

REPORT TITLE: MEDIUM TERM FINANCIAL POSITIONTHE OVERVIEW AND SCRUTINY COMMITTEE17 OCTOBER 2016CABINET19 OCTOBER 2016PORTFOLIO HOLDER: CLLR STEPHEN GODFREY (PORTFOLIO HOLDER FOR FINANCE AND CORPORATE POLICY)Contact Officer: Simon Little Tel No: 01962 848 224 Email: slittle@winchester.gov.ukWARD(S): ALLPURPOSE

To inform Cabinet and the wider management team of the financial position of the Council over the medium term. The information included in this report will be used to frame the Council's response to the removal of central government grant and move towards financial self sufficiency.

The report includes a position statement of the 2016/17 Budget, although it is not intended that the budget for 2016/17 is amended, this will be used to provide an updated baseline for the 2017/18 budget.

This is a transitional year in the way the Council plans it's budgets, with the intention that Outcome Based Budgeting will be used going forward, which will reduce the reliance on baseline calculations as it will be based on actual activity resulting in specific outcomes.

To reflect the greater uncertainty of funding streams reliant on our own operating model, economic factors and local factors, the paper reflects a range of scenarios which highlight that annual financial results will vary from budgets in the future as they have increasingly done over the last few years.

RECOMMENDATIONS:

That the Cabinet:-

- i) Agrees that the Capital Strategy and Programme are approved in January;
- ii) Agrees that all of the main Financial Strategies, other than in (i) above, are agreed at the February Council in conjunction with Council Tax setting;
- iii) Recognises and supports the Council's continuing need to promote change in how we do things and drive to replace lost central government grant with new funding streams.

IMPLICATIONS:1 COMMUNITY STRATEGY OUTCOME

- 1.1 The Medium Term Financial Strategy underpins all of the outcomes identified in the Community Strategy. The Financial Resilience that it helps formulate ensures that the Council can continue to provide: High Quality Environment – Place; Active Communities – People; Prosperous Economy – Prosperity, and; Effective and Efficient Council – Process.

2 FINANCIAL IMPLICATIONS

- 2.1 The Medium Term Financial Strategy along with Portfolio Plans are the cornerstones of providing sustainable delivery of services to the residents of the District.
- 2.2 By identifying where there are pressures on expenditure, the priorities of the Council and shortfall of funding the council can make medium plans to provide a balanced budget.

3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 None.

4 WORKFORCE IMPLICATIONS

- 4.1 Any efficiency identified may result in a reduction in the headcount. Similarly, if there are investment opportunities, additional staff may be required, if this is the case a full business case is required and the return from that investment must be at least equal too and preferably greater than the additional cost.

5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 A key strand of the Council's Financial Strategy is to generate income from its assets and use property as one arm of the Treasury Strategy.

6 CONSULTATION AND EQUALITY IMPACT ASSESSMENT

- 6.1 This document is part of the budget consultation process and equality impact assessments will be considered alongside any budget options that come forward.

7 RISK MANAGEMENT

Risk (Detail specific risk under these headings)	Mitigation	Opportunities
<i>Over reliance on traditional funding streams</i>	<i>Proactive development of new funding opportunities</i>	<i>Considerations of further Investment property and income streams per the streams of the efficiency</i>

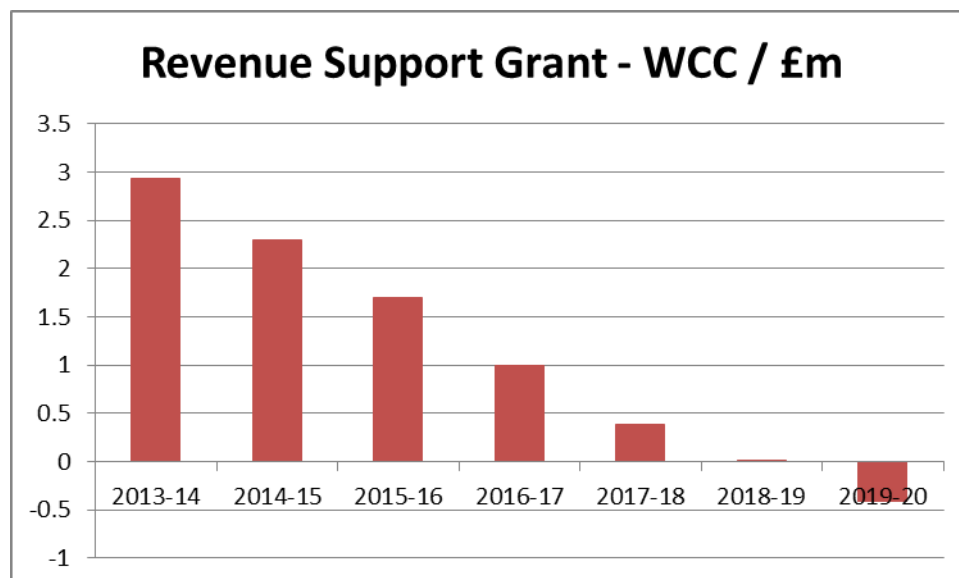
		<i>plan</i>
<i>Failure to set a balance budget</i>	<i>Scenario planning for future financial years to highlight the scale of the financial challenge and so enable proposals to close the financial gap to come forward in good time.</i>	<i>Innovative funding streams Further joint working opportunities</i>
<i>Councils service priorities, not reflected in budget</i>	<i>Current budget is based upon the existing Community Strategy</i>	<i>Use of outcome based budgeting for future financial years</i>

8 SUPPORTING INFORMATION:

Background

- 8.1 The Council continues to respond to the significant changes in Central Government support whilst being mindful of the impact on local council tax payers and the services being provided to local communities.
- 8.2 The Medium Term Financial Strategy will be influenced by actions within the Council's control and external factors, a sensitivity analysis, showing a range of possible scenarios is included for consideration.
- 8.3 The funding regime for local authorities is radically changing, with Councils needing to consider a fundamental shift in how services are funded, away from Central government Grant and towards a more self sufficient and sustainable model which is driven by local strategy. The level of the key funding stream from Government, Revenue Support Grant, that the Council is expected to receive, between 2013-20 is highlighted below:

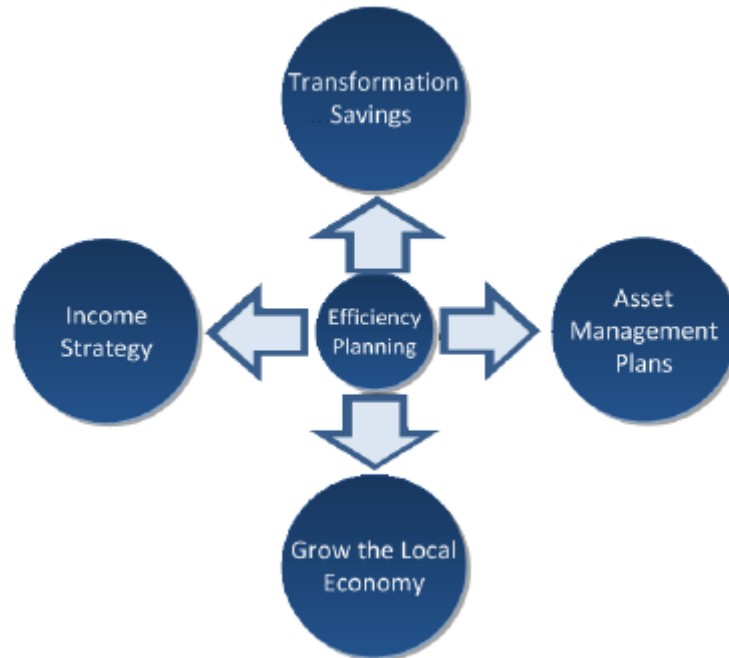
Chart 1.1: RSG 2013-20



Policy Driven Approach

- 8.4 Financial Planning is an intrinsic part of the Council's Corporate Planning, in considering how to best use limited financial resources, the Council is guided by its service and policy priorities as well as through the key strands of the Efficiency Plan (taken to Cabinet in September 2016)

Diagram 2.1: Strands of the Efficiency Plan



To strengthen this link it is intended that an Outcome Based Budgeting process will be adopted from 2018/19 onwards.

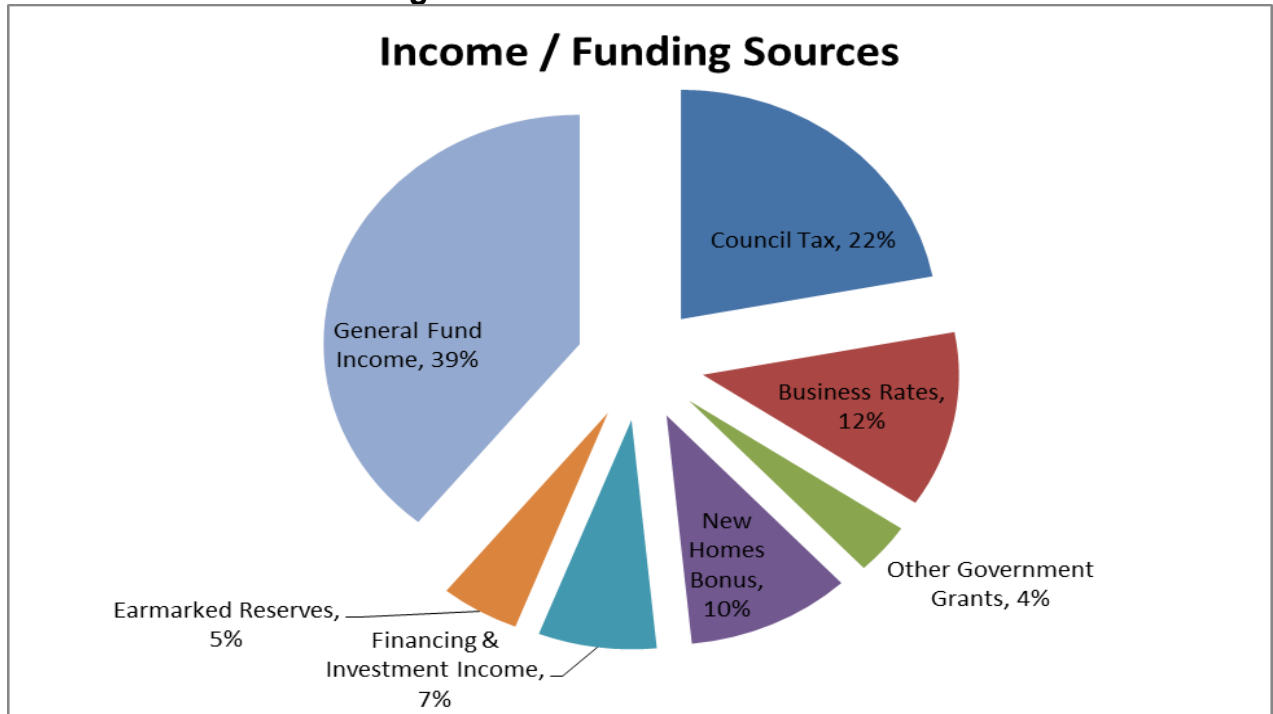
- 8.5 Appendix F is a case study on the introduction of Outcome Based Budgeting, which provides a case study on how the process could work.

Identifying Resources

- 8.6 The pie chart below shows the breakdown of the Council's expected funding in 2016/17. The clear shift from Central Government Grant to locally generated income can be seen, with 'Other Government Grants' (which contains the Revenue Support Grant) representing only 4% of the total income and this is expected to reduce to almost zero by 2018/19.
- 8.7 Government have not yet fed back any conclusions from the New Homes Bonus Consultation, it is expected this will be announced during the autumn. The forecasts in Appendix A assume that the reward reduces in line with the government's favoured options; significantly that the reward is reduced from six years to four years with an interim five years reward in 2017/18.

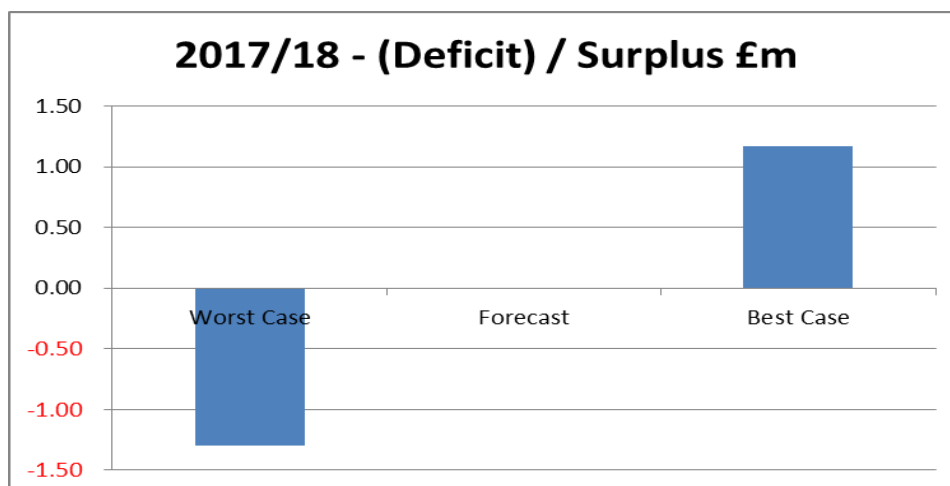
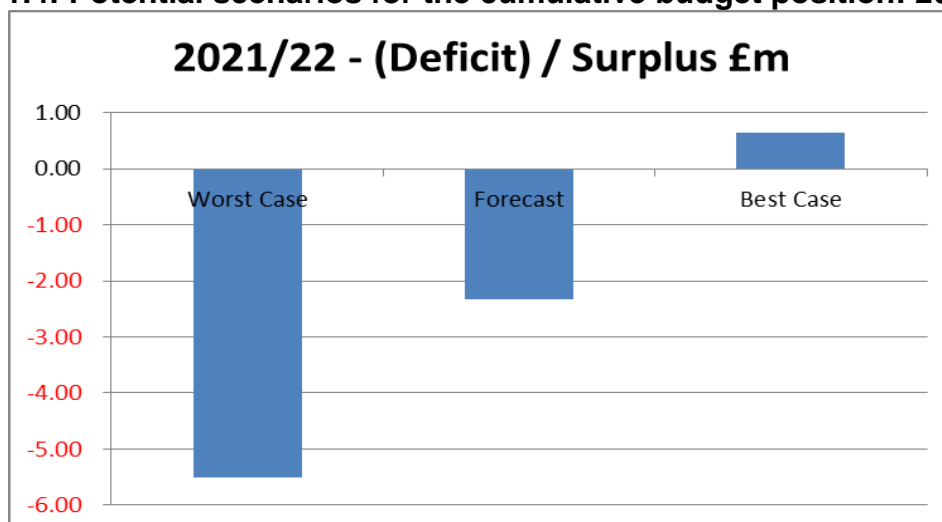
- 8.8 The Council Tax Referendum limits for 2017/18 will be announced alongside the settlement. It is currently anticipated that this will remain at either 2% or £5 for lower tier authorities.
- 8.9 Retained Business Rates have shown steady increases since the part localisation in 2013/14. It is currently forecast that total retention will be c£3.9m in 2017/18 but this could be impacted by the new revalued list which is due to commence in April 2017.

Chart 1.2: Income / Funding Sources 2016/17:



Possible Scenarios

- 8.10 The requirement for the Council to be self-sufficient and the uncertainties of funding streams and other assumptions used to underpin the Medium Finance Strategy means that it is important to view a range of possible outcomes. Below are three scenarios based on differing assumptions of activity over the next five years. If the Council does nothing to seek to increase other income sources, there will be an estimated 15% reduction in the Council resources available.
- 8.11 To meet the challenge that these scenarios present, it is important that the Council continues to make a fundamental shift in its approach to planning its activities and the way it funds them. A continued commitment to innovation and challenging the status quo is necessary to ensure that the Council is fit for purpose, meets the challenge of reduced central government funding and remains sustainable.

Chart 1.3: Potential scenarios for the 2017-18 budget**Chart 1.4: Potential scenarios for the cumulative budget position: 2017-22****Key Assumptions****Income / Funding**

- Council Tax - held at 2016/17 levels
- Retained Business Rates - held at 2016/17 levels with an inflationary adjustment
- New & Affordable Homes Bonus - based on the governments favoured consultation scheme (with the reward reducing from six to four years)
- Revenue Support Grant - per the final government settlement 2016/17
- Fees & Charges - held at 2016/17 levels

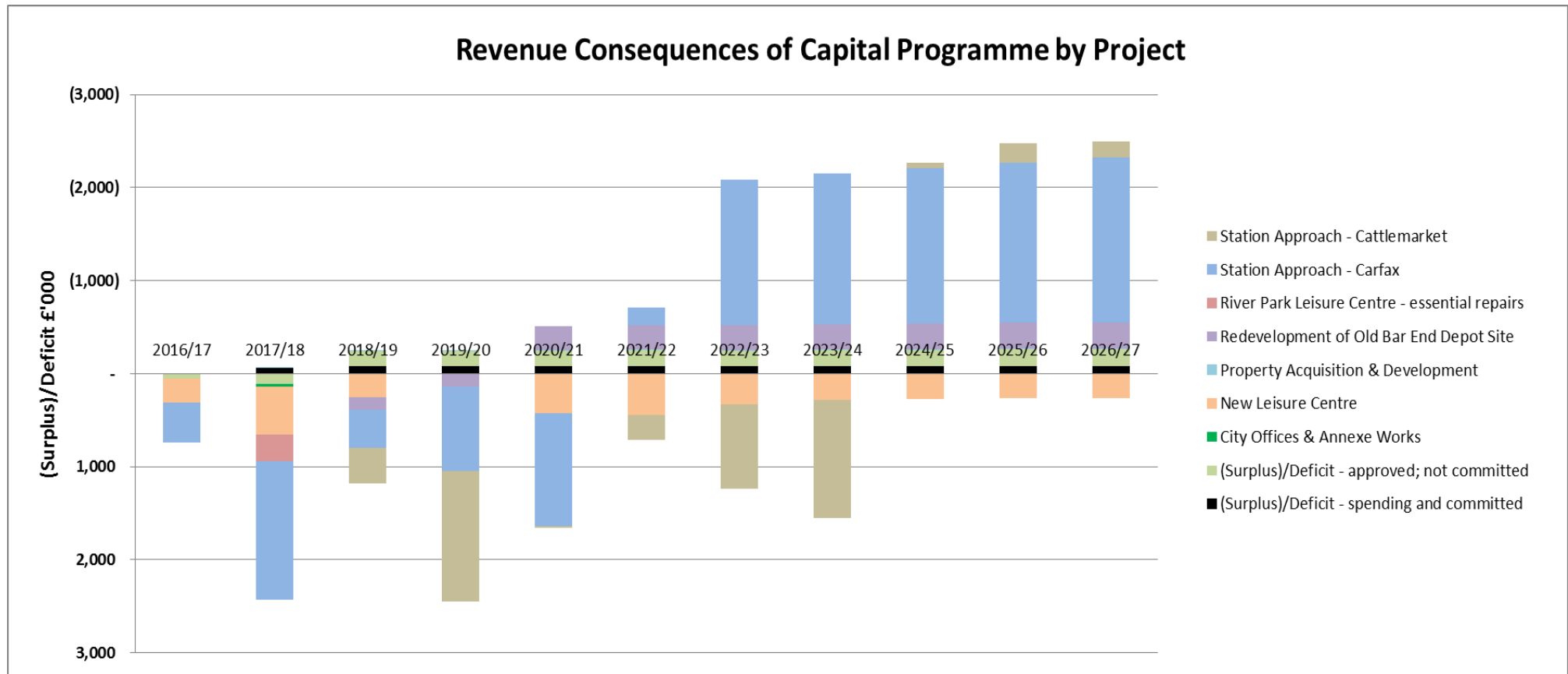
Expenditure

- Contractual Inflation - +2% per annum
- Pay Inflation - +1% per annum
- Employer's Pension Contributions - held at current levels

Capital Strategy

- 8.12 The Capital Strategy is considered separately, however there are consequences of decisions made on the Revenue Budget.
- 8.13 The consequences currently include the Minimum Revenue Provision calculation on a straight line basis, however this is currently being reviewed with a mind to change to the annuity method. The effect of this would be to reduce costs in the early years, but increase them in the latter, this would reflect the time value of money.
- 8.14 The capital programme is also grouped by categories:
- Spending and committed – schemes that have been approved by the appropriate body and are underway,
 - Approved but not yet committed – schemes approved by the appropriate body but not yet underway,
 - Programmed but not approved – schemes identified as desirable/necessary not yet approved by the appropriate body, awaiting full business case.
- 8.15 The timings of the final category, programmed but not approved, are subject to greater variation due to the uncertainty of approval and timings of delivery

Chart 1.5: Revenue impact of the Capital Programme – 2016-27



- 8.16 The Council's strategy of generating funding, to support service provision, from assets means that there is a heavy emphasis on the capital programme and as part of the further consideration before setting the budget in February, key decisions will have to be made.

Position statement on 2016/17 Budget

- 8.17 During the monthly in-year reporting process the following significant variances have been identified against the original budget estimate. Where appropriate these variances will be reflected in the baseline for 2017/18.

Baseline (Recurring) Variances

- After a favourable outturn in 2015/16, Car Parking income is expected to generate a favourable outturn of £0.25m in 2016/17 and this is expected to continue over the forecast period.

One-off 2016/17 Variances

- Employee 1team / vacancy management savings are expected to generate additional savings of £0.15m in 2016/17.
- A number of one-off revenue budgets relating mainly to River Park Leisure Centre and Silver Hill are not expected to be spent in 2016/17 and resources have been reallocated within those projects over the medium term planning period.
- After a favourable outturn in 2015/16, Benefits costs recovered are expected to generate an additional £0.2m in 2016/17.

Taxation and Non-specific Grant Income

- Community Infrastructure Levy receipts, retained by the Council, are forecast to be £1.3m in 2016/17 against the budget of £0.5m. These additional receipts of £0.8m will be placed in the Community Infrastructure Levy earmarked reserve to be matched against future spending plans.

Reserves

- 8.18 The forecast position of the reserves is set out in Appendix D.
- 8.19 The Council has available a number of reserves which can be broadly split into the categories of either risk related reserves or strategic reserves.
- 8.20 In order to determine the correct level of reserves a financial risk assessment is produced alongside the annual budget process by extracting financial risks from the Corporate Risk Register. During the process the likelihood, impact and mitigation is assessed, which helps determine the "risk reserves" both at a general level (the £2million General fund Balance) and at a specific level (£1million Business Rates Retention Reserve).

- 8.21 Strategic reserves are determined through linkages to the Asset Management plans, IT Strategy, Car Parking Strategy, Transformation Plans and Portfolio and Service Plans. These plans determine what the resource requirements are over the medium term.

Conclusion

- 8.22 For members to support a new approach to budget setting which integrates the budget plan and financial strategy over the medium term.

9 OTHER OPTIONS CONSIDERED AND REJECTED

9.1 *No change*

The old process, although fit for purpose in a financial environment of grants from central government and known revenue sources, is no longer appropriate where the Council *must be self-sufficient*.

9.2 *Zero-Based Budgeting*

Although good short-term gains can be made from zero-based budgeting, over the medium term it can lead to inefficient decisions being made for a customer focused entity such as a Council.

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

Efficiency Plan – ([CAB2827](#)) – September 2016

Other Background Documents:-

<http://www.accaglobal.com/content/dam/acca/global/PDF-technical/public-sector/smart-budgeting.pdf>

<http://local.gov.uk/documents/10180/7340790/sector+led+improvements+-+finance+-+Kingston+Council+OBB+Case+Study+-+Kingston+Changes+-+Heather+and+Hannah/a9c9c733-947a-4f04-9ddd-966fe6157883>

<http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/Documents/outcome-based-budgeting.pdf>

APPENDICES:

Appendix A: Medium term Indicative Figures

Appendix B: Capital Programme

Appendix C: Capital Programme – Revenue Consequences

Appendix D: Reserve Projections

Appendix E: Reserve Purposes

Appendix F: Outcome based Budgeting – A Case Study

Appendix A - Medium Term Indicative Figures

General Fund Revenue	Original								
	Estimate	Forecast		Forecast	Forecast	Forecast	Forecast	Forecast	
	2016/17	2016/17	%	2017/18	2018/19	2019/20	2020/21	2021/22	%
	£000	£000		£000	£000	£000	£000	£000	
Funding									
Council Tax (excluding Parish Precepts)	6,962	6,962	45%	7,012	7,062	7,112	7,163	7,213	54%
Retained Business Rates	3,928	3,928	25%	3,903	3,964	4,033	4,077	4,122	26%
New and Affordable Homes Bonus	3,284	3,289	21%	2,551	2,123	2,295	2,549	2,294	17%
Revenue Support Grant (Tariff) / Top-up Adjustment	1,003	1,003	7%	381	8	-410	-410	-410	0%
Transition Grant	92	92	1%	92					0%
Rural Services Delivery Grant	46	46	0%	37	29	37			0%
Other non-ringfenced government grants		92	1%						0%
	15,314	15,411		13,975	13,186	13,067	13,378	13,219	
Treasury Activity									
Interest (Payable) & Receivable	442	490		421	405	351	-183	-178	
Net Investment Property Income	1,920	1,845		1,903	1,903	1,900	1,900	1,900	
Resources available for the provision of services	17,676	17,746		16,300	15,494	15,318	15,096	14,942	
Baseline Net Expenditure									
Gross Income	-12,398	-12,648		-12,688	-12,588	-12,588	-12,683	-13,038	
Gross Expenditure	26,754	26,965		27,486	27,920	28,388	28,810	29,262	
Baseline net expenditure	14,357	14,317		14,798	15,332	15,800	16,127	16,225	
Net Benefits Income	-61	-261		-161	-61	-61	-61	-61	
Minimum Revenue Provision	266	266		267	267	267	267	641	
Deficit on Guildhall Trading Account	401	401		401	401	401	401	401	
Forecast baseline resource requirements	14,963	14,723		15,305	15,939	16,407	16,734	17,205	
One-off's & earmarked reserves									
Community Infrastructure Levy	-500	-1,300							
One-off net expenditure	2,755	3,285		2,133	1,017	1,802	399	239	
Collection Fund Adj's & Council Tax Support Grant	2,532	2,532		154	154	154	154	154	
Other Transfers to / (from) earmarked reserves	-1,552	-950		-10	-197	-175	-165	-175	
Transfers to / (from) Major Investment Reserve	-522	-545		-1,282	-792	-1,567	-164	-14	
Total net resource requirements	17,676	17,746		16,300	16,122	16,621	16,959	17,410	
(Savings Required)	-0	0		-0	-627	-1,303	-1,863	-2,468	

Capital Programme 2016/17 to 2026/27

	2016/17					2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	TOTAL
	Working budget (CAB2811)	Growth / (Savings)	Slippage	Other Adjustments	Revised Estimate	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	
	£000	£000		£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<i>Programmed But Not Yet Approved*</i>																
2-3 Bridge St	100	-	(100)	-	-	100	-	-	-	-	-	-	-	-	-	100
153 High Street	-	-	-	-	-	400	-	-	-	-	-	-	-	-	-	400
Abbey House	99	-	(99)	-	-	150	50	50	-	-	-	-	-	-	-	250
Abbey Mill - hydro	149	-	(149)	-	-	149	-	-	-	-	-	-	-	-	-	149
Asset Management Plan	323	-	-	(95)	228	149	150	150	200	200	200	200	200	200	200	2,077
Changing Pavilions (Town A/C)	700	-	(700)	-	-	300	400	-	-	-	-	-	-	-	-	700
City Offices & Annexe Works	350	-	(350)	-	-	640	-	-	-	-	-	-	-	-	-	640
Cycle Café - Capital Grant	50	-	-	-	50	-	-	-	-	-	-	-	-	-	-	50
Market Lane Toilet Works	44	-	(44)	-	-	44	-	-	-	-	-	-	-	-	-	44
New Leisure Centre	-	-	-	-	-	-	5,682	17,045	11,363	-	-	-	-	-	-	34,090
Property Acquisition & Development	4,000	-	-	-	4,000	-	-	-	-	-	-	-	-	-	-	4,000
Purchase of Garrison Ground	300	20	-	-	320	-	-	-	-	-	-	-	-	-	-	320
Redevelopment of Old Bar End Depot Site	2,500	-	(2,500)	-	-	250	2,375	2,375	-	-	-	-	-	-	-	5,000
River Park Leisure Centre - essential repairs	1,510	(1,320)	-	-	190	410	-	-	-	-	-	-	-	-	-	600
South Winchester Coach Park	200	-	(200)	-	-	200	-	-	-	-	-	-	-	-	-	200
Station Approach - Carfax	1,000	-	(1,000)	-	-	8,910	18,630	18,630	18,630	-	-	-	-	-	-	64,800
Station Approach - Cattlemarket	-	-	-	-	-	-	-	-	8,900	23,700	23,700	23,700	-	-	-	80,000
Station Approach - Public Realm Works	-	-	-	-	-	-	2,500	2,500	-	-	-	-	-	-	-	5,000
Total Programmed But Not Yet Approved*	11,325	(1,300)	(5,142)	(95)	4,788	11,702	29,787	40,750	39,093	23,900	23,900	23,900	200	200	200	198,420
Total General Fund	20,511	(1,100)	(9,432)	(171)	9,808	17,955	30,619	41,540	39,879	24,670	24,670	24,670	970	970	970	216,721

* Under the Council's Financial Procedure Rule 6.4, the inclusion of a scheme in the capital programme does not constitute authority to incur the expenditure. Such authority is obtained subject to the various conditions and limits as set out in the Constitution.

Revenue Consequences of General Fund Capital Programme 2016/17 to 2026/27

Notes:

Revenue consequences are estimates and are subject to change. More detailed analysis is carried out prior to actual expenditure being approved.

To be consistent with the presentation in the published financial statements, negative figures (in brackets) represent income or savings.

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GENERAL FUND	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Spending and committed											
Income	-	(70)	(70)	(70)	(70)	(70)	(70)	(70)	(70)	(70)	(70)
Expenditure	5	5	(11)	(11)	(11)	(11)	(8)	(11)	(11)	(11)	(11)
Net Cost of services	5	(65)	(81)	(81)	(81)	(81)	(78)	(81)	(81)	(81)	(81)
Financing & Investment Income & Expenditure											
Rental Income	-	-	-	-	-	-	-	-	-	-	-
Interest payable	-	-	-	-	-	-	-	-	-	-	-
(Surplus)/ deficit on Provision of Services	5	(65)	(81)	(81)	(81)	(81)	(78)	(81)	(81)	(81)	(81)
Adjustments between accounting basis and funding basis under regulations											
Minimum Revenue Provision	-	-	-	-	-	-	-	-	-	-	-
Revenue Contribution to Capital	-	-	-	-	-	-	-	-	-	-	-
(Surplus)/Deficit - spending and committed	5	(65)	(81)	(81)	(81)	(81)	(78)	(81)	(81)	(81)	(81)
Approved* - not committed											
Income	33	(182)	(381)	(381)	(381)	(381)	(381)	(381)	(381)	(381)	(381)
Expenditure	17	(12)	(73)	(73)	(73)	(73)	(72)	(73)	(73)	(73)	(73)
Net Cost of services	50	(194)	(454)	(454)	(454)	(454)	(453)	(454)	(454)	(454)	(454)
Financing & Investment Income & Expenditure											
Rental Income	-	-	-	-	-	-	-	-	-	-	-
Interest payable	-	156	154	152	149	147	145	142	140	137	134
(Surplus)/ deficit on Provision of Services	50	(38)	(300)	(302)	(305)	(307)	(308)	(312)	(314)	(317)	(320)
Adjustments between accounting basis and funding basis under regulations											
Minimum Revenue Provision	-	-	139	139	139	139	139	139	139	139	139
Revenue Contribution to Capital	-	150	-	-	-	-	-	-	-	-	-
(Surplus)/Deficit - approved* not committed	50	112	(161)	(163)	(165)	(168)	(169)	(172)	(175)	(178)	(180)
Programmed but not yet approved*											
Income	-	155	309	309	(1,257)	(4,659)	(6,172)	(6,519)	(7,488)	(8,476)	(8,468)
Expenditure	710	2,163	569	1,344	1,238	3,082	3,111	3,123	3,126	3,128	3,130
Net Cost of services	710	2,317	878	1,653	(19)	(1,577)	(3,061)	(3,396)	(4,362)	(5,348)	(5,338)
Financing & Investment Income & Expenditure											
Rental Income	-	(40)	(40)	(40)	(584)	(584)	(584)	(584)	(584)	(584)	(584)
Interest payable	-	15	309	801	1,800	1,438	2,057	2,658	2,225	2,198	2,170
(Surplus)/ deficit on Provision of Services	710	2,292	1,147	2,414	1,197	(723)	(1,587)	(1,322)	(2,721)	(3,734)	(3,752)
Adjustments between accounting basis and funding basis under regulations											
Minimum Revenue Provision	-	18	18	18	185	972	972	972	972	1,772	1,772
Revenue Contribution to Capital	-	-	-	-	-	-	-	-	-	-	-
(Surplus)/Deficit - programmed but not yet approved*	710	2,310	1,165	2,432	1,381	249	(615)	(350)	(1,749)	(1,962)	(1,980)
TOTAL (SURPLUS)/DEFICIT	765	2,357	924	2,188	1,135	1	(862)	(603)	(2,005)	(2,221)	(2,242)

Revenue Consequences of General Fund Capital Programme 2016/17 to 2026/27

Notes:

Revenue consequences are estimates and are subject to change. More detailed analysis is carried out prior to actual expenditure being approved.

To be consistent with the presentation in the published financial statements, negative figures (in brackets) represent income or savings.

* Under the Council's Financial Procedure Rule 6.4, the inclusion of a scheme in the capital programme does not constitute authority to incur the expenditure. Such authority is obtained subject to the various conditions and limits as set out in the Constitution.

Impact on (Surplus)/Deficit by project (nil impact excluded)	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £001	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Spending and committed											
Car Parks	-	(13)	(29)	(29)	(29)	(29)	(26)	(29)	(29)	(29)	(29)
Surface Car Park at Friarsgate	5	(52)	(52)	(52)	(52)	(52)	(52)	(52)	(52)	(52)	(52)
(Surplus)/Deficit - spending and committed	5	(65)	(81)	(81)	(81)	(81)	(78)	(81)	(81)	(81)	(81)
Approved* - not committed											
Enterprise Centre Managed Workspace	-	(49)	(55)	(55)	(56)	(56)	(57)	(58)	(58)	(59)	(60)
Matley's Yard	30	(1)	(12)	(12)	(12)	(12)	(11)	(12)	(12)	(12)	(12)
New Special Maintenance Depot	-	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)
Open Space & Recreational Facilities	-	3	3	3	3	3	3	3	3	3	3
St Clement's Surgery Replacement	20	175	(82)	(84)	(85)	(87)	(89)	(91)	(93)	(94)	(96)
(Surplus)/Deficit - approved* not committed	50	112	(161)	(163)	(165)	(168)	(169)	(172)	(175)	(178)	(180)
Programmed but not yet approved*											
City Offices & Annexe Works	-	30	-	-	-	-	-	-	-	-	-
New Leisure Centre	257	513	250	-	428	442	328	285	272	267	261
Property Acquisition & Development	-	(7)	(8)	(8)	(8)	(9)	(9)	(9)	(10)	(10)	(10)
Redevelopment of Old Bar End Depot Site	-	-	140	137	(258)	(262)	(265)	(268)	(272)	(275)	(279)
River Park Leisure Centre - essential repairs	-	289	-	-	-	-	-	-	-	-	-
South Winchester Coach Park	25	(4)	(8)	(8)	(8)	(8)	(7)	(7)	(7)	(7)	(7)
Station Approach - Carfax	428	1,489	413	907	1,207	(187)	(1,568)	(1,619)	(1,670)	(1,723)	(1,776)
Station Approach - Cattlemarket	-	-	378	1,403	21	272	906	1,269	(63)	(214)	(169)
(Surplus)/Deficit - programmed but not yet approved*	710	2,310	1,165	2,432	1,381	249	(615)	(350)	(1,749)	(1,962)	(1,980)
TOTAL (SURPLUS)/DEFICIT	765	2,357	924	2,188	1,135	1	(862)	(603)	(2,005)	(2,221)	(2,242)

GENERAL FUND EARMARKED RESERVES		2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	Bal. @ 01/04/2016	FORECAST Closing Bal.	FORECAST Closing Bal.	FORECAST Closing Bal.	FORECAST Closing Bal.	FORECAST Closing Bal.	FORECAST Closing Bal.
	£000	£000	£000	£000	£000	£000	£000
General Fund Earmarked Reserves							
Major Investment Reserve *	(7,867)	(7,202)	(5,920)	(5,098)	(2,811)	(2,647)	(2,633)
Building Control							
Business Rates Retention	(2,217)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Car Parks Property	(1,526)	(1,351)	(306)	(266)	(226)	(186)	(146)
Community Grants & Commissions	(173)	(173)	(173)	(173)	(173)	(173)	(173)
Community Infrastructure Levy - General Fund	(539)	(1,719)	(1,719)	(1,719)	(1,719)	(1,719)	(1,719)
Community Infrastructure Levy - Winchester Town	(87)	(157)	(157)	(157)	(157)	(157)	(157)
Flood Support Schemes	(90)						
Homelessness Prevention	(529)	(356)	(179)	(179)	(179)	(179)	(179)
Information Management and Technology	(324)	(285)	(141)	(93)	(47)	(5)	11
Insurance	(40)	(40)	(40)	(40)	(40)	(40)	(40)
Local Development Framework (LDF)	(146)						
Local Elections	(30)		(70)	(58)	(46)	(34)	(22)
Municipal Mutual Insurance	(157)	(94)	(94)	(94)	(94)	(94)	(94)
Museums Acquisitions	(8)	(8)	(8)	(8)	(8)	(8)	(8)
Museums Publications	(38)						
Organisational Development	(1,592)	(1,292)	(1,042)	(892)	(742)	(592)	(442)
Planning Deposits (Interest)	(92)	(92)	(92)	(92)	(92)	(92)	(92)
Property - Asset Management Reserve	(3,709)	(2,679)	(1,297)	(1,282)	(1,267)	(1,252)	(1,237)
Winchester Town Reserve	(424)	(323)	(275)	(202)	(151)	(88)	(26)
Total General Fund Earmarked Reserves	(19,588)	(16,771)	(12,513)	(11,353)	(8,751)	(8,266)	(7,956)
General Fund Balance	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
Usable Capital Receipts Reserve - General Fund	(2,766)	(3,589)	(3,485)	(1,886)	(1,530)	(1,852)	

* Nb. The forecast Major Investment Reserve balance does not include any call on this reserve to cover the forecast deficits from 2017/18 onwards

Strategic Reserves

(i) Major Investment Reserve

Planned to fund major one-off revenue or capital expenditure, for example the revenue budget associated with the new leisure centre is funded from the Major Investment Reserve.

(ii) Building Control

Holds any surplus made on the chargeable element of the service in one year, to ensure a break-even position over a rolling three to five year period (i.e. the surplus is released in future loss making years).

(iii) Organisational Development

Planned to fund the Council's Transformation plans, which are expected to largely be revenue in nature.

(iv) Car Parks Property

Planned to fund major one-off revenue or capital expenditure identified in the Car Parking Strategy and Asset Management Plans. This is mainly supporting the maintenance of the Council's existing assets.

(v) Community Grants & Commissions

Planned to fund one-off Commissions which can cross a number of financial years from the initial project scoping to the final delivery and any emergency in year community grants.

(vi) Community Infrastructure Levy – General Fund & Winchester Town

Holds the Council retained element of the Community Infrastructure Levy split between the General Fund and Winchester Town, to be released as the expenditure is incurred.

(vii) Homelessness Prevention

Holds funding received from the Government towards homelessness prevention and released in line with the annual report and spending plan approved at Cabinet Housing. This reserve will be subject to review as part of the budget setting process due to the changes in government grants and forecast removal of revenue support grant by 2018/19.

(viii) Information Management & Technology

Planned to fund one-off revenue or capital expenditure identified in the IT Strategy. In particular this is used to ensure that funds are available to support the investment in IT Infrastructure which requires refresh over a number of years rather than a set requirement each financial year.

(ix) Insurance

Used to support the Council's self-insurance policy. This reserve will be subject to review as part of the budget setting process to determine whether an earmarked reserve is the most efficient way of managing this process.

(x) Local Development Framework (LDF)

Used to support the Council's Local Development Framework which has resulted in uneven expenditure requirements over a number of years.

(xi) Local Elections

Used to support the Council's 1/3 election policy and therefore harmonises the revenue requirement each year over the four year period. This reserve will be subject to review as part of the budget setting process to determine whether an earmarked reserve is the most efficient way of managing this process.

(xii) Municipal Mutual Insurance

The Council is aware of a potential liability arising from its previous arrangement with the Municipal Mutual Insurance Company, relating to mesothelioma claims. Following unfavourable litigation in the Supreme Court, the directors have triggered the contingent scheme of arrangement under section 425 of the Companies Act 1985 as a solvent run off could not be foreseen. Ernst & Young were appointed scheme administrators on the 13 November 2012. At the 31 March 2016 the Council's exposure under the scheme of arrangement is £157,000. Given the nature of the claims, projections remain uncertain and the Council is maintaining its earmarked reserve to fully cover its exposure.

(xiii) Museums Acquisitions

Used to hold funding received towards Museum acquisitions. This reserve is forecast to close in 2016/17.

(xiv) Museums Publications

Used to hold funding received towards Museum publications. This reserve will be subject to review as part of the budget setting process to determine whether an earmarked reserve is the most efficient way of managing this process.

(xv) Organisational Development

Planned to fund the Council's Transformation plans, which are expected to largely be revenue in nature.

(xvi) Planning Deposits (Interest)

Used to hold the interest added to S106 Open Spaces balances, and per the developer agreements, to ensure that the value of money is not eroded over time. The Council is winding down its open spaces balances post the implementation of the Community Infrastructure Levy and this reserve is therefore expected to be closed shortly.

(xvii) Property – Asset Management Plan

Planned to fund major one-off revenue or capital expenditure identified in the Asset Management Plans. This is mainly supporting the maintenance of the Council's existing assets.

(xviii) Winchester Town Reserve

Used to hold any surplus balances in the Winchester Town Account. The Town Forum use this reserve in a strategic way with both the aim of maintaining a 'risk' balance of c10% of its net expenditure and also to support future one-off spending requirements (such as play area refurbishment).

Risk Reserves

(i) General Fund Balance

Used as a general 'risk reserve' in order to mitigate against financial risks faced by the general fund. This reserve links to the corporate risk register.

(ii) Business Rates Retention

Used as a specific 'risk reserve' to help mitigate against uncertainties caused by the localisation of business rates and the potential fluctuations in annual retained business rates.

Case Study Royal Borough of Kingston upon Thames

Overview

At the beginning of the financial planning period for 2015/16, the Royal Borough of Kingston upon Thames estimated that they would need to find £35m savings by 2019/20 without any increases to council tax in that period.

Kingston recognised that this was a significant challenge and changed its budget planning process to one based on identifying the key outcomes for residents – an approach they termed ‘Outcome Based Budgeting’ (OBB). This change in approach recognised the issue that their previous approaches would not achieve the budget reductions needed.

The OBB approach focuses less on the structure of services and more on ensuring that what Kingston does delivers the outcomes that are key to residents. OBB works across services and is more suited to identifying and delivering the radical solutions required in times of significant change and focusing on future activity rather than making marginal changes to current activity. It is also well suited to Kingston’s commissioning approach, which aims to ensure the best provider delivers the right services. A focus on outcomes can also be used to build greater consensus and focus across different organisations, reflecting the ambition to adopt a whole-system approach.

The Approach

Kingston drew on the analysis in the New Local Government Network’s publication *Smart Budgeting: Integrating Financial and Strategic Planning for Outcomes*, which argued that local authorities are facing 21st century problems with a 20th century approach to budgeting and suggested an outcomes based approach instead.

The OBB approach has been used to develop savings proposals for the next four years. The outputs from the OBB process form the main components of the Our Kingston Programme, which will be the mechanism Kingston uses to deliver significant change over the next two to three years and beyond.

The decision to move to an OBB approach was taken on the basis that it was the most appropriate method for the situation in which Kingston currently sits and will be operating in terms of reduced resources to deliver services. It was also a programme that would have to be delivered at pace to meet the funding challenge, and the Council developed the approach in just six months – significantly less than the anticipated 18 months, which had been advised as a reasonable timescale by those who have implemented something similar elsewhere.

The approach delivers the following advantages:

- it allows more radical solutions compared to traditional budgeting approaches, so it is more suited to times of significant change
- the focus on the achievement of outcomes allows greater identification of cross cutting and joined up initiatives with less regard to existing organisational structures or processes

- consideration of required outcomes can be used to build greater consensus and focus across different organisations, reflecting the ambition to adopt a whole-system approach to delivery
- it builds on the work done at Kingston to adopt a commissioning approach and aligns well with the organisational direction of the Council as an 'enabling council'
- it allows a focus on future activity rather than marginal changes to current activity
- focusing on required outcomes rather than services allows better measurement of impact and success.

In adopting this process, Kingston identified eight Community Outcomes that it aimed to achieve, with four relating to people and four relating to place or "growth". In addition to this the shape of the organisation and its support services were reviewed. Kingston suggests that the precise shaping and limits of the outcomes was a lesser factor in the success of OBB; it was the process itself that led to results. For each outcome Kingston asked:

- Who else is doing things towards achieving this outcome?
- How could the Council use its resources to help others do this?
- How could the Council use its resources to do new things?

This enabled the Council to build its services from the bottom up, asking what it wanted to do most, rather than what should be cut.

As usual, the outcomes based approach involved re-analysing the budget by the extent to which expenditure contributed to each outcome. The authority took a pragmatic view. Some services could contribute to multiple outcomes, so the service was broken down to the lowest level and an outcome assigned with a flagged dependency, which enabled multiple outcomes to be considered while keeping the analysis of costs relatively simple.

Cabinet discussed two outcomes per meeting, and proposals were collected either side of a 'line', which represented a balanced budget. Members were then able to switch priorities above or below the line according to their political choices as long as the overall budget remained balanced. This ensured that elected members were in overall control of the process.

The below table demonstrates the result of this process, with future savings aligned to each outcome.

The approach was assisted by the fact that Kingston sees itself as an enabling authority and is generally agnostic on the question of who the provider should be, which made it easier to focus on the outcomes themselves. It also helped that the Council started with a clear sense of what its key priority outcomes were and the identification of these was non-controversial.

What has changed? Some examples

The approach has worked for Kingston in that it has prompted a different set of questions for the organisation and its partners, generated new ideas, and led to more innovative solutions to deliver services with reducing resources. This is partly put down to the fact that the approach involved more people, including some who

were not usually involved in the budget process. The process also escaped from the traditional 'Star Chamber' approach, which had become stale.

The approach has reaped rewards already and has led to the identification of budget reductions of £12.2m in 2016/17 rising to £22.7m in 2019/20. These are believed to be significantly greater than the reductions that would have been identified under the previous methodology. The process will contribute to further closing the budget gap in 2017/18, 2018/19 and 2019/20.

The process has also identified some radical new ideas and an innovative direction of travel that sees Kingston embark on a whole system approach, examples include:

- transformation under the Kingston Coordinated Care Programme with the local Clinical Commissioning Group
- continuing its nationally recognised approach to Children's Services through its shared community interest company model, AfC
- approaching shared services with the new environment shared service with Sutton and by embracing the opportunities afforded by housing and economic growth to develop further sources of revenue to protect its/their services.

The whole organisation became more involved in delivering dynamic change, not just the Chief Finance Officer owning the process. The work cuts across departments where outcomes are shared across traditional work streams; asking a different question to a different mix of people gave freshness and vitality to the ideas.

Where next

The Council recognises that it needs to redefine its role in the community. It is proposing a different type of council, one which is not just focused on delivering and commissioning but also on enabling – getting the most out of all kinds of resources across Kingston to support the achievement of its priorities.

In the first year, because of a need to press ahead at pace, it was not possible to engage with partners as much as Kingston would have wished. Kingston now aspires to engage partners more on the journey, make better use of measurements of the achievement of outcomes, and to expand the approach more explicitly to the council's capital programme.

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