CAB3178
CABINET

REPORT TITLE: OUTCOME BASED BUDGET CHALLENGE

23 OCTOBER 2019

REPORT OF CABINET MEMBER: CLLR NEIL CUTLER (PORTFOLIO HOLDER FOR FINANCE AND RISK)

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WARD(S): ALL

PURPOSE

The current four year central government settlement funding ends in 2019/20. A fundamental review of funding levels and distribution mechanisms was expected from 2020/21. A one year settlement has now been announced for 2020/21 with provisional estimates expected by the end of the year.

This paper provides the basis for consultation on the options available to ensure a balanced budget over the four year medium term period to 2023/24. A budget simulator was launched in September, building on the recent residents' survey, in order to encourage greater consultation with the public and understanding of priority service areas.

RECOMMENDATIONS:

That Cabinet:

1. Consider the projected shortfalls on the General Fund in the medium term, the proposed options for addressing those shortfalls in order to determine in December which of the options should be included within the medium financial plan.

2. Approve the creation of a Transition Reserve, utilising the projected underspend forecast for the current financial year.

3. Approve one-off revenue expenditure proposals for additional Local Plan resource at £160k to fund 2 x 2 year fixed term posts as set out in paragraph 11.12 be approved.

4. That the requirement to increase the charge for On Street Permits to £50 for first permits be phased over 3 years (£30 from April 2020, £40 from April 2021 and £50 from April 2022).

IMPLICATIONS:

1 COUNCIL STRATEGY OUTCOME

1.1 The Council Strategy is the core strategic document, helping to guide and inform budget planning work and the options around delivery.

2 FINANCIAL IMPLICATIONS

2.1 As detailed in the main body of the report.

3 LEGAL AND PROCUREMENT IMPLICATIONS

3.1 Under section 151 if the Local Government Act 1972 a local authority as to make proper arrangements for the administration of its financial affairs. Under s28 of the Local Government Act 2003 a local authority has to review its budget calculations from time to time during the financial year and take appropriate action if there is any deterioration of its budget.

3.2 The Council is also required to set a balanced budget, taking into account a range of factors, including consultation feedback and decisions must be taken in accordance with the Council's duties in the Equality Act 2010.

3.3 The budget setting consultation and approval process is separate from any individual decisions in relation, for example, to service delivery or project implementation. Any implications arising from budget options contained within this report will be dealt with in the individual business cases and committee papers relating to those specific decisions and Council will approve the final budget in February 2020.

4 WORKFORCE IMPLICATIONS

4.1 None directly relating to this paper, which sets out the strategic budget planning direction.

5 PROPERTY AND ASSET IMPLICATIONS

5.1 A key strand of the Council's financial and treasury strategies is to maximise income from its assets and seek to manage risk by achieving a balanced portfolio of assets. Options considered during the budget planning process may therefore involve either the acquisition or disposal of assets, requiring a full business justification case.

6 CONSULTATION AND COMMUNICATION

6.1 This paper is a key part of the budget consultation process. Views will be sought from local businesses, parish council's, and local residents as part of this exercise. Responses will be considered and help to inform the final budget setting in February 2020.

6.2 In order to encourage participation from as many stakeholders as possible a budget simulator was released in September in order to give high level indications of how participants would balance the budget over the medium term. Whilst not a statistically valid survey the simulator gave the opportunity for participants to reduce or increase both resources and fees and charges with the requirement to deliver a balanced budget overall. The council received 115 responses with a number commenting how challenging it was to deliver a balanced budget within available resources.

6.3 An overall theme running through the responses was a preference for increased income through council tax and fees and charges rather than a reduction in services.

- 95.8% of respondents supported an increase in car parking charges
- 92.5% of respondents supported increases on other fees and charges
- 91.7% of respondents supported increases in council tax

6.4 Despite the very challenging task of delivering a balanced budget, 41.6% of respondents supported putting extra funding into a climate change response. Choosing to support this through either increased funding or reducing other services.

7 <u>ENVIRONMENTAL CONSIDERATIONS</u>

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

7.2 Following the Climate Emergency Declaration in June 2019, the Council is preparing an action plan for consideration at the December Cabinet meeting. Many actions are already accounted for within the budget. Whilst future actions will be subject to feasibility, it is proposed to establish a Climate Emergency Reserve. This reserve will support programme delivery and feasibility work to ensure essential actions can be resourced.

7.3 Detail of work to be supported by the reserve will be set out in the December Climate Emergency Action Plan report but will include additional provision for assessment and monitoring, engagement programmes and to ensure there is appropriate resource to deliver what will be an ambitious programme of actions.

8 <u>EQUALITY IMPACT ASSESSEMENT</u>

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

9 <u>DATA PROTECTION IMPACT ASSESSMENT</u>

9.1 None required

10 RISK MANAGEMENT

Risk	Mitigation	Opportunities
Significant reductions in government funding over the medium term. *"Damping Funding" is not confirmed and may not form part of the spending review from 2021/22.*	*Financial projections are shown over the medium term and the scenario planning highlights the potential sensitivities.*	*Development of locally generated income streams with less reliance on government funding*
Councils service priorities are not reflected in the budget	*The use of Outcome Based Budgeting as a method of delivering the budget.*	*Ensure the prioritisation of resources to best meet the outcomes of the authority*
Delays to or failure to deliver major capital schemes leaving future years forecast deficits	*Ensure robust business cases are taken forward and sufficient resources are available to deliver the projects.*	*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 schemes not progress*
An optimism bias over the capacity and capabilities of the organisation to deliver major projects with a positive financial contribution to the authority	*Ensure all major projects are considered in the wider context of the council's financial position and MTFS.* *Effective project planning to ensure that sufficient resources and expertise is available to support all major projects at the outset.*	
One-off resources such as earmarked reserves are fully utilised leaving no funding available for future plans	*Effective and transparent prioritisation of the use of reserves to ensure the council does not overcommit itself.* *A clear and robust plan for the delivery of savings, particularly if reserves are used to mitigate any short term budget shortfalls.*	*Clear and transparent plans for the use of reserves ensures that effective prioritisation can take place*

11 SUPPORTING INFORMATION:

Background

11.1 The current year is the fourth and final year of the current multi-year settlement. A fundamental review of local government funding is currently underway but the implementation has now been delayed by central government by one year until 2021/22. Details of a one year spending review settlement for 2020/21 have been announced, with further provisional detail expected in December.

11.2 Along with other local authorities the council is anticipating a significant financial challenge over the medium term financial planning period to 2023/24. A number of key grants such as new homes bonus and business rates retention are forecast to reduce significantly over this period due to changes in the current funding system.

11.3 Significant changes are expected to commence from 2021/22 with a strong risk of material reductions to current funding.

I. **Retained business rates**, totalling £4.9m, is made up of:

a) The 'baseline funding level' of £2.2m which is calculated based on the needs assessment of the authority. A fair funding review is currently underway in order to review and update the mechanisms for calculating and distributing this assessment of 'need'.

b) The 'retained growth' of £2.7m which is the share of business growth retained by the council since the current scheme was implemented in 2013/14. Government have given strong indications that a 'reset of growth' will take place from 2021/22, which potentially places all of this funding at risk.

Government have previously announced plans to move to a 75% retention system, up from the current 50% retention. There is still uncertainty around the mechanics of this; for example will the current tier splits change (currently 40:9:1 between district:county:fire), will the current 'levy' of 50% change, and will the scheme be significantly simplified.

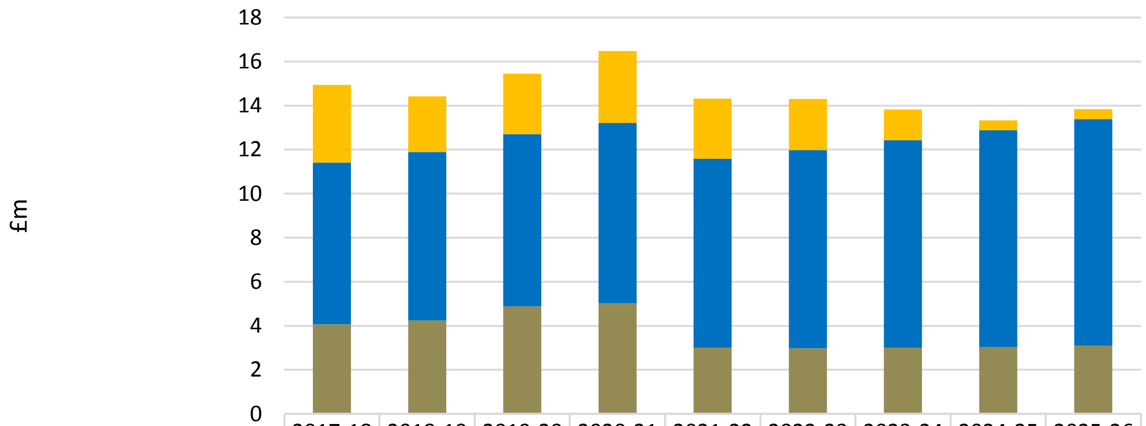
II. **New homes bonus**, totalling over £2m, has rewarded growth in housing through a reward grant equivalent to the council tax of a band d property (split 80:20 district:county), originally over a period of six years and subsequently reduced to the current four year reward. Government have announced that the current scheme will end with no indications whether it will be replaced with a new reward scheme. If the current funding is distributed on the basis of 'need' then it is likely that the majority of this grant will be lost. This has been factored into future financial forecasts.

III. The Council ceased to receive **Revenue Support Grant** from 2019/20. The previously proposed negative grant of c£0.4m which was not implemented in 2019/20 is also forecast to remain unimplemented in 2020/21 but final confirmation has not yet been received. Other smaller grants relating to Homelessness are expected to continue, and new burdens grants are expected to continue on a one-off basis to match the extra burdens placed on local authorities.

11.4 These changes in local government funding from 2021/22 are expected to have a significant impact on authorities that have seen strong growth in housing and business, such as Winchester. This will also create a significant shift in the balance of funding, with council tax making up a much larger share of overall funding.

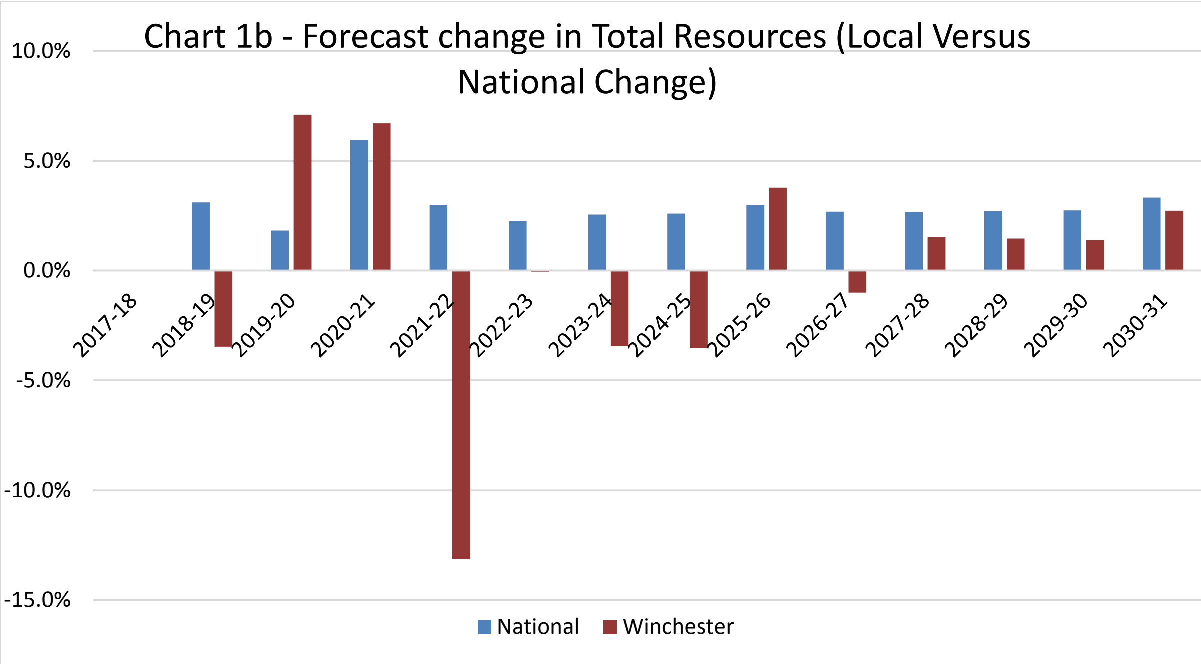
11.5 The graphs below, produced by Pixel Financial Management, show the estimated significant shift towards council tax as the main source of funding (c50% in 2017/18 to c74% by 2025/26). There is also a disproportionate reduction in funding for Winchester, caused mainly be changes to new homes bonus and the business rates retention reset.

Chart 1a - Sources of Funding



	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
TOTAL GRANT FUNDING	3.527	2.522	2.742	3.262	2.721	2.332	1.389	0.447	0.447
TOTAL COUNCIL TAX	7.340	7.650	7.817	8.191	8.590	8.994	9.413	9.843	10.288
TOTAL RATES	4.068	4.246	4.882	5.025	3.002	2.980	3.013	3.036	3.096

TOTAL RATES TOTAL COUNCIL TAX TOTAL GRANT FUNDING



11.6 Alongside funding pressures, the council has other cost pressures such as contractual inflation, rising costs for infrastructure schemes and other unavoidable financial pressures such as the national pay award. These are factored into the model with an assumed inflation level of 2% per annum over the medium term.

11.7 The Hampshire Pension Fund is in the process of confirming the conclusions of its latest 2019 triennial review. The process of reviewing and updating assumptions such as investment returns and life expectancies as well as the overarching fund strategies will provide an updated employer contribution rate commencing April 2020. The current draft results show a significant fund improvement since the previous triennial review in 2016 which is expected to lead to reduced overall pension contributions for the three year period from 2020 to 2023. The expected overall contribution reduction relates to past service pension contributions where the fund had previously forecast that it could not meet its future obligations without significant additional employer contributions.

a) The current review will only provide certainty of contribution rates until 2023 and is based on a number of assumptions which could be subject to change over the next three years, for example a significant fall in the value of equities or an increase in life expectancy.

b) Bearing this in mind the forecasts in Appendix A are based on current contribution rates with the proposal that any savings over the next three years are transferred to earmarked reserves and used for one-off ‘transition’ purposes rather than taken to baseline revenue projections.

2019/20 Budget Forecast

11.8 CAB3183 Q1 Finance and Performance Monitoring report highlighted a forecast underspend of just over £1m in 2019/20. The main causes of this underspend are operational and relate to additional income from car parking usage, planning fees, and net interest receivable.

11.9 A number of the underspends were also identified in the 2018/19 outturn and are reflected in the forecasts in Appendix B.

11.10 The 2019/20 forecast underspend will make available additional one-off resources which is proposed to be transferred to earmarked reserves for transitional purposes.

A proposed "Transitional Reserve"

11.11 As set out above, the Council is facing a significant amount of uncertainty in relation to future funding, the potential impact of "Brexit" and the need for additional investment as a result of the Climate Emergency declaration. Based on current projections, positive action is required to address medium term shortfalls and this is discussed further below. Transferring existing underspends to a "Transitional Reserve" could help the preparations for addressing the shortfalls.

11.12 In addition, there are a number of issues that require additional funding, many "one off" in nature, that could be supported from such a reserve, including:

a) Climate Emergency - to fund essential resources required to implement short term actions in the emerging Climate Action Plan, further detail of which will be reported to Cabinet in December 2019 (£350-500k)

b) Additional fixed term resource to support waste management and recycling campaigns and public engagement (£100k)

c) Additional support required to keep the Local Plan project on track (£160k)

d) Any unforeseen additional expenditure that may arise in the remainder of the current financial year.

Unavoidable Budget Pressures

11.13 A number of expenditure budget pressures have been identified over the medium term:

a) Hampshire County Council has given notice of its intention to cease to participate in the Project Integra waste partnership from April 2021 and to amend the existing financial arrangements for the payment of recycling credits and materials income, as well the introduction of charges for the handling of contaminated recyclate material. Discussions with the County Council regarding these changes are continuing but it must be assumed that there will be an additional cost to the City Council of circa £0.5m per annum commencing April 2021.

b) The Waste and Recycling collection contract is currently under a tender process. There is a risk that the successful tender may be above the existing service cost, which will have an additional negative impact on the budget forecast. A lower tender could obviously have a positive impact.

c) The Council has a number of land holdings. There is a cost associated with holding land for regeneration, this cost usually relates to interest and a minimum revenue provision.

d) **Contractual inflation** is applied to the majority of the council's contracts on an annual basis. CPI inflation is currently running at 1.7% (August 2019) and a forecast of an additional £0.225m of expenditure has been applied for 2020/21, based on contractual expenditure of c£11m.

e) **Employee pay and pension costs** are due to increase in 2020/21. Allowance has been made in the budget projections for an overall increase of £0.57m, which includes a forecast 2% inflationary salary uplift.

Council Tax

11.14 The Winchester district 2019/20 council tax charge of £138.92 (per band d equiv.) is below the average charge levied by district council's across England.

11.15 The spending review announced in September confirmed a referendum limit of up to 2% will apply for 2020/21. Details of the existing upper limit of an additional £5 (raising the limit to just over 3% for Winchester) have not yet been confirmed.

11.16 Using the latest council tax base estimate for 2020/21 approximately £6.932m of district tax would be raised at the existing charge of £138.92. A three percent district increase (assuming an equivalent increase to the town precept) to £143.09 would generate an additional £0.208m of funding.

% Increase	Precept - Band D (£)	Precept Income £000	Increase £000
0%	138.92	6,932	0
1%	140.31	7,001	69
2%	141.70	7,071	139
3%	143.09	7,140	208

11.17 The current projections are based on a two percent increase in council tax for 2020/21. This does not include the town precept which will consider its plans for recommendation in January 2020.

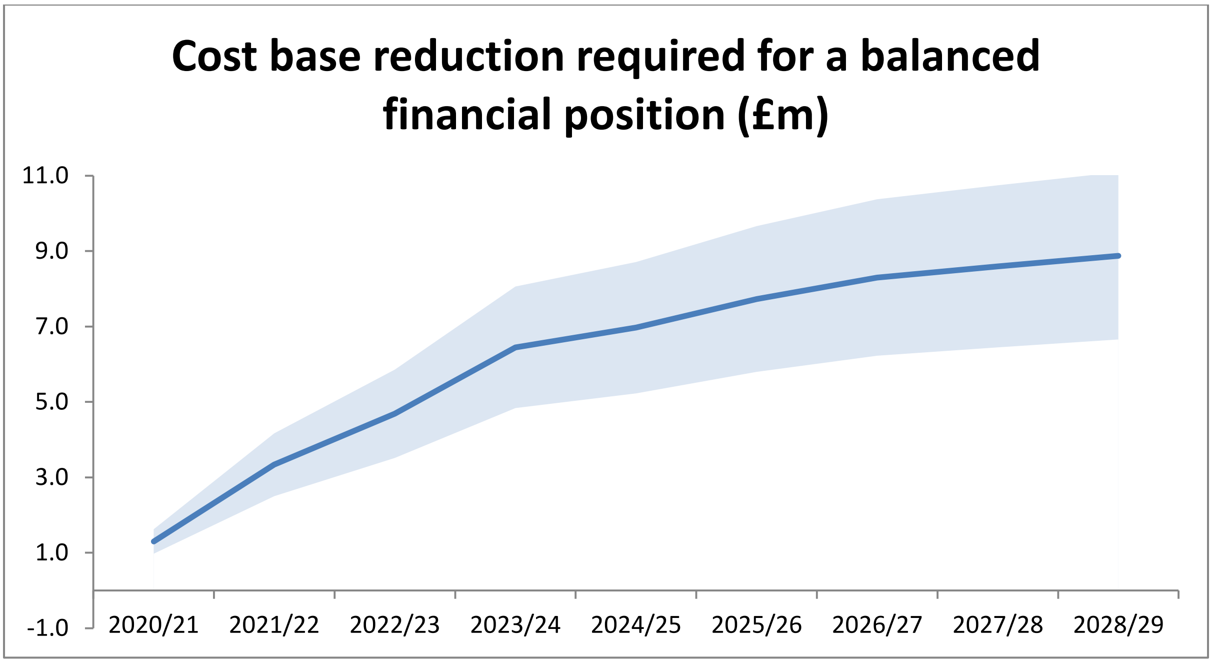
Medium Term Financial Projections

11.18 The following 'central case' estimates set the scene for the rolling outcome based budgeting process. The shaded area indicates a forecasting deviation of 25%. A marked increase in deficit is shown from 2021/22 and relates to government controlled funding reductions highlighted above.

11.19 The below table and graph are a summary of the medium term financial projections in Appendix B.

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

	ANNUAL TARGETS				CUMULATIVE TARGETS			
	20/21	*21/22*	*23/24*	*24/25*	*20/21*	*21/22*	*22/23*	*23/24*
Net Surplus / (Deficit)	**-1.3**	**-2.0**	**-1.4**	**-1.8**	**-1.3**	**-3.3**	**-4.7**	**-6.4**



Car Parking Strategy

11.20 Work is well underway on the car parking strategy which is due to be presented at December Cabinet. In light of the significant environmental and financial implications of the proposals included in the updated strategy a summary in 11.23 identifies the current emerging proposals in order to align these with this budget consultation paper.

11.21 Whilst the strategy itself will explore the proposals and reasons in much greater detail, the context is very much around the climate change emergency action plan and what actions can be implemented in both the short to medium term in order to help to address this.

11.22 Changes to car parking charges is one of the most significant ways of influencing behaviour, with a key focus on encouraging users to park outside of the central car parking area. The options presented in Appendix A represent the financial consequences of influencing this behaviour in order to reduce congestion and pollution in the centre of Winchester.

11.23 Emerging proposals include:

a) Sunday charging – Demand on Sundays is very high and all central car parks are at capacity which contributes to city centre congestion on Sundays. Implementing charges to the main centre car parks but keeping "inner ring" parking and Park and Ride as free provision will encourage more use of Chesil, Tower St and Barfield Close. The full year effect of a £2 flat rate is estimated as a net increase in income of £278k. Adopting standard weekday/Saturday charges in these car parks would generate an estimated £600k.

b) Evening charging – Winchester remains one of the few Hampshire towns that provide free evening parking. A £2 flat rate is projected to generate a net increase in income of £286k.

c) Park and Ride Charging – Park and Ride charges are very low compared to other Hampshire and south east region schemes and have been kept low for many years, initially to promote use. However, existing provision is now at capacity and does not cover existing operating costs. An increase of 50p per day would generate an additional £186k annually, still be well below daily charges in city car parks and still be lower than other south east region schemes.

d) Parking Discounts – Historic discounts are provided to businesses effectively subsidising parking for a small number of companies in the Cattlemarket and Worthy Lane car parks. These facilities now operate at full capacity and it is proposed to remove these discounts. This would generate an estimated £70k per annum.

e) Park and ride discounts – Initial park and ride usage was fairly low particularly with the introduction of south park and ride. To encourage usage discounts where offered for smart cards being 10% for everyone plus an additional 20% (30% total discount) to RHCH and the University of Winchester. As P&R is now up to almost full capacity it is considered there is no commercial reason to continue these discounts leading to potential legality issues (state aid) over the additional RHCH and UoW extra discounts.

f) Market Town Charges – Market town charges are low and have not been reviewed for some years. All day parking is cheap (less than £5) and this results in limited "churn" in many car parks. Although this should be balanced with the need to support market town trading, a review of charging is proposed. Additional income could range from £10k to £50k depending on the options chosen, the main focus of the review will be improving short stay access.

g) Inflationary Increases – Some targeted increases to long stay charges were introduced three years ago to promote park and ride and to reduce use of central area car parks for all day parking. However, other charges have not increased for many years, whilst operating costs continue to increase ahead of inflation. Whilst very small annual increases could not be recommended, the Strategy will propose regular increases rounded to nearest 10p, say every two years. It is not recommended to further increase to revised all day charges to inner ring car parks. However, all other charges need review and an increase to reflect inflation of 3% per annum over four years would achieve an estimated £400k of additional income.

11.24 It should be noted that whilst an indication is given of the potential additional receipts that may be generated by the above options, there may well be additional costs that need to be taken into account, such as changes to technology/meters to facilitate differential charging for low emission vehicles, additional enforcement and the provision of additional park and ride buses if the operation of the service is extended to Sundays and evenings.

11.25 On Street Charging – The Council is required to increase "on street" permit charges to £50 for first permits. Some councils have determined to increase charges to £30 in 20/21, £40 in 21/22 and £50 in 22/23. Other councils are increasing straight to £50, recognising the challenges of annual increases. The current service is under review but is subsidised by "off street" income. An increase to £50 is likely to remove the existing subsidy and result in the "on street" account becoming self funding.

General Fees and Charges

11.26 A part of the base budget projections detailed below, an assumed 3% increase in all fees and charges (except those where fee levels are controlled by statute. A detailed review of all fees and charges is currently being undertaken and further detail on this will be included in the detailed budget report in December 2019.

11.27 In addition to provision for inflation, all charges have been subject to review and a number are proposed to increase above inflation for a number of reasons. Full details will be included in the December budget report to Cabinet. An example is the new proposed Planning Pre-App service which could generate an additional £140,000. Proposed changes to parking charges are discussed later in the report.

11.28 An option for the Council to help manage the additional costs imposed by the County Council's unilateral changes in the waste management regime would be for the Council to amend the existing garden waste collection service by replacing the "free" service (paid for by Council Tax by every household regardless of whether they use it) with a separate service on a chargeable basis.

11.29 The Council is permitted to charge for the collection of garden waste and most local authorities, including all other authorities in Hampshire apart from Fareham, already do so. The introduction of an 'opt in' service based on the fortnightly collection of a 240litre bin would result in a substantial saving in the existing contract cost. Householders would be able to decide whether they wish to receive an improved service for a modest separate payment. In view of the unavoidable pressures on the waste collection budget this would be a reasonable step to consider.

Outcome Based Budgeting Proposals for the medium term financial position

11.30 The Council has adopted an "outcomes based budgeting" approach to the budget challenge. This approach seeks to align cost base reductions and service investment in line with the council strategy. The proposals included in Appendix A have been aligned to the council strategy wherever possible to try and enable those activities that deliver outcome measures in the strategy.

11.31 The focus of the options is to cover the four year medium term period to 2023/24. This is to ensure sufficient time to plan for the forecast savings requirements which step up significantly over the four year period.

11.32 A key part of the planning process will be to ensure there are sufficient transition resources available in order to deal with the financial and environmental challenges faced by the authority. This means the budget planning is not looking to purely balance one financial year in isolation but is instead focused on the entire four year period. For example any additional savings achieved in year one (2020/21) will be used for transition purposes either to deliver the four year programme of savings or for high priority council strategy outcomes.

Baseline Projections

11.33 A number of operational savings have been identified by officers as part of the Outcome Based budgeting process which do not have a direct impact on service levels and have been included within the projections below, including:

a) Increases in income due to volumes and demand and such as parking, planning and legal fees and pitch bookings.

b) Implementing new services such as the Planning “Pre-App” service

c) Rent reviews and income generation in relation to a number of corporate assets.

11.34 Despite presenting options to deliver savings of over £1.6m in 2020/21 and increasing to over £3m by 2023/24, it is clear that further cumulative savings in excess of £3m per annum are required by 2023/24.

11.35 Asset Management plans are underway in order to achieve target savings of £1.2m by 2023/24. This additional income is forecast to be met from planned rent reviews and strategic decisions around existing Council assets.

General Fund Revenue (£m)	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24
Budget Surplus / (Shortfall)	**-1.298**	**-3.334**	**-4.686**	**-6.449**
% of Gross Expenditure	*4.2%*	*10.4%*	*14.4%*	*19.3%*
Operational Savings Proposals	1.613	1.908	2.465	3.028
Budget Surplus / (Shortfall)	**0.314**	**-1.425**	**-2.221**	**-3.421**

Key Decisions / Budget Options

11.36 As highlighted in the baseline projections above the financial challenge is at a level which cannot be met by operational changes alone. Appendix A provides a list of budget options which are considered to be key decisions and are expected to have a greater impact on either service delivery or a considerable change to how the council charges for services.

General Fund Revenue (£m)	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24
Key Decision Proposals	1.007	2.021	2.401	2.636
Less: 30% allowance for not taking all options	-0.302	-0.606	-0.720	-0.791
Transition Reserve	-1.019			
Budget Surplus / (Shortfall)	**0.000**	**-0.011**	**-0.540**	**-1.576**

11.37 The table below shows the breakdown of budget options by type, income is by far the largest heading and is in line with the budget simulator feedback in 6.3.

11.38 Significant options need to be considered if over £3m is to be found to address the potential budget shortfall. In addition to the potential impact of decisions in relation to the Parking Strategy as highlighted in 11.21 above, this could include:

a) Introducing a "charged for" Garden Waste service – Delivering the existing "free" service costs the Council in excess of £500k. With the additional costs now being incurred as a result of the Hampshire Waste and Recycling changes as detailed in paragraph 11.13, charging for "green waste" collection would help to mitigate the impact of this change. It would also mean only those residents who receive the service will pay for it, rather than all residents contributing as they do now, even if they don't have a garden.

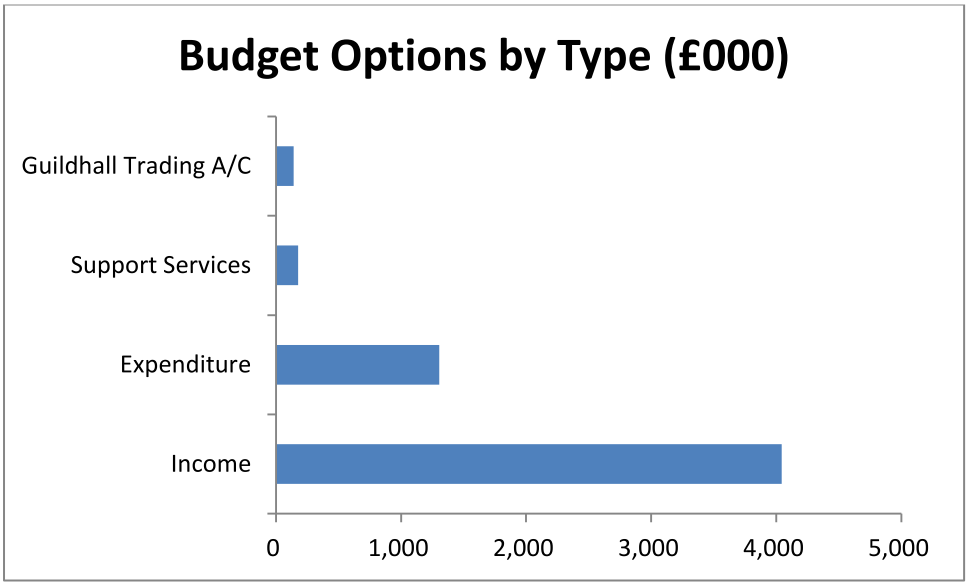
b) A Major Transformation Programme – A review of management posts has taken place over the past two years and some further rationalisation of teams is proposed in the coming 12 months. With staffing being the most significant cost to the Council, a fundamental review of policies and service levels may be unavoidable. As an example, reducing overall staff numbers by 20 as a result of a review of service levels could achieve up to £1m reduction in salary costs.

c) Asset Review – As a landlord in charges of significant assets, the future of many operational assets may need to be considered with a view to either generating receipts and/or reducing overall operating costs. An example could be moving to an alternative office location creating the opportunity to redevelop the existing site.

d) Increasing Council tax by 3% rather than the 2% included within the current projections would generate an additional £70k per annum.

e) Reducing the provision of city centre public conveniences (there are three each within a few hundred yards of each other) and/or encouraging parish councils to take on responsibilities for conveniences in market towns could achieve significant savings..

f) A number of additional options are included in appendix 2, such as the future CCTV services, "all out elections", withdrawing community transport etc. An initial steer from cabinet members on how best to develop this list of options is needed to help prepare the November Cabinet budget report.



Growth/Investment Budget Options

11.39 Whilst unavoidable growth has been included in the current financial projections, allowance has not yet been made for reprioritising resources in order meet the council strategy outcomes.

11.40 The declaration of the Climate Emergency in June 2019 has committed the Council to prepare an Action Plan to set out how it will achieve ambitious targets for a carbon neutral council by 2024 and a carbon neutral district by 2030. This will no doubt require significant investment and will impact on all future decisions taken by the Council. Whilst much of the long term investment will be reviewed against prudential code standards, some up front revenue investment will be required to support additional staff/resource needs in the short term and to fund feasibility work for many of the proposed actions.

11.41 The Council is currently evaluating the tenders received for the provision of waste collection services from 2020. It is not possible to disclose any figures at this time because this would prejudice that process but as soon as evaluation is complete a report will be produced for Cabinet to factor into budget considerations. This will include commentary on whether it the introduction of a separate food waste collection service would be an affordable option.

11.42 Parking Enforcement/technology – The Parking Strategy is expected to propose a significant increase in parking enforcement. Initially, a minimum of three additional enforcement officers are required to address existing demand. It is anticipated that this could be self financing through enforcement income, but this would need a strategic review as existing enforcement is delivered at a net cost. If some/all of the options for parking charges set out in 11.23 above are adopted, additional resource would be required over and above this initial proposal.

Managed Reserves

11.43 The total of General Fund reserves 2019/20 opening balance stood at just over £28m (plus the non allocated general fund balance of £2.8m).

11.44 Reserves are a key factor which underpin the Council's ability to fund Asset Management Plans, the IT Strategy, Car Parking Strategy, and Service 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.

11.45 In summary, reserves are used to support:

(i) Funding of the Capital Programme
(ii) Investment in transformation
(iii) Providing one-off support for service budgets (such as the local plan)
(iv) Community Infrastructure plans
(v) Council Strategy Support
(vi) Asset Management Plans, IT Strategy, Car Parking Strategy
(vii) Winchester Town Account (notably major play area refurbishment and replacements)
(viii) Short term budget deficits, if supported by a robust medium term savings plan

11.46 It is important to appreciate that reserves are finite and their use must therefore be managed and prioritised effectively in order to ensure that resources are available to support expenditure requirements including those which are potentially urgent and unexpected.

11.47 The Major Investment Reserve is the key revenue reserve used to support investment in major projects such as the new leisure centre, Central Winchester Regeneration, Station Approach, as well as other smaller projects. This is particularly crucial in the early stages of projects (such as consultation and feasibility studies), as these costs cannot usually be capitalised. Whilst the opening 2019/20 balance of £8.7m is deemed a healthy level, there are already significant commitments against this balance and therefore any future plans will require close scrutiny and prioritisation in order to ensure resources remain available to support new high priority projects.

11.48 Under Section 25 of the Local Government Act 2003 the S151 officer is required to state in the budget report their view of the robustness of estimates for the coming year, the medium term financial strategy, and the adequacy of proposed reserves and balances. The Council is required to take this into account when making its budget and taxation decisions.

11.49 It is proposed that a transition reserve is created to dampen the impact of funding reductions in the medium term financial strategy. As there are so many uncertainties over the medium term position, e.g. the future of new homes bonus, business rates retention etc, strategically it is very difficult for the council to execute a plan for the very worse scenario and deliver this, if it does not occur. That could leave the council with declining services at a time when it would be crucial to maintain or even increase certain service levels. It is also important to recognise that some savings take a longer timeframe to deliver and so the ability to, in the short-term only, dampen the savings requirement can assist with long term financial stability.

11.50 The following four high level categories of reserves are available as detailed below:

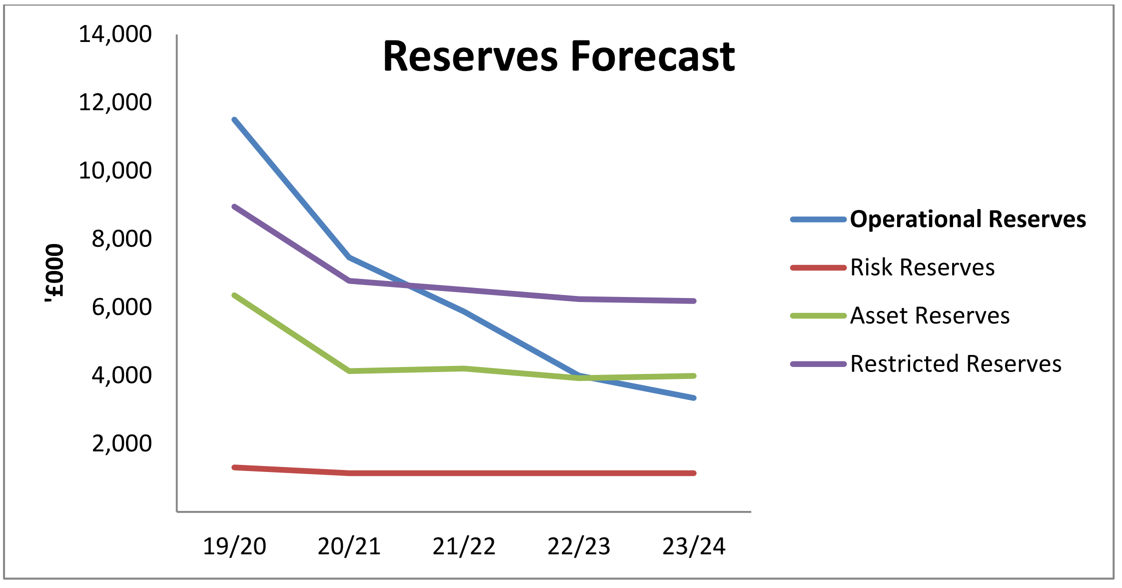
a. Operational Reserves, significantly the Major Investment Reserve, are revenue reserves which can be used to support revenue or capital expenditure, for example major projects.

b. Risk Reserves, such as the General Fund Balance, 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, 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.

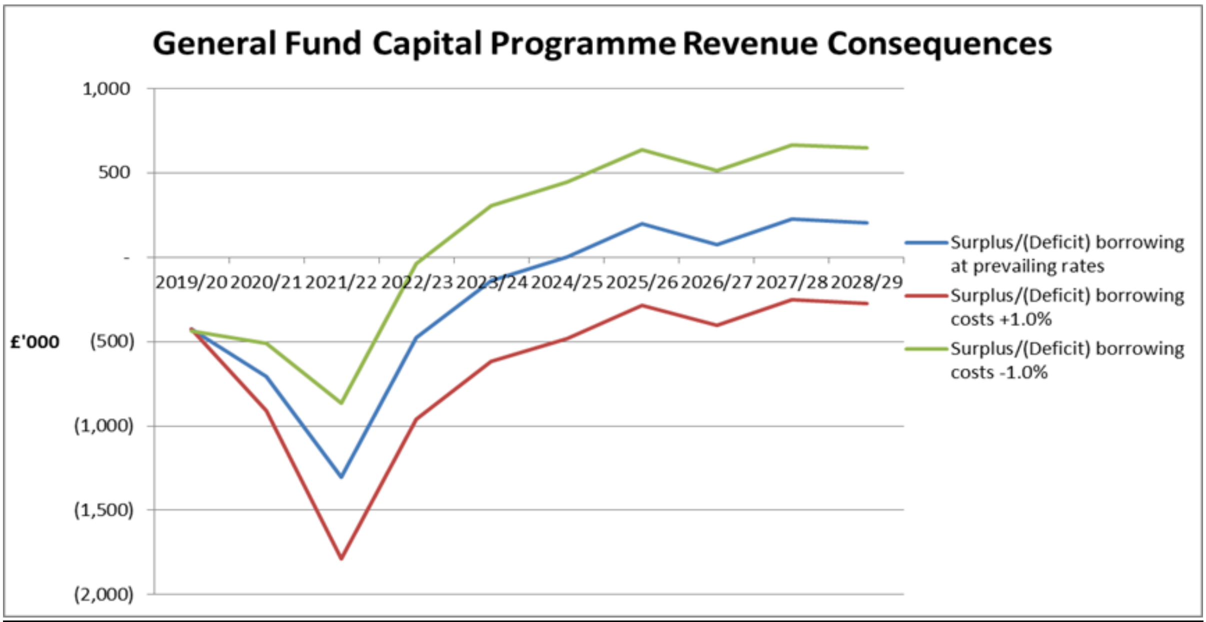
d. Restricted Reserves, such as the Community Infrastructure Levy, can only be used for restricted purposes and therefore must be considered separately to other reserves which can be used for wider purposes.

11.51 The graph below shows that operational reserves will reduce significantly over the four year planning period.



General Fund Capital

11.52 The Council has an ambitious general fund capital programme totalling more than £120m over the next 10 years. Not all projects provide savings or generate income but, in aggregate, the capital programme is forecast to have a positive net benefit to the General Fund from 2024/25 (based on February 2019 budget). There is an overall negative impact on the General Fund prior to this year which reflects significant spend on preliminaries and costs associated with major projects early in their lifecycle. Any delays to the programme can defer these early lifecycle costs but also defers future benefits.



Capital Financing

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

- Capital receipts (from asset sales);
- Capital grants and contributions (e.g. Disabled Facilities Grant, Local Enterprise Partnership, and Community Infrastructure Levy);
- Earmarked Reserves (e.g. the Major Investment Reserve, the Property Reserve, the Car Parks Property Reserve, and the IMT Reserve);
- Revenue contributions; and
- Borrowing including internal (also known as the "Capital Financing Requirement").

11.54 Following approval of the Housing Company (CAB3160), the capital receipts reserve is fully committed and so any new projects will be reliant on funding from external grants and contributions, earmarked reserves where appropriate, and prudential borrowing.

11.55 Capital projects financed by prudential borrowing will incur an annual revenue cost over the life of the asset – a minimum revenue provision (principal repayment) and external interest/opportunity cost. Where a project does not provide additional income or savings in excess of the annual borrowing cost, it may be necessary for the Council to make further savings elsewhere.

Capital receipts

11.56 When a capital asset is sold the proceeds, known as capital receipts, can be spent on new assets or to reduce debt from prior year capital expenditure. The Council reviews the opportunity to realise additional capital receipts as part of its rolling asset challenge programme. In addition to the proposed sale of the Station Approach site, there is potential for a significant capital receipt from the sale of the old Bar End depot and from some smaller sites. If realised, this will increase the capital receipts reserve and can be used to fund capital projects as an alternative to borrowing and so reduce the annual revenue cost.

Potential new projects and changes to existing projects

11.57 With the reduced resources available to finance capital projects, careful consideration needs to be given to the impact of new emerging projects and changes to existing projects. Where possible, the Council will identify external funding sources and the potential for projects to generate income to defray the cost of borrowing and, in some cases, provide a surplus. The following potential projects have a number of challenges as well as opportunities. Further exploratory work and engagement will take place in the coming months and, where appropriate, new projects will be included in the Capital Investment Strategy in February 2020.

11.58 The **Climate Emergency Action Plan** will be presented to Cabinet in December and there is likely to be a number of near and medium term capital projects as a consequence. Some potential projects, such as green energy generation, have the potential to produce an income in excess of the associated cost of borrowing and thus provide a small surplus. Other projects will not be income generating and so alternative funding sources are being identified. Where these are not available, the Council will need to consider the use of prudential borrowing and its associated annual cost or the use of any future capital receipts from disposal of existing assets.

11.59 The demolition of and provision of a temporary surface at **Coventry House** (**the Vaultex site**) is currently underway. There is an existing budget to provide a surface car park in the programme; however, in line with the emerging Movement Strategy, the potential for a multi storey facility is being considered and initial estimates indicate a cost of circa £3m. Potential external funding sources are being considered and any shortfall will need to be financed by prudential borrowing and will result in an annual borrowing cost to the Council. There will be no immediate increase in overall car parking income to offset the increased cost of borrowing. Options for the generation of solar power on the site are also being considered and any net income generated would partially offset the borrowing cost.

11.60 If the Council decides to introduce the **collection of food waste** it will be necessary to purchase caddies for each household. Work is underway to determine the total cost to the Council. The estimated purchase and delivery cost is between £250,000 and £300,000 which equates to a borrowing cost of between £35,000 and £42,000 per annum over the 8 years waste contract. In addition, there will be a significant additional cost of both collection and disposal.

11.61 There is potential to redevelop the former **Goods Shed** site at an estimated cost of up to £3m which would provide several business units. After borrowing costs, this could generate a surplus income of up to £50,000 per annum. The site also has the potential to be developed as housing.

11.62 There is also potential to provide 3 small business units at **Matley's Yard** at a cost of circa £0.5m which would provide additional income to the Council.

11.63 Following discussions with Natural England with regards to ecological mitigation and additional complications from the Reservoir Act, the overall estimated cost of the **Durngate Flood Alleviation** scheme has increased to £1.695m from £1.2m. However, officers have successfully secured additional funding commitments from the Environment Agency and so there will be no additional capital cost to the Council. Further work is being undertaken to clarify any other required commitments as a result of discussions with Natural England and a request to formally increase the budget will be brought to Cabinet as part of the Q2 Finance and Performance Monitoring Report in December.

11.64 Options are being considered for the future of the **River Park Leisure Centre** site which is due to close in early 2021 once the new Sport & Leisure Park is completed. It will be necessary to decommission the existing centre and the town account will consider the provision of alternative facilities such as toilets and changing rooms for use by the wider North Walls site. Should the decision be made to demolish the centre initial estimates of the cost are circa £0.5m and there will be some additional cost depending on the surface treatment desired following demolition..

11.65 Jones Lang LaSalle (JLL) is working closely with the Council on the **Central Winchester Regeneration (CWR)** project. JLL will complete their review of the CWR delivery roadmap by the end of October assessing the relevance of what's included and advising on the next steps. Next steps will include a list of selection criteria and priorities for the site as well as developing a range of scenarios to demonstrate what these might look like - for discussion and decision by Cabinet. JLL are also working on assessing the one-off revenue budget requirements to undertake preliminary work such as feasibility studies.

11.66 The viability of providing a memorial garden and letting the lodge at **Magdalen Hill Cemetery** is currently being explored. As well as generating income from the letting of office space, further income may be generated by the sale and lease of various memorials such as vases and plaques.

12 OTHER OPTIONS CONSIDERED AND REJECTED

12.1 There are a variety of options open the council over the medium term, and included in the above are a range of achievable options that fit within the council strategy.

12.2 Other council's have focussed on different approaches. Some have purely focussed on what is the legal minimum services to provide. This has been rejected as though the council has many statutory services to provide, *how* these are delivered can take many different shapes and associated costs. The financial position for the forthcoming year is not in such a position that the council needs to remove all discretionary related services so this would be premature, especially with a major Government review of finance now expected for 2021.

12.3 Another option is take a much more aggressive approach to income generation, especially in respect of commercial property acquisition. If the Council spent £250m on acquiring commercial property, it could expect a net return (assuming gross yield of 6%) of up to £5m. This option has been rejected. There are a number of risks in commercial property investment, especially outside of the local economic areas, due a lack of a secondary plan for the properties. Yields are also very 'tight' at present meaning there is little room for losses due to voids. The council has a policy of achieving a double-win at present through any commercial property investment and it is not proposed to move from this approach. There has been recent guidance issued by CIPFA also warning authorities who borrow in advance of need for certain acquisitions.

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

CAB3175 – Medium Term Financial Challenge – July 2019

Other Background Documents:-

None

APPENDICES:

Appendix A: Outcome Based Budgeting Options

Appendix B: Medium Term Financial Projections

Key Decision budget options

Potential Impact of Emerging Parking Strategy

			2020/21 *£000*	Full Year *£000*
1	Winchester parking charges	An inflationary increase of around 3% to specific car parks	100	400
2	Evening Parking Charges	Introduction of a £2 flat rate charge in central car parks only	143	286
3	Sunday Parking Charges	Introduction of a £2 flat rate charge in central car parks only	139	278
4	Park and Ride	Rise in daily charges by 50p per day: £3.50 (peak) and £3.00 (off-peak)	186	186
5	Cease parking discounts	Removal of parking concessions for Cattlemarket and Worthy Lane car parks	70	70
6	Market town parking charges	An estimate of minimum 10% increase in charging rates in line with the car parking strategy	10	10
Totals			**648**	**1,230**

Additional Savings/Income Options to Address Medium Term Shortfalls

			2020/21 *£000*	Full Year *£000*
7	Garden Waste Charging	Net effect of introducing a chargeable garden waste service	250	500
8	Major Transformation Programme	"P3" - Review Service levels to achieve specific savings targets		?
9	Asset Review	Consider future of major assets (Guildhall, City Offices etc)		?
10	Council Tax	Increase at 3% rather than 2%?	70	292
11	Reduce provision of WCs in Winchester town	Closure of three or four public conveniences or approach Parishes to see if they would be willing to take on any outside of the Town area		50
12	Cease 24hr CCTV monitoring	Cease active monitoring of CCTV, continue to record CCTV to be viewed at a later date		150
13	All out elections	Introduction of four year all out elections instead of the current 1/3rds system		100
14	Review community transport and shobmobility support	Review of all community transport and shopmobility services (e.g. dial-a-ride)		100
15	Employment and Skills Plan	A developer fee paid to the council in order to discharge ESP agreements. This would allow the council to increase apprentice support and growth within the district whilst also recovering the costs of providing the service from developers	0	100
16	Advertising Opportunities	Advertising hoardings at key locations such as Friarsgate Car Park / Bus Station	15	25
17	Grants Programme	Further review of grants propgramme		50
Totals			**335**	**1,367**

Medium Term Revenue Forecasts

General Fund Revenue (£m)	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24
Funding				
Council Tax (excluding Parish Precepts)	8.069	8.309	8.557	8.812
Retained Business Rates	4.953	2.793	2.836	2.880
New Homes Bonus	1.900	1.382	0.970	
Damping - 5% cap on total resource reduction		1.684	1.089	1.198
Other Grants	0.150	0.150	0.150	0.150
	15.072	**14.318**	**13.602**	**13.040**
Investment Activity	1.655	0.155	0.223	0.093
Resources available	**16.727**	**14.473**	**13.825**	**13.132**
Baseline Net Expenditure				
Gross Income	13.435	13.968	14.777	15.151
Gross Expenditure	-31.249	-31.962	-32.644	-33.410
Unavoidable Growth - HCC Recycling		**-0.500**	**-0.500**	**-0.500**
Baseline resource requirements	**-17.813**	**-18.494**	**-18.366**	**-18.759**
One-off budgets & Reserve Related Movements	-0.212	0.687	-0.145	-0.822
Total net resource requirements	**-18.025**	**-17.807**	**-18.511**	**-19.581**
Budget Surplus / (Shortfall)	**-1.298**	**-3.334**	**-4.686**	**-6.449**
% of Gross Expenditure	*4.2%*	*10.4%*	*14.4%*	*19.3%*
Operational Savings Proposals	1.613	1.908	2.465	3.028
Budget Surplus / (Shortfall)	**0.314**	**-1.425**	**-2.221**	**-3.421**
Key Decision Proposals	0.983	2.021	2.401	2.597
Less: 30% allowance for not taking all options	-0.295	-0.606	-0.720	-0.779
Transition Reserve	-1.003			
Budget Surplus / (Shortfall)	**-0.000**	**-0.011**	**-0.540**	**-1.603**