CAB3276
CABINET

REPORT TITLE: GENERAL FUND BUDGET OPTIONS AND MEDIUM TERM FINANCIAL STRATEGY

16 DECEMBER 2020

REPORT OF CABINET MEMBER: Cllr Neil Cutler – Cabinet Member for Finance and Risk

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WARD(S): ALL

PURPOSE

Previous reports have highlighted the uncertainty of future funding for local government. However, the impact of COVID19, ongoing restrictions and pressures on the local and national economy will place further significant pressures on Council funding in 2021/22 and beyond.

Initial projections of a potential shortfall of nearly £5m for next year have been revised in light of the Spending Review announcements. However, the projected deficit remains at £3.7m for next year and £12m for the period to 2025.

This report sets out the challenge of delivering on key priorities whilst achieving a balanced budget for 2021/22 in light of reduced income projections and ongoing pressure on the collection fund. Forecasting service demands and income projections will be subject to a broad confidence interval and the potential risk of under recovery is likely to remain high at least throughout next year.

The report reviews options for reducing net costs based on an assumption of 20% less funding for services and sets out a revised medium term financial strategy (MTFS) that reflects the very limited scope for generating additional funding through investment or commercial activity in the short term.

The financial risks can be mitigated in 2021/22 by reducing operating costs as set out in the report and by careful use of the transitional reserve, established in February 2020 specifically to make provision for unforeseen funding pressures.

RECOMMENDATIONS:

That Cabinet:

1. Note the projections set out in Appendix A to this report and support the assumption that budget projections be based on the potential reduction in income, fees and charges for services of 20% of the 2020/21 original budget.

2. Approve the Medium Term Financial Strategy as set out in sections 20-24 of the report.

3. Approve the proposal to reduce net operating costs by £3m in 2021/22, with additional shortfalls (projected at £0.6m for 2021/22) being met from the Transitional Reserve.

4. Approve that in the event of deficits being higher than the projected £3.7m for 2021/22, the Transitional Reserve be used to maintain a balanced budget.

5. Approve that a detailed budget be prepared for consideration by Council in February 2021 based on the above assumptions and:

   a. A Council tax increase of 3%

   b. The implementation of “cashless parking”, phased over 2 years, as set out in section 18.

   c. That fees and charges are increased by an average of 3% and that a report be brought to Cabinet in January 2021 setting out all fees for services

   d. That Building Control fees increase by 10%

   e. That the budget for “small grants” is reduced by £15,000

   f. That a one year grant agreement based on a maximum grant of £147,200 be approved for “Play to the Crowd”.

   g. That the Council no longer directly delivers a programme of sports and physical activity but remains an active partner in the Winchester Sports and Physical Activity Alliance and continue to work with partners across the district to support programmes aimed at improving the health and wellbeing of residents.

   h. That financial support for the annual Criterium event is not continued in 2021.

6. Note the proposed additional revenue provision of £990,000 required to fund

project work on 2021/22 and 2022/23 and support the proposal that this be funded from the Major Investment Reserve, subject to the final budget to be agreed by Council in February 2021.

7. Approve that charges for off street parking are not increased in April 2021, but that the impact of recent increases be assessed and a strategy developed to further encourage use of car parks outside of Winchester city centre (the air quality management area) and Park and Ride facilities.

8. That a supplementary budget estimate and expenditure of £400,000 for the redevelopment of Bishop's Waltham Depot, as detailed in paragraph 19.6, be approved.

9. That a supplementary budget estimate and expenditure of £140,000 for the works to the Guildhall Café, as detailed in paragraph 19.7, be approved.

10. Note the requirement for additional funding for staff implications associated with implementing the Movement Strategy and determine whether an additional £60,000 should be included within the detailed budget for February 2021.

11. That the proposal to write off the outstanding debt of £65,114 associated with the Barfield Depot be approved.

12. That the proposal to write off the outstanding National Non Domestic Rate debts listed in exempt Appendix D totalling £264,250 be approved.

IMPLICATIONS:

1 COUNCIL PLAN OUTCOME

1.1 The budget approved in February 2020 (CAB3211 refers) directly supported the delivery of all outcomes set out in the Council Plan.

1.2 Whilst the above report assumed a balanced base budget for 2021/22 and 2022/23, the global pandemic and associated costs and loss of income required the Council to revise the budget in September 2020. The medium term financial strategy (MTFS) has also been reviewed in light of the current economic climate and a revised strategy is recommended as part of this report.

1.3 Key priorities set out in the Council Plan remain unchanged. A “refresh” of the Strategy is planned for February 2021. However, this report sets out a budget proposal aimed at maintaining a focus on key priorities, including the Climate Emergency, the delivery of Central Winchester Regeneration work, supporting the economy, delivering homes and improving the health and wellbeing of all communities.

2 FINANCIAL IMPLICATIONS

2.1 The Medium term financial projections set out in Appendix A highlight the potential budget shortfall in 2021/22 of £3.7m, based on the assumption that the currently economic pressures will result in income which funds Council services reducing by up to 20% in the next year, offset by additional Government support announced in the Spending Review. This assumption is subject to significant potential variance and this is reviewed later in the report.

2.2 Proposals in this report set out options to reduce the General Fund base budget by £3m in 2021/22. The proposals are summarised below with more detail in section 18 of the report:

a) Vacancy management/reduced staffing - £1,113,800

b) Operational efficiencies - £1,308,000

c) Options requiring Cabinet consideration - £ 648,000.

2.3 With the uncertainty associated with the pace of economic recovery, it is proposed to address any actual shortfalls in excess of £3m from the Transitional Reserve, which was established in October 2019 (CAB3178 refers) specifically to mitigate against future funding pressures.

2.4 The report recommends an additional £60,000 per year of growth be approved subject to the final of the detailed budget in February. It also includes a proposal to fund a one off allocation of £990,000 to support the next phase of the Central Winchester Regeneration project work, to be funded from the Major Investment Reserve.

3 LEGAL AND PROCUREMENT IMPLICATIONS

3.1 Under section 151 of the Local Government Act 1972 a local authority has to make proper arrangements for the administration of its financial affairs. Under s28 of the Local Government Act 2003 a local authority has to review its budget calculations from time to time during the financial year and take appropriate action if there is any deterioration of its budget.

3.2 The Council is required under Chapter 3 of the Local Government and Finance Act 1992 to set a council tax for the forthcoming year along with its budget estimates. The decision must be made by 11 March of the preceding year. The Council's prospective income from all sources must be equal to its proposed expenditure.

3.3 The Council is also required to set a balanced budget, taking into account a range of factors, including consultation feedback and decisions must be taken in accordance with the Council's duties in the Equality Act 2010.

3.4 The budget setting consultation and approval process is separate from any individual decisions in relation, for example, to service delivery or project implementation. Any implications arising from budget options contained within this report will be dealt with in the individual business cases and committee papers relating to those specific decisions and Council will approve the final budget in February 2021.

3.5 The approval of the budget and setting of the Council Tax is a decision reserved to Full Council under the Local Government Act 2000 and the Local Authorities (Functions and Responsibilities) Regulations 2000 (as amended). Under these regulations, the Cabinet makes recommendations as to the setting of the council tax and budget to Full Council.

4 WORKFORCE IMPLICATIONS

4.1 The proposals set out in this report have a direct impact on the workforce by reducing the overall establishment by 28 posts across a range of services. A number of these posts are currently vacant although the proposals do result in 17 staff being at risk of redundancy. The potential impact on services is set out in section 18 of the report. The "worst case" total severance costs are projected at £250,000 but are expected to be significantly less than this, as a number of vacant posts are being retained and provide opportunities for the "at risk" staff.

4.2 Capitalisation of Redundancy Costs - When making redundancies in order to make ongoing revenue savings, there are often considerable one-off costs which can adversely impact the revenue budget. Ordinarily capital resources, such as capital receipts, can only be used on capital expenditure (i.e. the creation or enhancement of a capital asset). However, in 2018 the MHCLG Secretary of State issued a direction to local authorities in order to give local authorities the freedom to use capital receipts from the sale of their own assets (excluding Right to Buy receipts) to help fund the revenue costs of transformation projects and release savings, including through redundancy. By using capital receipts, the Council is able to avoid the negative impact on its annual revenue budget of one-off costs but this will reduce the available resources for future capital projects. However, it should be noted that the council is allowed to borrow for capital purposes whereas it is not for revenue.

4.3 The direction is in place until the 2021/22 financial year but was extended from the previous 3 year direction in 2015 so it is possible it will be extended further. In order to take advantage of this, the Council must formulate a "Flexible Use of Capital Receipts Strategy" and, if required, this will be set out as part of February's budget papers to be approved by Full Council.

4.4 The Spending Review made announcements in relation to the "Public Sector Pay Freeze". However, provision for pay inflation has been retained in budget projections at this stage.

5 <u>PROPERTY AND ASSET IMPLICATIONS</u>

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 <u>CONSULTATION AND COMMUNICATION</u>

6.1 This report is a key part of the budget consultation process. A presentation of the key issues was shared with parish councils at the annual parish briefing on 10 November. The options have also been discussed with local business representatives at the December meeting of the Hampshire Chamber of Commerce Business Strategy Group. The Group stressed the importance of progressing the Central Winchester Regeneration work and asked to be kept informed regarding national business rates announcements. It is proposed to consult on the budget options and encourage comment and feedback from residents and all stakeholders throughout December and January. Responses will be considered and will help to inform the final budget setting in February 2021.

7 <u>ENVIRONMENTAL CONSIDERATIONS</u>

7.1 Whilst proposals in this report recommend reducing investment in services, the commitment to carbon neutrality remains. Revenue budget provision approved in October 2019 has been retained in full and the capital programme includes proposals specifically aimed at reducing carbon emissions.

7.2 Reducing the operating footprint of the council's Winchester operations will directly result in a reduction in carbon emissions from council buildings. "Work at home" arrangements have also resulted in a significant reduction in travel to work mileage. The impact of both of these measures is currently being assessed.

8 EQUALITY IMPACT ASSESSEMENT

8.1 This document is part of the budget consultation process and the public sector equality duty is considered alongside any relevant budget options.

9 DATA PROTECTION IMPACT ASSESSMENT

9.1 All projects set out in this report and the Capital Programme will be subject to individual data protection impact assessments.

9.2 RISK MANAGEMENT

Risk	**Mitigation**	**Opportunities**
Property *Commercial tenants unable to pay rents or subject to business failure* *Slowdown in commercial property investment, meaning that the council's development schemes achieve less interest or less income than expected*	Rent abatement process established to support tenants, although deferrals of rent remain the main option where appropriate. The council's advisors are reviewing the property investment market and will provide advice as to timing of any marketing.	
Legal *The council is unable to balance the revenue budget resulting in the issuing of a S114 notice*	Proposals set out in this report, including the strategy for management of reserves mitigate against this.	Present a balanced budget in difficult circumstances
Timescales *Slower than projected economic recovery affecting income received by the council*	The council is actively supporting high street recovery through a EM3 LEP grant working with local partners The council has £12m uncommitted revenue reserves available to support further increases	

	to the projected deficit	
Financial *The council is unable to balance the revenue budget* *Risk of lower than projected demand for income generating services specifically parking*	Proposals set out in this report, including the strategy for management of reserves mitigate against this. The council has £12m uncommitted revenue reserves available which can be utilised as a last resort As above	
Reputation		

10 SUPPORTING INFORMATION:

10.1 The Council's response to Coronavirus was set out in the Cabinet report CAB3244 dated 21 May 2020 and highlighted projections for the potential impact on the Council budget as a result of reduced income and additional cost of responding to COVID19, estimated between £6-12m. In order to address this, Council approved a revised budget in September 2020 (CAB3256 refers) which set out recommendations to address the projected £10.7m budget deficit and to maintain a balanced budget for 2020/21.

10.2 CAB3256 also highlighted the emerging MTFS and estimated potential shortfalls in 2021/22, now assessed as £3.7m and a total of £12m over the next four years, based on projections that pressure on income and service costs would continue throughout 2021/22 and beyond.

10.3 This report recommends that a detailed budget be prepared for consideration in February 2021, that supports the delivery of key priorities in the Council Plan and supports the economic and community recovery from the impact of COVID19, whilst addressing the funding challenges and projected shortfall.

10.4 To address the £3.7m projected deficit for 2021/22 and the £12m total deficit over the next four years, the need to urgently reduce net expenditure is unavoidable. A programme of efficiencies is currently being implemented and budget options set out in this report will support that.

10.5 Relying wholly on reserves to fund the projected deficits would severely impact on the overall sustainability of council finances and services and cannot be recommended However, the report does recommend some reliance on reserves, both to support key projects and services, fund a proportion of the projected deficit and to mitigate the risk of higher deficits. , In the event of shortfalls being higher, further draws on reserves would be required. Alternatively, additional service reductions to achieve base budget savings would be needed.

10.6 Rather than focussing purely on reducing net costs, it is essential that any budget report underpins key priorities. Whilst it is essential to ensure a balanced budget can be achieved and the projected deficits addressed, The budget options set out in this report aim to maintain high quality services, support the delivery of key programmes such as the Climate Emergency, the Movement Strategy and Central Winchester Regeneration and also supports economic recovery and the health and wellbeing of residents across the district.

11 The Spending Review

11.1 Prior to Spending Review announcements on 25 November, a deficit in excess of nearly £5m was projected for 2021/22, with a high risk of additional losses as a result of ongoing uncertainty. However, measures announced in the Spending Review have resulted in this being revised to a deficit of £3.7m as set out in Appendix A. The measures announced in the Spending Review included:

a) Extending the 75% support for lost income for the first quarter of 2021/22

b) An additional 75% support for collection fund losses

c) A new one-off New Homes Bonus reward in 2021/22 for new properties

d) Public sector pay freeze – Whilst a Public Sector pay freeze was announced as part of the Spending Review, provision for salary inflation has been retained in the Council budget projections at this stage

12 Income Projections

12.1 Accurately projecting income levels for 2021/22 with any certainty is not possible. Receipts will be subject to so many potential factors beyond the Council's control, including the extent of future controls/lockdowns; the pace of economic recovery; consumer confidence; and future trends in working practices.

12.2 Income losses in the current year are projected to be in the region of 60% and have in part been covered by Government grant and the "co-payment" scheme, which covers 75% of losses to March 2021.

12.3 The spending review announcements on the 25 November 2020 confirmed that the co-payment scheme will continue to the end of Q1 2021/22. This gives some greater assurance into 2021/22. However, in the event of further "lockdowns" and/or income losses being well in excess of 20%, some further Government intervention will be needed to assist councils in avoiding the need for section 114 notices.

12.4 Officers have modelled income scenarios and the table below illustrates potential deficits if income losses are more than 20%. It is considered that preparing a budget assuming 20% reduction in overall income for 2021/22, (recovering slowly in the following years) is reasonable, although it should be noted that the risk of shortfalls being higher and the need to for further calls on reserves over and above the proposals set out in this paper remains high. If income recovery is better than projected, this will reduce the pressure on reserves or provide an opportunity for additional investment. Whether recovery is above or below projections, it is proposed to prepare for at least one revised budget in 2021.

12.5 In order to address this risk, very tight control of all spend will be maintained throughout the year with a detailed monthly review of actual spend. It is proposed that Cabinet will have to consider the need for revising the budget at least once during 2021/22 and more frequently if significant variances are realised.

General Fund Budget Projections – Potential Deficits

	21/22	22/23	23/24	24/25
Reduction in Income	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Reduce Income - Covid-19	0.000	0.000	0.000	
Budget Surplus / (Shortfall)	-0.010	-1.019	-1.636	-3.083
Reduction in Income	**20.0%**	**10.0%**	**5.0%**	**0.0%**
Reduce Income - Covid-19	-3.651	-1.825	-0.913	
Budget Surplus / (Shortfall)	**-3.661**	**-2.845**	**-2.549**	**-3.083**
Reduction in Income	**25.0%**	**15.0%**	**10.0%**	**5.0%**
Reduce Income - Covid-19	-4.564	-2.738	-1.825	-0.913
Budget Surplus / (Shortfall)	**-4.574**	**-3.757**	**-3.461**	**-3.996**
Reduction in Income	**30.0%**	**20.0%**	**10.0%**	**5.0%**
Reduce Income - Covid-19	-5.476	-3.651	-1.825	-0.913
Budget Surplus / (Shortfall)	**-5.486**	**-4.670**	**-3.461**	**-3.996**

12.6 Parking Income – Forecasting parking income for 2021/22 is very difficult. Losses in 2020/21 will be in excess of 50% for the year, offset by Government support. Some recovery in 2021/22 is anticipated and as stated above, there is potential for additional Government assistance should losses exceed the assumed 20%. City centre parking will remain in high demand (except in periods of national restrictions). However, the pace at which commuters and workers return to their workplace is impossible to predict (the 20% assumption takes account that working practices may well never return to previous levels) The table below provides an indication of the potential impact of more than 20% reductions in parking income:

		Reduction in Income		
Car Parking Income 2021/22	Budget	20%	40%	60%
Daily Parking Income (incl. PCNs)	-7,479,042	-1,495,808	-2,991,617	-4,487,425
Season Tickets	-540,000	-108,000	-216,000	-324,000
	-8,019,042	-1,603,808	-3,207,617	-4,811,425
Residents Permits	-340,000	0	0	0
	-8,359,042	**-1,603,808**	**-3,207,617**	**-4,811,425**

12.7 Commercial Rents – The Council as a commercial landlord has considered and agreed a number of rent abatements in the current year. Whilst further requests will only be considered in exceptional circumstances, some proposals in the coming months are anticipated. This risk of reduced rent through business failures, void periods and bad debts is also anticipated. These are not covered by the Government "co-payment" scheme. The Estates team has reviewed all leases and consider a provision for reduced income averaging 20% across all commercial property to be reasonable. This is likely to be offset by some increased income as a result of rent reviews and this is included within proposals set out in 16.8 below.

13 Government Funding

13.1 The current year 2020/21 was intended to be a one-year extension to the previous four year funding settlement. A fundamental review of local government funding is underway but has now been delayed by a further year to 2022/23.

13.2 Along with other local authorities, the Council is anticipating a significant financial challenge over the medium term financial planning period to 2024/25. A number of key grants such as new homes bonus and business rates retention are forecast to reduce significantly over this period due to changes in the current funding system.

13.3 Significant changes are expected, with a strong risk of material reductions to current funding.

I. **Retained business rates**, totalling £4.9m in 2021/22, is made up of:

a) The 'baseline funding level' of £2.2m which is calculated based on the needs assessment of the authority. A fair funding review is currently underway in order to review and update the mechanisms for calculating and distributing this assessment of 'need'.

b) The ‘retained growth’ of £2.7m which is the share of business growth retained by the Council since the current scheme was implemented in 2013/14. Government confirmed in the spending review that the planned reset is delayed until April 2022.

c) The medium term financial projections currently show a forecast reduction in 2021/22 from £4.9m of retained business rates to £2.9m in 2022/23, with damping funding temporarily compensating for some of the total funding reductions. All of these forecasts are uncertain as there has been no confirmation exactly how the system will work post 2021/22 nor whether and how a damping scheme may apply.

d) Dependant on the strength of the economy, in particular the Winchester district, retained business rate growth may reduce, for example, due to empty properties and non-payment. This is not factored into medium term projections as they currently assume a hard reset of growth commencing 2022/23 anyway. Business rate forecasts are submitted in January and will be reflected in the February budget setting paper.

Government have previously announced plans to move to a 75% retention system, up from the current 50% retention. There is still uncertainty around the mechanics of this; for example will the current tier splits change (currently 40:9:1 between district:county:fire), will the current ‘levy’ of 50% change, and will the scheme be significantly simplified.

II. **New homes bonus**, forecast at £2m for 2021/22, includes a new one-off reward in 2021/22 as announced in the spending review. New Homes Bonus has rewarded growth in housing through a reward grant equivalent to the council tax of a band d property (split 80:20 district:county), originally over a period of six years and subsequently reduced to a four year reward. Government have announced that the current scheme will end with no indications whether it will be replaced with a new reward scheme. If the current funding is distributed on the basis of ‘need’ then it is likely that the majority of this grant will be lost. This has been factored into future financial forecasts.

III. The Council ceased to receive **Revenue Support Grant** from 2019/20. The previously proposed negative grant of c£0.4m which was not implemented in 2019/20 is also forecast to remain unimplemented in 2021/22 but final confirmation has not yet been received. Other smaller grants relating to Homelessness are expected to continue, and new burdens grants are expected to continue on a one-off basis to match the extra burdens placed on local authorities.

13.4 These changes in local government funding are expected to have a significant impact on authorities that have seen strong growth in housing and business, such as Winchester. This will also create a significant shift in the balance of funding, with council tax making up a much larger share of overall funding.

14 The Pension Fund

14.1 The Hampshire Pension Fund completed its latest triennial review in 2019 which showed an improved fund position from the last review in 2016. This had the impact of removing past service employer pension contributions from 2020/21 to 2022/23.

14.2 The current review will only provide certainty of contribution rates until 2023 and is based on a number of assumptions which could be subject to change over the next three years, for example a significant fall in the value of equities or an increase in life expectancy.

14.3 Bearing this in mind the forecasts in Appendix A are based on current contribution rates with the proposal that any savings over the next three years are transferred to earmarked reserves and used for one-off 'transition' purposes rather than taken to baseline revenue projections.

15 Council Tax

15.1 The Winchester district 2020/21 council tax charge of £143.09 (per band d equiv.) is below the average charge levied by district council's across England.

15.2 Referendum limits are assumed to be set at 2% or +£5 (which equates to just over 3%), which would mean a maximum increase of 3% for the Winchester town and district. The base budget and MTFS approved in February 2020 assumed Council tax is set at 3% each year. Government funding allocations also assume councils set council tax at 3%. A decision to set a lower level of Council tax of 2% would in effect result in a growth requirement of approximately £70,000.

15.3 It has been confirmed that it will be mandatory for collection fund losses (business rates and council tax) incurred in 2020/21 to be spread over three years from 2021/22 to 2023/24. The forecasts in Appendix A assume all losses will be funded in 2020/21, with reserves used to spread this over the three year period. A final decision on this will be made during the 2020/21 outturn process in the spring/summer of 2021.

15.4 The spending review announced an extension to government funding in order to cover 75% of any non-recoverable losses. This gives much needed protection to key sources of funding.

15.5 The council tax base will be finalised at the end of November, including estimates for increases in council tax relief and forecast non-payment. Estimates will be updated when this work has been completed.

15.6 Using the 2020/21 council tax base, a three percent district increase (assuming an equivalent increase to the town precept) to £147.38 would generate an additional £0.21m of funding.

16 Collection Fund

16.1 The September revised general fund budget (CAB3256 refers) included estimates of collection fund losses (Business Rates and Council Tax) of c£1m in total, with these losses to be spread over three years. The Spending Review confirmed new Government funding will cover 75% of these losses. Current collection rates are better than the provision in the revised budget. This new support provides an additional c£0.8m funding and it is proposed to transfer this to the Major Investment Reserve.

17 Council Plan and Budget Strategy

17.1 The Council will refresh its Council Plan in February 2021. The refresh will need to take account of the budget constraints but will maintain a focus on:

a) Carbon neutrality programme – The budget includes both revenue and capital funding to support this programme which remains central to all Council work.

b) Central Winchester regeneration – Proposals for future phases are currently subject to consultation and will be considered by Cabinet in February 2021

c) Economic recovery – The Council continues to play a critical role in supporting the economic recovery of the district.

d) Maintaining high quality services

e) Living Well – A focus on Health and Wellbeing – Proposals to refresh the Health and Wellbeing strategy have been reviewed by the Health and Environment Policy Committee and will be considered by Cabinet in the New Year. This will include an increased emphasis on working with partners rather than focussing on direct delivery of programmes by Council teams

f) Homes for All – Targets for New Homes Delivery are fully funded through the Housing Revenue Account Business Plan. Funding to support the establishment of the Housing Company is included in the budget as agreed in September 2020.

17.2 To balance the need to maintain a focus on these key priorities whilst achieving a balanced budget, the forecast deficit will be addressed by:

a) Careful use of reserves (funding key projects/provision for risk)

b) A review of fees and charges

c) An ongoing transformation and efficiency programme

d) Effective asset management

e) Supporting and enabling partners through grant funding

18 Budget Options

18.1 With forecast shortfalls for 2021/22 and beyond projected at around £3.7m, urgent action to reduce net operating costs is required. Scope for generating additional income through fees or investment activity is very limited. The proposals set out below and in Appendix B identify the potential to reduce net operating costs by £3m. The proposals can be broadly summarised as:

a)	Vacancy management/reduced staffing -	£1,113,800
b)	Operational efficiencies -	£1,288,000
c)	Options requiring Cabinet consideration -	£ 668,000
	Total:	£3,069,800

18.2 Some additional costs are also recommended including:

a) £990,000 funded from reserves to support the next phase of Central Winchester Regeneration work as set out in section 18.3 below.

b) Movement Strategy Implementation – The Council has made a partnership contribution of £500,000 to the county council to resource the development of the Movement Strategy. However, this did not include provision for staffing requirements to coordinate the implementation of schemes, prepare funding proposals etc. which are currently funded to the end of March 2021. To support this work it is proposed that the post of transport planner be added to the establishment on a permanent basis with an additional cost of £60,000 per annum.

18.3 Specific measures to realise the savings summarised in 18.1 are set out below and detailed in Appendix B.

18.4 **Careful Use of Reserves** – Earmarked reserves are held for specific purposes and to support future projects and service delivery. A strategy of funding all shortfalls from reserves cannot be recommended. However, some use of reserves is proposed, including:

a) Central Winchester Regeneration – The Council is currently consulting on proposals for CWR. Delivery options will be determined in 2021 taking account of the consultation. It is proposed to allocate £990,000, to be funded from the Major Investment Reserve, to support the next phase of project t delivery, including marketing, market testing, procurement and other preparatory works to bring forward future phases.

In addition, proposals for specific work in relation to the Friarsgate Medical Centre building and to Kings Walk are set out in sections 19.9 and 19.10 and can be funded either from prudential borrowing, reserves, or a mix of the two.

b) Reduced Revenue Provision to Reserves - The existing base budget assumes additional annual contribution to reserves including £350,000 to the Parking and Transport reserve and £200,000 to the asset reserve. The parking reserve currently totals £2,500,000 and it is proposed to reduce annual contributions to £150,000 for the next four years, which is considered appropriate in light of the existing parking investment programme. The Asset Management reserve currently totals £3,500,000. This is considered to be a reasonable provision in light of the existing Asset Management Strategy. The need for further contributions to the reserve will be reviewed in the New Year when the strategy is reviewed and refreshed.

c) Balancing the Budget and Mitigating Risk – Whilst this report includes proposals to reduce net expenditure by a total of £3.1m, it is proposed to fund any additional shortfalls (currently projected at £0.6m) and also cover the risk of losses being in excess of those forecast from the Transitional reserve, which was established as a specific reserve in 2019 as a direct result of emerging uncertainty of local government finance.

18.5 **Review of Fees and Charges** – With Council finances so reliant of income from fees and charges, it is essential that all fees are regularly reviewed to ensure they are appropriate and reasonable and that costs are recovered where appropriate. With the current reduced demand for many services, it is important that the level of fees do not further reduce demand. Most Council fees and charges compare reasonably with the average for other Hampshire councils. A review full of fees and charges will be reported to Cabinet in the New Year. It is recommended that the review be based on:

a) Fees and Charges being subject to an average increase of 3% from April 2021. This is estimated to recover an additional £40,000

b) That Building control fees be increased by an average of 10% to ensure all appropriate operating costs are recovered (a detailed review of these fees has indicated that they are not recovering appropriate costs). This is likely to increase income by a further £48,000.

c) Waste Management charges/income – The budget approved by Council in February 2020 assumed increased costs totalling £500,000 in relation to recycling credits and waste management resulting from changes implemented by Hampshire County Council. Final changes will have a much reduced impact in 2021/22 estimated at £200,000, resulting in a base budget saving of £300,000.

d) Parking Fees – Revised parking fees were implemented in October 2020. It is therefore recommended that no increase is made from April 2020. However, the impact of the new fees will be assessed in the New Year and the Parking and Transport Strategy refreshed to ensure charges support and encourage use of Park and Ride and car parks outside of the city centre and Air Quality Management Area. This will consider the potential for reducing fees in some car parks.

e) Garden Waste Service – The fee for the new garden waste service that commences in February 2021 was set earlier this year. No change is recommended to this charge for 2021/22. Over 3,000 households have already subscribed to the new service and take up continues to be ahead of projections.

18.6 **Transformation and Efficiency Programme** – The existing MTFS identified both efficiency and transformation as key themes for reducing net costs. Measures to support addressing the deficit in 202/21 include:

a) Vacancy management/reduced staff establishment (see Appendix B) – Approximately 47% of general fund expenditure relates to staff salary and associated costs. The need to identify such a significant level of efficiencies to achieve a balanced budget cannot be achieved without a direct impact on staffing levels. Transformation and restructure reviews have been completed across a number of services with a particular focus on vacant posts. Most changes have maintained service provision. However, proposals will result in reduced investment in physical activity programmes (see 18.7 a) below). Overall, in addition to the 11 posts removed from the establishment as part of the Guildhall changes approved in September 2020, a further 28 posts (6% of the workforce) are proposed for deletion, achieving a net reduction in annual salary costs of £1,113,800. 17 staff are currently “at risk” of redundancy. Whilst many will be retained, unfortunately a small number of redundancies will be unavoidable.

b) Budget contingencies – A number of service budgets retained provision for “contingencies” that continually result in annual underspends. Provision totalling £121,000 has been removed from base budgets. Whilst this could impact on capacity to respond to demand changes for some services, reduced provision is considered reasonable and appropriate.

c) Staff training and development – Whilst the commitment to staff development and training remains a key theme of the Council’s employment offer, training costs have reduced significantly in recent years as a result of increased emphasis on on-line tutorials and webinars to support “continuous professional development”. Spend on training has reduced by £50,000 in the current year and it is proposed to reduce provision by a similar level in 2021/22.

d) Contract Inflation – The existing MTFS and base budget allowed 1% for contract inflation in 2021/22. However, key contracts have only been subject to average increases of 0.2% this year achieving a net saving of £78,000

e) "Cashless" parking – Whilst the amount of cash collected through off street parking machines has reduced significantly in the last year, the cost of collecting and handling cash from machines remains high. The Council has also experienced significant ongoing vandalism and theft from cash machines resulting in high repair costs. The new Ringo phone/app payment system is now live and this, combined with increasing provision of "contactless" machines, would facilitate the implementation of fully "cashless" parking provision, achieving savings of £75,000 annually. It is proposed to phase in changes over the next two years to ensure appropriate scope for consulting users, gaining public support and to roll out additional "contactless" machines (funded through the parking reserve).

f) Other changes – A number of smaller operational changes will achieve base budget reductions in excess of £131,000.

18.7 **Effective Asset Management**

a) Guildhall – The changes approved in the revised budget report (CAB3256 refers) achieved a net saving overall of £200,000 (savings in staff and operational cost offset by loss of hire income). In addition, whilst income generated from the proposed "venue only" hiring approach will be significantly reduced, annual income from hiring and/or licence income is projected at an estimated £300,000 per annum.

b) West Wing office utility costs – The "West Wing" office which forms part of the Guildhall complex is likely to remain closed for the foreseeable future and in all likelihood for much of 2021. Significant capacity exists within the "City Offices" building to allow for COVID 19 secure working and for the return of staff if and when existing restrictions are relaxed. Savings of £50,000 for utility and cleaning costs identified in the revised 2020/21 budget will also be realised in 2021/22. A review of office accommodation requirements and future working practices is underway and the future use of the "West Wing" building will form part of this review.

c) Rent Reviews – A number of commercial rent reviews are due to be completed. The current economic climate will limit the scope to generate additional income from reviews although an increase of £78,000 is anticipated from this work.

18.8 **Supporting and enabling partners** – The Council spend an estimated £900,000 through provision of grants, which play an important role to support core partners delivering services that compliment and support council priorities. In addition, a refresh of the health and wellbeing strategy will be brought to Cabinet in the New Year with a clear focus on working with partners to support and improve the wellbeing of communities across the district. However, it is proposed to undertake less direct delivery of programmes to facilitate this. Proposals include:

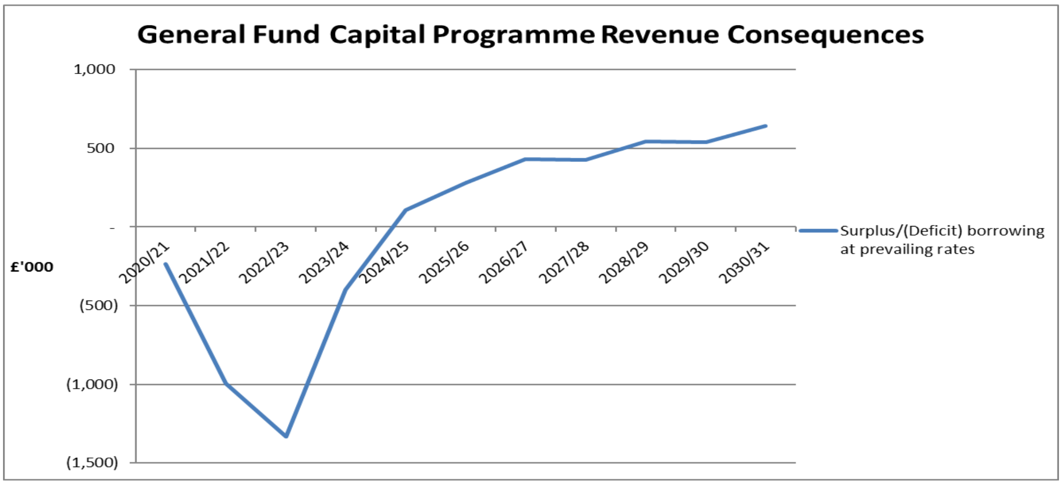
a) Criterium/Sports programmes – Council staff currently deliver a number of health activities and support sporting programmes across the district, with over 100 events a year. However, participation in many events is low and only a very small percentage of the population benefit from such activities. In future, health and wellbeing programmes will be delivered through the new Sports and Leisure Park and by working with sports clubs and other agencies rather than through direct delivery by council staff. In addition it is proposed to not directly fund the annual cycling Criterium. The event currently relies not only on a £29,000 financial contribution but also on very significant input and coordination by council staff, which cannot be supported in future years.

b) Grants –it is proposed to complete a review of core grants (most of which are due for renewal in 2022) as part of the MTFS. For 2021, it is proposed to reduce spend on “small grants” by £15,000 (to reflect the fact that spend has been lower than budget in recent years). The “Play to the Crowd” grant is the only core grant due for renewal in 2021. It is proposed to agree a one year allocation to align with other core grants, but to reduce the annual provision by 20%, reducing spend by a further £36,000.

18.9 **Potential Additional Growth Issues** – It should be noted that there are a number of issues that are likely to require additional funding and increase pressures on the General Fund in the near future which have yet to be reflected in the forecasts set out in Appendix A, such as costs associated with the Government Planning reforms and the need to invest in mapping and digitisation of planning records as well as additional costs to support the delivery of major projects.

19 <u>General Fund Capital</u>

19.1 The Council has an ambitious general fund capital programme totalling more than £80m over the next 10 years. Not all projects provide savings or generate income but, in aggregate, the capital programme is forecast to have a positive net benefit to the General Fund from 2024/25. There is an overall negative impact on the General Fund prior to this year which reflects significant spend on preliminaries and costs associated with major projects early in their lifecycle. Any delays to the programme can defer these early lifecycle costs but also defers future benefits.



Capital financing

19.2 The main sources of finance for capital projects are as follows:

- Capital receipts (from asset sales);
- Capital grants and contributions (e.g. Disabled Facilities Grant, Local Enterprise Partnership, and Community Infrastructure Levy);
- Earmarked Reserves (e.g. the Major Investment Reserve, the Property Reserve, the Car Parks Property Reserve, and the IMT Reserve);
- Revenue contributions; and
- Borrowing including internal (also known as the "Capital Financing Requirement").

19.3 Following revisions to the capital programme as set out in the revised budget (CAB3256), the majority of the capital receipts reserve is now committed. Any new projects will be reliant on funding from external grants and contributions, earmarked reserves where appropriate, prudential borrowing, and any future asset sales.

19.4 Capital projects financed by prudential borrowing will incur an annual revenue cost over the life of the asset – a minimum revenue provision (principal repayment) and external interest/opportunity cost. Where a project does not provide additional income or savings in excess of the annual borrowing cost, it may be necessary for the Council to make further savings elsewhere. There is a degree of uncertainty with the timing and extent of external borrowing need and the cost of that borrowing. To estimate the impact on the council's annual revenue budget, borrowing costs are based on the current long term borrowing rates available to the council for prudence; however, the Council will seek to reduce its cost of borrowing by working closely with its treasury advisors (Arlingclose) to identify the optimum borrowing strategy.

Capital receipts

19.5 When a capital asset is sold the proceeds, known as capital receipts, can be spent on new assets or to reduce debt from prior year capital expenditure. The Council reviews the opportunity to realise additional capital receipts as part of its rolling asset challenge programme. There is potential for a significant capital receipt from the sale of the old Bar End depot (CAB3268). If realised, this will increase the capital receipts reserve and can be used to fund unfinanced capital projects as an alternative to borrowing and so reduce the annual revenue cost. For every £1m receipt applied to unfinanced capital projects the council could reduce its annual cost of borrowing by circa £40,000 per annum if reducing the borrowing requirement of a project with a 40 year life and assuming a rate of 2.6%. The actual saving will depend on the project to which it is applied and the prevailing cost of borrowing at the time of receipt.

Changes to existing projects

19.6 Expenditure of £1,375,000 for the redevelopment of **Bishop's Waltham Depot** was approved in June 2018 (CAB3048) and Cabinet subsequently approved the redevelopment prior to the new units being let (CAB3205). £225,000 has been spent to date and, following tender of the main construction contract, a supplementary estimate of £400,000 is required to bring the total approved budget to £1,775,000. There are various reasons for the increase including the additional requirements of a BREEAM planning condition; the impact of Brexit on the price of steel; and the requirement to strengthen the floor to one unit in order to meet the needs of one of the proposed tenants. In addition, solar panels and EV charging points (£18,000) were not included in the original budget; however, income generated from the solar panels (estimated at circa £1,500 per annum) will offset the capital cost of installation. As a consequence the estimated surplus has reduced to between £5,000 and £10,000 per annum (depending on the actual cost of borrowing). A value engineering exercise is being undertaken in order to identify potential reductions in construction costs in order to improve scheme viability.

19.7 Following the leasing of the Guildhall to HM Courts & Tribunal Service, it is likely to be necessary for the works to convert the Guildhall Cafe to be undertaken out of hours. Following a tender exercise, the estimated cost of the landlord works to create a self-contained unit and provide new toilet facilities is now £200,000 including additional security costs and a contingency of £10,000 - an increase of £70,000. In addition, the tenant's fit-out costs are estimated to cost an additional £70,000 to be completed out of hours for which the council, as landlord, will need to make a capital contribution. In total therefore a supplementary capital estimate of £140,000 is required bringing the total budget to £270,000. This will increase the annual cost of borrowing by £9,000 per annum; however, after rental income, the works will provide a net surplus to the council of around £50,000 a year. Officers will work closely with the contractors to establish whether it is possible to complete at least some of the works during normal working hours and reduce the costs.

Central Winchester Regeneration

19.8 In addition to the revenue budget requirements set out in 18.3 above, options for meanwhile uses are being considered for both the former Friarsgate Medical Centre and Kings Walk, both of which will require capital budgets should the Council decide to proceed with any of the options as well as potential for public realm improvements to the Broadway which are estimated to cost up to £1.2m.

19.9 The installation of a “pop-up park” is being considered for the **Friarsgate Medical Centre** site. In order to achieve this it will be necessary to demolish the existing building. Early estimates of total costs are in the region of £500,000 including £250,000 for the pop-up park itself. The capital cost of demolition and associated costs enhances the land value and can be spread over 50 years at an estimated annual borrowing cost of circa £9,000 per annum. Demolishing the building now rather than waiting for the main development will bring forward estimated savings on business rates and ongoing maintenance (circa £64,000 per annum). The cost of borrowing is spread over the expected life of the asset to which it relates and if the pop up park is in place for 5 years the estimated annual short term borrowing cost is £53,000 per annum being the Minimum Revenue Provision (the repayment of principal) and interest. Alternatively, it is possible to fund this from earmarked reserves. It must also be recognised that an overage contract exists on the medical centre so, once this is triggered (by the granting of planning permission pursuant to the overage clauses which are linked to the 2003 Planning Brief), the Council will be required to pay a minimum of £150,000 indexed linked from 2007.

19.10 There are a number of options for the “repurposing” of Kings Walk as outlined below. The options are independent of each other and therefore members may decide to proceed with some or all of them. It is anticipated that any works will remain in place for a period of 10 years before further redevelopment is carried out on this area. Some of the works will generate additional income but this is not expected to cover the cost of borrowing.

The following three items could be completed for an estimated £200,000 in total (equivalent to an estimated £23,000 annual borrowing cost)

- *Ground floor & public realm* - external greening, lighting, internal alterations to create a refreshed image (£50,000).
- *Loading bay activation* - create external event space for letting and/or regeneration of the area (£50,000).
- *Activation of roof top car park* - structural changes required to create an event space (£100,000).

19.11 In addition, consideration will also be given to the creation of a creative hub on the upper floors. Early estimates of the potential cost is in the region of £2,000,000 which, if financed from prudential borrowing, would result in an annual cost to the council of an estimated £229,000 per annum. The feasibility of this will be considered in the context of the wider Central Winchester Regeneration scheme.

Potential new projects

19.12 With the reduced resources available to finance capital projects, careful consideration needs to be given to the impact of new emerging projects and changes to existing projects. Where possible, the Council will identify external funding sources and the potential for projects to generate income to defray the cost of borrowing and, in some cases, provide a surplus. In addition to Central Winchester above, the following potential projects have a number of challenges as well as opportunities. Further exploratory work and engagement will take place in the coming weeks and, where appropriate, new projects will be included in the Capital Investment Strategy in February 2021.

19.13 There is potential to redevelop the **former Goods Shed** site at an estimated cost of up to £5m which would provide several small business units. After borrowing costs, this could generate an estimated surplus income of between £50,000 and £70,000 per annum. Feasibility work is currently under way and the results of this are expected early in 2021.

19.14 **River Park Leisure Centre site** is due to close in spring 2021 once the new Sport & Leisure Park is completed. Capital expenditure of £410,000 was approved in June 2020 (CAB3242) to decommission the existing building; provide utilities and service supplies to clubs remaining on site; and to provide alternative toilet facilities.

19.15 Following the Council's declaration of a **Climate Emergency** and its goal of becoming carbon neutral as a council by 2024 and as a district by 2030, it is likely that a number of capital projects will be required in the near to medium term. Significant work has been undertaken during the year and two projects to install solar panels, including on a third party building, were approved in year. More such projects are expected in the next 12 months and several buildings in the Council's stock have been identified for potential retro-fitting to reduce carbon emissions. In some cases, such as with the installation of solar panels, the projects pay for themselves and deliver a small surplus to the Council. However, some projects may not provide sufficient income or savings to cover the associated cost of borrowing and will therefore increase the overall revenue costs to the Council; there are a number of possible sources of grant funding for these projects and the Council will explore these opportunities where appropriate in order to reduce the financial impact. In addition to specific projects, carbon reduction is now a key consideration in all council projects; for example, the provision of solar panels and EV charging points now form part of the scope for the Bishop's Waltham depot development.

19.16 A number of potential schemes will be required following the publication of the **Winchester Movement Strategy** Phase 2 report in December 2020. Where possible, external funding sources will be explored including Community Infrastructure Levy (CIL) contributions and grant funding such as the Local Enterprise Partnership (LEP). The provision of a new Park & Ride car park at the former Vaultex site was approved in October 2020 (CAB3263) and the Council was successful in securing £5.65m of grant funding from the LEP to finance this project.

19.17 Once the recently commissioned scoping report for the council's **Green and Blue Infrastructure** is published, the next stage, still to be fully determined, will look at an action plan for future green and blue related infrastructure projects that will ensure the incorporation of future tree planting; creation of accessible to all open spaces; and the biodiversity action plan as well as providing stronger guidance/policy for planning when determining applications.

20 Medium Term Financial Strategy

20.1 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.

20.2 Financial projections in Appendix A are shown over a ten year period to 2029/30 in order to provide insight into the longer term financial sensitivities and the earmarked reserves strategy.

20.3 The budget options set out in this report, if approved in February 2021, contribute towards a balanced budget through to March 2025.

20.4 Reserves are projected to reduce significantly over this period and the Transitional reserve will be used as cover for the risk of forecasts being worse than projected in this report.

20.5 The existing MTFS includes a specific focus on investment to generate additional future income. Whilst it is proposed to retain this aim within the strategy, it must be noted that scope for strategic investments to make a positive contribution to Council finances is very limited, at least in the short term. Councils that have relied heavily on this strategy in recent years are currently very exposed to the economic downturn and announcements of potential failures and issuing of section 114 notices are increasing.

20.6 The focus on efficiency and transformation that forms a key element of the existing MTFS has ensured the Council has maintained service provision in a climate of reducing resources. Significant savings and efficiencies have been identified, with £2.4m of budget reductions identified in 2020/21 and a further £3m of operational savings included in this report.

21 Medium Term Financial Planning

21.1 The existing MTFS grouped the medium term financial challenge options around five themes; transformation, efficiency, asset management, income generation and enabling partnerships. It is proposed to retain these themes. It should be recognised that scope for further operational efficiencies relies heavily on the Transformation programme and effective asset management.

21.2 TRANSFORMATION

a) The Council Plan includes a commitment to improving service quality and accessibility and to deliver continuous service improvement. To support this, the existing focus on transformation continues to lead on both service improvement and modernising services with particular emphasis on improving digital service delivery.

b) The Council will also need to consider how much funding it provides to a range of discretionary services. These services must remain affordable within the overall financial context and it is proposed to include a focus on “discretionary” services within this programme.

21.3 EFFICIENCY

a) Efficiency review and planning plays a critical role in the continuing provision of high quality services by the most efficient and best value method of delivery. Significant savings have been achieved in recent years as a result of this work and future efficiencies will increasingly rely on the transformation programme referred to above.

b) Contract review and management is a key element in this strand, with total third party payments budgeted at almost £7m. 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 great importance.

21.4 ASSET MANAGEMENT

a) 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. It is important that following very significant reductions in government funding that existing assets are used as effectively as possible.

b) 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 as a number of rent reviews are due in the life of the MTFS.

c) The Council has an asset challenge programme. This process is reviewing all of the Council's assets on a rolling basis to establish why the Council holds assets, what options the Council has e.g. to increase income, dispose, hold or develop, and when these can be realised. The Council is currently holding a number of assets for strategic purposes which are not delivering any financial return. A number of these assets are linked to major projects such as Central Winchester Regeneration and the new Winchester sport and leisure centre. Options for the future use of these assets will be brought forward as soon as practicable but only where the business case can demonstrate the proposals are affordable when considered alongside the financial challenges outlined in the medium term financial projections.

d) The capital strategy provides the opportunity for investment in new or existing assets should they meet the aims of the Council Plan and generate a financial return to the Council.

21.5 INCOME GENERATION

a) 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. Current economic pressures as well as the recent increase in the PWLB borrowing rates has had a significant impact on the scope for income generation from investment. Opportunities will continue to be reviewed in line with the SAP governance process, although it is acknowledged that opportunities will be very limited for the foreseeable future.

b) Fees and charges are subject to annual review in order to ensure they are fair and, where appropriate, operate on a full cost recovery basis. Fees and charges are expected to increase by at least inflation every year in order to achieve these objectives.

21.6 GRANTS/ENABLING PARTNERSHIPS

a) The Council recognises the value of effective partnerships. Many councils no longer retain a grants programme, although the current core grants do make a significant contribution towards the delivery of the Council Plan. It is proposed to retain the grant programme in future years but to review how it can best support core partners. A review will be completed in 2021 before any future grants from 2022 are agreed.

22 Strategic Reserves

22.1 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. This includes one-off costs in relation to service and staffing reviews as well as investing in systems to help develop digital service delivery.

22.2 Whilst the Council started in April 2020 with a healthy overall balance of earmarked reserves, there are significant existing budget commitments particularly in relation to major projects such as the new Winchester sport and leisure centre and central Winchester regeneration. In particular the Major Investment reserve, which has historically been the main reserve used to support revenue expenditure for major projects, is forecast to reduce from £7.6m in April 2020 to £3.3m by March 2023.

22.3 The creation of a new Transition Reserve was approved by Cabinet in October 2019 (CAB3178). The purpose of this reserve is to both support the significant financial risks faced by the Council in relation to Government and other funding reductions and also to enable investment in the Council Plan (for example supporting the Climate Emergency).

22.4 In light of the projected shortfalls set out in this report, it is proposed that the Transitional Reserve be used to fund shortfalls in excess of the £3m net base budget reductions set out in this report. If the 20% reduced income assumption is realised, this will require a transfer from the Transitional Reserve to achieve a balanced budget for 2021/22. The reserve could absorb additional losses before any call on other useable reserves would be needed. This highlights the importance of holding a transition reserve to mitigate an element of this risk and provide time for any further change plans to be implemented.

22.5 In summary, reserves are used to support:

a) Funding of the capital programme

b) Investment in transformation

c) Funding one-off costs associated with staffing reviews and organisational development work.

d) Providing one-off support for service budgets (such as the local plan)

e) Community infrastructure plans

f) Council Plan support

g) Asset management plans, IT strategy, Car parking strategy

h) Winchester town account (notably major refurbishment and replacements of play areas.)

22.6 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.

22.7 Total General Fund earmarked reserves, before proposals in this paper, are forecast to reduce from £28.6m at 01 April 2020 to £23.9m at 31 March 2025. The forecast closing balances (31 March 2025) of key earmarked reserves are summarised below;

a) Operational reserves (£3.3m), significantly the major investment reserve, are revenue reserves which can be used to support revenue or capital expenditure, for example major projects.

b) Risk reserves (£4.8m), such as business rates retention, are available to mitigate risks faced by the Council. The overall levels are reviewed each year in line with the medium term financial strategy.

c) Asset reserves (£8.8m), such as the asset management reserve, are used to maintain existing council assets and are supported by spending plans such as the asset management plan.

d) Restricted reserves (£7.0m), such as the Community Infrastructure Levy, can only be used for restricted purposes and therefore must be considered separately to other reserves which can be used for wider purposes.

22.8 The revised general fund (CAB3256 refers) is forecast to balance by March 2021 although this is subject to significant uncertainty. Any balance at year end after adjustments will transfer to the Transition Reserve. Any shortfall will be funded from the same reserve.

22.9 A summary of earmarked reserves is included at Appendix C. These have all been reviewed as part of the budget process and the levels are considered to be appropriate.

23 Balances / risk reserves

23.1 The Council also maintains a general balance which is held to mitigate against any potential financial risks. These could be known risks or completely unforeseeable risks. As a general guide the minimum balance will be 15% of net revenue expenditure and so the current balance of £2.789m can give some additional cushioning particularly against the uncertainty of funding over the medium term projections.

23.2 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.

24 Adequacy of reserves and robustness of estimates

24.1 There are specific requirements under Section 25 of the Local Government Act, 2003, for the Chief Finance Officer to provide a positive assurance statement about the adequacy of proposed financial reserves and the robustness of estimates made for the purposes of the budget calculation.

24.2 Reserves are detailed in this report and specific comment is made on the most significant balances. The general fund working balance is discussed above and is considered to be adequate.

24.3 When considering the robustness of estimates for the budget calculation for the current year, savings and increased income proposals included in the budget must be considered to be achievable. Considerable savings have been achieved to date, and the recent experience has been that compensating savings have been found to cover unforeseen growth pressures. The purpose of reserves, in particular the general fund working balance, is to provide a cushion for these variations.

24.4 The S151 officer is able to provide positive assurance on the robustness of the estimates, within the context of the overall budget and reserve levels, for the purpose of the budget calculations for the next year.

25 Debt Write Off Proposals

25.1 The Council adopts a robust but supportive approach to managing debt. Formally writing off debt is always only considered a last resort. As a result, some older debts remain in the accounts for as long as it is considered there is a possibility of recovery (including the completion of administration decisions in the event of business closure). However, there are a small number of debts which can now be written off.

25.2 Additional works to the waste depot in Barfield Close, Winchester were completed in 2014, totalling £65,114, in order to ensure it was fit for purpose for the new waste contractor. A settlement was reached in contract negotiations for the 12 month extension commencing October 2019 whereby the Council agreed it would not seek to recover this expenditure from the waste contractor and that the facilities remain as Council assets. This avoided the same costs being added to subsequent tenders for the new Environmental Services contract which commences in February 2021. Formally writing off debts in excess of £50,000 require Cabinet approval and a recommendation is therefore included to address this issue.

25.3 NNDR Write Offs – The debtors listed in Appendix D have either become insolvent; entered into a Corporate Voluntary Agreement (CVA); or it is inadvisable to pursue the debt due to its age. The debts in all cases span a number of years. This is the case because action to write off debts is not taken until all avenues for recovering monies have been exhausted. In the case of dissolved companies it can take time afterwards for the administrator to announce any dividends which may be available to creditors from funds not used to meet the expenses of the liquidation. As there is no longer any possibility of recovering monies from the ratepayers listed in Appendix D, it is recommended that these debts be written off to allow the Revenues team to concentrate its resources on debts which can be recovered.

26 OTHER OPTIONS CONSIDERED AND REJECTED

26.1 The option to fund a greater percentage of potential shortfalls from reserves has been considered. However, this is not recommended. The Transitional Reserve has been established to mitigate the risk of future budget shortfalls and is proposed to be used for this purpose. However, greater reliance on reserves would severely weaken the Council's capacity to manage projects moving forward.

26.2 The option of taking a harder line on budget savings and identifying more than the £3m included in this report has also been considered. Scope for achieving this does exist but would have a direct impact on service levels and service quality. With the uncertainty that exists regarding future funding, the recommended balance between savings and use of reserves to achieve a balanced budget is considered reasonable.

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

CAB3178 - OUTCOME BASED BUDGET CHALLENGE dated 23 October 2019

CAB3211 - medium term financial strategy, BUDGET AND COUNCIL TAX 2020/21 dated 12 February 2020

CAB3256 - Revised general Fund Budget 2020/21 dated 12 September 2020

Other Background Documents:-

None

APPENDICES:

Appendix A:	Medium Term Financial Projections
Appendix B:	Budget Options
Appendix C -	Reserves
Appendix D (exempt):	Detailed list of NNDR debts to be written off

Medium Term Financial Projections

Council Tax Base	1.2%	1.2%	1.2%	1.2%
Council Tax - Band D £	3.0%	3.0%	3.0%	2.0%
Contractual Inflation	1.0%	2.0%	2.0%	2.0%
Pay Inflation	2.0%	2.0%	2.0%	2.0%
Reduction in Income	**20.0%**	**10.0%**	**5.0%**	**0.0%**

General Fund Revenue (£m) (20% Reducion in Income)	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Notes
Funding					
Council Tax (excluding Parish Precepts)	8.458	8.786	9.127	9.401	1
Retained Business Rates	4.901	2.872	2.853	2.873	2
New Homes Bonus	1.982	0.970			3
Damping - 5% cap on total resource reduction		1.878	1.629	0.655	4
Revenue Support Grant & Other Grants	0.200	0.200	0.200	0.200	5
	15.542	**14.707**	**13.810**	**13.129**	
Investment Activity	1.948	1.391	1.876	1.834	
Resources available	**17.490**	**16.098**	**15.685**	**14.963**	
Baseline Net Expenditure					
Gross Income	**11.255**	**13.459**	**15.682**	**17.098**	
Gross Expenditure	**-31.117**	**-31.680**	**-33.207**	**-33.990**	
No Increase in car parking fees 21/22	**-0.100**	**-0.100**	**-0.100**	**-0.100**	
Unavoidable Growth - Movement Strategy	**-0.060**	**-0.060**	**-0.060**	**-0.060**	
Baseline resource requirements	**-20.022**	**-18.381**	**-17.685**	**-17.053**	
One-off budgets & Reserve Related Movements	-1.129	-0.561	-0.549	-0.994	
Total net resource requirements	**-21.151**	**-18.942**	**-18.234**	**-18.046**	
Budget Surplus / (Shortfall)	**-3.661**	**-2.845**	**-2.549**	**-3.083**	
% of Gross Expenditure	*11.8%*	*9.0%*	*7.7%*	*9.1%*	

Notes

1. Uplift in Council Tax and Base per assumptions
2. Hard reset assumed from 2021/22
3. Scheme ends in 2022/23 with no replacement
4. A Damping scheme has not been confirmed
5. For example Preventing Homelessness
6. Includes assumed 3% Increase (£100k) p.a. - there is a budget option to remove this
7. Increase in take-up of the scheme each year
8. Prior to latest HCC announcement - see budget options

Budget Options 2021/22 - Summary of Proposals

Table 1 - Summary of Staff Changes

Team	Saving	Comment/Impact
Special Maintenance – drainage	£42,300	Team restructure. One vacant post not replaced. No impact on service
Parking restructure	£33,400	Team restructure/review of enforcement team. Positive impact on overall service
Environmental Health	£28,000	Team restructure. 0.5 vacant post not replaced. Some impact but overall service maintained
Planning	£149,600	Team restructure. 3.5 posts not replaced. Some impact on DM service but currently top quartile performance and aim to maintain this. Enforcement team strengthened.
Transformation	£173,500	Revised approach to Transformation agenda is proposed. 3 staff will be “at risk” and an additional vacant Policy Officer post will not be recruited to. No immediate impact on services.
Estates	£98,000	Team restructure inc. merging with Housing Property and New Homes Delivery. Overall service improvement and increased capacity can be achieved by the changes.
Finance	£37,000	New Corporate Head of Finance to be part HRA funded. 0.45 fte vacant post not replaced. Limited impact on service
Revs/Bens	£124,700	3 vacant posts (currently agency) to be deleted once current pressures on team resolved. Impact on service dependent on demand in 2021.
Land Charges	£38,000	Team restructure. 1.43 fte to be deleted (inc. one currently vacant). Limited impact on service
Democratic Services	£10,000	Team restructure. 1 fte to be deleted. Some impact but overall service maintained.

Housing	£194,000	Team restructure focussing on more generic approach to Housing Options service. Outreach work to be undertaken by partner agencies. 4 technician roles to be deleted 92 currently vacant) and two posts recharged to HRA (to reflect work now wholly with council tenants). Limited impact on service.
Engagement/Sports	£67,300	Team restructure to reflect deletion of Sports/Physical Activity services. 2 posts deleted (manager retained – lead of Health and Wellbeing). Also, 0.5 fte project support post to be deleted. Direct impact on discretionary service - no delivery of Physical activity events/functions (100+ events annually) + GP Referral scheme discontinued (or funded by Health/CCG).
Engineering	£35,000	Not replacing vacant post. No impact on service. Cost of team recharged to external customers (although operated at net cost when this post was filled).
Communications	£83,000	Team Restructure – Vacant Service lead not replaced. 2 vacant posts recruited at more senior grade. 1.6fte net reduction overall but capacity maintained.
	£1,113,800	

Table 2 - Operational Non Staff Savings

Option	**Other Savings**	**Comment**
Waste Changes	£300,000	Net impact of latest HCC announcements re waste charges/credits
Reduced provision for "Contingencies"	£121,000	Contingency budget - no longer considered to be required (not spent in 19/20 or 20/21)
Reduced spend on Officer Training (emphasis on webinars)	£50,000	Whilst the commitment to staff development and training remains a key theme of the Council's employment offer, training costs have reduced significantly in recent years as a result of increased emphasis on on-line tutorials and webinars to support "continuous professional development".

Estates - Rent and lease renewals	£78,000	Further increased income potential but this figure recognises current market conditions
West Wing remains closed	£50,000	Net impact of extended closure (savings relate to utilities/cleaning etc). No provision for additional letting included in this figure
Contract Inflation	£78,000	MTFS assumes 1% for 21/22. However, key contracts only subject to 0.2% this year achieving a net saving on assumed base budget.
Guildhall	£500,000	Net saving from changes approved in CAB3256 (£200k through staff changes and reduced net operating costs + £300k per annum est. income from venue only hire/business leasing)
Other	£131,000	A number of smaller operational changes across a range of support services
Total	**£1,308,000**	

Table 3 - Additional Recommended Savings Options

Option	**Other Savings**	**Comment**
Council Tax	-	Budget has been prepared assuming a 3% increase.
Fees and Charges	£40,000	3% increase to all fees and not including parking. MTFS assumes Council tax at 3%
Building Control - Review of fees (10% average increase)	£48,000	Review of charges has identified current charges do not recover full costs and are on average 10% too low, resulting in Gen. Fund subsidy. Market challenge but still considered to be competitive
Car Parking - move to full cashless parking	£30,000 (£75,000 by 2022/23)	A complete move away from cash payments. With no additional charge and simplified phone payment, alongside “contactless” machines, cash payments avoided completely with no cash collection arrangements (machines constantly subject to theft/damage)
£200k per year to parking reserve (rather than £350k)	£150,000	Income significantly down which this contribution was to be funded from. £200k annually sufficient to support a positive parking/transport investment programme.

No contribution to asset reserve	£300,000	£300k annual payment but no clear spending plan for reserve. Proposed to suspend revenue contribution for 4 years – but keep under review
Events - Cease support for annual Criterium	£29,000	Do not co-ordinate and organise the event. Most cost is associated with hiring the infrastructure (barriers/stewards). Possible family fun cycle element to be delivered in other ways through links with external partners.
Grants - Play to the Crowd	£36,000	One year grant agreement with 20% reduction on 20/21 grant
Grants - Reduced provision for small grants	£15,000	These support one off expenditure by local organisations. Demand in recent years has been less than the available budget so reduce by 50%.
	£648,000	

Total Staff	**£1,113,800**
Total Operational Non-Staff Savings	**£1,308,000**
Total Additional Savings Options	**£648,000**
Total 2021/22 Savings Proposals	**£3,069,800**

CAB3276
Appendix C

Reserves and Balances

GENERAL FUND EARMARKED RESERVES (£000)	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	Outturn	Forecast end of year balances									
OPERATIONAL RESERVES											
Major Investment Reserve	(7,616)	(5,462)	(3,221)	(2,270)	(2,270)	(2,270)	(2,270)	(2,270)	(2,270)	(2,270)	(2,270)
Transformation	(593)	(466)	(430)	(430)	(430)	(430)	(430)	(430)	(430)	(430)	(430)
Council Strategy Support	(145)	(47)	(47)	(47)	(47)	(47)	(47)	(47)	(47)	(47)	(47)
Community Grants & Commissions	(363)	(301)	(301)	(301)	(301)	(301)	(301)	(301)	(301)	(301)	(301)
Flood Support Schemes	(67)										
Landscape Mitigation	(14)										
Local Development Framework (LDF)	(382)	(199)									
New Burdens	(389)	(216)	(206)	(206)	(206)	(206)	(206)	(206)	(206)	(206)	(206)
	(9,569)	**(6,691)**	**(4,204)**	**(3,253)**	**(3,253)**	**(3,253)**	**(3,253)**	**(3,253)**	**(3,253)**	**(3,253)**	**(3,253)**
ASSET RESERVES											
Property - Asset Management Reserve	(3,310)	(3,494)	(3,694)	(3,894)	(4,094)	(4,094)	(4,094)	(4,094)	(4,094)	(4,094)	(4,094)
Car Parks Property	(2,427)	(2,352)	(2,602)	(2,932)	(3,262)	(3,412)	(3,562)	(3,712)	(3,862)	(4,012)	(4,162)
Information Management and Technology	(532)	(646)	(817)	(985)	(1,151)	(1,314)	(1,367)	(1,324)	(1,408)	(1,448)	(1,386)
	(6,269)	**(6,492)**	**(7,113)**	**(7,811)**	**(8,507)**	**(8,820)**	**(9,023)**	**(9,130)**	**(9,364)**	**(9,554)**	**(9,642)**
RESTRICTED RESERVES											
S106 (Interest)	(184)	(184)	(184)	(184)	(184)	(184)	(184)	(184)	(184)	(184)	(184)
Community Infrastructure Levy - General Fund	(8,928)	(8,011)	(6,114)	(6,114)	(6,114)	(6,114)	(6,114)	(6,114)	(6,114)	(6,114)	(6,114)
Community Infrastructure Levy - Winchester Town	(875)	(569)	(490)	(480)	(480)	(480)	(480)	(480)	(480)	(480)	(480)
Winchester Town Reserve	(387)	(340)	(74)	(168)	(245)	(203)	(210)	(219)	(377)	(535)	(694)
	(10,584)	**(9,150)**	**(6,909)**	**(6,992)**	**(7,069)**	**(7,027)**	**(7,035)**	**(7,043)**	**(7,201)**	**(7,360)**	**(7,518)**
RISK RESERVES											
Municipal Mutual Insurance	(139)	(139)	(139)	(139)	(139)	(139)	(139)	(139)	(139)	(139)	(139)
Transitional Reserve	(1,037)	(2,521)	(2,843)	(3,695)	(3,695)	(3,695)	(3,695)	(3,695)	(3,695)	(3,695)	(3,695)
Business Rates Retention	(1,000)	(1,536)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
	(2,176)	**(4,196)**	**(3,982)**	**(4,834)**	**(4,834)**	**(4,834)**	**(4,834)**	**(4,834)**	**(4,834)**	**(4,834)**	**(4,834)**
Total General Fund Earmarked Reserves	**(28,598)**	**(26,528)**	**(22,207)**	**(22,890)**	**(23,663)**	**(23,934)**	**(24,144)**	**(24,260)**	**(24,652)**	**(25,001)**	**(25,247)**
General Fund Balance	(2,789)	(2,789)	(2,789)	(2,789)	(2,789)	(2,789)	(2,789)	(2,789)	(2,789)	(2,789)	(2,789)
Usable Capital Receipts Reserve - General Fund	(5,953)	(4,068)	(3,597)	(3,477)	(3,234)	(3,364)	(3,702)	(4,044)	(4,389)	(4,738)	(5,090)

* Nb. The forecast Major Investment Reserve balance does not include any call on this reserve to cover future forecast deficits.