

Report to Cabinet

24 November 2022

By the Cabinet Member for Finance and Parking



DECISION REQUIRED

Not Exempt

Update on the Council's financial position in 2022/23 and Medium-Term Financial Strategy update 2023/24 to 2026/27

Executive Summary

This report updates the Council's financial position in 2022/23 and how the Medium-Term Financial Planning scenarios and assumptions have changed since the budget was set in February 2022 and the update in September 2022. The 2023/24 budget challenge process will be completed in December, so the indicative numbers contained within this report are still subject to amendment and change.

A high level of uncertainty remains as the economy navigates the highest levels of inflation since the early 1990s, pressure from salary increases, and no further clarity on the future of Government's plans for the reform of business rates, fair funding review and how levelling up will affect us. 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.

2022/23 is currently forecasting a small deficit, which would be funded by reserves, but should this change to a small surplus, then any surplus could be earmarked to support those in need from the cost of living crisis during 2023/24.

Officers have revisited the assumptions based on the latest income data and wider information from Government. Since September, inflation has continued at its highest level for forty years, causing higher non-salary and salary costs. However, the economic uncertainty has had one benefit in the form of the rapid rise in interest rates which will at least bring in significant additional investment income, which along with rises in fees and charges are currently on course to put 2023/24 in a balanced budget position.

Later years in the Medium-Term Financial Strategy remain very uncertain. In July 2022, the Levelling Up Secretary indicated proposals for a two-year settlement which might suggest that there may be rollover settlements in both 2023-24 and 2024-25. However, there have been significant changes in Government since then. In October 2022, the new Chancellor and Prime Minister signalled 'difficult economic decisions' which increase the likelihood of a reduction in spending on public services, with government departments being asked to make further efficiency savings. This would be difficult for the Council to do without cutting services. The detail will only be revealed in the provisional settlement in December 2022 but is a significant risk to us.

The estimated £1.3m cost of food waste collection from Autumn 2024 remains a major factor in the projected deficits from 2024/25 onwards that end the period at £3m, unless income in

the form of council tax, garden waste charges and general fees and charges are raised more in line with inflation. However, the longer we go without Government enacting the legislation, the more likely the implementation of food waste collection is pushed out to a later year.

The biggest risk is the high level of inflation and the work needed to set balanced budgets across the medium-term, and are likely to require substantial action, although not necessarily in this forthcoming 2023/24 budget.

Recommendations

The Cabinet is asked to:

- i) note the changes in the Council's financial position in 2022/23 and medium-term.
- ii) Recommend to Council that the charges from 1 April 2023 for the garden waste subscription service are increased from £44 for the first bin to £49 and for any subsequent bin increased from £35 to £41.
- iii) Recommend to Council that Fixed Penalty Notices for littering and fly tipping be raised from £75 to £150 with a £110 early payment fee (currently £50).
- iv) Recommend to Council to increase the car park advertising fees as set out in Appendix 3.
- v) Recommend to Council approve the creation of a revenue budget in Leisure services for the Drill Hall of £9,000 income and £27,100 expenditure, which is a net cost of £18,100 in the 2022/23 budget.
- vi) Recommend to Council to increase the capital budget for the Highwood Community Centre project by £150,000, from £2.75m to £2.9m.

Reasons for Recommendations

- i) The Council needs to acknowledge the effects that high levels of inflation will have 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 unless action is taken on fees and charges. 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) to iv) Council required to approve fees and charges, as per the constitution.
- v) Council is required to set the revenue budget, as per the constitution. The budget will enable the Council to continue to operate the Drill Hall for the final quarter of 2022/23.
- vi) Council is required to set the capital budget, as per the constitution

Background papers:

- Budget and Medium-Term Financial Strategy report Cabinet 27 January 2022 (approved by Council on 9 February 2022 and 24 March 2022).
- Report on the Council's Finance and Performance (2022/23 at M4) Overview and Scrutiny Committee 26 September 2022
- Report on the Council's Finance and Performance (2022/23 at M7) Overview and Scrutiny Committee 21 November 2022

Appendices:

- Appendix 1: Summary of high-level assumptions and changes

- Appendix 2: Potential capital infrastructure / carbon reducing costs during 2020s
- Appendix 3: Car parking advertising fees from 1 January 2023

Wards affected: All

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Background Information

1 Introduction and background

- 1.1 The 2022/23 budget was set by Council in February 2022 before the rapid rise in inflation. Since then, inflation as measured by CPI has now reach 10%. Rising energy prices, the general cost of living increases, and global events such as the war in Ukraine impacting prices and world supply chains, have all significantly altered the more optimistic outlook. Increasing fees and charges, and the rapid increase in the Bank of England base rate which increases our investment income, will help to mitigate this in the short term at least.
- 1.2 Rising salary and price costs together with expenditure on new services such as food waste collection, contribute to a predicted significant gap of £3m in the Medium-Term Financial Strategy in future years if actions are not taken.
- 1.3 To rebalance its position, the Council will need to carefully consider the fees that it charges, its service offers and / or ways in which it can generate more income. The Councils reserves mean that in the short term, we do not have to rush to take immediate action, but they cannot be seen as an alternative to taking decisions to bring the budget back to balance in the medium term.
- 1.4 Government previously indicated there might be a two-year settlement for 2023-24 and 2024-25. The Fair Funding Review, business rates baseline reset, and other funding reforms might then be pushed back to 2025-26 on the basis that the 2021 Census would not be reflected in funding allocations until 2025-26. This previously suggested that any financial settlement might be broadly similar to the 2022-23 settlement. However, in October 2022, the new Chancellor and Prime Minister signalled that 'difficult economic decisions' are ahead, likely to result in a reduction in spending on public services with government departments being asked to make further efficiency savings. This would be difficult for us to do without cutting services.

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 operational forecast outturn at Month 6 for 2022/23 is a £0.15m net surplus. Investment income from rising interest rates and returning parking income is so far outweighing rising costs from the high price of HVO fuel, vehicle parts and overspending on Housing services. The anticipated £0.9m of salaries overspend is not yet included in the M6 forecast due to the fact that the national pay award offer of £1,925 per person, rather than the 1.3% in the budget, was only agreed and paid in November. If necessary, this overspend will be funded from the inflation earmarked reserve set aside from the 2021/22 budget surplus. The overall funding position is currently forecasting a £232k deficit.
- 3.2 The updated budget position including the current year forecast and revised interim Medium-Term Financial Strategy is set out in table 1. Appendix 1 sets out a summary of the assumptions now, against the assumptions that were used in the September 2022 update, and also summarises the key forecast movements in net

expenditure between years. Details of the assumptions and any changes are set out in section 3 of the report.

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Table 1: interim MTFS Nov 2022	£000	£000	£000	£000	£000	£000
Estimated net expenditure	13,072	12,188	13,200	14,635	16,270	16,930
<i>In year budget adjustments</i>	250	103	-	-	-	-
<i>Overspend / (underspend) [*forecast M6*]</i>	(2,111)	(150)*	-	-	-	-
Estimated net expenditure	11,211	12,141	13,200	14,635	16,270	16,930
Funding: Council Tax	(10,251)	(10,700)	(11,140)	(11,470)	(11,860)	(12,265)
Extra Government grant	(146)	(141)	-	-	-	-
Baseline Business Rates	(2,052)	(2,052)	(2,052)	(2,052)	(1,850)	(1,650)
Other funding, Collection Fund (surplus) / deficit	(12)	(11)	(12)	(13)	(12)	(12)
Total Funding	(12,461)	(12,904)	(13,204)	(13,535)	(13,722)	(13,927)
One-off COVID-19 funding	(981)	-	-	-	-	-
£150 C-Tax support spend	98	120	-	-	-	-
Salary impact	-	875	-	-	-	-
Net (Surplus) / Deficit rounded	(2,133)	232	0	1,100	2,550	3,000

3.3 The Council produced a £2.1m operational surplus in 2021/22, in the context of performance recovering from Covid-19 faster than the cautious budget predicted when it was set in lockdown in January 2021, especially in the leisure services, as well as receipt of one-off Government grants supporting authorities through the pandemic. Surpluses on this scale are not envisaged in the future due to rising cost pressures.

3.4 In February 2022, Council agreed to work with West Sussex County Council and continue to help support our most vulnerable working age families on Council Tax Support in a year when their income is likely to be adversely affected. The cost of

the Council's contribution to fund the £150 scheme this year is estimated at £120k, although the exact amount will depend on how many working families apply for council tax support before 31 March 2022. This will be funded by the one-off Government grant of £141k, given to ensure the Council was no worse off in the settlement than the previous year. West Sussex County Council has not committed to a similar scheme yet in 2023/24.

Expenditure pressures:

- 3.5 Inflation and pay increases remain the significant area of concern in our projections. We are seeing greater pay pressures in our professions and difficulties in recruitment and retention 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. We also know that the national cost of living crisis is starting to have an impact on middle income earners, which will include Council staff.
- 3.6 The national pay award for 2022/23 was agreed on 2 November 2022 at £1,925 per post and one additional day of holiday. This is a double digit increase on the lowest grade, falling to 1.5% for the highest grade. It will cost the Council £1.1m, albeit £0.22m was already included in the budget based on a 1.3% salary increase. This leaves an additional £0.88m unfunded in 2022/23, and also an additional budgetary pressure going forward.
- 3.7 The Medium-Term Financial Strategy now assumes an increase to 4.5% in 2023/24 adding a further £0.9m, falling to rises of 3% by the end of the period on the assumption that a lower rate of inflation will eventually reduce this pressure over the period. The impact over the four years is approximately £3.7m of expenditure growth in the period, which is a further £0.4m on the September model.
- 3.8 The impact of inflation on non-salary costs is harder to measure because there are many contracts with different price and inflation agreements and start dates throughout the year. The September 2022 CPI rate was 10.1% and RPI was measured at 12.6%, up from 9.9% and 12.3% respectively in August. Inflation in the 2022/23 budget was assumed at around 3% each year. The Medium-Term Financial Strategy now assumes an average rate of 8% in 2023/24, an increase from the 6% used in the September report. Over the Medium-Term Financial Period, it assumes the rate will slowly fall towards 3.5%. This is the single largest risk factor in the economic outlook. Inflation may not fall back down to the 2% Bank of England target in the 2020s. Building materials and maintenance costs are rising much higher than standard CPI / RPI inflation, and the budget for maintenance will need to increase just to stand still.
- 3.9 Other one-off and increased costs are expected in 2023/24. Pressures are being felt in Housing and Revenues & Benefits as volumes and caseloads increase, exacerbated by the cost of living crisis. Many people on our housing register are also suffering from increasingly complex mental health needs. Two new posts in Housing will help everyone joining the housing register have a personalised housing plan, not just those who are homeless which will lead to a better housing journey for customers. In Revenues and Benefits, the move from LGSS to a partnership with just Milton Keynes means that shared costs are now split over two rather than three Councils. Combined with the increased caseload, costs will be increasing by around £0.6m across these two services.

- 3.10 King Charles III has announced his coronation date in May 2023, and the Council is preparing to include £50k in the 2023/24 budget to mark the occasion, a similar additional expenditure to the amounts spent on the Platinum Jubilee in 2022.
- 3.11 Over the last two years, we have been working with consultants Ricardo on the options and estimated costs of food waste collection. The indicative cost is £1.3m for a 3,2,1 service where refuse is collected every three weeks, recycling and garden waste fortnightly and food waste weekly. The initial trial of 100 households has indicated that there is capacity within the standard 140 litre residual waste bin once food waste is collected separately. The cost of a 2,2,1 service would be higher.
- 3.12 The Environment Act 2021 became law in November 2021, introducing changes to waste collection so that recyclable household waste (which includes food waste) must be 'collected separately from other household waste'. Food waste itself must be collected at least once a week. It has not yet been enacted, meaning we are waiting for further details and confirmation of the exact timescales by which local authorities will need to change current arrangements to comply with the Environment Act. The indicative timescale in the original consultation was by the end of 2024/25. Introduction is still built into the Medium-Term Financial Strategy in September 2024, with the £1.3m impact spread over 2024/25 and 2025/26. However, as we move closer to this date, it becomes more likely that it will slip. This delays the Council from needing to spend £1.3m for a year, which can be put towards other inflationary costs. If this were to be the case with implementation in Autumn 2025 instead for example, the projected deficit in 2024/25 would much reduce and the budget year would be much closer to balancing, although as the years are cumulative, there would be no reduction in the £3m deficit in the final year of the Medium-Term Financial Strategy. We also do not yet know whether we might obtain any funding from Government for this new service.

Income:

- 3.13 To help combat rising costs, the current budget forecast for 2023/24 includes a £5 increase in Council tax adding £340,000 to overall income. The reduction in Government funding increases the reliance on local Council tax in the future. Therefore, such an increase is sensible to ensure that future levels of Council tax income are 'banked' as the present cap and referendum thresholds mean that periods beneath the threshold cannot be caught up. If any surplus is generated when the budget is delivered, it could be reinvested for example to support the vulnerable and those in need from the cost of living crisis.
- 3.14 The Medium-Term Financial Strategy then models an indicative 2% Council tax increase per year, adding approximately £240,000 each year on average over the latter period. A 2% increase equates to approximately £3.40 each year for a band D equivalent on average over that period. Future referendum threshold levels are unknown but if the threshold cap limits the increase to a maximum 2% or £5 (3.1%), and cost inflation remains around 5% to 6% as forecast, then the funding gap widens each year. Increasing by £5 each year over the Medium-Term Financial Strategy rather than 2% would generate a further £100,000 per annum.
- 3.15 Season ticket parking income has fallen as hybrid working has changed the frequency of the daily office commute. But otherwise, parking income has largely recovered to pre-pandemic levels, in part due to a price increase in 2022/23 helping to make up some of the difference of slightly reduced dwell time. The Parking

service is planning a £0.7m increase in net income in 2023/24 compared to the 2022/23 budget, projecting the general improved trend forward.

- 3.16 The turbulence in the economy over the last few weeks has had one benefit to the Council in the form of rapidly increased interest rates. At one stage, some economists were forecasting interest rates of between 5% and 6%, but expectation has fallen a little as Government has reverted towards taxation to fund spending, rather than a reliance on unfunded growth. Arlingclose, our treasury management advisors, are now predicting interest rates level off at 4.25%. For 2023/24, this would significantly increase our investment income from £0.9m to around £2.4m, helping to balance the budget.
- 3.17 The new Prime Minister and Chancellor have indicated 'difficult economic decisions' are ahead, increasing the risk that a two-year settlement for 2023/24 and 2024/25 on the same basis as the current year might not now happen. The Council had assumed a two-year settlement would give Government time to resolve the future of business rates retention and that no changes would be made in the meantime. We currently receive just over £2m of income as part of the annual settlement and expect this will reduce as part of any changes to the current business rates system which is attracting increasing calls for reform. The Medium-Term Financial Strategy still models a gradual reduction in funding from 2025/26, but there is a much greater risk that the change will be earlier and more pointed than that. We may only find out about this in December as part of our Settlement, and this could considerably worsen our funding position.

Other:

- 3.18 The current Medium-Term Financial Strategy does not take into consideration any detailed future 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. An indicative £0.1m revenue impact has been added each year. Fully 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.
- 3.19 The unaudited usable Reserves as at 31 March 2022 have not changed since the September update. The 'real' level of general fund available for use is effectively £18.9m with £25.7m in earmarked reserves. This level of reserves is significantly above the minimum level of reserves set at £6m. However, this must be seen in the context of a potential £3m forecast budget gap by 2026/27 and also the significant infrastructure replacement and carbon costs that are anticipated during the rest of the 2020s set out in Appendix 2. This could cost as much as £42m on top of the £5m to £6m standard annual capital programme. The revenue impact from this additional capital expenditure could rise to as much as £0.4m p.a. from 2026/27 should the Council need to borrow. In addition, it is likely that some of the facilities would close for refurbishment. In the case of a leisure centre for example, it would reduce income through a reduction in management fee. Again, these have not yet been factored into the Medium-Term Financial Strategy yet but will need to be factored into the decision making.
- 3.20 Given the level of uncertainty about the Council's funding position, future levels of inflation, and the strength of the reserves position, officers do not plan to spend time drafting detailed significant savings proposals for later years unless Councillors are minded to not increase Council Tax next year. The key for 2024/25 is whether

the implementation of the collection of food waste goes ahead, as the deficit currently forecast for that year would be much closer to balancing should implementation be delayed until September 2025 or later. Councillors must also be prepared to consider increasing fees and charges at levels at inflation levels in future years, otherwise the net cost of services gap increases. This is of course becomes more difficult as some of our customers are already feeling the effects of the rising cost of living and energy price increases, and the compound effect of price rises each year.

- 3.21 Savings in 2024/25, if needed, or more likely 2025/26 may mean the closure or reduction of popular non-statutory public services, or investment that generates income if fees are not increased. This is because swift action taken in November 2020 during the Covid-19 pandemic which put the Council in reasonable shape financially has stretched the capacity to deliver services with current levels of staff. Further cuts could only be done if services were withdrawn.

Fees

- 3.22 To help the annual process of garden waste billing run smoothly, this report recommends to Council that the charges from 1 April 2023 for the garden waste subscription service are increased from £44 for the first bin to £49 and for any subsequent bin increased from £35 to £41. This earlier notification will inform customers of the price increase at the same time as reminding them about their forthcoming subscription renewal. Increasing the price by £5 / £6 will increase income by approx. £200,000 depending on whether the price increase causes any significant drop-off in subscriptions. The extra income will pay for the rising cost of fuel that have soared by nearly two-thirds from the budgeted £1.20 per litre to £1.90 per litre and other rising costs such as salaries and maintenance / parts. The garden waste fee will still be the lowest in West Sussex.
- 3.23 Following an increase in litter across the district, the Waste and Recycling PDAG discussed fees and charges for Fixed Penalty Notices (FPNs). In November 2021 the Council employed an Enforcement Officer who has worked to improve our success in catching and fining fly tippers and industrial vehicles dropping litter from insecure loads or not netting their vehicles.
- 3.24 Currently the FPN fine is £75 with an early payment of £50. FPNs are issued by Waste and Recycling for:
- Fly tips
 - Littering (mainly from vehicles on the roads) which we catch from our enforcement days using dashcam footage
 - Littering reported by members of the public which can be proved beyond reasonable doubt (i.e. they send in dashcam footage).
 - Neighbourhood Wardens also are able to issue FPN's but they try to educate rather than issue the fines.
- 3.25 We currently issue one of the lowest FPN fines in West Sussex. The proposal in the recommendation is to increase the FPN to the maximum £150, reduced to £110 if paid within 14 days. Along with this, we will also publicise the change which should help to encourage a reduction in littering occurring in the district. The Council will also publicise to the public that they can send us dashcam footage of any littering offences which we will follow up and issue an FPN if required.

- 3.26 The Parking service has reviewed its fees and charges for advertising space within the multi-storey car parks in Horsham. Market research of various Councils and private parking companies around the UK suggests that these rates could be raised and remain competitive. The service is also proposing a not-for-profit rate is introduced, enabling promotional activity to support not-for-profit organisations / events. The list of fees is set out in Appendix 3. The changes from 1 January 2023 are not expected to impact the 2022/23 budget as growth in this revenue area may take some time, but additional income will be built into future budgets during budget setting each year.
- 3.27 The Royal British Legion has recently made us aware that they will not be taking over the Drill Hall. Their thorough investigation into this opportunity concluded that it would be difficult for them to make a viable community proposition at these premises. This report therefore requests that a short-term budget for operating the Drill Hall is created in 2022/23 for the final quarter from 1 January to 31 March 2023. The running costs for the quarter result in an income of £9,000 and expenditure of £18,600. An additional £8,500 expenditure budget is requested to repair an area of rotten substructure in the main hall timber floor that is becoming unsafe following water ingress and then to re-lay the floor back on top. The requested budget net cost for this additional quarter period is therefore £18,100 in the 2022/23 budget.

Capital Programme

- 3.28 On 24 March 2022, a £2.75m capital budget was approved to build a nursery and a Community Hall at Highwood with more than thirty car parking spaces. Plans have been worked up and at present, the Quantity Surveyor and building contractor numbers indicate that whilst the nursery will cost £1.2m to build, yielding the required 6% return from the rental, the community centre and car park will cost £1.7m. The total is therefore projected to be £150,000 over budget and the recommendation is that this additional budget is added to the capital project.
- 3.29 These figures include a contingency allowance of £188,000 and an inflation allowance of £45,000, which need to be protected within the budget envelope as unexpected circumstances will inevitably arise.
- 3.30 The cost saving solution would be to make the hall smaller by removing the small meeting room and small store. This would remove about 5m from the length of the building, reducing the overall size from 261m² to c205m²; a saving of 22% on floor area. This would leave a decent sized building and would cater for most uses, particularly as the entrance foyer is large and can be used for informal meetings. The hall would exceed the minimum size for the community on a strict per capita basis. It is important to keep in mind the Council has just refurbished Blackbridge Lane, which includes a hall of similar size and a small meeting room. There are therefore alternative facilities nearby for holding small meetings.
- 3.31 In addition to the increased budget costs, during the consultation process, we have identified the need for further works that will be required in 2023/24. These are a provision of toilet and changing facilities for the pitches being located behind the community centre and additional parking on the pitches to the north of the bridge (in Hills Farm Lane) to alleviate parking problems on the weekends when those pitches are being used. Initially the changing rooms were not to be provided but since that decision was made it has been decided that the pitches will be used for ladies / girls

football which means that this facility is a necessity. The estimated combined cost of these additional items is a further £150,000 that will need to be consulted on and dealt with in the budget bid process for 2023/24.

4 Next steps

- 4.1 On 26 January 2023, the 2023/24 Budget will be taken to Cabinet to recommend approval at the 22 February 2023 full Council meeting where the Council Tax for 2023/24 will be set. The Medium-Term Financial Strategy will also be again updated at this time to take account of our settlement, if known at that date.

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

- 5.1 Finance and Assets Policy Development Advisory Group met on 7 November 2022 and discussed the key assumption changes in the immediate and longer-term, especially the ongoing impact of expenditure pressures on the Medium-Term Financial Strategy and the uncertainties and the implications to balance future budgets. The majority of the PDAG were supportive of the additional capital budget on Highwood.
- 5.2 The Chief Executive, Directors, and Heads of Services have been involved in preparing the immediate budget forecast and will be finalising the 2023/24 budget in the ledger. Officers are already thinking of ways to address the medium-term financial gap through fee charges and income. They are 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 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, unless income is increased through fees and charges.
- 6.2 Decreasing the size of Highwood Community Centre was considered but was rejected on non-financial grounds.

7 Resource consequences

- 7.1 Specific actions to address the future financial gaps are not detailed in this report. Over the next few weeks, the detailed 2023/24 budgets will be finalised as part of the budget setting process in February 2023.
- 7.2 The significant cost of infrastructure replacement and accompanying carbon reduction across the decade are not included in this Medium-Term 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.

This together with the replacement of key infrastructure could cost as much £42m between now and 2030, as shown in appendix 2. In carbon improvement works done so far, as a rule of thumb, around one third of the costs might be attributable to carbon reduction.

- 7.3 The additional £150,000 in the capital programme for the Highwood Hall will also add £3,000 to the revenue costs in the year after completion of the building, under the Council's Minimum Revenue Provision. The Chief Finance Officer's view is that the Council should ideally cut its cloth according to the original agreed budget and design out the forecast overspend by decreasing the size of the building in light of other meeting rooms being available in the same ward. However, the 12.5% increase in budget is understandable in the context of current cost inflation in the building material supply chain, and there are non-financial place making reasons for continuing with the original size. It will though reduce the scope for other capital projects in other parts of the district as capital budget is not unlimited.

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 able to get to a balanced budget for 2023/24 if income is increased through fees and charges, but may face difficulties in future years if it doesn't.
- 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. The risk on inflation and uncertainty in the economy reducing income is captured in CRR 19. The risk registers are 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 actual reductions in income and stronger expenditure pressures that the Council faces could increase the range of losses.
- 9.3 There is a moderate risk that customer habits will change for paid services such as parking and the cultural and leisure offers if customers reduce their expenditure as they struggle financially. This is especially so if fees and charges are raised by inflationary levels. Income might not therefore return to previous levels.
- 9.4 There is a high risk the Government's proposal for business rates reform will worsen the financial situation earlier or more deeply than current predicted.

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.

Appendix 1 – summary of high-level assumptions and changes

Area	November 2022 assumptions	September 2022 assumptions
Inflation cost non-salaries	8% increase per annum across the period. Falling by 1.5% each year, ending period at 3.5%. Risk.	6% average in 2023/24, drifting down to 5% across the period.
Income	5% to 6% increases in fees and charges on average – falling slowly to 3% across the period.	3% increases in fees and charges on average [Note 2b assumes this to be nearer 6%, drifting down to 5% across the period]
Increase in salaries budget	Catching up the £1,925 from 2022/23, and increase of 4.5% in 2023/24, falling to 3% by end of the period.	£1,925 in 2022/23, then reducing from 4% per annum to 3% across the period.
Contribution to pension fund	No change. 18% which is baseline minimum. Pension Fund £31m asset at 31 March 2021.	18% which is baseline minimum. Pension Fund £36m asset at 31 March 2022.
Local Business Rates	Business Rates review triggering a significant re-baselining in 2025/26. No worse off until then, but then reducing our funding. <i>High risk of sharper / earlier fall.</i>	Business Rates review triggering a significant re-baselining in 2025/26. No worse off until then, but then reducing our funding.
Increase in Council Tax	£5 in 2023/24 and then 2% per year for future years across the period.	2% per year for future years across the period.
Increase in Band D equivalent dwellings	No change. Impact of water neutrality dampening housing numbers. 600 to 700 per year.	Impact of water neutrality dampening housing numbers. 600 to 700 per year.
New Homes Bonus	No change. Final previous legacy payments of £2.1m ending in 2022/23. Note that Council may receive Lower Service Tier grant instead in 2023/24 and 2024/25 to ensure Council is no worse off overall, but increasing risk that they don't if cuts come earlier.	Final previous legacy payments of £2.1m ending in 2022/23. Note that Council may receive Lower Service Tier grant instead in 2023/24 and 2024/25 to ensure Council is no worse off overall.
Minimum reserve level	£6m – no change.	£6m.
Garden / food waste	No change. Food waste from Autumn 2024. £1.3m for a 3,2,1 service. No funding included – as we don't yet know. No cap on prices (Risk £0.4m if £30 and £2m+ if free). <i>This is increasingly likely to slip a year.</i>	Food waste from Autumn 2024. £1.3m for a 3,2,1 service. No funding included – as we don't yet know. No cap on prices (Risk £0.4m if £30 and £2m+ if free).

Summary of key operational cost and income changes					Assumptions			
	2023/24	2024/25	2025/26	2026/27	2023/24	2024/25	2025/26	2026/27
	£000	£000	£000	£000				
Net cost b/fwd	12,141	13,204	14,635	16,272				
Inflation	1,480	1,203	925	648	8.0%	6.5%	5.0%	3.5%
Salaries	900	700	600	600	4.5%	3.5%	3.0%	3.0%
Salary catch up	880	0	0	0	£1,925 less 1.3%	-	-	-
Other fee increases	-975	-780	-683	-585	5% to 6%	4.0%	3.5%	3.0%
Investment income	-1,500	0	100	100	4.25% base rate			4% base rate
Garden waste	-200	-120	-120	-120	£5	£3	£3	£3
Food waste	0	700	600	0		Autumn 2024		
Parking back to previous levels	-700	-50	-50	-50				
Revs and Bens / Housing impact	600	50	50	50				
Maintenance costs supply side rises	300	0	0	0				
multitude of others	278	-272	215	13				
Predicted net cost	13,204	14,635	16,272	16,927				
Annual increase	1,063	1,431	1,637	656				
Additional Council tax increase	-344	-229	-237	-245	£5	2%	2%	2%
Annual net to find	719	1,201	1,400	410				

Appendix 2 – potential capital infrastructure and added carbon reducing costs during 2020s

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	Total
Fleet vehicle replacement	1,500,000	4,500,000	500,000	1,000,000	1,500,000	4,000,000	4,500,000	2,000,000	19,500,000
Leisure Centres refurbishment				5,000,000	5,000,000				10,000,000
Commercial portfolio investment and carbon reduction	500,000	500,000	500,000	500,000	500,000	1,000,000	500,000	500,000	4,500,000
Capitol seating and revamp			3,000,000						3,000,000
Museum						350,000			350,000
Housing	150,000	150,000	150,000	50,000	50,000	50,000	50,000	50,000	700,000
Car park refurbishment	300,000	150,000	150,000	350,000	150,000	150,000	350,000	150,000	1,750,000
Office refurb	200,000						1,000,000	1,000,000	2,200,000
TOTAL	2,650,000	5,300,000	4,300,000	6,900,000	7,200,000	5,550,000	6,400,000	3,700,000	42,000,000

Notes:

- All costs guesstimated at this stage
- Circa £5m to £6m in the 'standard' capital programme (e.g. disabled facility / housing enabling grants) each year not included here
- Borrowing not assumed before 2026/27
- MRP 2% on average
- Borrowing costs now estimated at 4.8% (compared to 4% in September)

- Averaged over the period 8 years, MRP circa £0.1m per annum
- Average over the five-year period (2026/27 to 2030/31), borrowing costs would add a further £0.3m per annum

Appendix 3 – Car Park Advertising fees

From 1 January 2023:

Type of Advert	Monthly Cost (exclusive of VAT)	Not for Profit monthly cost (exclusive of VAT)
Pillar Advert	£295	£206.50
A0 Poster/Sign	£250	£175
A1 Poster/Sign	£225	£157.50
A2 Poster/Sign	£150	£105
A3 Poster/Sign	£100	£70
Barrier Arms	£150 per barrier arm	£105 per barrier arm