

CABINET

6 July 2011

THE OVERVIEW AND SCRUTINY COMMITTEE

11 July 2011

FINANCIAL STRATEGY 2012/13 TO 2014/15

REPORT OF HEAD OF FINANCE

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RECENT REFERENCES:

[CAB2125: Budget and Council Tax 2011/12, 9 February 2011](#)

[CAB2038: Financial Strategy 2011/12 – 2014/15, 9 July 2010](#)

EXECUTIVE SUMMARY:

The purpose of this report is to give early consideration to the Council's Financial Strategy to be adopted for the 2012/13 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.

Monitoring of the budget for the current year (2011/12 - set last February) has identified some key pressures in relation to assumptions on income levels. This has led to an immediate high level review and proposals for revisions to the budget. A more detailed review will follow with a report on a Revised Estimate planned to be presented in September.

RECOMMENDATIONS:

That the Cabinet :

1. Approves the approach to managing the General Fund Revenue Budget pressures with a further report to be brought to Cabinet in September to finalise the Revised Budget, and
2. Approves the Financial Strategy 2011, including the key principles to be applied to the General Fund, and Housing Revenue Account revenue budgets for 2012/13.

To The Overview & Scrutiny Committee:

1. That The Overview & Scrutiny Committee considers any proposals it wishes to make to the Cabinet on:
 - I. the proposed approach to managing the General Revenue Budget pressures, and
 - II. the draft Financial Strategy.

CABINET6 July 2011THE OVERVIEW & SCRUTINY COMMITTEE11 July 2011FINANCIAL STRATEGY 2012/13 TO 2014/15REPORT 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 2012/13 budget and corporate planning process so that it is conducted in a structured manner and in a way which supports the achievement of corporate priorities and the broader outcomes set out in the Sustainable Community Strategy. The Financial Strategy seeks to match these priorities with appropriate resources.

2 Key Stages

- 2.1 These will be linked with the presentation of the Sustainable Community Strategy consultation timetable and new Change Plans, and in respect of the budget will be as follows:

What	By Whom	When
Early consideration of Financial Strategy	Cabinet & The Overview & Scrutiny Committee	6 July 11 July
Revised Estimate for General Fund Revenue budget for 2011/12 Capital Strategy & Programme	Cabinet & The Overview & Scrutiny Committee	14 September 26 September
Budget Options 2012/13	Cabinet	12 October
Scrutiny of Cabinet's preliminary view of budget and corporate priorities.	The Overview & Scrutiny Committee	14 November
Summary of GF revenue budgets, & Summary of HRA revenue budget	Cabinet The Overview & Scrutiny Committee	7 December 23 January

What	By Whom	When
Council Tax report to Cabinet	Cabinet	8 February
	Council	13 February

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.
- 3.3 The Government's proposals for the reform of Council Housing Finance, whereby it is proposed to replace the existing national subsidy system with a form of self financing, which would allow councils to retain all rental income in return for taking on a share of the national housing debt, are currently proposed to be implemented by April 2012. The implications will be taken into account as part of the budget setting process, as they further develop.

4 General Fund Revenue Budget Revisions

- 4.1 Monitoring of the budget for the current year (2011/12 - set last February) has identified some emerging pressures in relation to assumptions on income levels. This has led to an immediate high level review and proposals for intermediate revisions to the budget. A more detailed review will follow with a report on a Revised Estimate planned to be presented in September.
- 4.2 The proposed revisions would avoid any need for a call on reserves and are as follows:

	2011/12	2012/13	2013/14
	£000's	£000's	£000's
<u>Forecast Assumptions</u>			
<u>Reduced Income</u>			
Affordable Homes Bonus - to commence 2012/13	53		
Localisation of Planning Fees - delayed until April 2012	300		
Car Parking Income - lower receipts	300	300	300
Total forecast shortfall	653	300	300
<u>Proposed Revisions to budgets</u>			
<u>Income</u>			
Land Charges Income	20	20	20
Recycling Income	25	25	25
Estates Income	29	20	20

	2011/12	2012/13	2013/14
<u>Forecast Assumptions</u>	£000's	£000's	£000's
<u>Expenditure</u>			
Release of Contingency - general	150	150	150
Release of Contingency (part) - Environmental Services Contract	100	0	0
Lease Cars / Essential User Allowance / Mileage Rate Review	50	20	20
Reduced Audit Fees	10	10	10
<i>Employees:</i>			
Flexible Resource Management / 1team	99	55	55
Planning enforcement staffing	50	0	0
Training	30	0	0
Overtime & Agency	60	0	0
Local Elections	30	0	0
Total proposed budget revisions	653	300	300
Change in Net Budget Requirement	0	0	0

4.3 The effects of these proposals on the medium term financial forecasts are shown in Appendix A – Annex 1.

5 Policy Driven Approach

5.1 Financial planning is an intrinsic part of strategic planning, monitoring and review. The underlying framework for the financial plan is the Council's Corporate Planning Framework which is explained in more detail in section 9 of the Strategy Document.

5.2 In the period covered by this plan, it will be necessary to make significant savings, whilst at the same time creating some headroom for new or expanded requirements.

5.3 In recognition of this the Administration will be considering 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. This will assist in formulating the Administration's budget proposals for the coming year.

5.4 To further the consideration of areas of priority, the Change Plans prepared by Assistant Directors, will be used as the focus by the Corporate Management Team and Cabinet Members for their deliberations in respect of corporate priorities and budget allocations for the coming year.

6 Capital Strategy

6.1 The Capital Strategy is an integral part of the overall Financial Strategy and is scheduled to be presented to the Cabinet in September.

OTHER CONSIDERATIONS:

7 SUSTAINABLE COMMUNITY STRATEGY & CHANGE PLANS
(RELEVANCE TO):

7.1 The Financial Strategy is an integral part of the Council's Corporate Planning Framework and is driven by what the Council is seeking to achieve which is led by the District's Sustainable Community Strategy. The Council's Corporate Planning Framework is explained more fully in the Financial Strategy (section 9).

8 RESOURCE IMPLICATIONS:

8.1 As outlined in the Strategy paper.

9 RISK

9.1 This is considered in the Strategy.

BACKGROUND DOCUMENTS:

Working papers held within the Finance Division

APPENDICES:

Appendix A: Financial Strategy 2012/13 – 2014/15

Appendix A: Annex 1 – General Fund Indicative Revenue Projections

Appendix A: Annex 2 – General Fund Sensitivity Analysis



Winchester
City Council

FINANCIAL STRATEGY

2012/13 – 2014/15

Winchester City Council

Financial Strategy

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Financial Strategy 2012/13 - 2014/15

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 priorities. It aims to provide a financial foundation for delivering the Council's policy objectives by enabling resourced Change 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 three 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 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 that 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 term.
- 1.6 In determining the financial strategy consideration is given to the following:
 - Setting the baseline financial position over the three 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
 - Scenario planning

2 Setting the Baseline

2.1 To enable the rational allocation of resources based on a full and transparent picture the Financial Strategy baseline reflects the financial implications of the current position over the planning period i.e. if the Council makes no changes to what it currently does:

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

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

- **The working budget for the current year** - The capital and revenue budgets for each year are approved by Council in February. The working budget takes into account any changes since the Original Budget was set arising from approved supplementary estimates and virements.
- **The outturn position for the previous year** – Both the Revenue and Capital outturn positions are reported to Cabinet and The Overview and Scrutiny Committee and, as relevant to Council as soon as possible after the year end. Approved budget 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 2012/13 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** – enhanced monthly monitoring procedures are enabling the early identification and extrapolation of significant variations in the year to date and consequently early actions to be taken to redress.
- **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, and the Minimum Revenue Provision and approved Voluntary Revenue Contributions.
- **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.

- 2.3 The following key assumptions will be used to set the baseline for the medium term forecasts:-
- Council Tax will be remain at 2010/11 levels (see para. 3.2 below) although the actual level of Council Tax will be set by Members in the final stages of setting the budget.
 - Formula Grant forecasts will be as assumed when the Budget for 2011/12 was set, reflecting the provisional settlement for 2012/13 and assuming further reductions of 1% and 2% on the 2010/11 baseline for 2013/14 and 2014/15 respectively, with adjustment to be made in the final stages of setting the budget when the grant levels are announced.
- 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 Government's progression of the Localism Bill
 - The Government's review of local government resources and any changes to the distributional system from 2013/14
 - The Reform of Council Housing Finance
 - The amount of Formula Grant to be received from the Government
 - The amount of New Homes Bonus and Affordable Homes Bonus
 - Updated Government position on setting Planning fees locally
 - Interest rates
 - The deficit on the Pension Fund
 - Lord Hutton's report on structural reform of public sector pensions
 - The South Downs National Park Authority – fee harmonisation
 - Growth pressures and changes to national priorities that must be met
- 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
 - Silver Hill development

- River Park Leisure Centre Capital Works
 - Avalon House Capital Works
 - Asset Management Plan - any need for further investment in building fabric
 - Capital projects that were “deferred” for future consideration due to lack of funding, when the last budget was set in February.
 - Opportunities to take advantage of external funding where relatively small match funding may be needed
 - Hyde Historic Resources Centre – Renovation for architectural practice
 - Abbey Mill
 - Replacement Depot at Bar End
- 2.6 In line with previous years, no inflationary increases will be added to any costs other than contractual commitments. This supports the continuing efficiency drive.
- 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 advisers. Balances will be estimated on the basis of forward cash flow projections and taking into account experience to date.
- 2.8 An initial assessment of the General Fund baseline position for setting the 2012/13 budget is provided at Annex 2. This will be further developed following the Revised Estimate for the current year (2011/12) to be presented in September.
- 2.9 The sensitivity to some of the key assumptions is provided at Annex 3. There are too many unknowns at this stage to model more detailed scenarios.
- 2.10 All of the principles in this financial strategy will also apply to the Housing Revenue Account although the detail of this will be considered separately in the 30 year Business Plan for the HRA.
- 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 22% of gross income (Excluding Benefit Payment Income) arises from Council Tax. For 2011/12, the Council complied with a Government request

for councils to freeze council tax, and received additional grant equivalent to a 2.5 per cent increase from the 2010-11 level of Council Tax. It is expected that this will be matched exactly in each subsequent year of the Spending Review to compensate for the income foregone for a freeze. Authorities will not have to continue to freeze or reduce their council tax from 2012-13 to continue to receive this grant.

- 3.3 About 15% of gross income (Excluding Benefit Payment Income) is derived from the Formula Grant, which is made up of the Revenue Support Grant (RSG) and National Non Domestic Rates (NNDR).
- 3.4 Some 48% of the Council's gross income (Excluding Benefit Payment 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). Parking income amounts to around 41% of this. 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 In the period covered by this plan, it will be necessary to make significant savings, whilst at the same time creating some headroom for new or expanded requirements.
- 3.6 In recognition of this the Administration will be considering 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. This will assist in formulating the Administration's budget proposals for the coming year.
- 3.7 To further the consideration of areas of priority, the Change Plans prepared by Assistant Directors, will be used as the focus by the Corporate Management Team and Cabinet Members for their deliberations in respect of corporate priorities and budget allocations for the coming year.
- 3.8 The Council will also seek to actively manage its paybill by ensuring staff are used flexibly to meet shifting priorities, and by taking a proactive approach to reducing the paybill in a managed way. This will entail managing vacancies in our staff complement and directing staff to areas of highest priority, and away from areas are not immediately essential to the delivery of the outcomes in the Sustainable Community Strategy.
- 3.9 The Council has useable revenue reserves comprising the General Fund Balance, the Major Investment Reserve and various earmarked reserves. Earmarked reserves have been established for specific purposes with associated spending plans and will be substantially depleted over the medium term financial strategy period. In setting the budget consideration will be given to the requirements for reserves to ensure that there are adequate balances in the

future to support essential expenditure. However, recurring baseline revenue budgets must be in line with the recurring revenue income available.

- 3.10 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 :
- 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
- 3.11 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. The Council already has a Capital Financing Requirement, matched against specific assets. These are generally those assets for which the financial appraisal can demonstrate value for money in terms that the financial benefits outweigh the financing costs (including the Minimum Revenue Provision and, where applicable, Voluntary Revenue Contributions).

4 **Key Budget Principles**

- 4.1 A fundamental principle to be applied to the Financial Strategy is that Members should seek to attain a balanced revenue budget. Accordingly, the following principles will be applied to setting 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 eliminate any projected deficit and to fund Growth proposals
 - 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 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 Change Plans and the underlying service strategies and seeks to match corporate priorities with resources.
- 5.2 The Government's Budget and likely continued changes to funding will place significant financial pressures on all Councils who will need to continue to deliver and improve services at much lower costs.
- 5.3 The various options to deliver, improve and transform services will be accompanied by time and cost pressures. It will be necessary for service and performance levels to be managed both upwards and downwards as we will have to adjust to very significantly reduced funding.
- 5.4 Change Plans will provide the focus on priorities and the means of delivery to 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 is a key feature of the Council's processes. 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 The Council's financial management arrangements continue to be developed and the provision of electronic monthly management reports providing information to budget managers, Heads of Team, Directors, and Portfolio Holders, has supported effective budget management.
- 6.3 Portfolio Holders continue to be responsible for regularly monitoring performance with The Overview & Scrutiny Committee 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 The Overview & 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, The Overview & Scrutiny Committee and Council if appropriate. 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 corporate 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 include a risk assessment including risks identified, potential impact and mitigation actions.
- 7.3 The budget for next year and the forward projections will be influenced significantly by various factors that cannot be quantified or assessed fully at this stage; some external and outside of the control of the Council and others that relate to factors and aspirations within the Council's control. Consideration will be given to these factors in the risk assessment undertaken as part of the budget process.

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. TACT will be consulted on the Housing Revenue Account Budget and Business Plan proposals.

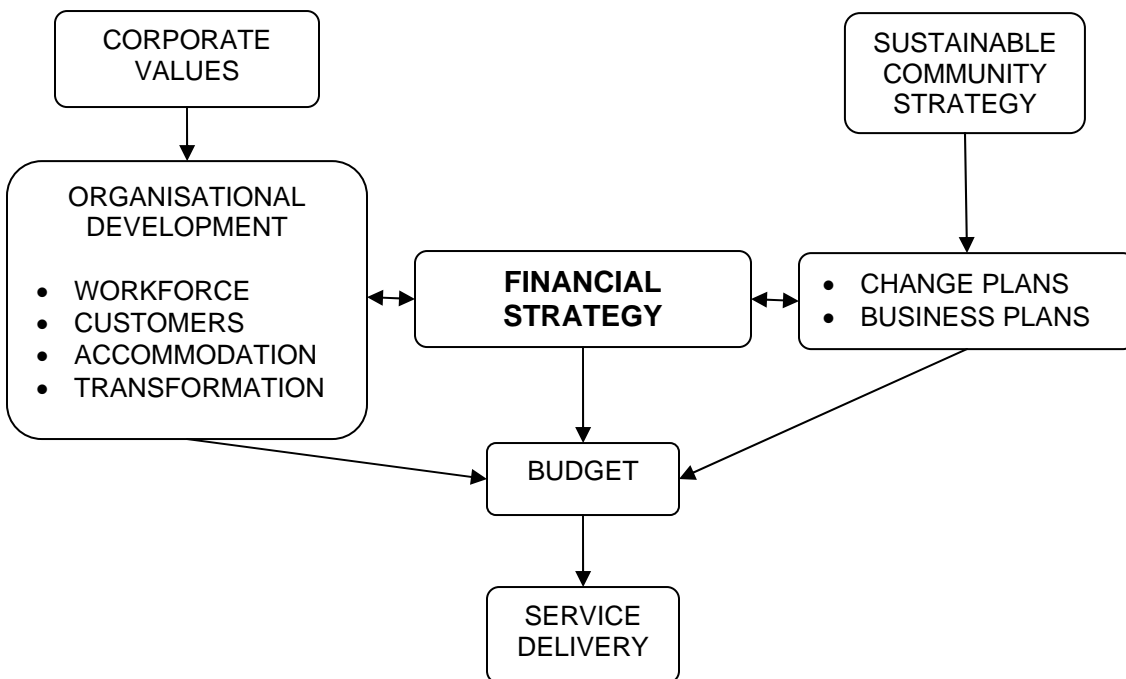
9 **The Council's Corporate Planning Framework**

- 9.1 The Financial Strategy is an integral part of the Council's Corporate Planning Framework, which is illustrated by the diagram below. Our Organisational Planning, which shapes how we work and reflects our desire to be efficient and effective in all we do, is driven by our Corporate Values. The actions which help achieve our organisational aims are set out in key strategies on our workforce, customers and accommodation, and in our corporate transformation programme.
- 9.2 Service Planning is led by the District's Sustainable Community Strategy, which identifies the key outcomes we aim to achieve: active communities, economic prosperity and a high quality environment. Actions to help realise those outcomes are set out in Change Plans and in individual teams' Business Plans.
- 9.3 Organisational and Service Planning helps shape the Financial Strategy: it is driven by what the Council is seeking to achieve. However, this is an iterative

process in that the Financial Strategy also helps determine what are realistic and achievable ambitions for both our services and the organisation. These three inter-linked components of our corporate planning framework determine the Council's budget and shape our approach to delivery. Regular performance review offers feedback to develop further both organisational and service planning, and so allows review of the Financial Strategy.

Organisational Planning

Service Planning



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.

GENERAL FUND REVENUE MEDIUM TERM PROJECTIONS 2011/12 - 2014/15					
	2011/12		2012/13	2013/14	2014/15
	Original Estimate	Forecast	Forecast	Forecast	Forecast
	£000	£000	£000	£000	£000
Cost of Services b/f as per Amended Budget February 2011	14,258	14,526	12,677	13,156	13,765
<u>Proposed Revisions to 2011/12 Budget</u>					
Release of Contingency		(150)			
Reduced Income		600	(300)		
Proposed Increased Income		(74)	9		
Proposed Expenditure Reductions		(429)	344		
Cost of Services	14,258	14,473	12,730	13,156	13,765
Other Operating Income & Expenditure					
Payment of Parish Precepts	2,203	2,203	2,203	2,203	2,203
Financing & Investment Income & Expenditure	(184)	(184)	(153)	(291)	(346)
Minimum Revenue Provision & Voluntary Revenue Provision	70	70	315	315	315
Taxation & Non-Specific Grants					
Council Tax	(6,927)	(6,927)	(6,927)	(6,927)	(6,927)
Parish Precepts	(2,203)	(2,203)	(2,203)	(2,203)	(2,203)
Non-ring fenced Government Grants	(5,360)	(5,307)	(4,985)	(4,969)	(4,836)
Provision of Services	(12,401)	(12,348)	(11,750)	(11,872)	(11,794)
Statutory Adjustments					
Capital Charges	(1,513)	(1,513)	(1,513)	(1,513)	(1,513)
(Surplus) / Deficit before Reserves	344	612	(533)	(229)	458
<u>Movement in Reserves</u>					
Transfers to or (from) Major Investment Reserve	(235)	(235)	123	(248)	0
Transfers to or (from) Earmarked Reserves	(142)	(411)	316	441	436
Transfers to or (from) Winchester Town Reserve	32	32	93	93	77
General Fund Deficit / (Surplus)	-	-	0	59	970

FINANCIAL STRATEGY 2012/13 - 2014/15 - GENERAL FUND SENSITIVITY ANALYSIS

	1%	5%	10%	15%	25%
	£0	£0	£0	£0	£0
Net Cost of Services					
Contractual commitments	80	400	800	1,200	2,000
Employee costs	130	650	1,300	1,950	3,250
Transport	6	28	55	83	138
Third Party Payments	70	350	700	1,050	1,750
Supplies & Services	50	250	500	750	1,250
Interest & Investment income (net)	52	260	520	780	1,300
<u>Funding:</u>					
Council Tax	69	344	689	1,033	1,722
Revenue Support Grant & NNDR redistribution	46	232	464	696	1,160