
NON-EXEMPT

HAVANT BOROUGH COUNCIL

Cabinet

08 February 2023

2023-24 Revenue budget, Capital budget, Reserves and Balances, Capital Strategy, Treasury Management Strategy and Medium-Term Financial Strategy (MTFS)

For Recommendation

Portfolio Holder: Cllr Tony Denton

Key Decision: No

Report Number: HBC/117/2023

1. Purpose

- 1.1. This paper is submitted to Cabinet with the proposed 2023-24 Revenue budget, Capital budget, Reserves and Balances, Capital Strategy, Treasury Management Strategy and Medium-Term Financial Strategy (MTFS).

2. Recommendation

- 2.1. That Full Council:
- a. Agrees the proposed Revenue and Capital budgets for 2023-24 including a Council Tax rate of £226.06 at Band D, representing a £6.58 increase on the current charge;
 - b. Agrees the proposed Medium Term Financial Strategy, Capital Strategy, Treasury Management Strategy and Prudential Indicators.
 - c. Agrees the Fees & Charges schedule for 2023-24.
 - d. Agrees the Council Tax Resolution

3. Executive Summary

3.1. The 2023-24 budget position for next year is as follows:

	Forecast £'000
Net Cost of Services	15,633
Council Tax, Business Rates & Grant Income	(15,633)
(Surplus) / Deficit	-

3.2. The budget aligns the appropriate level of resource that enables services and projects to be delivered so that there is a direct benefit to residents. Whereas the 2023-24 budget has been prepared to support the Corporate Strategy, funding for some specific projects within the strategy will be determined upon development of relevant business cases.

3.3. The Budget is a vital management mechanism to ensure financial sustainability of the Council, fulfilment of statutory regulations, financial prudence and compliance.

3.4. In 2022/23 the Council took the opportunity to rebase its budget following the termination of the Joint Management Arrangement with East Hants District Council. This rebasing allowed the Council to determine that it was able to bring forward a balanced budget without the need for a savings exercise in 2023/24.

3.5. Central Government have postponed the multi-year Spending Review settlement in favour of a one-year Spending settlement which has created further uncertainty in the medium and long term on local Government finances.

3.6. The previous version of the Council's MTFs, which was presented to Council in November 2022, assumed that no further central Government financial assistance would be provided. However, in December 2022, Government confirmed the continuation of a few time limited grants, such as New Homes Bonus, for 2023/24 only.

4. Q3 Forecast Financial Outturn

4.1 The forecast Outturn variances for the Council can be seen at Appendix J of this report. At Quarter 2 the Council reported an overspend of £292,000 against its overall Cash limited budget of £15.3m. This position has slightly worsened to £486,000 in Q3 and the reasons for this are detailed below. The Executive Management team in conjunction with the Section 151 officer will work on initiatives to ensure that the outturn is brought back into balance by the end of the

financial year, otherwise any overspend will need to be met from the Council's reserves.

- 4.2 The council have experienced a worsening position on the amount of planning fees that it collects this year with the Outturn looking like a forecast under recovery of planning fees of £273,000 in the financial year 2022/23. This is due to a reduction in the size and amount of planning applications coming into the Council.
- 4.3 The Council have also experienced in the third quarter an increase in the number of people presenting as statutory homeless and therefore the amount spent on temporary accommodation is likely to exceed the approved budget by around £123,000.
- 4.4 Parking is also likely to see a deficit position of £247,000 in the 2022/23 period, this is largely due to poor weather conditions in the Autumn/Winter period more than usual and the underlying budget deficit position on Parking Income of £160,000.
- 4.5 These adverse variances mentioned above have been partly off set by an improved position of the Waste and Street Cleansing Contract with Norse of £200,000 since the second quarter. The Council have also generated more income from its investments amounting to an additional £240,000.
- 4.6 Finally the Council have been carrying vacancies in the Environmental Health service of around £192,000. Whilst all of these positive variances help to reduce the Council's overall deficit position, they cannot be relied upon to continue into the financial year 2023/24, whereas some of the adverse variances will.

5. Additional Budgetary Implications

- 5.1. Like all organisations the Council has been affected by the increase in inflation driven by the crisis in Ukraine which has resulted in inflation being at its highest level for many years. The increased cost of borrowing brought about by the Bank of England's policy to try and curb inflation is also having an impact on developers and businesses operating and building within the borough.
- 5.2 The Council has seen the cost of Waste Collection and Street Cleansing services increase by £900,000 in a single year, driven largely by an increase in wage demands for Waste and Street Cleansing Operatives and Drivers, along with an increase in fuel charges.
- 5.3 The increase in the cost of living has also seen a fall in the number of large planning applications coming forward, which has had the impact of reducing the amount of income generated from planning application fees. The market for experienced planning officers has also increased regionally and has resulted in the Council needing to rely on more expensive agency staff.

- 5.4 The current economic situation has also contributed to an already worsening position whereby the Council are having to use temporary accommodation to house homeless applicants. The Council has seen the number of people requiring temporary accommodation double in six months between April and October 2022. The cost of this accommodation has also increased whilst Housing benefits, the amount the Council can claim to help for this, have been frozen. The combination of these factors means that the cost to the Council continues to increase.
- 5.5 The Council are also becoming increasingly reliant on one off funding to support Council services. This includes government grant. The Council, is able to rely on interest earned on excess cash balances to supplement its funding but this is reliant on Interest Rates staying relatively high compared to recent years, and the pace at which the Council draws down funding to deliver its corporate priorities such as the regeneration programme. This income can't be relied upon in the future which is reflected within the MTFS.
- 5.6 This years unprecedented increase in Utilities costs has had some effect on the Council, but because it doesn't have the liability of energy costs for many properties, and it's not a highways authority, it is relatively protected from these increases. It is however exposed to these costs indirectly through the strategic contracts it holds as these costs are often passed through to the Council from the Contractor, as with Waste services.
- 5.7 Despite these budget pressures, the Council is able to provide a budget that is balanced without the need for a savings exercise in 2023/24 and can maintain its current level of service. However, to achieve this, the Council needs to levy the maximum 3% increase in Council Tax.

6. Current Financial Position

- 6.1. Members will be aware that Havant have been facing considerable pressures over the past few years on their revenue budget. This has been managed to date by prudent financial management through year-on-year service efficiency savings which had included movement towards more integrated and shared services with East Hampshire District Council.
- 6.2. Last year's revenue budget was presented to Members as a balanced in year budget which was achieved through one off grants received from Central Government amounting to £855,000, with the MTFS showing a significant deficit of circa £8m over the following four years. The revenue budget for 2023/24 has incorporated the one-off central government funding of £991,000, (which was confirmed in December 2022), but has assumed that this funding will not continue beyond next financial year.

6.3. The MTFs considered at Full Council in November 2022 presented an ongoing deficit position through the five-year period with a forecast of annual in year deficits of £109,000 for 2023/24. The revised MTFs, presented at Appendix B, does show an improvement to that position and the budget is balanced for next year without the need to draw on reserves. However, the Council are anticipating some financial challenges in the new year as set out in section 4 of this report.

7. Background and relationship to Corporate Strategy and/or Business Plans

Revenue budget

7.1. The revenue budgets this year have been set based on a thorough analysis of service and staffing costs within the revised Senior Management Structure for Havant Borough Council has approved in June 2022.

7.2. Fees and Charges have been reviewed by Heads of Service and increased where service managers felt this was appropriate and are set out in Appendix G. Whereas it has been necessary to increase many charges, to reflect the rising costs of delivering the respective services, such increases have been kept below the rate of inflation.

7.3. Staffing and contract costs remain the two major expenses and are subject to yearly inflationary increases. The financial year 2022/23 has seen a significant rise in staffing costs due to an above inflation National Joint Council, (NJC), settlement aimed specifically at those at the lower end of the pay scales.

7.4. The revenue budget 2023-24 is included at Appendix A.

7.5. The key implications as a result of the 2023-24 Local Government Financial Settlement are:

- a. Ability for Borough Council's to raise Council Tax by 3% or £5 (whichever is the highest) without the need to hold a referendum.
- b. Core Spending Power Minimum Funding Guarantee (£300,000).
- c. An un-ringfenced Services Grant (£130,000).
- d. Revenue Support Grant of (£156,000).
- e. New Homes Bonus to continue for a further year, however there will be no new legacy payments and but there is an ongoing commitment by central government to reform the scheme in future years (£405,000).

Medium Term Financial Strategy to 2027-8

- 7.6. The Council's Medium Term Financial Strategy (MTFS) has been updated using the results of the budget process as a revised baseline and assumption on future Government funding. This is included at Appendix B.
- 7.7. The projections continue to show significant revenue pressures and that by 2027/28 the Council could be facing an annual budget deficit of £400,000 based on current projections. This is partly a result of the removal of some government grants which are not expected to continue beyond 2023/24. The assumption is that there will be no further central Government funding going forward. The MTFS assumes inflationary growth on our contracts. Salary inflation at 3%. Council Tax is assumed to rise by 2% each year after this current financial year.
- 7.8. A great deal of work has been done over the last 12 months to maintain the financial stability of the Council. Although the MTFS shows a deficit position from 2024/25, officers feel that plans can be put in place to mitigate these losses going forward.

Capital Strategy

- 7.9. The Capital Strategy sets out the approach for the approved capital programme, providing an overview of the governance process, longer term capital expenditure plans and expectations around debt and use of internal borrowing to support capital expenditure. The latest Capital Strategy can be found at Appendix F for approval.

Capital Budget and proposals received

- 7.10. The current approved Capital programme is shown at Appendix C.
- 7.11. The Council was successful in securing funding in 2022/23 and many of these schemes are included within the Capital Programme that was approved by Full Council in December 2022. Since that meeting the Council have been informed by the Department for Levelling Up, Housing and Communities (DLUHC) that they have been awarded £705,000 under the Department's Local Authority Housing Fund, in order to purchase or build property to house Ukrainian and Afghan refugees. Officers are currently working on options to best use this funding and to meet the grant conditions.

- 7.12. Unfortunately, we were informed in January 2023 that we were unsuccessful in our £20m Levelling Up Fund bid which was aimed at transforming the Havant's Meridian Centre and surrounding areas. Alternative plans will now need to be developed.
- 7.13. Appendix C contains a list of projects in the current programme and the source of funding used for each.

Reserves

- 7.14. A summary of the reserves position is provided at Appendix D.
- 7.15. The reserves position is finalised as part of year end accounting. The reserves position includes the following:

Revenue reserves: reserves would total an estimated £11.1m at the end of the MTFS. Revenue reserves are used to support initiatives identified within the revenue budget and to mitigate unforeseen pressures on the revenue budget, the balances will change year on year dependent on when the initiatives are approved and spend is authorised. The forecast on reserves takes into account the deficit position on the MTFS. Reserves are at a level that even with this deficit that they are at a level that give the Council confidence that it can continue to provide services.

Treasury Management Strategy

- 7.16. The Treasury Management Strategy sets out the investment and borrowing activities for the Council. The Council's approach to Treasury Management is in accordance with the CIPFA Code of Practice which requires a strategy to be agreed annually. The latest Treasury Management Strategy can be found at Appendix E for approval.

8. Options considered

- 8.1. The 2023-24 budget has been prepared on the following basis which has guided the recommendations.

Council Tax: The budget proposals assume that Council Tax will increase by 3% for 2023-24 representing £226.06 at Band D. This overall forecast also includes a small increase to reflect growth in housing numbers year on year.

The Council Tax paid by an individual is a combination of:

- a. • Hampshire County Council Precept
- b. • Police and Crime Commissioner for Hampshire Precept
- c. • The Fire and Rescue Authority Precept
- d. • Havant Borough Council

Hampshire County Council, Police & Crime Commissioner for Hampshire, Hampshire Fire & Rescue Authority precepts are not yet known and are not therefore included in the figures within this report. They will be incorporated in the Council Tax calculation report to Council in February 2023.

Currently, collection rates for Council Tax remain relatively high and are not anticipated to have an impact on the General Fund through the collection fund.

Grants: The New Homes Bonus of £405,000 is included within the budget. The updated MTFs projects the grant ceasing after 2024-25. In addition, central Government has provided un-ringfenced grants for 2023-24 that include a Comprehensive Spending Power minimum funding grant of £300,000, Services Grant of £130,000 and a Revenue Support Grant of £156,000. These grants are assumed to be one-off 2023-24 grants and have not been carried forward into subsequent years.

Retained Business Rates: Since 2013/14, the Council has been allowed to retain a portion of business rates. The budget estimate for 2023-24 is based on the Council's final NNDR1 return.

Fees & Charges: It is a Borough Council function to approve the budget framework and the Council Tax amount annually after other billing authorities have agreed their charges and in time for annual tax billing. The Leader or the Cabinet Lead are empowered to make changes to the Borough Council's fees and charges and to determine the Fees & Charges schedule, provided the changes and schedule are within the budget framework set annually by the Council. The Full Council approves the Fees and Charges schedule annually. It is proposed that non-statutory Fees and Charges are increased by 8%, with the exception of Garden Waste fees that will be increased by 6%. It is proposed that fees for Sports Facilities and some Pest Control fees will be frozen in 2023/24. Details are provided in Appendix G.

Salary budgets: As previously mentioned, the 2023-24 budget assumes an overall increase of 5% for pay award although this has yet to be confirmed. The MTFS includes increases of 3% per annum in uplifts in salary costs going forward.

9. Resource Implications

- 9.1. Financial Implications – the budget reflects the aspirations of the organisations for 2023-24 as per the Corporate Strategy and has been built on the basis for delivering the Council services with the resources required.

Section 151 Officer comments

Date: 31 January 2023

All comments from the CFO (s151) are contained within the report.

- 9.2. Human Resources Implications – None. Staffing budgets have been aligned with the HR establishment with all structures funded at 95% of total cost (accounting for staff turnover) under each Executive Head of Service.
- 9.3. Information Governance Implications - None
- 9.4. Other resource implications - None

10. Legal Implications

- 10.1. Legal Implications
- 10.2. In accordance with the Local Government Finance Act 1992, local authorities in England and Wales are required to set a balanced budget for each financial year, following a specific process. They must calculate “*the expenditure which the authority estimates it will incur in the year in performing its functions*” (section 32(2)(a)) and then subtract “*the sums which it estimates will be payable for the year into its general fund*” (section 32(3)(a)). Business rates, revenue support grant or other grant funding would not normally be involved in arriving at this equation. This calculation will produce the ‘budget requirement’ for the financial year in question. The local authority must then subtract the amount that they expect to receive in grants and business rates; amount remaining normally equating to that revenue which they must raise through Council Tax. The Council is required to set its budget before 11th March each year, in advance of the start of the new financial year on 1st April.

Monitoring Officer comments

Date: 31 January 2023

Approval of the Council's Budget and the levying of Council Tax are functions reserved to Full Council (Constitution Part 2 Section B paragraph 1.1.8). The Council's budgetary framework provides for Cabinet and Overview & Scrutiny Committee to consider proposals relating to the calculation of the budget requirement and the setting of Council Tax, to allow for reports to be made as appropriate to the Budget Council Meeting on 22nd February 2023

11. Risks

11.1. The 2023-24 budget preparation has identified the following key corporate risks:

Inflation - The main measure of inflation CPI (Consumer Price Index) is currently tracking at 10.5% with the RPI (Retail Price Index), upon which some contracts remain linked, tracking at 13.5%. These rates are the highest since the late 1980's. The Office for Budget Responsibility, the advisors of Government for the purposes of policy setting, are forecasting that CPI will fall during 2023 to around 5.2% by the end of the year, and by the end 2024 the rate of inflation will be around 1.4%, remaining low in 2025. However, with the increase in cost of living and the demand for higher wages the Bank of England are urging some caution.

Covid-19 pandemic – Although Covid remains a threat it is not forecast in the MTFS to have a material effect on the Council's financial future.

Funding – The Government has not yet proceeded with the implementation of the Review of Relative Needs and Resources (formerly the Fair Funding Review) and 75% Business Rates Retention in 2023-24. In order to provide ongoing financial stability for local authorities, the reset of accumulated business rates growth is currently not expected to occur during the MTFS period. However, it should be noted that this may change and further decisions on Local Government finance reform will be taken in the context of next year's Spending Review.

The Government has set out its intention to hold a consultation on the future of the New Homes Bonus, the original intention was to implement the reform in 2022/23. This has not yet taken place and therefore the assumption is that the current scheme as previously forecast will end in the 2023/24 financial year in line with the final legacy payment.

12. Consultation

- 12.1. The budgets have been built in consultation with the Chief Executive, Executive Heads of Service, budget holders and Cabinet Leads.
- 12.2. An All Member budget briefing will be taking place in early February 2023 for Councillors to be briefed on the outline draft budget ahead of discussion at Full Council.
- 12.3. Overview and Scrutiny Board will also review the draft budget at their meeting in February 2023.

13. Communication

- 13.1. Subject to approval by Full Council the finalised budgets will be published on the Council website.

14. Appendices

Appendix A – Revenue Budget

Appendix B – Medium-Term Financial Strategy

Appendix C – Capital Budget

Appendix D – Reserves

Appendix E – Treasury Management Strategy

Appendix F – Capital Strategy

Appendix G– Fees and Charges Schedule –

Appendix H – Analysis of Business Rates Income and Expenditure 2022/23 – to follow

Appendix I – Cabinet Recommendation & Council Tax Resolution – to follow

Appendix J – Q3 Forecast Outturn 2022/23

15. Background papers

- 15.1. None

Agreed and signed off by:

Portfolio Holder: Councillor Denton

Deputy Section 151 Officer: Wayne Layton

Monitoring Officer: Mark Watkins