

AGENDA ITEM 7.1: APPENDIX B.1

WAVERLEY BOROUGH COUNCIL

EXECUTIVE - 4 FEBRUARY 2014

Title:

**FINANCIAL STRATEGY 2014/15 – 2017/18
GENERAL FUND BUDGET 2014/15**

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

Summary and purpose:

This report outlines the General Fund Budget position for 2014/15. 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 2014/15. 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, the outcomes of the Star Chamber process and further proposals following analysis of the Settlement.

Comments from Members of the Overview and Scrutiny Committees will be reported in due course.

The Executive is requested to make recommendations to Council regarding Waverley's Budget and its element of the Council Tax for 2014/15.

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 2014/15 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 savings.
2. This report contains the following Annexes:
 - Annexe 1 – draft General Fund Budget (detail as separate booklet)
 - Annexe 2 – Budget Overview
 - Annexe 3 – Finance Settlement details
 - Annexe 4 – Star Chamber proposed Reductions
 - Annexe 5 – Star Chamber proposed Growth
 - Annexe 6 – Schedule of Changes to Fees and Charges
 - Annexe 7 – Schedule of Reserves & Balances
 - Annexe 8 – Forward Budget Projections
 - Annexe 9 – Council Tax
 - Annexe 10 – Special Expense (Council only)

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 savings exceeding £8million pa over the past five years.

Provisional Local Government Finance Settlement

4. A further reduction has been applied to Waverley's grant in 2014/15 on top of the very substantial reductions already made. Details of the impact of the provisional Settlement on Waverley are shown at Annexe 3. The overall Government Grant reduction is around £580,000, with reductions in other minor grants taking the total cut to £695,000. Total reductions are now £3.5million over the past four years.

New Homes Bonus

5. Although the New Homes Bonus forms a core part of revenue funding from 2013/14, there is considerable uncertainty about the level of future payments. Therefore, the Financial Strategy provides for Waverley's New Homes Bonus being held in the Revenue Reserve Fund, to be used for 'Invest-to-Save' schemes, so that a shortfall will not arise when the payments cease or reduce.

Council Tax Increase / Freeze Grant

6. The draft Budget figures do not allow for any council tax increase in 2014/15. On the basis of the information currently available a freeze grant of £90,000 (equivalent to a 1% increase) should be received if council tax is held at current levels. The Government have recently indicated that the freeze grant will be included within the baseline figures for future settlements and is, therefore, protected.

Increases in Fees and Charges

7. Many of Waverley's fees and charges will again remain unchanged for 2014/15. Areas where there will be no increase include Car Park Charges and Local Land Charges. Other charges have been reviewed as part of the budget process with proposed increases generally averaging 2.8%. Details of the proposed changes to fees and charges from 1 April 2014 are included at Annexe 6.

Inflation

8. 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 2.8% for CPI has been assumed for General Fund Budget projections.

Pay Award

9. Waverley's Joint Negotiating Committee has reached agreement to recommend a pay Award of 1.7% from 1 April 2014 together with a commitment to maintain the Living Wage minimum salary levels. The cost of this is allowed for within the General Fund Budget summary. The award is subject to Council approval.

'Star Chamber' Proposals

10. 'Star Chamber' sessions have again taken place with Portfolio Holders and Heads of Service to examine operational and staffing budgets in detail.
11. For the 2014/15 Budget, the Star Chamber proposed reductions, as listed at Annexe 4, will deliver total savings of £1.27million, including £827,300 already deducted from the base estimates. The second sheet of the Star Chamber list summarises the savings already anticipated for 2015/16, when further savings of £222,500 are forecast in addition to the savings proposed for next year. If achieved, these savings will help to balance the Budget in 2015/16.
12. The Star Chamber also considered growth items. The growth items recommended for approval are shown at Annexe 5 and total £205,180.

Revenue Contribution to Capital

13. The core funding for the General Fund Capital Programme is from Revenue Contributions via the Revenue Reserve Fund.
14. The Budget proposals include a Contribution to the Revenue Reserve of £2.483million, which results from the baseline £1.1million figure and the New Homes Bonus of £1.383million.

Employer's Superannuation Contributions

15. Following the triennial revaluation, the Actuary has notified Waverley that the Backfunding contributions will need to increase to £1.43m by the end of the three-year period ending 2016/17, prior to the next revaluation. An increase was anticipated in the Financial Strategy. In accordance with normal practice, it would be prudent for Waverley to accommodate the full increase from 2014/15. The anticipated return from the increased payments made to the Fund is estimated at 4.6%, which compares favourably with Waverley's current investment return of 0.5%. This should be an advantage to the Council in the longer-term as the liability for the shortfall within the Fund will be reduced.

2014/15 Draft Revenue Estimates

16. The draft Estimates for all General Fund services are shown at Annexe 1. (The detailed budget pages are in a separate booklet to all members)
17. The draft Budget allows for the full-year effect of the ongoing items reported during Budget Monitoring. Annexe 2 shows a reconciliation of the draft budget to the total budget gap presented in the draft Finance Strategy report to the Executive in October 2013.
18. Star Chamber reduction proposals are shown at Annexe 4. Growth items have also been considered as part of the Star Chamber process and are shown in Annexe 5. The Star Chamber reduction proposals and Growth Items have **not** yet been incorporated within the detailed budget sheets.
19. There are some areas where budget variances, which may be reductions as well as increases, have arisen. These may result from contractual commitments, changed levels of use, changes to staff allocations or updated asset charges.
20. Applications for grants under the Community Partnership Scheme for 2014/15 are the subject of a separate report on this agenda. The detailed estimates for 2014/15 relating to each individual organisation are blank.
21. As a result of the success of the Star Chamber process, sufficient savings have been found again to propose no reduction in the overall budget provision for Support to Community Organisations in 2014/15. It has been maintained at £744,530, despite the significant reduction in Grants received by the Council from the Government.

Statutory Services

22. 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

23. 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.
24. 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.
25. For services of a trading nature, including Land Charges, Careline, Waverley Training Services, Building Control and Car Parks, for 2014/15 a notional apportionment of the overheads that Waverley bears but does not allocate to services is shown to give an indication of the position if all costs were allocated.

Comments from Overview and Scrutiny Committees

26. The comments from the Overview and Scrutiny Committees which meet on 27 and 28 January will be reported in due course.

Local Government Act 2003 – Financial Administration

27. 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.
28. The sections were introduced to ensure sound financial management across all local authorities. Waverley'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. Waverley's financial management continues to receive favourable comments in the Annual Audit Letter.

The Robustness of the Estimates

29. 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 Waverley's budgets. Waverley's Financial Strategy, together with information presented at the Annual Finance Seminar and subsequent reports, demonstrates the financial challenges to Waverley in the future.

30. 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.
31. 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
32. In view of the level of awareness amongst Members and the action taken to produce Waverley's Budget in 2014/15, the Section 151 Officer is satisfied with the robustness of the estimates presented. Although the Budget includes reductions and savings of £1.2m, the Section 151 Officer is confident that overall the Budget is prudent especially in view of the track record of achievement of substantial budgeted savings over the past years.

Adequacy of Reserves

33. Waverley maintains a number of reserves, which are detailed in the Financial Strategy. Waverley 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 Working Balance and the Revenue Reserve Fund.
34. The Financial Strategy explains the purpose of each fund. The General Fund balance supports fluctuations in 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.
35. The General Fund Working Balance and the Revenue Reserve Fund for the next four years is shown on Annexe 7. It is the view of the Director of Finance and Resources that a level of £3.2m 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.
36. 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.
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Earmarking Proposals

37. Annexe 7 shows the latest estimate for the key balances and reserves. Officers have reviewed the potential demands on the General Fund Revenue Reserve Fund in the medium term and have proposed that part of this balance is earmarked in 2013/14 as follows:

- £1.5m earmarked for the repayment of the LEP loan for the Riverside Works. This is a prudent short-term measure to ensure that sufficient funds are available at the repayment date in the event that the Brightwells capital receipt has not been received at that time.
- £2.3m earmarked for specific asset development.

In addition, officers have considered the level of the General Fund working balance compared to the minimum recommended prudent level of £3.2m. The current balance is £4.4m at 31 March 2014 before taking account of the projected outturn position in the current year. It is proposed therefore to transfer £1.2m from the General Fund working balance to the General Fund Revenue Reserve fund to provide for future capital financing.

Budget Monitoring

38. It is the view of Waverley's Section 151 Officer that the arrangements for budget monitoring, referred to above, satisfy the requirements of the Local Government Act 2003. Budget Monitoring in 2013/14 shows that the Council has delivered the savings assumed in the Budget and will deliver further savings at the year-end.

Assessment of Key Risks

39. 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 2014/15 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

40. 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 8. The indicative position for 2015/16 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

41. There is likely to be a surplus of some £1.2m as at 31 March 2013, which has to be shared with the major precepting authorities. Waverley's share of this will be approximately £156,000, which is significantly higher than the amount available last year of £80,000. These amounts are taken into account in the Council Tax calculation at Annexe 9 and the draft 2014/15 Budget.

Council Tax Base

42. The Waverley Council Tax Base for 2014/15, as approved by the Executive in December 2013, is higher than the previous year. The underlying growth in property numbers will generate approximately £80,000 additional council tax income. This is part of the Council Tax calculation at Annexe 9 and is reflected in the draft 2014/15 Budget

Council Tax Levels

43. Annexe 9 illustrates the Council Tax calculation, based on Waverley's Council Tax remaining at £161.91 for the fifth consecutive year.
44. A variation in Council Tax of 1% equates to £90,000.

Special Expense

44. The Annexe 10 to be presented to Council will show the effect, in 2014/15, of the decision taken by Council on 12 October 1999 to levy a special expense from 1 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

45. As demonstrated in the report, a balanced and prudent Budget is presented for approval.
46. 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 2014/15 and therefore agree a 0% increase for Waverley's element of Council Tax for 2014/15;
2. approval of the List of Star Chamber Reductions as shown at Annexe 4;

3. approval of the List of Growth Items as shown at Annexe 5;
4. approval of the pay award from 1 April 2014 as detailed in paragraph 9;
5. approval of the changes to Fees and Charges as shown at Annexe 6;
6. approval of the General Fund Budget for 2014/15, as amended by the above changes;
7. approval of the Earmarking proposals as detailed in paragraph 37;
8. 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
9. that the Financial Strategy be updated to take account of the decisions taken.

Background Papers

Provisional Local Government Finance Settlement 2014/15; Financial Strategy 2014/15 – 2017/18; Revenue Budget 2013/14.

CONTACT OFFICER:

Name: Brian Long

Telephone: 01483 523253

E-mail: brian.long@waverley.gov.uk

Name: Graeme Clark

Telephone: 01483 523099

Email: graeme.clark@waverley.gov.uk