

REPORT TITLE: GENERAL FUND OUTTURN 2021/22

19 JULY 2022

REPORT OF CABINET MEMBER: Councillor Margot Power – Cabinet Member for Finance and Value

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WARD(S): ALL

## PURPOSE

This report provides an overview of the General Fund Revenue outturn and Capital Programme outturn for 2021/22.

The 2021/22 General Fund budget approved by Council in February 2021 (CAB3289 refers) included significant savings proposals, government grants and a covid loss of income contingency budget in order to achieve a balanced position.

The most recent revised forecast (February 2022 – CAB3335 refers) highlighted the positive recovery of parking income, higher than budgeted garden waste income, a number of additional grants received to support expenditure and a projected a year end surplus of £1.265m and proposed that this be transferred to the Major Investment Reserve. The final outturn position as set out in Appendix 1 to this report, has resulted in an additional £1.633m surplus, mainly due business rates collected being higher than forecast.

Whilst regular revised forecasts have been presented over the last year, this report details all significant variances compared to the original approved budget.

Whilst the 2021/22 outturn is subject to an increased surplus, it should be noted that the 2022/23 budget had assumed contract inflation of 4% and employee inflation at 2%. With current CPI inflation at 9.1% and fuel costs likely to more than double this year, significant additional pressure on the 2022/23 budget is anticipated and revised forecasts will be brought forward later in the year. It is recommended that £2m of the overall surplus for the year be retained in an “exceptional inflation pressures” reserve, at least until October 2022, when a revised forecast for the year will be brought to Cabinet.

RECOMMENDATIONS:That Cabinet:

1. Note the General Fund Revenue Outturn and Capital Programme Outturn as set out in the report.
2. Approve the proposal to establish an “Exceptional Inflation Pressures” risk reserve and that £2m be transferred to that reserve pending the preparation of a revised forecast for the 2022/23 budget in October 2022 to assess the impact of current inflation and energy price pressures on the original budget.
3. Approve the transfers to and from the Major Investment reserve as detailed in Appendix 1 and note the reserves and closing balances at 31 March 2022 (as set out in Appendix 2);
4. Approve the revised 2022/23 capital programme as set out in appendix 5;
5. Note the revised 2022-2032 capital programme as set out in appendix 6.

## IMPLICATIONS:

### 1 COUNCIL PLAN OUTCOME

- 1.1 The budget approved in February 2021 (CAB3289 refers) directly supported the delivery of all outcomes set out in the Council Plan.

### 2 FINANCIAL IMPLICATIONS

- 2.1 As set out in the report.

### 3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 Local authorities are required by law to have a balanced budget. However, what is meant by 'balanced' is not defined in law and chief finance officers are to use their professional judgement to ensure that the local authority's budget is balanced, robust and sustainable.

- 3.2 The Local Government Act 1972 (Section 151) makes the Chief Financial Officer responsible for the proper administration of the Council's financial affairs. The responsibilities of the Chief Finance Officer, in particular in relation to section 114 notices, are set out primarily in section 151 of the Local Government Act 1972.

- 3.3 All Members and officers have a general responsibility which is a fiduciary duty to residents to take reasonable action to provide for the security of the assets under their control and for ensuring that the use of these resources is legal, is properly authorised and achieves value for money. In doing so proper consideration must be given at all times to matters of probity and propriety in managing the assets, income and expenditure of the Council.

### 4 WORKFORCE IMPLICATIONS

- 4.1 The outturn position set out in this report reflects reductions in the staffing establishment in relation to the Guildhall operation and the removal of 20 posts as part of the savings required to set the 2021/22 budget in February 2021 (CAB3289 refers).

### 5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 The spend in 2021/22 included significant investment in capital works and property maintenance as well as to support the Central Winchester Regeneration work. CAB3335 dated February 2022 also included proposals to reintroduce revenue contributions to both the asset and parking reserves. The earmarked reserves position set out in Appendix 2 reflects this decision.

### 6 CONSULTATION AND COMMUNICATION

- 6.1 The 2021/22 budget was set in February 2021 (CAB3289) and this followed consultation with stakeholders, including with parish councils through the

parish liaison meetings, with local businesses through discussions with the Bid Business forum and with the public through an on line survey.

## 7 ENVIRONMENTAL CONSIDERATIONS

- 7.1 Whilst the 2021/22 budget approved in February 2021 (CAB3289 refers) included significant budget savings from service efficiencies and reductions, the commitment to carbon neutrality remained and investment in the Carbon Neutrality programme was maintained in full. The capital programme also included provision specifically aimed at reducing carbon emissions. This investment has been further supplemented in the 2022/23 budget approved in February 2022 (CAB3335 refers)

## 8 EQUALITY IMPACT ASSESSEMENT

- 8.1 The recommendations in this report do not amend budget proposals that have been subject to previous assessment. Officers have regard to the considerations as set out in the Equalities Act 2010 and whether an equality impact assessment will be required to be undertaken at the time of implementation on any specific recommendations for changes to future budgets.

## 9 DATA PROTECTION IMPACT ASSESSMENT

- 9.1 None required

## 10 RISK MANAGEMENT

<b>Risk</b>	<b>Mitigation</b>	<b>Opportunities</b>
<p><i>Financial</i> Budget deficit or unforeseen under or overspends.</p> <p>Financial pressure caused by high rates of inflation and increases in energy costs.</p>	<p>Regular monitoring of budgets and financial position including forecasting to year end to avoid unplanned over/underspends.</p> <p>Regular monitoring of macroeconomic situation and recommended establishment of an Exceptional Pressures reserve.</p>	<p>Early notification of unplanned under / overspends through regular monitoring allows time for plans to be put in place to bring the finances back into line with budget forecast.</p>
<p><i>Legal</i> Risk that external factors, such as high inflation, have an impact on budgets that is so severe that the Council cannot balance the</p>	<p>Enhanced monitoring of key at-risk areas (including parking and commercial rent income) and the establishment of an additional risk reserve to</p>	

Risk	Mitigation	Opportunities
budget and is at risk of needing to issue a s114 notice.	cover exceptional inflation pressures.	
<i>Team capacity</i> Availability of staff to effectively monitor budgets and produce / report on outturn.	Resources to deliver projects are discussed at the project planning stage and agreed by the project board and monitored by the Programme and Capital Strategy Board. If, at critical budgeting times, resource shortages are identified, funding has been set aside in the budget to fund external support.	Opportunities present themselves for staff to get involved in projects outside their normal role enabling them to expand their knowledge and skills base as well as working with others.
<i>Achievement of outcome</i> Risk that the balanced budget and stable finances required by the Your services, your voice Council Plan priority is not achieved or is not perceived to be open and transparent.	Through the quarterly monitoring reports, officers and members can monitor the ongoing financial position.	

## 11 SUPPORTING INFORMATION:

### General Fund Revenue

- 11.1 When setting the 2021/22 original budget, it was always made clear that forecasting income over the year would be very difficult and a significant contingency was included to ensure a balanced budget. In addition, there has been frequent changes and new announcements regarding additional government funding. Forecasts were regularly updated throughout the year (CAB3312, CAB3318 and CAB3335 all included revised forecasts as new grants were announced and as income recovered faster than originally predicted).
- 11.2 The final outturn position set out in this report was broadly in line with the most recent forecast (CAB3335 dated February 2022) with the exception of business rate collection. Whilst regular updated forecasts have been reported throughout the year, the budget was never formally revised and so this report highlights all significant variations compared to the original budget (most of which have been reported previously).

- 11.3 The final revenue outturn shown in Appendix 1 shows a reduction in the required use of reserves compared to the February 2022 forecast of £1.63m. The most significant variance within this additional underspend of £1.63m is a favourable retained business rates variance of £1.29m, explained in 12.3.
- 11.4 The original budget for 2021/22 was approved at Council in February 2021. Within this budget a 'covid contingency', allowing for reduced income, of £3.651m (20% of total income) was set. Regular in-year monitoring showed that income was higher than expected and therefore a revised forecast of £2.151m was reflected in the February 2022 budget paper (CAB3335). This reflected a better than expected recovery of car parking income, general fund rents, and other income such as planning fees.
- 11.5 In February 2022, Cabinet approved that the all budget surpluses for the year be transferred to the Major Investment Reserve (CAB3335 refers). However, it is now proposed that £2m of the variance to the original budget be retained in a separate reserve to mitigate against the significant increase in inflation and energy costs since the 2022/23 budget was approved. Work on assessing the full impact of the increasing inflation on council budgets is currently being undertaken and a revised forecast will be prepared for consideration in October 2022.

## 12 Impact on the collection fund

- 12.1 The Council acts as billing authority for the Winchester district and is therefore responsible for the collection of business rates and council tax on behalf of Hampshire County Council, Police and Fire authorities, parish councils and Central Government.
- 12.2 **Council Tax** - In January, the Council forecast a collection rate of 99% based on previous experience of collection rates across the district. This was reflected in the outturn with a minor surplus variance of £25k.
- 12.3 **Business Rates** – The total collectable business rates for 2020/21 were over £60m and within the year, significant ongoing and new reliefs were announced, often at short notice. Final details on the total and treatment of section 31 grants (the mechanism Government uses to reimburse billing authorities for reliefs grants) were only received in March 2022. As a result, attempts to forecast year end net income in February 2022 proved to be overly cautious. Final net income collected was £0.588m more than the original budget for the year.

## 13 Revenue Baseline Budget Variances

- 13.1 Total general fund baseline net service expenditure was originally budgeted at £17.7m for 2021/22. This included a covid income contingency budget of £3.65m. An outturn of £14.9m is in line with the updated forecasts reported during the year (final forecast of £14.5m in February 2022).

13.2 The most significant variances to the original budget are summarised in the table below, with further explanation in 13.3 and 13.4 below.

	<b>Favourable / (Adverse) Variance £000</b>
<u>Income variances</u>	
a) Car Parking covid contingency	1,300
b) Markets revenue	(100)
c) Development control fees	230
d) Winchester Sport & Leisure Park	250
e) Park & Ride covid support	800
f) Guildhall rent	300
g) Garden waste income	170
h) Materials recycling income	160
i) Building control income	(110)
<b>Total income variances</b>	<b>3,500</b>
<u>Expenditure variances</u>	
a) Support service recharges	500
b) Winchester Sport & Leisure Park	500
c) Community Grants	120
d) Corporate property repairs	(110)
e) Elections	(150)
f) River Park Leisure Centre	(160)
g) Recycling & refuse collection	(160)
h) Grounds maintenance & cleansing	(300)
Other variances	(429)
<b>Total expenditure variances</b>	<b>(689)</b>
<b>TOTAL VARIANCE</b>	<b>2,811</b>

13.3 The reasons for the “income” variances in the above table can be summarised as:

- a) Car Parking – As a result of the strong recovery from the pandemic, particularly in city centre car parks, the budget shortfall of £2.3m was lower than forecast in the original budget and meant that £1.3m of the 2021/22 covid contingency budget was not required.
- b) Markets – an outturn shortfall of £0.1m due to capacity reductions earlier in the year.
- c) Development Control – additional planning fee and pre-app income of £0.23m was generated in the year with volumes of applications being higher than predicted.
- d) Winchester Sport and Leisure Park – an “open book” approach was agreed at the start of the contract for 2020/21 and this resulted in

additional income to the Council of £0.25m compared to the original budget.

- e) Park and Ride bus grants passed over from HCC amounted to £0.8m which was all additional funding and helped to further offset the reduced parking income as detailed in 13.2 a) above.
- f) Guildhall rent of just over £0.4m was £0.3m above the original budget which had not forecast a full year of income from the Courts.
- g) Garden Waste Income – strong sign ups led to additional income of £0.17m. This strong early demand has also been realised with sign-ups for 2022/23, which continue to increase the overall number of subscriptions.
- h) Materials Recycling Income – rates received for recycling materials has significantly increased over the last year leading to additional income of £0.16m. Whilst this is a highly volatile source of income, higher rates are expected into 2022/23.
- i) Building Control Income – lower than budgeted income of £0.11m reflected a reduction in demand for the service, particularly in the early part of the year.

13.4 Explanations for the “expenditure” variances in the above table are provided below:

- a) Support Service Recharges – higher recharges to the Housing Revenue Account for services provided by General Fund teams, such as special maintenance, led to a reduction in the net cost of services of £0.5m.
- b) Winchester Sports and Leisure Park – the original budget assumed a first year deficit of £0.5m. However, strong first year performance has meant that a net surplus was achieved by year end.
- c) Community Grants – an underspend on town account and district discretionary grants totalling £0.12m. Demand for some programmes was lower than anticipated in the last year and the overall programme for 2022/23 has been amended to reflect this (CAB3323 refers). Cabinet also approved a £0.2m contribution to the Grants reserve in February 2022 to mitigate against previous reductions to the grant budget.
- d) Corporate Property Repairs – an overspend of £0.11m relating mainly to River Park Leisure Centre legal and professional fees.
- e) Elections – the correction of an accrual for income relating to the reimbursement of costs for the 2019 general election has led to an adverse variance of £0.15m.
- f) River Park Leisure Centre Site – The original budget had assumed that the vacant building would be de-listed for business rates. The application remains with the Valuation Office but as yet there is no indication as to



how soon they will determine the outcome, resulting in additional costs of £0.16m relating to business rate payments.

- g) Recycling and Refuse Collection £0.16m – Contract costs are higher than the original budget (insufficient provision was made for additional unscheduled works) and this will need to be reflected in future forecasts. The key variances relate to higher than forecast inflation, weekly glass collection at an annual cost of c£0.05m, and additional variable contract costs.
- h) Grounds Maintenance and Street Cleaning £0.3m – Contract costs are higher than the original budget (insufficient provision was made for additional unscheduled works) and this will need to be reflected in future forecasts. In addition, spend on fly tipping clearance has increased as a result of increased incidents in the last year.

13.5 An overall underspend of £0.845m within ‘Investment Activity’ relates almost entirely to Net Interest Receivable which was £0.7m higher than the budgeted net payable position. The reasons for this are much higher than budgeted cash balances due to government covid support grants, re-profiling of the capital programme leading to higher than expected cash balances, and higher than budgeted investment returns.

#### 14 “One Off” Budgets

14.1 In addition to the baseline budget to fund core services, a number of “one off” provisions were approved and included in the 2021/22 budget to fund key projects across 2021/22 and 2022/23. This included:

- a) £2m to support the delivery of the Central Winchester Project through to appointing a preferred partner (CAB3289 refers)
- b) £250k to fund interim works at the Friarsgate site (CAB3289 refers)
- c) £1m to fund additional project capacity to support other major projects (CAB3318 refers)
- d) £200k to fund additional demands on core services (CAB3318 refers)
- e) £300k to fund additional IT investment to upgrade the Council’s IT desktop infrastructure to support “agile/flexible working” proposals (CAB3318 refers)
- f) Other “one off” budgets include the provision to support the preparation of the Local Plan and the delivery of the carbon neutrality programme and Homelessness prevention.

14.2 Work on all of these provisions is continuing and it is anticipated that all monies will be fully committed in 2022/23. Budget profiles have been

amended to reflect this and will require transfers from the Major Investment Reserve.

## 15 Outturn by Council Plan outcome

15.1 In addition to the variances to the baseline ('ongoing') budgets shown above, there were variances to one-off revenue budgets. The overall outturn position and variances on the combined baseline and one-off budgets by Council Plan outcome are shown in the following table. The net underspend of £5.0m compared to original budget is broken down into a £2.8m underspend on baseline budgets and a £2.2m underspend on one-off budgets.

<u>General Fund Budget Forecast</u> <u>2021/22 (£000)</u>	<u>Original</u> <u>Budget</u>	<u>Forecast</u> <u>(CAB3335)</u>	<u>Outturn</u>	<u>Variance to</u> <u>Budget</u>
Environment	(6,296)	(5,731)	(5,207)	(1,088)
Living Well	(5,157)	(4,657)	(4,846)	(311)
Homes for All	(2,131)	(2,131)	(1,432)	(698)
Vibrant Local Economy	(2,954)	(3,554)	(2,051)	(904)
Your Services, Your Voice	(5,572)	(5,396)	(3,536)	(2,036)
<b>TOTAL before funding *</b>	<b>(22,111)</b>	<b>(21,470)</b>	<b>(17,072)</b>	<b>(5,038)</b>
TOTAL Funding and Other Activity	22,111	24,088	18,705	6,671
<b>BUDGET UNDERSPEND</b>	<b>-</b>	<b>2,618</b>	<b>1,633</b>	<b>1,633</b>
<b>CUMULATIVE UNDERSPEND</b>			<b>4,251</b>	
* Baseline	-17,701	-14,456	-14,926	2,775
One-off	-4,410	-7,014	-2,146	2,264
<b>TOTAL</b>	<b>-22,111</b>	<b>-21,470</b>	<b>-17,072</b>	<b>5,039</b>

### 15.2 Service outturn variance analysis:

- Environment – The net underspend of £1,088k is caused by better than forecast income such as car parking, planning fees and recycling income.
- Homes for All – The net underspend of £698k relates to the re-profiling of one-off expenditure budgets within Homelessness and Strategic Planning.
- Vibrant Local Economy – The net underspend of £904k relates to the re-profiling of one-off major project expenditure such as Central Winchester Regeneration.
- Your Services, Your Voice – The net underspend of £2,037k relates to the re-profiling of one-off project expenditure such as project delivery support and hybrid working equipment.

## 16 Government financial support

16.1 The Government distributed a number of specific support packages including grants for local councils to meet additional "Covid 19 related" costs. The city council has received/claimed during 2020/21:

	£000
a) P&R Bus Subsidy received through HCC	797
b) Sales, Fees and Charges compensation claims	530
c) General non-specific grants towards expenditure	494
d) Local Council Tax Support	169
e) Rough Sleeping Grant	170
f) Contain Outbreak Management Fund	141
g) Local Government Restart Grant	100
h) Test and Trace Grants	42
i) Clinically Extremely Vulnerable Funding	86
j) High Street Fund	58
k) Domestic Abuse Grant	<u>34</u>
Total:	2,621

## 17 Earmarked Reserves

17.1 General Fund earmarked reserve balances have increased from £33.9m at April 2021 to £38.0m at the end of March 2022. This temporary increase of £4.1m is largely due to:

- a) Community Infrastructure Levy - £1.6m has been transferred to the town and district reserves and is ringfenced for future spend on CIL appropriate projects.
- b) A favourable outturn compared to the February budget forecast of £1.6m which is proposed to be transferred to the Major Investment Reserve for prioritisation against projects.

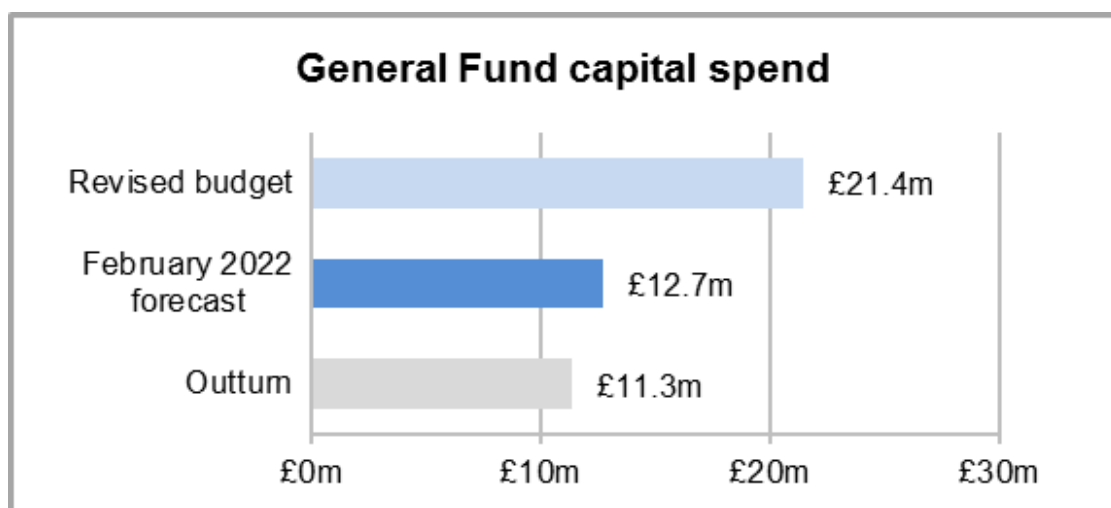
17.2 Earmarked reserve balances are set out in appendix 2. The 'operational reserves' balance totals £10.8m at the end of 2021/22.

## 18 **General Fund Capital**

18.1 Total capital expenditure in year was £22.2m - of which £10.9m relates to the Housing Revenue Account (HRA). The detailed HRA outturn is reported separately to Cabinet (CAB3354).

18.2 General Fund capital expenditure amounted to £11.3m. Excluding the SAPS scheme (see below), this compares to an original budget of £20.4m, set in February 2021 (CAB3283) and a revised budget of £21.4m (including 'brought forwards') set in July 2021 (CAB3309). Following subsequent approvals and reprogramming, the forecast expenditure was amended to £12.7m in February 2022. Further details by project are provided in Appendix 4.

- 18.3 In addition, a budget of £20.4m in respect of the Strategic Asset Purchase Scheme (SAPS) was allocated. When the scheme was approved by Council 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 for acquisitions above £4m. During the course of the financial year, the challenging economic conditions and uncertainty resulted in no suitable purchases being identified and this budget has therefore been carried forward into the 2022/23 financial year.



## 19 Key projects

- 19.1 The following are some of the key projects undertaken in 2021/22:

- i. **Winchester Sport & Leisure Park** *Total Budget: £43.24m*

*Exp: Prior years £41.7m      2021/22 £1.187m      Total £42.887m*

Work commenced on site in 2019 and, despite the significant challenges presented by Covid 19, the new park officially opened on 29<sup>th</sup> May 2021. Final contract closure negotiations are anticipated to be completed in 2022/23.

- ii. **Disabled Facilities Grants** *Total Budget: £1.23m*

*Exp: recurring      2021/22 £0.96m*

The Private Sector Housing (PSH) Team is responsible for the administration of Disabled Facilities Grants (DFGs). Such grants enable residents of private and / or social housing who are disabled or have a mobility or other limiting condition to apply for adaptations to be undertaken in their home. Such adaptations can include the installation of stair lifts, level access showers, kitchen adaptations or ramping etc. and enable residents to remain in their homes rather than having to move, go into hospital or residential care. In

2021/22 the PSH Team approved in excess of 70 DFG applications enabling families to be kept together.

iii. **Durngate flood alleviation scheme** *Total Budget: £1.6m*

*Exp: Prior years £1.36m                      2021/22 £0.11m                      Total £1.47m*

The Durngate scheme is the second phase of the North Winchester Flood Alleviation Scheme focusing on the area around the Durngate Bridge, the Trinity Centre and Durngate Terrace, and was jointly funded by the City Council and the Environment Agency. The completed scheme provides various flood defences along the River Itchen and supports the council to control and maximise the flow of water safely through the city, helping multiple residential and commercial properties throughout the city centre.

The flood defences are now operational and the remaining budget has been carried forward to 2022/23 for supplementary ecological works and repairs to a sluice. Once the final expenditure is confirmed any remaining budget funded by CIL can be released back for use on other projects.

iv. **Garden waste bins** *Total Budget: £0.5m*

*Exp: Prior years £0.44m                      2021/22 £0.08m                      Total £0.52m*

The garden waste service was launched in February 2021 with garden waste bins of 140l and 240l available for residents to purchase either online or via the Customer Service Centre, with Biffa delivering them to households. The launch has been a great success with well over 20,000 subscriptions to the garden waste service. In 2021/22 an additional £83,000 was spent which brought overall capital expenditure just over the approved budget; however, this is offset by the additional income generated due to the scheme's success.

v. **Coventry House (formerly Vaultex)** *Total Budget: £6.45m*

*Exp: Prior years £0.74m                      2021/22 £5.66m                      Total £6.4m*

The council has been awarded a £5.65m grant from the Enterprise M3 Local Enterprise Partnership (LEP) toward creating additional Park & Ride spaces to the east of the city centre. The former Vaultex site at Barfield Close will provide just under 300 spaces to reduce traffic in the city – linking in with the aims of the City of Winchester Movement Strategy and supporting the city council's pledge to become a carbon neutral council by 2024, with the whole district becoming carbon neutral by 2030. Photovoltaic panels and electric vehicle charging points also feature at the site as well as a green "living wall" which helps improve air quality and minimises the visual impact of the site. The project completed in spring 2022 with final contract payments to be made in 2022/23.

vi. **Bishop's Waltham Depot** *Total Budget: £1.775m*



scheme. Works were also carried on several other schemes – detail of expenditure on all capital projects is provided at Appendix 4.

## 20 Reforecast of capital programme

- 20.1 The 2022/23 capital programme has been reforecast to include adjustments made for brought forward budgets from 2021/22 and other adjustments such as budget reductions following tender or reforecasting to the subsequent period.
- 20.2 With the exception of budgets funded by external grant or unfinanced (prudential borrowing), reduced budgets result in funding being released back to earmarked reserves or to the capital receipts reserve where it becomes available to fund future projects.
- 20.3 Full details of all changes to the 2022/23 capital programme are provided in Appendix 5 and the impact on the overall 10 year capital programme is provided at Appendix 6.

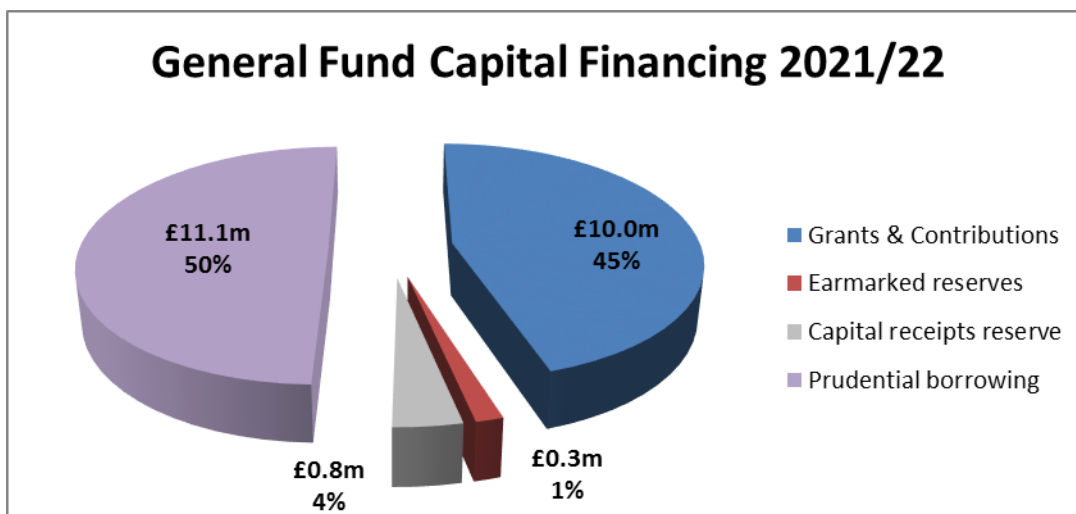
## 21 Flexible use of capital receipts

- 21.1 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 MHCLG 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. The government has recently extended this to 2024/25 but councils are no longer able to make use of the flexibility fund discretionary redundancy costs following the extension. 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.
- 21.2 In the Capital Investment Strategy approved in February 2021 (CAB3283), £194,000 of eligible capital receipts were set aside for this purpose which were applied to partially fund £266,000 in severance costs in 2020/21. This resulted in ongoing annual savings of circa £700,000 per annum. No further use was made in 2021/22 and the council has no current plans to apply further capital receipts to transformation plans though its flexible use of capital receipts strategy (most recently approved in the Capital Investment Strategy in February 2022 (CAB3332)). However, the approved strategy allows it do so should there be qualifying spend in the future and if sufficient eligible capital receipts are available.

## 22 Capital financing

- 22.1 The sources of finance available for capital projects include capital receipts, grants and contributions, reserves, revenue contributions, and prudential borrowing or “Capital Financing Requirement” (unfinanced capital expenditure

met by future revenue provision). Under the Prudential Code, the council can invest in a capital programme so long as its capital spending plans are “affordable, prudent and sustainable”. The financing of the 2021/22 General Fund capital expenditure was as follows:



- 22.2 Where capital expenditure is to be financed in future years by charges to revenue, the expenditure results in an increase in the council’s borrowing need known as “Capital Financing Requirement” (CFR), a measure of the capital expenditure incurred historically by the council that has yet to be financed. While the council has sufficient cash and investment balances, it is able to internally borrow but as CFR increases, and cash and investment balances decrease, it will need to increase its external borrowing in addition to the £166.7m the council has already borrowed to finance HRA projects including the HRA self-financing settlement. In the General Fund an annual charge called Minimum Revenue Provision (MRP) is required to finance prior year unfinanced expenditure; this reduces the CFR over the lives of the related assets. In 2021/22 additional provision for financing capital was made in both the General Fund and HRA; in both cases this related to grant funding received in year that was applied to fund prior year unfinanced expenditure.

<b>Capital Financing Requirement</b>	<b>General Fund £000</b>	<b>Housing Revenue Account £000</b>	<b>Total £000</b>
<b>Capital Financing Requirement at 1 April 2021</b>	<b>71,628</b>	<b>178,177</b>	<b>249,805</b>
Unfinanced capital expenditure - in year	2,437	8,615	11,052
Minimum revenue provision (MRP)	(876)	0	(876)
Voluntary provision for the financing of capital	(377)	(787)	(1,164)
<b>Capital Financing Requirement at 31 March 2022</b>	<b>72,812</b>	<b>186,005</b>	<b>258,817</b>
<b>Made up of:</b>			
External borrowing	0	166,722	166,722
Internal borrowing	72,812	19,283	92,095



## 23 Commercial activities: property

- 23.1 The council owns an investment property portfolio (assets held solely for rental income or capital appreciation) which was valued at £69.8m as at 31 March 2022 (£66.8m as at 31 March 2021) and generated gross income of £3.85m and net income after costs, including minimum revenue provision, of £2.95m in 2021/22. This income helps contribute to the Council Plan outcomes. This represents an average net yield of 4.3%.
- 23.2 In 2021/22, the council transferred the Guildhall café from operational assets to its investment property portfolio following its letting to a private commercial tenant. It also spent £111,000 in year on works to enhance that property prior to letting.

*Property held for investment purposes in £000s*

<b>1 April 2021</b>	<b>66,810</b>
Acquisitions	0
Enhancements	111
Gains/(losses) in fair value	2,250
Transfer from PPE (operational assets)*	669
<b>31 March 2022</b>	<b>69,840</b>

\*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

## 24 Proportion of financing costs to net revenue stream

- 24.1 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.
- 24.2 The Council's General Fund capital programme includes a number of unfinanced projects (i.e. funded by prudential borrowing). MRP (equivalent to the repayment of loan principal) is applied in the financial year following an asset becoming operational and increases the financing costs. Financing costs are expected to increase in 2022/23 as MRP charges will commence for projects that completed in 2021/22 and are either partially or wholly funded by prudential borrowing, such as Winchester Sport & Leisure Park. Similarly, HRA financing costs are forecast to increase in future years as it increases its external borrowing position to finance its capital programme.

- 24.3 The General Fund financing costs are higher than forecast due to an embedded lease in the council's waste contract. An embedded lease is where a contract contains a requirement to acquire specific assets via a lease for the majority of their useful life. This is an alternative form of borrowing and the council must therefore account for the implicit interest and MRP in relation to the lease in its financing costs.

*Prudential Indicator: Proportion of financing costs to net revenue stream*

	<b>2020/21 actual</b>	<b>2021/22 forecast</b>	<b>2021/22 actual</b>	<b>2022/23 budget</b>
GF financing costs (£m)	0.7	0.5	0.9	1.2
GF proportion of net revenue stream	3.4%	2.8%	5.0%	7.1%
HRA financing costs (£m)	5.2	5.4	5.4	5.9
HRA proportion of net revenue stream	17.8%	18.7%	18.0%	19.9%

## 25 Commentary on emerging financial pressures

- 25.1 When the 2022/23 budget was approved in February 2022, a number of assumptions regarding inflation were made based on inflation pressures and indicators at that time. However, with the Consumer Price Index for May 2022 reported as 9.1% and forecast to increase above 10% later this year, it will be necessary to revise forecasts in relation to staff costs, contract inflation and fuel costs.
- 25.2 Provision was made for Contract inflation of 4%. However, with large contracts such as waste collection and street cleansing subject to an annual CPI uplift, the full year effect of this could result in an additional cost in excess of £500k per annum.
- 25.3 Provision for staff costs inflation was included at 2%. National advice is currently indicating that provision should be 4% and this could result in an additional cost of approximately £250k. per annum.
- 25.4 The impact of inflation on fuel costs is currently being assessed, but is likely to result in an additional cost of approximately £600k per annum.
- 25.5 It is not proposed to revise forecasts at this stage but with an estimated increase in annual budgets of between £1m and £1.5m, it should be noted that future forecast deficits are more than likely to increase when revised forecasts are brought forward later in the year. To mitigate against this risk,

the establishment of an “exceptional inflation pressures” risk reserve is recommended as set out earlier in the report.

## 26 OTHER OPTIONS CONSIDERED AND REJECTED

- 26.1 Consideration has been given to revising forecasts for 2022/23 in light of the pressures highlighted in section 25 above. However, these pressures are still subject to a high degree of uncertainty and so it is proposed to retain surpluses in reserves at this stage whilst further assessment of the pressures is undertaken.
- 26.2 The potential to use the additional surplus for specific investment has also been considered. However, in light of the emerging pressures, this is not recommended at this stage.

## BACKGROUND DOCUMENTS:-

### Previous Committee Reports:-

CAB3289 - General Fund Budget 2021/22 dated 11 February 2021

CAB3283 – Capital Investment Strategy 2021-2031 dated 11 February 2021

CAB3312 – Quarter 1 Finance & Performance Monitoring dated 15 September 2021

CAB3318 - General Fund Budget Options and Medium Term Financial Strategy dated 20 October 2021

CAB3335 - General Fund Budget 2022/23 dated 17 February 2022

### Other Background Documents:-

None

## APPENDICES:

Appendix 1 – General Fund Summary Outturn

Appendix 2 – General Fund Earmarked Reserves

Appendix 3 – Winchester Town Account Outturn

Appendix 4 – General Fund Capital Expenditure 2021/22 outturn

Appendix 5 – Revised 2022/23 General Fund Capital Programme

Appendix 6 – Revised 2022-2032 General Fund Capital Programme