CAB676
FOR DECISION
WARD(S): GENERAL

CABINET

16 July, 2003

FINANCIAL STRATEGY 2004/05 TO 2008/09

REPORT OF THE DIRECTOR OF FINANCE

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RECENT REFERENCES:

CAB543: Budget and Council Tax 2003/04, 12 February, 2003

EXECUTIVE SUMMARY:

The purpose of this report is to give early consideration to the Council's financial strategy to be adopted for the 2004/05 budget process. The strategy shows no great departure from that adopted in recent years.

Revenue projections show a significant funding shortfall, in line with previous projections, after allowing for an annual increase of 3% in income (general and Council Tax). The shortfall for next year is forecast at between £1.2m and £1.5m.

It is suggested that a net nil growth budget be pursued with savings being found to match any growth proposals. Further, other than pay increases and inflation written into major third party contracts, it is proposed that no provision for general inflation should be included in the 2004/05 budget, with the cost of this being met from efficiency savings. This is the second year that this approach will have been adopted.

Whilst the figures included in the revenue projections are for the General Fund (GF), it seems sensible to apply the same principles to the Housing Revenue Account (HRA), at least until some more detailed work has been done on this budget.

RECOMMENDATIONS:

1. That the following key principles be applied to the General Fund and Housing Revenue Account revenue budgets:

   a) A balanced revenue budget (within a margin of £0.5m)

   b) Nil net base budget growth

   c) Inflation allowance for salaries and third party contracts only

   d) Prudent approach to income estimates

   e) A net overall underspend at year end

   f) A presumption in favour of revenue over capital income

2. That CMT assesses proposals for additional expenditure in consultation with the Portfolio Holders and in the context of the Corporate Strategy and that further reports be made to Performance Improvement Committees in the November cycle.

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DETAIL:

1 Purpose

1.1 The purpose of this report is to give early consideration to the Council's financial strategy to be adopted for the 2004/05 budget process so that it is conducted in a structured manner and in a way in which overall policy objectives as outlined in the Corporate Strategy are achieved.

1.2 It is expected that the strategy will show no great departure from that adopted in recent years.

2 Key Stages

2.1 As in previous years these will be:

What	**By Whom**	**When**
Early consideration of financial background	Cabinet	16 July
Budget proposals in accordance with the Corporate Strategy	Cabinet	1 October
Detailed consideration of budgets	Performance Improvement Committees	November cycle
Summary of GF revenue budgets	Cabinet	3 December
Summary of HRA revenue budget	Cabinet	17 December
Council Tax report	Cabinet Council	13 February 27 February

3 The External Context

3.1 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. These include:

a) Proposed changes to the Housing Finance system

b) Transfer of rent rebates to the General Fund

c) Abolition of current system of Social Housing Grant

d) Proposed introduction of the Prudential Code for Capital Finance

e) Pooling of capital receipts

f) The level of Revenue Support Grant (RSG)

g) The amount of Planning Grant

h) E-government targets

i) The amount of IEG grant

j) The level of external investment interest rates

k) Proposals to allow discretion for reducing discounts for second and long-term empty homes

l) The deficit on the Superannuation Fund

m) Financing of the new licensing system after transfer of Liquor licensing from the Licensing Justices – fees will be set nationally.

4 Internal Context

4.1 Similarly the budget will be influenced by factors and aspirations within the Council's control. Items not budgeted for will include:

a) Pressures for office accommodation space

b) Need for investment in building fabric

c) ICT infrastructure

d) Telephony system

e) Bapsy proposals

f) Parking policy review

g) Any new corporate priorities

5 Key Principles

5.1 The key principles to be followed are as follows:

a) A balanced revenue budget (within a margin of £0.5m)

b) Nil net base budget growth

c) Inflation allowance for salaries and third party contracts only

d) Prudent approach to income estimates

e) A net overall underspend at year end

f) A presumption in favour of revenue over capital income

5.2 Until the influence of outside factors is known – and this may not be for some months - it is difficult to say how easily the first principle, a balanced budget, may be achieved. If it is not possible to achieve this for 2004/05 then it must be the key aim for the following year, 2005/06, with balances being used to fund the deficit in the interim.

6 Policy Driven Approach

6.1 Strategic planning, monitoring and review are an intrinsic part of financial planning. The framework for the financial plan should be the Corporate Strategy and resource allocation should flow from this. Whilst this is relatively easy to achieve in order to fund new or expanded initiatives, it is always difficult to review services in order to reduce or stop them thus releasing resources.

6.2 Until recently the Council has been very constrained in its ability to generate Council Tax income – the prime source of additional finance for services. With the abolition of capping there is more freedom to raise income from Council Tax, although in the past this has had to be exercised within certain constraints on occasions. Regard must also be had to the ability and desire of the Council Taxpayers to finance services in this manner. In addition, the amount of revenue raised is limited – a £1 pa (1%) increase raises about £40,000.

6.3 Alternative sources of income are possible in some areas – there has been success in attracting funds in some areas. The Council has received high levels of credit approvals in the past, significant Planning Grant money last year and funding towards E-government. Other direct income from fees and charges should be considered.

7 Future Projections

7.1 The Council has maintained its working balance at £2m and is in a sound financial position, albeit there are considerable pressures on both revenue and capital budgets. An agreed programme of specific projects is in place and a forward programme, with an outline of capital projects until 2008/09, gives an indication of further aspirations. At this stage the projections take no account of changes to corporate priorities.

7.2 Revenue projections show a significant funding shortfall, not out of line with previous projections, after allowing for an annual increase of 3% in income (general and Council Tax) and 2% in Government grant. Two options are shown for increase in RSG – one allowing for a cash increase in line with inflation, the other with no increase.

7.3 Before allowing for any new growth, the projected shortfall for next year is forecast at between £1.2m and £1.5m. This can be made good from reserves, but that would reduce the Council's ability to fund its future programme. The revenue budget will need to be brought into line with the revenue income available.

7.4 The large shortfall has arisen primarily because of an assumption about how RSG will work next year – until the detail is seen it cannot be certain that it will be like this. One of the proposals for next year is the transfer of rent rebates from the HRA to the GF. Although subsidised at 100% within the HRA, GF benefits are subsidised at approximately 95%. If the Council is expected to fund 5% of these rebates there will be a cost of about £0.4m to the GF. It is probable that there will be some adjustment to the RSG formula to take account of this but, as the floor for Winchester is £0.7m below the cash grant, it is expected that any adjustment will merely raise the floor and not increase the grant. (The floor would then be approximately £0.3m less than the cash grant).

7.5 The other assumption in the projections is that pooling of receipts will take effect, with consequent loss if interest, and that the taper amount that the Council may retain for SHG will be retained and used for such purposes. This will allow a modest programme of SHG to be continued but will mean the loss of interest on such sums as there will be no reimbursement from the Housing Corporation as there is now.

7.6 Another difficult part of the projections to determine is the effect of interest rates on the Council's investments. 4.0% has been included from 2004/05 and the latest information from the Council's brokers is that this projection is still reasonable. Balances stand at about £34m currently: a 0.25% change of rate changes income by about £85,000 pa.

7.7 An allowance for pay increases of 3% has been assumed in the projections for next year: a 1% change alters expenditure by £90,000 pa. General inflation on third party contracts has been assumed at 2% for next year: a 1% change alters net expenditure by £50,000 pa.

8 <u>Actual Expenditure 2002/03</u>

8.1 The provisional outturn for 2002/03 is reported elsewhere on the agenda (CAB663). Net GF expenditure on services was about £0.6m below that assumed at revised budget time, with requests to carry forward £0.45m. Investment interest was about £0.1m better than anticipated. Requests for carry forward have been less this year, with £0.1m of the sum being for commitments where work has not been completed. The system for carry forward allows Directors the same flexibility between years that they have through the year. Care needs to be exercised in considering the overall position to ensure that the total sums expended are reasonable and that the system is not diverting resources into areas that are of lesser strategic priority.

9 <u>Resource Allocation</u>

9.1 Various approaches to this are possible. In the past committees have been asked to review their services and to put forward proposals for savings and growth. A similar process was followed this year, with Corporate Management Team (CMT) assessing bids before they were presented to Members.

9.2 Other approaches used by local authorities have included adopting a formula based approach similar to the SSA mechanism, to allocate budgets. Experience of this is that it is time consuming, imprecise and does not reflect readily the Council's strategic objectives. There is insufficient staff within Finance to develop this approach.

9.3 One alternative is for a percentage reduction or increase in service or committee budgets. If the same percentage is applied to all the allocation of resources will not accord with strategic objectives. In addition, some service areas may find it relatively easy to reduce the budget whilst other areas may not.

9.4 Whilst the figures included in the revenue projections are for the GF, it seems sensible to apply the same principles to the HRA, at least until some more detailed work has been done on this budget.

10 Capital Programme

10.1 For capital, the projections assume that no new schemes will be identified for the early years of the programme. However, it is known that there are several calls expected for additional capital investment. Depending upon the success of these bids for funds, it may be necessary to rework the programme in order to ensure its affordability.

OTHER CONSIDERATIONS:

11 CORPORATE STRATEGY (RELEVANCE TO):

11.1 The financial strategy is key to the achievement of the Council's Corporate Strategy. In particular, the strategy accords with the tenet *to maintain budget stability through strong performance management while accommodating the requirements of new legislation and duties.*

12 RESOURCE IMPLICATIONS:

12.1 As outlined in the paper.

BACKGROUND DOCUMENTS:

Working papers held within the Finance Department.

APPENDICES:

Appendix A: General Fund Projections 2003/04 to 2008/09

Appendix B: Capital Programme Projections