

CABINET

17 July, 2007

PRINCIPAL SCRUTINY COMMITTEE

23 July, 2007

FINANCIAL STRATEGY 2008/09 TO 2012/13

REPORT OF HEAD OF FINANCE

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RECENT REFERENCES:

CAB1418: Budget and Council Tax 2007/08, 13 February 2007

CAB1416: Corporate Strategy 2007/12 – Final Draft, 13 February 2007

EXECUTIVE SUMMARY:

The purpose of this report is to give early consideration to the Council's Financial Strategy to be adopted for the 2008/09 budget process and beyond. The Strategy sets out to establish the principles to be applied in setting the baseline, and looks at how options can be developed to support service change and improvement

RECOMMENDATIONS:

1. That Cabinet approves the Financial Strategy 2007, including the key principles to be applied to the General Fund and Housing Revenue Account revenue budgets for 2008/09.
2. That Scrutiny Panels be advised of the Financial Strategy, and any comments made by Principal Scrutiny Committee following its consideration of this report, for their deliberation of the budget.

CABINET17 July, 2007PRINCIPAL SCRUTINY COMMITTEE23 July, 2007FINANCIAL STRATEGY 2008/09 TO 2012/13REPORT OF HEAD OF FINANCE1 Purpose

- 1.1 The purpose of this report is to give early consideration to the Council's Financial Strategy to be adopted for the 2008/09 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. It complements both the Corporate and Community Strategies and the underlying service priorities and seeks to match corporate priorities with resources.
- 1.2 The report provides a framework for the Corporate Strategy that will be considered by Cabinet at its meeting in September.

2 Key Stages

- 2.1 As in previous years these will be:

What	By Whom	When
Early consideration of financial strategy	Cabinet & Principal Scrutiny Committee	17 July 23 July
Draft Corporate Strategy and budget baseline position	Cabinet	17 October
Scrutiny of Cabinet's preliminary view for budgets and corporate priorities	Principal Scrutiny Committee Scrutiny Panels	November/ December cycle
Corporate Strategy and Corporate Strategy Implementation Plan Summary of GF revenue budgets Summary of HRA revenue budget	Cabinet & Principal Scrutiny Committee	12 December 21 January
Corporate Strategy and Corporate Business Plan Council Tax report	Cabinet Council	13 February 21 February

The Budget 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. A number of these are identified in the Strategy.
- 3.2 Similarly the budget will also be influenced by factors and aspirations within the Council's control. Items not budgeted for at this stage are noted in the Strategy.

4 Policy Driven Approach

- 4.1 Strategic planning, monitoring and review are an intrinsic part of financial planning. The underlying framework for the financial plan is the Corporate Strategy and resource allocation should flow from this.
- 4.2 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.
- 4.3 In recognition of this the Administration is undertaking a programme of member led reviews which will examine individual services provided by the Council to ascertain how necessary they are to the quality of life of local residents, consider the relative priority of the service being provided and how it can be delivered in the most efficient way. Those reviews will assist in formulating the Administration's budget proposals for the coming year.
- 4.4 To further the consideration of areas of lesser priority, Corporate Management Team and Cabinet Members will work together on deliberations on the Corporate Priorities and Budget allocations for the coming year.

5 Capital Strategy

- 5.1 The Capital Strategy is an integral part of the overall Financial Strategy and is covered in a separate report on this agenda (CAB1484).

OTHER CONSIDERATIONS:

6 CORPORATE STRATEGY (RELEVANCE TO):

- 6.1 The Financial Strategy is part of the Council's Corporate Policy Framework and is key to the achievement of the Council's Corporate Strategy.

7 RESOURCE IMPLICATIONS:

- 7.1 As outlined in the Strategy paper.

BACKGROUND DOCUMENTS:

Working papers held within the Finance Division

APPENDICES:

Appendix: Financial Strategy 2007

CAB1483



Winchester
City Council

Financial Strategy

2007

Winchester City Council

Financial Strategy

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Financial Strategy 2007

1 Introduction

- 1.1 The Financial Strategy is part of the Council's Corporate Policy Framework and is key to the achievement of the Council's Corporate Strategy. It aims to provide a financial foundation for delivering the Council's policy objectives by enabling resourced plans to be put in place.
- 1.2 The overall objective of the 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 and priorities of the Council. It aims to support the rational allocation of resources based on as full and transparent a picture as possible.
- 1.3 The financial management arrangements of the Council including the Financial Procedure Rules and other relevant parts of the Council's Constitution support the delivery of the Financial Strategy.
- 1.4 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, addresses short term delivery issues and is focussed on ensuring fundamental stewardship requirements are met.
- 1.5 The Financial Strategy builds on the budget strategy and considers how it 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 in the medium to long term.
- 1.6 In determining the financial strategy consideration is given to the following:
 - 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 **Setting the Baseline**

2.1 To enable the rational allocation of resources based on a full and transparent picture the Financial Strategy baseline will reflect the financial implications of the current position over the planning period i.e. if the Council takes no action:

- how much will it be spending?
- what resources will it have?
- what will be the budget gap or surplus?

2.2 The current position will be determined by taking into account all available information viz:

- The working budget for the current year - The capital and revenue budgets for 2007/08 were approved by Council on 28 February 2007. Since then there have been changes arising from virements.
- The outturn position for the previous year – The Revenue and Capital outturn positions for 2006/07 were reported to Cabinet and Council in June and following that, are in the process of being reported to relevant Scrutiny panels. Approved carry forwards will generally only affect the current year and should be excluded when setting the baseline. Further, consideration should be given in setting the baseline for 2008/09 as to the reasons for any over/underspends in the previous year.
- Year to date monitoring information and the Revised Estimate for the current year – as the Council's financial management arrangements are further developed the future implications of significant variations in the year to date will be reflected in the baseline forecasts.
- The latest forecast of the capital expenditure programme will be used to determine the future revenue effects including the loss of interest income resulting from the overall decline in balances.
- Existing contractual commitments will be fully reflected in the baseline and forecast using inflation assumptions appropriate to the relevant contracts.
- Paybill commitments including incremental progression, and fixed term contracts will be fully reflected in baseline forecasts.
- The Council's Efficiency programme will, where possible, be costed and reflected in the baseline budget.

2.3 The following key assumptions will be used to set the baseline for the medium term forecasts:

- the annual increase in the level of Council Tax will be in line with inflation (RPI)

- Government grant will remain constant
 - there will be an annual increase in the number of households in the district served by the Council with consequential increases in both expenditure and income (assumed at 700 per annum)
- 2.4 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 Comprehensive Spending Review is expected to provide a 3 year fixed settlement covering the period 2008/09 to 20010/11 with real increases being unlikely and expectations of reductions reflecting overall cashable efficiencies being converted to reduced grant
 - The review of Government funding for local councils
 - The Local Authority Business Growth Incentive scheme
 - The amount of Planning Delivery Grant
 - The level of external investment interest rates
 - The deficit on the Superannuation Fund and any changes in employer's contributions arising from the triennial review
 - Growth pressures and changes to national priorities that must be met
 - National Concessionary travel scheme to be implemented in 2008
 - The impact of any revisions to the Local Area Agreement (LAA)
- 2.5 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
 - Silver Hill development proposals
 - Asset management Plan - any need for further investment in building fabric – informed by the non-housing property condition surveys being conducted in 2007 and 2008
 - Hockley Viaduct
- 2.6 Other than pay increases and inflation written into major third party contracts no provision for general inflation was included in the 2007/08 budget. This is the fifth year

that this approach had been adopted and this has now become the norm in the drive for continuing efficiency savings.

- 2.7 Interest rate sensitivity is to be considered within the budget projections with the central/base case to be presented using a forecast obtained from the Council's brokers. Balances will be estimated on the basis of forward cashflow projections and taking into account experience to date.

3 Identifying Financial Resources

- 3.1 The main drivers determining the forecast expenditure and income levels for the baseline position for the Council are; statutory requirements, service demands, quality of service to be provided, legislative changes, inflation, resources and funding sources.
- 3.2 Approximately 13% 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 £53,000.
- 3.3 About 46% 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).
- 3.4 Some 27% of the Council's gross income is derived from fees, charges and rents that are within its control (although there are statutory and market 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 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.
- 3.6 In recognition of this the Administration is undertaking a programme of member led reviews which will examine individual services provided by the Council to ascertain how necessary they are to the quality of life of local residents, consider the relative priority of the service being provided and how it can be delivered in the most efficient way. Those reviews will assist in formulating the Administration's budget proposals for the coming year.
- 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 2007/08 budget and are built into the baseline budgets. A programme of work is in hand to ensure that these are achieved. This includes exploring opportunities for partnership working and various shared services initiatives.

- 3.8 The Council currently has some £14m 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 savings assumed in 2007/08 will be achieved, there is a projected shortfall/deficit in the budget for next year. Acceding to pressures for growth without concomitant savings would put the budget into further deficit which would have to be made good from reserves. However funding continuing growth from reserves is not recommended as :
- Reserves are finite and do not provide for recurring expenditure
 - There have been significant 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 or borrowing
- 3.10 Borrowing is an option available to the Council to consider for specific projects, taking account of the revenue impact of those projects. The Prudential Code which has been adopted by the Council provides a clear framework to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable.

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 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. The key to this is the ability of Members to make choices about priorities, levels of spend and the level of Council Tax.

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 has played an important role in holding management and the Executive to account for all aspects of performance, not just financial.
- 6.2 During 2007/08 the Council's financial management arrangements are being further developed to provide a suite of comprehensive, timely and accurate accruals based monthly management reports providing information to budget managers, Heads of Division, Directors, and Portfolio Holders. This will support continuous improvement of the budget management arrangements for the Council.
- 6.3 Portfolio holders continue to be responsible for regularly monitoring performance with Scrutiny Panels developing a more strategic focus to hold them to account for delivery of key projects and programmes of improvement.
- 6.4 Overview budget monitoring reports on both revenue and capital budgets are presented to Cabinet with Principal Scrutiny Committee keeping an overview.
- 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. 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 cost, level or quantum of services provided. This aspect is identified as one of the Council's strategic risks.
- 7.2 Financial and service based risks need to be reflected and considered as part of the financial strategy. The Council's risk management framework will be used to support a comprehensive review of the financial risks to support forecasting and scenario planning, and budget proposals will include a risk assessment including risks identified, potential impact and mitigation actions.

8 **Consultation**

- 8.1 There will be consultation on the budget proposals with the business community, local strategic partners, parish and town councils, community groups in Winchester and the Winchester Town Forum.

9 **Links to Other Strategies**

- 9.1 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
- Capital Strategy
- Efficiency Strategy
- Procurement Strategy
- Treasury Management Strategy

10 **Conclusion**

- 10.1 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. 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.