

## **OVERVIEW AND SCRUTINY COMMITTEE**

**Date Of Meeting:** 16 January 2024

**Title Of Report:** Draft Budget 2024/2025 And Medium-Term Financial Strategy

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

**Portfolio Holder:** Deputy Leader and Finance

### **Purpose Of Report**

1. The Council must set a balanced budget for 2024/2025. The draft revenue and capital budget proposals are summarised in this report. Overview and Scrutiny Committee is asked to review and comment on the proposals before forwarding them to the Cabinet.
2. In summary the proposals are:
  - i. a 2.99% increase in Hart District Council's Band D Council Tax Charge for 2024/25,
  - ii. changes to fees and charges for 2024/25 in line with the principles set out in this report, with full details being reported to full Council,
  - iii. approval of the draft Revenue Budget for 2024/25 as summarised in paragraph 14 and Appendix 1, incorporating the baseline net service cost variations included at paragraph 16 and Appendix 1,
  - iv. approval of Capital Bids as detailed in Appendix 2,
  - v. approval of the Medium-Term Financial Strategy as set out in Appendix 3,
  - vi. noting 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
  - vii. approval of the continuation of the capital receipt flexibility strategy detailed in the report under the Direction issued by the Government early in 2022.
  - viii. agreeing not to change the Council's existing Council Tax Support Scheme other than the required statutory uprating,

### **Recommendation**

3. That Overview and Scrutiny Committee reviews the draft Budget 2024/25 and Medium-Term Financial Strategy report and passes any comments to Cabinet.

### **Local Government Finance Settlement**

4. The proposed budget includes funds from the provisional finance settlement for the year 2024/2025, which was released on December 18, 2023. The final settlement is expected to be confirmed early in 2024. Although it is unlikely to

significantly impact the Council's figures, any substantial changes will be reported, and the draft Budget will be updated accordingly.

5. The Government has again only provided a one-year funding settlement which limits accurate financial planning to only one year. The Medium-Term Financial Strategy (MTFS) has made the best estimates of government funding for future years.
6. The key Government principles in the draft Settlement for 2024/25 are:
  - 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 repeat of the one-year funding guarantee ensures all local authorities will see a minimum 3% increase in their Core Spending Power before any local decisions on raising Council Tax.
  - Another round of New Homes Bonus for eligible councils, again with no legacy payments
  - No 'negative' Revenue Support Grant applied in 2024/25

#### Council Tax and Collection Fund

7. As with previous years, the government has set a limit on the amount by which council tax can be increased. For the year 2024/25, the limit is either 3% or £5 on a Band D property (whichever is greater). Any increase above 3% will require a local referendum. The government expects that councils will increase council tax up to the limit in order to maintain their budget..
8. The proposed budget therefore assumes a 2.99% increase in 2024/2025, which is higher than £5. This equates to an annual council tax increase of £5.75pa for an average Band D property. This will generate £243,000pa of additional income.

#### New Homes Bonus (NHB)

9. The Council depends on funding from the NHB to support its base budget, with roughly 7% of the net revenue budget being funded by the NHB in 2023/2024. It's worth noting that in 2023/24 and 2024/25, the Government has compensated for the termination of legacy payments by introducing a one-year funding guarantee grant.
10. The provisional Local Government Settlement retains NHB but without the legacy grant. The value for 2024/25 is now only £739k (a reduction of £790k from the 2022/23 settlement and significantly less than the £1,6m received in 2021/22 - the main difference being the ending of legacy payments).
11. There is a significant future risk to the Council of losing this funding, and from 2025/26, there is no certainty as to what amount, if any, will be received.

#### **Summary of Core Government Grant Funding**

10. The 2024/25 Finance Settlement figures for the Council are summarised below compared to the 2023/24 amounts.

|                           | 2023/24<br>£000 | 2024/25<br>Provisional<br>£000 | Notes   |
|---------------------------|-----------------|--------------------------------|---|
| Retained business rates   | 1,326           | 1,386                          | Budgeted at safety net amount   |
| New Homes Bonus           | 790             | 739                            | 2024/25 is one year only  |
| Revenue Support Grant     | 69              | 73                             |   |
| Services Grant            | 54              | 9                              |   |
| One-off funding guarantee | 1,029           | 1,285                          | Repeat of one-year grant to ensure that LAs get at least 3% increase in Core Spending Power overall |
|                           |                 |                                |   |
| <b>Total</b>              | <b>3,268</b>    | <b>3,492</b>                   |   |

Table 1 Core Government Grant Funding

### Reserves and Provisions

11. The S151 Officer reviewed reserves and provisions within the revenue budget and MTFs scope. Purpose, use, and amount held for each reserve were reviewed to ensure justification and flexibility. Changes were then made to align reserves with risks and service needs. These were approved by Council in September 2023.

### Council Tax Support Scheme

12. Local authorities in England have been responsible for running their Council Tax Support schemes since 2013. Pension-age claimants are entitled to a scheme equivalent to the previous council tax benefit scheme by law. For working-age claimants, councils can either reduce the discount paid or find income to make up for the reduction. In previous years, the Council has agreed not to reduce the discount paid to such claimants but to fund the cost from the revenue budget split across all preceptors. The current scheme supports 2,700 low-income households in the district and provides much-needed help for keeping bills down. There is no proposal to change the Hart District Council's scheme for 2024/25, except for the statutory uprating adjustments required by the Government.

### Fees and Charges

13. The budget has been prepared considering the fees and charges in the main service areas.:
- Due to the impact of Covid and a decrease in workplace commuting, car parking income has significantly decreased. While it is steadily rising, the overall car parking fee income is still below pre-Covid levels. On the other hand, the number of green waste subscriptions is increasing, but Hart's

charges are higher compared to other councils in the area. To support local businesses and households facing financial difficulties, the 2024/25 draft budget does not propose a general increase in car park charges or green waste subscriptions.

- In cases where the Council has the flexibility to set charges, the general approach is to increase them by inflation, typically around 4%, or round them up to the nearest pound if applicable. However, this rule doesn't apply to statutory charges or cases where the service manager has proposed a charge that is more or less than inflation, provided that they can justify it. In such cases, the Council will be informed in February, along with an accompanying explanation.
- The leisure centre charges have increased by September CPI as per the operator's entitlement under the contract to apply an inflationary increase.

### Draft Budget 2024/2025

14. The table below summarises the draft budget for 2024/2025 compared to the approved 2023/2024 budget. Full details of the budget and variations compared to the current year are included in Appendix 1.

|   | Note | 2023_24       | 2024_25       |                                    |
|---|------|---------------|---------------|------------------------------------|
|   |      | Budget        | Budget        |                                    |
| Net Service Budget                        |      | 12,149        | 12,799        | See Appendix 3 and 4 for breakdown |
| SANG Expenditure                          |      | 571           | 204           | Funded from reserves               |
| <b>Net Cost of Service</b>                |      | <b>12,720</b> | <b>13,003</b> |                                    |
| Treasury Net debt/<br>investment Interest |      | 107           | 205           | -                                  |
| MRP                                       |      | 564           | 630           |                                    |
| <b>Net Expenditure</b>                    |      | <b>13,391</b> | <b>13,428</b> |                                    |
| <b>Financed by:</b>                       |      |               |               |                                    |
| Council Tax                               |      | -             | -             | Base council tax 24/25             |
| Council Tax Increase                      |      | 8,813         | 8,139         |                                    |
| Council Tax Increase                      |      | 327           | 323           | % increase and new dwellings       |
| Business Rates Retained                   |      | -             | -             |                                    |
| Business Rates Retained                   |      | 1,326         | 1,386         | Local Government Settlement        |
| New Homes Bonus                           |      | -             | -             |                                    |
| New Homes Bonus                           |      | 790           | 739           | Local Government Settlement        |
| Other non-ringfenced<br>grant             |      | -             | -             |                                    |
| Other non-ringfenced<br>grant             |      | 1,152         | 1,468         | Local Government Settlement        |
| SANG Reserve                              |      | -             | -             |                                    |
| SANG Reserve                              |      | 571           | 204           |                                    |

|                                   |     |                    |                    |
|-----------------------------------|-----|--------------------|--------------------|
| Investment property rental income | (i) | -<br>1,413         | -<br>1,170         |
| <b>Total Financing</b>            |     | -<br><b>13,391</b> | -<br><b>13,428</b> |
| <b>(Surplus)/Deficit</b>          |     | 0                  | 0                  |

Note (i) - The income from the lease of Edenbrook apartments has been moved from investment income to other income within the net service budget line to reflect its primary service objective.

15. The draft budget has adjustments to align with current and future service needs, including inflationary uplifts. Officers have maintained establishment controls, and year-on-year growth arose only from externally funded short-term positions. Details are in the appendices.
16. The draft revenue budget also includes some Cabinet-introduced proposals to provide additional investment in key priority areas as listed below:

| <b>Service</b>                                     | <b>Amount<br/>£000</b> | <b>Comments</b>   |
|--|------------------------|---|
| Community safety                                   | 45                     | Additional staff resources to strengthen the Council's work in this key function  |
| Housing needs                                      | 45                     | Additional staff resources to meet high and growing demands   |
| Car parks  | 80                     | Annual contribution to maintenance/improvement sinking fund to reflect the outcome of the medium-term condition survey                |
| CCTV   | 25                     | As per CCTV review agreed by Cabinet, continuation of the £15k pa replacement fund plus £10k for potential relocation costs each year |
| Climate Change – HVO fuel in waste/recycling fleet | 35                     | Additional cost, expected to fall over time. Switch delivers 96% carbon saving and is in line with the approved action plan           |
| Fly Tipping  | 25                     | Additional staff resource to increase enforcement activity in this high profile function  |
| Tree work  | 65                     | Additional resource to respond to increasing demand and backlogs. To be reviewed in 12 months time.                                   |
| Planning peer review                               | 18                     | One-off review follow-up to be undertaken after the efficiency review   |

|                    |    |  |
|--------------------|----|--|
| Planning resources | 80 | Earmarking additional resource to reflect pressure on service and new statutory requirements. Release of resources is conditional on a business case arising from the efficiency review. |
|--------------------|----|--|

### **New Bids For Capital Schemes**

17. The new bids for capital schemes in 2024/2025 are summarised in Appendix 2. Significant points to note are:
- Council has agreed to fund several housing schemes from housing S106 funds to address the shortage of affordable homes in the district. These schemes will be carried out in partnership with RSL partners and will benefit those on the housing register. A survey found that Hart-owned car parks need investment in the short, medium, and long term. A new 'sinking fund' in the revenue budget will provide the necessary funding and smooth the budget impact each year.
  - CCTV camera replacement, continuation of the annual replacement programme, plus purchase of a mobile camera
  - As agreed by Council in the September 2023 reserves review, there are a range of Housing schemes proposed to be funded from housing S106 funds to help meet the shortage of affordable homes in the district. Schemes will generally be undertaken in partnership with RSL partners and be applicable for people on the housing register
  - Heathlands Court is being remodelled, but the cost, profile, and approval are yet to be determined. An options appraisal was approved by the Cabinet on January 4th. Car park ticket machines – following the trial, there is a proposal to replace most of the machines with more modern, lower maintenance ones.
18. Other approved schemes are not in this report but are in quarterly statements. A review of all capital projects will happen after 23/24 outturn to check the budgets given high inflation on labour and materials in the past two years.

### **Medium Term Financial Strategy 2024-25 – 2027/28**

19. The Medium Term Financial Strategy (MTFS) is a financial planning document that helps the Council anticipate spending pressures four years ahead. It ensures proper preparation and sufficient funds to meet unexpected costs. The Council updates the MTFS mid-year and sets the budget for 2024/25 based on it.
20. The MTFS
- 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 delivering 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 manages volatility and risk, including maintaining adequate reserves.
  - Anticipates financial pressures and identifies potential ways to balance The Council's budget, including efficiency measures.
21. The MTFS ending 2027/28 has been updated to include the latest assumptions and projections and is included in Appendix 3.

### **Flexible Use of Capital Receipts**

22. In 2022, the government issued a new directive under the Local Government Act 2003 which provides flexibility in using capital receipts from the sale of non-housing assets to fund revenue costs of service reform. This directive applies to capital receipts that meet the statutory definition and have been received since April 2016.
23. The Council has £4.3 million in capital receipts, mainly from Housing Right to Buy receipts. To ensure this money can be used if needed, the council should renew the required resolution. The proposed strategy for 2024/25 is to use capital receipts for cost-saving revenue projects such as energy efficiency, asset reconfiguration works, business transformation and collaboration activity, activities.

### **Risks**

24. The MTFS delivery and efficiency programs carry risks, especially due to economic uncertainty. Key risks are summarised 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.
  - The impact of the Government's business rate funding review and Fair Funding review is likely to reduce retained business rates and increase risk; negative grants are still on the agenda.
  - 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 end of the waste contract and Capita contract within the MTFS period presents risks and opportunities. The Council must plan its lead in times and resources 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 are set or limited by the 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 a higher demand for services, the need for closer monitoring of debts and a 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.

### **Local Government Act 2003 – Financial**

25. 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.
26. The sections were introduced to ensure sound financial management across all local authorities. The council follows good financial management practices in its budget-setting process. The council takes prudent allowance for risks and uncertainties while preparing budgets. Budgets are monitored by officers and are reported to members quarterly, supplemented by monthly exception reports. The council's external auditors have provided favourable comments on its financial management.

#### The Robustness of the Estimates

The draft 2024/25 budget has prepared amidst uncertainty and risk due to the pandemic legacy and economic conditions. However, the Council has made provisions in the budgets to allow for the uncertainty. The Council's Financial Strategy and information presented to members throughout the year demonstrate the financial challenges faced by the Council in the future, including the risks associated with the current economic situation.

The key Financial Strategy issues for the General Fund include:

- Risks associated with declining rateable value and increased appeal risk pose a threat to business rate income. However, the impact on the annual budget has been mitigated by the business rate smoothing reserve, which has been assessed against the risks. No further contribution has been made in 2024/25, but adjustments may be possible in the future based on the outcome of the Government's Fair Funding review and the Council's exposure to appeal risk.
- Keeping the dependency on current and new income from property in proportion to the overall budget and providing sufficiently for void periods and costs.



- Future of Government funding including New Homes Bonus
- Volatile inflation and interest rates.

The draft Budget for 2024/25 is robust, and the Section 151 Officer is satisfied with the estimates presented. The draft budget is considered prudent, and the multi-pronged strategy outlined in the MTFS to address financial challenges is progressing well. Effective monitoring during the year is crucial, and the risks noted in the report must be acknowledged. There is confidence in the delivery of savings and the successful achievement of additional commercial property income.

### Adequacy of Reserves

Reserves are held for unexpected changes in inflation or interest rates, higher expenditures or loss of income, and unforeseen events. The Section 151 Officer is satisfied that reserves are sufficient to support the budget and underpin the MTFS. The General Fund Working Balance is half the annual net cost of services and meets the Local Government Act 2003 requirements. A prudent minimum balance was approved by Council in September 2023.

The main risks to reserves in 2024/25 are economic conditions, inflation levels and commercial property voids. If costs exceed the available funding, the Council will need to reprioritise funding from other reserves. The combined balances are considered adequate in light of future pressures.

### Budget monitoring

The budget monitoring arrangements in place satisfy the Local Government Act 2003. The Council is on track to stay within budget for 2023/24, with major expenditures being managed effectively. Income forecasts are holding up and the latest monitoring summary will be reported in March. Although the arrangements in place are sound, close monitoring is necessary to avoid any budget variations.

## **Equalities**

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

## **Climate Change**

28. The Council aims to become a carbon-neutral authority by 2035, and the budget and MTFS will support this goal. While the recommendations have no direct environmental impact, £250,000 was included in the 2022-23 budget for developing the council's agenda towards achieving carbon neutrality. This was repeated in the 2023/24 budget, with an additional £50k transferred to strengthen the staff resource for delivering the Climate Change program. The draft 2024/25 budget allows for the continuation of this budget along with staff costs at current levels.

29. This annual budget will need to remain flexible to ensure sufficient staff and consultant resources to oversee the program and deliver projects. The revenue budget can be utilised for either capital/project expenditure or ongoing running costs. Projects to deliver the plan will be approved by the Cabinet and funded from this budget as the need arises throughout the year.

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**APPENDICES:**

Appendix 1 – Budget analysis

Appendix 2 – Bids for new capital schemes

Appendix 3 – Medium Term Financial Strategy