

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

15 NOVEMBER 2022

REPORT OF CABINET MEMBER: Cllr Margot Power, Cabinet Member for Finance and Value

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WARD(S): ALL

PURPOSE

All councils are facing serious and immediate pressures as a result of global and national issues that have resulted in increased energy costs, inflation running at over 10%, increased interest rates and general economic volatility. No immediate Government support is anticipated, and councils will have to make difficult decisions and to use reserves to achieve a balanced budget for 2023/24 and beyond.

After the emergency revised budget that was approved during the pandemic and a further £3m savings approved in 2021/22, scope to achieve budget reductions has been severely reduced in recent years. However, it is clear that further changes are needed and work is underway to identify strategic changes to service delivery to achieve this by 2024/25.

This report sets out the challenge for 2023/24 and beyond and includes some more immediate proposals to reduce the impact on Council reserves. Subject to changes being approved, it is possible to set a balanced budget although some call on the Exceptional Inflation Reserve approved in July 2022 is required to achieve this. 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.

RECOMMENDATIONS:

That Cabinet:

1. Note the projections set out in Appendix A to this report and support the proposal that the Exceptional Inflation Reserve be used if required to address the forecast deficit for 2023/24.

2. That, subject to final Government Spending Review announcements in December 2022, any additional grant award (such as continuation of New Homes Bonus) not included in current forecasts be used to fund the forecast deficit before reserves are used.
3. Approve the Medium-Term Financial Strategy as set out in sections 22-28 of the report.
4. Approve an increase to Garden Waste subscriptions with effect from November 2022 in order to achieve cost recovery, resulting in charges increasing to £43 for small bins and £65 for large bins. For residents in receipt of a council tax reduction, to increase the discount from £10 to £15 on the cost of purchasing the green waste service.
5. Approve that, following consultation, parking charges in Zone 1 (City Centre) car parks be subject to an increase in line with inflation (10%) and that charges and weekday charging periods or times for these car parks be extended to include Sundays and bank holidays with new overnight charging introduced, to be implemented as soon as is practicable. There is no increase to Park and Walk or Park and Ride charging as part of this recommendation.
6. That Sunday on-street parking restrictions within the Winchester Inner Area Parking Permit Zone and on city centre parking meters be added to the Traffic Regulation Order Programme for 22/23. The exact zones to be included will be subject to consultation.
7. Approve that, following consultation, parking charges in “market town” car parks be increased by a 20p flat amount on each chargeable rate; to £2.00 for the daily rate (where charged); and no change to season tickets, to be implemented as soon as is practicable. This change will not apply to the Alresford Station Car Park, where charges were amended recently.
8. Approve that other fees and charges be increased where appropriate in line with the September Consumer Price Index figure (10.1%) to address contractual increases, to achieve cost recovery or to bring a fee in line with the market norm and that the Section 151 officer be authorised, in consultation with the Cabinet Member for Finance and Value and the Cabinet Member responsible for the service, to approve a different fee where appropriate.
9. Approve that £450k of the Transitional Reserve be used to support a council wide transformation challenge programme, incorporating focussed independent reviews of key services over the next 6 months with the clear aim of determining longer term savings or income generation to support the delivery of the Medium-Term Financial Strategy and the Council Plan.
10. Approve that £900k of the existing “Business Rates Retention Reserve” be re-allocated to the “Exceptional Inflation Reserve”.
11. Approve that a detailed budget be prepared for consideration by Council in

February 2023 based on the above assumptions, final spending review announcements and including the following options:

- a. That grants to core housing providers totalling £68,000 be funded from the Homelessness Prevention Fund rather than the General Fund base budget
- b. That, in relation to staffing matters:
  - i. an additional “vacancy management” provision of £200k be included
  - ii. an additional £23k per annum be included to fund an additional tree officer to support the delivery of essential works.
  - iii. £250k be included to fund the outcome from a review of salaries and to maintain reasonable parity with neighbouring councils.
- c. That, in relation to the council’s regeneration programme:
  - i. as the existing contract for strategic development advice will end in early 2023, £150k is included for the next phase of professional advice needed to assist in preparing for the major decisions we will be bringing forward for regeneration projects
  - ii. £130k is included to fund staffing to support the move into delivery phase for our major regeneration projects from 2023 onwards
- d. that, in relation to services:
  - i. the annual transfer to the Asset Reserve be reduced from £250k to £100k in 2023/24 (one year only) and the transfer to the Parking reserve be suspended for one year only
  - ii. an additional £80k per annum be included to address the impact of the “On Street parking” agency ending in 2023
  - iii. an additional £50k per annum be included to fund additional “street scene works”
  - iv. an additional £67k per annum be included to fund essential health and safety related tree works
  - v. £15k per annum for 2 years be included to ensure existing grant funding for the Hampshire Cultural Trust can be maintained
- e. That Council Tax will increase in line with the Government referendum limits (currently a maximum of £5 for a Band D property).

IMPLICATIONS:1 COUNCIL PLAN OUTCOME

- 1.1 The budget approved in February 2022 (CAB3335 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 These are set out throughout the report. The medium-term financial projections have been updated to take account of inflation pressures. This has resulted in an increased forecast deficit for 2023/24 of £1.7m. This report includes savings proposals of £1.3m and additional growth proposals of £0.8m, resulting in a potential revised forecast of £1.2m. This can be met from the £2m Exceptional Inflation Reserve approved in July 2022. There is also potential for additional Government grant such as New Homes Bonus. Announcements regarding government funding will not be known until late December 2022. This report recommends that if any additional funding is announced in December, this be used to address the forecast deficit before any call is made on Council reserves.

<b>General Fund Revenue (£m)</b>	Forecast	Forecast	Forecast
	2023/24	2024/25	2025/26
<b>Budget Shortfall (Base case)</b>	<b>-1.728</b>	<b>-3.451</b>	<b>-4.133</b>
<b>Total Savings/Parking Strategy Changes</b>	<b>1.268</b>	<b>1.148</b>	<b>1.550</b>
<b>Total Growth Proposals</b>	<b>-0.765</b>	<b>-0.615</b>	<b>-0.615</b>
<b>Forecast Shortfall after savings/growth</b>	<b>-1.225</b>	<b>-2.918</b>	<b>-3.198</b>
<b>Additional Funding Options</b>			
Reserves (or possibly New Homes Bonus)	1.300	1.300	
<b>Strategic Budget Review/service efficiencies</b>		<b>1.750</b>	<b>3.500</b>
<b>Surplus / (Deficit)</b>	<b>0.075</b>	<b>0.132</b>	<b>0.302</b>

- 2.2 A range of sensitivity testing has been completed to assess the impact of inflation running higher for longer and of inflation recovering more quickly than currently forecast. Officers will continue to refine the forecasts through to when the detailed budget is brought forward in February 2023.

### 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 and a briefing at the bi-annual parish liaison meeting.
- 6.2 The council held a Residents Survey in 2022 and the views of a representative sample of over 1700 local residents across the district were sought. In addition to feedback on local priorities, views of emerging policy and the relative perceived importance of council services, questions were

asked on how to balance the budget in order to inform development of the MTFS.

- 74% agreed that the council should maximise use of its assets
- 74% agreed that the council should use reserves as far as possible
- 67% agreed that the council should reduce management costs
- 54% agreed that the council should dispose of council buildings
- 22% agreed that fees and charges should be increased
- 22% agreed that grants to the voluntary sector should be reduced
- 19% agreed that council tax should be increased

6.3 In reality a blended approach to balancing the budget will have to be adopted with the changing macroeconomic position and inflationary costs means that some less favourable options – such as increasing fees and charges – will have to be considered. However, a key part of the budget challenge sessions seek to determine how to make best use of assets and the emerging strategy does include some use of reserves.

## 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. A £200k per annum revenue budget will continue to fund Carbon programme delivery work with effect from April 2023.

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.

8.2 An equality impact assessment (EqIA) has been undertaken on the decisions recommended within this medium-term financial strategy report. No examples of the changes potentially affecting individuals or communities with protected characteristics differently in a negative way have been identified at this stage. Further EqIAs will be undertaken ahead of the implementation of detailed proposals.

## 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

<b>Risk</b>	<b>Mitigation</b>	<b>Opportunities</b>
<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 affecting income received by the council</p>	<p>The council is actively supporting high street recovery through a EM3 LEP grant working with local partners</p> <p>The council has £12m uncommitted revenue reserves available to support further increases to the projected deficit</p>	
<p><i>Financial</i> The council is unable to balance the revenue budget</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>	

## SUPPORTING INFORMATION:

10.1 This report sets out:

- a) An update and forecast in relation to the 2022/23 Budget
- b) A summary of Government funding assumptions
- c) Budget Options for the 2023/24 budget (detail to be considered by Council in February 2023)
- 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

## 11 Impact of Inflation and Economic Volatility

11.1 The existing budget and Medium-Term Financial Strategy (MTFS) had assumed a broadly balanced position for 2023/24 with any deficits met from reserves. Longer term deficits were to be addressed through the Strategic Budget Review which was to consider options for delivering services at less cost over the medium term.

11.2 However, the exceptional economic pressures referenced in the General Fund Outturn Report in July (CAB3352 refers) have increased throughout this year. In July, Cabinet approved the “Exceptional Inflation Reserve” of £2m to help address pressures in 2023/24.

11.3 Inflation increased to 10.1% in September. The energy price cap will help address concerns of further increases this year, but pressures remain, exacerbated by recent interest rate increases. All public sector bodies are in a similar position and experiencing very significant unplanned and unbudgeted costs, many without the healthy reserves this council has retained in recent years.

11.4 Revised forecasts have been prepared and are summarised in this report and indicate a very significant deficit for 2023/24.

11.5 The very high levels of inflation will set a new baseline for council costs far higher than predicted in February 2022. Government assistance with the challenge will be limited. Healthy general reserves have been retained to support this in the short term. However, decisions need to be made from now to address future shortfalls and options are set out in this report.

11.6 One positive from the economic pressures is the increased return from the council’s investments, which are forecast to be £700k more favourable than had been expected as a result of interest rate rises.

11.7 It is anticipated that much of this benefit will be removed from 24/25 when cash balances reduce in line with projected spend and the council takes on additional planned borrowing to support the delivery of its council plan.

## 12 2022/23 Budget Update

- 12.1 The latest forecast for the 2022/23 general fund budget was set out in the Quarter 2 Performance Report (CAB3367 refers) which has been reviewed by the Performance Panel and is included on the agenda for the Scrutiny Committee on 23 November 2022. Whilst the increased inflation and energy costs have impacted on the budget, reduced spend and increased income in some areas is expected to result in a balanced budget being maintained by March 2023.

## 13 Government Funding Assumptions

- 13.1 The promise of a 2-year settlement is now uncertain and the Fair Funding Review is not expected any time soon. Current indications are that Council Tax will remain capped at 2% (or £5) and no other assistance with inflationary pressures is anticipated, with Government encouraging local councils to utilise their reserves to manage through this period of volatility and uncertainty.
- 13.2 Some provision for New Homes Bonus to continue (or something similar) is expected (reserves still held by Govt for this) but there is unlikely to be any clarity on this until the end of December.
- 13.3 With no assistance with inflation pressures and no ability to increase council tax above the 2% or £5 limit, the Council will have to consider inflation linked increases to all fees and charges if it is to fund services in future years.

## 14 Council Tax

- 14.1 Council tax referendum limits for districts are expected to once again remain at 2% or £5.
- 14.2 The MTFs assumes an annual tax base increase of 2.4% (up from previous estimates of 1.2%). An increase of 2.4% is generating approximately an additional £190k p.a. of Council Tax Income. However, there are additional costs associated with additional properties (Environmental Services Contract cost is specifically increased based on number of additional properties).
- 14.3 The MTFs currently assumes a council tax increase of 2.5% in 2023/24.
- 14.4 Depending on the tax base distribution this could mean a maximum increase of approx. 2.9% for both the town and district, which is below the CPI inflation rate of 10.1% in September 2022. 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 Medium Term Budget Forecast

15.1 The revised forecast indicated in the table below takes account of increased inflation (assumes 10% increase on contracts, 5.5% on pay and 100% on energy costs). The forecast assumes inflation will fall in future years but not reach the Bank of England 2% target at least until 2026.

15.2 In addition to the inflation increases, other pressures, such as reduced parking income, reduced commercial rent income and increased spend on waste collection result in a projected deficit of £1.7m in 2023/24 increasing to over £4m by 2026. Measure to address this deficit are set out later in the report.

### Assumptions:

Council Tax Base	2.4%	1.2%	1.2%
Council Tax - Band D £	2.5%	2.5%	2.5%
Contractual Inflation	10.0%	5.0%	4.0%
Pay Inflation	5.5%	4.0%	4.0%
<b>Covid Contingency - Reduction in Income</b>	<b>3.5%</b>	<b>0.0%</b>	
<b>General Fund Revenue (£m)</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>
	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
<b>Funding</b>			
Winchester District	8.165	8.470	8.786
Winchester Town	1.068	1.081	1.094
Council Tax (excluding Parish Precepts)	9.233	9.551	9.879
Retained Business Rates	6.149	6.272	6.397
New Homes Bonus			
<b>Lower Tier Services Grant</b>			
<b>Services Grant</b>			
Damping Forecast	0.000	0.000	0.000
Other Grants	0.349	0.349	0.349
	<b>15.731</b>	<b>16.172</b>	<b>16.626</b>
<b>Investment Activity</b>	2.505	1.547	1.521
<b>Resources available</b>	<b>18.236</b>	<b>17.719</b>	<b>18.147</b>
<b>Baseline Net Expenditure</b>			
<b>Gross Income</b>	<b>16.035</b>	<b>17.043</b>	<b>17.283</b>
<b>Gross Expenditure</b>	<b>-34.398</b>	<b>-35.768</b>	<b>-36.954</b>
<b>Baseline resource requirements</b>	<b>-18.363</b>	<b>-18.725</b>	<b>-19.671</b>
<b>One-off budgets &amp; Reserve Related Movements</b>	<b>-0.840</b>	<b>-1.045</b>	<b>-1.209</b>
<b>Total net resource requirements</b>	<b>-19.202</b>	<b>-19.770</b>	<b>-20.880</b>
<b>Budget Surplus / (Shortfall)</b>	<b>-0.967</b>	<b>-2.051</b>	<b>-2.733</b>
<i>% of Gross Expenditure</i>	2.8%	5.7%	7.4%
<b>Plus Unavoidable Growth</b>	<b>-0.761</b>	<b>-1.400</b>	<b>-1.400</b>
<b>UPDATED Budget Surplus / (Shortfall)</b>	<b>-1.728</b>	<b>-3.451</b>	<b>-4.133</b>

- 15.3 Unavoidable Growth – The additional budget pressures referred to in paragraph 16.2 above and in the table are summarised in the table below:

Issue	Annual Cost	Description
Existing Parking income – Reduced demand	£1m	City centre parking remains at capacity, but Park and Ride and Commuter parking have not returned. 23/24 still includes an assumption for reduced income (£639k) to offset this. 24/25 assumes full recovery but current indications are that this will not be achieved
Corporate Estate Rental Income	£300k	The current estate generates approx. £4m rental income. Some limited reductions are anticipated from 23/24 due to the economic climate.
Waste Contract Additional spend	£100k	Current budget is not sufficient to meet existing service costs (increased demand re glass collections for example)

## 16 Reserves

- 16.1 A summary of reserves is also included as appendix 3.
- 16.2 The “Exceptional Inflation Reserve” includes £1.8m to mitigate against the increased 23/24 forecast deficit. The Business Rates Retention reserve include £900k that is not required and that can be used to supplement the inflation reserve.
- 16.3 In addition, the “Transitional Reserve” established 3 years ago is £3.4m. It is proposed to use £450k of this reserve to support “invest to save” reviews of key services with a view to reducing longer term operating costs. The remainder can help mitigate future deficits.
- 16.4 It should be noted that major projects and regen work is usually funded from the Major Investment Reserve. With existing commitments, there is only just over £3m remaining in that reserve and all future business cases for regen work will need to take this into account (a clearer and stronger focus on financial viability). Whilst many costs can be capitalised and funded from borrowing if works proceed, upfront investment has been high for previous projects, arguably with insufficient focus on cost recovery.

## 17 Budget Options/Proposed Savings

- 17.1 Whilst it was originally planned to fund all 23/24 deficits from reserves, this can no longer be recommended. Some immediate savings totalling over £120k have already been identified from the budget review process and will be applied from April 23. Other proposed budget reductions include:

Proposed Saving	Annual Saving	Description
Budget Review	£120k	Various reductions to budgets where spend now lower than in previous years
Garden Waste Subscription – 10% increase on annual fee  Concessionary discount to increase from £10 to £15	£100k	The current subscriptions just cover existing contract costs but not all admin and support costs. Contract costs will increase in line with inflation this year (est. 9.9%). Renewal requests for the Feb 23 service go out shortly. It is recommended that the November report seeks approval for an immediate increase in this charge in line with contract costs (£43 small bins, £65 large bins). This remains in line with lower quartile of 22/23 charges for Hampshire Councils, although many will increase charges further before March. A larger increase (approx. 20%) would be needed to fully recover all operating costs. It is also proposed that the discount offered to residents subject to the council tax reduction scheme be increased from £10 to £15 per annum.
Fees and Charges – 10% average increase	£70k	With Council Tax charges likely to be subject to the existing cap, an inflation linked increase to other fees and charges is recommended. Most charges are set on a “cost recovery” basis and with costs all increasing, fee increases cannot be avoided.  As the charging policy for fees is well established (most linked to cost recovery), it is recommended that the S151 be given delegated authority to finalise fees and charges in line with inflation.
Housing Grants	£68k	The Council has two core housing partners (Trinity and Beacon) and provide core grants totalling £68k annually. Rather than this continue to be funded from the core grants budget, it is recommended that this support be met from the annual Homelessness Prevention Grant (Council receives £300k annually to support homelessness).
Vacancy Management	£200k	The budget already includes provision for vacancy management which is achieved naturally with little intervention through staff turnover/recruitment. With staff costs the

Proposed Saving	Annual Saving	Description
		largest single budget, some additional controls are needed to reduce overall spend. This will include a review of all vacant posts, use of agency staff and potential deferral of appointment to some non-essential roles. This will place additional pressures on teams but is a far more sensible short-term measure than direct staff cuts. The budget challenge process will require the council to consider its staffing establishment which may lead to some reduction in overall headcount over the coming years.
Assets/Parking Reserve	£450k	Annual contributions to the two reserves total £600k. for 23/24, rather than use other reserves to maintain this contribution, it is proposed to reduce these transfers pending further analysis on the long term call on these reserves

## 18 Transformation Challenge Programme/Strategic Budget Review

- 18.1 Detailed budget reviews have highlighted the potential to reduce budgets by at least £120k without any key decisions required to support this. Work on the review to date have also generated the proposals set out in section 18 above above.
- 18.2 However, with longer term savings targets of £2m by 2024/25 and potentially £3m by 2025/26 (assuming some continuation of New Homes Bonus or similar grant scheme), much more detailed work is required to ensure changes are transformational, well targeted, consider all potential options, ensures the Council continues to meet its statutory obligations and takes account of all emerging pressures.
- 18.3 Key areas of work include:
- Review of capital programme, cash flow requirements and timing of future borrowing
  - Future operation/management of Park and Ride services
  - Tourism/Marketing/Visitor Info Centre Provision
  - Digitisation and streamlining of Planning services
  - Management of Public Conveniences
  - Management/operation of off-street parking provision/enforcement

- CCTV Provision and monitoring
  - Customer Services – Investment in Online/app reporting (and reduced postage)
  - Management of Grounds Contracts/Highway Grounds subsidy
  - Grants - Review of programme
  - Management of key corporate assets (asset challenge to be arranged)
  - Commercial operation and use of the Guildhall and Abbey House (previous review work to be refreshed now market is recovering)
- 18.4 Whilst some of these reviews can be completed in house, most will require external and independent support if they are to achieve the objective of reducing core spend.
- 18.5 It is recommended that £450k of the Transitional Reserve be used to fund “invest to save” work in these areas and that the section 151 officer be authorised to approve spend against this provision.
- 18.6 The scope of these reviews is to be determined but it is essential they focus on costs and income generation. It is also recommended that a member board be established to review scope and proposals and to hold officers to account against agreed timelines.
- 18.7 It is essential that the reviews are completed within 6 months to ensure implementation of recommendations can be effective to support the 2024/25 budget setting process.
- 19 Parking Strategy Proposals
- 19.1 With city centre demand relatively unaffected by previous increases but capacity increasing in outer car parks, an inflation linked increase to Zone 1 (City Centre) car parks within the air quality management area AQMA) is recommended to further influence behaviour change.
- 20 To support this, it is also proposed that Sunday on-street parking restrictions within the Winchester Inner Area Parking Permit Zone be added to the Traffic Regulation Order Programme for 22/23. The exact zones to be included will be subject to consultation.
- 20.1 Evening and Sunday demand has been unaffected by charging introduced in 2021 and so it is also proposed that following consultation, charges and weekday charging periods or times for these car parks be extended to include Sundays and bank holidays with a new overnight charge introduced, to be implemented as soon as is practicable. This is a common approach in central car parks in other cities.

- 20.2 Extending the operating period for car park management teams will also be required. Additional investment is included in section 25 below although this will be offset by the additional income generated from the charging proposals.
- 20.3 There is no increase to Park and Walk or Park and Ride charging as part of this recommendation.
- 20.4 It is also proposed that parking charges in “market town” car parks be increased by a 20p flat amount on hourly chargeable rates, to £2.00 for the daily rate, and no change to season tickets, to be implemented as soon as is practicable. This change will not apply to the Alresford Station Car Park, where charges were amended recently.

## 21 Essential Growth Items

- 21.1 Whilst it is necessary to identify budget reductions to contribute towards funding forecast deficits, there are a number of issues that require attention and budget provision if the Council is to maintain delivery of its key priorities. These are summarised in the table below:

Proposed	Annual Cost	Description
Strategic Development Advice (one off)	£150k	as the existing contract for strategic development advice will end early in 2023, £150k is included for the next phase of professional advice needed to assist in preparing for the major decisions we will be bringing forward for regeneration projects
Regen Project staff	£130k	Capacity to deliver existing and planned future regen projects is not sufficient to manage successful delivery of regeneration work.
Staff salary review	£250k	A full review of salary grades was undertaken in 2017 and a further focussed review indicates that some comparable posts at neighbouring councils attract more favourable terms. This directly impacts on recruitment and retention of staff and therefore service delivery. A more competitive market position could be achieved by uplifting all grades by one spinal column point.
Managing off street parking after Agency ends	£80k	£250k provision to fund the impact of the “On Street Parking” agency ending. This is now projected to be £330k. This will be clarified when a business case will be presented for the new residual service in [December 2022].
Street Scene/Pride in Place spend	£50k	One off provision was included in 22/23 for additional spend in the city centre and market

Proposed	Annual Cost	Description
		towns. Some ongoing provision is required for future years.
Essential Tree Works	£67k	Spend on essential tree works has increased this year as a direct result of issues such as “ash die back”, climate conditions and an improved inspection regime. This is projected to continue and additional budget is needed for this.
Tree Officer	£23k	Additional resource is required to ensure the effective management of council trees.
Hampshire Cultural Trust – Maintain grant	£15k	Existing budget assumes HCT grant reduces in future years. However, operating costs of buildings previously managed directly by the council have increased similar to other services. It is therefore proposed that funding is retained at current levels for a two further years.

## 22 Medium Term Financial Strategy

- 22.1 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.
- 22.2 The key proposals for achieving long term budget sustainability for the General Fund include:
- a) Utilising the Exceptional Inflation and Transitional Reserves in the short term (up to 24/25) to cover forecast deficits and maintain a balanced budget
  - b) Completing a programme of strategic service reviews with a view to reducing net operating costs by £2m by April 2024, with all measures to be identified and agreed by July 2023.
  - c) The implementation of fee increases and other more immediate budget options set out earlier in this report with effect from April 2023.
- 22.3 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.
- 22.4 The budget options set out in this report, if approved in February 2023, contribute towards a balanced budget through to March 2024.
- 22.5 Reserves are projected to reduce significantly over this period. The Transitional reserve and Exceptional Inflation 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.

- 22.6 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.
- 22.7 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 achieved in 2021/22.

### 23 Medium Term Financial Planning

- 23.1 The existing MTFS grouped the medium-term financial challenge options around six themes; funding, modernising service delivery/Transformation, asset management/regeneration, efficiency, income generation and enabling partnerships. It is proposed to retain these themes and they will be used to establish the brief for more detailed work with the aim to identify options for reducing net operating costs by up to £2m by April 2024 and £3.5m by April 2025. The Strategic Budget Review has already identified budget savings and further proposals for savings are included in this report. However, the more detailed work is required to ensure strategic service changes are properly targeted, take full account of existing demands and exploit opportunities for both savings and income generation.
- 23.2 The Strategic Review will continue to focus on the key themes as set out below:
- 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. Specific work will focus on digitisation of planning services, use of technology to modernise the management of off-street parking and the management and monitoring of CCTV services.
  - c) Asset Management/Regeneration – Opportunities have become more challenging in the last year. Increased build costs mean a number of schemes may well have viability challenges. However, the “Asset Challenge” process is ongoing, and consideration will be given to the

potential of asset sales in some circumstances. The proposed disposal of the Bar End Depot site is well advanced, and the option of disposal will be included in all challenge reviews in the next year. Making best use of existing buildings/assets, bringing forward development of existing assets to improve return on investment etc. Whilst some opportunities remain to bring forward regeneration proposals, most opportunities will only contribute to longer term deficits, once developments are completed and operational, which can often take some years. As an example, the revenue impact of disposing of the central Bar End depot site has been included from 2025/26.

- 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 is required to provide a number of services by statute and like many councils offers a range of discretionary services either by itself, or through partners. The council will need to consider how much funding it provides to a range of discretionary services and potentially the level of provision of statutory services. Council services must remain affordable within the overall financial context, and it is proposed to include a focus on discretionary services and statutory service delivery approaches 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 and scope for this will be included in all Strategic Budget Review work moving forward.
- 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 more existing direct service delivery to shared services through partnerships or partner delivery funded by grant will form part of the Review process.

## 24 General Fund Capital

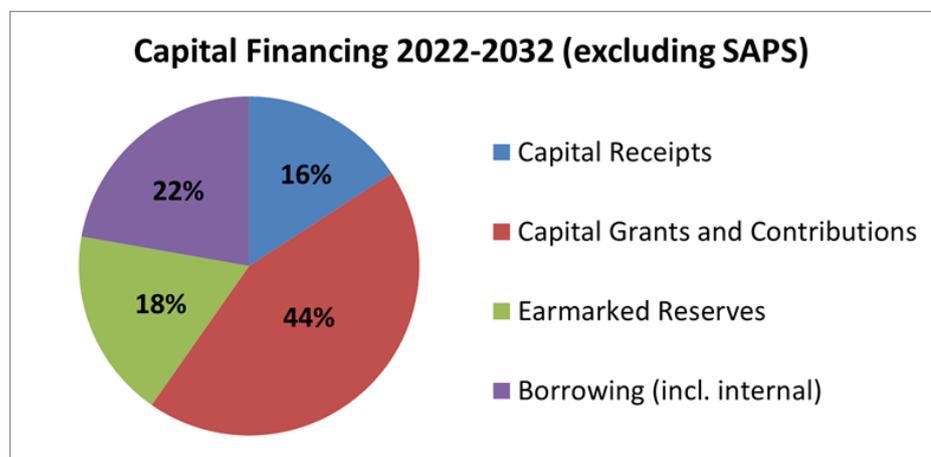
- 24.1 The Council has an ambitious general fund capital programme totalling £63m over the next 10 years. Of this, £20.5m relates to the Strategic Asset Purchase Scheme (SAPS) which will only be spent if suitable assets are identified for purchase in line with the provisions of the scheme. Of the total programme just over £20m has been approved for expenditure, with the remaining projects, including SAPS, subject to appraisal.
- 24.2 The current macroeconomic conditions present significant challenges to the capital programme. Both inflation and borrowing costs have increased

significantly since the Capital Investment Strategy was approved by Council in February this year. The consequences of those challenges, and how to mitigate against them, is being considered as part of the preparation for the Capital Investment Strategy in February 2023 and further detail is provided below.

- 24.3 The impact of on the General Fund capital programme is varied: for example, there is scope in some areas to absorb additional costs and maintain current levels of activity (such as in the Disabled Facilities Grant programme) and in other areas such as play area refurbishment and ongoing capital repairs pragmatic decision making may enable the same, or similar, outcomes to be achieved within the current budget envelope. The council will continue to be in a position to make an impact in communities across the district after successfully obtaining grant funding such as the UK Shared Prosperity and Rural England Prosperity Funds.
- 24.4 There are particular pressures for refurbishment and regeneration projects in the current high inflation/higher borrowing cost environment which mean some projects, such as redeveloping the former Goods Shed, are currently commercially unviable and all are subject to increased risk due to the deteriorating economic situation.
- 24.5 Careful asset management is essential and there are potential opportunities from asset sales where the capital receipt could be used to either finance projects that would otherwise be unaffordable or to reduce the council's outstanding borrowing need which translates to annual revenue cost savings.

#### Capital financing

- 24.6 Excluding SAPS (funded by borrowing if suitable purchases are identified), the proposed financing of the programme is as follows:



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

- Capital grants and contributions (e.g. Disabled Facilities Grant, Local Enterprise Partnership, and Community Infrastructure Levy);
- Capital receipts (from asset sales);
- 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”).

- 24.8 Where possible, the most restricted funding sources should be used before using earmarked reserves or revenue contributions. Capital grants and contributions typically are for either specific projects or types of expenditure, and capital receipts from the sale of assets can only be used to finance new capital expenditure or reduce unfinanced capital expenditure (borrowing) from prior years. Revenue reserves are not restricted to capital only and can therefore fund expenditure that is not capital in nature and can be used to fund day to day expenditure should there be either an unplanned shortfall in income or unexpected additional expenditure.
- 24.9 Local authorities may also incur borrowing for capital projects in line with the Prudential Code as long as the capital programme overall is “affordable, sustainable, and prudent”. General Fund capital projects funded by prudential borrowing will incur an annual revenue cost over the life of the asset – a minimum revenue provision (MRP), which is equivalent to the principal repayment, and external interest/opportunity cost. There is not a requirement to apply MRP in respect of the HRA. 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. Typically, the council funds projects from borrowing where the income and/or savings exceed the cost of borrowing.
- 24.10 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 (CFR) up to 31 March 2022, which represents unfinanced capital expenditure in prior years, is shown in the table below. The CFR is increased when a new capital project isn’t financed from other resources and is reduced by the annual MRP. The council can also elect to reduce the CFR by making a “voluntary” provision above the MRP. This will reduce the amount of MRP in future years and, if funded by a new capital receipt, will also reduce the need to externally borrow and therefore interest savings can be made. In 2021/22, the GF voluntary provision was made following the receipt of a grant in respect of Durngate flood prevention scheme thus reducing the CFR in respect of that scheme.

<b>Capital Financing Requirement</b>	<b>General Fund £000</b>	<b>Housing Revenue Account £000</b>	<b>Total £000</b>
<b>Capital Financing Requirement at 1 April 2021</b>	<b>71,628</b>	<b>178,177</b>	<b>249,805</b>
Unfinanced capital expenditure - in year	2,437	8,615	11,052
Minimum revenue provision (MRP)	(876)	0	(876)
Voluntary provision for the financing of capital	(377)	(787)	(1,164)
<b>Capital Financing Requirement at 31 March 2022</b>	<b>72,812</b>	<b>186,005</b>	<b>258,817</b>
<b>Made up of:</b>			
External borrowing	0	166,722	166,722
Internal borrowing	72,812	19,283	92,095

### Challenges

- 24.11 The council's capital programme must be "affordable, sustainable, and prudent" as required by the Prudential Code. Both inflation and the cost of borrowing have increased significantly since the Capital Investment Strategy was approved by Council in February. This has impacted negatively on the commercial viability of some refurbishment and regeneration schemes where a surplus after the cost of borrowing had been anticipated, and on the affordability of the capital programme overall.

#### *Inflation*

- 24.12 The September Consumer Prices Index (CPI) was 10.1%. However, inflation differs between products and sectors. For example, inflation in construction materials increased significantly between July 2021 and July 2022: repairs and maintenance +21.9%, new housing + 21.2%, and other new work +27.7%. Encouragingly all showed a small decrease between July 2022 and August 2022 though it's too early to know if this is the beginning of a trend (source: [Monthly Statistics of Building Materials and Components - data.gov.uk](https://www.data.gov.uk/dataset/monthly-statistics-of-building-materials-and-components)). In addition, construction experienced the highest rate of salary growth of all sectors between February and July due to a shortage of workers. As economic activity slows it may well be that costs such as materials fall back in the medium term.

#### *Borrowing*

- 24.13 Since the budget was set in February, the cost of borrowing to the council has increased significantly. Local authorities can borrow from the Public Works Loans Board (PWLB) which is typically the cheapest and easiest source of borrowing. Lending rates are based on UK gilts (government borrowing) plus a margin of 0.8%. Early in the year, the council's treasury advisors and market implied future rates indicated small increases in the cost of borrowing in the short to medium term. On 1<sup>st</sup> February, the 40-year annuity rate was 2.3% but a week after the "mini-budget" on 28<sup>th</sup> September had increased to 5.8%. Since the reversal of the mini-budget and intervention by the Bank of England

rates have still fallen but the 40-year PWLB rate remains elevated above 4% at the time of writing.

- 24.14 Significant changes in the cost of borrowing can impact on the commercial viability of refurbishment or regeneration projects and on the affordability of the capital programme overall. For example, for a £5m project with a 30-year life the annual cost of borrowing (MRP (principal repayment) and interest) is £240,000 per annum (4.8%) at an interest cost of 2.5% and is £325,000 (6.5%) at an interest cost of 5%. The gross yield for commercial viability needs to be in excess of the total MRP and interest cost.

#### *Use of reserves*

- 24.15 Several items in the capital programme are financed from earmarked reserves. Any increase in the use of reserves reduces the council's ability to respond to unexpected events and to finance work in respect of major projects that cannot be capitalised. In addition, it would reduce the council's overall cash position which would mean that more of the council's CFR (borrowing need) will need to be externalised sooner when rates may still be high. A reduction in the use of reserves will have the opposite effect.

#### Impact on capital programme and mitigations

- 24.16 In preparing the 2023-2033 Capital Investment Strategy (to be approved by Council in February 2023) officers will consider the capital programme in detail. Given an evolving situation with respect to inflation and the cost of borrowing any assumptions now can and will change. It is also important to bear in mind that projects approved in February will need to be appraised prior to committing expenditure and their viability may change. This section considers key items in the capital programme, how they are affected, and how the effects of inflation and increased borrowing costs can be mitigated.

#### *Grants*

- 24.17 The Council has an annual budget of around £1.2m for **Disabled Facilities Grants** which is based on the amount allocated to Winchester. Annual expenditure varies each year but typically in the last couple of years has been around 80% of the amount received and the council has in excess of £1m unapplied from previous years in addition to the current budgets. As such, the DFG programme has some capacity to absorb increased costs. However, if the grant received from central government doesn't increase in line with inflation, there is a risk in later years that the programme may need to be reduced in terms of total grants awarded.
- 24.18 The programme of **CIL funded community grants** totals just under £1.6m of which £300,000 is unallocated. £350,000 of the £1.6m had been paid over by the end of Q2. Of the remainder, there is a risk that those who were awarded grants find that costs have increased somewhat since the grant was originally awarded and projects may become unviable and/or further grant funding is

requested. This risk has been noted and addressed in CAB3360 which delegated authority to the Cabinet Member for Place and the Local Plan to approve supplementary capital estimates and expenditure, via a Decision Day, to existing projects for which additional funding is required due to inflation and which in total should not exceed £500,000 in. The CIL team is reviewing the strategic approach to CIL and will be reporting to a policy committee before March 2023.

*Capital repairs and equipment refresh budgets*

- 24.19 The Town Forum has a 5-year **play area refurbishment programme** of just over £1m which the Town finances with the exception of Abbey Gardens. Equipment and works costs are increasing due to inflation. However, officers have visited the sites in the current programme to consider where savings can be made. They have identified that some equipment in good condition could be retained rather than a wholesale removal of existing equipment. This not only has the potential to allow works to proceed within the current budget envelope but also helps with sustainability by avoiding disposal of equipment in good working order. Consideration also needs to be given as to whether certain sites continue to be fit for purpose and meet community needs.
- 24.20 In addition, the Town Forum is funding the **resurfacing of the tennis courts at River Park** for which there is a £150,000 budget. Indications now are that it may cost up to £200,000. However, officers are considering other options and may be able to complete the works within budget.
- 24.21 The 10-year programme includes roughly £2m from the **car parks major works programme** (including provisional sums in the later years) as well as £820,000 in respect of works to **Chesil car park**. If costs increased by say 20% then this would add additional pressure on the car parks reserve of almost £600,000 over the 10 years. Officers are reviewing the programme and considering the timing and the likely cost of works. There is potential to delay some works; for example, it may be possible to extend the life of some assets such as resurfacing works which would reduce the pressure. It is also possible that materials costs may fall in the future during recession which will relieve the pressure on future budgets.
- 24.22 The IMT programme totals around £2m over the next 10 years. Due to the rapidly changing nature of IT solutions, forecasts beyond the near term are subject to significant change. Asset replacement costs are increasing and the move to hybrid working has required additional equipment investment which has enabled staff to work more flexibly and continue to provide, and improve, the services the council offers while embracing a new way of working. Laptops will need replacing more frequently due to increased use but these increased costs are partially offset by the reduction in the number of desks in use. The move to cloud services for both hardware and software will increase the pressure in years 5 to 10 on operating budgets but will reduce the demand on capital. Officers are working on refreshing the forecast budget requirements as part of the budget setting process.

*Refurbishment and regeneration projects*

- 24.23 There are a number of projects in the capital programme, subject to appraisal, to refurbish or redevelop existing assets. These projects are funded by borrowing on the basis that new income generated will cover the annual cost of borrowing and deliver a surplus to the council. Both inflation and higher borrowing costs, as well as an increased risk of void periods in a recession, impact on the viability of these schemes.
- 24.24 The current estimated cost of works at the **former Goods Shed** are in the region of £5m and, at current borrowing rates, would deliver a large annual loss to the council (circa £80,000+ per annum or £2.4m over its useful life assuming no void periods). As such the scheme is likely to be paused and alternative meanwhile uses considered.
- 24.25 A provisional budget of £500,000 was included for works to **158-159 High Street**. Those works are now estimated at least £800,000 and with the current cost of borrowing would also deliver an annual loss to the council. A budget of £550,000 has been allocated for refurbishment works at **59 Colebrook St** and £700,000 for works to the **Casson Block**. If costs increased by 20% then Colebrook Street is commercially unviable with a small annual loss but based on the estimated income assumptions Casson Block would still provide a surplus. In both cases more detailed updated costings are required and the increased risk of void periods as well as the level of rent achievable in the current economic climate needs to be considered prior to deciding whether to proceed with the scheme.
- 24.26 A budget of £800,000 is included in the Plan to fund the provision of a replacement community/sports **pavilion at North Walls**. The project has been well supported by the local community who had secured over £200k towards the build costs (included within the total £800k). Original plans were not taken forward when tenders came in well above the available budget and the scheme has been redesigned and is currently awaiting Planning approval. However, in light of the increase in construction costs, price estimates are now well above £1m for the build and additional funding will be required to deliver the project. With the time taken to bring this scheme forward, some grant funding is no longer available, and the community funding pledges have also reduced.

*Other projects*

- 24.27 There are a number of projects on the horizon that are not in the programme but may be affected. These include the **North Walls Park Plan** for example for which the scope may need to be scaled back in the near term, and a possible **solar farm** for which feasibility will need to be reconsidered to take account of increased borrowing costs. Identifying potential grant funding assist in making projects viable that otherwise may not be and the council has

successfully obtained grants recently for a number of projects including for solar PV and for the City Offices decarbonisation works.

### *Asset sales*

- 24.28 As well as refurbishing existing assets, the council considers the possible sale of assets as part of its asset challenge programme. While there may be reasons not to dispose of particular assets the benefit of a sale is that it produces a capital receipt that can be used to fund capital expenditure for which alternative funding is not available or where high borrowing costs would make a project unviable. It could be used to fund expenditure that would have been funded by revenue reserves thus releasing those reserves for other purposes.
- 24.29 A new capital receipt can also be used to reduce prior year unfinanced capital expenditure and deliver annual revenue savings by reducing MRP (principal repayment) and interest costs. The actual saving would depend on the life of the asset concerned and on the interest costs at the time. The following table illustrates the estimated annual saving made on an asset with a life of 40 years:

Revenue saving by applying £1m capital receipt to unfinanced project with 40 year life				
	5.5%	4.5%	3.5%	2.5%
<b>Annual saving (£'000)</b>	62	54	47	40
<b>Cumulative saving (40 yrs) (£'000)</b>	2,493	2,174	1,873	1,593

## 25 MTFS Forecast Assumptions and Sensitivity Analysis

- 25.1 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.

### Base Case (Used for forecasts included in report and appendices:

Council Tax Base	1.2%	2.4%	1.2%	1.2%	1.2%
Council Tax - Band D £	2.7%	2.5%	2.5%	2.5%	2.0%
Contractual Inflation	7.0%	10.0%	5.0%	4.0%	2.0%
Pay Inflation	5.5%	5.5%	4.0%	4.0%	2.0%
Utility Inflation	100.0%	10.0%	5.0%	4.0%	2.0%
Covid reduction in Income	7.0%	3.5%	0.0%		
<b>General Fund Revenue (£m)</b>	Forecast	Forecast	Forecast	Forecast	Forecast
	2022/23	2023/24	2024/25	2025/26	2026/27
<b>Budget Shortfall (Base case)</b>	<b>-1.185</b>	<b>-1.728</b>	<b>-3.451</b>	<b>-4.133</b>	<b>-5.391</b>

More Pessimistic (inflation higher for longer)

Council Tax Base	1.2%	2.4%	1.2%	1.2%	1.2%
Council Tax - Band D £	2.7%	2.5%	2.5%	2.5%	2.0%
Contractual Inflation	7.0%	12.0%	10.0%	8.0%	4.0%
Pay Inflation	6.0%	7.0%	5.0%	5.0%	4.0%
Utility Inflation	100.0%	50.0%	20.0%	10.0%	5.0%
Covid reduction in Income	7.0%	3.5%	0.0%		
<b>General Fund Revenue (£m)</b>	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27
<b>Budget Shortfall (high inflation for longer)</b>	<b>-0.408</b>	<b>-1.807</b>	<b>-3.716</b>	<b>-5.050</b>	<b>-6.889</b>

More Optimistic (assuming a faster recovery)

Council Tax Base	1.2%	2.4%	1.2%	1.2%	1.2%
Council Tax - Band D £	2.7%	2.5%	2.5%	2.5%	2.0%
Contractual Inflation	7.0%	6.0%	4.0%	2.0%	2.0%
Pay Inflation	5.5%	5.0%	3.0%	3.0%	2.0%
Utility Inflation	60.0%	-20.0%	-20.0%	4.0%	2.0%
Covid reduction in Income	7.0%	3.5%	0.0%		
<b>General Fund Revenue (£m)</b>	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27
<b>Budget Shortfall (high inflation for longer)</b>	<b>-0.043</b>	<b>0.048</b>	<b>-0.581</b>	<b>-0.873</b>	<b>-2.131</b>

25.2 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 has increased from 3% in mid-2021 to over 10% by September 2022 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 10% has now been included in projections for 2022/23 but reducing to 5% from 2024/25. If inflation does remain high past 2023/24, 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.

## 26 Strategic Reserves

- 26.1 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.
- 26.2 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 £3.7m by March 2024.
- 26.3 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).
- 26.4 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.)
- 26.5 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.

26.6 Total General Fund earmarked reserves, before proposals in this paper, are forecast to reduce from £38.0m at 01 April 2022 to £24.8m at 31 March 2024. The forecast closing balances (31 March 2024) of key earmarked reserves are summarised below;

- a) Operational reserves (£4.4m), 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 (£7.1m), 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 (£3.7m), 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 (£9.7m), 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.

26.7 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.

## 27 Balances / risk reserves

27.1 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.

27.2 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.

## 28 Adequacy of reserves and robustness of estimates

28.1 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.

28.2 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.

- 28.3 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.
- 28.4 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.

## 29 OTHER OPTIONS CONSIDERED AND REJECTED

- 29.1 Scope for additional savings in 23/24 to reduce the use of reserves does exist but would have a very significant and 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.
- 29.2 However, it is essential that work to identify longer term savings through the Strategic Budget Review as set out in this report is critical to ensure the Council can meet its obligation to set a balanced budget in 2024/25.

## BACKGROUND DOCUMENTS:

### Previous Committee Reports:

CAB3318 - General Fund Budget Options and Medium-Term Financial Strategy dated 20 October 2021

CAB3335 - General Fund Budget 2022/23 dated 17 February 2022

CAB3332 - Capital Investment Strategy 2022-2032 dated 17 February 2022

CAB3352 - General Fund Outturn 2021/22 dated 19 July 2022

### Other Background Documents:

None

## APPENDICES:

1. Medium Term Financial Projections
2. Summary of all Revenue Proposals
3. Summary of Reserves