

REPORT TITLE: MEDIUM TERM FINANCIAL STRATEGY

14 FEBRUARY 2018

REPORT OF PORTFOLIO HOLDER: CLLR GUY ASHTON (PORTFOLIO HOLDER FOR FINANCE)

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WARD(S): ALL

PURPOSE

The medium term financial strategy sets out the forecast financial position and the proposed strategic direction in order to provide a balanced budget over the medium term.

RECOMMENDATIONS:

That Cabinet:

1. approve the medium term financial strategy as set out in this report.
2. note the financial projections shown in Appendix A

IMPLICATIONS:

1 COUNCIL STRATEGY OUTCOME

- 1.1 The Council Strategy is the core strategic document, the MTFS (Medium Term Financial Strategy) is guided by this and informs the budget framework for the delivery of the Council Strategy.

2 FINANCIAL IMPLICATIONS

- 2.1 As detailed in the main body of the report.

3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 Any implications arising from budget options arising from this strategy will be dealt with in the individual business cases and committee papers relating to those specific decisions.

4 WORKFORCE IMPLICATIONS

- 4.1 None directly relating to this paper, which sets out the strategic budget planning direction.

5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 A key strand of the Council's financial and treasury strategies is to maximise income from its assets and seek to manage risk by achieving a balanced portfolio of assets. Options considered during the budget planning process may therefore involve either the acquisition or disposal of assets, requiring a full business justification case.

6 CONSULTATION AND COMMUNICATION

- 6.1 The medium term financial strategy has been part of the budget consultation process and follows the Medium Term Financial Plan (CAB2955) which went to Cabinet in September and Outcome Based Budgeting (CAB2985) which went to December Cabinet.
- 6.2 The Overview and Scrutiny Committee discussed the report at its meeting held on 29 January 2017 where officers and members of Cabinet responded to detailed questions. At the conclusion of questions and debate, the Committee raised some general points for Cabinet to consider in due course.

7 ENVIRONMENTAL CONSIDERATIONS

- 7.1 Environmental considerations will be part of the business case supporting any budget proposals.

8 EQUALITY IMPACT ASSESSMENT

- 8.1 This is a strategic budget planning document, equality impact assessments will be considered alongside any relevant budget options.

9 RISK MANAGEMENT

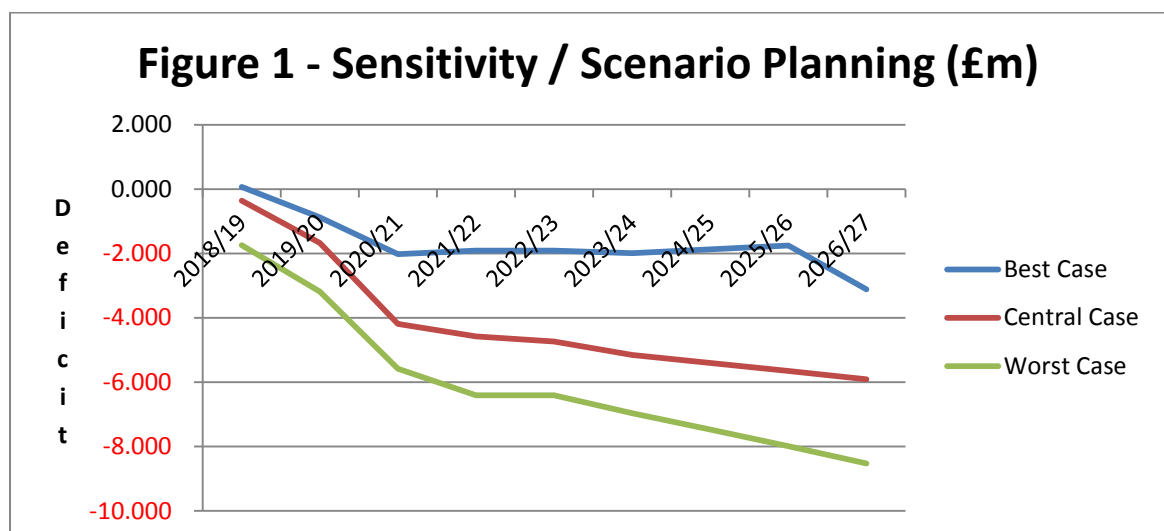
Risk	Mitigation	Opportunities
<i>Significant reductions in government funding over the medium term</i>	<i>Financial projections are shown up until 2027/28 and the scenario planning highlights the potential sensitivities.</i>	<i>Development of locally generated income streams with less reliance on government funding</i>
<i>Council's service priorities are not reflected in the budget</i>	<i>The use of Outcome Based Budgeting as a method of delivering the budget from 2018/19 onwards.</i>	<i>Ensure the prioritisation of resources to best meet the Outcomes of the authority</i>
<i>Failure to set a balanced budget over the medium term</i>	<i>The MTFS shows the latest financial projections up until 2027/28, and the scenario planning highlights the sensitivities around these projections. Planning over a longer period will help to ensure understanding of the scale of the financial challenges and ensure that early planning enables enough lead in time for the implementation of budget options.</i>	<i>Long term strategic planning Innovative funding streams Transformational efficiency savings</i>
<i>Delays to or failure to deliver major capital schemes leaving future years forecast deficits</i>	<i>Ensure robust business cases are taken forward and sufficient resources are available to deliver the projects. Scenario planning to ensure that a multitude of options are available for consideration.</i>	<i>Consideration of a wide base of potential capital / investment schemes to enable a balanced risk portfolio and options for other schemes to be chosen should any existing schemes not progress</i>
<i>Failure to adequately manage major contracts including planning for contract renewal</i>	<i>Ensure adequate contract management and monitoring arrangements are in place. Ensure sufficient time for</i>	<i>Ensure contracts are aligned to the council's requirements and council strategy. Transformational</i>

	<i>review of contract options prior to contract renewal.</i>	<i>efficiency savings.</i>
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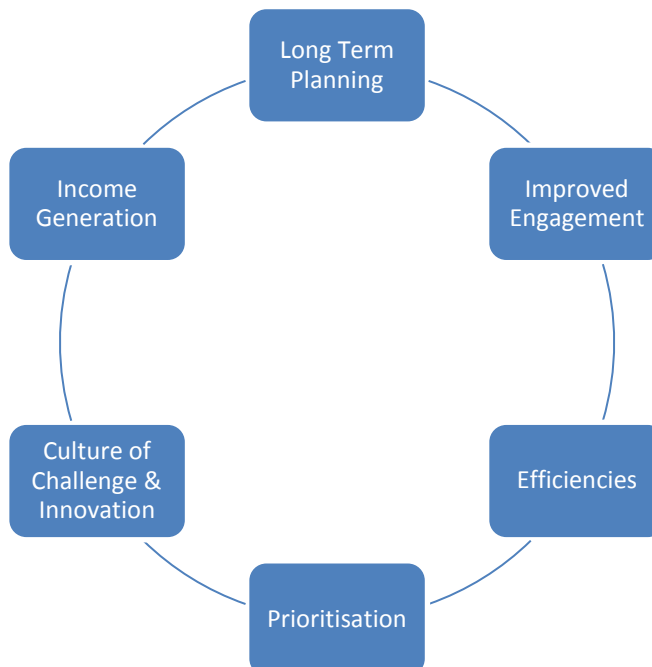
10 SUPPORTING INFORMATION:

Executive Summary

- 10.1 The Medium Term Financial Strategy (MTFS) is intended to set out the council's strategic approach to the use and management of its financial resources and provide a framework within which decisions can be made.
- 10.2 The outcome based budgeting proposals are initially focused on a rolling four year period from 2018/19 to 2021/22 in order to provide focus on the medium term financial challenges and ensure that proposals can be drawn up and introduced in time to meet the forecast stepped increase in the annual deficit in 2020/21 caused by the expected reset of business rates retention. Financial projections are shown over a ten year period to 2027/28 in order to provide insight into the longer term financial sensitivities and the earmarked reserves strategy.
- 10.3 The Cabinet report (CAB2955) on the Medium Term Financial Plan provided an update on the Council's financial position. This included the projections in receipts from the main funding sources of Council Tax, retained Business Rates and New Homes Bonus as well as the Revenue Support Grant. Overall, funding is expected to fall by £1.8m over the next four years.
- 10.4 Alongside the changes to funding highlighted previously, the Council has other cost pressures such as contractual inflation, rising costs for infrastructure schemes and other unavoidable financial pressures, such as any contractual inflation and the national pay award. The scenario planning highlighted below in Figure 1 from CAB2955 sets out the potential different impacts over the longer term.

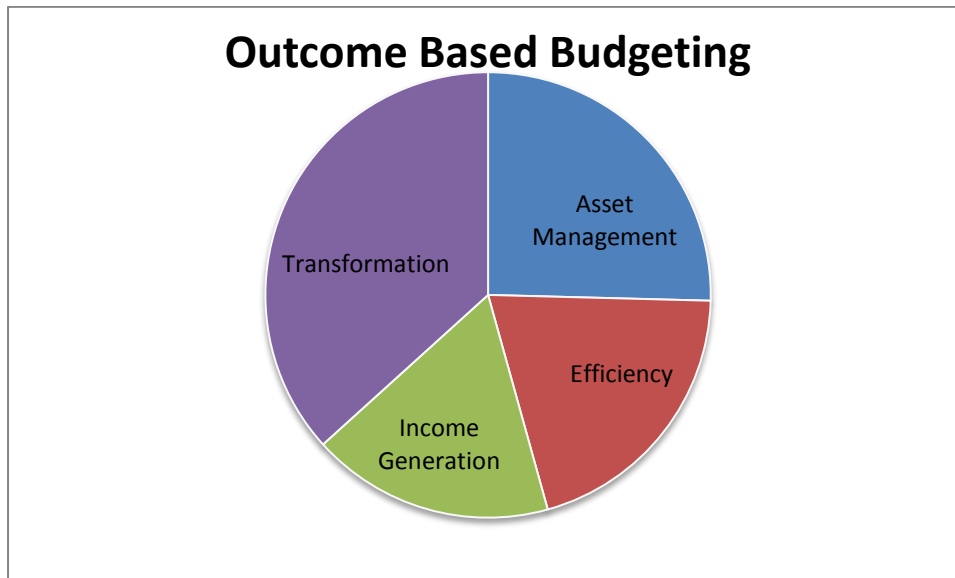


- 10.5 Responding to the above challenge requires a different approach to budgeting than the traditional 'salami-slicing' approach that other public bodies have taken in the past. The Council Strategy articulates the service and outcome priorities of the Council for the coming years. In order to deliver these, different options need to be considered and their financial impacts assessed. This is the principle behind Outcomes Based Budgeting (OBB), that the financial position should deliver the overall outcomes of the Council, rather than a pure cost-cutting exercise that limits the ability of Council to remain resilient to future funding challenges.
- 10.6 To consider which options are available to the Council, consideration has been given to the different practice that exists across peers / other councils as well as assessing the current areas of strength that the Council can build upon. The current focus of the OBB has been to identify high-level options to meet the financial challenge over the coming four years including short-term options and those requiring a longer lead-in time to develop the business case. Delivery of these options may require capital, revenue funding or the use of reserves.
- 10.7 Overall, the OBB approach is expected to bring the following benefits:



- 10.8 As outlined in 10.6 – 10.7 above, outcome based budgeting will play a key role in delivering the MTFS. The key OBB themes are detailed below.

Graph 1 – Outcome Based Budgeting Plan 2018 - 2022



The graph above sets out the themes where options have been identified, and the key potential areas where the MTFs can be balanced over the next four years. Under these four headings below are some of the key areas that are being explored over the next four years.

EFFICIENCY

- 10.9 Efficiency review and planning plays a critical role in the continuing provision of high quality services by the most efficient and value for money method of delivery. This strand of the OBB process is aimed at looking in detail at internal processes and ensuring these support the Council in delivering excellent services in the most effective way.
- 10.10 Contract review and management is a key element in this strand, with total third party payments budgeted at £6.7m for 2017/18. The Council operates a number of significant ongoing contracts such as: leisure centre management, environmental services contract, and the park and ride bus contract. Ensuring that both current and future contracts offer the best possible value to the Council is of high importance.

Medium Term Case Study 1 – Digitalisation

Central Government have set a clear directive that all council services should be made available digitally by 2019.

As part of its digital action plan, the Council is aiming to address pockets of digital exclusion and support residents to access the Council using digital channels. This will serve to benefit residents by providing them with increased

opportunities, whilst also enabling the Council to better achieve efficiency savings through increased uptake of digital channels. We will also plan for this approach through understanding where services cannot be accessed online, or where residents cannot access digital channels, and put in appropriate mechanisms for residents to access the Council.

More and more residents and businesses are being afforded access to reliable high speed internet services. The customer's expectation is for council services to be made accessible online and made available 24 hours a day and 7 days a week. Residents and business within the district expect to transact with the Council not only from home or work PCs but from a large range of smart mobile devices to pay for services/fines, check for information, apply and/or report at a time that suits their busy schedules and not have to contact or visit the Council Offices. Savings would be expected to flow to the council resulting from reduced printing costs and efficiency savings.

ASSET MANAGEMENT

- 10.11 The Council operates an extensive portfolio of property assets which are either used in the delivery of services or generate an income to the Council which in turn provides the resources to deliver services. With the significant reductions in government funding it is important to ensure that existing assets are used in the most effective way.
- 10.12 It is recognised that making the best use of existing assets can provide significant savings as well as increasing collaboration with other organisations and complimenting existing skills within the Council with relatively little risk exposure. The Council has recently let office space in the Guildhall to South East Employers (SEE) which will provide an assured income and increase occupancy in the Guildhall.
- 10.13 An extensive programme of refurbishment works are underway at the Council's City Offices in order to extend the life of the building, provide environmental enhancements in the form of lower energy consumption, and to ensure the offices remain fit for purpose.
- 10.14 The Council operates a significant property portfolio which generates rental income in excess of £3m per annum. Properties are let at commercial rates with rent review periods built in as standard. A number of existing leases are due for review within the next few years and overall rental income is expected to increase significantly.
- 10.15 The capital strategy provides the opportunity for investment in new or existing assets should they meet the aims of the council strategy and generate a financial return to the Council. A review of existing assets is underway to

determine what opportunities are available and any new opportunities will be considered and developed as they come forward.

- 10.16 Following review of the **Strategic Asset Purchase Scheme (SAPS)** over the first nine month of activity, CAB2996 increased the scheme's fund by an additional £15m; bringing the total allocated to £30m. The scheme has worked well to date with the first purchase being the Bus Station, which was subject to Council approval. The Council has been made aware of further potential acquisitions.

Medium Term Case Study 2 – HRA/GF Transfer of Garages

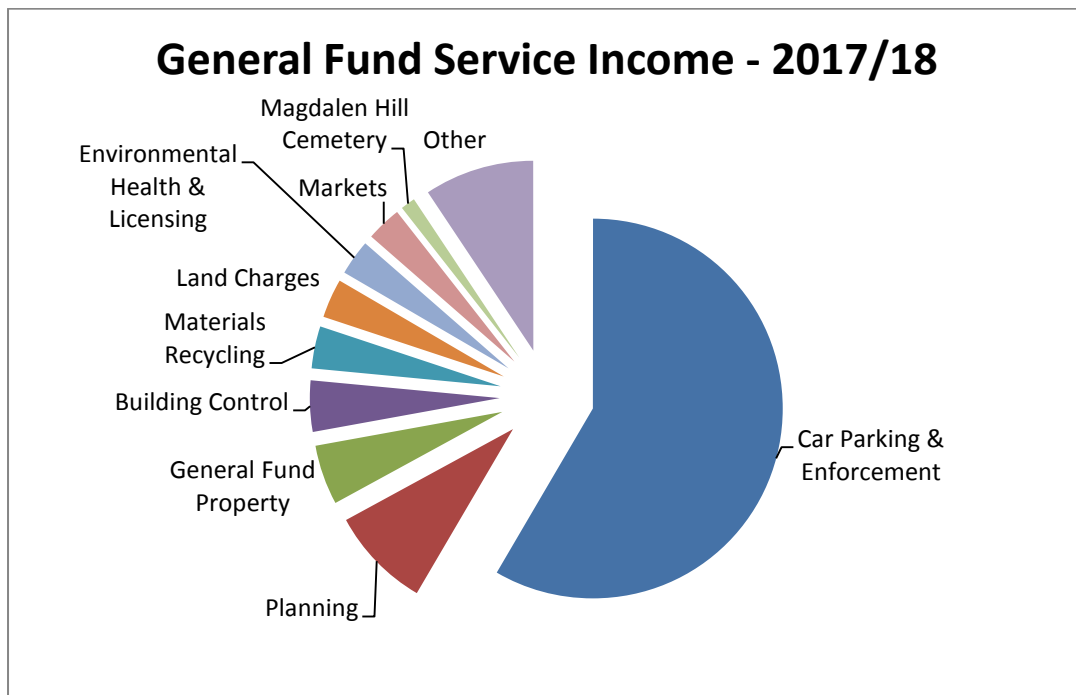
A scenario of gradually transferring HRA garages over to the Council's General Fund starting in 2018/19 and running for 3 to 5 years has been tested over the 30 year life of the HRA BP. The capital injection into the HRA from the transfer will allow the Council to accelerate the new build development programme towards achieving the target of 600 new homes.

There are currently 1,700 Council owned garages which are accounted for within the HRA. A small number of garages in the Fulflood area are already owned by the General Fund. Whilst priority is currently offered to Council tenants, garages are available to all residents and make no contribution to the delivery of the Council's statutory housing responsibilities. Garages do generate significant rental income and appropriating garages to the General Fund will have the combined advantage of addressing the General Fund's revenue shortfalls and the HRA's limited capital funding.

INCOME GENERATION

- 10.17 General Fund income is an important source of funding, helping the Council to continue delivering high quality services despite reductions in government funding. In 2017/18 general fund income is budgeted at £12.6m, which is planned to fund 41% of gross general fund expenditure. This compares to the next highest source of funding, Council Tax, which is planned to fund 24% of gross general fund expenditure.

Graph 2: General Fund Service Income Budgets 2017/18



- 10.18 In order to continue delivering services consideration of full cost recovery is an important principle to be considered. This ensures the user of these services is paying a fair price, that the services remain available, and that there is no unnecessary burden on the council tax payer. The provision of discounts for certain groups or a universal subsidy could be considered when in direct support to principles within the council strategy.
- 10.19 Fees and charges are reviewed and benchmarked individually rather than adopting a 'one size fits all' approach. Consideration is given to cost recovery, current and forecast inflation rates, and how our charges compare both within the Winchester district and against neighbouring authorities.
- 10.20 It is important to note that a number of chargeable areas are governed by statute and charges are therefore set by central government.
- 10.21 **Review of fees & charges to align with key strategies and seek new trading opportunities** – over the life of the Medium Term Financial Strategy through seeking new opportunities to trade, understanding subsidies and increasing activity.

TRANSFORMATION

- 10.22 The Council continues to explore ways of transforming both operations and service delivery in order to generate efficiencies wherever possible. The core

principle is delivering services in the most efficient way in order to achieve value for money. The Council has a good track record of exploring opportunities for transforming services, with the shared IT services with Test Valley Borough Council a good example of this. Pooling resources has helped to make revenue savings to both Councils, has helped to mitigate against increases in infrastructure costs, and helps to ensure there is sufficient resilience built into the service to meet the needs of both authorities. Another opportunity is using technology to 'go paperless'. The Council could reduce the amount of paper printing, and reduce costs, by shifting to portable technology. Committee meetings would be one area where this change would be possible.

- 10.23 Digitalisation is one particular area for review. As technologic advances continue to be made and the use of technology (particularly portable technology) increases, it is important that the Council takes advantage of these digital channels. The potential benefits are a reduction in costs through the automation of internal processes, and increased customer satisfaction through simple interaction which is available whenever the customer needs it. This approach also has the opportunity to deliver new revenue and services, for example through exploring a new mobile app for Winchester.
- 10.24 It is also important that the Council is reviewing other options to transform services and offer different solutions. One area under consideration is setting up a housing company to provide a different housing offer to residents and that also provides a financial benefit to the Council (see **Housing Company Options** CAB2990 (HSG)).

Medium Term Case Study 3 – Housing Company

To achieve the strategic aim of increasing the supply of sub-market rented accommodation in the district for the needs of local residents, it is possible to establish a non charitable company limited by shares and wholly owned by the Council. A single Company structure is considered to be the most appropriate and straight forward and would reflect the fact that this tenure will always be a marginal element of the Council's development programme.

An investment of £10m funded from General Fund reserves and/or prudential borrowing would support the development of approximately 50 units. The investment would be in the form of a loan to the Company on commercial terms, providing additional income for the Council.

INVESTMENT

- 10.25 The Council runs a very successful apprentice scheme which gives people opportunities to gain real work experience whilst also continuing their education on a part-time basis. This scheme has run for a number of years, well before the apprenticeship levy commenced, and a number of apprentices have successfully gained permanent employment with the Council.

- 10.26 Opportunities to invest which also generate a financial return, either through reductions in cost or income generation, are assessed on a case by case basis. The roll out of LED lighting across car parks, the Guildhall, and offices, is a good example of capital investment which has generated a recurring cost saving.
- 10.27 The Council Strategy guides the budget requirements and prioritisation of resources across the Council. The introduction of outcome based budgeting, and not focusing purely on cost reductions, will play a key role in helping to ensure that priority investment continues to take place.
- 10.28 Treasury management plays a key role in the delivery of projects and services. The Council currently has cash resources in excess of £50m which are invested on the basis of minimising exposure to risk whilst also generating a return. The current average return in 2017/18 of >1% has exceeded targets and is expected to generate a revenue income of around £0.57m. As the Council continues to invest in its capital programme, cash balances are expected to reduce and those new assets will generate a revenue return instead.

Medium Term Case Study 4 – Smart City

5.6 million tourists visit Winchester each year, growing from 4.2 million only 5 years ago. Over the same period, the annual economic impact of the visitor economy has risen by 49% to £358m with further growth expected as more cruise ship itineraries are encompassing the city each year.

In 2012, a study confirmed that there were 4,900,000 tourism day trips with a further 333,000 individuals arriving on trips involving a stay of one night or more. The average 'staying' trip length among domestic visitors was 2.41 nights. The average trip length among overseas visitors was 5.79 nights.

The opportunity to develop smart services such as public wifi and mobile apps could benefit visitors and residents as well as generating an income for the council.

Summary of Financial Position

- 10.29 In light of the above financial analysis, the 'central case' has been assumed. As can be seen from the below, the most significant reductions occur in year three (2020/21).

Table 1: Cost base reduction required for a balanced financial position

Cumulative cost base reduction / £m	2018-19	2019-20	2020-21	2021-22
December 2017 – CAB2985	0.4	1.7	4.2	4.6
Current Forecast	Balanced per CAB3011	0.7	4.4	3.8

Scenario Planning

Government funding and other updates

- 10.30 A **Fair Funding Review** is currently underway by the DCLG in order to redefine the basis of distributing the settlement funding assessment (SFA). The results of this review are expected to be implemented in 2020/21. The settlement funding assessment includes the Revenue Support Grant (RSG) and Baseline Business Rates (i.e. the non-growth related element). It is hoped that this review will bring greater transparency in how grant is distributed and include a transition period ending in the removal of the current ‘damping element’ of the calculation. The damping element is where the final allocation is adjusted because some authorities would otherwise see a significant grant reduction and historically Winchester has been significantly disadvantaged by this.
- 10.31 The **Revenue Support Grant** and **Business Rates Baseline** medium term forecasts are largely in line with the current four year settlement to 2019/20, including a negative RSG commencing from 2019/20. The fair funding review will have an impact on these forecasts when the details become clearer.
- 10.32 The **Retained Business Rates** forecasts are based on the assumption there will be a reset of retained growth in 2020/21 which is expected to cause a significant reduction in funding. The current retained growth of c£2m would be allocated using the SFA, which is expected to bring a much lower allocation of funding.
- 10.33 Following the Local Government Finance Settlement in December 2017, the Government has announced plans for the sector to move to retain 75% of Business Rates. The impact of this is unknown at present as more detail is required to assess how this affects the Council; however, the previous financial planning assumptions have been kept and will be adjusted where required.
- 10.34 The **New Homes Bonus** has been a significant source of funding over recent years, peaking at £3.3m in 2016/17. Commencing from 2017/18 government reduced the overall ‘pot’ of funding available to distribute as new homes bonus, and consequently made a number of changes in order to reduce the overall incentive. As well as reducing the overall incentive the changes have also greatly increased the uncertainty over how much reward will be received

each year. The medium term projections intend to be a cautious estimate of how much reward could be received each year but with ongoing changes to the scheme and the usual risk around housing development, the overall risk remains high.

Council Tax

- 10.35 Government projections assume that councils will increase council tax by the maximum allowable within the current referendum limits. The forecasts in Appendix B assume that council tax will increase in line with CPI inflation over the forecast period.
- 10.36 Council tax will only be increased when there is a clear requirement in order to protect core services and deliver the council strategy. The significant forecast reductions in government funding means that council tax is expected to increase as a proportion of overall funding, putting pressure on the council tax requirement. The OBB strategy aims to deliver cost base reductions in order to provide a balanced budget over the medium term, restricting council tax increases to a maximum of CPI inflation.
- 10.37 The council tax base is forecast to increase by 1.2% per annum over the forecast period, based on recent average increases. Whilst this generates additional income there are also associated costs (such as waste and recycling collections).

Reserves

Strategic Reserves

- 10.38 The council holds strategic reserves for specific purposes which are consistent with corporate priorities. These reserves are a key source of funding, helping to support specific service strategies and plans. They are also critical to our ability to fund the transformation of services and ability to invest in order to generate the necessary savings to balance the budget over future years.
- 10.39 In summary, reserves are used to support:
- I. Funding of the Capital Programme
 - II. Investment in transformation
 - III. Providing one-off support for service budgets (such as the local plan)
 - IV. Community Infrastructure plans
 - V. Council Strategy Support

- VI. Asset Management Plans, IT Strategy, Car Parking Strategy
- VII. Winchester Town Account (notably major play area refurbishment and replacements)

- 10.40 It is important to note that reserves are finite and can therefore only be used to fund one-off expenditure. One-off expenditure can include projects which span a number of financial years but cannot include recurring expenditure such as utilities.
- 10.41 In order to support the council strategy, ensure resources are available and the requirements are consistent on a year-on-year basis, a number of revenue contributions are made to earmarked reserves:
- i. Property Reserve - £300k
 - ii. IMT Reserve - £200k
 - iii. Car Parks Property - £200k
- 10.42 It is currently forecast that reserves by the end of the MTFS period will stand at £11.6m. The final budget proposals and subsequent reserve forecasts will be presented to Council in February.

Balances / Risk Reserves

- 10.43 The council also holds a general balance which is held to mitigate against any potential financial risks, these could be known risks or completely unforeseen risks. As a general guide the minimum balance will be 10% of net revenue expenditure and so the current balance of £2m can give some additional cushion particularly against the uncertainty of government funding over the medium term projections.
- 10.44 A minimum balance of £1m is held within the business rates retention reserve in order to provide mitigation against the short term risks of a reduction in income, for example an unexpected increase in successful appeals.

Scenario Planning Summary

- 10.45 As part of the medium financial planning process, there are a number of unknown elements. The table below highlights some of the upside and downside risks that the Council faces to provide an overview of the key financial risks compared to the 'likely' financial forecasts:

Table 2: Scenario Planning – financial impact

Risk item	Favourable / Adverse £000 per annum
75% Business Rates retention – 10% increase or reduction in growth retention	200
Fees and Charges – 5% increase or decrease	500
Inflationary impact on contracts and pay – 3% increase or decrease	300
Capital finance costs – change by 0.5%	80 by the end of the MTFS period
Fair funding review (starting 2020/21) – 10% change in Settlement Funding Assessment (SFA)	200
Brexit – many potential implications including treasury management	Cannot be quantified

11 OTHER OPTIONS CONSIDERED AND REJECTED

11.1 As detailed in the report

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

Outcome Based Budgeting – CAB2985 – December 2017

Council Strategy Refresh – CAB2980 – December 2017

Medium Term Financial Plan - CAB2955 – September 2017

Efficiency Plan 2016 – 2020 - CAB2827 – September 2016

Other Background Documents:-

None

APPENDICES:

Appendix A: Medium Term Financial Forecast

	Sensitivities	1% (£m)		Forecast									
Council Tax Base		0.07		1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Council Tax - Band D £		0.07	2.9%	2.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Contractual Inflation		0.10	3.0%	2.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Pay Inflation		0.14	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
General Fund Revenue - Medium Term Forecast (£m)	Original Estimate	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	2017/18	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	
Funding													
Council Tax (excluding Parish Precepts)	7.340	7.340	7.650	7.912	8.148	8.391	8.642	8.901	9.168	9.444	9.728	10.021	
Retained Business Rates	3.936	3.936	4.601	4.647	2.261	2.303	2.346	2.389	2.433	2.488	2.535	2.585	
New Homes Bonus	2.661	2.661	2.116	1.919	1.919	1.919	1.919	1.919	1.919	1.919	1.919	1.919	
Revenue Support Grant & Other Grants	0.513	0.609	0.144	0.144	0.037	0.037	0.037	0.037	0.037	0.037	0.037	0.037	
	14.450	14.546	14.511	14.622	12.364	12.650	12.944	13.246	13.557	13.887	14.218	14.562	
Investment Activity													
Interest (Payable) / Receivable	0.567	0.567	0.225	-0.597	-1.339	-1.507	-1.920	-2.007	-1.974	-2.457	-2.912	-2.863	
Minimum Revenue Provision	-0.129	-0.136	-0.225	-0.292	-0.504	-0.577	-1.047	-1.351	-1.384	-1.418	-2.014	-2.064	
Net Investment Property Income	1.688	1.800	2.380	2.538	2.622	2.625	2.628	2.631	2.635	2.638	2.641	2.645	
Resources available	16.576	16.777	16.890	16.271	13.143	13.192	12.605	12.520	12.833	12.650	11.934	12.279	
Baseline Net Expenditure													
Gross Income	12.773	13.362	13.089	12.986	13.246	14.365	15.479	16.107	16.209	16.790	17.649	17.681	
Gross Expenditure	-27.935	-27.636	-28.645	-29.356	-30.012	-30.606	-31.174	-31.778	-32.328	-32.890	-33.460	-34.038	
Baseline resource requirements	-15.162	-14.274	-15.556	-16.370	-16.766	-16.240	-15.695	-15.671	-16.119	-16.100	-15.811	-16.357	
One-off budgets & Reserve Related Movements	-1.414	-2.504	-1.335	-0.684	-0.713	-0.729	-0.759	-0.755	-0.766	-0.762	-0.772	-0.583	
Total net resource requirements	-16.576	-16.777	-16.890	-17.054	-17.479	-16.970	-16.454	-16.426	-16.885	-16.862	-16.583	-16.941	
Budget Surplus / (Shortfall)	0.000	-0.000	-0.000	-0.784	-4.336	-3.778	-3.849	-3.906	-4.052	-4.212	-4.650	-4.661	
<i>% of Gross Expenditure</i>			0.0%	2.7%	14.4%	12.3%	12.3%	12.3%	12.5%	12.8%	13.9%	13.7%	