

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

20 OCTOBER 2021

REPORT OF CABINET MEMBER: Cllr Neil Cutler, Deputy Leader and Cabinet Member for Finance and Service Quality

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WARD(S): ALL

PURPOSE

This report sets out options for the 2022/23 budget, including anticipated changes and budget proposals. The report also includes the Medium Term Financial Strategy which sets out the Council's strategic approach to the use and management of its financial resources.

Projections indicate a balanced budget for 2022/23. A £1.0m deficit forecast for 2023/24 can be covered by the existing Transitional Reserve to ensure the Council can maintain a balanced budget through to March 2024. However, projections indicate the potential for significant longer term deficits, subject to Government funding announcements. It is proposed that a strategic service review is completed by March 2023 to identify how the longer term deficits can be addressed.

RECOMMENDATIONS:

That Cabinet:

1. Note the projections set out in Appendix A to this report which delivers a balanced budget for 2022/23 and support the proposal that £1.0m of Transitional Reserve be used if required to address the forecast deficit for 2023/24.
2. Approve the Medium Term Financial Strategy as set out in sections 17-22 of the report.

3. Approve one off provision of £200k be included in the 2021/22 budget, funded by the forecast surplus for the year, to provide additional short term capacity and support for teams experiencing additional demands on core services.
4. Approve “one off” provision of £1m to provide funding for additional project delivery resources to support regeneration work in the district, with £400k funded from the forecast surplus for 2021/22 and the remaining £600k from the Transitional reserve.
5. Approve grant funding of £75k, funded from the Grants reserve, to the Hampshire Cultural Trust to support the development of an Anglo Saxon experience attraction in the city in 2022, subject to agreement of grant terms and conditions.
6. Approve the proposal to spend £300k of the Tranche 5 Covid grant fund to upgrade the Council’s IT desktop infrastructure to support “agile/flexible working” proposals
7. Determine whether to apply an average 3% increase in fees and charges (other than Parking and garden waste subscriptions) and note that a report setting out details of all charges will be brought to the next meeting of Cabinet.
8. Approve a £10 discount to existing garden waste subscriptions for residents in receipt of Council tax reduction and if supported, what the level of discount should be.
9. Approve that a detailed budget be prepared for consideration by Council in February 2022 based on the above assumptions, final spending review announcements and including the following options:
 - a. That no inflationary increase be made to parking charges
 - b. That no increase is made to Green Waste collection subscriptions for the 2021/22 financial year.
 - c. That other fees and charges be subject to recommendation 6 above.
 - d. That, subject to referendum limits, Council tax be subject to an overall combined town and district £5 increase for 2022/23 (approx. 2.97%) and that Cabinet indicate whether consideration should be given to a lower district charge.

IMPLICATIONS:

1 COUNCIL PLAN OUTCOME

- 1.1 The budget approved in February 2021 (CAB3289 refers) directly supported the delivery of all outcomes set out in the Council Plan.
- 1.2 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 report provides an updated forecast for 2021/22, which now projects a surplus of £415,000 as set out in section 12.
- 2.2 The medium term projections included in section 16 and Appendix A forecast a balanced budget for 2022/23, a potential deficit of £1.037m in 2023/24 increasing to £3.6m by March 2026.
- 2.3 With the consumer price index currently at over 3%, the report assumes increases to Council tax and general fees and charges at 3%, although no increase garden waste charges are proposed. Alternative options are also set out for Cabinet consideration.
- 2.4 The report also assumes a targeted 3% increase in the 22/23 charges for central car parks in the Air Quality Management area, in line with the parking strategy and focussed on changing behaviour to move users out of the city centre.
- 2.5 The impact of the proposals in this report on reserves is set out in section 20 and a summary of reserves is provided at Appendix B. The Transitional Reserve increases to £2.9m by 2024 and provides mitigation against the forecast deficits up to that time.
- 2.6 The Government Spending Review announcements are expected at the end of October 2021. A three year funding announcement is anticipated and the projections included in this report will be updated once the announcements are made. The detailed funding confirmations will follow the spending review and should be confirmed before Christmas.
- 2.7 The report also includes a proposal to provide one off specific grant funding of £75,000 to Hampshire Cultural Trust to support the development of an Anglo Saxon visitor experience in the city in next year.

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 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 report recognises the current challenges in delivering against Council Plan priorities and includes one off resource proposals for additional staff to support regeneration work, project delivery and to address the increased demand on core services in recent months.

5 PROPERTY AND ASSET IMPLICATIONS

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

6 CONSULTATION AND COMMUNICATION

- 6.1 Once budget options have been finalised, proposals will be subject to consultation, including discussions with local business representatives through the business/BID briefing, the bi-annual parish liaison meeting and with the public via the provision of online information with feedback option in November 2021.
- 6.2 Responses will be considered and will help to inform the final budget setting in February 2022.

7 ENVIRONMENTAL CONSIDERATIONS

- 7.1 The Council is committed to its Carbon Neutrality targets and in 2019, £800k was included within the revenue budget to support feasibility and programme

delivery work. This provision is projected to be fully committed by March 2023 and the report includes further provision of £100k annual from April 2024 to support this work.

- 7.2 Specific projects are funded through the capital programme, supported in many cases through external grants. Examples include the provision of solar panels to council properties and to local businesses, the installation of EV charging points throughout the district and replacement of windows in the city offices. Further proposals for investment in a significant energy generation project on Council land is currently subject to feasibility review.

8 EQUALITY IMPACT ASSESSEMENT

- 8.1 The council, in the exercise of all its functions, must have due regard to the public sector equality duty in section 149 Equality Act 2010. 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

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

10 RISK MANAGEMENT

| Risk | Mitigation | Opportunities |
|--|--|---|
| <p><i>Property</i> Commercial tenants unable to pay rents or subject to business failure</p> <p><i>Slowdown in commercial property investment, meaning that the council's development schemes achieve less interest or less income than expected</i></p> | <p>Close monitoring of rent position by property team with support to tenants through effective working relationships.</p> <p>The council's advisors are reviewing the property investment market and will provide advice as to timing of any marketing.</p> | |
| <p><i>Legal</i> The council is unable to balance the revenue budget resulting in the issuing of a S114 notice</p> | <p>Proposals set out in this report, including the strategy for management of reserves mitigate against this.</p> | <p>Present a balanced budget in difficult circumstances</p> |
| <p><i>Timescales</i> Slower than projected economic recovery</p> | <p>The council is actively supporting high street</p> | |

| | | |
|--|--|--|
| <i>affecting income received by the council</i> | 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 | |
| <p><i>Financial</i> <i>The council is unable to balance the revenue budget</i></p> <p><i>Risk of lower than projected demand for income generating services specifically parking</i></p> | <p>Proposals set out in this report, including the strategy for management of reserves mitigate against this.</p> <p>The council has £12m uncommitted revenue reserves available which can be utilised as a last resort as above</p> | |

11 SUPPORTING INFORMATION:

11.1 This report sets out:

- a) An update and forecast in relation to the 2021/22 Budget
- b) A summary of Government funding assumptions
- c) Budget Options for the 2022/23 budget (detail to be considered by Council in February 2022)
- d) General Fund Budget Projections for future years
- e) A proposed Medium Term Financial Strategy to address the projected future deficits and support service delivery

12 **2021/22 Budget Update**

12.1 CAB3312 dated 15 September included a revised forecast of a £0.8m net General Fund underspend for 2021/22. This related to the extension of the lease of the Guildhall to Her Majesties Courts and Tribunal Service and to additional Government subsidy in relation to Park and Ride.

12.2 Further work completed since that report was published has also accounted for the following (explanations below):

| | | |
|---|-----------------------------------|-----------------|
| Projected surplus at Jul 21 | | £800,000 |
| a. | Additional Garden Waste Income | £165,000 |
| b. | Reduced net Business Rates | -£700,000 |
| c. | Additional P&R Subsidy | £250,000 |
| d. | Additional Leisure Centre Income | £500,000 |
| e. | Project Delivery Resources | -£400,000 |
| f. | Support for core service delivery | -£200,000 |
| 21/22 Projected Net Surplus (at Sept 21) | | £415,000 |

- a) Garden Waste Subscriptions – The new paid for service has proved to be far more popular than predicted with over 21,500 subscriptions in the first year. This has generated forecast additional income in 2021/22 of £250k over and above budget assumptions. This has been used to fund the provision of an additional free month (February 2022) leaving the net overall increased income at approximately £165k.
- b) Business rates – Following an adverse variance of £1.2m in 2020/21 a net adverse variance of - £0.7m is now forecast for 2021/22 relating to continued reduced collection, excluding loss of collection which is covered by reliefs.
- c) Additional P&R bus subsidy receipts will to be awarded to the end of August and a new scheme is expected to be in place from September until March 2022. This is anticipated to result in an additional grant awards of £0.25m, taking the total forecast awards to be received in 2021/22 to £0.75m.
- d) Leisure Centres – The Council agreed to an “open book” approach to the first year of operation and originally anticipated additional costs as a result of the impact of the pandemic. However, user numbers and performance to date has been very positive and early estimates now suggest a budget saving of £0.5m for the year.
- e) Project Delivery Resources – Pressures on council teams in relation to progressing significant regeneration work (progressing central Winchester and other regeneration feasibility work, etc) will require additional short term resources (£0.4m in 2021/22 and £0.6m in 2022/23).
- f) Core Service Capacity – A number of services continue to experience increased demands at a time when they are also directly involved in supporting the recovery from the Pandemic. It is therefore proposed to utilise £200k of the projected surplus to provide short term additional capacity to support teams address this demand.

12.3 In light of the above factors, the revised forecast underspend for 2021/22 is now projected at £0.415m. It should be noted that this is subject to the

potential impact of further control measures should infection rates continue to increase.

- 12.4 **Supporting “Agile”/flexible working** – Proposals to support staff returning to the office but maintaining a degree of flexible working will require additional investment in IT infrastructure to be effective. This will include a migration from a “citrix” environment and fixed desk provision to laptops and docking stations for most staff. Costs are projected at £300k and it is proposed to fund this from the tranche 5 Covid grant.
- 12.5 **Parking Income** - The 2021/22 budget included provision for a three year sliding scale contingency built in to allow for the continued impacts of covid, particularly relating to car parking and commercial income (20% / 10% / 5%). Car parking has recovered well in the city but more slowly elsewhere. Income has continued to recover on a monthly basis. However, it is expected the full contingency budget will be required in 2021/22 to deal with shortfalls compared to previous income levels.
- 12.6 **Hampshire Cultural Trust** – The Trust has approached the Council seeking support for the development on an interactive exhibition/visitor attraction based on Anglo Saxon Winchester and linked with Ubisoft’s “Assassin’s Creed - Valhalla” action adventure game. The attraction is proposed to open in the city in 2022 and is anticipated to attract both regional and national attention. The attraction is likely to result in significant visitor numbers, which will have a direct impact on the local economy and “High St recovery” work. The Trust is seeking a £75,000 grant to support the proposal. The grant can be financed from the Grants reserve and subject to the agreement of appropriate terms and conditions, this allocation is recommended for approval subject to various funding conditions.

13 **Government Funding Assumptions**

- 13.1 A three year funding settlement is expected to be confirmed covering 2022/23 to 2024/25 at the end of October. There remains a strong likelihood that this will not give certainty of funding over this period as there could be staggered funding changes built into the settlement.
- 13.2 A reset of retained business rates growth is still highly likely but the commencement of the reset is forecast to be pushed back to April 2023.
- 13.3 New Homes bonus will end in 2022/23 and further details on any replacement scheme are awaited. Any new scheme is not expected to bring significant financial reward to district councils so the MTFP’s in Appendix A assume no replacement funding.
- 13.4 The lower tier services grant is expected to continue for one more year in 2022/23.

- 13.5 It is not certain that any changes in funding will occur over the three year settlement but it is expected that some will and some may wait until 2025/26. Government have previously applied a 'damping formula' to avoid any 'cliff edge' reductions in funding. A business rates reset alongside the ending of new homes bonus would significantly reduce funding and therefore an estimated damping model has been applied to the MTFP from 2023/24 to 2025/26. This model assumes a maximum reduction in total funding of 10% per annum.

14 **Council Tax**

- 14.1 Council tax referendum limits for districts are expected to once again remain at 2% or £5.
- 14.2 The MTFP assumes an annual tax base increase of 1.2%. This will be updated with final agreed figures around the end of November.
- 14.3 Council tax increases remain at maximum pro-rata across District. MTFP currently assumes 3% in 22/23 and 23/24 and then reducing to 2% in line with inflation forecasts.
- 14.4 Depending on the tax base distribution this could mean a maximum increase of approx. 2.97% for both the town and district, which is below the CPI inflation rate of 3.2% in July 2021. The maximum increase is impacted by the town tax base increase compared to the overall district average increase. If the town tax base increase is higher than the district average then this reduces the maximum precept increases due to the methodology behind the £5 limit.

15 **Budget Options/Proposals for 2022/23 and beyond**

- 15.1 The medium term financial projections approved as part of the 2021/22 budget in February 2021 projected a shortfall of £0.33m in 2022/23 increasing to £2.2m by 2025/26. These projections have been updated and forecast that a balanced budget can be delivered for 2022/23, although a deficit of £1.0m is forecast for 2023/24, increasing to £3.6m by 2025/26, as set out in Appendix A.
- 15.2 No significant changes are proposed for the 2022/23 budget. The following items have been included in the updated medium term projections included later in this report. Where appropriate, alternative options are highlighted and the Cabinet is asked to comment on and indicate which options they wish to see used to prepare final budget proposals in February 2022.
- a) Garden Waste Income – Whilst additional income was always projected for 22/23, it is proposed that a further £100k should be included in base budgets based on the high levels of subscriptions in the first year. No inflation increase is proposed for 2022/23.

- b) Garden Waste Discount – The option of offering a subsidy to residents in receipt of Council Tax support has been reviewed. The majority of Hampshire councils offer no concessions for garden waste collection services and no provision for a discount is assumed in budget projections set out in Appendix A. Two councils offer what equates to a 20% discount and a third offers a 50% discount (not including the cost of the bin meaning the concessionary charge still £64 for first year subscription). It is proposed that a £10 discount for residents in receipt of council tax support be offered for subscriptions from March 2022.

Concessionary charges in Hampshire:

| Council | Standard subscription (Inc. bin provision) | Concessionary Rate (Inc. bin provision) |
|-------------|--|---|
| Eastleigh | £39.50 | £31.50 |
| Basingstoke | £95 | £83.41 |
| Hart | £90 | £64 |

Options for a concessionary rate for Winchester City Council residents include:

- **20%** - A 20% discount on Winchester's charge for a 140lt bin (£39) would result in a concessionary charge of £31.20.
 - **25%** - A £10 discount resulting in a charge of £29 for a 140 lt bin and £49 for a 240lt bin and would result in the lowest concessionary charge in Hampshire. This would result in income losses of an estimated £10,000 from existing customers but would offer a clear incentive for those in receipt of Council tax support.
 - **50%** - A 50% discount would equate to a charge £19.50, although this would not be sufficient in the first year to cover the cost of providing the bin and would result in income losses of an estimated £20,000 from existing customers.
- c) Provision for reduced Parking Income – It is proposed that the 10% provision for continued income losses is retained. Adopting a more cautious position will result in a deficit on the budget projections. Current indications would indicate that the 10% provision is reasonable but this will be kept under review.
- d) No inflation provision for off street car parking in April 2022 – Parking charges were last increased in October 2020. Occupancy levels in city centre car parks are very positive with full occupancy achieved in the central area, illustrating a strong recovery for the city. However, capacity remains in other car parks. The budget forecast in Appendix

A assumes a 3% increase in the central car parks in the Air Quality Management area and a freeze in all other car parks (including park and ride) with effect from October 2022. However, it is proposed to review options in detail for both “off street” and “on street” charges and bring a further report back to Cabinet prior to any further price changes to ensure that pricing changes (potentially decreases as well as increases) fully support the aspirations of the Movement Strategy, Parking and Access Strategy and Cycling and Walking Infrastructure Plan.

- e) Fees and charges – In addition to parking charges, the Council sets fees and charges for a range of services. These charges seek to ensure that the cost of the relevant service provision is met by service users rather than from the wider council tax base. Charges were reviewed in detail in March 2021 (CAB3295 refers). With current consumer price index inflation running in excess of 3%, it is recommended that, where appropriate, an average 3% increase is applied to fees and charges (except where charges are subject to regulation and set nationally) to ensure appropriate cost recovery is maintained. Full detail of individual charges will be brought to the next meeting of Cabinet.

It is projected that a 3% increase will generate an additional £30,000 of income. If Cabinet determines a lower increase or no increase, this sum will be removed from the budget projections.

- f) Project Delivery Resources – As indicated in 12.2 e) above, £0.6m has been included in projections for 2022/23 to support additional project delivery resources. It is proposed to fund the £0.4m in 2021/22 from the forecast surplus and this £0.6m in 2022/23 from the Transitional Reserve.
- g) Community Grants – No changes to the current budget provision for community grants is proposed as part of this report. However, scope to provide additional support for this area, potentially by seeking external funding contributions, is being reviewed and will be reported to a future meeting of the Health and Environment Policy Committee.
- h) Council Tax – With inflation running in excess of 3%, a Council Tax increase of 2.97% (equivalent to the maximum £5 increase) would be reasonable. However, Cabinet may wish to consider a below inflation increase, which would allow the Town Account to increase its precept above inflation to address budget pressures on Town services. The table below gives a few examples of the possible increases by the town and district:

| District | | Town | |
|----------|---|------|---|
| % | £ | % | £ |

| | | | |
|-------|---------|-------|--------|
| 2.97% | 225,015 | 2.97% | 31,908 |
| 2.75% | 208,347 | 4.50% | 48,345 |
| 2.50% | 189,406 | 6.25% | 67,146 |

If Cabinet opt to set a district Council tax increase of less than 2.97%, the income figures in Appendix A will need to be amended to reflect the above differences. A zero increase will add £225k to overall net cost figures.

15.3 In addition to the above 2022/23 proposals, some additional issues will impact on future years and whilst only early estimates at this stage, have been included in the Medium Term Projections set out in this report. These include:

- a) Potential loss of Traffic and Parking Agencies – The existing agency agreements are ongoing until either party gives appropriate notice. Hampshire County Council has indicated an intent to make a Decision to exit the agency agreement. This will be subject to a future report once a clearer position is known, but could result in a net cost to the General Fund of an estimated £250k per annum. Whilst TUPE would apply and HCC would be liable to any additional one off costs, the cost of “off street” parking services would increase.
- b) Ongoing reduced parking income – There is potential for parking income to reduce in future years as a result of the impact of flexible working, measures to reduce city centre traffic and changes to city centre parking provision. An estimated £0.5m reduction from 2024/25 has been included in the projections but obviously will require further work.
- c) Revenue Provision for ongoing Carbon Reduction feasibility work – existing provision will be exhausted by March 2023 and therefore £100k has been added to base budget projections from 20223 onwards.
- d) Bar End Depot – The revenue impact of the proposed disposal of the Depot site (or income should the site be regenerated by the Council) of £300k has been included in projections from April 2024.
- e) Provision for future Asset Management – The Asset Management Strategy will be brought to Cabinet for approval later this year. It is anticipated that additional provision will be required in future years over and above the existing reserve provision and an annual contribution of £250k to the Asset reserve is proposed to be reinstated from April 2024.

- 16.1 The Medium Term Financial Projections (MTFP) have been revised taking into account all items in section 15 above. There is potential for a better than forecast Government Spending Review announcement at the end of October which would reduce the deficits forecast in the table below. However, based on current assumptions, the budget options proposals set out above result in a balanced budget for 2022/23 and a potential £1.0m deficit by March 2024. The Transitional Reserve is projected at £2.989m by that time and it is therefore possible to cover the forecast deficit for 2023/24. However, it must be noted that forecast deficits continue to increase in future years and it will be necessary to reduce net operating costs by April 2024 to address this. The Medium Term Financial Strategy set out in section 17 below includes proposals for a strategic service review, to commence this year with a view to identifying appropriate measures to reduce net operating costs prior to finalising the 2023/24 budget. The table below illustrates the projected deficits to March 2026, further detail of which is included at Appendix A:

| General Fund Revenue (£m) | Forecast 2021/22 | Forecast 2022/23 | Forecast 2023/24 | Forecast 2024/25 | Forecast 2025/26 |
|-------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Budget Surplus / (Shortfall) | 0.415 | 0.136 | -1.037 | -1.962 | -3.592 |
| <i>% of Gross Expenditure</i> | <i>-1.4%</i> | <i>-0.5%</i> | <i>3.3%</i> | <i>6.0%</i> | <i>10.8%</i> |

17 Medium Term Financial Strategy

- 17.1 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.
- 17.2 The key proposals for achieving long term budget sustainability for the General Fund include:
- a) Utilising the Transitional Reserve in the short term (up to 23/24) to cover forecast deficits and maintain a balanced budget
 - b) Commencing a programme of strategic service reviews with a view to reducing net operating costs by £2m by March 2024, with all measures to be identified and agreed by March 2023.
- 17.3 Financial projections in Appendix A are shown over a ten year period to 2030/31 in order to provide insight into the longer term financial sensitivities and the earmarked reserves strategy.
- 17.4 The budget options set out in this report, if approved in February 2022, contribute towards a balanced budget through to March 2024.

- 17.5 Reserves are projected to reduce significantly over this period. The Transitional reserve can be used to maintain a balanced budget through to 2023/24, with the remainder providing cover for the risk of forecasts being worse than projected in this report.
- 17.6 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 economic pressures and announcements of potential failures and issuing of section 114 notices are increasing.
- 17.7 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.

18 Medium Term Financial Planning

- 18.1 The existing MTFS grouped the medium term financial challenge options around five themes; transformation, efficiency, asset management, income generation and enabling partnerships. Whilst it is proposed to retain these themes, they will be incorporated into the Strategic Service Review process which will aim to identify options for reducing net operating costs by up to £2m by March 2024 and £4m by March 2025. Whilst the review process and timetable has yet to be finalised, it will incorporate:
- a) Funding – Detailed analysis of impact of Spending Review announcements, use of existing and future non ring fenced grant funding, scope for accessing additional funding programmes etc
 - b) Modernising service delivery/Transformation – A focus on digital transformation and “channel shift” (but with targeted support where required, a review of the potential for adopting a more commercial approach, removing unintended barriers/blockages between teams/services etc
 - c) Asset Management/Regeneration – Making best use of existing buildings/assets, bringing forward development of existing assets to improve return on investment etc. Some early opportunities existing with currently vacant buildings, although most opportunities will only contribute to longer term deficits, once developments are completed and operational.
 - d) Efficiency – The 2021/22 budget process reduced net operating costs by over £3m and scope for further efficiency savings will be limited. However, whilst previous “salami slicing” style targets for budget holders will be of very limited benefit, a coordinated “cross service”

efficiency programme can still make an important contribution towards the process

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.

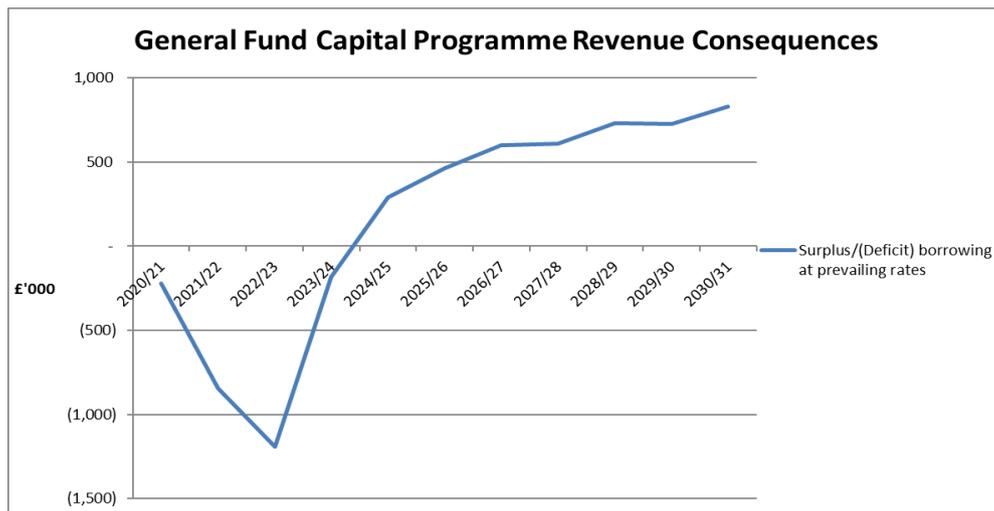
- e) Income Generation - Opportunities to invest which also generate a financial return, either through reductions in cost or income generation, are assessed on a case by case basis. Current economic pressures as well as the recent changes to borrowing restrictions has had a significant impact on the scope for income generation from investment. However, opportunities will continue to be reviewed in line with the SAP governance process.

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. It is important that fees for specific services are fully met by those benefiting from the service, rather than subsidised by the general tax payer where ever possible.

- f) Grants/Partnerships – The Council administers a well-established grants programme which underpins the work of core partners. The Council also operates an effective IT service partnership with Test Valley Borough Council. Scope to switch existing direct service delivery to shared services through partnerships or partner delivery funded by grant will need to form part of the Review process.

19 **General Fund Capital**

- 19.1 The Council has an ambitious general fund capital programme totalling more than £60m over the next 10 years. Not all projects provide savings or generate income but, in aggregate, the capital programme approved by Council in February 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 A large part of the capital receipts reserve is now committed to existing projects in the programme. 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. Where the council has existing resources (e.g. reserves) it is able to “internally” borrow

and so delay the need to externalise its borrowing requirement; this reduces interest costs in the short term. The council's capital financing requirement (unfinanced capital expenditure) as at 31 March 2021 is shown in the table below:

| Capital Financing Requirement | General Fund £000 | Housing Revenue Account £000 | Total £000 |
|--------------------------------------|------------------------------|---|-----------------------|
| 31 March 2021 | 68,131 | 178,177 | 246,308 |
| Made up of: | | | |
| External borrowing | 0 | 166,722 | 166,722 |
| Internal borrowing | 68,131 | 11,455 | 79,586 |

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. 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.

MTFS Forecast Assumptions and Sensitivity Analysis

- 19.6 The tables below show the main assumptions used in the MTFP. These are central case assumptions based on the best knowledge available at the time of publishing, further updates will be made later in the process for example when the finance settlement is confirmed.
- 19.7 The highest risk assumptions are those outside of the control of the council such as government funding and contract inflation.
- I. There is a great deal of uncertainty around the finance settlement which has made medium term forecasting very difficult and therefore increasing the risk of either a favourable or adverse outcome. As there is less risk around the long term projections it is anticipated that the timing of transformation and savings plans will need to be agile enough to be brought forward should that be required.
 - II. CPI jumped from 2.0% in July to 3.2% in August and is expected to remain volatile in the short-term. The council has a number of high value contracts, such as environmental services, which means the MTFP is sensitive to spikes in inflation. A forecast of 3.5% has now

been included in projections for 2022/23 but reducing back to the target 2.0% from 2023/24. If inflation does remain high past 2022/23, or even continues on an upward trajectory, then forecasts will need to be revisited bearing in mind that each 1% increase has a baseline cost of £109k per annum.

| | 2022/23 | | | |
|---------------------------------|---------|---------|------------------------------|---------|
| Key Assumptions | % | £000 | Sensitivity +/- 1% (£000) | |
| Income / Funding | | | | |
| District Council Tax Increase | 3.0% | 227 | 76 | |
| Fees and Charges | 3.0% | 30 | 10 | |
| Car Parking Fees | 0.0% | 0 | 74 | |
| Expenditure | | | | |
| Contractual Inflation | 3.5% | 381 | 109 | |
| Employee Pay Inflation | 2.0% | 350 | 175 | |
| Central Case Assumptions | | | | |
| | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| Income / Funding | | | | |
| Council Tax Increase | 3.0% | 3.0% | 2.0% | 2.0% |
| Council Tax Base | 1.2% | 1.2% | 1.2% | 1.2% |
| Fees & Charges | 3.0% | 3.0% | 3.0% | 3.0% |
| Income Contingency | -10.0% | -5.0% | 0.0% | 0.0% |
| | -1.825 | -0.913 | 0 | 0 |
| Government Funding (Incl. NNDR) | 6.508 | 5.345 | 4.034 | 3.136 |
| | | -18% | -25% | -22% |
| Expenditure | | | | |
| Contractual Inflation | 3.5% | 2.0% | 2.0% | 2.0% |
| Employee Pay Inflation | 2.0% | 2.0% | 2.0% | 2.0% |

20 Strategic Reserves

- 20.1 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.

- 20.2 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.
- 20.3 The creation of a new Transitional 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).
- 20.4 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.
- 20.5 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.)
- 20.6 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.

20.7 Total General Fund earmarked reserves, before proposals in this paper, are forecast to reduce from £33.9m at 01 April 2021 to £19.5m at 31 March 2026. The forecast closing balances (31 March 2026) of key earmarked reserves are summarised below;

- a) Operational reserves (£2.5m), 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 (£3.7m), 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 (£4.3m), 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 (£9.0m), 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.

20.8 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.

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

21 Balances / risk reserves

21.1 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.

21.2 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.

22 Adequacy of reserves and robustness of estimates

22.1 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.

- 22.2 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.
- 22.3 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.
- 22.4 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.

23 OTHER OPTIONS CONSIDERED AND REJECTED

- 23.1 Scope for additional savings in 22/23 to reduce the use of reserves 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:-

CAB3276 -_General Fund Budget Options and Medium Term Financial Strategy dated 16 December 2020

CAB3289 - General Fund Budget 2021/22 dated 11 February 2021

Other Background Documents:-

APPENDICES:

Appendix A – Medium Term Financial Projections – General Fund

Appendix B – General Fund Earmarked Reserves