

CABINET

27 July, 2004

FINANCIAL STRATEGY 2005/06 TO 2009/10

REPORT OF THE DIRECTOR OF FINANCE

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RECENT REFERENCES:

CAB778: Budget and Council Tax 2004/05, 11 February, 2004

EXECUTIVE SUMMARY:

The purpose of this report is to give early consideration to the Council's financial strategy to be adopted for the 2005/06 budget process. The strategy shows no great departure from that adopted in recent years.

Revenue projections show a significant funding shortfall, in line with previous projections, after allowing for an annual increase of 3% in income (general and Council Tax). The shortfall for next year is forecast at around £1m. This year the Council is undertaking a comprehensive spending review in advance of the budget process in order to aid Members in their decision-making on the budget.

Other than pay increases and inflation written into major third party contracts, it is proposed that no provision for general inflation should be included in the 2005/06 budget. This is the third year that this approach will have been adopted.

Given the Council's cautious approach to the budget it is suggested that a deficit of £0.5m is acceptable. Thus net savings of £0.5m, after allowing for any growth, should be found.

RECOMMENDATIONS:

1. That the following key principles be applied to the General Fund and Housing Revenue Account revenue budgets:
 - a) A balanced revenue budget (within a margin of £0.5m)
 - b) Inflation allowance for salaries and third party contracts only
 - c) Prudent approach to income estimates
 - d) A net overall underspend at year end
 - e) A presumption in favour of revenue over capital income
2. That Cabinet considers the results of the comprehensive performance assessment in the context of the Corporate Strategy and gives guidance to the Performance Improvement Committees for their budget deliberations in the October/November cycle.

CABINET27 July, 2004FINANCIAL STRATEGY 2005/06 TO 2009/10REPORT OF THE DIRECTOR OF FINANCEDETAIL:1 Purpose

- 1.1 The purpose of this report is to give early consideration to the Council's financial strategy to be adopted for the 2005/06 budget process so that it is conducted in a structured manner and in a way in which overall policy objectives as outlined in the Corporate Strategy are achieved. The report and projections provide a framework for the Corporate Strategy that will be considered by Cabinet at its meeting on 13th October.

2 Key Stages

- 2.1 As in previous years these will be:

What	By Whom	When
Early consideration of financial background	Cabinet	27 July
Corporate Strategy and budget proposals	Cabinet	13 October
Detailed consideration of budgets	Performance Improvement Committees	October/November cycle
Summary of GF revenue budgets	Cabinet	15 December
Summary of HRA revenue budget	Cabinet	15 December
Council Tax report	Cabinet	8 February
	Council	24 February*
* subject to date of County Council precept meeting		

The External Context

- 3.1 The budget for next year, and the Strategy's forward projections, will be influenced significantly by various external factors that cannot be quantified or assessed fully at this stage. These include:
- a) The level of Revenue Support Grant (RSG), the review of Government funding for local councils and the possibility of business rate income being retained by councils
 - b) The amount of Planning Grant
 - c) E-government targets (termed *Priority Outcomes*)
 - d) The amount of IEG grant
 - e) The level of external investment interest rates
 - f) The deficit on the Superannuation Fund
 - g) Financing of the new licensing system after transfer of Liquor licensing from the Licensing Justices – fees will be set nationally.

4 Internal Context

- 4.1 Similarly the budget will be influenced by factors and aspirations within the Council's control. Items not budgeted for at this stage include:
- a) New office accommodation
 - b) Broadway/Friarsgate proposals
 - c) Any need for investment in building fabric
 - d) Work to the Guildhall additional to the Bapsy proposals
 - e) Continuation or expansion of the recycling pilot
 - f) Any new corporate priorities

5 Key Principles

- 5.1 The key principles to be followed are as follows:
- a) A balanced revenue budget (within a margin of £0.5m)
 - b) Inflation allowance for salaries and third party contracts only
 - c) Prudent approach to income estimates
 - d) A net overall underspend at year end
 - e) A presumption in favour of revenue over capital income

6 Policy Driven Approach

- 6.1 Strategic planning, monitoring and review are an intrinsic part of financial planning. The framework for the financial plan should be the Corporate Strategy and resource allocation should flow from this. Whilst this is relatively easy to achieve in order to fund new or expanded initiatives, it is always difficult to review services in order to reduce or stop them thus releasing resources. This year the Council is undertaking a comprehensive spending review in advance of the budget process in order to aid Members in their decision-making on the budget.
- 6.2 The Council continues to be very constrained in its ability to generate additional income from Council Tax – the prime source of additional finance for services. As well as the possibility of capping, regard must be had to the ability and desire of the Council Taxpayers to finance services in this manner. In addition, the amount of revenue raised is limited – a £1 pa (1%) increase raises about £45,000.
- 6.3 Some alternative sources of income are possible. The Council has received significant Planning Grant money for two years and some capital funding towards its E-government programme. The continuation of such grants, and the amounts, are uncertain.

7 Future Projections

- 7.1 The Council has maintained its working balance at £2m and is in a sound financial position, albeit there are considerable pressures on both revenue and capital budgets. An agreed programme of specific projects is in place and a forward programme, with an outline of capital projects until 2009/10, gives an indication of further aspirations.
- 7.2 At this stage the projections take no account of changes to corporate priorities. They do take account of the full year effect of commitments entered into previously and also for the expected additional costs in respect of refuse collection and recycling associated with the increase in properties that is anticipated within the District. Some, but not all, of these additional costs will be funded from a concomitant increase in the Tax Base. The continuation or expansion of the recycling pilot is not included whilst the longer-term savings expected from the Customer Contact Centre are included in the projections.
- 7.3 The projections provide an indication of the resources that might be available to the Council to achieve its aims but an element of flexibility is possible within these figures. But key to this is the ability of Members to make choices about priorities, levels of spend and the level of Council Tax. The comprehensive spending review could enable the Council to consider options for future service levels to align with the likely available funding.
- 7.4 At present, revenue projections show a significant funding shortfall, not out of line with previous projections, after allowing for an annual increase of 3% in income (general and Council Tax) and 2% in Government grant.

- 7.5 Before allowing for any new growth, the projected shortfall for next year is forecast at about £1m. This would have to be made good from reserves if no other action is taken. However, Members are reminded that:
- There have been significant, unbudgeted calls on reserves recently
 - Reserves provide a source of income (through investment) that supports the revenue budget
 - The Council's capital aspirations are dependent upon finance being available from reserves
- 7.6 It is considered that the revenue budget will need to be brought into line with the revenue income available, within a margin of £0.5m.
- 7.7 An allowance for pay increases of 3% has been assumed in the projections for next year: a 1% change alters expenditure by £90,000 pa. General inflation on third party contracts has been assumed at 2% for next year: a 1% change alters net expenditure by £50,000 pa.
- 7.8 Other than pay increases and inflation written into major third party contracts, it is proposed that no provision for general inflation should be included in the 2005/06 budget. This is the third year that this approach will have been adopted.
- 7.9 A difficult part of the projections to determine is the effect of interest rates on the Council's investments. 5.0% has been included from 2005/06 and the latest information from the Council's brokers is that this projection is still reasonable. Balances are estimated to be around £25m at the end of the year: a 0.25% change of rate changes income by about £60,000 pa.
- 8 Actual Expenditure 2003/04
- 8.1 The provisional outturn for 2003/04 is reported elsewhere on the agenda (CAB882). Net GF expenditure on services was about £0.6m below that assumed at revised budget time, with requests to carry forward £248,000. Investment interest was about £0.2m better than anticipated.
- 8.2 Small overspends have occurred in Health, Building Control and Planning budgets, with underspends in the other budgets.
- 8.3 Requests for carry forward amount to £248,000, with £128,000 of the sum being for commitments where work has not been completed or a liability already exists. The system for carry forward allows Directors the same flexibility between years that they have through the year. Care needs to be exercised in considering the overall position to ensure that the total sums expended are reasonable and that the system is not diverting resources into areas that are of lesser strategic priority.
- 9 Capital Programme
- 9.1 For capital, the projections assume that no new schemes will be identified for the early years of the programme.
- 9.2 In particular, there is nothing in the projections for the effect of possible new office accommodation. There will be capital expenditure for the building works offset by

capital receipts through site disposal. The amounts and timing of the cash flow are not yet known.

OTHER CONSIDERATIONS:

10 CORPORATE STRATEGY (RELEVANCE TO):

10.1 The financial strategy is key to the achievement of the Council's Corporate Strategy.

11 RESOURCE IMPLICATIONS:

11.1 As outlined in the paper.

BACKGROUND DOCUMENTS:

Working papers held within the Finance Department.

APPENDICES:

Appendix A: General Fund Projections 2004/05 to 2009/10

Appendix B: Capital Programme Projections