

Report to Cabinet

25 November 2021

By the Cabinet Member for Finance and Assets



**Horsham
District
Council**

DECISION REQUIRED

Not Exempt

Update on the Council's financial position and Medium-Term Financial Strategy update

Executive Summary

This report updates the Council's financial position under the ongoing impact from COVID-19 in 2021/22 and how the Medium-Term Financial Planning scenarios and assumptions have changed since the budget was set in February 2021 and since the update in September 2021.

A high level of uncertainty remains as the economy emerges from a pandemic induced recession. Factors of particular concern are the increase in unemployment as furlough ends in the hospitality and leisure sectors that dominate our local economy, the risk of further variants and another local or national lockdown, implications from the Brexit agreement, Government's plans for the reform of business rates and the potential introduction of price limits on garden waste. In these circumstances it is fortunate that the Council has kept high levels of reserves and thus is able in the short term to have time to make considered decisions.

This report gives a snapshot of where we think our finances are today and also projects over the medium-term. Officers have revisited the assumptions based on the latest income data and wider information from Government. The spending review on 27 October 2021 indicated a three-year settlement is more likely than not, and gave us more clarity on Government's approach to funding local government for the next three years, although until the draft settlement is announced, it does little to increase the certainty of our funding.

A 1.25% National Insurance levy was announced in September 2021 and the impact of this has been reflected in the revised projected deficit figures.

The estimated £1.3m cost of food waste collection from 2023 remains the major factor in the projected £1.2m predicted deficits from 2023/24 onwards that end the period at £1.7m. A small surplus is projected in 2022/23 if income from the leisure centres and parking continues to return as expected.

As more information becomes available during 2021/22, there will be further updates, with the focus on how quickly our income comes back and also the work needed to set balanced budgets across the medium-term which is likely to require substantial action.

Recommendations

The Cabinet is asked to:

- i) note the changes in the Council's financial position in 2021/22 and the medium-term.
- ii) Recommend to Council that the charges from 1 April 2022 for the garden waste subscription service are increased from £42 for the first bin to £44 and for any subsequent bin increased from £33 to £35.
- iii) Recommend to Council approval and creation of a £2,500 revenue budget for a short breaks funding grant from West Sussex County Council and matching expenditure in the 2021/22 leisure services budgets.
- iv) Recommend to Council approval and creation of a £99,271 revenue budget for Contain Outbreak Management Fund (COMF) grant funding from West Sussex County Council and matching expenditure in the 2021/22 environmental health service budgets.
- v) Recommend to Council approval and creation of a £139,000 revenue budget for Contain Outbreak Management Fund (COMF) grant funding from West Sussex County Council and matching expenditure in the 2021/22 housing services budgets.
- vi) Recommend to Council approval and creation of a £78,946 revenue budget for Winter 2021 COVID-19 rent arrears financial support grant funding from Department for Levelling Up, Housing & Communities and matching expenditure in the 2021/22 housing services budgets.
- vii) Subject to the safety net being put in place, recommend to Council that it approves the Council joining the West Sussex Business Rates pool in 2022/23.

Reasons for Recommendations

- i) The Council needs to acknowledge the effects of the local situation occasioned by the COVID-19 pandemic and the continued impact this is having on its financial position both in the short and medium-term. This has moved the council from what has been a long-term healthy financial position to one with predicted deficits. However, given the level of uncertainty in the projections, the economy and proposed Government action the report does not recommend direct action to reduce expenditure at this stage.
- ii) The costs of running the garden waste service increase by inflation, and this price increase is passing this cost onto users of the service.
- iii) The short breaks grant will be spent on a Family Fun Day at Chanctonbury Leisure Centre for disabled children and young people before the end of March 2022. This will form an additional part of the Reaching Higher project.
- iv) The COMF grant will be spent preventing health inequalities and on COVID-19 risk management.
- v) The housing COMF grant will be spent on a range of interventions and housing solutions to support those affected by homelessness and risk of homelessness associated with COVID-19
- vi) The Winter 2021 COVID-19 rent arrears financial support grant will support low-income private renters with COVID-19 related arrears to avoid eviction or find a new home.
- vii) Joining the West Sussex business Rates pool should benefit the County and therefore the district by retaining locally generated business rates, using it to further support the economic regeneration of the wider West Sussex area.

Background papers:

- Budget and Medium-Term Financial Strategy report Cabinet 28 January 2021 (approved by Council on 10 February 2021).
- 2020/21 Financial Outturn report Overview and Scrutiny Committee 2 June 2021
- Report on the Council's Finance and Performance (M6) Overview and Scrutiny Committee 22 November 2021
- Update on the Council's financial position and Medium-Term Financial Strategy update 23 September 2021

Wards affected: All**Contact:** Jane Eaton, Director of Corporate Resources, 01403 215300

Background Information

1 Introduction and background

- 1.1 The budget was set by Council in February 2021 under national lockdown from COVID-19, in the middle of an associated recession causing a severe impact with lower levels of income and increasing expenditure at the Council.
- 1.2 £0.57m of Government general COVID-19 grant funding during 2021/22 helped set a balanced budget, despite the anticipated reduction in parking income and higher expenditure needed to keep our leisure centres open.
- 1.3 Over the medium-term, it is uncertain how quickly income will return during a recession and changing customer habits mean income is not anticipated to return to the pre-pandemic levels. This, together with expenditure on new services such as food waste collection, contribute to a predicted significant gap of £1.7m in the Medium-Term Financial Strategy in future years if actions are not taken. One assumption that has been included is that the Council increases Council tax by an indicative 2% per year.
- 1.4 To rebalance its position, the Council will need to reconsider carefully its service offers and ways in which it can generate more income. The ongoing unpredictable nature of the effects of the pandemic and Government plans mean that it is essential to maintain reserve levels and they cannot be seen as an alternative to taking decisions to bring the budget back to balance. The good news is that these decisions do not have to be rushed.

2 Relevant Council policy

- 2.1 The Council has a record of providing high quality, value for money services and to continue to achieve this the Council will need to consider what action to ensure money is available for our key services.

3 Details

- 3.1 The forecast outturn at Month 6 for 2021/22 is a £1m surplus, of which £0.9m of the forecast underspend is from leisure facilities as the current performance and activities are ahead of Places Leisure's cautious budget estimate. The current perspective is based on no further COVID-19 restrictions. There is a risk that further variants and restrictions later in the year may change this.
- 3.2 Income from parking, property and leisure services has significantly reduced in the first third of the year when compared to 2020/21, but is on track against the lowered levels that were budgeted in 2021/22. The difficulty feeding into the Medium-Term Financial Strategy will be predicting how quickly the levels of income come back. Leisure income is returning faster than parking income.
- 3.3 The updated budget position including the current year forecast and revised interim Medium-Term Financial Strategy is set out in table 1. This assumes a forecast operational underspend at M6 of £1m in 2021/22, largely from the leisure centres recovering better than Places Leisure anticipated.

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	£000	£000	£000	£000	£000	£000
Table 1: interim MTFS Sept 2021						
Estimated net expenditure	11,201	13,072	12,460	13,930	14,190	14,740
<i>In year budget adjusts [Ec Dev £45k and £15k Spatial Planning, Leisure net £190k]</i>		250	-	-	-	-
Overspend / (M6 forecast underspend)	4,547	(1,067)	-	-	-	-
Estimated net expenditure	15,748	12,255	12,460	13,930	14,190	14,740
Funding: Council Tax	(9,922)	(10,251)	(10,608)	(10,980)	(11,390)	(11,810)
Government grant CTS	-	(146)	-	-	-	-
Baseline Business Rates	(2,052)	(2,052)	(2,052)	(1,750)	(1,500)	(1,250)
Collection Fund (surplus)/deficit	(53)	(12)	-	-	-	-
Total Funding	(12,027)	(12,461)	(12,660)	(12,730)	(12,890)	(13,060)
One-off COVID-19 funding	(4,701)	(571)	-	-	-	-
Q1 (only) income loss grant		(410)	-	-	-	-
Estimated £150 CTS spend		78	-	-	-	-
Salary pressure less unused redundancy provision		50	-	-	-	-
Net (Surplus) / Deficit	(980)	(1,059)	(200)	1,200	1,300	1,680

3.4 Government extended the 75p in the pound scheme grant compensation from 'lost income' from sales, fees and charges to the end of June 2021. The grant in 2021/22 is based on income against the 2020/21 budget, but reduced by any savings in those income areas, meaning only net (rather than gross) income losses can be claimed. The scheme does not cover any commercial or investment income losses. A claim was submitted on 5 October 2021 for £0.41m of income loss grant from the scheme, largely from the parking and leisure areas.

- 3.5 £146k of Council Tax Support (CTS) grant was given to the Council to compensate the Council for the likely reduction in Council Tax income, due to an increase in those of working age claiming CTS. In March 2021, Council agreed to work with West Sussex County Council and extend the £150 scheme during 2021/22, to help support our most vulnerable working age families in a year when their income is likely to be adversely affected. The cost of the Council's contribution this year is currently estimated at £78k, although the exact amount will depend on how many working families apply for council tax support before 31 March 2022.

Expenditure pressures:

- 3.6 Inflation and pay increases are an area of significant concern in our projections. The national pay award for 2021/22 is still being negotiated. The budget was set with no increases, based on the Prime Minister's statements at the time. However, an offer of 1.75% from the National Employers is on the table, although it has been rejected by Unions. This equates to approximately £0.28m of additional budgetary pressures. If the redundancy provision is unused in 2021/22, this would bring down the impact on the financial year to £50k, which is shown in table 1.
- 3.7 The assumption of medium-term salary increases at 1% are also at risk of increase if inflation starts to rise, but currently equate to approximately £160k a year. In addition, we are beginning to see greater pay pressures in our professions where the increase of home working means officers who would work for us to avoid the daily commute to London are now moving into consultancy or London-based jobs because they pay better, often 20% to 30% better, than we do.
- 3.8 In September 2021, Government announced a 1.25% increase in national insurance for employees and employers, to help fund health and social care. The impact of this cost of approximately £125k has been reflected in the projected figures.
- 3.9 During 2021, we have been working with Ricardo (consultants during the successful introduction of alternate weekly rubbish collection), on the options and estimated costs of food waste collection. The indicative cost is £1.3m which is currently built into the Medium-Term Financial Strategy in 2023/24. This could reduce to £1m by adopting a 3:2:1 collection system for refuse (every three weeks), mix-dry recycling (fortnightly) and food waste (weekly). A trial of 100 households is being undertaken to ascertain the impact the different options might have.
- 3.10 Supporting leisure services cost the Council close to £1.8m in 2020/21 taking into account both expenditure and income, net of grant funding. Support in 2021/22 was budgeted at £1.1m, but is forecast at a £0.9m underspend against this. The pressure here has subsided and Places Leisure are forecasting paying some of the management fee to us in the last quarter of 2021/22. The return to full income from the management fee contract is expected by 2023/24, and the MTFS reflects a weighting more to 2022/23.

Income pressures:

- 3.11 The Medium-Term Financial Strategy models an indicative 2% Council tax increase per year, adding an increase in income of approximately £225k each year on average over the period. A 2% increase equates to approximately £3.25 each year for a band D equivalent on average over the period. District Councils may be able to increase by £5 a year if the current legislation is extended, although this will not be confirmed until the December Settlement.

- 3.12 As the number of people on Council Tax Support (CTS) increases, it reduces the income the Council collects from Council tax. There were an average of 2,765 working age families on CTS during 2019 and current levels are nearly 800 higher. The next few months will inform us whether as furlough ends, the number on CTS goes up, or if the economy grows, those on furlough and those on CTS find employment. The Medium-Term Financial Strategy is currently weighted towards a gradual reduction of those on CTS over the period, back towards the pre-pandemic levels.
- 3.13 In May 2021, Government consulted local authorities on the future of garden waste charges. Options included completely removing any charges and making it free. Whilst we do not expect this to happen, if it did, it might cost the Council somewhere between £2.2m and £2.5m in income and additional expenditure servicing houses that currently do not subscribe to our service.
- 3.14 The Controlled Waste Regulations 2012 allows us to set a ‘reasonable charge’ for garden waste collections, to cover the costs of the operation of the service plus administration. The current charge of £42 a year is below the £43 average charge set by collection authorities in England. Waste & Resources Action Programme (WRAP) analysis indicates that a ‘reasonable charge’ is between £18 and £30 per household per year. If Government introduced a cap at £30 it would reduce our income by approximately £0.4m. This is a more likely option and this reduction in income is currently modelled in the Medium-Term Financial Strategy in 2023/24.
- 3.15 To help the annual process of garden waste billing run smoothly, this report recommends to Council that the charges from 1 April 2022 for the garden waste subscription service are increased from £42 for the first bin to £44 and for any subsequent bin increased from £33 to £35. This earlier notification will inform customers of the price increase at the same time as reminding them about their forthcoming subscription renewal. Income will increase by approx. £70k depending on whether the price increase causes any drop-off in subscriptions.
- 3.16 £1.2m of car parking income was taken out of the 2021/22 budget compared to 2019/20 as lockdowns struck. Over the course of the Medium-Term Financial Strategy, £1m is being added back into the budgets, weighted towards 2022/23 and 2023/24, as we expect frequency to rise and dwell times to increase as people get used to living with COVID-19. Ticket sales are nearing 90% of previous levels, but with shorter dwell times. However, despite housing numbers continuing to grow, it is anticipated that some customer habits may never recover to former levels, such as in season ticket sales as hybrid home and office working patterns take hold. A review of pricing is taking place, to model different options that could be implemented in the future. Prices were last increased across selected car parks in 2018/19.
- 3.17 Government consulted on the future of business rates retention in 2019, but Brexit and then COVID-19 has meant that the government has not introduced any changes. We currently receive just over £2m of income as part of the annual settlement but expect this will reduce as part of any changes to the current business rates system which is attracting increasing calls for reform. However, with 1 April 2022 fast approaching, and little time for a consultation now the world has changed, it is increasingly likely that any change will be postponed until 1 April 2023. The Medium-Term Financial Strategy models a £1m reduction over four years from 2023/24 in a gradual removal of the grant funding. There is a risk that the change may be more pointed than that, removing more grant in a quicker timescale.

- 3.18 In the meantime, authorities in West Sussex have another opportunity to form a business rates pool in 2022/23. A West Sussex business Rates pool should benefit the County and therefore the district by retaining locally generated business rates, using it to further support the economic regeneration of the wider West Sussex area. This retention has been estimated at between £3m and £5m across the County, depending on the make-up of the pool and how well business rates perform. This report recommends that Horsham join the pool with West Sussex County Council and the districts of Arun, Adur and Mid Sussex, to maximise the amount of local retention. Horsham were part of the pool in 2020/21, but the pool disbanded in 2021/22 due to the perceived risk from the level of economic uncertainty on business rates under Covid-19.

Budgets and the Medium-term

- 3.19 The Reaching Higher project team within leisure services applied for and were successful in obtaining additional grant funding from West Sussex County Council. The short breaks grant will be spent on a Family Fun Day at Chanctonbury Leisure Centre for disabled children and young people before the end of March 2022. This report recommends to Council approval and creation of a £2,500 revenue budget for a short breaks funding grant from West Sussex County Council and matching expenditure in the 2021/22 leisure services budgets.
- 3.20 In October 2021, West Sussex County Council announced a distribution of additional Contain Outbreak Management Fund (COMF) within the county. The Council's share is £99,271 funding on work to prevent health inequalities and on COVID-19 risk management. This report recommends to Council approval and creation of a £99,271 for the income and expenditure revenue budgets in 2021/22 within environmental health services.
- 3.21 In November 2021, Heads of Housing across West Sussex were tasked with identifying options for distribution of additional Contain Outbreak Management Fund (COMF) within the county. The Council's potential share, subject to proposals being approved is £139,000. Proposals include an enhanced rent in advance offer for private renters, pump-priming a proposed Private Sector Leasing scheme to bolster access to temporary accommodation options and reduce reliance upon bed and breakfast accommodation and funding to support a localised "Everybody In" instruction from December 2021 to March 2022. This report recommends to Council approval and creation of a £139,000 for the income and expenditure revenue budgets in 2021/22 within housing services.
- 3.22 In October 2021 the Department for Levelling up, Housing & Communities announced an additional £65 million will be made available to local authorities in 2021/22 through the Homelessness Prevention Grant to support local authorities to help vulnerable households with rent arrears to reduce the risk of them being evicted and becoming homeless. The Council's share is £78,946 and is to support low-income private renters with COVID-19 related rent arrears to avoid eviction or find a new home where necessary in order to prevent homelessness, with local authorities able to target funding to those who need it most and help them get back on their feet.
- 3.23 The current Medium-Term Financial Strategy does not take into consideration any predicted costs of addressing the reduction of carbon in the district which are likely to be significant over the remainder of the decade to get close to achieving the 2030 carbon neutral target. Implementing the action plan to achieve it will considerably impact the Council's financial position in the medium and long term. The carbon reduction plan will therefore need to be reviewed alongside the Council's

decisions made in the revenue and capital budgets and the need to set a balanced budget, as is required by law, and which maintain sufficient reserve levels.

- 3.24 The spending Review on 27 October 2021 indicated clear policy intentions of Government to increase public spending. Local Government's funding allocations are better than expected compared to recent years, although less favourable than other parts of the public sector, and they are still heavily reliant on Council Tax increases. Until the December Settlement is announced, we do not know the future of New Homes Bonus or whether we will continue to receive the one-off Lower Tier Services Grant which prevented the overall funding level decreasing in 2021/22.
- 3.25 The overall position of funding for the Council across the later periods of 2023/24 to 2025/26 after Government grants is currently forecast to be in the region of between a £1.3m shortfall and a £1.7m shortfall, excluding the cost of carbon reduction. Given the level of uncertainty about the future of the Council and the Council's funding position, the likely balancing in 2022/23, and the strength of the reserves position it is proposed to not spend time drafting detailed savings proposals this autumn unless Councillors are minded to not increase Council Tax next year. Once the settlement for 2022/23 is known, and more details are available on the garden waste, food waste, carbon reduction, business rates and income recovery positions, the Council will seek immediate savings should it need to do so. These savings, if needed, may mean the closure or reduction of popular non-statutory public services.

4 Next steps

- 4.1 On 27 January 2022, the 2022/23 Budget will be taken to Cabinet to recommend approval at the 9 February 2022 full Council meeting where the Council Tax for 2022/23 will be set. The Medium-Term Financial Strategy will also be again updated at this time to take account of any further legislative, economic and financial developments and our draft settlement, if known at that date.

5 Views of the Policy Development Advisory Group and outcome of consultations

- 5.1 The Finance and Assets Policy Development Advisory Group discussed the immediate and longer-term impact of expenditure and income pressures on the Medium-Term Financial Strategy on 8 November 2021 together with the implications and some consideration of possible options in order to balance future budgets.
- 5.2 The Chief Executive, the Chief Financial Officer, the Directors, the Head of Finance and Performance and other Heads of Services have been extensively involved in preparing the immediate budget forecast and are already thinking of ways to address the medium-term financial gap. They are fully supportive of its contents. The Monitoring Officer has also been consulted during the preparation of the document and is supportive of its contents.

6 Other courses of action considered but rejected

- 6.1 Making cuts to popular non-statutory services such as parks and countryside, planning enforcement and cultural and leisure services this autumn was considered. This was rejected because the scale of the proposed deficits in the future is very uncertain. While designed to protect services this approach does risk the Council

having greater difficulties balancing its financial position in two to three years' time and this could have a damaging impact on reserves.

7 Resource consequences

- 7.1 Specific actions to address the financial gaps are not detailed in this report. Over the next few weeks, detailed budgets are being worked up and brought back in a later Medium-Term Financial Strategy that feeds into the February 2022 annual budget setting process.
- 7.2 As the financial implications of carbon reduction are not included in this financial plan adoption of the 2030 carbon neutral target and action plan to achieve it will considerably worsen the Council's financial position in the medium and long term.

8 Legal consequences

- 8.1 The Council is required under the Local Government Finance Act 1992 to produce a 'balanced budget'. This report indicates the Council is heading towards a balanced budget for 2022/23 but may face difficulties in future years.
- 8.2 This report sets out the Council's current and expected financial position. The Director of Corporate Resources has a statutory duty, under Section 151 of the Local Government Act 1972 and Section 73 of the Local Government Act 1985, to ensure that there are proper arrangements in place to administer the Council's financial affairs.
- 8.3 The Local Government Act 1999 places a duty on the Council as a 'Best Value' authority to secure continuous improvement in the way its functions are exercised so as to secure economy, efficiency and effectiveness.

9 Risk assessment

- 9.1 The Council's reliance on central government funding and balancing the Medium-Term Financial Plan is captured on the corporate risk register at CRR01. This is regularly reviewed and updated and is monitored at Audit Committee on a quarterly basis.
- 9.2 Many figures provided in this report are estimated at this stage. There is a risk that further COVID-19 variants and waves could increase the income and expenditure pressures the Council faces and increase the range of losses.
- 9.3 There is a moderate risk that customer habits will have changed for paid services such as parking and the cultural and leisure offers and that income will not return to previous levels, meaning the original financial position will not be recoverable. Services such as the Capitol and leisure centres are staying in touch with customers to try to prevent this.
- 9.4 There is a moderate risk that the Government's proposals for business rates reform will worsen the financial situation earlier or more deeply than current predicted.
- 9.5 We are working with Southern Water, Natural England and the Environment Agency on the matter of water neutrality in the district as part of our work on the local plan evidence base. Until this is fully resolved, there is uncertainty and therefore moderate risk surrounding the medium-term impact of being unable to determine current planning applications positively unless it can be demonstrated they are 'water neutral' and/or that they do not result in a significant effect. Should water neutrality statements be required to support every medium and large-scale planning

application, this may delay or reduce the number of medium and large-scale planning applications which therefore may reduce income to the Council.

10 Procurement implications

- 10.1 There are no procurement implications arising from this report.

11. Equalities and Human Rights implications / Public Sector Equality Duty

- 11.1 There are no equality or human rights implications arising from this report because there are no decisions for cuts in this report at this stage.

12 Environmental implications

- 12.1 There are no environmental implications because there are no decision for cuts or growth at this stage of our budget development.

13 Other considerations

- 13.1 There are no other considerations to take into account at this stage of developing the Medium-Term Financial Strategy.