

REPORT TITLE: WINCHESTER TOWN ACCOUNT MEDIUM TERM FINANCIAL POSITION

9 NOVEMBER 2022

REPORT OF FINANCE MANAGER (STRATEGIC FINANCE)

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WARD(S): WINCHESTER TOWN

PURPOSE

To provide an update on the current budget setting options and considerations for the four year medium term period from 2023/24 to 2026/27. This planning will enable the Town Forum to recommend a budget and precept for 2023/24 to Cabinet in January 2023.

RECOMMENDATIONS:

1. Identify any budget issues to consider further in advance of recommending a Town Account Budget to Cabinet in January.
2. Consider any feedback to Cabinet in relation to the wider budget consultation.

IMPLICATIONS:

1 COUNCIL PLAN OUTCOME

- 1.1 This report sets out the current financial position including the latest medium term financial projections. Budget options will be considered in line with the Council Plan.

2 FINANCIAL IMPLICATIONS

- 2.1 Identifying and analysing the financial risks and pressures helps to ensure the effective prioritisation of resources in order to deliver the Council Plan and maintain a balanced budget.

3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 None identified

4 WORKFORCE IMPLICATIONS

- 4.1 None

5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 This paper reflects the budgets and funding associated with town assets such as play areas and sports facilities.

6 CONSULTATION AND COMMUNICATION

- 6.1 This report has been discussed with the town account informal group, relevant staff and advisors.

7 ENVIRONMENTAL CONSIDERATIONS

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

8 PUBLIC SECTOR EQUALITY DUTY

- 8.1 None

9 DATA PROTECTION IMPACT ASSESSMENT

- 9.1 None

10 RISK MANAGEMENT

- 10.1 The main source of funding for baseline recurring expenditure is the town precept. As a stable source of funding overall financial risk is therefore relatively low but consideration must be taken of the requirement for the town

to keep within government referendum limits (a restriction not currently applicable to parish councils).

- 10.2 In recent years one-off expenditure (capital or revenue) has been funded up-front from the town reserve or external funding. This policy needs review due to the current financial estimates and pressures from both inflation and unavoidable growth.

Risk	Mitigation	Opportunities
<i>Failure to set a balanced budget over the medium term.</i>	<i>Financial projections are shown up until 2026/27 and the scenario planning highlights the potential sensitivities. Planning over a longer period will help to ensure understanding of the scale of the financial challenges and early planning enables enough lead in time for the implementation of the budget options.</i>	<i>Long term strategic planning. Innovative funding streams. Transformational efficiency savings.</i>
<i>Council's service priorities are not reflected in the budget.</i>	<i>The budget planning process, including the process of outcome based budgeting and the informal account group meetings which review the detailed budgets and strategy.</i>	<i>Ensure the prioritisation of resources to best meet the outcomes of the authority.</i>
<i>High levels of contractual inflation and the continuation of current precept referendum limits.</i>	<i>Medium term financial planning and sensitivity analysis highlighting the challenges posed by high inflation.</i>	<i>Transformational efficiency savings.</i>

11 SUPPORTING INFORMATION:

Background

- 11.1 WTF310 Winchester Town Account Financial Planning 2023/24 introduced the budget setting process, the key principles, and updated medium term financial projections to 2026/27.

- 11.2 The Winchester Town Forum (Informal Account) Group met in October 2022 in order to establish the key focus of the budget process and any priority resource considerations to bring back to the Town Forum.

Winchester Town Precept

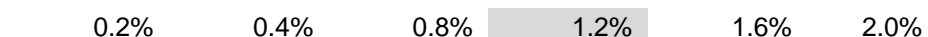
- 11.3 The town precept for 2022/23 was set at £76.71 (per band D property). The decision on the level of council tax for 2023/24 will be taken at Council in February.
- 11.4 The town will need to consider its proposed strategy for the Town Precept but will need to bear in mind that any decisions will be subject to 'referendum limits' and may be impacted by decisions taken on the level of district Council tax.
- 11.5 It is currently anticipated that the overall referendum limit for the Council in 2023/24 will remain at either 2% or £5, as was set for 2022/23. This would mean the maximum district and town increase would be c2.9% (with the maximum increase for the town or district interrelated with each other, for example if the district increased by a lower percentage then the town could increase by a higher percentage and still remain within the overall referendum limit).
- 11.6 The potential additional annual income generated by increasing the Town Precept is shown in the table below. The financial projections in Appendix A currently assume a 3% increase.

Effect of increasing the Town Precept 2023/24*

% MAX District Increase	% TOWN Precept Increase	Additional Income £000	Precept
	0%		£76.71
	1%	11	£77.48
2.90%	2.90%	32	£78.93
2.85%	3.00%	33	£79.01
2.70%	4.00%	44	£79.78
2.50%	5.50%	61	£80.93
2.00%	9.00%	99	£83.61

* To note these estimates are prior to finalisation of the council tax base for 2023/24 so are subject to change.

- 11.7 The forecasts are currently calculated using an average increase in properties of 1.2% per annum. The final budget will be updated when the forecast Council Tax Base is approved in December. The effect of increases to the base on income are illustrated below:



Increase in Properties	29	58	115	173	230	288
Increase in Council Tax (£000)	2	5	9	14	18	23

Budget Review 2023/24

11.8 As highlighted in September's financial planning paper (WTF310), the town account is facing significant financial pressures due to high levels of forecast contractual inflation and additional revenue budget pressures. Detailed consideration of the potential budget options is needed to ensure a balanced budget is able to be set for 2023/24 as well as ensuring an adequate town reserve balance over the medium term.

11.9 Appendix 1 shows the latest forecasts including the growth bids identified in 11.12 below. Savings of £112k to be identified for 2023/24 or £156k per annum over the four year period to the end of 2026/27, in order to maintain the reserve target balance of 10%.

	2023/2024 Forecast	2024/2025 Forecast	2025/2026 Forecast	2026/2027 Forecast
Forecast reserve balances	(5,631)	221,662	352,521	494,402
Shortfall to 10% Reserve Target	111,808	344,302	478,482	623,686

11.10 Given the scale of the financial challenge the informal accounts group have highlighted a number of areas for review and welcome feedback from the wider town forum on which options should be considered further ahead of recommending a budget in January:

- a) A review of the play area refurbishment programme is underway in order to determine what options are available within the current programme. Whilst still at very early stages it is likely that options will involve the decommissioning of one or two underused play areas, adaptation of the current programme where some existing equipment remains in good working order, and the potential to delay one or two projects. The focus of the review is to continue to maintain a high standard of play areas within the town area but to consider both the best use of funds and the environmental impact of replacements.
- b) Review the current capital funding strategy in order to determine whether to fund the play area refurbishment programme from borrowing rather than the town reserve. This could improve the town reserve position over the four year medium term period by between £200k - £250k. Whilst this is not a saving because the borrowing would be repaid in full plus interest, it would significantly improve reserves in the medium term and mean savings could be identified over a much longer timeframe.

- c) Increase the precept by more than the current estimate of 3%. The ability to do this would depend on the district precept for 2023/24, examples are shown in 11.6 above.
- d) Review all discretionary budgets in order to prioritise resources. This could mean either permanent or temporary reductions to certain discretionary spend. Discretionary budgets are considered to be:
 - i. Grants bidding process and vision delivery - £33k
 - ii. Theatre Royal - £20k. Consideration to be given that this grant award has been offered in principle to the end of 2024/25, subject to budget availability.
 - iii. Night Bus contribution - £10,935.
 - iv. Additional recreation grounds and open spaces budget (approved in February 2022) - £50k.
- e) Recreation and Open Spaces net expenditure accounts for almost 70% of the total town budget and therefore a review is planned to obtain a better understanding of the areas of expenditure (for example is it possible to obtain data on different types of sports) and whether there are options to reduce the current contractual expenditure. Reducing contractual expenditure would need to be within the scope of the existing contract and it is likely that detailed options will not be ready for January Town Forum meeting.
- f) Review the growth bids that have been identified in 11.12 below and either reject or reduce these proposals.
- g) A review of fees and charges covering cemeteries and open spaces. Whilst it is anticipated there is limited scope to generate significant additional income it is important to ensure that fees are appropriately benchmarked on an annual basis to ensure they are set at the right level.

11.11 The following budget growth proposals have been identified during the budget review process:

- a) Urgent tree maintenance expenditure is rapidly increasing after being identified during the current tree survey programme. A proposal has been made which estimates that additional town expenditure of £21,864 is required in 2022/23 and then subsequently £11,864 from 2023/24 onwards.
- b) A review of bus shelters has been undertaken and WTF312 identifies additional budget requirements of £10k per annum from 2023/24.

11.12 Along with the options above it is important not to lose sight of the below priorities, which may have medium and long term financial implications on the town account:

- a) The Vision for Winchester 2030 (update per WTF300) details an ambitious plan to help shape the future of the city over the next ten years. Whilst not all elements of the plan will require a financial contribution, it is clear that resources will be required over the medium term.
- b) The town is committed to the development of high quality sports provision, with two major sports pavilion projects planned at North Walls and KGV. Both of these projects are likely to require both capital and ongoing revenue resources. The financial projections will be updated as soon as these details are known and approved.

11.13 **Community Infrastructure Levy (CIL)** – the Neighbourhood CIL (Town) receivable balance stood at £1.209m as at April 2022. Commitments include £0.295m towards North Walls Pavilion; £0.250m towards KGV Pavilion, £0.099m Fencing and Floodlighting improvements at North Walls; £0.050m towards a proposal from Abbots Barton Scouts; £0.073m towards Weeke access road; and a £0.010m Milland road bid.

- The principles for spending the Winchester Town Forum's share of CIL were approved in November 2016 (see WTF245), in order to provide for the community led improvement of the environment and infrastructure in the Winchester Town.
- A budget of £100k has been set for 2022/23 in order to progress the awarding and payment of CIL contributions to agreed projects. Consideration is to be given as to whether a similar budget should be set for 2023/24.
- Planning is underway to understand the facilities required at North Walls after the closure of River Park Leisure Centre. Additional infrastructure plans will be considered for CIL funding allocations.
- Based on historic receipts around £150k to £200k of town CIL is expected per annum. There are risks around relying on this funding as reductions in development in the town area or changes to the CIL scheme could significantly impact on future receipts. As such this future forecast is used for planning purposes but is not to be committed to schemes as certain funding.

11.14 The following central case assumptions have been used in the financial forecast shown in Appendix 1:

	2022/2023 Forecast	2023/2024 Forecast	2024/2025 Forecast	2025/2026 Forecast
Assumptions:				
Contract inflation	7%	10%	5%	4%
Utilities	200%	5%	5%	5%
Percentage increase in tax	3%	3%	3%	3%
Tax Base	1.2%	1.2%	1.2%	1.2%

11.15 The sensitivity of the above assumptions is as follows:

- a) Contract Inflation is around £6k per 1%. If inflation were 15% for 2023/24 then this would cost an additional £30k per annum.
- b) Utilities costs were approximately £11k in 2021/22 so a 200% forecast increase for 2022/23 is an additional cost of £22k per annum.
- c) A 1% precept increase generates additional funding of c£11k per annum.
- d) A 1.2% tax base increase generates additional funding of c£13k per annum. Whilst 1.2% is a reasonable long term forecast increase per annum, there can be significant year-on-year deviations to this average.

Capital Expenditure

11.16 Capital expenditure is either funded directly from the Town Account Earmarked Reserve, external funding such as CIL, or through the General Fund and repaid over the life of the asset (along with interest).

11.17 In January 2017 (WTF250) the Town Forum approved a strategy to fund the long term requirements of the play area refurbishment up until the end of 2024/25, from the Town Account Earmarked Reserve. Play area refurbishments in the town make up the largest proportion of town capital expenditure as shown below.

11.18 The following budgets are currently included within the capital programme:

- i. Changing Pavilion North Walls - £800k total budget (£727k remaining 2022/23 budget) funded by CIL of £295k, S106 Open Space funding of £256k, £205k external funding and Winchester Town Reserve of £44k.
- ii. King George V Pavilions - £228k of S106 Open Space funding has been earmarked towards this project as well as £250k of Town CIL.

- iii. Play Area Refurbishments - £834k from 2022/23 to 2025/26. A baseline projection of £150k per annum has been included in Appendix A from 2026/27 onwards.
- iv. North Walls floodlight and fencing upgrade - £99k funded by Town CIL (of which £72k remaining to spend in 22/23).
- v. North Walls tennis courts surface upgrade - £150k funded by annual capital financing costs.

Reserves

- 11.19 The Winchester Town Account earmarked reserve is available to support planned one-off expenditure over the medium term as well as a contingency balance of 10% of the total annual net expenditure which is set aside to deal with any urgent / unexpected requirements.
- 11.20 The current forecasts in Appendix 1 show a large reserve deficit building up to over £494k by the end of 2026/27. This must be addressed through the budget process and specifically through the budget options identified above.
- 11.21 The increased risks identified in this report and caused mainly by contractual inflation have led the informal accounts group to consider whether a 10% balance remains sufficient. An increase to 15% would give a greater buffer from any risks and uncertainties but would also further increase the already challenging budget process. One option could be to target an increase to 15% over the medium term in order to give time to put the strategy into action.
- 11.22 Currently the capital budget forecasts listed above, particularly the significant programme of play area refurbishments are planned to be funded from the Town reserve. It is therefore important that long term planning ensures funding is in place to support these projects.
- 11.23 It should be noted that the forecast reserve balance shown in Appendix 1 does fluctuate on a year-by-year basis and individual end of year balances are impacted by 'lumpy' one-off expenditure such as the play area refurbishments.

12 OTHER OPTIONS CONSIDERED AND REJECTED

- 12.1 None, this paper sets out the current financial position

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

Winchester Town Account Financial Planning – WTF310 – September 2022

Town Account Budget for 2022/23 – WTF306 – January 2022

Other Background Documents:-

None

APPENDICES:

Appendix 1: Medium Term Financial Projections