

Report To: Cabinet

Date of Meeting: 6 June 2022

Report Title: Budget Update - May 2022

Report By: Peter Grace
Chief Finance Officer

Key Decision: Yes

Classification: Open

Purpose of Report

1. This report highlights the expected impact of the rapid increases in both inflation and bank base rate since setting the 2022/23 budget in February 2022. The report makes a number of recommendations as a result.

Recommendation(s)

Cabinet recommend to full Council the following:-

- (i) The existing Harold Place project be removed from the Capital programme until such time as a revised scheme for the area is determined.
- (ii) The Capital programme budget for the Castleham Industrial units be increased to £250,000 (from £140,000).
- (iii) The Capital programme budget for Buckshole Reservoir works be increased to £1,353,000 (From £1,253,000)
- (iv) Undertake a Mid-year budget review to potentially increase fees and charges, reduce expenditure, and sell assets.

Reasons for Recommendations

2. The budget report in February 2022 identified that a balanced budget in 2022/23 could only be achieved by using £2.33m of reserves, and that further savings would be required given

the relentless increases in homelessness costs in particular. The forecasts for future years showed annual deficits increasing e.g. £2.426m in 2023/24, £2.544m in 2024/25, and £2.531m in 25/26.

3. Following the steep increases in inflation and bank rates the forecast for the current and future years shows annual deficits potentially increasing by over £900,000 in 2022/23 and over £1,000,000 in 2023/24. Costs for Capital schemes are likewise increasing dramatically.

Introduction

4. When setting the budget for 2022/23 in February 2022 the deficit was estimated at £2.33m. The forecasts for future years showed annual deficits increasing e.g. £2.426m in 2023/24, £2.544m in 2024/25, and £2.531m in 25/26. These deficits look set to increase by over £900,000 in 2022/23 and by more than £1,000,000 in 2023/24. Unless significant savings are identified quickly, and achieved, the Council will fall below the minimum recommended level of reserves in this financial year, and may have exhausted its remaining useable reserves by the end of 2023/24.
5. Whilst inflationary pressures were identified when determining the budget, as a result of Covid-19, Brexit and supply issues, the invasion of Ukraine and resulting implications on energy and food prices means that the resultant impact will be far greater and is predicted to be far more prolonged.
6. High inflation has serious implications for salary and contract costs, along with the cost of borrowing; all of which will impact on the Council in terms of its available resources and size of budgets deficits, which in turn necessitates greater and deeper cuts in services.
7. A number of small amendments to the 2022/23 budget figures will be made during the year as final grant payments are advised to us e.g. Council Tax Support Administration Grant (£153,627, rather than the £156,974 estimate).
8. The financial out-turn position for 2021/22 is being finalised. Initial indications are that income is higher than estimated e.g. car parks and expenditure lower than estimated. As such the deficit may result in a lower call on reserves at 31 March 2022 (previously estimated at £344,623).

Inflation

9. When putting the budget together the Retail Price Index (RPI) was 7.5% and Consumer Price Index (CPI) was 5.4%. The government's projections were for inflation to return to the 2% target level by late 2023.
10. The budget allowed for contract inflation at 3% overall for 2022/23, with all other budgets frozen in cash terms. The report highlighted that any increases above this level would need to be contained within service budgets within the year and also highlighted the need for inflation to be brought under control quickly for costs to be contained within the budget estimates. Whilst the Council had allowed for a £300,000 contingency sum, given the many cost uncertainties the Council is facing this will be insufficient to meet the pressures now faced.

The inflation projection from the Office of Budget Responsibility (23 March 2022) highlights RPI reaching 11% and CPI reaching almost 9% (a 40 year high). The figures for April 2022

showed RPI at 11.1% and CPI at 9% with some forecasters expecting inflation to reach 13% by October 2022. The graph below shows the inflation forecast to 2026.



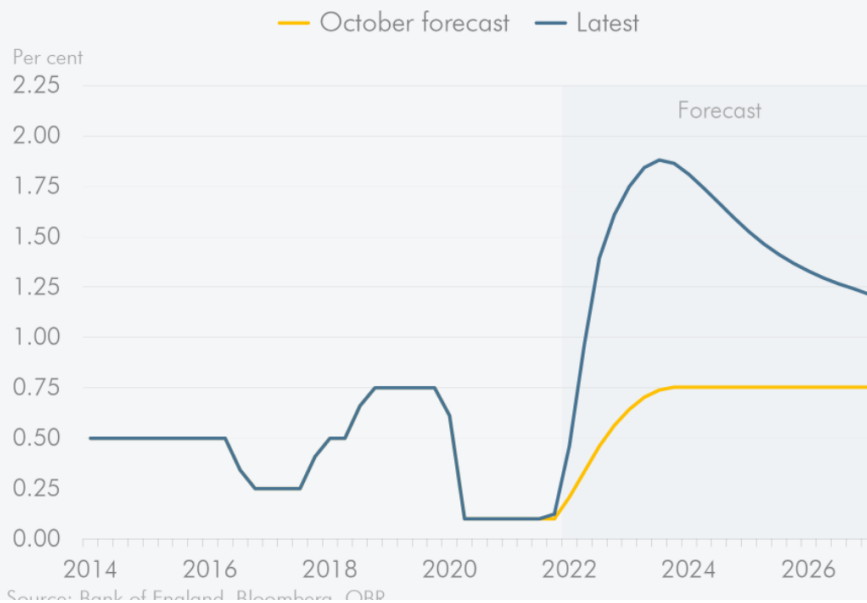
11. As an example of the increased costs faced is that of gas prices. These have increased from the 1 April 2022 from 4.76p/kWh to 8.71p/kWh (an 83% increase). So taking the crematorium as an example (about half of our total gas usage) the cost will increase from £40,000 a year to around £80,000 a year including the increase in the standing charge. New electricity prices are being sought very shortly which will impact across the Council from 1 October onwards.

Borrowing

12. Base rates decreased in March 2020 firstly to 0.25% (from 0.75%) and then to 0.1% where they remained until December 2022 when they were increased to 0.25% and again to 0.5% in January 2023. At its meeting ending on 16 March 2023, the Monetary Policy Committee (MPC) voted by a majority of 8-1 to increase Bank Rate by 0.25 percentage points, to 0.75%. In April the rate was increased to 1%. Treasury advisers are still anticipating further rate rises throughout 2023/24.
13. The Office of Budget Responsibility includes the graph below within its report which forecasts base rates will increase to just under 2%. Council advisers and other forecasters anticipate rates increasing to between 2.5% and 3%

Bank Rate

Official Bank Rate, quarterly average, Bank code: IUQABEDR



14. As of 31 March 2022 the Council's long term PWLB debt stands at £66,063,341. This is all fixed rate debt and much of it is long term debt. The Council would only be exposed to higher interest rates (on existing debt) should it ever wish to, or need to, refinance the debt.
15. Higher inflation can potentially be positive for the Council's balance sheet, as assets appreciate, and the value of the debt (liabilities) decreases in real terms. However, the Council's revenue account will be adversely affected when it comes to taking on new debt at higher interest rates. This can be avoided if the Council sells more assets and finances new projects by using the Capital receipts received to finance the expenditure i.e. avoid new borrowing.
16. The Council will have additional borrowing requirements of some £1.3m in 2021/22 i.e. to finance the Capital expenditure in the year.
17. In 2022/23 and beyond borrowing requirements are high given the ambitious plans of the Council. Borrowing is estimated at £9.6m in 2022/23 and could be far higher if Capital receipts are not received.
18. The affordability of some of these plans needs to be properly tested, on a regular basis given the ongoing uncertainty around Council funding, and the level of reserves available. The Capital programme does not yet include all the Towns Fund schemes – just those accelerated schemes that have been approved.
19. The Capital programme as approved will increase borrowing levels to some £93.6m by 2024/25 and potentially far greater thereafter. The figures exclude any borrowing in respect of Bohemia or in respect of the town centre and any leisure centre. A significantly enhanced programme would increase annual borrowing costs substantially as well as the amount required to be set aside each year to repay this debt (the Minimum Revenue Provision). These schemes could proceed if appropriate funding is identified and the Council can achieve a sustainable budget.

20. There are a number of potential projects and developments that are identified in the Capital Strategy that are currently considered unaffordable given the current level of financial commitments, the sustainability of the Council's budget, and the continued uncertainty on future funding.

Investments

21. The fast diminishing reserves, and the fact that the Council is using internal borrowing to temporarily finance the capital programme results in the Council having lower balances to invest.
22. Given the restricted counterparties list, investment returns of around 0.4% (excluding property funds) were estimated for 2022/23. The returns are expected to increase to around 1%.
23. The Treasury Management Strategy has continued to advocate a policy of keeping the respective levels of debt and investment under review.

Public Sector Pay Settlement and National Living Wage

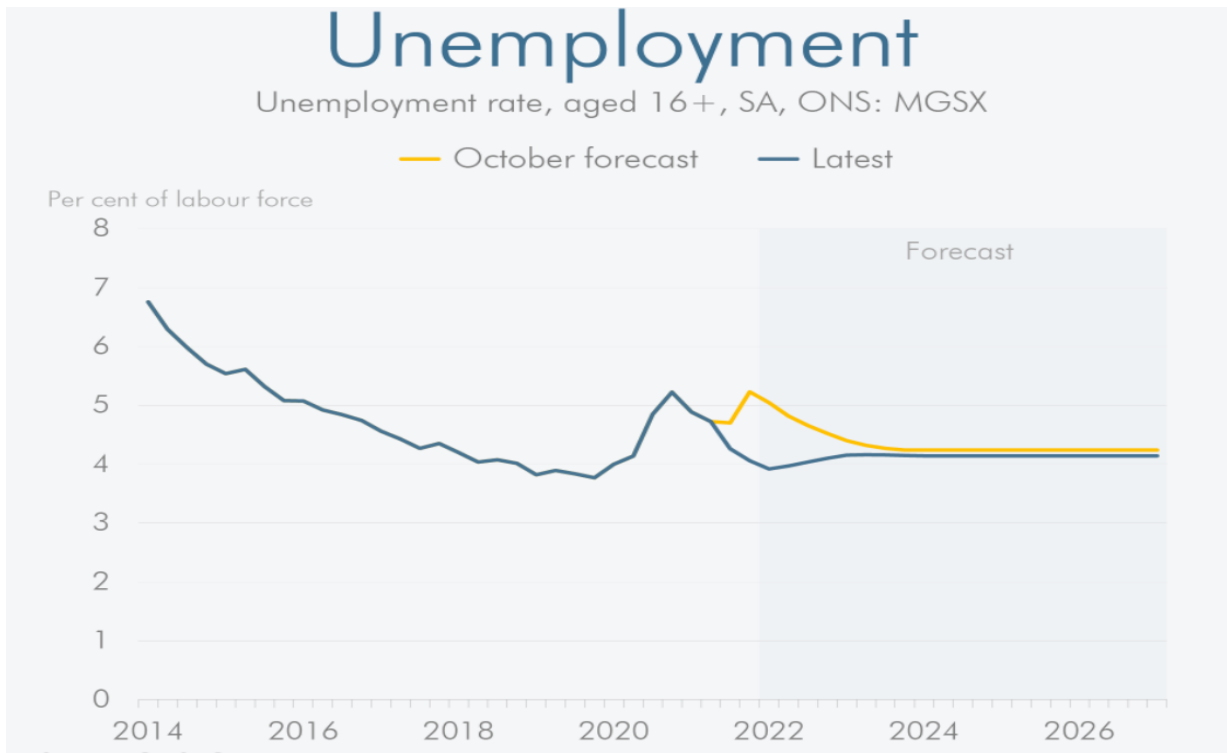
24. The salary increase for 2021/22 was finally agreed at 1.75% (backdated to April 2021). This percentage was allowed for in the revised 2021/22 budget along with contractual increments (equivalent of around ½%).
25. The salaries budget together with national insurance and pension costs amount to some £13.2m in 2022/23.
26. The Council remains committed to paying the accredited living wage of £9.90 per hour (for over 18's from 1 April 2022 – up from £9.50p/h (a 4.2% increase). This is higher than the national minimum/living wage - which increases to £9.50 from 1 April 2021 from £8.91 (a 6.6% increase). These payment levels were extended to the over 23's (previously over 25's).
27. The budget allowed for a 2% pay increase in 2022/23 (plus increments). It was advised that “this estimate may be too low if inflation remains high for long. Any increase above this would need to be met from Contingency”.
28. Given the well below inflation pay rise in 2021/22, and inflation for this year increasing well above expected levels a high pay claim increase can be expected from the unions – against a background of real term grant decreases for this authority. A 4% to 5% increase may be more realistic – but is still a real term pay cut. This percentage increase would translate into an estimated additional cost for the Council of £407,000 p.a.

Other Costs Pressures

29. With a tightening of the economy the Council faces numerous significant risks. These include, for example:
- income receipts, car parks, property rents, cliff railways, beach huts,
 - the collection of Council Tax and business rates,
 - an increase in benefit claimants

- the level of homelessness and rough sleepers

30. The government's latest projection, as per the OBR, indicates an increase in unemployment numbers in the near term.



31. Increases in unemployment levels and housing costs will result in an increase in the costs of the Council Tax Reduction Scheme that this Council operates. The Council resolved, when setting the budget, to review the affordability of the scheme during the early part of 2022/23, as significant levels of consultation and lead in times for software changes are required when amending such schemes in readiness for 2023/24. Whilst the preferred option is not to make any changes at all, changes to the scheme to reduce administration costs will be one option investigated amongst others.

Pension Fund Contributions

32. A new valuation exercise is being undertaken and new rates will become payable from 2023/24. The higher inflation and wage impact assessments will no doubt impact on the future funding requirements and the resultant sums payable by the Council and employees.

Budget 2022/23

33. The Council's total service expenditure in 2022/23 was estimated at £13.531m. The total expenditure for the Council increased to £16.852m in 2022/23 once interest and borrowing are taken into account. A balanced budget only being achieved with the use of £2.33m of reserves in 2022/23 This deficit being funded from the Council's Resilience and Stability Reserve (£100,000) and the General Reserve (£2.23m). The projected balance on the General Reserves being £4.996m by March 2023 - well below the minimum level recommended of £6m.

34. The original budget projection (February 2022)

	2021/22 (Revised)	2022/23	2023/24	2024/25	2025/26
	(£000's)	(£000's)	(£000's)	(£000's)	(£000's)
Net Expenditure	14,597	16,013	16,351	16,810	17,148
Funding	(£14,253)	(£13,683)	(£13,825)	(£14,266)	(£14,616)
Shortfall	345	2,330	2,526	2,544	2,531
Use of Reserves	(£345)	(£100)	(£100)		
Estimated Shortfall	0	2,230	2,426	2,544	2,531

35. The Revised Projection

Based on current inflation and base rates additional costs of £954,000 may be anticipated in 2022/23 with yet further additional costs in 2023/24 potentially amounting to some £1,000,000 (above the figures detailed in the table below) if the inflation rate remains high.

May-22	2021/22 (Revised)	2022/23	2023/24	2024/25	2025/26
	(£000's)	(£000's)	(£000's)	(£000's)	(£000's)
Net Expenditure	14,597	16,967	17,357	17,824	18,162
Funding	(£14,253)	(£13,683)	(£13,825)	(£14,266)	(£14,616)
Shortfall	344	3,284	3,532	3,558	3,546
Use of Reserves	(£344)	(£100)	(£100)		
Estimated Shortfall	0	3,184	3,432	3,558	3,546

36. The Council's Medium Term Financial Strategy will include a detailed review and longer term projections. This is updated in the early autumn to help inform the budget process when producing the budget for the following year.

37. The PIER process will continue in 2022/23 and its immediate priorities will involve reviews across a number of council activities:

- (i) Homelessness and temporary accommodation (Gross expenditure Budget £ 4.929m (£2.907m net))
- (ii) Tourism and marketing, including decorative lighting, event funding, etc (Various budgets)
- (iii) Ground Maintenance (Budget £1.324m net)
- (iv) Reorganisation of service structures (Wages and Salaries – circa £13m)
- (v) Civic Regalia (Estimated value -£100k to £200k one off capital receipt)

- (vi) Bulky Waste – review and consider making free to those on means tested benefits
- (vii) Planning Services – Sustainability of the service (Budget £836,000 net)
- (viii) Gateway reviews of major projects – not all schemes may be affordable given changing priorities and inflationary pressures – unless external grant funding is available.
- (ix) Asset reviews and disposals – these are now going to be imperative, and could involve disposal of assets that are being held for other purposes.
- (x) New Environment Act and waste contract implications

Capital Programme

38. The gross expenditure in 2022/23 was estimated at £21.746m (£14.854m net). The level of borrowing required was expected to be some £9.62m after use of all available capital receipts.
39. The capital programme in summary is shown in the table below.

	Revised 2021/22 £'000s	2022/23 £'000s	2023/24 £'000s	2024/25 £'000s
Gross Capital Expenditure	7,961	21,746	13,229	8,141
Net Capital Expenditure	3,674	14,854	9,173	6,085
Financing from own resources	50	5,234	73	50
Borrowing Requirement	3,624	9,620	9,100	6,035

40. The table below identifies the estimated Capital Financing Requirement (CFR) for the current and next three years and the Minimum Revenue Provisions (MRP).

CFR	2020/21 (unaudited) £'000s	2021/22 (Rev Est) £'000s	2022/23 (Estimate) £'000s	2023/24 (Estimate) £'000s	2024/25 (Estimate) £'000s
CFR-Opening	66,372	72,683	74,689	82,752	89,869
Less MRP	(1,500)	(1,668)	(1,741)	(2,006)	(2,327)
Plus New Borrowing	7,811	3,674	9,804	9,123	6,035
CFR Closing	72,683	74,689	82,752	89,869	93,577

41. These figures are very much dependent upon the level and timing of capital acquisitions/payments, the level of capital receipts received, and the useful life of the assets acquired or constructed. The figures will continue to be reviewed throughout 2022/23 and regularly thereafter, based on the proposed Capital programme, and subsequent changes and timing thereof.

Capital Programme - Revisions

42. The **Harold Place** scheme did not receive planning permission and the cost increases in materials will in all likelihood exceed the existing budgetary provision making the scheme unaffordable. It is recommended that the scheme be removed from the existing programme and an externally funded scheme be sought for the area through future regeneration funding and other Towns Deal funded schemes.

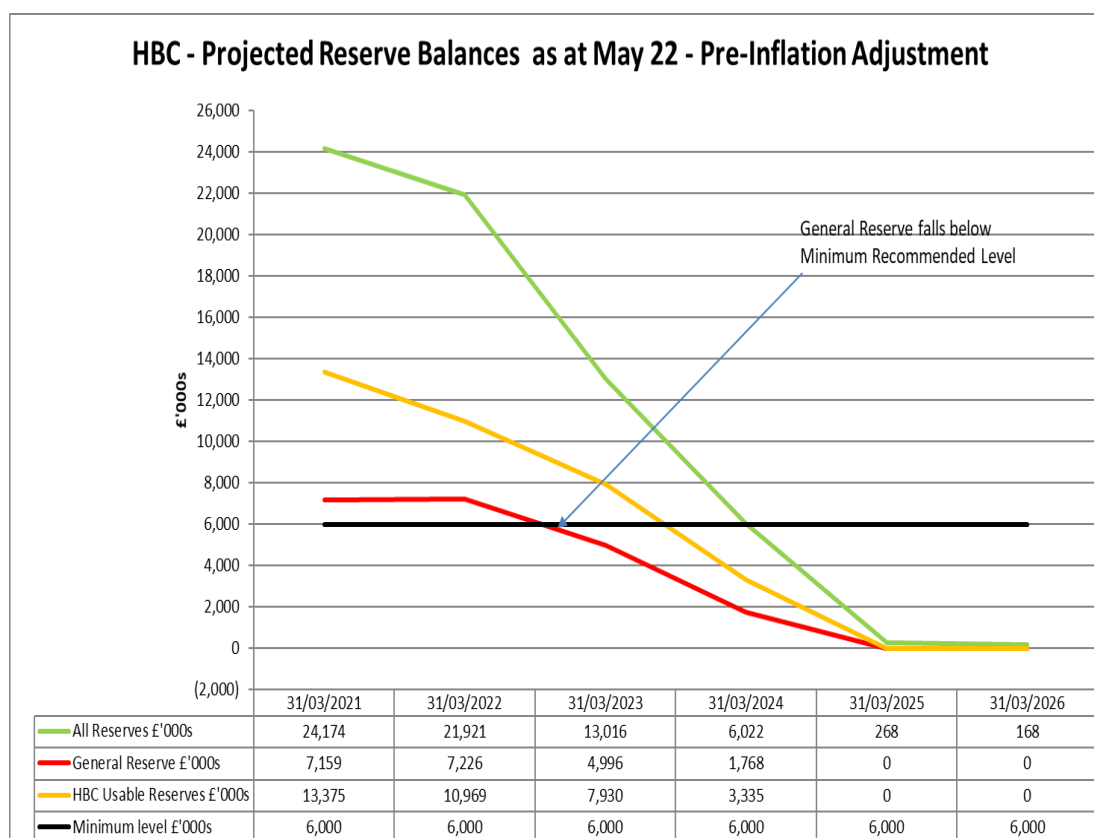
The removal of the scheme from the programme will affect future borrowing and MRP costs, but these were balanced by the future rental stream and thus the overall deficit figures remain the same.

43. The delays to the **Buckshole Reservoir** scheme are expected to increase costs still further (as material and labour costs rise) and the contingency is recommended to **be increased by £100,000**, thus increasing the total scheme cost to £1,353,000. This is a scheme that emanates from the higher national safety standards set by the governmental bodies, and is considered unavoidable for the Council given the health and safety risks. Neither DEFRA nor DLUHC will provide funding for these costs, albeit it is admitted that such costs are not considered in the government's annual grant funding mechanisms.
44. The dangerous structure at Battle Road continues to present challenges and the Council may need additional resources to complete the works. This would be subject to a further report to full Council.
45. Castleham Industrial estate – over roofing units 6,7,8 & 9/10. Costs have been estimated at £250,000 – **an increase of £110,000** on the original budget of £140,000. This figure includes an amount to ensure the roof is strong enough for the installation of PV arrays (for which an alternative budget exists). The annual income for these 5 units is currently £105,000 p.a. and the works will remain necessary to avoid loss of future income.

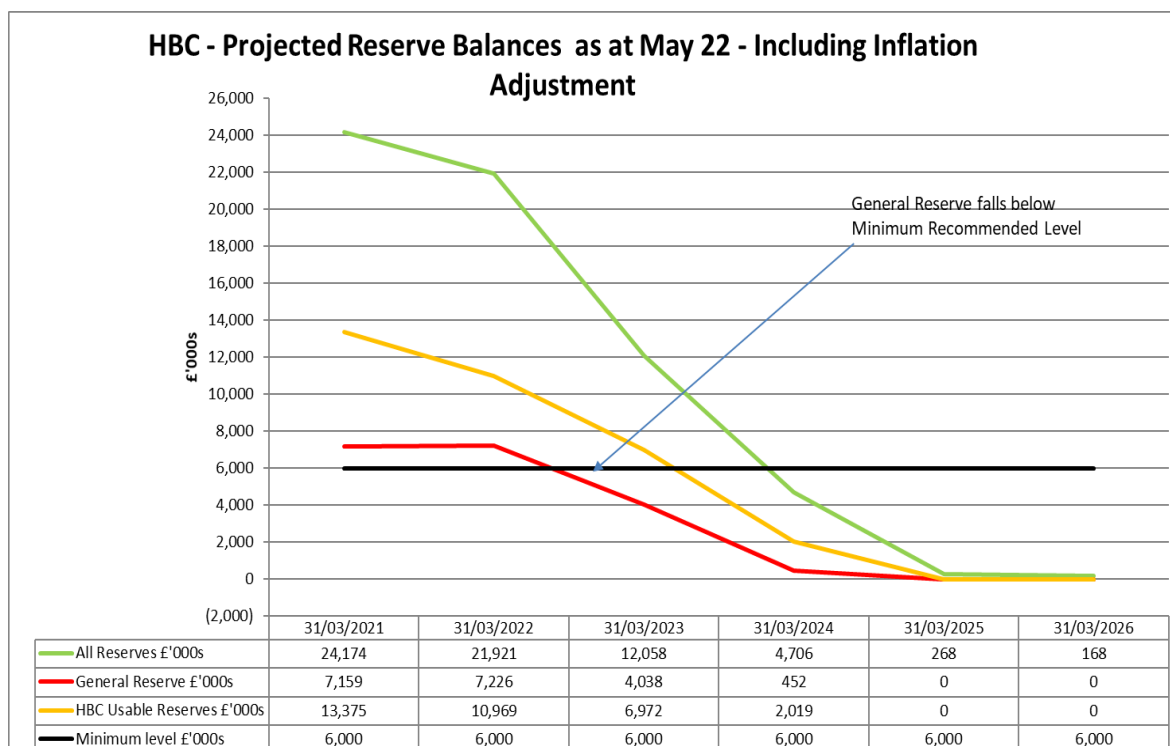
Reserves

46. The Local Government Act 2003 (Part 2) requires the Chief Finance Officer to report on the adequacy of the proposed financial reserves, and determine the minimum level required when setting the annual budget. There is no statutory minimum requirement, but reserves must be set at a prudent level given the activities of individual councils and potential liabilities that they face or may face in the future i.e. a risk based approach.
47. The strategic reasons for holding reserves are:-
 - a. A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing.
 - b. A contingency to cushion the impact of unexpected events or emergencies
 - c. A means of building up funds to meet known or potential liabilities (provisions are used for liabilities with uncertain timings or amounts). Such reserves are referred to as Earmarked reserves.
 - d. To assist in the transition to a lower spending Council
 - e. To provide the Council with some resources in future years to meet elements of the Council's capital programme that can not be capitalised e.g. feasibility studies.
48. The Council maintains a working balance in accordance with (a) above in the sum of £500,000. In respect of (c) above there is a need to maintain assets to avoid higher maintenance costs and declining assets. This is vital where the Council's commercial estate is involved if rental streams are to be maintained and industry is to be attracted to the area. The full Renewals and Repairs programme is attached in Appendix J.

49. In determining the 2022/23 budget the projected balances on the reserves were predicted to fall below the minimum recommended level of £6m during 2022/23 unless significant savings are identified and made.
50. **As part of the budget process it was estimated that there would be £4.996m of unallocated (at present) General Reserve by the end of 2022/23, and just £3.7m of earmarked reserves left at that time (once DFG's are excluded). The 2022/23 budget is supported not only by £2.23m of General Reserves but also by £1.528m of Earmarked reserves. The unallocated General Reserve is the only remaining funding that would be available to help fund and cover those costs that cannot be capitalised in any development programme, meet future deficits, and the costs of unexpected events or unavoidable expenditure.**
51. The graph below highlights the position before the major impacts of inflation and the war in Ukraine.



52. Once the higher inflation and borrowing costs are included the annual deficits could increase substantially, resulting in reserves diminishing at a much faster rate. Namely:



It is the opinion of the Chief Finance Officer that given the risks and uncertainties that the Council faces, the level of Reserves should still be set at a minimum of £6m and that urgent action needs to be taken to ensure a balanced budget and maintain reserve levels.

Timetable of Next Steps

53. Please include a list of key actions and the scheduled dates for these:

Action	Key milestone	Due date (provisional)	Responsible
Cabinet	Consider report	6 June 2022	Chief Finance Officer
Full Council	Consider report	13 July 2022	Chief Finance Officer

Wards Affected

Ashdown, Baird, Braybrooke, Castle, Central St. Leonards, Conquest, Gensing, Hollington, Maze Hill, Old Hastings, Ore, Silverhill, St. Helens, Tressell, West St. Leonards, Wishing Tree

Policy Implications

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues & Climate Change	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People's Views	Yes
Anti-Poverty	No
Legal	No

Additional Information

The Council's budget is available from the Council's website under the heading of Hastings Borough Council budget

http://www.hastings.gov.uk/decisions_democracy/transparency/budgets_finance/

Officers to Contact

Peter Grace

pgrace@hastings.gov.uk

Simon Jones

sjones@hastings.gov.uk

Kit Wheeler

Kit.wheeler@Hastings.gov.uk

APPENDIX 1

Impact of inflation on HBC Budget – 2022/23 and 2023/24

Description	Original Budget	Measure	3%	5%	10%	Likely Increase in Budget for	Revised Budget for	Likely Increase in Budget for	Budget for
	2022-23					2022/23	2023/24	2023/24	
Salaries and Wages	13,582,570		407,480	679,130	1,358,260	407,480	13,990,050	419,700	14,409,750
Electricity	273,950		8,220	13,700	27,400	27,400	301,350	30,140	331,490
Gas	74,260		2,230	3,710	7,430	7,430	81,690	8,170	89,860
Water	117,170		3,520	5,860	11,720	11,720	128,890	12,890	141,780
Repairs and maintenance Total	732,870		21,990	36,640	73,290	0	732,870	0	732,870
Repairs and maintenance (Arboriculture - Gristwood)	112,000		3,360	5,600	11,200	0	112,000	0	112,000
Homelessness / Temporary accommodation costs Total	4,500,380		135,010	225,020	450,040	225,020	4,725,400	236,270	4,961,670
Postage Total	153,140		4,590	7,660	15,310	7,660	160,800	8,040	168,840
Photocopiers Total	24,000		720	1,200	2,400	1,200	25,200	1,260	26,460
Software costs Total	774,380		23,230	38,720	77,440	38,720	813,100	40,660	853,760
Petrol / Diesel costs	91,780		2,750	4,590	9,180	4,590	96,370	4,820	101,190
Vehicle Repairs / Maintenance Total	112,000		3,360	5,600	11,200	5,600	117,600	5,880	123,480
Waste Services (Contract - BIFFA)	2,406,050	CPI & Wages	72,180	120,300	240,610	120,300	2,526,350	126,320	2,652,670
Grounds Maintenance Contract	1,060,230	CPI	31,810	53,010	106,020	53,010	1,113,240	55,660	1,168,900
Cleaning Contract - Toilets	230,710	CPI & Wages	6,920	11,540	23,070	11,540	242,250	12,110	254,360
Cleaning Contract - Toilets (FST)	150,380	CPI & Wages	4,510	7,520	15,040	0	150,380	0	150,380
Cleaning Contract - Buildings	180,960	CPI & Wages	5,430	9,050	18,100	0	180,960	0	180,960
Mobile Phones	19,540		590	980	1,950	980	20,520	1,030	21,550
Telephones Total	75,850		2,280	3,790	7,590	3,790	79,640	3,980	83,620
White Rock Theatre	225,330	Fixed Contract	6,760	11,270	22,530	11,270	236,600	11,830	248,430
Car Leasing (HBC Vehicles)	53,860		1,620	2,690	5,390	2,690	56,550	2,830	59,380
Car Leasing (Employees)	38,090		1,140	1,900	3,810	1,900	39,990	2,000	41,990
Security (Alarms)	48,350		1,450	2,420	4,840	2,420	50,770	2,540	53,310
Cash Collections	36,360		1,090	1,820	3,640	1,820	38,180	1,910	40,090
Insurance (Premises)	55,320		1,660	2,770	5,530	0	55,320	2,770	58,090
Insurance (Vehicles)	9,750		290	490	980	0	9,750	490	10,240
Insurance (Supplies and Services)	136,740		4,100	6,840	13,670	0	136,740	6,840	143,580
Bank Fees	65,000		1,950	3,250	6,500	3,250	68,250	3,410	71,660
Treasury Management (Link Group)	10,000		300	500	1,000	500	10,500	530	11,030
Audit Fees	64,650		1,940	3,230	6,470	3,230	67,880	3,390	71,270
Books and Subscriptions (Westlaw - Reuters)	15,000		450	750	1,500	750	15,750	790	16,540
	25,430,670		762,930	1,271,550	2,543,110	954,270	26,384,940	1,006,260	27,391,200

APPENDIX 2

General Reserves	Estimated Balance at 31.3.2022 £'000s	Estimated Balance at 31.3.2023 £'000s
Revenue Reserves	7,226	4,996
Capital Reserve (Revenue monies)	150	100
Total	7,376	5,096

Earmarked Reserves	Estimated Balance at 31.3.2022 £'000s	Estimated Balance at 31.3.2023 £'000s
Renewals and Repairs Reserve	896	748
Insurance & Risk Management Reserve	300	285
IT Reserve	203	178
On Street Car Parking	40	40
Section 106 Reserve (Revenue)	416	367
Section 106 Reserve (Capital)	63	63
Government Grant Reserve	388	309
Monuments in Perpetuity	45	44
Ore Valley Reserve	250	250
Resilience and Stability Reserve	800	700
Redundancy Reserve	440	215
Safer Hastings Partnership	78	78
Disabled Facilities Grants Reserve (DFG'S)	4,267	4,267
Invest to Save and Efficiency Reserve	79	68
Carry Forward Reserve	0	0
Controlling Migration	116	
Towns Fund	53	0
Housing Licensing Reserve	404	232
Revenue Hardship Fund	80	80
Community Housing Fund	35	35
Total	£8,954	£7,958