

CABINET

DATE OF MEETING: 3 DECEMBER 2020

TITLE OF REPORT: 2021/22 BUDGET & MEDIUM TERM FINANCIAL STRATEGY

Report of: Head of Corporate Services

Cabinet Member: Councillor James Radley, Deputy Leader and Finance

1 PURPOSE OF REPORT

1.1 To allow an early consideration of the emerging budget for 2021/22 and the draft Medium Term Financial Strategy (MTFS).

2 OFFICER RECOMMENDATION

2.1 That the issues around the emerging budget for 2021/22 be discussed and noted.

3 BACKGROUND

3.1 The financial challenges for local authorities will continue indefinitely and there are a number of 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.

4 SIGNIFICANT FACTORS AFFECTING THE BUDGET

4.1 Local Government Settlement

The Government is due to publish a one-year spending review on 25th November 2020. The longer-term Spending Review has been delayed with more immediate challenges such as the COVID pandemic and Brexit dominating government attention.

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

4.2 New Homes Bonus (NHB)

The Council relies heavily on funding from NHB. NHB provided £2.377 million towards the revenue budget of £9.432 million in 2020/21.

The Government made substantial changes to the NHB scheme from April 2017, as it diverted funding away from districts to counties and unitaries to

fund adult social care pressures. Payment periods have also been reduced from 6 to 4 years. A baseline has also been introduced. For 2017/18 the first 0.4% increase in housing growth was disallowed for NHB allocation. The Government has indicated that it may change the level of this threshold in 2020/21.

It is not clear whether there will be a replacement, nor whether Hart would qualify for any future payments. However there is a possibility that this scheme will be extended be another year. If this is confirmed then the NHB for 2021/22 could be in the region of £2.26M

4.3 National Non-Domestic Rates (NNDR)

The new system of 75% business rates retention was delayed until 2021/22 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.

4.4 Fair Funding Review

The formulae the Government uses for calculating local government funding are still under review. Further funding from April 2021 could be significantly affected by this review, however there is doubt over whether this could be implemented in time for 2021/22.

4.5 Other Budget Pressures

The Council faces a number of other potential budget pressures such as:

- Collection fund deficits on the NNDR account, particularly as the result of appeals and Covid-19.
- Continued reductions in funding by Hampshire County Council for a variety of agency and other services, including a £500,000 reduction in waste funding from 2021/22
- Pay increase for staff as required by NJC.
- Inflationary adjustments and indexation on major contracts.
- Reductions of fees and charges income as a result of Covid-19.
- Additional costs of delivering Exchequer due to changes to the Corporate Services contract.

5 2021/22 LOCAL GOVERNMENT FINANCE SETTLEMENT TECHNICAL CONSULTATION PAPER

- 5.1 The Government has not yet released its consultation on the continuation of limiting council tax increases in 2020/21 to less than 3% or up to and including £5, whichever is the higher, without triggering the need for a referendum. For Hart, an increase of 3% would be £5.

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 £1m.
- 6.2 At the end of 2019/20 the reserves were over £6m, comfortably more than the minimum level required. Although this is a healthy balance there are undoubtedly significant financial pressures to come in future years. The current level of reserves provides an opportunity to prepare for those future pressures without the need for sudden reductions in service levels.
- 6.3 The Council has a good record in controlling costs over the last few years and it is necessary for that discipline to continue.

7 MEDIUM TERM FINANCIAL STRATEGY

- 7.1 The MTFs is attached as **Appendix 1**. This outlines a number of changes possibly due in 2021/22:
- Spending Review 2020 – currently delayed but is likely to continue cuts to central government funding of local government
 - Fair Funding Review – likely to redistribute funding within local government to councils with Social Care responsibilities
 - New Homes Bonus – likely to be phased out, maybe a year later than expected
 - Business Rates – changes unlikely to benefit Hart
- 7.2 The Council faces a possible “perfect storm” of detrimental changes to funding, including the potential loss of all New Homes Bonus.

8 COMMERCIAL STRATEGY

- 8.1 The Council has already recognised the risk of losing New Homes Bonus and has adopted a Commercial Strategy to try to make good any such losses.
- 8.2 However, there is much risk involved in this approach, and there are no guarantees that sufficient profitable opportunities will be found and developed in the timescales required.
- 8.3 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.
- 8.4 In March 2020 Hart acquired an office building in Southampton and is in the process of acquiring residential apartments in Fleet. The commercial building began generating income in late 2019/20 and the residential building will start to generate income in 2021/22. The search for additional investment opportunities has been curtailed by the Covid-19 pandemic.

9 KEY MESSAGES

- 9.1 The Council is likely to face a perfect storm of reduced central government funding from 2021/22.
- 9.2 New Homes Bonus, which currently funds 20% of the revenue budget, could be phased out over three years from 2020/21.
- 9.3 Business rates income will not increase significantly. As larger businesses withdraw from the district income may reduce and Hart will increasingly rely on the safety-net.
- 9.4 The Commercial Strategy is active but prone to several risks.
- 9.5 As a result of these changes, Hart will continue to face financial challenges and may require significant further savings once the 2021/22 picture is clearer.

10 NEXT STEPS

- 10.1 Officers will continue to work on the budget and refine the figures.
- 10.2 Key milestones with regards to the 2021/22 budget include:
 - The 2021/22 Local Government Spending Review – anticipated on Nov 25th.
 - Changes to the New Homes Bonus
- 10.3 Based on the evidence available, the annual budget report will be submitted to Overview and Scrutiny Committee in January 2021 with endorsement by Cabinet and final consideration by Council, in February 2021. This will include an updated MTFS.

Contact Details: Emma Foy, email: Emma.Foy@hart.gov.uk

APPENDICES:

Appendix 1 – Medium-Term Financial Strategy 2021/22-2023/24

BACKGROUND PAPERS:

- Various Government Consultation Papers
- Council Reports

PAPER G - Appendix 1

	Medium Term Financial Strategy		
	2021_22	2022_23	2023_24
Net Service Budget	10,439	10,651	10,797
SANG Expenditure			
Cost of Service	10,439	10,651	10,797
Debt Interest	12	12	12
MRP	522	533	540
New Homes Bonus	- 2,260 -	- 1,093 -	- 588
Other non-ringfenced grant			
Pressures	1,510	420	
Net Expenditure	10,223	10,522	10,762
Financed by:			
Council Tax	- 7,252 -	- 7,252 -	- 7,252
Council Tax Increase	- 410 -	- 615 -	- 820
Business Rates Retained	- 1,486 -	- 1,506 -	- 1,526
Collection Fund - CTSurplus			
Collection Fund - NNDR Deficit			
S106 Receipts	- 53 -	- 53 -	- 53
SANG Receipts	- 220 -	- 220 -	- 220
Commercial Income Target	- 801 -	- 875 -	- 890
Total Financing	- 10,223 -	- 10,521 -	- 10,761
(Surplus)/Deficit	0	0	0