



Winchester
City Council

Financial Strategy

July 2006

Winchester City Council Financial Strategy

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Financial Strategy 2006

1 Introduction

- 1.1 The Financial Strategy is but one element of the Council's planning process and as such it overlaps with other planning processes and needs to be integrated with the rest of the Council's policy making and planning activities.
- 1.2 The Financial Strategy is both a document and a process that is complemented by the financial management arrangements of the Council. The Financial Procedure Rules and other relevant parts of the Council's constitution are integral to the development of the Financial Strategy.
- 1.3 The overall objective for this Financial Strategy is to determine how the Council wants to structure and manage its finances for a rolling five year forward period and to ensure this fits with and supports the objectives of the Council. This Strategy provides a framework with an overall direction and relevant parameters. It has been developed through two principal stages of activity.
- 1.4 The first and core stage is the basic budget strategy in which the Council has set a balanced budget for the current financial year, responding to year on year changes and supporting business continuity. This addresses the short term delivery issues and is focussed around ensuring fundamental stewardship requirements are met.
- 1.5 The second and more evolutionary stage is determining how the budget strategy can be enhanced to support and enable transformation in the way that services are provided and funded so that they meet their policy and service priorities. This stage focuses on the medium to long term issues.
- 1.6 In setting the boundaries for the financial strategy a number of areas need to be addressed
- Setting the baseline financial position over the five year planning horizon
 - Identifying what resources may be available and how these may be used
 - Establishing Key Budget Principles
 - Developing options to support service change and improvement
 - Determining how performance is to be managed and measured
 - Managing risk

2 Establishing the Baseline

- 2.1 The first task in the financial strategy process is to establish a baseline. The baseline for this strategy must of necessity start from the current operational budgets and draw in the

known changes since these budgets were set. The capital and revenue budgets for 2006/07 were approved by Council on 23 February 2006. Since then there have been a few minor changes arising from approved supplementary estimates and virements.

- 2.2 The main drivers determining the expenditure and income levels in the base budgets for the Council are statutory requirements, service demands, quality of service provided, legislative changes, inflation, resources and funding sources.
- 2.3 When the budget was approved in February 2006 the baseline projection showed a budget in 2006/07 balanced by a small contribution of £62,000 from reserves. That projection also showed a small surplus in future years. A number of measures had been adopted in 2006/07 to make budget savings and balance the budget.
- 2.4 Since then the Council has completed its second forward looking Annual Efficiency Statement (AES) for 2006/07 as required under Gershon and has submitted the backward looking AES for 2005/06.
- 2.5 The assumptions used in these projections are that the level of Council Tax set by the Council will continue to increase in line with inflation (assumed at 3%), Government grant will also be increased (but at 2%, a rate lower than expected inflation) and there will be a regular and constant increase in the number of households in the district served by the Council (with consequential increases in both expenditure and income).
- 2.6 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 even though they will affect the baseline in due course. These include:
 - 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
 - The Business Growth Incentive scheme
 - The amount of Planning Delivery Grant
 - The level of external investment interest rates
 - The deficit on the Superannuation Fund
 - Growth pressures and changes to national priorities that must be met
- 2.7 Similarly the baseline budget will also be influenced by factors and aspirations within the Council's control, such as changes to corporate priorities. Capital schemes that may have an impact on the revenue budget in the future include:

- New office accommodation
- Silverhill development proposals
- Any need for further investment in building fabric
- Work to the Guildhall additional to the Bapsy proposals

3 Identifying Financial Resources

- 3.1 Approximately 27% of gross income arises from Council Tax. The Council continues to be very constrained in its ability to generate additional income from Council Tax which is the prime source of additional finance for services. Capping regulations prevent the Council increasing the Tax above the Government's advised level. 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 £46,000.
- 3.2 About 40% of gross income is derived from Government grants and subsidies, with three quarters coming from output related activities (benefits) and a large element of the balance coming from Revenue Support Grant (RSG) and National Non Domestic Rates (NNDR).
- 3.3 The Government review of local authority funding (the Lyons Review) is due to report later in 2006 and this may have an effect on the Government grant payable to the Council if the basis changes. At this stage it is not possible to predict what the changes might be but they are unlikely to be significantly favourable towards the Council.
- 3.4 Some 20% of the Council's gross income is derived from fees, charges and rents that are within its control (although there are statutory restrictions on some of these charges). An annual review of all charges is carried out and this considers both statutory restrictions and the impact on users of the services charged for.
- 3.5 Some alternative sources of income are possible. The Council has received significant Planning Delivery Grant money for four years and some capital funding towards its E-government programme. It has also received funding from other initiatives such as the Safer Communities Fund. However, the availability or continuation of such grants, and the amounts, are uncertain.
- 3.6 Whilst it is comparatively easy to consider new or expanded initiatives and the resources needed to deliver these, it is often more difficult to review existing services in order to reduce or stop them and release resources.
- 3.7 The Council has undertaken a review in accordance with the Government's Gershon initiative to find efficiency savings in line with the targets set by the Government. These savings had been identified in the 2006/07 budget and are built into the baseline budgets. A programme of work is in hand to ensure that these are achieved.

- 3.8 The Council currently has some £13m in usable revenue reserves. A number of these are earmarked for specific purposes and cannot be used for alternative purposes, but approximately half is in the General Fund (GF) and Major Investment (MIR) reserves and therefore available for more general use. However, base revenue budgets must be in line with the revenue income available.
- 3.9 Before allowing for any new growth or savings, and assuming that the efficiency savings will be achieved, the budget for next year is in forecast to be in balance. Acceding to pressures for growth without concomitant savings would put the budget into deficit which would have to be made good from reserves. However funding continuing growth from reserves is not recommended as :
- There have been significant calls on reserves recently
 - Reserves provide a source of income (through investment) that supports the revenue budget
 - Reserves are finite and do not provide for recurring expenditure
 - The Council's capital aspirations are dependent upon finance being available from reserves
- 3.10 Other than pay increases and inflation written into major third party contracts no provision for general inflation was included in the 2006/07 budget. This is the fourth year that this approach had been adopted and this has now become the norm in the drive for continuing efficiency savings. A difficult part of the projections to determine is the effect of interest rates on the Council's investments. 4.5% has been included from 2006/07 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 and a 0.25% change of rate changes income by about £60,000 pa.

4 **Key Budget Principles**

- 4.1 A fundamental principle to be applied to the Strategy is that Members should seek to attain a balanced revenue budget. Accordingly, the following principles will be applied to the budget:
- The revenue budget for the forthcoming year will be balanced
 - Reserves will not be used to fund annual, recurring expenditure
 - Savings proposals will be sufficient to fund Growth proposals and to eliminate any projected deficit
 - Growth proposals will not create a revenue deficit in future financial years without equivalent forward savings also being identified
 - Inflation will be applied only to budgets for staff and external contracts

5 Developing Options to Support Service Change and Improvement

- 5.1 The Financial Strategy is being developed in line with the policy agenda that is designed to take into account the corporate priorities and targets of the Council. It complements both the Corporate and Community Strategies and the underlying service strategies and seeks to match corporate priorities with resources.
- 5.2 There are clear pressures on the Council to deliver more, better and higher levels of service than at present. These pressures arise variously from Government direction, technological change or local aspiration. Some of these pressures will be accompanied by additional funding and some by a need to change methods, emphasis and even direction.
- 5.3 The various options to deliver, improve and transform services will be accompanied by pressures to resource these options adequately. In some cases there will be a clear choice between competing pressures: in others it will be more of a balancing act.
- 5.4 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.
- 5.5 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. The key to this is the ability of Members to make choices about priorities, levels of spend and the level of Council Tax. An integrated approach to spending and service reviews, identifying priorities and pressures for growth, should enable the Council to consider options for future service levels to align with the likely available funding.

6 Managing and Measuring Financial Performance

- 6.1 Regular budget monitoring of all service areas has been a feature of the Council's processes for more than a decade. In recent years this monitoring has become much more systematic and, with the advent of effective scrutiny arrangements within the system, this is now a major force in managing and measuring performance, covering all aspects of performance, not just financial.
- 6.2 Monthly financial monitoring by budget holders is a very important aspect of managing expenditure within tight budgets. Regular monitoring allows any necessary corrective action to be taken if performance starts to drift.
- 6.3 Portfolio holders are now responsible for regularly reporting of performance to Scrutiny Panels and are held to account for their budgets and performance against them.
- 6.4 Quarterly overview budget monitoring reports on both revenue and capital budgets are presented to Cabinet and Principal Scrutiny Committee.

6.5 Annual outturn reports showing financial performance against budgets are presented after the end of the financial year to Cabinet, Principal Scrutiny Committee and Scrutiny Panels. These reports show variances and the reasons for them.

7 **Managing Risk**

7.1 In managing risk it is important that risks are recognised and dealt with appropriately. The first step in this was setting up a risk register and developing this as a management tool.

7.2 The second step was embedding risk management as a discipline within the normal working arrangements of the Council.

7.3 There are various types and level of risk that have to be considered in the Financial Strategy. The most obvious is that the resources available are insufficient to meet service needs of the Authority. This must be addressed by either securing additional resources or reducing the level or quantum of services provided. This aspect is identified as one of the Council's strategic risks.

8 **Links to Other Strategies**

8.1 The Council's Financial Strategy is driven by the Community Strategy and the Corporate Strategy, and the Council's priorities are reflected in the Performance Plan and Directorate Business Plans. Other strategies and policies linked to this Financial Strategy include:

- Asset Management Plan
- Best Value Performance Plan
- Business Plans
- Capital Strategy
- Treasury Management Strategy

9 **Conclusion**

9.1 The Financial Strategy has been developed to support the Community and Corporate Strategies and to provide a more effective integration between service and financial planning. It will continue to evolve as the process of identifying priorities becomes more refined. It recognises that there are constraints to achieving all the aspirations that Members and citizens have for their District, but sets out a framework for decisions on priorities to be made in the knowledge of the Council's ability to finance them.