

REPORT TITLE: MEDIUM TERM FINANCIAL CHALLENGE

4 JULY 2019

REPORT OF CABINET MEMBER: CLLR NEIL CUTLER (CABINET MEMBER FOR FINANCE & RISK)

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WARD(S): ALL

PURPOSE

This paper sets out the medium term financial planning challenge facing the Council. With the current four year funding settlement ending in 2019/20 and with no final details announced from 2020/21 there is significant uncertainty facing local government. This paper therefore shows a range of high level forecasts and scenarios over the medium term.

RECOMMENDATIONS:

That The Scrutiny Committee raises with the Leader or relevant Cabinet Member, any issues arising from the information in this report and considers whether there is any items of significance to be drawn to the attention of Cabinet.

## IMPLICATIONS:

### 1 COUNCIL STRATEGY OUTCOME

- 1.1 The Council Strategy is the core strategic document, the MTFP (Medium Term Financial Plan) which is the response to the medium term financial challenge is guided by this and informs the budget process for delivery of the Council Strategy.

### 2 FINANCIAL IMPLICATIONS

- 2.1 As detailed in the main body of the report.

### 3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 Any implications resulting from budget options arising from this planning work will be dealt with in the individual business cases and committee papers relating to those specific decisions.

### 4 WORKFORCE IMPLICATIONS

- 4.1 None directly relating to this paper, which is a budget planning document.

### 5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 None directly in this paper.

### 6 CONSULTATION AND COMMUNICATION

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

### 7 ENVIRONMENTAL CONSIDERATIONS

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

### 8 EQUALITY IMPACT ASSESSEMENT

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

### 9 DATA PROTECTION IMPACT ASSESSMENT

- 9.1 None required.

10 RISK MANAGEMENT

<b>Risk</b>	<b>Mitigation</b>	<b>Opportunities</b>
<i>Significant reductions in government funding over the medium term</i>	<i>Financial projections are shown up until 2028/29 and the scenario planning highlights the potential sensitivities.</i>	<i>Development of locally generated income streams with less reliance on government funding</i>
<i>Council's service priorities are not reflected in the budget</i>	<i>The use of Outcome Based Budgeting as a method of delivering the budget.</i>	<i>Ensure the prioritisation of resources to best meet the Outcomes of the authority</i>
<i>Failure to set a balanced budget over the medium term</i>	<i>The MTFS shows the latest financial projections up until 2028/29, and the scenario planning highlights the sensitivities around these projections. Planning over a longer period will help to ensure understanding of the scale of the financial challenges and ensure that early planning enables enough lead in time for the implementation of budget options.</i>	<i>Long term strategic planning  Innovative funding streams  Transformational efficiency savings</i>
<i>Delays to or failure to deliver major capital schemes leaving future years forecast deficits</i>	<i>Ensure robust business cases are taken forward and sufficient resources are available to deliver the projects.  Scenario planning to ensure that a multitude of options are available for consideration.</i>	<i>Consideration of a wide base of potential capital / investment schemes to enable a balanced risk portfolio and options for other schemes to be chosen should any existing schemes not progress</i>
<i>Failure to adequately manage major contracts including planning for contract renewal</i>	<i>Ensure adequate contract management and monitoring arrangements are in place.  Ensure sufficient time for review of contract options prior to contract renewal.</i>	<i>Ensure contracts are aligned to the council's requirements and council strategy.  Transformational efficiency savings.</i>

## 11 SUPPORTING INFORMATION:

### Background

- 11.1 The Council has a strong record of financial management, supported by achieving balanced budgets, target in year savings, and providing sufficient reserves to support services and deliver key projects.
- 11.2 Outcome Based Budgeting (OBB) is the budget strategy used to develop budgets over the medium term. This process involves greater alignment between the Council's strategic objectives and financial resources, and is reflected in the Council's financial reporting. It is also the basis for the continuous review and development of the four year medium term plans including the challenge and prioritisation of resources.
- 11.3 Total recurring savings of £1.1m were identified and included for the 2019/20 revenue budget. Further annual recurring savings of £0.7m have been identified during the 2018/19 outturn and are reflected in the forecasts presented in this report.
- 11.4 The following emerging political priorities will form the basis of the Medium Term Financial Strategy planning:
- I. Focus on the environment
  - II. Commitment to homes for all
  - III. Focus on finance and the medium term financial plan
  - IV. Greater transparency in decision making
- 11.5 The OBB strategy covers a rolling four year period and will be refreshed over the summer in order to provide budget options this Autumn. Some of the key projects included over the medium term and that will be factored into the medium term forecast include the below:
- HRA / General Fund asset transfer (garages)
  - Strategic Asset Purchase Scheme
  - Development of Coitbury House
  - New trading opportunities
  - Review of fees and charges
  - Review of contracts
  - Financial review and impact of Major Projects

## Government Funding

- 11.6 As the current four year government funding settlement comes to an end in 2019/20, there remains very significant uncertainty around a large proportion of funding.
- 11.7 Under the current spending review 2019, Government are consulting over fundamental changes to the distribution of funding from 2020/21. However, there is now great uncertainty over whether there is time and resource available in order for Government to implement these changes from 2020/21. This means it is increasingly likely there may be a delay of possibly one year.
- 11.8 Winchester has seen strong growth in **retained business rates** since the introduction of the business rates retention system. The widely expected full reset of retained growth in 2020/21 was therefore expected to result in a material reduction in overall funding levels. A possible delay would therefore have a positive short term impact on forecasts. Other changes to the system such as 75% growth retention, tier split apportionments, and changes to how appeals are dealt with are all so uncertain that no attempt has been made to model these potential changes.
- 11.9 Resilient growth in housing in the Winchester District has seen the Council benefit from **new homes bonus** reward receipts. Whilst it has been strongly indicated that the scheme will end in 2019/20, no details have been announced on any alternative scheme or even whether existing rewards will continue to be received until 2022/23. It is uncertain whether any delay would have any impact on these plans.
- 11.10 The **Fair Funding Review** remains under consultation by the MHCLG in order to redefine the basis of distributing the settlement funding assessment (SFA). Again implementation was planned from 2020/21 but may now be subject to delay. At this stage it is not possible to model different scenarios other than to assume a larger will be available to allocate (due to the reset of business rates growth).
- 11.11 This potential volatility makes it very difficult to present accurate forecasts even in the short term as the council has no funding figures for the upcoming financial year from central government.

## Key Projects

- 11.12 The Council has a substantial capital programme for the year ahead totalling c£92m including the Housing Revenue Account. This includes a wide range of projects many of which support the Council's Financial Strategy.
- 11.13 Three of the most significant projects (Sport and Leisure Park, Station Approach and Central Winchester Regeneration) are under review by the administration in order to consider their future strategic direction. Funding will be an important consideration, ensuring that all options for external funding

are pursued (for example in relation to public realm) and that any funding plans are fully risk assessed and are deemed affordable within the overall medium term financial planning.

### Movement Strategy

- 11.14 The movement strategy (CAB3140) will play a key role in determining the infrastructure and arrangements required in order to deliver Winchester's transport requirements over the medium to long term period. Total funding of £700k (£450k Major Investment Reserve, £250k Community Infrastructure Levy) has already been set aside towards the costs of the review and for further detailed development work.
- 11.15 The movement strategy will be a core element of the council strategy and will therefore play a key role in the prioritisation of future resources. The Community Infrastructure Levy will also provide one-off funding in order to support transport infrastructure requirements.

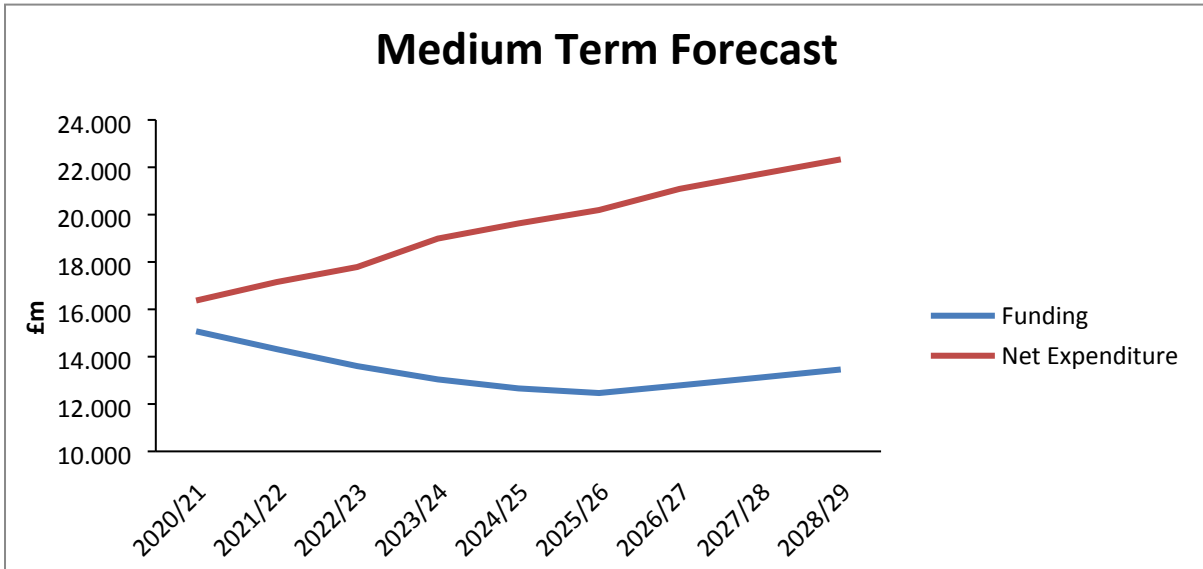
### Major Contracts

- 11.16 The Council operates a number of major projects which are kept under ongoing review in order to ensure that they are delivering in line with the Council Strategy and are providing value for money service provision.
- 11.17 The waste and recycling element of the environmental services contract is going out to tender in 2019, with a new contract set to commence in October 2020. This gives an opportunity to review the details of contract and receive tender prices based on a number of stated options, such as the cost of introducing a food waste service.
- 11.18 Contract review has been identified in the OBB process and further analysis will form part of the budget review process.

### Revenue Projections:

- 11.19 Current scenario planning is based on both a one year settlement delay or the full settlement implementation from 2020/21. All other assumptions equal the updated projections and impact of a one year delay are shown below.

The long-term funding gap before OBB options



Medium Term Financial Projections - Surplus / (Deficit) £m

CAB3131 - February 2019 estimates

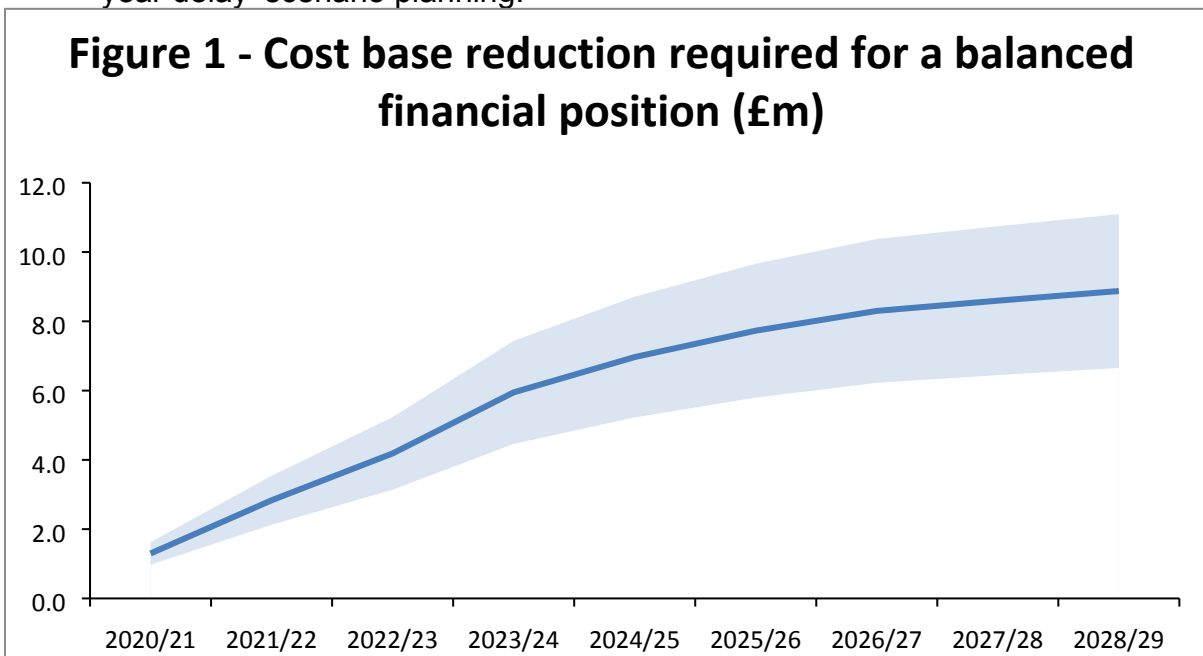
Implementation from 20/21

One year delay

Impact of one year delay

	2020/21	2021/22	2022/23	2023/24
CAB3131 - February 2019 estimates	-2.489	-4.068	-5.417	-7.197
Implementation from 20/21	-2.264	-3.405	-4.391	-5.949
One year delay	-1.298	-2.834	-4.186	-5.949
Impact of one year delay	0.966	0.571	0.205	-0.000

11.20 The graph below shows the latest medium term forecast based on the 'one year delay' scenario planning.



### Current Assumptions

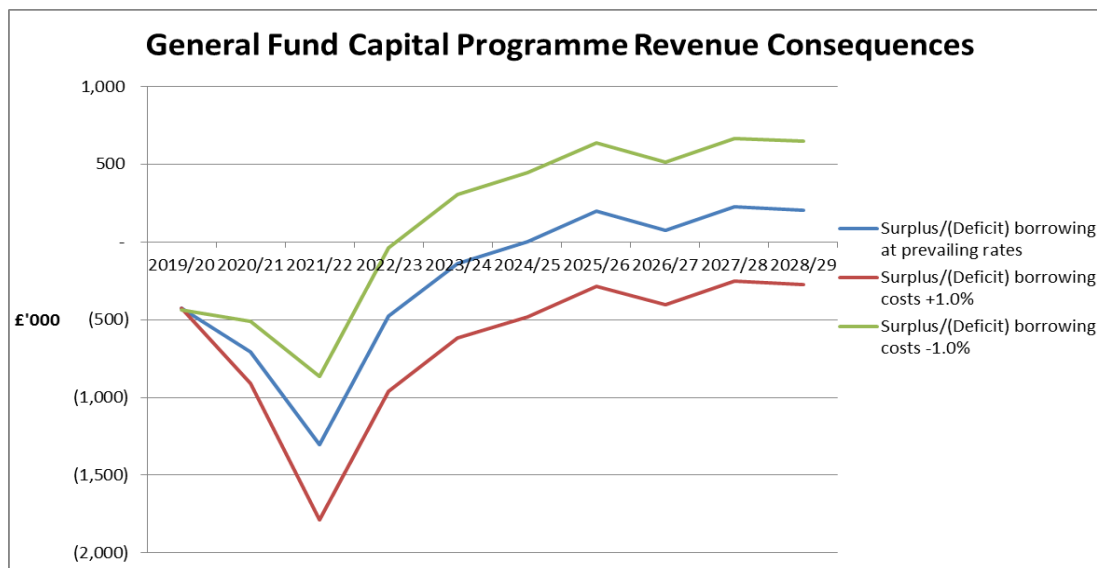
- I. The budget forecasts reflect the latest information available and are based on 'central case' estimates. Early stage major projects will not be fully costed and where this is the case they are assumed to have no impact on baseline recurring revenue budgets unless explicitly stated otherwise. As the Sport and Leisure Park is at an advanced stage the main elements of this project have been fully costed and these estimates are included in the medium term financial forecast.
- II. Inflation will increase by 2% per annum and council tax has been modelled on this same assumption.
- III. Pay inflation of 2% per annum.
- IV. Fees and charges will increase by inflation forecast at 2% per annum.
- V. Any reductions in Government funding will be subject to an overall funding reduction cap of 5%, reducing over the forecast period up to five years.

### Capital Programme

- 11.21 The Council has an ambitious capital programme; in February 2019, Council approved a total capital programme over the next ten years of £356m of which £116m relates to General Fund Projects and £240m Housing Revenue Account.
- 11.22 In the General Fund there are several key projects including:
- Winchester Sports & Leisure Centre - £40.6m
  - Strategic Asset Purchase Scheme - £15.0m
  - Disabled Facilities Grants - £10.4m
  - Housing Company - £10m
  - Transfer of HRA garages to the GF - £5.4m
  - Station Approach Public Realm Works - £5m
  - Replacement surgery - £4.1m
  - Coitbury House - £3.0m
  - Partnered Home Purchase - £2.5m
  - Station Approach Project Development (do minimum) - £1.4m
  - Bishop's Waltham Depot - £1.3m
  - KGV Pavilion - £1.0m
  - The remaining £16m is made up of several smaller projects such as flood defences at Durngate, repairs to the Weirs, replacement and refurbishment of play areas, works to the Council's car parks, and IMT investments.
- 11.23 The capital programme will have a significant impact on the General Fund revenue budget which adds to the deficit in the short to medium term during



the construction phase of major projects but is estimated to deliver a net surplus from 2024/25 as illustrated below. It should be noted however that delay to projects will reduce costs in the short term but delay future benefits.



11.24 In addition to those projects already included in the capital programme, work on developing the business case/scope for several other projects is underway including:

- Saxon Gate (central Winchester regeneration)
- The River Park Leisure Centre site – exploration of alternative uses
- District-wide sports hall capacity
- Goods shed, Bar End – options being explored to provide small business units

### Next Steps

11.25 The outcomes based budgeting approach will be refreshed, ensuring the robust monitoring of 2019/20 targets and updating of the four year programme. This will ensure there is sufficient financial resilience to deal with the ongoing financial challenges and help to support the council strategy.

11.26 Existing assumptions will be reviewed and refreshed in order to produce an updated medium term financial plan for an Autumn Cabinet, where it is anticipated there could be further clarification over some of the key assumptions.

11.27 Budget options will be presented in the Autumn for consultation, giving time for consideration and response before the final budget plans are approved in February.

11.28 A budget simulator is planned for launch to residents later in the summer which will also feed into the consultation process.

12 OTHER OPTIONS CONSIDERED AND REJECTED

- 12.1 As detailed in the report; different financial modelling options are articulated and varying estimates can be made. The paper provides a range of assumptions.

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

Medium Term Financial Strategy – CAB3131 – February 2019

General Fund Budget 2019/20 – CAB3132 – February 2019

Capital Strategy – CAB3134 – February 2019

Other Background Documents:-

None

APPENDICES:

None