

REPORT TITLE: WINCHESTER TOWN ACCOUNT MEDIUM TERM FINANCIAL POSITION (DRAFT BUDGET OPTIONS)

8 NOVEMBER 2023

REPORT OF FINANCE MANAGER (STRATEGIC FINANCE)

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WARD(S): WINCHESTER TOWN

PURPOSE

To provide an update on the current budget setting options and considerations for the four year medium term period from 2024/25 to 2027/28. This planning will enable the Town Forum to recommend a budget and precept for 2024/25 to Cabinet in January 2024.

RECOMMENDATIONS:

1. Identify any budget issues to consider further in advance of recommending a Town Account Budget to Cabinet in January.
2. Consider any feedback to Cabinet in relation to the wider budget consultation.

IMPLICATIONS:

1 COUNCIL PLAN OUTCOME

- 1.1 This report sets out the current financial position including the latest medium term financial projections. Budget options will be considered in line with the Council Plan.

2 FINANCIAL IMPLICATIONS

- 2.1 Identifying and analysing the financial risks and pressures 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 None identified

4 WORKFORCE IMPLICATIONS

- 4.1 None

5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 This paper reflects the budgets and funding associated with town assets such as play areas and sports facilities.

6 CONSULTATION AND COMMUNICATION

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

7 ENVIRONMENTAL CONSIDERATIONS

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

8 PUBLIC SECTOR EQUALITY DUTY

- 8.1 None

9 DATA PROTECTION IMPACT ASSESSMENT

- 9.1 None

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 policy needs review due to the current financial estimates and pressures from both inflation and unavoidable growth.

Risk	Mitigation	Opportunities
<i>Failure to set a balanced budget over the medium term.</i>	<i>Financial projections are shown up until 2027/28 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 early planning enables enough lead in time for the implementation of the 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 process 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>High levels of contractual inflation and the continuation of current precept referendum limits.</i>	<i>Medium term financial planning and sensitivity analysis highlighting the challenges posed by high inflation.</i>	<i>Transformational efficiency savings.</i>

11 SUPPORTING INFORMATION:

Background

- 11.1 WTF322 Winchester Town Account Financial Planning 2024/25 introduced the budget setting process, the key principles, and updated medium term financial projections to 2027/28.
- 11.2 The Winchester Town Forum (Informal Account) Group met in October 2023 in order to establish the key focus of the budget process and any priority resource considerations to bring back to the Town Forum.

Winchester Town Precept

- 11.3 The town precept for 2023/24 was set at £80.93 (per band D property). The decision on the level of council tax for 2024/25 will be taken at Council in February.
- 11.4 The town will need to consider its proposed strategy for the Town Precept but will need to bear in mind that any decisions will be subject to 'referendum limits' and may be impacted by decisions taken on the level of district Council tax.
- 11.5 It is currently anticipated that the overall referendum limit for the Council in 2024/25 will remain at up to 3% (as £5 is now below 3%). The maximum increase for the town or district are interrelated with each other, for example if the district increased by a lower percentage then the town could increase by a higher percentage and still remain within the overall referendum limit.
- 11.6 The potential additional annual income generated by increasing the Town Precept is shown in the table below. The financial projections in Appendix 1 currently assume a 3% increase. Given that CPI inflation (as of September 2023) is running at 6.7% and the majority of the town expenditure is linked to CPI (such as the grounds maintenance contract) any increase below this would be considered a real terms reduction.

Effect of increasing the Town Precept 2024/25*

% MAX District Increase	% TOWN Precept Increase	Additional Income £000	Town Precept
	0%		£80.93
2.99%	2.99%	36	£83.35
2.77%	4.5%	54	£84.57
2.62%	5.5%	66	£85.38
2.11%	9%	108	£88.21

* To note these estimates are prior to finalisation of the council tax base for 2024/25 so are subject to change.

- 11.7 The forecasts are currently calculated using an average increase in properties of 1.2% per annum. The final budget will be updated when the forecast Council Tax Base is approved in December. The effect of increases to the base on income are illustrated below:

	0.2%	0.4%	0.8%	1.2%	1.6%	2.0%
Increase in Properties	30	59	119	178	237	297
Increase in Council Tax (£000)	2	5	10	15	20	25

Budget Review 2024/25

- 11.8 As highlighted in the 2023/24 budget process, the town account is facing significant financial pressures due to high levels of forecast contractual

inflation and additional revenue budget pressures. Detailed consideration of the potential budget options is needed to ensure a balanced budget is able to be set for 2024/25 as well as ensuring an adequate town reserve balance over the medium term.

- 11.9 An update on the four main budget review areas, agreed in the 2023/24 budget process, was provided to the town forum in September (WTF322) refers
- a) Plans are well underway for a new five year **play area refurbishment** programme covering 2024/25 to 2028/29. The proposed increased reactive maintenance and annual life expectancy reports on play equipment, have enabled a proposed programme which maintains high quality play areas whilst also reducing the overall funding requirement to 2028/29. This has therefore had a significant impact on the financial projections in appendix 1 which had previously forecast expenditure of £470k to 2026/27 plus £150k per annum thereafter. The previous assumption was therefore £770k of expenditure to 2028/29 compared to the proposed programme of £470k (plus a slightly increased revenue maintenance budget of just over £5k per annum).
 - b) **Cemeteries** – a review is underway in order to set out options for the future of the cemeteries. Additional time is needed in order to explore the potential options further and therefore this review will be brought to the town forum shortly.
 - c) **Open Spaces and Grounds Maintenance** – given the complexities and sensitivity around this review it has been agreed to defer the review paper until January Town Forum. Any agreed options will be incorporated into the January budget recommendations paper.
 - d) **Grants** – WTF321, considered at September Town Forum, outlined the plan for the initial £10k of savings from 2024/25 and how a further review would take place to determine the stepped savings from 2025/26 and 2026/27.
- 11.10 Another consideration would be to increase the town precept by more than the standard 3% forecast, especially with CPI inflation still running at 6.7% as of September 2023. This would be reliant on the 2024/25 referendum limit details and also the level of district precept planned for 2024/25.
- 11.11 The annual review of fees and charges is currently underway and covers cemeteries and open spaces within the Winchester town account. Cemeteries is specifically covered as one of the main budget review areas.
- 11.12 The following budget growth proposal has been identified during the budget review process:
- a) An increase in the play area reactive maintenance budget of £5,841 per annum from 2024/25.

11.13 Along with the options above it is important not to lose sight of the below priorities, which may have medium and long term financial implications on the town account:

- a) The Vision for Winchester 2030 (update per WTF300) details an ambitious plan to help shape the future of the city over the next ten years. Whilst not all elements of the plan will require a financial contribution, it is clear that resources will be required over the medium term.
- b) The town is committed to the development of high quality sports provision, with two major sports pavilion projects planned/underway at North Walls and KGV. These projects require both capital and ongoing revenue resources. The financial projections will continue to be updated once known and approved.

11.14 **Community Infrastructure Levy (CIL)** – the Neighbourhood CIL (Town) receivable balance stood at £1.142m as at April 2023. Commitments include £0.295m towards North Walls Pavilion; £0.450m towards KGV Pavilion; £0.050m towards the KGV Park Plan; £0.050m towards Abbots Barton and Hyde Scouts Facility; £0.034m remaining on North Walls Lighting and Fencing; and £0.010m for Milland Road.

- 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.
- 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.

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

	2024/2025 Forecast	2025/2026 Forecast	2026/2027 Forecast	2027/2028 Forecast
Assumptions:				
Contract inflation	6%	4%	2%	2.0%
Percentage increase in tax	3%	3%	3%	3%
Tax Base	1.2%	1.2%	1.2%	1.2%

11.16 The sensitivity of the above assumptions is as follows:

- a) Contract Inflation is around £6k per 1%. If inflation were 15% for 2024/25 then this would cost an additional £30k per annum.
- b) A 1% precept increase generates additional funding of c£12k per annum.
- c) A 1.2% tax base increase generates additional funding of c£15k 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

11.17 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).

11.18 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 below.

11.19 There is currently a total budget of £0.714m in the capital programme for play area refurbishments. WTF326, considered elsewhere on this agenda, proposes a revised five year programme of £0.470m to the end of 2028/29 plus the existing £0.274m currently within the budget for 2023/24.

Reserves

11.20 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.

11.21 The current forecasts in Appendix 1 shows the reserve decreasing to £45,417 by the end of 2026/27, which is c£80k below the current 10% target forecast.

11.22 The increased risks identified in this report and caused mainly by contractual inflation have led the informal accounts group to consider whether a 10% balance remains sufficient. An increase to 15% would give a greater buffer from any risks and uncertainties but would also further increase the already challenging budget process. One option could be to target an increase to 15% over the medium term in order to give time to put the strategy into action.

11.23 Currently the capital budget forecasts listed above, particularly the significant programme of play area refurbishments are 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.

11.24 It should be noted that the forecast reserve balance shown in Appendix 1 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.

12 OTHER OPTIONS CONSIDERED AND REJECTED

12.1 None, this paper sets out the current financial position

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

Winchester Town Account Financial Planning – WTF322 – September 2023

Town Account Budget for 2023/24 – WTF314 – January 2023

Other Background Documents:-

None

APPENDICES:

Appendix 1: Medium Term Financial Projections