council is exposed to with respect to the localised business rates system, particularly regarding Heysham Nuclear Power Station. To date the Council has set aside sufficient reserves to manage funding risks for the MTFS period and the Reserves Strategy sets out the possibility that some of the surplus in this reserve might now be redirected towards corporate priority areas.
- 6.4 The Reserves Strategy also focusses the forward use of reserves in support of the MTFS. In the previous section, a number of reserves have been identified where initial upfront investments might be funded from reserves in order to make ongoing savings. The Reserves Strategy proposes a process, similar to revenue growth and capital bids, which requires reserve bids to be supported by complete business cases setting out the outcomes and impacts that will arise from any initial investments.

## 7. Capital Strategy and Capital Programme

**MTFS Objective:** To direct capital investment towards ambitious projects that deliver measurable impact in respect of the Council Plan.

- 7.1 The Capital Programme for 2019/20 to 2022/23 is set out in Appendix C and is summarised in the table below.

	18/19 £m	19/20 £m	20/21 £m	21/22 £m	22/23 £m	Total £m
Council Housing	4.16	4.77	4.15	4.25	4.16	<b>21.49</b>
Disabled Facilities Grants	2.65	2.36	1.61	1.61	1.61	<b>9.84</b>
Vehicles & Plant	0.81	1.46	2.30	0.51	0.79	<b>5.87</b>
Sea & River Defence Works	2.43	0.45	0.42	-	-	<b>3.30</b>
Council Properties	0.48	2.72	-	-	-	<b>3.20</b>
Econ. Dev. & Regeneration	0.33	1.29	-	-	-	<b>1.62</b>
Parks, Sport & Recreation	0.21	0.12				<b>1.33</b>
ICT Infrastructure & Equip.	0.29	0.23	0.33	0.10	0.34	<b>1.29</b>
Solar Energy	-	0.36	0.32	-	-	<b>0.68</b>
S106 Funded Schemes	0.15	0.14	-	-	-	<b>0.29</b>
Car Parks & CCTV	0.1	0.07	-	-	-	<b>0.17</b>
<b>Total</b>	<b>11.61</b>	<b>13.97</b>	<b>10.13</b>	<b>6.47</b>	<b>6.90</b>	<b>49.08</b>
<b>Funded by</b>						
Capital Receipts	(0.69)	(0.49)	(0.49)	(0.49)	(0.49)	<b>(2.65)</b>
Capital Grants & Contributions	(5.23)	(2.44)	(1.61)	(1.61)	(1.61)	<b>(12.50)</b>
Capital Reserves	(3.67)	(5.13)	(3.77)	(3.81)	(3.68)	<b>(20.06)</b>
Revenue	(0.86)	-	-	-	-	<b>(0.86)</b>
*Unsupported Borrowing	(1.16)	(5.91)	(4.26)	(0.56)	(1.12)	<b>(13.01)</b>
<b>Total</b>	<b>(11.61)</b>	<b>(13.97)</b>	<b>(10.13)</b>	<b>(6.47)</b>	<b>(6.90)</b>	<b>(49.08)</b>

- 7.2 For the first time in 2019/20, the Council has adopted a Capital Strategy. This is an overarching document which sets the policy framework for the development, management and monitoring of capital investment. It incorporates the Capital Programme, Asset Management Plan, Property Investment Strategy and Treasury Management Strategy.
- 7.3 The Capital Strategy sets out core principles that underpin the Capital Programme. These are:
- Capital investment decisions will reflect the priorities included within the Council Plan, *Ambitions* and supporting strategies including Funding the Future, the Property Investment Strategy and the Asset Management Plan
  - Schemes to be added to the capital programme will be subject to a gateway process following completion of a capital bid which will be scored against criteria set to measure the strategic, economic, financial, commercial and management cases. These will be reviewed by a corporate Capital Strategy Group comprising key officers alongside the Finance Portfolio Holder and Chairs of Budget and Performance Panel and Overview and Scrutiny Committee.
  - The Capital Strategy Group will also oversee capital financing in order to ascertain that all capital expenditure is affordable, prudent and sustainable as set out in the Treasury Management Strategy
- 7.4 The Council recognises that it will play a pivotal role in key projects which will enable the district to thrive and grow. Further development of the Capital Programme is needed particularly over the next couple of years in order to properly encapsulate these major economic development projects. An Economic Growth Plan is currently being developed by the Director of Economic Growth and Regeneration setting out an overarching coherent medium term plan for the district. As the plan develops individual capital schemes contributing to its delivery will be identified and brought forward to Capital Strategy Group for its

assessment. Similarly other strategies under development in the coming months which have capital expenditure implications, such as the Climate Change Action Plan, will also be considered by the group.

### ***Property Investment Strategy***

- 7.5 The Property Investment Strategy will look to use capital investment in properties in the Lancaster district in order to make a financial return in support of the revenue budget. The Strategy will look to build a balanced property portfolio which maximises net yield, after taking account of costs including financing costs, but also, where appropriate, contributes to the Council's corporate priorities. All proposals will be considered by the Capital Strategy Group focussing on three separate assessments including financial yield, risk management and outcomes. The Group will also consider the capital expenditure implications in respect of all proposals.

### ***Asset Management Plan***

- 7.6 The Councils' Asset Management Plan sets out the following objectives:
- Provide the right buildings in the right place and at the right time and cost to meet the current and future aims, objectives, policies and plans of the Council.
  - Optimise and prioritise the level of investment in property assets to minimise maintenance backlog, improve fitness for purpose and optimise occupancy levels.
  - Maximise the value received from our non-operational commercial portfolio.
  - Continue to improve the environmental sustainability of the Council's property portfolio.
  - Promote the innovative use of property by enabling urban regeneration and facilitating joint working with our partners and stakeholders.
  - Challenge the use of land and buildings held by the Council to minimise revenue expenditure and maximise the generation of capital receipts.
- 7.7 Projects which come forward from the Asset Management Plan will be assessed by the Capital Strategy Group alongside other capital bids based upon the criteria set out in the Capital Strategy as well as capital expenditure implications.

### ***Treasury Management Strategy***

- 7.8 The Treasury Management Strategy is a CIPFA Code of Practice requirement which needs to be reviewed annually and sets out our investing and borrowing activities for the next 4 years.
- 7.9 On the investing side, the Council usually has large sums of cash available and the Strategy covers how surplus monies will be invested having regard to a low risk appetite. The Strategy covers the organisations that the Council will deal with in order to maximise return whilst minimising risk. It also sets maximum levels of investment with any one organisation in order to spread that risk.
- 7.10 On the borrowing side, the Strategy considers the impact on the Council's Capital Programme on its borrowing to ensure that all borrowing is affordable, prudent and sustainable. A key part of this is the Minimum Revenue Provision (MRP) policy which ensures that an adequate charge is made to the revenue budget based on the estimated life of each asset created as a result of the related capital expenditure. The MRP ensures that the Council is able to repay borrowing when it becomes due and so prevents the Council from borrowing beyond its means.

## **8 MTFS Action Plan**

- 8.1 It is clear from the funding and expenditure outlook in section 4 that the Council has a significant challenge in the form of a greater than £2m budget gap from 2020/21 onwards and whilst section 5 sets out the Funding the Future Strategy aimed at bridging the gap, it is essential that the Council starts delivering against this plan in 2019/20. Accordingly, an Action Plan covering the important areas of work to deliver the Medium Term Financial Strategy is set out below and section 9 covers monitoring and governance arrangements for this plan.

Area of MTFS (para ref)	Action	Responsibility	Reporting to
4 year revenue budget (4.26)	Refresh funding outlook as part of MTFS update to reflect Government fair funding review and latest updates for Council Tax and Business Rates as well as review of areas of net expenditure.	Director of Corporate Services	September 2019 Cab, B&P
Decluttered Budget Book (5.2)	Publish revised budget book showing expenditure on all service areas excluding recharges and capital charges.	Section 151 Officer	June 2019 Cab, B&P
Benchmarking Revenue Expenditure (5.2)	Benchmarking toolkit showing costs of services (including support services) compared with similar authorities. Income, fees and charges also to be considered.	Director of Corporate Services	June 2019 Cab, B&P
Zero Based Budgeting (5.1)	Formation of Member/Officer Group to undertake Zero Based Budgeting exercise including considering the process for undertaking the exercise including consultation	Director of Corporate Services	June 2019 O&S
Efficiency Reviews (5.2)	Completion of end to end efficiency reviews for <ul style="list-style-type: none"> <li>• HR and payroll,</li> <li>• Purchase to payment</li> <li>• Debt management</li> <li>• Development management</li> </ul>	Director of Corporate Services  Director of Economic Growth & Regeneration	December 2019 O&S
Procurement Strategy (4.22)	Revise procurement strategy to ensure that the Council's procurement positively maximises the economic, social and environmental impact on the Lancaster district.	Section 151 Officer	September 2019 Cab
Commercial Strategy (5.2)	Finalise LATC Business Case for Salt Ayre Leisure	Deputy Director Communities & Environment	June 2019 Cab, O&S
	Produce recommendations considering priorities for bringing forward future commercial arrangements for delivery of Council services.	Chief Executive	June 2019 Cab, O&S
Property Investment Strategy (5.2/7.5)	Bring forward first Property Investment proposals via Capital Strategy Group.	Director of Economic Growth & Regeneration	April 2019 Cab, O&S, B&P
	Produce quarterly monitoring report covering all property investments incorporating existing commercial properties.	Director of Corporate Services	July 2019 Cab, B&P
Funding the Future Strategy (section 5)	Produce quarterly monitoring report covering progress in respect of Funding the Future including proposed, actual and future savings targets.	Chief Executive	September 2019 Cab, B&P
Staff Reorganisations (5.4)	Complete all three Directorate organisations, providing fully costed business plans to be incorporated into 4 year revenue budget.	Directors (C&E, P&R, CS)	September 2019 Cab
Asset Management Plan (5.6/7.6)	Produce action plan for the maximum utilisation of all key property assets covering the MTFS period.	Senior Property Officer	June 2019 Cab, O&S
Developing the Corporate Plan (7.4)	Complete Economic Growth Plan incorporating all revenue and capital programme considerations.	Director of Planning & Regeneration	June 2019 Cab
	Complete Climate Change Action Plan incorporating all revenue and capital programme considerations.	Director of Communities & Environment	June 2019 Cab
Capital Strategy Group (7.3)	Finalise the capital bidding and scoring process.	Capital Accountant	September 2019

## 9 Monitoring, Review and Governance

9.1 This MTFS update covers a balanced revenue budget for 2019/20 and a capital programme for the years 2019/20 to 2022/23. It also takes a closer look at funding and spending assumptions in the medium term to 2023/24 to establish the medium term budget gap and section 5 of this MTFS considers plans for closing this budget gap. In terms of monitoring and review the following key areas are identified.

Area of MTFS	Monitoring	Governance
Revenue Budget 2019/20	<ul style="list-style-type: none"> <li>Quarterly finance monitoring report of revenue budget</li> <li>Review of growth bids in respect of planned outcomes</li> <li>Review of planned savings</li> <li>Review of council tax and business rates collection performance</li> </ul>	Quarterly reporting to: <ul style="list-style-type: none"> <li>Cabinet</li> <li>Budget and Performance Panel</li> </ul>
Four Year Budget Gap	<ul style="list-style-type: none"> <li>Half year review of council tax funding (taxbase growth and collection rate)</li> <li>Half year review of business rates funding including growth retention</li> <li>Reset of Council's Baseline Funding Level and share of business rates growth and New Homes Bonus forecasts</li> </ul>	Half Yearly reporting to: <ul style="list-style-type: none"> <li>Cabinet</li> <li>Budget and Performance Panel</li> </ul>
Bridging the Gap	<ul style="list-style-type: none"> <li>Progress in respect of Funding the Future and establishment of saving targets arising from the four pillars</li> <li>Consideration of three directorate restructures, savings targets and use of restructure reserve</li> </ul>	Progress reported to Cabinet and Overview and Scrutiny
Reserves	<ul style="list-style-type: none"> <li>Reserves position to be incorporated into quarterly finance reporting</li> <li>Use of reserves to be reviewed against planned outcomes on reserves bid</li> </ul>	Quarterly reporting to: <ul style="list-style-type: none"> <li>Cabinet</li> <li>Budget and Performance Panel</li> </ul>
Capital Programme	<ul style="list-style-type: none"> <li>Detailed financial and outcomes based monitoring on a scheme by scheme basis as well as programme monitoring to be considered by Capital Strategy Group</li> <li>Capital monitoring incorporated into quarterly finance monitoring report</li> </ul>	Capital Strategy Group  Quarterly reporting to: <ul style="list-style-type: none"> <li>Cabinet</li> <li>Budget and Performance Panel</li> </ul>
New Capital Schemes	<ul style="list-style-type: none"> <li>All new capital schemes will be considered and scored by Capital Strategy Group prior to recommendation to Council</li> </ul>	Capital Strategy Group
MTFS Action Plan	<ul style="list-style-type: none"> <li>Quarterly report on progress</li> </ul>	Overview and Scrutiny Committee

## 10 Appendices

Please note that the appendices referred to in this report are included elsewhere within the Budget Council reports. Once approved, they will be incorporated into this document.