CAB3483
CABINET

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

20 NOVEMBER 2024

REPORT OF CABINET MEMBER: Councillor Neil Cutler – Deputy Leader and Cabinet Member for Finance and Performance

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WARD(S): ALL

PURPOSE

Local Government continues to face significant financial challenges – particularly in the areas of social care, children's services and temporary accommodation to prevent homelessness. Future funding remains very uncertain and local authorities are also facing significant challenges as demand increases for critical services.

Winchester City Council has been in the position to date of being less affected by these pressures than some other councils although there are increasing pressures from homelessness in the district. Alongside our careful and prudent financial management there have been several factors that have softened the impact of the pressures on the council; such as the retention of additional business rates from positive economic growth in the district and the previous government's delay to the expected business rates reset; and extra revenue from the increased number of new homes. Despite these pressures, the council has delivered well against the Council Plan, particularly against the Greener Faster priority.

This Medium Term Financial Strategy (MTFS) forecasts the council's likely income and expenditure position over the medium-term and reflects detailed analysis and advice from a range of specialist, external economic, treasury and policy advisers. However, in addition to several significant unknown variables such as inflation, interest costs, pay awards, service demand etc., forecasting exactly when and how much the council's deficit may be is extremely difficult. The Medium Term Financial Plan (MTFP) in Appendix 1 shows projections of balanced budgets for 2025/26 and 2026/27. However, due to several years of single year funding settlements with annual delays to the expected business rates reset (which is expected to significantly reduce the council's income from business rates as and when it occurs) the projected budget deficits in the medium term have annually been pushed further away.

The election of a new government and their pledge to move towards multi-year funding settlements to provide long-term financial stability is expected to bring some more certainty to budget planning however, a review of local government finance is not anticipated to benefit Winchester. It is unlikely the overall funding envelope for local government will increase in real terms, and councils such as Winchester that are better off relative to others are expected to see their funding fall at the same rate as pressures continue to increase. The Government has made clear that future local government funding allocation will take a 'deprivation based' approach.

We are putting in place robust measures that seek to address the challenge. Cabinet has initiated an organisation-wide transformation programme to seek out and to deliver transformational changes to the way we deliver services which also targets an efficiency saving of £3m a year to meet future budget challenges. '*Transformation Challenge 2025' has secured* in the region of £850,000 of budget reductions as part of the first phase. Delivery of the remaining Transformation Challenge 2025 (TC25) programme is essential to meet the dynamic budget challenges in the medium term and details of this are set out in section 11 of this report.

As part of TC25, the council has strong ambitions for digital transformation. The goal is to provide our customers with intuitive and easy to use digital solutions to access our services at their convenience, and out officers to have the tools to support them to work efficiently and effectively. The council will support and encourage our customers to go "digital first" when making contact, enabling the prioritisation of face to face and telephone contacts for those who need them as part of the council's inclusive customer offering.

This Medium Term Financial Strategy (MTFS) sets out the organisational approach for managing financial resources to protect our council services and enable delivery of the Council Plan priorities and transformation ambitions going forward. It provides an overview of the existing financial position for the council and a forecast outlook over the medium term, four-to-five-year, planning period.

This report looks to explain the cost drivers, cost pressures, planning assumptions, risks and opportunities that may impact the council's financial position in future. It describes how we plan to respond to the major financial challenges ahead and the principles we will adopt in managing and using our financial resources to get the most out of the limited funds we have available.

As noted above, projections used for the MTFP are subject to a high degree of uncertainty. As a result, this MTFS uses assumptions based on the best knowledge available at this time to set out proposals to address both the existing and emerging budget pressures set out in this report.

RECOMMENDATIONS:

That Cabinet:

1. Note the assumptions set out in respect of Government funding, council tax, inflation rates and fees and charges (set out in full in section 13 of this report) and the projections set out in Appendix 1.

2. Approve the Medium-Term Financial Strategy as set out in sections 13 to 17 of the report.

3. Approve that a detailed budget be prepared for consideration by Council in February 2025 based on the assumptions set out in this MTFS; final spending review announcements; and including the following options shown in Appendix 2 and Section 14 of the report:

   a. That, in relation to Greener Faster and carbon reduction priorities:

      i. An additional £135,000 per annum be included for the ongoing costs of providing the food waste collection service.

      ii. An additional one-off budget of £460,000 be included to fund the phased roll out of the food waste service from October 2025, without government funding.

   b. That, in relation to the Homes for All priority:

      i. Additional estimates, shown in Appendix 2, of c£300,000 per annum be included to fund increased demand for temporary accommodation to prevent homelessness.

   c. That, in relation to services:

      i. A reduction of £300,000 per annum to the energy benchmarking budget in relation to the operation of the leisure centres.

      ii. An additional £50,000 per annum be included to fund additional pressures on council contracts.

   d. That, in relation to service income annual budgets, amendments be made as follows, in response to revised estimates:

      i. An increase of £30,000 per annum to Garden Waste income to reflect increased subscriptions (although partly off-set by increased contract costs of delivering the service to more households, already assumed in the MTFS).

      ii. A reduction of £200,000 per annum of planning fee income to reflect the current reduced levels of applications received.

   e. In relation to management of the council’s property assets:

i. An additional £250,000 per annum be set aside into the Property Reserve for the maintenance of and investment in operational assets.

ii. A reduction of £500,000 per annum to reflect estimates of future rental income on investment properties.

4. Establish a risk reserve of £1m for homelessness prevention by transferring existing risk reserve funds from the Exceptional Inflation Risk Reserve.

5. Approve maintaining the concessionary price of the Garden Waste collection service at £29 and increasing the prices for small and large bin collections by the waste collection contract inflationary increase with effect from March 2024, resulting in charges of £46 for small bins and £70 for large bins.

6. Approve a capital budget of up to £190,000 to enable a grant of developer contributions, under ‘Section 106’ agreements monies to be made to Wickham Parish Council for a replacement pavilion at Wickham Recreation Ground.

7. Note the council’s application to participate in the Hampshire Business Rates Pool for 2025/26.

IMPLICATIONS:

1 COUNCIL PLAN OUTCOME

1.1 The budget approved in February 2024 (CAB3444 refers) directly supported the delivery of all outcomes set out in the Council Plan.

1.2 The Council Plan sets out five priority areas that the council wants to achieve over the five period to 31 March 2025. Underpinning the Your Services, Your Voice priority (focussed on providing high quality, good value, resilient services) the MTFS sets out the framework of guiding principles to enable the council to take financial decisions, to plan and manage budgets and use its financial resources to support delivery of all services and priorities in the Plan. Plans are currently being finalised in order to present a new Council Plan for adoption from 1 April 2025.

1.3 This report sets out a clear focus on the Council Plan priorities centred on tackling climate change. The council declared a climate emergency in June of 2019 and all work in the council has to consider its carbon impacts.

1.4 The MTFS also sets out how we will engage, communicate and consult on plans to bring financial sustainability to the council in the light of the enormous, sector-wide pressures on local government services and finances.

2 FINANCIAL IMPLICATIONS

2.1 These are set out throughout the report.

2.2 A Medium Term Financial Plan (MTFP) is kept under review throughout the year as potential pressures emerge and gives an updated future outlook for a rolling four year period. All base assumptions are revisited annually as part of the budget setting process, and this informs detailed budgets and spending plans that come forward for approval by Council in February each year.

3 LEGAL AND PROCUREMENT IMPLICATIONS

3.1 Under section 151 of the Local Government Act 1972 a local authority must make proper arrangements for the administration of its financial affairs. Under s28 of the Local Government Act 2003 a local authority must 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 This MTFS details the organisational approach for managing financial resources to protect our core council services and enable delivery of the Council Plan priorities going forward. Employees are critical to the delivery of these services and priorities and at 31 March 2024 the council had a workforce of 408 FTEs.

4.2 The report sets out the current challenges in local government finances and proposals for the council to deal with these locally with a major transformation programme. Whilst there are no proposals in this report to amend any employee budgets, it is recognised that successful transformation of services will involve significant staff time.

5 PROPERTY AND ASSET IMPLICATIONS

5.1 The council's General Fund has a property portfolio that was valued at £175m as at 31 March 2024 of which £68.9m is classified as investment properties (held solely for rental income and/or capital appreciation). A key strand of the Council's financial strategy is to maximise income from its assets, where possible, and seek to manage risk by achieving a balanced portfolio of assets. Options considered during the budget planning process may therefore involve investment in the refurbishment of or disposal of assets.

5.2 Based on recent expenditure and known future commitments it is clear that further contributions are needed into the property reserve. Currently a £300,000 revenue contribution is made into the reserve each year and this paper proposes a further £250,000, taking the total to £550k per annum.

5.3 Latest estimates of future rental income show that based on current contract end dates up to £800,000 is at risk in 2028/29 and 2029/30 and then falling back down to an at risk reduction of £500,000 from 2030/31.

6 CONSULTATION AND COMMUNICATION

6.1 Stakeholder engagement is an important part of the council's budget planning process. Feedback from the regular Residents' Survey provides opinion on local priorities; views on emerging policy; and the relative perceived importance of council services. This insight helps the council to take financial decisions; to plan and manage budgets; and to use its financial resources to support delivery of priorities.

6.2 Consultation principles including those of consulting in good time; being inclusive but with clear and appropriate limits; consulting using clear, simple information; and using responses to inform decision making are specified in and underpin the TC25 programme.

6.3 The 2025/26 budget consultation exercise was undertaken in October and the results are being analysed and will inform the 2025/26 budget.

6.4 Initial results show:

a) Strong support for the TC25 programme and transforming services.

b) Strong support for the use of technology to improve efficiency and online access (79% agreed in total).

c) Strong support for using reserves to balance deficits over 1 or 2 years (65% agreed in total).

d) Slight disagreement on reducing or stopping some non-essential services (46% disagreed).

e) Strong support for central government providing full funding for all additional costs of food waste collection (69% agreed in total).

f) Strong disagreement on higher council tax band properties paying additional, voluntary, council tax (78% disagreed).

g) Mixed feedback on increasing council tax but general disagreement on using this to fund new or enhanced services.

6.5 Additionally, consultation specifically for this MTFS and the 2025/26 budget will include:

a) A presentation to and discussion with parish council representatives at the November Parish Briefing meeting.

b) Discussion with local business representatives through the Chamber of Commerce and the Business Improvement District (BID) Winchester District Strategy Group business briefing in December 2024.

c) Scrutiny Committee consideration of proposals in this MTFS report and the Budget Report ahead of Cabinet decision making in November and February respectively. Scrutiny feedback will be summarised and presented to Cabinet for consideration with both reports.

7 ENVIRONMENTAL CONSIDERATIONS

7.1 The Council Plan recognises one of the main challenges facing the district as “the climate emergency and the pressing need to reduce the Winchester district’s carbon footprint.” In response, an enhanced focus has been given to going greener faster. The main areas of activity are reducing carbon emissions; ensuring environmental resilience; reducing energy demand; and increasing renewable energy.

7.2 It is recognised that significant investment will be required to achieve carbon neutrality targets and that this must be balanced against the challenging budget conditions being faced by all local authorities.

7.3 The MTFS includes a £200,000 per annum baseline revenue budget to fund carbon programme delivery work.

7.4 As well as these revenue resources, a total budget of £1m over 4 years, funded by prudential borrowing, has been allocated in the capital programme for energy management projects that would cover their financing costs. These projects may, for example, include further provision of solar panels to council properties and local business; further EV charging infrastructure; and other interventions to reduce energy usage. Further proposals for investment in a significant energy generation project on Council land is also being investigated. In addition, projects within the capital programme that are not primarily for carbon reduction must consider the council's Greener Faster objective where possible; for example, the design of the new pavilion at KGV park completed earlier this year includes elements to ensure a sustainable and energy efficient building such as high-performance insulation and solar PV.

8 PUBLIC SECTOR EQUALITY DUTY

8.1 The council, in the exercise of all its functions, must have due regard to the Public Sector Equality Duty in section 149 of the Equality Act 2010. The content of this report is part of the budget consultation process, and the requirements of the Public Sector Equality Duty are considered alongside any relevant budget options put forward.

8.2 The Medium-Term Financial Strategy is an overarching framework relating to financial resources and priorities at a very high level. A full Equality Impact Assessment will be undertaken for each proposed service change or proposal that aligns to the principles included in this MTFS to highlight the potential equality impacts.

9 DATA PROTECTION IMPACT ASSESSMENT

9.1 All data is securely stored in council systems and the council is certified with Public Sector Network (PSN) connection compliance. Any new project work set out in this report and the Capital Programme will be subject to individual data protection impact assessments.

10 RISK MANAGEMENT

Risk	Mitigation	Opportunities
Property Commercial tenants unable to pay rents or subject to business failure	Close monitoring of rent position by property team with support to tenants through effective working relationships.	Potential to increase commercial property income when rent reviews are carried out.
Slowdown in commercial property investment, meaning that the council's development schemes achieve less interest or less income than expected.	The council's advisors are reviewing the property investment market and will provide advice as to timing of any marketing.	
Legal The council is unable to balance the revenue budget resulting in the issuing of a S114 notice.	Proposals set out in this report, including the strategy for management of reserves mitigate against this.	Present a balanced budget in difficult circumstances
Timescales Slower than projected economic recovery affecting income received by the council	The council has set aside an Exceptional Inflation reserve of £1.9m to mitigate slower than expected recovery. Other uncommitted revenue reserves are available to support further increases to the projected deficit.	
TC25 does not deliver the required level of savings.	The programme is governed by a Programme Board and progress (financially and in timescales) is being monitored through PAC Board as a tier-one corporate project. As a tier-one project, quarterly highlights are reported to the Scrutiny Committee.	

Risk	Mitigation	Opportunities
Financial The council is unable to balance the revenue budget Risk of lower than projected demand for income generating services	Proposals set out in this report, including the strategy for management of reserves mitigate against this. The council has uncommitted revenue reserves available which can be utilised as a last resort as above	Streamlining of services and digitalisation provides opportunities to improve the customer experience as well as making savings.

11 SUPPORTING INFORMATION:

Local government financial landscape.

11.1 The financial pressures faced by local authorities remain very challenging. Some additional funding for specific purposes (such as homelessness) has been announced in the Autumn budget, but the medium-term outlook continues to show that the baseline funding position is unlikely to improve and services will continue to be cut.

11.2 The new government have indicated that new and future funding will focus on ‘need’ and this will therefore benefit higher need, lower tax base authorities. However, this redistribution in funding will create significant challenges for authorities, such as Winchester, who have benefit from the current ‘reward’ based system.

11.3 Council chief financial officers (CFOs) must set a balanced budget for the financial year ahead. If the council’s forecast income is insufficient to meet its forecast expenditure for the next year the CFO must issue a ‘section 114 notice’ to publicly indicate that it cannot meet its spending commitments. For many CFOs, despite managing to balance the budget 12 months ago, many councils are now ‘running out of road’ to prevent this financial insolvency.

11.4 Based on the expected review and redistribution of funding the MTFP (appendix 1) is showing a projected annual budget shortfall of £1.886m per annum in 2027/28, rising to a shortfall of £4.967m by 2029/30.

General Fund Revenue (£m)	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28	Forecast 2028/29	Forecast 2029/30
Budget Surplus / (Shortfall)	**0.590**	**0.635**	**-1.001**	**-2.392**	**-3.812**
Unavoidable growth	-1.140	-1.185	-1.435	-1.705	-1.705
Budget options	0.550	0.550	0.550	0.550	0.550
Net budget growth	**-0.590**	**-0.635**	**-0.885**	**-1.155**	**-1.155**
Revised general fund forecast deficits	0.000	0.000	-1.886	-3.547	-4.967

Table 1 – extract of the 2025/26 – 2029/30 MTFP showing the forecast budget shortfalls over the medium-term planning period.

11.5 The MTFP is showing a sound and stable position for Winchester for the next two financial years through to April 2027. This gives us a limited window of opportunity to tackle the looming crisis forecast from 2027 onwards.

The council's approach to tackling the financial challenge

Transformation Challenge 2025 (TC25)

11.6 The first signs of the extraordinary financial pressure faced by the council's General Fund and it's unsustainable medium term financial position were set out in the MTFS in November 2022 (CAB3374).

11.7 In a recent survey by the Local Government Association (LGA) of Chief Executives in England, over four in ten social care councils (44 per cent) said they were likely to apply for exceptional financial support (EFS) in the next couple of financial years. Decisions and budget cuts made by others such as the county council are likely to have significant downstream impacts on the City Council with additional pressures and demand.

11.8 It is clear that the long-term financial challenge for the council continues to be like no other and of a completely different magnitude to previous rounds of savings since the mid-2000s. Although the scale of the budget gap may not appear as significant as others in the sector, a £3m budget gap per annum represents approximately 7.5% of the gross general fund revenue budget or a c30% increase in council tax.

11.9 There is no doubt that the scale of financial pressures is extending beyond those councils responsible for social care with several district councils in receipt of a Best Value notice or having to declare a S114 notice. In order to take all steps to prepare for a more restricted budget situation an organisation-wide transformation programme was launched in 2023 to seek and deliver transformational changes to the way we deliver services in order to save £3m a year within 3 years.

11.10 Transformation Challenge (TC25) is a tier one strategic project sponsored by the Transformation Programme Board consisting of the Leader, Deputy Leader of the Council, the Chief Executive and the Director (Finance). The Board has clear terms of reference, setting out the transformation, financial, workforce and consultation principles of the programme. A Programme Lead and Programme Manager have been seconded to drive the programme and ensure success can be achieved and measured. Progress on TC25 work is monitored by the Programme and Capital Strategy Board and reported through the quarterly performance reports to The Scrutiny Committee.

11.11 To establish the first areas for action, 'Star Chamber' meetings with Corporate Heads of Services and their responsible Cabinet Members were carried out during November and December 2023 which resulted in £607K immediate budget efficiencies and a set of activity for action over the three subsequent years.

11.12 In addition, to this cross organisational approach all staff and Members were invited to submit proposals for service change and improved customer service, which are now collated into the following six themes:

a) Digital redesign
b) Structural cost reduction through service change
c) Contract management change
d) External funding and partnerships
e) Income generation
f) Budget review

11.13 A core element of the TC25 programme is around digital transformation of council services. Delivering customer centred, data-driven digital solutions will streamline our internal operations, make us more efficient and elevate our customers' experience. The council is aiming to make intelligent use of data to optimise decision making; to reduce carbon emissions by printing and posting less; and to provide intuitive and easy to use digital solutions to access our services when it's convenient for customers.

11.14 Improving customer service is a founding principle of the TC25 work and three priority areas for action have been determined:

a) Digitisation of planning - ensuring the service and processes are as efficient and automated as possible while remaining adaptive to national planning requirements.
b) Improving our customers' experience – aiming to building a legacy of 'digital first' and 'digital by choice'. We will enable customers to get what they need quickly, simply, and cost effectively, focussing face-to-face support for those who really need it and maintaining inclusivity for all.
c) Maximising income from the council's assets - driving income from our council properties.

11.15 A summary of the additional budget reductions, over-and-above those reported in the 24/25 General Fund Budget report (CAB3444) and already removed from the MTFS, is set out below:

Review	Budget Reduction
Review of Mayoral transport	£6,000
Building Control fee increase to reduce losses on chargeable service (part 2)	£50,000
Weekend closure of City Offices	£4,000
Re-negotiation of contracts	£12,000
City Lets scheme reduction	£47,900
Review of City Centre Wi-Fi	£10,000
Print & Graphics	£13,000
Garden Waste additional uptake of service	£30,000
Utilisation of in-cab technology for the Garden Waste service	£20,000
Review of premises licensing income	£46,000
Other minor savings and income generation	£11,100
Total.	£250,000.

11.16 In addition to the budget savings that have and will be removed from the MTFS, there has been cost reductions (that would otherwise have resulted in an overspend) as a direct result of TC25, totalling £173,000 as below:

Cost reductions	All years
Energy Management	£103,000
Goods Shed letting - income in perpetuity	£60,000
Postage	£10,000
Total	£173,000.

11.17 To date, TC25 has secured total budget reductions of £857,000 (£607,000 removed in the 2024/25 budget report in February 2024 and a further £250,000 identified in this report).Theis is a solid start to meeting the £3m target but further effort will be required to continue to meet the budget challenge. The recent Corporate Peer Challenge acknowledged the work to date and recognised that that a step change is needed to move onto the wider implementation phase of TC25,

11.18 Whilst we could rely on the current TC25 programme to close the budget gap, given the ‘known unknowns’ and unavoidable budget pressures it is prudent that we take further pro-active measures and move to the next phase of our transformation programme. It is recognised that an ongoing transformation programme is required to deliver the service change and savings needed. The next phase of TC25 is being developed to ensure the council has a robust plan for dealing with the medium-long term budget shortfalls.

Government have been clear that they expect Local Authorities to take all reasonable steps to set, and maintain, a balanced budget.

11.19 A detailed review of the operating model for the delivery of all our services, including the HRA, is required if the transformation is to deliver the necessary savings and protect our services for those residents and customers in the greatest need.

11.20 This strategic review will give us an organisation-wide picture and will allow for a prioritisation exercise to inform a plan for deployment if and when needed. This is an approach endorsed by CIPFA and is similar to the approach taken by commissioners when authorities declare a s114. Feedback to authorities that have declared s114's, has been that had they of reacted faster and been bolder, the situation could have been avoided.

11.21 TC25 is also about transforming our organisation to become a digitally enabled council fit for the future, improving the experience of our customers and making services more accessible and efficient. We continue to work on this key strand alongside delivery of the £3m. Our Digital Vision and Strategy is being developed and a Digital Programme Manager was appointed in the summer to lead this. Recruitment for three Project Leads is underway for the Digitalisation of Planning, Customer Experience and Microsoft 365 implementation and adoption projects.

11.22 In addition, to support the organisation as it enters a period of significant change and transformation, a Change Specialist is being recruited to the TC25 team to deliver organisational and change management strategies and initiatives that fosters a high performance culture aligned to our values and support a culture of continuous improvement.

12 <u>2024/25 Budget Update</u>

12.1 The latest forecast for the 2024/25 general fund budget is a surplus of £1.260m and is due to be reported in the Quarter 2 Performance Report (CAB3476 refers). Out of the forecast surplus, £1.060m is related to the release of additional NNDR surplus gains from 2024/25 and reported in the General Fund 2023/24 Outturn (CAB3464). The forecast surplus is the net of a number of forecast favourable and adverse income and expenditure variances, relating to services.

12.2 Adverse service income variances relate to;

a) Planning Fees - £200k
b) Homelessness B&B costs - £30k

12.3 Favourable service income variances relate to;

a) Car Parking Income - £100k
b) Garden Waste Fees - £30k
c) WS&LP Energy Benchmarking - £300k

12.4 The forecast surplus for 2024/25 is assumed in the MTFP (appendix 1) as being transferred to the transitional reserve to support the transformation programme.

13 Preparing the budget - assumptions used in the MTFS

Government funding update

13.1 The Chancellor announced the Autumn Budget on 30 October 2024. Whilst detailed funding announcements won't be received until December, key announcements are set out below. The MTFP in appendix 1 does not include adjustments for these changes to government funding but as more information is received on the specific impact on Winchester, the new funding streams will be included in the budget brought forward to Council in February.

a) Employers NI to increase from 13.8% above £9,100 to 15% above £5,000. The additional forecast baseline costs are approx. £380,000 per annum for the General Fund. Local government will receive additional compensatory funding but the distribution methodology is unknown so additional costs may not be covered in full.

b) National Living Wage to increase by 6.7% to £12.21 per hour.

c) New Homes Bonus – no update

d) Additional one-off specific funding for local authorities in 2025/26 of:
   i. £230m additional homelessness funding
   ii. £86m additional disabled facility grant
   iii. £900m transitional UK Shared Prosperity Fund, (whilst this is a 40% reduction on 24/25 funding was due to end after the current year).

e) Extended producer responsibility (EPR) funding is estimated at £1.1bn but no breakdowns confirmed yet, especially for two tier areas. The payments are expected to commence in 2025/26 but to date there has been no clarity around how much Winchester may receive as a district Council. There is also a risk around whether there may be future expenditure demands tied to the EPR funding, which combined is why forecasts in Appendix 1 assume no EPR funding at this stage.

f) Funding reforms are targeting 2026/27 but timescales are tight. Business rates reform is on the way and devolution is on the agenda.

g) There is a strong focus on directing funding towards authorities with higher needs and also taking into account local revenues (business rates and council tax). This will start as soon as 2025/26 for additional funding.

13.2 Despite many years of uncertainty as to how and when a fair funding review will take place and how and when a re-set of business rates will occur, it is not expected there will be time for the new government to make any major changes ahead of 2025/26.

13.3 This Council has benefited from the short-term benefits of a major funding review which has had the effect of pushing out expected reductions into future years. Whilst this gives time to deliver cost efficiencies within the TC25 programme, it does create uncertainty within medium term forecasting and also a greater 'cliff-edge' as business rates retention continues to grow in the intervening period.

13.4 Forecasts of government funding in Appendix include significant 'damping payments' from government to ease authorities into their revised funding. Over four years this is currently estimated to total over £12m and whilst based on the best information available (including indications from the previous government) it is highly uncertain and a strong reason for the risk reserves set out within earmarked reserves below.

Other changes to Government funding

13.5 Winchester have been approached to become part of a **Business Rates (NNDR) Pool** for Hampshire in 2025/26. This would involve pooling NNDR gains with Hampshire County Council and a number of district councils within Hampshire. The result would be an in-year saving on the current 50% Levy payment to central government that is made on all NNDR gains above the baseline level. These savings would then be shared with Hampshire County Council on 50:50 basis. The pooling arrangements are being supported by experienced consultants LG Futures who have already been involved in setting up a number of successful pooling arrangements across the country.

Assumptions included in the MTFP

13.6 In line with advice from our advisors, a number of key assumptions have been made in the MTFS (shown in Appendix 1):

a) New Homes Bonus will continue in 2025/26 and will be at the same level as in 2024/25.

b) A reset of business rates and changes to the current funding distribution system will not take place until 2026/27 (a further year on than in the previous MTFP).

c) Damping funding will be available to compensate for lost grant from 2026/27 and this will be phased out over a 4-year period.

13.7 The ongoing uncertainty around future government funding makes it very difficult to forecast and plan for the medium term. However, given that Winchester has benefited significantly from the current, mainly rewards-based system (New Homes Bonus and Retained Business Rates) then it is necessary to plan for future funding which is more based around ‘need’. Both the New Homes Bonus and Retained Business Rates rewards systems are both long overdue fundamental review and were only laid out in their current form for a fixed time period.

Council Tax

13.8 There is uncertainty over Council tax referendum limits and other potential council tax changes for 2025/26. For forecasting purposes, it is assumed that these will remain at up to 3% (the previous £5 limit may remain but is now lower than 3%).

13.9 The MTFS assumes a general annual tax base increase of 1.2%. An increase of 1.2% will generate approximately an additional £0.1m p.a. of district 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).

13.10 The MTFS currently assumes a council tax increase of 2.5% in 2025/26.

13.11 Any increase in council tax will need to bear in mind the interrelationship between the town and district precepts, which are subject to the same combined referendum limit.

Inflation rates

13.12 While inflation has fallen in recent months with CPI falling below the BOE target of 2% in September, volatile items such as air fares and fuel prices were the primary drivers of the drop in that month, and there continues to be inflationary pressure in some areas such as the rise in the retail energy price cap. In addition, there are significant geopolitical risks in the Middle East and elsewhere that present a potential upside risk to inflation. It is also important to note that certain major contracts are uplifted by inflationary measures (such as salaries) which have historically often been at levels above CPI.

13.13 Agreement on a national staff pay award for 2024/25 has not yet been reached and given the risks around employment costs (such as potential changes to Employers NI) estimates include an uplift in budgets of 4% for 2025/26.

13.14 The forecasts in Appendix 1 take account of increased inflation, with assumptions of increases of 4% on contracts and pay for 2025/26. The forecast assumes inflation will fall in future years.

Fees and charges

13.15 Following previous approval of the fees and charges policy framework (whereby fees and charges will be increased by the September CPI to address contractual increases, to achieve cost recovery or to bring a fee in line with the market norm) the MTFP in appendix 1 assumes this continues to be the case. Additionally, that it continues to be the case that the Section 151 officer is authorised, in consultation with the Cabinet Member for Finance and the Cabinet Member responsible for the service, to approve a different fee where appropriate.

14 Budget reviews and unavoidable growth

14.1 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 services and key priorities.

Homelessness Prevention temporary accommodation costs.

14.2 Demand is rising sharply at the same time as Hampshire County Council are considering reducing their support of short term accommodation within Hampshire. Projections in Appendix 2 show estimated budget pressures of £0.3m per annum but there is a risk that costs could be significantly higher than this should demand continue to rise. The government has announced an additional £233m in homelessness funding for local authorities. It is not yet known how much of this Winchester will receive but it will at least partially offset the increased pressure.

14.3 Given the uncertainties around demand for and funding of homelessness prevention services it is prudent to establish a risk reserve to mitigate the risk costs will be significantly higher than budgeted for. Risk reserves allow the council to set aside funding that can be triggered by one-off costs or fluctuating conditions rather than unnecessarily over-inflate the annual, baseline budget for a particular service.

14.4 A Homelessness Prevention Pressures Reserve of £1m can be established using some of the existing Exceptional Inflation Reserve which, following review, can be reduced by £1m and still provide prudent mitigation of financial pressures arising from contractual inflation and increased costs due to interest on the council’s borrowing.

Investment Property – loss of income

14.5 The council generates income from tenancies across a portfolio of commercial properties. There is uncertainty over the income levels achievable from some properties as existing lease come to an end. The MTFS has been adjusted to reflect the latest forecasts with budget pressures of up to £800k by 2028/29.

Service Income

14.6 Service income budgets have been reviewed and the following adjustments are recommended to reflect changes in service demand:

a) **Garden Waste** Income (existing budget £1.4m per annum) – based on increased subscriptions in 2024 a budget increase of £30k is proposed. Whilst still not achieving full cost recovery, this does further close the current deficit.

b) **Planning Fee** Income – a baseline reduction in the income budget of £200k is recommended whilst further work is undertaken in order to forecast expected levels over the medium term. Applications are down again significantly in 2024/25 which to a certain extent is expected towards the end of a local plan period.

14.7 Service Expenditure

a) **Leisure Centres Energy Benchmarking** – budget provision of £400k per annum was approved towards the additional utility costs at Winchester Sport and Leisure Park and Meadowside Leisure Centre. Initial indications suggest that, following reductions in utility prices, there will be a significant reduction in costs in 2024/25 to below £100k per annum.

b) **Homelessness Prevention** B&B costs – as above

c) **Estates Property Reserve** – current projections based on an annual revenue contribution to reserves of £300k per annum is not sufficient to cover expected future expenditure. A further revenue contribution of £250k per annum to be considered (taking the total contribution to £550k).

d) **Food Waste Collections** – additional cost estimates, relating mainly to the new depot provision, total a net £135k per annum from 2026/27. Commencing a phased service from October 2025, without government funding, is forecast to cost £460k in total for 2025/26, which is £320k above the existing budget provision.

e) **Contract cost increases** – additional baseline costs of £50k per annum from 2025/26.

14.8 It is important to note that the cost of food waste collections assumes government funding of 80% of the running costs of the new service. This is a high-level estimate which will be updated to reflect actual government funding once known. It is also reasonable to assume that the funding will not be separated out in the medium-term and so will be at risk of redistribution to ‘higher need’ authorities.

15 Reserves

15.1 Reserves play a major role in the Council's overall financial stability. They ensure that funding is available over the medium term to support major one-off expenditure covering areas such as major projects, the repair and maintenance of Council assets, risk management, and for the management of certain government funding such as Homelessness.

15.2 The estimates shown in Appendix 1 assume there will be no draws from reserves in order to meet ongoing expenditure. However, risk reserves are available to support the TC25 programme where required and also could act as a temporary buffer against the risk of changes in government funding, such as a reset of business rates retention.

15.3 A summary of reserves is included as appendix 3. As we are awaiting detailed government funding announcements for 2025/26 and beyond it is planned to review reserve levels in more detail over the coming months, with a final report from the S151 officer on the robustness of reserves in February 2025. This review will include consideration of existing risks but also new risks such as Homelessness Prevention Bed and Breakfast accommodation costs.

15.4 The most significant reserve balance, outside of CIL, is the "Transitional Reserve" which was established 5 years ago. This reserve has an uncommitted balance of c£10m and has the dual purpose of supporting the critical transformation and digitalisation investment required in order to deliver the required future baseline budget savings; and also acting as a temporary buffer should savings take longer to deliver than had originally been planned.

15.5 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 £4.6m remaining in that reserve and all future business cases for regeneration 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.

16 General Fund Capital

16.1 The council has a general fund capital programme totalling £40.3m over the next 10 years. Of this, £4m 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 around £25m has been approved for expenditure, with the remaining projects, including SAPS, subject to appraisal.

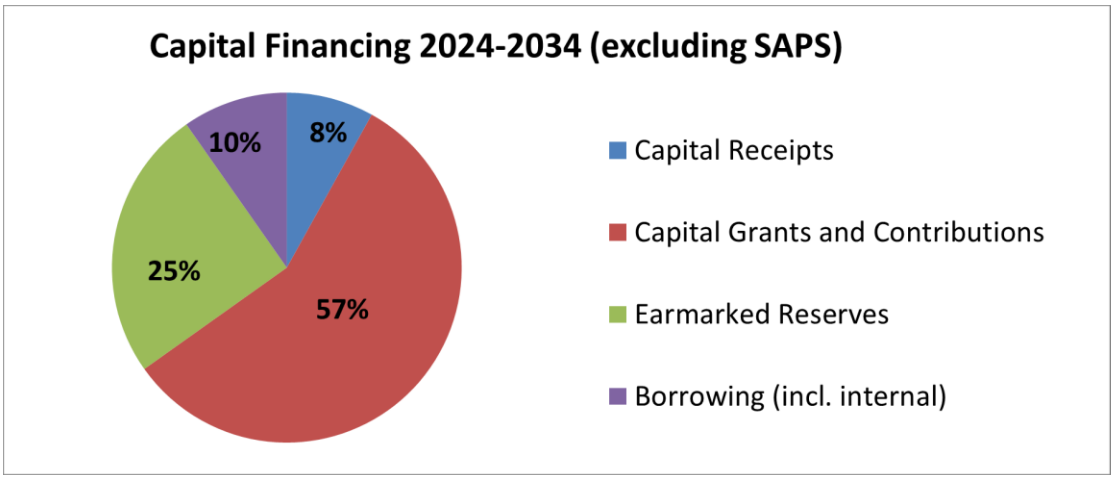
16.2 High inflation until recently and increased borrowing costs both present a challenge to the capital programme. However, by using the resources available to it and, where possible, maximising the use of external grants and contributions, the council still has an ambitious programme of works such as the installation of an all-weather 3G pitch at Winchester City Football Club, a significant Disabled Facilities Grant programme, CIL funded community grants, refurbishments to play areas, investments in the council's car parks and public conveniences, and the creation of a Housing Company.

16.3 In the coming years it is anticipated that, in addition to the existing programme, capital budgets may be required in order to: create ongoing savings in respect of the TC25 programme; implement digitalisation to enhance the customer experience and deliver savings; and meet the council's carbon reduction objective such as investment in solar PV.

16.4 Ongoing 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

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



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

- Capital grants and contributions (e.g. Disabled Facilities Grant 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”).

16.7 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.

16.8 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.

16.9 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 2024, 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. Overall

Capital Financing Requirement	**General Fund £000**	**Housing Revenue Account £000**	**Total £000**
Capital Financing Requirement at 1 April 2023	**71,653**	**199,777**	**271,430**
Unfinanced capital expenditure - in year	698	12,856	13,554
Minimum revenue provision (MRP)	(1,591)	0	(1,591)
Voluntary provision for the financing of capital	(600)	(87)	(687)
Capital Financing Requirement at 31 March 2024	**70,160**	**212,546**	**282,706**
Made up of:			
External borrowing	0	159,722	159,722
Internal borrowing	70,160	52,824	122,984

Challenges and opportunities

16.10 The Prudential Code requires that the council's capital programme must be "affordable, sustainable, and prudent"; in addition, it must be proportionate both relative to the size of the council and in respect of the risks being proportionate to the overall capacity of the council to absorb them, i.e. "plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services and the level of resources available to the organisation". In recent years both inflation and the cost of borrowing have increased significantly which has impacted negatively on the commercial viability of some refurbishment and regeneration schemes where a surplus after the cost of borrowing had previously been anticipated. Whilst inflationary pressures have reduced, the cost of borrowing remains higher than the historically low rates available for several years and is not expected to materially fall.

Inflation

16.11 The September Consumer Prices Index (CPI) was 1.7% (compared to 6.7% a year earlier and 10.1% the year before). However, inflation differs between products and sectors. For example, overall, construction materials costs fell by 1.1% between August 2023 and August 2024 though it varies depending on different material types. It should be noted that this follows a period of very high construction inflation and that construction material prices remain 13.7% higher than 3 years ago and 37.7% higher than 4 years ago (source: Monthly Statistics of Building Materials and Components - data.gov.uk).

Borrowing

16.12 Local authorities can borrow from the Public Words 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%. The council's treasury advisors expect longer term gilt yields to remain steady or fall slightly in the medium term but do not expect a return to the historically low rates that were available for several years. The 40-year annuity rate as at 14 October this year was 5.53% compared to 2.3% in February 2022.

16.13 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 more than the total MRP and interest cost.

Asset sales

16.14 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.

16.15 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 potential 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%**
Annual saving (£'000)	62	54	47	40
Cumulative saving (40 yrs) (£'000)	2,493	2,174	1,873	1,593

New capital budget requirement - Wickham Parish Council capital grant.

16.16 £160,000 was collected by the council in March 2020 in respect of a S106 financial contribution for the improvement of Wickham Recreation Ground, which is owned by Wickham Parish Council. At the time, discussions between the developer, parish council and city council concluded that whilst the financial contribution was intended for Wickham Parish Council's sports facilities, it would need to be paid to and held by the city council initially as the parish council were never party to the S106 legal agreement.

16.17 The Parish Council has commissioned drainage works and identified an architect to bring forward proposals for a replacement pavilion. A planning application is anticipated in January 2025 and work is expected to commence around April/May 2025. Interest continues to accrue on the sums held and a capital budget of up to £190,000 is required to enable the monies to be granted to the Parish Council (£25,000 in 2024/25 and the remainder in 2025/26). The final grant amount and basis of payment will be approved via an officer decision notice in line with Financial Procedure Rule 7.4.

Emerging projects

16.18 New "invest to save" capital budgets may be required to support the council's **TC25 programme** in order to generate ongoing revenue savings. Further investments are likely to be required as part of the council's strategy for **digitalisation**. Digitalisation presents an opportunity to improve customer experiences as well contribute to ongoing savings.

16.19 The council's ambitious **Greener Faster** carbon reduction goals will require further capital investment in the future. Whilst inflation and a higher cost of borrowing presents challenges, the council has successfully applied for grants to ensure projects are affordable and will continue to identify potential grant funding for future projects. Some interventions also present opportunities: for example, investment in solar has the potential to generate additional income over and above the cost of borrowing which would allow the council to make further interventions.

17 Adequacy of Reserves and Robustness of Estimates

17.1 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.

17.2 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.

17.3 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.

17.4 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.

18 OTHER OPTIONS CONSIDERED AND REJECTED

18.1 Scope for additional savings in 25/26 to reduce the use of reserves does exist but would have a 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.

18.2 However, it is essential that work to identify longer term savings through the Transformation Challenge 2025 programme as set out in this report is critical to ensure the Council can meet its obligation to set a balanced budget in in the future.

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

CAB3430 General Fund Budget Options & Medium-term Financial Strategy dated 21 November 2023

CAB3444 General Fund Budget 2024/25 dated 8 February 2024

CAB3443 Capital Investment Strategy 2024-2034 dated 8 February 2024

CAB3464 General Fund Outturn 2023/24 dated 11 September 2024

Other Background Documents:-

None

APPENDICES:

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