

OVERVIEW AND SCRUTINY COMMITTEE

DATE OF MEETING: 19 October 2021

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

Report of: Head of Corporate Services

Cabinet Member: Deputy Leader and Finance

1 PURPOSE OF REPORT

- 1.1 To consider the emerging budget for 2022/23 and the draft Medium Term Financial Strategy (MTFS) in line with the timetable set out in the Overview and Scrutiny meeting of the 17 August 2021.

2 OFFICER RECOMMENDATIONS

- 2.1 That the revised MTFS including Level One savings as shown at paragraph 3.4 is noted.
- 2.2 The Level Two business cases contained in Appendix One are discussed and noted.
- 2.3 The MTFS including Level Two and Three savings shown at paragraph 6.4 is noted.
- 2.4 The detailed timetable for 2022/23 budget setting be discussed and noted.
- 2.5 Recruitment Management as detailed in paragraph 5.4 is recommended to Cabinet for agreement.

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 was updated in August for investments and Minimum Revenue Provision and now has been updated further to incorporate the Level One savings approved by Cabinet in September 2021.
- 3.3 As seen in the MTFS shown below at paragraph 3.4 after level one savings have been considered there remains an estimated budget gap of £879,000 in 2022-23 and £1,234,000 in 2023-24.

3.4 Updated Medium Term Financial Strategy

	2021-22	2021-22	2022-23	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
Commercial Income RPI		-54		-54
Level One Savings			-335	-335
Level Two Savings		-331	-477	
Total Financing		-9,981	-11,211	-11,602

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. It should be noted that there is no specific growth item or pressure shown currently for climate change.
- 4.7 **New Homes Bonus**
The New Homes Bonus 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 which equates to our New Homes Bonus prediction excluding legacy grants pertaining to previous years.
- 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 we are expecting the 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**
- 5.2.1 It is expected that the Government will publish a spending review on the 27 October 2021; this will contain a draft Local Government settlement. There is significant concern over what funding might be available in the spending review for Local Government as the Department for Levelling up, Housing and Communities' budget is not protected. There are significant further funding requirements for both Health (£5bn) and Aid (£5bn) combined with pressures for Education and Justice which will undoubtedly affect the total amount of funding remaining for Local Government. **It is therefore not possible at this time to predict with any certainty exactly what settlement the Council will ultimately receive. At this stage it can only be a questimate.**
- 5.2.2 There is an assumption that on average District Councils hold approximately one year's expenditure requirements within their reserves and that this may be used to meet short-term deficits. As detailed in the MTFs report that was brought to the Overview and Scrutiny Committee in August 2021; total general fund balance excluding what must be held as minimum balances is £6.8m which falls short of annual expenditure requirements.
- 5.2.3 We do not anticipate a significant increase in levels of business rates; in fact, whilst leisure appears to be recovering from the Covid pandemic the high street still struggles.
- 5.2.4 Council Tax base should be prudently estimated, now that furlough has ended, and Universal Credit will be reduced we anticipate both higher levels of Council Tax support and lower levels of Council Tax collection.
- 5.3 **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

5.4 Recruitment Management

As can be seen in the MTFs; the savings gap is significant. There is a need to keep controllable service costs to a minimum. The Council has always been prudent in managing staff vacancies but now is the time to impose additional scrutiny. Pending approval by Cabinet, recruitment to vacant posts should now only be made with relevant portfolio-holder consultation and be reported as part of the quarterly budget monitoring process.

6 IDENTIFIED SAVINGS (LEVEL TWO)

- 6.1 A programme of potential savings was identified and reported to the August 2021 meeting of Overview and Scrutiny Committee. In September, Cabinet approved several areas to be worked up into more detailed cases and presented to Cabinet in November 2021. These Level Two savings cases are provided in Appendix A to this report. For ease a list of these is provided in the paragraph below. An additional Level Two saving has been added to the list received by Cabinet which is the provision of the dog warden service. The below table shows a summary of the Level Two savings with anticipated savings levels presented further assessment work has taken place. Some savings take time to deliver, and this is reflected in the table below.

Description	Total Annual Savings	2022-23 savings	2023-24 savings	2024-25 savings
Corporate – Corporate Services Restructure – bring services back from Mendip and restructure	181	85	181	181
Corporate – Review and revise skills and resources at Senior Management Team	90	90	90	90
Corporate – Carry out a review of Member and Staff allowances	4	29	54	75
Corporate – Outsource of Internal Audit to one provider.	15	15	15	15
Place – Review and revise skills and resources and skills required in the future within Place	50	25	50	50
Technical and Environmental – Review and revise skills and resources required within Technical and Environmental Services	35	35	35	35
Place – Review provision of dog warden service	27	27	27	27
Technical and Environment – Review County Highways Agency contract	25	25	25	25
Total Level 2 2022/23 savings provisionally identified	498	331	477	498

6.2 The above savings have been incorporated into a revised MTFs which is shown below at 6.4.

6.3 A further review of commercial income has taken place to ensure that additional income identified through inflationary increases has been considered. The additional income identified is set out in the table below. This has been incorporated into the MTFs at 8.8. Council Officers continue to work with local and national property agents to identify suitable investments which may meet the requirements of the Council's commercial strategy.

	£'000	£'000	£'000
	2022-23	2023-24	2024-25
Commercial Property inflationary income	18	54	54

6.4 Revised MTFS

£'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
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Level One Savings			-335	-335
Level Two Savings			-331	-477
Total Financing		-9,981	-11,211	-11,602
(Surplus)/Deficit		-117	494	703

7 NEXT STEPS

- 7.1 It is expected that the Council will receive a provisional financial settlement on the 27 October in advance of the Cabinet meeting on Thursday 4 November 2021. A summary of the affect of the provisional settlement will be provided as a paper to follow to the meeting to enable time to analyse the results of the provisional settlement.
- 7.2 The Level Two business cases will be brought to the Cabinet Meeting on Thursday 4 November for approval so that early work can be started, and the savings built into the Budgets to be approved by Council.
- 7.3 Depending on the outcome of the provision settlement, a series of Level Three savings may be required to balance the budget for 2022-23 and 2023-24. These will need to be brought forward to the December Cabinet for approval to be worked up into Business Cases and presented to January Overview and

Scrutiny Committee and February Cabinet to be incorporated into the Council Budget meeting where the 2022-23 budget will be set.

- 7.4 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.
- 7.5 Salary budgets and budgets for contracted services are being built from zero; this work will be completed by the 27 October 2021, to enable the updated MTFS to Cabinet to consider accurate predictions of levels of spend in these areas.
- 7.6 The Finance Team have sent requests for capital budgets and fee levels for fees and charges to the respective Services. This information will be returned to the Finance team by the end of October so that meaningful capital estimates, income levels and treasury management income levels can be built into later iterations of the MTFS and detailed budget for Member approval.

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APPENDIX ONE – Level 2 Business Cases for Review - EXEMPT FROM PUBLICATION.