

COUNCIL

DATE OF MEETING: 23 FEBRUARY 2023

TITLE OF REPORT: DRAFT BUDGET 2023/2024 AND MEDIUM-TERM FINANCIAL STRATEGY

Cabinet Members: Councillor James Radley, Deputy Leader and Finance Councillor Richard Quarterman, Corporate and Commercialisation

1 PURPOSE OF REPORT

1.1 The Budget is a major decision for Hart District Council (The Council) and setting a balanced budget is a statutory requirement. Scrutiny of these budget proposals demonstrate transparency and good governance. This report provides a summary of the revenue and capital budget proposals for 2023/2024.

2 RECOMMENDATION

2.1 Cabinet is recommending to Council that it

- i. agrees a 2.99% increase in Hart District Council's Band D Council Tax Charge for 2023/24,
- ii. agrees not to change the Council's existing Council Tax Support Scheme other than the required statutory uprating,
- iii. agrees to make changes to fees and charges for 2023/24 in line with the principles set out in this report, with full details being reported to full Council,
- iiia (New officer recommendation) approves the schedule of fees and charges as set out in Appendix 5
- iv. approves the draft Revenue Budget for 2023/24 as summarised in paragraph 10.1 and Appendix 3, incorporating the baseline net service cost variations included at Appendix 4,
- v. approves the new Capital Bids as detailed in Appendix 1,
- vi. requests the S151 Officer to undertake a comprehensive review of reserves, provisions and SANG funds, as detailed in section 7 of this report, in Spring 2023 when the 2022/23 outturn is known and a more accurate assessment of economic conditions and business rate provisions can be made,
- vii. approves the Medium-Term Financial Strategy as set out in Appendix 2,
- viii. notes the emerging pressures and risks set out in the report and the S151 Officer's intention to undertake a mid-year review of detailed budgets, and
- ix. approves the capital receipt flexibility strategy detailed in the report under the Direction issued by the Government early in 2022.

3 LOCAL GOVERNMENT FINANCE SETTLEMENT

3.1 This proposed budget includes funding provided in the provisional finance settlement for 2023/2024 which was published on December 19th, 2022. The final settlement is expected early in 2023 and, whilst a material change to The Council's figures is unlikely, it would be reported to Council if it occurred. This is

the third year that the Government has provided a short-term (one-year) funding settlement, however it has set out some planning assumptions for 2024/25 but the majority of the grant funding, New Homes Bonus and the new funding guarantee grant, remain uncertain beyond 2023/24. This limits any accurate financial planning to one year, therefore best estimates of government funding have been made for future years.

Summary of Proposals for 2023/24:

- Referendum principles of up to 3% for core Council Tax, and up to 2% for the Adult Social Care Precept, with additional flexibilities for some authorities. No limit for Town and Parish Councils.
- A new one-off funding guarantee that ensures all local authorities will see a minimum 3% increase in their Core Spending Power before any local decisions on raising Council Tax.
- £100 million (nationally) of additional funding for local authorities to support the most vulnerable households in England. This funding will allow councils to deliver additional support to the 3.8 million households already receiving Council Tax support, whilst also providing councils with the resources and flexibility to determine the local approaches to support other vulnerable households in their area. Further guidance will follow in due course.

Planning assumptions for 2024/25:

- Referendum principles for council tax increases will remain as 2023/24.
- The Fair Funding review will not be implemented in 2023/24 or 2024/25.
- The Government will set out the future of New Homes Bonus ahead of the 2024/25 Finance Settlement.

4 COUNCIL TAX AND COLLECTION FUND

- 4.1 The Government has provided a cap on Council Tax increases to District Council as in previous years. The cap for 2023/24 is the greater of 3% or £5 on a Band D property. Any rise that is 3% or higher will require holding a local referendum. The Government assumes that Councils will increase at the capped level in order to maintain their spending power. The budget proposals included in this report assume a 2.99% increase in 2023/2024, which is higher than £5. This equates to an annual Council Tax increase of £5.56pa for an average Band D property and will generate an additional income for The Council of approximately £237,000pa. The February Council meeting will receive the detailed statutory council tax setting report, following the Budget report on the agenda.

5 NEW HOMES BONUS (NHB)

- 5.1 The provisional Local Government Settlement retains New Homes Bonus for 2023/24 and the value to be received for 2022/23 is £790k, significantly less than the current amount of £1,604k, the main difference being the ending of legacy payments. The Council relies on funding from New Homes Bonus with approximately 14% of the net revenue budget being funded by New Homes Bonus in 2022/2023. It should be noted that in 2023/24 the Government has

compensated the termination of legacy payments with the introduction of a one-off funding guarantee grant.

- 5.2 There is a significant future risk to the Council and whilst the Government consultation confirms that it is considering a replacement to the New Homes Bonus, from 2024/25 there is no certainty as to what this could look like.

6 SUMMARY OF CORE GOVERNMENT GRANT FUNDING

- 6.1 The 2023/24 Finance Settlement introduced some changes to the structure of core funding for local government. The figures for The Council are summarised below compared to the 2022/23 amounts.

	2022/23 £000	2023/24 £000	Notes
Retained business rates	1,400	1,326	Budgeted at safety net amount
New Homes Bonus	1,603	790	2023/24 is one year only
Revenue Support Grant	0	69	Rolled up amounts of other grants detailed below
Lower Tier Grant	62	0	
Services Grant	95	54	Reduced due to cancelation of National Insurance increase
One-off funding guarantee	0	1,029	New one-off grant to ensure that LAs get 3% increase in Spending Power overall
CTax Support admin	50	0	See above
CTax Family Annexe discount	19	0	See above
Total	3,229	3,268	

7 RESERVES AND PROVISIONS

- 7.1 The S151 Officer has undertaken an initial review of reserves and provisions that are within the scope of the revenue budget and Medium-Term Financial Strategy (MTFS). These totalled £26m on 1/4/22, not including the general fund working balance. The conclusion reached is that the position is prudent for the purpose of setting the 2023/24 Budget and for providing resilience for supporting the MTFS, however there are some notable issues that the S151 needs to draw Members' attention to. In the light of these issues, it is recommended that a comprehensive review of reserves is undertaken in the Spring 2023 with any proposed changes reported to council in July. At this point, the 2022/23 outturn will be known and a more accurate assessment of economic conditions and business rate provisions can be made.

Main Issues to consider in the review of reserves:

- It is necessary to review the purpose, approved use and amount held for each reserve to ensure that the earmarking of resources is still justified and that the balances are prudent and provide sufficient flexibility to the Council
- Given the continued uncertain inflation forecasts and economic volatility, including post-Covid recovery of some key income streams, it is important that the Council makes sufficient allowance to cushion the impact on services and the annual budget.
- It was reported in the 2022/23 budget report that the General Fund working balance needs reviewing (balance £6.9m). This has not yet been done so, once the outturn 2022/23 is known, a review of the purpose and amount will be undertaken
- Business rates smoothing reserve (£6.6m). This is a discretionary reserve set up when the new 'retained business rates' funding system was introduced by Government in 2013. It had three main initial purposes which are to mitigate the impact of reductions in rateable value across the borough, increases in appeals and reductions in retained business rate core funding. Between 2020 and 2022 local authorities were required to implement numerous Covid business support schemes. Because a number of these schemes spanned several years and had uncertain impact, councils were required to set aside earmarked reserves. The Council combined this with its existing business rates smoothing account. Once the Council's budget outturn and the collection fund have been closed for 2022/23, a review of the residual risk and prudent reserve can be undertaken.
- Officers have commenced an initial review of earmarked SANG reserves (£14.9m). These reserves must provide sufficient resource to maintain and manage the SANG sites in perpetuity (80 years), therefore forecasting income and expenditure and capital investment as accurately as possible is essential. This will be done in collaboration with colleagues in the community service and reported to Members as part of the wider reserves review, along with any recommendations
- There is a need to continue to pump prime with upfront investment, further 'invest to save' projects to generate long-term revenue budget savings, subject to business case and payback. There is also the need to make sufficient resources available to deliver the capital programme and other important community and corporate projects. Alongside the reserves review, officers will bring forward proposals to pool project resources to add flexibility and resilience. Supporting these corporate needs will be one of the objectives of the reserves review.
- There are other smaller reserves totalling £4.5m that the Council has earmarked for specific purposes, some of which will be drawn down in 2022/23, and these will all be reviewed. Provisions fall outside of earmarked reserves and are held to mitigate the financial impact of specific risks. These council include bad debts and investment property voids etc. It is proposed to include provisions in the scope of the review, particularly given the increased reliance on investment property income in the core budget.

8 COUNCIL TAX SUPPORT SCHEME

- 8.1 Since 2013, local authorities in England have been responsible for running their own local schemes for help with council tax - Council Tax Support. Pension age

claimants are protected by law to an entitlement that is equivalent to the previous council tax benefit scheme. For working age claimants councils can choose to either reduce the discount paid or find income to make up the reduction. In previous years the Council has agreed not to reduce the discount (benefits) paid to such claimants but to fund the cost from the revenue budget, which is split across all preceptors. The Council's current scheme supports 2,700 low-income households in the district and provides much needed help for keeping bills down. There are no proposals to change the Hart District Council's scheme for 2023/24, other than to apply to statutory uprating adjustments required by Government.

9 FEES AND CHARGES

9.1 The Budget has been prepared taking account of the following changes to charges in the main service areas:

- Following a significant decrease in car parking income due to Covid, and a lack of workplace commuting, the overall car parking fee income is still below pre-Covid levels. Green waste subscriptions are holding up, however, Hart's charges are towards the upper end compared to other Councils in the area. In the light of the current squeeze on household finances and the need to continue to support local businesses, there are no proposals to increase car park charges or green waste subscriptions in the 2023/24 draft budget.
- In all other cases, where the Council has flexibility in setting and charges the general approach is to increase them by inflation (using 10% as a general guide) or up to the nearest £, where applicable, including the leisure centre charges where the operator is entitled under the contract to apply an inflationary increase. The only exceptions are where statutory charges apply or where the service manager has proposed a charge that is more or less than inflation where this can be justified, any such case will be reported to Council with accompanying explanation

10 DRAFT BUDGET 2023/2024

10.1 The table below summarises the draft budget for 2023/2024 compared to the approved 2022/2023 budget

	Note	2022_23	2023_24	
		Budget	Budget	
Net Service Budget		11,393	12,149	See Appendix 3 and 4 for breakdown
SANG Expenditure	(i)	567	571	Funded from reserves
Net Cost of Service	(ii)	11,960	12,720	
Treasury Net debt/ investment Interest	(iii)	12	107	
MRP	(iv)	642	564	
Net Expenditure		12,614	13,391	
Financed by:				
Council Tax		- 7,813	- 7,813	Base council tax 22/23

Council Tax Increase			- 327	3% increase + new dwellings
Business Rates Retained		- 1,400	- 1,326	Local Government Settlement
New Homes Bonus		- 1,604	- 790	Local Government Settlement
Other non-ringfenced grant		- 157	- 1,152	Local Government Settlement
SANG Reserve	(i)	- 567	- 571	
Investment property rental income	(v)	- 1,073	- 1,413	
Total Financing		- 12,614	- 13,391	
(Surplus)/Deficit		0	0	

Notes:

- (i) SANG costs and funding from reserves to be reviewed and reported to Council as part of the wider reserves review. Actions may be needed to ensure the sustainability of the reserve in perpetuity.
- (ii) Tier 1 & 2 Savings agreed with the 2022/23 budget are included in the Cost of Service and future years' base budget ie. £12,497k - £335k - £202k = £11,960k. The enhanced savings targets, as set out in the MTFS forecast presented to Council in Feb 2022, are included in the draft 2023/24 Budget. It is assumed that these targets will be achieved, however, close monitoring by officers and members will be undertaken throughout the year. Since the emerging budget pressures report was presented to O&S Committee in November showing an indicative budget shortfall of £202k in 2023/24, several budget adjustments have been identified, these are included in Appendix 4, the most notable being debt charges and leisure centre management fees. The draft budget includes a best estimate assumption on the staff pay award for 1 April 2023, however this is unlikely to have been settled by the time the Council approves the budget so Cabinet will be updated as soon as there is certainty and any budget implications will be addressed at that point.
- (iii) The treasury net interest includes a higher PWLB debt financing charge due to the additional borrowing in 2021/22, however, this is partly offset by an improved forecast for interest receivable on invested cash due to higher interest rates and applying a longer-term outlook.
- (iv) The Minimum Revenue Provision (MRP) charge was due to increase significantly in 2023/24 to reflect additional unfinanced capital spending in 2021/22. However, following a review of The Council's MRP policy by our external treasury advisors, the charge can be contained within existing budget. The policy is subject to review and approval within the Treasury report elsewhere on the agenda.
- (v) Generating additional property income is one of the themes within the Commercial strategy (revised April 2021). The budget also contains savings arising from other themes of the Strategy such as efficiency and cost reduction. Achievements under the Commercial Strategy will be summarised and reported to Cabinet alongside the budget setting report in February 2023.
- 10.2 The climate change budget has remained at the same level of £250k plus staff costs, however, the resourcing needs to be reviewed to ensure that it is sufficient to produce the action plan and deliver the programme. In 2023/24 a greater proportion of the £250k will need to be utilised on delivery and project resource

than in 2022/23 and part of this resource will be focussed on securing external funding. It should be noted that

- 10.3 The Council has been successful in its application for £1m of funding under the Government's UK Shared Prosperity Fund. The funding will come in the following profile, £60k in 2022/23, £79k in 2023/24 and £881k in 2024/25 and the funding has to be spent according to the approved investment plan. In the coming months the Council will be preparing its resource plan and governance arrangements, and these will be subject to Cabinet approval.

11 COMMERCIAL STRATEGY

- 11.1 In August 2018 Hart District Council approved the framework for the Capital Strategy. The following themes were agreed:
- To increase income broadly via asset-based investments.
 - To reduce costs through such approaches as the LGA insurance mutual, better utilisation of the civic offices and other Council owned assets, and a review of the value of shared services.
 - To improve efficiency of services, decreasing current or future costs e.g. through digitalisation and demand reduction.
- 11.2 The Strategy was refreshed in 2020 with a focus on setting parameters for growing the Council's Commercial property portfolio.
- 11.3 A commercial strategy in a local authority is partly about shifting culture towards thinking as a business would, and partly about delivering real financial gains from undertaking specific activities, the later often stem from the former.
- 11.4 In the 2020/2021 budget, investment income from property was zero. The draft 2023/24 budget shows £1.4m commercial property rents. Budget gaps have also been addressed with a range of measures including savings programmes. Further details are included in the summary below.

REVIEW OF PROGRESS

Income from asset-based investments

Property	Date	Lease Term	Annual income £000
Civic centre	Feb 2019	5 years	£90
Investment property 1	March 2020	9 years	£380
Investment property 2	June 2021	16 years	£790
Community building 1			£51

- 11.5 Further projects are underway to apply a commercial approach to buildings that have running costs and repair liabilities the council, to put them to better community use and reduce financial risk. Hart is also in advanced negotiations with FCOT regarding their use of office space at the Civic Centre which will generate an income to Hart and boost the local economy in Fleet through increased footfall.

- 11.6 In addition to the above, whilst not specifically acquired under the Commercialisation Strategy, Hart also runs a scheme, operating through its wholly owned company, to provide high quality residential flats to key workers at a discounted rate, which generates a net revenue to the Council of £112k pa and demonstrates a commercial approach to delivering a corporate priority to meet a community need in the district.
- 11.7 On the theme of reducing costs and efficiency of services, the Tier 1 and Tier 2 savings have delivered over £0.5m of recurring savings across a range of service projects, and a further £0.3m is in the pipeline over the MTFS period. The Council has undertaken zero-based budget and subsequent rebase exercises to streamline the base budget. A senior management restructure and corporate service restructure has been completed during 2022, saving a further £0.1m. Officers are commencing projects to review the Capita contract and shared services with Basingstoke and Deane.
- 11.8 In the light of constraints on 'for yield' property investments and given the projected budget shortfalls over the MTFS and uncertainty in the economy, we still need to keep driving budget savings. Over and above normal housekeeping on budget review, we need an overarching framework/governance for efficiency. It is proposed to undertake a review of the Commercialisation Strategy in the Spring 2023 to ensure that it is relevant and continues to deliver.

12 NEW BIDS FOR CAPITAL SCHEMES

- 12.1 The new bids for capital schemes in 2023/2024 are summarised in Appendix 1. A condition survey of Hart-owned car parks has been commissioned, when the results are known a report will be made to Cabinet. Other schemes that are already approved are not included in this report, but they are reported to members in quarterly monitoring statements. Once the 22/23 outturn position is known, a review of all capital projects will be undertaken which will establish the adequacy of budgets given the very high inflation on labour and materials over the past two years.

13 MEDIUM TERM FINANCIAL STRATEGY (MTFS) 2023-24 – 2026/27

- 13.1 The Medium-Term Financial Strategy (MTFS) is The Council's key financial planning document which takes account of all the currently known various factors and influences that may impact on The Council for the next few years. The MTFS includes a forward look over the next four years to anticipate the spending pressures faced by The Council. Planning now to meet potential changes in the future provides greater opportunity to mitigate the impact. Good preparation will mean that The Council has sufficient funds to meet unexpected costs and that limited financial resources are targeted to The Council's residents' highest priorities. The draft 2023/24 budget is set in the context of the latest MTFS.

The Medium-Term Financial Strategy:

- Provides a framework for managing resources in the medium term to deliver the corporate plan.

- Demonstrates that sufficient resources will be available to meet The Council's objectives and priorities, particularly in the delivery of value for money.
- Looks ahead to the longer term to protect and help plan sustainable services within an extremely challenging external economic and funding environment.
- Strengthens The Council's financial resilience and manage volatility and risk, including maintaining an adequate level of reserves.
- Anticipates financial pressures and identify potential ways to balance The Council's budget including through efficiency measures.

The Council's MTFs ending 2026/27 has been updated to include the latest assumptions and projections and is included at Appendix 2.

14 FLEXIBLE USE OF CAPITAL RECEIPTS

- 14.1 In 2022 the Government issued a new directive under the Local Government Act 2003 which allows flexibility regarding the use of capital receipts from sale of non-housing assets to fund revenue costs of service reform. This applies to capital receipts that meet the statutory definition and have been received since April 2016.
- 14.2 With £480k of capital receipts held at 1/4/2022, it is sensible to make the required council resolution to enable this to be done if required. It is the Council's proposed strategy for 2023/24 to use capital receipts for certain revenue costs where these directly lead to the delivery of an ongoing revenue budget saving or efficiency gain, including business transformation and collaboration activity and projects

15 RISKS

- 15.1 There are a range of risks associated with the delivery of the MTFs and achievement of the various saving/efficiency programmes in place to address the budget shortfall, these are particularly important to identify given the ongoing uncertainty in the estimates and local economy. A summary of the key risks over the MTFs period is included below:
- Achieving savings targets when service demand is rising, and recruitment and retention is very challenging.
 - Limited ability for further investment in commercial property with new borrowing restrictions in place. Government policy change has affected the Council's ability to undertake prudent 'yield' investments.
 - Corporate capacity following recent changes which have reduced Senior Leadership Team to four posts, from six.
 - Impact of Government's business rate funding review and Fair Funding review is likely to reduced retained business rates and increase risk, negative grant is still on the agenda.
 - Investment property – this is an increasingly important revenue stream in the Council's budget so the risk of rent loss due to void periods must be evaluated.
 - Environment Act implications on the cost of the waste contract with uncertainty about government funding.

- The ending of the waste contract and Capita contract within the MTFS period presents risks but also opportunities. The Council must plan its lead in times and resource sufficiently.
- Project management and governance to ensure capital schemes and projects are adequately resourced and overseen. Need to attract external funding where possible.
- Reliance on Council Tax increase, Planning and Building Control income which are all set or limited by Government.
- The unknown economic impact on inflation and interest rates
- Cost of living and its economic impact on The Council's community, businesses and residents – this is leading to higher demand for services, the need for closer monitoring of debts and greater demand for hardship funds.
- Recruitment and retention – impact on services and cost of agency cover.
- Heightened cybercrime risk with the cost of insuring and defending against the risk materialising.

16 Local Government Act 2003 – Financial

- 16.1 The Local Government Act 2003 formally introduced a number of specific matters that the S151 Officer must comment on in the budget setting report. These are:
- Budget calculations and the robustness of estimates,
 - Adequacy of reserves, and
 - Budget monitoring.
- 16.2 The sections were introduced to ensure sound financial management across all local authorities. The Council's budget setting process complies with good financial management practice. Prudent allowance is made for risk and uncertainties in budgets. Budgets are monitored by officers and reported to Members on a quarterly basis supplemented by monthly exception reports. The Council's financial management continues to receive favourable comments from its external auditors.

The Robustness of the Estimates

The 2023/24 budget has been prepared following a period of unprecedented uncertainty and risk due to the impact of the pandemic and wider economic conditions on the council and its finances. Whilst these conditions continue, it is becoming possible to budget with more certainty in some key areas as recovery develops. A prudent assessment of income has been undertaken and provision has been made within The Council's budgets to allow for the uncertainty. The Council's Financial Strategy, together with information presented to members during the year demonstrates the financial challenges to The Council in the future including the risks associated with the current economic situation.

The key Financial Strategy issues for the General Fund include:

- Ongoing uncertainty and impact of the pandemic on The Council's services and finances. The most material impact will be in income areas such as car parks, and in the operation of the leisure centres.
- Increased risk from changes in business rate income due to declining rateable value, increased appeal risk and the Government's Fair Funding review due – impact on annual budget mitigated by the business rate smoothing reserve.

This reserve has been assessed against the risks and no further contribution has been made in 2023/24. Further adjustments may be possible in future years, but the outcome of the Government's Fair Funding review will need to be assessed first, particularly in relation to The Council's exposure to appeal risk.

- Keeping the dependency on current and new income from investment property in proportion to the overall budget and providing sufficiently for void periods and costs.
- Future of Government funding including New Homes Bonus
- Rising inflation and low interest rates.

In view of the level of awareness amongst Members and the action taken to produce The Council's draft Budget for 2023/24, the Section 151 Officer is satisfied with the robustness of the estimates presented. The Section 151 Officer is confident that overall, the Budget is prudent especially in view of the track record of achievement of budgeted savings over the past years but the risks noted in this report must be acknowledged and continuing with effective monitoring during the year will be essential. The MTFS sets out a multi-pronged strategy to address the financial challenges and these work streams are progressing well with confidence in the delivery of savings and successful achievement of additional commercial property income

Adequacy of Reserves

The General Fund balance would support fluctuations in normal business if required, e.g. unexpected changes in inflation or interest rates, higher than anticipated expenditure or loss of income, and spending on unforeseen events. Other reserves are held for specific purposes. As referred to earlier in this report, the S151 Officer is satisfied that reserves are sufficient to support the 2023/24 draft budget and to underpin the MTFS. The position will be reviewed in Spring 2023 when the outturn is known, however, current forecasts indicate that the reserves are holding up well against plan. It is the view of the Section 151 Officer that the current level on the General Fund Working Balance, which is effectively half the annual net cost of services, satisfies the adequacy requirements of the Local Government Act 2003. This will be reviewed in Spring 2023 and a 'prudent minimum' will be proposed.

The main risks to reserves in 2023/24 are the ongoing impact of the economic conditions on revenue budgets, beyond the level already mitigated, above budget inflation levels and commercial property voids. If these or other unforeseen costs exceed the available funding, the Council will need to divert/reprioritise some of the funding from other reserves. In the light of the identified future pressures, the levels of combined balances as detailed in this report are considered adequate.

Budget monitoring

It is the view of The Council's Section 151 Officer that the arrangements for budget monitoring, referred to above, satisfy the requirements of the Local Government Act 2003. Budget Monitoring against the budget in 2022/23 shows that the Council has mostly delivered the savings assumed, although a few areas have been slower to be fully implemented than hoped. The mid-year budget

rebasings exercise has also helped keep the budget on track this year. Major expenditure items including pay and contract spend are on track. The latest quarter 3 monitoring summary statement will be reported to the Overview and Scrutiny committee in March as part of the performance management report. Overall, the arrangements in place are sound however, with the continued uncertainty, close monitoring will be essential to head off any potential adverse budget variations.

17 OVERVIEW AND SCRUTINY

17.1 The Overview and Scrutiny Committee considered this report at its meeting on 17 January 2023. Members of the committee asked questions and provided challenge to the assumptions and the minutes record these discussions. The Committee didn't propose any changes to the report or budget estimates contained within it.

18. EQUALITIES

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

19. CLIMATE CHANGE

19.1 The budget and MTFs will work alongside 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 £250,000 was included in the 2022-23 base budget to further develop the Council's agenda to deliver the ambition of being a carbon neutral authority by 2035. The draft 2023/24 budget allows for the continuation of this budget, plus budget for staff costs at current levels. This annual sum will need to remain flexible and must deliver sufficient staff and consultant resource to oversee the programme and deliver projects. The revenue budget can be used for either capital/project expenditure or ongoing running costs. In July 2022 Cabinet agreed a list of projects from the 2022/23 budget amount totalling £240k.

APPENDICES:

Appendix 1 – Bids for new capital schemes

Appendix 2 – Medium Term Financial Strategy

Appendix 3 – Budget analysis summary – net cost of services

Appendix 4 – Budget analysis by service

Appendix 5 (New) – Fees and Charges

Appendix 1 - NEW BIDS FOR CAPITAL SCHEMES 2023/2024

Service Area and Description	2023/2024	Source of Funding	Description
	Budget Requested		
	£'000		
Community Services			
Disabled Facilities Grant	867	Funded from Better Care Fund via HCC	
Edenbrook Country Park:*			
Short Boardwalk / Raised Path with bridge	40	Edenbrook SANG	Health & Safety requirement
Supply water to railway field	20	Edenbrook SANG	To aid Biodiversity and welfare requirement.
Bramshot Farm:*			
Woodland path	50	Bramshot Farm SANG	Complete circular path for visitors as agreed in original specification.
Stock fencing	15	Bramshot Farm SANG	To enable grazing and reduce cost associated with grass cutting and disposal
Resurface car park	30	Bramshot Farm SANG	Existing car park surface is worn and requires resurfacing.
Small SANGS:*			
Whitewater Meadow			
Stock fencing and water supply	30	Small SANGS	To enable grazing and reduce cost associated with grass cutting and disposal
Minor works	20	Small SANGS	Existing brick culverts require work to meet H&S requirements; Upgrade 5 kissing gates to comply with accessibility requirements.
Signage strategy	30	Small SANGS	New signs to assist visitors navigate the area
QEII Fields:*			
Minor works	10	Small SANGS	Fencing replacement
Vehicles and Equipment	35	Bramshot Farm SANG (£20k), Edenbrook SANGS (£15k)	Purchase of replacement Wood Chipper to comply with H&S regulations; and Large Road Trailer (replacing existing trailer purchased in 2001) that is safer and easier

Total Community Services	1,147		
Corporate Services			
Telephony - Move from current shared service	40	Digital Transformation Reserve	To move away from current shared solution with Basingstoke. Waste Contact Centre and Management is with Basingstoke and REV/Bens with Capita therefore the number of calls being transferred has reduced substantially and this project will provide a solution that directly meets Harts needs
Cyber Assurance Framework	20	Digital Transformation Reserve/Cyber funding from government	The CAF helps Councils assess and manage cyber risk and be introduced by DLUHC during 2023 - Budget to assist the Council to meet the framework. The authority will need to additional staff resources to assist in meeting the framework. These resources are possibly needed in the following areas -technical, assurance and data management.
Exit of IT from 5c contract	30	Digital Transformation Reserve	A request has gone into Capita to withdraw IT from the 5C contract from April 2023 at the same time as Mendip leave. This budget would cover some of the work to facilitate this exit
Upgrade HyperV servers	20	Digital Transformation Reserve	On-premise servers require a server upgrade from Windows 2012 which goes out of support in 2023. The hardware is 8 years old and will also need replacing or moving to the cloud.
Decommissioning of switch cabinet	20	Digital Transformation Reserve	The server room has one switch cabinet that hasn't been decommissioned or hardware replaced. Final piece in the server room refresh that has been taking place over the past couple of years.

Email marketing platform	5	Digital Transformation Reserve	To replace Mailchimp platform and roll out digital newsletter to residents as part of wider website project. With the anticipated volume of emails,(5,000 in year 1 on anticipated newsletter every 4-6 weeks) this means we need to pay for platform rather than use free version.
Website phase 2 enhancements	25	Digital Transformation Reserve	Programme of enhancements to build on the functionality of the new website including: <ul style="list-style-type: none"> • Integration into Uniform with key processes incl. EH, FOI • Develop current mapping function to provide waste services into GIS layers on East Hampshire managed site and remove current version • Design and functionality for microsite (Countryside) • Development around html publications (move away from the use of pdf's)
Total Corporate Services	160		
Total Council Wide	1,307		

*All SANG schemes are submitted for approval in principle, but confirmation of funds and commencement of projects will be subject to Cabinet approval following the review of SANG funding referred to in this report, the only exception being essential health and safety works.

Appendix 2

Medium Term Financial Strategy

Medium-Term Financial Strategy 2023/24 – 2026/27

1 Introduction

- 1.1 The purpose of the Medium-Term Financial Strategy is to set a robust overall financial framework for the Council's spending plans over the next four years to support delivery of the Corporate Plan priorities within the context of a balanced annual budget.
- 1.2 The main objectives of the Medium-Term Financial Strategy are:
 - To look to the longer term to help plan sustainable services within an uncertain external economic and funding environment.
 - To help ensure that the Council's financial resources are directed to support delivery of the Corporate Plan priorities and achievement of value for money.
 - To illustrate the financial effects of existing financial commitments over the medium term, both revenue and capital, under several possible scenarios, and to set the parameters for the efficiency and savings strategy necessary to achieve a balanced budget.
 - To provide 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 consistent with asset management plans and the Capital Strategy.
 - To provide a single document to communicate the financial context, aims and objectives to staff and stakeholders and support working with partners.
- 1.3 The financial strategy includes a four-year budget forecast that is reviewed annually. The Medium-Term Financial Strategy builds on the previous medium-term strategies to provide the financial foundation for delivery of the Council's policy priorities and to meet the identified performance and resource issues.
- 1.4 Proposals to balance the Medium-Term Financial Strategy are designed to support the Corporate Plan priorities over the medium term and are a continuation from previous years' strategies which involve a range of approaches to balancing the budget. These include efficiency savings, additional commercial income, council tax increases, use of reserves and use of grants.
- 1.5 The current economic and financial environment provides a very challenging context for the Medium-Term Financial Forecast. The forecast and strategy need to remain flexible and the Council's reserves resilient to respond to the impact of volatile external events and risk transfers from central government.

1.6 All service budget holders need to develop their service plans and budgets within the context of the medium-term forecast. This includes achieving saving and efficiency budget reductions and containing any new development within the overall level of resources identified in the strategy.

2 Internal Policy and Service Context

2.1 The role of the Council's financial planning process is to support the achievement of the Corporate Plan.

2.2 The adopted Corporate Plan 2017 – 2022 is the medium-term strategic policy document which sets out the general direction, key priorities and activities for the Council and informs the use of its resources.

2.3 The four priorities set out in the Corporate Plan are:

1 A Thriving Local Economy

- Support our town and village centres
- Support the local economy
- Support residents in becoming economically active
- Ensuring an appropriate supply of employment land and premises

2 Clean, Green and Safe Environment

- Enhance access to open space and recreation facilities
- Protect and enhance biodiversity
- Improve energy efficiency
- Reduce the likelihood of crime and the perception of crime
- Promote a clean environment
- Promoting high quality design and a good standard of amenity

3 Healthy Communities and People

- Support residents in shaping their local communities
- Work with partners to keep Hart healthy and active
- Ensure access to housing
- Ensure access to education

4 An Efficient and Effective Council

- Explore options to increase financial self-sustainability

The revised Corporate Plan has recently been subject to public consultation, and this will be considered by Council in February. The main themes and priorities set out are:

- Planet
- People
- Place
- Delivered by a resilient and financially sound Council

2.4 The Medium-Term Financial Strategy also supports all other Council strategies, such as the Capital Strategy, the Commercialisation Strategy, and the Treasury Management Strategy. In particular, it acts as the framework linking the Council's more detailed service plans, asset management plans and capital plans with the longer term to help ensure that the Council's plans are financially achievable.

3 Internal Financial Context

3.1 The Council's net cost of services is approximately £11m pa.

3.2 The key financial issues for the Council are.

- The Council relies heavily on New Homes Bonus and uses all the funds it receives to support the revenue budget each year
- Changes to Business Rates retention have not significantly increased the Council's income to date, as there has been little net growth of larger businesses in the district
- Reserves are currently healthy, but are likely to be increasingly required to fund the revenue budget in future years
- The council tax base has seen strong growth over recent years, but future development may be slower as our Local Plan development has been front loaded.
- Government funding is likely to further reduce after 2023-24
- The Council has few saleable assets and will have to borrow to fund capital assets.

4 External Economic, Financial and Legislative Context

4.1 The Council's Medium Term Financial Strategy is set within the context of the national economy, the public expenditure plans detailed in the government's Spending Review and national legislation.

4.2 Local Government Finance Settlement

The Chancellor's Autumn Statement and the Local Government Finance Statement continue to present a short-term picture, making long term financial planning very difficult. Details are

4.4 Fair Funding Review

The Spending Review will determine the size of the DLUHC's overall local government budget. The Fair Funding Review will determine how that budget is allocated between local authorities.

Grants and spending power are determined according to the relative needs and resources of each council area. The formulae to calculate these needs and resources are being reviewed, reduced in number, and simplified for allocations from 2025/26. This will inevitably lead to "winners" and "losers" as the overall pot will remain the same size at best.

The Council is likely to lose out from this process as it is almost certain that funding will be shifted towards those authorities that have social care responsibilities and higher levels of deprivation. Funding issues around adult social care have been apparent for years, but more recently concerns have arisen about the funding of children's services too, as demand keeps rising.

4.5 Business Rates Income

4.5.1 The position on business rate scheme changes is currently unclear.

4.5.2 The Government announced in 2016 a proposal to introduce a new scheme by the end of the current parliament which would move from 50% to 100% business rates retention by local authorities nationally, accompanied by new responsibilities for local government and a phasing out of certain government grants.

4.5.3 However, the proposals were then revised to 75% retention as insufficient grant streams proved suitable for replacement. The Government proposals expect the new system to retain the current top-up /tariff approach which results in the council currently retaining only £1.4 million (3.9%) of the £36 million it should collect in business rates. Further consideration will be required to determine the proportion of business rates that will be allocated to each tier of local government.

4.5.4 Government consultation recognised the potential increase in risks due to the business rates appeals process, and the difficulties in forecasting and accurately predicting outcomes.

4.5.6 At the same time the government will also carry out the Fair Funding Review which will set a new base level position for business rates retained by the Council based upon a relative needs and resources assessment.

4.6 New Homes Bonus Grant

The New Homes Bonus is a grant paid by central government to local councils for increasing the number of homes and their use. In 2023/24 The Council's grant has reduced from £1.6m to £0.8m. The Government will consult on a new system in 2023 ahead of the December Finance Settlement announcement.

4.7 Impact on the Council and Budget

4.7.1 The key impacts of the national context on the Council's Medium Term Financial Strategy are (main actions in bold).

- The Council should be prepared for an extended period of government funding reductions throughout the medium-term period and beyond and therefore should continue to seek to **reduce costs and generate additional revenues** wherever possible in order that core services can be delivered on a sustainable basis.
- The Council may face increased demand on its services and budgets as a result of partner organisations' responses to reductions in government

funding so it must ***maintain good communication and engagement with partners.***

- There has been a significant risk transfer from central government to local government as a result of the legislative changes so the Council should ***anticipate, prepare and resource effectively.***
- The longer-term uncertainty and increased risk and volatility associated with the new Business Rate Retention Scheme and the fair funding review.
- The impact on business rates of the current economic volatility and slow recovery of income to pre-Covid levels including customer activity shifting affecting car parks and leisure centres.

4.7.2 The Council needs to plan over the medium term for an increase in financial risk and year on year volatility. The economic outlook remains unclear, and it remains important that the Council has a level of reserves that allows it to withstand unanticipated financial impacts of future developments at a local and national level. In the longer term there will be financial returns from commercial investments which will offset the pressures from government funding.

4.7.3 To ensure a balanced and sustainable medium-term budget, significant further on-going efficiency savings and agreed strategies for increased investment income (non-fixed interest) will need to be delivered.

5 Financial Strategy Forecast Scenarios and Assumptions

5.1 Given the uncertainty and financial challenges facing the council it is important that for each of the most significant areas the Council look at different potential outcomes. The financial forecasts have been prepared by looking at five scenarios for each of the significant areas and deciding on which is the most likely.

5.2 The main assumptions used in for each of the significant areas are summarised below:

- Pay increase allowance of 10% per annum, along with an allowance for incremental increases.
- Pension cost increases in line with notified changes as guided by the outcome of the next triennial valuation of the pension fund.
- A general annual inflation allowance of 10% in 2023/24 budget but with significant uncertainty going forward
- Contracted services' inflation allowances reflect the inflation clauses of their contracts.
- Base interest rate assumption of 2% on Treasury management investments in the 23/24 Budget.
- Use of all New Homes Bonus receivable to support the revenue budget
- Zero Revenue Support Grant, noting that negative grant has been deferred, not cancelled, and could cost the Council's budget £560k pa.
- Business rate income forecast to be at the baseline level over the forecast period due to low growth forecast and declining rateable value.
- Continuation of the current council tax support scheme.

6 Financial Forecast

The following table shows the main changes from the draft base 2023/24 budget across each year of the MTFS. This forecast will be used to inform financial planning and will be reviewed periodically with any material change reported to Members.

Forecast change from previous year's budget – (minus indicates favourable variance)	2024/25 £000 Change from 23/24 draft budget	2025/26 £000 Change from 24/25 forecast	2026/27 £000 Change from 25/26 forecast
Cost/Savings			
Inflation *	560	400	240
External audit fees	100		
Waste contract and statutory service changes		?	?
Capita contract – potential saving	?	?	?
Tier 1 savings **		250	
Additional Tier 2 savings ***	-154		
MRP	11	4	11
Funding			
Council tax growth in base	-70	-50	-30
Retained business rates #		200	200
Other Government funding #		200	200
NHB #	100	100	100
Budget shortfall – before council tax increase	547	1,104	721
Council tax increase ****	-240	-210	-220
Budget shortfall	307	894	501

The MTFS will provide the framework for addressing this budget shortfall

*Inflation assumptions 7% 24/25, 5% 25/26, 3% 26/27

**Tier 1 saving approved in MTFS in February 2022 showed £335k drop out in 2025/26 of which £250k was external funding which ends after 2024/25. The service will be reviewed at this point.

*** Tier 2 savings as per approved in February 2022. Saving in 2022/23 budget = £202k, 2023/24 draft budget = additional £111k and 2024/25 MTFP projection = additional £154k delivering £467k pa overall

****Council tax increase of 1% = £80k. 3% will be allowable in 24/25, uncertain beyond that but assumed revert to £5 per Band D

no certainty provided regarding future years' grant and NHB beyond 2023/24.