

CABINET

9 July 2008

PRINCIPAL SCRUTINY COMMITTEE

14 July 2008

FINANCIAL STRATEGY 2009/10 TO 2013/14

REPORT OF HEAD OF FINANCE

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RECENT REFERENCES:

CAB1629: Budget and Council Tax 2008/09, 13 February 2008

CAB1616: Corporate Strategy 2008, 13 February 2008

CAB1675: Revenue Outturn 2007/08, 4 June 2008

CAB1674: Capital Outturn 2007/08, 4 June 2008

EXECUTIVE SUMMARY:

The purpose of this report is to give early consideration to the Council's Financial Strategy to be adopted for the 2009/10 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 2009/10 – 2013/14, including the key principles to be applied to the General Fund and Housing Revenue Account budgets for 2009/10.

CABINET9 July 2008PRINCIPAL SCRUTINY COMMITTEE14 July 2008FINANCIAL STRATEGY 2009/10 TO 2013/14REPORT 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 2009/10 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 Business Plan are achieved. It complements both the Sustainable Community Strategy, Corporate Business Plan and the underlying service priorities and seeks to match corporate priorities with resources.
- 1.2 The report provides a framework for the Corporate Business Plan that will be considered by Cabinet at its meeting in October.

2 Key Stages

- 2.1 These will be:

<b>What</b>	<b>By Whom</b>	<b>When</b>
Early consideration of financial strategy	Cabinet	9 July 2008
	Principal Scrutiny Committee	14 July 2008
Emerging issues from the Local Area Agreement(LAA) and Sustainable Community Strategy	Cabinet	September 2008
Early draft Corporate Business Plan and budget baseline position – including options for re-alignment of expenditure towards corporate priorities	Cabinet	15 October 2008
Scrutiny of Cabinet's preliminary view for budgets and corporate priorities	Principal Scrutiny Committee & Scrutiny Panels	November cycle
Consultation on Budget proposals with: Business community, parishes, local strategic partners, and Winchester Town Forum	Cabinet	10 December 2008
		26 November 2008

What	By Whom	When
Sustainable Community Strategy	Cabinet	10 December 2008
	Council	7 January 2009
Draft Corporate Business Plan including Implementation Plan , Draft capital programme and GF and HRA revenue budgets after consideration of scrutiny panels' comments on the options available	Cabinet	10 December 2008 14 January 2009
	Principal Scrutiny Committee	19 January 2009
Corporate Business Plan,& Council Tax Report	Cabinet	11 February 2009
	Council	19 February 2009

### 3 The Budget Context

- 3.1 The budget for next year, and the Financial 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 Sustainable Community Strategy for the District and the Corporate Business Plan that sets out the Council's contribution to this. Resource allocation should flow from this, and be allocated according to priorities in the Corporate Plan.
- 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 Cabinet is continuing a programme of member led reviews which 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 Cabinet'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 (CAB1680).

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 Sustainable Community Strategy and Corporate Business Plan.

7 RESOURCE IMPLICATIONS:

- 7.1 As outlined in the Strategy paper.

BACKGROUND DOCUMENTS:

Working papers held within the Finance Division

APPENDICES:

Appendix: Financial Strategy 2009/10 – 2013/14



**Winchester**  
City Council

# FINANCIAL STRATEGY

2009/10 – 2013/14

# Winchester City Council

## Financial Strategy

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## Financial Strategy 2009/10 - 2013/14

### 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 Business Plan. 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 makes no changes to what it currently does:

- 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 2008/09 were approved by Council on 21 February 2008. Since then there have been changes arising from approved supplementary estimates and virements.
- The outturn position for the previous year – The Revenue and Capital outturn positions for 2007/08 were reported to Cabinet and Council in June 2008 (CAB1675 and CAB1674 respectively) and 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 2009/10 as to the reasons for any over/under-spends 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 at or below inflation with the initial baseline being set at the forecast inflation level
  - Government grant will be assumed at the levels notified in the three year provisional settlement
  - 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
- 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) – (although indicative settlements for the first 2 years of the strategy period have been received)
  - The review of Government funding for local councils
  - The Local Authority Business Growth Incentive scheme
  - The amount of Planning & Housing 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
  - 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:
- City office site redevelopment
  - 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 2008
  - Opportunities to take advantage of external funding where relatively small match funding may be needed
  - The Winchester High Street works
- 2.6 Other than pay increases and inflation written into major third party contracts no provision for general inflation was included in the 2008/09 budget. This is the sixth year that this approach had been adopted 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 cash flow 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 12% 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 Tax payers to finance services in this manner. In addition, the amount of revenue raised is limited – a 1% increase raises about £57,000.
- 3.3 About 43% 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 14% 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 Cabinet is continuing a programme of member-led reviews which 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 Cabinet's budget proposals for the coming year.
- 3.7 For the past three years the Council has undertaken a review in accordance with the Government's Gershon initiative to find annual efficiency savings in line with the targets set by the Government. From 2008/09 the Council has set an annual target of 2.5% "cash releasing" gains over the next three year period. 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 £11m in useable revenue reserves. A number of these are earmarked for specific purposes and some cannot be used for alternative purposes, but just over half is in the Major Investment Reserve (MIR) and the General Fund Balance 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 2008/09 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
- 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
- Growth and Savings proposals will be considered in relation to the Council's corporate objectives and priorities
- 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 the Sustainable Community Strategy and Corporate Business Plan 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. This will support decisions 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 effective scrutiny arrangements within the system, this has played an important role in holding management and Cabinet to account for all aspects of performance, not just financial.
- 6.2 During 2008/09 the Council's financial management arrangements are being further developed with the electronic provision of timely and more 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 the most significant variances and explanations 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 Council. 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 Both financial and service based risks need to be reflected and considered as part of the financial strategy. The Council's risk management framework is used to support a comprehensive review of the financial risks for 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 Business Plan, and the Council's priorities are reflected in the Corporate and Directorate Business Plans. Other strategies and policies linked to this Financial Strategy include:

- Asset Management Plan
- Capital Strategy
- Efficiency Strategy
- Treasury Management Strategy

## 10 **Conclusion**

10.1 The Financial Strategy has been developed to support the delivery of corporate objectives 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.