

CABINET

4 July 2012

THE OVERVIEW AND SCRUTINY COMMITTEE

9 July 2012

FINANCIAL STRATEGY 2013/14 TO 2015/16

REPORT OF HEAD OF FINANCE

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RECENT REFERENCES:

CAB2297: Budget and Council Tax 2012/13, 8 February 2012

CAB2202: Financial Strategy 2012/13 – 2014/15, 6 July 2011

EXECUTIVE SUMMARY:

The purpose of this report is to give early consideration to the Council's Financial Strategy to be adopted for the 2013/14 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:

That the Cabinet :

- Approves the Financial Strategy 2012, including the key principles to be applied to the General Fund for 2013/14.

That The Overview & Scrutiny Committee:

- Considers any proposals it wishes to make to the Cabinet on the draft Financial Strategy.

CABINET4 July 2012THE OVERVIEW & SCRUTINY COMMITTEE9 July 2012FINANCIAL STRATEGY 2013/14 TO 2015/16REPORT 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 2013/14 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 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	4 July 9 July
Capital Strategy & Programme Revised Estimate for General Fund Revenue budget for 2012/13	Cabinet & The Overview & Scrutiny Committee	12 September 17 September
Budget Considerations 2013/14 and review of Corporate priorities	Cabinet	3 October
Scrutiny of Cabinet's preliminary view of budget and corporate priorities.	The Overview & Scrutiny Committee	19 November

What	By Whom	When
Refresh of Change Plans	Cabinet & The Overview & Scrutiny Committee & Council	5 December 10 December 9 January 2013
Consultation summary for General Fund revenue budget	Cabinet & The Overview & Scrutiny Committee	16 January 2013 21 January 2013
Budget & Council Tax report	Cabinet & The Overview & Scrutiny Committee & Council	13 February 2013 18 February 2013 21 February 2013

3 The Budget Context

- 3.1 The budget for next year, and the Financial Strategy's forward projections, will be influenced both by actions that are within the Council's control and by various external factors that cannot be quantified at this stage. Where currently known, these are identified in the Strategy.
- 3.2 The Council will have to respond to significant changes that will impact on the Medium Term Financial Strategy from 2013/14 onwards resulting from the Government's Local Government Resource Review and proposals for welfare reform. The implications will need to be taken into account as part of the budget setting process, as they further develop. The Government's proposed grants to the Council for 2013/14 and 2014/15 are not expected to be known until December.

4 Policy Driven Approach

- 4.1 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 10 of the Strategy Document.

- 4.2 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.
- 4.3 In considering how best to use limited financial resources, the Administration will be guided by their service and policy priorities, which in turn stem from the Council's Sustainable Community Strategy and are key drivers of our corporate planning framework. Cabinet will review those priorities to guide the budget setting process, and will then consider, *inter alia*:
- a) Which services contribute to achieving the Council's priority outcomes, and whether they merit additional resources;
 - b) Those services less central to achieving priority outcomes, which should therefore receive fewer resources;
 - c) What opportunities exist for achieving savings through a different approach to realising outcomes, for example through out-sourcing, commissioning, collaboration or partnership;
- 4.4 As has been the Council's practice in previous years, the Administration will also explore opportunities for operational efficiency in our working practices, including by developing flexible working practices and exploring new ways of managing activity.

5 Capital Strategy

- 5.1 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:

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

- 6.1 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).

7 RESOURCE IMPLICATIONS:

- 7.1 As outlined in the Strategy paper.

8 RISK

- 8.1 This is considered in the Strategy.

BACKGROUND DOCUMENTS:

Working papers held within the Finance Division

Local Government Resource Review

<http://www.communities.gov.uk/localgovernment/localgovernmentfinance/lgresourcereview/>

APPENDICES:

Appendix A: Financial Strategy 2013/14 – 2015/16

Appendix A: Annex 1 – General Fund Indicative Revenue Projections

Appendix A: Annex 2 – General Fund Sensitivity Analysis



Winchester
City Council

FINANCIAL STRATEGY

2013/14 – 2015/16

Winchester City Council

Financial Strategy

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Financial Strategy 2013/14 - 2015/16

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, and to guide our approach to delivering efficiency improvements and operational savings whilst protecting services to the public.
- 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 shapes the Budget Strategy and considers how it can be enhanced to support and enable transformation in the way that services are delivered and in our working practices so that the Council meets its 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;
 - The Council's programme of organisational development;
 - Determining how performance is to be managed and measured; and
 - Managing risk and 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** – The outturn positions for both Revenue and Capital are reported to Cabinet and The Overview and Scrutiny Committee and, where appropriate, 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 of 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 nationally agreed pay awards, 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. 3.1 below) although the actual level of Council Tax will be set by Members in the final stages of setting the budget.
- Government Grant forecasts will be as assumed when the Budget for 2012/13 was set, assuming further ongoing reductions ,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 implications of the Localism Act and other relevant legislation;
- Developing policy and practice on the implementation of major national initiatives such as health service reform and the provision of care to vulnerable adults;
- The Government's review of local government resources and any changes to the distributional system from 2013/14;
- The amount of New Homes Bonus and Affordable Homes Bonus earned;
- Other opportunities for grant funding or other support;
- Updated Government position on setting Planning fees locally;
- Further opportunities for income, for example through charging for services or through use of the Council's assets;
- Interest rates;
- Further changes to the statutory basis for or actuarial adjustments to the funding and management of the Local Government Pension Scheme;
- The South Downs National Park Authority – fee harmonisation;
- The full implications on the General Fund of Housing Finance Reform; and
- Other growth pressures, new burdens determined by Parliament and changes to national priorities promulgated by Ministers.

- 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:
- Silver Hill development;
 - River Park Leisure Centre Capital Works;
 - Avalon House Capital Works;
 - Abbey Mill;
 - Replacement Depot at Bar End;
 - City office site;
 - 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.
- 2.6 In line with previous years, no inflationary increases will be added to any costs other than contractual commitments. This supports the continuing drive for efficiency.
- 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 2013/14 budget is provided at Annex 1. This will be further developed following the Revised Estimate for the current year (2012/13) to be presented in September.
- 2.9 The sensitivity to some of the key assumptions is provided at Annex 2. There are too many unknowns at this stage to model more detailed scenarios.

3 Identifying Financial Resources

- 3.1 The Council continues to be constrained in its ability to raise income. Approximately 22% of gross income (Excluding Benefit Payment Income) arises from Council Tax. For 2011/12, and 2012/13 the Council chose to freeze council tax, and received additional Government grants in each year, equivalent to a 2.5 per cent increase from the 2010-11 level of Council Tax. For 2012/13 a grant of £174,000 was received for one year only, so will not be available in the baseline for 2013/14. It is currently assumed that the freeze grant received for 2011/12 will be incorporated into the future baseline..
- 3.2 A further 18% of gross income (Excluding Benefit Payment Income) is derived from Non-ring fenced Government Grants, which mainly comprise Revenue Support Grant (RSG), National Non Domestic Rates (NNDR), and New Homes Bonus. The methodology for allocating these grants will change with effect from 2013/14 as a consequence of the Government's Resource Review, and the full implications are not yet quantifiable.
- 3.3 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 36% of this total. 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.
- 3.4 The main drivers likely to affect the Council's expenditure are:
- a) Obligations set by statute, although these do not necessarily specify the level at which that obligation is to be met;
 - b) Local political priorities for both the services to be provided and the quality or standard to which they should be delivered;
 - c) Unavoidable increases or decreases in demand;
 - d) Service inflation (which may not match RPI or CPI).
- 3.5 It is likely that, in the period covered by this plan, to ensure income and expenditure are balanced it will be necessary to make significant savings. At the same time, Members may wish to create scope for new or enhanced services.
- 3.6 To achieve this balance, the Administration will be guided by their service and policy priorities, which in turn stem from the Council's Sustainable Community Strategy and are key drivers of our corporate planning framework. Cabinet will review those priorities to guide the budget setting process, and will then consider, *inter alia*:

- a) Which services contribute to achieving the Council's priority outcomes, and whether they merit additional resources;
 - b) Those services less central to achieving priority outcomes, which should therefore receive fewer resources;
 - c) What opportunities exist for achieving savings through a different approach to realising outcomes, for example through out-sourcing, commissioning, collaboration or partnership;
- 3.7 As has been the Council's practice in previous years, the Administration will also explore opportunities for operational efficiency in our working practices, including by developing flexible working practices and exploring new ways of managing activity.
- 3.8 The Council will also continue 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. It will also require reductions in the overall staffing establishment.
- 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. 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;
 - The Council's capital aspirations are dependent upon finance being available from reserves or borrowing;
 - Reserves provide a source of income (through investment) that supports the revenue budget;
 - It is prudent to ensure the Council has resources set aside to deal with unforeseen emergencies or similar pressing demands.

- 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 and income 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, savings and income proposals will be considered in relation to the Council's corporate objectives and priorities;
- Inflation will be applied only to budgets for external contracts.
- The Council will seek to optimise income from services and assets

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 which 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. The Council is actively considering new ways of securing delivery in the most efficient manner possible, whilst ensuring the impact on the public is minimised.
- 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 Organisational Development

- 6.1 For some time now the Council has been changing the way we work to deliver outcomes which achieve community objectives. Alongside exploring new ways of delivery, as outlined above, we have been considering how best to modify our own working practices to achieve efficiencies and improve service to the public.
- 6.2 Initiatives have included our focus on customer service, the introduction of flexible working practices and a programme designed to use staff resources more flexibly through our *1-team* project. These have all contributed to savings, whilst ensuring services are maintained and enhanced.
- 6.3 This programme of organisational development will continue to ensure we use our staff in the best possible way, and that effective deployment and management assist in managing the paybill and meeting budget targets.

7 Managing and Measuring Financial Performance

- 7.1 Regular budget monitoring of all service areas is a key feature of the Council's processes. 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.
- 7.2 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. Corporate Management Team monitors the budget monthly, and makes adjustments where necessary.
- 7.3 The Members of Cabinet also review the budget monthly with senior officers, and ensure that spending and savings plans remain on target. Portfolio Holders continue to be responsible for regularly monitoring service and financial performance in their areas of responsibility. The Overview & Scrutiny Committee is developing a more strategic focus to hold them to account for delivery of key projects and programmes of improvement.

- 7.4 Overview budget monitoring reports on both revenue and capital budgets are presented to Cabinet with The Overview & Scrutiny Committee keeping an overview.
- 7.5 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.
- 7.6 The Council's annual Statement of Accounts and Treasury Management Stewardship review are considered and approved by the Audit Committee.

8 Managing Risk and scenario planning

- 8.1 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.
- 8.2 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.
- 8.3 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 and scenario planning undertaken as part of the budget process.

9 Consultation

- 9.1 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.

10 The Council's Corporate Planning Framework

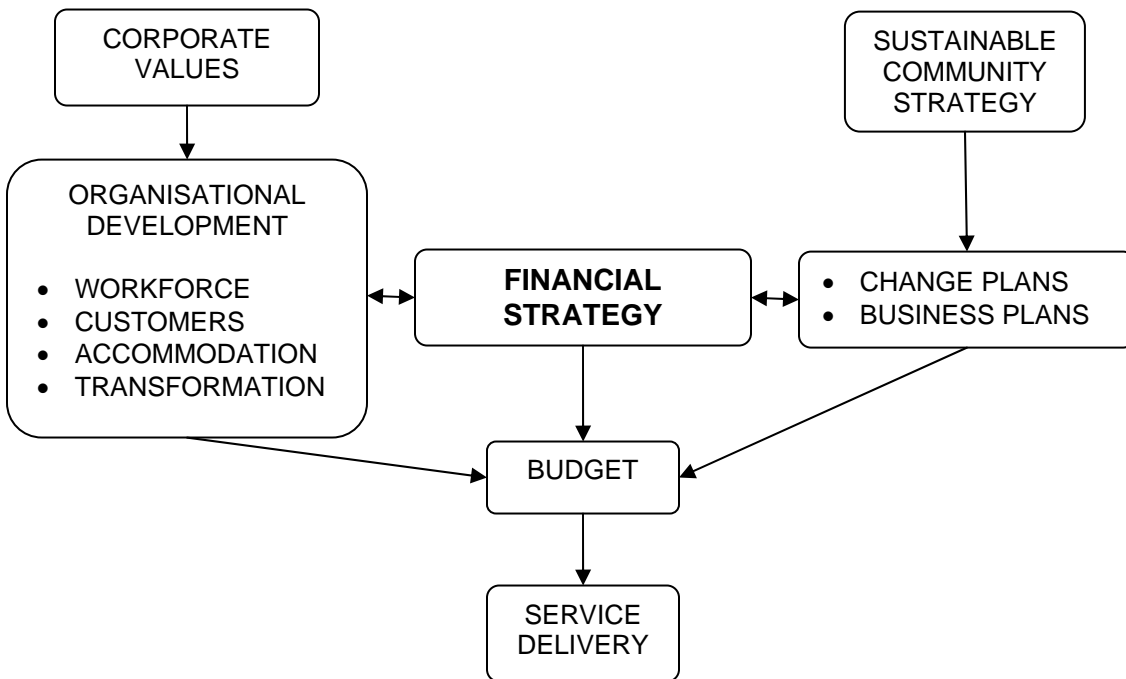
- 10.1 The Financial Strategy is an integral part of the Council's Corporate Planning Framework, which is illustrated by the diagram below. Our Organisational Planning, which shapes how we work and reflects our desire to be efficient and effective in all we do, is driven by our Corporate Values. The 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.

- 10.2 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.
- 10.3 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



11 Conclusion

- 11.1 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 – INDICATIVE REVENUE PROJECTIONS

	2012/13	2013/14	2014/15	2015/16
	Original Estimate	Forecast	Forecast	Forecast
	£000	£000	£000	£000
OPENING BALANCE		14,889	14,791	15,560
One-off budgets & Stepped Growth / Savings		(578)	78	
Contractual commitments inflation		350	361	371
Employee Costs (0% 12/13, 1% 13/14 & 14/15)		330	330	330
Redundancy		(200)		
Cost of Services (incl. Trading Accounts)	14,889	14,791	15,560	16,261
Other Operating Income & Expenditure				
Payment of Parish Precepts	2,287	2,287	2,287	2,287
Financing & Investment Income & Expenditure	(135)	(103)	(73)	(73)
Minimum Revenue Provision & Voluntary Revenue Contribution	126	284	284	284
Taxation & Non-Specific Grants				
Council Tax Income	(6,975)	(6,975)	(6,975)	(6,975)
Council tax surplus	(28)			
Parish Precepts	(2,287)	(2,287)	(2,287)	(2,287)
Non-ring fenced Govt grants	(5,842)	(5,318)	(5,018)	(4,617)
(Surplus) / deficit on Provision of Services	2,035	2,679	3,778	4,880
Adjustments between Accounting basis and Funding basis under Regulations	(2,101)	(2,101)	(2,101)	(2,101)
	(66)	578	1,677	2,779
Other planned Movements in Reserves				
Transfers to or (from) Major Investment Reserve	(56)			
Transfers to or (from) other Earmarked Reserves	53	480	562	
Transfers to or (from) Winchester Town Reserve	69		(19)	
FORECAST DEFICIT / (SURPLUS)	0	1,058	2,220	2,779

FINANCIAL STRATEGY 2013/14 - 2015/16 - GENERAL FUND SENSITIVITY ANALYSIS

	1%	5%	10%	15%	25%
	£000	£000	£000	£000	£000
Net Cost of Services					
Contractual commitments inflation	75	375	750	1,125	1,875
Employee costs pay inflation	130	650	1,300	1,950	3,250
Transport	6	30	60	90	150
Third Party Payments	60	300	600	900	1,500
Supplies & Services	50	250	500	750	1,250
Interest & Investment income (net)	(113)	(565)	(1,130)	(1,695)	(2,825)
<u>Funding:</u>					
Council Tax increase	70	350	700	1,050	1,750
Revenue Support Grant & NNDR redistribution	42	208	417	625	1,041