

Appendix 3

Medium Term Financial Strategy

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

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 2023 – 2027 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 revised Corporate Plan was approved by Council in February 2023 following a public consultation. The main themes and priorities set out are:

- Planet - Sustainability and Climate Emergency: A carbon neutral and climate resilient council by 2035
- People - fair treatment for all, help for those in need, and a sustainable economy that makes Hart a great place to live and work
- Place - delivering warmer, better homes in sustainable locations that people can afford to live in
- Delivered by a resilient and financially sound Council - Your services: getting it right first time and delivering what matters to you

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 £13m 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 reduce after 2024-25
- 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 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.

4.3 Business Rates Income

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

4.3.2 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.

4.3.3 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.

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

4.3.6 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.

4.4 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. The Council's grant has reduced from £1.6m in 2022/23 to £0.7m in 2024/25. The Government will consult on a new system.

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 the MTFs for each of the significant areas are summarised below:

- Annual pay increase allowance of 6%, reducing to 2% over the MTFs period, along with an allowance for incremental increases. Recent pay awards have included a fixed cash sum increase for most staff, bring the total % budget impact to above the headline percentage rise.
- A general annual inflation allowance of 4% in 2024/25 budget but with significant uncertainty going forward
- Contracted services' inflation allowances reflect the inflation clauses of their contracts.
- Base interest rate assumption of 4% on Treasury management investments in the 24/25 Budget.
- Use of all New Homes Bonus receivable to support the revenue budget
- Negative Revenue Support Grant has been deferred, not cancelled, and could cost the Council's budget £560k pa if invoked.
- 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 and Budget Strategy

6.1 The following table shows the main changes from the draft base 2024/25 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.

| | 2025/26 | 2026/27 | 2027/28 |
|--|-------------------------------------|-------------------------------------|-------------------------------------|
| Forecast change from previous year's budget () indicates favourable variance £000 | Change from 24/25 draft budget £000 | Change from 25/26 draft budget £000 | Change from 26/27 draft budget £000 |
| Cost/Savings | | | |
| Net inflation | 496 | 434 | 397 |
| Waste contract and IAA changes | 100 | 200 | 200 |
| Capita 5C contract | (50) | (100) | |
| Funding | | | |
| Council tax growth in base | (50) | (30) | (30) |
| Retained business rates | 200 | 200 | 200 |
| Other Government funding | 200 | 200 | 200 |
| NHB | 100 | 100 | 100 |
| Budget shortfall – before council tax increase | 996 | 1,004 | 1,067 |
| Council tax increase | (210) | (220) | (220) |
| | | | |
| Budget shortfall | 786 | 784 | 847 |

MTFS Assumptions

| Inflation | 2025/26 | 2026/27 | 2027/28 |
|-----------|---------|---------|---------|
| Pay | 4% | 3% | 2% |
| Contracts | 4% | 3% | 3% |
| Other | 3% | 3% | 2% |

- Council tax increase of 1% = £81k. 2.99% 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 2024/25 – assumed reductions apply from 25/26
- Assumed waste budget impact as per HCC's proposals and higher base cost from Sept 2026
- Interest rate reduces and stabilises from 25/26

6.2 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, resulting from the funding review(s)
- the impact of waste collection costs and recycling income.

6.3 Once the budget for 2024/25 has been finalised, 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. These may include:

- Smooth impact with reserves
- Efficiency reviews – use reserves to meet project costs
- Income – new and increased.
- Capita exit
- Vacancy target and control
- No-inflation on non-contract/staff budgets
- Property – new and rent reviews
- Treasury interest from broadening policy further

6.4 Key risks to the budget and MTFS include:

- Waste – HCC's IAA, contract renewal and Environment Act
- Government funding – no short or long-term certainty
- Land charges – income transfer to government
- Contracts – opportunities and risks
- Ability to deliver further efficiencies and cost savings without reducing services.