

REPORT TITLE: MEDIUM TERM FINANCIAL STRATEGY, BUDGET AND
COUNCIL TAX 2020/21

12 FEBRUARY 2020

REPORT OF CABINET MEMBER: Cllr Neil Cutler - Deputy Leader and Cabinet
Member for Finance and Risk

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WARD(S): ALL

PURPOSE

The Council has experienced significant reductions in Government funding allocations and is facing significant future shortfalls. This report sets out the current challenge, the budget for 2020/21 and recommends changes to the Medium Term Financial Strategy to address future shortfalls. The budget allows for further reductions and includes proposals, which, if approved will ensure a balanced budget at least until March 2022 whilst supporting additional investment in key Council Plan priorities.

The general fund budget is consolidated to take into account the latest known funding allocations through central government as well as from locally raised council tax, business rates (after government levies and tariffs) and fees and charges. Members are requested to consider the financial assumptions and the implication of financial changes to the overall Council Plan.

Members are asked to consider these proposals and also the level of Council Tax to be set for next year. The current tax is £138.92 at Band D for City Council services, and £69.19 for Winchester Town. It is proposed to increase the district tax for 2020/21 by three percent to £143.09 and the town forum have proposed a three percent increase to £71.27 (Band D equivalent).

The General Fund Budget has been widely consulted on with local stakeholders and the general public. The business community and parish and town councils have been involved and before finalising these proposals consideration has been given to all comments received.

RECOMMENDATIONS

That Cabinet recommend that Council:

1. Approve the medium term financial strategy as set out in this report
2. Agree the General Fund Budget for 2020/21, updated forecast for 2019/20, and the summary as shown in Appendix A.
3. Support the investment proposals set out in section 17 of this report, including:
 - a. £50,000 per annum to fund additional parking enforcement officers
 - b. An annual provision of £350,000 to the parking reserve to fund additional park and ride initiatives and support investment in other transport and public transport related services
 - c. £247,000 to implement a full survey of all council trees and fund associated remedial works (net impact of £84,000 on the general fund, with the remaining costs met from Winchester Town Account and the Housing Revenue Account for trees within the control of those budgets).
 - d. One off provision of £105,000 to support feasibility studies and building survey work for the central Winchester regeneration project
 - e. That £750,000, funded from the transitional reserve, be approved to fund the implementation of the Carbon Neutrality Action Plan with further details of specific proposals to be reported to Cabinet in June 2020.
 - f. That one-off provision of £500,000, funded from the transitional reserve be made to support the transformation proposals set out in the medium term financial strategy, with specific proposals to be reported to cabinet later in 2020.
4. Approve the savings proposals set out in section 18 of this report, including:
 - a. The implementation of an enhanced garden waste service from February 2021, with further details on the proposal including the charging arrangements being reported to cabinet in June 2020.
 - b. The closure of public conveniences at Middlebrook St and Worthy Lane, Winchester.

5. Approve the proposals for changes to parking charges, as set out in section 19 of this report
 - a. Parking charges (with the exception of (Park and Ride charges) be increased by 3% (rounded to the nearest 10p)
 - b. That a “flat rate” charge of £2 be introduced on Sundays in all “central” car parks, the access to which all fall within the City’s Air Quality Management Area. These include:
 - i. The Brooks
 - ii. Middlebrook St
 - iii. Colebrook St
 - iv. Friarsgate
 - v. Guildhall Yard
 - vi. Jewry St
 - vii. Cossack Lane
 - viii. Upper Brook St
 - ix. St Peters St
 - x. Tower St
 - xi. Gladstone St
 - c. That weekday charging period for the “central” Air Quality Management Area car parks be extended to 7pm for a pilot 6 month period.
 - d. That daily Park and Ride charges be increased by 50p.
 - e. That discounted parking charges for weekly and monthly season tickets at Cattle market and Worthy lane car parks be removed.
 - f. That a revised Parking Investment programme be brought back to Cabinet by September 2020 with detailed proposals for additional investment in transport related services.
 - g. That all parking related changes set out above, be implemented with effect from July or as soon as practicable thereafter.
 - h. That, subject to contract, park and ride bus services be extended in the evenings and introduced on Sundays from the St Catherines Park and Ride site.
6. Confirm the policy as previously agreed by the Council on 14 July 1999 (min 186 refers) to treat all expenses of the Council as General Expenses other than those specifically identified and itemised in the Winchester Town Account. In consequence of which the sum of £1,006,776 be treated as Special Expenses under Section 35 of the Local Government Finance Act

1992 in respect of the Winchester Town area, Appendix D.

7. Approve the Council Tax for the Special Expenses in the Winchester Town area at Band D for 2020/21 be increased in line with the town forum recommendation.
8. Approve the total deficit balance on the Council Tax Collection Fund calculated in January 2020 of £144,278, £18,676 for this Council.
9. Approve that the level of Council Tax at Band D for City Council services for 2020/21 be increased by 3% to £143.09.

IMPLICATIONS:

1 COUNCIL PLAN OUTCOME

- 1.1 The budget proposals take account of the Council Plan approved by Council on 15 January 2020 and include proposals to support the delivery of key priorities in that Plan. The Plan makes a clear commitment to achieving a balanced budget and stable Council finances and to providing good value compared to other similar councils.

2 FINANCIAL IMPLICATIONS

- 2.1 The detail behind the proposed 2020/21 general fund budget is set out in the supporting information section of the report, including funding assumptions, growth pressures, proposals for additional investment to support the delivery of the Council Plan and reductions and actions required to achieve a balanced budget.
- 2.2 Government Funding from new homes bonus and business rates retention is forecast to reduce from £8.0m in 2020/21 to £2.9m in 2024/25, a cash reduction of £5.1m. This forecast reduction results in significant budget shortfalls from 2021/22.
- 2.3 Historically, funding changes have been phased in over a period of years where individually authorities would otherwise face significant 'cliff edge' changes in funding. Forecasts have therefore assumed that any funding changes would be subject to a maximum reduction of 5% of 'total funding' in 2021/22 and then phased in so the full effect is not reached until 2024/25. It is important to note that there have been no indications from Government on how this will operate and a worst case scenario (with new homes bonus and business rates retention excluded from the calculations) would further increase the forecast budget deficits from 2021/22 to 2023/24.
- 2.4 The current Medium Term Financial Strategy (MTFS) has a clear focus on investment and income generation to address short to medium term shortfall projections. However, it should be noted that Strategic Asset Purchase (SAP) scheme investments to date have not generated sufficient revenue receipts to make a positive contribution to the shortfalls and are unlikely to do so in the short term. The recent increase in the Public Works Loans Board rate has reduced the ability to generate significant income, particularly in the short term, through investments. Whilst SAP remains a key priority to support major projects and long term investment opportunities, the MTFS recommended in this report has been amended to reflect the need to reduce net operating costs over the next five years.

3 LEGAL AND PROCUREMENT IMPLICATIONS

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

4 WORKFORCE IMPLICATIONS

- 4.1 Matters affecting staff will be managed in accordance with HR procedures and policies and considered in any business cases relating to individual projects.

5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 The proposed budget underpins the Capital Investment Strategy (report CAB3209 elsewhere on this agenda) and supports regeneration proposals, the maintenance and improvement programmes for all Council property and making best use of Council assets.

6 CONSULTATION AND COMMUNICATION

- 6.1 A range of options were considered as part of CAB3178 – The Outcome Based Budgeting Challenge dated 23 October 2019 aimed at addressing future shortfalls and at supporting key Council Plan priorities and in particular the Climate Emergency declaration and the emerging Parking and Access Strategy. These options have since been subject to consultation with a range of stakeholders.
- 6.2 Officers presented the options to the local council briefing in November and to the Chamber of Commerce/BID business briefing in December. This was followed by the on line budget consultation which received 610 responses. A report analysing the responses and comments is available on the Council website at <https://winchester.citizenspace.com/policy/wcc-budget-consultation/>.
- 6.3 Responses to the on line survey were very considered and helpful in determining which options to bring forward for approval. Over 60% supported the principle of an above inflation council tax increase and over 55% supported the implementation of an enhanced green waste collection service.
- 6.4 At the local council briefing, representations were made to ensure final decisions take full account of the importance of services to rural areas. At the business briefing, whilst proposals for increased parking charges aimed at addressing congestion and influencing behaviours were noted, the importance of getting the balance right with enforcement was discussed.

7 ENVIRONMENTAL CONSIDERATIONS

- 7.1 The budget supports the delivery of the Climate Emergency priority with provision from the Transitional reserve as well as investment in the capital programme and HRA Business Plan to help fund key actions in the Carbon Neutrality Action Plan. Additional provision has been included to fund tree survey and maintenance work, as well as resources to support policy development work for example, Local Plan, biodiversity, nitrate neutrality.

8 EQUALITY IMPACT ASSESSEMENT

9 Any equality impact assessments are carried out as part of the business case for any individual proposals.

10 DATA PROTECTION IMPACT ASSESSMENT

10.1 None

11 RISK MANAGEMENT

Risk	Mitigation	Opportunities
<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 achieve the budget proposals presented in Appendix B</i>	<i>Budget proposals for 2020/21 have been put forward on the basis that they have a high expectation of achievement, and some of the proposals have already been achieved.</i>	
<i>Income budgets (such as car parking) are not achieved, possibly due to market or economic conditions</i>	<i>Income budgets have been set using 'central case' expectations. Robust in-year monitoring and reporting is in place which would identify any forecast shortfalls in income in time to take any necessary action to address this.</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 the review of contract options prior to contract renewal.</i>	<i>Ensure contracts are aligned to the Council's requirements and Council Plan Transformational efficiency savings</i>

<p><i>Difficulty in forecasting future Government Funding leads to additional deficits over the medium term. This is particularly the case with damping/transition assumptions from 2021/22 to 2023/24.</i></p>	<p><i>A central case forecast has been made for Government Funding (including business rates retention).</i></p> <p><i>A transition reserve is proposed to be created in order to mitigate the risks over the medium term.</i></p>	<p><i>If the transition reserve is not required for transitional deficits then it could be used to support the Council Plan</i></p>
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12 SUPPORTING INFORMATION:

- 12.1 The budget is strongly aligned to the Council Plan and the outcomes that the council wish to achieve. There are areas of significant investment contained within the budget to deliver the Council Plan including supporting the Climate Emergency and also to support the drive for improvements in service quality.
- 12.2 This investment is supported through a variety of savings programmes. These items have been carefully considered and seek to enable the Council to continue to improve the quality of core services and to protect our valued frontline delivery whilst matching the financial demands of disappearing government funding. We are ensuring that we drive further efficiencies through a strategic focus on budgets and “near neighbour” comparisons/benchmarking.
- 12.3 Following the budget consultation process the Council is proposing to increase the district tax by three percent for 2020/21. Within the referendum limits the Council has the option of increasing this by 2% or +£5 compared to the previous year (equivalent to a rise of just over 3%).
- 12.4 The Council Plan 2020 - 2025 sets out five strategic themes which are helping the Council shape its activities and resources up until 2025. Outcome based budgeting principles have been used in the preparation of the 2020/21 budget, with proposals identified in CAB3178 Outcome Based Budget Challenge which was considered by Cabinet in October 2019.
- 12.5 A summary of the General Fund revenue budget is now presented for final consideration and Members are asked to consider the total level of general fund budget and the council tax for 2020/21.

13 Collection Fund

- 13.1 *Business Rates* – The business rates collection fund forecast surplus balance at the end of 2020/21 is £2,680,123. The majority of this surplus balance is due to lower than expected bad debts and a reduced appeals provision

requirement. The Winchester City Council share of this surplus, £536k net of the 50% Levy, is recognised in the budget projections.

- 13.2 *Council Tax* - Regulations require the Council to approve the collection fund balance at 31 March, calculated at 15 January preceding. For council tax a deficit of £144,278 is estimated, shared between the County Council (£103,154), the Police & Crime Commission (£16,802), the Fire & Rescue Authority (£5,647) and this Council (£18,676). This must be debited to the council tax for the district for 2020/21. The City Council's budget for 2020/21 will therefore be set including the deficit £18,676.
- 13.3 The council tax referendum limits have been confirmed at 2% for lower tier authorities. However, shire districts (such as Winchester) will be able to increase their precept by not more than £5 (equivalent to just over 3% for this council). Central Government spending power projections assume that all authorities will increase their precepts by the maximum amount.
- 13.4 Therefore, to assist in addressing short to medium term projected shortfalls, the proposed budget set out in Appendix A assumes a three percent increase in council tax for the district and an estimated increase of 3% for the Winchester town area, in 2020/21 and then increase in line with CPI inflation over the forecast period. As stated in paragraph 6 above, there was a degree of public support for this proposal with less than 33% of responses disagreeing. The proposal was also supported by 92% of those who completed the "budget simulator" last year (115 responses overall).
- 13.5 The current level of tax for the District is £138.92 (Band D equiv.). The proposed tax for 2020/21 is £143.09, an increase of £4.17.
- 13.6 In considering the level of district tax, regard has to be had to the tax for the town area in order to ensure that the overall increase does not exceed the referendum limits.
- 13.7 The current level of tax for the town is £69.19 (Band D equiv.). An increase of 3% would increase this to £71.27.
- 13.8 The Council is required to present a council tax resolution document to the Council meeting for final approval of all precepts and Council budgets for 2020/21. The current precept table is shown as a draft in Appendix E.
- 14 Government Funding – 2020/21
- 14.1 The fair funding review is now planned for implementation from April 2021. This includes proposed changes to the new homes bonus scheme and business rates retention system and is forecast to cause significant financial pressures on the Councils budget over the medium term.
- 14.2 The provisional government funding settlement was released just before Christmas. The announcements were in line with expectations and only

provide information relating to 2020/21. Final confirmation of the settlement is expected in February.

14.3 Business rates retention:

- (i) The baseline funding level (BFL) has increased marginally to £2.23m (£2.19m 2019/20)
- (ii) In addition to the BFL, growth in retained rates is forecast to increase to £2.92m, giving a total business rates retention of £5.15m.
- (iii) The MTF5 forecast assumes a full reset of business rates retention from April 2021.

14.4 New homes bonus:

- a) Government announced that the current scheme will end with no indications of whether it will be replaced with a new reward scheme. Legacy payments are forecast to continue until 2022/23.
- b) The total 2020/21 reward of £2,839,152 (£939,484 relates specifically to 2020/21).
- c) The reward for 2020/21 includes an additional reward of £350 per affordable homes unit, totalling £77,840.

14.5 Other government grants (2020/21, £279k):

- a) The rural services delivery grant which will be £46k.
- b) Flexible homelessness support grant is due to remain at £154k.
- c) Homelessness reduction grant will be £79k.
- d) New burdens payments relating to Universal Credit and other changes have not yet been confirmed.

15 General Fund budget forecast and proposals

15.1 Appendix A shows the budget proposals for 2020/21 and forecasts for future years through to 2030. The proposals take full account of the Government funding announcements and assumptions on future funding as set out above. They also take full account of unavoidable budget pressures set out below, along with the proposals for investment to help deliver Council Plan priorities, operational savings as set out in Appendix B and additional proposals to address the projected shortfalls. The budget also assumes adoption of proposals for changes to parking charges to support the aims of the Parking and Access strategy.

15.2 The total forecast full year operational savings are £2.5m plus additional full year savings of £2.4m from key decisions, giving total savings of £5.0m.

15.3 Key assumptions used in the 2020/21 budget are shown below:

Key Assumptions	%	£000	Sensitivity +/- 1%
Income / Funding			
District Council Tax Increase	3.0%	208.0	69.5
Interest Receivable	1.0%	250.0	250.0
Fees and Charges	3.0%	180.0	60.0
Expenditure			
Contractual Inflation	2.0%	200.0	100.0
Employee Pay Inflation	2.0%	340.0	170.0

15.4 Changes to pension fund contributions following the recent actuarial assessment which will result in general fund savings of £850,000 per annum in 2020/21 to 2022/23. Projections assume this reduction doesn't continue beyond 2023 and so it is proposed this reduction be added to the transitional reserve to help mitigate the impact of the shortfalls rather than be removed from longer term baselines.

15.5 The summary financial position shown below explains how the budget has been balanced for 2020/21, subject to the approval of the proposals set out later in the paper. The net surplus / (deficit) figures include all additional resources so the proposal lines below represent gross impacts before any re-investment. The car parking income increases are driven by the parking strategy and are not options to balance the budget.

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

Net Surplus / (Deficit)	ANNUAL TARGETS				CUMULATIVE TARGETS			
	20/21	21/22	23/24	24/25	20/21	21/22	22/23	23/24
Before Savings	-2.1	-1.6	-1.2	-1.3	-2.1	-3.7	-5.0	-6.2
Operational Savings	1.2	0.4	0.3	0.6	1.2	1.6	1.9	2.5
Car Parking Strategy	0.6	0.4	0.1	0.1	0.6	1.0	1.1	1.2
Key Decisions (Including Garden Waste)	0.2	0.9	0.1	0.1	0.2	1.1	1.2	1.2
TOTAL Savings	2.1	1.6	0.5	0.8	2.1	3.7	4.2	5.0
After Savings	0.0	-0.0	-0.8	-0.5	0.0	0.0	-0.8	-1.3

16 Unavoidable budget pressures

16.1 The budget in Appendix A takes account of the following:

- a) The loss of £0.5m annual income as a result of Hampshire County Council's proposed decision to withdraw from the Project Integra partnership and changes to recycling credits and materials income.
- b) The additional annual cost of £0.47m in relation to the new Environmental Services contract
- c) Provision for salary and contract inflation as set out in the table at 15.3 above

17 Proposals for additional investment

17.1 The budget includes provision of additional investment required to support the delivery of the key priorities in the Council Plan. These include:

- a) Additional parking enforcement – It is proposed to appoint 3 additional parking enforcement officers. On street parking permit numbers have doubled in the recent years and additional resources are needed to ensure an effective enforcement service is maintained across the district, including market towns.
- b) Provision of £350,000 annually to support additional investment in parking services, infrastructure and support for public transport. This is in addition to the £2m funding included in the capital programme to support improvements to various car parks over the next two years.
- c) Provision of £247,000 to support and implement a full review of all trees on council land within the district. This budget is split across the general fund district and town accounts and the housing revenue account, with the total impact on the general fund district budget being £84,000, funded from the major investment reserve. This work will ensure an effective risk based approach to the management of trees within the council's control.
- d) One off provision in 2020/21 of £105,000 funded from the major investment reserve for the central Winchester regeneration work to cover feasibility studies and building surveys required to progress the scheme.
- e) One off provision in 2020/21 of £750,000, funded from the Transitional Reserve to support the delivery of the Carbon Neutrality action plan. Further details on spending proposals will be brought forward to a future Cabinet meeting.
- f) One off provision in 2020/21 of £500,000 funded from the Transitional Reserve to support the Transformation programme which underpins the delivery of the MTFs referred to later in the report. This will include provision for further team changes and the implications for staffing reviews proposed for 2020/21, extending the contracts for a small

number of existing fixed term posts and making provision for the costs of implementing improvements to digital services. .

18 Proposals for savings, income generation and efficiencies

18.1 In order to achieve a balanced budget whilst ensuring the outcomes set out in the Council Plan can be supported, reductions in the net operating costs of service delivery is required. In 2019/20, budget reductions of over £1m have already been implemented as set out in report CAB3132 dated 13 February 2019, including the removal of lease cars and the major restructuring of council teams. Further operational savings and income generation proposals are set out in appendix B. However, these are insufficient to achieve a balanced budget and it is therefore recommended that the following proposals be adopted:

- a) Increasing Council tax at 3% as described in paragraph 13 above
- b) Introducing enhanced garden waste service for an annual charge with effect from February 2021 – An improved service, providing wheeled bins to participating households similar to that provided by most Hampshire councils would reduce the cost of waste services by over £900,000 annually. If approved, a detailed report on operating proposals will be brought to the June Cabinet meeting. Over 55% of responses to the budget survey supported this proposal with 32% objecting.
- c) Closure of two public conveniences (Middlebrook St and Worthy Lane, Winchester) will reduce operating costs by £50,000. The Worthy Lane provision will be surplus to requirements once the coach park is moved (and will not be closed until this move is complete). The Middlebrook St facility is subject to very low demand, largely due to more prominent conveniences nearby. There is a higher quality provision within the Brooks as well as the Market lane and Abbey Gardens conveniences nearby.

18.2 In addition to the savings proposals presented in Appendix B, Hampshire Pension Fund has given the Council the opportunity to pay its pension contributions as an up-front payment rather than the existing monthly process when the payments are due. The options were given to pay up front for either one, two, or three financial years. As the Council is expected to move to a net borrowing position over the next twelve months it was considered prudent to accept the one year advance payment option at a 2.1% discount. This discount equates to a gross saving of £43k for 2021/22, a net £35k after deducting for a reduction in investment income. Confirmation was required by 31 January 2020 so this proposal has been approved by the S151 Officer under existing delegations.

18.3 Additional proposals in relation to potentially reducing CCTV services and reducing investment in community transport have not been brought forward at this stage. A further review of the effectiveness of CCTV will be undertaken

prior to re-procuring the service in 2021. The community transport service was positively supported throughout the consultation process and will remain as an important contributor to the Parking and Access strategy.

19 Proposals for Parking Charges

- 19.1 CAB3178 dated 23 October 2019 and the Parking and Access strategy (CAB3201 refers) brought forward proposals for changes to parking charges, in particular within the Air Quality Management area to address city centre congestion, contribute towards the air quality and carbon neutrality action plans and to support additional investment in parking services and public transport. The following proposals have all been subject to consultation and are recommended for implementation:
- a) Parking charges to increase by 3% (rounded to nearest 10p). Most charges have not been subject to increase for many years.
 - b) Sunday parking – Introduction of a £2 flat rate for Sunday parking in all “central” Air Quality Management Area car parks (see 19.3 for full list), the access to which all fall within the existing Air Quality Management Area. (free provision would be maintained in all other car parks and additional disabled provision will be provided within the central area.)
 - c) Evening charging – A pilot of extending charging hours in “central” Air Quality Management Area car parks from 6pm to 7pm for a trial period of 6 months from July 2020. Usage surveys will be completed before and after implementation to test the impact of this change. The original proposal included in the budget consultation process was to extend to either 8pm or 10pm. 55% of responses disagreed with the 8pm proposal. It is therefore proposed that the pilot only extend to 7pm and to increase evening park and ride bus provision.
 - d) Park and Ride charging – Increasing charges by 50p per day. These charges have not been increased for over 10 years. The increased charge will still retain a significant differential between the cheapest city centre parking.
- 19.2 It is proposed that the changes in a) to d) above will, if approved, be implemented with effect from July 2020 or as soon as is practicable thereafter.
- 19.3 Parking in all car parks not within the “central” Air Quality Management Area zone would remain free on Sundays and after 6pm and customers will be encouraged through signage and promotion to use the “free” car parks wherever possible, to support the aim of reducing city centre traffic and improving air quality. The “central” car parks referred to above include:
- a) The Brooks
 - b) Middlebrook St
 - c) Colebrook St

- d) Friarsgate
- e) Guildhall Yard
- f) Jewry St
- g) Cossack Lane
- h) Upper Brook St
- i) St Peters St
- j) Tower St
- k) Gladstone St

- 19.4 In addition, it is recommended that parking discounts offered to a very limited number of organisations and also the weekly and monthly discounted tickets for Worthy Lane and Cattlemarket car parks cease. These were agreed many years ago to encourage increased use of these car parks. They are now at full capacity and continuing to offer discounts to a limited number of organisations is not recommended.
- 19.5 Alongside these changes, it is also proposed to implement additional park and ride services on weekday evenings and a free service on Sundays, funded from the additional income generated above. These additional services will be subject to contract and procurement. It is also proposed to revise the existing parking investment plan, approved by cabinet in January 2020 to take account of the additional investment set out in paragraph 17.1b) above. A revised plan will be prepared for the September 2020 Cabinet.
- 19.6 The budget consultation process highlighted mixed views in relation to parking proposals. There was support for Sunday charging and an increase in other charges. There was concern expressed regarding evening charges and the potential impact they could have and therefore the proposals above have been amended to reflect these views.

20 Winchester town charge – Section 35

- 20.1 In accordance with Section 35 of the Local Government Finance Act 1992 the Council has taken the decision in previous years to treat all expenses of the Council as general expenses other than those identified as special expenses. The Council endorsed this policy in February 2019.
- 20.2 Special expenses are costs incurred for the provision of an amenity or service that is primarily for the benefit of one locality. In the Winchester district these expenses are levied by the Council to cover the costs of local services in the Winchester town area which elsewhere would be dealt with by parish councils.
- 20.3 The services currently covered by special expenses are listed in Appendix D.
- 20.4 It is recommended that the policy as previously agreed by the Council on 14 July 1999 (minute 186), and confirmed in the budget and council tax report for 2019/20 is endorsed again. This is to treat all expenses of the Council as General Expenses other than those specifically identified and itemised in the

Winchester Town Account. In consequence of which the sum of £1,006,776 will be treated as Special Expenses under Section 35 of the Local Government Finance Act, 1992 in respect of the Winchester Town area, summarised in Appendix D.

- 21 The Winchester Town Forum met on 17 January 2019 and recommended the budget which is currently set out in Appendix D, including a proposed Council Tax increase of 3% for 2020/21.
- 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 Financial projections in Appendix A are shown over a ten year period to 2029/30 in order to provide insight into the longer term financial sensitivities and the earmarked reserves strategy.
 - 22.3 The budget proposals set out in this report, if approved, contribute towards a balanced budget through to March 2022. Projections then indicate a potential budget deficit of £0.7m in 2022/23 increasing to over £2m from 2024/25. Reserves are projected to reduce significantly over this period, although it is proposed to retain provision in the Transitional reserve to address the projected deficits to March 2024. The MTFS however will need to focus on reducing net operating costs by that time by an estimated £2m.
 - 22.4 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 strategic investments to date, whilst supporting city centre regeneration, have made little contribution to this aim of the MTFS and this approach cannot be relied on as a solution to the short to medium term shortfalls.
 - 22.5 The outcome based budgeting approach 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, efficiencies and additional income have been identified, with over £1m budget reductions identified in 2019/20 and a further £2.5m of operational savings and £2.4m of additional recommendations included in this report.
 - 22.6 To consider which options are available to the Council, consideration has been given to the different practice that exists across peers / other councils as well as assessing the current areas of strength that the Council can build upon. The current focus of the OBB has been to identify options to meet the financial challenge over the coming four years including short-term options and those requiring a longer lead-in time to develop the business case. Delivery of these options may require capital, revenue funding or the use of reserves.

23 Medium Term Financial Planning

23.1 The existing MTFS grouped the medium term financial challenge options around four themes; transformation, efficiency, asset management, and income generation. It is proposed to retain these themes. It should be recognised that scope for further operational efficiencies relies heavily on the Transformation programme and effective asset management.

23.2 TRANSFORMATION

- a) The Council Plan includes a commitment to improving service quality and accessibility and to deliver continuous service improvement. To support this, the existing Transformation and Customer Smart programme will lead on both service improvement and modernising services through an increased focus on improving digital service delivery.
- b) The Council will also need to consider how much funding it provides to a range of discretionary services. These services must remain affordable within the overall financial context and it is proposed to include a focus on “discretionary” services within this programme.

23.3 EFFICIENCY

- a) Efficiency review and planning plays a critical role in the continuing provision of high quality services by the most efficient and best value method of delivery. This strand of the OBB process is intended to review in detail the internal processes and ensuring these support the Council in delivering excellent services effectively. Significant savings have been achieved in recent years as a result of this work and future efficiencies will increasingly rely on the Transformation programme referred to above.
- b) Contract review and management is a key element in this strand, with total third party payments budgeted at almost £7m. The Council operates a number of significant ongoing contracts such as: leisure centre management, environmental services contract, and the park and ride bus contract. Ensuring that both current and future contracts offer the best possible value to the Council is of great importance.

23.4 ASSET MANAGEMENT

- a) The Council operates an extensive portfolio of property assets which are either used in the delivery of services or generate an income to the Council which in turn provides the resources to deliver services. It is important that following very significant reductions in government funding that existing assets are used as effectively as possible.
- b) The Council operates a significant property portfolio which generates rental income in excess of £3m per annum. Properties are let at

commercial rates with rent review periods built in as standard. A number of existing leases are due for review within the next few years and overall rental income is expected to increase significantly as a number of rent reviews are due in the life of the MTFS. There are substantial known rent reviews due that are expected to raise at least an additional £200k of income to the Council.

- c) The Council has an asset challenge programme. This process is reviewing all of the Council's assets on a rolling basis to establish why the Council holds assets, what options the Council has e.g. to increase income, dispose, hold or develop, and when these can be realised. The Council is currently holding a number of assets for strategic purposes which are not delivering any financial return. A number of these assets are linked to major projects such as Central Winchester Regeneration, Station Approach, and the new Winchester sport and leisure centre. Options for the sale or use of these assets will be brought forward as soon as practicable but only where the business case can demonstrate the proposals are affordable when considered alongside the financial challenges outlined in the medium term financial projections.
- d) The capital strategy provides the opportunity for investment in new or existing assets should they meet the aims of the Council Plan and generate a financial return to the Council.

23.5 INCOME GENERATION

- a) 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. The recent increase in the PWLB borrowing rates has had a significant impact on the scope for income generation from investment. Opportunities will continue to be reviewed in line with the SAP governance process.
- b) Fees and charges are subject to annual review in order to ensure they are fair and, where appropriate, operate on a full cost recovery basis. Fees and charges are expected to increase by at least inflation every year in order to achieve these objectives.

24 Strategic reserves

- 24.1 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.

- 24.2 Whilst the Council started in April 2019 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, Station Approach, 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 £8.7m in April 2019 to £0.8m by March 2023.
- 24.3 The creation of a new Transition 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 funding reductions and also to enable investment in the Council Plan (for example supporting the Climate Emergency). The worst case scenario regarding government funding would be that the new homes bonus and business rates retention reductions are not included in any government assessment of transition/damping funding. This decision alone would reduce the funding forecasts by £4.56m from the period 2021/22 to 2023/24. This highlights the importance of holding a transition reserve to mitigate an element of this risk and provide time for any further change plans to be implemented.
- 24.4 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.)
- 24.5 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.
- 24.6 The proposed baseline budget for 2020/21 also includes fixed annual contributions to various earmarked reserves including: Property – asset management £300k; Car parks property £350k and IMT strategy £280k

24.7 Total General fund earmarked reserves are forecast to reduce from £28.1m at 01 April 2019 to £17.4m at 31 March 2023. The forecast closing balances (31 March 2023) of key earmarked reserves are summarised below;

- a) Operational reserves (£1.6m), 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 (£5.0m), such as business rates retention, are available to mitigate risks faced by the Council. The overall levels are reviewed each year in line with the medium term financial strategy.
- c) Asset reserves (£4.6m), 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 (£6.2m), 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.

24.8 The general fund has a forecast £1.3m underspend in 2019/20. Any balance at year end after adjustments will transfer to the Transition Reserve.

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

25 Balances / risk reserves

25.1 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 government funding over the medium term projections.

25.2 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, for example an unexpected increase in successful appeals.

26 Adequacy of reserves and robustness of estimates

26.1 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.

- 26.2 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.
- 26.3 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.
- 26.4 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.)

27 OTHER OPTIONS CONSIDERED AND REJECTED

- 27.1 A number of options set out in CAB3178 (Outcome Based Budgeting Challenge – 23 October 2019) have not been brought forward at this stage, including changes to the CCTV service and community transport.
- 27.2 The option to not implement the savings proposals set out in paragraph 18 and to rely on reserves to meet projected shortfalls has been considered. The uncertainty regarding future funding makes it essential to retain a reasonable level of operational reserves. This is particularly important when the existing commitments from these reserves are recognised and their importance in supporting the capital programme.

BACKGROUND DOCUMENTS:-

Budget Consultation results - <https://winchester.citizenspace.com/policy/wcc-budget-consultation/>

Previous Committee Reports:-

CAB3178 – Outcome Based Budgeting Challenge dated 23 October 2019

CAB3212 – Budget Update – Fees and Charges dated 22 January 2020

Other Background Documents:-

Budget Consultation On line Survey Results

APPENDICES:

Appendix A: General Fund Medium Term Financial Projections

Appendix B: Budget Consultation Proposals

Appendix C: Reserves

Appendix D: Winchester Town Account