

**ALLERDALE BOROUGH COUNCIL**

**Medium Term Financial Strategy**

**2008/09 to 2012/13**



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# Introduction

A financial plan or strategy is not an end in itself; it is the means by which a local authority shows how it will use the resources available to it to deliver the policy objectives which it has set following consultation with the communities that it serves. For this reason it is important to understand the policy context within which this Medium Term Financial Strategy is framed.

This Medium Term Financial Strategy sets out Allerdale Borough Council's clear commitment to provide quality services which represent the best possible value for money for our community. It builds on the achievements of the past, and sets out a clear direction for the future in conjunction with the Council's Corporate Improvement Plan. This Strategy will also complement the Council's Workforce Strategy.

In 2003 the Council was judged by the Audit Commission as being "Fair" and in March 2006 within the Comprehensive Performance Assessment we were awarded a score of 2 (satisfactory) out of 4 for the Use of Resources.

This is a test of the Council's financial arrangements, asset management, value for money and risk management. A score of 2 was considered to be a reasonable achievement at the time, however our aim is to now achieve a score of 3 by 2008 and 4 by 2011, and this Medium Term Financial Strategy will assist us in attaining that goal.

The Council has embraced the modernisation agenda and is committed to achieving continuous improvement and innovation in service delivery. It is committed to working with partners to improve the quality of life for people in Allerdale and this is reflected in the Council's corporate priorities.

The Corporate Improvement Plan sets out the Council's vision of directly providing core services together with facilitating and influencing the creation of successful and sustainable local neighbourhoods, parishes and communities. This Medium Term Financial Strategy provides the funding framework within which the Council will achieve these aspirations.

A balance has to be struck, as a consequence of the constraints on financial resources, between the pace of improvement and the affordability of proposals that deliver the desired improvements to services and fulfil the Council's community leadership responsibilities. The strategy covers both the expected variations to the revenue budget and the approach adopted towards planning the capital programme for future years.

The Medium Term Financial Strategy and detailed budget proposals for 2008/2009 demonstrate that the Council has sound financial arrangements which are focused on the delivery of the vision of a better community in Allerdale.

Inevitably our plans will need to change as the demands on our services change in the future. Financial planning is not an exact science and we will keep the Medium Term Financial Strategy under review and amend it as required in the light of changing circumstances. We already know that we will need to continue to achieve improvements in our efficiency to achieve the Government's efficiency targets, and to the extent that future service demands outstrip our assumptions we will need to continue the process of reprioritising our spending with reductions in lower priority areas being used to

support increases elsewhere. All areas of our budget will be kept under review and we will continue to reduce costs wherever possible.

The future of local government finances contains many uncertainties, such as possible new arrangements for financing local government expenditure and the continuing impact of the efficiency agenda. We will keep our Medium Term Financial Strategy under review and amend it each year to reflect the rapidly changing environment in which we work.

## How the Strategy has been put together

The Medium Term Financial Strategy has been designed to allow changing resource and service levels to be planned in a structured and measured way by forecasting resource availability and balancing this against improvement and investment needs and priorities. It is also intended that it will act as an important tool for change, monitoring and review.

The Council has a number of key fundamental principles that underpin both the revenue budget and this Medium Term Financial Strategy. These are:

- Council tax charges should be reasonable and excessive growth in the Council Tax charge is unlikely to be supported by Councillors.
- Assessment of projects should take into account both capital investment and ongoing revenue consequences.
- In general, reserves and balances should not be used to support ongoing revenue expenditure.
- Budgets should be allocated according to Corporate Improvement Plan priorities.
- In addition to these principles, the Medium Term Financial Strategy takes into account the Council's internal environment including the Corporate Improvement Programme.

A number of additional principles have been built into this Strategy as follows:

- Our responsibility to ensure that the people of Allerdale get the best quality community leadership and service provision that we can deliver.
- Ensuring that the Council takes a managed approach towards securing a sustainable future.
- An understanding of the key national requirements placed on the Council and the national public expenditure context that influences the current budget position.
- The need to meet the financing costs and running costs of capital investment plans for the Council, based on clear evidence of need and approval for the investment.
- A commitment to reduce costs in the organisation and to maximising the resources available to secure better outcomes for people by striving to achieve better value for money and greater efficiency during the life of this Plan.
- Choosing to invest in those things where the Council can have the greatest impact, focusing on core services that the Council does best, and recognising that others can do things better in some cases and that more can be achieved through working in local partnerships.

This year's budget process was led at the highest officer level, with the whole process driven by Group Plans linked to the Corporate Improvement Plan. By involving Senior Managers and service managers in the budget setting process the Council ensures that directorates' plans and initiatives are evaluated against the Council's priorities as set out

in the Corporate Improvement Plan before provision is made in the annual budget and Medium Term Financial Strategy.

The Medium Term Financial Strategy and this year's annual budget have involved some hard decisions which will need effective management.

The revenue budget and capital programme that make up the first year of this plan are closely aligned to the priorities and objectives set out in the Corporate Improvement Plan and so all major priorities and key objectives have been reflected in the budget. There is a robust budget preparation process involving Chief Officers and relevant budget managers which ensures that the key strategic priorities are addressed and resourced. There is therefore a low risk of any significant unplanned expenditure, but nevertheless it is prudent to have a reasonable level of contingencies for significant known future events and General Fund balances that are adequate to meet unforeseen events.

## Links to the Corporate Improvement Plan

The Council approved its first Corporate Improvement Plan in March 2006 and the plan details what the Council seeks to achieve for its communities over the period 2007/2008 to 2011/2012 in order to deliver on the vision of:

### ***Allerdale – a great place to live, work and visit***

Underpinning the corporate objectives are actions that determine the Council's strategic plans and service plans and priority deliverables in each year. These will, in turn, determine where resources are to be targeted and there is an obvious link to the Council's budget process.

During 2007, service managers were required to submit Group Plans in respect of their services and to identify the relationship between those plans and the Corporate Improvement Plan. The Group Plans submissions included the proposed budget requirement to deliver the services identified in the plans and also identified proposed growth requirements in order to improve service delivery in line with the Council's objectives and priorities.

The allocation of budgets to service areas will inevitably change according to the Council's priorities over the life of the prevailing Corporate Improvement Plan, as it is developed.

## Links to other Strategies and Initiatives

The Medium Term Financial Strategy cannot stand in isolation and must take into account the financial consequences of all of the Council's other approved strategies and its key initiatives. This Strategy takes into account the following approved strategies and initiatives of the Council:

### **Procurement Strategy**

The Council's current procurement strategy was approved in 2005 and is monitored and updated on a regular basis. It seeks to ensure that the Council achieves best value for the money that it spends on the acquisition of works, goods and services. Key areas that the strategy addresses include:

- a review of how the Council spends its money
- a focus on achieving value for money
- the impact of spend on the local economy
- whole life costing and sustainability
- a consistent approach to procurement processes
- compliance with legal aspects of procurement and internal regulations
- development of e-procurement systems

The strategy plays a significant part in securing savings that can be counted against the Council's annual efficiency targets and generates management information that is used, through the Cumbria Procurement Initiative, to identify common suppliers and requirements across the relevant authorities in order that regional consortia arrangements can be entered into.

The proposed implementation of electronic procurement procedures that contribute to wider E-Government targets will include on-line purchase order processing, requests for quotations, invoice processing and use of an electronic marketplace that enables trade between councils and suppliers.

### **Fit for Purpose Review (Human Resources Strategy)**

Following an independent review of its structure and how it delivers services commissioned by the Council and approval of the results of the review, the Council's staffing structure was revised to support the delivery of the Corporate Improvement Plan. The revised structure was reflected in a review and revision of Members' portfolios and the structure of the Council's revenue budget.

### **Treasury Management Strategy**

The Council's Treasury Management Strategy is approved on an annual basis by the Council and includes its treasury strategy for borrowing and its prudential indicators for a three year period in accordance with the mandatory CIPFA Prudential Code for Capital Finance. The strategy covers:

- treasury limits in place to limit the treasury risk and activities of the Council
- estimated capital expenditure

- estimated financing from internal resources
- the current treasury position
- prospects for interest rates
- the borrowing strategy based on affordable borrowing limits
- the extent of any debt rescheduling opportunities

The Council is required to ensure that its borrowing is prudent, affordable and sustainable and this can only be realistically done over a period greater than one financial year.

There are direct links between the Treasury Management Strategy and the Medium Term Financial Strategy as the Treasury Management Strategy determines not only the three year capital expenditure plans and the funding thereof but also the revenue consequences of the capital expenditure together with the estimated interest earned on the Council's investments.

### **Investment Strategy**

The Council's Investment Strategy is approved annually and deals with the prudent short, medium and long-term investment of the Council's surplus funds. Stated priorities are the security and liquidity (easy access) of the investments.

Under the strategy the Council does not normally make any investment in a form that is deemed to be capital expenditure under capital financing regulations. Funds for investment are managed internally by officers of the Council or externally by specialist investment fund managers.

There is a clear, direct link between the Treasury Management Strategy and the Medium Term Financial Strategy.

### **Capital Strategy**

The Council's Capital Strategy is a key corporate document and sets out the Council's estimated medium term capital expenditure proposals and the financing of that capital expenditure. It provides the framework that guides the decisions on where and when the Council should undertake invest in its own assets, and where appropriate, those assets shared with, or owned by, a partner organisation.

There is a clear direct link between the Capital Strategy and the Medium Term Financial Strategy due to the significant impact that capital spending and financing transactions have on the revenue budget in the form of capital financing costs and revenue running costs.

### **Asset Management Strategy**

The Council's operational and non-operational asset base is managed proactively through its Asset Management Strategy which identifies the assets that the Council is to invest in and those that may be disposed of in order to raise additional investment capital or for temporary investment pending future use.

The strategy is supported by a detailed schedule of the estimated repairs and maintenance works that are required on those assets that the Council is to retain for the foreseeable future in order that an appropriate provision for the required work can be included in the Council's revenue budget plans.

It is proposed that the precise use of all assets will be confirmed and linked to the Council's priorities and objectives set out in the Corporate Improvement Plan.

### **Information Technology (IT) Strategy**

The Council's Information Technology strategy exists to fully support and underpin the Council's vision and aims set out in the Corporate Improvement Plan, its Customer Service Strategy and its E-Government priority outcomes under the Government's national strategy for local e-government. The projects and plans within the strategy are also intended to support the delivery of the Council's annual efficiency targets through the achievement of cashable and non-cashable efficiency savings.

The strategy is intended to assist the organisations structure to evolve towards a "customer-centric" front office approach to delivering one-stop shop services and the three principles of people, process and products are key throughout IT planning. The aim is to successfully deal with a minimum of 75% of service requests from customers at the first point of contact.

In order to maximise expertise in all areas of the IT function, strategic partnerships have been formed with commercial organisations and in recognition of any skills gaps, other areas of work have been outsourced.

Under the strategy, corporate systems are identified and implemented to enable the Council to deliver one-stop services and to enable both front-office and back-office staff to provide high quality services to customers. The necessary funding to deliver E-Government initiatives together with general developments of the underlying infrastructure and systems has been provided through the IT Services revenue budget, the capital programme and the New Technology Fund held in an earmarked reserve. The latter has now been fully committed. It is therefore necessary to ensure that the appropriate IT funding is provided for in this Medium Term Financial Strategy in respect of the initial capital outlay and the ongoing revenue costs once a business case has received corporate approval.

### **Risk Management Strategy**

The Council's Risk Management Strategy is a key feature of the financial planning process and seeks to ensure that the Council adopts best practice in the identification, evaluation, recording and control of risks in order that the constraints on achieving objectives and priorities set out in the Corporate Improvement Plan are minimised.

The intention is to eliminate the risks faced by the Council in the management of its financial resources spending plans or to reduce them to a level that the Council is prepared to accept or tolerate.

Risks are classified as either strategic or operational depending upon their potential impact on the authority and are defined by spending type such as inflation risks, asset management risks, demographic risks, systems risks etc.

Appropriate risks are taken to minimise, mitigate or where unavoidable, provide for any identified financial risk. Measures taken can include:

- addressing budget underspending or overspending during the year through early identification and management action
- transferring certain financial risks through insurance
- financial planning to meet short and long term cash flow requirements through the use of the Treasury Management Strategy
- making financial provision through earmarked reserves for known risks
- protecting against unknown or unquantifiable risks through an adequate general reserve.

Reserves are an important part of the Council's financial strategy and are held to create long-term budgetary stability through the management of change without undue impact on the Council Tax. Maintaining strong, resilient finances and effective risk management are therefore critical to enable the Council to achieve its objectives and priorities.

### **Budget and Portfolio Review**

Following a review of the budget structure and reporting arrangements in respect of budgets, the Council's revenue budget and portfolio responsibilities have been re-organised to align with the objectives of the Corporate Improvement Plan and the outcomes of the Fit for Purpose review that re-aligned services to support the delivery of the CIP.

Reporting arrangements were reviewed and revised to enable the production of more timely financial management information for budget holders and service managers but also require greater responsibility and accountability by budget holders for the management and monitoring of budgets and increased emphasis on operational activity levels and service outcomes.

### **Strategic and Service Planning Processes**

The 2008/2009 revenue budget planning procedures required Directorates to submit Group Plans in respect of their proposed service planning for 2008/2009 in order that operational service plans, financial plans and outputs could be evaluated against the Council's Corporate Improvement Plan and the Council's priorities and objectives.

The Action Plan and Efficiency sections of the Group Plan enable the existing level of resource requirements, any proposed growth requirement to improve or develop services and the level of proposed savings and cashable or non-cashable efficiencies to be identified for corporate consideration.

## **Performance Management**

The Council's performance management processes were reviewed and strengthened in 2006/2007 and specialist performance management software was acquired to enable a full suite of performance management data to be gathered and analysed across the full range of the Council's activities.

Performance monitoring takes into account operational and financial performance and enables Chief Officers and portfolio holders to review local service performance indicators in order that prompt action can be taken to re-align resources as and when necessary. The performance monitoring also enables the Council to review its performance against Best Value Performance Indicators and to compare performance with other local authorities or third party organisations on a local, near-neighbour or national basis.

## **Project Management**

Senior managers within the Council receive project management training and the Council has a corporate project management template on which all new projects and initiatives are recorded and managed. A log of major projects is produced on a monthly basis and reviewed at meetings of the Corporate Management Team.

Major projects that are identified in the Corporate Improvement Plan are managed using the project management methodology, with key targets being assigned to Chief Officers and strategic managers through the covalent performance management system and monitored through the staff appraisal process. This process assists in ensuring that a project management culture is embedded throughout the organisation and supports the achievement of the targets in the Corporate Improvement Plan.

# Key Drivers and the External Environment

The Council considers it essential to undertake medium-term budget planning and, fortunately, external influences have now moved in a direction that enables this to be undertaken with a greater degree of accuracy and reliability. The following issues contribute towards the development of medium term financial planning:

- Local Government Finance Regime – The revised Formula Spending Share methodology will improve the stability and predictability of the Council’s finances over the three years of the Government review period once the relative needs formulae have been determined with only data changes and national spending totals affecting external grant levels.
- 2007 Comprehensive Spending Review (CSR) – The Review gives a clear indication of public expenditure control totals over the next three years and there is now increased stability, which encourages detailed forward planning. The 2007 Spending Review is extremely tight with no room for growth and high expectations of efficiency savings.
- Lyons Review – The final outcomes of the Lyons Review were published in March 2007 and the Government responded to the recommendations confirming that they would set out a clear target to reduce specific grants and ring-fenced funding. In addition they confirmed that they would also examine the scope to minimise the complex and time consuming reporting and data provision by local authorities and that Council Tax will not be re-valued or the banding structure amended for the lifetime of the current parliament
- Prudential Code – The Local Government Act 2003 introduced sweeping changes to local authorities’ capital accounting arrangements. A new system, “*The Prudential Code for Capital Finance in Local Authorities*” (The Prudential Code) was introduced with effect from 1<sup>st</sup> April 2004. This sets out a framework of self-regulation of capital spending, in effect allowing Councils to invest in capital projects as long as they are affordable, prudent and sustainable. As a consequence of the impact of the Council’s approved prudential indicators on the Council Tax, these matters inevitably have to be considered over the medium term.
- Corporate Improvement Plan – The Council’s Corporate Improvement Plan and supporting Directorate and Group Plans set out objectives and priorities over the medium term and it is therefore logical and prudent to plan the financing of services in a similar manner.
- Single year budgeting and financial planning is largely commitment driven with unclear links between inputs, outputs and performance. Prioritisation of expenditure and investment is difficult and the overall approach is insufficiently robust.
- CIPFA – The Chartered Institute of Public Finance and Accountancy advocates the application of three year financial planning and has issued guidance documentation setting out recommended practice.
- Audit Commission – The Comprehensive Performance Assessment focuses on medium term financial planning as a key theme and all authorities are encouraged to take a longer-term view in managing their finances and planning service delivery.

- Efficiency Planning - It has been assumed for the purpose of this plan that efficiency planning is a permanent feature in line with government targets. Efficiency gains cannot be delivered through cutting services and have to be delivered through improved productivity, procurement processes or working practices that maintain services at reduced cost or improve services with no increase in cost.
- Procurement and Regional Centres of Excellence – The Government has invested significantly in setting up a number of bodies to assist councils in their efficiency generation and this Council takes a pro-active approach through its relationships and involvement in programmes initiated by the North West Centre of Excellence and the Achieving Cumbrian Excellence (ACE) project.
- Local Strategic Partnerships (LSP) – The Council shares a joint LSP with Copeland Borough Council which attracts a number of different funding streams aimed at securing better outcomes and “joined up working” for local communities. A majority of the funds are initially awarded to Cumbria County Council and “passported” for the authorities to administer through informal strategic alliance bodies such as the Crime and Disorder Reduction Partnership.
- Local Governance Arrangements – The Council operates within the context of a wider network of local governance arrangements and partners such as West Lakes Renaissance and Cumbria Vision help to set the framework within which Council policies are set.
- Additional Service Requirements – Additional demands are placed on local authorities on a regular basis and quite often additional finance is not provided. Recent examples of additional services include new licensing laws, the Freedom of Information Act, age discrimination provisions, the diversity agenda, anti-smoking legislation, traveller sites, recycling and refuse targets, equal pay legislation, additional homelessness provisions and additional concessionary travel for the elderly. The demands for additional services may result from the raising of community expectations.
- Additional Disclosure Requirements – Further demands include those arising from additional work such as the collection of additional performance data, changes in financial disclosures, Whole of Government Accounts, group accounts, international accounting standards, the higher profile of corporate governance and risk management and additional external audit requirements as a result of new international auditing requirements.
- Demographic Changes – Demands for services may increase or decrease over the medium and longer terms as a result of demographic changes such as client numbers, profile and longevity.

# The Internal Drivers

Allerdale Borough Council's internal environment is subject to change and the launch of the Corporate Improvement Plan followed by Fit for Purpose reviews of staff and structures have had a significant impact on the internal environment. Other notable areas include;

- Supporting our communities – the Council's increasing strong and focused support for community involvement and initiatives such as the Allerdale and Copeland Local Strategic Partnership (LSP) increases the direct and indirect support to partners and other organisations thereby placing demands on the Council's financial and staffing resources. The Council also contributes to the wider community and the delivery of a sustainable economy for West Cumbria through support of a range of activities and bodies.
- Continuing to support major regeneration projects – major long-term regeneration projects such as Derwent Forest, West Allerdale Regeneration Projects, Destination Maryport, Workington Town Centre Development, Housing Improvement Areas, the Stadium, Port of Workington and rural re-generation initiatives require significant financial and staffing support. The Medium Term Financial Strategy is a key method of ensuring that the Council can support the initiatives over the medium and long term.
- Improving the level of service and customer satisfaction – the Council continues to provide high quality levels of service in traditional and statutory functions such as refuse collection, street sweeping, planning, council tax benefits and environmental health.
- Staffing costs – a contingency provision has been made for potential costs arising from a major Job Evaluation review. The Council often faces significant shortages in the employment market for certain skills and this factor, together with the Council's remote location creates a requirement for market supplements to attract and retain suitable staff. It is anticipated that there will be real term increases in staffing costs during the lifetime of this Plan unless action is taken to fully align service provision to the Corporate Improvement Plan, or to secure efficiencies through business process re-engineering, smarter procurement, and technological improvements to reduce transaction times and costs.
- Pensions costs – although the funded local government pension scheme covering Allerdale's staff is in a healthy position, compared to many other schemes, it is under-funded due to increasing demands on the scheme and the Council's annual employer's contribution is increasing to cover its share of the shortfall.
- Investment in delivery – the Council has made a major commitment to improve front-line service delivery and has invested significant sums on its improvement objectives including:
  - Establishment of a robust IT infrastructure and associated systems in order to improve back office support to front-line staff.
  - Establishment of customer contact centres to improve front office contact with customers.
  - Establishment of a revised staffing structure to support excellent service delivery.

# The Financial Control Environment

Financial management within the Council takes place within a very robust control environment that is fully outlined in the statutory Statement of Internal Control that is included with the annual Statement of Accounts. The key elements of the control environment are outlined below.

## The Constitution and Financial Standing Orders

All Council business is conducted in accordance with the policies and procedures set out in the Council's constitution which sets out how the Council operates, how decisions are made and the procedures that are followed. All financial transactions must be carried out in accordance with the Council's Financial Standing Orders that form part of the constitution.

## Financial Regulations

In order to conduct its business efficiently the Council needs to ensure that it has sound financial management policies and procedures in place and this is done through its Financial Regulations and Financial Regulations Procedures that provide clarity about the financial accountabilities of individuals and the procedures that have to be followed.

## Council Committees

The Council's financial affairs are operated through member committees which have delegated powers; however decisions that can not be delegated are taken at meetings of Full Council.

- **Executive Committee**

Each year, the Council agrees a policy framework and budget and it is the responsibility of the Executive to implement the framework under the political direction and guidance of the Executive Leader. It is the Leader who takes Executive decisions although other councillors on the Executive may also take decisions according to their specified delegated powers.

- **Overview and Scrutiny Committees**

The Council has two overview and scrutiny committees which have the power to "call in" decisions that have been made by the Executive, but not yet implemented, in order to enable consideration to be given to whether such decisions are appropriate.

- **Audit Committee**

The Audit Committee has the delegated responsibility for providing independent assurance of the adequacy of the Council's risk management framework and the associated control environment; independent scrutiny of the authority's financial and non-financial procedures and performance, to the extent that it affects the authority's exposure to risk and weakens the control environment; and to oversee the financial reporting process.

## **Internal Audit**

The Council maintains an adequate and effective system of internal audit of the accounting records and the systems of internal control in line with the requirements of the Accounts and Audit (Amendment) (England) Regulations 2006.

Internal Audit evaluates the effectiveness of risk management, control and governance processes, based on an audit risk analysis that enables a schedule of priorities for audit examination to be developed. The risk analysis model is based around the premise that all risks are relative but that they can be compared by combining three factors in respect of the size of the risk exposure, the likelihood of the risk materialising and the probability of the consequences being detected if the risk materialises.

Internal Audit carries out audit reviews of systems and services, including the main financial systems, in line with the determined audit priorities. Areas subject to review include the adequacy and effectiveness of systems and controls and compliance with policies, procedures, legal requirements, regulations and codes of practice.

Quarterly reports on audit activity are presented to the Audit Committee.

## **External Audit**

An external audit service to the Council is provided by the Audit Commission who report on an annual basis to the Council on their findings in respect of the Statement of Accounts and the results of any additional inspection activity undertaken by them during the course of the financial year. The external auditors also report on the Council's progress against Comprehensive Performance Assessment priorities including the Use of Resources assessment.

## **Risk Management Strategy**

The Council's Risk Management Policy was implemented following an external review of processes. The Audit Committee has overall responsibility for ensuring that the Council's risk management framework is robust and provides an adequate level of assurance that strategic and operational risks which the authority faces have been identified and that, where appropriate, action has been identified to manage the risks.

## **Insurance Strategy**

The Council seeks to reduce the cost of its insurance risks by funding risk management initiatives in order to reduce the potential for loss. Insurance cover is maintained to safeguard the Council against significant losses of assets or the financial losses that could arise if the Council's ability to deliver key services was compromised.

In order to secure best value, there is a continuous review of the Council's total cost of risk, and the Council adjusts the level of deductibles and stop losses in order to minimise external insurance costs whilst maintaining an adequate insurance reserve from which such costs may be funded.

## **Budget Management and Monitoring**

Detailed guidance to officers on budget management and monitoring are set out in a Budget Management Handbook and Practitioners' Guide. This identifies the procedures

to be followed and the responsibilities and accountability of all those involved in the procedures, in order that there is a comprehensive, corporate approach to this important aspect of financial management.

The content and format of budget monitoring reports was adopted following an independent review by external consultants and provides emphasis on identifying reasons for variations, outturn predictions for the year and measures to be taken as corrective action.

Monthly high-level reports are provided to the Council's Corporate Management Team and a quarterly report is submitted to the Executive.

### **Statement of Accounts**

The statutory Statement of Accounts is produced annually following the completion of the final accounts for the year and, following audit, it is made available on the Council's intranet and internet sites to internal and external stakeholders.

### **10 Year Financial Forecast**

A 10 year financial forecast is prepared annually using a sophisticated model as a key control vehicle to identify the need for future action to support service delivery and the achievement of realistic, viable budgets.

The use of a model to forecast the future budgetary commitments enables potential changes in a number of variables to be plotted including funding, council tax levels, interest rates etc as well as predicted changes arising from future plans such as efficiency drivers and investment plans. It allows the impact of capital plans and their revenue implications to be captured in an understandable format and facilitates the calculation of remedial action where this is required.

Elements of the model are used to review the potential effects of unexpected risks and future developments, and to ensure the robustness and sensitivity of the calculations.

### **Purchase Order Processing**

The e-Government system will streamline the control processes and improve the security of transactions in respect of the raising of official purchase orders and the subsequent monitoring of the receipt and payment for goods or services.

The system has the potential to produce a significant reduction in transaction costs and the saving will count against efficiency targets.

### **Partners and Contractors**

In order to ensure that all service delivery systems are robust, there is a need to monitor the financial stability of external partner organisations from both the private and public sectors. This is undertaken through a system of monthly core group meetings at which financial and service performance is reviewed on an "open book" basis. Under the terms of the open book partnership agreement, the partnership accounts are reviewed on an annual basis by the Council's Internal Audit service.

# Working in Partnership

The Council's procedures for partnership working are set out in detailed internal guidance in the form of a "Partnership Working Framework" document for assessing and developing partnership working. The framework is intended to ensure that all partnerships in which the Council is involved are managed in a consistent, corporate manner irrespective of the nature of each partnership and that each partnership delivers value for money to the Council and its partner bodies.

In order that the Council can achieve the priorities in the Corporate Improvement Plan, it has to work in partnership with a number of bodies. The partnership working also helps to achieve better value for money in delivering certain services or in addressing certain issues through joined up working that meets user requirements and provides for a better use of resources.

The toolkit for partnerships prompts thinking about the overall health of a partnership and is designed to help in assessing both current partnerships (at least once a year) and future partnership working. Before any partnership is entered into a number of basic questions need to be asked such as "Why is the partnership necessary?" or "Why is a partnership the best way of meeting the Council's need?"

The Council requires each formal partnership to have an agreement in place to ensure that they are legally and financially sound and that all partners are clear about the objectives of the partnership. Partnerships are categorised as follows:

- **Separate Organisation**

This is a distinct organisation with a separate legal identity to that of individual partners.

- **Strategic Alliance**

The partnership plans, monitors and co-ordinates activities and takes strategic decisions on behalf of the partner organisations. It will usually have a budget and dedicated staffing and partners undertake joint activities, often to secure economies of scale or to maximise the partners' bargaining power.

- **Strategic Service Delivery**

This involves the delivery of services by one body on behalf of another or through joint working in order to secure better value for money or more efficient working.

- **Accountable Body Status**

The Council acts as the accountable body for European, regional or national funding, bears the financial risk of the project and is responsible for demonstrating the project's outputs/outcomes.

- **Network**

This arrangement brings organisations/individuals together to discuss shared issues but does not develop a policy or strategy.

# Key Financial Statements & Assumptions

## Supplementary Estimates

- No supplementary estimates that commit costs in future years will be approved during the planning period, without offsetting efficiencies being identified.

## Expenditure Growth

- Expenditure growth will be contained at a level such that the maximum annual increase in Council Tax required to fund the budget requirement with no use of reserves is limited to 5%.
- Given the severe financial pressures on the Council, growth can only be supported in priority areas or where the Council is compelled to fund new items as a consequence of statutory or legislative requirements that are not fully funded by the Government

## Statutory Concessionary Fares Scheme

- The increase in expenditure arising from the changes to the statutory concessionary fares scheme from April 2008 will be cost neutral to the Council in line with statements from the Department of Communities and Local Government.

## Formula Grant

- Total Formula Grant will increase in line with the figures included in the 2007 Comprehensive Spending Review and then at a rate of ½% per annum thereafter.
- Where grants are transferred into Formula Grant the level of service and funding provided will be reviewed and any additional burden on the Council Tax will be considered alongside other budget pressures.

## Council Tax

- The Council Tax base increases at a rate of 0.5% per annum and the collection rate is maintained at the estimated level for 2008/2009.
- The Council Tax strategy will be a maximum increase of 5% or less per annum providing the funding to move towards excellent service delivery whilst avoiding capping. This will be reviewed every year in the light of actual government funding and emerging service pressures, with a view to increasing Council Tax at least in line with inflation.

## Collection Fund

- The Collection Fund will run in balance on an ongoing basis, and if any surplus is generated it will not affect the underlying level of taxation.

## **General Fund Balance**

- The Council's General Fund balance will be maintained at a minimum level of £1.5 million and will under **no** circumstances be used to support recurring revenue expenditure or reductions in the level of Council Tax.

## **Earmarked Reserves**

- The use of earmarked reserves will not affect the level of underlying expenditure and will be focused on delivery of the Council's policy objectives in accordance with the Corporate Improvement Plan.
- Reserves will be held for specific anticipated liabilities. Directorates' reserves will be closely monitored to ensure that the levels held are not excessive.
- Where new specific liabilities are identified additional earmarked reserves may be created as appropriate.

## **Efficiency Gains**

- Annual efficiency gains of 3% will be identified to meet the Council's contribution to the national efficiency target and the annual efficiencies will all be cashable savings that can be recycled into front line services.

## **Annual Budget Submissions**

- Annual budget submissions by budget holders will be made using a zero –based budgeting approach linked to the previous year's budget. The build up of budget requirements will be based on service priorities to support the Corporate Improvement Plan with costs linked to outputs.

## **Growth in Services**

- Growth will be allocated in line with the priorities determined by the Council and will be considered in the light of additional statutory requirements, delivery of performance improvements and generation of future revenue savings (invest to save).

## **Capital Expenditure**

- Capital spending over the financial planning period will be based on prioritised business cases and a scoring mechanism that takes into account:
  - whether or not the proposal is in the Corporate Improvement Plan
  - its fit with Council objectives
  - the need/urgency
  - health and safety factors
  - economic impact (borough wide)
  - life quality impact(borough wide)
  - environmental sustainability (borough wide)
  - financial viability
  - risk

- leverage – match funding
  - additionality – tangible benefits
  - value for money
  - overall impression – environmental issues
- Increases in interest charges and running costs and running costs arising from new capital projects will be limited to a level which is affordable within the Council's projected income for the foreseeable future.

### **Capital Funding**

- The Council will control the level of new external borrowing required to finance capital expenditure by maximising grants and contributions received and ensuring that surplus assets are sold at the most opportune point in time.
- The level of external borrowing will be maintained within the Prudential Indicators that are set each year as part of the Prudential Code. Prudential borrowing will only be undertaken where a business case, which has been subjected to an appropriate due diligence process, identifies that it can be afforded either through the generation of revenue savings or the creation of new income streams.

### **Income Generation**

- Chief Officers will be required to identify the opportunities for the generation of additional income as part of the annual budget planning and medium term planning processes.

### **External Funding**

- Forward projections of external funding reflect current knowledge of allocations.

### **Interest Rates**

- Interest rates on investments take account of forecast market conditions.

### **Investments**

- The Council's investment priorities are:
  - (a) the security of capital and
  - (b) the liquidity of its investments
- The Council will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

### **Risk Analysis**

Most of the assumptions in respect of future years carry an element of risk due to the number of factors that are outside of the Council's direct control. However it is considered that the pro-active approach to budgeting and forward planning, together with the Policy on Reserves and Balances, will provide flexibility to deal with risks that arise.

## Government Grant

The funding to be made available to Allerdale Borough Council for the three year period 2008/2009 to 2010/2011 through Formula Grant is determined by the 2007 Comprehensive Funding Review with proposals announced in December 2007 and confirmed in January 2008.

From 2006/2007, the Government introduced a completely new methodology, including a Relative Needs Formula, for calculating Formula Grant, (Revenue Support Grant plus Non-Domestic Rates), and a number of specific grants ceased which are now funded through Formula Grant.

Where grants that were previously specific grants are transferred into Formula Grant, the Council will review the funding provided and the level of service and any additional burden that is imposed on the Council Tax requirement will be considered alongside other budget pressures.

The Formula Grant figures include minimum increases in funding for the Council as follows:

- 2008/2009 1.5%
- 2009/2010 0.5%
- 2010/2011 0.5%

For the purposes of compiling the Medium Term Financial Plan over a five year period, a prudent assumption has been made that the percentage increases for 2011/2012 and 2012/2013 will be similar to that announced for 2010/2011 as follows:

- 2011/2012 0.5%
- 2012/2013 0.5%

With effect from April 2008, the statutory concessionary travel scheme will become a national scheme, rather than operating within authority boundaries. The government has included £212 million in the Revenue Support Grant element of the overall Formula Grant total to finance the scheme that is intended to be cost neutral to taxpayers. There is every indication that there will be losers and gainers in the formula distribution of this sum and the impact on authorities could be very significant. The government is providing financial support for the national scheme through a special, non-earmarked grant. Allerdale's grant funding for 2008/09 to 2010/11 will be as follows:

- 2008/09 £512,000
- 2009/10 £527,000
- 2010/11 £543,000

After this, the government proposes to transfer the special grant to formula grant. It has been assumed that this then increases in line with formula grant. Government resource distribution is increasingly being linked to Local Area Agreements with an element of Revenue Support Grant funding through the LAA route. In this respect Allerdale's share of the allocation will go to the County Council and it is therefore necessary to ensure that our budget proposals address the requirements of the LAA sufficiently in order to qualify for resources and to ensure that the Council does not lose out.

In addition to Formula Grant, further categories of grant are available to local authorities such as “targeted” grants or specific grants and these are allocated according to separate mechanisms.

There are also grants and contributions that may be available through government agencies. These often have financial implications such as the need to provide match funding and short timescales in terms of duration of the spending.

## **Sensitivity Analysis**

The effect of a 1% variation in Formula Grant would be £105,000. This means that if the Council did not receive an increase after 2010/11, future forecasts would require a reduction of £52,500 in Formula Grant funding.

## **Risk Analysis**

Government funding or additional resource assumptions may not be achieved, in which case certain revenue investments to improve service delivery may have to be held back until the resources are confirmed. The grant forecasts for the first three years of the forecast are based on the details provided by the Government in the 2007 Comprehensive Spending Review.

The Government funding projections over the later years covered by this strategy may be affected by a tougher CSR settlement in 2010 or by a possible change of Government with different views on the funding of local authorities including changes to the resource allocation methodology.

## Interest Rates

The level of interest rates is a key feature of the Council's revenue and capital position. As a net investor of funds, (i.e. we invest more every year than we borrow), the Council benefits from higher interest rates in that interest payments support the revenue budget. However, a small variation in the interest rate, either an increase or a reduction, can have a significant impact on the annual budget.

Use of the Council's General Fund Balances influences the position because the amount available for investment falls as the general fund balance is applied to support the revenue budget, and income from interest reduces accordingly.

Provision will be made for interest payments and receipts based on a prudent view of projected money market rates, taking into account the specialist, professional advice from the Council's treasury advisors.

For the purpose of this Medium Term Financial Plan and Capital Strategy, the following interest rates have been assumed:

- |                                     |       |
|-------------------------------------|-------|
| • Average investment rate 2008/2009 | 5.25% |
| • Average investment rate 2009/2010 | 4.75% |
| • Average investment rate 2010/2011 | 5%    |
| • Average investment rate 2011/2012 | 5%    |
| • Average investment rate 2012/2013 | 5%    |

## Sensitivity Analysis

Each ¼% movement in interest rates over the course of the year will have the following effect:

Investment income	£50,000
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If it were felt there was a significant risk of a sharp rise in long and short term interest rates arising from increased economic activity or increases in inflation, the portfolio position on investments would be reappraised, with a view to holding shorter term investments and looking into longer term rates when it was judged that they had reached their peak.

If it were felt that there was a significant risk of a sharp fall in long and short term rates due to economic growth rates weakening, the aim would be to lock into long term rates to maximise interest returns.

As a net investor with no variable borrowing rates employed, no direct action on borrowed funds would be required, although the possibility of debt rescheduling would be kept under review.

## **Risk Analysis**

Interest rates may become more volatile if there is economic uncertainty, however as a net investor of funds, the Council would benefit from higher interest rates. The converse argument applies if interest rates are reduced.

Interest rates may be lower than anticipated. The Council takes advice from specialist advisors in respect of its treasury management operations and their professional expertise is used to forecast future interest rates. In the event of lower interest rates, it may be prudent to reschedule and refinance debt and review investment balances.

# Our Policy on Council Tax

Formula Grant is fixed by the Government and, therefore, increases in service spending requirements impact on the level of Council Tax that must be levied. This is a major area of tension in every budget setting exercise as the increase in Council Tax has to be balanced against the quality and level of service delivery. This is a particularly difficult tension in the context of public affordability (e.g. those persons on fixed incomes) when a significant percentage of the Council's services are statutory with escalating costs driven by increasing client needs and numbers.

The Council Tax is the main source of income available to the Council over which there is direct control. However, there is a limit to the degree to which the tax burden can be increased without meeting either public resistance or the threat of capping. Two key factors influence the actual level of income generated by the Council Tax:

- The tax base (the number of Band D equivalent properties that can be taxed)
- The buoyancy of collection as measured by the Collection Fund surplus or deficit.

The Secretary of State has reserve powers known as "capping" to limit what is considered to be excessive proposed Council Tax increases. Whilst there is no definition of what an excessive increase is, and the position is assessed each year, practice in recent years indicates that a maximum permissible increase of 5% per annum should be assumed. For 2008/09, the Minister for Local Government has stated that the government expects the average Council Tax increase in England to be substantially below 5% in 2008/09.

The Council's average Band D Council Tax in 2007/2008 is £131.06 compared with an average for the other Borough Councils in Cumbria of £168.76. The table below lists those by authority:

	£
Allerdale Borough Council	131.06
Barrow Borough Council	189.40
Carlisle City Council	177.02
Copeland Borough Council	161.54
Eden District Council	153.91
South Lakeland District Council	161.94

The Council is looking to maintain stability in its Council Tax increases through a relatively even spread of increases during the period covered by this Medium Term Financial Strategy.

The Council Tax policy will be for a maximum increase of 5% per annum from 2008/2009, recognising the pressures of inflation, avoiding government capping, and providing the funding to develop services to deliver the Corporate Improvement Plan and to achieve excellence. This policy will have to be reviewed every year in the light of government funding and spending pressures.

The Council maintains a separate collection fund into which its Council Tax receipts must be paid. The Council's share of any surplus on the Collection Fund at the end of

the financial year must be used to reduce the Council tax and any deficit must be met by the Council. For the purposes of the five year financial projections it has been assumed that the Collection Fund will be in balance and there will be no impact on the Council Tax estimates.

## **Sensitivity Analysis**

Each 0.25% reduction against the estimated 0.5% increase in the Council tax base represents a reduction of £10,700 in Council Tax income.

Each 1% increase in the Council's part of the Council Tax raises in the order of £42,000. The level of inflation to September 2007 (RPI) is 3.9%. Each variation of 1% below this figure therefore represents an equivalent reduction in Council Tax yield value of £42,000.

## **Risk Analysis**

Council Tax base assumptions that assume an annual growth of 0.5% in the tax base may not materialise, however, prudent forecasting together with an annual review and update of this Strategy will mitigate the possible reduction in Council Tax income.

Local or national political pressure may be applied in respect of the Council Tax level. National pressure will be avoided if the Council Tax increase is prudent (currently considered to be less than 5% annual increase). Consultation with stakeholders on budgets, objectives and priorities takes place annually in order to mitigate any pressure on the Council.

# Our Policy on General Fund Reserves

The Council's General Fund Reserve represents the build-up of balances through revenue underspending or additional income over a number of years and it needs to be of a sufficient level to provide financial stability that enables any unforeseen fluctuations in spending to be met and provide enough flexibility to enable Members to respond to strategic, operational and financial risks and issues as they arise. The General Fund Reserve provides the Council's contingency to meet unforeseen spending requirements and provides stability in medium term financial planning. (e.g. by using balances in future years to contain growth).

The Council's approach to General Fund Reserves is set out in the Policy on Reserves and Balances which follows best practice and includes a risk based approach to identifying and reviewing financial risks and their impact on the authority to ensure that the working balance is at a level to adequately cover those financial risks. In recent years the Council has used a 10 year financial model to assist in the forecasting and planning of the estimated future level of the General Fund Reserve.

The Council's annual budget strategy requires service managers to carefully review their services and identify those that do not support the Corporate Improvement Plan in order to ensure that a balanced budget can be produced without the necessity to support ongoing expenditure through contributions from balances. Any use of balances should only be on time-limited schemes and not on those of an ongoing nature that the budget cannot sustain in the medium to longer term.

The "opportunity cost" of holding the reserve is equivalent to the loss of the benefit that could be obtained from its use. The opportunity cost has to be balanced against other factors such as the loss of income from interest and a reduction in risk protection.

A minimum level of General Fund Reserves of £1.5 million is considered to be prudent and sound financial management and should continue to be the minimum target, in recognition of current and ongoing service provision.

The level and adequacy of reserves is reviewed on a regular basis in the light of the risks facing the Council and the Council's policy objectives in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) bulletin LAAP 55. The review is effectively done bi-annually, when the budget is set, and when the outturn position is reported.

## Sensitivity Analysis

Each 1% increase in the Council's General Fund Reserves against the minimum level would require a specific budget provision of £15,000 and this sum becomes unavailable for service expenditure during the year. Each 1% reduction in the Council's General Fund Reserves represents the additional sum that is available for service development.

## Risk Analysis

The Council takes a risk based approach to determine the appropriate level of reserves and balances in accordance with its Policy on Reserves and Balances. An annual risk

analysis is undertaken of the main assumptions that underpin the annual budget and this Medium Term Financial Strategy and also of the Council's financial standing and management. This approach follows that recommended by CIPFA in LAAP Bulletin 55 – Guidance Note on Local Authority Reserves and Balances.

The Council's policy ensures that a reasonable and prudent General Fund Reserve is held and takes account of the risk of balancing the budget through the inappropriate use of the reserve.

# Our Policy on Reserves and Contingencies

Several different types of reserves are held in the Council's balance sheet. Some, such as the Fixed Asset Restatement Account which records the change in asset values on revaluation, are effectively no more than accounting entries whilst others represent real provisions and cash that the Council can use to support expenditure in the future.

The reserves, known as earmarked reserves, represent monies set aside from revenue and capital budgets for items that are planned for the future to support corporate development, or to cover forecast risk areas such as potential insurance liabilities. Where the earmarked reserves are to fund future plans and projects, the relevant managers are required to provide an indication of the timeframe and completion dates.

The Council's policy in respect of earmarked reserves is set out in the Policy on Reserves and Balances and includes the following assumptions:

- Reserves are only used to support investment in new initiatives or in areas that will save money or generate more income in the future
- Reserves are not used to support ongoing revenue spending.

During the course of a financial year savings or additional income are re-cycled whenever possible to support new projects that support the Corporate Improvement Plan but for which there was no funding available in the budget.

## Sensitivity Analysis

Each 1% increase in the Council's earmarked reserves requires a specific budget provision of £25,000 and this sum becomes unavailable for service expenditure during the year. Each 1% reduction in the Council's Earmarked Reserves represents the additional sum that is available for service expenditure.

## Risk Analysis

The Council takes a risk based approach to determine the appropriate level of reserves and balances and an annual risk analysis is undertaken of the main assumptions that underpin the annual budget and this Medium Term Financial Strategy and also of the Council's financial standing and management. This approach follows that recommended by CIPFA in LAAP Bulletin 55 – Guidance Note on Local Authority Reserves and Balances.

# Our Policy on Value for Money

Value for Money describes a service or product that demonstrates a good balance between its cost, quality and usefulness to the customer. The Council's policy on value for money is set out in a separate strategy document and takes into account the economy, efficiency and effectiveness (known as the "three e's") of the authority's services, functions and activities, as well as the concept of equality. Improving value for money is fundamental to improving services.

It is important that proposals considered as part of the Council's financial planning process seek to support the aim to improve value for money, given the national focus on efficiency planning and performance improvement.

The Council has a good track record of reviewing and improving services and delivery mechanisms to achieve value for money and in recent years the reviews and subsequent actions have also been targeted to develop services in line with the Corporate Improvement Plan.

Achieving value for money is seen as being a key driver in ensuring that resources are released for the provision of front-line services. The Council's strategy in respect of value for money includes the following objectives:

- Resources are targeted towards meeting the Council's priorities.
- Resources are targeted towards providing services that meet the needs of local people through the most economic, efficient and effective means.
- Services and functions are benchmarked against other similar activities and organisations in the public, private and voluntary sectors in terms of cost and quality.
- A culture of continuous improvement is promoted and it is ensured that all members of staff recognise the need to seek value for money for the council as part of their daily activities.
- Engagement with citizens, the community, customer service users, partners and other key stakeholders so that they are consulted and play an active role in securing value for money for the services delivered by the council.

The strategy summarises:

- How we will deliver value for money
- How we will measure value for money
- Where responsibilities for value for money lie.

Where savings are identified, these are incorporated into the Council's annual budget and medium and longer term planning. They are also assessed to identify those cashable efficiencies that can be counted against the Council's efficiency target of 3% annual efficiency gains. The criteria for identifying valid efficiency gains are as follows:

- Non-cashable efficiencies – overall performance is maintained or improved and a benefit for front-line services is identified.
- Cashable efficiencies – performance is maintained or improved and the saving is re-directed to front-line service delivery improvements.

This Medium Term Financial Strategy includes the assumption that there will be an ongoing requirement for each local authority to deliver annual cashable efficiency gains of 3%, for each year covered by this strategy. It is also assumed that non-cashable efficiency gains will be identified and formally recorded where there is a performance improvement.

The Council's new Performance Management procedures and system have allowed the approach to value for money to be developed.

## **Sensitivity Analysis**

Each additional 0.25% cashable efficiencies that are achieved in excess of the efficiency target represents further savings of £40,000 that can be redeployed to support the Council's objectives and priorities.

## **Risk Analysis**

There is a risk that the efficiency target may not be achieved. Regular monitoring of the budget will enable any under-achievement to be identified at an early stage and corrective action taken, including the implementation of alternative efficiency measures as required.

Different priorities and risks for central and local government in delivering efficiencies may not be recognised, however local government representatives are involved in management of the efficiency agenda. Regional Improvement and Efficiency Partnerships will provide facilities to ensure that development of policy recognises different viewpoints.

Elected members, senior managers and their staff may not be engaged by the efficiency agenda but training and awareness initiatives relate efficiency to improvements in the quality of service delivery.

The Council may not have the resources to identify the opportunities for efficiencies and implementation of the efficiency measures. Work with stakeholders helps to spread good practice and case studies exist of achievements elsewhere.

# Our inflation Assumptions

## Prices Inflation

The Council faces unavoidable inflationary pressures that may not directly relate to the retail price index headline figures.

General inflation over the five year period covered by the Medium Term Financial Strategy is assumed to be approximately 3% per annum. However, in accordance with previous practice, no general inflationary increase has been built into the annual financial projections.

This means that, provided that service delivery and performance does not reduce, the inflation uplift that will be foregone will count as cashable efficiency gains against the Council's efficiency targets.

In the event that any individual inflation increases on budgets such as insurances and utilities costs are deemed to be significant and cannot be avoided, they are treated as growth pressures and considered for extra funding in the light of competing pressures and the resources available.

## Pay Awards and Pensions Costs

The date of implementation for pay awards is 1<sup>st</sup> April and agreement has not yet been made on the level of increase applicable for 2008/2009, the base year in this Medium Term Financial Strategy. Although members of the government have referred to increases of no more than 2% for that year, this appears over-ambitious in the light of prevailing monetary conditions and economic position.

For the purposes of our forecasts a prudent figure of 2½% per annum has been assumed for the pay award increase as follows:

- 2008/2009 2½%
- 2009/2010 2½%
- 2010/2011 2½%
- 2011/2012 2½%
- 2012/2013 2½%

The level of contributions which member authorities are required to make to the county pension fund are reviewed on a three year basis by the pension fund's actuary. Many local government pension funds, including Allerdale's have been considered to be under-funded. The current rate for the employer's contribution rate is 17.3%. Pending receipt of the actuary's advice, provision has been made in the Medium Term Financial Strategy for staged annual increases, resulting in contribution rates of:

- 2008/2009 18.3%
- 2009/2010 19.3%
- 2010/2011 20.3%
- 2011/2012 21.3%
- 2012/2013 22.3%

## **Sensitivity Analysis**

If the pay award were to vary from the assumed increase, each 1% variation would represent a change in the salaries budget of £90,000.

## **Risk Analysis**

Negotiations on the 2008/2009 staff pay award will not be completed when the budget for 2008/2009 is initially set. Whilst the Government has announced its expectations that public sector pay awards should be around 2%, a figure of 2½% has been assumed. Any award in excess of this level would have to be considered by the Council in line with available resources.

It is not yet clear how the Government's proposals to change the local government pension scheme will impact on the employer's contribution rate and the assumptions made in the financial forecast.

## **Our Spending Pressures**

In addition to general prices inflation and pay awards, there are considerable annual growth pressures in respect of statutory services provided by the Council for which there are unavoidable increased demands arising from increasing client numbers and increasing client needs and expectations. At the same time there will be growth pressures in respect of proposed development and improvement of services in order to support the objectives and priorities set out in the Corporate Improvement Plan.

The spending pressures include unavoidable increases such as annual increases in the employers' superannuation contribution to address the deficit on the pension fund.

The spending pressures are those identified at this point in time. Further spending pressures will inevitably be identified during the annual budget processes for each of the years in question and this provides a clear background for the need to identify annual cashable efficiencies in service and financial planning.

Spending pressures can also arise if there are reductions in any external grants or contributions from the Government, Government bodies or other organisations. If such grants are reduced or ceased the Council would have to consider either ceasing the activity and expenditure or funding the ongoing activity from its own resources.

Spending pressures identified for 2008/2009 are as follows:

### **Pay Awards and Pensions Costs**

The applicable date for pay settlements is 1 April and agreement was only reached in November 2007 on the 2007/2008 increase. Although the then Chancellor indicated that public sector pay rises should be limited to 2% in the current year in 2007/2008 the actual increase was 2.475%. In the light of this, current monetary conditions and previous experience, for the purposes of the strategy an annual increase of 2½% for 2008/2009 and subsequent years has been assumed.

The level of contributions which member authorities are required to make to the county pension fund are reviewed on a three yearly basis by the pension fund actuary. The Council's pension fund, like many pension funds, has been considered under-funded. The current rate is 17.3%, and annual increases from 2008/2009 of 1% per annum have been assumed in this strategy pending receipt of the actuary's advice.

### **Job Evaluation**

The Council's Equal Pay Review is currently taking place and is planned to be completed by March 2008. At this stage, the financial impact cannot be estimated with accuracy, including the impact of backdated pay. In addition, agreement will need to be reached on matters such as the salary protection period. In 2007/2008 a provision of 4% of current salary costs was made in budget to cover the financial impact, based on the advice of the Head of Human Resources, guided by the experience of other councils. A similar provision has been assumed for 2008/9, subject to further developments in this area.

## **Interest Rates**

A key feature of the Council's ongoing revenue position continues to be the level of interest rates. The Council is a net investor of funds, and as such, benefits from higher interest rates, in that interest payments support the revenue budget. Interest rates are higher at this time than they were a year ago, with bank base rate standing at 5.75% in the fourth quarter of 2007, compared to 4.75% a year ago.

When General Fund Balances are applied, the amount available for investment falls, reducing the level of income available from this source. The budget is also affected in the year by changes in interest rates from that anticipated and a small variation in interest rates can have a significant impact either way.

Interest rate assumptions in this strategy are based on a prudent view of projected money market rates, taking into account information provided by the Council's treasury advisers.

## **E-Government and Customer Services Strategy**

Continued investment is planned in these areas in line with the Corporate Improvement Programme but is restricted by available resources in 2008/09. These areas have required considerable investment in order to meet the Government's proposals for e-Government together with the Council's e-Strategy and Customer Services Strategy.

It is important that the Council ensures that developments such as these identify efficiencies which are at least equal to the additional costs of the developments, and ideally bring savings to the council's ongoing budgets for future years.

## **Major Projects, Government Initiatives and Other Developments**

The Council continues to be involved in a number of major developments across the borough, such as Destination Maryport, Wigton Market Hall and the Cloflocks. In addition, the government regularly develops new initiatives, often measured through returns managed by the Audit Commission. Such schemes, because they require significant input above that regularly budgeted, quite often require one-off or temporary resources, either through consultancy work or through back-filling of posts. The Council will need to take account of these issues in setting the annual revenue budget.

## **Staffing and the Labour Market**

This Council, in common with many other authorities throughout the country and in particular in Cumbria, continues to have difficulty recruiting to professional and specialist posts. Competition for qualified staff is keen, and this leads to increased costs both in terms of significant recruitment costs and also in salaries, as the Council is forced to add local market supplements in order to recruit and retain staff in some departments. In addition, with a strong labour market for certain professions, we are currently seeing a high level of turnover in some areas. This means that the Council has to recruit more often, thus driving costs up even further.

## **The Corporate Improvement Plan**

The Council is currently working on the refreshment of the 2007 Corporate Improvement Plan, further refining and prioritising the work necessary to achieve the Council's vision of making Allerdale a great place to live, work and visit. In drawing up the budget, the Council needs to ensure that it can identify resources sufficient to achieve its aims.

## **Concessionary Travel**

The extended statutory scheme will come into force from April 2008. The scheme will cover registered services during off peak hours, (services such as National Express being excluded). The Department for Transport has been considering radical changes to reimbursement arrangements, however, it has been decided not to implement these from April 2008. There is growing concern among district councils as to the financial burden which will be suffered from the extended scheme. Since the impact of the new scheme cannot be pre-determined, it will be extremely difficult to estimate the additional cost of the new scheme. The basis of the scheme is that it is the authority in which the journey takes place which has to meet the cost of the concession, irrespective of the residency of the user. Such a policy is likely to have a significant cost impact for authorities such as Allerdale with a large tourist input.

## **Sensitivity Analysis**

Each 1% growth in the budget requirement as a result of unavoidable increased demands represents budget growth of £160,000 or an equivalent cash reduction in other areas within the revenue budget.

## **Risk Analysis**

Legislative changes may occur that were not anticipated, however the impact on the Council would depend on whether or not additional funding is provided by the Government.

Forecasts of future spending requirements to meet priorities may be under-estimated but the effect will be mitigated when the Strategy is reviewed and updated annually.

The costs of Job Evaluation may exceed expectations, however consideration would be given to use of the General Fund Reserve or efficiency savings to finance the excess cost, for one off and ongoing costs, respectively.

External grants or contributions may reduce or cease. The Council's approach is to ensure that initiatives are only supported if the support of third parties is confirmed and the funding is secured before a commitment is entered into. Effective budget management and project management enables any changes to external funding to be identified at an early stage.

No spending pressure has been assumed in respect of the new national concessionary travel scheme as the Government has announced that there will be no additional cost on local authorities. To this end, it has been assumed that the budgetary impact of the new scheme matches that of the specific grant for concessionary travel announced in the 2007 settlement. However, there is a risk that the expenditure may exceed the grant. The situation will be closely monitored and savings re-allocated if the pressure arises.

# Our Capital Strategy

The Council's capital spending and capital financing proposals over the medium term are set out in a Capital Strategy, which forms part of the Capital Strategy and Asset Management Plan.

The purpose of the Capital Strategy is to set out a vision that has been developed to assist the Council to achieve its objectives and priorities that are defined in the Corporate Improvement Plan. The key driver for the Capital Strategy is the Council's desire to achieve excellence in its service delivery.

The Council's use of capital expenditure is designed to improve and enhance the permanent facilities that are used by the Community or are used by the Council to deliver services to the Community. This involves improving or enhancing existing assets and replacing those that are no longer fit for purpose.

At all times, the Council's capital assets have to support the delivery of objectives and priorities under the Council's Corporate Improvement Plan and a significant element of the evaluation of each submission for a proposed capital scheme is the assessment of the scheme's contribution towards the CIP objectives and priorities.

The size of the annual capital programme is influenced by the availability of external funding sources and the extent of financing costs charged to revenue in respect of borrowing together with consequential revenue running costs.

The capital strategy establishes how the Council will generate its capital resources and how these will be deployed to deliver the objectives and priorities set out in the Corporate Improvement Plan.

The capital strategy covers the following areas:

- the corporate drivers
- allocation and prioritisation of resources
- capital management, monitoring and reporting
- consultation with stakeholders
- partnerships and joint working arrangements
- risk management
- performance management
- disposal and acquisition of property assets
- capital expenditure proposals
- capital financing proposals.

## Borrowing and the Prudential Code

The basic principle of the Prudential Code is that local authorities are free to invest in capital expenditure so long as their capital spending and financing plans are affordable, prudent and sustainable. The Council has the ability to borrow in excess of the amount that is "supported" by the Government provided that the borrowing is affordable, prudent and sustainable over the medium and longer terms.

Each year, the Council estimates how much it needs to borrow over a three year period and then sets an Authorised Borrowing Limit for those years that allows for any temporary borrowing resulting from timing differences in receipt of income.

The level of borrowing is maintained within the Prudential Indicators that we set each year as part of the Prudential Code. The potential sources of borrowing will be kept under review, so that the average rate of interest paid can be minimised and progressively reduced year to year if possible. This will include seeking out the most advantageous borrowing mechanisms.

The policy in respect of the use of prudential borrowing is to look at each individual proposal through a detailed business case and any use of prudential borrowing requires the revenue consequences to be met from a saving within the existing revenue budget resources.

## **Sensitivity Analysis**

Each £1.0 million of prudential borrowing that is undertaken by the Council will result in additional capital financing costs in the order of £100,000 (subject to any variations against the assumed interest rate for capital borrowing, where appropriate).

## **Risk Analysis**

The Council's overall capital projections are prudent. Risks will be identified for each project as part of the project appraisal mechanism and will include uncertainty and delays in respect of disposals in order to generate capital receipts, volatility of borrowing rates, project over-runs or cost increases or slippage.

There is an expectation of a large capital receipt arising from the disposal of a land asset. There are risks in respect of the timing and proceeds and any failure to deliver the proceeds may result in a reduction in the size of the capital programme with service risks that may ensue.

# Financial Implications

The financial statements and assumptions that are set out in this strategy have been input into a 10 year financial model and the results are shown in the table below.

	2008/09	2009/10	2010/11	2011/12	2012/13
	£000	£000	£000	£000	£000
BUDGET BASELINE FIGURE	15,967	16,787	17,707	18,491	19,267
PAY AWARDS	231	238	245	252	260
PRICES INFLATION	154	340	350	361	372
SERVICES PRESSURES	320				
GROWTH - RECURRING	882	300	300	300	300
GROWTH - NON RECURRING	225	100	100	100	100
ADDITIONAL/NEW SERVICES	512	524	539	542	544
PENSIONS CONTRIBUTION INCREASE	78	78	78	78	78
CAPITAL ACCOUNTING	(25)				
INVESTMENT INCOME CHANGES	(100)	60			
INCREASED INCOME	(636)	(280)	(378)	(397)	(417)
CASHABLE EFFICIENCIES	(595)	(340)	(350)	(361)	(372)
<b>SUB-TOTAL</b>	<b>17,012</b>	<b>17,807</b>	<b>18,591</b>	<b>19,367</b>	<b>20,131</b>
PARISH PRECEPTS	1,040	1,077	1,114	1,153	1,194
<b>ESTIMATED REQUIREMENT</b>	<b>18,052</b>	<b>18,884</b>	<b>19,706</b>	<b>20,520</b>	<b>21,325</b>
GOVERNMENT GRANT	(1,286)				
NATIONAL NON-DOMESTIC RATES	(9,241)	(10,580)	(10,633)	(10,686)	(10,740)
OTHER GRANTS	(512)	(524)	(539)	(542)	(544)
COLLECTION FUND SURPLUS	(18)	0	0	0	0
USE OF EARMARKED RESERVES	(1,537)				
USE OF GENERAL FUND BALANCE	(88)				
COUNCIL TAX	(5,370)	(5,586)	(5,810)	(6,044)	(6,287)
<b>ESTIMATED FINANCING</b>	<b>(18,052)</b>	<b>(16,690)</b>	<b>(16,982)</b>	<b>(17,272)</b>	<b>(17,571)</b>
<b>SHORTFALL</b>		<b>(2,194)</b>	<b>(2,723)</b>	<b>(3,248)</b>	<b>(3,754)</b>
<b>2 YEAR BASE BUDGET REALIGNMENT</b>					
<b>UTILISATION OF GF BALANCES</b>		960	960	0	0
<b>MINIMUM SAVINGS REQUIRED</b>		1,234	1,763	3,248	3,754
<b>POSITION OF GENERAL FUND BALANCES</b>					
OPENING BALANCE	3,508	3,420	2,460	1,500	1,500
UTILISED IN YEAR	(88)	(960)	(960)	0	0
<b>CLOSING BALANCE</b>	<b>3,420</b>	<b>2,460</b>	<b>1,500</b>	<b>1,500</b>	<b>1,500</b>

## **Risk Analysis**

There is a risk that the expenditure and income budgets and forecasts may prove to be unrealistic. Regular monitoring of revenue and capital budgets will provide an early warning of any potential issues and meetings with budget holders will include a review of forecasts in order to identify savings that can be re-allocated to meet pressures elsewhere or to fund new initiatives or overspending. Any forecast overspends are dealt with through the virement process or through action plans including corrective action in order to redress the position promptly and to avoid any consequential effects.

There is also a risk that the budget proposals and forecasts do not meet either the Local Area Agreement criteria or public expectations. Effective detailed knowledge and professional management of the budget and the link between financial forecasts and the Corporate Improvement Plan will help control such risk. The planning process includes consultation with the community on objectives, priorities and spending proposals.

Any number of external economic influences could potentially impact on the Medium Term Financial Strategy. Specialist advisors in respect of treasury management activities provide advice based on detailed knowledge of markets and forward trends and the impact on the economy and the Council's financial forecasts.

There is always a risk that a significant unforeseen circumstance may arise that has a financial consequence that cannot be funded from the budget or from earmarked reserves. Savings identified through monthly budget monitoring would be allocated by the Corporate Management Team and consideration would be given to use of the General Fund Reserve if necessary.

## Conclusion and Summary

The Government's agenda for local government provides a clear focus on service improvement in delivery and outcomes and this agenda is reinforced through the Comprehensive Performance Assessment.

The Medium Term Financial Strategy sets out the link in financial planning terms between the Council's objectives and priorities as set out in the Corporate Improvement Plan and clarifies the way in which resources will be allocated to meet those objectives and priorities.

A five year view has been taken of the Council's financial position, taking into account the resources available and the spending pressures upon the Council in both a local and national context. It stresses, in particular, the importance of value for money of the Council's services and improved performance and efficiency in order to re-direct scarce funding into priority areas.

In revenue terms, the national picture, reflected in the Comprehensive Spending Review, includes lower settlements than in many recent years and an increased focus on value for money and efficiency that feeds into the grant funding with an assumption that cashable efficiency gains will be made. This must be viewed in conjunction with the very difficult position where significant and increasing spending pressures are not being matched with an equivalent increase in funding. The Council must therefore find revenue savings and ensure that growth is directed at the very highest priorities, offset by savings in non-priority areas.

In respect of capital there are a number of significant pressures on the Council and the Council's focus must be on the generation of capital receipts from disposal of surplus assets and additional external sources of capital funding.

The Medium Term Financial Strategy therefore sets out that the Council must focus on those areas that are its priorities, seek to maximise its efficiency and value for money and robustly seek to maximise the opportunities to bring in new resources whilst working to contain resource pressures as far as possible.

In developing the Medium Term Financial Strategy, there are a number of uncertainties and significant areas of risk and therefore risk assessments have been made of the main assumptions.

This Strategy will be monitored, reviewed and updated annually, producing a rolling five year forecast that remains current.