

## **CABINET**

**DATE OF MEETING: 7 DECEMBER 2023**

**TITLE OF REPORT: INTERIM REVIEW OF MEDIUM-TERM FINANCIAL STRATEGY**

**Report of: Director of Corporate Services and S151 Officer**

**Cabinet Member: Councillor James Radley, Deputy Leader and Finance**

### **1 PURPOSE OF REPORT**

1.1 The Medium-Term Financial Strategy (MTFS) and the process of annual budget setting are significant decisions for Hart District Council. This report presents an interim review of the MTFS and seeks approval for various proposals that require action in the current financial year.

### **2 OFFICER RECOMMENDATION**

2.1 That Cabinet:

- i. Note the interim Medium-Term Financial Strategy.
- ii. Approve the budget requests set out in paragraph 5.1

### **3 MEDIUM-TERM FINANCIAL STRATEGY**

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 the achievement of Corporate Plan priorities while maintaining a balanced annual budget. The strategy will ensure that the Council has sufficient funds to deliver its objectives and priorities.

3.2 The following objectives are aimed to help 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 provide a clear understanding of the financial impacts of current financial commitments over the medium term, including both 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 maximize 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 2024/25**

- 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 are uncertain. It is important to maintain sufficient reserves to withstand unexpected financial impacts from local and national developments. The interim reserves review approved by Council in September 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 risk to government grants in the future since the government has committed to reviewing each component of the funding.
- 4.3 Appendix 1 summarises the current and previous year's outturn as important reference points for future budget forecasts. It also updates the MTFS and identifies potential risks, opportunities, and actions for addressing future budget gaps.
- 4.4 In summary, current forecasts suggest that with the actions taken this year and some favourable budget variations, the revenue budget can be balanced in 2024/25. However, this is based on a freeze in government grants and a maximum allowable council tax increase. Other assumptions and estimates like inflation and interest receipts are closely monitored and may change before the final budget is considered.
- 4.5 In terms of future years beyond 2024/25, the forecast is currently showing a budget deficit, growing each year. 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 2025/26, following the funding review(s)
  - the impact of waste collection costs and recycling income.
- 4.6 The Chancellor's Autumn Statement on 22<sup>nd</sup> November didn't include any announcements that materially affect the draft MTFS forecast and it was silent on wider issues around local government funding for 2024-25 and beyond, including council tax referendum principles, grant funding and total increase in spending power.
- 4.7 Once the budget for 2024/25 has been finalized, 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 on-going efficiency savings and strategies for increased investment income will need to be implemented.

## **5 BUDGET DECISIONS REQUIRED IN 2023/24**

5.1 The Overview and Scrutiny Committee and Cabinet have reviewed financial update reports since setting the 2023/24 Budget in February. These reports highlight budget and service pressures to be considered in February. The following pressing matters have been identified as requiring a decision prior to the main budget setting report in February 2024:

5.1.1 **Finance system** – The Council is preparing for the end of the Capita 5 councils' contract in September 2025 and needs to procure new financial systems to replace the current 'Integra' suite of ledgers. The project requires a significant initial investment, and officers are exploring legal and procurement options. The new system's ongoing support costs are likely to remain within current levels, making it a one-time project rather than a continuing growth proposal. Reserves were set aside in the September review to cover the Capita contract's end expenses.

***Recommendation***

*Cabinet is asked to approve a project budget of £200k for the new financial systems project. The budget will be funded from the earmarked reserve. Additionally, the officers will be authorized to start the necessary procurement process to secure new financial systems that are cost-effective and meet the Council's requirements.*

5.1.2 **Climate change funding** – In July 2023, Cabinet approved an updated Climate Change action plan. The plan stated that more funding would be required to implement and achieve carbon neutrality. Officers are currently exploring opportunities to secure external funding.

In September, the Council approved a reserves review that confirmed that the General Fund Working Balance had approximately £1 million that could be used to support the delivery of the climate change action plan.

Recently, officers submitted applications to the Public Sector Decarbonisation Scheme to fund three of the Council's buildings that produce the highest carbon emissions and meet the fund's criteria. The total bid was for £2.2 million, with £1.5 million to be covered by the fund.

The Government in December will notify the Council if its respective funding applications are successful. If approved, the Council will need to confirm its commitment to the matched funding element of the cost. There are further stages to work through before the final works and costs are known, including a full procurement exercise. Cabinet will receive further reports at that time.

***Recommendation***

*Cabinet is asked to earmark up to £700k of the General Fund Working balance for this purpose.*

5.1.3 **Civic offices** – After successfully relocating staff from the first floor to the third floor, and transforming the office into a modern, flexible space, we now have the chance to move onto phase two. During this stage, we will relocate the team currently situated on the second floor to the unoccupied

wing of the third floor. This move will bring about operational advantages, as well as improve communication and cohesiveness among the staff.

**Recommendation**

*Cabinet agrees that this will be funded from the forecast above budget income from tenants at the Civic Offices in 2023/24.*

- 5.1.3 **Staff training** – Last year's staff survey and subsequent appraisals revealed a need for more investment in team building to improve team performance and productivity across services. The HR team is working with public sector specialists to develop a comprehensive staff development program.

**Recommendation**

*Cabinet is asked to approve a virement of £25k to the staff training budget from the 2023/24 staff budget, which is forecasted to underspend by the year's end.*

- 5.1.4 **Digital strategy** – The Digital Strategy will be refreshed in 2024 as per the Corporate Service Plan. Officers will begin groundwork in early 2024 and a specialist consultant has been hired. The work will be funded from the digital reserve, replenished from any budget underspend in 2023/24.

**Recommendation**

*Cabinet is requested to approve a budget of £10k for the initial digital strategy review work in 2023/24, funded initially from the earmarked Digital reserve.*

- 5.1.5 **Car Park maintenance** – Engineers conducted a survey of the Council's 13 public off-street car parks, producing a costed plan to repair and improve them. Urgent £50k short-term repairs identified and to be completed by March 2024, funded from car park maintenance reserves in 2022/23.

**Recommendation**

*Cabinet is asked to approve a budget of £50k towards high-priority car park maintenance in 2023/24, funded from the earmarked Car Park maintenance reserve.*

- 5.1.4 **Planning Development Management (DM)** – A prompt and thorough review of the DM Team's efficiency, effectiveness, and practices is vital before any peer review is initiated. The 'Systems Thinking' methodology is recommended to identify blockages and inefficiencies and improve customer experience. The project needs consultancy support and a temporary planning performance improvement officer. There is a need for quick action, which includes considering approaching a neighbouring council for support.

**Recommendation**

*Cabinet is asked to approve the immediate release of £25k from general reserves to support the initiation of this project.*

5.1.5 **Planning Development Management (DM).** The DM team requires temporary support to address ongoing backlogs in determining applications for works on protected trees and heritage-related sites (e.g., listed building consent and conservation area applications).

**Recommendation**

*Cabinet is asked to agree to £75k in funding over the next 12 months taken from general services to support backlogs in determining applications for works on protected trees and heritage-related sites (e.g., listed building consent and conservation area applications).*

5.1.6 **Preparing for contract renewals – Grounds maintenance and street cleaning.** In the reserves review funds were set aside for the preparations required for renewing the Council's major contracts in 2026. Further reports will come to cabinet for consideration in the coming months. One immediate task is to undertake a detailed technical review of the land to be included in the scope of the grounds maintenance contract. This is a lengthy process and officers have identified a cost-effective way of combining this with another similar property task that is just commencing and the same in-house resource could be used rather than employing costly external consultants.

**Recommendation**

*Cabinet is requested to approve £15k to undertake the ground maintenance land survey, to be funded from the contracts renewal reserve*

5.2 **Housing Capital Schemes –** As requested by Cabinet in the reserves report, officers have prepared a series of capital proposals to be funded from housing capital receipts and S106 reserves that will be included in the main budget report, including energy efficiency, property purchase for adaptation, market acquisitions and potentially further key worker housing. However, there is one schemes that will need earlier approval to enable it to continue as soon as possible. This is a significant capital scheme to improve Heathlands Court and address various building improvements, such as carbon reduction measures. An initial project budget will be requested at the January Cabinet meeting for an options appraisal, funded from reserves initially, then capital receipts if the project progresses.

## 6. EQUALITIES

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

## 7. CLIMATE CHANGE

7.1 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