

Report to Cabinet

27 January 2022

By Tony Hogben (Cabinet Member for Finance)

DECISION REQUIRED



Not Exempt

The 2022/23 Budget and the Medium-Term Financial Strategy to 2025/26

Executive Summary

This report sets out details of the proposed 2022/23 revenue and capital budgets following the receipt of the positive provisional financial settlement from Government on 16 December 2021.

Despite the impact from Covid-19, the Council is well placed to meet current challenges. We charge the lowest council tax in West-Sussex and yet maintain really good quality services. Prudent financial management demonstrated by prompt action taken during 2020 and healthy reserves put us in a good position to sensibly invest in the future to safeguard services and also meet the environmental challenges of the Climate Emergency.

In 2022/23, we are investing £1m in climate change, £0.2m supporting the economic recovery in the district, protecting voluntary grants, setting an ambitious £10m capital programme providing infrastructure and facilities for residents, whilst laying the groundwork for investment options in key venues such as the Capitol Theatre and Southwater County Park in the future.

The Council is budgeting for a moderate surplus in 2022/23. The net budget requirement for 2022/23 at £12.2m is £1m higher than in 2020/21, reflecting the continuing impact of Covid-19 as well as ongoing annual inflationary and salary cost-pressures.

The report sets out a Medium-Term Financial Strategy 2022-25 using the latest information. The outlook remains extremely uncertain. There is limited detail available on the Government's proposed significant changes to the future of Business Rates and the Fair Funding Review over the medium, and no certainty on whether, how much and for how long we might receive funding for food waste.

The current projection is for the Council to have budget deficits in the latter part of Medium-Term Financial Strategy when mandatory weekly food waste collection is introduced. This also reflects a return to the previous reduction in Government funding, and we have assumed any effect to be gradual rather than a step change in 2023. However, there is a risk that all Business Rate grant is taken away more quickly than that and the Council could face a significant funding drop in 2023/24.

In the year, the Council will also be delivering a £10m capital programme. Although difficult to fully quantify, the work on the de-carbonisation action plan to date has identified a significant cost to achieving the aspirational target of the Council's direct emissions being carbon neutral by 2030. In the meantime, £1m of expenditure on this and the environment has been added to the capital and revenue budgets in 2022/23. This key priority as well as

the replacement of capital infrastructure and the reduction of carbon output of many Council owned buildings shown indicatively in Appendix J will be significant through to 2030.

Balancing future budgets will require a combination of three things. The continuing delivery of a programme to maximise efficiency and effectiveness primarily focused around digital transformation, although noting that this programme has already yielded large savings and it is doubtful if it can continue to do this at the same rate. Secondly, the Council could invest to generate income, which may require making some decisions about using its property portfolio, particularly for Affordable Housing. However, commercial investment heightens the risk from prudential and treasury management code changes currently under consultation. Thirdly, the Council provides a large number of services to its residents in excess of statutory levels and reprioritising these could be required in order to tackle the projected future deficits. The good news is that none of these decisions have to be taken right now.

The report also sets out a series of prudential indicators that are a statutory requirement to demonstrate that the Council's capital programme is affordable, and prudent in the context of the Council's overall finances. The report also includes the Chief Finance Officer's statement on the robustness of reserves in Appendix H.

Recommendations

Cabinet is recommended to propose the following for consideration by Council on 9 February 2022:

- i) That the level of Council Tax for 2022/23 increases from £157.52 by £4.57 (2.9%) to £162.09 at Band D.
- (ii) That the net revenue budget set out in Appendix A for 2022/23 of £12.188m is approved.
- (iii) That Special Expenses of £323,330 set out in Appendix C and a Band D charge of £26.83 are agreed in respect of the unparished area for 2022/23.
- (iv) That the capital programme for 2022/23 set out in Appendix D be approved and that the indicative capital budgets in the programme for future years be noted.
- (v) That the projected future budgets on the revenue account in 2023/24 to 2025/26 are noted and the Medium-Term Financial Strategy continues to be reviewed and refined to ensure that decisions are taken to set balanced budgets in these three years.
- (vi) That the Minimum Revenue Provision Statement set out in Appendix E is approved.
- (vii) That the Capital Strategy, Treasury Strategy, Investment Strategy and prudential indicators and limits for 2021/22 to 2024/25 set out in Appendix F are approved.
- (viii) To note the statement on the robustness of the level of reserves in Appendix H.
- (ix) That the increases to fees and charges set out in Appendix I and I(i) and I(ii) are approved.
- (x) Delegate to the Director of Community Services in consultation with the relevant Cabinet lead temporary changes to fees and charges in the form of offers and incentives during the year, as well as the setting of charges for sports development activities as all offerings are being revised and will take account of variable costs such as facility hire and coaching rates.

Reasons for Recommendations

To meet the Council's statutory requirement to approve the budget and the prudential indicators before the start of a new financial year.

Background Papers:

- Update on the Council's financial position, Cabinet, 25 November 2021
- Update on the Council's financial position, Cabinet, 23 September 2021

Wards affected: All

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Appendices:

- A:** Revenue Budget 2022-23 including growth and savings
- B:** Grants to voluntary groups
- C:** Special charge summary
- D:** Capital expenditure programme
- E:** Minimum Revenue Provision
- F:** Capital Strategy including Prudential Indicators
- G:** New Homes Bonus
- H:** Reserves
- I:** Schedule of increases in fees and charges
- I(i):** Building Control schedule of detailed fees and charges
- I(ii):** Car parking fees and charges
- J:** Medium and long-term indicative capital commitments

Background Information

1 Introduction and background

- 1.1 This report sets out the Council's budget requirement for 2022/23 for capital and revenue expenditure. The budget is reviewed in the context of the projected outturn for 2021/22, future years' projected budgets and reserves.
- 1.2 Government postponed its reviews of Business Rates and Fair Funding again to focus on dealing with the Covid-19 pandemic and Brexit. Covid-19 and the recession have also meant Councils remain unsure how the local government sector will be financed beyond 2023. While it seems fairly certain that the direction of travel will remain towards fiscal self-sufficiency and that the amount of money available to district councils will continue to reduce over the next five years, the short term situation creates an unusually high degree of uncertainty. Pre-Covid-19, funding pressures caused by the demands of social care in County and Unitary Councils suggest that funding is still likely to be 'diverted' from districts towards Councils that are suffering the most.
- 1.3 Each year as the budget is set, unavoidable growth becomes apparent in the services. This is because of increased responsibilities from legislation, contractual obligations and inflationary pressures. The rising pressure from inflation, including salary inflation, has increased this risk. The current position though is stable in that the Council can set a budget with a modest surplus in 2022/23. The projected deficit in 2023/24 is close enough that we will likely be able to set a balanced budget when the time comes. Significant projected budget deficits in the latter two years of the Medium-Term Financial Strategy are caused by costs from the introduction of food-waste. Whilst consideration about the closure of these future budget gaps should be in our thoughts now, no immediate action is needed in the short term until the uncertainty clears.
- 1.4 The Council is well into a major programme of digital transformation to meet the demands and expectations of our customers, funded from reserves, and this has made savings. But with only Planning and Regulatory Services left to change this will not deliver all the savings the Council needs to balance its budgets through the rest of the decade. Significant long-term costs also hang over the Council, which will need to be quantified and planned for, mainly around the cost of reaching around net zero for carbon emissions and keeping our facilities, vehicles and equipment up to date. Options will include investing to generate income and potentially the future service provision.
- 1.5 The 2022/23 budget and resultant Council Tax level are set within the context of the Council's Corporate Plan priorities, the financial strategy and to meet the Council's legal requirement to deliver a balanced budget. This report is updated for the latest information and knowledge available to the Council. The report also sets out the prudential indicators used to measure the affordability of the Council's capital programme.

2 Relevant Council policy

- 2.1 To deliver a balanced budget over the medium-term and to ensure the Council has sufficient funds to deliver its Corporate Plan.

3 Details

Strategic political, economic and regulatory outlook

- 3.1 The Medium-Term Financial Strategy remains very uncertain. The impact from the Covid-19 pandemic continues, particularly from variants, which has underlined the uncertainty for the Council, as well as the community.
- 3.2 The medium-term economic outlook will depend significantly on the health of the wider economy and also how households, businesses and asset prices respond over time to the pandemic and also the UK's withdrawal from the EU. Both the demand for the Council's services and its income streams are affected by the general economic health of the District, and the prevailing interest rate has a direct impact on interest receipts. Therefore the uncertainty of the economic and regulatory outlook adds considerable risk to setting a precise financial strategy. Cost pressures from soaring utility costs, rising inflation and salary inflation are each significant risks. With this in mind, the assumptions within the budget and Medium-Term Financial Strategy are revisited in the sections below.

Finance Settlement 2022/23

- 3.3 The Government announced a one-year provisional finance settlement for 2022/23 on 16 December 2021 that contained the same core spending power total as 2021/22 albeit assuming a maximum increase in Council Tax. Overall, this is positive. However, no specific Covid-19 related 'expenditure' grant funding was provided which last year totalled £0.7m, nor is there any Covid-19 income grant (we claimed £0.4m) and the one-year settlement brings no certainty at all for the medium-term.

Revenue Budget 2021/22

- 3.4 Budget holders have monitored income and expenditure against the 2021/22 budget throughout the year. The operational forecast at Month 8 is a £1.5m surplus. The return of many customers to the leisure centres during the year has meant that the Council is forecasting a £1m underspend here against the cautious budget set under lockdown last year when things looked much more pessimistic. Additionally, £0.25m of community fund expenditure, added to the budget in case there were further lockdowns during the year, has thankfully not been needed either. At year-end, unspent community funding will be placed into an earmarked reserve in case it is required during 2022/23. The rest of the forecast surplus will be added to general fund reserves. The surplus was also helped by two one-off government grant funds received during 2021/22 totalling £1m.

4 Update on the Medium-Term Financial Strategy projections

- 4.1 The Medium-Term Financial Strategy in Table 1 has been updated for the December 2021 provisional settlement for 2022/23 and other known information.

	2021/22	2022/23	2023/24	2024/25	2024/25
Table 1: MTFs	£000	£000	£000	£000	£000
Current net expenditure	13,322	12,188	13,160	13,970	14,640
Funding: Council Tax	(10,251)	(10,700)	(11,030)	(11,370)	(11,715)
Baseline Business Rates	(2,052)	(2,052)	(1,750)	(1,500)	(1,250)
Collection Fund (surplus) / deficit and other funding.	(80)*	(11)	0	0	0
Total Funding	(12,383)	(12,763)	(12,780)	(12,870)	(12,965)

Net (surplus) / deficit	939	(575)	380	1,100	1,675
One-off government grant	(981)**	(141)	-	-	-
Forecast operational (surplus) (M8)	(1,540)	-	-	-	-
Final Net (surplus) / deficit	(1,582)	(716)	380	1,100	1,675

Note: (income shown in brackets). * Includes net Collection Fund £150 scheme payments

** Covid-19 grant £571k and income loss grant £410k

- 4.2 In the provisional December 2021 settlement, Government unexpectedly gave the Council £141,469 of one-off grant called the 2022/23 Services Grant. This is to ensure that the Council's core spending remains the same as it did in 2021/22.
- 4.3 The assumptions underlying the current Medium-Term Financial Strategy projections are summarised in table 2 below and expanded upon in the paragraphs that follow:

Table 2: key budget assumptions used:

Area	Assumption
Inflation cost non-salaries	3% increase per annum across the period. Risk rising.
Increase in salaries budget	1.75% + 1.25% in 2022/23. Then 1.5% per annum based on Government soundings on public sector wage price spiral.
Contribution to pension fund	1% reduction to 18% in 2022/23 as currently pension fund is in surplus; then levelling off at 18% which is baseline minimum.
Local Business Rates	Business Rates review triggering a significant re-base lining in 2023/24. Reducing our funding.
Increase in Council Tax	2% per year for future years across the period.
Increase in Band D equivalent dwellings	Impact of water neutrality dampening housing numbers. 25% reduction. 600 to 700 per year (after some council tax support recovery).
New Homes Bonus	Final previous legacy payments ending in 2022/23. Note: NHB does not feed into revenue - since 2018/19.
Minimum reserve level	£6m – no change.
Garden / food waste	No cap on prices (Risk £0.4m if £30 and £2m+ if free). Food waste from Autumn 2023. £1.2m for a 123 service. No funding included – as we don't yet know.

Interest rates and inflation

- 4.4 Soaring energy prices and rising costs in 2021 have seen inflation rising from 1% to 5%. The Medium-Term Financial Strategy currently budgets for a 3% increase in inflation on the expectation that inflation will remain higher than the Bank of England's target rate of 2% for some time to come.
- 4.5 Whilst income is affected by inflation, inflation also increases our expenditure and that offsets the increases in Council Tax and charges. The impact of inflation on the Medium-Term Financial Strategy will be revisited on a monthly basis as the data is released by the Office of National Statistics. The impact of every 1% rise in inflation is measured in hundreds of thousands of pounds of additional costs.

- 4.6 The Bank of England base rate was increased to 0.25% in December 2021, having been at 0.1% since March 2020, affecting the Council's income streams from investments. In that period, some very short-term investment rates have been negative. The Council has taken action over the last four years to diversify the investment strategy into non-high street bank style deposit holdings. These help to mitigate low interest rates by generating more income, but nevertheless, low bank interest rates limit Council's ability to generate further levels of income from investments during the period. Despite current inflation levels, Arlingclose Ltd, our financial investment advisors, are currently forecasting only a modest rise in interest rates over the period.

Salaries

- 4.7 Local Government pay is negotiated nationally, and the Council has no direct influence on the settlement. No pay increase was included in the 2021/22 budget as Government had indicated an expectation of no public sector pay rises. However, the National Joint Council has made an offer of 1.75% during 2021/22 although trade unions have asked the local authority employers for a 10% increase to make up for the losses in real pay over the previous decade and no deal has yet been made.
- 4.8 Government is again indicating a preference for low public sector pay increases to help deflate the spiralling national debt. The 2022/23 budget therefore includes a 3% increase, to catch up the 1.75% increase together with an estimated 1.25% increase in 2022/23. Further ahead, 1.5% increases each year are included to the end of the Medium-Term. In expenditure terms, this adds approximately £0.25m of additional expenditure per annum going forward.

Pension Fund

- 4.9 The valuation of the Council's pension fund increased to a £31m asset at 31 March 2021. As it is in surplus, the actuary recommended a reduction in employer pension contributions to the fund's minimum level of 18% per annum in 2022/23. Every 1% reduction equates to approximately £120,000 decrease in annual employer contributions in monetary terms. It is worth remembering that the pension fund has spent more years in deficit than in surplus and the position can quickly decline, due to any further changes in actuary assumptions increasing the liabilities, as well volatility of asset values and the value of assets falling. The contributions position will be next revisited at the next triennial valuation in 2022.

Council Tax

- 4.10 As part of their Core Spending Power funding calculations, Government expects local authorities to increase council tax by the maximum amount. The provisional settlement retained the 2022/23 referendum threshold at the higher of 2% or £5 for district councils.
- 4.11 Our council tax is the lowest in West Sussex and is in the bottom quartile of all district councils nationally. A 2.9% increase in Council Tax, equivalent to £4.57 is included in the 2022/23 budget generating income of £310,000. As Government funding is predicted to fall away across the medium-term, the Council will be increasingly reliant on self-funding through fees and charges and Council Tax as the only sources of income.

Council tax support

- 4.12 The numbers of working people on council tax support in the district surged during 2020 and 2021 as a result of the pandemic and recession. This has an inverse relationship with band D equivalent dwellings in the council tax base and caused a

significant reduction in the overall growth last year. During the last six months, the numbers on Council Tax Support have stabilised and edged down, although remains 12% higher than pre-Covid-19. The forecast for 2022/23 continues this gradual downward pattern, helping to slightly increase the number of band D equivalent dwellings.

Dwellings

- 4.13 The District has seen a high level of housing growth over the last five years, as a result of a large developments such as those to the west of Horsham and Kilnwood Vale, Southwater and Billingshurst. Under normal circumstances, the Council would anticipate that the completion of these developments together with the delivery of new homes to the north of Horsham and elsewhere would see growth in housing in the District at between 800 and 1,000 new dwellings each year over the Medium-Term Financial Strategy period. The housing industry is though highly sensitive to economic factors, especially a recession.
- 4.14 In addition, there is a significant risk from the impact of a water neutrality issue, dampening housing numbers. In September 2021, the Council received a Position Statement from Natural England that concluded that the existing abstraction within the Sussex North Water Supply Zone is having an impact on the Arun Valley sites. It advised that development within this zone must not add to this impact. Therefore, as part of the decision-making process for each planning permission, an assessment of water neutrality will now be needed for many of the applications.
- 4.15 It is therefore possible that this is likely to cause some delay in the number of applications in the medium-term. Consequently, a 25% reduction has been factored in, dropping the number to 600 to 700 per year (and a similar band D equivalent after factoring in some CTS recovery). Should the issue not be resolved and large planning applications fall away, this would worsen the Council's financial position in the medium-term over the figures shown in our projections.

The future of Business Rates

- 4.16 The Council currently retains around 5% or £2m of the £44m Business Rates collected in the district, which is based on a complex calculation involving target rates of collection set by Government. Local authorities can increase their Business Rate income by growing the Business Rate take in their area; conversely, if collections fall then local government bear an element of risk. Local government currently share this risk and reward with Government.
- 4.17 The district's economic growth from a lack of new businesses has been very low for a long time. Initiatives such as the development of North Horsham and the redevelopment of the former Novartis site are actions aimed to correct this, but the district is a long way below the desirable level for affluence of its population and has not created enough local based but well-paid jobs. There have been a number of conversions of business premises to residential flats (under the permitted development regime introduced by the Government).
- 4.18 Since, the 2017 Rateable Value list was introduced on 1 April 2017, the value has fluctuated as low as £2.1m below that starting point as properties came off the list. Four and a half years later, the value is now £0.5m higher than the 1 April 2017 level, helped by the return of properties undergoing refurbishment returning to economic activity such as at Piries Place.
- 4.19 In comparison with other authorities though, the Council is comparatively less at risk of significant Business Rate losses as it has relatively few single significant sites,

such as an airport or power station in the district. Some risk does exist however, principally around outstanding rates appeals for which the Council would have to bear its share of lost revenue should those appeals prove successful. The Council had a provision of £2m for Business Rate appeals at 31 March 2021. The slow rate at which the Valuation Office is tackling the backlog of appeals makes the Council sceptical that the provision for appeals will fall in the near future. Many businesses are also seeking revaluations due to losses caused by the Covid-19 recession whilst others are choosing not to pay their Business Rates in full or at all.

- 4.20 Government had previously consulted on a '75% localised' Business Rates scheme, but in November 2021, the new communities secretary Michael Gove reversed six years of policy by telling MPs that it would conflict with the Government's 'levelling up agenda'. Therefore, when and how any changes to Business Rates will happen and what impact it will have on local government remains unknown. Many commentators are critical of the Business Rates system altogether, although no replacement scheme has yet been put forward.
- 4.21 West Sussex Councils discontinued their Business Rates pool in 2021/22 because of the risk of serious loss of rateable value during 2021/22. However, with some stability returning through the vaccination programme, the Councils of West Sussex County, Adur, Arun, Mid Sussex and Horsham have been accepted into the pool in 2022/23. The county will retain and benefit from any growth in Business Rates above the baseline.
- 4.22 Beyond 2022/23, based on Government's recent announcements, the Council expects that any changes to Business Rates will involve either a re-baselining at a much higher level. Furthermore, in 2018 Government switched the increase in the Business Rates multiplier from RPI to CPI. CPI tends to go up more slowly than RPI so this change is likely to reduce the buoyancy in the Business Rates yield. Over time this will have a significant impact on the resources that are available to local government as a sector.

Fair Funding Review and Council Tax

- 4.23 In 2018, Government consulted on the Fair Funding Review of relative needs and resources and cost drivers and updating the current needs assessment formulae. This attempts to weigh up a range of cost drivers such as population, rurality, deprivation, demand for social care, transport, waste disposal and fire and rescue service. The output from this review was expected to feed into a multi-year settlement offer. However, this has been delayed, firstly by Brexit and then the pandemic.
- 4.24 All the signs and indications point towards districts and especially those which have low need and a higher proportion of wealth losing the most. Some extrapolations, if all worst-case scenarios happen, could see this Council lose up to £7m funding. This could potentially be more per annum if parking income is included in the calculation as has been referenced.
- 4.25 Nationally there are increasing campaigns for the Government to relook at Council Tax valuations due to the difficulty many councils face in raising revenue this way because they have large numbers of low banded properties. Horsham District Council does not have this problem but could be impacted by any solution developed to it.
- 4.26 Horsham District Council also carries a risk that West Sussex County Council pass on some responsibilities and costs in areas such as housing. The Council is monitoring the impact of other WSCC decisions on their remaining discretionary

funding that may affect areas such as the housing services and social care. WSCC is working with district councils to mitigate the impact but some moderate and gradual cost impacts are anticipated over the period.

- 4.27 Our projections at this point assume we retain all our sales, fees and charges alongside Council Tax as our two main funding streams in the medium-term. If previous changes are a guide, there will be some transitional arrangements, which will dampen the immediate effect. Government had indicated that any period would be short in order to redistribute funding as quickly as possible, but the impact of the pandemic might make this slower than originally assumed.
- 4.28 At this point it is difficult to calculate the effect of both the Fair Funding Review and any changes to Business Rates or Council Tax. Not enough detail is known about the potential changes or when the Government is likely to make them, but the Council can conclude that there is a high degree of uncertainty, especially beyond 2023. The Council has made the assumption that a significant re-baselining of Business Rates will occur. The Council estimates Business Rate income fading down to about £1.25m by 2025/26 rather than the current £2m, as the damping effect from the Fair Funding Review wears off. The Council will revisit the impact of this as it learns more of how the scheme will work and will feed this into a future Medium-Term Financial Strategy.

New Homes Bonus

- 4.29 The New Homes Bonus provides an incentive payment for local government to stimulate housing growth in their area. The calculation is based on Council Tax statistics submitted to Government each October. In two-tier local government areas this payment is currently split in the ratio 20% to county councils, 80% to district councils. New Homes Bonus is currently not ring-fenced and can be spent at the Council's discretion.
- 4.30 The incentive has been reduced since its introduction from payments of six years dropping to the current single year payment only, and the introduction of a 0.4% baseline that needs to be exceeded before any New Homes Bonus payments are made. For this Council, this means that approximately 255 band D equivalent dwellings need to be built before any grant is received.
- 4.31 The technical consultation paper for the Local Government Finance Settlement 2020-21 informed us of Government's intention to revise the New Homes Bonus scheme and explore a more effective way to incentivise housing growth. Government believes the grant has not been successful in delivering 'additional' housing. The pandemic though has postponed the end of the scheme. The provisional settlement in December 2021 provided an unexpected single-year payment in 2022/23 and confirmed the final legacy payment from a previous year (2019/20). This phasing out denotes Government's intention to replace New Homes Bonus, most likely in 2023/24, as part of the Business Rates and Fair Funding reviews.
- 4.32 Any alternative or replacement scheme, if it happens, could change the payment ratio between district and county to one more favourable to county. This would reduce any future amounts this Council might receive to much lower levels than the present. Due to this overhanging threat, during 2017/18 and 2018/19, the Council removed any revenue reliance on New Homes Bonus in contrast to the £1.17m that was included in the 2016/17 revenue budget.
- 4.33 The ending of New Homes Bonus is modelled in **Appendix G**. It includes the provisional one-year payment of £2.1m for 2022/23. The New Home Bonus reserve

stood at £9.5m at 31 March 2021. No expenditure was taken from the reserve during 2020/21 when the pandemic struck, as a result of the reduced capital programme and to preserve the level of reserves. The reserve forecast to run down to £5.6m by 31 March 2024, after allowing for annual investment equivalent to £3m in property or infrastructure expenditure and helping the Council to generate income from appropriate investments to support future service delivery and secure the delivery of infrastructure to serve the needs of the district's residents. A list of the type of infrastructure works the Council will need to complete over the next decade is shown at **Appendix J** some of which include works to decarbonise the Council's portfolio. These works will far exceed the money in the New Homes Bonus Reserve and any later in the period will either have to be funded from other general or capital reserves or from borrowing.

- 4.34 The provisional settlement in December 2021 also surprised us by retaining the Lower Tier Services Grant, distributed with the purpose of helping to ensure that no authority receives a reduction in Core Spending Power. This effectively compensates this Council for the fall in New Homes Bonus in 2022/23, compared to 2021/22. We propose to put this unexpected amount of £1.5m into an earmarked Covid-19 impact reserve to be drawn on should any of the risks that are set out in section 11 cause the Council to overspend during 2022/23. Should this reserve not be needed for unexpected fluctuations in 2022/23 it will be merged with other general fund reserves or at that point, it could be made into an earmarked reserve and set aside to put towards the cost of the infrastructure works referred to in paragraph 4.33.

Food waste collection

- 4.35 Government's resources and waste strategy currently proposes that all local authorities should be collecting food waste weekly by 2023. We are currently working with other West Sussex councils to develop a strategy for collecting food waste. We have engaged a consultant to help model the likely implementation costs and benefits to the recycling rates. Since October 2021, one hundred households in our district have been taking part in a collections trial that includes separate weekly food waste and Absorbent Hygiene Product collections. The households include family households, single-occupancy homes and flats. This will help produce some options to consider when implementing food waste collections.
- 4.36 The modelling work undertaken indicates an approximate cost of £1.2m for a 1-2-3 service whereby food waste is collected weekly, recycling fortnightly, and residual waste every three weeks. This option will produce a much higher recycling rate and have less of an impact on carbon emissions. The model indicates a cost of £1.6m to remain a fortnightly residual waste service. The Medium-Term Financial Strategy includes the costs of 1-2-3 and assumes that food waste collection would commence in the Autumn of 2023. This spreads the impact on revenue over two financial years, with half in 2023/24 and half in 2024/25.
- 4.37 It is not currently known whether Government will contribute any funding towards the cost of the infrastructure, including the food waste caddies and vehicles, or the fuel and manpower needed to collect from every doorstep on a weekly basis. No funding has been assumed at this stage. It is more likely than not that any funding would be one-off to aid implementation, rather than an ongoing revenue grant, as some authorities are already providing the service without any revenue support. The work on options and liaison with other authorities will further refine the figures in future budgets, alongside any external funding we can secure to achieve this objective. WSCC has previously indicated that some one-year recycling credits may be

available to districts who adopt the 1:2:3 collection of weekly food, fortnightly recycling and residual waste every three weeks.

- 4.38 Our assumptions on the future of garden waste charges have changed since the last iteration of the Medium-Term Financial Strategy. Previously, we assumed that a price-cap of £30 might be implemented, but this risk appears to have receded as Government have not mentioned it since the consultation in May 2021. We are hopeful that the response by district councils has been heard, such that we have taken this assumption out for now. This removes a potential £0.4m loss of income from 2023/24, but there is a risk that Government may suddenly implement this anyway. The risk here balances against any funding that we might get from Government for food waste collection.

The Environment, reducing Carbon emissions and climate change

- 4.39 The Council is committed to tackling climate change and on 24 September 2020, the Cabinet set an aspirational target for the Council's direct emissions to be carbon neutral by 2030. As part of its commitment to becoming carbon neutral, Cabinet also approved a short-term action plan to start putting in place immediate carbon reduction measures. In 2022/23, £1m across capital and revenue is committed to boost the work needed to reduce carbon emissions and improve the environment in the district.
- 4.40 The 2022/23 capital programme contains £0.5m of works to reduce carbon emissions. It includes LED lighting at the Capitol and in two rural car-parks, turning three Council owned houses net Carbon zero, upgraded thermal windows, energy reviews and cycling studies. To help implement this, the revenue budget includes £0.13m for an additional post for an environment officer as well as some consultancy budget for Property & Facilities to help implement the decarbonisation and two further posts for Wilder Horsham District.
- 4.41 The switch from diesel to Hydrotreated Vegetable Oil (HVO) in 2021, eliminated up to 90% of carbon dioxide emissions from the Council's vehicles. To reduce emissions further, including those of particulate matter and nitrogen dioxide, the capital programme includes ten electric vehicles at an additional cost of £0.3m over the diesel equivalent. The ten vehicles are generally 'smaller' vehicles where battery-range and charging infrastructure are workable, the higher capital cost is paid back within the lifetime of the vehicle, and current vehicles are at the end of their useful economic life. Elsewhere, we will extend the economic life of existing vehicles through higher maintenance and refurbish vehicles wherever possible to re-use.
- 4.42 Further work on the greening of vehicles feeds into the indicative capital commitments (Appendix J) for future years. This will no doubt change as newer technologies and solutions come forward, extending the range to suit our rural district and lowering the purchase price to offer better value for money.
- 4.43 The 2021/22 capital programme contained £100,000 of fully grant funded expenditure for installing Electronic Vehicle (EV) charging points in the Council's car parks, working alongside West Sussex County Council. In 2022/23, a similar sum for additional EV infrastructure is required to help run the growing electric fleet.
- 4.44 Establishing an accurate estimate of the cost of decarbonisation across all the Council's residential, non-residential, operational and leased buildings is ongoing. A number of audits are already underway, although the true cost will only be known as

work is completed, as each building is unique and might unveil hidden costs such as asbestos removal as things are uncovered during refurbishment. For Medium-Term Financial Planning purposes, an estimated increase in revenue cost of £0.1m each year over the decade is included.

- 4.45 It is clear that significant capital funding will be needed in the future, and consideration should be made to setting aside a fund to draw upon, perhaps initially from any unspent Lower Tier Grant funding from 2021/22 and 2022/23, which could total £2.7m at 31 March 2023.

5 Draft Revenue Budget for 2022/23

- 5.1 The 2022/23 budget has been prepared following a detailed “Budget Challenge” with Heads of Service to secure revenue streams and manage expenditure. The challenge process is there to ensure that excessive budgeting is avoided, additional income is found and efficiency savings are made. It also ensures that adequate resourcing is provided to meet service delivery items.
- 5.2 The budget requirement is for £12.188m. The detail of the revenue budget is shown in **Appendix A**. This is £1.134m lower than 2021/22, assisted by the removal of support for leisure centres as customers return in numbers, albeit there is a risk that this may reverse in light of new variants. It remains nearly £1m higher than in 2020/21 though, which was set before the pandemic and this reflects the continued impact of Covid-19 and some changing customer habits.
- 5.3 A summary of the main items of growth and savings in the 2022/23 budget is also set out in **Appendix A**. Staffing costs have risen by nearly £0.9m through the pay increases and increments, but also some additional posts to help implement the work on decarbonisation and the environment and the demand impacting on environmental health. It includes a £0.12m saving from a reduction in pension contribution netting out the £0.12m increase from the National Insurance Levy.
- 5.4 £0.25m included in the 2021/22 budget for spending on the vulnerable / community in the event of lockdowns has not been used, and will be set aside into an ear-marked reserve in case it is needed in 2022/23. The £0.25m has been removed from the 2022/23 budget. Business waste continues to grow, adding a further £0.15m to income, and an additional £0.1m is expected from Treasury Management investment income as the Council cautiously raises the investment limits on its pooled funds helping the levels of short-term cash, pooled fund deposits and property investments to stay in balance.
- 5.5 Urban car parking prices were last reviewed in 2018/19 and changes were introduced for selected car parks only. A full review of usage and prices has been undertaken in 2021, benchmarked to prices charged in neighbouring authorities. The price increases are set out in Appendix I(ii). Prices have been raised by between 10% and 15%, rounded to 10p, which is in line with the average rate of inflation over the last four years. The 30 minute and one-hour tariffs at Piries Place will also be removed, standardising tariffs within the three main multi-storeys to a minimum tariff of two hours. All price changes will come into force from 1 June 2022. A detailed list of car-park fees and charges is itemised at **Appendix I(ii)**.
- 5.6 Rural car parking fees will also rise 10% from 1 June 2022. The price of a rural car parking disk, which now runs from 1 July each year is also increased from £15 to £18. Both urban and rural changes are expected to add approximately £0.26m of income to the revenue budgets and are made in the context that over £1m of income was

taken out of the budget in 2021/22 to reflect the changes in customer habits for dwell time and demand for season tickets.

- 5.7 The most significant items of growth include higher fleet maintenance and fuel costs as the age of the vehicles increases, inflation hitting many contract costs, especially in Technology, the impact dealing with ash-die back, and expert consultancy to help plan the future of key assets such as the Capitol and Southwater Country Park. The impact from the water neutrality issue will also start to affect planning income and result in a higher use of consultants. To help kick-start some cultural and economic recovery in the district, £0.2m has been included in the budget for events and Year of Culture legacy.
- 5.8 Community Link offers a service to vulnerable residents, providing personal alarms so that they can call for help in an emergency. BT are replacing the copper wiring on which all telephone landlines and our alarm equipment depends, so we need to replace all the old analogue alarms with digital equipment before the copper wire service is withdrawn by 2024/25. The cost of the new digital equipment is higher than the old technology, resulting in a £0.1m reduction in net income as the roll out is undertaken over the next couple of years. This reduction includes higher income from a modest price rise for customers, the first for a number of years, as the Council has always tried hard not to pass on costs to its vulnerable residents.
- 5.9 Other notable fees and charges increases are set out in **Appendix I** and the detailed list of building control fees and charges in **Appendix I(i)**. The report also recommends delegating the right to make temporary changes to fees and charges to the Director of Community Services and relevant Cabinet leads to allow them to generate seasonal offers and incentives that may increase income overall in services such as bulky bags, business waste and the Capitol Theatre. Similarly, a similar delegation is also included for the fees for Sports Development, which is in the process of re-visiting how it will operate in the post-Covid19 world in the future.
- 5.10 The budget also includes £277,000 of grants available to the voluntary groups, the largest being £93,000 to the Citizen Advice Bureau in Horsham. A full list is included in **Appendix B**.

6 Special charge

- 6.1 Details of the Special Charge expenditure of £323,330 are included in **Appendix C**. The proposed the Special Charge for 2022/23 is set at £26.83, and is sufficient to fund the proposed Special Expenses. The increase in the special charge was shared with the Neighbourhood Councils in December 2021.

7 Council Tax for 2022/23

2021/22		2022/23
£000		£000
13,072	Net expenditure	12,188
(42)	Contribution to / (from) general reserves	716
13,030		12,904
(571)	Covid-19 support grant	-

(11)	Rural grant	(11)
(3,063)	New homes bonus	(2,097)
3,063	<u>Less</u> contribution to new homes bonus reserve	2,097
(1,222)	Lower tier grant	(1,518)
1,222	Less contribution to Lower tier earmarked reserve	1,518
(2,052)	Business Rates retention scheme baseline	(2,052)
10,396	Expenditure to be financed from District Council Tax	10,841
(310)	<u>Less</u> funding by Special Charge taxpayers	(323)
(146)	<u>Less</u> Council tax support grant / services grant	(141)
1	<u>Less</u> share of estimated (surplus) / deficit on Collection Fund	-
9,942	Expenditure to be funded from District Council Tax	10,377
63,115.1	Estimated band D equivalent properties	64,021.5
£157.52	Council Tax at band D	£162.09
£3.03	Cost per week at band D	£3.12

Table 3 – Council Tax for 2022/23.

8 Capital Budget

- 8.1 A £10m capital programme is proposed in 2022/23 which includes completion of approved schemes from preceding years, as well as investing further in infrastructure for the benefit of our residents, including home repair and disabled facility grants, and housing enabling grants. It also includes £0.88m of works that will help the environment, reducing the emissions of carbon by using LED lights, electric vehicles where practicable, cycling and energy reviews and more thermal efficient window replacements.
- 8.2 The full draft capital programme for 2022/23 is in **Appendix D**. The new programme for 2022/23 is for approval by full Council. Budgets for future years are included to indicate the scale of provision that may be required to maintain the life of the Council's assets and meet the aspirations in the Corporate Plan.
- 8.3 To ensure the sufficiency of reserves in future years, officers have updated the indicative list of infrastructure replacement and improvement needed over the next eight years (Appendix J). This includes replacement of all vehicles by 2030, as well as building improvements to help our carbon reduction plan. One of the large future projects is the upgrade of the leisure centres such as at Billingshurst and the Pavilions for which an estimated and indicative cost only has been provided but it is significant.

Minimum Revenue Provision

- 8.4 The Council is required to set aside funds to repay the borrowing need each year through a revenue charge called the minimum revenue provision. The regulations require full Council to approve a statement of the provision in advance of each year and the statement is in **Appendix E**. No changes have been made.

Prudential Code and Capital Strategy

- 8.5 The Local Government Act 2003 requires the Council to have regard to the CIPFA Prudential Code and the Ministry of Housing, Communities and Local Government (MHCLG) guidance. These also cover the Council's commercial activities, notably commercial property. The objectives of the Prudential Code remain to ensure, within a clear framework, that the capital investment plans of local government authorities are affordable, prudent and sustainable, and that any investment management decisions are taken in accordance with good professional practice.
- 8.6 The Capital Strategy and the associated treasury and non-treasury investment strategies were considered by the Audit Committee on 1 December 2021. It gives a high-level picture of the Council's capital plans including financing and the overarching strategy of investment in traditional financial investments and non-treasury investments such as service loans and commercial property. The committee was asked to approve the preliminary Capital Strategy as the appropriate overall approach.
- 8.7 The final capital programme for 2022/23 has changed slightly compared with the version tabled at the Audit Committee on 1 December 2021 but the changes are not significant to the overall strategy, so it remains substantially the same as seen by the Audit Committee. The Audit Committee was also asked to recommend that the Council approve the Treasury Management Strategy and Investment Strategy that fits in with the overarching Capital Strategy.
- 8.8 The final revised Capital Strategy and estimates to be adopted by the Council are set out in **Appendix F**. The Council are asked to adopt them as the final group of prudential indicators. This report revises the indicators for 2021/22 and 2022/23 and introduces new indicators for 2023/24.
- 8.9 The major indicators are the projected financing of capital spend, the Capital Financial Requirement and projected debt. The Council's Capital Financial Requirement is the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of Council's underlying borrowing need. The Capital Strategy also sets limits on external debt and sets the overarching arrangements for borrowing, treasury investments, investments for service purposes and investments in commercial property for financial return.

9 Potential options to close the budget gaps in future years

- 9.1 To help close future budget gaps and pay towards the required infrastructure programme (Appendix J) and de-carbonisation (section 4.39 to 4.45), in the medium-term, the Council could consider different options as set out below, which focuses on the financial terms only.
- 9.2 Following the restructure at the end of 2020 and as the transformation programme nears its end, there is limited further scope for making significant savings through efficiencies. Therefore, the Council will have to fill these gaps from projects that return on investment, or from the closure of the Council's non-statutory services such as parks and cultural venues or quality cuts to its statutory services.

- 9.3 Building affordable homes on any of the sites that the Council already owns would generate a healthy net income after taxation per annum for Horsham Homes (Holdings) Ltd. With up to £15m of Section 106 money available, at a yield of 4.5%, less what the money might earn at a 1.5% average via Treasury Management, this could add upwards of £0.35m per annum once fully developed. Over a ten-year period, this might generate £3.5m, supporting a much wider range of Council services.
- 9.4 At the Council meeting of 13 October 2021, Council resolved to lease the Drill Hall to the Horsham Branch, Royal British Legion from 1 April 2022 for a period of up to 30 years. As well as retaining the building for public use, this has secured a saving of the running costs from the budget in 2022/23. With the Drill Hall saved, an opportunity arises to build approximately 15 units of affordable homes in Dukes Square. This would require the re-housing of QM Studios as well, but could provide an approximate income to Horsham Homes (Holdings) Ltd of £110,000 after taxation per annum.
- 9.5 Another option is the athletics track at Broadbridge Heath leisure centre which is at the end of its life. It will cost approximately £280,000 to replace the track before a further investment of £100,000 of additional retexturing would be needed in ten years' time. It also costs the Council around £40,000 each year to maintain and run the facility.
- 9.6 Alternative use of the site could provide 100 homes, of which 35 would be affordable homes and generate £250,000 of net income after taxation per annum for Horsham Homes (Holdings) Ltd. The capital receipt from the rest of the site could pay for the development of the affordable housing.
- 9.7 Over a ten-year period, the 'swing' from current costs of £40,000 p.a. on the track to income of £250,000 p.a. would generate nearly £3m, supporting a much wider range of Council services. There are options in the middle of these two scenarios that re-provide a track elsewhere, but any capital expenditure and running costs elsewhere would significantly reduce the income that might be generated.

10 Reserves

- 10.1 There is a cost in implementing transformation, for which £0.2m each year is envisaged in 2022/23 through to 2025/26. It is anticipated that this will be funded from general reserves or any surplus generated. The transformation will help balance future budgets and protect the level of general fund reserves set out in **Appendix H**.
- 10.2 The Council agreed in October 2012 on a minimum level of general reserves of £6m. From 2023/24 onwards income from Government is very uncertain due to the consultation around the future of Business Rates and the Fair Funding Review. The Council's current strategy on reserves gives sufficient flexibility and headroom to deal with any issues that arise, although during the economic and pandemic uncertainty recession, concern for the future financial health of the Council is heightened. Except for funding transformation, the Council's aim is not to use general reserves for unexpected revenue spend in this period.
- 10.3 The budget gaps over the Medium-Term Financial Strategy amount to £3.1m. The general fund is anticipated to stand at around £18m at 31 March 2022, remaining well above the £6m level throughout the Medium-Term Financial Strategy period unless any further information from the Government or changes in the economy indicate a substantial worsening of our financial position beyond that currently predicted. Whilst relying on reserves to plug these gaps over this period is not advisable, due to the

high level of uncertainty for the future, there is also no immediate need to rush to a decision now to take action. However, given there would still be £2m gap in 2026/27 to fill if not action is taken, it is also advisable not to spend money without return today that may be needed in the future. Larger schemes also take a considerable amount of elapsed time to the point income is generated. The pandemic has left us in a less strong position going forward and other general reserves are needed to fund our operational infrastructure upgrades, decarbonisation and the environment during the rest of the decade.

11 Risks

11.1 The Medium-Term Financial Strategy takes a prudent but balanced view of the financial future, but continuing to take further action is also important to also help mitigate the risks that the Council faces over the medium-term. These risks are set out in summary below and include:

- the Covid-19 vaccine does not work as well as expected against future variants
- income, especially parking income, does not return to the levels predicted
- people don't return to visit the Capitol and leisure centres in the same numbers as pre Covid
- late delivery of transformation savings and income
- lower savings or income as proposed changes cannot be delivered to the size / scale envisaged
- underestimation of the impact of the water neutrality issue on lower planning income and future Council Tax income growth
- soaring costs from utilities, inflation and salary inflation
- weakening national economic position/ low growth post-Covid and post-Brexit
- impact of recession on income, council tax support numbers, ability of businesses to pay Business Rates and families to pay Council Tax
- a new baseline for Business Rates and / or other changes to Business Rates.
- Fair Funding review outcomes and / or further or steeper funding cuts / to help Government meet deficit reductions targets, including any impact on locally generated sales, fees and charges from the Fair Funding Review
- legislation forcing local government to pick up additional responsibilities currently unknown
- West Sussex County Council pass on higher levels of responsibilities and costs to us than anticipated
- The cost of de-carbonisation is higher and / or harder than anticipated

12 Next steps

12.1 The Council meeting on 9 February 2022 will set the Council Tax for 2022/23.

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

13.1 The proposed budget, Medium-Term Financial Strategy and assumptions and capital programme were considered by the Finance and Assets Policy Development and Advisory Group at its meeting on 11 January 2022.

13.2 The proposed budget and Medium-Term Financial Strategy will be considered at the Overview & Scrutiny Committee meeting on 24 January 2021. The Committee's views will be orally reported to Cabinet at their meeting.

- 13.3 Throughout 2021, regular updates on the financial impact of the pandemic on the Council's finances have been reported to Cabinet and Council, which has allowed all Members the opportunity to discuss and review the financial situation in advance of the 2022/23 budget setting process. The Leader, Deputy and Cabinet Members were also briefed on the proposed 2022/23 budgets in December 2021.
- 13.4 The Chief Executive, Directors and the Head of Finance and Performance have been extensively involved in preparing the Budget and Medium-Term Financial Strategy and 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.

14 Other courses of action considered but rejected

- 14.1 Lowering the Council tax would reduce the budget surplus in 2022/23, but this has been rejected as an option because this would significantly put at risk the ability of the Council to balance the budgets in the later years of the Medium-Term Financial Strategy through to 2025/26.
- 14.2 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.

15 Resource consequences

- 15.1 The November 2020 restructure reduced the salary budget in 2021/22 by £1.4m, which aided by a quicker than anticipated budgeted return of income from the leisure contract for example, has helped the Council to budget for a £0.76m surplus in 2022/23. However, alongside some general recovery from Covid-19, the Council must also complete the digital transformation journey it has embarked on. To do this, the Council must ensure that it has sufficient capacity to implement new systems at the same time as running the old ones, as well as react to changing priorities as services ebb and flow. Two posts have been added to the establishment to help implement the Council's priority on the environment and £0.2m has been set to help the kickstart the district's recovery in events and year of culture legacy.

16 Legal consequences

- 16.1 The Council Tax in England and Wales is provided for and governed by the provisions of the Local Government Finance Act 1992. Within this Act, the Council is designated as a "Billing Authority", responsible for the billing, collection and enforcement of Council Tax. The Council is required under the Local Government Finance Act 1992 to produce a 'balanced budget'.
- 16.2 Section 25 of the Local Government Act 2003 requires Chief Financial Officers to report to their Council about the robustness of estimates and the adequacy of reserves when determining their precepts, and local government authorities are required to take the Chief Financial Officer's report into account when setting the Council Tax. This report is shown in Appendix H.
- 16.3 This report also sets out the Council's Medium-Term Financial Strategy. 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.

17 Risk assessment

- 17.1 The Council's reliance on Government controlled funding and balancing the Medium-Term Financial Strategy is captured on the Corporate Risk Register at CRR01. This is regularly reviewed and updated and is monitored at Audit Committee.

18 Procurement implications

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

19 Equalities and Human Rights implications / Public Sector Equality Duty

- 19.1 The Equality Act 2010 includes a public sector equality duty which requires local government authorities when exercising functions to have due regard to the need to eliminate discrimination, harassment and victimisation and other conduct prohibited under the Act and to advance equality of opportunity and foster good relations between those who share a "protected characteristic and those who do not share that protected characteristic". When a Budget proposal has implications for people covered by the Equality Act 2010, the Council must take account of the Equality Duty and any particular impact on the protected group. The proposals for the increased fees for the Community Link service, that are included in this budget, required an Equalities Impact Assessment. This assessment is attached to the Community Link investment report included elsewhere on this Cabinet agenda. There are no equality implications in regards to other parts of this proposed budget but changes needed to balance the budget beyond 2023/24 will need further consideration.

20 Environmental implications

- 20.1 A number of environmental implications are included in the main body of the report where additional money is included in the budget for spending on 'green' issues and decarbonisation. There are no proposed cuts to services that impact the environment. Some non-electric vehicles are being renewed in the fleet replacement capital programme, although the Council is trying to re-furbish existing vehicles and buy second hand, until technology enables the transition to a suitable alternative.

21 Other considerations

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