

REPORT TITLE: WINCHESTER TOWN ACCOUNT FINANCIAL PLANNING
2022/23

15 SEPTEMBER 2022

REPORT OF FINANCE MANAGER (STRATEGIC FINANCE)

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WARD(S): ALL

PURPOSE

To provide an update of the current financial position of the Winchester Town Account and financial projections over the medium and long term. This supports the development of a refreshed financial strategy and final budget recommendations in January 2023.

RECOMMENDATIONS:

1. That the Town Forum notes the financial projections in Appendix A, and agrees the budget timetable for 2023/24.

IMPLICATIONS:

1 COUNCIL PLAN OUTCOME

- 1.1 This report sets out the current financial position and latest medium and long term projections, along with detailed sensitivity analysis. This analysis will help to guide and inform budget planning work and the options for delivering the Council Plan.

2 FINANCIAL IMPLICATIONS

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

3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 No legal or procurement implications are identified at this time through this report, as projects are brought forward legal and procurement input may be required.

4 WORKFORCE IMPLICATIONS

- 4.1 None directly from this paper

5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 None directly from this paper

6 CONSULTATION AND COMMUNICATION

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

7 ENVIRONMENTAL CONSIDERATIONS

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

8 EQUALITY IMPACT ASSESSEMENT

- 8.1 This document is part of the budget consultation process and equality impact assessments will be considered alongside any relevant budget options.

9 DATA PROTECTION IMPACT ASSESSMENT

- 9.1 None required

10 RISK MANAGEMENT

- 10.1 The main source of funding for baseline recurring expenditure is the town precept. As a stable source of funding overall financial risk is therefore relatively low but consideration must be taken of the requirement for the town to keep within government referendum limits (a restriction not currently applicable to parish councils).
- 10.2 In recent years one-off expenditure (capital or revenue) has been funded up-front from the town reserve or external funding. This reduces risk by lowering the baseline revenue budget requirement.

Risk	Mitigation	Opportunities
<i>Failure to set a balanced budget over the medium term</i>	<i>Financial projections are shown up until 2026/27 and the scenario planning highlights the potential sensitivities. Planning over a longer period will help to ensure understanding of the scale of the financial challenges and 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>Council's service priorities are not reflected in the budget</i>	<i>The budget planning process, including the implementation of Outcome Based Budgeting and the informal account group meetings which review the detailed budgets and strategy.</i>	<i>Ensure the prioritisation of resources to best meet the outcomes of the authority</i>
<i>One-off projects increase the baseline recurring revenue budget requirement with limited ability to increase the town precept due to government referendum limits.</i>	Identify all project requirements over the medium term (such as the play strategy) and ensure that funding is available for these projects.	Identifying project requirements over the medium term enables enhanced prioritisation and engagement.
<i>Current high inflation rates continue or increase even higher than existing expectations.</i>	Sensitivity analysis shows the impact of changes to inflation estimates. The budget planning process considers current	Ensuring the town reserve has sufficient resilience to deal with unexpected events.

	budget pressures when planning budget proposals.	
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11 SUPPORTING INFORMATION:

Background

- 11.1 A revision of the terms of reference for the Winchester Town Forum (WTF) in 2007 gave the Forum a greater role in developing the Town Account Budget. To help it fulfil this role, the Town Forum set up an informal member group to give early consideration to budget setting issues.
- 11.2 The overall aim of the Medium Term Financial Plan is to provide the Town Forum with early consideration of the current financial projections, any possible impacts from Government consultations, and any other possible financial implications in respect of the Town Account Budget.
- 11.3 The Medium Term Financial projections will be influenced by actions within the Council's control and external factors. A sensitivity analysis, showing a range of possible scenarios is included for consideration.
- 11.4 The district budget setting process is currently underway and any resulting options will be included for consideration within the Town budget setting process.
- 11.5 The core budget timetable remains in line with previous years, with initial budget proposals considered at November Town Forum and final recommendations made at January Town Forum.
- 11.6 In accordance with Section 35 of the Local Government Finance Act 1992 – "Special 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, as there is no parish council for the Town area of Winchester.

Community Infrastructure Levy Funding Bids

- 11.7 A request has been made for £50k of CIL funding from Town CIL for the park plan improvements in relation to KGV open space.
- 11.8 KGV New Build Pavilion – a September Cabinet report (CAB3363) identifies that following initial tenders an additional budget requirement of £1m for this project. The proposed split is £200k from Town CIL and £800k from District CIL. This would take the total Town CIL contribution to £450k.

Updated Medium Term Forecasts and the impact of rising inflation

- 11.9 The town accounts group met at the end of August to review the latest forecasts and to start planning the focus of budget preparations. It was noted that forecasts have changed significantly since the budget was set in February. The budget was set based on maintaining the 10% reserve balance whilst also including some flexibility within the budget to address recreation and open space requirements.
- 11.10 The budget forecast shown in Appendix 1 has been updated to reflect:
- a) Revised inflation forecasts – with CPI inflation reaching 10.1% in July 2022 with no sign that this will drop back down to the long term 2% target in the near future, it is clear that forecasts must be increased. Revised assumptions are shown under 11.12 below and reflect increases to contractor and special maintenance charges which currently total around £600k per annum. It is clear that forecast inflation of around £60k per annum from just 2023/24 (10%) is a considerable budget pressure for the town account.
 - b) Based on the Cemeteries outturn in 2021/22 it has been necessary to reduce income forecasts by £20k per annum and increase contractual expenditure forecasts by £20k per annum. This is a considerable net increase to the Cemeteries budget caused by lower than expected burials (with the trend continuing in 2022/23) and also a detailed review of the IdeVerde contract has identified additional expenditure relating to Cemeteries, specifically the recent extension.
 - c) Urgent Tree maintenance expenditure is rapidly increasing after being identified during the current tree survey programme. It is expected that essential works will mean an £50k overspend on 22/23 budgets and a baseline growth bid is expected to be required from 23/24 onwards.
 - d) Bus Shelter maintenance works are under review and costed proposals are due back shortly.
- 11.11 The inflationary pressures are considerable and are having a material impact on the medium term financial projections shown in Appendix A. To give an indication of this the 10% inflation forecast for 2023/24 brings an increased expenditure pressure of c£60k per annum. This equates to a precept increase of over 5% purely to cover inflation alone.
- 11.12 Resources need to be considered for the North Walls Park Plan (WTF303). The plan identifies significant resource requirements to be phased over the medium to long term. Given the scale of the resource requirements it is clear that significant external funding will be required.
- 11.13 The refreshed forecasts show that despite an assumed 3% annual precept uplift the town reserve will fall below the 10% strategy target during 2023/24. Based on current assumptions increases in income/funding or expenditure savings of around £150k per annum, before additional pressures such as tree

maintenance, would need to be achieved from 2023/24 in order to ensure the town reserve maintains a 10% balance by the end of 2026/27.

- 11.14 Due to increasing financial risks particularly in relation to rising inflation, the informal accounts group have determined to review the current target reserve balance of 10% to consider whether it is sufficient or needs increasing.

Identifying Resources

- 11.15 **Winchester Town Precept** – The 2022/23 tax base is 14,386.95 with a precept of £76.71.
- The Council Tax Referendum limits for 2023/24 will be announced alongside the settlement. For modelling purposes it is currently anticipated that this will remain at either below 3% or £5 for lower tier authorities.
 - Referendum limits prevent the Council increasing Council Tax above the Government's advised level, except with a referendum. Whilst parish tax amounts are currently excluded from these calculations the Winchester Town tax is included.
 - Appendix A shows the financial projections up until 2026/27, including illustrative increases in the precept which present a balanced overall position.
- 11.16 Fees and Charges are reviewed on an annual basis and feed into the budget setting process. The key existing fees and charges relating to the Town Account are:
- Cemeteries – an income budget of just over £140k supports annual expenditure of just over £220k.
 - Open Spaces (including sports pitches) – expenditure of c£740k per annum is supported by income of just over £40k.
- 11.17 **Community Infrastructure Levy (CIL)** – the Neighbourhood CIL (Town) receivable balance stood at £1.209m as at April 2022. Commitments include £0.295m towards North Walls Pavilion; £0.250m towards KGV Pavilion, £0.099m Fencing and Floodlighting improvements at North Walls; £0.050m towards a proposal from Abbots Barton Scouts; £0.073m towards Weeke access road; and a £0.010m Milland road bid.
- The principles for spending the Winchester Town Forum's share of CIL were approved in November 2016 (see WTF245), in order to provide for the community led improvement of the environment and infrastructure in the Winchester Town.
 - A budget of £100k has been set for 2022/23 in order to progress the awarding and payment of CIL contributions to agreed projects.

- Planning is underway to understand the facilities required at North Walls after the closure of River Park Leisure Centre. Additional infrastructure plans will be considered for CIL funding allocations.
- Based on historic receipts around £150k to £200k of town CIL is expected per annum. There are risks around relying on this funding as reductions in development in the town area or changes to the CIL scheme could significantly impact on future receipts. As such this future forecast is used for planning purposes but is not to be committed to schemes as certain funding.

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

	2022/2023 Forecast	2023/2024 Forecast	2024/2025 Forecast	2025/2026 Forecast
Assumptions:				
Contract inflation	7%	10%	6%	3.5%
Utilities	200%	5%	5%	5%
Percentage increase in tax	3%	3%	3%	3%
Tax Base	1.2%	1.2%	1.2%	1.2%

11.19 The sensitivity of the above assumptions is as follows:

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

Capital Expenditure

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

11.21 In January 2017 (WTF250) the Town Forum approved a strategy to fund the long term requirements of the play area refurbishment up until the end of 2024/25, from the Town Account Earmarked Reserve. Play area refurbishments in the town make up the largest proportion of town capital expenditure as shown in 11.15 below.

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

- i. Changing Pavilion North Walls - £800k total budget (£727k remaining 2022/23 budget) funded by CIL of £295k, S106 Open Space funding of £256k, £205k external funding and Winchester Town Reserve of £44k.
- ii. King George V Pavilions - £228k of S106 Open Space funding has been earmarked towards this project as well as £250k of Town CIL.
- iii. Play Area Refurbishments - £834k from 2022/23 to 2025/26. A baseline projection of £150k per annum has been included in Appendix A from 2026/27 onwards.
- iv. North Walls floodlight and fencing upgrade - £99k funded by Town CIL (of which £72k remaining to spend in 22/23).
- v. North Walls tennis courts surface upgrade - £150k funded by annual capital financing costs.

11.23 In light of the forecast budget pressures identified in this report it is considered appropriate to review the financing of future capital expenditure such as play area refurbishments. One option could be to borrow from the district for future expenditure plans rather than funding the entire amount up-front from the town reserve. The effect of this would be to increase baseline expenditure to cover the principal repayment of the loan plus interest, but it would release significant reserve funds over the medium term.

Reserves

11.24 The Winchester Town Account earmarked reserve is available to support planned one-off expenditure over the medium term as well as a contingency balance of 10% of the total annual net expenditure which is set aside to deal with any urgent / unexpected requirements.

11.25 The capital budget forecasts listed in 11.13 above, particularly the significant programme of play area refurbishments is planned to be funded from the Town reserve. It is therefore important that long term planning ensures funding is in place to support these projects.

11.26 It should be noted that the forecast reserve balance shown in Appendix A does fluctuate on a year-by-year basis and individual end of year balances are impacted by 'lumpy' one-off expenditure such as the play area refurbishments.

11.27 Action will need to be taken during the budget planning process in order to address the current forecast shortfalls in the reserve commencing 2023/24.

12 OTHER OPTIONS CONSIDERED AND REJECTED

12.1 None, this paper sets out the current financial position

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

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

Other Background Documents:-

None

APPENDICES:

Appendix A: Medium Term Financial Projections