

REPORT TITLE: MEDIUM TERM FINANCIAL CHALLENGE

18 JULY 2018

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

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WARD(S): ALL

PURPOSE

This paper sets out the medium term financial planning challenge that the Council faces. There is a range of scenarios, and these have a significant amount of variation between due to a variety of known and unknowable financial pressures on the Council.

RECOMMENDATIONS:

1. To note the report

## IMPLICATIONS:

### 1 COUNCIL STRATEGY OUTCOME

- 1.1 The Council Strategy is the core strategic document, the MTFP (Medium Term Financial Plan) which is the response to the medium term financial challenge is guided by this and informs the budget process for 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 resulting from budget options arising from this planning work 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 is a budget planning document.

### 5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 None directly in this paper.

### 6 CONSULTATION AND COMMUNICATION

- 6.1 This planning document emphasises the rolling approach to budget planning adopted by the council. Whilst required to set an annual budget, plans are continually under development to cover the next four years and projections are shown covering a ten year period.

- 6.2 The Overview and Scrutiny Committee reviewed the paper and raised issues about the timetable of planning for our financial future and the need for more specific numbers in the Medium Term Financial Strategy when this comes to members in the Autumn.

### 7 ENVIRONMENTAL CONSIDERATIONS

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

### 8 EQUALITY IMPACT ASSESSEMENT

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

9 DATA PROTECTION IMPACT ASSESSMENT

9.1 None required.

10 RISK MANAGEMENT

<b>Risk</b>	<b>Mitigation</b>	<b>Opportunities</b>
<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 MTF5 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.</i>	<i>Ensure contracts are aligned to the council's requirements and council strategy.</i>

	<i>Ensure sufficient time for review of contract options prior to contract renewal.</i>	<i>Transformational efficiency savings.</i>
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## 11 SUPPORTING INFORMATION:

### Background

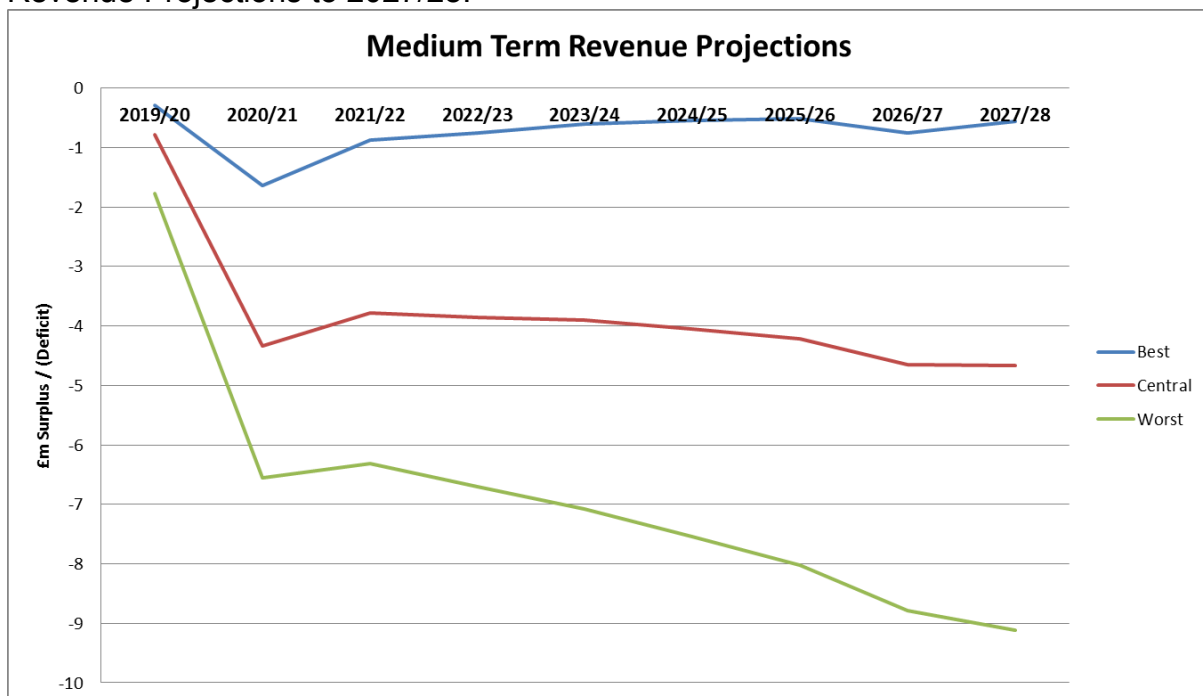
- 11.1 The Council has a strong record of financial management, supported by achieving balanced budgets and providing sufficient reserves to support services and deliver key projects.
- 11.2 In 2018/19 the council adopted Outcome Based Budgeting (OBB) as its budgeting strategy in order to deal with the projected financial challenges over the medium term and to ensure closer budget alignment to the council strategy. This processes involved greater alignment between the Council's strategic objectives and financial resources. This has also been reflected in the Council's financial reporting.
- 11.3 Total recurring savings of £1.1m were identified and included for the 2018/19 revenue budget, which enabled recurring investment of £0.4m, putting additional resources into an additional park and ride bus, environmental enhancements and staffing for the planning service. This significant level of savings was the first tranche of an anticipated £4m savings over a four year period.
- 11.4 The OBB strategy covers a rolling four year period with further savings (based on central case forecasts) of £3.8m to be achieved by the end of 2021/22. Some of the key projects included over the medium term and that will be factored into the medium term forecast include the below :
- HRA / General Fund asset transfer (garages)
  - Strategic Asset Purchase Scheme
  - Development of Coitbury House
  - Review of staff business travel
  - New trading opportunities
  - Review of fees and charges

### Government Funding

- 11.5 As the council nears the ending of the current four year government funding settlement in 2019/20, there remains very significant uncertainty around a number of funding sources as detailed further below. 2019-20 will also be the first year that the Council is not due to receive any core Government grant, and is due to provide £0.41m to the Government as a payment:

- I. Business Rates and a likely reset in 2020/21 – this could reduce funding by up to £2.6m
  - II. The Fair Funding Review – potentially major changes to the existing settlement funding assessment. This review, undertaken by the Government, is looking at spend across the whole of local government and will seek to address the various pressures on the financial position of local government as well as looking at the relative need on services across councils.
  - III. Potential for further changes or removal of the New Homes Bonus (for WCC this totalled £2.1m in 2018/19)
  - IV. The transfer of £0.41m of funding from the Council to government as part of the 2019-20 financial settlement
- 11.6 This potential volatility makes it very difficult to accurately forecast forward into the future, as highlighted by the below graph showing the best/central/worst case estimates over the next 10 years.

Revenue Projections to 2027/28:



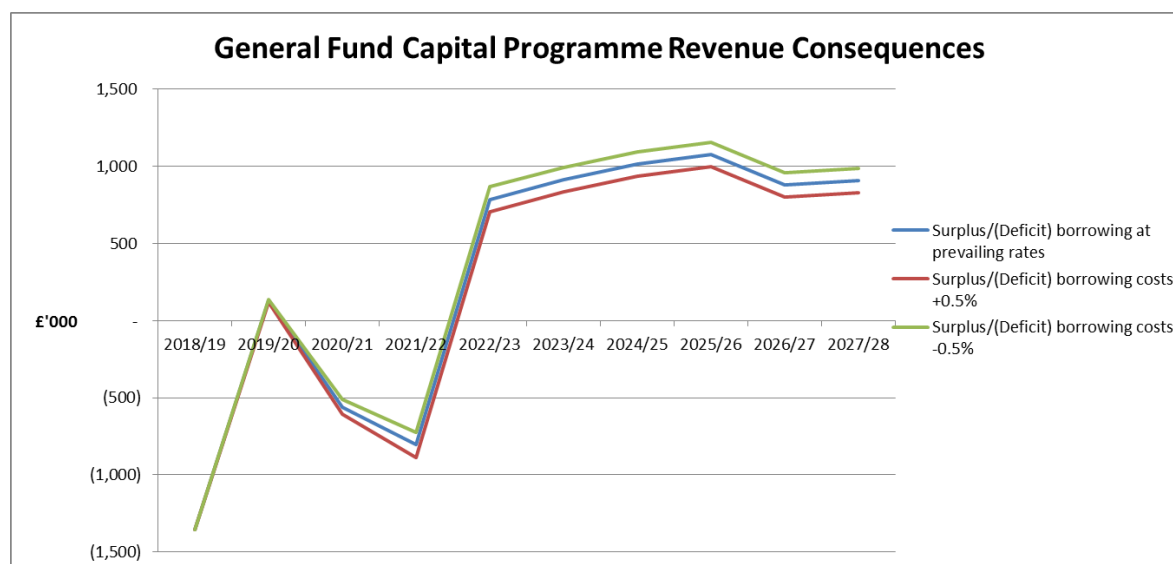
### Current Assumptions

- I. Major projects will have no bottom line impact on existing budgets
- II. Inflation and council tax will both increase by the same percentage (2.5% in 2019/20, then 2% per annum)
- III. Pay inflation will be 2% per annum

- IV. Overall government funding will reduce significantly in 2020/21, a reduction of £2.5m from 2019/20

### Capital Programme

- 11.7 The Council has an ambitious capital programme; in February 2018, Council approved a total capital programme of £291m of which £110m relates to General Fund Projects and £181m Housing Revenue Account.
- 11.8 In the General Fund there are several key projects including:
- Winchester Sports & Leisure Centre - £38m
  - Strategic Asset Purchase Scheme - £15.7m
  - Housing Company - £10m
  - Transfer of HRA garages to the GF - £8.5m
  - Disabled Facilities Grants - £8.1m
  - Partnered Home Purchase - £4.5m
  - Replacement surgery - £4.5m
  - Station Approach Public Realm Works - £5m
  - Station Approach Project Development (do minimum) - £1.8m
  - The remaining £14m is made up of several smaller projects such as flood defences at Durngate, works to the Council's car parks, and IMT investments.
- 11.9 The capital programme will have a significant impact on the General Fund revenue budget which adds to the deficit in the short to medium term during the construction phase of major projects but is estimated to deliver a net surplus from 2021/22 as illustrated below. It should be noted however that delay to projects will reduce costs in the short term but delay future benefits.



- 11.10 In addition to those projects already included in the capital programme, work on developing the business case/scope for several other projects is underway including:
- Central Winchester Regeneration - – though no decision has yet been made about the capital funding that WCC will be committing to this
  - Coitbury House
  - Bishops Waltham industrial units
  - Station Approach – though no decision has yet been made about the capital funding that WCC will be committing to this
- 11.11 Winchester aims to be at the forefront of opportunities for gaining one-off funding, which can be critical to the financing of major projects. Some of proposals included are per the below:
- Winchester is leading work with other Hampshire authorities to put forward a Hampshire bid to be a business rates pilot area in 2019/20.
  - The Sport & Leisure centre project has a number of funding partners including Winchester University, HCC, the Pinder Trust, and Allegra's Ambition.
  - The Football Association are supportive of plans for a new pavilion at KGV.
  - Joining the Wayfarer Consortium enabled access to a £3.2m Homes England Grant towards housing in Stanmore.

### Next Steps

- 11.12 The outcomes based budgeting approach will be refreshed, ensuring the robust monitoring of 2018/19 targets and updating of the four year programme. This will ensure there is sufficient financial resilience to deal with the ongoing financial challenges and help to support the council strategy.
- 11.13 The four key themes:
- I. Income Generation
  - II. Transformation
  - III. Efficiency
  - IV. Asset Management
- 11.14 Existing assumptions will be reviewed and refreshed in order to produce an updated medium term financial plan for an Autumn Cabinet, where it is anticipated there could be further clarification over some of the key assumptions.

## 12 OTHER OPTIONS CONSIDERED AND REJECTED

- 12.1 As detailed in the report

BACKGROUND DOCUMENTS:-Previous Committee Reports:-

Medium Term Financial Strategy – CAB3012 – February 2018

General Fund Budget 2018/19 – CAB3011 – February 2018

Capital Strategy – CAB3014 – February 2018

Other Background Documents:-

None

APPENDICES:

None