



**DRAFT
MEDIUM TERM
FINANCIAL STRATEGY**

UPDATE – FEBRUARY 2016

2016/17 – 2019/20

FINANCIAL STRATEGY 2016/17 – 2019/20 WAVERLEY BOROUGH COUNCIL

Introduction

The Medium Term Financial Strategy (MTFS) is Waverley's key financial planning document which takes account of all the various factors and influences that may impact on Waverley for the next few years. These factors include economic conditions, Government spending plans, current expenditure patterns, inflation, planned changes to service delivery, changing demand for services, sources of income etc. It also includes an assessment of the risks faced by Waverley.

The MTFS includes a forward look over the next four years to anticipate the spending pressures faced by Waverley. Planning now to meet known changes in the future provides greater opportunity to phase in the impact of the changes. Planning for the future will mean that Waverley can ensure sufficient funds are held in balances to be in a position to react swiftly to changing demands and emergencies as priorities or policy demands changes. Anticipating forward pressures at an early stage, help ensure that limited financial resources are targeted to Waverley's residents' highest priorities.

Purpose

The purpose of this Strategy is to:

- Provide a framework for managing resources in medium term.
- Demonstrate that sufficient resources will be available to meet Waverley's objectives and priorities, particularly in the delivery of value for money.
- Look ahead to the longer term to protect and help plan sustainable services within an extremely challenging external economic and funding environment.
- Strengthen Waverley's financial resilience and manage volatility and risk, including maintaining an adequate level of reserves.
- Secure, maintain and develop Waverley's capital assets consistent with the Asset Management Plan.
- Anticipate financial pressures and identify potential ways to balance Waverley's budget including through efficiency measures.

Delivering The Council's Priorities

The Council's Vision for 2016 -19 is:

To make Waverley a better place to live and work

The role of the council's financial planning process is to support the achievement of Waverley's Strategic Priorities and Corporate Plan.

Waverley has four main priorities that respond to residents' concerns and to ensure the delivery of high quality, cost effective services:

- Customer Service
- Community and Wellbeing
- Environment
- Value for Money

National Context

The problems of demography and caring for an increasing elderly population are well known as are increasing costs of pensions. Further significant reductions in public spending means that 2016/17 and subsequent years will continue to be extremely challenging for Waverley. Now, more than ever, Waverley needs to be clear about the priorities and focus on them to guide its decision making process.

Financial Strategy Key Risks

- Continued Government grant cuts – 52% reduction in Revenue Support Grant in 2016/17 and complete withdrawal in 2017/18 with negative grant beyond this.
- Funding uncertainty and impact of Comprehensive Spending Review – Waverley's core resources of New Homes Bonus and business rates are being reviewed – early indications are that Waverley's resources will be cut further and additional risk transferred.
- Government proposals for Housing – 1% rent cut for 4 years and high value forced home sell offs will take £300million from forecast resources.
- How to focus resources on Corporate Plan objectives and priorities without impacting on other services.
- Responding to service demands, residents' and tenants' needs.
- How to achieve further efficiency gains and generate additional income from grants and charging.
- Government restriction on council tax levels and key income streams.

Successes in recent years:

- Waverley's Council Tax same level for sixth year.
- Good record of staying within budget.
- Star Chamber still delivering – need to also focus on medium term.
- No service cuts and protected funding for community organisations.

Financial Projection – General Fund

The latest financial projections for the General Fund are shown in appendices 1 to 3. The tables in figure 3 show a projected accumulative budget shortfall of £3m over the next 3 years after 2016/17. Figures 1 and 2 show the impact of the changing Government funding position and highlight the importance of Council Tax in the medium term.

Financial Projection – Housing Revenue Account

Figure 5 shows the expenditure breakdown in 2016/17 of the HRA Business Plan. Figure 7 shows the financial projection on the HRA in the medium term. There is a projected budget shortfall of £3m over the three years after 2016/17 hence the need for the fundamental review. Figure 8 shows that HRA Capital resources are sufficient to finance spending plans in 2016/17 and 2017/18 but the detailed review of the Business Plan will need to address the shortfall in future years. This review will need to consider:

- reviewing capital spending proposals;
- identifying revenue savings and efficiencies;
- review borrowing options within overall Government cap;
- asset disposals and other ways of generating income and/or delivering new affordable housing in innovative ways.

Reserves and Balances

Waverley holds a number of balances and reserves for a range of specific and general purposes. These amounts must be used for their intended purpose and support Waverley's key objectives.

General Fund and HRA Balance – These balances are 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

Key policies are as follows:

- General Fund balances will be maintained at a prudent level of at least £ 3.2 million – This represents approximately 25% of net running costs.
- The Housing Revenue Account balance will be maintained at a prudent level of at least £2.0 million.
- Business rate equalisation fund to balance the impact of fluctuations and between-year adjustments on the General Fund.
- The Revenue Reserve will be the principal funding source for the General Fund Capital programme, invest to save schemes and one-off items of revenue and capital expenditure.
- No dependency on reserves or one off uncertain funding sources to fund ongoing services.
- New Homes Bonus will be used to fund one off revenue projects and to support invest-to-save projects.
- Implement and maintain Community Infrastructure Levy in conjunction with the new Local Plan to provide capital infrastructure funding.

Figure 4 shows the projected reserves for the General Fund and Figure 6 shows reserves for the Housing Revenue Account.

Key Actions 2016/17

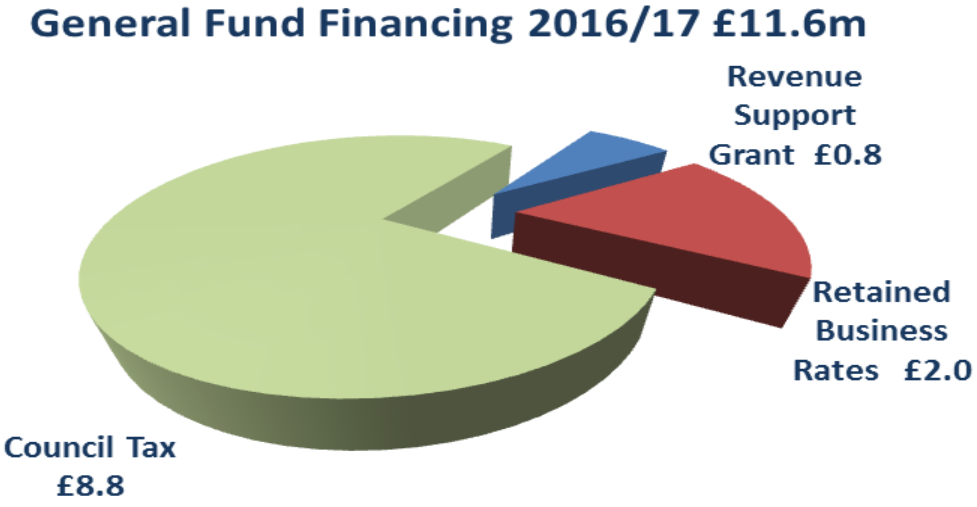
- Continue the 'Star Chamber' reviews and the Foresight Programme to ensure budgets deliver good value for money and are aligned to Corporate Plan priorities.
- Optimising return on cash surplus in times of low interest rates, balancing security, liquidity and return.
- Undertake a fundamental review of HRA budgets and capital spending plans in light of Government changes to ensure a sustainable Business Plan with affordable capital programmes.
- Utilise General Fund and HRA asset strategies including disposals and acquisitions including SANG where appropriate.
- Maximise invest to save opportunities to generate income, improve processes and/or make savings.

- Identify further efficiencies under the 'Foresight' Efficiency Plan including from reconfiguring IT systems procurement.
- Assess the benefit of accepting a 4 year grant settlement from Government.
- Secure new funding opportunities to help deliver priority services and projects.
- Model and monitor sensitivities on key budget areas e.g. inflation and interest.
- Rigorously test all capital proposals for relevance, timeliness and deliverability.
- Review procurement methods and contracts to identify efficiencies and cost savings including agency staff.
- Achieve social inclusion and providing accessible, affordable services for the Borough's most vulnerable residents.
- Support Service Managers to manage finances effectively.

Equality Impact Assessment

Waverley's Medium Term Financial Strategy aims to ensure that the Council can deliver all 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.

Figure 1



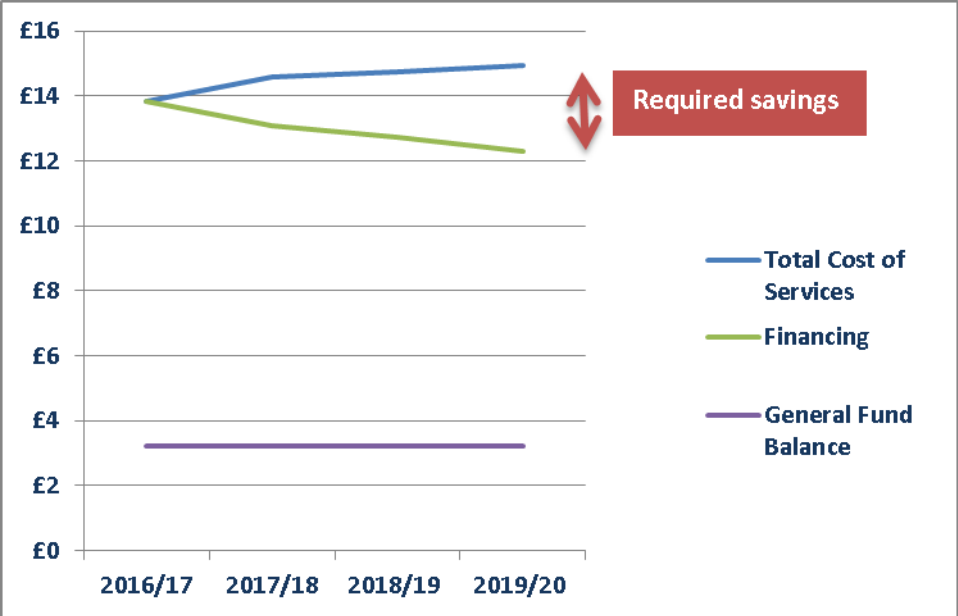
Self sufficiency and the importance of Council Tax



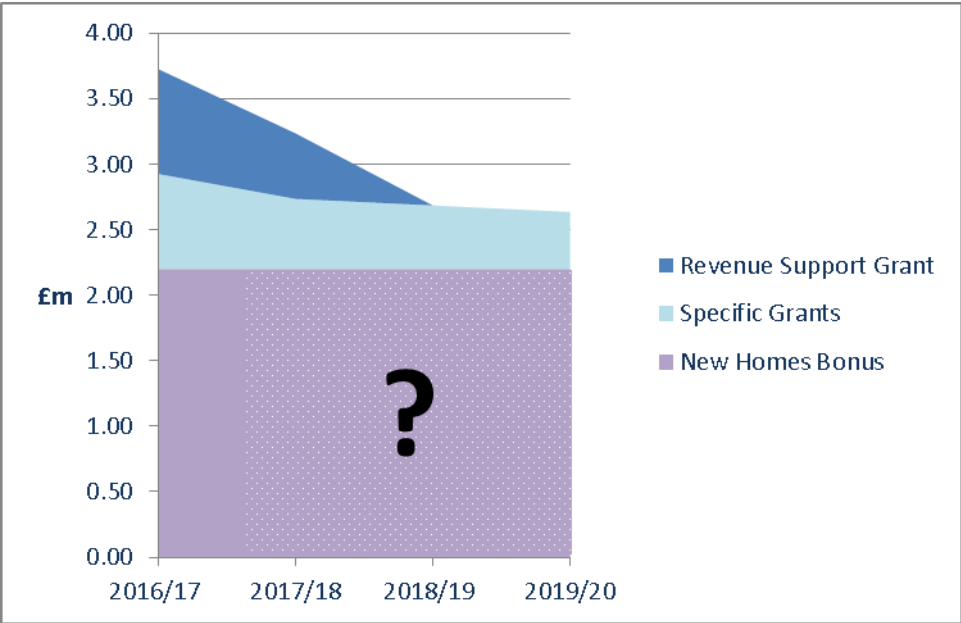
Note: Before any Council Tax increases

Figure 2

4 year General Fund Projection £m



What is happening to our Government funding?



Note: Revenue Support Grant will be negative from 2018/19 onwards

Figure 3**General Fund Budget Forecast beyond 2016/17**

Estimated variations from 2016/2017 Budget - Cumulative	2017/18 £'000	2018/19 £'000	2019/20 £'000
Inflation non-pay (2%)	150	150	150
Inflation non-pay (2%)	0	150	150
Inflation non-pay (2%)	0	0	150
Pay award	?	?	?
Triennial pension review 1/4/17	200	200	200
Government grant reduction	760	1,110	1,570
Benefit admin grant- loss	50	100	150
Loss of supporting people grant	50	100	100
Apprenticeship levy	70	70	70
New minimum wage	20	20	20
Waste and recycling contract	50	100	100
Cumulative Budget Shortfall	1,350	2,000	2,660

Figure 4

Schedule of Reserves and Balances - Actual and Projected										
General Fund	31.3.2015	31.3.2016			31.3.2017			31.3.2018		
	Balance £'000	In £'000	Out £'000	Balance £'000	In £'000	Out £'000	Balance £'000	In £'000	Out £'000	Balance £'000
General Fund Working Balance	3,290		(90)	3,200			3,200			3,200
Capital Financing Reserves										
Revenue Reserve Fund (inc NHB)	1,918	2,962	(3,700)	1,180	3,221	(2,920)	1,481	3,530	(3,530)	1,481
General Fund Capital Receipts	1,192	142		1,334			1,334			1,334
	3,110	3,104	(3,700)	2,514	3,221	(2,920)	2,815	3,530	(3,530)	2,815
Earmarked Reserves										
LEP loan repayment	1,500		(1,500)	0			0			0
Asset Development	2,300		1,000	3,300		(3,300)	0			0
Potential SANG site acquisitions			1,000	1,000			1,000		(1,000)	0
Renewals Fund (to replace vehicles and equipment)	101		(26)	75			75			75
Insurance Fund (to meet potential historical liabilities)	301			301			301			301
Insurance Reserve	167			167		(36)	131			131
	4,369	0	474	4,843	0	(3,336)	1,507	0	(1,000)	507
General Fund Total	10,769	3,104	(3,316)	10,557	3,221	(6,256)	7,522	3,530	(4,530)	6,522

Figure 5

Housing Revenue Account 2016/17 £m
Total Annual Cost £30m
Funded from Rent Income

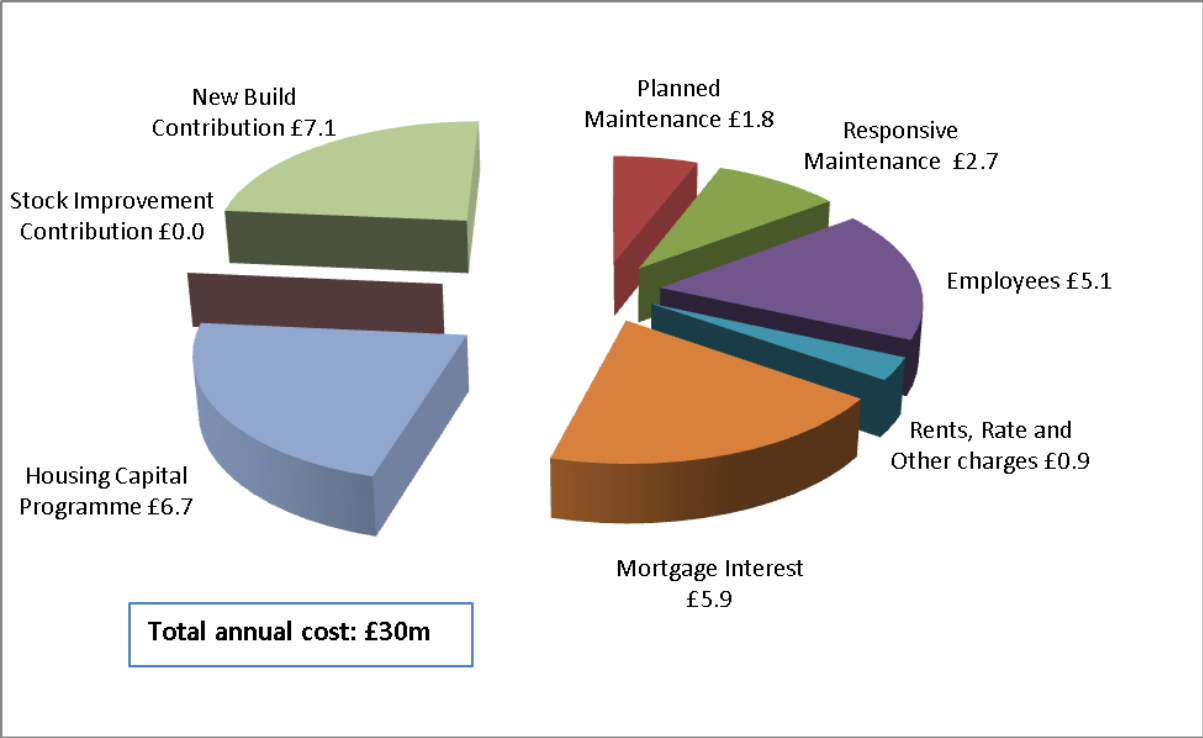


Figure 6

Schedule of Reserves and Balances - Actual and Projected										
Housing Revenue Account	31.3.2015	31.3.2016			31.3.2017			31.3.2018		
	Balance £'000	In £'000	Out £'000	Balance £'000	In £'000	Out £'000	Balance £'000	In £'000	Out £'000	Balance £'000
Working Balance	2,385		(77)	2,308			2,308			2,308
Earmarked Capital Reserves										
Revenue Reserve	2,546	6,770	(7,883)	1,433	6,878	(8,311)	0	7,138	(7,138)	0
Capital Receipts Unapplied	12,765			12,765		(508)	12,257		(12,257)	0
New Affordable Homes	5,602	7,068	(7,974)	4,696	7,068	(7,870)	3,894	1,791	(5,685)	0
Stock Remodelling	8,130		(945)	7,185		(3,847)	3,338	1,791	(2,436)	2,693
HCA Grant					600	(600)	0			0
Commuted Sums	1,266		(1,266)	0			0			0
	30,309	13,838	(18,068)	26,079	14,546	(21,136)	19,489	10,720	(27,516)	2,693
Housing Revenue Account Total	32,694	13,838	(18,145)	28,387	14,546	(21,136)	21,797	10,720	(27,516)	5,001

Figure 7

**Waverley Borough Council
2016-17 Housing Revenue Account**

Variations compared to Original 2016/17 Business Plan		
	2016/17 £'000	2017/18 to 2019/20 (3 years) £'000
Business Plan December 2015 Impact of 1% rents reduction compared to agreed Business Plan	1,308	11,097
Sale of high value voids/tariff	0	900
Business Plan minor realignment	28	(61)
Contribution from HRA working balance	(77)	
	1,259	11,936
Star Chamber Revenue savings	(620)	(1,000)
Growth	83	
Contribution to capital programme (freeze at 2015/16 level including debt repayment)	(722)	(8,798)
Shortfall	0	2,138

Figure 8

HRA Capital Programme and Resources Summary

	2015/16 Revised Budget	2016/17	2017/18	2018/19	2019/20	2020/21
Capital Bids	£000	£000	£000	£000	£000	£000
Core Capital Programme	7,883	8,819	8,291	8,723	8,500	8,500
New Affordable Homes	9,240	8,470	17,212	14,391	9,838	1,576
Stock Remodelling	945	3,847	2,013	1,102	-	-
Total Capital Bids	18,068	21,136	27,516	24,216	18,338	10,076
Resources						
Balance Brought Forward 1/4/15		26,079	19,489	2,693	(10,813)	(18,736)
MRR bal b/f 15/16	2,546					
NAH bal b/f 15/16	5,602					
SR bal b/f 15/16	8,130					
Capital Receipts bal b/f 15/16	5,688					
Capital receipts - NAH b/f 15/16	6,119					
Estimated capital receipts for 15/16	408					
Estimated capital receipts - NAH for 15/16	550					
HCA grant - Wey Court		600				
Commuted Sums - Station Rd	1,266					
Total Resources	30,309	26,679	19,489	2,693	(10,813)	(18,736)
Contributions						
Core Capital Programme	6,770	6,878	7,138	7,350	7,568	7,794
New Affordable Homes	7,068	7,068	1,791	1,680	1,423	1,383
Stock Remodelling			1,791	1,680	1,423	1,383
Resources Carried Forward (Shortfall)	26,079	19,489	2,693	(10,813)	(18,736)	(18,252)
Potential Re-borrowing			3,487	3,708	4,223	4,303
Resources Available if re-borrowed			6,180	(3,618)	(7,318)	(2,531)

Assumptions

No more capital receipts

No more S106 funding