

CABINET

DATE OF MEETING: 3 SEPTEMBER 2020

TITLE OF REPORT: 2020/21 BUDGET & MEDIUM-TERM FINANCIAL STRATEGY

Report of: Head of Corporate Services

Cabinet Member: Councillor James Radley, Deputy Leader and Finance

1 PURPOSE OF REPORT

1.1 To allow a refresh of the Medium-Term Financial Strategy (MTFS) and to present a timetable for the setting of the budget for 2021-22.

2 OFFICER RECOMMENDATION

2.1 That Cabinet note the refresh of the Medium-Term Financial Strategy as outlined and the timetable for budget build for 2021-22 be agreed.

3 BACKGROUND

3.1 Members last reviewed the Medium-Term Financial Strategy as part of the budget approval process in February 2020. The purpose of this report is to remind Members of the medium-term financial challenges the Council faces and also lay out a clear timetable for approval of the 2021-22 budget.

3.2 Since that time, Members have been alerted to the potential impact of the Covid19 pandemic, when they received a report to Cabinet in July, covering Emergency and Urgent decisions taken in aiding the Councils response on behalf of our communities.

4 SIGNIFICANT FACTORS AFFECTING THE MEDIUM-TERM FINANCIAL STRATEGY

4.1 Local Government Settlement

Hart District Council has not received any Revenue Support Grant since the 1 April 2018. When Revenue Support Grant was removed and Business Rates retention was introduced it was understood that Hart District Council would be liable to pay “negative RSG”. To date this has been funded by Central Government, however remains a future risk until we receive confirmation from Central Government as to whether it will be funded in December 2020.

4.2 New Homes Bonus (NHB)

Historically the Council has relied on New Homes Bonus to fund the revenue budget. The Government made substantial changes to the NHB scheme from April 2017, as it diverted funding away from districts to counties and unitaries to fund adult social care pressures. Payment periods have also been reduced from 6 to 4 years and a baseline has been introduced. Prior to Covid-19 we

were expecting that threshold levels for this grant will be increased reducing Hart District Council's funding. This has yet to be confirmed by Central Government with further clarity confirmed in October 2020
It is not clear whether there will be a replacement, nor whether Hart would qualify for any future payments. The MTFs assumes not.

4.3 National Non-Domestic Rates (NNDR)

The new system of 75% business rates retention was delayed until 2021/22, however it is currently uncertain as to whether this will be introduced due to Covid-19, any new system is unlikely to increase revenue received by the Council.

4.4 Fair Funding Review

The formulae the Government uses for calculating local government funding was due to be announced during this financial year but officers now believe this date has been delayed due to Covid-19.

4.5 Other Budget Pressures including those relating to Covid-19

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

- Collection fund deficits on the NNDR account, particularly as the result of appeals and the impending recession.
- Continued reductions in funding by Hampshire County Council for a variety of agency and other services, including a £500,000 reduction in waste funding from 2021/22
- The Council had included significant commercial income in the MTFs for both 2021-22 and 2022-23. Due to the uncertainty around the economy this will need to be reviewed and recalculated in detail supported by sensitivity analysis.
- Covid-19 required our Leisure Centres to close which has brought a decrease in Management Fee payable to the Council by the operator; the speed of recovery to pre-Covid 19 management fees is not yet understood.

5 REFRESH OF MEDIUM TERM FINANCIAL STRATEGY

	2020-21	2021-22	2022-23	2023-24
Net Cost of Services	10,612	10394	10600	10812
Less				
Debt Interest	12	12	12	12
New Homes Bonus	-2,377	-1171	-505	0
Net Budget Requirement	8,247	9235	10107	10824
Financed By				
Business Rates Retained	-1280	-1320	-1360	-1380
Collection Fund (Surplus) / Deficit	123	0	0	0
NNDR Reserve	0	0	0	0
Council Tax Income	-7286	-7362	-7648	-7939
£5 Increase in Council Tax		-205	-205	-207
S106 Receipts	-53	-53	-53	-53
SANG Receipts/	-220	-220	-220	-220
MRP / Loan Repayments	469	469	469	469

Commercial Income	0	-250	-700	-1200
Transfer (to) from Reserves	0	0	0	0
Forecast Budget Gap	0	294	390	294

- 5.1 The above Medium-Term Financial Strategy is based on the pre-existing principle of a Council Tax increase of £5 for a band D equivalent property.
- 5.2 The above table has been rolled forward to include another year to the strategy (2023/2024) and revisions have been made to reduce commercial income and contributions from New Homes Bonus
- 5.3 Whilst the earlier MTFs updated in February but shown in detail in December 2019 (shown in appendix 1) established a balanced budget, we are now reflecting a risk of deficit of around £1m up to and including 2023/2024
- 5.4 Future reports will be provided to Members to consider our approach to bridging this gap, including an update of the Commercial Strategy

6 RESERVES

- 6.1 The Council is required to maintain a minimum level of General Fund Reserves that equates to approximately 10% of net expenditure (£1m in Hart's case). For the life of this strategy the reserve needs to be set at a minimum of £1m.
- 6.2 At the end of 2018/19 the reserves were over £5.5m, comfortably more than the minimum level required. The current level of reserves provides an opportunity to prepare for those future pressures without the need for sudden reductions in service levels.

7 COMMERCIAL STRATEGY

- 7.1 The Council has already recognised the risk of losing New Homes Bonus and has adopted a Commercial Strategy to try to make good any such losses. However, the forecast recession is likely to reduce the number of Commercial Opportunities with short term gain and our investment strategy will need to be reviewed.
- 7.2 There is much risk involved in this approach, and there are no guarantees that sufficient profitable opportunities will be found and developed in the timescales required. This risk is heightened as we face a future recession as a result of Covid-19. To limit public sector borrowing, PWLB is becoming both more restrictive and expensive which has a negative effect on rates of return to the Council.

8 KEY MESSAGES

- 8.1 It is uncertain whether the Government will be able to achieve planned changes to local government from the 1st April 2021; however it is unlikely that New Homes Bonus will continue beyond 2021/22 and that the fairer funding regime will be introduced on a delayed basis.

- 8.5 There will be a structured approach to the preparation of the Medium-Term Financial Strategy and budgets to enable us to be well prepared in advance of funding announcements and explore a wider range of options for savings whilst limiting growth wherever possible. Hart will continue to face significant financial challenge and returns on our investments are unlikely to significantly increase in the short term.

9 NEXT STEPS

- 9.1 Officers will continue to work on the revised budget for 2020/21 presenting this to Cabinet in October, for approval by Council in November 2020.
- 9.2 Commercial Income will be reviewed for the next three years with a revised summary report provided for Cabinet in November 2020 supported by sensitivity analysis.
- 9.2 We expect to see a Consultation document for 2021/22 funding in October 2020, following the publication of this Members will be offered a series of budget briefings by the Section 151 Officer. Officers and Members will be invited to submit growth bids and savings plans during October and November 2020.
- 9.3 Fees and charges policies and a review of the Local Council Tax scheme will be brought to Members for review and approval in November 2020 alongside a revised Medium-Term Financial Strategy.
- 9.4 Early 2021-22 budget indications will be brought to Members in December 2020. The Council Tax base for 2021-22 will also be agreed by Members in December 2020. Final allocations of funding are expected late December 2020.
- 9.5 Final growth, savings and fees and charges will be considered by Overview and Scrutiny in January, Cabinet in February for approval and adoption by Council at the end of February, to enable sufficient time to complete the annual Council Tax billing process.

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Appendices:

Appendix 1: Medium-Term Financial Strategy

MEDIUM TERM FINANCIAL STRATEGY

ORIGINAL MTFS (December 2019, and referenced to Cabinet in an update report February 2020)

	2019/20	2020/21	2021/22	2022/23
Net Cost of Services	9826	10189	10394	10600
Less				
Debt Interest	12	12	12	12
New Homes Bonus	-2283	-2200	-1171	-505
Net Budget Requirement	7555	8001	9235	10107
Financed By				
Government Grant				
- Business Rates Retained	-1258	-1280	-1320	-1360
Collection Fund (Surplus) / Deficit	-24	0	0	0
NNDR Reserve	390	0	0	0
Council Tax Income	-6792	-7083	-7362	-7648
£5 Increase in Council Tax	-202	-203	-205	-205
S106 Receipts	-53	-53	-53	-53
SANG Receipts/Loan Repayments	-61	-220	-220	-220
Minimum Revenue Provision / Loan Repayments	445	469	469	469
Commercial Income Target	0	0	-544	-1090
Transfer (to) from Reserves to balance Revenue Ac	0	0	0	0
Total	0	-369	0	0