



FINANCIAL STRATEGY

UPDATE – SEPTEMBER 2011

2012/13 – 2015/16

FINANCIAL STRATEGY 2012/13 – 2015/16 WAVERLEY BOROUGH COUNCIL

INTRODUCTION

Waverley's Medium-Term Financial Strategy is well established and embodied in the workings of the Council. The annual Members' Finance Seminar and the budget process updates the Council's 4-year strategy which is composed of many elements relating to different aspects of Council business. The Financial Strategy is driven by the Corporate Plan and it links Waverley's other key corporate strategies.

Purpose

The purpose of this Strategy is to:

- define the aims of the Council in financial terms;
- demonstrate that sufficient resources will be available to meet the Council's objectives and priorities, particularly in the delivery of value for money;
- identify actions necessary to address the financial pressures;
- inform the Council's strategic planning and policy making;
- set the parameters for budget setting; and
- demonstrate stewardship of community resources.

Timeframe

The elements of the Financial Strategy relate to current and future years. This document considers the period of the new Council and builds on the budget decisions agreed by the Council in February 2011. The impact of the outturn position in 2010-11 is also included in the Strategy. The revised Corporate Plan will be approved by the Council in February 2012.

Audience

This Strategy is primarily for the benefit of Members and officers in the first instance but it also has a wider audience of interested parties including local residents, Partners, Registered Social Landlords, the Audit Commission etc. The Strategy is widely communicated and included on Waverley's website. Members discuss the issues in detail at the annual finance seminar and develop the Strategy throughout the budget-setting process.

SUMMARY – FINANCIAL STRATEGY KEY ISSUES AND OPPORTUNITIES

General Fund:

- How to continue responding to the impact of the recession
- Focusing resources on Corporate Plan objectives and priorities
- Responding to residents' needs
- How to maintain or generate additional income from grants and charging
- Spending on public services in an area with a diverse population and geography
- Future Government grant settlements following review of Local Government funding, including business rates and council tax benefits
- Government restriction on council tax levels
- Funding the Capital Programme in the longer-term
- Achieving social inclusion and providing accessible, affordable services for the Borough's most vulnerable residents
- Rising inflation and low investment interest rates.

Housing Revenue Account:

- Self-financing framework including requirement to borrow £190m
- Funding Decent Homes works
- Achieving cost savings to balance to HRA in future years
- Future rent levels

Capital Programme:

- Delivering the Leisure Strategy
- Funding Decent Homes works
- Improvements and maintenance of assets
- Providing Affordable Housing
- Delivering planned programmes and utilising new funding sources

SUMMARY – FINANCIAL STRATEGY KEY POLICIES

Reserves and Balances will be held to support unforeseen costs, in particular:

- General Fund balances will be maintained at a prudent level of at least £ 3.1 million;
- The Housing Revenue Account balance will be maintained at a prudent level of at least £1.5 million;
- The Revenue Reserve will be used to support the General Fund Capital programme, invest to save schemes and one-off items of revenue and capital expenditure;
- The Revenue Reserve Fund will contribute a base figure of £1.1million each year to capital, subject to an annual review;
- The Insurance Reserve will be retained at a level that is sufficient to meet any potential claims from MMI.

Other key policies include:

- Continue to identify savings and efficiency gains in budgets in the light of future projected budget deficits;
- Use Prudential Borrowing only when projects generate income and when there is a strong business case;
- Maintain a balanced budget ie. no dependency on balances
- Continue to support Waverley's Community during the recession

KEY ACTIONS

- Continue the 'Star Chamber' reviews and the Foresight Programme to ensure budgets deliver good value for money and are aligned to Corporate Plan priorities
- Secure new funding opportunities to deliver priority services and projects
- Model and monitor sensitivities on key budget areas eg. Inflation, interest.
- Rigorously test all capital proposals for relevance and deliverability.
- Clearly link the Financial Strategy to other key reviews including asset utilisation, customer and information management, workforce planning and procurement.
- Review procurement to identify efficiencies and cost savings.

REVENUE – GENERAL FUND

Budget Strategy

In setting each year's General Fund Revenue Budget, Waverley aims to achieve the following objectives:

- allocate resources to the key Corporate Plan objectives and priorities, including community support during the recession
- eliminate any surplus budgets
- maximise income
- ensure priority areas are adequately resourced including contractual commitments
- budgets which support Waverley's medium-term aims
- review the adequacy of budgets for maintenance of assets
- review spending on non-priority areas
- continue to achieve efficiency improvements

Whilst in general, an incremental approach is adopted in setting the revenue budget, it is important that the necessity and level of every budget is considered against Waverley's corporate objectives. It is not proposed to undertake a comprehensive zero-based budget process, however, the 'Star Chamber' process approach will continue to be used to set future budgets to:

- Identify and review discretionary expenditure to seek to create opportunities for switching this resource to other priorities.
- Review controllable budgets to identify potential savings, efficiency gains or income-earning opportunities, taking account of past years spending patterns.
- Identify each year, known or possible significant budget variations for the 4 years following the budget setting year from service plans. Appendix 1 identifies the estimated major variations, over and above the approved 2011/12 Budget, for the period 2012-13 to 2015-16.
- Consider the sensitivity of budget figures, particularly income, and any risks and opportunities that impact on the figures.

Use of Balances

We aim to maintain a prudent level of balances to support revenue spending and finance unforeseen events. As part of the 2011/12 Financial Strategy preparations, balances were reviewed to ensure that they were adequate and that dependency on balances was eliminated. The Deputy Chief Executive reported to the Council on the adequacy of financial reserves in February 2011 as a part of the budget setting process. The prudent level of General Fund balances in the medium-term has been set at £3.1million. This level has been set with regard to the Council's needs and it takes account of known risks and opportunities. Analysis of the impact of variations in key factors is modelled and used to inform the Strategy.

The General Fund balance at 31st March 2011 is greater than the previous projected level and above the approved prudent level. This increase has arisen as an overall result of managed underspends, efficiency gains and improved interest income. £800,000 of the balance has been earmarked for high priority schemes in 2011/12.

Council Tax Levels

Waverley's General Fund budget is funded approximately 33% from Government grant and 67% from council tax. This has moved from a position 4 years ago of being 45% from grant. In 2012/13, only 29% of General Fund net expenditure will be met from government grant. Therefore, in broad terms any percentage increase in net General Fund expenditure above inflationary levels will result in high council tax increases.. The Government is currently reviewing the local government grant system and Waverley's strategy projections will be updated when the outcome is known.

In the medium-term, the main areas affecting council tax levels are:

- further government grant reductions
- the cost of developing priority services
- the continued revenue funding of the capital programme
- the ability to continue to identify cost savings from the base budget
- the Government's review of benefits
- high inflation
- the sustainability of income levels
- the potential to borrow to fund capital investment
- the Government's council tax capping criteria

Waverley must continue to set its council tax increase at a level which avoids capping.

Budget Issues

Key Strategy Issues for the General Fund:

- Maintaining a balanced budget
- Focusing resources on Corporate Plan objectives and priorities
- Further external budget pressures and Government legislation
- How to maintain or achieve additional income
- Spending on public services in an area with a diverse population and geography
- Future Government grant settlements and the impact of changes to housing and council tax benefits
- Invest to save opportunities
- Restriction on council tax levels through capping
- Funding the Capital Programme in the longer-term
- Achieving social inclusion and providing accessible, affordable services for the Borough's most vulnerable residents

- Rising inflation and energy costs and dependency on investment interest.

Maintaining the Council's capital assets with limited resources, continues to be a major pressure which can affect the revenue budget either through increased running costs, reduced income from assets and demands to continue with a significant revenue contribution to pay for capital expenditure.

Waverley's Foresight Efficiency Programme

In the past 4 years, Waverley has delivered over £5.5million in budget savings and efficiency measures, including £2.6million of staff costs. Waverley's Foresight programme was introduced in 2009 to deliver key efficiency projects and this has contributed to balancing the budget with over £1million of savings achieved in 2011/12. The Foresight programme will continue to be a key part of Waverley's financial strategy in future years with a target saving to be identified each year of £1million.

Collection Fund

Waverley's Collection Fund accounts for all the transactions relating to the collection of Council Tax and Business Rates, the payment of precepts to Surrey County Council, Surrey Police and the Towns and Parish Councils and the payment of Business Rates over to Central Government.

Waverley has an excellent track record of achieving high collection rates on both Council Tax and Business Rates in recent years. Good cashflow is critical to Waverley's business and it remains a key financial strategy aim to continue to push for high collection rates using efficient systems of collection.

Unforeseen Events

Waverley will continue to use its balances and reserves to support unforeseen non-operational events subject to the necessary approvals as required by the Financial Regulations and Waverley's Constitution.

Balances and Reserves

Waverley holds a number of balances and reserves for a range of specific and general purposes. Unless otherwise approved, these amounts must be used for their intended purpose and support Waverley's key objectives. The following provides more detail on the key General Fund reserves and balances.

General Fund Balance – This balance is to cover variations in budgeted income & spending due to:

- Unexpected price increases
- Unbudgeted calls for spending e.g. major one-off inquiry
- Loss of income if offsetting savings can't be found
- Increased demand for services e.g. homelessness

Council policy is for a minimum of £3.1million to be held in this balance to cover the above items. The balance currently stands at £4million of which £0.8million is earmarked and committed to high priority spending needs in 2011/12.

Revenue Reserve Fund – this is a well-established reserve that is used mainly for supporting the capital programme and one-off items of revenue and capital expenditure. Its prime funding is from an annual contribution from the General Fund representing repayments of capital advances. Appendix 2 shows the Revenue Reserve Fund current balance and projections for the next 4 years.

Insurance Reserve – At 1st April 2011 the Insurance Reserve stands at £615k. Council policy is to keep an amount which is considered to be sufficient to meet any possible future claims from the Municipal Mutual agreement in this reserve and an amount which is considered to be sufficient to cover potential claims arising from previous staff-related self-insurance.

<u>General Fund Revenue Reserves</u>	Balance 1/4/11 £,000
Revenue Reserve Fund	2,735
Leisure Strategy Fund (earmarked & committed)	2,538
Renewals Fund (earmarked & committed)	109
General Fund Working Balance	4,053
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	£10,050
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Equality Impact Assessment

Waverley's Medium Term Financial Strategy aims to ensure that the Council can deliver its services and target its resources on priority areas. These priorities were developed having regard to the Council's approved Equality and Diversity policy. This Strategy recognises Waverley's diverse population and its unique geography and is intended to have a positive impact on the most disadvantaged and vulnerable citizens by focusing resources on providing affordable and accessible services throughout the Borough.

HOUSING REVENUE ACCOUNT (HRA)

The HRA is the Council's landlord account and contains only the costs and income from managing and maintaining the Council's dwelling stock. There are currently 4,900 properties.

HRA Revenue Budget

Statute requires the Council to avoid a deficit on each year's budget. The Council must therefore estimate as accurately as possible the total level of income it will need to raise from rents having regard to the estimated cost of managing and maintaining the properties each year, taking account of the payment of subsidy to the Government and likely income from charges for services and facilities.

There is still pressure for the Council to meet the Government's decent homes standard although by a slightly later deadline of 2012. However, as the Council does not have the capital resources available to implement a major programme of works and improvements, there is likely to be increased need for unplanned day-to-day repairs.

Rent Restructuring

This is the Government's approach to the calculation of social rents introduced from April 2002. The aim of the policy is that social rents on similar houses in the same area should be the same, regardless of who is the landlord. The key to achieving the policy objectives is a common formula for both local authority landlords and Registered Social Landlords (RSLs). The formula reflects

- Relative property values
- Local earnings
- Property size

Whilst the Government originally wanted the restructuring process to be complete by 2012, pending the outcome of its review of the subsidy system it has extended the original deadline by five years. It is also concerned to limit changes in rent levels in any one year by applying a cap of inflation plus 0.5% plus £2. For 2011/12 Waverley's Members agreed that rents should increase by the Government guideline rate of 7%.

Waverley has introduced the principles of rent restructuring to its rent setting process since 2002 and calculated target rents for each of its properties. However, the requirement to set a balanced budget for the HRA means that there are conflicting pressures between the Government's policy aim of restricting annual rent increases and the level of service provision to tenants.

Government Housing Subsidy

2011/12 is the last year that Waverley will be paying a significant amount in housing subsidy to the Government from the HRA, £12.8million. From 2012/13 the Government is introducing a replacement to the subsidy system called self-financing which requires Waverley to take on £189million of debt. This will place a huge burden on the Council to service this debt and the 30-year HRA Business Plan is critical to the long-term success of the housing service.

Pressures/Constraints

Key Strategy Issues for Housing Revenue Account:

- Impact of self-financing - £189million of debt by March 2012
- Funding Decent Homes works
- 30-year HRA Business Plan must be prudent and robust
- Future rent levels
- Identifying savings on the revenue account to help manage all of the above
- Rent Restructuring

Use of Balances

A prudent level of working balance is maintained to support revenue expenditure for unforeseen items or to meet fluctuations in income. Given the current level of HRA balances at just over £2m, it is not sustainable to use balances to keep rent levels down. It is Waverley's policy to keep a minimum of £1.5million in the HRA balance.

Decent Homes Standard

A major Government policy initiative is the introduction of the Decent Homes Standard and the requirement laid upon all local authorities and housing associations to bring the stock they own up to the Government's 'decent' standard.

One of the Council's key strategic housing aims, recognised in the Housing Strategy update, is investment in the existing housing stock to meet the Decent Homes Standard. Waverley's HRA Business Plan also recognises the importance of the Decent Homes Standard and details how the extent of its 'non-decent' property is being quantified.

Waverley was awarded a grant of £8.4million in 2011/12 to help address the backlog in Decent Homes Standard work necessary.

CAPITAL FINANCING

Prudential Borrowing

It is current policy to borrow only when a Capital Scheme generates sufficient reserve saving to meet the borrowing costs, with the exception of HRA self-financing borrowing. Currently no Prudential Borrowing has been identified for General Fund services.

Whilst either Prudential Borrowing or further use of the Revenue Reserve Fund could fund future capital requirements, avoiding further use of the Revenue Reserve Fund will tend to maximise flexibility because it can be used for both revenue and capital purposes, whereas Prudential Borrowing may only be undertaken for capital purposes. The Revenue Reserve Fund is also a finite resource.

Capital Receipt Pooling

The Government's capital receipt pooling regime took effect which requires Waverley to pay a proportion of its housing capital receipts to the Government. 75% of right to buy receipts and 50% of other receipts are pooled. It has been confirmed that pooling will continue under the self-financing regime.

Revenue Contributions

Waverley can finance its capital expenditure directly from its revenue accounts, or from reserves or earmarked funds, which also technically count as revenue contributions. In addition the Council is required to charge a specified sum known as the Major Repairs Allowance (MRA) to its Housing Revenue Account for the purpose of financing major housing repairs.

Waverley operates the following revenue funds within its General Fund:

- Revenue Reserve Fund
- Leisure Fund
- Vehicle Renewals Fund

Revenue Reserve Fund

The balance on the Revenue Reserve Fund at 1/4/11 is £2.7 million and Appendix 2 shows the projection over the next 4 years.

This fund was established to fund a variety of one-off expenditure. The Financial Strategy identifies uses including:

- One-off expenditure e.g. restructuring
- Invest to Save opportunities
- Financing capital spending
- Financing MMI Shortfall

Vehicle Renewals Fund

The purpose of the Vehicles Renewals Fund is to finance the replacement of Waverley's small fleet of vehicles on a planned basis. Contributions are charged to the General Fund and paid into the Fund to even the impact of the cost of new vehicles in any one year's accounts. Purchases of vehicles are financed from the Fund. As most of Waverley's services are provided by contractors, the vehicle fleet now consists of just 6 vehicles.

Capital Receipts

Waverley has a property portfolio and capital receipts arising from this are an important element of financing of Waverley's capital expenditure.

The main source of capital receipts is right-to-buy sales of properties within the HRA. These continue to fall steeply and in 2010/11 were only £0.5m, 75% of which had to be paid to the Government. Capital receipts also arise from sales of land and access rights within both the General Fund and the HRA.

Ring Fencing does not apply to capital receipts, so Waverley could use the capital receipts arising from right-to-buy sales to finance any General Fund schemes. However, Council policy is for these receipts to be used for Housing purposes to be spent on decent homes.

Currently, the balance of General Fund receipts is earmarked for the completion of the leisure strategy. From time-to-time major capital receipts arise from Waverley's Property Strategy and these provide an opportunity to supplement the Capital Programme.

Developers' Contributions

Waverley receives contributions from developers to compensate for the 'strain' on public services and infrastructure when a large-scale development is agreed through the planning process. These amounts can be for specific purposes, such as the provision of affordable housing, children's play facilities or highways improvements. Waverley's planning infrastructure tariff requires large and small developments to contribute towards improving public services. This new source of funds could potentially bring significant addition funds to the Council in future years. The fund will be received when the developer starts on site rather than at the point that planning permission is given.

The tariffs have clearly identified elements, some of which relate to the services of other public bodies. Waverley has approved a process for identifying and delivering projects and initiatives that help deliver key priority areas, having regard to any restrictions on the use of the funds and the geographical source of the payments. Where appropriate, officers will also work with town and parish councils and other funding bodies to lever in more funds to maximise the value achieved.

CAPITAL EXPENDITURE

Capital Strategy & Asset Management Plan

Waverley's Capital Strategy covers all aspects of Waverley's capital expenditure and provides a high-level four-year plan of the Council's investment priorities.

The Asset Management Plan has been developed to ensure that the Council takes a corporate and strategic approach to managing its corporate assets. It is designed to link asset management to continuing and improving service delivery.

Both the Capital Strategy and Asset Management Plan recognise the key role of capital investment in achieving delivery of Waverley's corporate and service objectives, and seek to ensure that optimum benefit is obtained for the residents of the Borough from the limited available capital resources.

Waverley's asset plans are overseen by the officer/Member Asset Advisory Group. The progress of approved capital projects is monitored by the Capital Monitoring Group which also considers new capital proposals that are identified during the year prior to consideration by the Executive.

Existing v New

A considerable proportion of Waverley's Capital Programme represents expenditure on existing assets. In the case of the HRA the Major Repairs Allowance is in the region of £3 million pa. In contrast, the Capital Programme also includes new schemes representing high-profile growth in service delivery. The Council has to balance the resources available between these varying demands.

The Council's Executive prioritises capital schemes after receiving advice from officers and Overview Committees. The following criteria are used in the prioritisation process:

- The extent to which a particular scheme achieves the Council's key corporate objectives.
- Environmental impact of project
- Investment required to maintain current service provision.
- Investment that will lead to cost savings or income generation.
- The level of community support for particular proposals.

The Council has agreed that priority be given to health and safety schemes and those which reduce the impact on the General Fund revenue account in future years. The full list as agreed by Council in priority order is:

Priority	Category
1	Health & Safety
2	Disabled Facilities Grants
3	Disabled Discrimination Act works
4	Schemes that deliver the Leisure Strategy
5	Invest to Save schemes
6	Maintaining Council Assets
7	Maintaining Services

8	Implementing initiatives to improve customer service
9	Partnership funding and other Service Developments*

*Officers will continue to seek additional sources of funding.

Pressures/Constraints

Key Strategy issues for the capital programme:

- Delivering the Leisure Strategy
- Funding Decent Homes works
- Improvements and maintenance of assets
- Providing Affordable Housing
- Delivering planned programmes and utilising new funding sources

Appendix 3 identifies the projected available financing for the capital programme.

Capital resources remain extremely limited whilst proposed capital schemes greatly exceed the available resources for the Strategy period. Officers through the Asset Management Group are currently assessing capital schemes in order to feed them into the budget process in the autumn.

INVESTMENTS

Treasury Management Policy

The Council's Treasury Management Policy and Investment Strategy follow best practice and are reviewed annually. These policies determine how Waverley's investments and cashflow are managed and they define approved investment limits for the year which are based firstly on risk minimisation and secondly on maximisation of return.

What the investments are used for

Waverley's investments are held for two main reasons. Firstly, they are used to provide cash flow for Waverley's short-term needs, eg. Precept payments. Secondly, they represent the cash behind Waverley's funds, reserves and balances such as the capital receipts. As these reserves are used to fund expenditure, the level of investments will reduce. The total investments held at 31 March 2011 is around £25million, of which approximately £17 million represents the revenue and capital balances and reserves and the remainder of some £8 million is used to manage the day-to-day cash flow.

Forecasts

Currently, nearly all of Waverley's investments are held for period of less than one year. As approximately £17 million of the investments represent capital and revenue reserves, a longer-term view could be taken on this proportion, taking into account the projected draw on these funds. The Treasury Management Panel have been operating well within the approved treasury management policy and have set tighter controls over the range of organisations and the period of investments to manage the risks of the volatile financial markets. Also, major focus on credit ratings helps to limit the risk exposure.

Appendix 1

Estimated Variations to General Fund Budget

Estimated variations from 2011/2012 Budget	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000
Inflation non-pay (4.5%)	250	250	250	250
Inflation non-pay (3%)	0	270	270	270
Inflation non-pay (3%)	0	0	270	270
Inflation non-pay (3%)	0	0	0	270
Pay award	?	?	?	?
Triennial pension review	0	0	100	100
Possible service increases	?	?	?	?
Government grant reduction	640	1,200	1,800	2,400
New Homes Bonus	0	-310	-310	-310
Council tax reduction grant	0	0	0	220
Council tax benefit	0	100	100	100
Benefit admin grant- extra	100	100	100	100
Benefit admin grant - UC	0	100	100	100
Loss of supporting people grant	250	500	500	500
Budget Shortfall	1,240	2,210	3,180	4,270

Appendix 2**Revenue Reserve Fund Projections**

	2012/13	2013/14	2014/15	2015/16
	£'000	£'000	£'000	£'000
Balance at Start of Year	2,270	2,290	2,300	2,300
<u>Add</u> Net contributions to fund	1,100	1,100	1,100	1,100
<u>Add</u> Interest on capital receipts	20	10	0	0
<u>Less</u> Financing capital	1,100	1,100	1,100	1,100
Balance at end of year	2,290	2,300	2,300	2,300

Appendix 3

Capital Financing

	2012/13	2013/14	2014/15	2015/16
<u>HRA</u>	£'000	£'000	£'000	£'000
HRA revenue contribution	?	0	0	?
Capital receipts	1,566	215	597	?
Decent Homes backlog grant	2,318	3,238	2,904	
Major repairs allocation	5,400	5,600	5,800	6,000
Total HRA	9,284	9,053	9,301	6,000
<u>General Fund</u>				
Revenue Reserve Fund	1,100	1,100	1,100	1,100
Leisure Strategy Fund	1,960	20	20	20
Other Funding	20			
Internal Resources	3,080	1,120	1,120	1,120
External Funding	250	250	250	250
Prudential Borrowing	0	0	0	0
Total General Fund	3,330	1,370	1,370	1,370
TOTAL	12,614	10,423	10,671	7,370