

## APPENDIX A.2.

### WAVERLEY BOROUGH COUNCIL

### COUNCIL MEETING – 15 FEBRUARY 2011

### REPORT OF THE EXECUTIVE - 25 JANUARY 2011

### FINANCIAL STRATEGY 2011/2012 – 2014/2015

### GENERAL FUND BUDGET 2011/2012

#### Introduction

1. Following the Finance Seminar held in September, the Executive considered the Budget in detail on 25<sup>th</sup> January 2011. This report outlines the financial background to producing the Council's four-year Financial Strategy and outlines the approach taken to the 2011-2012 Budget.
2. This report contains the following Annexes:
  - Annexe 1 – Budget Overview
  - Annexe 2 – List of Budget Assumptions
  - Annexe 3 – Star Chamber Proposals
  - Annexe 4 – Detailed Service Estimate pages
  - Annexe 5 – Schedule of Changes to Fees and Charges
  - Annexe 6 – General Fund Balance
  - Annexe 7 – Revenue Reserve Fund
  - Annexe 8 – Schedule of Balances
  - Annexe 9 – Forward Budget Projections
  - Annexe 10 – Collection Fund
  - Annexe 11 – Council Tax
  - Annexe 12 – Special Expense

#### General Fund Background

3. Over the past few years Waverley has faced significant financial pressures resulting from in particular:
  - Impact of recession causing extra demand combined with reduced income levels
  - Interest income reduced from over £2m to £270k budgeted for the current year

4. The Council has responded to these challenges and already delivered considerable achievements:
  - £3.5m savings achieved over 3 years, including staff reductions of £1.6m
  - Balanced Budget achieved one year early with use of balances eliminated
  - External recognition
  - Pay frozen from January 2010
  - Senior Management Streamlining
  - Foresight programme commenced and already delivering savings
  - Leisure Centre refurbishment programme implemented
  - Budget Consultation responded to
  - Food Waste Collection commenced

### **Issues and Risks for 2011-12 Budget and beyond**

5. The Government's Spending Review was announced on 20<sup>th</sup> October. This will have a considerable impact for the entire public sector. Although the precise effect on Waverley is only now becoming apparent, it was necessary to make prudent assumptions early in the Budget process.

### **Local Government Finance Settlement**

6. The Spending Review (CSR) announced a headline reduction in grant of 26-29% over the 4-year spending review period such that average grant reductions across all authorities in real terms would be 7.25% each year. However, the details about how this will be applied were not given. Total grants received by Waverley exceed £7m in 2010/11.
7. Waverley's provisional Revenue Support Grant Settlement for 2011/2012 was not announced until 13th December. Although the Finance Seminar contained a range of estimates, the Settlement is even worse than the worst-case for Waverley that had been expected on the basis of indications given in the Spending Review.
8. The details of the Settlement are:
  - The headline decrease in Waverley's Formula Grant for 2011/12 is £893,000 being 16.7% (or 18.6% including the additional loss from Concessionary Fares)
  - The grant is being reduced by £107,000 more than the money Waverley spent on the Concessionary Fares scheme before the transfer to the County; and £25,000 that relates to the non-statutory 9am-9.30am element not funded from grant
  - The Grant is also being reduced by £43,000 for technical adjustments to the Grant beyond the headline decrease (mainly relating to private drainage)
  - The Council will also lose £69,000 in Housing Benefit Administration Grant

The total cash decrease therefore exceeds £1.1m.

The following table compares the Provisional Settlement with the figures indicated in the Spending Review:

	CSR	Provisional Settlement Headline	Including loss from scaling of Concessionary Fares
2011/12	-7.25%	-16.7%	-18.6%
2012/13	-7.25%	-12.8%	-12.8%
2013/14	-7.25%	?	?
2014/15	-7.25%	?	?

### **Concessionary Fares**

- From 1<sup>st</sup> April 2011, the administration of Concessionary Fares transfers to the County Council. The actual cost to Waverley of this function is £575,000, as shown in the 2010/11 Budget. However, Waverley's Formula Grant has been reduced by £682,000 to reflect the transfer. In response, the Deputy Chief Executive is making strong representations to the Government as part of the consultation response. Whilst the Council accepts the decision to transfer the function to the County Council, the adjustment to the grant should reflect the actual cost.

### **Council Tax Freeze Grant**

- At the finance seminar it was assumed that no increase in Council Tax would be allowed for 2011/12. With the introduction of the Council Tax Freeze Grant for 2011/12, holding Council Tax at this year's level should generate £222,000 Government Grant (slightly higher than the initial estimate of £210,000).

### **New Homes Bonus**

- The Government intends to introduce a new grant based on the quantity of new homes built in each local authority area. The consultation period has recently closed, but details of the new scheme have not yet been announced. Although it is likely that Waverley will eventually receive some payments, the amounts involved, the timing of payments and the apportionment between upper and lower-tier authorities are uncertain and the amounts may not be significant. Therefore, it would not be prudent to allow for receipt of this grant within the 2011-12 Budget.

### **Pensions**

- The statutory Local Government Superannuation Scheme requires a triennial review of the Council's Pension Fund that is managed and incorporated into the Surrey County Council scheme. Given increasing longevity of pensioners, turbulence in markets and poor performance, significantly increased contributions were expected to be required from both employers and employees, the latter depending on the outcome of the Hutton review. On this basis, a prudent assumption of an additional £500,000 was included in the projections

13. However, a number of factors, of which the most significant is the change in indexation of pensions from RPI to CPI, have served to reduce the projected Fund deficit. In addition, Surrey County Council's actuary has been working on alternative models that maintain the long-term funding position of the Pension Fund. In doing so, they have identified a 'Stabilisation' model, which protects the long-term funding position and assists affordability for employers. The model assumes no increase in contributions during the next three years, followed by restricting contribution increases or decreases to a maximum of 1% thereafter. By adopting this model it is expected that the Fund will reach a 100% funding level more quickly than the existing recovery model.
14. The Audit and Governance Committee of Surrey County Council agreed recommendations on funding proposals at their meeting on 11th January 2011. As a result, existing pension contributions can be held for the next three years for the larger employers in the Surrey Pension Fund.
15. The Deputy Chief Executive supports the recommendation to stabilise contributions at the rate currently in payment, which is in the interests of stability and affordability of employer contributions. In addition, having reviewed the statistical modeling that underpins the stabilization recommendation, this can be viewed as a prudent longer-term approach.
16. However, it is noted that there are risks associated with this approach, as there were with the traditional actuarial approach. Local Authorities within the Surrey Pension Scheme are being encouraged to make additional payments to the Fund if this becomes possible. This will be borne in mind in the Financial Strategy.

### **Inflation**

17. Inflation continues to be a major variable in the Council's Budget. Whilst the Council negotiated contracts away from industrial indices, which tended to be very expensive, the current indexation of RPI+1% still accounts for the largest element of the inflation provision. An average annual figure of 3% for RPI has been assumed for Budget projections. Unfortunately, inflation remains above this level and the January index is likely to rise further as a consequence of the increase in the rate of VAT to 20%. *There is a probability that 6% may be a more appropriate assumption for RPI and, as agreed by the Executive, the final Budget proposals are based on this figure.*

### **Pay Awards**

18. No pay increase has been budgeted for the year commencing January 2011.

## **Increases in Fees and Charges**

19. Where Waverley has discretion over fees and charges these have been reviewed as part of the budget process, with average proposed increases generally no higher than the Retail Price Index. Some proposals for increased income were made with appropriate amounts included on the Star Chamber list. In particular, these were in respect of Planning Advice and Licensing. Details of all the proposed fees and charges from 1st April 2011 are shown at Annexe 5. Car Park charges will not change on 1st April 2011.

## **Initial Projected Shortfall**

20. Taking the known factors into account at the time of the Finance Seminar indicated a projected shortfall of £1.8m for the 2011/12 Budget. The announcement of the Council Tax Freeze Grant, initially estimated at £210,000 reduced the expected shortfall to £1.6m, analysed below:

	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>
	£'000	£'000	£'000	£'000
Inflation	300	600	900	1,200
Loss of Government Grant	700	1,400	2,100	2,800
Triennial Pensions Revaluation	500	500	500	500
Other Budget Changes	300	230	130	30
Council tax freeze grant	-210	-210	-210	-210
<b>Cumulative Savings Required</b>	<b>1,590</b>	<b>2,510</b>	<b>3,420</b>	<b>4,320</b>

## **Potential Savings**

21. Various measures are in place to deliver the required level of savings including:
- Foresight Savings including senior management restructure
  - Star Chamber examination of services and budgets
  - Members challenge throughout the committee process
  - Invest to save opportunities
  - Reduce grants to voluntary organisations/compensatory grants etc. (by 10% overall)

## **Foresight Savings**

22. The senior management restructuring approved in July delivers savings of £350,000 in a full year. One-off costs are now estimated to be £270,000 in the current year. Further work is being progressed to achieve efficiencies through reviewing procurement arrangements, service delivery, shared services, partnership working and internal processes. The total expected Foresight savings for 2011-12 is £1.178m, as detailed on the Star Chamber list. It should be noted that £235,000 of this relates to the Housing Revenue Account. The restructuring savings of £350,000 referred to above have already been deducted from the Base Estimates, as have the energy savings, because these have already been achieved and are subject to the allocation process.

## **Star Chamber Proposals**

23. *For the fourth consecutive year, the Star Chamber process has proved very successful at examining budgets in detail and identifying options to achieve savings and scrutinising growth areas. The initial proposals have now been scrutinised by the Overview and Scrutiny Committees, with the final proposals in this report recommended to Council by the Executive.*

## **Revenue Budget 2011/12**

24. *The overview of the draft General Fund Budget for 2011/12 is shown in detail at Annexe 1. This traces the changes in the Budget position from the shortfall of £1.8m estimated for the Finance Seminar to the final proposals, which assume all Reductions and Growth Items as recommended by the Star Chamber are accepted to achieve a balanced Budget.*
25. Various assumptions have been made in compiling the draft Estimates and these are summarised at Annexe 2.
26. The Star Chamber List of Reductions and Growth Items is shown at Annexe 3.

## **2011/2012 Draft Revenue Estimates**

27. *The General Fund Budget Summary and detailed Estimates for all General Fund services are shown at Annexe 4. The Star Chamber items and the other changes detailed in this report have now been incorporated within the Budget sheets presented to Council.*
28. The draft Budget allows for the full-year effect of the ongoing items reported during Budget Monitoring.
29. Growth items have been considered as part of the Star Chamber process, with allowance for the cost made against the Star Chamber List.
30. There are some areas where budget variances, which may be reductions as well as increases, have arisen. These may result from such matters as contractual commitments, changed levels of use, changes to staff allocations, or updated asset charges.

## **Community Partnership Scheme**

31. Applications for grants under the Community Partnership Scheme for 2011/2012 are the subject of a separate report on this agenda. *The detailed estimates for 2011/2012 relating to each organisation are in line with the final proposals of the Executive, totalling £596,130 as detailed at Appendix B of this Council agenda.*

## **Statutory Services**

32. Each budget page contains an indication of whether the service provided is statutory, discretionary, or a mixture of the two. There are some statutory services where the level of service provided is greater than that required by law. This analysis may assist Members in giving consideration to the resources allocated to the various services. There will of course be other factors, such as the Council's approved aims and objectives, public demand and corporate priorities.

## **Local Government Act 2003 – Financial Administration**

33. The Local Government Act 2003 formally introduced a number of specific sections covering:
- a. Budget calculations: report on robustness of estimates;
  - b. Adequacy of reserves, and
  - c. Budget monitoring.
34. The sections were introduced to ensure sound financial management across all local authorities. Waverley Borough Council's budget has always complied with best financial management practice. Prudent allowance has always been made for risk and uncertainties in budgets. Budgets are monitored by officers on a monthly basis and reported to Members on a bi-monthly basis although throughout the recession, this is supplemented by monthly exception reports. The Council's financial management practices scored highly in the Council's Comprehensive Performance Assessment and the Council continues to receive good Annual Audit Letters.

## **The Robustness of the Estimates**

35. Full account has been taken of potential costs and adequate provision has been made. A prudent assessment of income has been undertaken and only income that has a high level of certainty of being received is included within the Council's budgets. The Council's Financial Strategy, together with information presented at the Annual Finance Seminar and subsequent reports demonstrates the financial challenges to Waverley Borough Council in the future. The key strategy issues for the General Fund from the Financial Strategy include:

- Government Formula Grant likely to be further reduced in future settlements;
- Further budget pressures and Government Legislation;
- Leisure Strategy issues and opportunities;
- Possible further developments in waste management; and
- Spending on public services in an affluent area

In addition to the detailed scrutiny by officers of the budget the Council has:

- I. Critically examined Budget Variations
- II. Continued the Star Chamber process to examine the budget in detail and advise on potential reductions; and

III. Eliminated the budgeted use of balances, except for one-off items

36. The 2011/12 Budget process has once again created a huge challenge to Waverley. The fact that the Council is able to consider savings approaching £2m in addition to the £3.5m achieved during the previous three years is testament to a lot of detailed difficult work undertaken by Members and Officers.
37. In view of the level of awareness amongst Members and the action taken to produce the Council's Budget in 2011/12, the Deputy Chief Executive is satisfied with the robustness of the estimates presented. Although the Budget includes reductions and savings approaching £2m, the Deputy Chief Executive is confident that overall the Budget is prudent view of:
- a. the track record of achievement of very substantial budgeted savings over the past two years;
  - b. the inclusion in the Budget of an allowance of £250,000 for non-achievement in 2011-12 of approximately 10% of the potential gross savings figure;
  - c. the non-inclusion of the New Homes Bonus until the details become more certain;
  - d. no allowance being included for additional Planning income resulting from a possible change in Government Legislation on the level of fees.

**Adequacy of Reserves**

38. The Council maintains a number of reserves, which are detailed in the Financial Strategy. The Council aims to maintain a prudent level of balances to support revenue spending and finance unforeseen events. The two major reserves for General Fund purposes are the General Fund balance and the Revenue Reserve Fund.

The Financial Strategy explains the purpose of each fund. The General Fund balance supports fluctuations in the Council's normal business, e.g.: unexpected change in inflation or interest rates, higher than anticipated expenditure or loss of income and spending on unforeseen events. The Revenue Reserve is used to finance capital expenditure and one-off costs. It is essential that adequate Balances are available to meet these and unforeseen costs, particularly in the current economic climate. It is the view of the Deputy Chief Executive that the General Fund balance should be £3 million, effectively 10% of the gross General Fund Budget, or equivalent to just over one month's spending.

The General Fund and the Revenue Reserve Fund balances are currently in a healthy position. However, with recent sudden and major reductions in income and interest, and with known uncertainties identified in future years, as detailed in the finance seminar, a financial cushion above the minimum balances is vital at this time. In addition, it is proposed that a significant proportion of the Revenue Reserve Fund will be used to finance the Leisure Centre programme.



The General Fund Working Balance is shown at Annexe 6. The detailed movement in the Revenue Reserve Fund for the next four years is shown at Annexe 7. It is the view of the Deputy Chief Executive that maintaining a minimum level of £3 million on the General Fund Working Balance satisfies the adequacy requirements of the Local Government Act 2003.

In the light of the identified future significant pressures, the levels of combined balances as detailed in this report are considered prudent, but not excessive. A schedule of balances is included at Annexe 8. *These projections have been updated to reflect the revised Leisure Centre financing proposals.*

### **Budget Monitoring**

39. It is the Deputy Chief Executive's view that the arrangements for budget monitoring, referred to above, satisfy the requirements of the Local Government Act 2003. The Budget Monitoring position at 31st December 2010 shows that the 2010/2011 actual results on the General Fund will come in below budget level overall. This demonstrates the robustness of the 2010/2011 Budget. The ongoing impact of the budget variances included in the budget monitoring statement has been taken into account in the 2010/2011 Budget proposals where these seem likely to continue.

### **Assessment of Key Risks**

40. The main key risks affecting Waverley's budget in the next few years, which have previously been raised at the Financial Seminar and in The Financial Strategy are:
- The level of Government Grant beyond 2012/2013
  - Continuing levels of fee income
  - Failure to ensure adequate levels of balances to meet known and unforeseen pressures in the future
  - Superannuation funding costs

### **Forward Budget Projections – Medium Term Financial Strategy**

41. At the Finance Seminar, Members received Budget projections covering the period of the Financial Strategy. These have been updated in line with the draft Budget proposals and Budget assumptions and are shown at Annexe 9.

### **Collection Fund**

42. The Collection Fund Revenue Account brings together all of the precepts from the relevant local authorities, including Waverley's demand net of Revenue Support Grant and redistributed National Non-Domestic Rates (NNDR), together with the contribution to the NNDR pool (net of irrecoverables) in respect of business rates collected by the Council as agent of the Government. The income to the Collection Fund Account relates to that amount of Council Tax that is required, together with income from business rates, to balance the

Account. Any surplus or deficit on the Collection Fund at the end of each year has to be shared between Surrey County Council, the Surrey Police Authority and Waverley in proportion to their precepts for that year. The estimated Collection Fund for 2011/12 is attached at Annexe 10.

43. As shown at Annexe 10, present indications are that there is likely to be a surplus of some £880,000 as at 31<sup>st</sup> March 2011, which has to be shared with the major precepting authorities. Waverley's share of this will be approximately £118,000, which is approximately £38,000 more than the amount available last year. These amounts are taken into account in the Council Tax calculation at Annexe 11.

### **Council Tax Base**

44. The Waverley council tax base for 2011/2012 was approved by the Executive in December and is 0.4% higher than the previous year. This will generate approximately £30,000 additional council tax income. The net increase including the movement in the surplus on the Collection Fund is therefore £68,000.

### **Council Tax Levels**

45. An exemplification showing the effect of the 2011/12 Revenue Support Grant Settlement for Waverley, the recommended freeze in Council Tax and the Council Tax Freeze Grant at Band D is attached at Annexe 11.
46. Members are advised that a variation in Council Tax of 1% equates to £89,000.
47. However, the Council Tax Freeze Grant of £222,000 is based on the loss of revenue that would arise from a notional 2.5% increase in Council Tax. As any increase in Council Tax would involve foregoing this income, increases between 2.5%-3% would not seem worthwhile this year. Furthermore, increases beyond 3% would run an increasing risk of Capping, as the Government retains its Capping powers.

### **Special Expense**

48. Annexe 12 shows the effect, in 2011/12, of the decision taken by Council on 12<sup>th</sup> October 1999 to levy a special expense from 1<sup>st</sup> April 2000 in respect of cemeteries costs. The figures accord with the Executive's recommendation regarding Council Tax levels.

## Conclusion

49. *The proposals in this report represent a robust response to a particularly challenging position this year. The final proposals result in a balanced Budget being achieved, as shown at Annexe 4. This is after taking account of the Local Government Finance Settlement, which has reduced Waverley's total grant by £1.1m: £430,000 worse than expected.*
50. Comments made at the Overview and Scrutiny meetings are set out below and any comments made at the Licensing and Regulatory Committee will be reported through the minutes of the Special Executive meeting on 14 February 2011.

### Observations from the Community Overview and Scrutiny Committee

#### Star Chamber Findings – areas under the remit of Community O&S

- i. Mental Health Support Workers (MHSP) – members were advised that Supporting People were recommissioning this floating support service with a new provider, covering a larger area from 1<sup>st</sup> April 2011. Savings would therefore be achieved by deleting one vacant post and the remaining MHSP would TUPE to the new provider. Although it was likely that the new provider would not be able to offer the same level of cover, it was not within Waverley's control to change.

Members were very concerned that the reduced level of service might not be adequate and asked that a watching brief be kept and the position be reviewed in a year.

- ii. Rent Allowances / Rent Rebates – officers clarified that there was no reason for the similarity of some of the figures. The allowances figures showed the estimates for those tenants receiving benefits and was based on the current position in 2010-11. Members supported the continuation of the support for war widows in receipt of benefit.
- iii. Homelessness – officers advised that they hoped to manage this area within the existing budget. However, the impact of the Government's changes to the benefits system was at the moment unknown, and there could be a need to review the position and report back to Members if circumstances change.

### Observations from the Environment and Leisure Overview and Scrutiny Committee

#### Growth items

1. The Committee noted that there could still be an opportunity to make savings in future years through more effective re-tendering of contracts and the Council should continue to ensure it tightens its process costs before negotiations commence with its contractors.

2. Some Members suggested that the major contract expenditure growth item of £100,000 be taken from the revenue reserve fund due to the one off nature of the payment.

### Star Chamber Proposals

1. The Committee noted that planning fees were set nationally but the Coalition Government had indicated that Planning Authorities would be able to set their own fees by the end of the year. Consequently, this would be revisited when it came into force.
2. The Committee identified the aspect of street naming as suitable for expenditure removal or cost sharing with neighbouring authorities. It was noted that the Executive would be considering this statutory service issue in March. For information, officers would circulate the report to Members.
3. Noting that it would depend on the owner of land, the Committee asked whether the Council could develop a policy where the cost for contaminated land investigations was absorbed by the developer.
4. The Committee was slightly concerned by the reduction to the budget for air quality projects but was assured that the Council would continue to focus on monitoring and maintaining the Air Quality equipment.
5. There was concern that there was not enough cardboard recycling around the borough and felt that the Council should 'Invest to save' and open up additional sites around the Borough. However, Members were advised that this was not something that the Council currently had the facility to take forward and the service currently had a net cost.
6. There was some surprise that some of the reductions in the report were not indicated as foresight savings e.g. in building control.

### Observations from the Corporate Overview and Scrutiny Committee

The Committee agreed that the following observations should be passed to the Executive for consideration:

- i) Members noted that the increase in inflation had fuelled expectations that there would be an increase in base rate at some stage in the year, which would improve the Council's investment income. While recognising there was some uncertainty about when and by how much interest rates might rise, Members felt that it would not be unreasonable to budget for an additional £30 – 40,000 of investment income over the course of 2011/12.
- ii) Members noted that it was proposed to restrict reimbursement of mileage to staff to the tax-free rate of 40p/mile. Members agreed that

this rate should also be the maximum rate of reimbursement that Councillors should be allowed to claim.

- iii) It was suggested that the major contract re-tendering costs of £100,000 shown as a growth item might be taken from the revenue reserve, as it was a non-recurring item. It was noted that this treatment of one-off costs had been applied previously.

- 51. The Budget papers attached to this agenda have been updated to reflect the Executive's decisions and the Executive also agreed to carry out a mid-year review of the General Fund Budget and take any appropriate action in the light of the position at that time. The Executive accordingly

**RECOMMENDS that the Council approve**

- 3. **a 0% increase for Waverley's element of Council Tax for 2011/12, thereby qualifying for receipt of Council Tax Freeze Grant;**
- 4. **the List of Star Chamber Growth Items as shown at Annexe 3;**
- 5. **the List of Star Chamber/Foresight Reductions shown at Annexe 3;**
- 6. **the schedule of Fees and Charges as shown at Annexe 5;**
- 7. **the General Fund Budget for 2011/12, which includes the above changes and Recommendations 1 and 2; and**
- 8. **that Waverley follows the Pension 'Stabilisation' approach, with no change in employer's contributions for the next three years and restricting increases or decreases to a maximum of 1% thereafter; and**
- 9. **that the Financial Strategy be updated to take account of the decisions taken.**