

## **WAVERLEY BOROUGH COUNCIL**

**EXECUTIVE - 3 FEBRUARY 2015**

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### **Title:**

**FINANCIAL STRATEGY 2015/16 – 2018/19  
GENERAL FUND BUDGET 2015/16**

[Wards Affected: All]  
[Portfolio Holder: Cllr Julia Potts]

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### **Summary and purpose:**

This report outlines the General Fund Budget position for 2015/16. The Executive is reminded of 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 2015/16 and the Council's financial position following this and taking account of savings and other recommendations of the 'Star Chamber' process and further proposals following analysis of the Settlement.

The Executive is requested to make recommendations to Council regarding Waverley's Budget and its element of the Council Tax for 2015/16.

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### **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.

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### **Introduction**

1. This report outlines the financial background to producing the Council's four-year Financial Strategy and outlines the approach taken to the 2015/16 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 – Government Grant 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 recurring savings exceeding £9million over the past six years.

### **Provisional Local Government Finance Settlement**

4. A further reduction has been applied to Waverley's grant in 2015/16 on top of the very substantial reductions already made. Details of the impact of the provisional Settlement on Waverley are shown at Annexe 3. Total reductions are now £4.2 million over the past four years.

### **New Homes Bonus**

5. There is considerable uncertainty about the future level of payments to be made under the new Homes Bonus and indeed whether the scheme will continue beyond the General Election. Therefore, the Financial Strategy provides for continuing Waverley's policy of the New Homes Bonus being earmarked within the Revenue Reserve Fund, to be used for 'Invest-to-Save' schemes, so that a shortfall will not arise should the payments cease or reduce.

### **Council Tax Increase / Freeze Grant**

6. The draft Budget figures do not allow for any council tax increase in 2015/16. On the basis of the information currently available a freeze grant of £92,000 (equivalent to a 1% increase) should be received if council tax is held at current levels. The Government have 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 2015/16. 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%. Details of the proposed changes to fees and charges from 1 April 2015 are included at Annexe 6. The annexe does not include Car Park charges as no increases are proposed.

## **Inflation**

8. Inflation continues to be a major variable in the Council's Budget. The Council's main contracts are indexed to the Consumer Price Index (CPI). An average annual figure of 1.5% for CPI has been assumed for General Fund Budget projections. Whilst this is higher than the current level of CPI, it is in line with the Government's longer-term projections.

## **Pay Award**

9. The Budget proposals allow for the cost of a 1.6% pay award from 1 April 2015 and this is recommended for 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. The Star Chamber proposals for cost savings and additional income are set out in Annexe 4. These items are subject to consideration my Members.
11. For the 2015/16 Budget, if approved, the Star Chamber proposed reductions will deliver savings of £298,000. This is in addition to other budget adjustments already included in the base estimates for 2015/16. Annexe 4 also shows that further potential additional savings are forecast for the 2016/17 budget from the proposals put forward for 2015/16. If achieved, these savings will help to balance the Budget in 2016/17.
12. The Star Chamber also considered growth items. The growth items recommended for approval are shown at Annexe 5 and total £365,620.

## **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 Capital from the Revenue Budget of £2.962million, which results from the baseline £1.3million figure and the New Homes Bonus of £1.662million.

## **2015/16 Draft Revenue Estimates**

15. 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)
16. Where appropriate, 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 position presented at the Finance Seminar.
17. 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. These Star Chamber reduction proposals and Growth Items have **not** yet been incorporated within the detailed budget sheets.

18. 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, projected additional income, changed levels of use, lower starting salaries for new members of staff, other changes to staff allocations, or updated asset charges.
19. Applications for grants under the Community Partnership Scheme for 2015/16 are the subject of a separate report on this agenda at this stage. The detailed estimates for 2015/16 relating to each individual organisation are blank.
20. 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 2015/16. It has been maintained at £744,530, despite the significant reduction in Grants received by the Council from the Government.

### **Statutory Services**

21. 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**

22. 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.
23. 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.
24. For services of a trading nature, including Land Charges, Careline, Waverley Training Services, Building Control and Car Parks, 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**

25. The Corporate Overview and Scrutiny Committee considered this report at its meeting on 20 January 2015. With the benefit of the clarifications provided by officers to the Committee's detailed questions, the Corporate Overview & Scrutiny Committee endorsed the recommendations for the service areas within its remit, and congratulated the Portfolio Holder and Officers for the way in which the Council had again met the challenge of the significant financial pressures for the coming year in a positive way. Any comments from the Community Overview and Scrutiny Committee on 27 January will be reported in due course.

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

26. 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.
27. 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**

28. 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.
29. 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 local Council Tax support scheme.
30. 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

31. In view of the level of awareness amongst Members and the action taken to produce Waverley's Budget in 2015/16, the Section 151 Officer is satisfied with the robustness of the estimates presented. 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**

32. 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.
33. 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.
34. The General Fund Working Balance and the Revenue Reserve Fund for the next four years is shown on Annexe 7, along with other key balances. 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.
35. 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**

36. 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 2014/15 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**

37. 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 2015/16 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**

38. 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 2016/17 reflects the work carried out in looking ahead during the current Budget process. '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**

39. A Council Tax Collection Fund surplus of £2m has been declared for the year ending 31 March 2015. This has to be shared with the major precepting authorities. Waverley's share, estimated at £200,000, is taken into account in the Council Tax calculation at Annexe 9 and the draft 2015/16 Budget.

## **Council Tax Base**

40. The Waverley Council Tax Base for 2015/16, as approved by the Executive in December 2014, is higher than the previous year. The underlying growth in property numbers will generate approximately £130,000 additional council tax income. This is reflected in the draft 2015/16 Budget

## **Council Tax Levels**

41. Annexe 9 illustrates the Council Tax calculation, based on Waverley's Council Tax remaining at £161.91 for the sixth consecutive year.
42. A variation in Council Tax of 1% equates to approximately £92,000.

## **Special Expense**

43. The Annexe 10 to be presented to Council will show the effect, in 2015/16, 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**

44. As demonstrated in the report, a balanced and prudent Budget is presented for approval.
45. 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, after considering comments from the Overview and Scrutiny Committees, makes the following recommendations to Council:

1. to accept the Council Tax Freeze Grant offered for 2015/16 and therefore agree a 0% increase for Waverley's element of Council Tax for 2015/16;
2. to implement the proposals included on the List of Reductions as shown at Annexe 4, including any staffing changes;
3. to implement the proposals included on the List of Growth Items as shown at Annexe 5 , including any staffing changes;
4. approval of the changes to Fees and Charges as shown at Annexe 6;
5. to agree the staff Pay Award of 1.6% from 1 April 2015;
6. approval of the General Fund Budget for 2015/16, as amended by the above changes;
7. 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
8. that the Financial Strategy be updated to take account of the decisions taken.

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## **Background Papers**

Provisional Local Government Finance Settlement 2015/16; Financial Strategy 2015/16 – 2017/18; Revenue Budget 2014/15.

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