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NON-EXEMPT

# HAVANT BOROUGH COUNCIL

Cabinet

16 February 2022

## **2022-23 Revenue budget, Capital budget, Reserves and Balances, Capital Strategy, Treasury Management Strategy and Medium-Term Financial Plan (MTFP)**

### **FOR DECISION**

Portfolio Holder: Cllr Tony Denton

Key Decision: Yes

Report Number: *HBC 267/22*

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#### **1. Purpose**

- 1.1. This paper is submitted to Cabinet with the proposed 2022-23 Revenue budget, Capital budget, Reserves and Balances, Capital Strategy, Treasury Management Strategy and Medium-Term Financial Strategy (MTFP).

#### **2. Recommendation**

- 2.1. That Cabinet recommends to Full Council:
- a. The proposed Revenue and Capital budgets for 2022-23 including a Council Tax rate of £219.48 at Band D, representing a £5 increase on the current charge;
  - b. The proposed Medium Term Financial Strategy, Capital Strategy, Treasury Management Strategy and Prudential Indicators.
  - c. The Fees & Charges schedule for 2022-23.
  - d. The Council Tax Resolution

### 3. Executive Summary

3.1. The 2022-23 budget position for next year is as follows:

	<b>Forecast £'000</b>
<b>Net Cost of Services</b>	14,431
Council Tax, Business Rates & Grant Income	(14,431)
<b>(Surplus) / Deficit</b>	-

- 3.2. The 2022-23 budget has been prepared to support the Corporate Strategy and the proposals for the authority to withdraw from the current Joint Management Agreement with East Hampshire District Council.
- 3.3. 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.
- 3.4. The Budget is a vital management mechanism to ensure financial sustainability of the Council, fulfilment of statutory regulations, financial prudence and compliance.
- 3.5. Central Government have once again postponed the multi-year Spending Review settlement in favour of a one-year Spending Review settlement which has created further uncertainty in the medium and long term on local Government finances.
- 3.6. Ahead of the provisional Local Government Financial Settlement the budget was prepared on the assumption that no further central Government financial assistance would be provided.
- 3.7. The Shaping our Future transformation programme has undertaken a review of the Council's key corporate processes including budget setting. This year is the first to adopt the new process which is described in detail within Appendix M.
- 3.8. This new process allocated a savings target to all services within the authority as the initial step to financial transformation, this enable the organisation to identify significant savings for consideration by Portfolio Holders and Cabinet which resulted in being able to set an initial draft revenue budget.

3.9. Following the Local Government Financial Settlement new funding has been provided which has enabled the Council to set a balanced budget.

#### **4. Additional Budgetary Implications**

4.1. None

#### **5. Current Financial Position**

5.1. 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 has included movement towards more integrated and shared services with East Hampshire District Council.

5.2. Last years 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 £1.29M, the position is similar this year. Despite services bringing forward circa £1M of Savings (including in detail at Appendix L) the revenue budget has relied once again on one off central government funding of £855k to balance.

5.3. The MTFP considered at full Council in February 2021 presented an ongoing deficit position through the five-year period with a forecast of annual in year deficits of £2.6M, the revised MTFP presented at Appendix B does not show an improvement to that position.

5.4. Council agreed to implement a full transformation programme in partnership with East Hampshire District Council as a robust and credible plan to mitigate the forecast deficits and bring the authority back on to a sustainable financial footing, the recent decision to not progress further integration of services with East Hampshire and withdraw from the Joint Management Agreement will have a significant impact on Havant's ability to progress the level of transformation required to achieve a stable financial future.

5.5. Havant will need to rely on reserves to fund any cost that will arise from the withdrawal from the Joint Management Agreement.

5.6. The Chief Finance Officers statement included at Appendix F provides more detail to Members on the current financial position of the authority.

## **6. Background and relationship to Corporate Strategy and/or Business Plans**

### Revenue budget

6.1. The revenue budgets this year have been set adopting the new target setting process which aligns to the principles developed as part of the Shaping our Future Programme, full details are including within Appendix M.

6.2. This new approach has enable the Head of Service to present £985k of saving which have been agreed by the Portfolio Holders and are incorporated within the Revenue Budget, full details are included at Appendix L.

6.3. 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 I.

6.4. Staffing and contract costs remain the two major expenses and are subject to yearly inflationary increases.

6.5. The revenue budget 2022-23 is included at Appendix A.

6.6. The key implications as a result of the 2022-23 Local Government Financial Settlement are:

- a. Ability for Borough Council's to raise Council Tax by 2% or £5 (whichever is the highest) without the need to hold a referendum.
- b. Further un-ringfenced Lower Services Tier Grant (£0.150M).
- c. An un-ringfenced New Services Grant (£0.231M).
- d. The second of a three year scheme to cover collection fund (council tax and business rates) losses of upto 75% of irrecoverable losses.
- 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 (£0.474M).

### Medium Term Financial Strategy to 2025-6

- 6.7. The Council's Medium Term Financial Strategy (MTFP) 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.
- 6.8. The projections continue to show significant revenue pressures and that by 2025/26 the Council could be facing an annual budget deficit of £2.664M. This is partly a result of the reducing New Homes Bonus (NHB) which is not expected to continue beyond 2022/23 as this year's payment includes the final legacy payment and a one off in year payment, the assumption going forward is that there will be no further central Government funding through NHB until a new scheme is implemented. The MTFP assumes inflationary growth on our contracts of 2% and salary inflation at 3%. Council Tax is assumed to rise by 2% each year.
- 6.9. A great deal of work has been done to maintain the financial stability of the Council in the short term. However, the medium to longer term financial position is not sustainable for the Council and the Chief Finance Officer has advised the Cabinet Members that they need to now make significant in roads into the delivery of a robust and credible plan to reduce expenditure.

### Capital Budget and proposals received

- 6.10. The current approved Capital programme is shown at Appendix C.
- 6.11. A single scheme has been given approval for further investment and included within the Capital programme in 2022/23. This is the next phase of the Warblington Footbridge project, the scheme is fully funded from external grant or CIL.
- 6.12. Appendix D contains a list of projects brought forward from previous years and also a second table of potential new capital bids which will be brought forward in the next financial year as full business cases for approval by Cabinet.

6.13.

### Reserves

- 6.14. A summary of the reserves position is provided at Appendix E.
- 6.15. The reserves position is finalised as part of year end accounting. The reserves position includes the following:

**Revenue reserves:** reserves would total an estimated £13.9M at the end of the MTFP. 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.

There is forecast to be £5.471M set aside within the Pension Resilience Reserve by the end of the MTFP, this is to mitigate annual pressure on the revenue budget arising from the triannual actuarial valuation.

The un-ringfenced covid financial support grant of (£2.1M) will now be set aside to support transformation and if required costs associated with the withdrawal from the Joint Management Agreement with East Hampshire District Council.

**Capital reserves:** reserves remain steady and are estimated to total £26.197M at the end of the MTFP. Capital reserves are used to support the current approved capital programme and will inevitably change year on year as and when new capital schemes are approved.

This total includes ringfenced grants (primarily disabled facilities grant), unapplied developer s106 contributions and Community Infrastructure Levy awaiting distribution.

There is a single un-ringfenced Capital reserves available with a current balance of £10.3M mostly derived from the sale of land at Brockhampton West.

#### Treasury Management Strategy

- 6.16. The Treasury Management Strategy sets out the investment and borrowing activities for the Council. The Council's approach to Treasury Management and 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 G for approval.

#### Capital Strategy

- 6.17. 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 H for approval.

## 7. Options considered

- 7.1. The 2022-23 budget has been prepared on the following basis which has guided the recommendation.

**Council Tax:** The budget proposals assume that Council Tax will increase by £5 for 2022-23 representing £219.48 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 2022.

Currently collection rates for Council Tax remain high and will not have an impact on the General Fund through the collection fund.

**Grants:** The New Homes Bonus (£0.474M) is included within the budget. The updated MTFP projects the grant ceasing after 2022-23. In addition, central Government has provided un-ringfenced grants for 2022-23 that include a Lower Services Tier Grant (£0.150M) and New Services Grant (£0.231M). Both these grants are assumed to be one-off 2021-22 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 2022-23 is based on the Council's final NNDR1 return. Risks around business rates are detailed below.

**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 is 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. Non-statutory Fees and Charges have been increased by 2%, where service managers felt it appropriate fees and charges have been increased above 2% reflecting cost of delivery. Details are provided in Appendix I.

**Salary budgets:** As previously mentioned the 2022-23 budget assumes an overall increase of 3% for pay award, the living wage uplift and those who are entitled to pay increment. Employer NIC contributions (Health and Social Care Levy) will also increase adding a further 1.25% to the current salary costs. Pension contributions have been maintained at the level set by the Hampshire Pension Fund. The MTFP includes increases of 3% per annum in uplifts in salary costs going forward.

## **8. Resource Implications**

- 8.1. Financial Implications – the budget reflects the aspirations of the organisations for 2022-23 as per the Corporate Strategy and has been built on the basis for delivering the Council services with the resources required to deliver those plans.
- 8.2. Human Resources Implications - None
- 8.3. Information Governance Implications - None

### **Section 151 Officer comments**

Date:

All comments from the CFO (s151) are contained within the reports and appendices in particular Appendix F – CFO Statement.

- 8.4. Other resource implications - None

## **9. Legal Implications**

- 9.1. It is a Borough function to approve the budget framework and the Council Tax amount annually. The February Full Council meeting formally exercises this power. Overview and Scrutiny Board are provided the draft budget ahead of

February Cabinet and Council in order to feed back any recommendations for Cabinet to consider within the budget.

**Monitoring Officer comments**

Date:

No further comment to the legal implications comments above.

**10. Risks**

10.1. The 2022-23 budget preparation has identified the following key corporate risks:

**Inflation** - The main measure of inflation CPI (Consumer Price Index) is currently tracking at 5.4% with the RPI (Retail Price Index), upon which some contracts remain linked, tracking at 7.5%. These rates are the highest in a decade. The Office for Budget Responsibility, the advisors of Government for the purposes of policy setting, are forecasting that CPI will remain high at 3.7% for 2022/23 but falling to 2.3% for 2024/25.

**Covid-19 pandemic** – during 2021-22 the Council has been faced with the continued economic impact of the pandemic, however income levels have recovered well and are expected to remain steady.

**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 2022-23. In order to provide ongoing financial stability for local authorities, the reset of accumulated business rates growth will not now take place in 2022-23 and currently not expected to occur for during the MTFP 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 implementing 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 this current financial year in line with the final legacy payment.

**Financial Risks**

These are considered in detail within the Chief Finance Officers report included at Appendix F.

#### Consultation

- 10.2. The budgets have been built in consultation with Directors, Heads of Service, budget holders and Portfolio Holders.
- 10.3. An all member budget briefing will be taking place in early February 2022 for Councillors to be briefed on the outline draft budget ahead of discussion at Full Council.
- 10.4. Overview and Scrutiny Board will also review the draft budget at their meeting in February 2022.

#### **11. Communication**

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

#### **12. Appendices**

Appendix A – Revenue Budget

Appendix B – Medium-Term Financial Strategy

Appendix C – Capital Budget

Appendix D – Capital bid and unapproved projects

Appendix E – Reserves

Appendix F – CFO Statement

Appendix G – Treasury Management Strategy

Appendix H – Capital Strategy

Appendix I – Fees and Charges Schedule – to follow HoS reviewing following recommendation for further increases

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

Appendix K – Cabinet Recommendation & Council Tax Resolution – to follow pending major preceptors decision in Feb

Appendix L – Savings Assumptions incorporated into the Revenue Budget for 022/23

Appendix M - Shaping our Future – Transforming our Key Processes

#### **13. Background papers**

- 13.1. None

**Agreed and signed off by:**

Portfolio Holder: Cllr Denton

Director and Section 151 Officer: Lydia Morrison

Monitoring Officer: Daniel Toohey