

REPORT TITLE: OUTCOME BASED BUDGETING

20 NOVEMBER 2017

REPORT OF PORTFOLIO HOLDER: FINANCE

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WARD(S): GENERAL

PURPOSE

To provide an update on the current budget planning and consultation position, following the principles of Outcome Based Budgeting.

These plans will form the basis of the detailed budget for 2018/19, due for approval at Council in February, and the medium term projections.

RECOMMENDATIONS:

That the Overview and Scrutiny Committee raises with the Leader or other relevant Portfolio Holder any issues arising from the information in this report and considers whether there are any items of significance to be drawn to the attention of Cabinet.

IMPLICATIONS:

1 COUNCIL STRATEGY OUTCOME

- 1.1 The Council Strategy is the core strategic document, helping to guide and inform budget planning work and the options around delivery.

2 FINANCIAL IMPLICATIONS

- 2.1 As detailed in the main body of the report.

3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 Any implications arising from budget options contained within this report will be dealt with in the individual business cases and committee papers relating to those specific decisions and Council will approve the final budget in February 2018.

4 WORKFORCE IMPLICATIONS

- 4.1 None directly relating to this paper, which sets out the strategic budget planning direction.

5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 A key strand of the Council's financial and treasury strategies is to maximise income from its assets and seek to manage risk by achieving a balanced portfolio of assets. Options considered during the budget planning process may therefore involve either the acquisition or disposal of assets, requiring a full business justification case.

6 CONSULTATION AND COMMUNICATION

- 6.1 This paper is a key part of the budget consultation process. Views will be sought from local businesses, parish council's, and local residents as part of this exercise.

7 ENVIRONMENTAL CONSIDERATIONS

- 7.1 Environmental considerations will be part of the business case supporting any budget proposals.

8 EQUALITY IMPACT ASSESSMENT

- 8.1 This document is part of the budget consultation process and equality impact assessments will be considered alongside any relevant budget options.

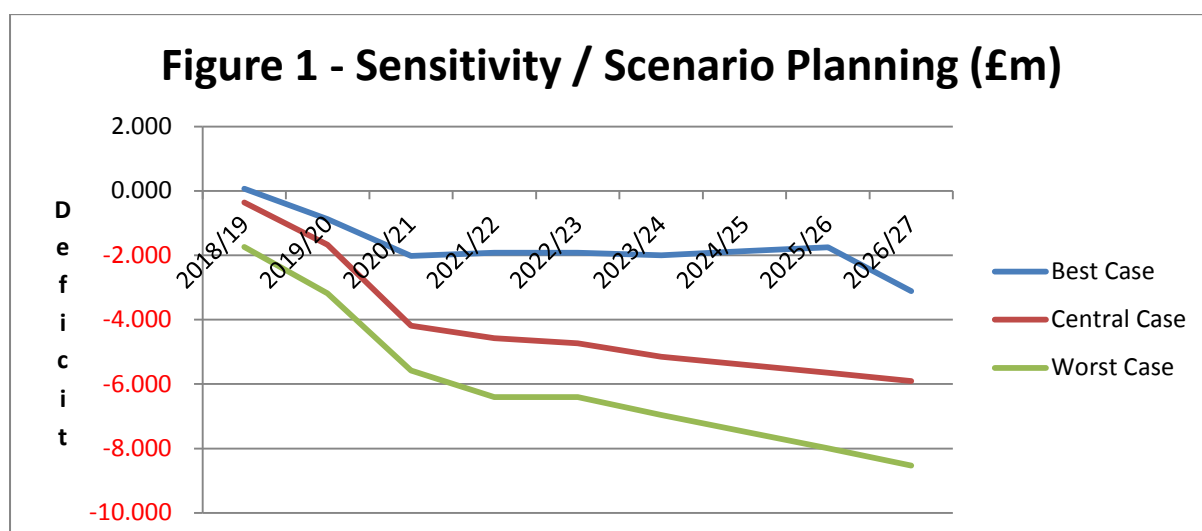
9 RISK MANAGEMENT

Risk	Mitigation	Opportunities
<i>Significant reductions in government funding over the medium term</i>	<i>Financial projections are shown up until 2026/27 and the scenario planning highlights the potential sensitivities.</i>	<i>Development of locally generated income streams with less reliance on government funding</i>
<i>Council's service priorities are not reflected in the budget</i>	<i>The use of Outcome Based Budgeting as a method of delivering the budget from 2018/19 onwards.</i>	<i>Ensure the prioritisation of resources to best meet the Outcomes of the authority</i>
<i>Failure to set a balanced budget over the medium term</i>	<i>Appendix A shows the latest financial projections up until 2026/27, and the scenario planning highlights the sensitivities around these projections. Planning over a longer period will help to ensure understanding of the scale of the financial challenges and ensure that early planning enables enough lead in time for the implementation of budget options.</i>	<i>Long term strategic planning Innovative funding streams Transformational efficiency savings</i>
<i>Delays to or failure to deliver major capital schemes leaving future years forecast deficits</i>	<i>Ensure robust business cases are taken forward and sufficient resources are available to deliver the projects. Scenario planning to ensure that a multitude of options are available for consideration.</i>	<i>Consideration of a wide base of potential capital / investment schemes to enable a balanced risk portfolio and options for other schemes to be chosen should any existing schemes not progress</i>

10 SUPPORTING INFORMATION:

Background

- 10.1 The Cabinet report (CAB2955) on the Medium Term Financial Plan provided an update on the Council's financial position. This included the projections in receipts from the main funding sources of Council Tax, retained Business Rates and New Homes Bonus as well as the Revenue Support Grant. Overall, funding is expected to fall by £1.8m over the next four years.
- 10.2 Alongside the changes to funding highlighted previously, the Council has other cost pressures such as contractual inflation, rising costs for infrastructure schemes and other unavoidable financial pressures, such as any contractual inflation and the national pay award. The scenario planning highlighted below in Figure 1 from CAB2955 sets out the potential different impacts over the longer term.



- 10.3 Responding to the above challenge requires a different approach to budgeting than the traditional 'salami-slicing' approach that other public bodies have taken in the past. The Council Strategy articulates the service and outcome priorities of the Council for the coming years. In order to deliver these, different options need to be considered and their financial impacts assessed. This is the principle behind Outcomes Based Budgeting (OBB), that the financial position should deliver the overall outcomes of the Council, rather than a pure cost-cutting exercise that limits the ability of Council to remain resilient to future funding challenges.
- 10.4 To consider which options are available to the Council, consideration has been given to the different practice that exists across peers / other councils as well as assessing the current areas of strength that the Council can build upon. The current focus of the OBB has been to identify high-level options to meet the financial challenge over the coming four years including short-term options and those requiring a longer lead-in time to develop the business

case. Delivery of these options may require capital, revenue funding or the use of reserves.

- 10.5 Overall, the OBB approach is expected to bring the following benefits:
- I. Long term planning - delivering outcomes in a smart way and avoiding salami slicing of budgets
 - II. Greatly improved engagement and a shared vision for the future
 - III. Improved efficiencies - wider consultation groups that can provide constructive challenge. Council wide thinking can reduce duplication
 - IV. Improved prioritisation - Directing resources to best meet our outcomes
 - V. Culture of constructive challenge and Innovation / New ideas for service delivery
 - VI. Income generation not just cost reductions
- 10.6 In light of the above financial analysis, the 'central case' has been assumed. As can be seen from the below, the most significant reductions occur in years two and three.

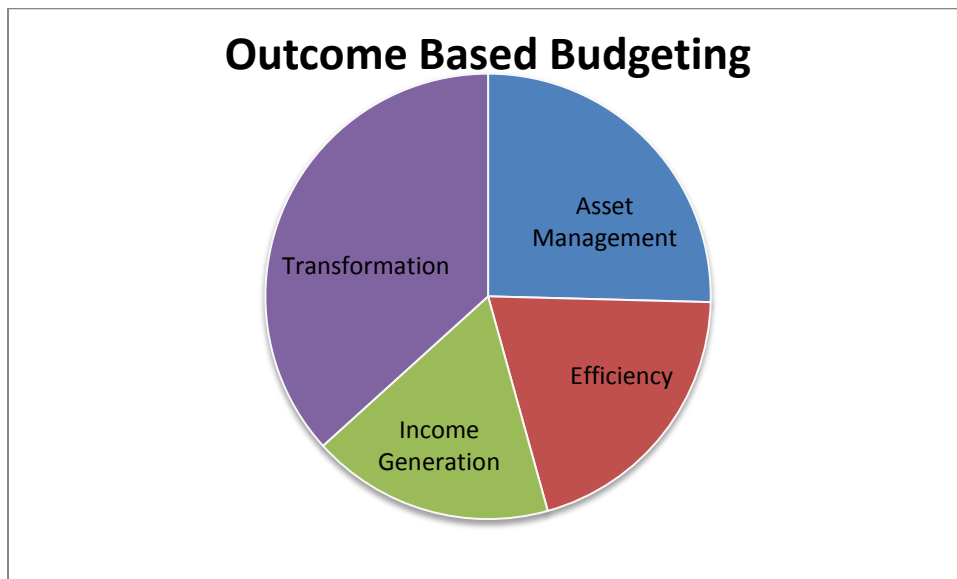
Table 1: Cost base reduction required for a balanced financial position

Year	2018-19	2019-20	2020-21	2021-22
In year / £m	0.36	1.31	2.52	0.38
Cumulative cost base reduction / £m	0.36	1.67	4.19	4.57

- 10.7 Options for balancing the 2018/19 budget are shown below and within Appendix B. In line with the Outcome Based Budgeting approach they include a number of “quick wins” which will give time to deliver the strategic plans required to deliver a balanced budget over the medium term. If all the options in Appendix B were taken this would generate 2018/19 savings of £0.86m, balancing the forecast deficit of £0.36m and helping towards delivering a balanced position from 2019/20 onwards.

Outcome Based Budgeting proposals

Graph 1 – Outcome Based Budgeting Plan to 2021/22



The graph above sets out the themes where options have been identified, and the key potential areas where the MTFs can be balanced over the next four years. Under these four headings below are some of the key areas that are being explored over the next four years. Appendix B also sets out the summary of options for 2018-19.

EFFICIENCY

- 10.8 Efficiency review and planning plays a critical role in the continuing provision of high quality services by the most efficient and value for money method of delivery. This strand of the OBB process is aimed at looking in detail at internal processes and ensuring these support the Council in delivering excellent services in the most effective way.
- 10.9 Contract review and management is a key element in this strand, with total third party payments budgeted at £6.7m for 2017/18. The Council operates a number of significant ongoing contracts such as: leisure centre management, environmental services contract, and the park and ride bus contract. Ensuring that both current and future contracts offer the best possible value to the Council is of high importance.
- 10.10 The Council has targeted to start delivering efficiency savings as quickly as possible in order to produce a balanced budget for 2018/19 and also re-direct resources to high priority areas. As such a number of savings are already progressing and these are detailed below:

- I. **Removal of ISDN line** - Removal of older BT lines and moving the Council's telephony services through to an internet based service, generating a recurring saving of £50k.
- II. **Internal and External audit fee reductions** - Further reduction in the main audit fee due to recent national procurement through the PSAA (Public Sector Appointments Agency). EY will remain the Council's auditor but the fee will reduce. In addition there will be a reduction of the audit fee in line with the re-focussed internal audit strategy from 2017-18. These two reductions will generate recurring savings of £45k.
- III. **An accounting adjustment to change MRP to an annuity basis** - Moving the Council's Minimum Revenue Payment (MRP) basis from a straight line repayment method to an annuity one to reflect the changes in value and cost to schemes through the life of the asset. This will generate a budget reduction of £43k per annum over the medium term projections, though over the life of Council assets this reduction will be removed as there is no saving over a 40 year period.
- IV. **IT GIS Support savings** – An efficiency review of the current resources deployed in this area has achieved recurring savings of £18k.

ASSET MANAGEMENT

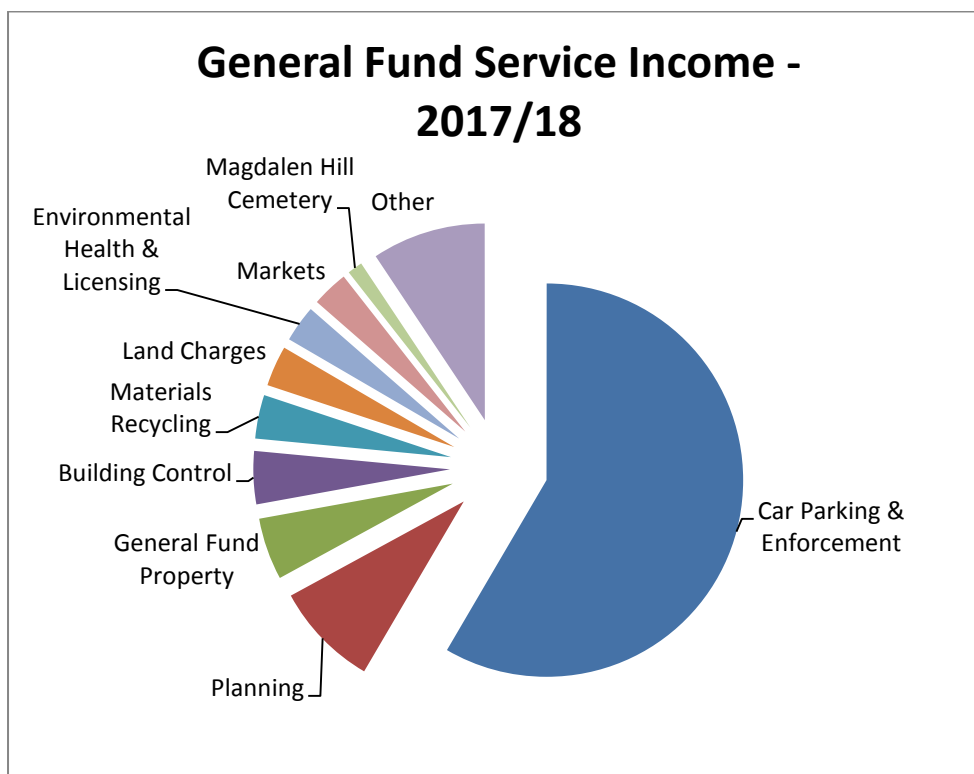
- 10.11 The Council operates an extensive portfolio of property assets which are either used in the delivery of services or generate an income to the Council which in turn provides the resources to deliver services. With the significant reductions in government funding it is important to ensure that existing assets are used in the most effective way.
- 10.12 It is recognised that making the best use of existing assets can provide significant savings as well as increasing collaboration with other organisations and complimenting existing skills within the Council with relatively little risk exposure. The Council has recently let office space in the Guildhall to South East Employers (SEE) which will provide an assured income and increase occupancy in the Guildhall.
- 10.13 An extensive programme of refurbishment works are underway at the Council's City Offices in order to extend the life of the building, provide environmental enhancements in the form of lower energy consumption, and to ensure the offices remain fit for purpose.
- 10.14 The Council operates a significant property portfolio which generates rental income in excess of £3m per annum. Properties are let at commercial rates with rent review periods built in as standard. A number of existing leases are due for review within the next few years and overall rental income is expected to increase significantly.

- 10.15 The capital strategy provides the opportunity for investment in new or existing assets should they meet the aims of the council strategy and generate a financial return to the Council. A review of existing assets is underway to determine what opportunities are available and any new opportunities will be considered and developed as they come forward.
- 10.16 **Transfer of HRA garages to the General Fund** (see also CAB2986 (HSG)) - There are currently 1,700 Council owned garages which are accounted for within the Housing Revenue Account. Whilst priority is currently offered to Council tenants, garages are available to all residents and make no contribution to the delivery of the Council's statutory housing responsibilities. Garages do generate significant rental income and appropriating garages to the General Fund will also have the combined advantage of providing a source of annual income to the General Fund whilst also increasing the HRA's availability of capital funding.
- 10.17 Following review of the **Strategic Asset Purchase Scheme (SAPS)** over the first nine month of activity, CAB2996 proposes to increase the scheme's fund by an additional £15m; this will bring the total allocated to £30m. The scheme has worked well to date with the first purchase being the Bus Station, which was subject to Council approval. The Council has been made aware of further potential acquisitions.

INCOME GENERATION

- 10.18 General Fund income is an important source of funding, helping the Council to continue delivering high quality services despite reductions in government funding. In 2017/18 general fund income is budgeted at £12.6m, which is planned to fund 41% of gross general fund expenditure. This compares to the next highest source of funding, Council Tax, which is planned to fund 24% of gross general fund expenditure.

Graph 2: General Fund Service Income Budgets 2017/18



- 10.19 In order to continue delivering services consideration of full cost recovery is an important principle to be considered. This ensures the user of these services is paying a fair price, that the services remain available, and that there is no unnecessary burden on the council tax payer. The provision of discounts for certain groups or a universal subsidy could be considered when in direct support to principles within the council strategy.
- 10.20 Fees and charges are reviewed and benchmarked individually rather than adopting a 'one size fits all' approach. Consideration is given to cost recovery, current and forecast inflation rates, and how our charges compare both within the Winchester district and against neighbouring authorities. A full review is currently underway which will feed into the final budget for 2018/19.
- 10.21 It is important to note that a number of chargeable areas are governed by statute and charges are therefore set by central government. It was announced earlier this year that planning fees would be allowed to increase by 20% and this was expected to happen in the first half of 2017/18 though this has been delayed by Government..
- 10.22 **Additional planning fee** income - An additional 20% is expected to generate additional income of around £0.16m per annum.

- 10.23 **Review of fees & charges to align with key strategies and seek new trading opportunities** – an additional £250k over the life of the Medium Term Financial Strategy through seeking new opportunities to trade, understanding subsidies and increasing activity.

TRANSFORMATION

- 10.24 The Council continues to explore ways of transforming both operations and service delivery in order to generate efficiencies wherever possible. The core principle is delivering services in the most efficient way in order to achieve value for money. The Council has a good track record of exploring opportunities for transforming services, with the shared IT services with Test Valley Borough Council a good example of this. Pooling resources has helped to make revenue savings to both Councils, has helped to mitigate against increases in infrastructure costs, and helps to ensure there is sufficient resilience built into the service to meet the needs of both authorities. Another opportunity is using technology to 'go paperless'. The Council could reduce the amount of paper printing, and reduce costs, by shifting to portable technology. Committee meetings would be one area where this change would be possible.
- 10.25 Digitalisation is one particular area for review. As technologic advances continue to be made and the use of technology (particularly portable technology) increases, it is important that the Council takes advantage of these digital channels. The potential benefits are a reduction in costs through the automation of internal processes, and increased customer satisfaction through simple interaction which is available whenever the customer needs it. This approach also has the opportunity to deliver new revenue and services, for example through exploring a new mobile app for Winchester.
- 10.26 It is also important that the Council is reviewing other options to transform services and offer different solutions. One area under consideration is setting up a housing company to provide a different housing offer to residents and that also provides a financial benefit to the Council (see **Housing Company Options** CAB2990 (HSG)).

INVESTMENT

- 10.27 The Council runs a very successful apprentice scheme which gives people opportunities to gain real work experience whilst also continuing their education on a part-time basis. This scheme has run for a number of years, well before the apprenticeship levy commenced, and a number of apprentices have successfully gained permanent employment with the Council.
- 10.28 Opportunities to invest which also generate a financial return, either through reductions in cost or income generation, are assessed on a case by case basis. The roll out of LED lighting across car parks, the Guildhall, and offices, is a good example of capital investment which has generated a recurring cost saving.

- 10.29 The Council Strategy guides the budget requirements and prioritisation of resources across the Council. The introduction of outcome based budgeting, and not focusing purely on cost reductions, will play a key role in helping to ensure that priority investment continues to take place.
- 10.30 Treasury management plays a key role in the delivery of projects and services. The Council currently has cash resources in excess of £50m which are invested on the basis of minimising exposure to risk whilst also generating a return. The current average return in 2017/18 of >1% has exceeded targets and is expected to generate a revenue income of around £0.57m. As the Council continues to invest in its capital programme, cash balances are expected to reduce and those new assets will generate a revenue return instead.
- 10.31 Following 10.21 above, additional resources have already been invested in the Planning service in order to maintain expected service levels. Resourcing levels will be reviewed for 2018/19 with the potential for additional investment using a portion of the additional income in order to fund this.

Government funding and other updates

- 10.32 Hampshire County Council (HCC) released their budget proposals in September, some of which have potential financial and service implications for district councils. In particular the agency arrangements covering both Development Management and Transport Management are proposed to return to HCC, and on-street and residents parking would also return to HCC. The financial impact on Winchester will require further analysis when exact details are known and negotiations commence with HCC.
- 10.33 Government released a consultation paper on 14 September 2017 'Local government finance settlement 2018 to 2019: technical consultation'. A portfolio holder notice (PHD767 refers) contains the Winchester City Council responses to this consultation. Overall the consultation paper does not give any additional clarity and the main assumptions shown in CAB2955 Medium Term Financial Plan remain the best estimates at the current time.

Reserves

- 10.34 The General Fund reserves 2017/18 opening balance stood at just under £21m (plus the general fund balance of £2m).
- 10.35 Reserves are a key factor which underpin the Council's ability to fund Asset Management Plans, the IT Strategy, Car Parking Strategy, and Service Plans. They are also critical to our ability to fund the transformation of services and ability to invest in order to generate the necessary savings to balance the budget over future years.

10.36 In summary, reserves are used to support:

- I. Funding of the Capital Programme
- II. Investment in transformation
- III. Providing one-off support for service budgets (such as the local plan)
- IV. Community Infrastructure plans
- V. Council Strategy Support
- VI. Asset Management Plans, IT Strategy, Car Parking Strategy
- VII. Winchester Town Account (notably major play area refurbishment and replacements)

10.37 It is currently forecast that reserves by the end of the MTFS period will stand at £12.6m. The final budget proposals and subsequent reserve forecasts will be presented to Council in February.

11 OTHER OPTIONS CONSIDERED AND REJECTED

11.1 The options presented in this report are part of the budget consultation process in order to present a balanced budget for 2018/19 to February Council.

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

Council Strategy Refresh – CAB2980 – December 2017

Medium Term Financial Plan - CAB2955 – September 2017

Efficiency Plan 2016 – 2020 - CAB2827 – September 2016

Other Background Documents:-

None

APPENDICES:

Appendix A: Medium Term Financial Projections

Appendix B: Summary of 2018-19 options

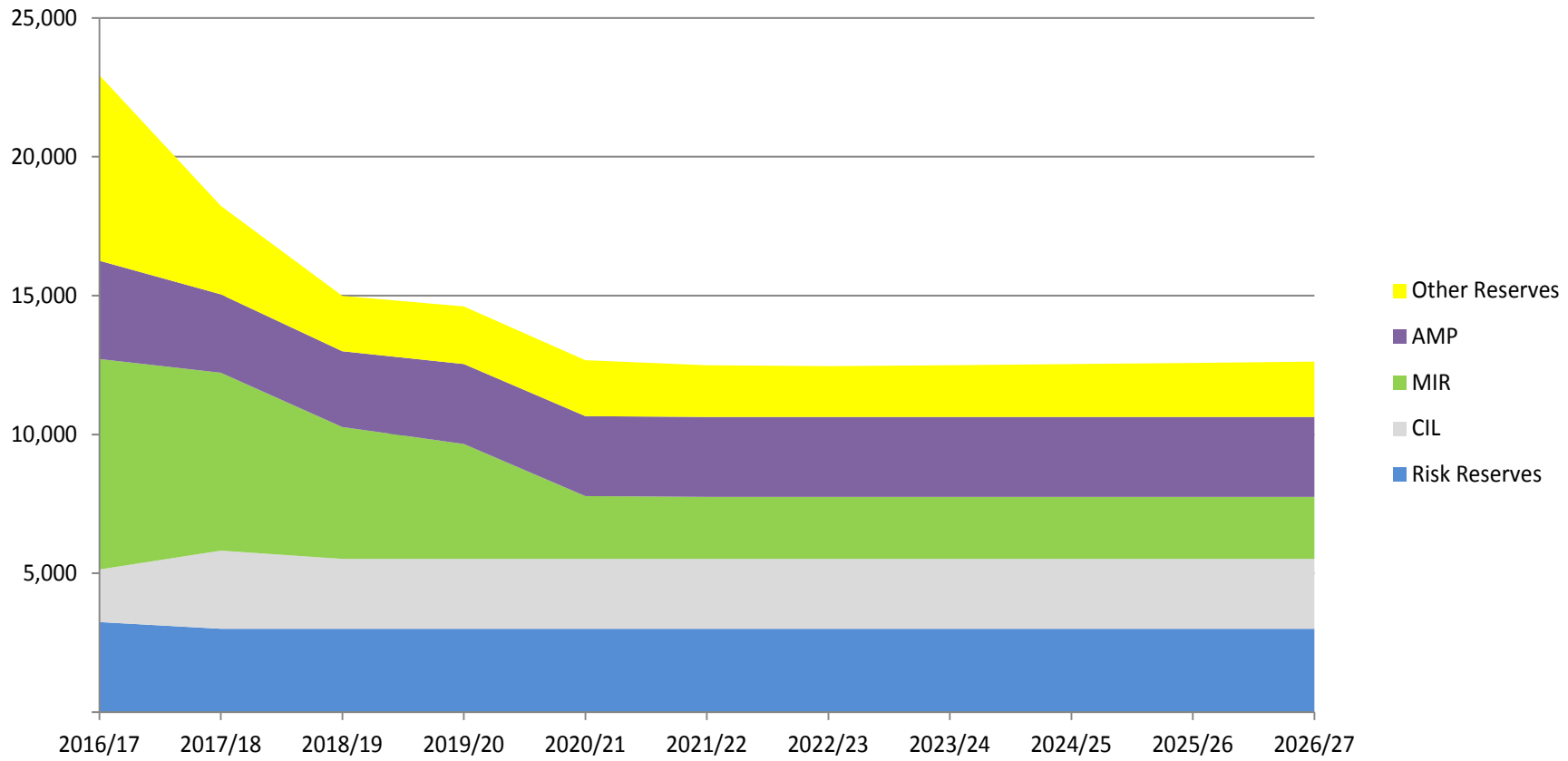
Appendix C: Reserve Forecasts

	Sensitivities	1% (£m)				Forecast					
Council Tax Base		0.073	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Council Tax - Band D £		0.073	3.0%	2.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Contractual Inflation		0.100	3.0%	2.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Pay Inflation		0.137	1.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
General Fund Revenue - Medium Term Forecast (£m)	Original Estimate	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	
Funding											
Council Tax (excluding Parish Precepts)	7.340	7.624	7.886	8.121	8.365	8.615	8.874	9.141	9.416	9.700	
Retained Business Rates	3.936	4.101	4.237	2.711	2.753	2.796	2.839	2.883	2.938	2.985	
New Homes Bonus	2.661	2.241	2.148	2.256	2.143	2.036	1.919	1.919	1.919	1.919	
Revenue Support Grant & Other Grants	0.513	0.037	-0.373	-0.450	-0.511	-0.548	-0.585	-0.623	-0.662	-0.701	
	14.450	14.002	13.898	12.639	12.750	12.900	13.047	13.320	13.611	13.902	
Investment Activity											
Interest (Payable) / Receivable	0.567	0.380	-0.236	-1.183	-1.337	-1.601	-1.732	-1.927	-2.399	-2.368	
Minimum Revenue Provision	-0.129	-0.181	-0.288	-0.293	-0.662	-0.875	-0.895	-0.916	-1.326	-1.357	
Net Investment Property Income	1.688	1.889	2.077	2.055	2.051	2.055	2.059	2.063	2.067	2.071	
Resources available	16.576	16.091	15.451	13.218	12.802	12.478	12.479	12.540	11.954	12.249	
Baseline Net Expenditure											
Gross Income	12.773	12.776	12.942	13.020	13.813	14.397	14.525	14.745	15.624	15.621	
Gross Expenditure	-27.935	-28.669	-29.390	-29.984	-30.500	-31.035	-31.585	-32.115	-32.656	-33.206	
Baseline resource requirements	-15.162	-15.893	-16.448	-16.963	-16.687	-16.639	-17.060	-17.371	-17.032	-17.584	
One-off budgets & Reserve Related Movements	-1.414	-0.635	-0.675	-0.440	-0.688	-0.573	-0.573	-0.573	-0.573	-0.573	
Total net resource requirements	-16.576	-16.451	-17.123	-17.403	-17.375	-17.212	-17.633	-17.944	-17.605	-18.157	
Budget Surplus / (Shortfall)	0.000	-0.360	-1.672	-4.185	-4.574	-4.733	-5.154	-5.404	-5.651	-5.909	
<i>% of Gross Expenditure</i>		1.3%	5.7%	14.0%	15.0%	15.3%	16.3%	16.8%	17.3%	17.8%	

Item	Theme	Council Strategy	2018/19 Saving / (Investment) (£000)
1 Removal of ISDN line Removal of older BT lines and moving the Council's telephony services through to an internet based service.	Efficiency	Org Dev	45
2 External audit fee reduction Further reduction in the main audit fee due to recent national procurement through the PSAA (Public Sector Appointments Agency). Ernst and Young (EY) will remain the Council's auditor but the fee will reduce. There is also a reduced audit fee in respect of the benefits audit where the Council are completing some of the testing on behalf of EY on a risk assurance basis to reduce costs.	Efficiency	Org Dev	25
3 Internal audit fee reduction Reduction of the audit fee in line with the re-focussed internal audit strategy from 2017-18. The number of audit days have been reduced and have been more targeted to focus on three areas; i) the Corporate Risk Register ii) the delivery of the Council Strategy and iii) key areas of work reviewed by EY (External auditors).	Efficiency	Org Dev	20
4 Change MRP to the annuity basis Moving the Council's Minimum Revenue Payment (MRP) basis from a straight line repayment method to an annuity one to reflect the changes in value and cost to schemes through the life of the asset.	Efficiency	Org Dev	43
5 Benefits restructure Savings through restructure approved at personnel committee in Summer 2017. Transforming the service to focus on benefits and welfare with the introduction of Universal Credit in full from 2018 onwards.	Transformation	Org Dev	25
6 Un-utilised transport budget removed The January 2017 "Revised Car Parking Charges" report (CAB2885(TP)) introduced some significant changes to central car parking charges, in line with the car parking strategy policy of encouraging parking on the edges of the city rather than the centre. An additional transport budget was provided for 2017/18 for potential increases in demand (for example additional P&R buses). Based on current usage levels (as at September 2017) this additional budget has not been required, usage will be continue to be monitored to ensure this remains the case.	Efficiency	Org Dev	217
7 Internal Managed Vacancy Factor moved to 2% The current vacancy savings target is £200k per annum. A percentage target is considered to be more appropriate to ensure a direct link between the total employee budget and the target vacancy savings. A careful review of historic and existing trends has shown that a 2% vacancy factor would be a reasonable central case forecast, which equates to full year savings of £305k in total based on current budgets (+£105k per annum compared to the existing budget target).	Efficiency	Org Dev	105
8 Review of Print Services A review of the print room is underway in order to establish the print requirements (including plans for digitilisation) and the optimal delivery method. This review has already established that the current space occupied as the print room is much larger than necessary and could be put to better use either internally or externally leased.	Transformation	Org Dev	20
9 IT - GIS Support Technician An efficiency review of the current resources deployed in this area has achieved recurring savings of £18k.	Efficiency	Org Dev	18
10 HRA / GF asset transfer Movement of some assets in the HRA to move into the General Fund and be managed centrally. This will mean a capital receipt to the HRA and an ongoing revenue stream to the GF. This will be done on a phased basis over a three year period to enable adjustments in the HRA to offset decreased income from these assets.	Income Generation	Housing	100
11 Strategic Asset Purchase scheme Additional income through rental returns from the acquisition of strategic assets. This has commenced with the purchase of the bus station. £15m has been set aside to deliver additional rental through the scheme.	Asset Mngt.	Ent App	150
12 Customer Services / Digitalisation Review Review of how we deliver services to our customers, how we can take advantage of digital channels to reduce costs and improve customer satisfaction. Review internal processes to ensure these are automated wherever possible to reduce cost and improve speed of processes.	Transformation	Org Dev	50
14 New trading opportunities In the first year, some greater cost recovery / small trading opportunities for services such as Environmental Health and Regulatory Services.	Income Generation	Ent App	25
15 Increased Planning Fees Government has indicated that it will allow councils to increase planning fees by 20% provided an assurance is provided that additional income will be re-invested in planning services.	Income Generation	Env	160
16 Going Paperless Review of options to improve the customer experience through digital channels and to improve the efficiency of the Council's operations both internally and with customers.	Transformation	Ent App	30

Item	Theme	Council Strategy	2018/19 Saving / (Investment) (£000)
19 Increased Development Management (Planning) resource	Investment	Ent App	-80
Staff resource to maintain the current service taking into account high levels of demand based on the projected work profile over the next few years (major applications associated with Local Plan allocations, major projects in Winchester and the New Homes Delivery Team development programme). Linked to 28 above (increased planning fees).			
20 Apprentices	Investment	Org Dev	-91
Additional budget is required, on top of the existing £90k per annum, in order to meet the minimum apprentice numbers (2.3% of our total workforce, to include 'upskilling'). This financial requirement reduces annually over the medium term as the higher requirement in 2018/19 is partly due to the timing of apprentice contracts (specifically 18 month contracts).			
Net Savings			862

Earmarked Reserves (£000s)



Key

AMP = Asset Management Plans

MIR = Major Investment Reserve

CIL = Community Infrastructure Levy

2016/17 2017/18 2018/19 2019/20 2020/21 2021/22 2022/23 2023/24 2024/25 2025/26 2026/27