

## Report to Cabinet

26 January 2023

By Cabinet Member for Finance and Parking

**DECISION REQUIRED**



Not Exempt

### **The 2023/24 Budget and the Medium-Term Financial Strategy to 2026/27**

#### **Executive Summary**

This report sets out details of the proposed 2023/24 revenue and capital budgets following the receipt of the provisional financial settlement from Government on 19 December 2022.

The Council is budgeting for breakeven in 2023/24. The net budget requirement for 2023/24 at £13.5m is £1.2m higher than (£12.3m) in 2022/23, reflecting the significant impact of annual inflationary and salary cost-pressures.

Despite the significant cost increases, good financial management and healthy reserves put us in a good position to sensibly invest both now and in the future.

Recognising that times are tough for some of our residents, we are intending to use £1m of reserves to support residents during 2023/24 who are finding it difficult as the cost of living rises. We are also continuing to maintain really good quality services, voluntary grants and protecting all our non-statutory services, including for example, the work undertaken by our community services that is so greatly appreciated by our residents. We continue to charge the lowest council tax in West-Sussex.

We are also setting an ambitious £8.5m capital programme providing infrastructure and facilities for residents. In addition, although difficult to fully quantify at present, 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. 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.

This report prudently recommends moving the New Homes Bonus earmarked reserve to an Environment and Infrastructure earmarked reserve, in order to tackle improvements to the environment, decarbonisation and the ongoing replacement of significant infrastructure that will serve the needs of the district's residents.

The report sets out a Medium-Term Financial Strategy 2023-26 using the latest information. Although the two-year provisional settlement helps us plan a little better to 31 March 2025 at least, the outlook remains extremely uncertain. Future Medium-Term Financial Strategy deficits reflect continuing high levels of inflation and a gradual reduction in Government funding after 1 April 2025. 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 2025/26 in the context of Government saying 'difficult economic decisions' must be made.

There is still no certainty on when we will be required to implement the collection of food waste and how much and for how long we might receive funding. Due to the ongoing delay, the Medium-Term Financial Strategy now assumes implementation from Autumn 2025, rather than Autumn 2024, which helps to reduce the expected budget deficit in 2024/25. Should Government announce a speedier implementation timetable, we would hope that incentivising funding of some sort would be available to offset some of the implementation costs in 2024/25. To help mitigate this concern, we propose to earmark some of the Governments Funding Guarantee grant in 2023/24 for this purpose.

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 cannot continue to do this at the same rate. Secondly, the Council could invest to generate income, and has already made some decisions about using its property portfolio, particularly for Affordable Housing. However, commercial investment heightens the risk from prudential and treasury management code changes. 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 these decisions do not 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 2023/24 increases from £162.09 by £4.85 (2.99%) to £166.94 at Band D.
- (ii) That the net revenue budget set out in Appendix A for 2023/24 of £13.513m is approved.
- (iii) That Special Expenses of £336,920 set out in Appendix C and a Band D charge of £27.53 are agreed in respect of the unparished area for 2023/24.
- (iv) That the capital programme for 2023/24 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 2024/25 to 2026/27 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 2023/24 to 2026/27 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 to I(iii) are approved.
- (x) That the New Homes Bonus earmarked reserve is renamed to an Environment and Infrastructure earmarked reserve
- (xi) That the £2.9m Funding Guarantee grant received in 2023/24 is earmarked for £1m to help support residents in need through the cost of living, £1.6m food waste collection implementation, £0.3m for a new path around Horsham Park in the capital

programme and £50,000 is used in 2023/24 to fund the painting of the street furniture in Horsham town centre in time for the Coronation on 6 May 2023.

## **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, 24 November 2022
- Update on the Council's financial position, Cabinet, 29 September 2022

**Wards affected:** All

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## **Appendices:**

- A:** Revenue Budget 2023-24 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):** Licensing detailed fees and charges
- I(ii):** Sussex Building Control fees and charges
- I(iii):** Development Management 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 2023/24 for capital and revenue expenditure. The budget is reviewed in the context of the projected outturn for 2022/23, future years' projected budgets and reserves.
- 1.2 On 19 December 2022, Government put forward a two-year provisional settlement, affectively stating that it has postponed its reviews of Business Rates and Funding until after the end of the current parliament. Economists are forecasting an imminent recession. All this means that councils remain unsure how the local government sector will be financed beyond 2025. It seems probable though that the direction of travel will continue towards fiscal self-sufficiency and that the amount of money available to district councils will continue to reduce over the medium-term as funding is diverted to fund budget pressures at County and Unitary Councils caused by the demands of social care.
- 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. However, high levels of inflation, including salary inflation, has significantly increased this risk. The Council is able to set a balanced budget in 2023/24 due to the increase in fees and charges it is proposing and higher investment income from interest rate rises. The projected deficit in 2024/25 is sufficiently close to being balanced that we are likely to 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 ongoing inflation and 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 significantly 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 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 provision of non-statutory services.
- 1.5 The 2023/24 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 economic outlook will depend significantly on the health of the wider economy. Rising energy prices, the general cost of living increases, and global events such as the war in Ukraine impacting prices and world supply chains and imminent recession will all affect how households, businesses and asset prices respond over time. 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 but remain very uncertain.

#### **Finance Settlement 2023/24**

- 3.2 The Government announced a two-year provisional finance settlement for 2023/24 on 19 December 2022 that contained a 4.9% core spending power total compared to 2022/23 albeit assuming a maximum increase in Council Tax. Overall, this is more positive than expected despite the real term cash reduction in spending power from inflation levels that are nearly double that.
- 3.3 Government gave the Council £2.9m of Funding Guarantee grant. This offset the £1.3m reduction in New Homes Bonus as well as the ending of £1.5m Lower Tier services grant. It was slightly higher to ensure that the Council's core spending ability increased by at least 3%. This is a temporary funding grant. The recommendation in this report is to earmark this amount to support those in need during the cost of living crisis £1m, the implementation of food waste £1.6m and a new path around Horsham Park in the capital programme £0.3m. These items are discussed in greater detail in their respective sections below.

#### **Revenue Budget 2022/23**

- 3.4 Budget holders have monitored income and expenditure against the 2022/23 budget throughout the year. The operational forecast at Month 9 is a £0.5m deficit largely the result of a £1,925 pay increase to all staff during the year which was significantly higher than the budgeted increase. The return of many customers to parking and the increase in investment income from higher interest rates is mostly covering this, and the rapidly rising costs in fuel, maintenance and housing services. Any overspend will be met by drawing on reserves, albeit the overall funding position remains a small surplus based on the current forecast. There are also still four months to negotiate before the year-end outturn. An overall surplus of £0.6m was set in February 2022.

### **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 2022 provisional settlement for 2023/24 and other known information.

Table 1: MTFs	2022/23	2023/24	2024/25	2025/26	2026/27
	£000	£000	£000	£000	£000
<b>Net expenditure</b>	<b>12,320</b>	<b>13,513</b>	<b>14,025</b>	<b>15,670</b>	<b>16,925</b>
<b>Forecast op deficit (M9)</b>	<b>500</b>	-	-	-	-
<b>Funding: Council Tax</b>	<i>(10,700)</i>	<i>(11,154)</i>	<i>(11,485)</i>	<i>(11,827)</i>	<i>(12,182)</i>
Baseline Business Rates	(2,052)	(2,129)	(2,129)	(1,850)	(1,650)
One-off Govt service grant	(141)	(80)	(80)	-	-
One-off Govt RSG grant	90*	(139)	(139)	-	-
Rural service grant	(11)	(11)	(11)	(11)	(11)
<b>Total Funding</b>	<b>(12,814)</b>	<b>(13,513)</b>	<b>(13,844)</b>	<b>(13,688)</b>	<b>(13,843)</b>
<b>Net (surplus) / deficit</b>	<b>(6)</b>	-	<b>180</b>	<b>1,980</b>	<b>3,080</b>

Note: (income shown in brackets). \* projected spend on Council Tax Support £150 scheme not RSG

4.2 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	6% in 2024/25, falling 1.5% each year over the period
Increase in salaries budget	4.5% increase in 2023/24, reducing by 0.5% each year over the period. Risk rising.
Contribution to pension fund	Minimum level baseline of 18% over the period. The pension fund is currently in surplus.
Local Business Rates	Business Rates review triggering a significant re-base lining in 2025/26. Reducing our funding.
Increase in Council Tax	2.99% in 2023/24 then 2% per year for future years across the period.
Increase in Band D equivalent dwellings	Impact of water neutrality dampening housing numbers. 600 to 700 per year.
New Homes Bonus	Single year payments only, ending in 2023/24. Note: NHB hasn't fed into revenue since 2018/19.
Minimum reserve level	£6m – no change.
Food waste / garden waste	Food waste from Autumn 2025. £1.3m for a 1,2,3 service. Funding, if any, likely to be single year implementation only, but we don't yet know. No cap on prices (Risk £0.5m if £30). Threat of free service removed by Government.

## **Interest rates and inflation**

- 4.3 Soaring energy prices and rising costs in 2022 has seen inflation more than doubling from 5% to 11%. The Medium-Term Financial Strategy budgets inflation feathering down over the period, once the Bank of England base rate increases start to bite. Economists predict that inflation will remain higher than the Bank of England's target rate of 2% for some time to come.
- 4.4 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% of inflation is measured in hundreds of thousands of pounds of additional costs.
- 4.5 The Bank of England base rate was increased to 3.5% in December 2022, having been at 0.25% in December 2021. Whilst not good news for homeowners without fixed mortgages, it significantly increases the Council's income streams from investments. Budgeted income is expected to increase by £1.4m, to £2.4m during 2023/24. Arlingclose Ltd, our financial investment advisors, are currently forecasting that interest rates will top out at around 4.25% and therefore, if inflation continues at rates higher than this, it is in effect, still a real term cash loss.

### **Salaries**

- 4.6 Local Government pay is negotiated nationally, and the Council has no direct influence on the settlement. A small increase was included in the 2022/23 budget as Government had indicated an expectation of limited public sector pay rises. However, the National Joint Council awarded £1,925 per person during 2022/23. This was a double digit increase on the lowest grade, falling to 1.5% for the highest grade. It has cost the Council £1.1m, albeit £0.2m was already included in the budget, and is the biggest factor in the operational deficit in 2022/23. It is also a significant additional budgetary pressure going forward.
- 4.7 Looking ahead, trade unions have already asked the local authority employers for a double-digit percentage increase for all workers in 2023/24 to make up for the losses in real pay over the previous decade. Government is again though indicating pressure for lower than inflation public sector pay increases to help reduce inflation and deflate the spiralling national debt. The 2023/24 budget includes a 4.5% increase, as well as the £0.9m to catch up the 2022/23 salary budget gap, giving an overall increase of approximately £2.2m. Further ahead, the Medium-Term Financial Strategy models salary inflation coming down by 0.5% each year, but this still adds a further £2m to the cost base. There is also a risk that salaries increase at a faster rate than this, especially if inflation is not brought under control.

### **Pension Fund**

- 4.8 The valuation of the Council's pension fund increased to a £36m asset at 31 March 2022. It is worth remembering though 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. Despite the uncertainty, and as it is in surplus, the actuary recommends continuing the employer pension contributions to the fund's minimum level of 18% per annum and revisiting the contributions position again at the next triennial valuation in 2025.

### **Council Tax**

- 4.9 As part of their Core Spending Power funding calculations, Government expects local authorities to increase council tax by the maximum amount. The provisional settlement set the 2023/24 referendum threshold at the higher of 3% or £5 for district councils.
- 4.10 Our council tax is the lowest in West Sussex and is in the bottom quartile of all district councils nationally. A £4.85 increase in Council Tax, equivalent to a 2.99% increase is included in the 2023/24 budget generating income of around £330,000. 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. Therefore it is important to build in tax increases each year into the base budget, and the Medium-Term Financial Strategy does that by modelling a 2% increase each year. Each 1% raises an additional £110,000.

### **Council tax support**

- 4.11 The numbers of working people on council tax support in the district surged by 27% during 2020 and 2021 as a result of the pandemic from around 2,725 to a peak of nearly 3,450. This has an inverse relationship with band D equivalent dwellings in the council tax base, with more people on council tax support effectively reducing the Council tax base. Numbers on council tax support have largely stabilised at around 3,200 approximately 20% higher than pre-Covid-19. The forecast for 2023/24 predicts it staying at that level, but a deep recession could see those numbers start to rise once more, putting further pressure on the budgeted income.
- 4.12 Shortly after the provisional settlement, Government also announced a £100m scheme of additional funding for local authorities to support the most vulnerable households in England during 2023/24. This funding will allow councils to deliver additional support to households already receiving council tax support. The Council's share is £145,531.
- 4.13 The Government expects local authorities to use the majority of their funding allocations to reduce bills for current working age and pension age Local Council Tax Support (LCTS) claimants by up to £25. Where a taxpayer's liability for 2023-24 is, following the application of council tax support, less than £25, then their liability would be reduced to nil. Where a taxpayer's liability for 2023-24 is nil, no reduction to the council tax bill will be available and those bills should not be credited. Councils can use their remaining allocation as they see fit to support vulnerable households with council tax bills.
- 4.14 During 2022/23, the Council, together with West Sussex County Council, funded a scheme to reduce council tax bills by up to £150 for working age claimants on Council Tax Support. The Government's scheme is less generous than this. WSCC have not indicated a desire to continue with the £150 scheme in 2023/24, as they are under a greater financial pressure to balance their budgets.
- 4.15 The Council is proposing to continue to help support working people on Council Tax Support to at least the same degree as last year. Whilst the case load at 1 April 2023 cannot be exactly known now, an estimate based on the current case load would suggest that undertaking another £150 scheme on its own might cost the Council between £0.4m and £0.5m. The Council proposes to use the funding guarantee grant, of which £1m is being earmarked for support for residents who are struggling under the cost of living. This would leave approximately the same amount again to apply to other residents who might not qualify for Council Tax Support, but might also be struggling financially. Key services such as Revenues and Benefits, Housing, and Communities are already working up plans to ensure that the money is spent



effectively and efficiently across a number of different areas that helps as many residents as possible to alleviate either energy poverty or the difficulties that people have to pay bills and keep their heads above water in these difficult economic times.

### **Dwellings**

- 4.16 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. There is a significant risk from the impact of a water neutrality issue, dampening housing numbers over the medium term.
- 4.17 Consequently, rather than the 1,000 new dwellings each year that has regularly happened in the past, only 780 were added to the band D equivalent council tax base in 2023/24, and the medium term has that number dropping towards 600 per year. Should water neutrality mitigation not be easily 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. Added to this, the housing industry is highly sensitive to economic factors, especially a recession.

### **The future of Business Rates**

- 4.18 The Council currently retains around 5% or £2.1m 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.
- 4.19 The district's economic growth from a lack of new businesses premises has been 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). Despite this, the Rateable Value list is currently £1.5m higher than when it was introduced at £114m on 1 April 2017.
- 4.20 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 £1.6m for Business Rate appeals at 31 March 2022. Whilst this has fallen by £0.4m 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 away completely in the near future. Many businesses are also still seeking revaluations due to losses caused by the Covid-19 recession.
- 4.21 The Councils of West Sussex County, Adur, Arun, Mid Sussex and Horsham are in the business rates pool in 2022/23 and propose to continue within this pool in 2023/24. The county will retain and benefit from any growth in Business Rates above the baseline.

4.22 Many commentators are critical of the Business Rates system altogether, although no replacement scheme has yet been put forward. Based on Government's announcements during 2022 and a two year provisional settlement, the Council expects that any changes to Business Rates will involve a re-baselining at a much higher level from 2025/26 onwards.

#### **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. The Provisional Settlement in December 2022 indicated that this will not be tackled until at least 2025/26.

4.24 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. The risk is though that Government redistributes more radically, and we lose some of our Council Tax and / or locally raised fees such as parking.

4.25 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 2025. 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 £1.6m by 2026/27 rather than the current £2.1m, as the damping effect from the Fair Funding Review wears off. However the risk is that it could go much more quickly than that. 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.

4.26 Horsham District Council also carries a risk that West Sussex County Council (WSCC) 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.

#### **New Homes Bonus**

4.27 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.

4.28 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. The provisional settlement in December 2022 provided an unexpected single-year payment in 2023/24. We no longer receive any legacy payments. This phasing out denotes Government's intention to replace New Homes Bonus. It has survived despite the severe pruning in the last few years and it may well limp on until 2025/26 at the point the Business Rates and Fair Funding are reviewed, but we are working on the assumption that 2023/24 will be the last payment.

- 4.29 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. Past and proposed payments under New Homes Bonus are shown in **Appendix G**. The New Home Bonus reserve stood at £12.6m at 31 March 2022.

### **Food waste collection**

- 4.30 Government's resources and waste strategy currently proposes that all local authorities should be collecting food waste weekly by 2024/25. We are currently working with other West Sussex councils to develop a strategy for collecting food waste. One hundred households in our district have already taken part in a collections trial that included separate weekly food waste and Absorbent Hygiene Product collections. The households included family households, single-occupancy homes and flats. This will help produce some options to consider when implementing food waste collections.
- 4.31 The modelling work undertaken with a consultant indicates an approximate cost of £1.3m 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.
- 4.32 Government has not said whether or how much it will contribute towards funding 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. 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. We are also liaising with West Sussex County Council who have previously indicated that some one-year recycling credits may be available to districts who adopt the 1-2-3 collection early.
- 4.33 The Medium-Term Financial Strategy includes the projected costs with a start date of Autumn 2025. This spreads the impact on revenue over two financial years, with half in 2025/26 and half in 2026/27. If Government announces a more rapid timetable, then this will be dragged forward a year, but financially offset by any government funding and / or earlier use of the newly created £1.6m food waste earmarked reserve.
- 4.34 Our assumptions on the future of garden waste charges remain unchanged. The risk of a price-cap of £30 has receded as Government have not mentioned it since the consultation in May 2021. This removes a potential £0.5m loss of income in the future, but there is a risk that Government may suddenly implement this anyway. Thankfully in December 2022, Government officials answered a parliamentary question by saying that they would not force councils to collect garden waste collection for free, which would have cost the Council over £2m for the loss of income and the additional vehicles and crews to collect garden waste from every household.

## **The Environment, reducing Carbon emissions and climate change**

- 4.35 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 was committed to boost the work needed to reduce carbon emissions and improve the environment in the district.
- 4.36 This report now recommends that the New Homes Bonus reserve is renamed to an Environment and Infrastructure reserve. Previously, the reserve was set aside for appropriate investments to support future service delivery and / or secure the delivery of infrastructure to serve the needs of the district's residents. This will still be the case, with additional emphasis on the environment as well. 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. For example, some of our largest buildings at the Capitol and Leisure Centres require refurbishment, and have a heavy carbon footprint which would be undertaken at the same time. These works far exceed the money in the Reserve and any later in the period will either have to be funded from other general or capital reserves or from borrowing. In addition, no impact has been factored in to revenue yet, for any closure periods.
- 4.37 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, the cost of both the key infrastructure and environmental work is estimated at £41m. The detailed split won't be known until more detailed work is done on each project, but on a general rule of thumb, using an approximation of one third for the environmental work and two thirds for the infrastructure is our best guess now, based on the works already undertaken, albeit on a much smaller project scale. We have estimated increase in revenue cost of £0.1m each year over the decade is included for this cost of capital.

## **5 Draft Revenue Budget for 2023/24**

- 5.1 The 2023/24 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 £13.5m. The detail of the revenue budget is shown in **Appendix A**. This is £1.2m higher than 2022/23 after in year adjustments to the original budget that was set. A summary of the main items of growth and savings in the 2023/24 budget are shown in the same appendix.
- 5.3 The most significant items of growth include £2.2m salary increases from the £1,925 budget catch up in 2022/23 and the 4.5% estimate increase in 2023/24. Higher fuel and utilities will cost an additional £0.6m. Our aging buildings and infrastructure require more maintenance at a higher price adding £0.6m. The Revenues and Benefits contract will cost £0.4m more, due to caseload increases and the partnership

costs being spread over only two authorities not three. We are smoothing the increase in costs using £0.2m from the earmarked reserve.

- 5.4 Netting this down, £1.4m investment income from higher interest rates, £0.7m of parking income, and £0.4m of other income through a general increase of higher fees and charges has helped keep the lid loosely on inflation, at least for now.
- 5.5 King Charles III has announced his coronation date in May 2023, and the Council is including £50,000 in the 2023/24 budget to mark the occasion, a similar additional expenditure to the amounts spent on the Platinum Jubilee in 2022. Furthermore, £50,000 of the £2.9m funding guarantee grant will also be used in 2023/24 to repaint bollards, bins, seats, light columns, poles, railings, and bus shelters in the Carfax and West Street in Horsham Town centre. The street infrastructure needs maintaining and would have been programmed shortly anyway, but the Council is bringing forward and planning to commence this work in early April 2023 so that it is completed before the Coronation.
- 5.6 In addition, £0.01m has been included in the revenue budget to investigate and work up a detailed project for a new path around Horsham park. As this is likely to require a lot of consultation the actual works have been programmed in the capital project in 2024/25.
- 5.7 Other notable fees and charges increases are set out in **Appendix I** and the detailed lists of fees and charges for Licensing in **Appendix I(i)**, Sussex Building Control in **Appendix I(ii)** and Development Management in **Appendix I(iii)**.
- 5.8 The budget also includes £277,000 of grants available to the voluntary groups, the largest being £94,000 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 £336,920 are included in **Appendix C**. The proposed the Special Charge for 2023/24 is set at £27.53 and is sufficient to fund the proposed Special Expenses. An early draft of the increase in the special charge was shared with the Neighbourhood Councils in December 2022.

## 7 Council Tax for 2023/24

2023/24		2022/23
£000		£000
13,513	Net expenditure (*)	12,188
-	Contribution to / (from) general reserves	596
13,513		12,784
(11)	Rural grant	(11)
(139)	Revenue Support grant	
(80)	<u>Less</u> service grant / Council tax support grant	(141)
-	Add payment for CTS £150 scheme	120
(824)	New homes bonus	(2,097)

824	<u>Less</u> contribution to new homes bonus reserve	2,097
(2,895)	Funding Guarantee (*) / Lower tier grant	(1,518)
2,895	<u>Less</u> contribution to earmarked reserve	1,518
(2,129)	Business Rates retention scheme baseline	(2,052)
<b>11,154</b>	Expenditure to be financed from District Council Tax	<b>10,700</b>
(337)	<u>Less</u> funding by Special Charge taxpayers	(323)
10,816	Expenditure to be funded from District Council Tax	10,377
64,792.5	Estimated band D equivalent properties	64,021.5
£166.94	Council Tax at band D	£162.09
£3.21	Cost per week at band D	£3.12

Table 3 – Council Tax for 2023/24. Minor rounding errors may apply. (\*) note £50k of Funding Guarantee grant awarded taken into net revenue expenditure to fund painting of Horsham Town centre street furniture in revenue budget.

## 8 Capital Budget

- 8.1 An £8.5m capital programme is proposed in 2023/24 which includes completion of approved schemes from preceding years based on current M8 forecast, 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 works that will help the environment, reducing the emissions of carbon by using LED lights in car parks and other energy efficiency improvements. £1.37m will be spent on electric vehicles where practicable, or the refurbishment of existing vehicles where it isn't. A further £0.45m is also programmed to be invested in three rural car parks.
- 8.2 Two major projects will commence in earnest on the £2.9m Highwood Community Centre and £2.5m on public realm works in the Bishopric and Carfax areas of Horsham. The whole spend on these projects, as well as the £0.3m on a new path in Horsham Park are approved now and an indicative allocation has been scheduled across 2023/24 and 2024/25. At the commencement of the 2023/24 financial year, the scheduling for these schemes in 2023/24 will be refined as the preparatory work on these schemes is being undertaken now. The aim of this is to set as accurate and realistic capital budget programme as we can, bearing in mind we have significantly underspent optimistic programmes in the past yet we have to have the capital spend approval in place before we can commence the work. The revised programme will be monitored by Overview and Scrutiny Committee at the end of Quarter 1.
- 8.3 The full draft capital programme for 2023/24 is in **Appendix D**. The new programme for 2023/24 is for approval by full Council. Aside from the two major projects identified in the plan, 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.
- 8.4 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**

- 8.5 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**

- 8.6 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.
- 8.7 The Capital Strategy and the associated treasury and non-treasury investment strategies were considered by the Audit Committee on 7 December 2022. 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.
- 8.8 The final capital programme for 2023/24 has changed slightly compared with the version tabled at the Audit Committee on 7 December 2022 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.
- 8.9 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 2022/23 and 2023/24 and introduces new indicators for 2024/25.
- 8.10 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 4.35 to 4.37), 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 reduction in 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. Up to £15m of Section 106 money is available. Two examples below give an indication of what could be achieved. These are in addition to the schemes currently proposed at Dukes Square and London Road.
- 9.4 After a diligent and thorough investigation, the Royal British Legion have informed us that they have decided not to go ahead with their business case to take over at the Drill Hall. They have stated that they would find it difficult to make a viable community proposition of these premises. The Council therefore has a decision to make. It can continue to run this at a £0.05m loss each year and spend over £1m on refurbishment and improvements to decarbonise the current building. Alternatively, other options may be considered, and the one most likely to have the best return would be to build a number of units of affordable homes on the site. Depending on the design and number of affordable homes, it could generate an income to Horsham Homes (Holdings) Ltd.
- 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 District 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 The Council agreed in October 2012 on a minimum level of general reserves of £6m. From 2025/26 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. The risk of a severe economic recession would heighten the concern for the future financial health of the Council. Except for funding transformation, the Council's aim is not to use general reserves for unexpected revenue spend in this period.
- 10.2 There is a cost in implementing transformation, for which £0.3m each year is envisaged in 2023/24 through to 2026/27, largely on the new system for Planning and Regulatory Services. 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**.



10.3 The budget gaps over the Medium-Term Financial Strategy amount to £3.1m. The general fund is anticipated to stand at around £20m at 31 March 2023, 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 more than a £3m gap in 2027/28 to fill if no 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. Some of the general reserves may also be 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:

- Costs from utilities, inflation and salary inflation remain high rather than come down
- income, especially parking income and from leisure centres, reduces as customers don't spend as much in a recession
- 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
- 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
- The impact of Ukrainian refugees on the district increases and Government funding does not match the cost
- 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 22 February 2023 will set the Council Tax for 2023/24.

## **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 Parking Policy Development and Advisory Group at its meeting on 16 January 2023.
- 13.2 The proposed budget and Medium-Term Financial Strategy will be considered at the Overview & Scrutiny Committee meeting on 23 January 2023. The Committee's views will be orally reported to Cabinet at their meeting.
- 13.3 Throughout 2022, financial updates and updated Medium-Term Financial Plans 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 2023/24 budget setting process. The Leader, Deputy and Cabinet Members were also briefed on the proposed 2023/24 budgets in January 2023.
- 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 Putting the Council tax up by £5 was considered, but was rejected to try to keep the increase to below 3%.
- 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 high level of inflation on expenditure and salaries has increased the net revenue costs of the Council by £1.2m. Overall funding from Government increased by half the level of inflation, meaning a real cash reduction in funding, even when including the Government's assumption that local government will put up Council tax to the maximum threshold amount. Not putting up Council tax by the full amount increases the difficulty in balancing the budget in future years whilst Government imposed council tax referendum thresholds are in place, especially as the compound gain is lost.
- 15.2 No changes are planned to workforce numbers as the Council strives to maintain the high level of non-statutory services it provides. Due to a good level of reserves, we do not need to take immediate action until there is more certainty over the medium-term. However, it is highly likely that we will need to review this during 2023/24 as further information emerges. We must therefore be prepared to act, especially with regards to longer-term infrastructure expenditure and de-carbonisation commitments.

## **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. There are no equality implications in regards to this proposed budget but changes needed to balance the budget beyond 2025/26 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 improving the environment 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.