

CABINET

DATE OF MEETING: 2nd SEPTEMBER 2021

TITLE OF REPORT: 2022/23 BUDGET & MEDIUM-TERM FINANCIAL STRATEGY UPDATE

Cabinet Member: Councillor James Radley, Deputy Leader and Portfolio Holder for Finance and Assets

1 PURPOSE OF REPORT

1.1 To consider the emerging budget for 2022/23 and the draft Medium Term Financial Strategy (MTFS).

2 OFFICER RECOMMENDATIONS

2.1 That the issues around the emerging budget for 2022/23 be discussed and level of savings required, noted

2.2 The tier system for rating savings be agreed.

2.3 The timetable for 2022/23 budget setting be discussed and agreed.

2.4 The reserves policy in Section 6 be discussed and agreed.

2.5 Level One savings identified in 8.2 be agreed and implemented through incorporated into future iteration of Medium-Term Financial Strategy.

2.6 Agree the preparation of Business Cases for Level Two savings detailed in 8.3 so that these savings can be considered in future by Cabinet.

2.7 Agree the provision of £10K to enable the use of independent external consultants, where required, to enable assesmnt of the Level Two Business Cases.

3 BACKGROUND

3.1 This report sets the context for the future financial position for Hart District Council. The Medium-Term Financial Strategy (MTFS) is a statement on the council's approach to the management of its financial resources to meet its Corporate Priorities. The MTFS also considers the appropriate level of reserves that the Council holds to mitigate current and longer-term risks.

3.2 In February 2021, Council approved the budget for 2021-22 including an indicative forward forecast for future years. This forecast has been updated for recent investments and additional Minimum Revenue Provision because of internal and external borrowing incurred in Quarter 1 2021-22 to fund affordable homes and investment property.

3.3 To renew understanding for Members; additional explanation and definitions have been provided for each line within the Medium-Term Financial Strategy within Section 4 of this report. The updated Medium-Term Financial Strategy is shown at 3.4.

3.4 Updated Medium Term Financial Strategy

£'000	Approved 2021-22	Revised 2021-22	Forecast 2022-23	Forecast 2023-24
Net Service Budget	10,536	10,536	11,910	12,704
SANG Expenditure	258	258		
Cost of Service	10,794	10,794	11,910	12,704
Contractual Inflation		0	300	300
MRP Growth	418	516	363	0
Pressures/Savings	600	600	131	0
New Homes Bonus	-1,847	-1,847	-800	-500
Other non-ringfenced grant	-199	-199	-199	-199
Net Expenditure	9,766	9,864	11,705	12,305
Financed by:				
Council Tax		-7,487	-7,487	-7,487
Council Tax Increase			-205	-410
Business Rates				
Retained		-1,400	-1,440	-1,480
Collection Fund - CT Surplus				
Collection Fund - NNDR Deficit				
S106 Receipts		-53	-53	-53
SANG Receipts		-258	-258	-258
Commercial Income		-783	-1,048	-1,048
Total Financing		-9,981	-10,491	-10,736
(Surplus)/Deficit		-117	1,214	1,569

4 DETAILED DEFINITIONS AND ASSUMPTIONS

4.1 Net Service Budget

Gross expenditure for a service, less directly related income. This is made up of the prior year figure with any pressures, MRP and inflationary growth added to it.

4.2 SANG Expenditure

SANG expenditure is revenue spend on our SANGs sites. Historically this was shown separately but is not incorporated into the net service budget.

4.3 Cost of Service

Net Service Budget added to SANG expenditure.

- 4.4 **Contractual Inflation**
Estimated inflation on the Waste and Capita contracts. These will be calculated in detail and applied on the next version of the MTFs reported in October.
- 4.5 **Minimum Revenue Provision Growth**
The minimum revenue provision (MRP) is the minimum amount that must be charged to an authority's revenue account each year and set aside as a provision for debt repayment or other credit liabilities.
- 4.6 **Pressures / Savings**
This is the total of additional expenditure required by additional pressures or a reduction in expenditure due to savings. Current levels anticipated for 2022/23 are made up of payments to Capita caused by a change in the allocation of costs.
- 4.7 **New Homes Bonus (NHB)**
NHB was an un-ringfenced grant linked to the delivery of additional housing. There is uncertainty as to whether this will continue into 2022/23; an estimation has nevertheless been made as to the level of funding that may possibly replace it.
- 4.8 **Other non-ringfenced grant**
This grant is a District Tier level specific grant first received in 2021-22. This is expected to be received again in 2022-23.
- 4.9 **Net Expenditure**
Total service cost after New Homes Bonus and Other non-ringfenced grant.
- 4.10 **Council Tax**
This is the estimated Council Tax rate based on projected collection rates at Band D equivalent level. It is calculated by taking Council Tax across the Band D equivalent level of properties and multiplying it by the collection rate
- 4.11 **Council Tax Increase**
There is currently an assumption of a 2% Council Tax increase; additional income is stated in this line.
- 4.12 **Business Rates Retained**
This is the amount of Business Rates retained after payments have been made to Central Government.
- 4.13 **Collection Fund surplus / Deficit**
This is any surplus or deficit above what has been forecast to be received from Council Tax and Business Rates after the monetary amount has been shared between the preceptors.
- 4.14 **Section 106 receipts**
These are developer contributions towards the implementation and maintenance of infrastructure assets.

4.15 **SANG receipts**

The contribution from the SANGS reserves pays for the SANG revenue expenditure. This is drawn down annually.

4.16 **Commercial Income**

Proceeds of commercial rental income. Hedge End is included in Net Service Budget, other schemes are shown in bottom line.

4.17 **Total Financing**

Total Financing Income – total of cells above.

4.18 **Surplus/Deficit**

Difference between Net Expenditure and Total Financing.

5 SIGNIFICANT FACTORS AFFECTING THE BUDGET

5.1 As reported in previous Medium Term Financial Strategies with the threatened removal of New Homes Bonus. The financial challenges for local authorities will continue indefinitely and there are several factors which make accurate medium-term financial forecasting problematic at this stage. This report outlines the issues that may have the most impact on the Council's revenue budget.

5.2 **Local Government Settlement**

It is expected that the Government will publish a one-year spending review in November 2021. The longer-term Spending Review is likely to be delayed.

Hart has not received a Revenue Support Grant (RSG) since 2017/18. From 2020/21 Hart was likely to have a negative grant whereby the Council would have to pay the Government at least £500,000 per annum. However, the Technical Consultation confirmed that the Government would continue to fund "negative RSG" until the end of 2021/22. It is unknown if this will continue beyond 2021/22.

5.3 **New Homes Bonus (NHB)**

The Council relies heavily on funding from NHB. NHB provided £1.847 million in 2021/22.

HNB is due to end in 2021/22. It is not clear whether there will be a replacement, nor whether Hart would qualify for any future payments. The Medium-Term Financial Strategy assumes that there will be a replacement at a lower level of funding.

5.4 **National Non-Domestic Rates (NNDR)**

The new system of 75% business rates retention was delayed until 2022/23 and there is no current update on this implementation. It is too early to predict the exact consequences for the Council, but the new system is unlikely to lead to significant extra funding.

5.5 **Fair Funding Review**

The formulae the Government uses for calculating local government funding are still under review. Further funding from April 2022 could be significantly

affected by this review, however there is doubt over whether this could be implemented in time for 2022/23.

5.6 Other Budget Pressures

The Council faces several other potential budget pressures such as:

- Collection fund deficits on the NNDR account, particularly as the result of appeals and Covid-19.
- Pay increase for staff as required by NJC.
- Inflationary adjustments and indexation on major contracts.
- Reductions of fees and charges income because of Covid-19
- Impact of the National Waste Strategy

6 RESERVES

6.1 The Council is required to maintain a minimum level of General Fund Reserves that equates to approximately 10% of net expenditure (£1m in Hart's case). For the life of this strategy the reserve needs to be set at a minimum of £1.17m.

6.2 The Section 151 Officer recommends that the above balance is increased in Hart's case to take account of specific risk arising being loan repayments, New Homes Bonus, and Income from Garden Waste. The Section 151 Officer also recommends a temporary increase in General Fund due to risk of underperformance in income on the Leisure Contract.

The calculation of our recommended minimum level of reserves is therefore shown below:

	2022-23 £'000
10% of Net Expenditure	1,170
Garden waste income	900
New Homes Bonus	1,847
Leisure Contract	1,400
Total	5,317

At the end of 2020/21 General Fund reserves were over £6.8m, more than the minimum level required, however, there are undoubtedly significant financial pressures to come in future years.

7 COMMERCIAL STRATEGY

7.1 The Council has already recognised the future funding risk and has successfully adopted a Commercial Strategy. This will deliver over £1.2m in additional income. There is, however, a risk involved in this approach and whilst the Council has purchased two investment properties and developed affordable homes there are no guarantees that further profitable opportunities will be found

7.2 In addition, the Council will be taking on additional risks such as voids and the timing of acquisitions and construction. Factors such as the performance of the wider economy may impact on future income.

8 IDENTIFIED SAVINGS

8.1 A programme of potential savings has been identified. These are specifically intended to reduce the pressure on the Council's annual revenue budget (i.e. they are designed to be structural changes to the Council's future revenue base budget). These savings have been risk rated and tiered according to several internal and external factors.

8.2 Level One savings are those savings which will have limited impact on the vital services we provide to our residents and communities. These savings can also be delivered 'at pace' in line with the requirement for savings in the coming financial year with minimal political risk and minimum implementation risk.

Suggested **Level One Savings** are listed below:

Year	Description	Estimated level of savings £'000
21.1	Community – Use built up grant budgets to fund revenue spend for three years	150
21.2	Technical and Environmental - CCTV change of contract as approved by Cabinet captures savings	70
21.3	Civic Offices – Reduced cost on Hart Civic Offices	60
21.4	Cross organisation – Capitalisation and recharge	55
	Total	335

8.3 Level Two savings are those that will need to be examined in more detail. Ultimately all may not be achievable but at present they present the best opportunities (beyond level one savings) to make the required structural savings to the annual revenue budget. In some cases, these may require support funding drawn from reserves to secure the longer-term structural change to the Council's base revenue budget (i.e. the 'spend to save' principle)

Suggested **Level Two Savings** are listed below:

Year	Description	Estimated level of savings £'000
21.5	Corporate – Corporate Services Restructure – bring services back from Mendip and restructure	100
21.6	Corporate – Review and revise skills and resources at Senior Management Team (net)	90
21.7	Corporate – Carry out a review of Member and Staff allowances	100
21.8	Corporate – Outsource of Internal Audit to one provider.	60

Year	Description	Estimated level of savings £'000
21.9	Place – Review and revise skills and resources and skills required in the future within Place	40
21.10	Technical and Environmental – Review and revise skills and resources required within Technical and Environmental Services	35
21.11	Place – Review and revise corporate Health and Safety functions	15
21.12	Technical and Environment – Review County Highways Agency contract	27
	Total Level 2 2022/23 savings provisionally identified	467

- 8.4 It is recommended that the Level One savings are agreed and incorporated into the MTFs without further review. With respect to Level two savings, it is recommended that business cases are worked up on all Level two savings; with the outcome of those business cases presented to Cabinet in November for decision.
- 8.5 Some of the Business Cases will require the use of external consultants to aid clear and independent evaluation. This is especially important for the review of Senior Management and also the Member and Staff allowances which would benefit from external assessment and benchmarking. To allow for this, a provision of £10K is requested to help bring forward the Business Cases on this timeline
- 8.6 It is unlikely that the Level One and Two savings identified within this report will sufficiently close the gap needed to meet a balanced budget for 2022/2023. The extent of any potential budget 'gap' will depend upon any announcement by the government in late autumn of the 2022/2023 settlement. Depending upon the settlement outcome a further report identifying potential **Level Three** savings will be presented to Cabinet in November 2021 for consideration.

9 CONSULTATIONS

- 9.1 This report was considered by Overview and Scrutiny on Tuesday 17th August
- 9.2 Members discussions included:
- Losing the New Homes Bonus and its implications.
 - The Commercial Income
 - The possibility of borrowing from other local authorities, SANGS or earmarked reserves.
 - Losing the Garden Waste income revenue, New Burdens funding and how much additional costs this scheme could incur. This has currently been identified as £900,000.
 - Members input and involvement in the programme of potential savings.
 - The possibility of using the council's estate and assets more effectively and for financial gain.

9.3 In addition, the Portfolio Holder for Finance confirmed that workshops would be set up with members if required for Level Three savings.

10 NEXT STEPS

10.1 Level Two business cases will be presented to Cabinet in November alongside a further revised MTFS; updated for any funding information and detailed Council Tax data. Members will be invited to approve Level Two savings at this point. At this meeting a list of potential Level Three savings may also be presented for a decision on which areas which be shortlisted to be worked up into a further set of business cases.

10.3 It is anticipated that final funding information from Government will be received in December 2021. A report will be presented to Cabinet in January which will requests approval, in the event of it being necessary, of Level Three savings and incorporation of these savings into the 2022/23 budget process.

10.4 As part of the report to Cabinet in January; the MTFS will be extended to a period of ten years into the future as recommended by the CIPFA Code of Financial Management.

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