

HAVANT BOROUGH COUNCIL

Cabinet

02 November 2022

Medium Term Financial Strategy 2022-2026

FOR RECOMMENDATION TO FULL COUNCIL

Portfolio Holder: Cllr Denton

Key Decision: No

Report number: HBC/094/2022

1. Purpose

- 1.1. This paper is submitted to Cabinet with the updated Medium Term Financial Strategy (MTFS).

- 1.2. The update of the MTFS is as a result of the work undertaken by the Budget Working Group which was established as part of the setting of the budget in February 2022. The Budget Working Group had the remit to review and make proposals to achieve a balanced MTFS by October 2022.

2. Recommendation

- 2.1. Cabinet recommends to full Council that it:
 - a. adopts the updated Medium Term Financial Strategy 2022-2026.

3. Executive Summary

- 3.1. The current approved MTFS was set and approved in February 2022. At the time the then Chief Finance Officer (CFO) stated the following:

“I must draw to the attention of Members a number of concerns which I have raised within the main body of my report [Appendix F of the 2022-23 Budget report] regarding financial risk and future financial sustainability”

3.2. These concerns were further raised from the decision at Council to withdraw from the Joint Management Team Agreement (JMTA) with East Hampshire District Council. The then CFO drew a conclusion that the decision to exit the JMTA would impact upon the Council's transformation programme and therefore remove the Council's solution to meet future deficits through savings realised from its transformation programme.

3.3. The Council had a balanced budget for 2022-23, however in each of the following years the Council had budget deficits in 2022-23 of £1.26M growing to £2.6M in 2026/27.

3.4. The Budget Working Group was tasked in February 2022 to review and address the future years budget deficits and that work is now complete. An updated MTFS has been prepared and a new rebased budget has already been reviewed and agreed by Full Council. A summary of the previous and new MTFS is provided below:

Previous MTFS	22/23	23/24	24/25	25/26	26/27
Expenditure	14,431	15,178	16,052	16,942	17,624
Funding	-14,431	-13,910	-14,253	-14,603	-14,960
Deficit	0	1,268	1,799	2,339	2,664

Updated MTFS	22/23	23/24	24/25	25/26	26/27
Expenditure	15,032	14,939	15,435	15,846	16,322
Funding	-15,032	-14,830	-15,333	-15,842	-16,151
Deficit	0	109	102	4	171

3.5. As per the above, the MTFS position has now moved from significant deficits growing to £2.6m in 2026/27 to a position of much smaller and more manageable deficits of around £100k per year.

3.6. A summary of the key assumptions and changes made to the MTFS is below:

- a. Services operate within the new 22/23 revised budget base which was reviewed and approved by Full Council in September 2022

- b. Norse contract pressures continue into 23/24 but then stabilise from 24/25 onwards
- c. Housing cost pressures start to reduce from 23/24 due to interventions by the team and work being undertaken within the Housing Service to improve the service provision and reduce homelessness
- d. Successor to the Capita contract is benchmarked and does not create a significant additional cost pressure
- e. Increase in income from property assets begins from 22/23 and grows over the coming years as a result of work currently being undertaken by the property team
- f. Increase in income from planning as a result of the expected uplift in planning fees due to be implemented by central Government in April 2023
- g. Staffing uplifts of 5% in 23/24 and 3% in each year after. Historically pay rises have been 2-3%. The budget for this year has taken account of the proposed 22-23 staffing uplift which is affordable and within the existing budget.
- h. Business rates income remains steady throughout the MTFS period. Central Government does intend to reset the Business Rates income which could result in a significant income reduction for the authority (£1M). However, any reset would be expected to come with funding support initially to cover any significant shortfall.
- i. Council Tax increases by £5 uplifts on a Band D property throughout the MTFS, with additional income also from growth in the number of houses in the borough (house growth of approximately 1% per year). Central government set the parameters of Council Tax increases which are published each year as part of the annual Local Government Financial Settlement.
- j. No additional government funding from 23/24 to support the revenue budget, although likelihood is that the Council would receive some form of revenue funding. Central Government only confirm grant funding as part of the annual Local Government Financial Settlement.
- k. Short term and long term cash investments, in line with our approved Treasury Management Strategy, utilising available cash balances that the

Council holds to generate a considerable new income stream for the Council throughout the MTFS

- I. No contributions to or from reserves, this includes the removal of a pension reserve payment. The recent three year pension valuation highlighted that the fund is 100% funded and therefore no additional payments are required to be made.

3.7. The key assumptions are subject to change and will therefore need to be closely monitored. It is proposed that the MTFS will be continually reviewed as part of the budget quarterly monitoring process. An update will also be brought forward as part of the setting of the 2023-24 revenue budget due in February 2023.

3.8. There are risks and opportunities within the MTFS and these are covered further in the risk section of the report.

3.9. The full MTFS can be viewed at appendix 1.

4. Additional Budgetary Implications

4.1. Budgetary implications are embedded throughout this report.

5. Background and relationship to Corporate Strategy and supporting strategies and policies

5.1. Members will be aware that Havant Borough Council has been facing considerable pressures over the past few years on their revenue budget. This has been managed to date by prudent financial management with year on year efficiency savings. The Budget Working Group was established in 2022-23 to review the medium/long term finances with a remit to balance the Medium Term Financial Strategy.

5.2. Following the decision to split from the JMTA with East Hampshire District Council there was a further requirement to review the financial position of the authority. As part of the decision to split, CIPFA were appointed to look at the

affordability of withdrawing from the partnership. Their view formed part of the formal business case and stated that from a financial perspective Havant Borough Council could operate as a standalone Council.

5.3. Over the summer the Budget Working Group has received reports and presentations on the Housing service, the Planning Service, Norse JV, the rebased 22/23 revenue budget and the MTFS.

5.4. Alongside the work of the Budget Working Group an officer group has reviewed and rebased the 22/23 revenue budget. The Budget Working Group were briefed on the budget work and the rebased budget was approved by Full Council in September 2022. The rebased budget gave a strong foundation from which to base the updated MTFS. In addition, work has continued alongside to produce an updated Corporate Strategy to sit with the updated MTFS.

5.5. As a result of all the above work, Havant Borough Council now has a rebased revenue budget and proposed MTFS which provides a strong foundation to support delivery of the Corporate Strategy.

6. Options considered

6.1. It was agreed at the February 2022 Full Council to establish the Budget Working Group with the remit of reviewing and balancing the MTFS. This report delivers that piece of work.

6.2. If the current MTFS remained in place and the shortfalls not addressed then each year Havant Borough would face considerable issues balancing the budget and would not be in a position to effectively deliver the Corporate Strategy.

7. Resource implications

7.1. Financial implications

- a. The MTFS reflects the aspirations of the organisation over the medium term and provides the financial basis for delivering the Corporate Strategy.

Section 151 Officer comments

This revised MTFS provides a realistic forecast of the anticipated future income and spend trends for the Council over the next four years. Like any MTFS, there are risks associated with certain budget areas but, to mitigate this, there are also opportunities to exceed income targets and / or reduce future spend.

7.2. Human resources implications

- a. The new management and team staffing structures which have been developed and consulted on over the summer have been incorporated within the MTFS. All of the proposed new structures, including any new posts created, have been subject to full financial review and costings included.

7.3. Information governance implications

- a. None

7.4. Climate and environment implications

- a. The revenue budget has remained in place throughout the MTFS in order to continue delivery of the Havant Borough Council Climate and Environmental Strategy and action plan.

7.5. Other resources implications

- a. None

8. Legal implications

- 8.1. The Council is required to have an approved budgetary framework. The budgetary framework includes the Medium Term Financial Strategy which is

formally approved by Council each February. Any major changes and/or reset of the Medium Term Financial Strategy requires Full Council approval.

Monitoring Officer comments

The Medium Term Financial Strategy forms part of the Budgetary Framework (Constitution – paragraph 3.1.1 of Part 2 Section B), the approval of which is expressly reserved to Full Council (paragraph 1.1.7 of aforesaid). This report summarises the recent work undertaken to review the MTFS and it recommends a rebalanced strategy that will align with and deliver the Corporate Strategy.

9. Risks and mitigations

9.1. As stated, the MTFS is built on certain assumptions which are outlined in this report. Those assumptions carry certain risks which need to be monitored as some of the risks could materialise which would likely impact on the MTFS figures.

9.2. A summary of the key risks alongside current mitigations are included in the table below:

Risk	Mitigation
The total cost of services (the current revenue base) could increase due to increased demand on individual service areas	Services are expected to operate within their new base. Salary inflation has been accounted for. Any additional cost increases will be subject to business case and discussion on affordability.
Significant contract increases with our major contracts (Norse & Capita)	Norse contract pressures are subject to ongoing discussion and have formed part of the Budget Working Group review. Increases for the Norse contract have already been built into the MTFS (but will need to be regularly reviewed) Provision of services post the current Capita contract needs careful planning in order that costs don't

	impact significantly from contract budgets. The adequacy of base budget will need to be reviewed throughout any formal procurement process.
Housing/Homelessness costs continue to rise	Continued work and focus with Housing department to improve the financial position and ensure that schemes such as Brent House deliver financial savings. A greater focus on prevention should reduce numbers although the escalating cost of living will probably result in increased demand.
Increased (new) income not realised	Focus on ensuring service areas are maximising income opportunities in particular commercial property (new structure will assist with this work)
External factors such as Environmental Act have significant adverse impacts	Changes to garden waste collection (large income stream for HBC) and/or requirement to collect food waste could add significant cost pressures. Progress of Environmental Act to be closely monitored.
Rising inflation	Potential to further impact on all costs, in particular capital projects (e.g. Langstone) as secured funding may not meet revised construction costs. Situation to be monitored and taken account of in annual budget setting
Business rates reset	Government has been planning to reset business rates which, based on modelling by LGInform, could impact us by £1m income reduction. The likely timing of this is unclear and it would be expected that Government would taper the effect nationally. We will continue to monitor of Government's position on this.
Reduction in central Government grants	Likely that some form of Government funding will continue and so this could have a positive impact as current income forecasts are based on no adhoc grant income from next year onwards.
Cash investment portfolio	Any investments carry a risk. However, the spread of investments, as advised by our Treasury Advisors,

	should mitigate this risk. It would be prudent to set up a reserve to cover potential one-off shortfalls.
Reduction in reserves	We maintain good reserve level at present. However, a review is required to ensure reserves are relevant for delivery against the Corporate Strategy and to mitigate risks as detailed above

9.3 In addition to the risks highlighted above there are a number of potential opportunities that could further improve the medium to long term financial position of the Council, these include:

- i) Potential £20M Levelling Up Fund bid for the Meridian Centre
- ii) Access to capital funding through the Freeport
- iii) Government growth agenda and drive for Investment Zones
- iv) Use of HBC reserves to develop outline business cases to potentially lever in further funding for regeneration and/or housing enablement
- v) Further ability to increase returns from investing cash due to the higher interest rates
- vi) Potential for delivering further income from our assets over and above MTFS targets set
- vii) Delivering housing growth beyond the 1% per annum as set in the MTFS

10. Consultation

- a. The MTFS has been prepared with input from the Budget Working Group and Cabinet members. An all member briefing on the refreshed MTFS was also held.
- b. The Management Team have been kept fully informed of progress and a MTFS update presentation was given to all council staff in late September 2022.

11. Communications

11.1 The updated MTFS will be placed on the Council website following endorsement at this meeting.

12. Appendices

12.1. Appendix 1 - Medium Term Financial Strategy

13. Background papers

- a. Havant Borough Council 2022-23 Revenue Budget Report – approved by Council (February 2022)
- b. Havant Borough Council 2022-23 Rebased Revenue Budget Report – approved by Council (September 2022)

Agreed and signed off by:

Portfolio Holder: Tony Denton

Monitoring Officer: Mark Watkins 26/10/2022

Section 151 Officer: Malcolm Coe 17/10/2022