

Committee Name: Cabinet

Meeting Date: 5 December 2024

Issue Title: Medium Term Financial Strategy Interim Review

Report of: Executive Director – Corporate Services

Cabinet Portfolio: Finance

Key Decision: No

1. Purpose of Report

- 1.1 The Medium-Term Financial Strategy (MTFS) and the annual budget-setting process are important decisions for the Council. This report offers an interim assessment of the MTFS and highlights several high-level actions aimed at supporting the budget-setting process for the next three years. However, it does not provide specific plans to address any anticipated budget shortfalls, as such an approach would currently be premature based on the available information. However, once the government provides greater clarity on its local government financing stance the necessary plans will be brought forward and included in future reports.

2 Recommendation

- a. Cabinet notes the MTFS forecast, agree the headline budget strategy identified in Appendix 1 and ask officers to identify and model options for closing the residual budget gap in 2025/26 and report these to O&S Committee in January for scrutiny ahead of Cabinet and Council approval
- b. Cabinet is recommended to approve the use of the current balance on the local plan reserve, up to £63k, for spend on consultancy and software costs in 2024/25, and earmarks a £1m of the forecast 2024/25 net underspend for the local plan reserve, with details and a recommendation to Council to be included in the main budget report in January 2025

3 Background

- 3.1 The Medium-Term Financial Strategy (MTFS) is designed to create a robust financial framework for the Council's spending plans over the next four years. The aim is to support achieving Corporate Plan priorities while maintaining a balanced annual budget. The strategy should ensure the Council has sufficient funds to deliver its objectives and priorities.
- 3.2 The following objectives are aimed at helping plan sustainable services for the long term, amidst an uncertain external economic and funding environment:
- To ensure that the Council's financial resources are directed towards supporting the delivery of the Corporate Plan priorities while achieving value for money.
 - To clearly understand the financial impacts of current financial commitments over the medium term, including revenue and capital, under different scenarios. This will set the parameters for the efficiency and savings strategy necessary to achieve a balanced budget.
 - To establish a robust framework to assist the decision-making process.

- To maximise the Council's financial resilience and manage risk and volatility, including maintaining adequate reserves.
- To secure, maintain, and develop the Council's capital assets in accordance with asset management plans and the Capital Strategy.
- To provide a single document that communicates the financial context, objectives, and goals to staff and stakeholders, and to support collaboration with partners.

4 MTFS and Budget 2025/26

- 4.1 The Council must prepare for financial risk and volatility in the medium term, as the economic outlook and future government funding to councils remain uncertain. Maintaining sufficient reserves to withstand unexpected financial impacts from local and national developments is important. The recent reserves review approved by Council has laid the foundation for strengthening financial resilience.
- 4.2 To provide context, Appendix 1 provides a summary of the key elements of Hart's income and expenditure budgets, and explains how the net annual budget is financed, including through government grants. This analysis highlights the potential impact of reductions to government grants in the future since the government has committed to reviewing each component of the funding. Appendix 1 also updates the MTFS and identifies potential risks, opportunities, and actions for addressing future budget gaps.
- 4.3 In summary, each year in the MTFS is currently showing a forecast budget shortfall. If services are to be protected, the 2025/26 revenue budget can only be balanced if a council tax increase is approved, and further income is generated where possible. The forecast is based on a freeze in government grants and a continuation of the maximum council tax increase level allowed this year. Neither of these assumptions are likely to be confirmed by government until mid-December. Other assumptions and estimates like inflation and interest receipts are based on best information available, these are closely monitored and may change before the final budget is considered.
- 4.4 In terms of future years beyond 2025/26, the forecast is currently showing a significant budget shortfall, particularly in 2026/27. This is mainly due to:
- inflation on costs being higher than income from permissible council tax increases
 - an assumed annual reduction in government grants from 2026/27, following the funding review(s)
 - the impact of waste collection costs and recycling income.
- 4.5 In preparing the 2025/26 budget, the current and previous year's outturn will be important reference points. Whilst the precise impact of the Chancellor's Autumn Budget announcements on 30th October on the Council cannot be determined at this stage, the following are some aspects relevant to the MTFS:
- Employer's National Insurance contributions increase – Impact would be £160kpa, however, it is possible that the Government will provide grant to cover this cost for public sector organisations

- Reformed approach to local government finance settlements, with a deprivation-based approach in 2025/26 followed by fair funding review determining multi-year settlements from 2026/27
- More money for affordable homes and homelessness, no details yet of the precise amount or eligibility at this stage
- A further year of the UKSPF fund, extended to 2025/26, no details yet
- Confirmation of support for some new recycling initiatives but no confirmation of new burdens funding for mandatory food waste collections
- No mention of council tax increase limits or changes to any council tax elements

It is not expected that councils will know their grant allocations until mid-December.

- 4.6 Once the budget for 2025/26 has been finalised, a robust budget strategy and action plan for the MTFs period will be developed. The interim MTFs forecast suggests that to maintain a balanced and sustainable medium-term budget, additional ongoing efficiency savings and strategies for increased investment income will need to be implemented. These are outlined in Appendix 1.

5 2024/25 Forecast Outturn

- 5.1 The previous Cabinet meeting considered the latest forecast outturn for 2024/25, based on a detailed examination of individual expenditure and income budget lines in consultation with service managers. The setting of 2025/26 and future year's budgets will have regard to this forecast as it is a good indicator of where savings and/or additional income can be identified. The forecast is currently showing an overall net budget underspend for the year of £1.4m. It is too early in the year to commit all of this underspend, and a further quarter's actuals are necessary to gain sufficient certainty however, it is proposed to earmark part of the surplus at this stage for the following priorities:
- Planning policy framework. Responding to the government's new policy framework, which will be launched following consultation, is likely to require significant resources for a multi-year project. It is proposed to earmark £1m of the forecast 2024/25 underspend ahead of a detailed report coming forward early in 2025. It is also necessary to undertake review work in the current year which can be funded from the existing balance on the local plan reserve.
 - Following the Fly Tipping Task and Finish Group's in-depth review, a proposal has emerged to undertake a 2-year pilot to increase capacity and target this priority function. A report elsewhere on this Cabinet agenda sets out the details and requests £90k of additional funding.
- 5.2 In addition to the above, the following priority work programmes, aligning to the Corporate Plan, are ongoing and will need further funding to deliver the required projects over the medium term. Precise details are not known at this stage, and further reports on each priority will be presented to Cabinet in the coming months, however, it is important to recognise the demand now.

- Digital strategy – topping up the existing fund to implement a range of projects to enhance customer experience and generate efficiency savings over the medium term
- Climate change – to support the delivery of the action plan on the medium term

6 Reserves

6.1 In September 2023 Council approved a review of reserves, which considered the purpose, use and amount held. Reserves help underpin the MTFS as they provide flexibility and strengthen financial resilience. The following are the main categories of usable reserves held with their estimated current available balance after approved commitments:

Table 1: Main categories of usable reserves held with their estimated current available balance after approved commitments:

| Reserve category | Reserves | Estimated useable balance @Nov 2024 £m |
|---------------------------------------|---|--|
| Support MTFS | Working balance | *£0.8m |
| | Budget pressures reserve | £0.6m |
| | Government grant reduction | £2.9m |
| | Waste contract/IAA impact | £0.7m |
| | Capita contract | £0.3m |
| Mitigate specific risks | Property and car parks | £0.5m |
| Support specific service demands | Various service and community earmarked reserves and grant pots | £3.0m |
| Support specific corporate strategies | Digital Strategy | £0.2m |
| | Climate change | £0.3m |
| Total revenue | | £9.3m |
| Fund capital projects | Leisure S106 | £2.5m |
| | Housing S106 | £4.7m |
| | RTB Capital receipts | £4.0m |
| | Other capital funds | £1.5m |
| SANG funds | | £18.4m |
| Total projects and capital | | £31.1m |

*Current balance indicates uncommitted amount of £0.8m more than the agreed minimum balance of £6m

7 Conclusion and Actions

7.1 There continues to be significant uncertainty facing local government finance, and in the wider economy, that affect Hart's budget. Therefore, medium term financial planning is particularly challenging, and assumptions have to be relied upon. Given the forecast budget shortfall in each of the next three years, the Council will need to consider all opportunities to raise income, including council tax and fees and charges, and to reduce expenditure through efficiency and cost reduction. Financial resilience is vital and the use of reserves to smooth one-off

budget pressures and meet known service pressures and risks is a prudent approach.

8 Corporate Governance Considerations

Relevance to the Corporate Plan

The recommendations support the Corporate Plan priorities.

Service Plan

- Is the proposal identified in the Service Plan? Yes
- Is the proposal being funded from current budgets? No
- Have staffing resources already been identified and set aside for this proposal?
Yes

Legal and Constitutional Issues

The interim MTFS is set out for approval ahead of the main budget report which will be reported to O&S committee ahead of Cabinet and Council.

Financial and Resource Implications

The finance implications are set out in the appendix to this report.

Risk Management

The main risks relevant to this interim MTFS projection relating to the assumptions made, particularly regarding government grant, inflation and interest rates. These will be tracked between now and the final budget presented to Council in February and when we have more certainty, the forecast will be updated.

9. Equalities

All activity will comply with the authority's statutory duties.

10. Climate Change

The budget and MTFS will support the council's ambition to become a carbon neutral authority by 2035. There are no direct carbon/environmental impacts arising from the recommendations, however, it should be noted that the base budget includes the salary cost of the climate change officers and an amount to deliver projects. In addition, every effort will be made to lever in external funding to help deliver the action plan.

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APPENDICES:

Appendix 1 – Budgets, MTFS forecasts and budget assumptions