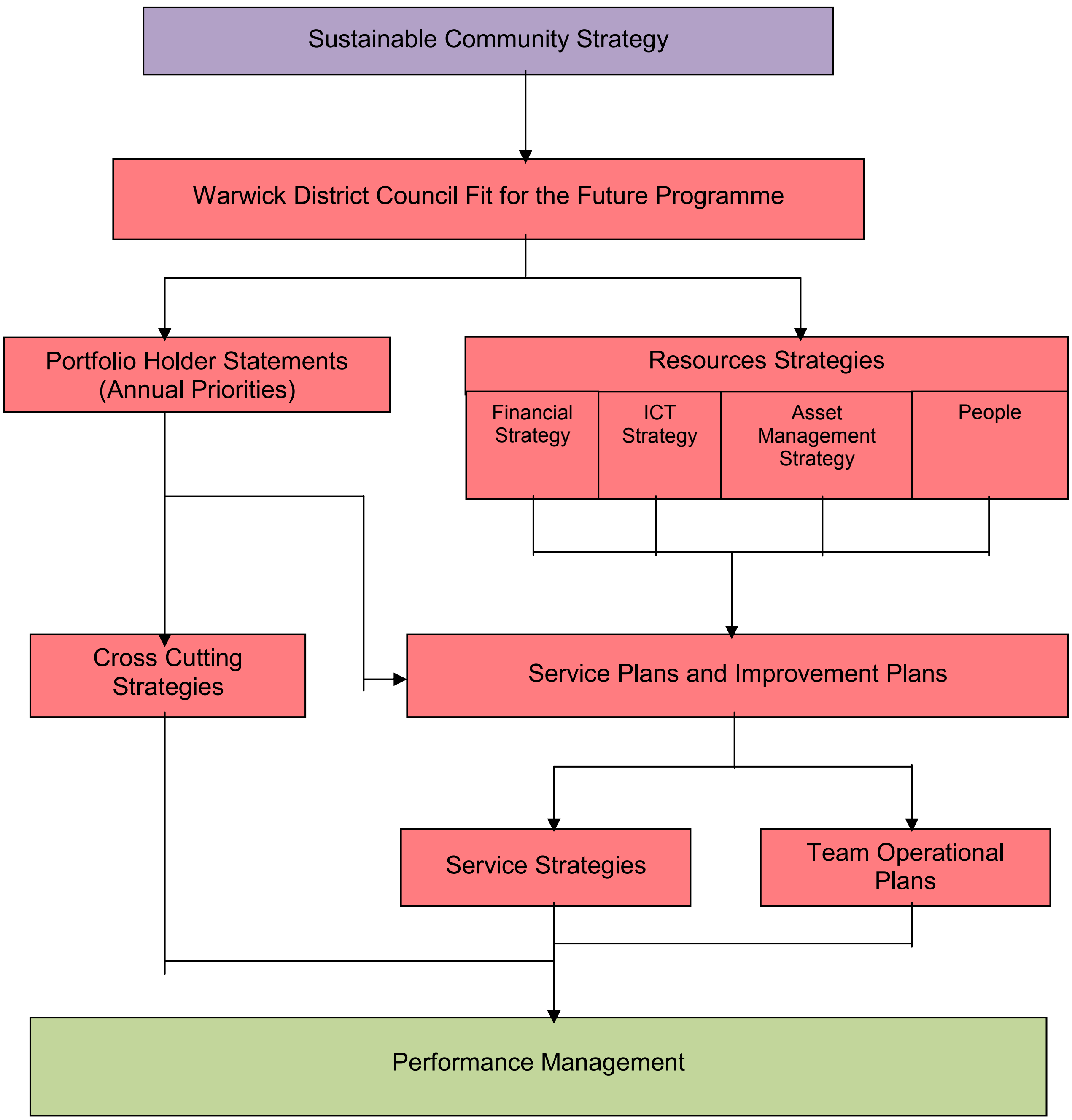
Financial Strategy 2010/11-2014/15

1. INTRODUCTION

1.1 The Council has formulated a number of strategies setting the framework to ensure that its overall aims and objectives are achieved. It will be helpful to set the Financial Strategy into context by outlining the overall framework:



1.2 These Plans and Strategies are inevitably linked and dependent one upon the other. The Finance Strategy looks at the major funding issues for the Council over the medium term - it examines the pressures that the Council faces in terms of the commitments it has, the aspirations to provide and develop services, and the reasonable expectation of the income that it will be able to derive in the same period. The Finance Strategy now incorporates what was formerly the Capital Strategy.

2. BACKGROUND

2.1 Economy

2.1.1. Global economy

The sovereign debt crisis peaked in May 2010 prompted, in the first place, by major concerns over the size of the Greek government's total debt and annual deficit. However, any default or write down of Greek debt would have substantial impact on other countries, in particular, Portugal, Spain and Ireland. This crisis culminated in the EU and IMF putting together a €750bn support package in mid May. A second crisis, this time over Ireland, occurred in the Autumn and it appears that Portugal may be the next state to apply for a support package.

The unexpectedly high rate of growth in quarters 2 and 3 of 2010 in the UK and the Euro zone in Q2 were driven by strong growth in the construction sector catching up from inclement weather earlier in the year and by other short term factors not expected to be enduring; general expectations are for anaemic (but not negative) growth in 2011 in the western world.

2.1.2 UK economy

Following the general election in May 2010, the coalition government has put in place an austerity plan to carry out correction of the public sector deficit over the next five years. The inevitable result of fiscal contraction will be reductions in the revenue support grant it makes to Local Authorities and major job losses during this period, in particular in public sector services. This will have a knock on effect on consumer and business confidence and appears to have also hit the housing market as house prices started on a negative trend during the summer and autumn of 2010. Mortgage approvals are also at very weak levels and declining, all of which indicates that the housing market is likely to be very weak next year.

Economic Growth – GDP growth is likely to have peaked in the current period of recovery at 1.2% in quarter 2 of 2010. The first estimate of +0.8% for quarter 3 was also unexpectedly high. However, the outlook is for anaemic growth in 2011/12 although the Bank of England and the Office for Budget Responsibility are forecasting near trend growth (2.5%) i.e. above what most forecasters are currently expecting.

Unemployment – the trend of falling unemployment (on the benefit claimant count) has now been replaced since July 2010 with small increases which are likely to be the start of a new trend for some years ahead of rising unemployment.

AAA rating – prior to the general election, credit rating agencies had been issuing repeated warnings that unless there was a major fiscal contraction, then the UK's AAA sovereign rating was at significant risk of being downgraded. Sterling was also under major pressure during the first half of the year. However, after the Chancellor's budget on 22 June, Sterling strengthened against the US dollar and confidence has returned that the UK will retain its AAA rating. In addition, international investors now view UK government gilts as being a safe haven from EU government debt. The consequent increase in demand for gilts helped to add downward pressure on gilt yields and PWLB rates.

2.1.3 The Council's advisers, Sector Treasury Services, provide information which is compiled by experienced economists who have a proven track record. Their latest view on the Bank Rate is shown below and has been used to formulate the investment interest estimates used in the Financial Strategy.

(Q/E = quarter end e.g. March, June, September and December)

	Mar 2011	**June 2011**	**Sept 2011**	**Dec 2011**	**Mar 2012**	**June 2012**	**Sept 2012**	**Dec 2012**	**Mar 2013**	**June 2013**	**Sept 2013**	**Dec 2013**
Bank Rate	0.50 %	0.50 %	0.50 %	0.75 %	1.00 %	1.25 %	1.50 %	1.75 %	2.25 %	2.75 %	3.00 %	3.25%

2.1.4 The Monetary Policy Committee (MPC) utilises Bank Rate as one of its tools to control inflation in the economy and meet its target rate of 2% Consumer Prices Inflation (CPI) . CPI has remained high during 2010 and the latest figure for December 2010 is 3.7% with RPI at 4.8%. Although inflation has remained stubbornly above the MPC's 2% target, the MPC is confident that inflation will fall back under the target over the next two years. The Bank of England finished its programme of quantitative easing (QE) with a total of £200bn in November 2009. However, major expectations that there could be a second round of quantitative easing in late 2010 or early 2011, to help support economic growth, have evaporated after the surprises of the Q3 GDP figure of +0.8% and the November Inflation Report revising the forecast for short term inflation sharply upwards. Therefore, our Treasury Consultants' view is that there is unlikely to be any increase in Bank Rate until the end of 2011.

2.1.5 It is currently difficult to have confidence as to exactly how strong the UK economic recovery is likely to be, and there are a range of views in the market. Sector has adopted a moderate view. There are huge uncertainties in all forecasts due to the major difficulties of forecasting the following areas:

- the speed of economic recovery in our major trading partners - the US and EU
- the danger of currency war and resort to protectionism and tariff barriers if China does not address the issue of its huge trade surplus due to its undervalued currency
- the degree to which government austerity programmes will dampen economic growth and undermine consumer confidence
- changes in the consumer savings ratio
- the speed of rebalancing of the UK economy towards exporting and substituting imports
- the potential for more quantitative easing, and the timing of this in both the UK and US, and its subsequent reversal
- the speed of recovery of banks' profitability and balance sheet imbalances and the consequent implications for the availability of credit to borrowers
- the potential for a major EU sovereign debt crisis which could have a significant impact on financial markets and the global and UK economy

The overall balance of risks is weighted to the downside and there is some risk of a double dip recession and deleveraging, creating a downward spiral of falling demand, falling jobs and falling prices, although this is currently viewed as being a small risk.

2.1.6 Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries.

2.1.7 As a counterpoint to Sectors interest rate view, Capital Economics take a more pessimistic view of any recovery and is not forecasting Bank Rate to rise from its current 0.50% throughout 2011 and 2012 before beginning to rise in early 2013 whereas UBS' view is for Bank Rate to rise to 0.75% one quarter earlier than Sector's forecast. The HM Treasury Survey of Economic Forecasts supports the view that Bank Rate will begin to rise towards the end of 2011 although the actual point at which it begins to rise is somewhat uncertain at present.

2.2 A 'Prudential Framework' for borrowing was introduced from 2004/05. Local authorities no longer have to obtain Government approval before borrowing. Control is by prudential limits based on the authority's revenue resources. The Council can borrow if it can afford the revenue consequences.

2.2 The Council decided to retain its housing stock in September 2003, and planned for the housing stock meeting the Decent Homes Standard in

2010/11. A new Stock Condition Survey has been carried during 2010/11 and whilst this demonstrated that the Council could maintain the Decent Homes Standard to around 2019/20, the volatility of the ever-changing government subsidy system means these predications are not robust. The Council worked with the Communities and Local Government Department (CLG), participating in a project to determine whether allowing Housing Revenue Accounts (HRAs) to become self-financing and operate outside of the existing national housing subsidy system. Proposals that would enable Council's to operate self-financing HRA, forming part of a major overhaul of the current national HRA Subsidy System were consulted on in 2009, under the previous Labour administration. The new Coalition Government has decided to proceed with the self-financing option. New legislation to enable this to be enacted will be contained in the 'Localism Bill', due to be published by the end of February, 2011. All stock retaining Authorities will be subject to the change to self-financing, it no longer being a 'voluntary' option, as under the previous Government. Further work on financing the 'buy out' will be required, together with any other financial implications which may need to be considered.

2.4 The Government's grant settlement continues to be a major component of the Council's finances. 2006/07 saw major changes in the grant distribution methodology, with the introduction of what is known as a four-block model. The blocks being, with 2011/12 provisional figures shown: -

- Relative Need Block - Formula based FSS £3.335m.
- Relative Resources Amount – based on local taxbase reflecting resources that may be raised locally -£2.081m.
- Central Allocation – based on per head basis £7.082m.
- Floor Damping Block – mechanism whereby authorities contribute/receive additional allocation to limit the effects of changes from year to year -£0.541m.

- Total 2011/12 Formula Grant £7.792m

The second major change was the introduction multi-year grant settlements. The 2008/09 Settlement provided details additionally of grant for 2009/10 and 2010/11. Along with the recently announced provisional 2011/12 Settlement, provisional details have been announced of the 2012/13 Grant, this being £6.996m. Whilst confirmation is still awaited for the 2011/12 figures, these are not expected to materially differ from the provisional settlement.

For 2011/12, the Council is contributor towards ensuring other councils receive the floor change in their grant. Without this, the Council would have received over £0.5m additional grant.

2.5 Local authorities had been expecting substantial reductions in grant, as confirmed in the 2010 Comprehensive Spending Review (CSR) announced in October 2010. This did suggest that cuts of around 28% could be expected over the next 4 years. The above figures present a reduction of 14.7% for 2011/12 and a further 9.6% reduction for 2012/13. The Council's forecasts assume further reductions of 7.5% per annum for 2012/13 and 2013/14. Whilst these projections allow for grant reductions in excess of the 28% suggested in the CSR, it is believed that whist this may be the overall implications for local government, there will be variances between the types of local authorities, with some faring better than others. In the settlement so far, district councils have the largest grant reductions.

2.7 In total, the Council has a 2010/11 Council Tax at Band D of £1,497 , which is just above the average for the Country at £1,495 for shire district areas. However, the District element (including parish precepts) is £167 compared to a national average of £196, and an average for the five Warwickshire Districts of £190. In fact, Warwick has the lowest tax for any of the Warwickshire districts, the highest being North Warwickshire at £251. Every £1 on the Council Tax raises £52,632. If Warwick were levying at the average rate of tax for a district, the Council's additional income would be around £1.5m each year.

2.8 In regard to the HRA, the Council is in 'negative subsidy' and has to make an annual contribution from the HRA to the national rent pool. These contributions have increased from £4.4 million in 2005/06 to a projected £8.6 million in 2011/12, so there is an increasing contribution from council tenants' rents to support council housing in other parts of the country.

2.9 From 2004/05 a regular budget monitoring regime has been set up across the Council to ensure action is taken to prevent overspending, and for any unavoidable variances to be highlighted earlier, the Council has underspent its revenue budget for all years since 2003/04. Following the significant underspend in 2009/10, £0.5m has been removed from budgets to reflect the underlying actual budget requirement for service delivery.

3. CORPORATE STRATEGY AND FIT FOR THE FUTURE PROGRAMME

3.1 In order to reflect the Council's priorities within the Sustainable Community Strategy Plan, the Council revised it's Corporate Strategy for 2008-2011. The Council's Organisational Purpose being:

"**Warwick District: a great place to live work and visit".**

The current Corporate Strategy objectives 2008/2011were summarised as follows:

a) Provide clear community leadership and effective management of resources whilst delivering responsible public services in an open and transparent manner

b) Improve housing services efficiency to meet the housing needs of the district

c) Increase participation and attendances in the Council's cultural offering

d) Provide high standards of environmental services across the district delivering a sustainable and quality environment

e) Create thriving town centres, keep pleasant villages and make the district an attractive place to live and work

f) Promote safe, vibrant and sustainable communities

g) Improve the efficiency of service delivery to the Council's customers

3.2 During 2010, the Council adopted its Fit For the Future programme to provide an organisation framework to progress these objectives. As well as focusing on delivering quality services that its customers need, the programme has set challenging savings targets to be delivered. Achieving such, will assist the Council in delivering it's services in the future in light of uncertainty surrounding the economic climate, and future reductions in Central Government Support.

This programme needs to stay up to date and relevant in providing the strategic framework for the Council to meet the challenges it faces. At present, the Coalition Government is proposing or introducing a range of initiatives which are significantly changing the context within which the Council is operating. As these are introduced the projects within the programme will be adjusted to reflect these opportunities and challenges.

These include-

- The Universal Credit is due to start in 2013. This combines a number of existing benefits in to a single credit including housing benefit which is currently administered by the Council.

- The Government are consulting on proposals to enable Local Planning Authorities to set their own planning fee levels. This could enable the Council to base future charges to recover its full costs of providing the service.

- Under the New Homes Bonus scheme the government will match the council tax raised on each new house for six years. For a Band D home that would be around £1,400 per year for the six year period. There are additional incentives for affordable housing. Whilst the full details are still to be published, the current proposals suggest that most of this additional income will be available to District Councils to support its communities.

- The Government is developing proposals for a Business Increase Bonus scheme to reward those authorities where growth in the business rates yield exceeds a threshold, by allowing them to keep the increase – up to a certain level – for a period of six years.

- Tax Increment Finance / Accelerated Development Zones : A mechanism to allow local authorities to fund key projects by borrowing against future increases in locally collected business rates.

- The Localism Bill sets out proposals to give local people and organisations the right to buy community assets like shops, pubs and libraries. It also sets out powers for local people to approve or veto "excessive" council tax rises.

  The Government has published its provisional Revenue Support Grant settlements for 2011/12 and 2012/13. It has indicated that there will be subsequent reductions in future years, but has yet to release details on the scale of the cuts.

3.3 As well as these initiatives, other major issues that will affect the Council's finances over this period are:

(i) Monitoring the substantial medium term forecast deficit and this Council's progress in reducing such deficit.
(ii) The potential for operating a self-financing HRA which, if offered, would require a review of all alternative housing options.
(iii) The impact of pressures to improve environmental sustainability. Alongside this, CO^2 emissions need to be reduced to meet the climate change agenda.
(iv) The national T-Government agenda following on from the e-government agenda to make sure services can be delivered electronically where possible.
(v) Energy costs continue to rise and are extremely volatile.
(vi) Major developments that may occur, such as the Spencers Yard, Chandos Street, Kenilworth Town Centre and Mere, and Waterside.

(vii) Major investment in car parks that will require structural renewal.
(viii) Reducing the council's accommodation requirements and realising savings.
(ix) The potential to work with partners and realising savings by pooling resources.
(x) Capital receipts have reduced considerably and any for the future are extremely uncertain.
(xi) The volatility of many of the Council's income budgets.
(xii) The impact of the recession and the economic downturn.
(xiii) Trees throughout the district need replacing for which funding will need to be sought.
(xiv) Ongoing reviews on how the Council manages and delivers its services.
(xv) Development of the Fit for the Future Programme and the Council's ability to adapt to change.
(xvi) Efficient procurement to deliver quality services at minimum cost. Major contracts being due for renewal over the next few years.

3.4 The Council will plan replacements and renewals, and repair and maintenance in a careful manner concentrating on the sustainability of services as a first priority. In addition the Council needs to continually review its reserves in the light of a very ambitious programme of change, and constant uncertain external pressures on the planning regime.

3.5 The Council continues to promote agile working, and this links to the asset management plan strategy of reducing office space needs.

4. FINANCIAL PRINCIPLES

4.1 The following are the principles (for both the General Fund and the Housing Revenue Account) that underpin the Financial Strategy:

(i) Savings and developments will be based upon corporate priorities as set out in the Corporate Strategy and it's Fit for the Future programme.

(ii) In order to achieve further savings there will be a need to explore all avenues including
- Lean Systems Interventions to ensure services meet the needs to users, whilst stripping out waste and making savings
- Shared services
- Procurement projects
- Benchmarking costs and understanding differences
- Increasing paying customers where there is spare capacity

- Accessing grants to assist with corporate priorities
- Looking for opportunities to maximize income
- Controlling costs
- Workforce planning

(iii) The Council has ambitions to effectively manage its resources. In setting both it's Council Tax and Housing Rents, the Council takes account of its budget requirement, the support it receives from Central Government, inflation and affordability of it's local tax-payers. The 2010/11 Council Tax was not increased above that set for 2009/10. The lost income from waiving such an increase has been matched from Central government Funding, however, such support will not be available in future years.

(iv) Council house rent increases will be in line with the requirements of the Government's rent restructuring scheme, subject to any changes arising from the Self Financing Proposals.

(v) The following reserves will be replenished

* Planning Reserve to around £400,000 for potential appeals and funding for the future likely costs associated with the Local Plan.
*Capital Investment reserve to reach a balance of £3m
* Early retirement reserve, to maintain a day to day cushion
*Creation of a new "Services Transformation" Reserve to support the Council during it's change management programme

(vi) Whilst the Council will aim for Fees and charges to be increased so that income is at least maintained in real terms, it will be mindful of the reality of the current economic downturn and it's competitors. The Council is committed to making good use of the ability to raise funds through charges and put them to good use for the community.

(vii) The Council still needs to develop its ability to benchmark all services across the Council.

(viii) We take a positive approach to partnership working, realising the following benefits: -

a) Levering in additional external funding.
b) Ensuring improved use of sites, whether or not in the ownership of the Council.
c) Ensuring the future sustainability of projects.
d) Sharing/Reducing costs
e) Strengthening the Resilience of the Service

(ix) The Financial Strategy takes account of all revenue effects of the capital programme to ensure that the decisions taken are sustainable into the future.

(x) Any unplanned windfalls of income, whether service specific or more general, will be reported to the Executive who will prioritise how such income is used as part of setting future balanced budgets and meeting the Council's priorities.

(xi) The community will be consulted on the Council's spending plans through different mechanisms.

5. PROCESS & MONITORING

Preparing budgets

5.1 The budget process is carried out in tandem with the service area planning process and focuses on reductions in budgets and efficiencies.

5.2 CMT, supported by SMT, carry out an initial evaluation of all the proposals in the service plans, both capital and revenue and assess them for their contribution to key targets and the extent of impact on services. Portfolio holders review these and they form the basis of their proposals in the budget process.

5.3 When the budget is approved by Council the capital schemes are still subject to individual approval on the basis of an evaluation that needs to be agreed by Executive. .

Monitoring budgets

5.4 As part of the Council's regular budget monitoring, monthly expenditure reports are produced by Finance for budget officers responsible for revenue services and individual capital projects, with variances considered by the Senior Management Team. Quarterly monitoring reports are submitted for consideration by the Executive and Scrutiny Committees. The Council has reviewed it's current processes, and subsequently adapted it, putting tighter controls in place to ensure effective accurate monitoring.

Consultation

5.5 The Council has a track record of consulting both partner organisations and the public – this is an important contribution to assisting us to identify options and in learning lessons.

5.6 There is extensive consultation with partners on the Corporate Strategy, and the Sustainable Community Strategy results from a partnership.

5.7 There is annual budget consultation with the citizens' panel, representatives of business, and partner organisations. The Council is embarking upon improving on it's consultation process, to establish more meaningful data which will then inform the medium term planning process

5.8 The Council has a record of consulting where appropriate on the development of individual schemes.

6 ASSUMPTIONS

6.1 The following assumptions will be used in bringing forward proposals on the budget

(i) For 2013/14 and 2014/15 the Government Grant will reduce by 7.5% per annum. There will be no further subsequent reductions.
(ii) Interest projections will continue to be based the rates projected by Sector, our treasury management advisers.
(iii) An assumed rate of 2% general inflation.

7. HOUSING REVENUE ACCOUNT (HRA)

7.1 If the stock continues to be retained HRA expenditure will need to ensure the achievement and maintenance of the Decent Homes Standard.

7.2 The Government is proposing the introduction of self financing in April 2012, following the change in legislation to be introduced in the Localism Bill in early 2011. The 30 year HRA Business Plan will require re-engineering to ensure sufficient funds will be available to service the level of debt envisaged for self financing, as well as providing the necessary HIP expenditure to continue the maintenance of the Decent Homes Standard.

7.3 With rent levels for HRA properties dictated through the national rent restructuring guidelines, there is little room for manoeuvre on the income side of the HRA other than in respect of revised charges for garage rents, Warwick Response charges or rents for the small number of HRA owned shops and commercial properties.

8. REVENUE FORECASTS

8.1 Revenue forecasts will be drawn up in line with this strategy, and the strategy itself will be reviewed every year when the budget is set. The current forecasts are set out in Appendix 3 of the Budget Report, which show savings required as follows in order to freeze the Council

Tax increase for 2012/13 and keep Council Tax increases to 2.5% per year for subsequent years(before the use of any one-off reserves or balances)

2012/13 - £484,000
2013/14 - £1,443,000
2014/15 - £2,099,000
2015/16 - £2,584,000

These are indicative based on current assumptions, and assumes that £296,000 of savings are achieved in 2011/12 that have not already been built into it's budgets, meaning the savings approaching £2.9m are required to be found in the period 2011/12 to 2015/16.

9. ASSET RESOURCE BACKGROUND

9.1 Set out below is a summary of the Council's assets and its existing plans to use its resources to invest for the future.

9.2 The Council's assets as shown in the balance sheet as at 31st March 2010 are summarised below: -

	No	**Value £m**
Operational Assets		
HRA property	7,711	331.2
General Fund		
Land and Buildings	111	49.4
Community Assets	-	6.6
Vehicles, Plant, Furniture and Equipment	-	3.5
Infrastructure	-	0.8
Non - Operational Assets	151	10.5
Total	**7,973**	**402.0**

9.3 A summary of the proposed capital programme for the period to March 2015 is given below. This programme gives an indication of the level of the Council's available capital resources that are to be devoted to capital expenditure during this period.

APPENDIX 12

	2010/11	2011/12	2012/13	2013/14	2014/15
	£m	**£m**	**£m**	**£m**	**£m**
Strategic Leadership Portfolio	0.136	0	0	0	0
Customer & Information Services Portfolio	1.387	0.096	0.130	0.130	0.130
Culture Portfolio	0.624	0.317	0	0	0.081
Finance Portfolio	0.262	0.150	0.150	0.150	0.150
Neighbourhood Portfolio	0.437	0	0	0	0
Community Protection Portfolio	0.004	0.302	0.050	0	0
Development Portfolio	0.368	0.150	0.100	0.100	0.100
Environmental Portfolio	0.020	0	0	0	0
Housing Investment Programme	8.164	11.648	7.675	7.470	6.053
TOTAL	11.402	12.663	8.105	7.850	6.514
ESTIMATED RESOURCES	23.436	20.384	14.627	13.676	11.852

10. CAPITAL PRIORITIES

10.1 The main focus of the programme is:

- Realising local aspirations as expressed within the Corporate Strategy (which incorporates the Community Plan and the Council's Resource Strategies);

- Maintaining, and where possible enhancing, the condition of the Council's existing assets so as to reduce future maintenance liabilities and to encourage their effective use. Where appropriate this will include working in partnership with others such as the County Council on the customer Access Project.

- Supporting capital schemes that provide revenue savings to the Council, in particular supporting investment in Information and Communication Technology so as to modernise activities and release resources for other purposes.

- Achieving regeneration and economic vitality in our main population centres.

10.2 Key particular projects that link to the corporate strategy are: -

- Enabling developments across the district that improve the environment such as the Kenilworth Town Centre scheme, the development of Chandos Street in Leamington, and the improvement of Leamington Old Town.

- To achieve the Government's "decent homes" standard by 2010/11 and maintain it thereafter.

- To increase the number of affordable houses in the district.

- The Creating Uplift Projects (CUP) aimed at rejuvenating the Old Town part of Leamington. The Spencer Yard Scheme has been delayed due to Central Government Funding Reductions to our partner organization Advantage West Midlands. None the less, this Council continues to work with other partners to endeavour to deliver an alternative scheme.

10.3 The Council maintains its assets by carrying out a four yearly building conditions survey and maintaining a significant budget for repair and maintenance which then reflects the priorities highlighted in the survey.

11. FINANCING THE CAPITAL STRATEGY

11.1 The Capital Strategy needs to have regard to the financial resources available to fund it. The main sources of funding are detailed below: -

- Capital Receipts – primarily resulting from the sale of the Council's assets. This income is lumpy and limited, although there are still schemes being considered that could realise further capital receipts. In the case of housing right-to buy receipts there has been a reduction in receipts over recent years as discounts have reduced, house prices have increased and the economic situation has worsened
- Capital Contributions – including contributions from developers (often under Section 106 Planning Agreements) and grants towards specific schemes.
- Use of Council's own resources – either by revenue contributions to capital, or use of earmarked reserves.
- Borrowing – the Council now has more freedoms to borrow under the Prudential System provided it can demonstrate that it has the resource to service the debt.

12. REVIEW

12.1 This strategy will be subject to annual review to ensure that changes are included and that development issues have been implemented. It has been reviewed in the light of the Corporate Strategy 2008-2011 and the Fit for the Future programme.

13. RISKS

13.1 Previous years have demonstrated that the Council needs to consider the risk in managing setting and managing its budgets.

13.2 The key risks that could arise and ways in which they should be managed are set out in Section 12.2 of the main report and appendix 7.