

WAVERLEY BOROUGH COUNCIL

EXECUTIVE - 5 FEBRUARY 2013

Title:

**FINANCIAL STRATEGY 2013/14 – 2016/17
GENERAL FUND BUDGET 2013/14**

[Wards Affected: ALL]
[Portfolio Holder: Cllr Mike Band]

Summary and purpose:

This report outlines the General Fund Budget position for 2013/14. The Executive is reminded of the extent of the shortfall identified at the Finance Seminar and the need to achieve savings throughout the four-year period covered by the Financial Strategy. Information is provided on the details of the provisional Local Government Finance Settlement 2013/14. The Council's financial position is summarised, showing the position as presented to the Finance Seminar in September taking account of the Settlement, other budgetary changes and the outcomes of the Star Chamber process and further proposals following analysis of the Settlement.

In November and January, Members were invited to comment on issues that fall within the remit of the Overview and Scrutiny Committees to help balance the General Fund Budget in the coming months. These comments are now reported to the Executive.

The Executive is requested to make recommendations to Council regarding Waverley's Budget and its element of the Council Tax for 2013/14.

How this report relates to the Council's Corporate Priorities:

The Council could not deliver the Corporate Priorities without a robust Budget-setting process in place.

Equality and Diversity Implications:

An Equality Impact Assessment on the Budget proposals has been carried out and no adverse implications have been identified within the final proposals.

Resource/Value for Money implications:

All decisions made with regard to the Budget will impact on Waverley's resources.

Legal implications:

There are no direct legal implications as a result of the recommendations of this report.

Introduction

1. This report outlines the financial background to producing the Council's four-year Financial Strategy and outlines the approach taken to the 2013/14 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 – draft General Fund Budget
 - Annexe 2 – Budget Overview
 - Annexe 3 – Finance Settlement details
 - Annexe 4 – Star Chamber Proposals
 - Annexe 5 – Schedule of Changes to Fees and Charges
 - Annexe 6 – Schedule of Balances
 - Annexe 7 – Forward Budget Projections
 - Annexe 8 – Council Tax
 - Annexe 9 – Special Expense (Council only)

[Annexe A containing detailed budget pages is circulated as a separate document]

General Fund Background

3. Over the past few years Waverley has faced significant financial pressures. The Council has responded to these challenges and already delivered considerable ongoing gross savings now amounting to £7.5million achieved since 2007/08:

Budget/Star Chamber Savings 2007/8	£320,000
Budget/Star Chamber Savings 2008/9	£387,500
Budget/Star Chamber Savings 2009/10	£1,605,000
Management Restructuring savings Nov 2010	£330,000
Budget/Star Chamber Savings 2010/11	£1,120,000
Budget/Star Chamber Savings 2011/12	£2,096,000
Budget/Star Chamber Savings 2012/13	<u>£1,724,000</u>
Total	£7,582,500

Issues and Risks for 2012-13 Budget and beyond

4. The Government has radically revised the entire Local Government funding system which presents risks going forward. A further reduction has been applied to Waverley's grant in 2013/14 on top of the substantial reductions already made. The Government has also announced fundamental reforms to benefits which creates financial uncertainty for Waverley in the future, particularly around the arrangements for Council Tax Benefit.

Inflation

5. Inflation continues to be a major variable in the Council's Budget. The Council's main contracts are indexed to CPI. An average annual figure of 3% for CPI has been assumed for General Fund Budget projections.

Pay Award

6. Waverley's JNC has reached agreement to recommend a pay Award of 2% from 1 April 2013, with a subsequent annual review date changing from January to April each year. In addition, it is proposed that staff grading (other than Waverley's apprentices) is reviewed so that no employee receives a wage below the UK 'Living Wage' for outside London. The cost of this to the General Fund is £215,000 for 2013/14 and this is allowed for in the budget figures.

Provisional Local Government Finance Settlement

7. Details of the impact of the provisional Settlement on Waverley are shown at Annexe 3. In December 2012 the Government announced a 1.4% reduction in "total spending power". This was a very misleading statement dramatically understating the impact on Waverley. Details of the real impact of the provisional Settlement on Waverley are shown at Annexe 3. The overall Government Grant reduction is £602,000, including loss of the 2012/13 freeze grant. Indications for 2014/15 are that the Revenue Support Grant element of the Government grant alone will reduce by a further £600,000 (22.8% of the 2013/14 level) and whilst Business Rates Baseline funding levels are due to increase year-on-year by RPI, Business Rates income levels remain extremely volatile and the significant loss in Revenue Support Grant for 2014/15 leaves Waverley's secure core funding greatly reduced.

New Homes Bonus

8. The New Homes Bonus forms a core part of revenue funding from 2013/14, under the new system of Government Grant Support. However, there is considerable uncertainty about the level of future payments. Therefore, in view of this, it is proposed that Waverley's use of the New Homes Bonus continues to finance one-off items of capital spending.

Council Tax Increase / Freeze Grant

9. With the recent announcement of a further year's Council Tax Freeze Grant for 2013/14, if council tax is held at this year's level, Government grant of around £90,000 will be received, based on a notional 1% increase in council tax income. The 2013/14 grant will be paid for two years, so it will continue in 2014/15, but present a pressure in 2015/16 as it prevents Waverley from including the increase into the base budget. It will require either equivalent savings or a larger council tax increase to be considered for 2015/16, however, council tax referenda could restrict the ability to maintain spending levels beyond 2014/15. In any event, the position beyond 2015/16 remains uncertain.

Increases in Fees and Charges

10. Many of Waverley's fees and charges will again remain unchanged for 2013/14. Areas where there will be no increase include Local Land Charges, Careline, Environmental Services, and most Car Park charges (with a few specific increases as agreed previously). Some residual charges have been

reviewed as part of the budget process, with proposed increases generally averaging 3.5%. Details of the proposed changes to fees and charges from 1st April 2013 are included at Annexe 5.

'Star Chamber' Proposals

11. 'Star Chamber' sessions have again taken place with the Chief Executive, Finance and Service Portfolio Holder and Heads of Service to examine operational and staffing budgets in detail.
12. For the 2013/14 Budget, the Star Chamber proposed reductions, as listed at Annexe 4, will deliver total savings of £890,000, including £509,500 already deducted from the base estimates. The second sheet of the Star Chamber list summarises the savings already anticipated for 2014/15, when further savings of £480,000 are forecast in addition to the savings proposed for next year.
13. The Star Chamber also considered growth items. The growth items recommended for approval are shown on the Star Chamber summary and total £350,800. Of this, £173,500 relates to the Members' Allowance Scheme and the agreement to review Ward boundaries and the other £177,300 are items put forward by Heads of Service.

Revenue Contribution to Capital

14. The core funding for the General Fund Capital Programme is from Revenue Contributions via the Revenue Reserve Fund.
15. The Budget proposals include a Contribution to Capital from the Revenue Budget of £2.4million, which is down from the £2.87million in the current year.

Brightwells Project and Local Enterprise Partnership (LEP) Funding

16. The proposed level of contribution to the Revenue Reserve for 2013/14 will ensure that the Revenue Reserve Fund balance remains sufficiently robust to accommodate any bridging finance that may be required for the Brightwells project. The £1.573m loan funding obtained from the M3 LEP to progress the Riverside works as part of this project will assist with the project's cash-flow. £191,000 of the LEP funding will be spent this financial year, with the balance forming part of the 2013/14 Programme. The LEP funding will be repaid when the contract goes unconditional, or by June 2016, in which case the repayment will be temporarily funded from the Revenue Reserves.

2013/14 Draft Revenue Estimates

17. The detailed Estimates for all General Fund services are shown at Annexe 1.
18. The draft Budget allows for the full-year effect of the ongoing items reported during Budget Monitoring.
19. Growth items have been considered as part of the Star Chamber process, with allowance for the cost made against the Star Chamber List.

20. 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.
21. Applications for grants under the Community Partnership Scheme for 2013/14 are the subject of a separate report on this agenda. The detailed estimates for 2013/14 relating to each individual organisation are blank.
22. As a result of the success of the Star Chamber and Foresight Programme, sufficient savings have been found to again propose no reduction in the overall Community Partnership Grants budget provision for 2013/14. It has been maintained at £744,530, despite the significant reduction of £602,000 in Grants received by the Council from the Government.
23. The detailed grants report shows that there are some reductions in support proposed for 2013/14. In the autumn 2012, all Waverley Community Partnership organisations were notified that a 10% reduction was likely. The proposals show an overall reduction of 6%. Maintaining the total budget at 2012/13 levels enables an emergency funding provision to be created of £45,000 to provide unexpected or urgent support to current or new partner organisations in the year.

Statutory Services

24. 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

25. 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.
26. 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.

Comments from Overview and Scrutiny Committees

27. Community Overview and Scrutiny Committee Comments:

- i. The Committee requested that it received an update on Dunsfold Park, the expenditure proposed for this area and a report on the work carried out by the Dunsfold Park SIG at its next meeting.
- ii. The Committee did not want to see a reduction in expenditure for day centres and homelessness. However, noting that officers were currently going through the Star Chamber process identifying areas for savings and efficiencies across the Council, it agreed that now was not the right time for comment until more information was available on proposals.

28. Corporate Overview and Scrutiny Committee Comments:

The Committee did not have any comments to make at this stage

Local Government Act 2003 – Financial Administration

29. 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.

30. 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 supplemented by monthly exception reports. The Council's financial management continues to receive favourable comments in the Annual Audit Letter.

The Robustness of the Estimates

31. 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.

32. The key Financial Strategy issues for the General Fund will include:

- Increased risk associated with the new financing system that includes partial retention of some Business Rate income and greater losses should business rate income fall; and
- Risk associated with the introduction of local Council Tax support from April 2013.

33. 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
34. In view of the level of awareness amongst Members and the action taken to produce the Council's Budget in 2013/14, the Deputy Chief Executive is satisfied with the robustness of the estimates presented. Although the Budget includes reductions and savings of £890,000, the Deputy Chief Executive is confident that overall the Budget is prudent especially in view of the track record of achievement of very substantial budgeted savings over the past five years.

Adequacy of Reserves

35. 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.
36. The Financial Strategy explains the purpose of each fund. The General Fund balance supports fluctuations in the Council's normal business, eg unexpected changes 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 (including bridging financing of land purchase as part of the Brightwells project) and one-off costs. It is essential that adequate balances are available to meet these and unforeseen costs, particularly in the current economic climate.
37. The General Fund Working Balance and the Revenue Reserve Fund for the next four years is shown on Annexe 6. It is the view of the Deputy Chief Executive that a level of £4.3 million on the General Fund Working Balance, which is effectively 10% of the gross General Fund Budget or equivalent to just over one month's spending, satisfies the adequacy requirements of the Local Government Act 2003.
38. The balance of the Insurance Reserve, established in case the former Municipal Mutual Insurance Company was unable to meet its obligations, has been transferred to a provision during 2012/13 as this event has now been triggered, as reported to the Executive.
39. 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.

Budget Monitoring

40. 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 2012/13 shows that the Council has delivered the savings assumed in the Budget and will deliver a saving at the year-end.

Assessment of Key Risks

41. 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 2013/14 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

42. 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 7. The indicative position for 2013/14 reflects the work carried out in looking ahead during the current Budget process. 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 Surplus

43. Present indications are that there is likely to be a surplus of some £600,000 as at 31 March 2013, which has to be shared with the major precepting authorities. Waverley's share of this will be approximately £80,000, which is lower than the amount available last year of £120,000. These amounts are taken into account in the Council Tax calculation at Annexe 8.

Council Tax Base

44. The Waverley Council Tax Base for 2013/14 as approved by the Executive in January 2013 is lower than the previous year. The underlying growth in property numbers will generate approximately £15,000 additional council tax income. However, the effect of the Government's new Council Tax Reduction Scheme in place of the Benefits Scheme significantly reduces the council tax base and thereby Waverley's income from Council Tax overall.

Council Tax Levels

45. The effect of the 2013/14 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 8. Waverley's Council Tax will remain at £161.91 for the fourth consecutive year.
46. A variation in Council Tax of 1% equates to £90,000.

Special Expense

47. The Annexe 9 to be presented to Council will show the effect, in 2013/14, 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 to be reported to Council will 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.

Conclusion

48. As demonstrated in the report, a balanced and prudent Budget is presented for approval.
50. The final Budget proposals, including the summary and detailed estimate sheets to be presented to Council will be based on the recommendations made by the Executive, with any adjustment to the figures arising from the final budget allocation process or the final Settlement figures reflected by an adjustment to the Revenue Contribution to Capital Expenditure.

Recommendation

That the Executive considers comments from the Overview and Scrutiny Committees and makes the following recommendations to Council:

1. To accept the Council Tax Freeze Grant offered for 2013/14 and therefore agree a 0% increase for Waverley's element of Council Tax for 2013/14;
2. Approval of the List of Star Chamber/Foresight Reductions and Growth Items as shown at Annexe 4, including the changes to the establishment as detailed in the exempt report on staffing issues;
3. Approval of the pay award from 1 April 2013, and the introduction of a 'Living Wage' for outside London as detailed in paragraph 6;
4. Approval of the changes to Fees and Charges as shown at Annexe 5;
5. Approval of the General Fund Budget for 2013/14, as amended by the above changes;
6. 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; and
7. That the Financial Strategy be updated to take account of the decisions taken.

Background Papers (DCE)

Provisional Local Government Finance Settlement 2013/14; Financial Strategy 2013/14 – 2016/17; Revenue Budget 2012/13.

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