Public Document Pack

Winchester City Council

Meeting	The Scrutiny Committee
Date and Time	Tuesday, 6th February, 2024 at 6.30 pm.
Venue	Walton Suite, Guildhall, Winchester and streamed live on YouTube at www.youtube.com/winchestercc

Note: This meeting is being held in person at the location specified above. Members of the public should note that a live video feed of the meeting will be available from the council's YouTube channel (youtube.com/WinchesterCC) during the meeting.

A limited number of seats will be made available at the above named location however attendance must be notified to the council at least 3 working days before the meeting (5pm Wednesday, 31 January 2024). Please see below for details on how to register to attend. Please note that priority will be given to those wishing to attend and address the meeting over those wishing to attend and observe.

AGENDA

1. **Apologies and Deputy Members**
   To note the names of apologies given and deputy members who are attending the meeting in place of appointed members.

2. **Declarations of Interests**
   To receive any disclosure of interests from Members and Officers in matters to be discussed.

   Note: Councillors are reminded of their obligations to declare disclosable pecuniary interests, personal and/or prejudicial interests in accordance with legislation and the Council's Code of Conduct.

   If you require advice, please contact the appropriate Democratic Services Officer, prior to the meeting.

3. **Chairperson's Announcements**

4. **Minutes of the meeting of the 22 November 2023** (Pages 5 - 14)
   That the minutes of the meeting be signed as a correct record.

5. **Public Participation**
To receive and note questions asked and statements made from members of the public on matters which fall within the remit of the Committee.

Members of the public and visiting councillors may speak at the committee, provided they have registered to speak three working days in advance. Please complete this form (https://forms.office.com/r/Y87tufaV6G) by 5pm on Wednesday, 31 January 2024 or call (01962) 848 264 to register to speak and for further details.

6. **Housing Revenue Account (HRA) Budget 2024/25** (Pages 15 - 44)
RECOMMENDATION:

    It is recommended that scrutiny committee comment on the proposals within the attached cabinet report, ref CAB 3445 which is to be considered by cabinet at its meeting on the 8 February 2024.

7. **General Fund Budget 2024/25** (Pages 45 - 80)
RECOMMENDATION:

    It is recommended that scrutiny committee comment on the proposals within the attached cabinet report, ref CAB3444 which is to be considered by cabinet at its meeting on the 8 February 2024.

8. **Capital Investment Strategy** (Pages 81 - 130)
RECOMMENDATION:

    It is recommended that scrutiny committee comment on the proposals within the attached cabinet report, ref CAB3443 which is to be considered by cabinet at its meeting on the 8 February 2024.

9. **Treasury Management Strategy 2024/25** (Pages 131 - 164)
RECOMMENDATION:

    It is recommended that scrutiny committee comment on the proposals within the attached cabinet report, ref CAB3446 which is to be considered by cabinet at its meeting on the 8 February 2024.

10. **To note the latest Work Programme for 2023/24** (Pages 165 - 166)
The latest version of the committee work programme can be found here: https://democracy.winchester.gov.uk/mgPlansHome.aspx?bcr=1

11. **To note the latest Forward Plan of Key Decisions**
The forward plan is due to be published on the 31 January 2024 and will be added to this agenda at that time.

Laura Taylor
Chief Executive

All of the Council's publicly available agendas, reports and minutes are available to view and download from the Council's Website and are also open to inspection at the offices of the council. As part of our drive to minimise our use of paper we do not provide paper copies of the full agenda pack at meetings. We do however, provide a number of copies of the agenda front sheet at the meeting which contains the QR Code opposite. Scanning this code enables members of the public to easily access all of the meeting papers on their own electronic device. Please hold your device's camera or QR code App over the QR Code so that it's clearly visible within your screen and you will be redirected to the agenda pack.

29 January 2024

Agenda Contact: Matthew Watson, Democratic Services Officer
Tel: 01962 848 317 Email: mwatson@winchester.gov.uk

**With the exception of exempt items, agendas, reports and previous minutes are available on the Council's Website https://www.winchester.gov.uk/councillors-committees*

THE SCRUTINY COMMITTEE – Membership

Chairperson: Councillor: Brook **Vice Chairperson**: Councillor Horrill

Committee Members.
Councillors:
Laming
Pett
Reach
Scott
Williams

Quorum = 3 Members

Relevant Cabinet Members
Having regard to the content of the agenda, the Chairperson requests that The Leader and all relevant Cabinet Members attend meetings of the committee

Public Participation
A public question and comment session is available at 6.30pm for a 15 minute period. There are few limitations on the questions you can ask. These relate to current applications, personal cases and confidential matters. Please contact Democratic Services on 01962 848 264 at least three days in advance of the meeting (5pm Wednesday, 31 January 2024) for further details. If there are no members of the public present at 6.30pm who wish to ask questions or make statements, then the meeting will commence.

Filming And Broadcast Notification
This meeting will be recorded and broadcast live on the Council's YouTube site.and may also be recorded and broadcast by the press and members of the public – please see the Access to Information Procedure Rules within the Council's Constitution for further information, which is available to view on the Council's website. Please note that the video recording is subtitled, but you may have to enable your device to see them (advice on how to do this is on the meeting page).

Voting

1. Apart from the Chairperson, every member has one vote when a matter before the meeting requires a decision.
2. In the event of an equality of votes, the Chairperson may exercise a casting vote and that vote may be exercised in any way seen fit.
3. A member may abstain from voting or vote differently from how they may have indicated during the debate, without further explanation.
4. The way each member voted will not be recorded in the minutes, unless a motion to have a recorded vote has been passed.

Terms Of Reference
Included within the Council's Constitution (Part 3, Section 2) which is available here

THE SCRUTINY COMMITTEE

Wednesday, 22 November 2023

Attendance:

Councillors
Brook (Chairperson)

Horrill	Reach
Laming	Scott
Pett	Williams

Other members in attendance:

Councillors: Cutler, Tod and Westwood

Video recording of this meeting

---

1. **APOLOGIES AND DEPUTY MEMBERS**

Apologies for the meeting were noted as above.

2. **DECLARATIONS OF INTERESTS**

Councillor Scott declared a non-pecuniary interest regarding the agenda item "Housing Revenue Account (HRA) Business Plan and Budget Options" as he was a Council housing tenant.

3. **CHAIRPERSON'S ANNOUNCEMENTS**

No announcements were made.

4. **MINUTES OF THE MEETING OF THE 6 SEPTEMBER 2023**

RESOLVED:

That the minutes of the previous meeting held on 6 September 2023 be approved and adopted.

5. **PUBLIC PARTICIPATION**

Councillor Wallace addressed the committee regarding agenda items "Housing Revenue Account (HRA) Business Plan and Budget Options "and "Q2 Finance & Performance monitoring" and his contributions were captured within the agenda items below.

6. HOUSING REVENUE ACCOUNT (HRA) BUSINESS PLAN AND BUDGET OPTIONS

Councillor Westwood, Cabinet Member for Housing introduced the report, ref CAB3432 which set out proposals for the Housing Revenue Account (HRA) Business Plan and Budget Options, (available here) and which could be summarised as follows.

1. That an unprecedented financial challenge was being faced in the Housing Revenue Account (HRA).
2. That the HRA operated as a ring-fenced landlord account for social housing provision and that financial sustainability was needed to ensure rents and service charges covered expenditure.
3. That the HRA had a 30-year financial planning horizon, requiring a viable business plan and that the period faced high inflation and increased building costs affecting housing provision.
4. That over £45,000,000 was being invested in retrofitting council homes for energy efficiency.
5. Prioritisation was crucial to deliver value and improve existing housing and new energy-efficient homes.
6. Members were being presented with a sustainable business plan involving investments and targets.
7. Business planning occurred annually, adapting to economic changes for viability.
8. Surplus assets would be considered for disposal to fund greener housing initiatives.
9. That investments aimed at digitising processes for customers were being made.

The committee was recommended to comment on the proposals within the report, ref CAB3432 which had been considered by the cabinet at its meeting on the 21 November 2023. These comments and any resolution of the committee would be tabled at the Cabinet Member Decision Day on the 4th of December 2023.

The report contained 14 recommendations, which covered a range of issues including the following:

1. It introduced the draft HRA Business 30-year Plan for the period 2023-24 to 2052-53 with specific metrics detailed in Appendix 1.
2. It sought approval for budget options specified in the report. It highlighted a proposed additional investment of £30 million over eight years until 2030-31 for retrofitting properties aimed at enhancing energy efficiency in council housing.
3. It discussed strategic changes from direct home delivery to acquiring affordable housing from developers and utilising Right to Buy resources.
4. It noted the financial assessment for new build sites, proposed adjustments in rent rates for viability, set revenue savings targets, and outlined plans for property disposal and cost recovery initiatives.

5. It acknowledged ongoing evaluations of the housing management system and procurement plans, ensuring the sustainability of the 30-year plan to deliver affordable housing goals.

The committee was advised that recommendation number 9 of CAB3432 had been amended at the cabinet meeting and was now: "*That, subject to consultation, the terms of individual leases and a review of costs, the move to full cost recovery for private connections of the council's sewage treatment works be approved and note that this will include transitional protection and be achieved within a five-year timeframe.*"

Councillor Wallace addressed the committee and raised several matters which could be summarised as follows:

1. He noted that there was a plan in Appendix 1 to increase the debt turnover ratio by almost 50% from .21 and 2023/24 to .30 in 2031/2032 and he enquired on the broader implications or risks resulting from nearly a 50% increase in HRA debt.
2. He welcomed the additional £30 million investment in retrofitting homes and sought clarification on the allocation of this funding and the number of houses to be upgraded.
3. He requested confirmation regarding the specific minimum energy standards for homes in the proposed programme.
4. He advised of concerns about potential cost increases for residents due to wastewater cost reallocation and a breakdown of cost increases by location and further details about the planned consultation were requested.
5. He believed that there was a potential average cost increase of around £500 per year, suggesting a need to understand its impact.
6. He emphasised the importance of protecting residents during a cost-of-living crisis and sought confirmation on the process for reviewing rent and service charge increases with tenants.

The committee proceeded to ask questions and debate the report. In summary, the following matters were raised.

1. Whether the recommendations in the report aligned with the previous recommendations on rent levels put forward by the 2015 Informal Policy Group.
2. Concern was raised about the affordability of properties considering rising living costs and how affordability was being calculated.
3. Mention was made of the need to consider the impact on existing tenants and the current 7% rent increase.
4. That the latest Autumn Statement changes were factored into financial considerations.
5. There was a question about exploring the cost-effectiveness of modular buildings amidst rising construction costs.
6. Clarification was sought about the intent to recover full-service charges and ensuring proper consultation before implementing cost recovery measures.

7. Whether funding changes for the Homes for Ukraine scheme might impact the budget approach.
8. There was a request for emphasis on repairs and maintenance for existing residents, separate from new developments.
9. There was a question regarding the interpretation of totals in specific tables on pages 31 and 32 of the report and the types of averages being shown.

These points were responded to by Councillor Westwood, Cabinet Member for Housing, Councillor Tod, Leader and Cabinet Member for Asset Management, Simon Hendey, Strategic Director, and Laura Taylor, Chief Executive accordingly and were noted by Councillor Westwood, Cabinet Member for Housing.

RESOLVED:

That officers and the Cabinet Member were requested to consider the following matters.

1. To review the recommendations from the 2015 “New Build Rents Informal Policy Group Review”, to understand any potential impact with the proposals within this report.
2. To consider how to provide clear and comprehensive communication for new residents of newly constructed homes, explaining not only the rental costs but also the breakdown of overall living expenses and home running costs.
3. To review the assumptions and projections outlined in the report following the Autumn statement.
4. To evaluate the individual recharge implications for private owners who use the HRA water treatment works and the management of these costs in the future.
5. To clarify the “type of average” being presented in the tables within the report, particularly those presenting weighted average rents in section 14.
6. To provide clarification in the report that the 80% of market rent policy would apply to new homes, while tenants in existing homes would continue under the current basis.
7. To consider how the proposals for full cost recovery in tenant service charges in 2024-25 and for private connections of the council’s sewage treatment works could take into account appropriate resident/tenant consultation.
8. To amend page 22 of the report pack that contains 2 paragraphs, both numbered 7.1

7. GENERAL FUND BUDGET OPTIONS & MEDIUM-TERM FINANCIAL STRATEGY

Councillor Cutler, Deputy Leader and Cabinet Member for Finance & Performance introduced the report, ref CAB3430 which set out proposals concerning the General Fund Budget Options & Medium-Term Financial Strategy (available here). The introduction included the following points.

1. The public sector faced significant financial challenges and demand pressures, with many upper-tier and unitary authorities warning that they might have to issue section 114 notices in the near future. Moreover, 52% of district councils were warning that they would have to utilise reserves to produce a balanced budget. The City Council's immediate financial position until 2026 was sound and stable, outlined in a strategy to manage limited financial resources to protect the core Council service.
2. However, the medium-term Financial Plan in Appendix 1 showed a projected annual budget shortfall of £3.4 million per annum, increasing to £5.7 million in 2029.
3. There was an increased deficit over the medium-term financial strategy published last year. The gap reported primarily resulted from new responsibilities placed on district councils, particularly focusing on significantly increasing recycling rates.
4. There was a window of opportunity to steer the Council towards financial sustainability in the future, and robust measures were being put in place to address medium-term budget challenges.
5. The paper outlined some aspects of TC25, an organisation-wide transformation program aimed at delivering changes and achieving £3.5 million in savings within three years. The aim was to transform services to save money, digitise, and reduce the carbon impact of service delivery. Efforts were being made to make services more accessible, simplifying online access while enabling the majority of customers to access services as required.
6. Investments were planned to digitise and modernise services, alongside allocating additional funding to address unavoidable budget pressures like providing temporary accommodation.
7. The paper also detailed assumptions concerning service income budgets, emerging capital budgets, and the adequacy of reserves.

The committee was recommended to comment on the proposals within the attached report, ref CAB3430 which had been considered by the cabinet at its meeting on 21 November 2023. Comments and any resolution of the committee would be tabled at the Cabinet Member Decision Day on the 4th of December 2023.

The report contained several recommendations, which covered a range of issues including the following:

1. To note the assumptions outlined in Section 13 of the report and the projections detailed in Appendix A.
2. To approve the Medium-Term Financial Strategy in Sections 13 to 17 of the report.
3. To approve the preparation of a detailed budget to present to the Council in February 2024. This budget would be based on the assumptions from the Medium-Term Financial Strategy, final spending review announcements, and specific options including financial allocations for carbon reduction, digital transformation, service funding adjustments, Council Tax increase, and reserve establishment.
4. To approve an inflationary increase in the Waste Collection contract cost, necessitating a corresponding CPI rate increase to Garden Waste subscriptions from March 2024 onwards, resulting in charges rising to £45 for small bins and £69 for large bins while maintaining the concessionary price at £29.

The committee proceeded to ask questions and debate the report. In summary, the following matters were raised.

1. If the TC25 programme failed to generate the expected savings, what backup risk mitigation strategies were in place?
2. The risk involved if the assumption of 80% government funding for expanding recycling services, particularly incorporating food waste, did not come to fruition.
3. Whether process manuals or quality manuals detailing council operations and procedures had been produced.
4. There was a discussion regarding the impacts of inflation, borrowing costs, and construction expenses, specifically concerning projects such as Central Winchester Regeneration and Station Approach, questioning their viability and reviewing their status within the current context.
5. There was a request for clarification about carbon and nutrient offsetting mentioned in paragraph 7.3 on page 42.

These points were responded to by Liz Keys, Chief Finance Officer, Councillor Cutler, Deputy Leader and Cabinet Member for Finance & Performance and Laura Taylor, Chief Executive accordingly.

RESOLVED:

That officers and the Cabinet Member were requested to consider the following matters.

1. To consider options for further communication to Councillors of the TC25 programme and opportunities for member involvement and engagement.

2. That concerning paragraph 16.10 of the report, and in relation to the impact of the cost of borrowing and inflation, officers were asked to confirm which projects had been removed from the programme in February 2023.

8. **Q2 FINANCE & PERFORMANCE MONITORING**

Councillor Cutler, Deputy Leader and Cabinet Member for Finance and Performance introduced report CAB3424 outlining the Q2 2023/24 Financial And Performance Monitoring report (available here).

The report covered financial updates, a summary of Council progress, and the refreshed key performance indicators adopted in December. It also encompassed reports for each Tier 1 project.

Councillor Horrill, Chairperson of the Performance Panel, provided an overview of the 7 November 2023 meeting of the Performance Panel. Key points highlighted were:

1. The panel conducted a detailed review of the Q2 report.
2. Officers agreed to respond to several meeting questions, with most responses received.
3. The Performance Panel recommended to the Scrutiny Committee that the panel should contribute to the annual review of Key Performance Indicators, as detailed in the 7 November 2023 meeting notes.

The committee was recommended to raise any issues arising from the information in this report, ref CAB 3424, which was being presented to Cabinet on 13 December 2023 and to consider whether there were any items of significance to resolve or to be drawn to the attention of Cabinet.
Councillor Wallace addressed the committee and raised several matters which could be summarised as follows:

1. He identified conflicting carbon emission targets for 2023 (1873 tonnes on page 114 and 3750 tonnes on page 129).
2. He requested access to the Carbon Neutrality Board minutes and details of the solar canopy project.
3. He believed there were conflicting key performance indicators (green on page 132 and amber on page 138) regarding a funding bid's success.
4. He was concerned about the absence of the Hampshire County Council carbon assessment tool in the current report.
5. He acknowledged report improvements but suggested further simplification and shortening of the report.

The committee proceeded to ask questions and debate the report. In summary, the following matters were raised.

1. An update on item 7 from the Performance Panel meeting notes (income split from garden waste and car parking).
2. The recirculation of the Performance Panel notes reflecting responses to raised questions.

These points were responded to by Sharon Evans, Strategic Director and Monitoring Officer and were noted by Councillor Cutler, Deputy Leader, and Cabinet Member for Finance & Performance;

RESOLVED:

1. The Performance Panel to contribute to an annual review of Key Performance Indicators, focusing on TC1, TC2, TC7, and TC8 as referenced in the meeting notes.
2. The meeting notes would be updated to include received responses.
3. Councillor Wallace would provide further details on report discrepancies and suggestions for report simplification.

9. **DETERMINATION OF CALL-IN REQUEST**

Sharon Evans, Strategic Director & Monitoring Officer; introduced the report, ref SC091 regarding the Determination Of Call-In Request, (available here). The introduction included the following points.

1. That a Call-In Notice was received on 21 September 2023 regarding a decision made at the Cabinet meeting on 13th September 2023 (report reference CAB3423).
2. The Monitoring Officer reviewed the Notice against call-in grounds specified in the Constitution.
3. The call-in request was not accepted, communicated to the Chair of the Scrutiny Committee and signatories.
4. That the constitution required that when a Call-In Notice was not accepted, the Monitoring Officer would present a report at the next available Scrutiny committee meeting explaining the request and reasons for non-acceptance.

The committee was recommended to note the contents of this report and proceeded to debate the report and discuss matters relating to transparency in the council's decision-making process. These points were responded to by Sharon Evans, Strategic Director, and Monitoring officer accordingly.

RESOLVED:

1. That the report was noted.

10. **TO NOTE THE WORK PROGRAMME FOR 2022/23 AND THE LATEST FORWARD PLAN OF KEY DECISIONS**

The committee discussed the future work programme and the forward plan of key decisions and raised several points which included

1. Whether future decisions relating to the local plan, and regeneration projects would be tabled at a future meeting of the Scrutiny Committee.
2. Regarding an item in the December 2023 Forward Plan, clarification was sought on whether the property disposal is related to the general fund or part of the Housing Revenue Account.
3. Regarding an item in the December 2023 Forward Plan, clarification was sought on whether the Park & Ride Bus Contract renewal and the Property disposal item affected more than the wards stated in the forward plan.

The Chairperson advised that she had met with the Chief Executive, and the Monitoring Officer, to review the upcoming items of business through to the end of January 2024. It was agreed that there were no key decisions requiring Scrutiny to be added to this agenda. She advised that she would meet regularly with the Chief Executive and Monitoring officer to review this and that other items may be included as required.

RESOLVED

1. That the December 2023 Forward Plan of Key Decisions and the Work programme be noted.
2. That officers respond to points 2 and 3 above.

That the latest version of the work programme (which can be found here https://democracy.winchester.gov.uk/mgPlansHome.aspx?bcr=1) be noted.

The meeting commenced at 6.30 pm and concluded at 8.15 pm

Chairperson

This page is intentionally left blank

SCRUTINY COMMITTEE

REPORT TITLE: HOUSING REVENUE ACCOUNT BUDGET 2024-25

6 FEBRUARY 2024

REPORT OF CABINET MEMBER: Councillor Chris Westwood, Cabinet Member for Housing

Contact Officer: Liz Keys, Tel No: 01962 848226 Email lkeys@winchester.gov.uk

WARD(S): ALL

RECOMMENDATIONS:

It is recommended that scrutiny committee comment on the proposals within the attached cabinet report, ref CAB3445 which is to be considered by cabinet at its meeting on the 8 February 2024.

This page is intentionally left blank

REPORT Title: HOUSING REVENUE ACCOUNT BUDGET 2024-25

8 FEBRUARY 2024

REPORT OF CABINET MEMBER: CLLR CHRIS WESTWOOD – CABINET MEMBER FOR HOUSING

Contact Officer: Liz Keys Tel No: 01962 848226 Email Lkeys@Winchester.gov.uk

WARD(S): ALL

PURPOSE

This report requests approval for the proposed HRA revenue budget for 2024/25, as detailed in Appendices 1 and 2.

The report also requests approval for the capital programme budget proposal for 2024/25 and the 10-year indicative plan to 2033/34. These figures are detailed in Appendices 3 and 4, taking account of the funding shown in Appendix 5.

Despite the unprecedented budget challenges and interest rate rises faced by the Council's housing service this report offers policy options to achieve the Council's policy objectives to go greener faster, address the cost of living crisis and maintain the commitment to deliver 1000 new homes.

Continuing inflationary building supply and construction pressures and increased underlying Public Works Loan Board (PWLB) interest rates are increasing new homes build costs. To address this significant rise in building costs and maintain the commitment to delivering 1000 new homes, the business plan has been rebalanced with a new homes acquisition strategy to prioritise purchase of new homes from developers in the short to medium term, where costs are currently significantly lower, and continue to develop schemes where the business case is proven to be viable.

In addition to high building costs, significantly increased energy costs are impacting many of the most vulnerable residents in our homes.

To mitigate the additional energy costs for residents and to drive de-carbonisation of our council homes, an additional investment of £30m is proposed to be allocated into the Retrofit program to meet regulatory decent homes energy standards.

The budget options contained in this report support the council's commitment to increase investment in customers' homes to go greener faster and to deliver the 1000 new homes programme by 2032/33.

The report proposes a 7.7% increase in rent (consistent with the Government rent regime for affordable housing) to ensure the HRA Budget remains sustainable and viable over the 30-year period given significant inflationary and other cost pressures, and to allow for the additional investment of £30m in tenants' homes as detailed within the report.

RECOMMENDATIONS:

That Cabinet recommend that Council:-

1. Note the HRA Financial Plan operating account extract, including annual working balances, as detailed in Appendix 6.
2. Approve the 2024-25 Housing Revenue Account budget as detailed in Appendices 1 and 2 to this report.
3. Approve the 10-year indicative HRA capital programme as set out in appendices 3 and 4.
4. Approve capital expenditure in 2024-25 of £18.649m for the Maintenance, Improvement and Renewal programme as detailed in Appendix 3 of the report in accordance with Financial Procedure Rule 7.4.
5. Approve the proposed budget in 2024-25 for new homes of £15.524m as detailed in Appendix 4 of the report subject to individual scheme approvals.
6. Approve the proposed indicative funding for the HRA Capital Programme as detailed in Appendix 5.
7. Note the proposed additional investment in the council housing stock of £30m over the next eight years to 2030-31 to retrofit properties on a fabric first basis to help improve their energy efficiency and reduce energy costs for tenants. This additional annual investment brings the total annual investment here to £5.6m a year and £45m in total (see para 12.5).
8. Approve the proposed strategic change in direction moving from a plan based upon direct delivery of new homes to one based upon a mixture of actively acquiring s106 affordable housing directly from developers alongside future development with grant funding and using Right to Buy resources (see para 13.7).

9. Note the current financial viability assessment for new build and that at present all potential development sites based on current assumptions evaluated this year have not been assessed as being financially viable within the existing viability model (see para 13.1-13.10).

10. Approve the proposed move to 80% market rent to help improve the viability of new homes development and to mitigate the increasing cost of delivery (see para 13.5).

11. Approve a revenue savings target of £400k over two years to assist with bridging the forecast gap in financing future capital expenditure (see para 14.2).

12. Approve the disposal in principle of Barnes house in 2024-25, and in addition the disposal of £0.500m of surplus HRA property per year over the next eight years to generate additional capital receipts to help fund the increased investment requirement over these years (see para 14.3).

13. Approve the average formula rent increase for 2024-25 for all affordable and social housing of 7.7% based on the September 2023 CPI figure of 6.7% +1% (see para 15.1-15.4).

14. Approve the proposed move from RPI+0.5% to CPI+1% for existing council shared owners in the HRA from 2024-25 onwards, as well as in all future HRA shared ownership leases. Note that the impact of this in 2024-25 will be a reduction in rent rises this year from 9.4% to 7.7% (see para 15.4).

15. Approve a 7.7% increase in tenant service charges in 2024-25 (see para 15.5).

16. Approve consultation on the move to full cost recovery from 2025-26 for both private and tenant connections of the council's sewage treatment works and note that this will include transitional protection and be achieved within a nine-year timeframe, but subject to a further report in Autumn 2024 (see para 15.7-15.12).

17. Note that officers are currently beginning a review of the current Housing IT management system with a view to evaluating whether it is still fit for purpose or needs to be replaced, as well as beginning work on the re-procurement of the repairs and maintenance contract. The Business plan provides for this to happen over the following two years at a provisional one-off cost of up to £2m (see para 12.10).

18. Note that the draft HRA Business 30-year Plan is viable and sustainable and has the capacity to support the council's ambitious delivery of 1,000 new affordable homes over the next 10 years. The proposed plan provides sufficient funds over the life of the plan to still deliver over 1,500 new affordable homes in total.

1 COUNCIL PLAN OUTCOME

1.1 Providing good quality housing and new affordable homes is a strategic priority for the council. Effective management of the resources available to the council enable it to take advantage of new opportunities and ensure tenant satisfaction in relation to their home and community.

1.2 Tackling the Climate Emergency and Creating a Greener District

a) Carbon reduction measures will be accelerated across the existing housing stock and included within the design and construction of new properties and within the feasibility assessment when considering the purchase of properties. This includes the council's 10 year retrofit programme for existing properties where additional new funding of £30m has been allocated within this year's plan.

1.3 Homes for all

a) Assist with the increase of affordable housing property stock across the Winchester district and meet the council's objective to provide a range of tenures to meet demand.

1.4 Vibrant Local Economy

a) Deliver affordable accommodation which allows people to live and work in the district and contribute to the local economy.

1.5 Living Well

a) The wellbeing of residents is considered within the design of new properties and new homes are designed to be both energy efficient and to meet tenants' needs. Any substitute properties are assessed according to these criteria.

1.6 Your Services, Your Voice

a) Housing tenants are directly involved in decisions regarding service provision, both through the work of Tenants and Council Together (TACT), the council's tenant involvement group and through regular tenant and leaseholder digital surveys, capturing wider tenant views. The service continues to review options to provide an improved customer experience, increase opportunities for engagement, and to ensure satisfaction with services provided by the council.

2 FINANCIAL IMPLICATIONS

2.1 These are fully detailed in Section 11 of the report and the accompanying appendix.

3 LEGAL AND PROCUREMENT IMPLICATIONS

3.1 Under Part VI of the Local Government and Housing Act 1989 any local authority that owns housing stock is obliged to maintain a Housing Revenue Account. The HRA is a record of revenue expenditure and income in relation to an authority's own housing stock. The items to be credited and debited to the HRA are prescribed by statute. It is a ring-fenced account within the authority's General Fund, which means that local authorities have no general discretion to transfer sums into or out of the HRA.

3.2 The council is required to prepare proposals each year relating to the income of the authority from rents and other charges, expenditure in respect of repair, maintenance, supervision and management of HRA property and other prescribed matters. The proposals should be made on the best assumptions and estimates available and designed to secure that the housing revenue account for the coming year does not show a debit balance. The report sets out information relevant to these considerations.

3.3 Section 76 Local Government and Housing Act 1989 places a duty on local housing authorities: (a) to produce, and make available for public inspection, an annual budget for their HRA which avoids a deficit; (b) to review and if necessary, revise that budget from time to time and (c) to take all reasonably practicable steps to avoid an end-of-year deficit.

4 WORKFORCE IMPLICATIONS

4.1 Consultation is currently taking place with staff and Unions on a new structure for the service. It is proposed to delete a number of vacant posts, change reporting lines to give focus to service delivery and also allocate additional resources to support the increased retrofit programme.

5 PROPERTY AND ASSET IMPLICATIONS

5.1 To meet one of the key principles of the council plan, the HRA is required to provide sufficient financial resources to both maintain existing stock to decent homes standard and to enable new affordable housing to be obtained to help meet local demands.

6 CONSULTATION AND COMMUNICATION

6.1 To date three meetings have taken place with TACT members to explain the challenges the HRA is facing. TACT members provided ideas of areas to review at the second meeting and they will need to be considered in the light of the financial challenges, policy options and potential rent increase. At the TACT meeting on the 11th January the proposed rent increase of 7.7% was discussed and TACT agreed with the need to increase rents at that level if the investment in homes and services were to be maintained. This report was not shared at the meeting as it was still in production.

7 ENVIRONMENTAL CONSIDERATIONS

7.1 This year's proposed 30-year business plan sees a significant increase in the provision of resources to fund the proposed fabric-first retrofit programme of works with increased funding of £30m over the next 8 years. Delivery of the planned investment could lead to a reduction of 1666.22 tCO_2 from customers' homes by 2030.

7.1 The Business Plan also funds the provision of a further two dedicated retrofit officers responsible for the delivery of the retrofit programme to drive this increased programme.

7.2 The Housing Service considers environmental factors when preparing and developing major projects e.g., working closely with Planning and Landscape Officers when considering new build developments to meet the required codes for sustainable housing.

8 PUBLIC SECTOR EQUALITY DUTY

8.1 This document is part of the budget consultation process, and the public sector equality duty is considered alongside any relevant budget options. The housing service holds data in respect of its tenants' protected characteristics. Whilst there is no evidence to suggest the budget proposals and services within it would adversely affect those with protected characteristics, it is recognised that some tenant households will be impacted differently by the same budget objectives and associated services.

8.2 The 2024/25 budget's operational decisions being presented in this paper include investment in maintaining decent homes and increasing the supply of affordable housing designed to have a positive impact on customers. Other options designed to have a positive impact on customers include additional investment in energy efficiency that will benefit those tenants with high energy costs thus addressing the cost-of-living crisis and are fully adaptable to meet tenants long term mobility and health needs.

9 DATA PROTECTION IMPACT ASSESSMENT

9.1 All projects set out in this report and the Capital Programme will be subject to individual data protection impact assessments.

10 RISK MANAGEMENT

Risk	Mitigation	Opportunities
Property That Council owned dwellings fail to meet decent home standards	An effective programme of future works and sound financial planning ensures that these standards are met and then maintained.	Self-Financing provides certainty around future resource allocations and facilitates better supply chain management
Community Support Lack of consultation will affect tenant satisfaction and cause objections to planning applications for new build developments.	Regular communication and consultation is maintained with tenants and leaseholders on a variety of housing issues. The Council consults with local residents and stakeholders on proposed new build schemes.	Positive consultation brings forward alternative options that may otherwise not have been considered.
Timescales *Delays to new build* contracts may result in increased costs and lost revenue. .	New build contracts contain clauses to allow the Council to recover damages if the project is delayed due to contractor actions.	
Project capacity The HRA can borrow funds in addition to utilising external receipts and reserves, but it must be able to service the loan interest arising.	Regular monitoring of budgets and business plans, together with the use of financial assessment tools enables the Council to manage resources effectively.	The Council monitors government announcements on the use of RTB receipts and potential capital grant funding.
Deliverables Risk that the council cannot deliver the programme of new build and meet the objective of 1000 homes in 10 years because of the lack of sites, the cost of development or the cost of financing this development.	The new homes programme is monitored on a regular basis and if appropriate could be delayed or re-profiled in light of the availability of these resources	Review the deliverable shape of the programme and its profiled delivery considering available resources and risk appetite

Risk	Mitigation	Opportunities
Staffing resources (not always in Housing) reduce the ability to push forward new schemes at the required pace.	Staffing resources have been reviewed to support the delivery of the new build programme.	Given the challenging nature of the delivery targets it may be necessary to review the resourcing requirements needed to successfully deliver this programme
Financial / VFM Risks, mitigation, and opportunities are managed through regular project monitoring meetings. Insufficient new build sites are identified to assign RTB 1-4-1 receipts financing to and RTB receipts are required to be repaid to Central Government with up to an estimated compounded 55% interest penalty based on current rates.	New build Schemes are financially evaluated and must pass financial hurdles and demonstrate VFM. Total Scheme Costs contain provision for contingency on build costs and on fees for new build developments that take account of potential residual development and sales risk. RTB 1-4-1 are closely monitored so in-year targets for new builds are known.	In addition, the HRA holds annual minimum levels of reserves based upon 5% of operating turnover and 10% new build costs.
Financial Assessment Risk that the cost of developing new homes projects will fail to meet the financial hurdles required to be financially viable to develop/acquire within the HRA	The measures identified within this paper will help to mitigate against the increased costs of new homes by increasing the income available to fund increased borrowing costs and reducing the overall cost of delivery.	
Interest rate volatility The economic and fiscal environment for borrowing is both volatile and uncertain making external borrowing decisions difficult to take at present	The HRA has cash reserves that allow it in the short term to effectively borrow from internal resources giving a period for interest rates to stabilise and reset and the fiscal environment to be more benign.	The use of internal borrowing can help to reduce the short-term cost of borrowing as well as delay the need to seek external finance and delivers better overall returns to the HRA

Risk	Mitigation	Opportunities
Future Social Rent Policy Uncertainty about long term rental income streams because of the end of the current agreement on rent setting in April 2025.	Rental income accounts for 93% of all the HRA annual income, and future potential uncertainty, government intervention or constraint has a significant impact on the future capacity of the HRA and deliverability of the plan	Sectorial lobbying of Government to seek future certainty will help to support better decision making
Legal The provision of social housing is a statutory requirement. Changing Government priorities place a greater emphasis on social housing which must be monitored and considered within planning of future new build projects.	Government statutory requirements and policy changes are being monitored to identify any new risks or opportunities that they may bring.	To create new housing developments within new guidelines and drawing on innovative thinking.
Reputation Failure to complete major housing projects due to lack of resources would have a direct impact on both customer satisfaction and the Council's reputation.	Business planning tools with regular updates are utilised to make sure resources are available to complete projects.	
Other – Environmental regulation such as that by Natural England on mitigating Phosphates	This delays the ability to bring forth schemes with planning permission and delays increase the cost and viability of schemes.	

11 **<u>BACKGROUND</u>**

11.1 The draft HRA Business Plan and budget options report 2023/24 was considered and noted by the Cabinet at its meeting on Tuesday 15 November, and reviewed by the council's Scrutiny Committee on Wednesday 23 November. TACT representatives were briefed and invited to comment at both committees.

12 <u>Economic Outlook and cost pressures:</u>

12.1 The Budget for 2023-24 was set against a background of unprecedented inflationary pressures affecting key cost drivers to the HRA such as energy, construction labour, and building materials as well as the impact of a series of interest rate rises to address this by the Bank of England. Although annual inflation increases are now predicted to be on a downward trend within many of these sectors, the real terms increase in prices remains embedded at present levels, even if the rate of increase due to inflation is falling. This has contributed to this year's HRA MTFS being even more difficult and challenging than last year's and has required several mitigating budget options to be considered in order to continue to deliver the council's key housing objectives in this area.

12.2 The HRA Business planning process is done annually, and all assumptions are revisited and undertaken afresh every year. To set a viable and sustainable business plan for the next 30 years has been extremely challenging this year. The cost of building new homes (needed to replace those homes purchased privately by tenants using their Right To Buy and to provide financial sustainability in the long term) continues to increase faster than the general rate of inflation. There is also a legislative need to invest in the existing stock to bring it up to new energy efficient standards, requiring an additional £30m of investment requirement over the next eight years.

Cost of construction

12.3 The investment required for new homes has once again increased significantly, with anticipated rises in construction costs of a further 23% to £4,600 per square metre, making the cost of construction (excluding land) for an average 3-bedroom property now £427,800. The budgeted cost of construction over the last two years, following covid, Brexit and the invasion of the Ukraine, has increased by over 58% from £2,800 per square metre. At the same time the cost of borrowing that the council can access has more than doubled from 2.5% to 5.14%[1]; and new affordable rents have increased only in line with CPI plus 1%.

(note [1] PWLB 50-year rate accessed on 19th January 2024)

Rent Increases

12.4 The council must set its rents in line with the Rent Standard and central Government's Regulator of Social Housing's rent setting guidelines. The current basis of rent setting is September CPI+1% for 2024-25, and this will result in a 7.7% rent increase for all tenants. There has been no announcement from the Government yet of what will happen in future years. The business plan assumes that the current level of CPI+1% will continue for a further 5 years.

Repairs and maintenance

12.5 Annually the council looks at the capital costs of maintaining the existing housing stock at decent homes standard and its investment here is based upon an asset management plan. This identifies the investment requirement profiled over the thirty-year plan based upon the lifecycle replacement costs of key components. To bring the housing stock up to the required energy efficiency standard of EPC C identified by 2030-31, there is now a need to invest an additional £30m on capital works. This brings the total investment in retrofitting over the next eight years to £45m. In addition, the council has increased annual spend by £2m over the last two years on the revenue repairs budget reflecting inflation, increased service demand, the improved voids standard, and in resourcing the staffing capacity of the existing team to manage and deliver decent homes.

Interest on borrowing

12.6 Interest rates are a key cost driver in the HRA business plan and as at 31 March 2023 the HRA had £199.8m of Capital Financing Required (unfinanced prior capital spend) of which £161.7m is external debt (fixed at PWLB interest rates averaging 3.2%) and the balance of £38.1m is internally borrowed (offset against reserve balances and working capital). PWLB rates are not directly linked to the Bank of England base rate but are set at a margin over government gilt yields, which analysts believe are likely to fall slightly in the medium term but remain higher than the period of historically low rates following the 2008 financial crisis. The current cost of financing this external debt is £5.5m per annum.

12.7 This debt largely came about through self-financing and was originally taken out in 2012. A proportion of this existing external debt (£85m) will need to be refinanced over the next 15 years, with a need to refinance £35m of it within the next five years. The HRA, unlike the General Fund, has no requirement to set aside funding for debt repayment and the HRA business plan assumes all underlying debt is refinanced.

12.8 In addition, the proposed plan will see sufficient HRA funding provided to fund the building of an additional 1,500 affordable homes largely through a mixture of Right to Buy (RTB) 1-4-1 capital receipts; shared ownership sales; other discretionary asset disposals; grants; and borrowing. This will require additional prudential borrowing of £103m to finance this delivery. In 2023/24 the budget assumed that interest rates for long term borrowing would be at 5% for a 3–4-year period and then return to a more modest 4%. At present the cost of long-term government borrowing remains elevated and stands at circa 5.16% for 50 year borrowing at the time of writing. In the decade before 2006/07 the PWLB long term interest rate peaked at 9.42% but averaged 5%. It is therefore prudent to assume that the cost of borrowing in the plan will be 5% for the duration of the planning period.

Management of the HRA

12.9 There is a need to modernise the provision of services to customers through the introduction of better digital access. A feasibility study has commenced to review whether the existing housing management IT system is still fit for purpose and to assess how well it will be able to facilitate the council’s aspiration of improving digital services for customers. In addition, work on the re-procurement of the repairs and maintenance contract should begin now as the current contract expires in two years. The HRA business plan has earmarked provisional revenue sums of up to £2m over the next two years to facilitate the replacement of the current system if this is required.

12.10 Against these considerable challenges of increasing investment requirements over the next eight years; increasing costs; and uncertain rent regulation; the council needs to review the options available to it to set a sustainable and viable 30-year business plan and a balanced budget in 2024-25.

13 Rising Costs of New Build Housing

13.1 In delivering an ambitious programme of 1,000 new homes, the HRA business plan was previously operating with materially lower average build costs as well as having the advantage of borrowing at historically low interest rates under self-financing from the government. The cost of building new homes has increased significantly over the last two years whilst at the same time the cost of borrowing has more than doubled.

13.2 Under the self-financing regime, the HRA is a purpose made vehicle for delivering new affordable homes and when both interest rates were low and stable and construction costs more affordable it was able to build, construct and acquire properties; financing this with rents at 70% of market rent or the Local Housing Allowance (LHA), whichever was the lower.

13.3 The primary financial assessment in the evaluation of new homes is a Net Present Value (NPV) calculation of all future income and expenditure over a typical 35-year period discounted to current prices. This calculation uses the current cost of capital and a risk margin as the discount factor. In addition, the council's standard model includes the residual social value of the housing at year 35 on the basis that the asset has been well maintained and has a future use and value. There are other criteria such as gross income covering the cost of borrowing, but the NPV calculation is the key criteria. If it is positive then the scheme or development is worth undertaking as it adds value, if negative then it requires additional subsidy from within the HRA over and above external grant funding or available capital receipts.

13.4 The impact of higher borrowing costs, coupled with volatile mortgage supply and costs on market demand for new housing has adversely impacted all developers. The council has subsequently had several potential private developments offered to it. However, to date, of those evaluated none have been financially viable within existing parameters. Obviously, if a developer struggles to make a development work at market price it's much more difficult to make it work at affordable rent even with RTB subsidy. This is especially the case when construction costs are so much higher and the cost of borrowing is around 5%. This is compounded when the rental income achievable is restricted to below the maximum allowable of 80% of market rent.

13.5 It is therefore proposed that, subject to the development or acquisition meeting the council's energy efficiency requirements, that rent levels for future new homes be set at 80% of market rent. This is the maximum level of affordable rent that can be charged and would include all relevant service charges. At present the rent criteria is 70% of market rent or Local Housing

Allowance (LHA), whichever is lower. LHA rates are based on the lower 30% quartile of private market rents being paid by tenants in a Broad Rental Market Area (BRMA). The government recently announced that the rates which had been fixed since 2020-21 would be increased in 2024-25. Any increase in LHA will reduce the gap between that maximum housing allowance under Universal credit and 80% market rent.

13.6 As an example, based on the rent for a three-bedroom property at Whiteley, where 70% of market rent would be £161.54 a week and 80% rent would be £184.62, there would be additional rent to pay of £23.08 per week based on the proposed policy change. However, the properties achieve an EPC B rating which will reduce average running costs by around 75% so for a three-bedroom property with medium energy costs that would equate to a reduction of around £29 a week (an overall net saving of £6.80 a week compared to a less energy efficient home). Therefore, although there is additional rent to pay if set at 80% of market rent the increase is more than offset by reduced running costs.

13.7 To also help mitigate the rising costs of development for the council identified above, it is proposed that a change in the focus of the councils’ development strategy is required that would help reduce the cost of new build to the HRA. This would see a greater emphasis upon acquiring s106 affordable housing, which officers believe can be acquired below market value. In addition, the plan assumes that WCC will be successful in attaining Homes England funding for c.70 new homes at an average grant rate of £135k where the council undertakes development itself.

13.8 There will still be a need to identify and develop or to acquire housing at market prices to successfully apply the retained RTB 1-4-1 receipts that will be generated in the future. There are restrictions on how RTB 1-4-1 receipts can be applied when combined with certain other funding sources such as s106 contributions, and they cannot be applied in conjunction with Homes England grants, or non-scheduled receipts. There is also a requirement to repay any unapplied RTB capital receipts not used within a five-year period with compound interest of 4% above the Bank of England Base rate i.e., currently 9.25% (compounding to a total of 55% interest penalty after 5 years). The council therefore needs to actively manage this risk, and if it is apparent that it cannot spend the receipts it needs to notify DLUHC and repay them in advance to minimise the interest payable.

13.9 At present the council’s delivery funded by RTB 1-4-1 receipts is ahead of the need to spend and if it delivers the current named schemes, it will have three years’ grace until 2027/28 before it needs to start spending on any new, as yet unidentified, schemes.

13.10 Subject to these proposed changes, the HRA business plan has capacity to fund delivery of 1,000 homes by 2032/33 including the 306 homes that are programmed to be delivered by the end of this financial year. The HRA business plan is refreshed each year and subject to the prevailing economic circumstances, assumptions and performance, the capacity to deliver could increase.

14 Creating Financial Capacity to fund future borrowing.

Revenue savings

14.1 As the key constraint is the HRA's ability to finance borrowing in the first eight years over which increased investment is required, several further mitigations have been identified to help increase financial headroom in this period.

14.2 An annual savings target of £318k has been set for 2024/25 and a further £100k for 2025/26 and some savings are currently being explored through a minor reorganisation within the housing team. Further budgets totalling £112k annually have been identified to be saved through routine budget housekeeping. Further revenue savings could increase capacity in the HRA. An illustration of the amount of new borrowing that this could support annually depending on interest rates is shown below: -

Annual saving	interest rate	Annual borrowing financed
£400,000		
	4%	£10,000,000
	5%	£8,000,000
	6%	£6,666,667
	7%	£5,714,286

Asset disposals

14.3 Barnes House is vacant and has been used previously to provide temporary accommodation in the HRA. Following assessment of costs to refurbish and convert to achieve required standards it has been established that there is not a viable scheme to take forward. As a result, the property is now surplus to requirement and has an estimated sale price of £800k.

14.4 The business plan also assumes two further strips of development land per year for the next eight years will be disposed. These sites, that are considered too small and uneconomic to develop within the HRA, have already been identified. As well as providing valuable capital receipts to support the HRA it will enable small development to come forward.

14.5 Lastly, the business plan assumes that the HRA will identify and dispose of £0.5m of surplus social housing assets every year for the next eight years. These assets will be identified by looking at their long-term fit in terms of demand/cost to maintain and suitability to retro fit to required standards.

15 Rent increases and charges in 2024-25 and beyond.

15.1 The current rent setting regime is based on annual rent increases of CPI+1% and this applies to 2024-25. The Government has yet to launch the call for evidence that was announced in its response to last year's consultation on rent capping, so there remains uncertainty about future social rent policy from 2025. However, the Government's response to the consultation in November 2022 strongly suggested that capping was a temporary intervention in response to an exceptional cost of living crisis. The Government also restated its continued support for the principle that social housing rents should be index-linked over the long term to support investment in both new and existing social homes. Restating its commitment to increasing the supply of social housing and improving the quality of the homes that social housing residents live in. The response also floated the suggestion that registered providers might be allowed in future years to catch up on the income gap created by the 2023/24 rent capping.

15.2 The business plan assumes that the current rent policy will continue for a further five years.

15.3 A 7.7% rent increase would mean the average weekly social rent for existing tenants will be £123.39 a week, an increase of £8.82 per week. The average weekly affordable rent for existing tenants will be £199.45 a week, an increase by £14.26 a week. The impact of the increases is shown in table 1 over.

Table 1- indicative weekly rents in 2024-25 compared to 2023-24 for existing tenants.

Social Rents

size	Bedsit	Bedroom 1	Bedroom 2	Bedroom 3	Bedroom 4	Bedroom 5	Bedroom 6	Total
Avge Wkly Rent 2023-24	84.05	99.92	114.94	130.22	140.08	161.98	159.21	114.57
Avge Wkly Rent 2024-25	90.52	107.61	123.79	140.25	150.87	174.45	171.47	123.39
increase per week @ 7.7%	6.47	7.69	8.85	10.03	10.79	12.47	12.26	8.82

Affordable Rents

size	Bedsit	Bedroom 1	Bedroom 2	Bedroom 3	Bedroom 4	Bedroom 5	Bedroom 6	Total
Avge Wkly Rent 2023-24		156.36	185.08	217.37	239.58	234.23	230.19	185.19
Avge Wkly Rent 2024-25		168.4	199.33	234.11	258.03	252.27	247.91	199.45
increase per week @ 7.7%		12.04	14.25	16.74	18.45	18.04	17.72	14.26

note :- extract from Orchard social Rents as at September 2023
note :- Affordable Rents are shown gross and include all applicable service charges
Social rents exclude service charges

15.4 The average HRA social rent for new tenants from April 2024 will be different and this reflects the fact that new tenants pay the formulae rent and that this wasn't capped in 2023-24. Indicative average weekly rents for new social tenants are shown below in table 2. It is proposed that the rents for new affordable rent tenants will be let provisionally at 80% of market rent if the property meets the required minimum energy efficiency requirements.

Table 2 – Average Weekly rents for new social lets

size	Bedsit	Bedroom 1	Bedroom 2	Bedroom 3	Bedroom 4	Bedroom 5	Bedroom 6	Total
Avge Wkly Formulae Rent 2023-24	89.93	103.97	120.67	135.51	147.79	169.35	165.13	119.63
Avge Wkly Formulae Rent 2024-25	96.85	111.98	129.96	145.94	159.17	182.39	177.85	128.84
increase per week @ 7.7%	6.92	8.01	9.29	10.43	11.38	13.04	12.72	9.21

Service charges

15.5 In 2023/24, alongside the capped rent increase, the council approved a one-off discretionary limit on tenant service charge increases of 7%. Considering the budget pressures that the HRA investment programme faces and to align it with the general fund and the outcome of ongoing savings programmes, it is proposed to cap service charge increases at 7.7% in 2024-25 A review of service charges will take place and a programme to move to full cost recovery over reasonable time frames will be established for the 2025/26 HRA budget round.

15.6 Sewage Treatment Works

15.7 The HRA is responsible for the operation of a number of small sewage treatment works, septic tanks, and cesspools, which provide private sewage treatment connections for 394 council tenants and 367 private homes. The Sewage Treatment Works encompass 36 small sewage treatment works (including septic tanks), 19 pumping stations (9 are isolated and 10 within curtilage of treatment works) and 21 cesspools. The sewage treatment works range in size from small works serving 4 properties to larger works serving 85 properties. The septic tanks and cesspools serve between 1 and 8 properties.

15.8 There is currently an under-recovery by the HRA of the annual cost of operating these treatment plants forecast at £415k in 2023-24. Approximately £175k of this relates to the services provided to private residents, and £240k to services provided to tenants. This equates to an implicit subsidy per private connection of an average of £548 per year.

15.9 The council should be seeking to fully-recover the total cost of providing sewage treatment services to all residents, so that these services are not subsidised by other council tenants. Subject to further consultation, the terms of individual leases and a review of costs, it is proposed that WCC move to full cost recovery for these services to all residents over a transitional nine-year period starting from 2025-26, this may mean much larger annual increases for these services.

15.10 The Council has developed a transitional model that looks at the size of the funding gap and classifies sites as low, medium or high cost and seeks to move the charging mechanism to full cost recovery of varying transitional periods from 1-year up to 9 years depending on this classification. In addition, changing the charging methodology would see reductions for 190 connections. The cost of the transitional measures proposed is estimated at £1.2m over the next 10 years.

category	no of connection	current cost	current subsidy	average subsidy	years to transition
reduction	190	£44,890	-£12,616	-£66	1
Low	263	£109,904	£31,838	£121	5
Medium	148	£111,431	£60,700	£410	7
High	157	£376,182	£320,764	£2,043	9
Total	758	£642,407	£400,686	£529	

15.11 It is proposed that in 2024-25 the council moves forward with this transitional model and engages in site specific consultation with clients about the costs of the service and the proposals to move to full cost recovery. Subject to consultation if this is approved, then it will be proposed that in accordance with private connections leases 6 months' notice is served and that the new charging model is implemented from April 2025.

15.12 To facilitate this and mitigate some of the larger increases that would otherwise be required, £375k of new investment is being made in 2024-25 in reducing the specific costs of a few expensive sites and in addition the Council is procuring a new more energy efficient vehicle to help further reduce the running costs in this area.

<u>Shared ownership rents</u>

15.13 The HRA business plan assumes that 30% of all future new homes' development will be delivered as shared ownership. The Government have now prescribed that any new shared ownership development that is either s106 or Homes England grant funded should have leases that base annual rent reviews on CPI+1% (where previously these were upward-only based on RPI+0.5%). The proposed changes will have a floor of 0% if the CPI is minus 1% or lower.

15.14 Currently the council has around 68 leases for shared ownership that specify an upward increase of RPI+0.5%. It would be administratively easier and fairer to move all existing HRA shared ownership leases to this new CPI basis of rent increase and floor. The change to the lower CPI+1% rate would cost the HRA £6,500 in lost income in 2024/25 but would be applied annually from 2024-25 onwards. There are additional issues on how current shared owners' rents could be capped without the need and cost of changing each individual lease that are being explored.

16 Housing Revenue Account Budget 2023-24

16.1 Details of the proposed budgets are shown in Appendices 1 and 2 and the larger item adjustments highlighted in the subjective summary in Appendix 2 are shown below:

16.2 Employees – The 2024-25 budget is £5.776m, an increase of £0.271m on the 2023-24 original budget. The employee budget includes the full year effect of the 2023-24 pay award and a provision of 4% for the 24-25 pay award. In addition, the budget reflects the full year impact of the minor reorganisation

16.3 Premises – The 2024-25 budget is £8.953m, an increase of £0.573m on the 2023-24 original budget. The main changes in funding are on repairs £0.332m, and on insurance costs £0.118m, with an increase in council tax on void properties of £0.070m.

16.4 Net Interest – The 2024-25 budget reflects the external interest cost of anticipated HRA borrowing. It assumes gross interest costs of £7.617m, an increase of £1.345m on the 2023-24 original budget. The assumption however is that any new borrowing will be financed from internal borrowing until external PWLB interest rates are more stable and affordable. This is in line with the HRA funding strategy outlined in the Business Plan report. Anticipated Interest rates on HRA balances have increased from 0.03% to 4%. the HRA is forecast to receive £0.385m in interest, a decrease of £0.100m on the 2023-24 budget reflecting additional internal borrowing and a cautious view of future rates of interest on deposits.

16.5 Depreciation – Is an estimate based on the prior year. The budget for 2024-25 is £9.973m, an increase of £1.152m on the original budget for 2023-24. The actual cost of depreciation will reflect the value of the HRA operational assets, the anticipated capital spend and the changes in the number and value of HRA dwellings and non-HRA dwellings at year end.

16.6 External Income – The 2024-25 budget is £36.488m, an increase of £3.710m on the original budget for 2023-24. This largely reflects the rent increase of 7% from April 2024, together with associated increases in service charges and other income. For comparison the HRA will be spending £4.706m more on services than in 2023-24.

17 HOUSING SERVICES CAPITAL PROGRAMME

17.1 The 10-year forward financial projection for major repairs is based on the latest stock condition survey. A detailed analysis is shown at Appendix 3.

17.2 All HRA properties are maintained to decent homes standard with the property services team managing the upkeep of properties taking into consideration the stock condition survey information. In order to manage the maintenance, improvement and renewal programme effectively, the property services team need to have the flexibility to substitute projects and re-balance expenditure between repair budgets. The 10-year housing services capital programme allocates £154m towards the upkeep and maintenance of HRA dwellings based on the investment requirements of the asset management plan.

17.3 A key element of the council's Climate Neutrality Action Plan includes additional investment in the council's housing stock to improve energy efficiency and help tenants reduce their carbon emissions. The updated housing services capital programme now includes funding towards climate change of £45m, including provision for inflation.

17.4 The latest financial projection also includes an annual provision of an average £0.449m for Estate Improvements for the next 9 years. The scope of the programme includes environmental improvements resulting from the Climate Neutrality Change Action Plan, including electrical vehicle charging points in a number of council car parks.

17.5 The ongoing investment requirements of the HRA sewage treatment works has now been established and there are sufficient funds within both revenue and capital budgets to meet the long term needs of maintaining the current system. The service has also now managed to procure a replacement sewage treatment vehicle (to operate on Hydrogenated vegetable oil HVO) c.£200k, and this will be funded and operational within the 24/25 budget year. In addition to better facilitate the move to full cost recovery it is planned to invest an additional £375k specifically on solutions to reduce the running costs of some of the more expensive STW sites.

18 NEW BUILD CAPITAL PROGRAMME

18.1 The "Homes for All" Council Plan priority continues the council's commitment to new homes and the HRA New Build Programme forms a key and important element of new homes provision. The Plan set out in appendix 4 includes funding of current projects and provision for emerging opportunities. It provides the financial support to enable the achievement of the council's target to deliver 1000 new council homes over the next 10 years. The 10-year forward financial projection has identified a capital expenditure requirement of £291m. The projection includes known schemes £59m and an unallocated provision to cover additional schemes £229m in the future. A breakdown of the schemes is shown at Appendix 4. Application for additional housing grant will be considered for all future developments where appropriate.

18.2 A key factor in the delivery a future pipeline of new homes is the identification and acquisition of suitable s106 sites as well as land and appropriate sites to develop upon. The new build programme assumes steady delivery of unallocated schemes and small sites over the next 10 years to maximise available funding within the HRA. There is an unallocated budget of £13.7m for 2024-25, but if required additional funding can be brought forward from future years.

The council is assessing the amount and value of nutrient credits that could be generated by undertaking improvement works to sewage treatment facilities. Either there will be a business case for the Council to undertake the work funded by the sale of credits or the Council will enter into a funding agreement with Partnership for South Hampshire (PSH) who have received Government funding for that purpose.

19 HRA CAPITAL PROGRAMME FUNDING

19.1 Appendix 5 gives full details of how it is proposed to fund the Housing Services & New Build Budgets from 2024-25to 2034/35. This shows a prudential net borrowing requirement of £152m (or 34% of total programme funding), the planned reinvestment of RTB receipts £56m (11%), and the application of Major Repairs Allowance £147m (recycled depreciation funding of 33%), the investment of shared ownership receipts and other asset sales £57m (12%) and the application of S106 funding £17m (4%).

20 OTHER OPTIONS CONSIDERED AND REJECTED

20.1 The council could consider investing less in customers' homes than is required to achieve the regulatory requirement of EPC C by 2030. This is not recommended as it would breach the regulatory requirements and in addition would not support the council's policy objective of being greener faster.

20.2 The council could also seek increased revenue savings than those identified in this report so as to provide investment capacity in the HRA. At this time the level of revenue savings identified are achievable and will not lead to a reduction in the quality of service delivered. Investment in improving the digital access to services may generate efficiencies in the future that can be realised without detriment to services. Therefore, increased revenue savings are not recommended at this time.

21 **BACKGROUND DOCUMENTS**

Previous Committee Reports: -

CAB3432 HRA Business Plan and Budget Options – November 2023

CAB3387 HRA Budget – February 2023

CAB3365 HRA Business Plan and Budget Options – November 2022

CAB3334 HRA Budget – February 2022

CAB3264 HRA Asset Management Plan - 8 Dec 2021

CAB3325 HRA Budget Options - 23 Nov 2021

CAB3275 HRA Budget Business Plan and Budget Options-16 Dec 2020

CAB3111 HRA Budget 2019-20 & Business Plan 2019/49 – 30 Jan 2019

22 **OTHER BACKGROUND DOCUMENTS: -**

23. **APPENDICES:-**

Appendix 1: HRA 2024-25 Budget – Service Summary

Appendix 2: HRA 2024-25 Budget – Subjective Summary

Appendix 3: Housing Services Capital Programme 2024-25 to 2033/34

Appendix 4: New Build Housing Capital Programme 2024-25 to 2033/34

Appendix 5: HRA Capital Programme Funding 2024-25 to 2033/34

Appendix 6: HRA Financial Plan 2023-24 to 2052/53 Extract – Operating Account

APPENDIX 1: HRA 2024-25 BUDGET – SERVICE SUMMARY

Housing Revenue Account	**23/24 Original Budget per CAB**	**B/Fwd from 22/23 Per CAB3417/adjs**	**23/24 Revised Budget**	**24/25 Original Budget**
Service Summary	**£**	**£**	**£**	**£**
Housing Management General				
Estate Management	(1,517,707)	0	(1,517,707)	(1,708,006)
HRA General	(3,192,869)	23,300	(3,169,569)	(4,239,750)
New Build Programme Support	(935,403)	0	(935,403)	(1,027,406)
Downsizing	(65,000)	0	(65,000)	(69,600)
Rent Accounting	(77,037)	0	(77,037)	(78,864)
Tenants Information	(88,322)	0	(88,322)	(109,779)
Tenancy Sustainment	(449,586)	0	(449,586)	(474,796)
Vacant Dwellings	(40,500)	0	(40,500)	(120,100)
	(6,366,424)	23,300	(6,343,124)	(7,828,301)
Housing Management Special				
Communal Services	(27,540)	0	(27,540)	(11,002)
Disabled Adaptations	(152,204)	0	(152,204)	(158,522)
Estate Maintenance	(552,200)	0	(552,200)	(660,994)
Homelessness	(347,263)	0	(347,263)	(298,621)
Home Ownership	256,712	(41,300)	215,412	349,099
Sewage Works	(406,200)	0	(406,200)	(429,995)
Sheltered Housing	(1,141,817)	0	(1,141,817)	(1,203,815)
	(2,370,512)	(41,300)	(2,411,812)	(2,413,850)
Repairs				
Responsive Maintenance	(3,236,600)	0	(3,236,600)	(3,540,927)
Voids	(1,681,000)	0	(1,681,000)	(1,767,900)
Cyclic	(1,079,500)	0	(1,079,500)	(1,135,300)
Sub - total Repairs Works	(5,997,100)	0	(5,997,100)	(6,444,127)
Repairs Administration	(1,904,050)	0	(1,904,050)	(1,712,980)
	(7,901,150)	0	(7,901,150)	(8,157,107)
Debt Management Expenses	(8,700)	0	(8,700)	(9,243)
Interest Payable	(6,856,500)	0	(6,856,500)	(8,102,000)
Depreciation of Fixed Assets	(8,820,700)	0	(8,820,700)	(9,973,000)
	(15,685,900)	0	(15,685,900)	(18,084,243)
Rents and Other Income				
Dwelling Rents	29,950,900	0	29,950,900	33,501,700
Garage Rents	63,000	0	63,000	64,400
Investment Properties Income	176,279	0	176,279	188,079
Rents and Other Income	47,712	0	47,712	50,912
Sheltered Charges	583,115	0	583,115	558,620
Interest Receivable	585,480	0	585,480	385,480
	31,406,486	0	31,406,486	34,749,191

APPENDIX 1: HRA 2024-25 BUDGET – SERVICE SUMMARY

Housing Revenue Account	**23/24 Original Budget per CAB**	**B/Fwd from 22/23 Per CAB3417/adjs**	**23/24 Revised Budget**	**24/25 Original Budget**
Service Summary	**£**	**£**	**£**	**£**
Surplus for year on HRA Services	**(917,500)**	**(18,000)**	**(935,500)**	**(1,734,310)**
Right to Buy Admin Fees	28,600	0	28,600	30,500
(Increase)/ decrease in HRA Balance	**(888,900)**	**(18,000)**	**(906,900)**	**(1,703,810)**
HRA Working Balance				
Opening Balance	16,052,162		15,354,025	14,447,125
Add Projected Deficit/(Surplus)	(888,900)		(906,900)	(1,703,810)
Projected Balance at Year End	**15,163,262**		**14,447,125**	**12,743,315**

APPENDIX 2: HRA 2024-25 BUDGET – SUBJECTIVE SUMMARY

Housing Revenue Account	**23/24 Original Budget per CAB**	**B/Fwd from 22/23 Per CAB3417/adis**	**23/24 Revised Budget**	**24/25 Original Budget**
Subjective Summary	**£**	**£**	**£**	**£**
Employees	(5,504,381)	0	(5,504,381)	(5,775,688)
Premises	(8,379,549)	0	(8,379,549)	(8,953,269)
Transport	(193,006)	0	(193,006)	(148,617)
Supplies & services	(1,420,357)	(18,000)	(1,438,357)	(2,495,257)
Third party payments	(211,000)	0	(211,000)	(225,900)
Support Services	(2,717,300)	0	(2,717,300)	(2,890,657)
Net Interest	(6,271,020)	0	(6,271,020)	(7,716,520)
Depreciation on Fixed Assets	(8,820,700)	0	(8,820,700)	(9,973,000)
External income	32,599,813	0	32,599,813	36,444,598
Surplus for year on HRA Services	**(917,500)**	**(18,000)**	**(935,500)**	**(1,734,310)**
Right to Buy Admin Fees	28,600	0	28,600	30,500
(Increase)/ decrease in HRA Balance	**(888,900)**	**(18,000)**	**(906,900)**	**(1,703,810)**
HRA Working Balance				
Opening Balance	16,052,162		15,354,025	14,447,125
Add Projected Deficit/(Surplus)	(888,900)		(906,900)	(1,703,810)
Projected Balance at Year End	**15,163,262**		**14,447,125**	**12,743,315**

Housing Services Capital Programme 2023/24 to 2033/34

Appendix 3

Housing Services Programme	2023/24 Original Budget	2023/24 Sept Revised	2023/24 Latest Forecast	2024/25 Budget.	2025/26 Budget.	2026/27 Budget.	2027/28 Budget.	2028/29 Budget.	2029/30 Budget.	2030/31 Budget.	2031/32 Budget.	2032/33 Budget.	2033/34 Budget.	Total Budget.
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Scheme Name/Description														
Major Repairs	(5,892)	(6,102)	(6,227)	(10,405)	(10,188)	(9,333)	(10,348)	(9,055)	(9,772)	(5,607)	(7,090)	(6,618)	(6,419)	(91,062)
Major Repairs	**(5,892)**	**(6,102)**	**(6,227)**	**(10,405)**	**(10,188)**	**(9,333)**	**(10,348)**	**(9,055)**	**(9,772)**	**(5,607)**	**(7,090)**	**(6,618)**	**(6,419)**	**(91,062)**
														0
														0
Estate Improvements	(434)	(350)	(100)	(534)	(458)	(466)	(473)	(482)	(490)	(501)	(502)	(135)		(4,141)
Sheltered Housing	(74)	(20)	0	(154)	(78)	(80)	(81)	(82)	(84)	(85)				(644)
Improvements & Upgrades	**(508)**	**(370)**	**(100)**	**(688)**	**(536)**	**(546)**	**(554)**	**(564)**	**(574)**	**(586)**	**(502)**	**(135)**		**(4,785)**
														0
Disabled Adaptations	(793)	(793)	(782)	(815)	(836)	(850)	(866)	(881)	(896)	(916)	(917)	(930)	(944)	(9,633)
Fire Safety Provision	(507)	(816)	(605)	(1,176)	(402)									(2,183)
Climate Change Emergency	(1,512)	(2,696)	(2,230)	(4,906)	(5,619)	(7,304)	(6,087)	(6,196)	(6,300)	(6,439)	0	0		(45,081)
Sewage Treatment Works	(318)	(318)	(90)	(659)	(117)	(119)	(121)	(123)	(125)	(128)	(128)	(130)	(132)	(1,872)
Other Capital Spending	**(3,130)**	**(4,623)**	**(3,707)**	**(7,556)**	**(6,974)**	**(8,273)**	**(7,074)**	**(7,200)**	**(7,321)**	**(7,483)**	**(1,045)**	**(1,060)**	**(1,076)**	**(58,769)**
Total HS Capital Programme	**(9,530)**	**(11,095)**	**(10,034)**	**(18,649)**	**(17,698)**	**(18,152)**	**(17,976)**	**(16,819)**	**(17,667)**	**(13,676)**	**(8,637)**	**(7,813)**	**(7,495)**	**(154,616)**

Housing New Build Capital Programme 2023/24 to 2031/32

Appendix 4

New Build Programme & Other Capital	**2023/24** Original Budget	**2023/24** Sept Revised	**2023/24** Latest Forecast	**2024/25** Budget.	**2025/26** Budget.	**2026/27** Budget.	**2027/28** Budget.	**2028/29** Budget.	**2029/30** Budget.	**2030/31** Budget.	**2031/32** Budget.	**2032/33** Budget.	**2033/34** Budget.	**Total** Budget.
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£001	£000
Scheme Name/Description														
Unallocated	0			(13,703)	(23,870)	(23,348)	(26,902)	(27,644)	(28,474)	(29,266)	(18,941)	(22,742)	(15,099)	(229,989)
Winnall	(4,727)	(6,496)	(6,388)		0	0	0	0	0	0	0	0		(6,388)
Barton Farm	0	(20)	(1)	(189)		(1,326)	(11,609)	(11,842)	0	0	0	0		(24,967)
North Whitely	(14,123)	(10,932)	(10,970)				0	0	0	0	0	0		(10,970)
LAHF Property Acquisition	0	(12,700)	(11,200)											(11,200)
Southbrock Cottages	(1,161)	(1,505)	(1,561)				0	0	0	0	0	0		(1,561)
Dyson Drive	(201)	(50)	(201)				0	0	0	0	0	0		(201)
Nutrient Mittigation	(200)	(200)	(200)	(600)										(800)
Woodman Close	(56)	(98)	(56)		(126)	(1,379)	0	0	0	0	0	0		(1,561)
CornerHouse	(50)	(27)	(50)	(986)	(329)		0	0	0	0	0	0		(1,365)
New Build Major Repairs				(46)	(47)	(49)	(50)	(115)	(118)	(246)	(445)	(657)	(921)	(2,694)
Total	(20,518)	(32,028)	(30,627)	(15,524)	(24,372)	(26,102)	(38,561)	(39,601)	(28,592)	(29,512)	(19,386)	(23,399)	(16,020)	(291,696)

HRA Capital Programme Funding 2024-25 to 2033-34 **Appendix 5**

	2023/24	2023/24	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	Total
HRA Capital Programme Funding	Original Budget	Sept Revised Budget	Latest Forecast	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Borrowing	25,728	24,760	23,442	0	723	10,124	29,735	28,191	20,328	19,678	4,092	11,685	4,205	152,201
RTB 141 Receipts	4,890	2,031	3,874	4,475	3,736	4,248	4,173	2,802	2,853	2,904	2,956	3,008	3,061	38,089
Other RTB Receipts	1,342		1,731	3,360	1,180	1,616	2,116	1,452	1,270	1,299	1,328	1,358	1,389	18,098
Capital Receipts - Shared Ownership	2,555		3,800	4,114	1,687	4,641	4,475	9,034	5,697	5,868	6,044	2,767	2,850	50,976
Capital Receipts Other				1,042	1,250	500	500	500	500	500	500	500		5,792
Grant	2,004	856	7,209	0	390	1,495	1,950	1,755	1,300	1,300	1,300			16,699
CIL	755	755	755	0	0	0	0	0	0	0	0	0	0	755
S106	250			7,878	845	1,035	2,805	1,600	2,837	0	0			17,000
Major Repairs Reserves	119			13,304	32,258	20,595	10,784	11,087	11,475	11,638	11,803	11,895	12,011	146,851
Funding Total	**37,644**	**28,402**	**40,811**	**34,173**	**42,070**	**44,254**	**56,537**	**56,420**	**46,259**	**43,188**	**28,023**	**31,212**	**23,515**	446,462
Housing Services	9,530	11,095	10,034	18,649	17,698	18,152	17,976	16,819	17,667	13,676	8,637	7,813	7,495	154,616
New Build	20,518	32,028	30,627	15,524	24,372	26,102	38,561	39,601	28,592	29,512	19,386	23,399	16,020	291,696
Capital Programme Total	**30,049**	**43,123**	**40,661**	**34,173**	**42,070**	**44,254**	**56,537**	**56,420**	**46,259**	**43,188**	**28,023**	**31,212**	**23,515**	**446,313**

APPENDIX 6 – HRA BP INDICATIVE OPERATING ACCOUNT OVER 30 YEARS

Year	Year	Total Income	Managt.	Depreciation	Responsive & Cyclical	Total expenses	Capital Charges	Surplus (Deficit)	Surplus (Deficit) b/fwd	Interest	Surplus (Deficit) c/fwd
1	2023.24	33,009	-11,974	-9,360	-6,154	-27,488	-7,077	-1,556	15,354	911	14,709
2	2024.25	36,476	-14,000	-9,975	-6,505	-30,480	-8,175	-2,179	14,709	476	13,005
3	2025.26	37,818	-14,342	-10,227	-6,687	-31,256	-8,050	-1,488	13,005	336	11,854
4	2026.27	39,796	-13,754	-10,515	-6,816	-31,085	-8,422	289	11,854	173	12,315
5	2027.28	41,844	-14,274	-10,784	-6,947	-32,005	-9,661	178	12,315	126	12,620
6	2028.29	43,655	-14,725	-11,087	-7,086	-32,899	-11,385	-629	12,620	125	12,116
7	2029.3	46,013	-15,191	-11,475	-7,258	-33,924	-12,710	-620	12,116	120	11,615
8	2030.31	48,749	-15,671	-11,638	-7,422	-34,731	-13,845	173	11,615	119	11,907
9	2031.32	49,519	-16,166	-11,803	-7,574	-35,543	-14,780	-803	11,907	117	11,220
10	2032.33	51,026	-16,658	-11,895	-7,715	-36,268	-15,545	-787	11,220	110	10,544
11	2033.34	52,678	-17,173	-12,011	-7,865	-37,050	-15,995	-367	10,544	105	10,282
12	2034.35	54,215	-17,697	-12,148	-8,013	-37,858	-16,210	147	10,282	105	10,534
13	2035.36	56,430	-18,232	-12,219	-8,160	-38,611	-16,598	1,221	10,534	113	11,868
14	2036.37	56,567	-18,780	-12,282	-8,306	-39,369	-16,767	431	11,868	123	12,422
15	2037.38	57,755	-19,345	-12,346	-8,456	-40,147	-17,121	487	12,422	128	13,038
16	2038.39	58,968	-19,928	-12,409	-8,609	-40,946	-17,258	764	13,038	136	13,937
17	2039.4	60,208	-20,530	-12,473	-8,765	-41,768	-17,495	946	13,937	146	15,029
18	2040.41	61,476	-21,150	-12,537	-8,924	-42,611	-17,760	1,104	15,029	158	16,291
19	2041.42	63,939	-21,790	-12,601	-9,087	-43,478	-17,883	2,578	16,291	153	19,021
20	2042.43	64,128	-22,450	-12,666	-9,253	-44,368	-18,304	1,455	14,021	149	15,626
21	2043.44	65,556	-23,135	-12,741	-9,426	-45,301	-18,726	1,528	15,626	166	17,320
22	2044.45	67,047	-23,841	-12,816	-9,603	-46,260	-19,183	1,604	17,320	183	19,107
23	2045.46	68,601	-24,572	-12,898	-9,786	-47,257	-19,674	1,670	19,107	201	20,978
24	2046.47	70,198	-25,327	-12,981	-9,974	-48,282	-19,954	1,962	20,978	171	23,112
25	2047.48	73,170	-26,106	-13,064	-10,166	-49,336	-20,381	3,453	13,112	150	16,715
26	2048.49	73,483	-26,909	-13,148	-10,363	-50,419	-20,838	2,226	16,715	180	19,121
27	2049.5	75,142	-27,735	-13,225	-10,561	-51,521	-21,033	2,589	19,121	181	21,890
28	2050.51	76,834	-28,587	-13,303	-10,763	-52,653	-21,564	2,617	16,890	184	19,691
29	2051.52	78,566	-29,466	-13,382	-10,971	-53,818	-21,941	2,807	19,691	163	22,661
30	2052.53	81,835	-30,373	-13,460	-11,183	-55,016	-22,503	4,315	12,661	150	17,126

SCRUTINY COMMITTEE

REPORT TITLE: GENERAL FUND BUDGET 2024-25

6 FEBRUARY 2024

REPORT OF CABINET MEMBER: Councillor Neil Cutler, Deputy Leader and Cabinet Member for Finance and Performance

Contact Officer: Liz Keys, Tel No: 01962 848226 Email lkeys@winchester.gov.uk

WARD(S): ALL

RECOMMENDATION:

It is recommended that scrutiny committee comment on the proposals within the attached cabinet report, ref CAB3444 which is to be considered by cabinet at its meeting on the 8 February 2024.

This page is intentionally left blank

REPORT TITLE: GENERAL FUND BUDGET 2024-25

8 FEBRUARY 2024

REPORT OF CABINET MEMBER: Cllr Neil Cutler, Cabinet Member for Finance and Performance

Contact Officer: Liz Keys Tel No: 01962 848226 Email LKeys@winchester.gov.uk

WARD(S): ALL

PURPOSE

The purpose of this paper is to consider and recommend to Council the 2024/25 General Fund Revenue Budget. The report details the proposals for additional savings, spending and investment for the year ahead in order to support core council services and enhance continued delivery of the priorities in the Council Plan. There is particular focus on the Greener Faster priority by investing in enhanced recycling and food waste collection, and decarbonisation of our waste vehicle fleet, which will cut the Council's carbon emissions by 25%. Support for residents experiencing Cost of Living hardship is maintained by uprating the Council Tax Reduction scheme and additional funding for the Council Tax Hardship schemes, while the Council continues to maintain its community grants scheme.

The financial landscape is particularly challenging for local government with more than one in five councils at risk of financial failure within the next 12 months if they do not receive significant additional income or make substantial cuts to services[1].

Winchester City Council faces many of the same pressures, particularly the uncertainty about future funding, with no indication of settlements beyond this next year. However, due to sound financial management in the difficult last 5 years, it is in a strong and stable position in the short term. The General Fund budget shown in Appendix B shows a balanced position for 2024/25 without needing to draw down reserves to achieve this.

The Medium-Term Financial Strategy (report CAB3430 in November 2023) set out the forecast position for the medium term. Projections have now been updated and the new Medium Term Financial Plan (MTFP) is shown at Appendix A. This shows that, although the council's immediate financial position to 2026 is stable, there are

[1] Grant Thornton UK 'Financial Foresight' analysis at January 2024

increasing forecast deficits in the longer term. To address these future pressures, the Council has embarked on an organisation wide transformation programme in order to close the £3m gap in funding within 3 years. *Transformation Challenge 2025* (TC25) has already identified immediate savings of £0.6m which have been removed from the baseline budget. Transformational changes over the next few years are underway, focusing on digital redesign to enhance service delivery while producing savings, income generation and contracts review.

RECOMMENDATIONS:

That Cabinet recommend to Council:

1. Agree the level of General Fund Budget for 2024/25, and recommend the summary as shown in Appendix A.

2. Approve the Greener Faster and carbon reduction investment proposals set out in section 14 of this report, including:

    a. £200,000 per annum for the carbon reduction measures on waste and recycling vehicles to enable the change to HVO fuel.

    b. £1,400,000 per annum (less assumed 80% government funding) to expand recycling services to include food waste collections.

    c. £400,000 per annum to implement other changes to the collection of recyclables.

    d. £250,000 reduction in the annual waste income budget to reflect proposed changes to the Hampshire Inter Authority Agreement on waste.

    e. The creation of an earmarked reserve, using the £130,000 of additional 4% Funding Guarantee income, to invest in the implementation of the food waste collection service.

3. In relation to the Cost of Living focus of the Council Plan, approve:

    a. In the absence of any government funded scheme, the allocation of up to £100,000 from the Cost of Living / Living Well reserve to wholly or partially fund a local Council Tax Support Fund for 2024/25 in accordance with section 1919 of this report.

    b. Extending the council tax Exceptional Financial Hardship Fund, with the remaining balance of 2023/24 funding (£38,000 as at Jan 2024), to 2024/25 to support any council taxpayers experiencing exceptional hardship, regardless of whether they are in receipt of Council Tax Reduction.

    c. Approve a discretionary 7.7% cap for 2024/25 on the annual increase in rent for Partnered Home Purchase scheme property owners, in line with the increase in social and affordable rents to existing tenants and for shared owners in the HRA.

4. Approve, in relation to the council's Homes for All priority,

    a. an additional £20,000 per annum contribution to the New Burdens Reserve to support the Preventing Homelessness Strategy, including funding the increased costs of providing temporary accommodation for homeless households where required.

b. to reduce the long term empty property period from 2 years to 1 year, of the 100% council tax premium which applies to all unoccupied and unfurnished property.

5. Approve, in relation to the council's TC25 transformation programme:

   a. The £607,000 of immediately recognised TC25 savings set out in section 13 of this report be reassigned to contributions to the Transitional Reserve for 2024/25 and 2025/26 to support the delivery of the wider transformation programme.

   b. A new budget of £100,000 per annum for the support and coordination of digital channel shift work across the council's services.

6. Approve the unavoidable budget growth of £100,000 per annum to fund increased external audit fees.

7. Approve savings in corporate property budgets for Non Domestic Rates (NNDR) of £177,000 to reflect reduced liabilities.

8. Approve service income annual budgets be amended as follows, in response to revised estimates:

   a. Building control fees reduced by £100,000

   b. Land charges income reduced by £100,000

   c. Legal services reduced by £50,000

   d. Garden waste service income increased by £90,000

   e. Car parking income increased by £100,000

9. That the sum of £1,273,758 be treated as Special Expenses under Section 35 of the Local Government Finance Act 1992 in respect of the Winchester Town area as set out in section 16 and Appendix D.

10. That the Council Tax for the Special Expenses in the Winchester Town area at Band D for 2024/25 be increased by the maximum allowed under the referendum limit of 2.99% combined between the town and district.

11. That the surplus balance on the Council Tax Collection Fund for distribution to this Council, calculated in January 2024 of £118,152.14, be approved.

12. Recommend the level of Council Tax at Band D for City Council services for 2024/25 be increased to £159.36, an increase of £4.07 reflecting an average Council tax increase of 2.6%

13. Approve the new Council Tax Reduction scheme income bands (set out in appendix E) that ensure claimants continue to receive the same level of support after the increase in Universal Credit from April 2024.

IMPLICATIONS:

1 COUNCIL PLAN OUTCOME

1.1 This budget underpins delivery of all the priorities in the Council Plan and all core services provided across the district of Winchester. Specific proposals to invest in services to support the Council Plan outcomes and areas of enhanced focus are set out in the report.

1.2 The refreshed and current Council Plan was adopted by Full Council at its meeting on 18 January 2023 and at the same time adopted four areas of enhanced focus which include:

- **Cost of living** support – pivoting our services and resources to support our residents, businesses and voluntary organisations with the cost of living crisis.
- **Greener faster** – adding weight to our commitment to achieve our net zero targets for 2024 and 2030.
- **Pride in place** – making a visible difference to our places to delight residents and visitors.
- **Listening better** – being more effective at hearing the voice of residents and enabling them to influence our decision making.

1.3 Following consideration of the current priorities in the Council Plan, it is proposed that there will be no changes to the priorities and objectives for the coming year. The budget as set out in this paper has been prepared on this basis and aligned to the five Council Plan priorities and areas of focus.

2 FINANCIAL IMPLICATIONS

2.1 The proposals set out in this report represent a balanced budget for 2024/25 and for 2025/26. A significant deficit of £1.6m is forecast for 2026/27, increasing to £4.1m by 2028/29. However, it should be noted that the forecasts are subject to a high degree of uncertainty, with the Government only confirming a one year Settlement Agreement announcement late in 2023 and no certainly over the promised Fair Funding Review.

3 LEGAL AND PROCUREMENT IMPLICATIONS

3.1 Under section 151 of the Local Government Act 1972, a local authority must make proper arrangements for the administration of its financial affairs. Under s28 of the Local Government Act 2003 a local authority must 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 required under Chapter 3 of the Local Government and Finance Act 1992 to set a council tax for the forthcoming year along with its budget estimates. The decision must be made by 11 March of the preceding financial year. The council's prospective income from all sources must be equal to its proposed expenditure.

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

3.4 The approval of the budget and setting of the Council Tax is a decision reserved to Full Council under the Local Government Act 2000 and the Local Authorities (Functions and Responsibilities) Regulations 2000 (as amended). Under these regulations, the Cabinet makes recommendations as to the setting of the council tax and budget to Full Council.

4 WORKFORCE IMPLICATIONS

4.1 This report sets out the organisational approach for managing financial resources to protect our core council services and enable delivery of the Council Plan priorities going forward. Employees are critical to the delivery of these services and priorities and at 31 March 2023 the council had a workforce of 405 FTEs.

4.2 The report sets out the current challenges in local government finances and proposals for the council to deal with these locally with a major transformation programme. It is recognised that successful transformation of services will involve significant staff resource to implement and may result in changes to team structures. The union have been actively involved in the staff engagement exercises that have been undertaken in the early stages of the TC25 project.

4.3 The budget presented in appendix A includes a proposal to remove three vacant posts from the establishment.

5 PROPERTY AND ASSET IMPLICATIONS

5.1 The council's General Fund has a property portfolio valued at £170m as at 31 March 2023 of which £68.4m is classified as investment properties (held solely for rental income and/or capital appreciation). A key strand of the Council's financial strategies is to maximise income from its assets, where possible, and seek to manage risk by achieving a balanced portfolio of assets.

5.2 A key area of focus within TC25 is the use of the property portfolio to drive additional income sources. Opportunities to consolidate corporate accommodation as well as the best use of vacant properties and maximising rents are being actively explored. The progress of this work is being reported to the Property Board quarterly.

6 CONSULTATION AND COMMUNICATION

6.1 Engagement with the district's residents, businesses and other stakeholders on the options being considered to ensure a balanced budget and on the decisions in the TC25 programme is critical.

Budget consultation 2024/25

6.2 An online budget consultation on the options put forward in the Medium Term Financial Strategy was launched on 12 December and ran for five weeks. The survey asked for expressions of the level of support for the various options, from strongly agree to strongly disagree. As well as asking views on the overall approach to the budget, the questions covered the specific proposals to:

- Use Hydrotreated Vegetable Oil (HVO) instead of diesel in our waste and recycling vehicles.
- Invest in improving our recycling service to make it easier for residents to recycle more.
- Transformation of our services to make it easier for everyone to contact the council and do business with us online instead of having to phone or visit us in Winchester.
- Increase Council Tax by the below-inflation referendum limit of 2.99% which is approximately £5.30 per year for a band D property.
- Use the principle that chargeable services should cover all costs and that residents should not routinely subsidise the cost of services.

6.3 211 consultation responses were submitted from across the district. When the responses for all questions are combined to give an overall picture, the average responses are summarised in the following chart.

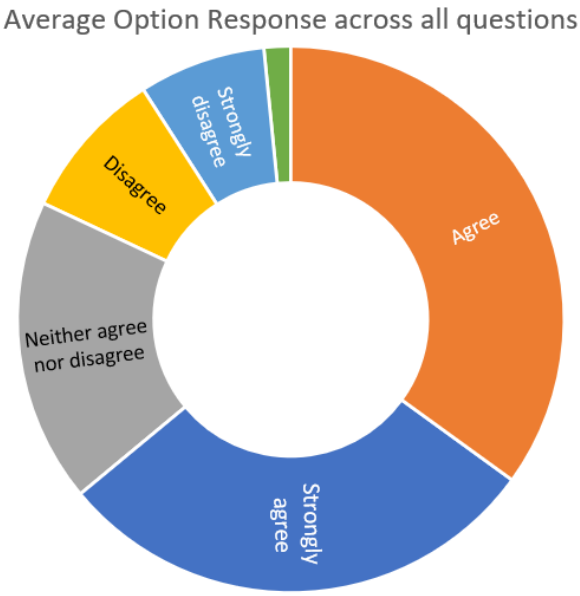


Figure 1 Budget Consultation Summary Outcome 2024/25

6.4 The proportion of responses that agreed (or strongly agreed) with the budget options are set out in the table below and show a clear majority of support from those surveyed. Across all the questions, only an average of 16% of responses disagreed (or strongly disagreed) with the proposals (with a slightly greater average percentage of 18% neither agreeing nor disagreeing).

Consultation question	Agreed or strongly agreed
Use Hydrotreated Vegetable Oil (HVO) instead of diesel in waste and recycling vehicles.	54%
Invest in improving our recycling service to make it easier for residents to recycle more.	66%
Transformation of our services to make it easier for everyone to contact the council and do business with us online.	70%
Increase Council Tax by the below-inflation referendum limit of 2.99%	69%
Chargeable services should cover all costs and that residents should not routinely subsidise the cost of services.	75%

Table 1 Budget consultation outcomes 2024/25

<u>Other budget consultation</u>

6.5 Budget options and the council's medium term financial strategy were presented to and discussed with parish council representatives at the Local Parish Briefing in November 2023. No comments were made.

6.6 Discussions have also been had with local business representatives through the Chamber of Commerce and the BID at their Winchester District Strategy Group business briefing in January 2024. No comments were made.

6.7 The Scrutiny Committee discussed the Budget Options and Medium-Term Financial Strategy report (CAB3430) and commented on the proposals at its meeting in November 2023. There were no comments on the specific budget proposals set out within the report but the committee's resolutions regarding member involvement in TC25 and the capital programme were responded to by the Deputy Leader and Cabinet Member for Finance and Performance at the decision day on 4 December.

6.8 Scrutiny Committee is due to consider this report at its meeting on 6 February 2024 after this report has been dispatched. Any matters that the Scrutiny Committee wishes to raise or asks the Cabinet to note before making their decision will be reported and considered fully at the Cabinet meeting.

7 ENVIRONMENTAL CONSIDERATIONS

7.1 The budget set out in appendix A includes revenue provision to support the delivery of the council's carbon neutrality programme. Specific proposals include investment to switch the fleet of waste and recycling vehicles from running on diesel to Hydrotreated Vegetable Oil fuel (HVO). Although this will require an estimated £200,000 extra per year, this single change can save 25% of the carbon output of the whole council.

7.2 New legislation supports the council's commitment to recycling and there are also proposals to invest to implement the collection of food waste from dwellings across the district as well as other changes required to expand the range of recycling collected to include plastic pots, tubs and trays.

7.3 Many of the TC25 proposals combine both budget savings and carbon reduction. These include digital redesign of key services; encouraging customers to take up e-billing; reducing printing through better mobile-working provision for staff; and pivoting the way we communicate with residents through digital news channels.

8 PUBLIC SECTOR EQUALITY DUTY

8.1 An equality impact assessment (EqIA) was undertaken on the budget options in the Medium Term Financial Strategy report (CAB3430) in November and has been reviewed now for those options remaining in the proposed budget. No examples of the changes potentially affecting individuals or communities with protected characteristics differently, in a negative way, have been identified at this stage. Further EqIAs will be undertaken ahead of the implementation of detailed proposals.

9 DATA PROTECTION IMPACT ASSESSMENT

9.1 All projects set out in this report and the Capital Programme will be subject to individual data protection impact assessments.

9.2 The council has continuing ambitions to improve the experience of our customers and make services more accessible and efficient using digital transformation. A key strand of the transformation under TC25 is digitalising services for the majority of customers, so telephone and face-to-face services can be prioritised for those vulnerable customers who really need them. Technological innovation and digitalisation change the risks the council faces in keeping data secure. Data security considerations and date protection impact assessments will be undertaken for individual projects as they are scoped and developed.

9.3 In accordance with our existing Data Protection Policy, The Council will continue to regard the lawful and correct treatment of personal information as very important, in order to maintain confidence between us and the people we deal with. We ensure that the Council treats personal information lawfully and correctly, with due regard to the rights and freedoms of individuals.

10 RISK MANAGEMENT

Risk	**Mitigation**	**Opportunities**
Property *Commercial tenants unable to pay rents or subject to business failure* *Slowdown in commercial property investment, meaning that the council's development schemes achieve less interest or less income than expected*	Close monitoring of rent position by property team with support to tenants through effective working relationships. The council's advisors are reviewing the property investment market and will provide advice as to timing of any marketing.	
Legal *The council is unable to balance the revenue budget resulting in the issuing of a S114 notice.*	Proposals set out in this report, including the strategy for management of reserves and the Transformation Challenge 2025 programme mitigate against this.	Present a balanced budget in difficult circumstances
Timescales *Slower than projected economic recovery affecting income received by the council*	The council has £18m uncommitted revenue reserves available to support further	

Risk	Mitigation	Opportunities
	increases to the projected deficit.	
Financial *The council is unable to balance the revenue budget*	Proposals set out in this report, including the strategy for management of reserves mitigate against this.	
Risk of lower than projected demand for income generating services specifically parking	The council has £18m uncommitted revenue reserves available which can be utilised as a last resort as above.	
Inflation risk - Salary and contract inflation is higher than budgeted.	Budgets take account of latest national inflation forecasts. Minimum balances are maintained at £2.8m to mitigate against such variations. The transitional reserve would also support this.	
Additional costs of national programmes such as waste strategy imposed on the council.	Immediate TC25 savings and any 23/24 year end surplus to be transferred to reserves to re-invest in and deliver the TC25 programme.	

11 SUPPORTING INFORMATION:

Local Government Finance Settlement and the economic outlook

11.1 As set out in the Medium Term Financial Strategy (MTFS) in November (CAB3430), the public sector is facing the most significant financial challenges and demand pressures in living history. Projections have now been updated and the new Medium-Term Financial Plan (MTFP) is set out in appendix B and summarised below.

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Budget surplus / (shortfall)	0.000	0.000	(1.566)	(2.869)	(4.079)

Table 2 Medium Term Financial Forecast

11.2 The council is in a sound financial position in the short term, projecting to balance both the 2024/25 and 2025/26 budgets. However, Winchester faces unprecedented financial pressures over the medium-term, due to interest rate rises, inflation and the impact of budget decisions by other public sector bodies. There is a recurring £2.9m annual deficit forecast by 2027/28; rising to £4.1m per annum by 2028/29.

11.3 The provisional local government finance settlement for 2024/25 that was announced on 19 December 2023 broadly confirmed the core funding level that had been anticipated in the MTFS. Overall, the settlement totalled £2.933m, which was £11,000 short of the forecast in November. However, it was back to a one-year settlement agreement. The absence of a longer-term financial envelope for Local Government, leaves significant uncertainty over the financial position from 2025-26.

11.4 In addition to the finance settlement announcement in December, a Local Government Finance Update was given by the Secretary of State for Levelling Up, Housing and Communities on 24th January. This set out plans to provide exceptional funding for Local Government to be set out in the upcoming budget. For Winchester City Council, there is a promise of an increase in the Funding Guarantee to make the minimum increase in core spending power 4% (rather than the 3% announced in the December settlement agreement). This is forecast to equate to around £130,000 additional income for the council, with final confirmation expected in early February. It is recommended to ring-fence this last-minute additional funding for the implementation of the food waste collection service.

11.5 There are significant unknowns for the future of Local Government finance. The longer-term outlook for the council's finances remains dominated by two key factors: firstly the macro-economic volatility the UK is experiencing (with stubbornly high inflation and borrowing rates not seen since the Global Financial Crisis of 2007/08); secondly, the unknown impact of the long awaited fair funding review and proposed further business rates retention changes for 2025-26 and beyond.

11.6 Although inflation rates have fallen through 2023, this only means the rate of price increases has slowed. Key council contracts experienced nearly 10% price increases in 2022 and then a further 6.7% in 2023 which has baked-in high prices for many service contracts. Despite the Bank of England's confidence that maintaining their interest rate at August 2023's higher, inflation-controlling rate of 5.25%, the Consumer Price Index (CPI) measure of inflation actually rose again 0.1% in the year to December (for the first time since February 2023).

11.7 In addition to the uncertainty with funding, significant new responsibilities for councils have been created by legislative change. Free weekly food waste collections must be introduced by 31 March 2026. This will have a significant impact on all waste collection authorities such as Winchester City Council, who will need to invest in new vehicles and infrastructure to expand the existing recycling offer. Budget forecasts for the revenue and capital costs of these are set out in this budget and the Capital Investment Strategy (CAB3443) elsewhere on this agenda.

11.8 In addition, demand for services such as temporary accommodation to prevent homelessness is rising. With the potential for homelessness rates to increase if economic conditions exacerbate the cost-of-living difficulties already felt by many households. This budget proposes to set aside an additional £20,000 a year that is forecast as required to tackle the increased demands for these services under the Homelessness Prevention Strategy.

12 Forecast outturn position for 23/24.

12.1 The latest detailed forecast for the 2023/24 general fund budget will be presented in the *Quarter 3 Finance and Performance Report* (CAB3441 refers). An overall net underspend of £0.53m is forecast for the year and all of the projected variances have been reviewed and considered as part of the budget setting process for 2024/25.

12.2 It is proposed to transfer any year end surplus to the Transitional Reserve to support the delivery of the TC25 transformation programme.

13 TC25 progress update

13.1 As a result of the Star Chambers, 12 rapid reviews have been completed for quick implementation and immediate savings. A summary of these is below.

Review	24/25 Budget Reduction
Private Sector Housing additional income - 5-year HMO cycle	£50,000
Development Management Planning fee income increases	£242,000
Building Control fee increase to reduce losses on chargeable service	£50,000
Reduction in City Offices and Guildhall cleaning	£40,000
Reduction in external design and print	£24,000
Digitalised design of About Winchester	£10,000
Redesign of the Community Safety Team	£42,000
Redesign of the Private Sector Housing Team	£38,000
Redesign of the Civil Enforcement Team	£34,000

Private Sector Housing legal services external costs	£10,000
Community Safety third party contractors	£15,000
Other minor savings	£52,000
TOTAL IMMEDIATE TC25 SAVINGS	£607,000

Table 3 Rapid review savings and income generation adjustments within the 2024/25 budget

13.2 The above budget savings and areas of income generation form a solid foundation for TC25 and show a positive start to the transformation programme from across the organisation. However, considerable work is required to meet the *£3m per annum within 3 years* target.

13.3 Reviews expected to result in further savings through the 2024/25 financial year but not yet recognised in the budget shown in appendix A include:

- approach to tree watering;
- Guildhall and Abbey House corporate lettings strategy;
- improvements for on-the-go mobile working for on-site teams;
- e-billing and digital customer communication
- corporate telephony review
- contract negotiation and management approach
- tourism and marketing commercialisation

13.4 Longer-term, in-depth invest-to-save plans include improvements to our website and app to make contacting us and reporting things to us easier; streamlining the back-office of our parking service to improve the operation of our car parks; and digitalisation of the planning service to make submission of applications easier and the processing of them more efficient.

14 <u>Changes since the draft budget proposals in the MTFS</u>

14.1 Taking in mind the feedback from Scrutiny Committee's review of the MTFS paper in November (where comments were predominately focused on the medium term forecast deficits and the measures being taken to address those) the draft budget options and assumption were approved by Cabinet on 21 November and the budget has been prepared in accordance with those as set out in the MTFS report.

14.2 As a result of the public's overall positive support for the budget proposals consulted on in the budget consultation exercise, all of the options put forward at budget preparation have remained in the final budget that is set out below and detailed in appendix A. They are:

Council Tax increase:

- a below-inflation increase to council tax of 2.6% equating to an increase of £4.07 for the Winchester City Council share of a band D property. This lower increase will allow a slightly higher increase in the “Town” precept, required to meet additional funding pressures on the Town account.

Greener Faster investment:

- £200,000 per annum for the carbon reduction measures on waste and recycling vehicles to enable the change to HVO fuel (saving 25% of the council’s carbon emissions).
- £1,400,000 per annum (less assumed 80% government funding) to expand recycling services to include food waste collections.
- £400,000 per annum to implement other changes to the collection of recyclables.

Service income adjustments:

- Building Control Fees – reduction in the annual income budget of £100,000 following a two year downward trend in income.
- Land Charges Income – reduction in the income budget of £100,000 following a two year downward trend in income.
- Legal Income – reduction of £50,000 following a review of the existing budget.
- Car Parking income – an annual budget increase of £100,000 to reflect usage levels gradually recovering post-pandemic.
- Garden Waste Income – budget increase of £90,000 based on increased subscriptions projected for 2024.
- Waste income – additional annual budget of £250,000 reflecting the changes to the Hampshire Inter-Authority Agreement.

Service expenditure:

- A new budget of £100,000 per annum for the support and coordination of digital channel shift work across the council’s services.
- An unavoidable budget increase of £100,000 per annum to fund increased external audit fees.
- Savings in corporate property budgets for Non-Domestic Rates (NNDR) of £177,000 following the successful delisting of a corporate property.

Increased contributions to reserves:

- IT Reserve – increase the annual contribution from £280,000 to £380,000 per annum to support the IT Strategy.

- Homelessness Prevention – an additional £20,000 per annum contribution to the New Burdens Reserve to support the Preventing Homelessness Strategy.

14.3 In addition, there are adjustments included in the budget in appendix A for the savings achieved to date under TC25 and revised operational budget adjustments for higher interest receivable estimates and lower utilities inflation assumptions.

15 <u>Transfers to / from reserves</u>

15.1 As set out above, in the MTFS assumptions used in the preparation of this detailed budget (para 14.2), the only modifications to contributions to earmarked reserves that have been adjusted for 2024/25 are for annual increases for IT and Homelessness Prevention. Otherwise all annual contributions to reserves remain as in previous years.

15.2 As the 2024/25 and 2025/26 budgets were forecast to be balanced before the £0.6m of immediate savings were realised, the resulting forecast surplus has been transferred to the Transitional Reserve to provide the investment necessary for the TC25 transformation programme. Whilst this results in a short-term increase to the balance of this reserve, it is anticipated that significant investment will be needed to realise the remainer of the TC25 programme over the next 3 years. The available reserves will underpin the investment in service and digital redesign.

15.3 It is recommended that the additional £130,000 of 4% Funding Guarantee announced in the January in the Local Government Finance Update is transferred to the Future of Waste reserve to fund the implementation costs of the roll-out of changes to recycling collections.

16 <u>Collection Fund</u>

16.1 Council Tax - Regulations require the Council to approve the collection fund balance at 31 March, calculated at 15 January preceding. For council tax a surplus of £949,490 is forecast for 2023/24, to be distributed in 2024/25. This is shared between the County Council £677,381, the Police & Crime Commission £116,647, the Fire & Rescue Authority £37,310 and this Council £118,152.

16.2 The council tax referendum limits on precept increases have been confirmed at 2.99% or £5, whichever is higher. Central Government spending power projections assume that all authorities will increase their precepts by the maximum amount.

16.3 The council could consider not increasing council tax in 2024 or setting a lower increase than the 2.5% baseline assumption in CAB3430 Budget Options report in November. Given the increasing deficits forecast from 2026/27 it is recommended that consideration be given to a below-inflation increase of 2.6%. This increase would also allow a slightly higher increase in the “Town” precept, required to meet additional funding pressures on the Town account.

16.4 Therefore, to assist in addressing medium term projected shortfalls, the proposed budget set out in Appendix A assumes a 2.6% increase in council tax for the district along with a town forum recommended increase of 5.5% for the Winchester town area, in 2024/25.

16.5 The current level of tax for the district is £155.29 (Band D equivalent). The proposed tax for 2024/25 is £159.36, an increase of £4.07.

16.6 In considering the level of district tax, regard must be had to the tax for the town area in order to ensure that the overall increase does not exceed the referendum limits.

16.7 The current level of tax for the town is £80.93 (Band D equiv.). An increase of 5.5% would increase this to £85.38.

16.8 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 2024/25. The current precept table is awaiting confirmation from a number of parishes who have their budget meetings in late January so a precept table will be dispatched for the Council meeting.

17 Winchester Town Charge – Section 35

17.1 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 2023.

17.2 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.

17.3 The services currently covered by special expenses are listed in Appendix D.

17.4 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 2023/24 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 £1,273,758 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.

17.5 The Winchester Town Forum met on 25 January 2024 and recommended the budget, which is currently set out in Appendix D, including a proposal that Council Tax increase by the maximum allowable under the referendum limits (+2.99% combined with the District). This equates to +5.5% based on the assumed District increase of +2.6%.

18 Council Tax Reduction (CTR) scheme

18.1 To reflect the inflationary increases of the cost of living crisis, the Government will increase working age benefits (Universal Credit, Job Seekers Allowance, Housing Benefit (applicable amounts), Tax Credits etc.) and pension rates by CPI at 6.7% with effect from 1 April 2024. In light of this change, and following similar analysis last year, it is necessary to review the income bands within the CTR scheme. The income bands are set to ensure that people on the standard rates of Universal Credit receive sufficient assistance with their council tax liability. This rate is 100% and those who receive an enhanced rate of Universal Credit due to disability, receive CTR of 75% of their council tax liability. The proposed new income bands, set out in Appendix E ensure that these people continue to receive the same level of support.

18.2 Any CTR claimant suffering with financial difficulties can apply for assistance through the Exceptional Hardship Fund which will be extended into 2024/25 using the existing allocation of funding. Eligible applicants will receive a further reduction to their council tax liability. This fund exists for the benefit of all council taxpayers, regardless of whether they are in receipt of CTR, or not. This ensures that anyone who has dropped out of, or is ineligible for CTR, has support available to them when their income sits on the boundaries of the income bands.

19 Council Tax Support Fund

19.1 The government provided councils with a Council Tax Support Fund for 2023/24 to assist its most vulnerable households with the increase in council tax from 1 April 2023. Winchester received an allocation of £150,512.

19.2 The government has not indicated that they will continue to support vulnerable households with an extension of the Council Tax Support Fund into 2024/25. However, because the cost of living crisis remains for many households, and in line with the Council Plan priority to use available resources to support residents, it is recommended that if no national Council Tax Support Fund scheme is provided, that the council locally fund a further year of the scheme.

19.3 This local scheme for 2024/25 would be on the same basis as the government scheme (guidance for which was detailed in CAB3388, appendix F, and summarised in section 19.5 and 19.6 below) with the only changes being that:

- it will be capped at £100,000 total funding;
- reductions to council tax bills for all households on CTR at 1 April 2024 will be a maximum of £30; and
- any remaining balance used to provide up to £30 reduction of council tax to households making a new CTR claim after 1 April 2024.

19.4 If the government do extend the national Council Tax Support Fund Scheme by providing an allocation of funding which is less than £100,000, it is proposed that the council top-up the funding to the capped level of £100,000.

19.5 Guidance for the 2023/24 scheme was provided by government and the key points from that were:

- Government expected councils to use the majority of funding to reduce 2023-24 council tax bills for all CTR claimants (pension and working age) with an outstanding balance, by up to £25;
- Councils automatically applied the reduction without the need to claim;
- It was the government's intention that any reduction to council tax bills provided through this scheme would not affect the eligibility of recipients for other benefits;
- Councils were expected to use a proportion of their allocation to establish their own local approach to helping economically vulnerable households with council tax bills i.e. a "discretionary scheme"; and
- Government expected councils to deliver this scheme using their discretionary powers under s13A(1)(c) of the Local Government Finance Act 1992. This required approval by full Council.

19.6 In February 2023, the council adopted the government's guidance in full with the following additional criteria:

- An initial £50 reduction was made to council tax bills for all households on CTR at 1 April 2023 (or less where the remaining council tax liability for the year, after all other reductions, was less than £50).
- The remaining balance of funding was used to provide -
    (i) up to £50 reduction of council tax to all households making a new CTR claim after 1 April 2023; and

(ii) a discretionary hardship fund, allocated on a case-by-case basis. This was for households which were either not eligible for CTR or receiving CTR, plus the top-up described in Part 1 of the policy, but still have a council tax liability to pay. In both scenarios the council taxpayer had to be financially struggling to pay their council tax.

- Awards from the fund would cease when the full amount has been allocated to council taxpayers.

20 Empty Properties Premium

20.1 The council is committed to reducing the number of empty properties in the district. As part of this commitment, from April 2019 a premium of 100% was introduced in addition to the council tax that would otherwise be due on properties which have been unoccupied and unfurnished for a period of 2 years or more.

20.2 In the government's 2023 Levelling-up and Regeneration Act they have amended the powers given to local councils to increase this premium further. Empty homes can now trigger the additional 100% premium to council tax on properties which have been unoccupied and unfurnished for a period of **1 year** or more, rather than the current 2 years.

21 Earmarked Reserves

21.1 The strategy for managing reserves was set out in CAB3430 in November 2023 and forms part of the overall Medium Term Financial Strategy that was approved as part of that report.

21.2 Total General Fund earmarked reserves, including proposals in this paper, are forecast to reduce from £38m at 1 April 2023 to £33m at 31 March 2027 (detailed in appendix C). The forecast closing balances (as at 31 March 2027) of key earmarked reserves are summarised below;

(i) Operational reserves (£8.9m), significantly the major investment reserve, are revenue reserves which can be used to support revenue or capital expenditure, for example major projects.

(ii) Risk reserves (£13.2m), 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.

(iii) Asset reserves (£3.6m), 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.

(iv) Restricted reserves (£7.5m), 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.

21.3 Within the risk reserves subheading is the Transitional Reserve which was established by council as part of the 2021/22 budget to mitigate the risk of future budget shortfalls. The balance in this reserve is forecast to increase through 2024/25 as TC25 savings and forecast surplus year end balance are set aside to re-invest in the delivery of the transformation programme. Whilst it is certain these invest-to-save measures will be necessary to achieve the budget savings required to address projected shortfalls in the medium term, the business cases for specific changes are still in development (e.g. for the digitalisation of the planning service). During budget setting for 2025/26 the spending plans for the Transitional Reserve will be included and therefore the balance is likely to fall again in the medium term. The £9.9m balance seen in Appendix C is unusually high due to the timing of this report.

22 Balances / risk reserves

22.1 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.

22.2 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.

23 Adequacy of reserves and robustness of estimates

23.1 There are specific requirements under Section 25 of the Local Government Act, 2003, for the Chief Financial 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.

23.2 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.

23.3 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.

23.4 The S151 officer can 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.

23.5 Council Plan 2024/25

23.6 The Council Plan was refreshed towards the end of 2022 and adopted by Full Council at its meeting on 18 January 2023. At this time 4 areas of focus were incorporated in the plan – Listening Better, Green Faster, Cost of Living and Pride in Place.

23.7 Supporting progress in these four areas, significant revenue and capital investment is allocated in budgets and includes:

- **Cost of living** – supporting residents with their payment of council tax by allocating up to £100,000 from the Cost of Living / Living Well reserve to wholly or partially fund a local Council Tax Support Fund and extending the council tax Hardship Fund for 2024/25.
- **Greener faster** – a £42.9m capital budget has been allocated to invest in the council's housing stock to improve energy efficiency and reduce carbon emissions. A £1m capital budget for energy management projects over 4 years from 2024/25. Further investment in improving our recycling service and converting to our vehicles to run on HVO will contribute to reducing the council's carbon emissions.
- **Pride in place** – a total programme of works amounting to a proposed £2.2m in 2024/25 for planned parking and access and improvements across the district (Report CAB3384 refers).
- **Listening better** – several of the budget proposals recommended in this report are in response to the feedback received from residents to the budget consultation including increasing council tax by the below inflation referendum limit of 2.99% and investing in transforming our services to make it easier for everyone to contact the council and do business with us online.

23.8 Progress against all the actions delivering the priorities in the Council Plan and the four areas of enhanced focus are included in the quarterly Finance and Performance report and were reviewed by the Performance Panel on behalf of the Scrutiny Committee.

23.9 Individual business plans provide the details of the activities, projects and actions that will deliver the priorities included in the Council Plan and these are under construction for 2024/2025 by corporate heads of service and heads of programme.

23.10 Also included in business plans will be details of the actions that will also contribute to delivery of the four areas of enhanced focus and the Transformation Challenge (TC25). Capturing these actions in business plans will enable the council to create individual action plans for the coming year and enable progress to be monitored and reported.

23.11 The coming financial year will be the final year of the current Council Plan and over early summer the council will undertake a district wide Residents' and Young Persons Survey which will capture the views and opinions of our residents' and young people. The results from the survey will provide valuable evidence that will be used to support the shaping of the priorities and objectives to be included in the next Council Plan.

23.12 A number of strategic key performance indicators are used to measure the progress the council is making in achieving the priorities set out in the Council Plan. These indicators were approved by Cabinet at its meeting on 14 December 2022 (Report CAB3370 refers). Where appropriate key performance indicators are updated to reflect the most appropriate metrics for service delivery.

24 OTHER OPTIONS CONSIDERED AND REJECTED

24.1 Consideration has been given to not increasing Council tax in 2024/25. However, it should be noted that the Government settlement and additional resources allocated to the Council is a one-year announcement and forecasts still indicate increasing deficits in future years and therefore this cannot be recommended.

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

CAB3388 – General Fund Budget Options and Medium Term Financial Strategy

Other Background Documents:-

APPENDICES:

Appendix A: General Fund Medium Term Financial Projections

Appendix B: Summary of Budget Proposals

Appendix C: Reserves

Appendix D: Winchester Town Account

Appendix E: Council Tax Reduction (CTR) Scheme income band changes

This page is intentionally left blank

Council Tax Base	2.4%	2.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Council Tax - Band D £	2.7%	2.6%	2.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Contractual Inflation	10.0%	6.7%	4.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Pay Inflation	5.5%	4.0%	4.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Reduction in Income	3.5%	0.0%									

General Fund Revenue (£m)	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28	Forecast 2028/29	Forecast 2029/30	Forecast 2030/31	Forecast 2031/32	Forecast 2032/33	Forecast 2033/34
Funding											
Council Tax (excluding Parish Precepts)	9.360	9.830	10.203	10.546	10.900	11.266	11.644	12.035	12.440	12.858	13.291
Retained Business Rates	6.680	7.459	7.998	4.671	4.993	5.332	5.684	5.008	5.208	5.417	5.633
Revenue Support Grant	0.156	0.166	0.179	-0.800	-0.833	-0.868	-0.903	-0.938	-0.976	-1.015	-1.055
New Homes Bonus	1.629	1.645									
Services Grant	0.087	0.014									
3% Guarantee	0.894	1.182	2.514								
Damping Forecast				3.028	1.500	0.029					
Rural Services Delivery Grant	0.054	0.063	0.063	0.063	0.063	0.063	0.063	0.063	0.063	0.063	0.063
New Burdens Funding	2.145	0.335	0.335	0.335	0.335	0.335	0.335	0.335	0.335	0.335	0.335
	21.005	**20.694**	**21.292**	**17.843**	**16.958**	**16.157**	**16.823**	**16.503**	**17.071**	**17.658**	**18.267**
Investment Activity	2.968	2.326	2.012	1.877	2.234	2.207	2.192	2.165	2.137	2.104	2.069
Resources available	**23.973**	**23.021**	**23.304**	**19.720**	**19.192**	**18.363**	**19.015**	**18.668**	**19.207**	**19.762**	**20.335**
Baseline Net Expenditure											
Gross Income	**15.835**	**17.458**	**17.833**	**17.734**	**17.785**	**17.835**	**17.887**	**17.937**	**17.989**	**18.024**	**18.061**
Gross Expenditure	**-33.844**	**-36.433**	**-37.661**	**-38.408**	**-39.024**	**-39.652**	**-40.293**	**-40.947**	**-41.619**	**-42.306**	**-43.007**
Baseline resource requirements	**-18.009**	**-18.925**	**-19.828**	**-20.474**	**-21.239**	**-21.817**	**-22.406**	**-23.009**	**-23.630**	**-24.282**	**-24.946**
One-off budgets & Reserve Related Movements	-5.963	-4.095	-3.476	-0.811	-0.822	-0.626	-0.533	-0.430	-0.428	-0.625	-0.625
Total net resource requirements	**-23.972**	**-23.020**	**-23.304**	**-21.285**	**-22.061**	**-22.442**	**-22.939**	**-23.440**	**-24.058**	**-24.907**	**-25.571**
Budget Surplus / (Shortfall)	**0.000**	**0.000**	**0.000**	**-1.566**	**-2.869**	**-4.079**	**-3.924**	**-4.771**	**-4.851**	**-5.145**	**-5.235**
% of Gross Expenditure	*0.0%*	*0.0%*	*0.0%*	*4.1%*	*7.4%*	*10.3%*	*9.7%*	*11.7%*	*11.7%*	*12.2%*	*12.2%*

This page is intentionally left blank

Baseline Revenue Proposals

General Fund Revenue (£m)	Forecasts 2024/25	2025/26	2026/27	2027/28
Unavoidable Growth				
Building Control Fees	-0.100	-0.100	-0.100	-0.100
Land Charges Income	-0.100	-0.100	-0.100	-0.100
Legal Income	-0.050	-0.050	-0.050	-0.050
Temporary Accommodation	-0.020	-0.020	-0.020	-0.020
External Audit Fees	-0.100	-0.100	-0.100	-0.100
Hampshire Inter-Authority Waste & Recycling Agreement	-0.250	-0.250	-0.250	-0.250
	-0.620	**-0.620**	**-0.620**	**-0.620**
Other Growth Proposals				
Switch Waste & Recycling Vehicles to HVO	-0.200	-0.200	-0.200	-0.200
Food Waste Service - funded by government grant	0.000	-0.700	-1.400	-1.400
- 80% funded by government grant	0.000	0.560	1.120	1.120
Waste & Recycling Collection changes	-0.400	-0.400	-0.400	-0.400
Digital Transformation Programme	-0.100	-0.100	-0.100	-0.100
	-0.700	**-0.840**	**-0.980**	**-0.980**
Budget Options				
Rents Review	0.300	0.300	0.300	0.300
Garden Waste Charges - volume	0.090	0.090	0.090	0.090
NNDR appeals on Council properties	0.177	0.177	0.177	0.177
	0.567	**0.567**	**0.567**	**0.567**
Other Budget Updates				
Parking Income - volume	0.100	0.100	0.100	0.100
Baseline Budget Proposals	**-0.653**	**-0.793**	**-0.933**	**-0.933**
TC25 IMMEDIATE SAVINGS				
Development Management Planning Fee Income increases of 25 - 35%	0.242	0.242	0.242	0.242
Building Control fee increase to reduce losses on chargeable service	0.050	0.100	0.100	0.100
Reduction in City Offices & Guildhall cleaning	0.040	0.040	0.040	0.040
Reduction in external design and print	0.024	0.024	0.024	0.024
Digitalised design of About Winchester	0.010	0.010	0.010	0.010
Redesign of the Community Safety Team	0.042	0.042	0.042	0.042
Redesign of the Private Sector Housing Team	0.038	0.038	0.038	0.038
Redesign of Civil Enforcement Team	0.034	0.034	0.034	0.034
Private Sector Housing Legal Services/Private Contractor	0.010	0.010	0.010	0.010
Community Safety third party contractor budget	0.015	0.015	0.015	0.015
HMO Licensing renewals	0.050	0.050	0.050	0.050
Other minor savings	0.052	0.052	0.052	0.052
TOTAL IMMEDIATE TC25 SAVINGS	**0.607**	**0.657**	**0.657**	**0.657**

This page is intentionally left blank

GENERAL FUND EARMARKED RESERVES (£000)	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
	Cl. Bal.	Forecast Closing Balances										
OPERATIONAL RESERVES												
Major Investment Reserve	(7,687)	(3,790)	(3,734)	(4,010)	(4,010)	(4,010)	(4,010)	(4,010)	(4,010)	(4,010)	(4,010)	(4,010)
Community Grants & Commissions	(588)	(260)	(138)	(73)	(73)	(73)	(73)	(73)	(73)	(73)	(73)	(73)
Cost of Living / Living Well (Supporting People)		(170)	(165)	(165)	(165)	(165)	(165)	(165)	(165)	(165)	(165)	(165)
Digital Transformation		(400)	(400)	(400)	(400)	(400)	(400)	(400)	(400)	(400)	(400)	(400)
Greener Faster		(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)
Flood Support Schemes	(66)											
Future of Waste		(500)	(1,030)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)
Landscape Mitigation	(10)	(8)	(6)	(4)	(2)							
Local Development Framework (LDF)	(911)	(904)	(844)	(844)	(844)	(844)	(844)	(844)	(844)	(844)	(844)	(844)
New Burdens - Ukraine	(462)											
New Burdens	(879)	(1,390)	(1,229)	(1,229)	(1,229)	(1,229)	(1,229)	(1,229)	(1,229)	(1,229)	(1,229)	(1,229)
Pride in Place		(140)	(140)	(140)	(140)	(140)	(140)	(140)	(140)	(140)	(140)	(140)
Regeneration		(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)
	(10,603)	**(8,112)**	**(8,236)**	**(8,915)**	**(8,913)**	**(8,911)**	**(8,911)**	**(8,911)**	**(8,911)**	**(8,911)**	**(8,911)**	**(8,911)**
ASSET RESERVES												
Property - Asset Management Reserve	(3,818)	(3,600)	(2,995)	(2,995)	(2,995)	(1,455)	(1,455)	(1,455)	(1,205)	(1,205)	(1,205)	(1,190)
Car Parks Property	(2,044)	(1,262)	(684)	(529)	(499)	(469)	(439)	(409)	(379)	(349)	(319)	(289)
Information Management and Technology	(468)	(355)	(535)	(488)	(109)	(162)	(98)	(296)	(351)	(115)	(350)	(455)
	(6,331)	**(5,218)**	**(4,215)**	**(4,013)**	**(3,604)**	**(2,087)**	**(1,993)**	**(2,161)**	**(1,936)**	**(1,670)**	**(1,875)**	**(1,935)**
RESTRICTED RESERVES												
S106 (Interest)	(386)	(386)	(386)	(386)	(386)	(386)	(386)	(386)	(386)	(386)	(386)	(386)
Community Infrastructure Levy - General Fund	(11,585)	(9,473)	(7,392)	(6,717)	(6,717)	(6,717)	(6,717)	(6,717)	(6,717)	(6,717)	(6,717)	(6,717)
Community Infrastructure Levy - Winchester Town	(1,142)	(679)	(327)	(327)	(327)	(327)	(327)	(327)	(327)	(327)	(327)	(327)
Winchester Town Reserve	(408)	(185)	(124)	(80)	(66)	(159)	(159)	(159)	(159)	(159)	(159)	(159)
	(13,520)	**(10,722)**	**(8,228)**	**(7,509)**	**(7,495)**	**(7,589)**	**(7,589)**	**(7,589)**	**(7,589)**	**(7,589)**	**(7,589)**	**(7,589)**
RISK RESERVES												
Municipal Mutual Insurance	(139)	(139)	(139)	(139)	(139)	(139)	(139)	(139)	(139)	(139)	(139)	(139)
Transitional Reserve	(3,752)	(4,530)	(7,271)	(9,255)	(9,255)	(9,255)	(9,255)	(9,255)	(9,255)	(9,255)	(9,255)	(9,255)
Exceptional Inflation Pressures	(2,902)	(2,902)	(2,902)	(2,902)	(2,902)	(2,902)	(2,902)	(2,902)	(2,902)	(2,902)	(2,902)	(2,902)
Business Rates Retention	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
	(7,793)	**(8,571)**	**(11,312)**	**(13,296)**	**(13,296)**	**(13,296)**	**(13,296)**	**(13,296)**	**(13,296)**	**(13,296)**	**(13,296)**	**(13,296)**
Total General Fund Earmarked Reserves	**(38,247)**	**(32,623)**	**(31,992)**	**(33,733)**	**(33,309)**	**(31,883)**	**(31,789)**	**(31,957)**	**(31,732)**	**(31,466)**	**(31,672)**	**(31,732)**
General Fund Balance	(2,789)	(2,789)	(2,789)	(2,789)	(2,789)	(2,789)	(2,789)	(2,789)	(2,789)	(2,789)	(2,789)	(2,789)
Usable Capital Receipts Reserve - General Fund	(4,898)	(2,800)	(746)	(1,084)	(1,406)	(1,631)	(1,980)	(2,332)	(2,688)	(3,047)	(3,410)	(3,776)

This page is intentionally left blank

WINCHESTER TOWN ACCOUNT - Medium Term Financial Projections

	2022/2023 Outturn	2023/2024 Forecast	2024/2025 Forecast	2025/2026 Forecast	2026/2027 Forecast	2027/28 Forecast
Assumptions:						
Contract inflation		10.0%	6%	4%	2%	2%
Utilities		5%	5%	5%	5%	5%
Percentage increase in tax		5.5%	3.0%	3%	3%	3%
Tax Base		14,666	14,919	15,098	15,279	15,462
Cost of Services						
Recurring Budgets:						
Allotments	(3,879)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)
Bus Shelter Cleaning / Maintenance / New Provision	6,980	20,000	20,000	20,000	20,000	20,000
Cemeteries	89,117	83,028	87,039	91,180	95,455	99,869
Christmas Lights	7,500	7,500	7,500	7,500	7,500	7,500
Neighbourhood Service Officers (Contribution)	45,000	45,000	45,000	45,000	45,000	45,000
Footway Lighting	20,889	33,043	33,873	34,745	35,660	36,620
Grants and Vision Delivery	77,310	80,000	70,000	60,000	50,000	50,000
Support Costs for Grant Scheme	2,000	2,000	2,000	2,000	2,000	2,000
Maintenance Work to Council Owned Bridges	280	5,500	5,500	5,500	5,500	5,500
Night Bus Contribution	8,480	12,029	12,751	13,261	13,526	13,797
Public Conveniences (Contribution)	50,000	50,000	50,000	50,000	50,000	50,000
Recreation Grounds & Open Spaces	714,639	758,666	810,766	839,070	857,193	870,634
GROWTH - revenue play area reactive maintenance			**5,841**	**5,841**	**5,841**	**5,841**
Tennis Court Improvements			9,000	9,000	9,000	9,000
Recreation Grounds & Open Spaces - Additional Budget	0	50,000	50,000	50,000	50,000	50,000
Town Forum Support	5,000	5,000	5,000	5,000	5,000	5,000
Total Recurring Budgets	**1,023,316**	**1,147,766**	**1,210,270**	**1,234,096**	**1,247,674**	**1,266,761**
One-off Budgets:						
Community Infrastructure	83,000					
Total One-off Budgets	83,000					
Total Cost of Services	**1,106,316**	**1,147,766**	**1,210,270**	**1,234,096**	**1,247,674**	**1,266,761**
Taxation and Non-specific grant income						
Council Tax Income	(1,103,623)	(1,186,879)	(1,243,622)	(1,296,290)	(1,351,265)	(1,408,455)
Interest on Balances	(7,828)	(11,988)	(5,560)	(3,727)	(2,405)	(1,984)
Total Taxation and Non-specific grant income	**(1,111,451)**	**(1,198,867)**	**(1,249,182)**	**(1,300,017)**	**(1,353,669)**	**(1,410,439)**
Transfers to/(from) Earmarked reserves						
(Surplus added to Reserves) / Deficit taken from Reserves	(5,135)	(51,101)	(38,912)	(65,921)	(105,995)	(143,678)
Capital Expenditure funded by Town Reserve	135,614	274,000	100,000	110,000	120,000	50,000
Reserve	(83,000)					
Opening Reserve Balance (at 1st April)	(455,699)	(408,220)	(185,321)	(124,233)	(80,153)	(66,148)
Closing Reserve Balance (carried forward)	**(408,220)**	**(185,321)**	**(124,233)**	**(80,153)**	**(66,148)**	**(159,826)**
Closing Reserves forecast as % of net expenditure	**40%**	**16%**	**10%**	**6%**	**5%**	**13%**

This page is intentionally left blank

This table compares the current income bands (for 2023/24), and proposed new income bands (for 2024/25), with the new Universal Credit (UC) rates.
It highlights where the UC rates will exceed the current income band due to the government's uprating of benefits to reflect inflation.

		Comparison of current band to new UC rate			Proposed new band compared to new UC rate			
CTR Award	**Income Bands**	**Current Income Band**	**NEW UC rate**	**Difference**	**Proposed Income Band**	**NEW UC rate**	**Difference**	**% change**
100%	**Single**	£ 100.00	£ 90.80	-£9.20	£ 100.00	£ 90.80	-£9.20	0%
	Single +1 child	£ 165.00	£ 167.72	£2.72	£ 168.00	£ 167.72	-£0.28	2%
	Single +2 children	£ 226.00	£ 234.16	£8.16	£ 235.00	£ 234.16	-£0.84	4%
	Couple	£ 140.00	£ 142.52	£2.52	£ 143.00	£ 142.52	-£0.48	2%
	Couple +1 child	£ 213.00	£ 219.45	£6.45	£ 220.00	£ 219.45	-£0.55	3%
	Couple +2 children	£ 276.00	£ 285.89	£9.89	£ 286.00	£ 285.89	-£0.11	4%
75%	**Single**	£ 180.00	£ 186.84	£6.84	£ 187.00	£ 186.84	-£0.16	4%
	Single +1 child	£ 253.00	£ 263.76	£10.76	£ 264.00	£ 263.76	-£0.24	4%
	Single +2 children	£ 316.00	£ 330.21	£14.21	£ 331.00	£ 330.21	-£0.79	5%
	Couple	£ 228.00	£ 238.57	£10.57	£ 239.00	£ 238.57	-£0.43	5%
	Couple +1 child	£ 301.00	£ 315.49	£14.49	£ 316.00	£ 315.49	-£0.51	5%
	Couple +2 children	£ 364.00	£ 381.93	£17.93	£ 382.00	£ 381.93	-£0.07	5%
45%	**Single**	£ 245.00			£ 252.00			3%
	Single +1 child	£ 318.00			£ 329.00			3%
	Single +2 children	£ 381.00			£ 396.00			4%
	Couple	£ 293.00			£ 304.00			4%
	Couple +1 child	£ 366.00			£ 381.00			4%
	Couple +2 children	£ 429.00			£ 447.00			4%
25%	**Single**	£ 310.00			£ 317.00			2%
	Single +1 child	£ 383.00			£ 394.00			3%
	Single +2 children	£ 446.00			£ 461.00			3%
	Couple	£ 358.00			£ 369.00			3%
	Couple +1 child	£ 431.00			£ 446.00			3%
	Couple +2 children	£ 494.00			£ 512.00			4%

This table contans the same data as above but shows the current and proposed income bands side by side for comparison purposes.
It highlights where the UC rates will exceed the current income band due to the government's uprating of benefits to reflect inflation.

		2023/2024	2024/2025			
Income Bands		Current Band	Proposed Band	NEW UC rate	Band change	% change
100%	**Single**	£ 100.00	£ 100.00	£ 90.80	£ -	0%
	Single +1 child	£ 165.00	£ 168.00	£ 167.72	£ 3.00	2%
	Single +2 children	£ 226.00	£ 235.00	£ 234.16	£ 9.00	4%
	Couple	£ 140.00	£ 143.00	£ 142.52	£ 3.00	2%
	Couple +1 child	£ 213.00	£ 220.00	£ 219.45	£ 7.00	3%
	Couple +2 children	£ 276.00	£ 286.00	£ 285.89	£ 10.00	4%
75%	**Single**	£ 180.00	£ 187.00	£ 186.84	£ 7.00	4%
	Single +1 child	£ 253.00	£ 264.00	£ 263.76	£ 11.00	4%
	Single +2 children	£ 316.00	£ 331.00	£ 330.21	£ 15.00	5%
	Couple	£ 228.00	£ 239.00	£ 238.57	£ 11.00	5%
	Couple +1 child	£ 301.00	£ 316.00	£ 315.49	£ 15.00	5%
	Couple +2 children	£ 364.00	£ 382.00	£ 381.93	£ 18.00	5%
45%	**Single**	£ 245.00	£ 252.00		£ 7.00	3%
	Single +1 child	£ 318.00	£ 329.00		£ 11.00	3%
	Single +2 children	£ 381.00	£ 396.00		£ 15.00	4%
	Couple	£ 293.00	£ 304.00		£ 11.00	4%
	Couple +1 child	£ 366.00	£ 381.00		£ 15.00	4%
	Couple +2 children	£ 429.00	£ 447.00		£ 18.00	4%
25%	**Single**	£ 310.00	£ 317.00		£ 7.00	2%
	Single +1 child	£ 383.00	£ 394.00		£ 11.00	3%
	Single +2 children	£ 446.00	£ 461.00		£ 15.00	3%
	Couple	£ 358.00	£ 369.00		£ 11.00	3%
	Couple +1 child	£ 431.00	£ 446.00		£ 15.00	3%
	Couple +2 children	£ 494.00	£ 512.00		£ 18.00	4%

SCRUTINY COMMITTEE

REPORT TITLE: CAPITAL INVESTMENT STRATEGY 2024-2034

6 FEBRUARY 2024

REPORT OF CABINET MEMBER: Councillor Neil Cutler, Deputy Leader and Cabinet Member for Finance and Performance

Contact Officer: Liz Keys Tel No: 01962 848226 Email: lkeys@winchester.gov.uk

WARD(S): ALL

RECOMMENDATIONS:

It is recommended that scrutiny committee comment on the proposals within the attached cabinet report, ref CAB3443 which is to be considered by cabinet at its meeting on the 8 February 2024.

This page is intentionally left blank

REPORT TITLE: CAPITAL INVESTMENT STRATEGY 2024-2034

8 FEBRUARY 2024

REPORT OF CABINET MEMBER: Cllr Cutler – Deputy Leader and Cabinet Member for Finance and Performance

Contact Officer: Liz Keys Tel No: 01962 848226 Email: lkeys@winchester.gov.uk

WARD(S): ALL

PURPOSE

The Capital Investment Strategy sets out the council's capital spending programme and the principles which underpin this in order to deliver the desired priorities as set out in the Council Plan.

It details the overall programme for the next 10 years, how this will be financed, and the impact of the programme on the council's Medium Term Financial Strategy. At a time when financial resources are under pressure, careful decisions must be made when considering capital investments in order for the council to deliver the objectives of the council plan, and to achieve the best outcomes possible for the district's residents.

It includes several prudential indicators that are required to be published by the CIPFA Prudential Code for Capital Finance and the Department for Levelling Up, Housing and Communities (DLUHC) Statutory Investment Guidance and, in addition to outlining how the council ensures it has access to the right knowledge and skills (internal and external), it details how it ensures elected Members have sufficient knowledge and skills to undertake their governance role.

RECOMMENDATIONS:

That Cabinet recommends to Council:

1. The Capital Investment Strategy be approved including:

- the Capital Programme and Capital Programme Financing (Appendices A and B to the report);
- the Minimum Revenue Provision (MRP) Policy Statement (Appendix E);
- the Flexible Use of Capital Receipts Strategy (Appendix G); and
- the prudential indicators detailed in the report and Appendix F.

That Cabinet:

2. Subject to Council approval of the capital programme, approves the following capital expenditure in 2024/25:

   - IMT equipment and software (£30,000) as detailed in paragraph 11.8.7;
   - £191,000 (subject to successful UKSPF funding bid) on Friarsgate Medical Centre interim open space (11.2.4);
   - Up to £200,000 for essential repairs works to the Weirs (11.2.4)
   - £40,000 in respect of fees for the replacement of North Walls pavilion (11.2.4); and
   - £485,000 for refurbishment works to the Guildhall to improve fire safety (11.2.4).

3. Notes the requirement to ensure Members have the right knowledge and skills to undertake their governance role and that the ongoing support and training offered to members is continued and enhanced as required.

IMPLICATIONS:

1 COUNCIL PLAN OUTCOME

1.1 The investment of capital resources will contribute to the achievement of the council's main objectives and priorities in the Council Plan. The Capital Strategy is an integral part of the Medium Term Financial Strategy and impacts directly on the Treasury Management Strategy.

1.2 More detail on specific projects supporting the priorities in the Council Plan is set out in section 11.2.

2 FINANCIAL IMPLICATIONS

2.1 The forecast capital programme over the next 10 years to 2033/34 totals £444.7 million of which £39 million is General Fund and £405.7 million is Housing Revenue Account.

2.2 The proposed financing is made up of £155.2 million from revenue including earmarked reserves, £136.6 million of prudential borrowing, £106.0 million of capital receipts, and £46.9 million of capital grants and contributions.

2.3 Further details are provided in the supporting information section below and in the appendices to the strategy.

2.4 The council will need to increase its external borrowing but the amount and timing of this is dependent on the delivery of the capital programme and on the council's overall reserve position. Further information, including borrowing limits, is set out in the Treasury Management Strategy (CAB3446).

2.5 Included in the Prudential Code is the requirement that "the chief finance officer should report explicitly on the affordability and risks associated with the capital strategy and, where appropriate, have access to specialised advice to enable them to reach their conclusions". The statement below is the Winchester City Council Chief Finance Officer's response:

2.6 Affordability and risk are always key considerations within the capital strategy and are particularly important given the constraints on the local government sector in terms of the funding available and the prevailing economic conditions. The strategy aims to support the key regeneration and place shaping priorities in the Council Plan as well as helping the council achieve its ambitious carbon neutral goals and, in the HRA, providing much needed new housing. The risk section is articulated below and importantly, business cases for new schemes are required to ensure that risks are adequately considered. One of the most significant risks is capacity to deliver the individual projects contained within the strategy and adequately identifying resources required at the commencement of projects is a crucial element of the business case process. The HRA capital programme is a key element of the Housing Revenue Account (HRA) Business Plan which is refreshed annually; individual schemes are assessed for affordability within the overall context of this plan, which now reflects the investment required to deliver 1000 new homes in line with the "Homes for All" Council Plan priority.

2.7 As a consequence of high inflation and the increased cost of borrowing available to the council, a number of schemes were paused from the programme in the previous capital strategy while consideration is given to value engineering, alternative proposals or meanwhile uses until the economic environment improves. The Strategic Asset Purchase Scheme (SAPS) budget was reduced to £4m following changes to the Public Works Loan Board (PWLB) lending criteria and the Prudential Code which mean that the council can no longer make purchases primarily for yield – surplus income from such investments cannot be used to support wider services but should be incidental and support the viability of the scheme or similar schemes elsewhere in the district. The total budget set aside for this programme is reasonable within the overall context of the council's capital strategy and the scale of the Council's balance sheet. Should potential purchases be identified in excess of the allocated budget, approvals will be sought through the usual governance processes as defined by the constitution.

2.8 Over the next ten years, the strategy forecasts up to £444.7m of capital spend of which £405.7 is HRA and £39m is General Fund. Whilst this is an ambitious programme of works, the council has a long history of successfully managing its capital assets to support its objectives while minimising the associated risks. The proposed programme is considered affordable, sustainable, and prudent. The council also utilises its treasury management advisors, Arlingclose, to consider the implications of the prudential code and the impact on its treasury management strategy.

3 LEGAL AND PROCUREMENT IMPLICATIONS

3.1 The council's Capital Investment Strategy Statement follows the latest codes of practice, and the Department for Levelling Up, Housing & Communities (DLUHC) and the Chartered Institute of Public Finance & Accountancy (CIPFA) guidance.

3.2 Individual projects included within the programme will be carefully considered in relation to legal and procurement issues and separate approvals sought as appropriate. The Programme and Capital Board (PAC) plays a key role in ensuring that this process takes place when considering business case and gateway decisions.

4 WORKFORCE IMPLICATIONS

4.1 Project resources for individual projects are identified as part of the business case development.

5 PROPERTY AND ASSET IMPLICATIONS

5.1 Many of the projects and schemes within the Capital Programme are related to the council's properties and assets and therefore aligning the programme with the Council's Asset Management Strategy is an important consideration. The Programme and Capital Strategy Board (PAC) plays a key role in ensuring that this process takes place and that funds are identified to improve the council's assets in line with its Strategies and Plans.

6 CONSULTATION AND COMMUNICATION

6.1 Following the publication of the Medium Term Financial Strategy in November, a budget consultation exercise was undertaken. Residents were asked to give their opinion and feedback on the Cabinet's proposals to balance the budget. The online survey included questions about the greener faster investments being proposed to increase recycling and reduce carbon emissions in the district; as well as whether the council should subsidise chargeable services. 211 responses were received over the five-week engagement exercise and the feedback has shaped the budget proposals and capital investment strategy presented in this report. In particular, there was overall positive support from two thirds of those who responded for the measures to improve our recycling service and make it easier for residents to recycle more. This will include investing in vehicles to introduce the food waste collection service.

6.2 Back in 2022, the council held a Residents' Survey and the views of a representative sample of over 1,700 residents across the district were sought. In addition to feedback on local priorities; views on emerging policy; and the relative perceived importance of council services; questions were asked on how to balance the budget to inform development of the Capital Strategy. Specifically:

- 74% agreed that the council should maximise use of its assets.
- 54% agreed that the council should dispose of council buildings.

The feedback from that Residents' Survey has helped shaped the long-term transformation programme ('TC25') set out in the budget report CAB3444.

6.3 As capital investment schemes come forward for appraisal, appropriate engagement and consultation is undertaken as part of the business case development for all individual projects and schemes.

6.4 The Scrutiny Committee is due to consider this report at its meeting on 6 February 2024, after this report has been dispatched. Any matters that the Scrutiny Committee wishes to raise or asks the Cabinet to note before making their decision will be reported and considered fully at the meeting.

7 ENVIRONMENTAL CONSIDERATIONS

7.1 Tackling the climate emergency and creating a greener district is a key priority for the council. A number of the schemes in the programme deal specifically with the climate emergency and environmental considerations are part of the business case supporting all capital projects.

8 PUBLIC SECTOR EQUALITY DUTY

8.1 The council is committed to ensuring its services are accessible to all its residents and that full consideration is given to obligations under the Public Sector Equality Duty in addition to any consultation comments.

8.2 Under the Council's Financial Procedure Rule 7.4, the inclusion of a scheme in the capital programme shall not constitute authority to incur expenditure until a full project report has been submitted by the appropriate Service Lead in consultation with their Corporate Head of Service and the S151 officer and approved in line with the limits set out in the constitution. As part of the approval to spend for each scheme, an Equality Impact Assessment must be completed before the project can proceed.

9 DATA PROTECTION IMPACT ASSESSMENT

9.1 Data Protection Impact assessments are considered as part of the business case/approvals for specific capital projects.

10 RISK MANAGEMENT

10.1 In setting out this strategy, and when considering the programme and the projects within in it, reference is made to the council's risk appetite as set in section 11.11.

Risk	Mitigation	Opportunities
Property Council assets not fully utilised	An effective capital strategy and its delivery helps to ensure council assets are used to achieve the council's priorities	Investment in the council's assets can increase income generation. Identification of assets suitable for sale can generate capital receipts which can be reinvested in assets or used to reduce the council's overall borrowing need, reducing the ongoing revenue cost.
Community Support Projects are unsupported by the community or the community's needs are not met	Engagement is undertaken for key projects to ascertain community and stakeholder views	Engagement with the community ensures the council's capital programme meets the needs of the district's citizens and businesses
Timescales Projects not delivered on time resulting in a delay in benefits to the council	The 10-year strategy and its associated governance structures including regular review by the Programme and Capital Strategy (PAC) Board and quarterly by Scrutiny/Cabinet	
Project capacity Failure to deliver major capital schemes due to insufficient staff resources	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 other schemes to be chosen should any schemes not progress
Financial / VfM	Detailed elsewhere within the report	In some cases, projects may generate savings or

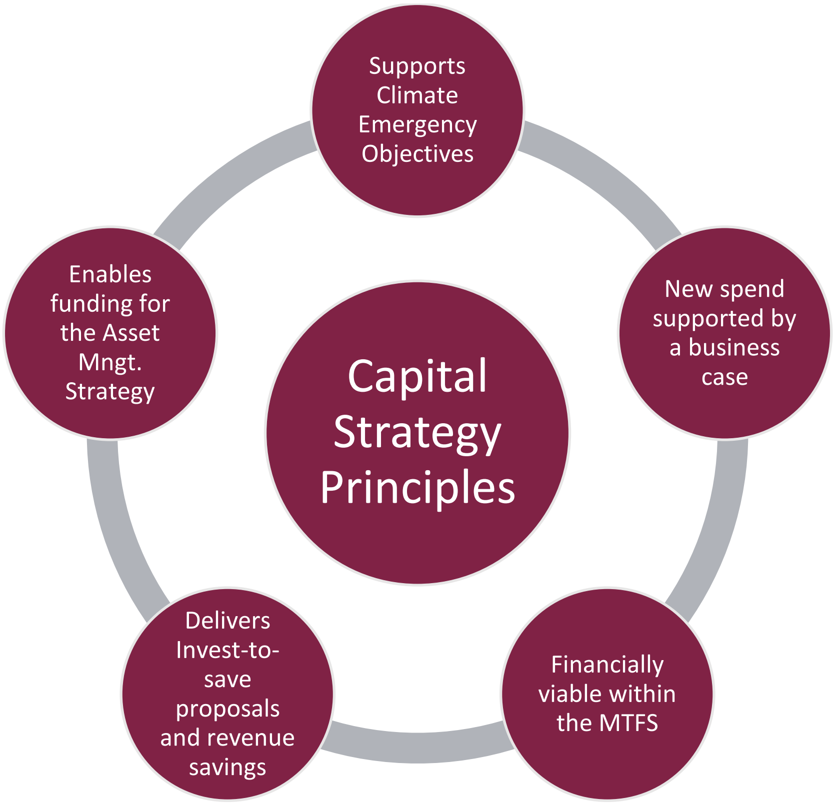
		new income in addition to achieving the council's objectives
Legal	Considered as part of the approval process for individual capital schemes	None
Innovation	Considered as part of the approval process for individual capital schemes	Strategy includes new schemes to innovate
Reputation	Considered as part of the approval process for individual capital schemes	Delivering council objectives via the capital programme can enhance the council's reputation

11 SUPPORTING INFORMATION:

11.1. Purpose

11.1.1. The council is in a privileged position to be able to invest in local projects that directly improve the quality of life for local people, support the economy, or protect the environment. Therefore, the primary purpose of this strategy is to identify and progress schemes to help deliver the Council Plan and to help make the council self-sufficient, in order to be able to deliver the required level of services. It outlines how the council ensures that individual schemes and the programme as a whole are deliverable and financially affordable.

11.1.2. However, financial pressures across the sector mean that the principles which underpin the strategy are carefully considered when prioritising schemes in the Capital Strategy. The Strategy sets out the council's capital spending programme and the principles which underpin this to deliver the Council Plan:

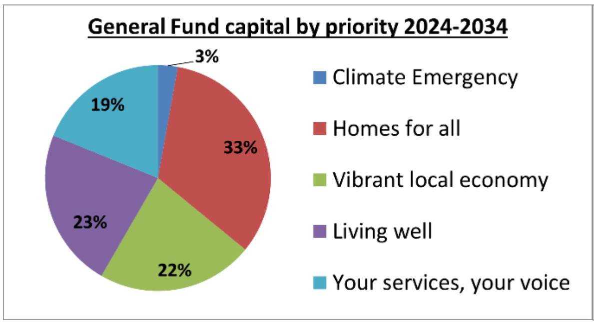


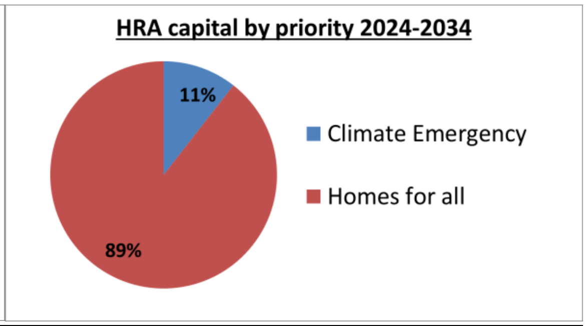
11.1.3. The council's capital programme incorporates both the General Fund (GF) and the Housing Revenue Account (HRA) capital requirements to support service provision and links with the Council Plan, Housing Business Plan, the Asset Management Strategy, IMT strategy and Medium Term Financial Strategy. This capital investment strategy provides a framework for the development and implementation of the capital programme.

11.1.4. As detailed in the council's Medium Term Financial Strategy (MTFS), the council is forecasting a significant reduction in its anticipated financial resources over the medium term. This is being addressed through the Transformation Challenge 2025 programme ('TC25'), where one of the key themes is maximising the use of our assets. It is vital therefore that the council maximises the use of its capital investment in the district over the next decade. As available resources reduce, the council needs to utilise its capital programme to drive the most effective and efficient use of those resources for the benefit of the district's residents.

11.1.5. The Council Plan details how the council will deliver its five strategic priorities: Tackling the climate emergency and creating a greener district, Homes for all, Vibrant local economy, Living well, and Your services Your Voice. Several of these priorities will be delivered through capital spend and associated projects including for example: additional investment in the council's housing stock to improve energy efficiency and help tenants reduce their carbon emissions and energy costs; the provision of new housing and maintenance of existing housing stock; major regeneration schemes; the refurbishment of the council's existing assets; and provision of leisure facilities.

11.1.6. The following charts illustrate the percentage of total capital expenditure forecast for each of the council's priorities (NB the charts are based on the main priority for each project or scheme; however, many meet more than one priority. For example, while a project may have a primary purpose of improving the local economy it may contain elements such as the installation of solar panels in order to tackle the climate emergency):





11.2. The Capital Programme

11.2.1. The council has made further progress in 2022/23 in delivering its capital programme. In the General Fund, projects completed or substantially complete this year include:

- King George V (KGV) pavilion. As well as offering a modern facility for its users, it will help the council achieve its carbon neutral goals by incorporating several features including EV charging points, solar panels, an air source heat pump, and a green roof.

- Kings Walk improvements to the ground floor & public realm - external greening, lighting, and internal alterations to create a refreshed image and to enhance connectivity and visibility between Kings Walk and the High Street.

- The establishment of a Housing Company, based on a leasing model, which will support the delivery of alternative tenures.

- The demolition of Friarsgate Medical Centre in advance of the creation of an interim public space in the Central Winchester Regeneration area.

- Stabilisation works to St Giles Hill to protect business units at Matley's Yard.

11.2.2. In addition to the required investment in major works to the existing stock including an ambitious retrofit programme to increase energy efficiency and help tenants reduce energy costs and to maintain the current decent homes standard, significant additional funding towards a challenging new build programme is included to facilitate the delivery of the council's objective of 1000 new homes for local people. Major projects included are:

- Winnall Flats with 76 units (35 shared ownership, and 41 market rent) – complete
- 54 units at North Whiteley (27 shared ownership, and 27 affordable) – complete
- Southbrook Cottages (6 units of affordable) delivered to Passive House standard – practically complete March 2024
- Barton Farm with 60 units 45 affordable rent and 15 shared ownership)
- Cornerhouse – 6 units affordable housing in a converted pub

11.2.3. Over the period 2024 to 2034, the council's total estimated capital expenditure is £444.7m of which £39.0m is General Fund and £405.7m is Housing Revenue Account. The following table summarises the capital programme by year for the period. Further detail by project is included in Appendix A:

Table 1: Summary of capital expenditure

Capital Expenditure 2024- 2034	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2030/31**	**2031/32**	**2032/33**	**2033/34**	**TOTAL Est.**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
General Fund	16.1	5.9	2.4	3.7	2.1	1.6	1.9	1.9	1.7	1.8	**39.0**
HRA	34.2	42.1	44.3	56.5	56.4	46.3	43.2	28.0	31.2	23.5	**405.7**
Total Expenditure	**50.3**	**48.0**	**46.6**	**60.2**	**58.5**	**47.9**	**45.1**	**29.9**	**32.9**	**25.3**	**444.7**

11.2.4. The programme includes the following key projects (quoted budget figures are for the period 2024-2034 and do not include prior years):

Priority: Tackling the Climate Emergency & creating a greener district (£44.0m)

Tackling the Climate Emergency is a theme that is integral to *all* that the council does.

- £42.9 m has been allocated over the next 7 years to invest in the **council's housing stock to improve energy efficiency and reduce emissions**.

- £1m budget has been allocated for **energy management projects** over 4 years from 2024/25 provisionally funded by prudential borrowing. Expenditure will be subject to a business case as new projects are identified and the council will seek to identify external grant funding where possible. As well as reducing the council's carbon emissions it is anticipated that projects will provide additional income and/or savings to the council over and above the cost of borrowing.

- In addition to the projects outlined above, measures to tackle the climate emergency are included in other projects. For example, additional EV charging points and solar PV were installed at the new Sport & Leisure Park and the new decked car park at Barfield. The design of new pavilion at King George V playing fields includes elements to ensure a sustainable and energy efficient building such as high-performance insulation and solar PV.

- Furthermore, the Carbon Neutrality Roadmap, which details how the council's ambitious carbon neutrality targets will be met, has indicated significant work is required by the council to reduce its carbon footprint. This is likely to require additional capital projects which, once identified and costed, will be included in the capital programme.

Priority: Homes for all (£375.7m)

- Over the next 10 years, £261m has been budgeted for the council's **New Build programme** to enable the delivery of its ambitious programme.

- An estimated £91.1m will be spent on **major repairs and maintenance** of our existing housing stock including £1.6m to improve fire safety; £11m on roof replacements; £15m on heating and hot water systems; £17m on communal areas works; and £11m on new kitchens.

- Capital expenditure of £0.6m has been approved for the refurbishment of 59 Colebrook Street for shared accommodation. £456,000 of the budget is funded from external grants and initially the property will be used to house those from the Ukrainian Resettlement scheme.

- An estimated £12.3m of **Disabled Facilities Grant** to enable people to stay in their own homes where possible by providing necessary adaptions to private homes in addition to £8.9m for adaptions to the council's own stock.

Priority: Vibrant local economy (£8.8m)

- Following the demolition of **Friarsgate medical centre** in 2023/24, an interim open space, focused on archaeological works, will be installed prior to further development. An additional budget of £191,000 has been allocated in 2024/25 subject to a successful application for funding from the UK Shared Prosperity Fund. This additional funding will allow an enhanced quality public realm on the site including soft landscaping, planters, seed parks, a natural trim trial play area, and the provision of a multi-use space for events and exhibitions.

- £200,000 has been allocated for **the demolition of the former Bar End depot**. This will allow the interim use of the site as surface storage facility at a rent of circa £150,000 to £200,000 per annum, as well as reduce the council's business rates liability. In addition, it will prevent anti-social behaviour in disused buildings on the site.

- The **Strategic Asset Purchase Scheme (SAPS)** seeks to identify assets for the council to acquire which will assist it in meeting its strategic objectives such as regeneration whilst also generating ongoing revenue streams in order to ensure a scheme is financially viable overall or to be recycled in other similar schemes. Following changes to the PWLB lending terms and the Prudential Code, the council can no longer purchase assets primarily for yield and must do so for service reasons only, including regeneration. Any surplus income must be incidental to the scheme or recycled in similar schemes elsewhere and cannot be used to fund wider services. The SAPS board (see section 11.10) can approve purchases up to £4m if the minimum score criteria is met. Any other purchases must follow the usual governance process as defined by the constitution. A budget of £4m has been allocated in 2024/25.

- Following the successful completion of **essential repairs to the Weirs**, a budget of up to £200,000 has been included in the programme to complete the final phase. This will be funded by an additional contribution of £100,000 from Hampshire County Council and by prudential borrowing at an estimated cost of between £2,000 and £7,000 per annum over the expected life of the works, depending on the final cost.

- In addition, a total of £4.2m has been identified for various car park improvements throughout the district including refurbishment works at **Chesil car park**, and provision of a new **car park at the Dean in Alresford**.

Priority: Living Well (£8.9m)

- Following a successful application, the council was awarded grant funding of £1.0m (of which a minimum of £0.46m is to be spent on capital) as part of the **UK Shared Prosperity Fund (UKSPF)** the primary goal of which is to “build pride in place and increase life chances across the UK”. This funding supports projects led by both the council and external groups. In addition, the council was awarded a further £0.75m from the **Rural England Prosperity Fund** which is a top-up to the UKSPF and supports capital projects that address the particular challenges rural areas face. As well as supporting the Living Well priority, projects will help the district achieve its Climate Emergency and Vibrant Local Economy priorities.

- Subject to a successful grant funding application, expenditure of £1.47m was approved in December 2023 for the installation of a **3G artificial turf pitch at the Winchester City Football Club** alongside some stadium improvement. Just under 90% of the project costs will be funded by the grant and will deliver on aims and commitments such as reduced health inequalities, a wide range of physical and cultural activities for all ages and abilities and supporting communities to extend the range of sports and cultural facilities across the district. In addition to providing opportunities to host inter-school tournaments and skills workshops for under 16s, older adults, and disability football, the new facilities will offer new opportunities for female coaches and players through the involvement of Winchester City Flyers FC.

- A budget of £2.1m (including £40,000 for fees in 2023/24) has been set aside to replace the **North Walls pavilion**. The current pavilion is beyond its useful life and in need of replacement. The proposal is to demolish the existing Pavilion and replace with a modern facility. This includes disabled access to the facilities to enhance the offer of disability cricket in the district. Approval is sought to incur expenditure on £40,000 of fees in the current financial year and a paper will be brought to Cabinet in 2024/25 to approve the main build costs. It should be noted that if the project does not ultimately proceed, any expenditure to date will be written back to revenue.

- Included in the programme is £0.57m of **improvements to the district’s public conveniences**. It is anticipated that improvements toilets in the council’s car parks will commence in 2023/24 (£0.21m) and works to toilets throughout the district will complete in 2024/25 (£0.21m). Works to Middlebrook St toilets and the installation of a changing places facility are still subject to appraisal.

- Over the next 3 years, £0.47m has been included for the **replacement or refurbishment of several play areas** that are the responsibility of Winchester Town Forum.

- **Community Infrastructure Levy (CIL) – Community projects.** In addition to previous years, £1.1m of CIL funded capital grants have been awarded to community groups for projects expected to take place in in the next 2 years as well as £0.3m available for new grant applications. The scheme allows community groups to apply for a share of between £10,000 and £200,000 for essential infrastructure projects. Projects include cycle routes, community facilities, solar panels, and LED floodlights at Rugby Club. In addition, a contribution of £300,000 has been approved to support a contra-flow cycle scheme in Winchester led by Hampshire County Council.

- £123,000 is included in the 10-year programme for replacement equipment including cycling bikes, gym equipment, and group exercise equipment at **Meadowside Leisure Centre**.

- Proposals for the future use of the old **River Park Leisure Centre site** have not been determined but a provisional budget for its demolition was added to the capital programme in February 2020; £2m is profiled in 2024/25. The exact timing is uncertain and to be determined as part of the wider plans for the site. This expenditure will be funded from the capital receipts reserve and offset by any capital receipt from the disposal of the site.

Priority: Your services Your voice (£7.4m)

- A large element of the budgets is for long term capital maintenance works to the council's operational assets. This includes the replacement of the City Offices heating system and lifts within City Offices and the West Wing, as well as an annual budget for reactive capital maintenance works.

- A budget of £485,000 has been reallocated from the Asset Management Plan reactive maintenance budget, funded by the Property Reserve, in order to undertake **refurbishment works to the Guildhall**. The works will improve the fire safety of the building whilst also improving thermal comfort. The building will remain opening during the works.

- £2m has been set aside in 2025/26 for the purchase of vehicles and bins for the **collection of food waste**. The exact cost is to be determined but it is anticipated that a significant part of the funding will be provided by central government New Burdens grant.

- The council continues to invest in keeping its IMT up to date including the provision of appropriate equipment to reduce cost and the consumption of paper and investing in remote working solutions to reduce the need for staff to travel and therefore the council's carbon footprint.

11.2.5. Future capital ambitions and key considerations for future years:

- Following the council's declaration of a Climate Emergency and its goal of becoming carbon neutral as a council by 2024 and as a district by 2030, further capital projects will be required to meet this goal in addition to those already carried or in the capital programme. Ongoing work is being undertaken on **Greener Faster energy schemes**, including the potential for the council to invest in a solar farm in the district and the possibility of installing solar canopies in car parks. In some cases, such as with the installation of solar panels, the projects may pay for themselves and deliver a small surplus to the council. However, some projects may not provide sufficient income or savings to cover the associated cost of borrowing and will therefore increase the overall revenue costs to the council; there are a number of possible sources of grant funding for these projects and the council will explore these opportunities where appropriate in order to reduce the financial impact.

- A number of potential schemes will be required in respect of the **Winchester Movement Strategy**. Where possible, external funding sources will be explored such as Community Infrastructure Levy (CIL) contributions and external grant funding.

- **Central Winchester Regeneration (CWR)** – The CWR project aims to deliver a mixed use, pedestrian friendly quarter that is 'distinctly Winchester' and supports a vibrant retail and cultural/heritage offer; set within an exceptional public realm. Ultimately, it will support business and the city economy, and make it a more attractive place for residents and visitors alike. Working with a development partner, it is not anticipated that the council will be making further capital investment in CWR but it is expecting to put its assets into the scheme.

- A budget will be required for the **Brooks car park ventilation system** which has been in operation since its opening. The exact timing and cost will need to be determined and the solution will not only provide cleaner air but will reduce carbon emissions and running costs.

- The cost of borrowing has increased considerably in the last couple of years (the 40-year annuity rate at the end of 2021 was circa 2% and at the end of 2023 was around 5%). This, coupled with significant construction inflation over the past 2 years, means several schemes previously included in capital strategy were removed in February 2023 as they were no longer viable. Ongoing consideration is being given to value engineering, alternative proposals or meanwhile uses while projects are paused until the economic environment improves.

- As stated in the Asset Management Strategy (CAB3777 refers), the council's non-housing property assets play a significant role in generating rental income and creating opportunity for social, economic, environmental, cultural and regeneration interventions. As part of this it essential that sufficient funds are set aside in the Property Reserve and the council is establishing the total needs of the estate over the next several years with a key tenet being the decarbonisation of the council's estate. It is essential to regularly review the performance of the council's property portfolio and make active decisions on retention, disposal or rental/leasing options to best support council objectives. Part of the remit of the council's Property Board, a member/officer group, is "Asset Challenge" which commenced in 2018/19 and involves reviewing the council's assets on a rolling basis to ensure the best use is made of them and, where appropriate, recommend investment in or disposal of assets.

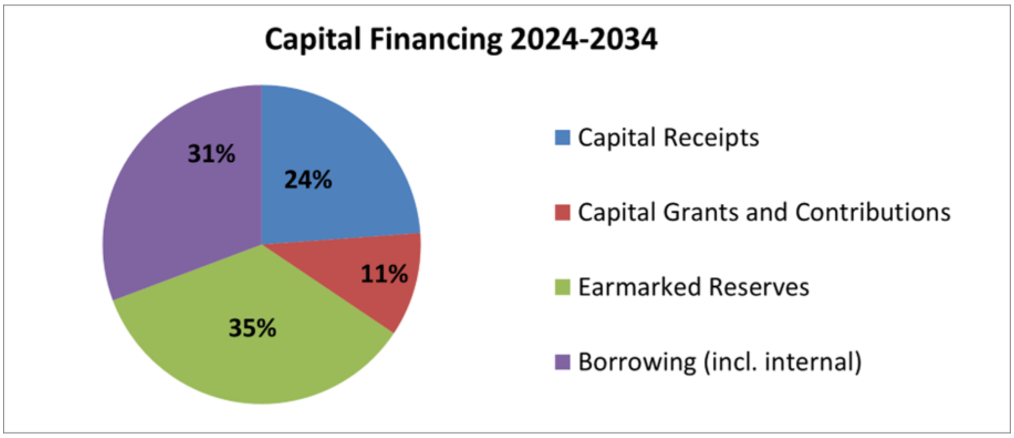
11.3. Financing the Capital Programme

11.3.1. The council can invest in a capital programme so long as its capital spending plans are "affordable, prudent, and sustainable" as well as "proportionate".

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

- Capital receipts (from asset sales);
- Capital grants (e.g. Disabled Facilities Grant);
- External contributions (e.g. Section 106 developers' contributions and Community Infrastructure Levy (CIL));
- 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 internally (also known as the "Capital Financing Requirement").

11.3.3. Full details of the proposed financing for the 2024-2034 capital programme are provided in Appendix B and is summarised in the following graph:



11.3.4. Borrowing (or Capital Financing Requirement) makes up a significant element of the council's proposed financing over the next 10 years. In recent years the council has had sufficient cash and investment balances to be able to internally borrow but will, in the future, need to increase its external borrowing in addition to the £161.7m the council has already borrowed on behalf of the HRA. The impact of this borrowing is estimated as part of the revenue consequences of the capital programme (see Appendix C) and is incorporated into the Medium-Term Financial Strategy and the Housing Revenue Account business plan. The council works closely with its external treasury advisors (Arlingclose) to identify the optimum borrowing strategy to provide a balance between achieving certainty of future costs (i.e. locking-in long-term fixed rates) and the overall cost of borrowing.

11.3.5. Before committing the council to borrowing, consideration is giving to the forecast savings and/or income a new project may generate and how this will contribute to the financing costs as part of its respective business case. The capital financing requirement is reduced over the life of individual assets in the General Fund by a statutory annual contribution from revenue referred to as the Minimum Revenue Provision (MRP). In addition, the council can elect to reduce its borrowing need by making additional contributions from revenue or from the sale of assets (capital receipts). Planned MRP is as follows:

Table 2: Replacement of debt finance in £ millions

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget
Minimum Revenue Provision (GF)	1.7	1.6	1.8	1.8	1.6
Reserves (HRA)	0.0	0.0	0.0	0.0	0.0
Total	**1.7**	**1.6**	**1.8**	**1.8**	**1.6**

The council's full MRP statement is available at Appendix E.

11.3.6. The council's cumulative outstanding amount of debt finance (borrowing need) is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and voluntary contributions from revenue or capital receipts. CFR is estimated to increase by up to £3.0m during 2024/25 subject to full delivery of the Capital Programme.

Table 3: Estimates of Capital Financing Requirement (CFR) in £ millions

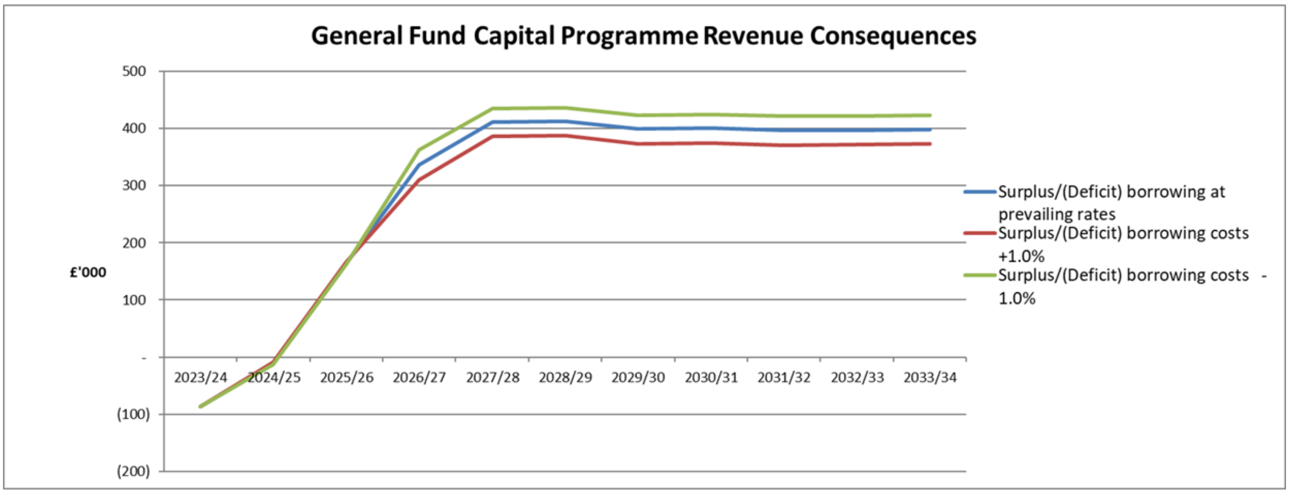
	31.3.2023 actual	**31.3.2024 forecast**	**31.3.2025 budget**	**31.3.2026 budget**	**31.3.2027 budget**
General Fund	71.7	70.1	73.2	64.1	62.8
Housing Revenue Account	199.8	223.2	223.2	223.9	234.1
TOTAL CFR	**271.5**	**293.3**	**296.4**	**288.0**	**296.9**

11.3.7. Further information including borrowing forecasts and borrowing limits are set out in the Treasury Management Strategy (CAB3446).

11.4. Revenue Consequences of the Capital Programme on the General Fund

11.4.1. Appendix C details the impact of the Capital Programme on the council's General Fund and includes the effect of using potential capital receipts to reduce prior year unfinanced capital expenditure. 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 2025/26.

11.4.2. Part of the council's programme is financed by borrowing and this exposes the council to the risk of changing interest rates. The council can mitigate against this by borrowing early where it is advantageous to do so and by taking out a basket of loans of mixed duration including longer-term fixed rate loans. The graph below illustrates the impact on the General Fund at prevailing long-term rates available to the council as well as the impact of a change in those rates by 1.0%:



11.4.3. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans, MRP, and any revenue funded reductions in the borrowing need are charged to the General Fund (GF) or Housing Revenue Account (HRA) income and expenditure statements as appropriate. The net annual charge is known as financing costs - this is compared to the net revenue stream: Council Tax, Business rates, and general government grants in the case of the GF; and rents and other charges in the case of the HRA.

Table 4: Prudential Indicator: Proportion of financing costs to net revenue stream

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget
GF financing costs (£m)	1.6	1.6	1.8	1.8	1.6
GF proportion of net revenue stream	8.2%	7.9%	9.0%	8.8%	10.1%
HRA financing costs (£m)	5.4	7.1	8.2	8.0	8.4
HRA proportion of net revenue stream	17.4%	21.4%	22.4%	21.3%	21.2%

11.4.4. **Sustainability** – due to the long-term nature of capital expenditure and financing, the revenue implications of the expenditure in the next few years will extend up to 50 years in the future. It is imperative therefore that the council ensures that the proposed programme is prudent, affordable, and sustainable. This is achieved by ensuring that the governance and procedures outlined in this strategy are followed; by incorporating and considering the revenue impact in the context of the medium term financial strategy (MTFS); by undertaking financial appraisals of individual projects as part of their business cases on a whole life basis; and, for HRA expenditure, incorporating the impact in the 30 year business plan.

11.5. Capital Receipts

11.5.1. 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. Repayments of capital grants, loans, and investments also generate capital receipts. Forecast capital receipts and their use in funding capital expenditure is detailed in Appendix D.

11.5.2. Ordinarily capital resources, such as capital receipts, can only be used to finance capital expenditure (i.e. the creation or enhancement of a capital asset). However, in 2018 the DLUHC Secretary of State issued a direction to local authorities in order to give local authorities the freedom to use capital receipts from the sale of their own assets (excluding Right to Buy receipts) to help fund the revenue costs of transformation projects and release savings, including through redundancy. By using capital receipts, the council is able to avoid the negative impact on its annual revenue budget of significant one-off costs. The council used £194,000 in qualifying receipts for severance costs in 2020/21 which will continue to provide significant ongoing savings of over £700,000 per annum. In 2021, the government confirmed that the direction would be extended by another 3 years from 2022/23 though it will now exclude redundancy costs; while the council has no specific plans to do so, it may use qualifying capital receipts, when appropriate, to help fund the revenue costs of any transformation projects identified. Further detail is provided in the Flexible Use of Capital Receipts Strategy at Appendix G.

11.5.3. In order to effectively manage its estate the council commenced an asset challenge programme in 2018/19. This process involves reviewing all the council’s assets on a rolling basis to establish why the council holds assets; what options the council has, for example, to increase income, dispose, hold or develop; and when these can be realised.

11.6. The approval process and Project and Programme management

11.6.1. For effective delivery of the Capital Programme, it is important that the programme is realistic in terms of projects which can be delivered on time, within budget, and whilst achieving the desired outcomes. The council has a number of programme and project management procedures in place to help to ensure successful delivery of the capital programme, from the initiation and approval of projects to effective performance monitoring and post-implementation review.

11.6.2. The resource requirements for each corporate project are assessed as part of the development of the outline business case and associated project plan and initially identified in the Business Justification Case which is considered by the Programme and Capital Board (PAC). This is then considered in relation to the whole programme of projects to determine the cumulative impact of delivery on staff resources. This can have an impact on resourcing in key service areas such as the legal, finance, procurement and estates teams depending upon the nature of the projects. Where required, external support is commissioned to provide resources which cannot be met internally.

11.6.3. The PAC Board, the role of which is to monitor the programme and project delivery together with identifying and addressing resource issues, meets on a regular basis to consider such issues.

11.6.4. Cabinet and Performance Panel receives quarterly updates on financial performance as well as key projects many of which are in the capital programme.

11.7. <u>Asset Management Strategy (AMS)</u>

11.7.1. The AMS seeks to address both the spending priorities for the maintenance of operational property and the development of the non-operational estate to assist economic development and provide both capital receipts and revenue income streams. The most recent AMS covering the period to 2027 was approved in January 2023 (CAB3377 refers).

11.7.2. The council owns a well-located portfolio of property which has the potential to provide an increasing level of income for the council, whilst other sources of income may be restricted in growth. During the first two years of the covid-19 pandemic rental income was under pressure. This was carefully monitored, and a “Rent Abatement” programme supported tenants through this period, resulting in only one business having to give up their tenancy due to business failure. There remains the risk that, particularly with respect to retail properties within the council’s portfolio, the current economic downtown may be prolonged. The value of the council’s portfolio can be unlocked by undertaking prudent development or refurbishment schemes on existing property to be let as well as identifying potential asset sales as detailed in 11.5 above. However, over the last two years there has been a significant increase in construction inflation as well as an increase in the cost of borrowing available to the council. This resulted in a number of redevelopment schemes being reviewed and removed from the active programme in February 2023 as they are currently either commercially or financially unviable.

11.7.3. The Capital Programme (Appendix A) includes specific projects in line with the underlying asset management plan held by the council's Estates team. In addition, an annual budget, funded by the Property Reserve, has been allocated to support reactive capital maintenance and smaller scale refurbishments as they arise.

11.8. <u>IMT Asset Management Plan</u>

11.8.1. The council formed an IT delivery partnership with Test Valley Borough Council in 2009 that shares an infrastructure platform that continues to produce both capital avoidance and revenue financial savings. Assets in the shared platform are jointly procured and owned. Other capital assets which are required solely for the use of either party will continue to be funded independently. This will be reflected in setting out investment requirements.

11.8.2. The purpose of the IMT Service is to deliver highly reliable, secure and easy to use technology solutions, maintaining operational excellence. The IMT Service uses good practice methodologies (ITIL3) to ensure the quality control of supportable, sustainable, and secure services to deliver. high quality IT Services.

11.8.3. The Asset Management Plan for IT infrastructure recognises this requirement for fit-for-purpose equipment through a programme of continuous investment. Generally, equipment will require refreshment after 4-5 years, at intermittent intervals due to the practical constraint of delivery and implementation. The plan assumes the need to refresh infrastructure items on a like-for-like basis, and proposed costs reflect this. In reality, after five years the technology will have "moved on" and new developments, offering further advances, will be considered and may give greater benefits for the same investment.

11.8.4. The council has introduced hybrid working and staff may work up to 50% of the time remotely. A key element of this is the IT investment to enable flexible working from a range of locations (specifically the roll-out of laptops and hybrid meeting room solutions).

11.8.5. An IT Strategy is under development which will be driven by the council's strategic plan and the needs of the service areas. As the Council commences its TC25 Programme we must continue to align our IT delivery to ensure that we provide technical solutions that enable a shift from traditional IT support and focus more on transformation services to complement our digital and workforce strategy.

11.8.6. The following table sets out the proposed IMT capital expenditure for 2024/25 to be financed from the IMT reserve:

IMT Capital	***2023/24*** *Forecast*	**2024/25**
	£'000	**£'000**
Equipment	*45*	15
Corporate network	*202*	15
ArcServe backup	*48*	
Telephony replacement	*10*	
Uninterruptable power supply (UPS)	*20*	
Meeting rooms equipment	*76*	
Total	***401***	**30**

11.9. Housing Revenue Account (HRA)

11.9.1. The HRA capital programme takes full account of priorities detailed in the council's Housing Strategy, its 30-year HRA Business Plan and the Housing Asset Management Strategy.

11.9.2. Appendix A provides summary detail on the HRA capital programme for 2024/25 and forecasts to 2033/34. Further detailed information can be found in the Housing budget paper (CAB3445).

11.10. Commercial and non-Treasury Investment Activities

11.10.1. The council invests for three broad purposes:

- because it has surplus cash as a result of the reserves it holds and its day-to-day activities such as when income is received in advance of expenditure (known as **treasury management investments**);
- to support local public services by undertaking regeneration projects, by lending to, and by buying shares in other organisations (**service investments**); and
- to earn investment income (**commercial investments**).

11.10.2. The council's Treasury Management Strategy, and associated limits and indicators, is reported in CAB3446. Further detail on service and commercial investments including total investment indicators is provided in Appendix F.

11.10.3. As noted elsewhere in this report, the council's Asset Management Strategy seeks to develop the estate to assist economic development and provide both capital receipts and revenue income streams.

11.10.4. Individual projects are supported by appropriate business cases and the programme as a whole is monitored to ensure that sufficient resources are available, both financial and in respect of staff. Where appropriate, the council will procure additional external resource when either there is insufficient officer availability or when specialist advice and support is required.

11.10.5. In addition to this, Council approved a Strategic Asset Purchase Scheme (SAPS) in January 2017 (CAB2872 refers). As part of this, a SAPS Board was created which includes members and officers; the board receives recommendations of potential purchases and the s151 officer has delegated authority to make acquisitions up to £4m following discussions with the board, subject to due diligence, or recommend to Cabinet and Council to approve acquisitions above £4m.

11.10.6. The following flowchart details the process:

Property identified as a potential Strategic Acquisition by the Corporate Head of Asset Management and/or external advisor

▼

Estates to advise SAPS Board members of a prospective asset purchase.

▼

Pre-offer stage: circulate Business Case (to the s151 officer's requirements) of information on full details and cash flow of the potential acquisition to the SAPS Board and Legal Services including full financial implications of purchase are fully understood, before proceeding

▼

Request approval from SAPS & s151 Officer to enter into the bidding process.

▼

To update SAPS Board as necessary and thereafter agree Heads of Terms where bid is successful and commission independent surveys, purchase report and valuation

▼

Subject to any final observations from SAPS Board request their authority to accept the offer subject to contract.

▼

Once the bid is confirmed by SAPS Board, Asset Management to instruct solicitors and when contracts are agreed, seek final approval from SAPS to exchange.

11.11. Risk Appetite

11.11.1. The council's Risk Appetite Statement is an integral part of the council's Risk Management Policy. It ensures that the opportunities the council is willing to take to achieve its strategic priorities and objectives are measured, consistent and compatible with the council's capacity to accept and manage risk; and that they do not expose the council to unknown, unmanaged or unacceptable risks. The Policy was most recently updated and approved in March 2023 (CAB3381). The Policy is subject to review annually and the risk appetite detailed below may therefore change.

11.11.2. During the course of the year the council will take fair, measured and targeted levels of risk to achieve the priority objectives included in the Council Plan. There will be opportunities for the council to be innovative or work differently and any identified risks will need to be considered against the anticipated cost or efficiency benefits.

11.11.3. The Risk Appetite Statement supports members and officers in decision making by setting out where the cabinet is comfortable taking different levels of risk, and which levels of risk are unacceptable. The council's risk appetite is considered in conjunction with the risk section of all committee reports when decisions are made.

11.11.4. The council's current overall risk appetite is defined as MODERATE (see table below for definitions). This means the council remains open to innovative ways of working and to pursue options that offer potentially substantial rewards, despite also having greater level of risks. However, the council's preference is for safe delivery options which have a lower degree of risk, especially for those services required by statute.

Risk Appetite Definitions	
Avoid	No appetite. Not prepared to take risk.
Averse	Prepared to accept only the very lowest levels of risk, with the preference being for ultra-safe delivery options, while recognising that these will have little or no potential for reward/return.
Cautious	Willing to accept some low risks, while maintaining an overall preference for safe delivery options despite the probability of these having mostly restricted potential for reward/return.
Moderate	Tending always towards exposure to only modest levels of risk in order to achieve acceptable outcomes.
Open	Prepared to consider all delivery options and select those with the highest probability of productive outcomes, even when there are elevated levels of associated risk.
Hungry	Eager to seek original/creative/pioneering delivery options and to accept the associated substantial risk levels in order to secure successful outcomes and meaningful reward/return.

11.11.5. Risk appetite is not a single, fixed concept and there will be a range of appetites for different risks which may vary over time. The council's risk appetite by corporate priority and guiding principles are set out below.

Council Plan Priority	Risk Appetite	
Tackling the climate emergency	Open	Reflecting the urgency of the climate crisis we will consider options with elevated levels of risk if they deliver required outcomes faster.
Homes for all	Open	We will choose innovative solutions which may bring elevated levels of risk in order to provide homes that are: • Affordable • sustainable • with low energy usage and low bills built in the right areas for our changing communities.
Living well	Moderate	We will continue to facilitate and deliver solutions, often working with partners, that produce positive outcomes for all our residents. We will usually take moderate to low-risk options.
Vibrant local economy	Moderate	We will tend towards exposure to modest levels of risk in order to deliver positive outcomes for our local economy in these challenging times.
Your services, your voice	Moderate	We will, in order to ensure resilience, enhance our services and make the best use of our resources and explore alternative delivery models. We will tend towards moderate risk exposure to deliver good levels of service.

11.12. Knowledge, capacity, and skills

11.12.1. In order to deliver the Capital Programme, it is essential that the council has access to the right knowledge and skills.

11.12.2. Internally the council employs fully qualified and experienced staff such as accountants, solicitors, and surveyors. It is fully supportive in providing access to training, both internal and external, to enable those staff to complete their Continuing Professional Development (CPD) requirements.

11.12.3. Where the council does not have the knowledge, capacity, or skills required, use is made of external advisors and specialists in their field. The council currently employs Arlingclose Ltd as their Treasury advisers, Wilks Head & Eve to undertake its year end valuations, and other specialists as required to support, for example, its major projects.

11.12.4. In addition, the council ensures that its members are suitably experienced to undertake the governance responsibilities commensurate to their roles by providing training opportunities (internally and externally provided) and access to workshops either within the council or with its local government partners. There are a number of mandatory training sessions for members throughout the year including, for example, Code of Conduct training and training for the Audit & Governance Committee. Several members attended briefing sessions in October and November 2023: a “Councillors’ Guide to Understanding your Council’s Financial Reporting Requirements” provided by CIPFA and a session on Treasury Management delivered provided by the council’s treasury advisors Arlingclose.

11.12.5. The council also procures, when required, expert advice and assistance externally such as financial and legal advice.

12 OTHER OPTIONS CONSIDERED AND REJECTED

12.1 The council could elect to have no capital programme at all or to plan for an alternative programme. Both these options have been rejected as the council would no longer be able to meet its objectives.

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

The Capital Strategy and Programme are approved annually.

Other Background Documents:-

None

APPENDICES:

Appendix A – Capital Programme 2024-2034

Appendix B – Capital Programme Financing 2024-2034

Appendix C – Revenue Consequences of General Fund Capital Programme 2024 to 2034

Appendix D – Capital Receipts Reserve Forecast

Appendix E – Minimum Revenue Provision Statement 2024/25

Appendix F – Investment activities

Appendix G – Flexible Use of Capital Receipts Strategy

This page is intentionally left blank

Capital Programme 2024-34

Projects ***highlighted in bold*** are either complete or substantially complete

	Priority	2023/24 Revised £000	2024/25 Forecast £000	2025/26 Forecast £000	2026/27 Forecast £000	2027/28 Forecast £000	2028/29 Forecast £000	2029/30 Forecast £000	2030/31 Forecast £000	2031/32 Forecast £000	2032/33 Forecast £000	2033/34 Forecast £000	TOTAL 2024-2034 Forecast £000
General Fund													
Approved*													
Disabled Facility Grants	Homes for all	*1,230*	1,230	1,230	1,230	1,230	1,230	1,230	1,230	1,230	1,230	1,230	**12,300**
IMT Assets	Your services, your voice	*401*	30	90	464	305	300	35	75	364	90	220	**1,973**
WCFC all weather 3G pitch	Living well	-	1,466	-	-	-	-	-	-	-	-	-	**1,466**
CIL funded community projects	Living well	*327*	771	375	-	-	-	-	-	-	-	-	**1,146**
SAPS - Car Park at the Dean, Alresford	Vibrant local economy	-	1,065	-	-	-	-	-	-	-	-	-	**1,065**
59 Colebrook Street - shared accommodation	Homes for all	-	610	-	-	-	-	-	-	-	-	-	**610**
Car Parks	Vibrant local economy	*192*	433	-	-	-	-	-	-	-	-	-	**433**
CIL funded HCC projects - contra-flow cycle scheme Upper High St.	Living well	-	-	300	-	-	-	-	-	-	-	-	**300**
Chesil Multi Storey car park	Vibrant local economy	-	299	-	-	-	-	-	-	-	-	-	**299**
Public conveniences improvements	Living well	-	210	-	-	-	-	-	-	-	-	-	**210**
Friarsgate Medical Centre - demolition & interim open space	Vibrant local economy	*671*	191	-	-	-	-	-	-	-	-	-	**191**
KGV Park Plan	Living well	*13*	187	-	-	-	-	-	-	-	-	-	**187**
Meadowside Leisure centre - new equipment	Living well	-	22	-	-	-	101	-	-	-	-	-	**123**
King George V Pavilion replacement	Living well	*2,517*	-	-	-	-	-	-	-	-	-	-	**0**
Kings Walk improvements	Vibrant local economy	*317*	-	-	-	-	-	-	-	-	-	-	**0**
Car parks - public convenience improvements	Living well	*210*	-	-	-	-	-	-	-	-	-	-	**0**
St Giles Hill chalk face stabilising works	Vibrant local economy	*170*	-	-	-	-	-	-	-	-	-	-	**0**
Open Spaces & Recreational Facilities - North Walls	Living well	*150*	-	-	-	-	-	-	-	-	-	-	**0**
Housing Company	Homes for all	*150*	-	-	-	-	-	-	-	-	-	-	**0**
River Park Leisure Centre site - decommissioning	Living well	*129*	-	-	-	-	-	-	-	-	-	-	**0**
Meadowside Leisure centre - solar PV	Climate Emergency	*125*	-	-	-	-	-	-	-	-	-	-	**0**
Open Spaces & Recreational Facilities - KGV play area	Living well	*124*	-	-	-	-	-	-	-	-	-	-	**0**
North Walls - tennis court resurfacing	Living well	*80*	-	-	-	-	-	-	-	-	-	-	**0**
Hampshire Community Bank - share purchase	Vibrant local economy	*62*	-	-	-	-	-	-	-	-	-	-	**0**
Theatre Royal grant	Living well	*59*	-	-	-	-	-	-	-	-	-	-	**0**
Bishop's Waltham footpath & cycle link	Living well	*50*	-	-	-	-	-	-	-	-	-	-	**0**
Winchester Sport & Leisure Park	Living well	*32*	-	-	-	-	-	-	-	-	-	-	**0**
Winchester Town bus shelters	Living well	*21*	-	-	-	-	-	-	-	-	-	-	**0**
UK Shared Prosperity Fund - approved schemes	Living well	*20*	-	-	-	-	-	-	-	-	-	-	**0**
Guildhall microphones	Your services, your voice	*18*	-	-	-	-	-	-	-	-	-	-	**0**
City Offices decarbonisation	Climate Emergency	*13*	-	-	-	-	-	-	-	-	-	-	**0**
Jane Austen Statue - capital grant	Vibrant local economy	*10*	-	-	-	-	-	-	-	-	-	-	**0**
Durngate flood prevention works	Climate Emergency	*4*	-	-	-	-	-	-	-	-	-	-	**0**
Total Approved*		***7,095***	**6,514**	**1,995**	**1,694**	**1,535**	**1,631**	**1,265**	**1,305**	**1,594**	**1,320**	**1,450**	**20,303**

Capital Programme 2024-34

	Priority	2023/24 Revised £000	2024/25 Forecast £000	2025/26 Forecast £000	2026/27 Forecast £000	2027/28 Forecast £000	2028/29 Forecast £000	2029/30 Forecast £000	2030/31 Forecast £000	2031/32 Forecast £000	2032/33 Forecast £000	2033/34 Forecast £000	TOTAL 2024-2034 Forecast £000
Subject to Appraisal*													
North Walls Pavilion replacement	Living well	*40*	1,060	1,000	-	-	-	-	-	-	-	-	**2,060**
Demolition of former leisure centre at River Park	Living well	*-*	2,000	-	-	-	-	-	-	-	-	-	**2,000**
Food waste collection - vehicles and containers	Your services, your voice	*-*	-	2,000	-	-	-	-	-	-	-	-	**2,000**
Car Parks	Vibrant local economy	*-*	-	305	180	180	180	180	180	180	180	180	**1,745**
Asset Management Plan	Your services, your voice	*20*	150	150	150	150	150	150	150	150	150	165	**1,515**
City Offices - refurbishments inc. new lifts, lighting, and heating system	Your services, your voice	*-*	-	-	-	840	-	-	250	-	-	-	**1,090**
Energy Management Projects	Climate Emergency	*-*	250	250	250	250	-	-	-	-	-	-	**1,000**
Chesil Multi Storey car park	Vibrant local economy	*-*	120	-	-	500	-	-	-	-	-	-	**620**
Rural Prosperity Fund	Living well	*186*	559	-	-	-	-	-	-	-	-	-	**559**
Guildhall fire safety improvement works	Your services, your voice	*-*	485	-	-	-	-	-	-	-	-	-	**485**
Open Spaces & Recreational Facilities - various sites	Living well	*-*	100	110	120	50	90	-	-	-	-	-	**470**
The Weirs - essential repairs	Vibrant local economy	*-*	200	-	-	-	-	-	-	-	-	-	**200**
West Wing refurbishment - replacement lift	Your services, your voice	*-*	-	-	-	200	-	-	-	-	-	-	**200**
Former bar end depot demolition	Vibrant local economy	*-*	200	-	-	-	-	-	-	-	-	-	**200**
UK Shared Prosperity Fund	Living well	*9*	170	-	-	-	-	-	-	-	-	-	**170**
Public conveniences improvements (Middlebrook St & Changing Places)	Living well	*50*	100	-	-	-	-	-	-	-	-	-	**100**
City Offices - additional solar PV	Climate Emergency	*-*	100	-	-	-	-	-	-	-	-	-	**100**
Replacement printers	Your services, your voice	*-*	-	93	-	-	-	-	-	-	-	-	**93**
North Walls Park Plan - path improvements	Living well	*-*	50	-	-	-	-	-	-	-	-	-	**50**
St Giles Hill stabilisation works (Town)	Living well	*-*	50	-	-	-	-	-	-	-	-	-	**50**
Relocation of bone store to F2 - racking	Your services, your voice	*75*	-	-	-	-	-	-	-	-	-	-	**0**
Subject to Appraisal*		***380***	**5,594**	**3,908**	**700**	**2,170**	**420**	**330**	**580**	**330**	**330**	**345**	**14,707**
Total General Fund		***7,475***	**12,108**	**5,903**	**2,394**	**3,705**	**2,051**	**1,595**	**1,885**	**1,924**	**1,650**	**1,795**	**35,010**

*** Under the Council's Financial Procedure Rule 7.4, the inclusion of a scheme in the capital programme does not constitute authority to incur the expenditure. Such authority is obtained subject to the various conditions and limits as set out in the Constitution.**

The Strategic Asset Purchase Scheme (SAPS) is subject to separate governance procedures as outlined in the Capital Investment Strategy

	Priority	2023/24 Revised £000	2024/25 Forecast £000	2025/26 Forecast £000	2026/27 Forecast £000	2027/28 Forecast £000	2028/29 Forecast £000	2029/30 Forecast £000	2030/31 Forecast £000	2031/32 Forecast £000	2032/33 Forecast £000	2033/34 Forecast £000	TOTAL 2024-2034 Forecast £000
SAPS - unallocated	Vibrant local economy	*-*	4,000	-	-	-	-	-	-	-	-	-	**4,000**
Total SAPS - unallocated		***-***	**4,000**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,000**

	Priority	2023/24 Revised £000	2024/25 Forecast £000	2025/26 Forecast £000	2026/27 Forecast £000	2027/28 Forecast £000	2028/29 Forecast £000	2029/30 Forecast £000	2030/31 Forecast £000	2031/32 Forecast £000	2032/33 Forecast £000	2033/34 Forecast £000	TOTAL 2024-2034 Forecast £000
Housing Revenue Account													
New build	Homes for all	*30,627*	15,524	24,372	26,102	38,561	39,601	28,592	29,512	19,386	23,399	16,020	**261,069**
Major repairs	Homes for all	*6,227*	10,405	10,188	9,333	10,348	9,055	9,772	5,607	7,090	6,618	6,419	**84,835**
Improvements & conversions	Homes for all	*100*	688	536	546	554	564	574	586	502	135	-	**4,685**
Disabled adaptations	Homes for all	*782*	815	836	850	866	881	896	916	917	930	944	**8,851**
Fire Safety provision	Homes for all	*605*	1,176	402	-	-	-	-	-	-	-	-	**1,578**
Climate Change Emergency	Climate Emergency	*2,230*	4,906	5,619	7,304	6,087	6,196	6,300	6,439	-	-	-	**42,851**
Other capital spend	Homes for all	*90*	659	117	119	121	123	125	128	128	130	132	**1,782**
Total Housing Revenue Account		***40,661***	**34,173**	**42,070**	**44,254**	**56,537**	**56,420**	**46,259**	**43,188**	**28,023**	**31,212**	**23,515**	**405,651**
Grand Total		***48,136***	**50,281**	**47,973**	**46,648**	**60,242**	**58,471**	**47,854**	**45,073**	**29,947**	**32,862**	**25,310**	**444,661**

Capital Programme Financing 2024 to 2034

	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	2029/30 £000	2030/31 £000	2031/32 £000	2032/33 £000	2033/34 £000	Total £000
General Fund												
Externally Funded												
Government Grants	*1,445*	2,416	1,230	1,230	1,230	1,230	1,230	1,230	1,230	1,230	1,230	13,486
External Contributions												
Non governmental grants	*508*	1,616	1,600	0	0	0	0	0	0	0	0	3,216
Open Space Fund	*40*	178	0	0	0	0	0	0	0	0	0	178
Developer's Contributions	*0*	385	0	0	0	0	0	0	0	0	0	385
Total Externally Funded	***1,993***	**4,595**	**2,830**	**1,230**	**1,230**	**1,230**	**1,230**	**1,230**	**1,230**	**1,230**	**1,230**	**17,265**
Earmarked Reserves												
Car Parks Property	*402*	358	305	180	180	180	180	180	180	180	180	2,103
Community Infrastructure Levy (CIL)	*1,266*	2,081	675	0	0	0	0	0	0	0	0	2,756
Town CIL	*463*	352	0	0	0	0	0	0	0	0	0	352
Information, Management, and Technology	*75*	15	90	444	185	300	35	75	364	90	220	1,818
Major Investment Reserve	*248*	0	0	0	0	0	0	0	0	0	0	0
Property - Asset Management Reserve	*88*	755	150	150	1,690	150	150	400	150	150	165	3,910
Winchester Town	*274*	120	110	120	50	90	0	0	0	0	0	490
Pride in Place	*10*	0	0	0	0	0	0	0	0	0	0	0
Total Earmarked Reserves	***2,826***	**3,681**	**1,330**	**894**	**2,105**	**720**	**365**	**655**	**694**	**420**	**565**	**11,429**
Capital Receipts												
General fund	*1,710*	2,389	0	20	120	0	0	0	0	0	0	2,529
Right to buy allowable	*150*	0	0	0	0	0	0	0	0	0	0	0
Total Capital Receipts	***1,860***	**2,389**	**0**	**20**	**120**	**0**	**0**	**0**	**0**	**0**	**0**	**2,529**
Revenue Contribution to Capital	*0*	0	0	0	0	0	0	0	0	0	0	0
Capital Financing Requirement	*796*	5,443	1,743	250	250	101	0	0	0	0	0	7,787
Total General Fund	***7,475***	**16,108**	**5,903**	**2,394**	**3,705**	**2,051**	**1,595**	**1,885**	**1,924**	**1,650**	**1,795**	**39,010**
Housing												
Capital Grants and Contributions	*7,209*	7,878	1,235	2,530	4,755	3,355	4,137	1,300	1,300	0	0	26,490
Community Infrastructure Levy (CIL)	*755*	0	0	0	0	0	0	0	0	0	0	0
Major Repairs Reserve	*0*	13,304	32,258	20,595	10,784	11,087	11,475	11,638	11,803	11,895	12,011	146,851
Capital Receipts	*9,255*	12,991	7,854	11,005	11,263	13,787	10,319	10,571	10,828	7,633	7,299	103,551
Revenue Contribution to Capital	*0*	0	0	0	0	0	0	0	0	0	0	0
Capital Financing Requirement	*23,442*	0	723	10,124	29,735	28,191	20,328	19,678	4,092	11,685	4,205	128,759
Total Housing Revenue Account	***40,661***	**34,173**	**42,070**	**44,254**	**56,537**	**56,420**	**46,259**	**43,188**	**28,023**	**31,212**	**23,515**	**405,651**
Total Financing of Capital Programme	***48,136***	**50,281**	**47,973**	**46,648**	**60,242**	**58,471**	**47,854**	**45,073**	**29,947**	**32,862**	**25,310**	**444,661**

This page is intentionally left blank

Revenue Consequences of General Fund Capital Programme 2024 to 2034

Notes:

Revenue consequences are estimates and are subject to change. More detailed analysis is carried out prior to actual expenditure being approved.

* Under the Council's Financial Procedure Rule 7.4, the inclusion of a scheme in the capital programme does not constitute authority to incur the expenditure. Such authority is obtained subject to the various conditions and limits as set out in the Constitution.

GENERAL FUND	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	2029/30 £000	2030/31 £000	2031/32 £000	2032/33 £000	2033/34 £000
Surplus/(Deficit) - approved*	(30)	19	1	76	78	65	67	64	65	67
Surplus/(Deficit) - subject to appraisal*	20	146	335	335	334	334	333	333	332	331
TOTAL SURPLUS/(DEFICIT)	(11)	165	337	411	412	399	400	397	397	398

Forecast interest payable and Minimum Revenue Provision are affected by borrowing rates available to the Council.
The figures above are based on prevailing rates. An increase or decrease of 1.0% (100 basis points) to long-term borrowing rates would have the following impact:

Difference to TOTAL SURPLUS/(DEFICIT) (+1.0%)	2	2	(26)	(25)	(25)	(26)	(26)	(26)	(26)	(26)
Difference to TOTAL SURPLUS/(DEFICIT) (-1.0%)	(2)	(2)	25	24	24	25	25	25	25	25

This page is intentionally left blank

Capital Receipts Reserve Forecast

CAPITAL RECEIPTS RESERVE	2023/24 Forecast £000	2024/25 Forecast £000	2025/26 Forecast £000	2026/27 Forecast £000	2027/28 Forecast £000	2028/29 Forecast £000	2029/30 Forecast £000	2030/31 Forecast £000	2031/32 Forecast £000	2032/33 Forecast £000	2033/34 Forecast £000
Consolidated Opening Balance	**(18,030)**	**(13,625)**	**(7,613)**	**(6,096)**	**(4,441)**	**(2,343)**	**(2,481)**	**(2,833)**	**(3,188)**	**(3,547)**	**(3,410)**
GENERAL FUND											
Opening Balance	**(4,898)**	**(2,800)**	**(746)**	**(1,084)**	**(1,406)**	**(1,631)**	**(1,980)**	**(2,332)**	**(2,688)**	**(3,047)**	**(3,410)**
Forecast receipts	(332)	(1,010)	(338)	(342)	(345)	(349)	(352)	(356)	(359)	(363)	(366)
Forecast utilisation	2,430	3,064	-	20	120	-	-	-	-	-	-
Closing Balance	**(2,800)**	**(746)**	**(1,084)**	**(1,406)**	**(1,631)**	**(1,980)**	**(2,332)**	**(2,688)**	**(3,047)**	**(3,410)**	**(3,776)**
HOUSING REVENUE ACCOUNT											
Opening Balance	**(13,132)**	**(10,825)**	**(6,867)**	**(5,012)**	**(3,035)**	**(712)**	**(501)**	**(501)**	**(500)**	**(500)**	**-**
Forecast receipts	(6,948)	(9,033)	(5,998)	(9,029)	(8,940)	(13,577)	(10,319)	(10,570)	(10,828)	(7,133)	(7,299)
Forecast utilisation	9,255	12,991	7,854	11,005	11,263	13,787	10,319	10,571	10,828	7,633	7,299
Closing Balance	**(10,825)**	**(6,867)**	**(5,012)**	**(3,035)**	**(712)**	**(501)**	**(501)**	**(500)**	**(500)**	**-**	**-**
Consolidated Closing Balance	**(13,625)**	**(7,613)**	**(6,096)**	**(4,441)**	**(2,343)**	**(2,481)**	**(2,833)**	**(3,188)**	**(3,547)**	**(3,410)**	**(3,776)**

This page is intentionally left blank

Annual Minimum Revenue Provision Statement 2024/25

Where the council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the council to have regard to the Department for Levelling Up, Housing and Communities' Guidance on Minimum Revenue Provision (the DLUHC Guidance) most recently issued in 2018.

The broad aim of the DLUHC Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The DLUHC Guidance requires the council to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the equivalent principal repayment on an annuity basis with an annual interest rate equal to the relevant PWLB rate as at 31 March for the year of expenditure, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

For assets acquired by finance leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

Where former operating leases have been brought onto the balance sheet due to the adoption of the IFRS 16 Leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.

For capital expenditure loans to third parties, the council will make nil MRP unless (a) the loan is an investment for commercial purposes and no repayment was received in year or (b) an expected credit loss was recognised or increased in-year; it will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement. In years where there is no principal repayment on loans that are investments for commercial purposes, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. Sufficient MRP will be charged to ensure that the outstanding capital financing requirement (CFR) on the loan is no higher than the principal amount outstanding less the expected credit loss. This option was proposed by the government in its recent MRP consultation and, in the council's view, is consistent with the current regulations.

No MRP will be charged in respect of assets held within the Housing Revenue Account.

Capital expenditure incurred during 2024/25 will not be subject to an MRP charge until at least 2025/26 or the year following which an asset becomes operational.

Based on the latest estimate of Capital Financing Requirement on 31st March 2024, the budget for MRP has been set as follows:

	31.03.2024 Estimated CFR £m	**2024/25 Estimated MRP £**
Unsupported capital expenditure after 31.03.2008	**67.9**	1,300,000
Finance leases and Private Finance Initiative	**2.2**	452,000
Total General Fund	**70.1**	**1,752,000**
Assets in the Housing Revenue Account	223.2	Nil
Total Housing Revenue Account	**223.2**	**Nil**
Total	**293.3**	**1,752,000**

Investment Activities

The council invests for three broad purposes:

- because it has surplus cash as a result of the reserves it holds and its day-to-day activities such as when income is received in advance of expenditure (known as **treasury management investments** – further detail including associated limits and indicators is reported in CAB3446);

- to support local public services by undertaking regeneration projects, by lending to, and by buying shares in other organisations (**service investments**); and

- to earn investment income (**commercial investments**).

Service Investments: Loans

Contribution: The council considers lending money to its subsidiaries, housing associations, and other entities to support local public services and stimulate local economic growth. The council currently has outstanding loans with Housing Associations which help to meets its objective of providing affordable housing and preventing homelessness. It has no subsidiaries currently but is setting up a wholly owned Housing Company.

Security: The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the council, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans for service purposes in £ millions

Category of borrower	31.3.2023 actual			2024/25
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Subsidiaries	-	-	-	1m
Housing associations	0.09m	0.05m	0.04m	1m
Other entities*	-	-	-	1m
TOTAL	**0.09m**	**0.05m**	**0.04m**	**3m**

**loans to other entities will be considered on a case by case basis by the Treasury Investment Group (TIG). Further information on TIG is provided in CAB3446*

Accounting standards require the council to set aside a loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the council's statement of accounts are shown net of this loss allowance. However, the council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments. Included in loans to housing associations are £35,000 of loans which have an allowance of the full amount; these loans are in respect of asset purchases for the provision of temporary accommodation to prevent homelessness and are only repayable in the event the asset is sold or its use changes.

Risk assessment: The council assesses the risk of loss before entering into and whilst holding service loans by considering any loans on a case by case basis. This includes, where appropriate, completion of a business case, assessing the purpose of the loan, the entity to which the loan is made, the use of credit ratings, and the procurement of external advice.

Service Investments: Shares

The council does not actively consider the purchase of direct shares for Treasury Management purposes. It has, however, purchased one hundred and eighty eight ordinary shares at a cost of £188,000 in Hampshire Community Bank for the purpose of assisting the local economy. The council is committed to purchase an additional 62 shares which will take its total investment to £250,000. In addition, the council is setting up a Housing Company as a wholly owned subsidiary and, once established, it will own £150,000 in shares.

Commercial Investments: Property

Contribution: The council owns an investment property portfolio (assets held solely for rental income or capital appreciation) which was valued at £71.0m as at 31 March 2023 and generated gross income of £3.6m and net income after costs of £2.4m in 2022/23. This income helps contribute to the Council Strategy priorities.

In 2023/24 there is no budgeted capital expenditure in respect of the council's investment properties.

Table 2: Property held for investment purposes in £ millions

1 April 2022	**69.3**
Acquisitions	0.0
Enhancements	0.0
Disposals	(0.2)
Gains/(losses) in fair value	0.7
Transfers (to)/from PPE (operational assets)*	1.2
31 March 2023	**71.0**
Budgeted	
Acquisitions	0.0
Enhancements	0.0
Disposals	0.0
Gains/(losses) in fair value**	-
Transfers (to)/from PPE (operational assets)*	0.0
31 March 2024	**71.0**

**an investment property is held for rental income and/or capital appreciation; when the continued purpose of holding the asset changes to meeting a service objective it is transferred to Property Plant & Equipment or vice versa*

***valuations are carried out at the balance sheet date and so it is not possible to forecast future changes in fair value*

The Council has a mixed investment property portfolio with the largest single element being in the retail sector. This is primarily due to historic holdings on Winchester's High Street with some assets being held by the Council and its predecessor organisations for over a hundred years.

Table 3: Investment properties by type

As at 31 March 2023	Retail	Offices	Industrial	Residential / Garages	Other	Total
Value £000s	28,576	10,348	6,755	24,423	940	**71,033**

Security: Investment property values are subject to fluctuation and so, in some years, the Council may make a loss in fair value. However, the Council is not reliant on capital receipts from the sale of its investment property assets and so any short or medium term loss is unrealised.

Risk assessment: The Council generates significant income from its portfolio and, in order to ensure continued revenue streams, the portfolio is kept under rolling review as part of the Asset Challenge programme and, where appropriate, assets are identified for sale. The Council does not plan to purchase new investment properties. It has, however, used prudential borrowing (also known as Capital Financing Requirement (CFR)) to undertake the refurbishment of property in its existing portfolio to enable it to continue to generate rental income. When any such refurbishment is planned, it is subject to a business case and approval in accordance with the governance arrangements outlined in the Capital Strategy. As at 31 March 2023, the Council had £10.7m of CFR in relation to investment properties.

Liquidity: Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions. The Council is not reliant on the sale of investment property for short-term liquidity purposes.

Proportionality

The income the Council generates from its investment activities helps it deliver its objectives. The table below details the proportion of investment income as a proportion of gross service expenditure. In order to set the budget and include realistic forecasts in the Medium Term Financial Plan, prudent estimates of Treasury Management income are included which reflect forecast capital expenditure and reserve balances, and the Council's investment property portfolio is actively managed as detailed elsewhere in the Capital Strategy.

Table 4: Proportionality of Investments

	2022/23 Actual £000	2023/24 Forecast £000	2024/25 Budget £000	2025/26 Budget £000	2026/27 Budget £000
Gross service expenditure	38,725	40,994	38,395	38,849	39,734
Investment income*	4,244	4,067	3,973	3,673	3,673
Proportion	11.0%	9.9%	10.3%	9.5%	9.2%

**Investment income includes income from treasury investments and investment properties.*

Investment Indicators

The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator shows the Authority's total investments and therefore its exposure to potential investment losses. The Council seeks to minimise its risk of loss and how it achieves this is detailed in the Capital Investment Strategy and the Treasury Management Strategy (CAB3446).

Table 5: Total investment exposure in £millions

Total investment exposure	31.03.2023 Actual	31.03.2024 Forecast	31.03.2025 Forecast
Treasury management investments	24.2m	16.5m	15.0m
Service investments: Loans	0.1m	0.1m	0.1m
Service investments: Shares	0.2m	0.2m	0.2m
Commercial investments: Property	71.0m	71.0m	70.3m
TOTAL EXPOSURE	**95.5m**	**87.8m**	**85.6m**

How investments are funded: The following table details which investments are funded by external borrowing. The Council's borrowing need (known as its Capital Financing Requirement or CFR) reflects capital expenditure that hasn't been financed from other sources – CFR increases with additional unfinanced capital expenditure and reduces with annual provisions from revenue (known as Minimum Revenue Provision or MRP) over the life of each asset. The Council is able to internally borrow a proportion of its borrowing need due, for example, to the usable reserves it holds and income received in advance, but will borrow externally when its need exceeds cash balances available. External borrowing in the forecast period is expected to be HRA related and not in respect of the investment types below.

Table 6: Investments funded by external borrowing in £millions

Investments funded by external borrowing	31.03.2023 Actual	31.03.2024 Forecast	31.03.2025 Forecast
Treasury management investments	0.0m	0.0m	0.0m
Service investments: Loans	0.0m	0.0m	0.0m
Service investments: Shares	0.0m	0.0m	0.0m
Commercial investments: Property	0.0m	0.0m	0.0m
TOTAL FUNDED BY EXTERNAL BORROWING	**0.0m**	**0.0m**	**0.0m**

Rate of return received (%): This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 7: Investment rate of return (net of costs) %

Investments net rate of return	**2022/23 Actual**	**2023/24 Forecast**	**2024/25 Forecast**
Treasury management investments	3.8%	5.0%	4.0%
Service investments: Loans	0.0%	0.0%	0.0%
Service investments: Shares	0.0%	0.0%	0.0%
Commercial investments: Property	3.4%	3.9%	4.0%
ALL INVESTMENTS*	3.5%	4.1%	4.0%

**weighted average return*

Capital financing requirement (CFR) to total fixed assets value: Capital Financing requirement represents the total borrowing need of the Council. This indicator shows the CFR as a percentage of total fixed assets and forecasts assume the full delivery of the capital programme. The Council is able to internally borrow an element of its need and actual external borrowing stood at £161.7m at 31 March 2023. Further detail on borrowing is included in the Treasury Management Strategy (CAB3446)

Table 8: Capital Financing Requirement to total fixed assets value

Capital Financing Requirement to total fixed assets value	**2022/23 Actual**	**2023/24 Forecast***	**2024/25 Forecast***
General Fund - total fixed assets (£m)	188.6	194.0	202.7
Outstanding CFR (%)	38.0%	36.1%	36.1%
Housing Revenue Account - total fixed assets (£m)	560.3	594.0	619.0
Outstanding CFR (%)	35.7%	37.6%	36.0%

**excludes future changes in valuation*

Flexible Use of Capital Receipts Strategy

1. Introduction

Ordinarily, capital resources such as capital receipts can only be used on capital expenditure (i.e. the creation or enhancement of a capital asset). However, the DLUHC Secretary of State issued a direction to local authorities in order to give them the freedom to use capital receipts from the sale of their own assets (excluding Right to Buy receipts) to help fund the revenue costs of transformation projects and release savings, including through redundancy, for the financial years 2016/17 to 2021/22. A further direction was issued in 2022 covering the financial years 2022/23 to 2024/25 although redundancy costs must no longer be included unless "necessarily incurred and limited to…statutory payments". By using capital receipts, the council is able to avoid the negative impact of on its annual revenue budget of one-off costs but this will reduce the available resources for future capital projects.

2. The Direction

The direction issued by the Secretary of State specifies that local authorities can treat as capital expenditure, expenditure which:

- "is incurred by the authority that is designed to generate savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners";
- "is properly incurred by the Authorities for the financial years that begin on 1 April 2022, 1 April 2023 and 1 April 2024)"; and
- "is not incurred with respect to redundancy payments, except where such redundancy costs are necessarily incurred and limited to the amounts available as statutory redundancy payments".

3. Available capital receipts

It is a condition of the direction that it only applies to capital receipts received in the years to which the direction applies.

The council's General Fund has £1.4m of capital receipts which meet the criteria to be used under this direction. However, these are currently largely committed to future proposed capital expenditure.

4. Proposed use

2023/24 – the council does not plan to apply capital receipts to transformation projects.

2024/25 - the council may use future qualifying capital receipts, when appropriate, to help fund the revenue costs of any transformation projects identified, though none specifically has been identified to date. In accordance with the direction, any such projects must deliver ongoing savings to the council.

5. Prudential indicators

As the capital receipts available under the direction are not allocated to existing proposed projects, there is no impact on the council's prudential indicators as it has not been necessary to identify alternative funding sources.

It should be noted that any receipts used will not be available for future projects and alternatives such as borrowing may need to be identified in the future which would increase the council's capital financing requirement (borrowing need). However, the council is allowed to borrow for capital projects whereas it is not for revenue purposes.

SCRUTINY COMMITTEE

REPORT TITLE: TREASURY MANAGEMENT STRATEGY 2024-25

6 FEBRUARY 2024

REPORT OF CABINET MEMBER: Councillor Neil Cutler, Deputy Leader and Cabinet Member for Finance and Performance

Contact Officer: Liz Keys Tel No: 01962 848226 Email: lkeys@winchester.gov.uk

WARD(S): ALL

RECOMMENDATION:

It is recommended that scrutiny committee comment on the proposals within the attached cabinet report, ref CAB3446 which is to be considered by cabinet at its meeting on the 8 February 2024.

This page is intentionally left blank

CAB3446
CABINET

REPORT TITLE: TREASURY MANAGEMENT STRATEGY 2024/25

8 FEBRUARY 2024

REPORT OF CABINET MEMBER: Cllr Neil Cutler, Deputy Leader and Cabinet Member for Finance and Performance

Contact Officer: Liz Keys Tel No: 01962 848226 Email: lkeys@winchester.gov.uk

WARD(S): ALL WARDS

PURPOSE

This report sets out the proposed Treasury Management Strategy Statement, including the Annual Investment Strategy for the Council for 2024/25.

Following the Council's declaration of a Climate Emergency in June 2019 the Investment Strategy (Section 16) includes a commitment not to make equity investments either directly or indirectly (via pooled funds) in companies directly involved in the fossil fuel industry.

In addition, following changes to the Public Works Loans Board (PWLB) lending criteria which precludes a local authority from borrowing from PWLB for any purpose if it plans to purchase assets primarily for yield, the Borrowing Strategy (section 15) confirms the Council has no such plans.

RECOMMENDATIONS:

That Cabinet recommends to Council:

1. That the Treasury Management Strategy Statement which includes the Annual Treasury Investment Strategy for 2024/25 (and the remainder of 2023/24) is approved;

2. That authority is delegated to the Section 151 Officer to manage the Council's pooled property investment and long-term borrowing according to the Treasury Management Strategy Statement as appropriate; and

3. That authority is delegated to the Section 151 Officer, who in turn discharges this function to Hampshire County Council's Deputy Chief Executive and Director of Corporate Operations, as agreed in the Service Level Agreement, to manage all Council investments (other than the high yield portfolio) and short-term borrowing according to the Treasury Management Strategy Statement as appropriate.

IMPLICATIONS:

1 COUNCIL PLAN OUTCOME

1.1 Treasury management is an integral part of helping to deliver the Council Plan and all of its outcomes.

2 FINANCIAL IMPLICATIONS

2.1 Effective treasury management ensures both the financial security and liquidity of the Council. The council forecasts a return of 4.25% on an average balance of £33m in 2024/25. This would represent a yield of £1.4m. The actual return depends on several variable factors including the interest rates available throughout the period and the level of cash and investment balances.

3 LEGAL AND PROCUREMENT IMPLICATIONS

3.1 The Council's Treasury Management Strategy Statement follows the latest codes of practice and the DLUHC and CIPFA guidance.

3.2 With effect from September 2014 Hampshire County Council (HCC) and Winchester City Council (WCC) established arrangements for the joint discharge of functions under Section (101)(1) and (5) of the Local Government Act 1972 and Section 9EA and 9EB Local Government Act 2000. Under this arrangement, HCC's Investments and Borrowing Team provide a Treasury Service which includes the management of WCC's cash balances and investment of surplus cash or sourcing of short-term borrowing in accordance with the agreed Treasury Management Strategy Statement.

4 WORKFORCE IMPLICATIONS

4.1 Hampshire County Council's Investments and Borrowing Team carry out the day-to-day management of the Council's cash balances and investments. The Council's in-house finance team undertake the accounting and retain responsibility for long-term borrowing decisions.

5 PROPERTY AND ASSET IMPLICATIONS

5.1 None.

6 CONSULTATION AND COMMUNICATION

6.1 This report has been produced in consultation with Hampshire County Council's Investments & Borrowing team.

6.2 In November 2023 several members attended the annual treasury management briefing session provided by the Council's treasury advisors Arlingclose.

6.3 The Scrutiny Committee discussed the report at its meeting held on 6 February 2024. Due to the dispatch date any particular matters that the Committee wishes to raise with Cabinet will be reported at the meeting.

7 ENVIRONMENTAL CONSIDERATIONS

7.1 Following the Council's declaration of a Climate Emergency in June 2019, and in line with its ethical stances in its investment policy (see Section 16 below), the Council has no direct or indirect equity investments in companies directly involved in the fossil fuel industry.

8 PUBLIC SECTOR EQUALITY DUTY

8.1 None.

9 DATA PROTECTION IMPACT ASSESSMENT

9.1 None required.

10 RISK MANAGEMENT

Risk	Mitigation	Opportunities
Returns from investments are too low	*A diversified strategy that attempts to manage the balance between liquidity risk, credit risk and yield within the Council's risk appetite.*	*Returns above budgeted levels*
A counterparty fails	*A diversified strategy that has relatively low levels of counter-party risk*	
Cash is not available	*A balanced portfolio of liquid and long-term funds are held to ensure cash is available to utilise. The Council also mitigates this risk through cashflow forecasting*	*More accurate and immediate cashflow forecasting can help improve the return on investments through more active treasury management activity*
Access to Money Market Funds (MMFs) may be restricted when the UK exits the EU	*Invest in suitable alternatives*	
Insufficient capacity to deliver day to day treasury management	*Since 2014, Hampshire County Council's Investments and Borrowing Team has carried out the day to day management of the Council's cash balances and investments*	*The economies of scale in HCC carrying out the day to day management gives the Council access to a much wider range of skills, and resilience, at a far lower cost than managing in-house*

SUPPORTING INFORMATION:

11 Summary

11.1 The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) requires authorities to determine the Treasury Management Strategy Statement (TMSS) before the start of each financial year.

11.2 As per the requirements of the Prudential Code, the Council adopts the CIPFA Treasury Management Code. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

12 Introduction

12.1 Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the council's prudent financial management.

12.2 Treasury risk management at the Council is conducted within the framework of the CIPFA Code which requires the Council to approve a Treasury Management Strategy Statement (TMSS) before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

12.3 Investments held for service purposes or for commercial profit are considered in a different report, the Capital Investment Strategy.

12.4 Hampshire County Council's Investments & Borrowing Team has been contracted to manage the council's treasury management balances since September 2014 but overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

13 External Context

13.1 The following paragraphs explain the economic and financial background against which the TMSS is being set.

Economic background

13.2 The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the council's treasury management strategy for 2024/25.

13.3 The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level for the rest of 2023. The November 2023 quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) growth with the potential for a mild contraction due to ongoing weak economic activity. The outlook for CPI inflation was deemed to be highly uncertain, with near-term risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.

13.4 Office for National Statistics (ONS) figures showed CPI inflation was 3.9% in November 2023, down from 4.6% the previous month and, in line with the recent trend, lower than expected. The core CPI inflation rate declined to 5.1% from 5.7%. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling slowly, but taking until early 2025 to reach the 2% target and then falling below target during the second half of 2025 and into 2026.

Credit outlook

13.5 Credit Default Swap (CDS) prices are used as an indicator of credit risk, where higher premiums indicate higher perceived risks. CDS prices were volatile during 2023, spiking in March on the back of banking sector contagion concerns following the major events of Silicon Valley Bank becoming insolvent and the takeover of Credit Suisse by UBS. After then falling back in Quarter 2 of calendar 2023, in the second half of the year, higher interest rates and inflation, the ongoing war in Ukraine, and now the Middle East, have led to CDS prices increasing steadily.

13.6 On an annual basis, CDS price volatility was lower in 2023 compared to 2022, but this year has seen more of a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

13.7 Moody's revised its outlook on the UK sovereign to stable from negative to reflect its view of restored political predictability following the volatility after the 2022 mini-budget. Moody's also affirmed the Aa3 rating in recognition of the UK's economic resilience and strong institutional framework.

13.8 Following its rating action on the UK sovereign, Moody's revised the outlook on five UK banks to stable from negative and then followed this by the same action on five rated local authorities. However, within the same update the long-term ratings of those five local authorities were downgraded. One of the local authorities was downgraded to non-investment grade and so is no longer on the council's approved counterparty list.

13.9 There remain competing tensions in the banking sector, on one side from higher interest rates boosting net income and profitability against another of a weakening economic outlook and likely recessions that increase the possibility of a deterioration in the quality of banks' assets.

13.10 However, the institutions on the council's treasury adviser, Arlingclose's, counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast (December 2023)

13.11 Although UK inflation and wage growth remain elevated, Arlingclose forecasts that the Bank Rate has peaked at 5.25%. The BoE's Monetary Policy Committee will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from Quarter 3 2024 to a low of around 3% by early to mid 2026.

13.12 Arlingclose expects long-term gilt yields to be broadly stable at current levels (amid continued volatility), following the decline in yields towards the end of 2023, which reflects the expected lower medium-term path for Bank Rate. Yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

13.13 A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.

14 Balance Sheet Summary and Forecast

14.1 On 31 December 2023, the council held £161.7m of borrowing and £30.9m of investments. This is set out in further detail at Appendix B. Forecast changes in these sums, subject to delivery of the capital programme, are shown in the balance sheet analysis in Table 1.

14.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while reserves and working capital are the underlying resources available for investment. The council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

14.3 The council has a forecast increasing CFR due to the planned capital programme over the coming years, and the council's reserves will gradually reduce over the same period. This will reduce the council's capacity to internally borrow and there will likely be a need to take out additional external borrowing.

14.4 CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the council expects to comply with this recommendation during 2024/25.

Table 1: Balance sheet summary and forecast

	31/03/23 Actual £m	31/03/24 Estimate £m	31/03/25 Forecast £m	31/03/26 Forecast £m	31/03/27 Forecast £m
General Fund CFR	71.7	70.1	73.2	64.1	62.8
HRA CFR	199.8	223.2	223.2	223.9	234.1
Total CFR	**271.5**	**293.3**	**296.4**	**288.0**	**296.9**
Less other debt liabilities *	(2.6)	(2.2)	(1.7)	(1.3)	(0.8)
Borrowing CFR	**268.9**	**291.1**	**294.7**	**286.7**	**296.1**
Less: External borrowing **	(161.7)	(156.7)	(151.7)	(146.7)	(136.7)
Internal borrowing	**107.2**	**134.4**	**143.0**	**140.0**	**159.4**
Less: Balance sheet resources	(131.4)	(149.4)	(114.1)	(83.7)	(72.0)
New borrowing or (investments)	**(24.2)**	**(15.0)**	**28.9**	**56.3**	**87.4**

* finance leases that form part of the Council's total debt

** existing external borrowing

Liability benchmark

14.5 To compare the council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as Table 1, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

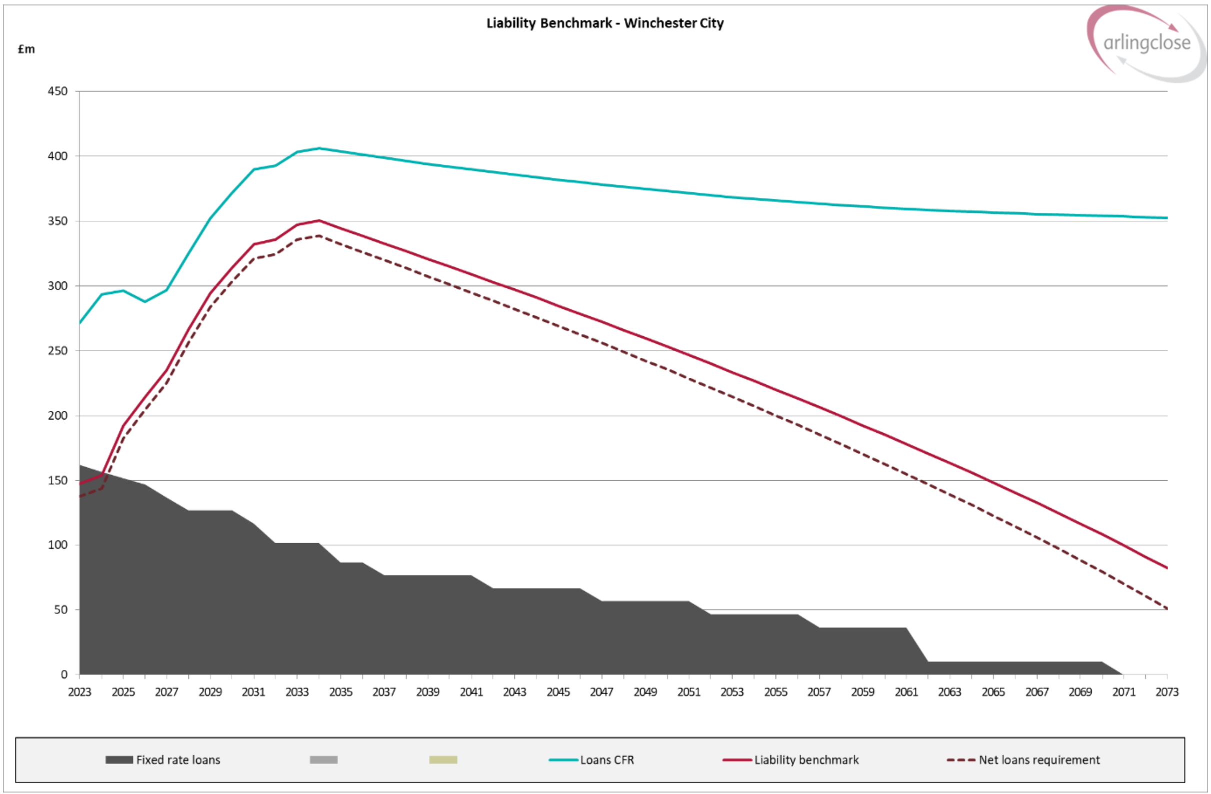
14.6 The liability benchmark is an important tool to help establish whether the council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Table 2: Prudential Indicator: Liability benchmark

	31/03/23 Actual £m	31/03/24 Estimate £m	31/03/25 Forecast £m	31/03/26 Forecast £m	31/03/27 Forecast £m
Loans CFR	268.9	291.1	294.7	286.7	296.1
Less: Balance sheet resources	(131.4)	(149.4)	(114.1)	(83.7)	(72.0)
Net loans requirement	**137.5**	**141.7**	**180.6**	**203.0**	**224.1**
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0
Liability benchmark	**147.5**	**151.7**	**190.6**	**213.0**	**234.1**

14.7 At the start of the period, 31 March 2023, the council had a Loans CFR of £268.9m, fixed term loans of £161.7m and a liability benchmark of £147.5m. The difference of £107.2m between the CFR and fixed term loans is internal borrowing and is where the council has used its own cash and investment balances to fund its borrowing need.

Graph 1: Liability benchmark



14.8 The liability benchmark is the lowest level of debt the council could hold if it used all of its balances, reserves and cash flow surpluses.

14.9 The forward projection using the council's capital programme forecasts indicate that capital expenditure funded by borrowing of around £27.2m will occur from the position at the 31 March 2023 to 31 March 2027 as evidenced by the rising CFR, and where the liability benchmark increases above the debt portfolio is where the council will need to take on additional external borrowing to fund this expenditure. It is anticipated that to keep debt at a minimum level, a maximum of £72.4m of additional debt would need to be taken out. The actual CFR and external borrowing required will depend on several factors including delivery of the capital programme and the actual level of balance sheet resources available.

15 Borrowing Strategy

15.1 The council currently holds £161.7m of loans as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in Table 1 shows that the council is forecast to maintain a net borrowing position, and so may need to borrow to fund capital expenditure to maintain its long-term and minimum level of investments. The council may also borrow additional sums to pre-fund future years' requirements, providing total external borrowing does not exceed the authorised limit for borrowing of £315.1m.

Objectives

15.2 The council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the council's long-term plans change is a secondary objective.

Strategy

15.3 Given the significant cuts to public expenditure and in particular to local government funding, the council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Short-term interest rates are currently at a 15-year high but expected to fall in the coming years and it is therefore likely to be more cost effective over the medium-term to either use internal resources, or to borrow short-term loans instead.

15.4 The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the council with this 'cost of carry' and breakeven analysis, and this will be used to help determine whether the council borrows additional sums at long-term fixed rates in 2024/25 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

15.5 The council has previously raised all of its long-term borrowing from the Public Works Loan Board (PWLB) but will consider long-term loans from other sources including banks, pension funds and local authorities, and will investigate the possibility of issuing bonds and similar instruments (including Community Municipal Investments (crowdfunding bonds) with the lenders being residents and the general public), in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. New PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield (including where individual purchases are not funded by borrowing); the council has no plans to undertake this activity and will therefore retain its access to PWLB loans. If the council were to elect to purchase assets primarily for yield it would have no access to the PWLB for loans for any purpose. This would expose the council to significant liquidity risk as it would need to obtain loans elsewhere in the market to finance its borrowing need.

15.6 The council may also arrange forward-starting loans during 2024/25, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

15.7 In addition, the council may borrow further short-term loans (normally for up to one month) to cover unplanned cash flow shortages.

Sources of borrowing

15.8 The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- UK Infrastructure Bank Ltd
- Any institution approved for investments
- Any other bank or building society authorised to operate in the UK
- Any other UK public sector body
- UK public and private sector pension funds (except Hampshire Pension Fund)
- Capital market bond investors
- Retail investors via a regulated peer-to-peer platform
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local Council bond issues

Other sources of debt finance

15.9 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Leasing
- Hire purchase
- Private Finance Initiative
- Sale and leaseback
- Similar asset based finance

Short-term and variable rate loans

15.10 These loans leave the council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to the interest rate exposure limits in the treasury management indicators at Section 17 of this TMSS.

Debt rescheduling

15.11 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. The council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities could arise and the opportunity to reschedule is kept under review.

16 Treasury Investment Strategy

16.1 The council holds invested funds representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's treasury investment balance has ranged between £23.6m and £66.6m.

Objectives

16.2 The CIPFA Code requires the council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. The council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

Strategy

16.3 As demonstrated by the liability benchmark above, the council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments.

16.4 Given the increasing risk and very low returns from short-term unsecured bank investments, the council aims to continue to hold investments that provide diversification through greater security and/or higher yielding asset classes. This is especially the case for the estimated funds that are available for longer-term investment.

16.5 At 31 December 2023 approximately 50% of the council's investment balances were invested so that they were not subject to bail-in risk as they were invested in Government investments, pooled property funds, and secured bank bonds.

16.6 Of the 50% of investment balances that were subject to bail-in risk, 81% were held in cash plus funds and overnight money market funds which are subject to a reduced risk of bail in due to the high level of diversification within these investments, and 19% were held in overnight bank call accounts for liquidity purposes.

16.7 Further detail is provided at Appendix B and this diversification represents a continuation of the strategy adopted in 2015/16.

Environmental, social and governance factors

16.8 Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the council does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

16.9 The council declared a Climate Emergency in June 2019 and as a consequence will not make equity investments either directly or indirectly (via pooled funds) in companies directly involved in the fossil fuel industry.

Business models

16.10 Under the new IFRS 9 standard, the accounting for certain investments depends on the ‘business model’ for managing them. The council aims to achieve value from its internally managed treasury investments through a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Investment targeting higher returns

16.11 In previous years the council earmarked an amount of its cash balances for investments targeting higher yields; these were made from its most stable core balances with the intention that they would be held for at least the medium term, and it was targeted that these investments would achieve a return of at least 4%. This was a successful approach through the period of very low interest rates, as this portfolio achieved higher interest rates than what was being achieved by cash investments and significantly increased the annualised average income return for the total investment portfolio.

16.12 Following the increases in UK Bank Rate the decision was made to subsume the investments targeting higher returns within the long-term investment portfolio as there was no longer a significant difference between the interest rates being achieved by those investments and cash, as short-term interest rates are now comparable with longer term interest rates.

16.13 The council will however continue to make use of long-term balances, making investments in longer term investments including local authorities, other asset classes and regions, fixed capital value and pooled funds to mitigate the risk of low interest rates which will affect cash investments when UK Bank Rate is reduced. This diversification also helps to mitigate the risk of overexposure to a single event affecting a specific asset class.

16.14 The council continues to invest in a pooled fund which enables it to achieve a greater degree of diversification than could effectively be achieved by directly owning individual assets. Pooled funds are managed by specialist external fund managers who are best placed to select and manage investments, for example with property investments in selecting appropriate buildings and then managing the relationship with tenants and the maintenance of those buildings.

16.15 Diversification in itself does not guarantee positive outcomes. The selection of a pooled fund is carefully managed to target funds with a strong performance track record and objectives that are well aligned to the council’s income returns aims without putting its initial investment at undue risk over the longer term. The council is therefore currently invested in a pooled fund that specialises in providing income returns to support the revenue budget. As a result of their income focus this fund may not achieve the same capital growth and therefore total return, as other more general investment funds, however it is likely to deliver good income returns for the longer term.

16.16 The investible universe for pooled funds is vast and part of the service provided by Arlingclose as treasury advisers is to conduct research and suitable due diligence on pooled funds prior to making recommendations to their clients.

16.17 Past performance does not guarantee that funds can replicate successful outcomes in future and knowing which funds will perform well is not an exact science. The council will therefore continue to conduct its own ongoing review and scrutiny of the performance of its pooled fund investments. The council will also discuss these investments regularly with Arlingclose, who provide advice based on regular meetings with representatives from the pooled funds and their own ongoing due diligence on areas such as performance and investment style, strategy and process.

16.18 At the current time, given the medium to long term nature of the investments, it is unlikely that a capital loss would ever be realised, since the council would avoid selling investments that realised a capital loss. In addition to the risk of realising a capital loss, changes to IFRS 9 mean that capital gains and losses on investments need to be reflected in the revenue account on an annual basis, although there is currently a statutory override in place for local authorities that exempts them from complying with this requirement.

Investment limits

16.19 The maximum that will be lent to any one organisation (other than the UK Government) will be £7m. Over the longer term it is expected that the council's cash balances will reduce, and new external borrowing will need to be taken. This limit allows the flexibility to ensure that all of the council's cash can be invested in accordance with this TMSS.

A group of entities under the same ownership will be treated as a single organisation for limit purposes. Limits are placed on fund managers as shown in Table 3.

Table 3: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£7m each
UK Central Government	Unlimited
Any group of pooled funds under the same management	£17.5m per manager

Approved counterparties

16.20 The council may invest its surplus funds with any of the counterparty types in Table 4, subject to the limits shown.

Table 4: Sector and counterparty limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	30 years	Unlimited	n/a
Local authorities & other government entities	25 years	£7.0m	Unlimited
Secured investments *	25 years	£7.0m	Unlimited
Banks (unsecured) *	13 months	£3.5m	Unlimited
Building societies (unsecured) *	13 months	£3.5m	£7.0m
Registered providers (unsecured) *	5 years	£3.5m	£17.5m
Money market funds *	n/a	£7.0m	Unlimited
Strategic pooled funds	n/a	£7.0m	£35.0m
Real estate investment trusts	n/a	£7.0m	£17.5m
Other investments *	5 years	£3.5m	£7.0m

This table must be read in conjunction with the notes below.

<u>* Minimum credit rating</u>

16.21 Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-/A3. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant known factors including external advice will be taken into account.

16.22 For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

<u>Government</u>

16.23 Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 30 years.

<u>Secured investments</u>

16.24 Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (unsecured)

16.25 Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured)

16.26 Loans and bonds issued by, guaranteed by, or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds

16.27 Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds

16.28 Shares or units in diversified investment vehicles consisting of bond, equity and property investments. These funds offer the potential for enhanced returns over the longer term but are more volatile in the short term and allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. This sector also includes cash plus funds which are also a type of pooled fund, but are used for short-term funds, with a lower risk appetite. Because strategic pooled funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council’s investment objectives will be monitored regularly.

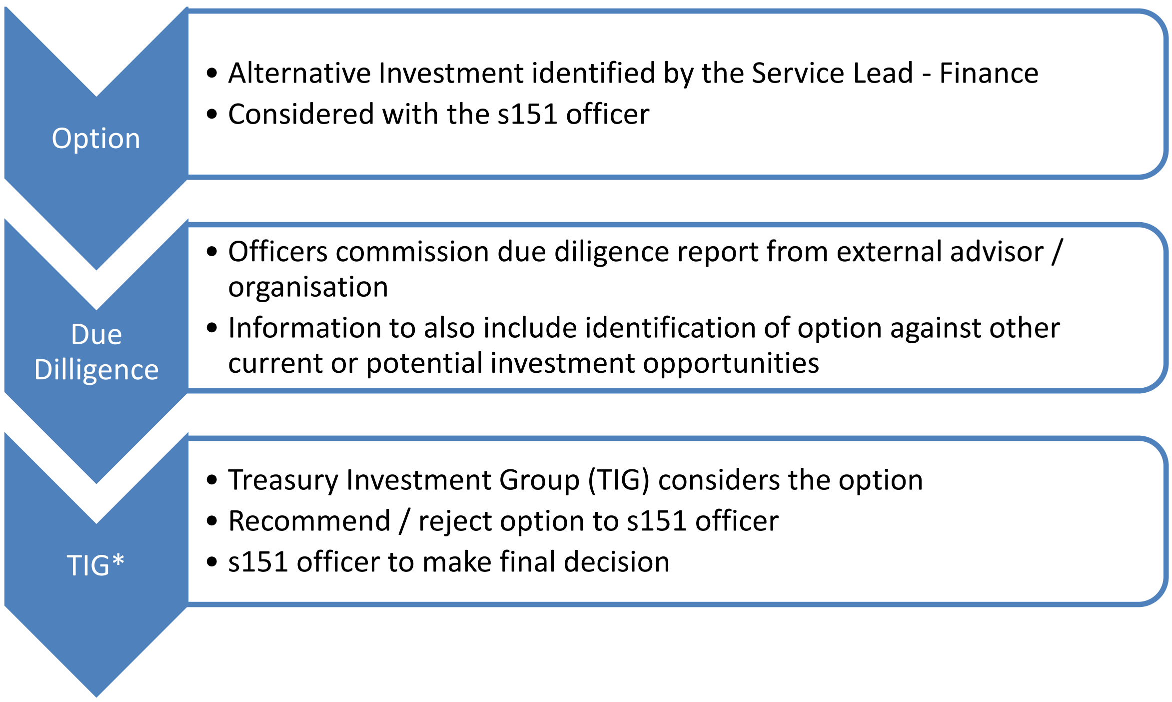
Real estate investment trusts (REITs)

16.29 Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer the potential for enhanced returns over the longer term but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

<u>Other investments</u>

16.30 This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the council's investment at risk.

16.31 Where a counterparty does not have a credit rating and to ensure there is a clear process for external scrutiny specifically around these alternative investments, the governance structure detailed below was approved in the Treasury Management Mid-Year Review 2017/18 in order for the council to consider such investment opportunities in a timely manner and ensure that there has been effective scrutiny over the proposed decisions. The S151 officer will consult with this group on these types of investment prior to making the final decision.



* The Treasury Investment Group (TIG) includes the following officer and member roles:

- Service Lead - Finance
- Cabinet Member for Finance and Performance
- One other Cabinet member

- Chair of the Audit & Governance Committee
- Shadow Cabinet Member for Finance
- S151 officer

Operational bank accounts

16.32 The council may incur operational exposures, for example through current accounts, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept low. The council's operational bank account is with National Westminster and aims to keep the overnight balances held in current accounts as positive, with a maximum of £500,000. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the council maintaining operational continuity.

Risk assessment and credit ratings

16.33 Credit ratings are obtained and monitored by the council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

16.34 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments

16.35 The council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press and analysis and advice from the council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

16.36 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will likely lead to investment returns falling but will protect the principal sum invested.

Reputational aspects

16.37 The council is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.

Liquidity management

16.38 The council has due regard for its future cash flows when determining the maximum period for which funds may prudently be committed. Historic cash flows are analysed in addition to significant future cash movements, such as payroll, grant income and council tax precept. Limits on long-term investments are set by reference to the council's medium term financial position (summarised in Table 1) and forecast short-term balances.

16.39 The council will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider, except in cases of extreme market stress whereby the council will be able to invest all of its liquid cash in one provider only, being the Debt Management Office.

17 Treasury Management Prudential Indicators

17.1 The council measures and manages its exposures to treasury management risks using the following indicators.

Interest rate exposures

17.2 The following indicator shows the sensitivity of the council's current investments and borrowing to a change in interest rates. Fixed rate investments maturing during the year are assumed to be variable for the remainder of the year.

Table 5: Interest rate risk indicator

	31 December 2023	Impact of +/-1% interest rate change
	£m	**£m**
Sums subject to variable interest rates:		
- Investment	30.9	+/- 0.3
- Borrowing	(5.0)	+/- 0.1

Maturity structure of borrowing

17.3 This indicator is set to control the council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Table 6: Refinancing rate risk indicator

	Upper	Lower
Under 12 months	25%	0%
12 months and within 24 months	25%	0%
24 months and within 5 years	25%	0%
5 years and within 10 years	30%	0%
10 years and within 20 years	50%	0%
20 years and within 30 years	50%	0%
30 years and within 40 years	75%	0%
40 years and within 50 years	100%	0%

17.4 Time periods start of the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal sums invested for periods longer than a year

17.5 The purpose of this indicator is to control the council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Table 7: Price risk indicator

	2024/25	2025/26	2026/27	No fixed date
Limit on principal invested beyond year end	£20.0m	£20.0m	£20.0m	£5.0m

18 Prudential Indicators – Borrowing

Gross Debt and the Capital Financing Requirement

18.1 In order to ensure that over the medium-term debt will only be for a capital purpose, the council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Table 8: Debt

	31/03/24 Revised £m	31/03/25 Estimate £m	31/03/26 Estimate £m	31/03/27 Estimate £m
Borrowing	156.7	151.7	146.7	136.7
New borrowing	0.0	38.9	66.3	97.4
Finance Leases	2.2	1.7	1.3	0.8
Total Debt	**158.9**	**192.3**	**214.3**	**234.9**

18.2 Total debt is expected to remain below the CFR during the forecast period.

Operational Boundary for External Debt

18.3 The operational boundary is based on the council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the council's debt.

Table 9: Operational Boundary

	31/03/24 Revised £m	31/03/25 Estimate £m	31/03/26 Estimate £m	31/03/27 Estimate £m
Borrowing	310.9	313.4	304.3	312.5
Finance Leases	2.2	1.7	1.3	0.8
Total Debt	**313.1**	**315.1**	**305.6**	**313.3**

Authorised Limit for External Debt

18.4 The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Table 10: Authorised Limit

	2023/24 Limit £m	**2024/25 Limit £m**	**2025/26 Limit £m**	**2026/27 Limit £m**
Borrowing	324.2	326.8	318.0	326.4
Finance Leases	2.7	2.2	1.6	1.0
Total Debt	**326.9**	**329.0**	**319.6**	**327.4**

19 Related Matters

19.1 The CIPFA Code requires the council to include the following in its treasury management strategy.

Financial derivatives

19.2 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

19.3 The council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

19.4 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

19.5 In line with the CIPFA Code, the council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Housing Revenue Account

19.6 The council has adopted the "two pool approach" whereby each of its long-term loans are split into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA applying the following rates:

- The PWLB 3-month variable loan rate is applied to a deficit balance
- The risk-free Debt Management Office rate is applied to a surplus balance.

Investment training

19.7 The needs of the County Council's treasury management staff for training in investment management are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

19.8 Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, and other appropriate organisations.

19.9 CIPFA's Code of Practice requires that the council ensures that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

Investment advisers

19.10 Hampshire County Council has appointed Arlingclose Limited as treasury management advisers for all partner councils under the arrangement, and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled through quarterly review meetings with Arlingclose.

Investment of money borrowed in advance of need

19.11 The council may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the council's overall management of its treasury risks.

Markets in Financial Instruments Directive

19.12 The council has opted up to professional client status with its providers of financial services, including advisers, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the council's treasury management activities, the S151 Officer believes this to be the most appropriate status.

20 OTHER OPTIONS CONSIDERED AND REJECTED

20.1 The council could elect to bring all treasury management activity back in-house. This option has been rejected as the arrangement with Hampshire County Council's Investments and Borrowing team provides significant resilience and economies of scale.

20.2 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Section 151 Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed in Table 11.

Table 11: Alternative strategies and their implications

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term

Table 11: Alternative strategies and their implications

Alternative	Impact on income and expenditure	Impact on risk management
		interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

AUD119: Treasury Management Practices, 22 June 2015

CAB3390: Treasury Management Strategy 2023-24, 9 February 2023

AG109: Treasury Management Outturn 2022/23, 20 July 2023

AG118: Treasury Management Q1 Report 2023/24, 11 October 2023

AG119: Treasury Management Mid-Year Monitoring Report 2023/24, 9 November 2023

Other Background Documents:

None

APPENDICES:

Appendix A – Arlingclose Economic & Interest Rate Forecasts December 2023

Appendix B - Existing Investment & Debt Portfolio Position at 31 December 2023

Appendix C – Q3 2023/24 Treasury Management Indicators at 31 December 2023

Appendix A – Arlingclose Economic & Interest Rate Forecast December 2023

Underlying assumptions:

- UK inflation and wage growth remain elevated but have eased over the past two months fuelling rate cuts expectations. Near-term rate cuts remain unlikely, although downside risks will increase as the UK economy likely slides into recession.
- The MPC's message remains unchanged as the Committee seeks to maintain tighter financial conditions. Monetary policy will remain tight as inflation is expected to moderate to target slowly, although some wage and inflation measures are below the Bank's last forecasts.
- Despite some deterioration in activity data, the UK economy remains resilient in the face of tighter monetary policy. Recent data has been soft but mixed; the more timely PMI figures suggest that the services sector is recovering from a weak Q3. Tighter policy will however bear down on domestic and external activity as interest rates bite.
- Employment demand is easing. Anecdotal evidence suggests slowing recruitment and pay growth, and we expect unemployment to rise further. As unemployment rises and interest rates remain high, consumer sentiment will deteriorate. Household and business spending will therefore be weak.
- Inflation will fall over the next 12 months. The path to the target will not be smooth, with higher energy prices and base effects interrupting the downtrend at times. The MPC's attention will remain on underlying inflation measures and wage data. We believe policy rates will remain at the peak for another 10 months, or until the MPC is comfortable the risk of further 'second-round' effects has diminished.
- Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant loosening in the future to boost activity.
- Global bond yields will remain volatile. Markets are currently running with expectations of near-term US rate cuts, fuelled somewhat unexpectedly by US policymakers themselves. Term premia and bond yields have experienced a marked decline. It would not be a surprise to see a reversal if data points do not support the narrative, but the current 10-year yield appears broadly reflective of a lower medium- term level for Bank Rate.
- There is a heightened risk of fiscal policy and/or geo-political events causing substantial volatility in yields.

Forecast:

- The MPC held Bank Rate at 5.25% in December. We believe this is the peak for Bank Rate.

- The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. We see rate cuts from Q3 2024 to a low of around 3% by early mid 2026.

- The immediate risks around Bank Rate have become more balanced, due to the weakening UK economy and dampening effects on inflation. This shifts to the downside in the short term as the economy weakens.

- Long-term gilt yields are now substantially lower. Arlingclose expects yields to be flat from here over the short-term reflecting medium term Bank Rate forecasts. Periodic volatility is likely.

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Central Case	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
3-month money market rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Central Case	5.40	5.40	5.40	5.30	5.15	4.80	4.30	4.10	3.80	3.50	3.25	3.05	3.05
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
5yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.77	3.75	3.75	3.75	3.70	3.60	3.50	3.50	3.40	3.30	3.30	3.30	3.35
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
10yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.72	3.75	3.80	3.80	3.80	3.80	3.80	3.80	3.75	3.65	3.60	3.65	3.70
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
20yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.16	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.25
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
50yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.76	3.80	3.85	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.95	3.95	3.95
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%; PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB HRA Rate (Maturity Loans) = Gilt yield + 0.40%; UKIB Rate (Maturity Loans) = Gilt yield + 0.60%

Appendix B - Existing Investment & Debt Portfolio Position at 31 December 2023

Treasury investment position

Investments	30/09/2023 Balance £m	Net movement £m	31/12/2023 Balance £m	31/12/2023 Income return %	31/12/2023 Weighted average maturity years
Short term investments					
Banks and building societies:					
- Unsecured	3.1	(0.1)	3.0	4.48	0.01
- Secured	1.3	-	1.3	5.44	0.04
- High quality	1.5	(1.5)	-	N/A	N/A
Money Market Funds	12.9	(1.3)	11.6	5.32	0.01
Government:					
- Local authorities	4.5	1.0	5.5	5.57	0.29
- UK Treasury bills	2.0	1.5	3.5	5.27	0.15
Cash plus funds	1.0	-	1.0	3.57	0.01
	26.3	**(0.4)**	**25.9**	**5.21**	**0.09**
Long term investments					
Pooled property fund*	5.0	-	5.0	4.76	N/A
	5.0	**-**	**5.0**	**4.76**	**N/A**
TOTAL INVESTMENTS	**31.3**	**(0.4)**	**30.9**	**5.13**	**0.09**

* The rate provided for the pooled property fund investment is reflective of annualised income returns over the year to 31 December 2023 based on the market value of investments 12 months earlier.

Treasury management position

	31/12/2023 Balance £m	31/12/2023 Rate %
External borrowing:		
- PWLB	(161.7)	(3.24)
Investments		
- Total investments	30.9	5.13
Net (Debt) / Investments	**(130.8)**	

Appendix C - Q3 2023/24 Treasury Management Indicators at 31 December 2023

Investment limits	**31/12/23 Actual £m**	**2023/24 Limit £m**	**Complied?**
The UK Government	3.5	Unlimited	✓
Local authorities & other government entities	5.5	Unlimited	✓
Secured investments	1.3	Unlimited	✓
Banks (unsecured)	3.0	Unlimited	✓
Building societies (unsecured)	0.0	7.0	✓
Registered providers (unsecured)	0.0	17.5	✓
Money market funds	11.6	Unlimited	✓
Strategic pooled funds	6.0	35.0	✓
Real estate investment trusts	0.0	17.5	✓
Other investments	0.0	7.0	✓

Debt limits	**2023/24 Maximum £m**	**31/12/23 Actual £m**	**2023/24 Operational Boundary £m**	**2023/24 Authorised Limit £m**	**Complied?**
Total debt	(162.4)	(161.7)	(296.8)	(310.5)	✓

Refinancing rate risk indicator	**31/12/23 Actual**	**Upper Limit**	**Lower Limit**	**Complied**
Under 12 months	3%	25%	0%	✓
12 months and within 24 months	3%	25%	0%	✓
24 months and within 5 years	15%	25%	0%	✓
5 years and within 10 years	15%	30%	0%	✓
10 years and within 20 years	22%	50%	0%	✓
20 years and within 30 years	12%	50%	0%	✓
30 years and within 40 years	23%	75%	0%	✓
40 years and within 50 years	6%	100%	0%	✓

Long term investments	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**
Actual principal invested beyond year end	5	5	5
Limit on principal invested beyond year end	25	25	25
Complied	✓	✓	✓

This page is intentionally left blank

WINCHESTER CITY COUNCIL – THE SCRUTINY COMMITTEE WORK PROGRAMME

	Item	Lead Officer	Date for Scrutiny	Date for Cabinet
Meeting 6 February 2024				
1	Housing Revenue Account (HRA) Budget 2024/25	Liz Keys	6 Feb 2024	8 Feb 2024
2	General Fund Budget 2024/25	Liz Keys	6 Feb 2024	8 Feb 2024
3	Treasury Management Strategy 2024/25	Liz Keys	6 Feb 2024	8 Feb 2024
4	Capital Investment Strategy 2024-2034	Liz Keys	6 Feb 2024	8 Feb 2024
Meeting 6 March 2024				
5	Community Safety Partnership Performance Review	Sandra Tuddenham	6 Mar 2024	
6	Scrutiny Request - Bar End Depot	Simon Hendey	6 Mar 2024	
7	Q3 Finance & Performance Monitoring Report	Simon Howson	6 Mar 2024	14 Mar 2024
Future Items				

This page is intentionally left blank