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Report

Subject : Financial Strategy 2008-2010

Report to : The Cabinet

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Cabinet Member for Finance: Councillor Roberts

EXECUTIVE SUMMARY:

The Council's financial strategy is a rolling financial strategy integral to its corporate plan designed to support the priorities of the Council as well as achieving sustainable budgets and reserves. The strategy is reviewed annually as a matter of course and now takes into account:

1. The change in administration and its first set of priorities outlined elsewhere on this agenda
2. The announcement on local government reorganisation in Wiltshire
3. The likely effects of the Government's comprehensive spending review

The key features of the strategy are to:

- Sustain council tax in the lower quartile nationally
- Keep revenue reserves at a level conducive to the underlying financial risks
- Use reserves as contingency, for non recurring investment and to smooth the effects of budget increases
- Levy fees and charges at a level that reflects the service provided
- Look for opportunities for new income streams and contributions
- Maximise value for money
- Maximise cashable efficiencies
- Grow priority services from compensating savings
- Utilise capital investment to save ongoing costs
- Use standstill budgets only funding unavoidable costs
- Deliver an increased savings target from ongoing establishment management
- Utilise natural wastage when it occurs

The Council has no existing capital financing requirement (Debt) although current policy is to use prudential borrowing powers where it is in the Council's financial interests to do so.

Cabinet is recommended to approve the updated strategy and note the principal risks and potential external drivers for a comprehensive review of the strategy.



Awarded in:
Housing Services
Waste and Recycling Services



1. BACKGROUND:

- 1.1 The bases of good financial management are sound budget principles and budgetary control. The Council has an integrated performance and financial reporting system.
- 1.2 All changes to budgets are subject to the corporate planning and budget setting process, which, after consultation with stakeholders is concluded in February each year at Full Council where the council tax for the following year is set. The financial strategy is a general policy, which provides a framework for the budget in line with the Corporate Plan.
- 1.3 The Council like all other faces unavoidable costs annually in excess of grant, fees and charges and council tax increases. Therefore cashable efficiencies and imaginative use of finance is required to close the budget gap in order to avoid service cuts.
- 1.3 The Council has a current policy of maintaining un-earmarked general fund reserves broadly at a level of 10% of net spend. Separate earmarked reserves are subject to individual policies. The Councils Chief Finance Officer has a personal responsibility to endorse the estimates used and level of reserves in each year's budget setting process.
- 1.4 Although it is likely that the Council will be abolished in its present form on 31.03.09 it has a general duty to cooperate and therefore an indicative 2009/10 budget is included for the current district functions.

2. REVENUE BUDGET:

- 2.1 Each year the Council faces unavoidable cost increases to the order of £1m to fund pay awards and inflation on contracts and goods and services. In addition the corporate plan sets out priority areas for investment.
- 2.2 The Council has, in addition to the general fund, a Housing Revenue Account (HRA) which is a statutorily ring fenced account for the provision of council housing. There are some management and support services that are charged to the HRA and the HRA has some £3m of debt outstanding to the general fund on which interest is charged in line with statute.
- 2.3 The Council runs a "Parking Revenue Account" which is non-statutory and forms a subsection of the general fund. This account was set up to manage the change in parking policy towards park and ride, protecting the general fund and council tax from swings in revenue year on year. The account is designed to be self-sustaining in the long term although this will depend on future demand for parking services.

3. VALUE FOR MONEY:

- 3.1 The Council is in a position of having its council tax in the lower quartile with the majority of its principal services in the upper quartiles for performance.
- 3.2 The Council's efficiency agenda recognises that cashable efficiency gains are more important than non-cashable gains.
- 3.3 The Council has an efficiency programme, which is currently set at a level beyond Government targets and is weighted in favour of cashable efficiencies, which can be utilised to deal with cost pressures and priority areas where additional funding is required. The Annual Efficiency Statement is agreed annually and signed by the Leader and Chief Executive.
- 3.4 As the efficiency agenda has been gathering pace the Council is aiming to realise an average of around £600,000 of cashable recurring savings per annum via its corporate planning and budget setting process:

2007/8 - £702,000 (Included in the current budget)
2008/9 - £725,000 (Planned)
2009/10 -£550,000 (Indicative)

4. MAIN FEATURES OF THE STRATEGY:

4.1 The revised strategy is summarised in **Appendix 1**. The strategy encompasses investments in the following priority areas:

- Waste Management - The move towards weekly wheelie bin collection planned for 2008/9
- The revised timescale for office rationalisation
- The Salisbury Vision project
- Commitment to a continued level of funding for the arts organisations
- Reversal of the previous budget commitment to reduce premium payments
- Continuation of the housing management role in the foreseeable future
- The parishing of Salisbury
- Reprioritise the capital programme using compensating savings from within it.
- Other priorities, which involve resource reallocation covered elsewhere on this agenda.

4.2 Included in the strategy are further known or predicted unavoidable costs:

- Income reduction at the Guildhall with the planned vacation by the Magistrates

4.3 In addition the following assumptions have been made/ revised:

- Pay awards to average 2% (previously 2.5%)
- Inflation assumptions reduced by £50,000 per annum (to £200,000)
- Use of reserves of around £300,000 in 2008/9
- Government grant increase of zero for 2008/9 (previously £300,000)
- The removal of approximately £240,000 per annum of revenue leasing charges for vehicles
- Additional 1% of establishment vacancy factor (now c4.5 %)
- Interest rates to average 5.25% (previously 4.75%)

4.4 The forecast level of general revenue reserves is shown at **Appendix 1**. Although there are a number of revisions the use of reserves the overall level is in line with previous forecasts.

5. PRINCIPAL RISKS AND RISK MANAGEMENT OF THE FINANCIAL STRATEGY:

5.1 Any strategy has risks associated with it and the financial strategy is no different. Inflation, demand and interest rates are inherent risks in financial strategies and the results of changes in these can affect items such as pay awards and fees and charges.

5.2 A sensitivity analysis has been carried out against the principal components of the strategy in **appendix 1**. to quantify the risk potential associated with the assumptions made.

5.3 The use of reserves (such as the parking reserve) and integrated regular monitoring of financial and service performance are designed to aid risk management of the strategy.

5.4 External drivers for further changes to the strategy may include:

- The Comprehensive Spending Review 2007
- Potential primary and secondary legislation on reorganisation
- The new national concessionary fares scheme (starts 1 April 2008)

5.5 Other risks are principally around the ability to realise ambitious vacancy targets in the strategy given the backdrop of reorganisation.

6. RECOMMENDATIONS:

It is recommended that Cabinet:

- 6.1 Approves the Financial Strategy to provide the framework for 2008/9 budget setting
- 6.2 Notes the principal risks.

7. IMPLICATIONS:

- | | | |
|------------------------------|---|--|
| Financial | - | As set out in the report |
| Legal | - | The Council has to set a balanced budget and have adequate levels of reserves. |
| Human Rights | - | None |
| Personnel | - | The managed vacancy levels and premium payments review will have an impact on staff. |
| Environmental | - | None |
| Community Safety | - | None |
| Council's Core Values | - | Statutory Requirement |
| Wards Affected | - | District Wide |

Appendix 1

	2008/09	2009/10	
	£'000	£'000	Sensitivity / Note
Unavoidable costs			
Pay award	350	350	1% Pay award = £175,000
Premium payments	215	0	Assumes no cut
Inflation-contracts	100	100	Assumes RPI @ 2.5% -1% = c £40,000
Inflation - services	100	100	Assumes RPI @ 2% -1% = c £50,000
HB Grant Administration	30	0	Cut already notified by DWP
Guildhall income loss	0	140	Assumes no further income from Magistrates
General Fund Housing	100	0	Assumes current level of demand for services
Draw from reserves	0	300	Budget deficit to be closed over two years
TOTAL	895	990	
Service Growth			
Black box collection	330	0	Whole year effect
Wheelie bin collection	200	250	Assumes Introduction date of 1.10.08
TOTAL	530	250	
New Political Priorities	25	0	Refers to Item on this agenda
Total Increase in Budgets	1,450	1,240	
Savings			
Management Structure	(195)	0	Already identified
Efficiencies	(530)	(550)	In line with Government targets
Fees and Charges increases	(150)	(150)	Assumes average increase of c2.5% - 1% = £60,000
Total Savings/Additional Income	(875)	(700)	
Net Increase in budget	575	540	
Financed By:			
Government Grant Increase	0	(250)	
Council Tax Increase	(275)	(290)	
To (From Reserves)	(300)	0	
General Fund Reserves	2008/09	2009/2010	
	£000s	£000s	
	REVISED		
Estimated general reserves bought forward	(1,385)	(1,161)	
Deficit in year	300	0	
Non Recurring Savings	(730)	0	
Non Recurring Growth	654	0	
Balance to carry forward at year end	(1,161)	(1,161)	In line with previous Medium Term Financial Strategy