

Copeland Borough Council – DRAFT Medium Term Financial Strategy 2012/13 to 2015/16

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WHY HAS THIS REPORT COME TO THE Resource Planning Working Group?

The Medium Term Financial Strategy (MTFS) sets out the current framework for planning and managing the Council's financial resources, to develop its annual budget strategy and update its four year financial projections.

Good financial management is essential for the delivery of good public services and the effective stewardship of taxpayers' money. It assists the Council in making the right financial decisions for the short, medium and longer term.

The financial management arrangements of the Council express in monetary terms the planned use of resources to deliver Council services in accordance with its stated priorities set out within the Council Plan 2011/12 to 2013/14. The Council Plan was formally approved by Council on 22nd February 2011. The Council also approves an annual implementation plan and the plan for 2012/13 is to be considered for recommended for approval at this Resource Planning Working Group (RPWG) meeting.

The Councils financial management arrangements and projections for the period 2012/13 to 2015/16 are set out in the Medium Term Financial Strategy (MTFS) attached to this report, and incorporate the detailed work on the Revenue Budget, Capital Programme, Reserves Strategy and Treasury Management Strategies also to be considered for recommendation for approval by the Executive at this meeting.

The projections and assumptions within the MTFS will be updated annually.

SUMMARY AND RECOMMENDATIONS:

Summary:

This report sets out the Medium Term Financial Strategy for the period 2012/13 to 2015/16 to incorporate formally the inclusion of the Revenue Budget, Capital Programme, Reserves Strategy and Treasury Management Strategies proposed for recommended for approval by the Executive on the 14th February, and then for final approval by Council on 23rd February.

Recommendation:

That Members of the RPWG recommend to the Executive that the Medium Term Financial Strategy is approved on 14th February 2012.

1. INTRODUCTION

- 1.1. The Medium Term Financial Strategy (MTFS) sets out the current framework for planning and managing the Council's financial resources, to develop its annual budget strategy and update its four year financial projections.
- 1.2. Good financial management is essential for the delivery of good public services and the effective stewardship of taxpayers' money. It assists the Council in making the right financial decisions for the short, medium and longer term.
- 1.3. The financial management arrangements of the Council express in monetary terms the planned use of resources to deliver Council services in accordance with its stated priorities within the Council Plan. The Council Plan was formally presented for approval to Council on 22nd February 2011. The Council also approves an annual implementation plan and the plan for 2012/13 is to be considered for recommended to the Executive for approval at this Resource Planning Working Group (RPWG) meeting.
- 1.4. The Council's financial management arrangements and projections for the period 2012/13 to 2015/16 are set out in the Medium Term Financial Strategy attached to this report, and incorporate the Revenue Budget, Capital Programme, Reserves Strategy and Treasury Management Strategies also to be considered for recommendation for approval by the Executive at this meeting.
- 1.5. The projections and assumptions within the Strategy attached at Appendix A will be updated annually as part of the budget process.

2. STATUTORY OFFICER COMMENTS

- 2.1. The Monitoring Officer's comments are: None
- 2.2. The Section 151 Officer's comments are: contained in the report
- 2.3. EIA Comments: An Equality Impact Assessment has been completed.
- 2.4. Other consultee comments, if any: None at this stage

3. HOW WILL THE PROPOSALS BE PROJECT MANAGED AND HOW ARE THE RISKS GOING TO BE MANAGED?

- 3.1. The Risk that the MTFS projections will not be realised as set out is considered a Strategic Risk and is included on the Strategic Risk Register and monitored as part of that process. Service Review and saving proposals are considered in detail by CLT and Members (RPWG and Executive) prior to being incorporated into the budget forecasts as part of the budget setting process. The achievement of the savings proposals, once approved, will be monitored carefully by CLT and Members to ensure the projections contained within the final budget proposals are achieved.

4. WHAT MEASURABLE OUTCOMES OR OUTPUTS WILL ARISE FROM THIS REPORT?

- 4.1. The key measurable outcome is the formal Medium Term Financial Strategy which will guide the allocation of financial resources over the period 2012/13 to 2015/16 and which will determine the manpower, financial and other resources it will have available to provide services for the year.

List of Appendices

Appendix A – Medium Term Financial Strategy 2012/13 to 2015/16.

List of Background Documents:

- Proposed Revenue Budget Proposal 2012/13
- Reserves Strategy 2012/13
- Proposed Capital Programme for 2012/13 to 2014/15
- Proposed Treasury Management Strategy 2011/12 to 2013/14 incorporating the Annual Investment Strategy for 2011/12 and the Minimum Revenue Provision Strategy for 2012/13. Audit Committee agreed, on the 19th December 2011, to recommend the proposed strategy for approval by the Executive.
- Council Plan 2011/12 to 2013/14, approved by Council 22nd February 2011.
- Various other internal and external Strategies.

COPELAND BOROUGH COUNCIL
MEDIUM TERM FINANCIAL STRATEGY
2012/13 to 2015/16

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The bulk of the detail for items 6 to 9 is contained in separate documents which are also presented to this meeting.

1. INTRODUCTION & BACKGROUND

- 1.1. The Council faces a period of severe financial challenge. The impact of the recession has seen an increase in the demand for services together with a reduction in the financial resources available to it. Good financial management is essential for the delivery of good public services and the effective stewardship of taxpayers' money, and it will help the Council make the right decisions for the short, medium and longer term. The Medium Term Financial Strategy (MTFS) sets out the strategic direction for the next four year period 2012/13 to 2015/16 (updated annually).
- 1.2. The Council Plan 2011/12 – 2013/14 which was approved by Council on 22nd February 2011. This is the plan which sets out the Council's vision and objectives over a three year period. The Council Plan is then supplemented by a one year Implementation Plan which sets out how the Council will work towards achieving its objectives which the current year.
- 1.3. The MTFS is a key part of the Council's Budget and Policy Framework which aims to ensure that resources are directed to delivering the Council Plan. The MTFS provides the financial means by which the Council intends to achieve its vision through priority based financial planning and budgeting (covering both revenue and capital) within the total resources available to it. The Council has a sound track record for achieving value for money in its services.
- 1.4. The strategy describes the financial direction of the Council for planning purposes and outlines the financial pressures over a four year period. However, the plan is reviewed on an annual basis to reflect the changing nature of local government funding.
- 1.5. The MTFS outlines how the Council intends to align its financial resources to national and local priorities within the total resources available to it over the medium term. It is a high level framework driven by the Corporate Leadership Team and follows the top down/bottom up approach to strategic, financial, performance and service planning. The resource planning framework is designed to ensure that financial and service planning is fully integrated taking account of cross cutting corporate and external partner strategies.
- 1.6. At a more detailed level the MTFS focuses on an ongoing review of spend by services and informs how senior management will re-direct resources towards Council's priorities in the short to medium term. The Resource Planning Working Group (RPWG), comprising a cross section of council members and senior officers meet on a regular basis to oversee the resource planning process before recommending proposals to the Executive. The process is designed to ensure that a robust rolling capital programme and net revenue operating budget together with the council tax resolution be delivered to Council for approval in February each year.

- 1.7. The period covered by this MTFS has a degree of financial certainty in that the Government's financial settlement finalised in January 2011 covers the financial years 2011/12 and 2012/13. There is no firm indication of resources available for the period beyond 2012/13; however the Spending Review 2010 pointed to continued significant decline in Government Grant for the period to 2014/15 and this forecast has been built into forward year MTFS projections. The Council must therefore plan ahead and take account of its foreseeable business risk, without the knowledge of the total funding available to it.
- 1.8. The assumptions on which the MTFS strategy are built will certainly change over time and hence the MTFS will be reviewed and updated annually to ensure that it remains current and sustainable and that the Council remains financially viable over the timeframe of the MTFS and beyond. Managing for the medium and longer term is not about trying to predict the future; but is preparing for it. The Council needs to understand future demand, assess the impact of probable changes, and review the gaps between funding needs and possible income levels.
- 1.9. A key objective of the planning process is to align budgets with policies taking account of the priority for spending and investment decisions as decided through the consultation process. Priority budgeting requires a robust approach to financial planning with the redirection of resources to ensure delivery of corporate objectives. Central government's public sector spending reductions reinforce the need for effective procurement strategies and shared services arrangements to achieve efficiencies. Partnership working requires a long term perspective underpinned by adequate resource commitments.
- 1.10. The benefits of the MTFS are shown below:
- Helping the Council achieve the priorities as set out in the Council Plan;
 - Improving financial planning and the financial management of resources;
 - Helping to maximise the use of available resources;
 - Ensuring the Council provides value for money and delivers budget savings;
 - Allowing the development of longer term budgets and strategic thinking;
 - Aligning financial resources to spending priorities;
 - Ensuring that the reserves policy is sufficient to protect against unforeseen events;
 - Developing a sustainable budget over the longer term; and
 - Highlighting financial risks and mitigating controls

2. PRINCIPLES OF THE MTFS

2.1. The principles underlying the MTFS 2012/13 to 2015/16 are shown below:

1. The overall financial strategy will be to ensure that the Council's resources are directed to achieving the objectives set out in the Council Plan;
2. Copeland recognises that it will not be able to continue to resource services at the current levels due to the level of funding cuts over the period of the current spending review and will ensure that budget savings are identified to minimise the impact on frontline core services;
3. Services provided to the most vulnerable are protected wherever possible within the identified funding constraints;
4. At a global level Council spending will be contained within agreed budgets. If the monthly monitoring indicates that service budgets are expecting to exceed the total budget, then actions will be taken to ensure that spending is contained within the approved budgets;
5. Reserves will only be used to finance non-recurring spending or to cover transitional costs. If in exceptional circumstances reserves are used to support recurring spending, this will be dependent on a strategy being in place to replace the use of reserves with mainstream funding;
6. Balances and reserves will be maintained at a level which is sufficient to allow for quantifiable liabilities and foreseeable risk and also to enable the Council to react to opportunities and risks should they arise;
7. The Council will maintain earmarked reserves for specific purposes which are consistent with achieving its key priorities. The use of earmarked reserves will be in line with the principles set out in the MTFS and reviewed annually;
8. The Council will continue to improve its approach to efficiency, value for money and procurement so as to minimise the impact of budget savings;
9. The impact of any increases in Council Tax will be carefully considered against the delivery of the Council Plan;
10. Fees and charges will be reviewed to ensure that fees and charges are set at an appropriate level in line with the delivery of the Council Plan and take into account comparative levels of charge and ability to pay;
11. The Council will consider ways in which it can maximise trading opportunities and new charges to maximise income to deliver priorities
12. The Council will continue to contribute to reviews of the local government finance system; and

13. Opportunities for working in collaborating and partnership will be identified and developed where this will support the Council's priorities and improve service efficiency and delivery.

3. NATIONAL CONTEXT

- 3.1. Financial and service planning takes place within the context of national economic and public expenditure plans. The Council's spending and income projections are in many instances reliant on issues outside its control such as the rate of inflation, bank base rates and the general economic position which affects demand for services. The financial pressures that Copeland Borough Council currently faces arise from a combination of the impact of the recession together with demographic changes, particularly ageing population, and increased service demand.
- 3.2. Following the change of government after the election of May 2010, the incoming coalition government reviewed the policy of debt repayment and undertook to repay the full amount of the fiscal deficit over the life of the current Parliament i.e. by the end of 2014/15. To this end the 2010 Spending Review proved to be the toughest on record with the grant settlement for local government particularly severe. The Spending Review set out Central Government priorities and spending plans for a four year period with the resulting detailed financial settlement setting out grant allocations for a two year period. The current four year projection is for a reduction in Government grant of 28% over four years, with a significant proportion of the reduction front loaded into the first and second years.
- 3.3. This resulted in savings being required from the Council's ongoing revenue base budgets estimated at in the region of £4.5m over the four year period 2011/12 to 2014/15, which equates to a reduction of over 30% of the Council's base budget. These cuts present a significant challenge to the authority in maintaining services in the light of the unprecedented reduction in funding.
- 3.4. Following a consultation period, the final Government grant settlement figures for the two year period 2011/12 to 2012/13 were received in January 2011. The principles applied by the Grant Settlement for reductions to grant funding have limited the maximum reduction in a Councils "Revenue Spending Power" to 8.8%. This government calculation of Revenue Spending Power includes all grant funding provided by the government, (except for grants provided for housing benefits), and the amount of council tax that is raised locally.

- 3.5. To meet the requirement that Revenue Spending Power for any authority should not drop by more than 8.8%, there are two protection mechanisms:
- The first is the floor damping methodology that has existed for a number of years to ensure no class of authority receives less than a floor change in formula grant. For Copeland Borough Council this floor was set at 13.8%, with Copeland benefiting from the highest band as one of the authorities most dependent on formula grant. This 'floor damping' is self financing within each group of authorities i.e. the grants of other Districts have been reduced to meet the cost of protecting those authorities such as Copeland who gain from the protection. The value of the protection to Copeland in 2012/13 is £398k
 - The second protection mechanism has been applied through the award of a Transitional Grant for the years 2011/12 and 2012/13 only. For 2012/13 this amounted to £327k. There is no further transitional funding available for 2013/14 onwards.
- 3.6. Copeland BC is therefore in the group of authorities that was subject to the largest reduction in funding of 8.8% 2012/13 and has been protected at the highest level to limit the reduction to 8.8%. The risk going forward is in the removal of the Transitional Grant and any subsequent adjustment to the floor damping model that the Government might make.
- 3.7. In summary the reduction in the spending power of the Council as determined by the Government has been calculated as set out in the Table1 below. In Table 2 .figures for 2013/14 to 2015/16 should only be regarded as indicative amounts as these are subject to further funding announcements by the Government.

Table 1. Government Calculation of Revenue Spending Power

Revenue Spending Power	2010/11 £'000	2011/12 £'000	2012/13 £'000
Council Tax Requirement (exc. Parishes)	4,009	4,009	4,009
Adjusted Formula Grant	6,520	5,660	5,000
Area Based Grant (WNF)	902	0	0
Benefits Administration Grant	596	572	0
Homelessness Grant	37	50	50
Grant to freeze Council Tax (para 3.6)	0	100	100
	12,064	10,391	9,159
Reduction (13.87% and 11.86%)	0	(1,673)	(1,232)
Transitional Grant	0	611	327
Revised Spending Power	12,064	11,002	9,486
Final Reduction (8.8%)		(1,062)	(905)

- 3.8. Table 2 below shows the reduction in government grant over the period of the MTFS. However figures for 2013/14 to 2015/16 should only be regarded as indicative amounts as these are subject to further funding announcements by the Government. The Chancellor of the Exchequer indicated in his Autumn Statement 2011 that there were likely to be further reduction to local government in the future. The extent of this and impact on Copeland are not yet know at this stage. Therefore the original predicted figures notified as part of the Spending Review 2010 have continued to be used for this strategy.

Table 2. Reduction in Government Grant

	2011/12 £000	2012/13 £000	2013/14 Forecast £000	2014/15 Forecast £000	2015/16 Forecast £000
Formula Grant	5,660	5,000	4,955	4,678	4,678
Transitional Grant	611	327	0	0	0
Council Tax Freeze Grant 2011/12	100	100	100	100	100
Total	6,371	5,427	5,055	4,778	4,778

- 3.9. The MTFS will need to be reviewed once further information relating to funding is known. This will be especially important once the outcome of the Local Government Resource Review is known (see below).

Economic Outlook

- 3.10. The impact of the Government's debt reduction policy on the economic recovery is currently uncertain and growth forecasts for 2012 have been reduced during 2011, which increases the likelihood of a double dip recession.
- 3.11. The base rate has remained at 0.5% throughout 2011 and although inflation is expected to remain above the 2% target until 2012, it is not expected that interest rates will rise until the middle of 2012 at the earliest in an attempt to avoid a double dip recession.
- 3.12. The Retail Price Index (RPI) for December 2011 was 4.8% and the Consumer Price Index (CPI) was at 4.2% in December 2011. Forecasts (HM Treasury Forecasts for the UK Economy November 2011) suggest that for 2012 the RPI is expected to be 3.3% and the CPI is anticipated to be 2.7%. Whilst these are lower than that experienced during 2011/12 this will still be placing pressure on the Council's resources.
- 3.13. Forecasts through to 2015 suggest that these rates will fall slightly but will remain below the current rates.

Local Government Resource Review

- 3.14. The Government is currently undertaking a Local Government Resource Review which will change the way in which local authorities are funded. This is happening in two stages.
- 3.15. The first stage is reviewing the localisation of business rates. The Local Government Finance Bill takes forward the government's proposals following on from Consultation which ended in October 2011. The proposals change the way in which non-domestic rates (business rates) are distributed to local authorities. This will change the existing system whereby rates are collected and then redistributed to one where local authorities retain a proportion of the rates generated locally.
- 3.16. There are to be some protections built into the scheme including:
- No authority will be worse off as a starting point; and
 - There will be a system of 'top-ups' and 'tariffs' which will ensure the starting point is maintained as the existing position.
 - There will be a safety net for places which require additional support and this will be funded from a levy on disproportionate gains.
- 3.17. These proposals are due to be implemented in April 2013. However, the full details of how the proposals will work are not yet available and until some of the parameters are known we are unable to predict how this will impact on Copeland in the future.
- 3.18. In addition the Local Government Finance Bill requires local authorities to establish a Council Tax Reduction Scheme by 31 January 2013. In the Spending Review 2010 the government announced that from 2013/14 support for council tax would be localised. This was to be undertaken with a 10% reduction in funding.
- 3.19. The second stage of the review will focus on extending financial autonomy to communities and local people through Community Budgets. The terms of reference for this review were issued in June 2011 and the second phase of the review will be completed by April 2013.

Council Tax Benefit Localisation

- 3.20. The Welfare Reform Bill (February 2011) made provisions to abolish Council Tax benefit. Council Tax benefit is currently a benefit provided through the Department for Works and Pensions, administered by local authorities on its behalf. The localisation of council tax will mean that future support will be through a reduction in council tax, rather than a benefit, which will be administered in accordance with a scheme which has been agreed locally.

- 3.21. Council tax support for vulnerable pensioners will be delivered through a national framework of criteria and allowances. The Bill provides powers for to ensure that these criteria are included in the local schemes.
- The Council Tax Reduction Scheme must set out
 - Categories that are entitled to a reduction;
 - The level of reduction which apply to the categories; and
 - How people can apply for a reduction.
- 3.22. The Council Tax Reduction Scheme is proposed to be implemented from 1st April 2013 and each Council must agree its scheme by 31st January 2013 and the proposed scheme must be consulted on before it is adopted and considered for review each year.
- 3.23. There are also a number of other changes included in the Bill which include
- Replacing the empty dwelling exemption with a discount, the level of which can be set locally;
 - Setting an empty homes premium which can be charged on properties which have been empty for more than two years;
 - Making the mortgagee (the lender) responsible for paying the council tax when a property is repossessed; and
 - Enabling the publication of Council Tax information on websites rather than in paper format.

The Localism Act

- 3.24. The Localism Act was received Royal Assent on 15th November 2011. The Act abolishes Council Tax Capping and replaces this with a requirement for billing authorities to determine whether their Council Tax rises are excessive.
- 3.25. If the Council proposes a Council Tax rise which is greater than the amount determined by the Secretary of State as being excessive, then it must hold a referendum.
- 3.26. The level above which Council Tax is deemed to be excessive for 2012/13 is 3.5%, compared with 2011/12. Therefore if the Council is proposing a rise above 3.5% then a referendum must be held.

Council Tax Freeze Grant

- 3.27. The Government has again offered local authorities a Council Tax Freeze Grant for 2012/13. The offer for 2012/13 differs from that accepted for 2011/12. The grant is equivalent to a 2.5% increase in relation to 2011/12 base levels.
- 3.28. The original freeze grant, accepted by Copeland, provided the Council with funding for a four year period, in return for freezing the Council Tax levels at 2010/11 levels.
- 3.29. The grant offer for 2012/13 only covers a one year period, which will then require the Council to provide alternative funding for the following year, or increase the level of funding reductions.

4. LOCAL CONTEXT

- 4.1. The medium term financial forecast takes account of the latest overall financial position and three year projections for the Council in the light of the most up to date information in relation to efficiency savings targets, inflation indices, local demographics and the financial impact of new and emerging policies both locally and nationally. Local factors that influence available finance include:
- council tax levels, collection rates and tax base;
 - spending and investment decisions;
 - the level of reserves held by Council.
 - Income received from fees and charges
- 4.2. The detailed budget deliberations take place on an annual basis, but they will be guided by the following overarching principles:
- Budgets allocated through the budget process will be cash limited at the annually approved amount and any additional budget will only be granted in exceptional circumstances;
 - Any redirection of resources towards priority areas as set out in Corporate Strategies will be contained within existing budgets unless increases can be both justified and funded;
 - External grants and income will be maximized wherever possible to mitigate the impact of government grant reductions; and
 - Partnership working and other funding opportunities will be explored wherever feasible to make more efficient use of Council resources.
- 4.3. The government has offered a second Council Tax freeze grant for 2012/13. This offer is different from that previously accepted for 2011/12. For 2012/13 the offer is again for 2.5% grant of £100,000, however, this funding will only be for one year and therefore if the Council decides to accept this grant then the loss of £100,000 in 2013/14 will need to be considered.

- 4.4. In terms of Council Tax, as part of the final Grant Settlement, the government has confirmed that they will fund a council tax freeze for 2012/13. Copeland has yet to decide whether to accept this offer or not and this will be decided through the budget setting process.
- 4.5. If the Council decides not to accept the freeze grant then a decision will need to be made regarding the level at which Council Tax is to be set. The new requirements contained in the Localism Act mean that the Council must consider 'excessive' rises and the requirement to hold a referendum. The cost of holding a referendum will be significant and this needs to be taken into account if the Council is proposing to raise Council Tax by more than 3.5%.
- 4.6. The planning assumptions in the MTFS projections currently assume increases in Council Tax of 2.5% from 2012/13 to 2015/16. These planning assumptions need to be monitored carefully particularly to take into account the loss of the 2011/12 Council Tax Freeze Grant of £100,000 after 2014/15, and this loss will need to be found from other sources. These assumptions will also need to be considered once the Council has made a decision on the Council Tax freeze grant and Council Tax levels for 2012/13.
- 4.7. In 2011/12 Copeland had the 3rd lowest band D Council Tax in Cumbria. The Council tax base (i.e. the number of Band D properties used to determine the Council Tax) is 22,254.83 and is calculated in December each year. This low council tax base in the area means that every 1% increase in Council Tax generates only around £40k extra revenue to the Council.
- 4.8. The cost pressures facing the Council are principally the same as most other Councils and these including inflationary impacts of supplies and staffing costs, increased fuel and utility costs and increasing demand for services.
- 4.9. Specific cost pressures facing the Council relate to Copeland being a rural area with some the worst pockets of deprivation in the country. Also a significant presence of the nuclear industry has brought with it its own unique pressures for the authority to manage.
- 4.10. Copeland has over 50 miles of coastline and hence the need for Council to maintain sea defences, combat cliff degradation and ensure that area beaches continue to reach a high environmental standard. In terms of population, the borough is now seeing a slight increase in population levels, mainly in the older age groups which contrast with the historical decline in its population experienced over the last decade; numbers in the younger age groups, however, are declining.
- 4.11. Copeland also has many opportunities, including:
- being in a key position to influence the West Cumbria master plan for Britain's energy coast;
 - being in a prime location of historical interest and natural beauty to attract visitors.

5. STRATEGIC PLANNING 2012/13 to 2015/16

- 5.1. The Council aims to optimise the allocation of its reducing resources by ensuring efficiency and good governance in the provision of its services. The continuing significant reduction to the Council's budget over the next four year period means that clear prioritisation is even more important than before. This prioritisation is carried out through the Strategic Planning framework. This framework consists of the Council Plan, which will link to other key Strategies and Plans of the Council and other key partners, and down to Directorate Service Plans to ensure priorities are delivered.
- 5.2. In addition to financial information, performance information is used where necessary to determine whether resources are adequately allocated. Work is continuing to refine the link between service performance and financial performance and to ensure that outcomes are measured in both performance and financial terms. The use of performance information is crucial to evaluate whether value for money is being achieved.
- 5.3. The Council Plan for 2011/14 contains the Council's vision, goals and objectives and was approved by Council on 22nd February 2011. In compiling the objectives the Corporate Leadership Team working with the Executive has taken account of the Governments Plans for public sector spending. In addition consultation has taken place with a wide range of external partners as well as internal employees and members. A one year implementation plan is developed each year to help identify how the objective will be achieved and the implementation plan for 2012/13 is currently being developed and will be agreed as part of the budget process.
- 5.4. The four themes as set out in below are: People, Prosperity, Place and Performance, and comprise the Council's ambitions for both quality of life in the Borough as a whole and for improvements in the Councils own operations. Some of the projects which will deliver the Councils objectives arise from partnership working and demonstrate the Councils shared ambitions, for example for health improvement and community safety.

Table 3. Council Plan themes

People	Prosperity	Place	Performance
Contribute to reducing health inequalities between Copeland communities and others in the North West.	Support opportunities for work across the borough.	Support the provision of high quality housing and a balanced housing market.	Provide services that are accessible and respond to customer needs.
Support Copeland communities and community leaders in active participation and influencing local decisions.	Promote opportunities for raising local skill levels.	Reduce waste in Copeland - recycle and compost more.	Transform services through new models for service delivery with other public, voluntary and private sector partners.
Tackle disadvantage and inequality to build aspiration and improve life chances.	Establish a vibrant, diverse and sustainable local economy	Work with partners to achieve increased accessibility across the borough.	Maintain a skilled, adaptable and productive workforce led by effective leading members and a strong and high performing management team.
Provide people with opportunities to build aspirations and to support their personal development	Support the vitality and viability of our towns and rural communities	Work with the Copeland community to reduce the causes of climate change.	Provide a transparent account of performance and use of resources.
	Enhance and support the development of low carbon technologies to support our Energy Coast aspirations	Work with our partners to make people feel safer in Copeland.	
		Enhance the local physical and natural environment	

5.5. The Council Plan informs other plans within the Council in addition to the MTFs, and in addition is influenced by external strategies, particularly those of the partnerships the Council is involved in such as the Sustainable Community Strategy. Some of the key internal strategies which will be informed by the Council Plan are set out below. Council must ensure when considering individual strategies that the cost implications of adopting particular strategies are clearly set out:

- The Workforce Development Strategy. The main resource implications are the costs of reducing the Council's workforce to sustainable levels, in line with the Government's spending review projections.
- The Asset Management Plan ensures the most effective use of the Council's assets to make sure savings are realized wherever possible including disposals of unused assets and the sharing of assets with other partners.
- The Regeneration Strategy linked to the Local Development Framework has identified the need to invest in private sector housing and also business enterprise in order to tackle "worklessness" and help eradicate the remaining pockets of deprivation which exist in the borough.
- The IT Strategy includes focus on improving access to Council Services and improving the efficiency and delivery of Business Solutions. This will be particularly important in view of the reducing workforce and IT solutions will be required to assist in the future delivery of efficient services.
- The overarching aim of Copeland's Housing Strategy is to ensure that the housing available in the Borough supports the health, safety, welfare and distinct economic aspirations of our communities as effectively as possible. It therefore seeks to balance the housing market by the provision of high quality homes in sufficient quantity in the most suitable and needed locations.
- Other Strategies will be considered where there are financial implications, for example the Cliff Management Strategy.

5.6. Copeland BC is working with partners to create a new Sustainable Communities Strategy to plan and address the priorities for Copeland which cross agency boundaries. The Council is committed to working with its partners to plan and allocate resources in the most effective ways making sure that service planning and resource allocation are carried out in light of community consultation.

6. REVENUE BUDGET STRATEGY

6.1. The revenue budget is spending on day to day council services and comprises the net budget requirement (i.e. expenditure net of fees and charges and specific grants) to be funded by council tax and central government grant, plus any additional expenditure which will be funded from reserves; the two elements taken together make up the net budget.

- 6.2. Key to the management of the MTFS is the budget prioritisation process whereby all proposed changes, whether growth or savings, are considered within the knowledge of the total resources available to the Council so that an informed decision can be made regarding alignment of resources to meet the overall vision, objectives and priorities whilst taking account of any significant business risk. The budget strategy identifies and addresses known financial pressures, new and emerging (both local and national) government initiatives, policy and statutory requirements to ensure that financial resources are aligned with strategic priorities.
- 6.3. There are a number of stages to the budget process and the first key process is to ensure the base budget is accurate and this is achieved through the budget monitoring process which is considered by Members and Officers on a regular basis throughout the year.
- 6.4. The next key stage is the forecasting of resources and commitments. Forecasting is the mechanism by which the Council obtains an indication of the level of funding available in future years and matches this to known or anticipated commitments.
- 6.5. By its nature forecasting is inherently risky as projections change over time often due to external influences over which the Council has little or no control (e.g. Interest rate movement impact on Treasury Management projections and inflationary increases impact on the cost of supplies and pay costs).
- 6.6. Another key aspect of forecasting is in relation to the setting of Fees and Charges and issues need to be considered such as setting the service objectives in relation to establishing the level of charges e.g. cost recovery/ surplus / deficit, demand for service, external competition, concessions and subsidies and trading opportunities. For these reasons, financial projections have to be updated frequently, with 'best' and 'worst' case scenario planning.
- 6.7. Some of the more significant factors affecting the forecasting are:
- Impact of any further economic recession or recovery
 - Changes to service demand
 - Future Government Grant allocations or changes to the system of allocation
 - Impact of Inflation on pay and services
 - Interest rate movements
- 6.8. The final key stage is the re-allocation of resources to priority areas. As stated an overarching principle is that any redirection of resources towards priority areas as set out in Corporate Strategies will be contained within existing budgets unless increases can be both justified and funded.

- 6.9. The detailed budget projections for 2012/13 and projections through to 2015/16 are currently being considered and the final budget projections are due to be agreed on 23rd February 2012. It is important to note that the forward projections will be monitored and revised throughout the year, both as part of the ongoing budget monitoring process and also as new information comes to light. The annual budget shortfall projections currently identified are:

Table 4.

	£000	Note
2012/13	1,807	Target £2038 (including budget pressures for 2012/13)
2013/14	958	
2014/15	606	
2015/16	408	
Total Projected Shortfall	3,779	

- 6.10. The above shortfalls are based on the Spending Review settlements notified to the Council in January 2011 and also include identified budget pressures for 2012/13. These figures will need to be reviewed once the budget for 2012/13 has been agreed and also once the implications of the local government funding review have been established. In addition, once the Council had made a decision regarding Council Tax and the Council Tax freeze grant, the impact of this decision will also need to be factored into these figures.
- 6.11. The settlement in January 2011 identified a settlement for two years and included estimates for 2013/14 and 2014/15 so figures for these years will need to be updated once more detailed information is available.
- 6.12. There have not been any further reductions included for 2015/16 at this stage. These figures will obviously need to be reviewed regularly to ensure that the estimates are realistic.

Savings Strategy for 2012 to 2015

- 6.13. The work of the Resource Planning working Group in 2011 has been critical in identifying ongoing budget savings necessary to enable proposals to set a balanced budget for 2012/13, with £1,807k of the £2,038k shortfall identified.
- 6.14. Our future strategy will focus on
- A continued focus on finding efficiencies and reducing costs
 - A programme of full service reviews to be completed during 2012
 - Consideration of alternative forms of service delivery (the operating model)

- 6.15. In 2011/12, work centred on the further efficiencies, a review of service management and the re-organisation of back-office services and, to bridge the on-going budget deficit going forward.
- 6.16. A programme of full service reviews was started with 6 reviews due to be completed by the end of March 2012. This programme will continue into 2012/13 and beyond and will underpin our budget strategy.
- 6.17. To ensure the Council achieves its savings target but also clearly allocates its reduced financial resources to its key priorities it needs to be clear on the answers to the following questions for each area of spending, and these will be considered as part of the future service review process:
- How is the activity essential to achieving the council priorities?
 - How does the activity improve the wellbeing of local communities?
 - Why does the Council need to fund this activity?
 - How can we focus this activity on people most in need?
 - How can we provide this activity at lower cost?
 - What can make this activity more effective?
 - Which other local bodies could provide this activity?
 - How can the private sector, third sector or citizens provide this activity, whole or in part?
 - How can we make sure that payment to service providers' links to achievement?
 - If income generating, consideration of break even or surplus generation taking into account equality implications.
- 6.18. The forecast savings for the remaining two years of the Spending Review, 2013/14 and 2014/15, will be considered as one during 2012/13. This should ensure that these savings are deliverable by 2014/15. The 'easy' efficiency savings have already been identified and so further savings will take time to be released.
- 6.19. The projections 2012/13 to 2015/16 are based on the following assumptions
- Inflation:**
- No increase is provided for inflation on general supplies and services for 2012/13 – the same position as agreed for 2011/12.
 - A 2% increase for inflation on general supplies and services from 2013/14 onwards.(Note: Each 1% addition on general inflation equates to c. £65,000).
 - An increase on contracts from 2012/13 where the increase is required to meet contractual commitments.

Salaries:

- A 1% increase for 2012/13 (increased from original MTFS projections as per Chancellors Autumn budget statement 2011).
- A further 1% increase for 2013/14 to 2015/16 (Note: Each 1% addition on salaries equates to c. £80,000)

Pensions Contributions:

- Current contribution rate 20.1%.
- The next revaluation is effective from 2014/15. No increase has been assumed for now pending the Government's pension proposals being finalised.

Treasury Management

- A 1.25% interest rate on investments has been assumed for 2012/13 financial year and for the period of current MTFS.

Council Tax Projections

- An increase of 2.5% has been included in the budget proposals for 2012/13 and a similar increase for forward planning purposes for financial years 2013/14 – 2015/16.
- An increase of 2.5% has currently been included in the budget forecast, however, members need to formally decide on the level of increase for 2012/13. Members need to decide
 - Whether to accept the government's one-year Council Tax freeze grant; or
 - If the freeze grant is not accepted what level they wish to increase Council Tax by.
- Once this decision has been made the MTFS will be updated.

Income

- Increases in fees and charges are being proposed on a service-by-service basis. The MTFS proposal is to include wherever feasible increases in fees and charges of 2.5% and more in areas that are not sensitive to demand. The current economic climate means that proposals to increase a large number of fees and charges are proving to be difficult to justify. The proposed increases in Fees and Charges are set out in the Revenue Budget Proposal. The bulk of the increase relates to Crematoria charges and increases in Car Parking fees.

Member's expenses

- These have currently been cash limited and there has been no inflation provision included within the budget for a third year.

7. CAPITAL STRATEGY

- 7.1. Each year the Council updates its three year rolling capital programme for the purchase of tangible (e.g. buildings) and intangible (e.g. grants and financial assistance) fixed assets, bringing them into use and enhancing them as defined in Accounting Standards.
- 7.2. There are strict definitions of what constitutes capital expenditure and whilst resources other than capital can be utilised to fund capital expenditure (i.e. a contribution from revenue resources can be made), capital resources can only be used to fund capital expenditure, unless there is an express capitalisation direction granted from the Government, which would grant authority to utilise capital resources to fund specific revenue costs (e.g. redundancy payments).
- 7.3. There are several sources of funding available for the capital programme including the option of prudential borrowing, use of existing borrowing, the application of capital receipts generated from the sale of assets, revenue contributions to capital expenditure and the use of external capital funding and grants.
- 7.4. The revenue implications of the Council's capital programme are considered as part of the process for setting the programme. The revenue impact also needs to be reflected in the MTFS, in particular any costs associated with any prudential borrowing which may be required to support investment.
- 7.5. Prudential borrowing allows local authorities to borrow money to fund capital expenditure provided it can demonstrate that it can afford the repayments. If the Council chooses to consider prudential borrowing as an option it is important that the costs of repaying the borrowing is identified and adequate provision is made in the medium term.
- 7.6. There are not currently any proposals to use prudential borrowing to fund any capital expenditure, however, this will be reviewed on an annual basis as the capital programme is further developed.
- 7.7. The capital programme is being presented to this meeting for consideration and the bids have been prioritised to ensure that they help the Council achieve the objectives set out in the Council Plan.

- 7.8. When considering approval of capital bids, the Council must ensure that:
- Any spending decisions are meeting our key priorities
 - We would not fail to meet our statutory duties if a scheme if a scheme was not approved
 - Consideration has been given to all potential sources of funding available, particularly the potential to bring in external sources of funding.
 - All revenue costs/ savings as well as capital costs have been considered.
- 7.9. Once approved, but prior to any new capital scheme commencing, they are to be further appraised via a formal Project Initiation Document (PID) or Project Brief (if below £50,000) and presented to and formally approved by the Executive.

8. TREASURY MANAGEMENT, MINIMUM REVENUE PROVISION AND INVESTMENT STRATEGY

- 8.1. The Council's Financial Regulations require the Treasury Management Strategy to be reported to Council on an annual basis, and thus comply with best practice and legislative requirements. The Strategy sets out the framework against which the Treasury management activity of the Council will be evaluated and the basis of the mid year performance report and year end out-turn reports.
- 8.2. The Local Government Act 2003 introduced a new borrowing system for local authorities known as the Prudential Code and gives Council's more freedom and flexibility to borrow than it had previously without government consent as long as they can afford to repay the amount borrowed. The objective of the Code is to ensure Treasury Management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability. The Council does this by the calculation and monitoring of Prudential Indicators.
- 8.3. The Council's Minimum Revenue Provision (MRP) Policy sets out how the Council will pay for capital assets through revenue each year i.e. a provision that the Council must make in its revenue budget to fund the repayment of external debt. CLG Regulations require Council to approve an MRP Statement in advance each year.
- 8.4. The Investment Strategy sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss.

9. RESERVES STRATEGY

- 9.1. The Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
- 9.2. In establishing reserves, the Council must comply with the Code of Practice of Local Authority Accounting in the United Kingdom. The Corporate Director of Resources and Transformation is required, as part of the budget setting process to provide statement on the adequacy of reserves.

Reserves Strategy

- 9.3. The Council's Strategy on reserves is as follows:
 - The Council will maintain reserves at a level which is sufficient to allow for quantifiable liabilities and foreseeable risk and also to enable the Council to react to opportunities and risks should they arise;
 - Reserves will only be used to finance non-recurring spending or to cover transitional costs. If in exceptional circumstances reserves are used to support recurring spending, this will be dependent on a strategy being in place to replace the use of reserves with mainstream funding;
 - The Council will maintain earmarked reserves for specific purposes which are consistent with achieving its key priorities. The use of earmarked reserves will be in line with the principles set out in the MTFS and reviewed annually;
- 9.4. The Reserves Strategy is presented separately as part of the Revenue Budget proposals.

Review of reserves

- 9.5. Revenue Reserves play a key role in the management of the Councils budget. The broad purposes for which Reserves are held are:
 - As a contingency to cover risks, uncertainties and emergencies
 - To fund planned investments and developments
 - To smooth the budgetary impact of cyclical costs
 - To carry forward funds for agreed purposes at year-end.

- 9.6. A review of reserves has been undertaken and the review covered each individual reserve and considered:
- Why the reserve is held
 - An assessment of the appropriate level of the reserve to meet potential future liabilities in line with the Council's reserve policy;
 - A risk assessment of each reserve; and
 - The reviewed level of reserve following this risk assessment.
- 9.7. Reserves fall into two categories;
- General Reserves – an accumulation of surpluses/deficits on overall revenue Spending. The level of reserves is linked to a risk assessment of the financial position of the authority; and
 - Earmarked Reserves – reserves set aside for specific purposes (including sinking funds).
- 9.8. As a general principle, reserves will only be used to finance non-recurring spending or to cover transitional costs. If, in exceptional circumstances, the use of reserves is proposed to support recurring spending, this will be dependent on a strategy being in place to replace the use of reserves with mainstream funding.
- 9.9. Council maintains sufficient balances and reserves not only to allow for future quantifiable liabilities and foreseeable risk but also to enable Council to react to opportunities and risks should they arise.
- 9.10. In 2011/12 a specific Choosing to Change earmarked reserve was been established in the sum of £1.5m to fund the implications of the Choosing to Change programme including the cost of redundancies. For the period 2012/13 to 2015/16 it is predicted that the Council will still be undergoing significant change in order to meet its financial constraints and the level of this reserve will need to be carefully monitored to ensure it is adequate to meet any upfront funding requirements necessary to achieve the choosing to change programme over the next four year period.
- 9.11. Over the period 2012/13 to 2015/16 the risk related to the Government's changes in relation to funding local government, particularly from the localisation of Business Rates could have a significant impact on the financial stability of the Council. In addition the localisation of Council Tax Benefits and the achievement of the financial savings targets will also need to be carefully considered. As the Councils finances become further constrained the risk related to operational delivery and budget management increase. The level of reserves will need to be reviewed in the light of these on a regular basis to ensure that they are adequate to offset the risks identified.

Reserves Summary

- 9.12. The proposed revenue budget which is also presented to this meeting contains further details relating to the review of reserves for 2011/12 and 2012/13 along with the proposed utilisation of reserves over the life of the MTFS.

10. RISK MANAGEMENT

- 10.1. There are a number of inherent risks in the strategy as proposed and these are identified in detail in the revenue and capital budget papers and summarised below. It is the responsibility of the Corporate Leadership Team to ensure that these risks are properly managed and risk mitigation measures are taken where necessary. The overall risk is contained in the Strategic Risk Register and is monitored by officers and members as part of that process.

Table 5. Inherent risks in the proposed strategy

Risk	Likelihood	Impact	Mitigation
The assumptions and forecasts in the MTFS prove to be incorrect	Significant/ Low	Marginal	Review budget forecasts regularly and continually adjust for variations that impact on the forecast
Spending exceeds budget or assumed income levels not achieved	Significant / Low	Marginal	Regular budget monitoring reports
Unforeseen spending / new projects	Low	Marginal	Budget monitoring / Risk based reserves
Savings not achieved	Significant	Critical	Regular budget monitoring / Risk based reserves
Changes to existing Government Funding allocation	Significant	Critical	Review service provision to meet funding levels

11. SUMMARY AND CONCLUSION

- 11.1. The MTFS covers the remaining three years of the Governments Spending Review and further into the future. The funding for 2012/13 has been fixed but is uncertain past this point.
- 11.2. This uncertainty is further compounded by the Governments intention to change the way local authorities are funded. The review proposes that grant funding will be replaced by the localisation of business rates.
- 11.3. The Council has difficult decisions to make in the future. It has to review its priorities and reassess its services to fit the reduced resources available to it. These changes require strong financial leadership and members and officers need to understand the financial impact of objectives, priorities and actions. Good financial management is crucial to the achievement of this objective and training will be provided to enable this to be achieved effectively.
- 11.4. The principles of good financial management as set out in this MTFS will guide the Council's short, medium and long term management of its financial resources. The Council must adopt a strategic approach to the future direction, co-ordination and delivery of services.