



Medium-term Financial Strategy

2008/12

Introduction

1. This strategy sets out the framework within which future decisions on resource allocation and budgeting will be taken. It describes how the Council will structure and manage its finances to ensure that it fits with and supports the achievement of the Council's objectives.
2. This strategy reflects the approach adopted in a number of other strategies and policies adopted by the Council, which should be read in conjunction with this document. These include the Asset Management Strategy, the Capital Strategy and the Treasury Management Policy. In addition the Corporate Charging Policy and the Policy on the Level of Reserves & Balances are of fundamental importance and are included as appendices to this document.
3. The medium-term financial planning process has been in place for a number of years and is now an established part of the budget setting process. It provides a forecast of the cost of continuing to provide existing levels of service and the resources that are likely to be available to the Council over the period. It identifies any shortfalls and sets out how this will be managed.

Government Grant

4. The Government's Comprehensive Spending Review of 2007 sets out the framework for central Government grant support for local government. The Government subsequently decided the levels of Revenue Support Grant that would be payable for the financial year 2008/09 and the subsequent two years. As a result, it is already established that grant will rise by 0.5% per annum in each of the first two years of the strategy.
5. The figure for the final year of the strategy, 2011/12, has still to be determined. Given the current state of the economy, and the pressures on Government spending, it is considered unlikely that there will be a more favourable grant settlement in the future so a continuation of current trends has been assumed.

Council Tax

6. The Council recognises the impact that Council Tax has on local residents and will always take their ability to pay into consideration when setting Council Tax levels. The forward financial projections assume an increase of 5% and this is the maximum increase that will be imposed.
7. Decisions on future Council Tax rises will be taken in the light of guidance and capping criteria issued by central Government. As part of the process of finalising each year's budget, the scope for restricting any increase to nearer the current rate of inflation will be explored.

8. The yield from Council Tax could increase if there is significant new residential development in the borough over the period of the strategy and the Council Tax base increases as a result. The strategy makes no allowance at present for such an increase.

External Borrowing

9. The Council's external borrowing for capital purposes is currently just under £24M. This imposes a significant burden on the revenue budget in terms of annual payments of principal and interest. The Council will manage its borrowing requirement to ensure that the level of external borrowing does not increase above this level.

10. The Council will follow the CIPFA Prudential Code in assessing future borrowing requirements. Capital schemes will only be financed from borrowing to the extent that the business case demonstrates a pay-back period (either in terms of costs savings or increased income) of less than five years.

11. The Council recognises its responsibilities in relation to climate change and is committed to delivering the Council's Sustainability Action Plan. To facilitate this work, borrowing will be used if the pay-back period does not exceed ten years.

Reserves and Balances

12. The Council will maintain earmarked reserves that are set aside for specific purposes and General Revenue Balances as a cover against unbudgeted expenditure or income shortfalls.

13. The minimum level of General Revenue Balances is set at £1.1M. The Director of Resources will review this figure annually to ensure that this is an adequate safeguard against the liabilities and risks to which the Council is exposed.

14. An annual review of earmarked reserves will be carried out in October of each year to ensure that adequate provision exists to meet future liabilities and commitments. Any resources that are released by savings on the approved budget will be transferred into an earmarked reserve to meet future one-off or cyclical costs.

Spending Plans

15. Assumptions about Revenue Support Grant and Council Tax have been combined to produce an affordable budget. The budget projections model developed by the Head of Finance highlights the financial difficulties that the Council faces. There is a predicted shortfall of resources of £500k in 2009/10, which rises to £1,060k by 2011/12.

16. The Council will set clear spending parameters within which each service unit will be expected to operate. In meeting any savings target all service units will be expected to achieve efficiency savings at a prescribed level that will contribute towards the overall efficiencies that are achieved by the Council.

17. The Council is committed to achieving value for money in all aspects of its operations. To achieve this, reviews will be carried out in areas where benchmarking has revealed that spending is higher than the average for similar Councils.

18. The Council will not use General Revenue Balances to support ongoing revenue expenditure. If budget monitoring reveals that balances are set to fall below the minimum level the budget for the following year will include provision that will ensure that the shortfall is recovered over two financial years.. If, in any financial year, the Statement of Accounts show that balances have fallen below the minimum figure set out above, a recovery plan will be put in place to ensure that this is corrected by the end of the following financial year.

19. Any proposals for revenue growth must be backed up by a clear business case that demonstrates how it will help to deliver the Council's objectives. Identical criteria will be used to determine the relative priority of all capital projects and revenue growth bids.

20. Clearer links will continue to be developed between Strategic Object Delivery Plans, Service Plans and Budgets. The What Are Not Our Priorities approach will be developed and refined to ensure that resources are increasingly targeted towards achieving the Council's Strategic objectives.

21. The Council will operate a Corporate Charging Policy that recognises the unit cost of each service provided and the impact on overall policy and service objectives. It will use this information to inform the tariffs that are set to ensure that any subsidy provided by local taxpayers is identified and justified.

22. The Council recognises that there will be instances when the need to reduce the workforce can best be achieved by approving voluntary early retirements. In these cases a cost benefit analysis will be prepared that measures the initial cost of redundancy and pensions strain against the annual revenue saving. These will not be approved if the costs are not recovered within a five-year period.

Risk Assessment

23. The following are considered to be high impact risks

- Concessionary Fares. This is a demand-led budget where the Council is largely unable to influence spending. The changes to the scheme in April 2008 made the scheme considerably more attractive and time alone will tell whether the Council has made adequate provision. The risk will be mitigated by regular monitoring, reviewing local discretions and lobbying for adequate levels of Government support..
- Pensions Costs. Following the latest triennial revaluation of the Lancashire Pensions Fund, the rate of employer contribution for Burnley remains unaltered at 20%. However, the Fund remains in deficit, and the future for its investments is uncertain in the current economic climate. There is therefore a risk that the employers rate of contribution will need to increase significantly at the next valuation. To mitigate this risk, regular reviews will be carried out of the Fund's position and, if appropriate, an earmarked reserve established to ease the impact of potential future increases.

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- External Funding. A considerable proportion of the Council's revenue spending is supported by external funding to deliver specific projects. If this funding were to be withdrawn, then a proportion of the costs would fall to be met from mainstream resources or the service would be terminated.

24. The following are considered to be medium impact risks

- Payroll inflation. The strategy allows for pay awards at 2.5% per annum. There will be pressure for higher settlements if inflation continues above this level.
- Income from fees & charges. Demand for Council services has declined in recent years and income has fallen correspondingly. A major review was carried out in 2007 and the income estimate re-based accordingly. However, the trend may continue in some areas, particularly if the downturn in the national economy continues.
- Energy Costs. The Council currently spends in excess of £0.5M on this item and the strategy allows for the figure to increase above the rate of inflation. However, current trends in the market indicate that very substantial increases may occur during the next three years.

25. The following are considered to be low impact risks

- Interest rates. The Council has planned on the basis that they will average 5.5% during the period of the strategy. The Council's direct exposure to fluctuations in this rate is low as the Council's long-term borrowing has been undertaken at fixed rates. However, variations in interest rate inevitably reflect current economic conditions which could have an indirect impact on the Council's finances.
- Non-payroll inflation. The strategy only allows for budget increases in specific areas eg, NNDR, insurances and the Refuse Collection contract. Inflation is currently above the recent historic average of 3% but the indications are that the Bank of England will not allow this situation to continue indefinitely
- Revenue Support Grant. This is considered to be low impact as the figure has already been set for the first two years of the strategy. The assumption for the final year has mirrored the trends in the current settlement and is therefore a prudent position.

Budget Monitoring

26. The Council will carry out four rounds of budget monitoring during each financial year. If this reveals instances where budgets are being, or are projected to be, overspent the Head of Service concerned must prepare a recovery plan to correct the position. This must not extend beyond the end of the following financial year.

27. The results of monitoring will be reported on each occasion to the Finance & Performance Scrutiny Panel and the Executive. Approval of any adjustments to the Capital or Revenue Budgets will then be sought from full Council.

Review

28. This strategy will be reviewed annually at the start of the budget preparation process.

Corporate Charging Policy

1. The policy applies to all those fees and charges that the Council has the discretion to set. Services where charges are decided externally will be set in line with the relevant national legal framework.
2. The full cost of delivering services will be identified to make clear the level of subsidy the council is providing
3. All current and proposed charges will be subject to review. This review will be undertaken in line with the procedure set out in a flow chart and associated guidance maintained by the Head of Finance.
4. An effective and efficient collection system will be operated. The methods for paying charges will be made clear. The procedures for recovering fees will be governed by the corporate Debt Recovery Policy.
5. Reasonable notice should be given to service users before any change is implemented. Reasonable notice is defined as one calendar month.
6. The effects that any new charge has on service usage and income must be closely monitored over the first 12 months by the head of service.
7. All discretionary fees and charges will be set in line with the approved charging policy for that service and should fall into one of the following categories:

Commercial charges

The council aims to cover the cost of providing the service and makes a surplus

Full cost recovery

The council aims to recover the full cost of providing this service from those who use it.

Subsidised

The council wishes users of the service to make a contribution to the costs of providing it.

Free

The council chooses to make the service available at no charge to meet a service objective.

Statutory

Charges are determined in line with legal requirements.

8. Exemptions and concessionary charges should be implemented in line with the Councils agreed procedures.

9. Fees and charges will be regularly reviewed within the Council's financial planning process, and variations outside of this will need separate approval. Increases In fees and charges will each year be generally in line with the rate of inflation assumed within the budget process, subject to the consideration of the specific issues in relation to each service. Increases above this rate, and all decreases, will need specific approval.

10. Wherever possible, charges will be collected either in advance or at the point of service delivery. Where charges are to be collected after service delivery has started, invoices will be raised within 5 working days, and as necessary appropriate recovery procedures followed.

11. More detailed guidance on the procedures to be followed in order to comply with this policy is available from the Head of Finance.

Policy on the Level of Reserves and Balances

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Reserves and Balances

1. Legislative/Regulatory Framework

- 1.1 The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
- 1.2 There is also a requirement reinforced by section 114 of the Local Government Finance Act 1988 which requires the chief financial officer to report to all the authority's councillors if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year.
- 1.3 A key element contained within the Comprehensive Performance Assessment 'Use of Resources' criteria is 'Financial Standing'; the authority must be able to demonstrate that "The Council monitors and maintains its level of reserves and balances within the range determined by its agreed policy".

2. Role of the Chief Financial Officer

- 2.1 Within the existing statutory and regulatory framework, it is the responsibility of the Chief Financial Officer (in Burnley's case this is the Director of Resources) to advise local authorities about the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use.
- 2.2 There are no statutory minimum levels imposed and it is not considered appropriate or practical for the Chartered Institute of Public Finance and Accountancy (CIPFA), or other external agencies, to give prescriptive guidance on the minimum, or maximum, level of reserves required either as an absolute amount or a percentage of the budget.

3. Purpose of Reserves and Balances

- 3.1 Reserves and balances can be held for three main purposes:
 - A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of what is commonly referred to as 'general balances';
 - A contingency to cushion the impact of unexpected events or emergencies – this also forms part of 'general balances';A means of building up funds, commonly referred to as earmarked reserves, to meet known or predicted liabilities.

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- 3.2 For each earmarked reserve held by a local authority there should be a clear protocol setting out:
- The reason for/purpose of the reserve;
 - How and when the reserve can be used;
 - Procedures for the reserve's management and control; and
 - A process and timescale for review of the reserve to ensure continuing relevance and adequacy.

4. Principles to Assess Adequacy

- 4.1 Setting the level of reserves and balances is just one of several related decisions in the formulation of the medium term financial strategy and the budget for a particular year. Account should be taken of the key financial assumptions underpinning the budget alongside a consideration of the authority's financial management arrangements. In addition to the cash flow requirements of the authority the following factors should be considered:

Budget Assumptions

- The treatment of inflation and interest rates
- Estimates of the level and timing of capital receipts
- The treatment of demand led pressures
- The treatment of planned efficiency savings/gains
- The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments
- The availability of other funds to deal with major contingencies and the adequacy of provisions

Financial Standing and Management

- The overall financial standing of the authority (level of borrowing, debt outstanding, council tax collection rates, etc.)
 - The authority's track record in budget and financial management including the robustness of the medium term financial plans
 - The authority's capacity to manage in-year budget pressures
 - The strength of the financial information and reporting arrangements
 - The authority's virement and end of year procedures in relation to budget under/over spends at authority and departmental level
 - The adequacy of the authority's insurance arrangements to cover major unforeseen risks.
- 4.2 The minimum level of general reserves which is considered appropriate for the Council is reviewed annually as part of the budget process. In September 2006, as part of the review of the Council's medium-term financial strategy, the minimum level was increased to £1.1 million from the previous level of £900k.
- 4.3 A review of the level of earmarked reserves is also undertaken as part of the annual budget preparation and as part of the closure of accounts process. The Council does not regularly monitor the opportunity costs of maintaining its levels of earmarked reserves as these are generally not held as a form of investment but to meet a recognised need.

5. Reporting Framework

- 5.1 The level and utilisation of reserves will be determined formally by the Council, informed by the advice and judgement of the Director of Resources.
- 5.2 The Council's annual budget report in February includes a statement showing the estimated opening general fund balances for the year ahead, the addition to/withdrawal from balances, and the estimated end of year balance. A statement is also included commenting on the adequacy of general balances and provisions in respect of the forthcoming financial year and the authority's medium term financial strategy.
- 5.3 Similarly, a statement is also included, as part of the budget report, identifying earmarked reserves, the opening balances for the year, planned additions/withdrawals and the estimated closing balance.

6. Reserves Protocol

Reserve as at 31.03.08	Purpose	How and When Used	Procedures for management and control	Timescale for review
Modernisation	To assist the Council in achieving its strategic objectives by financing initiatives aimed at modernising the range of services available.	Used to mitigate the impact on the Council's revenue account of the costs associated with redundancy and early retirement of staff. It also helps to fund the implementation of major new initiatives e.g. Contact Burnley.	Managed by the Director of Resources (Chief Financial Officer).	Undertaken as part of the annual budget preparation, the updating of the Medium Term Financial Strategy and as part of the closure of accounts process.
Capital Projects	To assist the Council in achieving its strategic objectives by financing capital expenditure associated with longer-term initiatives	Used to support spending within the capital programme and to assist in funding the revenue costs of programme management which cannot be capitalised.	Managed by the Director of Resources (Chief Financial Officer).	Undertaken as part of the annual budget preparation, the updating of the Medium Term Financial Plan and as part of the closure of accounts process.
Building Control	Fundamental principle of the Building Regulations Scheme introduced 1 April 1999.	3 Year accounting period over which costs should equate with charge income.	Managed by the Director of Resources (Chief Financial Officer) in consultation with Head of Planning and Environment.	Undertaken as part of the annual budget preparation, the updating of the Medium Term Financial Plan and as part of the closure of accounts process.
Local Housing Allowance	To assist in the implementation of the new system of paying Housing Benefits to private sector tenants	Used to meet non-recurring set-up costs	Managed by the Head of Revenues & Benefits in consultation with the Director of Resources (Chief Financial Officer).	Annually and subject to individual reports on proposals for usage

Reserve as at 31.03.08	Purpose	How and When Used	Procedures for management and control	Timescale for review
Contingency Reserve	To assist the Council in achieving its strategic objectives by financing known one-off contingencies	Specific issues currently identified as possible uses of this reserve include the potential costs associated with planning appeals and any shortfall which could be incurred through a reduction in housing benefit subsidy.	Managed by the Director of Resources (Chief Financial Officer).	Undertaken as part of the annual budget preparation, the updating of the Medium Term Financial Plan and as part of the closure of accounts process.
Market Investment and Maintenance	To supplement spending on the investment programme for the improvement of Markets within the Borough.	There is a phased improvement programme for the Markets service within the capital programme. The Head of Markets can transfer Markets surpluses (compared with budget) to this reserve and use the reserve to fund smaller items of spending	Managed by the Head of Markets in consultation with the Director of Resources (Chief Financial Officer).	Undertaken as part of the annual budget preparation, the updating of the Medium Term Financial Plan and as part of the closure of accounts process.
Planning Development	Improvements in planning performance.	Funded by Planning Development Grant and used to improve performance in planning services via additional staffing resources and new IT facilities.	Managed by the Head of Planning and Environment Services in consultation with the Director of Resources (CFO)	Annually and subject to individual reports on proposals for usage.
Highways & Parkwise	To manage variations in financial performance arising from the enforcement of on-street and off-street car parking	Used to meet deficits on activities that are not the Council's statutory functions.	Managed by the Director of Resources (Chief Financial Officer).	Annually as part of the final accounts process.
LABGI	To manage the withdrawal of funding from the Local Authority Business Growth Incentive Scheme	Achieve a phased withdrawal of funding over a three-year period.	Managed by the Director of Resources (Chief Financial Officer).	Annually as part of the budget setting process.