

APPENDIX A.1

WAVERLEY BOROUGH COUNCIL

COUNCIL MEETING – 21 FEBRUARY 2012

REPORT OF THE EXECUTIVE - 7 FEBRUARY 2012

FINANCIAL STRATEGY 2012/13 – 2015/16

GENERAL FUND BUDGET 2012/13

Introduction

1. This report outlines the financial background to producing the Council's four-year Financial Strategy and outlines the approach taken to the 2012/13 Budget. It includes key financial and topical issues; reporting dates to Members; a forecast of the expected Budget position; and details of the 'Star Chamber' process to examine budgets closely in order to identify potential savings.
2. This report contains the following Annexes:
 - Annexe 1 – Detailed Budget pages (separate booklet)
 - Annexe 2 – List of Budget Assumptions
 - Annexe 3 – Star Chamber Proposals
 - Annexe 4 – Budget Overview
 - 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 (Council only)

General Fund Background

3. Over the past few years Waverley has faced significant financial pressures resulting from in particular:
 - Substantial reductions in Government Grant
 - Impact of recession causing extra demand combined with reduced income levels
 - Interest income reduced from over £2m to £350k budgeted for the current year
4. The Council has responded to these challenges and already delivered considerable achievements:
 - £5.5m savings achieved over 4 years, including staff reductions of £2.6m

- Balanced Budget achieved with use of balances eliminated
- External recognition
- Pay frozen from January 2010
- Senior Management Streamlining
- Foresight programme contributing to savings in 2011/12 onwards
- Leisure Centre refurbishment programme implemented
- Budget Consultation responded to
- Food Waste Collection commenced

Issues and Risks for 2012-13 Budget and beyond

5. The Government's Spending Review was announced on 20th October 2010. This had a considerable impact for the entire public sector. Although the precise effect on Waverley was not known, it was necessary to make prudent assumptions early in the process. This has placed Waverley in a relatively good position to face the challenges ahead.

Local Government Finance Settlement

6. The Spending Review in 2010 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. For 2011/12, the first year of the review period, Waverley's grant was reduced by in excess of 18%, with a further reduction of around 14% indicated for 2012/13.
7. As reported to the Executive on 10th January 2012, Waverley's provisional Revenue Support Grant Settlement for 2012/2013 was announced on 8th December 2011 and this has confirmed the figures previously indicated.
8. The details of the provisional Settlement are:
 - a. The decrease in Waverley's Grant for 2012/13 is £642,000; this represents a 14.4% cash reduction and is as expected.
 - b. Council Tax thresholds for 2012/13 have been announced at 3.5% for shire districts. These are 1% above the figures for which the one year freeze grant for 2012/13 will be paid. Increases in council tax above this level would require a local referendum.
 - c. additional one-off Council Tax Freeze Grant for 2012/13 estimated at £222,000 to be paid for one year only assuming the Council sets its Council Tax for 2012/13 at a level no higher than for 2011/12.
 - d. the second year of the 2011/12 Council Tax Freeze Grant will remain at £221,000, but is added into the 'Formula Grant' for national economic reasons. (this grant is for four years only)

Council Tax Freeze Grant

9. Unlike the grant covering the Council Tax freeze from 1st April 2011, the Council Tax Freeze grant for 1st April 2012 will be a one-off payment for 2012/13 only. This could potentially create a further budget problem in 2013/14. In order to avoid this, whilst still gaining benefit of the grant for the council tax payers, the budget proposals allow for the amount of one-off grant

of £222,000 being matched by an increase in the revenue contribution to capital in 2012/13.

New Homes Bonus

10. New Homes Bonus was awarded after the first two years' Formula Grant had been awarded and the Budget Strategy agreed. The Council therefore agreed that the New homes Bonus received in 2011/12 be used to pay for one-off expenditure, rather than towards ongoing revenue expenditure. Maintaining this policy for 2012/13 will allow £648,000 to be allocated to much needed capital expenditure in the Borough. However, from 2013/14, when the new system of Government Grant takes effect, the New Homes Bonus will be a core part of revenue funding.

Initial Projected Shortfall

11. In September, the Finance Seminar indicated a projected initial shortfall of £1.24m for the 2012/13 Budget, increasing for future years as shown. However, measures had already been agreed that were expected to reduce the shortfall by £1m in 2012/13 and more in future years as shown below. This results from action recently agreed by the Council during the past year, of which the most significant is the negotiation of the extension to Environmental Services contract at improved terms to the Council and the introduction of the revised Recycling Collection arrangements scheduled from April 2012, which delivers financial savings as well as improving the service to the Borough's residents.

	2012/13	2013/14
	£'000	£'000
Initial Shortfall	1,240	2,210
Foresight Contingency	- 250	-250
Waste Contract	-250	-250
Car Park Income	-250	-250
Planning Income- Fees Legislation	-250	-250
Estimated Income recovery		
Godalming Leisure Centre –operational savings from new centre	0	-140
Cumulative Savings Required as reported at Finance Seminar	240	1,070
Planning Fees Legislation not agreed	+250	+250
Reduced Interest on Investments	+100	+100
Possible start-up costs of council tax benefit localisation		+100
Contract Retendering Costs not required beyond 2011/12	-60	-60
Bins financed from 2011/12 Savings so financing not required 2012-15	-292	-292
Cumulative Savings Required at start of Budget process	238	1,168

Inflation

12. The negotiation of the Environment Contract extension has resulted in the Council avoiding the usual inflationary uplift being due from 1st April 2012, which also has a positive effect for future years in terms of costs avoided. A small one-off payment for 2012/13 to cover the contractor's unavoidable cost rise has been agreed and this is included within the Inflation Provision. Inflation on other contract costs and general supplies and services is budgeted at 4.5%. The total provision within the draft Budget is £250,000, which is considerably lower than the current year's amount of £429,000.

Pay Awards

13. No pay increase has been budgeted for the year commencing January 2012.

Increases in Fees and Charges

14. The majority of Waverley's fees and charges will remain unchanged for 2012/13. Areas where there will be no increase include Planning fees, Local Land Charges, Environmental Health charges and most Car Park charges (with a few specific increases for management purposes). Some residual charges have been reviewed as part of the budget process, with proposed increases generally no higher than the assumed Retail Price Index of 4.5%. Details of the proposed fees and charges from 1st April 2012 are included at Annexe 5. Car Park charges have already been agreed for the forthcoming year, effective from 1st February 2012 and therefore have not been included in the Annexe.

Revenue Contribution to Capital

15. The core funding for the General Fund Capital Programme is from Revenue Contributions via the Revenue Reserve Fund. For several years the base amount provided each year has been £1.1m, plus any supplementary funding agreed when resources allow, such as for the Leisure Strategy.
16. With the continuing pressure on the revenue Budget, this year the emphasis of the budget strategy is in achieving savings in forthcoming years. 'Invest to Save' schemes remain a priority to deliver the increasing savings required from 2013/14 onwards.
17. The Budget proposals include increasing the Contribution to Capital from the Revenue Budget to £2m for 2012/13 in order finance 'Invest to Save' schemes. The current projections show that there is scope for an additional Contribution to Capital to also be made in 2013/14, albeit at a lower level than 2012/13 (see paragraph 48).
18. Total Revenue Contributions made available via the Revenue Reserve Fund amount to £2.87m, comprising the £2m mentioned above, £222,000 from the 2012/13 Council Tax Freeze Grant and £648,000 from the New Homes Bonus as explained in paragraphs 9 and 10.

Potential Savings

19. 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 through the increased Capital Programme
 - Reconsider funding for Compensatory Grants

Star Chamber Process

20. For the past three years, the Star Chamber process has proved very successful at examining budgets in detail and identifying options to achieve savings and scrutinising growth areas. During November, 'Star Chamber' sessions have again taken place with the Chief Executive, Finance Portfolio Holder, and Heads of Service to examine operational and staffing budgets in detail.
21. The aims have been:
- a. Challenge the budgets for robustness
 - b. Identify options for savings
 - c. Identify opportunities for Investing to Save
 - d. Identify opportunities for external income
 - e. Make a case for any growth
22. As part of the process Service Managers were asked to:
- a. Complete a savings pro forma
 - b. Present benchmarking data to support their budgets
 - c. This year the Heads of Service have also been asked to look ahead to 2013/14 and beyond, with in some cases an indication of the additional savings anticipated for 2013/14 shown on the Star Chamber List
23. For the 2012/13 Budget, the Star Chamber proposals will deliver savings of £721,000 in addition to reductions listed of £1m already deducted from the Base Estimates. The second sheet of the Star Chamber list summarises the savings already anticipated for 2013/14, when additional savings of £293,000 are expected, giving total savings of £1,014,000.

Foresight Savings

24. The total expected Foresight savings included in the total Star Chamber Savings for 2012/13 are £835,000, as detailed on the Star Chamber list. There are also significant savings that relate to the Housing Revenue Account.

Budget Timetable

25. The remaining dates for reporting to Members during the 2012/13 Budget process are:

- Overview & Scrutiny and Licensing Committees detailed Budget consideration
 - Community 30 January 2012
 - Corporate 31 January 2012
 - Licensing 16 February 2012
- February 7 Executive recommends council tax and council house rents
- February 21 Council agrees Budget

2012/13 Draft Revenue Estimates

26. The detailed Estimates for all General Fund services are shown at Annexe 1 (circulated as a separate booklet).
27. The draft Budget allows for the full-year effect of the ongoing items reported during Budget Monitoring.
28. Growth items have been considered as part of the Star Chamber process, with allowance for the cost made against the Star Chamber List.
29. 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.
30. Applications for grants under the Community Partnership Scheme for 2012/13 are the subject of a separate report on this agenda. At this stage, the detailed estimates for 2012/13 relating to each individual organisation have been left blank.
31. As a result of the success of the Star Chamber and Foresight Programme, sufficient savings have been found to propose no reduction in the overall Community Partnership Grants budget provision for 2012/13, it has been maintained at £744,530.

Revenue Budget 2012/13

32. Various assumptions have been made in compiling the draft Estimates and these are summarised at Annexe 2.
33. The Star Chamber List of Reductions and Growth Items is shown at Annexe 3.
34. The position statement for the draft General Fund Budget for 2012/13 is shown in detail at Annexe 4. This traces the changes in the Budget shortfall to the latest Budget proposals.

Statutory Services

35. 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.

Support Costs

36. Support costs and other central overheads are the costs of central functions that are necessary to support the delivery of front line services and projects and to discharge Waverley's statutory duties and governance requirements. These functions include internal professional services, such as legal, accountancy etc. and direct service related costs, such as IT, postage, payments, offices etc. Central budgets are treated in the same way as front line service costs in the accounts except that accounting rules require Waverley to recharge the full costs of central and support costs to services and projects on an appropriate basis. More detail about the basis of recharges will be included in Waverley's 2012/13 Budget Book.
37. Waverley's central and support costs are subject to scrutiny by the Star Chamber process and Heads of Service are expected to review and justify costs and charges to services. The level of support costs and the efficiency of delivery are challenged to ensure that it is necessary and appropriate. When major service changes are made, such as on-street car parking, the support costs are reviewed and savings are required where appropriate. Of the £2.3m total Star Chamber saving in 2011/12, £0.5m was achieved from central and support services.

Local Government Act 2003 – Financial Administration

38. 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.
39. 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 continue to receive favourable comments in the Annual Audit Letter.

The Robustness of the Estimates

40. 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.
41. The key Financial Strategy issues for the General Fund will include:
- Government Formula Grant to be replaced by a new financing system that includes retention of some Business Rate income (this is expected to reduce funding to the Council) and pressures from Government Legislation;
 - The introduction of local Council Tax support from April 2013; and
 - Increased demand for key public services in an affluent area.
42. In addition to the detailed scrutiny of the Budget by officers, Councillors have taken the opportunity through the Executive and Overview and Scrutiny process to:
- I. Critically examine Budget Variations
 - II. Continue the Star Chamber process to examine the budget in detail and advise on potential reductions
43. In view of the level of awareness amongst Members and the action taken to produce the Council's Budget in 2012/13, the Deputy Chief Executive is satisfied with the robustness of the estimates presented. Although the Budget includes reductions and savings in excess of £1m, the Deputy Chief Executive is confident that overall the Budget is prudent in view of:
- a. the track record of achievement of very substantial budgeted savings over the past four years
 - b. the use of the New Homes Bonus and the Council Tax Freeze Grant to finance capital expenditure on a one-off basis rather than inclusion as income within the base budget for 2012/13
 - c. no allowance being included for additional Planning income resulting from a possible change in Government Legislation on the level of fees

Adequacy of Reserves

44. 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.
45. The Financial Strategy explains the purpose of each fund. The General Fund balance supports fluctuations in the Council's normal business, eg 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 £3.1 million, effectively 10% of the gross General Fund Budget, or equivalent to just over one month's spending.

46. 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 £3.1 million on the General Fund Working Balance satisfies the adequacy requirements of the Local Government Act 2003.
47. 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.

Budget Monitoring

48. 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. Budget Monitoring in 2011/12 shows that the Council has delivered in excess of the £2m of savings assumed in the Budget; and this has contributed to the purchase of new recycling bins for every household in the Borough and will still deliver a small saving at the year-end. This demonstrates the robustness of the 2011/12 Budget and of the Monitoring Process.

Assessment of Key Risks

49. 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/Business Rates Income beyond 2012/13 under the new financial regime
 - Continuing levels of fee income
 - Failure to ensure adequate levels of balances to meet known and unforeseen pressures in the future

Forward Budget Projections – Medium Term Financial Strategy

50. At the Finance Seminar, Members received Budget projections covering the full 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. The indicative position for 2013/14 reflects the work carried out in looking ahead during the current Budget process as explained in paragraphs 11, 17 and 23. It should be emphasised that the saving is dependant on significant capital investment. 'Invest to Save' schemes are particularly important in reaching the level of savings expected to be required throughout the period of the Medium Term Financial Strategy.

Collection Fund

51. 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 2012/13 is attached at Annexe 10.
52. As shown at Annexe 10, present indications are that there is likely to be a surplus of some £900,000 as at 31st March 2012, which has to be shared with the major precepting authorities. Waverley's share of this will be approximately £121,000, which is slightly higher (some £3,000) than the amount available last year. These amounts are taken into account in the Council Tax calculation at Annexe 11.

Council Tax Base

53. The Waverley council tax base for 2012/13 was approved by the Executive in December 2011 and is slightly higher than the previous year. This will generate approximately £30,000 additional council tax income.

Council Tax Levels

54. The effect of the 2012/13 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.
55. Members are advised that a variation in Council Tax of 1% equates to £89,000. However, the financial implications of any Council Tax increase this year are explained in paragraphs 8 and 9.

Special Expense

56. Annexe 12 shows the effect, in 2012/13, of the decision taken by Council on 12th October 1999 to levy a special expense from 1st April 2000 in respect of cemeteries costs. The figures accord with the Executive's recommendation regarding Council Tax levels. In practice, for the two years concerned, the special expense has been zero, thus having no impact.

Overview and Scrutiny Committees

57. The Committees did not identify any specific observations they wished to pass to the Executive except to congratulate the Finance Team and the Executive on the work undertaken on the budget.

58. The Executive

RECOMMENDS

1. **that a 0% increase for Waverley's element of Council Tax for 2012/13 be approved;**
2. **approval of the List of Star Chamber/Foresight Reductions and Growth Items as shown at Annexe 3;**
3. **approval of the changes to Fees and Charges as shown at Annexe 5;**
4. **approval of the General Fund Budget for 2012/13, as amended by the above changes; and**
5. **that the Executive carries out a mid-year review of the General Fund Budget and takes any appropriate action in the light of the position at that time.**

Committees\council\2011-12\210212\09 GF budget A.1