

| | |
|-------------------------|--|
| Board/Committee: | FULL COUNCIL |
| Date of Meeting: | 10 FEBRUARY 2023 |
| Title | MEDIUM TERM FINANCIAL STRATEGY & BUDGET (REVENUE & CAPITAL) 2023/24 |
| Author: | BOROUGH TREASURER |
| Status: | FOR DECISION |

1. PURPOSE OF REPORT

- 1.1 The Council is required to set a "Balanced Budget" and to maintain adequate levels of Reserves. The primary purpose of this report is to set the Council's overall Budget for the forthcoming year 2023/24 (both Revenue & Capital) and the associated level of Council Tax necessary to help fund the Budget.
- 1.2 The report also considers the overall financial position for 2023/24 and the forecasts for future years considering the outlook for both spending and funding and the likely consequences for Council services moving forward. During 2022/23 and continuing into 2023/24, the Council has experienced extra-ordinary inflationary and demand pressures amounting to circa £1.5m that have not been met through additional Government Funding or Council Tax flexibilities; this has required the Council to make substantial savings for the coming financial year.
- 1.3 Inflation peaked in October 2022 at 11.1%, the highest level in over 40 years and is currently tracking at 10.5%. This has had, and continues to have, a substantial impact on the Council's costs. Similarly, the residents of Gosport are impacted through the increased cost of living, which has a further "knock on" effect on the demand for Council Services. Elevated levels of inflation and its potential volatility is the single largest challenge to the Council's Budget for 2023/24.
- 1.4 In that context, it remains prudent to maintain sufficient levels of reserves to secure the overall financial health of the Council in the short and medium term and thereby enable the on-going sustainability of services to the residents of the Borough.
- 1.5 This report is set out in five sections:
- (a) **A Medium Term Financial Strategy** covering the Council's financial aims over the forthcoming three years in the context of the current economic and financial climate and recognising the impact on the Council's costs and demand for Services;
 - (b) **The Budget for 2022/23 (Revised) and for 2023/24**, including recommendations for Council Tax for 2023/24;
 - (c) **Estimated Reserves** over the period 2022/23 to 2026/27;
 - (d) **The Statement of the Section 151 Officer** on the robustness of the Budget in compliance with the requirements of the Local Government Act 2003; and
 - (e) **The Capital Programme 2022/23 to 2025/26** (and associated Prudential Indicators).
- 1.6 In summary, the report outlines the overall current and medium term financial position of the Council's General Fund, recommends a Budget for 2023/24 that maintains the

financial health and resilience of the Council and proposes an associated increase in Council Tax for 2023/24 of 2.99%. The financial position of the Housing Revenue Account (HRA) and recommendations for rent and service charge levels for 2023/24 is subject to a separate report.

- 1.7 To assist the Council in their consideration of the Budget proposals, all Members have been issued with a draft Budget Book for 2023/24 which incorporates all General Fund, Housing Revenue Account and Capital Budgets and provides an analysis by Board, Service and Capital Scheme.

2. RECOMMENDATIONS

It is recommended that the following be approved:

- 2.1 A Revised General Fund Budget for 2022/23 of £11,252,830 as set out in Appendix A;
- 2.2 A General Fund Budget for 2023/24 of £11,741,800 as set out in Appendix A and broken down in Appendix C;
- 2.3 Any variation arising from the final Local Government Finance Settlement be accommodated by a transfer to / from the Revenue Financing Reserve;
- 2.4 That the level of Council Tax be increased by 2.99% for 2023/24;
- 2.5 It be noted that the Borough Treasurer has determined that the Council Tax Base for the financial year 2023/24 will be 27,056.0 [item T in the formula in Section 31 B(1) of the Local Government Finance Act 1992, as amended (the "Act")];
- 2.6 That the following amounts be now calculated by the Council for the financial year 2023/24 in accordance with Section 31 and Sections 34 to 36 of the Local Government Finance Act 1992:

| | | |
|-----|-------------|--|
| (a) | £43,817,600 | Being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) of the Act. |
| (b) | £37,109,060 | Being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) of the Act. |
| (c) | £6,708,540 | Being the amount by which the aggregate at 2.6 (a) above exceeds the aggregate at 2.6(b) above, calculated by the Council in accordance with Section 31A(4) of the Act as its Council Tax requirement for the year. (Item R in the formula in Section 31B(1) of the Act. |
| (d) | £247.95 | Being the amount at 2.6 (c) above (Item R), all divided by Item 2.5 above (Item T), calculated by the Council, in accordance with Section 31B(1) of the Act, as the basic amount of its Council Tax for the year. |

(e) Valuation Bands (Gosport Borough Council)

| A | B | C | D | E | F | G | H |
|----------|----------|----------|----------|----------|----------|----------|----------|
| £ | £ | £ | £ | £ | £ | £ | £ |
| 165.30 | 192.85 | 220.40 | 247.95 | 303.05 | 358.15 | 413.25 | 495.90 |

Being the amounts given by multiplying the amount at 2.6 (d) above by the number which, in the proportion set out in Section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in Valuation Band D, calculated by the Council, in accordance with Section 36(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings in different valuation bands.

- 2.7 That it be noted that for the financial year 2023/24 Hampshire County Council will propose the following amounts for the precept to be issued to the Council in accordance with Section 40 of the Local Government Finance Act 1992, for each of categories of the dwellings shown below:

Valuation Bands (Hampshire County Council)

| A | B | C | D | E | F | G | H |
|----------|----------|----------|----------|----------|----------|----------|----------|
| £ | £ | £ | £ | £ | £ | £ | £ |
| 973.50 | 1,135.75 | 1,298.00 | 1,460.25 | 1,784.75 | 2,109.25 | 2,433.75 | 2,920.50 |

- 2.8 That it be noted that for the financial year 2023/24 the Hampshire Police & Crime Commissioner has proposed the following amounts for the precept to be issued to the Council in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of the dwellings shown below:

Valuation Bands (Hampshire Police & Crime Commissioner)

| A | B | C | D | E | F | G | H |
|----------|----------|----------|----------|----------|----------|----------|----------|
| £ | £ | £ | £ | £ | £ | £ | £ |
| 167.64 | 195.58 | 223.52 | 251.46 | 307.34 | 363.22 | 419.10 | 502.92 |

- 2.9 That it be noted that for the financial year 2023/24, that Hampshire & Isle of Wight Fire and Rescue Authority will be recommended to consider the following amounts for the precept issued to the Council in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of the dwellings shown below:

Valuation Bands (Hampshire & Isle of Wight Fire & Rescue Authority)

| A | B | C | D | E | F | G | H |
|----------|----------|----------|----------|----------|----------|----------|----------|
| £ | £ | £ | £ | £ | £ | £ | £ |
| 53.62 | 62.56 | 71.49 | 80.43 | 98.30 | 116.18 | 134.05 | 160.86 |

- 2.10 That having calculated the aggregate in each case of the amounts at 2.6(e), 2.7, 2.8 and 2.9 above, the Council, in accordance with Sections 31A, 31B and 34 to 36 of the Local Government Finance Act 1992 as amended, hereby sets the following amounts as the amounts of Council Tax for the financial year 2023/24 for each of the categories of dwellings shown on the next page:

Valuation Bands (Total Council Tax)

| A | B | C | D | E | F | G | H |
|----------|----------|----------|----------|----------|----------|----------|----------|
| £ | £ | £ | £ | £ | £ | £ | £ |
| 1,360.06 | 1,586.74 | 1,813.41 | 2,040.09 | 2,493.44 | 2,946.80 | 3,400.15 | 4,080.18 |

- 2.11 The Borough Treasurer be given delegated authority to implement any variation to the overall level of Council Tax arising from the final notification of the Hampshire County Council, Hampshire Police & Crime Commissioner and Hampshire & Isle of Wight Fire and Rescue Authority precepts.
- 2.12 The Council determines in accordance with Section 52ZB of the Local Government Finance Act 1992 that the Council's basic amount of Council Tax for 2023/24, which represents a 2.99% increase, is not excessive in accordance with the principles approved by the Secretary of State under Section 52ZC of the Act.
- 2.13 As the billing authority, the Council has not been notified by a major precepting authority (Hampshire County Council, the Police and Crime Commissioner for Hampshire or the Hampshire & Isle of Wight Fire & Rescue Authority) that its relevant basic amount of Council Tax for 2023/24 is excessive and that the billing authority is not required to hold a referendum in accordance with Section 52ZK of the Local Government Finance Act 1992.
- 2.14 That the Council approves the Savings Strategy for 2024/25 onwards set out in this report, requiring that £0.485m of Budget Savings are made in 2024/25 and that indicative savings of a further £0.485m will be required in both 2025/26 and 2026/27, these indicative savings being subject to an annual review
- 2.15 Members have had regard for the Statement of the Section 151 Officer in accordance with the Local Government Act 2003 as set out in the report.
- 2.16 The Capital Programme 2022/23 to 2025/26 as set out in Appendix D is approved.
- 2.17 That the Prudential Indicators as set out in Appendix E are approved
- 2.18 That the Pay Policy Statement 2023/24 as set out in Appendix F is approved

Members should note that:

- 2.19 The Section 151 Officer has a duty to report to Members on the Robustness of the Estimates and the Adequacy of Reserves (as described in Section 7). Accordingly, any amendments put before the Council for consideration must also include a written Statement by the Section 151 Officer.
- 2.20 In accordance with statute, the Budget Report is required to incorporate a number of specific recommendations. Amendments may require those recommendations to be altered and therefore need to be precisely written in order to have legal effect and be capable of adoption by the Council.
- 2.21 Due to the requirements set out above, it is necessary for any amendment to be discussed in sufficient time to be drafted by the Section 151 Officer so that it includes the Section 151 Officer's Statement alongside precisely worded recommendations that the Council can properly consider.

3. MEDIUM TERM FINANCIAL STRATEGY

Overall Strategy

- 3.1 The Medium Term Financial Strategy (MTFS) is designed to meet the following overall aim:

"In year" expenditure matches "in year" income over the medium term whilst providing sustainable high quality public services, improving the overall prosperity of residents and businesses and ensuring adequate financial resilience"

- 3.2 The Budget for 2023/24 makes proposals for the following:

- i) Savings in excess of £0.575m as required by the Council resolution of February 2022 in order to offset the extraordinary inflationary and demand pressures experienced in 2022/23 and continuing into 2023/24,
- ii) New spending proposals to reflect the Administration's priorities for the Borough
- iii) Inflationary uplifts for all Services
- iv) A Council Tax increase of 2.99%
- v) A withdrawal from the Revenue Financing Reserve of £1.185m to reflect a £0.690m contribution to the Capital Programme and to fund an underlying Budget Deficit of £0.495m

- 3.3 Considering the Revised Budget 2022/23, the proposed Budget for 2023/24 and the Council's Future Years' Forecasts, the Council will have a Forecast 3 Year Budget Deficit to remedy amounting to £1.456m (+/- £0.5m arising from future uncertainty). This compares to a forecast 3 Year Budget Deficit of £1.726m estimated in February 2022.

- 3.4 The financial environment changed rapidly through 2022/23 precipitated by the war in Ukraine, the existence of practical full employment in the economy and the strains on international supply chains due continuing Covid lockdowns. As a consequence, inflation as measured by the Consumer Price Index (CPI) accelerated and peaked in October 2022 at 11.1%, the highest level in over 40 years. Inflation is currently tracking at 10.5%. This has had a consequent impact on the cost of living for residents and therefore demand for Council Services has also risen. The Office for Budget Responsibility are forecasting that CPI will remain high at an average of 5.5% for 2023/24 and then falling to 0% for 2024/25. These inflation and demand driven cost increases outstrip the rates of increase in funding, causing a "structural gap" between spending and funding.

- 3.5 Due to the scale of the inflationary and demand related cost increases at circa. £1.5m, it has been necessary to deliver budget savings for 2023/24 at a level in excess of the £0.575m originally estimated in order for the Council to maintain its trajectory towards a "structurally balanced" Budget (i.e. In Year Spending matching In Year Funding). In addition, the Administration have also found savings to meet their spending priorities which include Amenity Skips, Arts & Cultural activities and a Grants programme to local voluntary and community bodies.

- 3.6 The Council has benefitted from a further 2 year delay to the implementation of Local Government Funding Reform (known as the Fair Funding Review) and a further 2 year

delay to the Business Rates Retention Scheme and the associated "Reset" which is now set to be implemented in 2025/26.

3.7 The combination of all of these factors has led to an overall improvement in the Council's Financial position as follows:

- i) Progress has been made towards the overall Budget Deficit - reducing the previous Forecast Deficit as at 2025/26 from £1.726m to Forecast Deficit of £0.933m as at 2025/26 - an improvement of £0.793m
- ii) The new 3 Year Forecast Deficit (including a further year) to 2026/27 is £1.456m
- iii) Annual savings in order to meet the new 3 Year Forecast Deficit now amount to £0.485m p.a (compared with £0.575m p.a previously albeit that the forecast and therefore saving period is now extended by the new year)

3.8 The primary drivers of the 3 Year Forecast Deficit are:

- i) The existing underlying "Structural Budget Deficit" of £0.495m
- ii) Local Government Funding Reform - amounting to £0.670m
- iii) The structural imbalance between the rate at which costs rise (inflation related) and lower funding rises (mainly Council Tax which is usually capped at a level below inflation)

3.9 However, it is important to note, as last year, there remains significant uncertainty regarding the future forecast which is estimated could vary between +/- £0.5m arising from the following:

- The elevated levels of inflation and their current inherent volatility
- The outcome of the Fair Funding Review
- The outcome of the Business Rate Retention review
- The impact of the "Cost of Living" crisis and in particular, its effect on Council Tax Income and Business Rates Income

Financial Context

Spending

3.10 The cost of providing Council Services has risen substantially over the current year due to the impact of extraordinary inflation and will continue to increase significantly throughout next year. The largest component of the Council's costs is staff costs (including pensions). Other significant elements of the cost base include the contracts for Urbaser and Housing related contracts and these are inflation linked.

3.11 As previously mentioned, Inflation peaked at 11.1% in October 2022, its highest in 40 years and is expected to remain high at 5.5% for 2023/24 (starting the year at 8.9% and ending the year at 2.5%) but falling to 0.0% for 2024/25 and remaining subdued thereafter. As will be evident from the following sections, the inflationary cost increases outstrip the rates at which funding increases, leading to a "structural gap" between spending and funding.

3.12 The substantial financial effect of inflation itself, the driving impact that this has had on the cost of living for residents and the consequent challenges that this presents in terms

of demand for Council services alongside falling collection rates of Council Tax and Business Rates, have been the defining factors shaping the Budget for 2023/24.

Funding

- 3.13 Over the past 12 years, Central Government funding to Councils has reduced by over 40% in real terms. Future funding levels remain uncertain (as previously mentioned). For the Budget and Budget Forecast period, the Council will be exposed to:
- The overhaul of the Local Government Funding system (including Business Rates Retention)
 - The economic impact of inflation which is fuelling a "cost of living crisis" with the potential to harm collection rates in Council Tax and Business Rates (and compounded by legacy outstanding debt from the covid pandemic period that may not be recovered)
- 3.14 Whilst the outcome of the overhaul of the Local Government Funding remains uncertain, the direction of travel is expected to be a transfer of funding away from District Councils towards Upper Tier Authorities.
- 3.15 Council Tax and Business Rates funding is expected to rise but at levels that are suppressed by lower levels of collection than experienced in pre-pandemic times. Whilst Business Rates will rise with inflation, this only represents just over a third of the Council's funding base. In contrast, Council Tax which represents 58% of the Council's funding base is constrained by capping limits which are often set below inflation. This is the case for 2023/24 where the Council Tax increase is limited to 2.99% and inflation peaked at 11.1% in the current year and is forecast to be 5.5% for 2023/24. This has the effect of widening the gap between spending and funding and creating a "structural gap".

Revised Financial Forecast 2024/25 to 2026/27

- 3.16 As is described more fully later in this report, the forecast financial deficit for next financial year and the three financial years beginning 2024/25 amounts to £1.456m and is outlined in the table below:

| Financial Year | 2023/24 £000 | 2024/25 £000 | 2025/26 £000 | 2026/27 £000 |
|--------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Total Forecast Deficit | 1,185 | 632 | 933 | 1,456 |
| Structural (Surplus) / Deficit | 495 | 477 | 768 | 1,456 |

Note:

The Structural Deficit represents the underlying gap between Revenue Expenditure vs Revenue Funding after removing "one-off" items, mainly the Revenue Contribution to the Capital Programme

To achieve financial balance over a 3 year period will require the Council to make savings of £0.485m per annum from 2024/25 onwards. This will enable the Council to achieve "Structural Budget Balance" in 2024/25. If similar levels of savings of £0.485m are made for the following 2 years, there will be no requirement to make withdrawals from the Revenue Financing Reserve from 2024/25 onwards to balance the Revenue Budget.

3.17 Within the Budget Proposals for 2023/24 the Administration are proposing to make savings to meet both the underlying forecast deficit as reported to the Council last year as well as further savings to offset the impact of the extraordinary levels of inflation being experienced. This has enabled the original trajectory of the deficit recovery plan to remain intact. This is highlighted by the following:

| Financial Year | 2023/24 £000 | 2024/25 £000 | 2025/26 £000 | 2026/27 £000 |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| Structural (Surplus) / Deficit - last year 2022/23 | 913 | 1,536 | 1,726 | Beyond Forecast Horizon |
| Structural (Surplus) / Deficit - Revised 2023/24 | 495 | 477 | 768 | 1,456 |
| Improvement | 418 | 1,059 | 958 | N/A |

3.18 The Administration's Budget proposals enable the Council to live within its means, make savings and provide a good degree of resilience.

3.19 Adequate reserves are a necessary requirement of financial resilience enabling any in-year deficits between funding and spending to be "smoothed out" over time as well as enabling investments to be made that will improve the financial sustainability of the Council in the future. Given the widely expected funding reductions to District Councils over the coming years, the volatile nature of inflation and the risks to Council Tax and Business Rates collection levels arising from the "cost of living crisis", the adequacy and targeted use of reserves has never been more important.

3.20 The Revenue Budget and Capital Investment proposals include a wide range of potential actions that can either generate savings or grow income. Looking forward, the Administration's financial strategy will:

- Use the strategic review of all Council property assets to capture the opportunities for income generation, regeneration, efficiencies or disposal
- Enhance income generation through spend to save initiatives and other commercial activities
- Continue to pursue efficiency by undertaking a full review of existing Revenue Budgets, ensuring that both Council performance and value for money are achieved
- Ensure that the organisational design of the Council meets the Council's priorities
- Invest in the Borough for regeneration to stimulate employment and also to increase funding by improving the Business Rate Base and the Council Tax Base for the Council; this will also positively improve prosperity for the Borough generally and reduce the dependency on Council Services.

3.21 As described, the 3 Year Forecast Deficit amounts to £1.456m and it is proposed that this is met through savings evenly spread over the period at £0.485m per annum.

3.22 The 3 Year Forecast Deficit has been prepared on the basis of certain key assumptions on costs, informed by the economic assumptions of the Office for Budget Responsibility and funding assumptions based on consultations and announcements made by Government. The most significant risks to the Forecast Deficit of £1.456m are as follows:

- i) The impact of the Local Government Funding Reform previously described

- ii) The extent to which elevated levels of inflation will persist and the consequent price and demand pressures that result
- iii) Collection rates for Council Tax and Business Rates
- iv) The level of successful business rate appeals arising from the revaluation in 2023/24

The combination of the risks above could lead to a variation in the Forecast of +/- £0.5m

4 REVISED BUDGET 2022/23

- 4.1 The Budget for 2022/23 as set out in Appendix A has been revised downwards from £11,498,820 to £11,252,830. This also reflects 'carry forwards' of unspent budget from the prior year of £402,800.
- 4.2 The key changes between the Original Budget 2022/23 and the proposed Revised Budget 2022/23 are as follows:

Expenditure 2022/23

Board and Service expenditure has been revised downwards by £245,990.

The key increases in spending / reduction in income include:

- Carry Forward of Previous Year's underspending - £403,000
- Pay - £271,000
- Energy - £239,000
- Homelessness - £317,000
- Offset by:
 - Interest and debt on treasury activities - £431,000
 - Staff Vacancies and other staff costs - £571,000
 - Investment Property Income - £161,000
 - Recycling Income - £237,000
 - Recharges to Capital - £139,000

Funding 2022/23

Funding has increased by £87,210.

This increase is due to mainly to the following:

- Receipt of the Council Tax Rebate Energy Support Grant (to fund the costs of administering the scheme)
- Additional Grants from Government to support national Business Rate relief initiatives (but fully offset by reductions in Business Rate Income)
- A New Burdens Grant for administering Council Tax and Business Rate relief schemes (described above)

5. PROPOSED BUDGET 2023/24

Funding – The Provisional Local Government Finance Settlement 2023/24

- 5.1 The Local Government Finance Settlement is the term used to describe the main non-ring-fenced Revenue and Capital grant funding allocations from Government.
- 5.2 In overall terms the provisional Local Government Settlement has reduced the overall grant funding available to the Council by £29,800 in 2023/24 as follows:

| Funding Stream | 2022/23 (Current Year) £m | Estimate 2023/24 £m | Difference £m |
|---------------------------|--|------------------------------------|--------------------------|
| Revenue Support Grant | 0.079 | 0.079 | 0.000 |
| New Homes Bonus | 0.046 | 0.000 | -0.046 |
| Lower Tier Services Grant | 0.115 | 0.000 | -0.115 |
| Services Grant | 0.172 | 0.097 | -0.075 |
| Funding Guarantee | 0.000 | 0.206 | 0.206 |
| | | | |
| Total Funding | 0.412 | 0.382 | -0.030 |

Note:

The Funding Guarantee Grant replaces the Lower Tier Services Grant. This grant is intended to provide a funding floor for all local authorities, so that no local authority would see an increase in Core Spending Power that is lower than 3%

- 5.3 Other features of the Settlement include:
- A 1 year Settlement but with an accompanying "Local Government Finance Policy Statement" that sets out the Government's intentions for the Local Government Finance Settlement for 2024/25
 - Council Tax increase thresholds of:
 - 2.99% or £5 for Shire District Councils
 - 2.99% for Upper Tier and Unitary Councils
 - 2.0% for Adult Social Care (Upper Tier Authorities only)
 - £5 for Fire & Rescue Authorities
 - £15 for Police and Crime Commissioners
- 5.4 It has now been 7 years since the Government first announced that it would consult and implement Local Government Funding Reform. Funding Reform has been further delayed until 2025/26. Funding Reform covers the following:
- The "Fair Funding Review", (to determine a new formula methodology which will set each Local Authority's baseline funding level and creating "winners and losers")
 - The Retained Business Rates system which involves the removal of all existing growth retained to date (amounting to £1.3m) and re-distributing that growth nationally according to relative need (rather than where it was generated).
- 5.5 Core Annual Funding has reduced by £29,800 as described above. All other funding from Central Government is routed through the Business Rate Retention Scheme. This

increases with inflation each year and for 2023/24 amounts to an increase of £0.2m. Direct Government funding is now an increasingly small part of total Council funding, representing just 5.5%.

- 5.6 The final grant settlement should be available by early February, it is not expected to vary significantly from the provisional settlement, and it is recommended that any variation should be accommodated by a transfer to / from the Revenue Financing Reserve.
- 5.7 Whilst the Local Government Finance Settlement is a factor in determining the Council's overall financial position and therefore any necessary savings, other significant factors that will affect the Council's future Savings Requirements include Business Rates income, Council Tax income, inflation, interest rates and any new unfunded burdens passed down from Government. These are described in the paragraphs that follow.

Business Rates - 2023/24 & Future Forecasts

- 5.8 The Retained Business Rates system is extremely complex and subject to a significant degree of inherent risk.
- 5.9 In broad terms, the Council currently retains 19% of all Business Rates received and this is characterised by a complex formula which includes the following:
- i) An initial starting point of 40% retention of all business rates received;
 - ii) Reduced by a fixed amount "tariff" which increases annually by the rate of inflation;
 - iii) Any growth in Business Rates (above a pre-determined baseline) is reduced by a "levy" of 50%;
 - iv) A "safety net" set at 7.5% below a pre-determined baseline below which retained Business Rates will not fall; and
 - v) A General Fund grant reimbursement under Section 31 of the Local Government Act 2003 to compensate local authorities for business rates foregone as a result of the Government's nationally determined additional business rate reliefs (e.g., for small business).
- 5.10 As outlined above, the estimation of Business Rate Receipts is extremely complex, with the potential to be volatile and with many of the factors outside this Council's control. In particular, the Valuation Office Agency will both determine whether a rating appeal is successful, and the level of reduction granted with the Council having no right of challenge.
- 5.11 The "cost of living crisis" could affect the level of business rate income if the economy falls into recession with potential business failures and reduced collection rates.
- 5.12 The coming year will see a Business Rate revaluation which presents a degree of risk to the Council's retained Business Rates. Individual rateable values of Businesses on average have increased by 7.3% nationally. At the national level, the effect of revaluation is intended to be neutral with any increase in Business Rates generated from the revaluation being offset by a reduction in the Business Rate multiplier. At the local level for the Council, retained Business Rates are also similarly adjusted to attain neutrality however, the Council can be affected positively or negatively by the extent to which successful business rate appeals exceed the national average assumed at 3.2%. This presents a risk to the Council's Budget and Budget Forecasts.

5.13 Other variables include the level of mandatory reliefs awarded and future inflation levels. Future forecasts of retained business rates over the next 3 years have been based on the following:

- No real growth in the Business Rate base;
- Uplifts in Business Rates due to increases in the rate of inflation (as estimated by the Office for Budget Responsibility);
- A full Business Rate Reset, meaning that business rate growth since 2013/14 amounting to £1.3m is no longer retained and phased out between 2025/26 and 2027/28; and
- An underlying assumption that the rate of successful appeals will be 7%.

Based on the assumptions described, forecast Business rate income is estimated as follows:

| Financial Year | 2023/24 £000 | 2024/25 £000 | 2025/26 £000 | 2026/27 £000 |
|-----------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Business Rates | 4,149 | 4,249 | 3,249 | 3,217 |

5.14 A Stability and Resilience Reserve was established to help mitigate against the risks outlined above. The risk to future levels of Retained Business Rates from 2025/26 onwards has never been more uncertain.

Council Tax Amount 2023/24

5.15 Council Tax will represent 58% of the Council's total revenue funding. As Government funding has reduced this has become an increasingly important and dependent funding source for the Council.

5.16 Council Tax for the average Council Tax payer in Gosport (Band B) currently amounts to £1,511.61 of which £187.25 (12.2%) is the Gosport Borough Council element. In response to inflationary pressures faced by Councils, the Provisional Local Government Finance Settlement for 2023/24 confirmed a Council Tax increase limit (i.e. referendum threshold) of either 2.99% or £5 for all shire District Councils, whichever is the higher. For Gosport Borough Council, a 2.99% increase is the higher limit.

5.17 The proposals for the 2023/24 Budget are based on increasing the Council Tax by 2.99% representing an increase of 11 pence per week for the average Band B taxpayer in Gosport. At present circa. 50% of all residents pay the full amount of Council Tax with 50% being entitled to some form of discount, exemption or Local Council Tax Support.

Council Tax Base 2023/24

5.18 The Council Tax Base (i.e. the number of Band D equivalent properties paying the full Council Tax) has been determined as 27,056.0 for 2023/24, having taken account of all estimated changes in properties, discounts and exemptions for the coming year and the impact of Covid pandemic and the "cost of living crisis" on both the Collection Rate and the Local Council Tax Support caseload. This results in a reduction in the number of Band D equivalent properties of 98.2.

Collection Fund Balance (Council Tax Element) 2022/23

5.19 The Collection Fund is the account into which are paid amounts collected in respect of Council Tax and out of which are paid the Council Tax precepts to:

- Hampshire County Council (72% share)
- Gosport Borough Council (12% share)
- Hampshire Police & Crime Commissioner (12% share)
- Hampshire & Isle of Wight Fire and Rescue Authority (4% share)

In the event that actual Council Tax income receivable is different from the estimated income (informed by the calculation of the Council Tax Base) upon which the precepts are based, then a surplus or deficit will arise.

For 2022/23, it is estimated that the Collection Fund will be in deficit by £1,888,370*, the Gosport Borough Council element of that amounts to £234,282.

*Includes a deficit of £80,455 which under regulation was allowed to be spread over 3 years and is shared on a different basis

Total Council Tax Income 2023/24

5.20 A Council Tax increase of 2.99% per annum will raise, in total, an additional £195,500 in 2023/24. However, a deterioration in the Taxbase of 98.2 Band D equivalent properties reduced Council Tax income by £24,300. This results in a total increase in Council Tax of £171,200. Taken together with the movement on the Collection Fund, the overall Council Tax income has fallen by £112,500.

5.21 Considering the Council Tax increase, Council Tax Base and position on the Collection Fund, the total Council Tax income for 2023/24 is estimated at £6,474,260.

Total Council Tax Income 2023/24 & Future Years

5.22 As Government funding reduces and costs rise with inflation, rises in Council Tax income are fundamental to the Council's future financial position and therefore the future sustainability of Council Services. The Council's future forecasts for the period 2024/25 onwards have also been estimated on the basis of a 2.99% increase per annum.

5.23 The Council's Medium Term Financial Forecast assumes that Council Tax Income will rise to £7,397,200 by 2026/27 and is based on the following assumptions:

- Annual increases in the amount of Council Tax of 2.99% per annum from 2023/24 onwards
- Growth in the Council Tax Base of circa 0.9% over the period

| Financial Year | 2023/24 £000 | 2024/25 £000 | 2025/26 £000 | 2026/27 £000 |
|-----------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Council Tax | 6,474 | 6,929 | 7,157 | 7,397 |

Total Funding 2023/24 (Council Tax, Business Rates & Government Grants)

In taking account of the factors detailed above; total funding for the Council in 2023/24 is estimated at £11,242,140.

Revenue Budget 2023/24

- 5.24 The overall aim of the Council's Medium Term Financial Strategy is to match "In Year" spending with "In Year" income and funding over the medium term with the use of the Revenue Financing Reserve to "smooth out" the necessary savings required to meet the forecast budget deficit over the next 3 years.
- 5.25 The proposed Budget for 2023/24 has been prepared to accommodate the following:
- Inflationary costs and other cost pressures in general
 - A Revenue Contribution to Capital of £0.690m (funded from the Revenue Financing Reserve) in order to meet the costs associated with the Capital Investment proposals set out later in this report as well as the re-phasing of the previous year's Capital Programme
 - A Covid Reserve of £417,200 to guard against the on-going financial effects of Covid 19 (e.g. Additional costs generally, losses of income from sales, fees and charges, potential losses of Council Tax and Business Rates funding)
 - Transfers from Reserves to where grant income has been received in advance for Council Tax losses but where the financial impact of those losses impact on the General Fund in later years
 - Transfers of sums to Reserves to adjust for timing differences between the receipt of grants for Business Rate Reliefs and the financial cost of those reliefs which impact on the General Fund the following year
 - An increase in Council Tax of 2.99%
- 5.26 The key changes between the Original Budget 2022/23 and the proposed Budget 2023/24 are as follows:

Expenditure 2023/24

- 5.27 Board and Service expenditure is estimated at £11,741,800, an increase of £242,980 from the 2022/23 Original Budget.
- 5.28 Spending increases have been largely caused by the extraordinary levels of inflation experienced in the current year and which flow into 2023/24. In parallel, inflation has had a driving impact on the cost of living for residents and a consequent increase in demand for Council services, resulting in cost increases of £1.5m as described below:
- Pay - £804,000
 - Energy - £298,000
 - Homelessness - £352,000
- 5.29 The Administration have made budget provision to accommodate new priority services to residents as well as providing additional funding for Arts and Cultural events in accordance with the Council's recently approved Cultural Strategy. The total cost of these new community initiatives amounts to £213,000 and this has been more than offset by the savings proposals for the 2023/24 Budget (described later in this report).

The increase in the proposed Budget 2023/24 to accommodate these initiatives is as follows:

- Clean Up Initiatives (including Community Skips Scheme) - £124,000
- Arts & Cultural Events (Cultural Strategy) - £40,000
- Criterion (Premises costs, Exhibitions & Events) - £49,000

It is important to note that the cost of "Clean Up" initiatives is provisional at this stage and is expected to be at the upper end of expectations. For example, the estimates contain provisions for potential regulatory costs of £27,000 which may not be required and some costs may be capable of being absorbed by utilising the Council's own staff and could amount to £10,000. Tender prices are also unknown at this stage and have been estimated at prudent levels.

In addition to the community initiatives set out above, the Administration have re-directed funding to create a Grants Fund for the Voluntary and Community Sector which amounts to £52,700, which when supplemented by Neighbourhood CIL contributions is expected to amount to circa. £100,000 for 2023/24.

Savings 2023/24

5.30 The Administration's Budget proposals for 2023/24 include total savings amounting to £1.5m and are in response to the following:

- i) The requirement to meet savings of £575,000 in 2023/24 as approved by the Council in February 2022 in order to address the 3 Year Budget Deficit
- ii) The need to maintain the trajectory of the Medium Term Financial Strategy in achieving a "structurally balanced" Budget over the 3 year period; by making additional savings to accommodate the unplanned extraordinary costs associated with inflation and demand
- iii) To fund the costs of the Administration's community initiatives (at £213,000 as previously described)

5.31 The majority of the savings included within the Budget proposals for 2023/24 arise from cost saving and income generation measures implemented by the Administration and amount to £1.2m with other savings of £0.2m relating mainly to recycling.

5.32 Key savings contained with the proposed Budget for 2023/24 are as follows:

- Staff savings - mainly from deleting vacant posts - £314,000
- Additional re-charges to the Capital Programme and Housing Revenue Account - £242,000
- Recycling Income - £196,000
- Additional Parking Income - £303,000
- CCTV - £72,000
- Income from Investment Properties - £62,000
- Tourist Information Centre - £59,000

5.33 A summary of the proposed Budget 2023/24 is set out in Appendix A and the Budgets for each of the Boards are included at Appendix C.

Revenue Forecasts to 2026/27

- 5.34 A new medium term forecast has now been completed to cover the period 2024/25 to 2026/27 (i.e. after including the savings and cost pressures incorporated into the 2023/24 Budget and incorporating the further financial year of 2026/27). This has previously been set out in summary in Section 3 when describing the financial context to the Medium Term Financial Strategy.
- 5.35 In arriving at the new Forecast, all of the financial assumptions have been comprehensively revised and a savings requirement for the new period has been determined. It is now estimated that the savings required for the new 3 year period 2024/25 to 2026/27 will now be £1.456m.
- 5.36 To manage the necessary savings, arising from the forecast deficit of £1.456m, over a 3 year period in an even and managed way to avoid de-stabilising service provision, £0.485m per annum will be required each year commencing in 2024/25. The most significant assumptions in the medium term future forecasts are described below.
- 5.37 The key drivers behind the 3 year deficit are:
- The current structural deficit of £0.495m contained in the proposed 2023/24 Revenue Budget and funded from the Revenue Financing Reserve
 - The forecast funding reductions of £1.0m arising from the introduction of the forthcoming Fair Funding Review and the Business Rate Reset
 - General inflationary cost increases that exceed funding increases
- 5.38 The most significant assumptions in the medium term forecasts are:

Spending

- An assumption of providing "steady state" services across the Council
- Inflation on pay and prices of £2.2m
- Increased Interest costs of £0.7m
- Increased income from fees and charges - £0.2m

Funding

- An overall reduction in funding arising from the implementation of the Fair Funding Review and Business Rate Retention scheme of £0.7m
- A residual underlying zero growth assumption for changes in Business Rates from 2024/25 onwards, to reflect the uncertainty relating to the new 2023 Rating List and the extent to which successful appeals will be made and other mandatory reliefs awarded
- Indexation uplifts on retained Business Rates of 5.50% for 2024/25, 0.0% for 2025/26 and minus 1.0% for 2026/27 in accordance with forecasts from the Office for Budget Responsibility
- Continuation of the 3% Funding Guarantee introduced in 2023/24
- A Council Tax increase of 2.99% per annum for 2024/25 to 2026/27, accompanied by an improving taxbase, in total yielding £0.7m over the period.

5.39 It is important to recognise that this forecast extends beyond the Fair Funding Review and the revised Business Rate Retention Scheme due to be implemented in 2025/26. It also moves 2 years beyond the current Government Spending Review period and therefore broad assumptions have been made at the macroeconomic level pending any indicative information at the local level. There also remain uncertainties regarding the volatility of inflation more generally. Consequently, there remains a significant level of uncertainty surrounding the £1.456m forecast deficit which could realistically vary between +/- £0.5m.

Savings Strategy 2024/25 to 2026/27

5.40 The estimated 3 Year Savings Requirement of £1.456m is recommended to be phased evenly over the next 3 years (see table below), drawing on reserves where necessary in order to "smooth" the impact on services. This provides for a managed reduction in spending, giving good opportunity for alternative income / efficiency initiatives to take effect and balanced with a financially responsible approach to achieving the necessary savings over the period.

| Financial Year £ | Revised Budget Deficit £ | In Year Target £ | Revised Cumulative Saving £ |
|--------------------------------|--|--------------------------------|---|
| 2024/25 | 0.632m | 0.485m | 0.485m |
| 2025/26 | 0.933m | 0.485m | 0.970m |
| 2026/27 | 1.456m | 0.486m | 1.456m |

5.41 Based on a Savings Strategy described above at £0.485m per annum, the Council will achieve "structural budget" balance in 2024/25 since £0.155m of the total deficit of £0.632m relates to a "one-off" contribution to the Capital Programme, meaning that the underlying "structural deficit" is £0.477m. If savings of £0.485m are made, then the underlying "structural deficit" will have been eliminated. Savings from 2025/26 will then be required to meet the annual gap between spending and funding that occurs as a consequence of funding not keeping pace with inflation generally.

Note: There is a "Structural Deficit" in 2024/25 of £0.477m with a "one -off" Contribution to the Capital Programme of £1.55m which equals the total deficit of £0.632m in the table at 5.40 above

5.42 To provide assurance that the savings strategy described above can remain intact and have protection from the uncertainties of the Forecast 3 Year Deficit which could reasonably vary by +/- £0.5m, it is imperative that the Council retains the level of Reserves set out in this report. The flexibility afforded by Reserves at these levels will ensure that in the event that the 3 year forecast improves, the Council has not prematurely made a level of savings and service reductions that could have been avoided and it allows more time for savings initiatives to take effect. Conversely, if the forecast deteriorates, the Council will have made good progress towards the necessary savings and have sufficient Reserves to avoid significant "spikes" in Savings Requirements in any single year in the future.

6. RESERVES

6.1 In general, maintaining adequate reserves is a measure of responsible financial management and strong financial health. They are crucial for financial resilience in order to be able to respond to "financial shocks" without having to revert to the alternative of quick and severe reductions in services. Equally, they can be a vehicle

to take advantage of any opportunities that may arise which are in the financial interests of the Council (for example, matched funding opportunities which could lever in additional funding for Gosport). Importantly, as described above, they also enable differences between expenditure and funding levels to be “smoothed out” and managed in a planned way over time.

6.2 The Council's forecast Reserve position is set out on below:

| Reserve | Amount at 31/03/2023 £m | Projected 31/03/2024 £m |
|--------------------------------|------------------------------------|------------------------------------|
| General Fund Balance | 1,000 | 1,000 |
| Revenue Financing Reserve | 4,674 | 3,490 |
| Stability & Resilience Reserve | 1,555 | 1,677 |

General Fund Working Balance

6.3 The General Fund Working Balance is the minimum level of balances, on a risk basis, that the Council should not breach. This has been set at a level that is consistent with the Council's level of potential financial risks and enables the Council to meet unexpected demands on its resources such as increased inflation or demand for statutory services, therefore providing a cushion against uneven cash flows.

Revenue Financing Reserve

6.4 The Revenue Financing Reserve (RFR) is the Council's primary vehicle for driving through savings initiatives of both a Revenue and Capital nature and remains a critical part of the Council's overall Medium Term Financial Strategy. It is also used to underwrite any uninsured risks and meet any necessary redundancy costs. Importantly, the RFR is also used to ensure that fluctuations between the Council's Budgeted Spending and Budgeted Funding can be "smoothed out" over time as previously described.

6.5 The RFR has an important relationship with the overall Savings Strategy since it funds any gap between Budgeted Spending and Budgeted Funding. On the basis of the Savings Strategy described above to deliver £0.485m of Budget Savings each year, the sums set out in the table on the next page will be required to be drawn from the RFR.

| Budget Deficit & Savings Strategy | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|--|----------------|----------------|----------------|----------------|----------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Budget Deficit | 1,068 | 1,185 | 632 | 933 | 1,456 |
| Funded by: | | | | | |
| <u>Budget Savings Strategy</u> | | | | | |
| Budget Savings 2023/24 | | | 485 | 485 | 485 |
| Budget Savings 2024/25 | | | | 485 | 485 |
| Budget Savings 2024/26 | | | | | 486 |
| <u>Sub - Total</u> | <u>0</u> | <u>0</u> | <u>485</u> | <u>970</u> | <u>1,457</u> |
| Revenue Financing Reserve | 1,068 | 1,185 | 147 | -37 | -1 |
| Total Funding | 1,068 | 1,185 | 632 | 933 | 1,456 |

6.6 As illustrated above, the RFR will require a withdrawal of £1.068m to support the Revised Budget for 2022/23 and a sum of £1.185m to support the proposed Budget for 2023/24.

The sum of £1.185m for 2023/24, is required to fund the following:

- i) £0.690m for the Capital Programme
- ii) £0.495m to fund the structural deficit between spending and funding

6.7 Should the required savings be made in accordance with the proposed Saving Strategy of £0.485m per annum, there will be a residual requirement to withdraw a further £0.109m over the period 2024/25 to 2026/27.

6.8 The Forecast for the RFR therefore is set out below, leaving a Forecast Balance on the reserve of £3.379m at the end of 2026/27. This is an improvement of £1.059m against last year's forecast of £2.320m as at the end of 2025/26.

| Revenue Financing Reserve | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|---|----------------|----------------|----------------|----------------|----------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Opening Balance | 5,740 | 4,672 | 3,487 | 3,340 | 3,378 |
| Budget (Surplus) / Deficit - see above | (1,068) | (1,185) | (147) | 37 | 1 |
| Closing Balance | 4,672 | 3,487 | 3,340 | 3,378 | 3,379 |

- 6.9 In the event that the Savings Strategy described is not implemented, the RFR would be close to exhausted during 2026/27.

Stability & Resilience Reserve

- 6.10 The Stability and Resilience Reserve (SRR) was established in 2014/15 to help safeguard against the significant increase in risk and volatility arising from the introduction of the Business Rate Retention Scheme and the Council Tax Support Scheme together with the uncertainties in future levels of Central Government support. The withdrawal in the current year is expected to be £1.5m. The proposed Budget for 2023/24 includes a contribution of £0.1m, which is expected to leave a balance of £1.7m as at the end of March 2024. These withdrawals in large part simply relate to the drawing down of Government Grants previously received to compensate the Council for lost Business Rates through its Business Rate Relief initiatives to support the national economy.
- 6.11 As described, the majority of Council funding is exposed to some risk, but the Business Rate Retention Scheme and the Government Funding review are subject to the most potential volatility. It is vital that the SRR is maintained at healthy levels to guard against the real and significant funding risks facing the Council over the medium term.
- 6.12 The SRR cannot be seen as a generally available reserve if it is to be used for its intended purpose.
- 6.13 The Council's MTFS including continued zero based budget reviews, partnership working, income generation and a commercialisation programme, has been established to drive through the necessary savings required whilst maintaining reserves at levels to secure the Council's financial resilience.
- 6.14 In view of the need to continue to make savings in a smooth and managed way over the next 3 year period and the particular funding uncertainties, it is both financially responsible and prudent to maintain these reserves at the proposed levels.

7 Statement of the Section 151 Officer in Accordance with the Local Government Act 2003

- 7.1 Section 25 of the Local Government Act 2003 ("the Act") requires the Chief Financial Officer to report to the Council on the following matters:
- The robustness of the estimates included in the budget made for the purposes of setting the Council Tax; and
 - The adequacy of proposed financial reserves.
- 7.2 Section 25 of the Act concentrates on uncertainties within the budget year rather than the greater uncertainties in future years. In the current economic climate, there continue to be uncertainties in both the current and future years i.e. beyond 2023/24. Particular uncertainties exist regarding:
- The volatility and elevated levels of inflation
 - The increased levels of demand for Council Services (e.g. Homelessness) being driven by the cost of living crisis
 - The continuing impact of the Covid pandemic, its impact on costs, Council Tax and Business Rate income levels

- The general uncertainty surrounding Business Rate income including the forthcoming revaluation and the extent of successful appeals and mandatory reliefs, all of which affect Retained Business Rates
- Government Funding levels (including the outcome of the Fair Funding Review and the Business Rate Retention scheme review in 2025/26)
- The ability of the Council to continue to make the necessary savings at the required scale and pace
- The extent to which new policy changes will be funded

All of these uncertainties increase the need for adequate reserves and balances to be maintained in current and future years.

- 7.3 A minimum level of revenue reserves must be specified within the Budget. The Local Authority must take full account of this information when setting the Budget Requirement.
- 7.4 Should the level of reserves fall below the minimum approved Working Balance of £1m, either arising from an overspend in the previous year or the current year, the S.151 Officer has a duty to report this to the Council with recommendations as to the actions that should be taken to rectify the shortfall. In the most extreme of circumstances, the S.151 Officer can impose a spending freeze until a balanced budget is approved by the Council.
- 7.5 Given the scale of the forecast budget deficit and the significant uncertainty regarding Council funding, it is vital that the Council maintains its reserves at the levels set out in this report in order to provide financial resilience for the forthcoming 3 year period.

(a) Robustness of the Budget

- 7.6 In setting the Budget, the Council should have regard to the strategic and operational risks facing the Council. Some of these risks reflect the current economic climate and the national issues surrounding local authority funding levels.
- 7.7 Estimates and forecasts have been prepared to include all known significant financial factors over the medium term in order to inform spending decisions.
- 7.8 Assumptions for the Budget and forecasts for future years are considered to be sound and based on the best available information. These are set out in detail in Section 5 and use the following sources as their evidence base:
- Government funding as set out in the provisional settlement for 2023/24 and future assumptions informed by the most recent consultations
 - An assumption that the overall outcome of the Fair Funding Review and Business Rate Retention scheme review will lead to a net reduction in funding of £1m, but phased over 3 years
 - A "no growth" assumption for Retained Business Rates from 2024/25 onwards on the basis that any income arising from growth will be offset by appeals, reliefs and change of use
 - An assumption that the value of successful appeals against the 2023 rating list will be based on the most up to date information from the Valuation Office Agency
 - Increases in Council Tax within the likely referendum limits

- Inflation on Retained Business Rates and prices informed by inflation estimates from the Office for Budget Responsibility
- Prudential borrowing requirements based on approved Capital schemes
- Balances and contingencies based on a risk assessment of all known financial risks.

- 7.9 Savings contained within the Budget are those where Board Chairs and Senior Management assess the confidence level of achievement is medium and above. Responsibility and accountability for delivering the savings rests with Board Chairs and Senior Management and progress will be monitored throughout the year as part of the Budget Monitoring process.
- 7.10 The most volatile budgets are Housing Benefits, Homelessness, Interest Payable and Receivable and General Maintenance. Budget provision has been made available to cover these risks both directly within Service Budgets as well as maintaining an adequate Revenue Financing Reserve.
- 7.11 The forecasts prepared for the forthcoming and future years are robustly based and illustrate the expected costs the Council will incur in order to deliver current levels of service.
- 7.12 Board Chairs and Senior Managers will be given regular budget updates to ensure that action to address any potential over or underspend is taken promptly.

(b) The Adequacy of Proposed Financial Reserves

- 7.13 The Council's General Fund Working Balance, Revenue Financing Reserve (RFR) and Stability & Resilience Reserve (SRR) have been proposed at levels that are consistent with the Council's financial risks over the medium term.
- 7.14 The Working Balance at £1m represents 8.5% of General Fund revenue spending, and is supplemented by the RFR and SSR for the Council's highest financial risks.
- 7.15 The RFR is appropriately set to ensure adequate financial capacity exists to support the cost of implementing the necessary savings required for future years. The SRR has been set at 15% of annual funding and is expected to be sufficient to accommodate funding volatility over the next 2 to 3 years.
- 7.16 The Council maintains a number of other Earmarked Reserves for specific purposes and known future liabilities. These include¹:
- The Revenue Financing Reserve
 - The Stability and Resilience Reserve
 - Homelessness Support Grant Reserve
 - Covid 19 Reserve
- 7.17 At the proposed levels, the Council reserves are sufficient to accommodate the Council's financial risks and maintain the Council's overall financial health in the short to medium term.

¹ A full list of earmarked reserves can be found at page 61 of the Annual Report and Accounts 2021/22

8 PAY POLICY STATEMENT 2023/24

8.1 The Council's Pay Policy Statement for 2023/24 is attached at Appendix F for approval.

9 CAPITAL PROGRAMME 2022/23 TO 2025/26

9.1 The Capital Programme is an integral part of the Council's Medium Term Financial Strategy. It sets out the Council's Capital Investment plans and is a key mechanism for the Council to achieve its objectives and enhance services for Borough residents.

9.2 This report makes minor amendments to the Capital Programme approved on 28 September 2022 but does update the programme for any re-phasing of expenditure across years.

Capital Strategy

The Capital Strategy has 3 core aims:

Aim 1 - To support a Medium Term Outlook

- Allocating known resources to future years for critical capital investment, ensuring that in years where capital resources are limited, critical investment can continue to be made
- Aligning known resources and spending, ensuring that uncertain or forecast resources are not applied to current investment, thus leaving potentially unfunded obligations in the future
- Smoothing out any significant gaps between capital investment needs and capital resources available by utilising contributions from revenue.

Aim 2 - To Maximise the Capital Resources available and the flexibility of their application

- Setting aside capital funding for "match funding" opportunities, where these are aligned with the Council's strategic objectives in order to take advantage of "free" funding
- Reviewing contractually uncommitted schemes against newly emerging capital investment priorities
- Avoiding ring-fencing of capital resources, except where such ring-fencing is statutory
- Using prudential borrowing for "Invest to Save" schemes, or schemes which generate income.

Aim 3 - Targeted Capital Investment

- Annual review of all contractually uncommitted capital schemes which rely on non-ring-fenced funding is undertaken to ensure that they remain a priority in the context of any newly emerging needs and aspirations
- Investment in programmes of a recurring nature that are essential to maintain operational effectiveness
- Investment in specific schemes that:

- Have a significant catalytic potential to unlock the regeneration of the Borough
- Are significant in terms of the Council strategies that they serve
- Are significantly income generating or efficiency generating
- If not implemented would cause severe disruption to service delivery.

9.3 The Capital Programme is the plan that underpins the Capital Strategy (described above) and has an important role to play in seeking to support the financial sustainability of the Council and its services. It is a key mechanism to:

- Meet the Council's statutory obligations for continued and sustainable service provision
- Support the delivery of Council priorities and strategies
- Improve the economy of the borough (and therefore the funding base of the Council)
- Improve the efficiency, effectiveness and cost of services
- Generate or maintain income for the Council

Additions to the Capital Programme 2023/24 Onwards

9.4 In accordance with the Capital Strategy, the Administration propose that the following new Capital Schemes (shown in the table on the next page) totalling £0.577m are added to the Council's Capital Programme 2022/23 to 2025/26:

Schemes to be added to Capital Programme

| Scheme | Total Scheme Cost £000 |
|---------------|-----------------------------------|
|---------------|-----------------------------------|

Additions to Existing Schemes

| | |
|--|---------|
| Alverstone Coastal Flood & Erosion Risk Management | 212,000 |
|--|---------|

New Schemes

| | |
|------------------------------|--------|
| Laptop Replacement Programme | 90,000 |
|------------------------------|--------|

| | |
|----------------------------------|---------|
| Working from Home Infrastructure | 160,000 |
|----------------------------------|---------|

| | |
|------------------|----------------|
| Sub Total | 250,000 |
|------------------|----------------|

Rolling Programmes - Additional Year

| | |
|------------------------------------|--------|
| IT - Desktop Replacement Programme | 10,000 |
|------------------------------------|--------|

| | |
|-------------------------|--------|
| IT - Server Replacement | 40,000 |
|-------------------------|--------|

| | |
|----------------------|--------|
| IT - System Upgrades | 40,000 |
|----------------------|--------|

| | |
|------------------|--------|
| Ipad Replacement | 10,000 |
|------------------|--------|

| | |
|----------------------|--------|
| CCTV System Upgrades | 15,000 |
|----------------------|--------|

| | |
|------------------|----------------|
| Sub Total | 115,000 |
|------------------|----------------|

| | |
|-------------------|----------------|
| Total Cost | 577,000 |
|-------------------|----------------|

Funded By:

| | |
|-------------------------------|---------|
| Community Infrastructure Levy | 212,000 |
|-------------------------------|---------|

| | |
|---------------------------|---------|
| Revenue Financing Reserve | 365,000 |
|---------------------------|---------|

| | |
|----------------------|----------------|
| Total Funding | 577,000 |
|----------------------|----------------|

- 9.4 There can be a direct impact on revenue budgets arising from the Capital Programme both positive and negative. All revenue implications arising from the Capital Programme have been taken into account in the proposed Budget.
- 9.5 In the current climate, it is important that the Council directs its available capital resources in a balanced way towards both essential service provision as well as regeneration activities and Invest to Save schemes. Investing in regeneration and schemes that stimulate employment is likely to improve overall prosperity within the Borough, reducing the need for Council services which better enables savings to be made. Additionally, increased employment has a positive financial impact on the Council's funding from Business Rates which will support the Council's future viability and the sustainability of high quality services to residents.
- 9.6 The amount of capital expenditure funded through borrowing continues to be strictly controlled since it must be demonstrated that the revenue consequences are affordable in line with the Prudential Code, in practice this means that borrowing can only be used for "Invest to Save" schemes where the saving is identifiable and can be removed from the Council's Revenue Budget.

10 CONCLUSION

- 10.1 The proposed Budget 2023/24 of £11,741,800 is balanced. It has been prepared to accommodate the impact of the extraordinary inflationary and demand related pressures being experienced in the current year and flowing into next year which amount to circa. £1.5m. It also incorporates an increase in Council Tax of 2.99% or £5.60 for the average Gosport resident. The Council's Capital Programme incorporates some minor but important additions following the comprehensive revision the Capital Programme in September 2022. The new Capital Investment ensures that the critical Coastal Flood schemes remain fully funded and that the Council continues to plan in the medium term for its ongoing operational requirements, essential for the sustained delivery of Council Services.
- 10.2 The Council's future forecasts require that savings of £1.456m are made over the next 3 years, either through reduced costs and / or additional income. It is proposed that these savings be phased at £0.485m per annum from 2024/25 to 2026/27 inclusive in order to provide for a broadly evenly managed programme to be implemented over the period. There are opportunities for this to be achieved by pursuing the Council's MTFS designed to stimulate the tax base (Council Tax and Business Rates), income generation and commercialisation opportunities alongside service reviews and continued joint working with partners. The adoption of the proposed Savings Strategy will still require a withdrawal from the RFR of £0.109m over the period 2024/25 to 2026/27 and it is imperative that this Reserve is maintained and used for that purpose.
- 10.3 Significant risks to the Council's future funding still remain over the next 3 years, particularly relating to the volatility of inflation, the demands on Council Services relating to the "cost of living crisis", legacy impacts of the Covid-19 pandemic and the forthcoming overhaul of the Local Government funding system. The Council's forecast of a 3 year deficit of £1.456m is a central (or "base case") assumption which could realistically change by +/- £0.5m and is a key reason why the Council's Reserves need to be retained at adequate levels.
- 10.4 The proposed Budget for 2023/24 is financially balanced, robustly based and provides sufficient cover for anticipated and potential financial risks within the year. Furthermore, with Reserves at this level, the overall financial health of the Council is currently sound providing resilience against an uncertain future.

| | |
|--|--|
| Financial Implications: | All of the financial implications associated with the recommendations are described within the body of the report. |
| Legal Implications: | The Council has to set a balanced budget and is also under an obligation to carry out its functions effectively, efficiently and economically |
| Service Improvement Plan implications: | The budget submissions reflect both service improvement plans and the corporate plan. |
| Corporate Plan: | The budget submissions reflect both service improvement plans and the corporate plan. The report includes an assessment of the risks in the Council's budget and forward projections as described in Section 12. |
| Risk Assessment: | |
| Background papers: | Budget Book Budget working papers Capital Programme 2022/23 to 2025/26 |
| Appendices/Enclosures: | A. General Fund Budget 2023/24 B. General Fund Forecast to 2026/27 C. Summary of Service Board Budgets 2023/24 D. Capital Programme 2022/23 to 2025/26 E. Prudential Indicators F. Pay Policy 2023/24 |