



Waverley

•BOROUGH COUNCIL•

FINANCIAL STRATEGY

2005/06 – 2008/09

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INTRODUCTION

Waverley's Medium-Term Financial Strategy is well established and embodied in the workings of the Council. The annual Members' Finance Seminar and the budget process updates the Council's 4-year strategy which is composed of many elements relating to different aspects of Council business.

This document brings the elements together.

Purpose

The Purpose of this Strategy is to:

- define the aims of the Council in financial terms;
- inform the Council's strategic planning and policy making;
- set the parameters for budget setting; and
- demonstrate stewardship of community resources.

Timeframe

The elements of the Financial Strategy relate to current and future years. This document considers the period to 2008/9 and builds on the outturn position for 2004-05 and the Budget Strategy decisions agreed by the Council in July 2005. Precision is more difficult in future years, mainly due to the current uncertainty about the Housing Stock Transfer and any potential subsequent restructure and also due to changing Government policies and an unwillingness on their part to-date to give forward financial plans for local authorities. The decision by the Minister for Local Government to postpone the council tax banding revaluation and the extended terms of reference for the Lyons Enquiry does little to resolve these uncertainties.

Audience

Whilst there is a wide audience of interested parties in the Council's financial strategy from Borough residents, Local Strategic Partners, Registered Social Landlords, the Audit Commission etc., this document is primarily for the benefit of Members and officers in the first instance.

SUMMARY – FINANCIAL STRATEGY KEY ISSUES

General Fund:

- How to respond in future to the restriction on Waverley's ability to raise council tax by the underlying excess of expenditure over income
- The General Fund position following a Housing Stock Transfer
- The impact on the General Fund of the Housing Stock Transfer not proceeding
- Priorities v. non-priorities
- Further budget pressures and Government Legislation
- How the Revenue Reserve Fund should be used
- Spending on public services in an affluent area
- Government Formula Grant likely to be at 'floor' in future settlements
- Use of 'windfall' interest from capital receipts ends in 2006/07
- Formula Grant fixed: Subsequent gearing effect means that the percentage council tax increase is nearly twice the percentage increase in expenditure
- Assessing what support to the Capital Programme is possible
- Maintaining the planning service when Planning Delivery Grant expires if fee income changes are not introduced.

Housing Revenue Account:

- The impact of a housing stock transfer
- Funding 'Decent Homes' standards
- Future rent levels
- Level of Housing Subsidy paid to the Government

Capital Programme:

- Prudential Borrowing
- Affordable Housing
- Decent Homes
- Leisure provision in Godalming
- Improvements and maintenance of assets

SUMMARY – FINANCIAL STRATEGY KEY POLICIES

Reserves and Balances will be held to support unforeseen costs, in particular:

- The General Fund balance will be maintained at a prudent level of at least £1million;
- The Housing Revenue Account balance will be maintained at a prudent level of at least £1 million;
- The Revenue Reserve will be used to support the General Fund Capital Programme and one-off items of revenue and capital expenditure;
- The Revenue Reserve Fund will contribute £1.3 million each year to capital financing from 2004/05, subject to an annual review;
- The “windfall” interest on housing capital receipts will be transferred from the Revenue Reserve to the General Fund revenue account by abatement of the annual capital financing contribution over three years ending after 2006/07;
- The Insurance Reserve will be retained to meet any potential claims from MMI and, if necessary, to support any insurance liabilities on the Council following a transfer of the housing stock. Once this position is more certain, the reserve will be reviewed and any options presented to Members.

Other key policies include:

- No radical changes to services in the 2006/07 budget;
- Continue to identify savings and efficiency gains in budgets in the light of the underlying budget deficit and Waverley’s Efficiency Strategy;
- Continue to fund the improved planning service after PDG is withdrawn and changes to the fee income regime
- Use Prudential Borrowing in 2006/07 to finance the Weyhill car park project at £450,000 on the basis that the project is self-financing;
- Housing capital receipts will continue to be spent on housing capital schemes based on 50% decent homes and 50% affordable housing;
- If the Housing stock transfer proceeds, the balance of the capital receipt, after allowing for meeting the Council’s affordable housing commitment, will be used in the medium-term to invest to cover the diseconomies and other costs falling on the General Fund.
- Work towards achieving ‘Good’ CPA rating to ensure lighter touch inspection regime in future

AN INTRODUCTION TO WAVERLEY BOROUGH COUNCIL'S FINANCES

Background

Local government finance is relatively complex. All financial powers result from statute and, given successive Governments' attempts to control local authority spending, policies have been developed in a piecemeal way. There are many inconsistencies. This section of the Strategy seeks to explain the basics.

Revenue and Capital

Waverley's income and expenditure is categorised between revenue and capital. Whilst there is a limited amount of movement between the categories the basic definitions are:

Revenue expenditure is spending on goods and services which are used up in the financial year. Examples are staff salaries, payments to contractors to empty bins, electricity bills, council tax benefits etc

Revenue income is income generated from the cost of providing services. Examples include car park charges, planning fees, rents etc.

Capital expenditure is spending on new or replacement assets which will last for a number of years. Examples include a new sports centre, new affordable homes, and maintenance of existing assets which will substantially prolong their life.

Capital Income is money received from the sale of capital assets. Examples include sums from council house sales, land disposals etc.

Whilst revenue and capital expenditure is accounted for separately, the budget-setting process takes an integrated approach and this is explained in the Strategy.

Housing Revenue Account and General Fund

In addition to the distinction between revenue and capital, the Government provides a strict distinction between the Housing Revenue Account and the General Fund.

The Housing Revenue Account is where the costs of providing council housing are charged. It covers the landlord cost of providing those homes and is funded by council tenants.

The General Fund is the place where all other council services are accounted for. Examples include planning, environmental and leisure services. Whilst some income is collected from users of services and the Government make a contribution through Formula Grant; the balance is met by council taxpayers.

Housing subsidy is paid by the Government to support housing landlord services, however, Waverley makes a payment of £8million into a central Government pot to pay for other Councils' housing services.

General Fund

A detailed analysis of the Council's General Fund income and expenditure is shown in the Council's Annual Budget 2005/06.

Expenditure is summarised as follows:

	£000
Employees	12,071
Premises	2,726
Transport	61
Supplies & services	7,620
Transfer payments	19,735
Support costs	1,124
Capital charges	1,068
	TOTAL 44,405
Income	31,585
Net expenditure	12,820

How is the balance financed?

The net cost is financed from:

- Formula Grant which is made up of re-distributed business rates and Revenue Support Grant, and
- Council tax, and
- Use of balances

The amount of grant a local authority receives is determined by the Government, according to a formula that assesses what the authority needs in order to provide a standard level of service against how much it can be expected to collect from council tax, less the re-distributed share of Business Rates.

The Formula Grant is targeted to areas of high social need with more affluent areas like Waverley receiving proportionately less. Whilst central government targeting of resources is accepted, Waverley, with other similar local authorities, has campaigned for a fairer distribution of government grant to reflect the costs of providing essential services to Waverley's residents.

The Council determines the amount of council tax it will charge residents each year. Once the indicative council tax, fees & charges and government grant has been taken into account, any budget shortfall will need to be addressed by:

- Cost savings;
- Cashable efficiency gains;
- Additional use of balances or reserves;
- Additional income, or
- A greater increase in council tax.

The Government's council tax capping guidance is a critical consideration in determining the outcome.

Waverley's council tax funds 58% of its net expenditure with government Formula Grant accounting for just 42%. Because the government grant is fixed, any increase in Council spending above current levels will fall to be met disproportionately by council taxpayers. This is known as the gearing effect. For example, a 1% increase in council spending will result in a council tax increase of approximately 1.7%.

Housing Revenue Account

A detailed analysis of the Council's Housing Revenue Account income and expenditure is shown in the Council's Annual Budget 2005/06.

Expenditure is summarised as follows:

	£000
Employees	3,367
Premises	3,431
Supplies & services	902
Support costs	825
Capital charges	20,864
Housing subsidy	8,082
Others	1,111
	TOTAL 38,582
Income	
Rents & Other Income	21,104
Capital Charge reversal	17,478
Net expenditure	0

Independent Assessment of Waverley's Finances

Waverley Borough Council, like all local authorities, is subject to external audit. The external auditor, who is appointed by the Audit Commission, is currently the District Auditor.

The District Auditor produces an Annual Audit Letter, which comments on the financial standing of the authority. In the most recent Audit letters the District Auditor has confirmed that "the Council's overall financial position remains healthy" and has praised the Council on its control of costs. In addition, the District Auditor passes an opinion on the accounts of the Council. In the latest audited accounts for 2004/05 the District Auditor once again gave an unqualified audit opinion, agreeing that the accounts presented fairly the Council's financial position.

In addition, the Council was subject to a Comprehensive Performance Assessment by the Audit Commission in 2003. An important part of the Audit Commission's opinion was based on the Auditor's judgement of Waverley's use of resources where the Council scored very highly. This judgement assessed financial controls and processes and other key financial matters. This judgement will now be made annually starting in 2005.

In terms of impact on the Council's resources, it is important that Waverley works towards keeping its 'Good' overall CPA rating to ensure that it receives a 'lighter touch' inspection regime in future.

Framework of Control

Every local authority is required to make proper arrangements for their financial affairs and appoint an officer responsible for those affairs under S151 of the Local Government Act 1972. The Director of Finance is Waverley's officer responsible for financial affairs. In fulfilling his duties he has appropriately trained and qualified internal audit and accountancy teams to help maintain the integrity of the Council's financial controls and procedures.

The Council updates its Finance Regulations and Contract Procedure Rules each year in line with best practice. These are the day-to-day rules on which the Council's financial business is conducted.

Financial Advice

The Director of Finance advises the Chief Officer Group and the elected Members on financial issues. The advice covers revenue and capital implications of decisions and proposals and assesses the risks associated with them.

Budget Monitoring and Control

Procedures are in place to ensure that budget managers and elected members are provided with up-to-date financial information on a regular basis to enable any necessary action to be taken. The information is comprehensive and is reported monthly for major budgets and at 4 key stages in the year for other budget areas. The nature of the budgets and any associated risks are taken into account in determining the monitoring procedure and any recommendations for action.

REVENUE – GENERAL FUND

Budget Setting

In setting the General Fund Revenue Budget, Waverley aims to achieve the following objectives:

- allocate resources to the areas that matter most to Waverley's residents
- eliminate any surplus budgets
- maximise income
- ensure priority areas are adequately resourced including contractual commitments
- budgets which support Waverley's medium-term aims
- review the adequacy of budgets for maintenance of assets
- review spending on non-priority areas
- achieve the efficiency target requirements
- properly resource agreed service reviews

Whilst in general, an incremental approach is currently adopted in setting the revenue budget, it is important that the necessity and level of every budget is considered against Waverley's corporate objectives. It is not proposed to undertake a comprehensive zero-based budget process, however, the following approaches are being used to set future budgets:

- Identify and review discretionary expenditure to seek to create opportunities for switching this resource to other priorities.
- Review controllable budgets to identify potential savings, efficiency gains or income-earning opportunities, taking account of past years spending patterns.
- Identify each year, known or possible significant budget variations for the 3 years following the budget setting year from service plans. Appendix 1 identifies the estimated major variations for the period 2006-07 to 2008-09.

Use of Balances

Waverley aims to maintain a prudent level of balances to support revenue spending and finance unforeseen events. As part of the 2005/06 Financial Strategy preparations, balances were reviewed to ensure that they were adequate and that dependency on balances is kept within sustainable limits. The Director of Finance reported to the Council on the adequacy of financial reserves in July 2005. This report is made each year as a part of the budget setting process, but in terms of the Financial Strategy, the prudent level of General Fund balance in the medium-term is shown in appendix 1.

Council Tax Levels

Waverley's General Fund budget is funded approximately 42% government grant and 58% council tax. As Waverley is protected by the current 'floor' mechanism in the government grant settlement formula, it is expected that it will only receive a small increase in grant for the foreseeable future. Therefore, in broad terms any percentage increase in net General Fund expenditure above inflationary levels will result in high council tax increases. Appendix 2 sets out Waverley's council tax calculation and shows percentage council tax increases for the past three years.

The Government is currently consulting on proposed changes to the Revenue Support Grant mechanism. It is not known what impact this will have on Waverley but the outcome should be known in time for the 2006/07 grant settlement.

In the medium-term, the main areas affecting council tax levels are:

- the cost of new government requirements and priority services
- the availability of balances to support the revenue budget
- the continued revenue funding of the capital programme
- the ability to continue to identify cost savings from the base budget
- the cost of pensions
- the sustainability of income levels
- the Government's review of the grant funding formula
- the potential to borrow to fund capital investment
- the Government's council tax capping criteria

Waverley must set its council tax increase at a level which avoids capping. In 2005-06 a number of Councils were capped with significant costs and cashflow implications.

Waverley uses powers to charge a special expense to council taxpayers in Haslemere for the costs of Waverley running cemeteries in this area only. This has the effect of reducing the council tax on the other areas of the Borough.

Council Tax Consultation

Waverley's Community Plan and Corporate Strategy set out the priorities for the Council based primarily on consultation with the Borough's residents through Ward events and other forums. This allows the views of the public on spending priorities and their effect on council tax levels to be considered. Formal consultation on the Council's priorities, aims and objectives was carried out in 2004/05 with Waverley's Citizens Panel.

Members have agreed to a consultation exercise for the 2006/07 budget, which will link with the wider consultation strategy. Given that the Government has limited local authorities' opportunity to increase council tax, beyond 5% in 2005/06, and the Council has agreed not to make radical changes to services in the 2006/07 budget, there seems little merit in undertaking extensive consultation on council tax levels within this narrow range.

Budget Issues

Key Strategy Issues for the General Fund:

- How to respond in future to the restriction on Waverley's ability to raise council tax by the increase in underlying expenditure
- The General Fund position following a Housing Stock Transfer
- The impact on the General Fund of the Housing Stock Transfer not proceeding
- Priorities v. non-priorities
- Further budget pressures and Government Legislation
- How the Revenue Reserve Fund should be used
- Spending on public services in an affluent area
- Government Formula Grant likely to be at 'floor' in future settlements
- Use of 'windfall' interest from capital receipts ends in 2006/07
- Formula Grant fixed: Subsequent gearing effect means that the percentage council tax increase is nearly twice the percentage increase in expenditure
- Assessing what support to the Capital Programme is possible
- Maintaining the planning service when Planning Delivery Grant expires if fee income changes are not introduced.
- Paying for the one-off set-up costs of implementing the changes to the waste and recycling service.

The underlying deficit on the General Fund in 2005/06 is £650,000. This gap is currently being met by contributions from the Revenue Reserve Fund. This is not a sustainable position in the long term. The successful tendering of the environmental contracts will help relieve some of the pressure in future years with a net overall saving of £280,000pa.

The outturn for 2004/05 resulted in an improved position on the General Fund working balance and the Revenue Reserve Fund. This will provide some flexibility going into the 2006/07 budget process and the Council agreed in July 2005 not to make any radical changes to services until the uncertainties around stock transfer, superannuation and other new budget pressures become clearer.

In terms of superannuation, whilst the impact of the 2004 triennial pension fund revaluation was included in the 2005/06 Budget, the late adjustment by the Deputy Prime Minister to the proposed pension rule changes from 1st April 2005 will result in an increased shortfall to Waverley's share of the Surrey Pension Fund, as the pension savings are not currently being achieved. Exactly when these costs will be known and charged is unclear.

The new budget pressures referred to include the impact of the Government's free bus passes for all people over the age of 60 and the Government's proposed changes to the land charges

income. Both could result in major costs for Waverley and, currently, it is uncertain to what extent, if at all, these costs will be met from central Government.

Maintaining the Council's capital assets with an inadequate resource base, continues to be a major pressure which can affect the revenue budget either through increased running costs, reduced income from assets and demands to continue with a significant revenue contribution to pay for capital expenditure.

Planning Delivery Grant

Waverley will receive Planning Delivery Grant (PDG) of £480,000 in 2005/2006 split £360,000 revenue and £120,000 capital. There is some optimism that the Council's improvement in planning performance will result in continued receipt of grant in 2006/07. It is expected that PDG will be announced in November 2005 which will help with budget planning for next year. The Council is required to credit this grant to the Planning service, but it is not ring-fenced so it may be used either to pay for additional Planning expenditure or to reduce Planning costs that are already budgeted for. To date the Council has spent all PDG on additional planning services in an attempt to improve service levels.

The end of PDG in a couple of years time will require the Council to identify how current planning improvements are to be financed. The Council identified this as a significant issue at last year's Finance Seminar and, as the Planning Service is a key priority in the Corporate Plan, accepted that funding might need to be found to replace the PDG. The Financial Strategy recognises the need to provide sufficient resources for this priority area. The issue will be kept under close review in the coming budget round.

Housing Stock Transfer

If tenants vote for the Stock Transfer the diseconomies on the General Fund will be offset by interest income pending action to remove or reduce them.

If tenants vote against stock transfer, the Council will have to undertake another Options Appraisal to demonstrate how it will achieve the Decent Homes standard. As a consequence, it is expected that there will be adverse affects on both the Housing Revenue Account and the General Fund in future years. When the outcome of the tenants' ballot is known, the Financial Strategy will be comprehensively revised and Members will be presented with the financial implications and options for the future.

If the ballot is unsuccessful, the Revenue Reserve will have to meet a significant part of the 'ballot' costs, possibly around £750,000.

Efficiency Target

Waverley is required to identify an efficiency saving of 2.5% per annum from 2005/06 to 2007/08. The 2005/06 savings have already been identified, but consideration needs to be given as to how the target will be met in future years. More information will be provided to Members throughout the budget process. Over the last two years the Council has saved £100,000 and £294,000 respectively, in staffing costs over and above the £250,000 vacancy factor saving. Whilst further net savings are anticipated after the restructuring of the Council,

post the housing ballot, officers do not consider that further staff reductions to pay for the annual pay award in 2006/07 will be achievable without a significant impact on services.

Partnerships

Waverley's Sponsored Organisation Scheme (SOS) continues to provide a significant level of revenue funding, currently £0.6m, to a large number of charitable and voluntary organisations in the borough.

- The application and assessment criteria for the SOS is reviewed each year to ensure that the scheme continues to support corporate objectives
- The effectiveness of the annual funding applications are also reviewed

Collection Fund

Waverley is defined, by the Local Government Finance Act 1992, as a Billing Authority for the purposes of billing and collecting Council Tax. As a Billing Authority Waverley must maintain a Collection Fund where it accounts for all the transactions relating to the collection of Council Tax and Business Rates, the payment of precepts and the payment of Business Rates over to Central Government.

Each year, before setting its Budget for the forthcoming year, Waverley must decide how much of the amount due for the year in respect of Council Tax will be collected – the Collection Rate - and adjust its tax base to allow for this. An actual collection rate better or worse than the estimate will generate a surplus or deficit on the Collection Fund for the year which must subsequently be shared by the major preceptors on the Collection Fund.

The collection of Council Tax at Waverley has been consistently high and the currently assumed collection rate is 99%.

Council Tax Discounts for Empty Properties and Second Homes

For 2004/05 the Council was permitted by the Local Government Act 2003 to reconsider the council tax discounts on long-term empty properties and second homes. Until 1st April there was a nationally set discount of 50% for these types of property.

In the 2004/05 budget, the Council removed the discount on long-term Empty Properties and reduced the council tax discount for Second Homes to 10%. It is Waverley's policy to spend the income generated from Second Homes on affordable homes if a satisfactory scheme can be agreed with Surrey County Council and Surrey Police Authority.

Unforeseen Events

Waverley will continue to use its balances and reserves to support unforeseen non-operational events subject to the necessary approvals as required by the Financial Regulations and Waverley's Constitution.

Funds and Reserves

Waverley holds a number of funds and reserves for a range of specific and general purposes. Unless otherwise approved, these amounts must be used for their intended purpose and

support Waverley's key objectives. The following provides more detail on the key General Fund reserves and funds.

Revenue Reserve Fund – this is a well-established reserve that is used mainly for supporting the capital programme and one-off items of revenue and capital expenditure. Its prime funding is from an annual contribution from the General Fund representing repayments of capital advances. Maintaining a significant reserve was particularly important with the uncertainty surrounding government policy for capital spending. However, with the introduction of Prudential Borrowing it was possible to re-consider the appropriate level of future balances. Appendix 5 shows the Revenue Reserve Fund current balance and projections for the next 4 years.

Insurance Reserve – The Insurance Reserve stands at around £972,000. Waverley currently has a long-term agreement with Zurich Municipal for all insurance policies and has experienced significant increases in premiums in recent years which fall on the council tax payers and housing tenants. However, the long-term agreement was tendered on the open market earlier in 2005 with a moderate overall increase.

Currently, the Financial Strategy allows for the continuation of the insurance reserve at its present level for its original purpose to provide the opportunity for self-insurance and/or to review excess levels to ease pressure on revenue budgets. However, it is likely that the Council will need to make some provision for potential future liabilities if the housing stock transfers to a housing association. Therefore, once this position is clear, the use of this reserve and the adequacy of cover will be reviewed and the options presented to Members. There is also still the possibility that claims from MMI will need to be met from this reserve.

Godalming Leisure Centre Fund – One of the Council's key priorities is to provide a new leisure centre in Godalming. A review of the level of Capital Receipts allowed £0.5m to be transferred into this new fund.

Other Specific Reserves – Waverley holds a number of other small amounts that are held to finance specific costs in the future. The balances are reviewed on an annual basis. These balances amount to around £650,000 including £400,000 in the Capital Fund, £50,000 in the Renewals Fund and a total of £200,000 in a number of small funds held for a variety of purposes.

<u>General Fund Revenue Reserves</u>	<u>Balance</u> 1/4/05 £,000
Revenue Reserve Fund	3,778
Community Partnerships Fund Reserve	600
Capital Fund	393
Insurance Reserve	972
Renewals Fund	57
Other Specific Reserves	200
General Fund Working Balance	1,450
	<hr/> £7,450 <hr/>

Note. The Godalming Leisure Centre Fund is an earmarked Capital Receipt and not part of the Revenue Reserves

HOUSING REVENUE ACCOUNT (HRA)

The HRA is the Council's landlord account and contains only the costs and income from managing and maintaining the Council's dwelling stock. There are currently over 5,000 properties.

Housing Stock Transfer

One of the most significant issues affecting Waverley's Financial Strategy is whether the housing stock is transferred to a newly created housing association. The final decision will be made following the tenants' ballot. There will be major implications to the Council's structure and finances, both General Fund and HRA, whether the transfer proceeds or not. Whilst this outcome is currently unknown, the following are the key financial issues.

- Investment in the stock – Around £80million needs to be spent on the stock by 2010/11, around £44million of which is to achieve decent homes standard. The estimate of Waverley's resources available in this period is £33million
- If the stock transfer proceeds, the Council would receive a capital receipt of around £55million, of which 20% will be paid to the Government.
- If the stock transfer proceeds, the Council is committed to providing 350 affordable rented homes in the borough within a 10-year period. This will be met from the net capital receipt.
- The HRA currently pays £8million to the Government each year in subsidy. If a stock transfer proceeds, the new housing association could invest this money in the stock.
- Following a stock transfer, it is estimated that the Council would have over £1million of 'diseconomies' in its annual General Fund budget.
- If the stock transfer does not proceed, the significant costs of preparing for the tenants' ballot would be apportioned between the General Fund and the HRA.
- If the stock transfer does not proceed, the HRA would have to examine its costs closely and make reductions to help ensure that the HRA continues to be viable.

When the outcome of the tenants' ballot is known, the Financial Strategy will undergo a comprehensive revision and Members will be presented with the financial implications and options for the future.

HRA Revenue Budget

Statute requires the Council to avoid a deficit on each year's budget. The Council must therefore estimate as accurately as possible the total level of income it will need to raise from rents having regard to the estimated cost of managing and maintaining the properties each year, taking account of the payment of subsidy to the Government and likely income from charges for services and facilities.

Rent Restructuring

This is the Government's approach to the calculation of social rents introduced from April 2002. The aim of the policy is that social rents on similar houses in the same area should be the same, regardless of who is the landlord. The key to achieving the policy objectives is a

common formula for both local authority landlords and Registered Social Landlords (RSLs). The formula reflects

- Relative property values
- Local earnings
- Property size

Whilst the Government wants the restructuring process to be complete by 2012 it is also concerned to limit changes in rent levels in any one year by applying a cap of inflation plus 0.5% plus £2.

Waverley has introduced the principles of rent restructuring to its rent setting process since 2002 and calculated target rents for each of its properties. However, the requirement to set a balanced budget for the HRA means that there are conflicting pressures between the Government's policy aim of restricting annual rent increases and the level of service provision to tenants.

Waverley's policy in the next three years is to continue with the rent restructuring process until convergence is achieved regardless of the transfer outcome.

Government Housing Subsidy

For the foreseeable future, Waverley will be paying a significant amount in housing subsidy to the Government from the HRA to meet the surplus of income over expenditure based on a notional HRA. The calculation is based on a series of Government assumptions about the level of rents Waverley will charge, the amount it will spend on management and maintenance of the stock etc. This calculation produces a notional surplus that was previously used to offset the cost of rent rebates with subsidy being paid on any balance. From 1st April 2004 rent rebates were transferred to the General Fund with the resultant surplus of £8m now paid to the Government.

Supporting People

The financial year 2003/04 was the first year of the Government's Supporting People (SP) regime. This replaces a number of funding streams with a single SP grant used to pay for the provision of housing-related support services such as those provided for tenants of Waverley's sheltered accommodation. Waverley previously met the cost of support from its overall rent income (i.e. a separate charge for the cost of support was not identified). The support costs of those tenants in receipt of housing benefit (HB) is now being met by the new SP grant. From 1st April 2003 tenants not in receipt of HB will be expected to meet the cost of their support in addition to paying their rent although transitional arrangements protect existing tenants.

As a consequence of the SP regime, Waverley received some £1m SP grant in 2003/04 and 2004/05. In each year £300,000 of this was required to fund the cost of those tenants receiving support services who are not in receipt of HB. The balance is used to fund Decent Homes repairs. A similar amount is expected to be available in 2005/06 but it is likely that it will reduce in future years. Whilst there is a lack of certainty from the Government, it is

estimated that the reduction will be around £200,000 in 2006/07. The Financial Strategy will need to be revised as more information about future SP funding is available. As the Government expects authorities to set rents with regard to rent restructuring, it has not expected rent levels to reduce as a result of the introduction of the SP funding.

The total amount of SP funding is cash limited and as all schemes within SP will be subject to review during the first 3 years of the new regime there are potentially serious implications for all support providers for some of the less popular housing schemes or those that are perceived as being costly to run.

Pressures/Constraints

Key Strategy Issues for Housing Revenue Account:

- The impact of a housing stock transfer
- Funding 'Decent Home' standards if stock transfer does not proceed
- Priorities v Non Priorities
- Future rent levels
- Loss of Government Housing Subsidy
- Rent Restructuring
- Withdrawal of Supporting People Funding

Use of Balances

A prudent level of working balance is maintained to support revenue expenditure for unforeseen items or to meet fluctuations in income. Given the current level of HRA balances at £1m, it is no longer an option to use balances to keep rent levels down if adequate reserves are to be maintained. The balances are shown in Appendix 3 together with a summary of the main pressures facing the Housing Revenue Account.

Decent Homes Standard

A major Government policy initiative is the introduction of the Decent Homes Standard and the requirement laid upon all local authorities and housing associations to bring the stock they own up to the Government's 'decent' standard by 2010.

One of the Council's key strategic housing aims, recognised in the Housing Strategy update, is investment in the existing housing stock to meet the Decent Homes Standard. Waverley's HRA Business Plan also recognises the importance of the Decent Homes Standard and details how the extent of its 'non-decent' property is being quantified.

The section on Housing Stock Transfer above describes the gap in funding between the resources that the Council estimates it has compared to that required to achieve the Decent homes standards and to deliver other essential work to the housing stock to meet health and safety requirements, deal with asbestos and to meet tenants' aspirations.

CAPITAL FINANCING

Prudential Borrowing

Currently Prudential Borrowing of £450,000 has been approved to finance the Weyhill Car Park scheme. This scheme is expected to make a positive return.

Whilst either Prudential Borrowing or further use of the Revenue Reserve Fund could fund part of future budget shortfalls, avoiding further use of the Revenue Reserve Fund will tend to maximise flexibility because it can be used for both revenue and capital purposes, whereas Prudential Borrowing may only be undertaken for capital purposes. The Revenue Reserve Fund is also a finite resource.

At this stage in preparing the 2006/07 Budget, it is proposed that Prudential Borrowing will only be considered for funding revenue earning schemes, however the pressures on the revenue budget could force a revision to this policy.

Capital Receipt Pooling

From 1st April 2004, the Government's new pooling regime took effect which requires Waverley to pay a proportion of its housing capital receipts to the Government. 75% of right to buy receipts and 50% of other receipts are pooled. Transitional arrangements have tapered the full impact so far but this relief ends in 2006-07.

Revenue Contributions

Waverley can finance its capital expenditure directly from its revenue accounts, or from reserves or earmarked funds, which also technically count as revenue contributions. In addition the Council is required to charge a specified sum known as the Major Repairs Allowance (MRA) to its Housing Revenue Account for the purpose of financing major housing repairs.

Waverley operates the following revenue funds within its General Fund:

- Revenue Reserve Fund
- Capital Fund
- Vehicle Renewals Fund
- Community Partnerships Fund Provision

Revenue Reserve Fund

The Revenue Reserve Fund was established in 1977 to be used for any revenue purpose including revenue contributions to capital expenditure. In practice, for many years it has been Waverley's main source of financing the General Fund Capital Programme. Advances from the fund are treated as internal borrowing with repayments made over appropriate periods. Until 1998 interest at the prevailing rate was also charged to the General Fund and credited to the Revenue Reserve Fund, which enabled the resources available within the Fund to increase and major capital schemes to be undertaken. However, by 1998 the total revenue contributions / repayments to the Fund were approaching £2 million and, in view of the severe national constraints on revenue expenditure, the Council took the decision to discontinue interest payments to the Fund. At the same time the repayment periods for principal were adjusted to the periods currently used for the various asset types.

In line with the decision to discontinue interest payments, the Council recognised the funding of capital schemes would need to be within the long-term level of repayments to the Fund. The amount of this funding is reviewed periodically and is now in excess of £1 million pa. The actual repayments made to the Fund will vary from year to year as old schemes fall out; and repayments continue for new schemes.

The Council decided to credit interest on the balance of the Revenue Reserve Fund to the General Fund from 1st April 2003. Previously, interest was credited to the Revenue Reserve Fund. Interest of usable housing capital receipts continues to be credited to the Revenue Reserve. Recently, the accumulated capital receipts held by the Council increased significantly resulting from the high level of sale of council house receipts, the abolition of Local Authority Social Housing Grant and slippage in the Capital Programme. This additional interest of approximately £1m allowed the Council to abate the capital expenditure contribution from the General Fund by £330,000 pa for the 3-year period from 2004/05. The balance at 1/4/05 is £3.8million and Appendix 5 shows the projection over the next 4 years.

The General Fund revenue budget depends on the Revenue Reserve Fund to help met the underlying deficit of expenditure over income. It is estimated that this draw on the fund will reduce the balance to just over £1million by the end of 2008/09.

Capital Fund

The Capital Fund has been set up solely to finance capital expenditure, but otherwise operates on the same basis as the Revenue Reserve Fund. The Capital Fund is of a much smaller scale at less than £0.4 million.

Vehicle Renewals Fund

The purpose of the Vehicles Renewals Fund is to finance the replacement of Waverley's small fleet of vehicles on a planned basis. Contributions are charged to the General Fund and paid into the Fund to even the impact of the cost of new vehicles in any one year's accounts. Purchases of vehicles are financed from the Fund. As most of Waverley's services are provided by contractors, the vehicle fleet now consists of just 6 vehicles. The fund balance was reduced to an acceptable level during the 2004/05 budget process, with the surplus balance being transferred to the Revenue Reserve Fund. At 1/4/05 the estimated balance is £57,000.

Community Partnerships Fund (formerly Matched-Funding Provision)

Waverley's Matched-Funding Scheme was introduced in 1998 and each year it has helped a large number of organisations complete essential community capital projects in the borough, leveraging in over £7.5m of funds from other sources. This reserve was topped-up in 2003-04 to allow two years further funding for 2004/05 and 2005/06. Interest and schemes no longer progressing has enabled a further £300,000 amount in 2006/07. Appendix 5 shows the current balance of the reserve and projections for the next 4 years. The future Financial Strategy for 2007/08 will need to assess whether and how this imaginative and well-used reserve could be funded in the longer term.

Capital Receipts

Waverley has a property portfolio and capital receipts arising from this are an important element of financing of Waverley's capital expenditure.

The main source of capital receipts is right-to-buy sales of properties within the HRA. These are currently around £3million pa although 75% of this is paid to the Government. Capital receipts also arise from sales of land and access rights within both the General Fund and the HRA. Appendix 4 shows the projected capital receipts balances over the next 4 years.

Ring-Fencing does not apply to capital receipts, so Waverley could use the capital receipts arising from right-to-buy sales to finance any General Fund schemes. However, Council policy is for these receipts to be used for Housing purposes; with 50% of the budgeted sum being allocated to HRA schemes and 50% allocated for affordable homes.

Currently, £500,000 pa of General Fund receipts are allocated for financing the General Fund Capital Programme. However, from time-to-time major capital receipts arise from Waverley's Property Strategy and these provide an opportunity to supplement the Capital Programme.

CAPITAL EXPENDITURE

Capital Strategy & Asset Management Plan

Waverley's Capital Strategy covers all aspects of Waverley's capital expenditure and provides a high-level four-year plan of the Council's investment priorities.

The Asset Management Plan has been developed to ensure that the Council takes a corporate and strategic approach to managing its corporate assets. It is designed to link asset management to continuing and improving service delivery.

Both the Capital Strategy and Asset Management Plan recognise the key role of capital investment in achieving delivery of Waverley's corporate and service objectives, and seek to ensure that optimum benefit is obtained for the residents of the Borough from the limited available capital resources.

Maintenance v Investment (new schemes?)

A considerable proportion of Waverley's Capital Programme represents capitalised maintenance of existing assets. For the General Fund this currently amounts to some £600,000 pa. There are major increasing demands for this sum to be increased. In the case of the HRA The Major Repairs Allowance is in the region of £3 million pa. In contrast, the Capital Programme also includes new schemes representing high-profile growth in service delivery. The Council has to balance the resources available between these varying demands.

The Council's Executive prioritises capital schemes after receiving advice from officers and Overview Committees. The following criteria are used in the prioritisation process:

- The extent to which a particular scheme achieves the Council's key corporate objectives.
- Investment to improve service delivery, especially to achieve improvement plans following Best Value Reviews.
- Investment required to maintain current service provision.
- Investment that will lead to cost savings or income generation.
- The level of community support for particular proposals.

In July 2005, the Council agreed that priority be given to health and safety schemes and those which reduce the impact on the General Fund revenue account in future years. The full list as agreed by Council in priority order is:

Priority	Category
1	Health & Safety
2	Disabled Facilities Grants
3	Disabled Discrimination Act works
4	Maintaining Income Stream or reducing revenue costs
5	Maintaining Council Assets
6	Maintaining Services
7	Implementing Electronic Government initiatives to improve customer service
9	Farnham Maltings Grant
10	Partnership funding and other Service Developments*

*Officers will continue to seek additional sources of funding.

Pressures/Constraints

Key Strategy issues for the capital programme:

- Decent homes
- Affordable Housing
- Selecting priorities against resources in line with agreed Corporate Strategy
- Leisure provision including Godalming leisure, Farnham leisure centre and play equipment provision.
- Partnership funding from 2007/08 onwards
- Improvements and maintenance of assets
- Prudential Borrowing for revenue earning schemes

Appendix 4 identifies the key pressures on the capital programme.

Capital resources remain extremely limited whilst proposed capital schemes greatly exceed the available resources for the Strategy period. Officers through the Asset Management Group are currently assessing capital schemes in order to feed them into the budget process in the autumn. Whilst Partnership Funding will be possible in 2006/07, its use will create an extra pressure in 2007/08 if Members wish to retain the scheme.

General Fund

Waverley's General Fund Capital Programme includes schemes designed to deliver the service priorities for all of the Council's services, other than HRA and affordable homes. These are set out in detail within the appropriate service strategies and summarised within the Capital Strategy under the headings of:

- Corporate Services
- Information Technology
- Leisure Services
- Planning & Building Control
- Property & Development Services
- Environmental Services

The General Fund Capital Programme is based on existing and expected funds although currently capital bids exceed available resources. It is regarded as a base-level Programme, which may be supplemented should additional resources be generated through the Council's property strategy or through partnership funding opportunities.

Housing

The Housing Services' requirement for capital resources attempts to strike a balance between the Council's roles as:

- Strategic Housing Authority for the whole of the Waverley area;
- landlord for in excess of 5,000 dwellings;
- housing enabler in the Waverley area and partner to Registered Social Landlords through providing Social Housing Grant; and
- partner to private-sector landlords and homeowners through providing House Renovation Grants.

The outcome of the stock transfer ballot will have a major impact on Waverley's capital programme in the future. Currently the housing Capital Programme is based on the Council's Housing Strategy Statement and Housing Investment Programme. These documents have been developed in consultation with tenants and a wide range of partners in the statutory and voluntary sector including the Government Office for the South East and the Housing Corporation.

Partnerships

The Council promotes partnership working in all the services it provides. As an incentive to other service providers in the Waverley area, the Council has earmarked a significant level of resources (currently £300,000 pa) for Community Partnerships Funding schemes. These resources are made available to service providers on the basis that they must provide at least 75% of the funding from sources other than Waverley Borough Council. This approach not only promotes crosscutting initiatives and partnership working but also makes the best use of available resources. In the last 5 years, Waverley has awarded over £1million towards a large number of important community projects throughout the Borough. Waverley's cash has enabled an additional £7.5million of funding to be levered in for these schemes.

Pensions

The Council took the strategic decision, upon becoming Debt-Free, to use surplus set-aside monies to capitalise up to 50% of its pension back-funding contributions by 31st March 2004. This enables Waverley to make lump-sum contributions to the Fund from capital resources in return for a reduction in its annual contribution. This action is designed to assist the Council's revenue position and achieve an effective return on the funds involved.

Waverley was able to take advantage of its Debt-Free status to use its surplus Provision for Credit Liabilities (PCL) for this purpose and there is specific Council authority for this action up to the limit of £7 million. The PCL is mainly derived from set-aside capital receipts and since Waverley became Debt-Free the only significant source of new set-aside capital receipts has been reimbursements of LA SHG payments from the Housing Corporation.

The maximum amount for which capitalisation direction was obtained was for £7million. £1.75 million was achieved in 2001/2, a further £1.75 million in 2002/3, with £3.5 million achieved in 2003/04.

Whilst it is still possible to apply for a capital direction from the Secretary of State, the competing demand for capital resources in Waverley will make pension back-funding more difficult to achieve. It does, however, remain a very effective return on funds should resources become available. A review of alternatives will be considered once the outcome of the housing stock transfer ballot is known.

Consultation on Priorities

Waverley has been committed to consultation for many years and first carried out extensive consultation in 1994 to help shape its future Capital Programme. Consultation on capital schemes regularly takes place with Town and Parish Councils, other local organisations and user groups; and it has also been undertaken by questionnaires sent to households within the Borough; by holding public exhibitions; and by arranging focus groups.

The Council has undertaken a series of consultations on local priorities for The Community Strategy. These included: a large scale Partnership Event; a Town and Parish Council Event; and 22 Ward Meetings. Key priorities have emerged to influence Waverley's forward Capital Programme. The Citizens Panel has also been consulted on Waverley's aims, objectives and priorities.

Direct consultation with the public and other stakeholders is carried out in the early planning stages of major schemes, as evidenced by public exhibitions being held for the East Street, Farnham regeneration proposals and the possible leisure development in Broadwater Park, Godalming.

INVESTMENTS

Treasury Management Policy

The Council's Treasury Management Policy and Investment Strategy follow best practice and are reviewed annually. These policies determine how Waverley's investments and cashflow are managed and they define approved investment limits for the year which are based firstly on risk minimisation and secondly on maximisation of return.

What the investments are used for

Waverley's investments are held for two main reasons. Firstly, they are used to provide cash flow for Waverley's short-term needs, eg. Precept payments. Secondly, they represent the cash behind Waverley's funds, reserves and balances such as the reserved capital receipts. As these reserves are used to fund expenditure, the level of investments will reduce. The total investments held at 31 March 2005 was £27.4 million, of which approximately £20 million represents the revenue and capital balances and reserves and the remainder of some £7 million is used to manage the day-to-day cash flow.

Forecasts

Currently, all of Waverley's investments are held for period of less than one year. As approximately £20 million of the investments represent capital and revenue reserves, a longer-term view can be taken on this proportion, taking into account the projected draw on these funds. If the transfer of the housing stock proceeds, advice may be sought to assist with the investment of the capital receipt from the transfer.

ESTIMATED MAJOR VARIATIONS IN GENERAL FUND REVENUE BUDGET

	New Legislation Y/N	2006/2007 £'000s	2007/2008 £'000s	2008/2009 £'000s
Free Bus Travel for over 60s	Y	?	?	?
Land Charges income	Y	?	?	?
Maintaining Planning service and reviewing income regime following withdrawal of PDG	Y		?	?
Play Area Maintenance	N	?	?	?
Revenue cost of leisure centres	N	?	?	?
Pensions	N	?	?	?
Abatement of capital expenditure	N		330	330
Contract Savings (after one-off costs have been off-set)	N		?	?
Total				

The list will be developed during the budget process

GENERAL FUND REVENUE BALANCE

	2005/2006 £'000s	2006/2007 £'000s	2007/2008 £'000s	2008/2009 £'000s
Balance at start of year	1,450	1,355	1,355	1,355
Less – 2004/05 slippage	95			
Balance at end of year	1,355	1,355	1,355	1,355

COUNCIL TAX

Council Tax Increases

	2002-03 %	2003-04 %	2004-05 %	2005-06 %	2006-07 %
Waverley					
- Inflation	2.5	3.0	3.0		
- Legislation	3.7	6.0	3.2		
Sub-total	6.2	9.0	6.2	4.9	?
Surrey CC	11.4	17.9	4.4	3.5	?
Surrey Police	16.1	40.1	8.9	4.9	?
Parishes (average)	9.7	9.0	2.4	4.5	?
Overall Increase	11.2	18.9	5.1	3.9	?

Funding of General Fund Revenue Budget 2005-06

	£m	%
Redistributed NNDR	3.3	26
Revenue Support Grant	1.8	14
Balances	0.3	2
Council Tax	7.4	58
Total	12.8	100

ESTIMATED MAJOR VARIATIONS IN HRA BUDGET

	2005/2006 £'000s	2006/2007 £'000s	2007/2008 £'000s
Increased housing subsidy payment to the Government	250	450	650
Reduced supporting people funding		200	200
Maintenance of assets/Decent Homes		?	?
Stock transfer costs	?		
Total			

The list will be developed during the budget process

HOUSING REVENUE ACCOUNT BALANCE

	2005/2006 £'000s	2006/2007 £'000s	2007/2008 £'000s	2008/2009 £'000s
Balance at start of year	1,040	1,000	1,000	1,000
Less – funding of revenue expenditure	40			
Balance at end of year	1,000	1,000	1,000	1,000

ESTIMATED MAJOR PRESSURES ON THE CAPITAL PROGRAMME

	2005/2006 £'000s	2006/2007 £'000s	2007/2008 £'000s	2008/2009 £'000s
Maintaining assets	?	?	?	?
Information technology	?	?	?	?
Implementing Electronic Govt.	?	?	?	?
Community Partnership Fund			?	?
Affordable Housing	?	?	?	?
Decent Homes	?	?	?	?
Leisure provision in Godalming	?	?	?	?
Improvements in other leisure facilities – Farnham leisure centre, play areas etc.	?	?	?	?
Total				

The list will be developed during the budget process

ESTIMATED CAPITAL RECEIPTS

	2005/2006 £'000s	2006/2007 £'000s	2007/2008 £'000s	2008/2009 £'000s
General Fund balance at start of year	1,750	1,310	910	510
Usable receipts in year	100	100	100	100
Less financing of capital programme	540	500	500	500
General Fund - Balance at end of year	1,310	910	510	110
HRA Balance at start of year	*11,712	9,622	7,278	4,590
Usable receipts in year	1,250	656	312	312
Less financing of capital programme	3,340	3,000	3,000	1,600
HRA - Balance at end of year	9,622	7,278	4,590	3,302
Overall Total	10,932	8,188	5,100	3,412

Notes: * £3.3m earmarked for affordable homes

* No estimate is included for the East Street development capital receipt

GENERAL FUND REVENUE RESERVE FUND

	2005/2006 £'000s	2006/2007 £'000s	2007/2008 £'000s	2008/2009 £'000s
Balance at start of year	3,778	2,428	1,848	1,498
Add - net contributions to fund	1,500	1,300	1,200	1,200
Less- abatement of capital expenditure	330	330	0	0
Less - funding of revenue expenditure	320	250	250	250
Less - funding of capital expenditure	2,200	1,300	1,300	1,300
Balance at end of year	2,428	1,848	1,498	1,148

COMMUNITY PARTNERSHIPS FUND

	2005/2006 £'000s	2006/2007 £'000s	2007/2008 £'000s	2008/2009 £'000s
Uncommitted balance at start of year	600	300	0	?
Add - contributions to reserve	0	0	?	?
Less - funding of capital programme	300	300	?	?
Balance at end of year	300	0	?	?

